MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2019/20

ELECTRIC RATE APPLICATION

Before Board Panel:

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

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

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Pages 983 to 1111

APPEARANCES

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Marla Boyd	)Manitoba Hydro
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Byron Williams	)Consumers Coalition
Katrine Dilay	)
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Jared Wheeler	)MKO
Markus Buchart	)
Corey Shefman (by phone)	)Assembly of
Senwung Luk (np)	)Manitoba Chiefs

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

THE CHAIRPERSON: Good morning, everyone. We're at the point of closing submissions, so I would call upon Manitoba Hydro. Ms. Fernandes?

CLOSING SUBMISSIONS BY MANITOBA HYDRO:

MS. ODETTE FERNANDES: Thank you, Mr. Chairman. Good morning. Good morning, madam Vice Chair, Board members McCutcheon, Ring, and Grant.

Manitoba Hydro would first like to take the opportunity to thank this Board, once again, for considering Manitoba Hydro's rate application.

Manitoba Hydro understood that this wasn't a traditional filing, and we appreciate the consideration that's being given by this Board. We would also like to thank legal counsel and advisors for the PUB for their assistance, as well as counsel and consultants for Intervenors for their participation.

Manitoba Hydro has prepared a written argument which contains the Corporation's position on evidence, both written and oral. We do not intend to read the argument into the record. I believe that would be marked as Manitoba Hydro Exhibit 33.

THE CHAIRPERSON: Thank you.

--- EXHIBIT NO. MH-33: Manitoba Hydro's written argument

MS. ODETTE FERNANDES: And then in addition, we have also submitted a PowerPoint presentation, and this will be used this morning to provide Manitoba Hydro's views on the areas that have been the focus of mainly the oral hearing, and that would be marked as Manitoba Hydro Exhibit 34.

THE CHAIRPERSON: Thank you.

--- EXHIBIT NO. MH-34: Manitoba Hydro's PowerPoint presentation

MS. ODETTE FERNANDES: This process began with Manitoba Hydro seeking the concurrence of the PUB to ascertain whether the Board would be prepared to review a rate application without a long-term financial forecast. Manitoba Hydro is seeking approval of a one (1) year 3 1/2 percent rate increase across the board. The proposed rate increase is consistent with rate increases previously granted by the Board, and consistent with many of the long finan

-- long-term financial plans that had previously been reviewed and filed with this Board.

Prior to this process, the Corporation and all parties had recently concluded a very fulsome General Rate Application. The 2017/18 and '18/'19 GRA was a process whereby Intervenors argued that Hydro should be held to what they called the NFAT promise.

(BRIEF PAUSE)

MS. ODETTE FERNANDES: Sorry. Thank you.

Intervenors argued that rates at or below three point nine-five (3.95) would appear to be consistent with the path in the NFAT and subsequent Board decisions. Intervenors recognize the benefits of rate smoothing, as well as noting that a path in the range of 3 to 4 1/2 percent would be consistent with risk tolerances expressed in the NFAT and subsequent orders. Order 59/'18 summarized the position of some of those Intervenors.

At page 166, the Board summarized:

"Smoothing rate increases at or below the three point nine-five (3.95) NFAT range makes sense according to the Consumers Coalition, given the long-lived and lumpy nature of the Keeyask and Bipole III assets, and considerations of regulatory stability, intergenerational equity, risk, and affordable access to capital markets."

And at page 60 of Order 59/18, the Board summarized:

"The Manitoba Industrial Power Users Group maintains the analysis, demonstrates that there is no overall financial deterioration compared to the NFAT or the previous GRA, and there is therefore no need to deviate from the prior rate trajectory."

As you have heard, the Manitoba Hydro Electric Board is undertaking a review of Manitoba Hydro's Strategic Plan, from which they will develop financial targets, rate strategies, and a long-term financial forecast. The consultants engaged by the Corporation is currently considering the appropriate means of stakeholder engagement and consultations.

Now based on a number of the comments that have made during the course of this proceeding, I think one (1) of the questions that we need to address is: can the PUB make a decision without an NFAT, and I -- sorry, without an IFF or a financial plan?

Of course you can. An IFF is a tool in the rate-setting process, and an important tool in the long-term view, but it is just that: a tool. The PUB controls its own process, and it is not required to use any specific tools in coming to a decision on a rate request.

The PUB made a decision in its letter of November 21st of 2018 that it would consider the application without the use of an IFF, and it instead directed the use of Exhibit 93, revised to reflect the Board's directives in Order 59/18.

The PUB's mandate with respect to regulation of Manitoba Hydro is derived from the Public Utilities Board Act, the Crown Corporations Governance and Accountability Act, and the Manitoba Hydro Act. While Intervenors might advocate for different requirements or tests for the review of rates, it is important to consider what is actually contained in the legislation.

Before you, we have set out section 39

of the Hydro Act, and that section specifies the costs which are to be recovered by Manitoba Hydro in the price for power. We have also set out for you at the next slide Part 4 of the Crown Corporations Governance and Accountability Act, and those include matters which the PUB may take into account in reaching a decision on rates.

There is no legislative requirement in either the Hydro Act or the Crown Corporations Governance and Accountability Act for the PUB to review an IFF prior to making a determination on a rate request. While an IFF is useful in providing a long-term direct -- directional impact of rate increases, it is simply the tool that may be used by the PUB in determining just and reasonable rates.

Mr. Williams, on behalf of the Coalition, acknowledged the IFF as a tool in his opening comments. He stated:

> "Manitoba Hydro came before you without bringing that fundamental element of a Hydro General Rate Application, an integrated financial forecast, a tool which is essential in assessing the long-term reasonableness of any rate

application."

A decision of the Manitoba Court of Appeal and Consumers Association of Canada versus the Manitoba Hydro Electric Board is instructive in the use of tools by the Public Utilities Board. The tool at issue in that case was the cost of service study. However, Manitoba Hydro submits that the findings of the court apply equally to an IFF. The court held that the PUB has two (2) concerns when dealing with a rate application: the interests of the Utility's ratepayers, and the financial health of the Utility.

Now, in order to provide some context, we have provided you with paragraphs 60 through to 64 of that decision, but I'd specifically like to draw your attention to paragraph 65 and the sentence that is in bold there. Sorry, 62, paragraph 62.

The highlighted area states:

> "It may be well -- it may well be that the PUB could not or would not review the specific financial tool that the applicants argued it should have, but that is insufficient in my mind to justify a finding that as a whole the PUB did not fix rates that were just and reasonable."

Manitoba Hydro submits that in making a determination in the current application, the PUB can look at the current information before it and be satisfied that a 3 1/2 percent rate increase is just and reasonable, and will better position the Corporation to address the impacts of Keeyask and its associated transmission coming into service.

The PUB has ample evidence before it of the impacts on revenue requirement and a long history of having reviewed, studied, and analyzed these projects since the 2014 NFAT.

MIPUG acknowledges these impacts and the need to transition to higher rate structures.

Coalition experts also propose a continuum of rate-setting options in their written evidence, which include the option that if the PUB were to consider the impacts of Keeyask for future potential rate volatility, the Board could grant a full rate request of 3 1/2 percent on an interim basis.

I will now be briefly discussing the use of Exhibit 93 in this process.

Manitoba Hydro submits that the PUB can be comfortable relying on the directional impacts and trends of net finance expense, depreciation expense, net debt, and the financial ratios found in Manitoba Hydro Exhibit 93, to assess the long-term impacts of granting a rate increase in 2019/20.

The most compelling reason is that the projected rev -- revenue requirement impacts of Keeyask and the associated transmission projects remain largely unchanged from that assumed in Exhibit 93, and that was shown in PUB -- the response to PUB Manitoba Hydro 9 updated.

Manitoba Hydro's net debt is still expected to grow by an additional $4 billion from where it is today by the time the major projects are complete, consistent with Exhibit 93.

Regardless of whether interest rates remain at historical levels, the additional debt required to fund these projects will come at a cost to the Corporation. In fact, there is a greater likelihood that Keeyask may come into service earlier than schedule, and you heard the date being October of 2020, advancing the projected revenue requirement impacts of 600 to $700 million, which further condenses the period of time available for the PUB to smooth in rate increases.

Exhibit 93 assumed a 3.57 annual rate increases, 23.16 cumulative, up to the in-service of

Keeyask. While Mr. Rainkie and Mr. Bowman offer directional commentary on factors that may impact -- impact the results of Exhibit 93, there was no quantitative analysis to suggest that the annual rate increases projected are unwarranted.

Mr. Rainkie and Mr. Bowman speculate that interest rates could remain low, without offering any analysis on the quantum of the impacts. They also speculate that additional export revenues might be available in the future without acknowledging that any potential benefit of incremental export revenues would only occur once Keeyask is in service.

What's critical to this discussion is that the impact, the 3.5 percent requested rate increase in 2019/20 will have. It provides additional revenues on an annualized basis, in perpetuity, which has a profound impact on the financial reserves, debt levels, and financial metrics.

Now, you have seen this table before, and this was Manitoba -- found in Figure 2 of Mani -- of Manitoba Hydro's rebuttal evidence, and this was using Manitoba Hydro Exhibit 93 for illustrative purposes. And this shows -- this demonstrates that foregoing a rate increase in 2019/20 exacerbates the projected losses upon the in-service of Keeyask, reduces projected earnings by approximately $900 million, increases the Utility's debt by a similar amount, close to $900 million, and further increases the debt ratio in 2028/29 by an additional 3 percent.

VICE CHAIR KAPITANY: Ms. Fernandes, can I just ask a question? Sorry to interrupt you.

MS. ODETTE FERNANDES: Yes.

VICE CHAIR KAPITANY: But I see on this table that you've got a zero percent for 2020 --

MS. ODETTE FERNANDES: Yes.

VICE CHAIR KAPITANY: -- but then for 2021, the 3.57.

MS. ODETTE FERNANDES: Yes.

VICE CHAIR KAPITANY: So do I take from that that you are coming in with the General Rate Application for 2021/22, and that the request then will be 3.57 percent?

MS. ODETTE FERNANDES: No. This was just taking Exhibit 93 and including a zero percent rate increase for the 2019/20 fiscal year, and then running the rest of the exhibit as it was produced in the last hearing.

VICE CHAIR KAPITANY: Okay, thank you.

MS. ODETTE FERNANDES: Yeah, it was illustrative.

At transcript, page 718, Mr. Rainkie took issue with Manitoba Hydro's submission that the net income would deteriorate by 900 million without the rate increase in 2019/20. Mr. Rainkie suggested that there was a $567 million overstatement of debt that -- which may fully offset the 900 million net loss over ten (10) years, but he did admit he didn't have the ability to make the calculation.

Mr. Rainkie's suggestion fails to recognize that $241 million is planned to be spent to complete the Bipole III project over the next two (2) years, and that information was in response to MIPUG, IR question 3.

Reducing the suggested 567 million alleged overstatement by the 241 million of additional cost to complete Bipole III, results in a net difference in debt in -- of about $326 million.

If we assume an interest rate of 4 percent on that 326 million, that results in a lower annual interest cost of $13 million, compared to what's contained in Exhibit -- Manitoba Hydro 93.

Over ten (10) years, this translate to -- translates to approximately $130 million, which is substantially lower than the 900 million offset suggested by Mr. Rainkie.

Mr. Rainkie also goes on to say that the lower costs of Bipole III were lower finance and depreciation, without recognizing that the lower Bipole costs are the significant factor contributing to the lower net -- the lower debt in 2019/20, and as such he has effectively double counted the Bipole III impact in his discussion.

Manitoba Hydro would suggest the PUB be cautious with Mr. Rainkie's assertions in this regard, as in making the observations on Figure 2 in front of you, he provided directional information couched in the language of probably and may. And you can find that at transcript pages 718 to 723.

There have also been suggestions that as a result of the significant change in the net income when looking at previous IFFs, Exhibit 93 is unreliable.

Let's briefly look at those IFFs. Page 50 of the evidence provided by Consumers Coalition consultants demonstrates that the last five (5) IFFs have shown significant variation in net income.

The cumulative net income from 2021 to 2026 has ranged from a positive net income of 1.095 billion in MH12 to a cumulative net loss of 772 million in MH14.

All parties are aware that when Manitoba Hydro forecasts net income, it is based on the best information available at the time. Parties are also aware, however, that those forecasts will change. Water flows, export prices, interest rates, weather, and customer demand will all vary from what is forecast. Regardless of that variation in net income, the approach has been to smooth rates to promote rate stability and balance the fiscal health of Manitoba Hydro and the rate impacts to customers.

Page 14 of Exhibit 93, which was included in the PUB's Book of Documents at page 17, showed that during the NFAT preceding the financial evaluation, which provided for high capital costs for Keeyask and level 2 demand-side management, showed a comparative impact on future customer rates of 3.95 percent in 2014/15, and indicative rate increases each and every year of 3.99 percent from 2015/16 to 2031/32.

The financial forecast prepared by Manitoba Hydro for electric operations immediately following the NFAT, MH14, showed indicative rate increases of 3.95 out to 2030/31.

Manitoba Hydro's financial forecast filed the following year, MH15, also included indicative rate increases of 3.95 percent.

Since the NFAT, each and every IFF and scenario run by Manitoba Hydro has included variations in net income, but they have also recognized the need for steady annual rate increases of more than 3 1/2 percent to address the impacts of major capital expansion.

Mr. Rainkie has attempted to dismiss the rate pass in previous forecasts by suggesting that they were the result of a goal-seeking exercise to achieve a specific debt-equity target. All previous applications since the NFAT have requested rate increases in the near term, not as a goal-seeking exercise, but to deal with the impacts of major capital.

The PUB in Order 59/18 declined to consider pace of achievement of a debt-equity ratio in their decision to grant the 3.6 percent rate increase, and Manitoba Hydro itself has not relied on the achievement of a debt-equity target to support the current application.

As you have heard from Manitoba Hydro's witnesses, there were two (2) main reasons for Manitoba Hydro's application: variability in net income and impacts of Keeyask.

Now, I'd like to focus on the variability in net income. You know that Manitoba Hydro experiences variation. The water flows will not be averaging each and every year; export prices, interest rates, weather, and customer demand will all vary from what is forecast.

That doesn't mean we are bad at our jobs. It doesn't mean we don't manage the things we can control. However, there are inputs to our forecast that we know can change and can change quickly.

Manitoba Hydro's change in net income is primarily attributable to changes in water flow conditions. You have heard testimony from Mr. Cormie that at the time the application was prepared, Manitoba Hydro's expectation was that the low flow conditions that had been experienced in the summer would continue through the year, which was statistically the likely outcome.

By the second half of October, Mr. Cormie testified that Manitoba Hydro was just modestly above average. You will recall Mr. Hacault at the pre-hearing conference of April 3rd speaking about preparations being undertaken for the flood. You will also recall Mr. Cormie's evidence on

April 23rd, three (3) weeks later, that rather than stretching well into June as the initial flood forecast had indicated, water levels were now expected to return to normal within a month.

In the graph in front of you, you see the forecast on March 28th and then the forecast on April 17th. The movement in these factors between the time of the filing of Manitoba Hydro's original application and the supplement eleven (11) weeks later highlights the volatility that Manitoba Hydro must expect and manage. The drastic change in the spring flood forecast between March 28th and April 17th -- twenty (20) days -- is an even more startling example.

You have heard both Ms. Bauerlein and Mr. Cormie say that the months of May to October are the most critical months in terms of rainfall, and on average, they contribute 80 percent of the annual supply. Mr. Cormie testified that the last two (2) months, we were at 80 percent of average of precipitation across Western Canada, which is an event that occurs once every five (5) years, and that discussion was at transcript page 81.

In front of you, you see the chart Mr. Cormie presented, which he referred to as a spaghetti diagram. This was the chart of total inflows or the daily water supply to Manitoba Hydro reservoirs. Mr. Cormie told you that for each year since 1977, there is a trace that shows how the water supply fluctuated daily over that calendar year, and you can see the variability in this chart in front of you.

Now switching to another input that is variable -- there it is -- interest rates. In terms of interest rates, Manitoba Hydro provided its interest rate assumptions underpinning the 2019/20, approved budget. Interest rates change continuously and are dependent on and impacted by a large number of factors.

While interest rates are currently lower than the forecast underlying the approved budget for 2019/20, much of Manitoba Hydro's borrowing for the fiscal year is weighted towards the second half of the fiscal year. The interest rate environment in six (6) months will vary from the current experience.

Manitoba Hydro has approximately 4 billion of incremental borrowings to undertake over the next few years to complete the major projects, as well as approximately 4.8 billion of debt requiring refinancing over the five (5) year period following

2019/20, all of which is subject to interest rate risk.

As history has shown, today's interest rate environment is not a good predictor of the future. It is impossible to predict interest rates with certainty, and interest rates do not remain static. Interest rates don't see in a straight line, and as was seen on the previous slide when looking at actual interest rates over the past few years, they move up and down. Mr. Epp explained at transcript page 229 the day-to-day fluctuations that occur in interest rates.

Finally, in addition to the risks identified, Manitoba Hydro is also exposed to the impacts of colder or warmer winter weather and higher or lower export prices and forecast. Those additional sensitivities reproduced in front of you in response to Coalition MH-18B demonstrate the impacts of these key sensitivities on Manitoba Hydro's revenues.

And with that, I will turn it over to Ms. Boyd.

MS. MARLA BOYD: Thank you, Ms. Fernandes.

Mr. Chair, members the Board, Ms. Fernandes has talked to you about the certainty of our forecast and some of the things that are outside of our control. I now want to talk to you about something that we have control over, something we know with certainty.

Keeyask is coming. You've heard in the testimony from Ms. Bauerlein at transcript page 82 that there's a greater likelihood that Keeyask will come into service earlier than scheduled. While the original in-service date for that first unit was August of 2021, it is now likely that the first unit will come in service on October of 2020.

As we discussed in Manitoba Hydro's direct evidence, an October 2020 in-service date will result in the recognition of additional carrying costs, primarily finance and depreciation expense, beginning in the 2020/2021 fiscal year. As outlined in Manitoba Hydro's response to PUB Manitoba Hydro 9 updated -- part of that is reproduced on this slide -- the estimated carrying costs for Keeyask and the associated transmission are between 600 and $700 million once fully in service.

If Keeyask is commissioned 10 months ahead of schedule, the period in which to smooth rates into customer rates will be condensed, and without the proposed 3 1/2 percent rate increase, the likelihood of a financial loss, following an earlier in-service date, for Keeyask will be exacerbated.

While Bipole III came into service at a cost of $4.77 billion, Keeyask is coming into service at a cost of $8.7 billion. The $630 million 2022/23 revenue requirement impact of them coming into service, including associated transmission, is much larger than the $294 million 2022/'23 impact of Bipole III. Even though Keeyask is a revenue-generating asset, all of its cost will not be offset in the early years of service.

One of the figures you've seen a number of times during this proceeding is the cash provided by operations. This was in page 9 of Manitoba Hydro's rebuttal evidence. This figure shows that the effect of a Keeyask capitalized interest as it comes into service.

What this shows you, with all else being held constant, is that by no longer capitalizing interest, the revenue requirement impact goes from a surplus to a deficit of $197 million. This deficit does not take into account the interest costs associated with approximately $4 billion still left to borrow to complete the project.

You will recall that during the cross-examination of Mr. Bowman, if Manitoba Hydro were to borrow the remaining $4 billion at the current rate acquired by Ms. Stephens (sic) of 2.9 percent plus the 1 percent provincial guarantee fee, that would amount to an additional $160 million of borrowings which will also not be capitalized once Keeyask is in service.

When you include with the $197 million seen here, the total deficit would be $357 million. The response to Coalition Hydro 1B provided an illustrative example that showed the net operating deficit of approximately $300 million or a onetime rate increase of 18 percent, assuming expert revenues of $262 million attributable to Keeyask.

At transcript page 251, Ms. Bauerlein acknowledged that expert revenue could be -- attributable to Keeyask could be approximately 360 to $400 million in 2022/23. That would reduce the estimated offering -- operating deficit to approximately 150 to $160 million or the equivalent of a onetime 9 percent rate increase.

Mr. Bowman also acknowledged in cross-examination at transcript page 638 that all the costs will not be offset in the first year and, depending on what revenues to ascribe to Keeyask, the rate impact could be somewhere between 9 and 18 percent.

We know that Manitoba Hydro is putting in close to $10 billion in assets. Ms. Baulerlein testified at transcript page 883 -- sorry, that's page 83, that those assets will result in carrying costs, primarily finance expense and depreciation, and that those carrying costs will be in the range of 600 to $700 million once Keeyask is fully in service.

It has been suggested that in each of the previous IFFs there was a shortfall between the revenue generated by Keeyask and the expenses and that this was something that could be absorbed over time.

The suggestion is that the Board can deal with this when it comes. Well, the time has come. Keeyask is now eighteen (18) to twenty-eight (28) months away, and there is potentially only time for one (1) more rate application before the in-service of the first units of Keeyask in October of 2022 -- sorry, 2020.

In Manitoba Hydro's rebuttal evidence, which was Exhibit 24, at page 4, the Corporation indicates financial metrics are weakening as a result of the minimal net income and cashflow and the escalating debt levels.

These weakening financial metrics have garnered the attention and additional scrutiny from credit rating agencies. According to Moody's EBIT, E-B-I-T, interest coverage metric, Manitoba Hydro will have a cash shortfall of approximately $300 million and will be unable to service approximately 30 percent of its outstanding debt servicing costs.

It is partly for this reason that Moody's is currently reassessing Manitoba Hydro's self-sufficiency. Absent sufficient rates, metrics will continue to worsen.

I'd like to now turn to the issue of cost control. There has been a suggestion that if Manitoba Hydro did a better job at cost control, a 1.5 percent rate increase would get it back to what it seeks in this application.

Let's look at the evidence on the record about Manitoba Hydro's cost control. First, let's look at O&A costs. Manitoba Hydro launched a voluntary departure program in April of 2017 as a means to accelerate our workforce reduction target of approximately nine hundred (900) employees over a three (3) year period.

The slide before you was contained in Manitoba Hydro's direct evidence, slide 15. As you can see, our straight time EFTs were at six thousand two hundred and six (6,206) in 2016/17.

As of December 2018, the straight time EFTs were reduced to five thousand three hundred and thirty-four (5,334). This is a reduction of eight hundred and seventy-two (872) EFTs, or 14 percent of Manitoba Hydro's workforce.

Ms. Bauerlein, at transcript page 84, indicated these new EFT levels are comparable to where we were fifteen (15) years ago. That's 2004/05, fifteen (15) years ago.

You also heard from Ms. Bauerlein that since 2004/05, there's been a growth of 15 percent in our customers. There have been additional operating requirements for major infrastructure.

There have been aging infrastructure demands from our post World War II infrastructure and there's been increased regulation, all of which has been responded to.

Mr. Rainkie, at transcript page 741, suggests that a 1 percent inflationary increase could be achieved through 50 percent staff attrition and 50 percent from supply chain savings.

Manitoba Hydro notes that, given the departure of nine hundred (900) employees through the Voluntary Departure Program, attrition rates are expected to be low as a substantive portion of those eligible to retire have already left the Corporation.

As noted in the response to Undertaking number 4, supply chain savings have not materialized as planned and are predominantly related to capital expenditures, not to O&A.

Accordingly, it would be unrealistic to expect Manitoba Hydro to achieve the two (2) -- the $22 million in O&A reduction that Mr. Rainkie suggested.

Manitoba Hydro continues our commitment to streamline operations and to control costs by limiting our growth to inflationary levels. Further reductions cannot be sustained given the Corporation's mandate to ensure the safe and reliable supply of electricity.

I want to turn now to BOC, Business Operation Capital. Manitoba Hydro's capital expenditures are operationally driven in support of our responsibility to provide safe and reliable supply of electricity to our customers.

The operability and sustainability of the system are continually being eroded by the inevitable asset degradation, shifting customer demands, and growing operational requirements, all of which are mitigated through investment.

The timing of investments is a complex decision. It has significant cost and operational consequences. Manitoba Hydro has testified in its response to PUB MH-51 that only those investments associated with unacceptable risks are advanced to execution.

We've also noted in our response to Coalition 30A and 'B' that a hundred million dollar reduction in business operation capital in 2019 and '20 impacts expenses by only $4 million; it's not a solution to our problem.

Ultimately, Coalition experts made no recommendation for a quantitative rate-setting adjustment on account of the reduction to business operation capital. And you'll find that at transcript page 737.

However, similar to the reductions in O&A, Manitoba Hydro submits that cutbacks to the Corporation's capital program will not address the revenue shortfall once Keeyask is in service and it will increase the risk to the reliability of the electrical system.

I want to spend just a couple of minutes talking about DSM. There's been a suggestion that the PUB could consider reductions to DSM for rate-setting purposes as there's been no cost effectiveness analysis undertaken of the legacy programs that are currently be offered by Manitoba Hydro.

That suggestion arises from Manitoba Hydro's response to PUB-57 from the 2017/18, '18/'19 GRA wherein the levelized marginal value was reduced to five point seven five (5.75) cents per kilowatt hour.

You probably recognize this chart from Ms. Morrison's testimony. And, as you can see, it demonstrates that the vast majority of DSM programs currently being offered by the Corporation are cost effective at the marginalized level of five point seven five (5.75) cents per kilowatt hour.

The Board is also well aware that Efficiency Manitoba is currently preparing to assume its role in determining and managing the programs to be offered to Manitobans in order to allow them to manage their electricity consumption.

Provincial regulations will provide guidance in defining cost effectiveness for the Board and for Efficiency Manitoba. Given that the Efficiency Manitoba Act specifies the savings targets of 1.5 percent annually over the next fifteen (15) years and that the regulations which will guide the determination of cost effectiveness have not yet been enacted, Manitoba Hydro believes that the projections included within this application are appropriate to establish rates for 2019/20.

With respect to the First Nation on Reserve customer class, we expect that you'll hear from MKO and AMC that the First Nation on Reserve rate class created by the Board in Order 59/18 ought to receive no rate increase in this application.

While the issue of creation of this new customer class remains before the Court of Appeal, Manitoba Hydro has not sought to eliminate this customer class or to adjust the rates being sought from this class to recover the rate freeze that was granted in Order 58/19 -- sorry, 59/18.

Consistent with Manitoba Hydro's approach to apply the rates equally across all customer classes, we're also proposing to apply the 3 1/5 percent increase to the First Nation on Reserve customer class.

Manitoba Hydro respectfully submits that until such time as the Court of Appeal renders its decision, rates should not be differentiated further. This will mitigate any hardship to this class should the appeal be successful.

Should the Court of Appeal dismiss Manitoba Hydro's leave application, any further differentiation which the Board determines is appropriate can be addressed in a subsequent rate review.

Manitoba Hydro acknowledges the potential impact of the requested rate increases on lower income and First Nation customers. As Ms. Morrison testified at transcript page 526 through 527, Manitoba Hydro continues to offer bill affordability and energy efficiency programming to help customers in managing their energy costs.

Should the PUB determine that they wish to differentiate rates for this class, Manitoba Hydro requests that the PUB approve rates which provide the full $59 million on an annualized basis to keep the Corporation whole.

There's just a couple of other issues I'd like to touch on briefly. First, with respect to the issue of Intervenor participation and the review of compliance filings and directives, there has been an exchange of correspondence on this question.

Manitoba Hydro has noted that the PUB is in administrative tribunal whose decisions are granted deference because of their expertise in the matters before it.

The PUB speaks through their orders and it takes the position of all parties into consideration when it issues its findings and decisions. PUB orders are final, as per the legislation, and it is not the role of Intervenors to clarify the scope of such directives or orders.

The legislative framework to address disputes already exists in the process of a review and vary and, ultimately, an appeal to the Court of Appeal, if that becomes necessary.

This is maybe an appropriate time to address a practical issue, as well. Mr. Rainkie and Ms. Derksen in their testimony advocated a significant amount of work to be done by the Utility. This is an absolute disregard for the facts.

Order 59/18 included a significant number of directives, and the Board is well aware that the Utility has struggled to complete all of the work contemplated by those and prior directives.

We have the additional challenge of completing that work, as well as the gas GRA, supporting the work to develop a strategic plan and a long-term forecast. It is a small team of people that work on these issues. We must now address these challenges with a workforce that has been reduced by 900 people.

For the finance and regulatory area, that's been a reduction in the order of 20 percent. And we ask that the Board is mindful of these circumstances as you set time frames for completion of items that you determine are relevant.

Turning to the second bullet on the slide, the recommendation of the Coalition that the GSS class receive less than an average rate increase, we acknowledge that there's a strong likelihood that, due to the current revenue to cost coverage differential, the General Service non -- sorry -- General Service small and on-demand class cannot be brought into the zone of reasonableness while maintaining the current consolidated rate structure with the General Service small demand and the General Service medium classes.

However, Manitoba Hydro's recommendation to apply the proposed increase on an across-the-board basis is not an indication that we are putting a priority on class consolidation over revenue to cost coverage adjustments. Rather, Manitoba Hydro is priorizing (sic) rate stability in the near term until possible rate alternatives can be evaluated.

With respect to the creation of a deferral account for Keeyask, while Manitoba Hydro continues to have concerns regarding further erosion of its financial position due to the remaining potential for a loss in 2019/20, Manitoba Hydro's main concern is reducing the overall borrowing requirements and the associated debt servicing costs for its customers in order to maintain rate stability.

The accrual of revenues for -- to a Keeyask deferral account, if directed by the PUB, achieves this objective, and it would be acceptable to the Corporation.

In conclusion, you've heard both Mr. Rainkie and Mr. Bowman suggest that this Board should consider a maximum level rate increase in the order of 1.5 percent. The revenue generated by a 1.5 percent rate increase would be approximately $25 million on an annualized basis or one-sixth of the estimated 150 to $160 million operating deficit contemplated by both Ms. Bauerlein and Mr. Bowman.

Mr. Rainkie suggests that he's not far off from the position of Manitoba Hydro because he's, in essence, agreeing to a 2.8 percent rate increase being warranted. He arrives at that 2.8 percent differently. And he overlooks the evidence of Manitoba Hydro in respect of the O&A expenses and the fact that costs that are incurred in pursuit of capital projects are capitalized.

But it is significant to note the fact that the Coalition expert witnesses -- witness endorses a rate increase much higher than the 1.5 percent that has been suggested by Mr. Williams to date.

It's easy to walk into this hearing room and say we don't want rate increases. It's easy to sit here and try chipping away at the spending required by the Corporation, and you've heard from us this morning and through the evidence of how small an impact that actually has on revenue requirement.

It's easy to come into this hearing room and say just look at the current fiscal year and ignore what you know to be a reality. The reality is that Keeyask is coming. We are sitting here in May of 2019, and you've heard that the first units of Keeyask may come into service in October of 2020. This is as little as seventeen (17) months away.

We aren't fear-mongering. This isn't about assumptions or forecasting or reductions in spending. While there have been discussions about potential offsets, even in the best case scenario there will be costs which must be recovered from ratepayers.

Manitoba Hydro will be placing $10 billion worth of assets into service in the next short while. What is certain is that once Keeyask is fully in service, we'll have assets worth over $26 billion. However, our debt will be $24 billion. The cost reductions proposed by Intervenors in this process do not even move the needle when we acknowledge the reality of what's coming.

You have heard that in the most positive light, Keeyask will require a rate increase of 9 percent in the first year in-service. With a rate increase of three and a half (3 1/2) today, that leaves 5 1/2 percent to be recovered as early as October of 2020. It is critical that we take advantage of the time we have to smooth rates and begin to move to the higher rate levels all parties have acknowledged will come with the in-service of Keeyask.

Manitoba Hydro submits that nothing has changed enough to suggest that the 3 1/2 percent is not warranted in 2019/'20. The 3 1/2 percent rate increase clearly balances the uncertainty faced by Manitoba Hydro and the certainty that Keeyask is coming online with the interests of our customers.

I'm going to leave you with the words from Ms. Carriere from the transcript page 483:

"So we're seeing significant costs coming in, and we're running out of time to address those issues."

So I agree. We have been so fortunate that the interest rates have been kept and have continued to be low. Ms. Stephen and her team have done an amazing job, but we cannot hope for that to continue.

We encourage the Board to do more than hope and to grant Manitoba Hydro the requested 3 1/2 percent rate increase, effective June 1st, 2019.

I would be remiss if, prior to turning the microphone over, I didn't take the opportunity to sincerely thank Mr. Kurt Simonsen for his years of service at the Public Utilities Board and to Manitoba Hydro. He's been involved in a few very long and intense reviews before the Board, and he's always managed to ensure that the processes ran as efficiently and smoothly as they could. On behalf of Manitoba Hydro, we wish Mr. Simonsen well in his retirement, and we hope that he thoroughly enjoys spending time with his family and enjoys many years of health and happiness.

Mr. Chair and members of the Board, subject to any questions which you have for us, that concludes our remarks today, and we thank you for your attention.

THE CHAIRPERSON: Thank you, Ms. Boyd. I'll ask the panel if they have any questions.

No? Thank you. Ms. Dilay, I understand it is a request to adjourn until this afternoon?

MS. KATRINE DILAY: That would be our request, Mr. Chair.

THE CHAIRPERSON: And the request is until what time?

MS. KATRINE DILAY: 1:30.

THE CHAIRPERSON: Okay. I trust that you will be finished this afternoon?

MS. KATRINE DILAY: Absolutely, and we think in less than the time allocated.

THE CHAIRPERSON: Thank you.

MS. KATRINE DILAY: Thank you.

THE CHAIRPERSON: We'll adjourn until 1:30. Thank you

--- Upon recessing at 9:54 a.m.
--- Upon resuming at 1:32 p.m.

THE CHAIRPERSON: Dr. Williams, the floor is yours.

CLOSING SUBMISSIONS BY CONSUMERS COALITION:

DR. BYRON WILLIAMS: Good afternoon. And just a couple of preliminary matters. There is a PowerPoint, which we suggest be marked as Coalition Exhibit 11.

--- EXHIBIT NO. CC-11: PowerPoint of Consumers Coalition

DR. BYRON WILLIAMS: And certainly we did appreciate, on behalf of our clients, the adjournment this morning, which enabled them to -- to be here. It's very important for them to be here.

I did want to, again, acknowledge our clients that Ms. Desorcy, from Consumers Association, Ms. Erbus. We're joined as well by a student from Red River Community College, Ms. Victoria Hope. And, in terms of the -- the PowerPoint on the -- well, I will deliver it. I was -- my colleague, Ms. Dilay, was the lead writer, and I very much appreciate her contribution.

And, bef -- I don't want to get all weepy, but Mr. Simonsen, we are going to miss you. We'll be very bitter if we don't get postcards from Denmark; just saying.

Turning to the presentation, the title means something. We were trying to describe the -- the journey that our clients have been on as concerned ratepayers over the last year and a bit with Manitoba Hydro through what was called the failed plan to the no plan to the old plan.

And, if we turn to slide 2, our client believes it's -- believe it's helpful to go back to where we were just in December of 2017. And there we had the access to Capital Crisis hearing. The Manitoba Hydro Electric Board was suggesting that its old financial plan had failed. It was far too risky and not adequate.

There was an allegation that access to the capital markets was imperilled and I think I -- I can say with confidence that most people in the room during that hearing had severe concerns about Keeyask. That Keeyask might be out of control. It was clearly beyond sched -- behind schedule and over budget, and what looked like a fast track to $9.6 billion, absent some pretty material productivity improvements.

And in that hearing, we had the old Hydro Electric Board saying that they needed 7.9 percent for at least a year and really a seven point nine (7.9) times six (6) plan. A different debt management strategy than we have today, and obviously, the start of the voluntary departure program.

That seemed long ago, but even November -- even November of 2018 seems like a -- a long time ago, where we had -- whether it was a crisis or an emergent low-water challenge, there was a new Manitoba Hydro Board, working on a new plan, suggesting that they face an emergent challenge driven by low water, and that they were looking at a deficit in the range of $31 million for 2019/20. And that a rate increase of 3.5 percent was necessary just to get Manitoba Hydro into the black.

And although, I suspect our clients may have been a -- a bit bitter about having the hearing without an integrated financial forecast and the -- the normal hearing. When reflect upon the Board's decision then, recognizing the evidence it had before of this emergent water issue, its decision to issue this hearing in our client's submission was very consistent with this Board's commitment in Order 59/18, pages 63 and pages 65, that if there was water trouble, the Board would be there. So our clients, with hindsight and reflection, understand that decision.

Flash forward to February of 2019, and it's not a water crisis anymore, it's back to average. We still have a new Hydro Board working on a new plan. But based in large part on good rainfall, in October and November of 2018, the crisis is no more. Hydro's on track and still on track for about 95 million in net income in the past fiscal year, being 2018/19, and its best estimate is even without a rate increase, a 64 million for '19/'20, roughly a $90 million swing.

So, where we are today? Reflecting back to the crisis we -- that some allege we were in back in late 2017 and leading up to Order 59/18. Still the Board -- new Board still working on the plan. But, in terms of imperilled access to capital markets, Ms. Stephens out there with her team, recently placing $1 billion with the Province in the US market at 2.19 percent and an ultra long, 49-year debt issue at 2.91 percent. So, the allegations of imperilled access to capital, do not seem borne out.

And in sense of the overarching

concerns in terms of runaway major projects, well, Bipole III came online and about 270 million below its control budget and Keeyask is on track for its control budget and coming sooner than expected. And the Manitoba-Minnesota Transmission Line and the Great Northern are on track and on budget.

Since I -- critical point in this Corporation's history and a turning point, the language that Mr. Bowman used, the greatest corporate bid -- build of all time is coming to a close. They're still 3 billion on Keeyask, but Bipole's in the can, we've turned the corner on Keeyask, and those other big projects look like they're under control.

And despite juggling those major projects, Manitoba Hydro has the highest level of financial reserves in the Corporation's history; a far cry from where we were back in the drought of 204 (sic). Its expected debt for 2019/20 is over half a billion dollars less than forecast in the famous Exhibit 93 a year ago.

And Mr. Cormie tells us, as do provincial government news releases, that he is working hard in Saskatchewan. And the Voluntary Departure Pro -- Program is complete. But what's the plan? The new board is still working on a new plan.

The 2017 plan was clearly rejected. It appears that Manitoba Hydro has defaulted to the old plan, whether the 209 (sic) or 212 (sic) plan, however we characterize it.

So what is this new old plan? In our clients' respectful submission, it's driven by goal-seeking and entitlement. A major 'S' element of Hydro's case theory, in this hearing, is you should grant us three point five (3.5), because that's what we've been asking for since 2009, or last year maybe twice as much as three point five (3.5). Exhibit 93 contemplated eighteen (18) consecutive years of this magnitude of rate increases.

But when you look behind that sense of entitlement, that sense that they've been asking for this consistently, what is driving that? And as Mr. Rainkie, a former senior vice-president with this Corporation explained, those consecutive annual rate increases are a product of a goal-seeking debt-equity target, first arrived in 2012, to achieve the attainment of a 25 percent debt-equity target within a twenty (20) year IFF time frame.

What does this newer plan look like? Well, some things don't seem that different. Hydro, in seeking this rate application, argued strongly against a real process, argued strongly against a meaningful role for Intervenors. They should be limited to submissions, not ask information requests, or file evidence, or, heaven help us, have an oral hearing.

The newer plan still does, after the fact, in rate-peer engagement, not prior to the decision has been made so consumers can have meaningful input, but after the fact to tell them about it.

And there is still that ongoing reluctance to participate in what might be the most important technical conference in Manitoba Hydro's history on risk, financial targets, and rate-setting.

Our client submits that this newer plan also largely ignores recent regulatory guidance, and the wisdom of Board Order 59/18, in particular on pages 65 and 66 in terms of risk and rate paid, as well as the strong message that came from Order 59/18 that our job's not done. It's not business as usual. That drive for increased efficiency, for ever more vigilant cost control cannot cease.

And in our client's humble submission, this is a back to business as usual budget for Manitoba Hydro with that ever famous inflationary increase for operating, maintenance, and administration. Our clients are of the strong view that the newer plan is not appropriate in turn as Manitoba Hydro nears the end of this major capital build and enters a new era.

Why does our client say that this is a new era? Well, even Manitoba Hydro's Electric Board on slide 8 -- and the first quote that we put there is talking about some of the major changes going on. Efficiency Manitoba is leaving, is taking over the Power Smart brand. That's created a new opportunity, in the Board's submission, to take a close look at our organization from our customer's perspective, to understand their needs, and how best to meet their expectations, and drive efficiencies. A new opportunity, new efficiencies, but an old plan.

Mr. Bowman, in terms of the major changes along with Mr. Cormie, was perhaps the most eloquent person to articulate that. He talked about how we're in a major transition period. The export markets aren't as lucrative as they were, but our retained earnings are much higher, and the picture looks very different.

Mr. Cormie also highlighted that this is not a business-as-usual era. In his view, there are a whole bunch of forces out there that are beyond the business as usual. We can't just assume that we'll continue to run the company as we have in the past. Customer attitudes are changing. We want to make sure we're not assuming business as usual.

And Mr. Rainkie, as displayed at the bottom of slide 9, noted it's not just a new market reality. It's also a new regulatory reality. The Board Order 59/18 did something really important. That debt to equity target has driven rates definitely since the '03/'04 drought. The Board made some findings on the questionable use of the equity ratio as a rate-setting target and suggested we should be look -- considering at least a minimum retained earnings target.

And just think of that goal-seeking series of integrated financial forecast since 2012 and the potential significant change to that pattern of that blunt instrument the Mr. Rainkie spoke of -- from our -- his submission and certainly our client's, that is a significant difference.

And in Order 59/18, in our client's view, there's an important message that the old tools may not be the best tools for this new era. And I've already, in the first quote, spoke about the equity target level and the Board's wisdom on that.

But if we devote our attention on slide 10 to the bottom quote, the Board is highlighting that we need to be more nuanced, less blunt, more risk-based, using modern risk tools, looking at risk tolerances, and considering more rigorously what should be protected by reserves, when do we need more aggressive rate increases, and inviting Manitoba Hydro to participate in a collaborative approach with stakeholders and the Board on that discussion.

So Hydro, in our client's view, is entering a new era. And from our client's view, there are alternatives to the old plan. And for this hearing, our client's questions are: Is the old plan the only viable plan? Is it the best plan? Or do we have alternatives that will better balance consumer and Hydro interests and, just as importantly, assist Manitoba Hydro in turning that corner that Mr. Bowman spoke of and moving forward?

There are two major alternatives to the Hydro approach in this hearing. One is -- which we've described on slide 12 -- is Alternative 1 is presented by Mr. Rainkie, Ms. Derksen, and Mr. Harper. We call it the 59/18 path. Three (3) key elements: active management, controlled rate increases, and a modern approach to risk.

And if you devote your -- if you take a look at that first bullet, at the essence of that plan is to use a mixture of cost control and rate increases to reach 2.8 percent: 1.5 percent through a rate increase, the other through more active cost control.

And as Mr. Rainkie points out on this bullet, it doesn't matter where the dollar comes from. Whether it comes from ratepayers or from Hydro savings, it still allows you to manage Keeyask, to manage credit ratings, to manage financial markets, to manage costs, a more balanced approach.

The second key element of their advice is to enhance our uncertainty analysis tool, and you heard Mr. Rainkie speak of the progress that was being made, first in the NFAT and then in the 2015 and 2016, with the significant developments in Manitoba Hydro's uncertainty analysis that would've assisted this Board in making better risk-based decisions in rate-making, not that blunt IFF goal-seeking device but something -- a more informed tool for Hydro, for ratepayers. And his concern, of course, that progress on that uncertainty analysis have been stalled.

And very important in the 59/18

approach was to follow the Board's guidance on risk, to ensure that the range, assuming reasonable forecast of between a hundred and a hundred and fifteen million, if Hydro can manage its O&A costs, and also, it would enable it to meet its financial indicators.

And this range, in his view, protected against the risk of financial loss in 2019/'20 from non-water flow risks and is consistent with the Board's guidance at that famous page 65 on how risk should be addressed in rate-setting.

Another element of their recommendations -- perhaps less prominent -- is to engage with Intervenors outside the General Rate Application, including during compliance filings.

Mr. Bowman also offered thoughtful evidence in this hearing on what we call the turning-the-corner approach, modest rate smoothing at 1.5 percent, rethinking reserves, and rethinking modern risk practice. Mr. Bowman's conclusions were that if you are judging only by Hydro's -- that a range between zero and one point five (1.5) was an appropriate range for a rate, where the consumer interests leading to about one point five (1.5), recognizing some inflationary increases directionally appropriate. And he, of course, suggested that might be directed to a Keeyask deferral account.

In the third paragraph on slide 13, you again see Mr. Bowman speaking about the linking of Manitoba Hydro's uncertainty tool and the Board's finding in the last GRA at page 66 about the idea of this workshop collaborative of effort on minimum retained earning. Because at a certain point in time, we have to consider what is an appropriate level of reserves, and have we reached it? And again, highlighting that there would be a value in a collaborative technical conference focused on minimum retained earnings or similar financial indicator tests and an uncertainty analysis.

There's the new old Hydro plan and the two alternatives. And Mr. Bowman put it into helpful context and kind of saying these alternatives are asking different questions. He asked is 64 million enough for 2019/20?

Mr. Rainkie and Mr. Bowman's interpretation at least asks a bit of a different question. If Hydro really wants to get to a hundred and eleven, is there another way to get there, rather than the 3.5 percent rate increase? Is a more balanced approach, including cost control and a 1.5 percent rate increase, a better way to do it?

We're going to take you in a bit of a journey this afternoon. Just a quick reminder of how we got there, then a bit of a discussion of consumer impacts. And then we are going to spend just a little bit of time on past regulatory facts finding and guidance, especially from Order 59/18.

The three longest sections, less you begin to despair, will involve considerations in weighing the evidence; considerations of the health of the Corporation, as we are in the 2019/20 year; and issues of prudence and reasonableness. And then we'll have a bit of a shorter discussion in terms of forecasts, our client's revenue requirement recommendation, and also cost allocation.

Slide 16 just goes back to that PUB letter of November 2018 that Mr. Ghikas helpfully reminded us of in his cross-examination of Mr. Rainkie on Monday. And this is what I think most of us thought we were getting into when this hearing was initiated. It appeared that Hydro was looking at a rate application to respond to the emergent circumstances of water that it was in at the time, sufficient to generate a minimum level of net income such that Hydro would avoid a projected net loss in the 2019/20 year.

As usual, the Board reminded Manitoba Hydro that it had the onus and, recognizing that the Hydro filing would not be robust, would not have the integrated financial forecast, would not be supported by an underlying corporate strategic plan. The Board found that long-term financial plans and forecasts were out of scope.

In terms of the Consumers Coalition, you're well aware of CAC Manitoba's long involvement in Hydro issues, as you'll be aware on slide 18 of the work that Manitoba -- the Winnipeg Harvest has done in terms of -- turn to slide 18 please -- has done in terms of working with over -- around fifty (50) Manitoba communities, serving almost sixty-four thousand (64,000) people a month, including twenty-seven (27,000) children.

Both organizations are heavily focused on consumer engagement and responsible evidence-based participation at regulatory hearings. And for consumers -- the PowerPoint seems to be moving slowly. We're having a bit of a -- here we go.

To develop their position, the Consumers Coalition has undertaken three (3) steps. First, they retain three independent experts. Second, throughout the course of this hearing, they've been conducting engagement sessions with Manitoba, three to date is my understanding. And third, they've considered the full record of this hearing to develop their ultimate recommendations.

This is not a theoretical issue for our clients, for the persons with -- struggling to make ends meet or of modest means that they represent. Three point five is a $59 million annualized rate increase with the net present value way significantly north of a billion dollars. Over 40 percent of that will be paid by residential ratepayers with the net present value for residential ratepayers of well in excess of $560 million estimated.

And many consumers are struggling at today's rates. Manitoba Hydro, as found in the attachment to AMC-1-7, shared with consumers and the PUB, the residential use survey. An estimated 12 percent of Manitoba ratepayers in that survey reports reducing spending on food between one (1) and four (4) times over the past two (2) years to pay their Hydro bill. And if you go through that report, you'll see the same narrative when it comes to clothing, when it comes to rent, when it comes to other expenditures.

Those tough times were reflected both

in Winnipeg with 4.6 percent -- an estimated 4.6 percent of Winnipeg ratepayers reporting reducing spending on food at least four (4) times during the past two (2) years. And in non-gas areas, 9.7 percent estimated to be reducing spending on food at least four (4) times during the past two (2) years to pay for their Hydro bills.

So for these consumers and for all consumer struggling to make ends meet, every half percent matters. Interprovincial comparisons don't mean a lot unless we look at the average wages in those jurisdictions or the poverty levels. And for ratepayers that are struggling to make ends meet, there's no such thing as half a percent.

And we use that term because if you look at the response of Manitoba Hydro to our client's Information Request 30 AMB, there's a talk about business operational capital. And we know that if we optimize business operational capital, it's amortized -- those savings take place over time. And in that response -- so there's some immediate savings, but they really realize farther over time.

In that response, Manitoba Hydro was trying to make the point that even if it roughly did what the PUB had ordered in 59/18 for the 2019/20 GRA, that would only be about $11 million, the cumulative impacts of two years, only half a percent.

For our client, half a percent matters a lot, especially when they realize that compounded over time with better optimization, there is long-term benefit to consumers. So for Manitoba Hydro, half a percent may not seem very significant, but if you're $50 short on your budget for the month, a dollar or two can make a big difference.

In terms of regulatory guidance, obviously this Board is guided and directed by the interplay of three pieces of legislation, the Hydro Act, the Crown Governance Act, and the Public Utilities Board Act.

We focus on the Hydro Act on slide 23 just to highlight the word "necessary" under operating expenses because that is obviously, from our client's perspective, the $22 million question in this hearing.

On slide 24, we talk about the Crown Corporation's Governance and Accountability Act, and again under sub (5), you'll see reserves that are necessary. And certainly of interest as we look at the First Nation on reserve issue is sub (8) of 25(4)(a), any compelling policy considerations.

We're well familiar that the actual

tests we're applying in this hearing is a just and reasonable rate. And that burden is on Manitoba Hydro.

As the Board Chairperson outlined at the start of the hearing, the Board, in determining just and reasonable rates, is undertaking a balancing act. The ratepayers and the financial health of the utility representing, in its broadest interpretation, the public interest.

The rate-making and just and reasonable analysis has five steps:

Ensuring that forecasts are reasonably reliable. In this hearing, that's perhaps a bit less of an issue, given the evidentiary base;

Ensuring that actual projected costs are necessary and prudent, critical in this hearing;

Assessing the reasonable revenue needs of the Corporation in the context of its overall health, where we'll be devoting a lot of our time;

An appropriate allocation of costs; and

The actual rates that flow from those costs.

But our client really wants to focus on Board Order 59/18 and draw on the inference about the silence for most of this hearing of Manitoba Hydro on this Board, a thoughtful lengthy current decision.

We've already talked on slide 28 about the Board's important determinations in terms of the particular equity target level and pace, not necessarily determining the rate increase. So I'm going to move on to the next slide. But here is the critical guidance that I've talked about a couple times already in terms of risk. And this discussion takes place on pages 63 to 66.

In terms of drought risk, the Board advised at page 65 of its order:

> "Retained earnings should be used to manage drought risk in combination with regulatory action."

And the Board said it was prepared to consider emergent action when required to address emerging risks for Hydro, including drought. And that is our client's interpretation of what the Board was trying to do back in November of this year.

In terms of interests rates and export prices, the Board took the advice of Mr. Colaiacovo and said that they should be addressed not by cushions in the rate -- I was just getting on a role, Michael. At least that was my judgment. I'm not speaking for anyone else in the room.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Focussing on Bullet number 3, Mr. Colaiacovo's advice on behalf of Morrison Park which the Board accepted was that we shouldn't be building cushions for interest rates at expert prices, we should be addressing those risks when they materialized.

And, again, the Board's saying we have to look deeper. We have to look beyond the debt-equity ratio that has driven those linear rate increases for the better part of a decade and look more carefully at risk tolerances, what should be protected by reserves and the circumstances which would need to guide their -- the need for more aggressive rate increases.

This page was central to the advice of Mr. Rainkie, Ms. Derksen, and Mr. Harper. When they did their assessment of whether three point five (3.5) was necessary, whether some sort of range between 1 or 2 percent was necessary, they're extremely mindful of what the Board said should be in a rate application, what should be dealt with through reserves, when we needed cushions in the rates and when we didn't.

There's some important factual findings that our client had thought were settled in Board Order 59/18 but which kept popping up in this hearing. At slide 30, we highlight the Board's findings on capital markets.

And the Board's warning last year, that care must be taken to be placing too much weight on reports by credit rating agencies because, while they're related, they're not the same as capital markets.

And also on the bottom of page 30, again, to the extent that Manitoba Hydro had concerns about capital markets, that could be reassured by a long-term plan that acceptably manages risk and the Board's regulatory actions, the plan that many in this room were hoping to be addressed through the technical conference, the collaborative effort.

The message our client took from the Board Order 59/18 on slide 31 about day-to-day expenditures, that half billion dollar item in the -- on the expense side, is that the VDP, the Voluntary Departure Program, and supply chain management were not the end of the story.

In our client's view, this Board sent a strong message its expectation was of continual drive for efficiency. Manitoba Hydro continued these efforts both in terms of staff redu -- ductions and supply change (sic) management after the voluntary departure transition concludes, highlighting the second bullet on this page, that there's an opportunity to find further areas to reduce these costs.

This Board made an analogous determination with regard to business operational capital. Specifically on the second bullet, they accepted the evidence of METSCO, M-E-T-S-C-O, that Hydro couldn't demonstrate the proposed spending was necessary or had been optimized to any expe -- extent.

And setting an obligation on that third bullet, for Manitoba Hydro to demonstrate through mature asset management processes, those investments were necessary.

Slides 31 and 32 set out this Board's message that -- at least in our client's interpretation, of the need for vigilant cost control. And when we get to the prudence and reasonableness assessment, our client will submit, with the greatest of respect to Manitoba Hydro, that it hasn't come near to be -- to meeting the standard set in Order 59/18.

The Board also spoke of opportunities

in terms of demand-side management, recognizing that lower marginal costs necessarily dictated that we needed to look more carefully at deficiency of demand-side management expenditures.

As I said in discussing slide 31, but now I'll repeat at slide 34, our clients and Mr. Bowman put a lot of weight on the Board's guidance in 59/'18 and the approach to risk and rate-setting and the directions on cost control.

Our clients did not see that same fidelity, the Board Order 59/18, being demonstrated by Manitoba Hydro. In our client's view, in many cases, it si -- simply ignores the Board's order. And we suggest somewhat flippantly, if you cannot beat the order, you don't wish to challenge the order, you ignore it.

And at slide 35, our client offers what they consider to be five (5) examples that give this Board ample ground to conclude that Manitoba Hydro is passively resisting PUB Order 59/18.

Manitoba Hydro's approach to risk in this process has been to argue about cushion upon cushion, cushion for drought in the rate, cushion for interest expense in the rate, cushion for export expense in the rate, in our client's view, directly contrary to the Board's guidance on page 65 of Order 59/18.

In terms of business operational capital, Manitoba Hydro, without bringing any evidence to -- to challenge the Board's findings or adoption of the conclusion of METSCO's, has simply asserted its belief -- its belief, it repeats it, that all is well.

Too much of this hearing, the oral portion, was taken up with talking about bond rating agencies, and the issue raised for the first time in Manitoba Hydro's rebuttal in terms of access to the financial markets.

Again, that question was largely asked and answered in the last order. And it's been powerfully and eloquently answered in this hearing by Ms. Stephen with the 2.19 percent placement or the ultra long forty ne -- forty-nine (49) long -- forty-nine (49) year bond at less than 3 percent.

Our clients would submit that Manitoba Hydro, on the fourth bullet, has ignored this Board's findings on OM&A and, as Mr. Rainkie pointed out on Monday, adopted an enabling passive approach to expenditure growth, a return to the CPI, the -- the base plus two (2) that -- that put a lot of stress on this Corporation in the past.

And there has definitely not been a warm embrace of the Board's invitation to participate in a technical conference on financial reserves, risk, and rate-making.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Members of the panel, I'm going to spend a few moments talking about some of the factors we would recommend this Board consider in weighing the application and weighing the evidence.

And it is important to recall that one (1) of the critical initial rationales for the application has been abandoned. When this process started, Manitoba Hydro was projecting a net loss of $28 million.

By February, we knew that the best estimate was for act -- was a $90 some million swing to a net gain of 64 million. There's no doubt that there's also important evidence in this hearing that is lacking, the integrated financial forecast, but perhaps more importantly, the corporate strategic plan that underlies it.

There is no up-to-date debt management

strategy. And we can't even get a continuity schedule out to 2021 when we expect Keeyask, are part of it, to be coming online.

Our client has been repeatedly seeking a detailed budget for the -- the test year '19/'20, the year we're actually in, and that budget is still not available. And when we look at perspective cost of service, there's not a report available, notwithstanding Ms. Derksen's evidence on Monday, that one (1) could have developed within a two (2) month period, and notwithstanding the -- the massive change in cost of service because of Bipole III and its profound ape -- affects on the analysis.

I won't dwell on this, but on slide 37 we provide some illustrative examples of the material gaps in the record both for the text year. And we cite just here five (5) examples on OM&A evidence where details were not available for any year bes -- for the 19 -- for -- for the '19/'20 year.

And then, even if we go out one (1) year, just one (1) year out, there are material gaps in the evidence related to the Keeyask in-ser -- in-service years and on big ticket items, the debt continuity schedule, which is material to our client's interests and the Board's determinations.

Why have I annoyingly droned on about evidence gaps? Because they enable half billion dollar cherry picking exercises and the figure 2 from the rebuttals fools games.

On slide 38, we highlight Mr. Rainkie's evidence about Figure 2 from Manitoba Hydro's rebuttal evidence. And remember this Board told us, and I think -- told us that the long-term financial plan was -- was out of scope.

Figure 2 presented this doomsday issue for the ten (10) period to 2028/'29 alleging a $900 million reduction in retained earnings. It was based on that good old Exhibit 93.

And Mr. Ma -- Rainkie warned on Monday that one had to be careful with Figure 2. And his evidence, and I'll go through it in a second, was not successfully contested in cross-examination. And Manitoba Hydro did not week to re-direct or re-examine on his evidence, although it appears they may have tried to do it, although not under oath, this morning.

But what did Mr. Rainkie -- what did Mr. Rainkie do? Why did he say that you could not rely upon Figure 2? Well, if you just take one (1) simple point, debt, its starting debt figure was overstated by over half a billion dollars based on

Manitoba Hydro's own evidence, $567 million off.

It hadn't been updated for the $2 million lower capital cost for Bipole III. For the test year, that, in and of itself, would -- would lower finance, depreciation, and capital tax expense by about 30 million, but going forward, $17 million per year.

And Mr. Rainkie warned us about cherry picking and about the fools game and about reliance on one (1) snapshot, Exhibit 93, without -- in the absence of an integrated financial forecast. He warned about this fools game and he warned about relying on an outdated one (1) off calculation for rate-setting purposes. And slide 38, in our client's view, highlights the dangers of that.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: On slides 39 and -- and 40 I am going to express some empathy for the Manitoba Hydro witnesses. And it's challenging for them to be here to -- to defend a number without a plan.

And Ms. Pachal, who's done yoeman service in taking on her new job, spoke about why the

-- the absence of a corporate strategic pa -- plan is so important, it's not trivial.

For rate-setting purposes, what are the financial targets? Where will they end up being? How are we going to deal with debt rating agencies? How are we going to address our debt. All of these fundamental questions are captured in a plan, a plan that doesn't exist. It's not trivial, it's absence.

And, in our client's view, the absence of a corporate strategic plan puts Manitoba Hydro witnesses in an untenable position. And we witnessed this during this hearing. And this is fundamental to an understanding of the credibility. And it's fundamental to the understanding of the relative incoherence with respect of Manitoba Hydro's case.

As Manitoba -- as Mr. Rainkie pointed out at transcript page 754 on Monday, the role of a Hydro witness is to provide essential facts and accurate express and articulate the policy, plans, and targets of the Hydro Board.

But what plans are -- is Manitoba Hydro defending? Are they defending the plans of the MHEB, the Manitoba Hydro Board, that launched Bipole and Keeyask back in 2014 under the failed old plan?

Are they defending the Manitoba Hydro

Electric Board that launched a 7.9 percent rate application in 2017 with dire projections of bankruptcy and denial of access to the capital markets or are they defending the new Board that is still thinking about a plan that has not even retained yet an independent expert to consider the implications for risk and rate-setting of Order 59/18?

Are they defending the failed plan, the 7.9 percent plan, or the non-plan? In the absence of a plan and in the absence of a measured consideration of Order 59/'18, by what criteria are they judging the 3.5 percent rate application? That question has never been answered in this hearing.

And you see Mr. Rainkie stra -- struggling to put parameters on relying on Order 59/18. You see Mr. Bowman struggling with the -- the same question. Manitoba Hydro has never answered the question. And, frankly, our clients don't blame them. How can those witnesses de -- defend a plan that doesn't exist?

And I rarely recommend reading Information Responses, but Manitoba Hydro-Coalition-1-3 is a good one. And it points out why Hydro can't rely on the old plan to defend the 3.5 percent.

As the Coalition witnesses point out,

the prior integrated financial forecast and indicative rate increases were prepared for a modified cost of service framework based on the obtainment of a 25 percent equity ratio in a prescribed time frame, twenty (20) years under bo -- most of them, ten (10) years under the 7.9 percent plan.

But Hydro's Board is currently conducting a review of its strategies, operations, and finances, and hasn't adore -- endorsed an IFF or a strategic plan or rate strategy.

And Bullet number 3 points out that the Board's findings in 59/18, both about the equity -- debt-equity target, as well as the implications of rule-based rate-setting, may make it the case that we may not be setting rates in the future to met -- meet an equity ratio, that blunt a linear instrument that Mr. Rainkie pointed out. We might be more responsive, more risk responsive, more prudent, more evidence-based. And for those reasons, history, based upon the old failed plan, based upon hitting a 25 percent equity ratio in a prescribed time frame, is not a lot -- reliable basis to -- to support the 3.5 percent.

Our clients, and through their witnesses, attempted to assist the Public Utilities Board in answering this complex question of what do we do in the unique circumstances of this application. They bring ninety (90) years of experience to the table and many years of experience, both at Ontario Hydro and over forty (40) years of experience at Manitoba Hydro.

They were told that their duty is to the Board and to provide evidence that is fair and nonpartisan, and certainly our clients would submit that they took their role seriously and they offered an alternative to the old -- the new old plan, equivalent to about 2.8 percent, which builds on this Board's finding in order 59/'18, focuses on the risks in the test year consistent with 59/'18, while emphasizing the need for cost control and a robust uncertainty and risk analysis, and they gave a path to Manitoba Hydro, if it chose to take it, through cost control, to really put a cushion in its rate for future years.

And our clients have instructed me to make a specific comment about Mr. Rainkie, because we sat through a very lengthy cross-examination from my learned and good friend, Mr. Ghikas, which -- the point of which was apparently to suggest that Mr. Rainkie should only be relied upon when he articulates the Manitoba Hydro Electric Board policy.

Our client in terms of Mr. Rainkie's evidence asks you to take and draw a different conclusion. Mr. Rainkly -- Rainkie, was clearly a formidable corporate witness for Manitoba Hydro. He discharged his duty to articulate and execute Manitoba Hydro's policy, but as an independent witness he is free to look beyond Hydro policy, to learn from past experiences, he reflectively did on Monday, to adjust to materially changing circumstances, to apply relevant PUB guidance, as he did with Order 59/18, to exercise professional judgment, and to sincerely try to help the Board, Hydro ratepayers.

From our client's perspective he has just -- done just that, and they thank Mr. Harper, Ms. Derksen, and Mr. Rainkie for their thoughtful evidence and expressly adopt it.

Slide 44, we turn to the health of the Corporation in 2019/20, and there's a number of points that our client wish to -- to focus on here.

On Slide 45, this is an important point made by Mr. Bowman about the juggling act that Manitoba Hydro has been under since 2014.

Bipole III, Keeyask, major significant investment in day-to-day capital expenditures in the range of half a billion dollars a year, a very significant scale of DSM that is just now being slowed down, and major accounting changes, five (5) major activities that they've been juggling.

But the other point of Mr. Bowman was the accounting's done, Bipole's done, DSM is being scaled back and moving to Efficiency Manitoba. This underlies his point that we're at a major turning point for Manitoba Hydro. It has been undertaking this impossible juggling act over the last five (5) years and the corner is turning.

And despite those challenges, retained earnings, as Ms. Stephen candidly admitted, are at the highest they've ever been in the Corporation's history, in the range of $3 billion. And despite those challenges, net debt is materially lower in 2019/20 than was forecast just a year ago. And we put the calculations of that more than half a billion difference at the top of Slide 47, and that, of course, is due both to the -- the $270 million lower Bipole III capital cost, as well as lower other capital expenditures, lower than forecast.

Bipole III is another important change in circumstance is operational and a -- at a significantly lower cost than the control budget.

The fourth synchronous condenser was in

-- turned in place in November. The budget has been reduced or is about to. And whether or not Bipole III was a well-managed project or a prudent decision initially, that's not the issue before us now.

The issue before us is to recognize that the risks related to Bipole III, the risks of capital over expenditure, those risks are behind us now. It's in place. We don't have to worry about that budget spiraling out of control. It's done.

At page 10 of Mr. Bowman's evidence and Slide 49 of our PowerPoint, again is one of the most important points he brought forward in the hearing. Going to the point that this Board made last year in terms of debt-equity may not be the target to drive rates in that goal-seeking exercise in the future, going to the point that we needed a more nuanced analysis of looking at what reserves are for, and what Mr. Bowman does on Slide 49 of our PowerPoint presentation is start with the highly lever -- leveraged dark days of 203 (sic), 204 (sic), just as we're in that time of the major drought, the one that, as he said, has scarred many of us in the room, and at that point in time, export revenues accounted for about 40 percent of the revenue of Manitoba Hydro.

A five (5) year drought had an

estimated net cost of 1.2 billion when reserves were only at 1.29 billion. So that's 203 (sic).

By 209 (sic) you're starting to see some significant changes. First of all, Manitoba Hydro is not as highly leveraged, as highly reliant in the export market. Export revenues accounted for only about 26 percent of total revenues as compared to 40 percent.

The cost and the risk associated with a five-year drought had risen, as export prices did to approximately 2.4 billion, and at a time when reserves were less than that, 2.1 billion.

Flash forward to last year, or Exhibit 93. Again you see -- well, export revenues are still significant. They're only accounting for about 24 percent, a quarter of total revenues, and with low -- relatively lower export prices in the US, a five-year drought had seen a drop in net cost to 1.2 billion, with reserves roughly double that, begging the question, as Mr. Colaiacovo did last year, as Mr. Bowman did this year, what -- shouldn't we be having a nuanced, evidence-based, risk-based analysis of the appropriate level of -- of reserves?

As Mr. Bowman describes it on Slide 49 at the bottom, this reflects the material new reality compared to earlier reviews where parties can begin to consider whether the level of customer reserves has reached a level that could be maintained stable, rather than simply perpetually increased. That's why the old -- new old plan, the ever increasing trajectory, goal-seeking trajectory, may not be the plan that this Board, or the Manitoba Hydro Board, or any evidence-based Board chooses to rely upon.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Our clients, again, had thought the issue of capital markets was addressed last year, but we do have a couple slides on it, because Manitoba Hydro brought it up in rebuttal and in their oral testimony. And there was a -- a fundamental disconnect in Manitoba Hydro's case theory, here.

We see the quotes from Moody's, but we see, more importantly, the evidence from the marketplace. We see the evidence of Ms. Stephen. And -- and on slide 50, you see Mr. Rainkie talking about the proof is in the pudding. And when people are coming to Manitoba knowing that the money is going to Hydro for forty-nine (49) years at less than 3 percent, when you're getting global US debt issues for a billion dollars, the market speaks far more eloquently than the lag indi -- indicator of credit rating agencies. As he said, the proof is in the pudding.

And here's Ms. Stephen. I've talked about this already, but at the bottom of slide 51, Hydro getting US debt at 2.19 percent on a five (5) year term.

And here's what the Board said last year, and I've showed that -- you -- to you before. But again, in the second bullet on slide 4 -- 52, you see the Board talking -- if -- if access to the capital markets is a concern, let's get together and let's get a risk-based plan through that technical car -- through that technical process, and our client asking, why isn't Hydro working with its ratepayers and the PUB to develop a plan?

In terms of the overall health of the Corporation, our clients think it's important to just go back to Order 59/18 and that hearing. And the elephant in the room for everyone was Keeyask, in our client's respectful submission. It was the number 1 worry.

In 2018, it looked like Keeyask, minus

significant 10 percent productivity improvements, was heading right past 8.7 billion, and towards 9.6 billion with a bullet. It was heading to nine point six (9.6) unless something materially changed. And there on slide 53, at the second bullet, we take client -- what appeared to be the best case scenario in 59/18, Keeyask coming in at eight point seven (8.7) at a P-50 estimate for August of 2021, but the one that scared most of us -- perhaps all of us, the P90 not coming in until April of 2022, and at 9.6 billion.

But something did change, and you see Ms. Bauerlein on slide 54 talking about a number of the risks they were planning for didn't materialize. And now we're looking at the -- approaching the last months of the last year and half of the project, and that they should be able to get the first unit in service October 2020, and still tracking towards that eight point seven (8.7) budget, with expenditures as of March at 5.8 billion.

And as Mr. Cormie candidly admitted to Board Member Grant, tracking early is a good news story. That camp up there costs $1 million a day to run. The earliest possible in service date will result in the least cost for the project.

Our clients have had their issues with

Keeyask dating back to the NFAT, and certainly felt Hydro was accepting too much risk. But our clients will applaud the progress that has been made in the -- THE last year and embrace it as a good news story, especially compared to where we were at this time last year.

An important point is made by Mr. Peters with Ms. Stephen on slide 56. We've heard some good news in terms of lower than expected interest rates, and Ms. Stephen was saying it's good news, but it's not going to affect the '19/'20 test year, because we're essentially hedged there. Mr. Bowman may disagree with that, but that was her evidence.

And so, Mr. Peters is saying to her, So any benefit that's going to come will not be seen until the subsequent GRA? And Ms. Stephen makes this point. Amid the panic that appears to be coming from Hydro in terms of Keeyask coming in early, some of the hidden good news of the hearing -- and we've bolded this on slide 56 -- when Keeyask comes in service, we'll see that benefit, through lower depreciation and finance.

So our client has taken seriously this Board's guidance. We're not looking ten (10) years out. Our client is really focused on the risks related to deterioration in '19/'20. But if we allow ourselves to peek out a year or two (2), there's good news there in terms of the evidence of Ms. Stephen, and there's good opportunity there, too, if Manitoba Hydro can start to -- continue to bring better discipline to its cost control.

Slide 57 is just a reminder of Mr. Bowman that this Board was not myopic in the past. Historic rate increases have always kept in mind that Keeyask is coming. There's no need to panic.

And despite the best efforts of Manitoba Hydro, it has failed to dis -- demonstrate a daunting cash flow challenge in terms of Keeyask. And slide 58 captures Mr. Bowman's direct evidence. That's the first bullet, taking a -- a bit of an extreme example from Manitoba Hydro's rebuttal, and making Mr. Bowman's point that in general, it will meet the -- the cash flow test, and it will do so unless you put in all of the worst parts of Keeyask, and none of the revenues that come with it.

Ms. Fernandes tested Mr. Bowman on this issue at pages 649 to 652 of the transcript, and our clients would recommend that is required reading for this Board, as it reviews the application, because Mr. Bowman's essential point that there was no cash flow crisis demonstrated with Keeyask was eloquently made in those pages, and we've underlined his point there, and we recommend that as required reading. Ad he was unsuccessfully challenged by Ms. -- Ms. -- Manitoba Hydro on this point.

And it is helpful to remember with the good advice of Mr. Bowman and Mr. Rainkie that early advancement of Keeyask was the plan. It shouldn't be grounds for panic. And in the second bullet on this page, Mr. Rainkie talks about his experience, his commitment on behalf of Manitoba Hydro to take all necessary actions to manage its costs to mitigate the impact of the capital development.

And his advice in this hearing about actively managing the day-to-day cap -- the day-to-day expenditures of Hydro is consistent with the commitment of the Corporation when these projects were being brought online. As Mr. Rainkie points out, the advancement of Keeyask is not a negative change in circumstances that requires emergency regulatory action. It is a very delivery of a plan that was put forward by Manitoba Hydro.

We do not have to agree that building Keeyask at that point in time was the right decision. We can agree to disagree on that. We are entitled to regret the significant cost overruns, but the reality in this hearing is that the onset of Keeyask costs and revenues is manageable with rate increases significantly below 3.5 percent.

Mr. Cormie often doesn't get enough credit. Our client did want to note that the term sheet with Saskatchewan Power was not included in Exhibit 93. And you certainly see the -- in the -- in the transcripts some of the ambition associated with that term sheet, and we wanted to share that with the Board. We would note that it is just a term sheet. It's not a final contract, but it is a promising sign.

Mr. Harper, and Mr. Rainkie, and Mr. (sic) Derksen conclude that Manitoba Hydro has not demonstrated its allocation of a material deterioration. And again, these points we've made before. As compared to Exhibit 93, the dated Exhibit 93, net debt is over half a billion dollars lower. Bipole III capital costs are lower significantly with reduced carrying costs of over 70 million annually over the long term.

And again, on the third bullet on slide 62, you see an analogous point, recognizing that the three (3) financial ratios have not materially deteriorated since the last GRA, with two (2) slightly improving.

Mr. Peters did a -- a very helpful job to the Board in talking about some -- how some risks have decreased in the 2019 test year. And on a number of the slides to come, we -- we highlight this. I won't dwell on it.

On page 63, slide 63, he -- he's talking with Mr. Epp about having total energy and storage being at or slightly above average, and what that does to the chances of positive net income. At slide 64, there are four (4) decrease risks that are flagged here, interest rate volatility, short-term export prices, positive net income, Hydro confirms, can be achieved without a rate -- rate increase, even with the warmest year on record, and Manitoba would still have a positive net income, even if export prices drop unexpectedly. And again, there's a very helpful discussion between Mr. Epp and Mr. Peters at the pages cited.

This is the sensitivity analysis at slide 65 that Mr. Rainkie, Ms. Derksen, and Mr. Harper undertook. They conclude a 3 -- 3.5 percent rate increase is not required to reduce the risk of financial loss in 2019/20.

On the second bullet, they make the

point that if the $22 billion rate-setting adjustment is made to O&A, a 1 percent rate increase is sufficient to minimize the risk of financial loss in 2019, consistent with the risk sensitivities the Board gave guidance on in Order 59/18. Even if that rate adjustment is not made, they conclude in the third bullet that a 2 percent rate increase is sufficient to minimize the risk of a financial loss.

Just the last couple slides in this area, one just goes back to the initial application. Back in November, Manitoba Hydro was saying they wanted to get from the red to the black. Now we know that without any rate increase, they would be at -- their best -- their best estimate is $64 million as compared to their objective of -- in November of 2018 of $31 million.

And on slide 67, our clients make the point that there -- positive net income can be achieved without a 3.5 percent rate increase, again, with Hydro's best estimate being that a 1 percent rate increase would yield 78 million, and a 2 percent in the range of 93 million.

And again, when the Exhibit 93 projection -- projection is adjusted for the twenty (20) year weighted average term to maturity, the updated net income forecast for 2019/20 of 64 million exceeds the net income projected in Exhibit 93 significantly.

Our client has talked perhaps ad nauseam about this technical conference. On slide 69, Mr. Bowman makes the point that if we're running out of time on anything, it's on how to start using Hydro's uncertainty analysis in the right way, and for an evidence-based minimum retained earning type of regulation. That's his warning on slide 69.

On slide 70, you see his concern at the top of that page that if we wait for the cap -- Hydro capital -- the strategic planning exercise to be completed, they may be locked in. We may be past the point where we can have an informed, without risk dialogue on appropriate financial targets. And Mr. Rainkie added his voice to that of Mr. Bowman on this slide as well, and highlighting the importance of -- of a collaborative process, and getting to that rule-based regulatory framework.

So our clients strongly recommend that this boarder (sic) -- similar to Order 59/18, order a collaborative process with respect to reserves, risk, and minimum retained earnings, and our clients believe strongly, and would recommend strongly that it should be before the Manitoba Hydro Board makes its final decision and locks itself in.

In our client's view, this is consistent with good engagement with stakeholders, to engage with them before the final decision is made, where there are still options on the table, before parties are locked into positions. This is what our clients call good engagement, not after-the-fact engagement.

Certainly, our clients expect that if Manitoba Hydro it -- were invited, it would attend. If it chose not to attend, it's certainly should been intided -- invited to attend as an observer.

The Board put us on a good path, in our client's view, in Order 59/18. There was momentum coming out of that Order. Our clients are very concerned, as Mr. Bowman expressed, as Mr. Rainkie expressed, that that momentum has stalled.

I want to turn to prudence and reasonableness. And, Mr. Chair, this is kind of a new section. I -- I expect that I would move through to the remainder of our argument fairly quickly, but it is a bit detailed, so I wonder if this might be good time to stand down for --

THE CHAIRPERSON: Thank you, Mr.

Williams.

DR. BYRON WILLIAMS: -- ten (10) minutes.

THE CHAIRPERSON: We'll -- we'll adjourn for fifteen (15) minutes.

--- Upon recessing at 2:48 p.m.

--- Upon resuming at 3:08 p.m.

THE CHAIRPERSON: Mr. Williams?

DR. BYRON WILLIAMS: Thank you. We're in the section on Prudence and Reasonableness. And just in the slide before you, slide 73, we're just flagging, from the Board Order, the three (3) main themes that flagged in Order 59/18: OM&A, Operations, Maintenance and Administration, Business Operational Capital and then Demand-Side Management. And our focus will be, really, on the first two (2) and just a couple of comments on demand-side management.

Going to Slide 74. We can have no doubt that the OM&A budget is a CPI plus budget. Hydro told us that in their initial application saying that it reflected an inflationary increase of 2 percent, they told us that as well in the response to PUB First Round 13(a)(b) revised, reflecting an inflationary increase of 2 percent.

And the Consumer Coalition witnesses and Mr. Rainkie, specifically, flagged three (3) fundamental concern -- concerns with that, but thematically, two (2) of them relate to the -- the -- the starting point, which his evidence is that it's inflated. And the third relates to the fact of the 2 percent CPI, and he says it should be only 1 percent.

In terms of the inflated baseline, Mr. Rainkie flags on slide 75, the one-time only increase in collection costs of $8.1 million. And you'll see his evidence on this slide. And the third bullet is important because he points out that Hydro's targets use the ending 2017 amount as the opening amount for the 2018/19 target, and that's how that expenditure of -- of eight -- that one-time only collections expenditure, that journal entry, in -- in 2017/18, makes its way into the 2018/19 target, and from there with the 2 percent CPI into the 2019/20 budget.

And he was not tested on this point in cross-examination. So his advice is to normalize the one-time only collection cost. As he put it, on Monday, it's just a journal entry. But it's -- it's reflected in that inflated budget. If we could go back to slide 76 for just a minute.

The other point that he's making in slide 76 is that this inflated budget, taking the inflated starting point out, isn't going to cost jobs. It's just a journal entry. And that assertion was not challenged during cross-examination.

The second element of the inflated baseline is what Mr. Rainkie called on Monday, the plug. The 7.3 million in the 2018/19 budget to support transitional business requirements, which was then inflated up into the 2019/20. And what's notable on slide 77, if you're wondering well maybe they spent it, it wasn't -- it wasn't. And that second bullet just confirms that.

Slide 78 provides Mr. Rainkie's advice to reject the plug in terms of the 2019/20 budget. And again, on the second bullet on slide 78, he makes the point that there are no internal staffing implications from this a -- a budget, for which there are no planned costs. It's just a contingency. And his comments regarding the plug were not challenged in cross-examination.

The third and more contentious part of Mr. Rainkie's advice, at least in cross-examination, is the 2 percent inflating up is not appropriate. Tone it down to 1 percent. Practice active management. Don't rest on your laurels. Not passive management.

And in the first bullet on slide 79, he's drawing on the Board's guidance Order 59/18 to take advantage and to continue the momentum out of the voluntary departure program and the supply chain initiative and to continue delivering savings for customers in the future.

On the second bullet he's flagging that his advice for active management is consistent with the general provincial environment of budget constraints and wage freezes in the public sector.

And the third point on this slide, which we'll come back to, is that the supply chain savings have been underperforming. And that is -- is -- is absolutely clear on the record, although Manitoba Hydro's undertaking yesterday, MH -- Manitoba Hydro Undertaking number 4, corrected some of the math errors that Hydro had put on the record inadvertently, previously.

And Mr. Rainkie, on the fourth bullet on this page, being slide 79, is saying we shouldn't be pushing off supply chain savings into the future. Recognizing the urgency of controlling costs, we should be advancing it quicker to make up for the loss savings; to make up for the under performance and -- and to -- to provide of a -- a future buffer for the Corporation.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Our clients believe this Board can draw an adverse inference from the absence of a Operating and Maintenance and Administration budget for the 2019/20 year. And you see on slide 9 -- 80, again, are -- the first bullet, Manitoba Hydro hinting that if we actually had an oral hearing, it would -- it might file details of its budget, if available, but those details are not available.

And our client underlined on the second bullet on this page but, at the end of the day, what's in revenue requirement, that 511 million, will not change, regardless of what the details tell you. And that underscores our clients' concern.

On slide 81, we talk about Strawman -- and I was trying to be gender neutral, so I talked about Aunt Sally's as well. Strawman, as I understand it, and more importantly, Wikipedia tells me, is a form of argument based on giving the impression that you're responding to someone's argument while actually refuting an argument that was not presented. And Aunt Sally's apparently are the English or British equivalent named after a pub game.

So here's the Strawman that appeared in Hydro's rebuttal. Trying to link Mr. Rainkie's proposed $22 million reduction in O&A expenditures, operating and administrative expenditures, to a loss of three hundred (300) employees.

Slide 83 makes Mr. Rainkie's point pretty eloquently, and if you think about it, a journal entry, a plug that was never spent, and 1 percent would just not cost three hundred (300) EFTs.

And you see Mr. Rainkie on the transcript at page 742 and 743 pointing out that -- what he's thinking of and proposing is annual attrition in the rate of thirty-five (35) EFTs, whether through not filling vacant positions or otherwise. And he tells us that it's simply consistent with active management of staffing levels.

And just to make this point, two (2) of his key criticisms of the Hydro 511 figure, 511 million, are that the starting point was inflated, by the journal entry, the collection costs, the one-time only collection costs, and the plug, the contingency that was never spent. It is the third 1 percent that will have some staff consequences, but nowhere near the Strawman allegations of Manitoba Hydro.

Slide 84 is a very important slide from our clients' concern. Mr. Rainkie was a long-time employee of Manitoba Hydro. He was there for the many years as he talks about in the first bullet, where the budget, plus two (2), was basically routinely built into the to -- to the revenue requirement. He sees a risk in doing that, in returning to the old ways, in returning to the status quo. That passive management he warns would have major implications, not just in the test year, but in years out to the future. And Slide 85 makes this point.

Mr. Rainkie advises, and our client endorses this message on slide 85. Reducing the 2 percent escalation is a critical and important rate-setting signal from the Public Utility Board. And on this bullet on slide 85, he calculates it out to the implications in the '22/'23 test year, being 32 million; that's where he gets that 1.9 percent rate decrease from.

In the absence in the -- in the absence of scaling back that escalation, the value added by the voluntary deployment -- departure program and supply chain initiatives will be quickly eaten up.

Active management, consistent with the Board's guidance, consistent with the Province's direction, is critical from our client's perspective and the Board has the tool and the revenue requirement to send that signal.

Slide 86. This is information that was provided yesterday, a Manitoba Hydro Undertaking number 4. That's available for the Board to review.

But taken from slide -- from Undertaking 4 is information about the much vaunted supply chain initiative. In the first bullet you see Manitoba Hydro's update, talking about a number of the projects in the estimated savings being cancelled or deferred for a variety of reasons, but resulting in lower than anticipated benefits. That's the first three waves.

In the second bullet, you see Manitoba Hydro advising the Board, the Public Utilities Board, that in the -- the fourth and fifth waves these -- these initiatives have high barriers to implementation, and the savings potential is significantly lower than in waves one (1) to three (3).

And so these are some of the factors

going on in the underachievement of the supply chain initiative to date.

Our client recommends that Manitoba Hydro's OM&A, Operation -- Operating, Maintenance, and Administration budget of $511 million should not be adopted for rate-setting purposes. The $511 million budget, in our client's submission, should be reduced by 22 million.

The first proposed adjustment is set out on slide 87, is the -- the one (1) time nonrecurring increase in collection costs.

The second proposed adjustment is the plug, the unspent, unallocated $7.3 million contingency. Those would serve to mute the inflation in the 2019/2020 budget.

Go -- the third is an adjustment to adjust the escalation assumption to 1 percent, which Mr. Rainkie estimates to be a reduction of $7 million annually, or annual staff attrition of about thirty-five (35), not three hundred (300), assuming a 50-50 split between staff reduction -- reductions and supply change -- chain initiatives.

Funded -- no, going back to slide 88 with apologies to my colleague, fundamentally he points -- makes the point it's not just about 2019/20, it's 22 million in that year, but arresting that 2 percent trajectory builds an a -- an additional $10 million cushion by the 2022/23 year.

In our client's view, that's a healthier way for the Corporation to proceed. It's a healthier way to balance the interests of ratepayers and the Corporation.

Slide 89 makes the point that despite the Board's admonition in Order 59/18, the modest reductions in business operational capital or -- are really operational execution risks or timing issues, not optimization. And that evidence was not challenged in cross-examination.

In fact, in this hearing, Hydro has rejected the Board's advice regarding business operational capital and you see Ms. Bauerlein here at page 84 saying we believe that this will have adverse con -- consequences, and you can see the same consequences -- or beliefs, stated as beliefs at pages 85 to 87 in her discussion with the Board.

Beliefs are not evidence. This Board heard a lot of evidence of business operational capital in last year's hearing. They had the Hydro witnesses here, they had the external METSCO experts here, the Board made findings, this -- Manitoba Hydro has not adduced anything other than beliefs to challenge those findings.

And Hydro's beliefs, that there's not one cent of optimization to gather on a business operational capital, cannot be reconciled with its annual report, at slide 91. There you see Hydro's Board advising us that it's in the process of im -- implementing enhanced asset management tools to determine the optimal level of investment and prioritize projects to sustain existing infrastructure and a desk -- addressed capital constraints. They may need to reassess the investment level.

And at slide 92, Mr. Rainkie makes the point that Hydro is not helpless when it comes to reducing business operational capital expenditures. There are tools available, but he also expresses concerns on this slide about the delays.

I'm a bit concerned that it's still going to take a number of years to roll out their capital asset framework project. There's a need to prioritize capital expenditures better in the future. And I note the findings of the Board in the last order that they didn't feel Hydro had a robust process to do so.

There are technologies available that

will help you plan your business better. We shouldn't look at it as, you know, we're helpless. There are tools and things we can do, priorities that we can set.

And again, as my client has said, optimizing business operational capital spending is not trivial. It offers short-term benefits which are more muted, just because of the time to depreciate these assets, but over the long-term it offers significant value for ratepayers.

On efficiency Manitoba, our client is not as critical of Manitoba Hydro, Hydro has not been responsive to the Board's direction in terms of applying new marginal cost to look at the efficiency of programs, but there's a reason that it's not been responsive. It's in this limbo as we wait for efficiency Manitoba to be rolled out.

You see here Hydro's admission on slide 94, that we didn't do the cost benefit analysis of either their one-year plan from a cost-effective perspective, or the fifteen (15) year plan. So we -- our client wanted to complete this narrative. And while our client is highly critical of the approach, the passive approach to day-to-day expenditures and the business capital expenditures, it recognizes that this is not all Hydro's responsibility here.

But the bottom of slide 94, our client wishes to make the point, but there are significant consequences about the delay in rolling out efficiency Manitoba.

Somehow on the cost-effectiveness side, but our collective ex -- expectation of efficiency Manitoba is that it will bring more agile, more cost-effective, more innovative approaches, because it lacks that conflict of interest. So not only is the cost-effectiveness not being undertaken, but vitally necessary innovative programming, whether for First Nations on reserve, low-income people in the city, or businesses is -- is still we're stuck.

So that's not really the Hydro issue and it's one our clients really hope is addressed. But some important years of progress on energy efficiency and demand-side management in our client's views have been delayed.

Our client is not going to spend very much time on forecasting. The Board has looked at the record, it knows the challenges with this, and you heard probably far too much about the implications of the absence of integrated financial forecasting on the first two days of the hearing.

But here's some evidence from Ms. Carriere, as well as Ms. -- Ms. Pachal, about how integral it is to assessing the reasonableness of forecasts, thousands of discrete sequentially-linked decisions as Mr. Rainkie pointed out, with significant implications on slide 97 for the overall borrowing requirement forecast financial performance indicators over time.

And it's the absence of this IFF -- and our clients understand how the Board was responding to Manitoba Hydro in November, but it's the absence that has caused our witnesses to say, well, if we don't have the IFF, what do we have? And what our clients have and our analysts have and our clients recommend the Board employ is its advice in Board Order 59/18. That's the proposed approach of Mr. Rainkie, Mr. Harper, and Ms. Derksen, a focus on the test year of 2019/20 to rely on the guidance with respect to risk reserves and cost control provided in Order 59/18.

With regard to our client's revenue requirement recommendation, slide 99 expresses the extremely difficult challenge our client faced. Our client has been participating in these hearings for many years collectively. They've been out talking to consumers. And for our clients recommending anything but zero is really hard. Consumers are struggling. We saw that in the residential-use survey. Harvest sees it at its food banks every day. For some, there are very difficult choices between food, clothing, heat, or a phone.

Consumers, as represented by our client, are so frustrated by the broken promises of cost control. They're frustrated by what our clients consider to be a sense of entitlement that drives Hydro's expectations of 3.5 percent. They're frustrated at the material evidence gaps in this hearing.

And they're frustrated by what they see is a passive-aggressive defiance of the Board's order regarding rates, risk, rate-setting, and cost control in Order 59/18, not nineteen (19). And they're frustrated with Hydro's after-the-fact engagement model. So recommending anything but zero was very hard for our clients.

But they have placed a lot of weight on the experts for the Consumers Coalition and MIPUG in this hearing. And in our client's view, the best way to assist Manitoba consumers, including those struggling to make ends meet, in the long run is the

59/18 alternative proposed by Rainkie, Harper, and Derksen: active management cost controls, a 1.5 percent rate increase, and a long-term look at risk and rate-setting via a technical conference.

On slide 100 in the middle bullet, Mr. Rainkie points out how their alternative respects the intent of the Board's order last year: It balances the financial health of Hydro with customer's interests, it allows Hydro to meet its key performance indicators, and it protects against the risk of financial loss from non-water flow risk, and is consistent with PUB findings on how risk should be addressed for rate-setting.

If Hydro de-inflates its day-to-day budgets and chooses active management, the combination of a 1.5 percent rate plan and reduced OM&A expenditures equates to about a 2.8 percent rate increase and, in Mr. Rainkie's view, can assist with the transition to Keeyask and help manage both net income and cash flow considerations. It doesn't have to be the new old plan.

On slide 101, our client asks whether a Keeyask deferral account would serve a practical purpose, and this was also a difficult recommendation for our client. Our clients did appreciate the advice of Mr. Bowman, at pages 592 to 601 of the transcript, that deferral accounts can have -- despite their potential issues for inter-generational equity, they can have positive functional and messaging purposes, the functional one being one of net income smoothing, and the messaging purposes to the markets, to consumers, and to others.

Our client looked at the analogy of the Bipole III deferral account and notes substantial factual differences between that and Keeyask. That account was initiated at least five (5) years before Bipole III came online back in the 2013 rate order and brought in substantial contributions to deferred revenue over six (6) different years. Even in 2018/19, it added another 47-some million to the till, bringing it up to roughly 392 million over parts of six (6) years. It was built up, as Mr. Bowman confirmed, over longer than 60 months and will be amortized back to ratepayers over an analogous six-year period. 2019/'20 about $78 million shows up in the net income.

But as -- yeah, thank you -- but as Mr. Bowman noted on slide 103, the functional objective of the deferral account will not be achieved for Keeyask, and there's reasons for that. For

Keeyask, assuming that it comes online first unit October 2020, it will be a 16-month buildup versus a sixty (60) month buildup.

And as Mr. Bowman noted on the second bullet on slide 103, the Board might consider ordering a mechanism as part of communicating the purpose of any rate increase, the numerical values would be much different, and they'd be much smaller on a larger project. And noted that as a result, you know the mechanism may not be worth the trouble.

Going on with that conversation, I suggested to him that he saw that it might have at least some value as a messaging tool, and he confirmed that I offer it as a messaging tool. Mr. Rainkie, by contrast, does not recommend a Keeyask deferral account.

Our client's recommendation on slide 104 wasn't easy, but I think it was unanimous. Our clients basically say if the Board accepts the Rainkie, Derksen, Harper approach, which is really focused on the '19/'20 test year for the rate increases and builds in a cushion for cost control, they don't see much of a purpose under that paradigm of a deferral account.

But if it adopts a different approach

than Mr. Bowman's inflationary increases, then a deferral account would have some value as for messaging purposes, although not for functional ones.

Just heading to the home stretch, Mr. Chair and members of the panel, our clients do want to speak about cost allocation and just and reasonable rates, particularly in this new world we're in, the Bipole III online world.

Slide 106 is the lawyers talking, and these are some of the threshold legal and public policy considerations. We've got one case up for judicial review already. Our clients just want to put our legal thoughts -- our client's legal thoughts on the record.

Our client places a heavy focus on cost causation as a driving force of historic and modern rate-making. That's the starting point for our client. But the Board -- our clients do recognize the Board's discretion to consider issues beyond cost causation, including affordability.

Our client does not support the creation or the rate freeze associated with the First Nation reserve class, but it acknowledges the Board's jurisdiction to create a distinct class or to create a distinct class, taking into account affordability considerations.

It does not contest the evidence highlighting the significant vulnerability of First Nation persons living on reserve,. And it acknowledges the applicability of Charter values in circumstances of statutory ambiguity.

Our client's strong preference, based on its extensive research and equity considerations, is for special energy affordability programs to be delivered through the graduated income tax system, rather through a consumption-based Hydro rates because that is less likely to have adverse and unintended effects on other vulnerable consumers.

In terms of whether there should be an overall -- in the event there is a rate increase and across-the-board rate increase, our client reading of the record is, leaving aside issues specific to the First Nation on reserve, diesel, or General Service small and on-demand, there's a general sentiment that any rate increase should be across the board. We see that in the Manitoba Hydro's application; in the evidence of Ms. Derksen, Mr. Harper, and Mr. Rainkie, with the exception of General Service small and on-demand; and in the evidence of Mr. Bowman.

Going forward, our client believes that

given the increased importance on cost of service flowing from Order 59/18, a cost of service study should be part of every rate application going forward in this new era of looking at perhaps potential rate differentiation. And they warned that in the absence of rate differentiation, that could be a concern.

And perhaps my learned friend could go back to slide 107 for a minute because I fear Ms. Derksen will be very angry at me if I don't flag this point on the slide.

In terms of this current record in the absence of a cost-of-service study and given the concerns expressed by Ms. Derksen in terms of PUB-Hydro-161 and AMC-Hydro-1-5, our client's strong view is that these information responses cannot be relied upon for differentiation purposes. It is a co-mingle of issues of public policy and cost of service. And on a four-page transcript excerpt -- pages 926 to 930 -- Ms. Derksen convincingly makes that case.

In terms of this new world, in terms of cost of service, the clear evidence from Ms. Carriere and from Ms. Derksen is that the in-service of Bipole III will have profound impacts on cost of service, given its sheer size; given that for cost of service purposes, it's generation related; and given that there is no offsetting incremental export revenue.

Ms. Derksen testifies that it dwarfs any other cost changes. Hydro confirms that PUB 1-61 that it brings both residential customers and General Service large within the range or zone of reasonableness. And that move -- the significance of that move provided for illustrative purposes of PUB 161 for General Service large, for example. It's very large, almost 10 percentage points. That's how significant Bipole III is.

While distribution investments will impact cost of service, they're just mathematically much less impactful. As Ms. Derksen pointed out in her conversation with Mr. Peters, Bipole III is a 67 percent increase in generation-related investment, compared to about a 17 to 18 percent investment related to distribution. And if you do have time to go to that transcript excerpt 764 and 765, she also points out the distribution expenditures are less than 30 percent of residential costs.

So that's how large and how disproportionately large -- monumental Bipole III is. And both Ms. Carriere and Ms. Derksen were not impeached on their conclusion that it trumps all in the next cost of service study.

Our clients recommend an across-the-board rate increase, if one is granted, for all classes, except for General Service Small Non-demand. In the event the Board adopts a rate increase, they do not recommend zero for that class, but a smaller rate increase.

And on this point, Ms. Derksen spoke about how even Bipole III didn't really move the -- the ticker and left General Service Small Non-demand as the outlier, and our clients' point of view is that, out of fairness, if the Board adopts a rate increase, that is the -- the one class that should have a lower average rate increase.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: This slide is just moving a little slowly here.

Ms. Derksen's evidence on cost of service -- First Nation On-Reserve rates, is -- is both direct and nuanced. She makes the point in the first bullet that there is no cost of service basis to freeze rates for First Nation On-Reserve or Diesel customers, but in cross-examination with Mr. Shefman she points out, consistent with her retainer, that we look very narrowly from a cost of service perspective and recognize that there are policy considerations beyond the cost of serve (sic) that this Board may take, take into account to determine rates that are just and reasonable at the end of the day.

Her retainer and her expertise focuses on cost of service. She did recognize that there are issues for the Board beyond that.

Ms. Derksen has another important point going forward on -- on this class, because whether or not she supports it, she's trying to look into the spirit and the intent of this class, and her advice is, if we're going to look at this class in the future, there's not much value to be looking at this class within a cost of service prism. This class, in her evidence, was created flowing from a public policy decision of the Board to begin addressing matters of bill affordability.

So I don't agree that it's appropriate to apply traditional cost of service principles for purposes of rate differentiation for this class.

And we'll come to that in a minute, but that's one of the reasons when Ms. Derksen is recommending that Manitoba Hydro review its rate-making principles and -- and values and methodology, the Board's decision 59/18 is one of the key drivers of that, because in those principles, social policy don't app -- appear, and obviously the world has changed. So on a cost of service basis, there is no basis in her evidence to freeze First Nation On-Reserve rates, but there is nuance in her advice that I would urge the Board as it moves forward on this important issue to consider as well.

Another big picture piece of advice Ms. Derksen has for the Board is, she takes issue with the approach of some suggesting that unless you're at unity you cannot be assumed to be paying your costs. Her strong view, based upon many years of working in this area, is that when customers are within a range of reasonableness, they should be considered to be paying their costs.

Unity isn't better for someone at a hundred or someone at ninety-nine (99) or a hundred and five (105). There is no distinction in her professional opinion to be drawn amongst RCCs of those customer classes once they're within the zone or range of reasonableness.

Ms. Derksen at page 114 recommends a review of rate-making principles, that Hydro should re-examine its goals as part of a corporate strategic plan, and she makes the point on the second bullet, one of the reasons for that is the issue of social policy, which flows from Order 59/18, and also says that as we look forward we have to be careful in how tight that zone of reasonableness becomes, because it imputes a false precision to cost of service studies.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Rainkie and Ms. Derksen say from a perspective of value-added as well as cost-effectiveness, there is a role for Intervenors in compliance filings.

They point out that as the Board's recommendations often come from Intervenor perspectives, there may be something to add from that perspective, but also if Intervenors aren't engaged in that process, then there's a lot of learning that has to be done before the next application. And from Order 59/18 that is our clients' lived experience, because the -- the mechanism by which an overall rate increase of 3.6 percent translated into what for residential customers was sig -- somewhat above that, was not apparent or understandable to our client.

And so as our clients embarked upon preparing for this hearing, our clients had to waste, -- not waste, because we would never do that -- our clients had to employ their scarce resources to try and understand what -- what actually happened mechanistically. So that's one example.

But underlying this recommendation, and you'll see this in the letter of August 27th, 2018, which is referenced in Mr. Rainkie's evidence on Monday, is our clients' advice about a broader engagement outside the rate-setting process rather than the stops and starts of the rate-setting process and its necessarily adversarial component, our clients see an opportunity for efficiency in a new way of doing business. That language representing our clients' views, the views of our experts, and the legal team, is well captured in that letter of August the 27th.

Our clients' recommendations regarding cost allocation and rate-setting is that any rate increase granted should -- should be across the board with the exception of General Service Small Non-demand, which should receive a smaller than average rate increase.

The costs of any lower than average

rate increase they would recommend should be borne by all classes within the zone or range of reasonableness, as well as the Area and Roadway Lighting Class, which is outside the zone, but as Ms. Derksen testified, by some snapshot on time circumstance, that there should be an updated cost of service study for the next GRA and subsequent GRAs given the increased use the Board is making of these in its rate-making decisions with 59/18 being a critical example.

A review of Hydro's rate-making policy should be directed. From our clients' perspective, it's not realistic to expect that until the Court of Appeal matter has been settled, and also that Intervenors should be involved in the compliance process, recognizing the challenges of timeliness.

Slide 117, our clients' comments regarding First Nations On-Reserve are not made easily. They're honoured to appear on treaty land in the heartland of the Metis nation, and they recognize the ongoing serious challenges on reserve with respect to energy poverty, the high number of arrears and disconnections, the absence of options such as natural gas.

But listening to their constituency,

their vulnerable consumers, they have to point out that other low income consumers also face significant challenges paying their -- their food bill, paying their Hydro bill, paying their clothes bill, and the consequences is that other ratepayers, including low income consumers, pick up those bills, and that is our clients' concern. They recognize the Board's authority. They still maintain that there is a better way to do it through taxpayer programs.

Our clients strongly recommend the Rainkie-Harper-Derksen 59/18 alternative to Manitoba -- to the Manitoba Public Utilities Board. Our clients interpret Order 59/18 as sending a tough but loving message to Manitoba Hydro. We'll be there when you -- when you need us. We'll be there as we were in November for drought or low water conditions. But you just can't automatically go to consumers. It's incumbent upon you to continually reinvent yourself to continually become more efficient.

Our clients see the recommendations of Mr. Rainkie, Mr. Derksen -- Ms. Derksen, my apologies -- and Mr. Harper as building on what they see is a signature decision of this Board, Order 59/18, to better balance the relationship between ratepayers and Hydro, and help Manitoba Hydro itself on a path forward based on risk analysis and reducing comparable -- controllable costs.

Our clients do have a special thank you. There was a lot of dispute in this hearing about whether an oral process would take place. For our clients, it has been an incredibly valuable exchange of ideas, and our client appreciates the Public Utilities Board making this public oral opportunity available for consumers to engage and to learn. Thank you.

THE CHAIRPERSON: Thank you, Mr. Williams. I'll ask the panel if they have any questions. Do you have any questions? Dr. Grant?

DR. HUGH GRANT: Can I just take one (1) crack at this? And I don't want to do it this...

(BRIEF PAUSE)

DR. HUGH GRANT: We could work it in there, if you wanted. Let me just see if I understand, yet. We're -- I'll summarize it, and you tell me where the summary is wrong.

But in the absence of an IFF, we've somehow sort of come back to Exhibit number 93, which your expert has said is unreliable and such. But would I understand it correctly to say that there's been a -- some fortuitous events in the revenue side, plus some greater cost consideration that something in the order of a 1.5 percent increase would keep you on this three point five-seven (3.57) trajectory that is embedded in Manitoba Hydro 93?

DR. BYRON WILLIAMS: I would say almost, but -- but not quite, because I would say that looking at our level of reserves, looking at -- at how we're -- we're turning the corner with Bipole III, looking at the lower risk of drought, for example, our client is saying that -- that 3.5 percent goal-seeking trajectory, and given what the Board said last year, is not necessarily one that -- that we should be buying into anyways.

But our clients basically are -- are recognizing that we're still finishing off this -- this major period. They're recognizing that there are tools to give Manitoba Hydro a -- a modest rate cushion against fluctuations in the 2019/20 test year, and that the two point (2.) -- the -- the 22 million in terms of efficiency does mathematically get to 2.8 percent, but it's a pro -- it's -- it's a gift that keeps on giving more profoundly over time, because it knocks Manitoba Hydro off that trajectory of CPI, you know, the 2 percent in perp -- in perpetuity.

So, Mr. -- Dr. Grant, I hope that responds. Our client does not buy the 3.5 percent trajectory, but it is recognizing that the -- while we're turning the corner, the business is not quite finished, and they see it as superior to the 3.5 percent, because the cost control trajectory is -- is a better way for Manitoba Hydro and its ratepayers to move forward.

DR. HUGH GRANT: So just one (1) other point that relates to the last slide, and the love that you want to give and withhold from Manitoba Hydro. This may sound inappropriate, but what form does that love takes when -- because in a sense, is this contrary a little bit to the idea of rate smoothing.

Is -- is the love you want to give them -- is -- there's a -- is that you're going to pass on a large rate increase when conditions are required, and not -- and give them no reading -- rate increase in a given test year, or just what did you have in mind?

DR. BYRON WILLIAMS: Well, I -- I think is -- isn't that a discussion for a technical conference when we're -- when we're looking at using this new Hydro tool, looking more creatively at how we look at risk and what should be in and -- and out. So Dr. Grant, I don't see an absence of love, in quotation marks, in this recommendation -- 2.8 percent.

Given that we were told this is not about the ten (10) year plan. This is about this year. This is about getting them in the black. Two point eight percent is at least some significant affection, and it's the kind of affection that a parent might give their child who needs to be set on the right path, rather than the -- rather than the entitlement that the children might request. And it relies on this Board's guidance in Order 59/18.

And if you think of the risks the Board told us, like, you know, weather's in there. So when we were doing the 1 percent versus 2 percent, those cushions are built in there. For our clients, it would have been very easy to say, 64 million, why isn't that enough?

DR. HUGH GRANT: Okay. I get your point. I just -- only a lawyer would suggest that love is a question for a technical conference.

THE CHAIRPERSON: Or an economist. Mr. Williams, I'm going to start off -- I'm going to make a statement before I ask the question.

The statement is we all know when IFF hasn't been filed. We've heard it a number of times.

What is your client's position in relation to Keeyask? Keeyask appears to be the white elephant in the room. Should we be considering it or not considering it in our decision?

DR. BYRON WILLIAMS: Our sense of the initial order was that it was to stay in the backyard of '19/'20, but Keeyask is if -- you know, in the neighbour's yard or two (2) yards over, it's pretty close.

So from our client's perspective, the focus should be -- the 1.5 percent is really focused on the '19/'20 year. The cost control tool is that cushion that keeps giving for the subsequent years.

And, Mr. Chair, just to finish my thought. If you go back to Mr. Peters' conversation with Ms. Stephens about the financial savings that she flagged that aren't showing up in '19/'20, they're coming in a couple -- in the Keeyask years. That's that bolded statement that we looked at.

Our sense of -- we don't accept Keeyask as a white elephant anymore. That is a project that's going to bring in substantial revenues. There are --

is going to be revenue shortfalls, net income shortfalls. Those are ones that we plan for and anticipated for a lot of -- many years, and we've had a significant buildup for that.

Our clients see this is -- their eye is mostly on 59 on 2019/20, but the 22 million in O&A is kind of looking beyond that. That's the Keeyask cushion.

THE CHAIRPERSON: I must say that I did misspeak when I used the word "white elephant," but it's a major project. Based on what we have right now, are you suggesting that we will not see major rate increases as a result of Keeyask?

DR. BYRON WILLIAMS: As I understand -- like, Keeyask is going to be with us for a hundred and twenty-five (125) years. Our reserves are at a level that is in the range of $3 billion. We're going to have to get that net income statement over time to break even.

No one ever thought that Keeyask would be breaking even in the first year. You're not going to see a single net income statement ever looking at that. So there will be rate increases.

Should they be at 3.5 percent? Definitely not, from our client's perspective. Those three point fives (3.5s) or three point ninety-five (3.95s) were aiming for 75-25 debt-equity. What is Hydro thinking of in terms of $7 billion in equity for? That's not a viable long-term solution.

THE CHAIRPERSON: But last year, Mr. Peters -- Mr. Williams -- sorry -- when Manitoba Hydro asked for 7.9 percent, the position of the coalition was 3.95 percent, which would be consistent with the regulatory path outlined in the NFAT and subsequent Board decisions.

Whether it's 1, 4, and 5 percent or otherwise, are we now moving away from a regulatory path?

DR. BYRON WILLIAMS: I would be shocked, Sir, if that was our recommendation from last year. I believe you might have seen a range from 2.75 -- I would -- I think -- I'm going off of memory, but I think our client was looking within a range of 2.7 to 3.5. I think that was kind of -- but I could be wrong. But I would be shocked if we were recommending 3.95.

I think we did look at a broad range, but we -- our client did not come down, at least as I recollect, at three point nine five (3.95). I'm not sure I would be sitting here if I would've recommended that.

THE CHAIRPERSON: Okay.

DR. BYRON WILLIAMS: But, Sir, I'm just trying to refresh my memory --

THE CHAIRPERSON: Yeah.

DR. BYRON WILLIAMS: -- but I think we had a range, but I think we looked within a range of reasonableness. I think we came in at less than 3.

THE CHAIRPERSON: Maybe we can go through a few slides. And I think you're right on a later -- there's a final recommendation.

DR. BYRON WILLIAMS: Yes.

THE CHAIRPERSON: But at the beginning on page 19 of your presentation where you have -- called it the "Roadmap for this Part," you said three point nine five (3.95) would appear to be consistent with the regulatory path. Later, there's a screen that says it's lower.

I guess the concern I have is this concept of regulatory path and rate smoothing, which you have is consistent with long-term regulatory practice and industrial planning needs. Do you see the -- where do you see the one point five (1.5)? Is it part of a regulatory path? Is it part of rate-smoothing? Or is it, we're just looking at '19/'20?

DR. BYRON WILLIAMS: Well, I've got -- I think, Sir, if you'll look at our recommendation, just -- I think you're going to see our client came in at less than three (3).

THE CHAIRPERSON: Well, the --

DR. BYRON WILLIAMS: And so just -- and so if our client does the math, one point five (1.5) plus 22 million in O&A gets one into that 2.8 percent, which I suspect is very close to our client's recommendation.

THE CHAIRPERSON: Yeah, yeah. I've got -- here your recommendation actually was two point nine five (2.95).

DR. BYRON WILLIAMS: So in -- remember in the 59/18 proceedings, Sir, the voluntary departure program -- there was no way to test what the Corporation was -- was doing in terms of its day-to-day expenditures. So analytically with -- and with respect, I don't see any material difference. We didn't even test OM&A because it -- there wasn't a budget. It was a mess.

So I think our client's trajectory was less than three (3), more than inflation, and I think that is really what our client is saying, even though notionally it's one point five (1.5). When our client looks at an inflated budget, that gets us to two point eight (2.8), which sounds a lot like to two point nine five (2.95), Sir.

THE CHAIRPERSON: Okay. Your client's position still is that it supports rate-smoothing?

DR. BYRON WILLIAMS: Our client would say that if you're -- we wouldn't -- our client would not support trying to break even on a hundred and twenty-five (125) year project in the first year it comes online.

THE CHAIRPERSON: No.

DR. BYRON WILLIAMS: Our client thinks that you have to -- you're aiming for a goal, and that rate-smoothing exercise since two-o-nine (209) was aiming for 75-25, and by 2012, it was aiming for 75-25 by twenty (20) years out.

That analysis -- that goal seeking has been de-linked. We're at 3 billion in reserves. The Board has said we've got to look at a different way of looking at reserves, so that math hasn't been done.

But, Sir, if you're saying if there were seven (7) years out, $100 million on the net income statement, our client wouldn't recommend doing a 7 percent rate increase in that year. Our client would see a buildup.

THE CHAIRPERSON: Okay. Thanks, Mr. Williams. We'll adjourn today and resume tomorrow morning at 9:00 a.m. Thank you.

--- Upon adjourning at 4:10 p.m.

Certified Correct,

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Michael McKenzie