



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2021/22

INTERIM RATE APPLICATION

Before Board Panel:

Robert Gabor	- Board Chairperson
Marilyn Kapitany	- Board Vice Chair
Larry Ring, QC	- Board Member
Irene Hamilton	- Board Member
Hugh Grant	- Board Member
Shawn McCutcheon	- Board Member
(by Teams)	

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
December 10th, 2021

Pages 98 to 395

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1 --- Upon commencing at 8:46 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone. Good morning to the people online as well.
5 We have our Panel here. I'm Robert Gabor, Chair of
6 the PUB. I'm joined here by Irene Hamilton and Larry
7 Ring on -- on the dais as well.

8 Panel members Dr. Hugh Grant and
9 Marilyn Kapitany are joined at the table on the side
10 due to COVID protocols which are still in place, and
11 Panel member Shawn McCutcheon is joining us on the
12 line.

13 Welcome to those people who are on live
14 stream. This is the resumption of the Manitoba Hydro
15 Interim Rate Application.

16 Just a couple of points. Number 1,
17 welcome to the Manitoba Hydro panel that are in the
18 hearing room. I would just remind people that the
19 COVID protocols are in place, and as well that we will
20 be sticking to the schedule as strictly as possible
21 today and for the rest of the hearing.

22 Having said that, M. Hacault, you are
23 here for opening comments of MIPUG, as I understand
24 it.

25

1 OPENING COMMENTS BY MIPUG:

2 MR. ANTOINE HACAULT (by Teams): Merci.
3 Thank you, Mr. Chair and members of the Panel of the
4 PUB. Bonjour. Bonjour to Ms. Carvell and Mr. Tess,
5 Hydro counsel, and all attending virtually. We thank
6 the Board for the opportunity to give these opening
7 comments.

8 As noted in many filings with this
9 Board over the past year and in the presentations
10 earlier in this proceeding, the MIPUG group is
11 struggling with understanding what to expect on
12 Manitoba Hydro rates, how to make plans for their
13 operations in the face of this uncertainty, lack of
14 transparency and predictability.

15 Our industrial members and the industry
16 at large faces severe shortage of confidence in the
17 Crown utility. This lack of confidence has shaken the
18 commitment industrials have to Manitoba. Members can
19 no longer say that Manitoba is a stable, predictable,
20 transparently-priced electricity market.

21 Once lost, confidence is extremely hard
22 to rebuild. Industrial companies make investments in
23 the long term. The lost investment today has gener --
24 generational impacts.

25 MIPUG is aware that we are here for an

1 interim rate request and review. The issue today is
2 not to explore every issue of Manitoba Hydro's
3 cooperativeness, competence, or long-term plans.

4 At the same time, we can't lose sight
5 of the fact that this is supposed to be a narrowly-
6 proposed interim increase of 5.2 percent. It does
7 represent the most severe expression of rate
8 instability, in our view, that MIPUG has seen in
9 Manitoba.

10 Mere months ago, while it was still not
11 raining and participa -- precipitation levels were
12 well behind the average values for the better part of
13 the previous year, Manitoba Hydro customers were told
14 to expect a fixed and predictable 2.5 percent per year
15 rate increase for the next three (3) years.

16 Instead, they now face a request for a
17 large and unexpected rate increase of 5.2 percent with
18 no forecasts or projections from Manitoba Hydro as to
19 what comes next or when it may come.

20 If approved, this 5.2 percent increase
21 will be the singest -- largest single increase ever
22 approved by this Board since 1989 when it was given
23 jurisdiction to review and approve changes in Manitoba
24 Hydro rates.

25 I'll speak now briefly about the scope

1 as we see it. We're here because Manitoba Hydro has
2 sought an increase on the basis of an immediate and
3 pressing need for relief. Hydro has asked for the
4 proceeding to occur in an expedited fashion since such
5 relief is apparently urgently required and timing is
6 of the essence.

7 Hydro also notes that the interim rate
8 applications are not subject to the same rigour and
9 standards of a final rate application. We'd like to
10 underline this point. We are participating in a
11 narrow, limited-scope proceeding that is a stop-gap
12 measure to address one (1) concern.

13 Interim rates are by definition
14 temporary and merely a bridge until the earliest
15 practical opportunity when a full and proper review
16 can occur with full insight of the detailed forecasts
17 and well-vetted risk analysis.

18 MIPUG is, therefore, restricting its
19 comments and scope on this basis on the faith that all
20 parties will -- are doing the same, on the faith that
21 Hydro is not relying on a case with untested and
22 unapproved financial targets like ratios of revenue to
23 interest or Manitoba Hydro's interpretation of Moody's
24 EBITDA to interest-expense ratio, that Manitoba Hydro
25 is not relying on credit rating agency reports that

1 are of an entirely different purpose and focus then on
2 rate-setting review in which themselves are also
3 presented without any alternative evidence being
4 provided.

5 Manitoba -- also, we're proceeding on
6 the assumption that Manitoba Hydro is not seeking
7 increases needed to prepare for the purported new
8 energy transition, the four (4) 'D's', Strategy 2044,
9 or other long-term initiatives which remain hidden
10 from ratepayers.

11 These things can all be tested in a
12 proper GRA with full disclosure of the necessary
13 information needed to test those strategies and
14 initiatives.

15 We also are proceeding on the faith
16 that the structure for any approved rate increase
17 encourages Manitoba Hydro to bring forward a full and
18 transparent application in a timely way rather than
19 letting out more leash for this Crown Corporation
20 monopoly to avoid scrutiny.

21 The application on its face represents
22 a stunning change of events from our perspective from
23 a few months earlier. At that time, Hydro resisted
24 any suggestion of a substantial change had occurred in
25 Hydro's operations, finances, or capital plans.

1 In its July 6, 2021 letter to the
2 Board, Manitoba Hydro at page 2 specifically asserted
3 in bold font that Manitoba Hydro is not concealing
4 evidence as -- as alleged, and at page 7 of that same
5 letter also asserted that an assumption of future
6 near-term rate increases that have not yet been
7 formally approved is not an indicator that current
8 rates are unjust and unreasonable.

9 In short, in June 2021 and as re-stated
10 on July 6, 2021, Manitoba Hydro asserted that current
11 rates were just and reasonable. By November of 2021,
12 five (5) months later, Manitoba Hydro now asserts that
13 rates are 5 percent below the level needed to be
14 reasonable.

15 We say the only scope that merits an
16 expedited review is waterflows, and we say this is
17 very clear in the application. The June 9 submission,
18 Hydro stated that there hadn't been substantial change
19 since the issuance of Orders 59/18 and 69/19.

20 And the impacts of bringing Keeyask and
21 other major capital projects into service was
22 contemplated by Manitoba Hydro Interveners and,
23 ultimately, the PUB when it last established just and
24 reasonable rates.

25 In short, Hydro asserts to this Board

1 that actuals to June were entirely as contemplated,
2 and future impacts from major capital, including
3 everything that comes with it like debt, was already
4 baked into the plans and into current rates which
5 Hydro argued needed no review or change.

6 Had the current rates needed to be
7 changed, Hydro could have always filed a non-expited -
8 - expedited GRA. In fact, evidence provided in this
9 application asserts that Manitoba Hydro's financial
10 position in fact -- is, in fact, improved over
11 projections contemplated by Manitoba Hydro,
12 Interveners, and the PUB Board during NFAT and
13 subsequent GRAs.

14 On the issue of predict --
15 predictability, MIPUG has always prioritized
16 predictability and transparency in rate transitions.
17 Customers' understanding is the 2.5 to 3.5 percent per
18 year rate increases were intended as these changes
19 needed to address Hydro's costs, address risk through
20 building equity.

21 These general rate increases outside
22 specific drought impacts are matters appropriately
23 addressed at future and timely GRAs. Our focus today,
24 we say, is on the extra 1.5 percent that presumably
25 derives from adverse impact of lower water flows and

1 if, indeed, there is any case that represents an
2 unanticipated, unplanned emergency.

3 I ask the question: Is drought really
4 an emergency meriting expedited response? Is the full
5 1.5 percent really needed to bridge drought costs
6 until a proper GRA can occur?

7 MIPUG will submit that drought is not
8 an emergency for a hydroelectric utility, and anyone
9 who has been in this room for the last part of the
10 thirty (30) years knows this.

11 A hydro utility claiming drought is an
12 emergency we say is like a teacher lamenting that
13 their work hours are reduced in July and August. If
14 you could not predict that, you're in the wrong
15 business. It happens. It's predictable. And we have
16 multiple measures in place to make sure customers will
17 not be harmed when it occurs. We intend to explore
18 those matters.

19 MIPUG will also explore the idea that,
20 even if a response to a drought is merited, it is, at
21 most, the rate impact needed to finance any net losses
22 pending a full GRA, not to offset the losses
23 themselves.

24 Thus, the concept of bridging to a GRA,
25 where net losses, financial reserves, and retained

1 earnings can be explored in a proper context.

2 Having said this, MIPUG also intends to
3 consider in its final recommendations rate
4 predictability for customers. Manitoba Hydro may no
5 longer be concerned with providing customers with an
6 orderly rate transitions of predictability, but it
7 does very much matter to customers and, we hope, to
8 the Board.

9 The Board may recall that MIPUG argued
10 in 2019 rate review application that Hydro's own
11 internal costs merited no increase at all. Despite
12 this, MIPUG argued that it was in the customers'
13 favour to implement a rate increase to help with the
14 orderly transition to higher rates that would
15 ultimately be needed after Keeyask came into service.

16 The Board agreed with that
17 recommendation and gave no increase to Hydro to pay on
18 -- for ongoing costs. All revenues from the approved
19 rate increase were deferred.

20 As of today, the last increase to
21 customers was effective December 1, 2020. And if
22 Hydro's next GRA is not filed until mid 2022, as seems
23 to have been suggested, the next GRA-related increase
24 may not be possible until perhaps the fall of 2022.

25 If one considers the limited scope of

1 the 2019/'20 rate review, the end result is that from
2 June 1, 2019, to today and potentially extending
3 through to early 2023, Manitoba Hydro will not have
4 undergone anything but a very limited interim review.

5 A lack of transparency, certainty, and
6 predictability in rate continues to create a negative
7 aura around critical investment decisions needed to
8 support Manitoba operations of major industrial
9 customers.

10 Finally, this is a discrete issue which
11 arises in this application. MIPUG will explore the
12 fair sharing of any increase. It is encouraging that
13 Hydro takes note of its internal cost of service
14 results in proposing rate changes; however, it appears
15 though Hydro misuses the concept of zone of reasonable
16 and -- reasonableness in this application.

17 We say it's inappropriate to give above
18 average increases to classes which are already above a
19 hundred percent and, as such, are indicated to be
20 modestly overpaying their average cost.

21 Thank you very much for allowing me to
22 make this opening submission. I'm open to any
23 questions.

24 THE CHAIRPERSON: Thank you, Mr.
25 Hacault. I don't know if it's Ms. Carvell or -- nice

1 to see you, Ms. Fernandes. If you could start.

2 MS. ODETTE FERNANDES: Thank you, Mr.
3 Chairperson. Nice to see you, as well. Good morning,
4 Madam Vice-chair and Board Members Ring, Hamilton,
5 Grant, and McCutcheon.

6 For the record, my name is Odette
7 Fernandes, and I am legal counsel for Manitoba Hydro.
8 And seated directly to my right is Mr. Jessica
9 Carvell, who is also legal counsel. And you will see
10 Mr. Brent Czarnecki in this chair at some point next
11 week.

12 Given the importance of this interim
13 rate application, Manitoba Hydro's President and CEO,
14 Ms. Grewal, is here today to provide some opening
15 comments on behalf of the Corporation. And to her
16 right is Mr. Aurel Tess, who is Manitoba Hydro's Chief
17 Financial Officer.

18 As I indicated, our suggested approach
19 this morning is to have Ms. Grewal provide opening
20 comments. And then Mr. Tess will provide a brief
21 presentation on Hydro's application. And then we
22 would have Ms. Grewal and Mr. Tess available for any
23 policy-related questions to Manitoba Hydro's interim
24 application before the Board.

25 And with that, to not take up any more

1 time, I would ask that the witnesses be sworn or
2 affirmed.

3

4 MANITOBA HYDRO PANEL NO. 1:

5 JAY GREWAL, Affirmed

6 AUREL TESS, Affirmed

7

8 THE CHAIRPERSON: Sorry. You can
9 begin. You can -- you can take off your masks if you
10 are at the mic.

11

12 OPENING COMMENTS BY MANITOBA HYDRO:

13 MS. JAY GREWAL: Good morning. I'm
14 very pleased to be here today as the President and CEO
15 of Manitoba Hydro and to have Aurel Tess, our CFO,
16 here.

17 I'd like to firstly acknowledge this is
18 the first time for both of us to appear in front of
19 the Board. It our -- it is our first oral hearing
20 since I've joined Manitoba Hydro.

21 So, I'd also thank the Board for the
22 opportunity to explain our current financial and
23 operating realities in the interim application. And
24 we particularly appreciate that it's been less than
25 four (4) weeks since we filed our application, and we

1 are here in this room today.

2 So, thank you too much -- thank you so
3 much to all the parties, including the Interveners,
4 for your work in ensuring that we were able to
5 expedite this and that we're here today.

6 Before I move forward, as is practice
7 for us, as Manitoba Hydro, I'd like to do a land and
8 territorial acknowledgement.

9 We are joining you today from Treaty 1
10 territory and the homeland of the Metis nation where,
11 of course, Manitoba Hydro has a presence across this
12 province, on Treaty 1, Treaty 2, Treaty 3, Treaty 4,
13 and Treaty 5 lands, the original territories of the
14 Anishinabe, Cree, Oji-Cree, Dakota, and Dene peoples,
15 and the homeland of the Metis nation.

16 We acknowledge these lands and pay our
17 respects to the ancestors of these territories. The
18 legacy of the past remains a strong influence on
19 Manitoba Hydro's relationships with Indigenous
20 communities today and remain committed to establishing
21 and maintaining strong, mutually beneficial
22 relationships with Indigenous communities.

23 So, with that, I'd now like to move to
24 the update on Manitoba Hydro. Given the time that has
25 elapsed since the last oral hearing, we felt it was

1 important to start with a few minutes just providing a
2 quick overview on some of the changes that have
3 occurred at Manitoba Hydro since we were last year.

4 While there have been several
5 developments, including coming in to service of MMTP,
6 Manitoba/Minnesota Transmission Project, the Birtle
7 transmission line, I'd like to focus today on two (2)
8 key topics. One, is the largest project we've ever
9 undertaken, the Keeyask generating station and,
10 secondly, on COVID-19.

11 So, Keeyask generating station, I'm
12 very pleased to say we are on track to meet the 8.7
13 billion control budget. To date, we have spent 7.8
14 billion, which is 90 percent of the control budget.
15 And as at -- as at October 31st, it was -- remained at
16 7.8 billion.

17 I'm also even more pleased to say that
18 five (5) of the seven (7) units are online. And not
19 only are they online, they are online six (6) months
20 ahead of schedule. And we were able to achieve this
21 even with COVID and the various challenges that
22 presented to the project.

23 In terms of dispersed power, the first
24 unit went in service in February of 2021. Unit 2 went
25 in service in April of '21. June of '21 was unit 3.

1 September was unit 5. And most recently, unit 4 at
2 the end of October.

3 In March 2021, we saw the final
4 concrete placement in the spillway, marking the end of
5 all major concrete operations at Keeyask.

6 Unit 7 is entering the commissioning
7 phase. And unit 6 should follow in a few months once
8 the last components are finished being installed.

9 The project is beginning to ramp down
10 in terms of the work force and the activity at the
11 site. And we've reduced to approximately five hundred
12 and fifty (550) employees, and that includes
13 contractors and Manitoba Hydro's at site. And our
14 peak was twenty-one hundred (2,100). And we'll
15 continue to ramp down as we move towards project
16 completion.

17 I'd also like to touch on the impact of
18 COVID-19 on Manitoba Hydro. We all quickly and
19 rapidly adopted to new ways of operating to ensure the
20 health and safety, not only of our employees, but our
21 customers, the public, and all stakeholders.

22 So, as many, we moved to a virtual
23 operating model in March of 2020. Critical to that
24 was the IT and infrastructure deployment.

25 Currently, approximately 50 percent, or

1 48.5 percent specifically, of our staff continue to
2 work remotely. The other 50 percent are there,
3 supporting our customers in terms of reliability and
4 safety.

5 And I'd like to acknowledge Manitoba
6 Hydro's staff, particularly, the front-line workers
7 who, in my view, providing essential service to
8 Manitobans.

9 We had to adapt to new health and
10 safety risks. And we undertook numerous steps. We
11 reviewed over one thousand (1,000) safe-work
12 procedures and adjusted accordingly to ensure the
13 safety of our employees and the public.

14 We also have recently adopted a
15 vaccination and rapid testing policy.

16 In order to keep our employees safe, we
17 did incur incremental operating costs of 7.5 million.
18 And that manifested in the following ways.

19 A backup control centre, which is the
20 heart, the brain, of our system. Additional cleaning
21 measures. PPE for staff, which was challenging to
22 secure. As well as motor vehicles -- additional ones
23 -- to maintain physical distancing as COVID was at its
24 peak.

25 You're also well aware that, in April

1 2020, shortly after the pandemic started, the province
2 called upon what's referred to as all reporting
3 entities to government to stop non-essential spending
4 and to contribute towards financial reductions and
5 cost savings.

6 This was originally a four (4) month
7 request, a one-time, which extended to the rest of the
8 fiscal year.

9 Manitoba Hydro committed 86.2 million.
10 And that was a combination of O&A and capital. The
11 portion of that commitment that was O&A reductions
12 were achieved through the following.

13 We cancelled our summer student
14 program. We put a freeze on all external hiring and
15 very stringent vacancy management. And also,
16 approximately 95 percent of Manitoba Hydro employees
17 agreed to take three (3) days of unpaid leave, rather
18 than see colleagues laid off.

19 It would be an understatement to say
20 these temporary cost savings were easy to achieve. It
21 was extremely challenging. And it was only a one-time
22 short-term focus because it wasn't sustainable.

23 So for more highlights though of the
24 work that we've done over the past year, I encourage
25 you to review our 2020/21 annual report, which is

1 provided in response to the PUB MFR-5.

2 I'd now like to talk about future rate
3 applications. I want to start by acknowledging that
4 it has been a few years since Manitoba Hydro filed an
5 electric rate application with the PUB.

6 Shortly after the last rate application
7 concluded, we did commence planning for our next GRA.
8 It was at that time that Bill 44, the Public Utilities
9 Ratepayer Protection and Regulatory Reform Act, was
10 introduced. And we suspended those activities to
11 determine how this legislation would impact our rate
12 filings going forward.

13 The legislation -- which subsequently
14 was renamed Bill 35 -- provided a transition period to
15 '23/'24 for both Manitoba Hydro and the PUB to adjust
16 to the new requirements in the model that the
17 legislation was addressing.

18 This fall, the Bill was removed from
19 the legislative agenda. And shortly thereafter, as
20 everybody is aware, the Minister issued a directive
21 for Manitoba Hydro to file an Interim Rate
22 Application, which we did on November 15th, which
23 brings us to the hearings today.

24 Pursuant to the directive, I'd like to
25 be clear that Manitoba Hydro is committed to engaging

1 with the PUB on the timing and parameters for the next
2 GRA, which the directive says is a multi-year --
3 greater than one (1) year -- after this current
4 process concludes.

5 We're very encouraged by some positive
6 process the PUB has implemented and we look forward to
7 continuing to work collaboratively with the PUB and
8 the stakeholders to ensure an efficient and effective
9 regulatory process that's in the best interests of
10 Manitobans who are Manitoba Hydro's customers.

11 I'd now like to touch a bit on -- oh,
12 actually, I'll now hand it over to Aurel Tess, who is
13 going to speak to our Interim Rate Application.

14 MR. AUREL TESS: Thank you, Jay. Good
15 morning, everyone. My name is Aurel Tess. I'm the
16 Vice President of Finance and Chief Financial Officer
17 for Manitoba Hydro. I've been in that position for
18 just under two (2) years.

19 It is my pleasure to appear before the
20 Public Utilities Board for the first time.

21 We are on a journey to become the
22 Manitoba Hydro of the future, and I'm very excited
23 about the journey we are on. And it's one (1) of the
24 reasons I joined the company; to be part of an
25 excellent Manitoba Hydro team working toward that end.

1 However, I am very concerned about the
2 financial health of Manitoba Hydro as described in our
3 application and, in particular, the financial impact
4 of the drought.

5 I would like to touch on some of the
6 key elements of our Interim Rate Application. On
7 slide 10, you see some of the guiding principles that
8 we have followed when coming to -- for this rate
9 application.

10 Number 1 was limiting the deterioration
11 of financial health, recognizing that it is not
12 reasonable to recover fully from the drought impacts
13 in a single year because of the substantial impact
14 that would have on our customers.

15 Number 2, preserve intergenerational
16 equity associated with interest costs on borrowing
17 that is required to fund core operations.

18 And Number 3, rate stability and
19 predictability. Manitoba Hydro has been forecasting a
20 need for annual rate increases of approximately 3 1/2
21 percent for some time.

22 So we're coming forward with two (2)
23 specific approvals as part of this application.
24 Firstly, an interim approval of rates incorporating an
25 overall increase in general revenues of 5 percent

1 effective January 1, 2022.

2 For residential customer without
3 electric heat, the average monthly bill impact is
4 proposed to increase by \$5.13 and for residential
5 customer with electric heat, the average impact would
6 be \$9.80 per month. Full customer bill impacts go --
7 schedule, sorry, is provided in PUB MFR-21.

8 Secondly, we'd like approval to
9 recognize revenues in the major capital deferral
10 account. This was established by the Board in Order
11 69/19 commencing January 1, 2022. We are recommending
12 that the balance be amortized over twenty-four (24)
13 years. Given that several major projects have entered
14 service, it makes sense to start recognizing this
15 revenue to reduce the overall revenue requirement as
16 PUB intended when it established the deferral account
17 in Order 69/19.

18 Now, I'd like to talk a little bit
19 about drought conditions. Water flow conditions are a
20 significant risk. They are subject to a great deal of
21 volatility. It is the factor with the greatest
22 potential to impact earnings and is completely beyond
23 the control of Manitoba Hydro.

24 Just a quick reminder that Manitoba
25 Hydro, unlike many other Canadian utilities, have

1 seasonal reserves, which are dependent upon
2 precipitation each and every year. This is why
3 despite having above-average flows for the past
4 several years, the Corporation is significantly
5 impacted by the drought conditions today.

6 Since the fall of 2019, key parts of
7 the watershed supplying Manitoba Hydro, have received
8 record low precipitation. Dry conditions expanded in
9 the early summer 2021, into the southern portions of
10 the Nelson River Basin.

11 Total precipitation in 2021 has been
12 well below normal and is below levels experienced in
13 the 2002/2003 drought. What are the impacts of the
14 drought? At its most basic level, drought means Hydro
15 is unable to produce the same amount of electro --
16 electrical energy.

17 '21/'22 forecast projects 27 percent
18 less hydraulic generation in the '21/'22 budget.
19 We've taken steps to mitigate the impacts of the
20 current drought and to release, sorry, to reduce the
21 rate relief that we are seeking today.

22 The steps we have taken will ensure
23 Manitoba Hydro was able to provide reliable power to
24 Manitobans, by transitioning its operations to ener --
25 to ensure energy reliability, and by ensuring imports

1 of purchase power.

2 Due to the decrease in hydraulic
3 generation, estimated imports will increase by 4.4
4 terrawatt hours in '21/'22; that is an increase of 366
5 percent. Unfortunately, this drought also comes as
6 energy market prices have increased.

7 Manitoba Hydro import prices have
8 increased by approximately 40 percent since August.
9 The reduced energy price risk associated with
10 increased power purchases, Manitoba Hydro engaged in
11 hedging activities, which is essentially entering into
12 fixed-price, forward-looking purchase agr --
13 agreements.

14 I'd like now to talk about the impact
15 of drought on net extra-provincial revenue. So, by
16 way of background, extra-provincial revenue helps
17 maintain historically low domestic rates. Net extra-
18 provincial revenue is defined as, export revenue, less
19 fuel and imports, that's the power we purchase, less
20 water rentals.

21 This slide illustrates a significant
22 decrease in net extra-provincial revenue between the
23 '21/'22 budget and the '21/'22 forecast, due to the
24 drought. Forecasted reduction in net export revenues
25 is three hundred and ninety-eight million

1 (398,000,000); that is a 78 percent decrease when
2 comparing the budget to the '21/'22 forecast.

3 What are the impacts on the '21/'22
4 forecast? As a result of this significant reduction
5 in extra-provincial revenue, the updated forecast
6 projects a net loss of a hundred and ninety million
7 (190,000,000). That's a swing of three hundred and
8 sixty-six million (366,000,000) from the positive net
9 income that we budgeted, with the electric segment of
10 a hundred and seventy-seven million (177,000,000).

11 The '21/'22 forecasted net loss of one-
12 ninety million (190,000,000), assumes a 5 percent rate
13 increase effective January 1, 2022. A drought will
14 also result in Manitoba Hydro having to borrow three
15 hundred and forty-eight million (348,000,000), to fund
16 core operations in '21/'22. That is a staggering
17 amount that will weaken our debt ratio to 87 percent.

18 Borrowing of three hundred forty-eight
19 million (348,000,000), that was completely
20 unanticipated, will come at an interest cost in
21 '21/'22 of approximately \$13 million per year, that is
22 equivalent to approximately .8 percent of an electric
23 rate increase.

24 Now I'd like to give you an overview of
25 our '21/'22 forecasted expenses. Manitoba Hydro's

1 expenses for '21/'22 are projected to be 2.675
2 billion. They are largely fixed in nature. The
3 largest expenditures include net finance expense, nine
4 hundred and ninety-four million (994,000,000); that
5 forms 37 percent of the total expenses.

6 It primarily includes interest on
7 short- and long-term borrowings, the provincial
8 guarantee fee paid to the province, net of any
9 interest costs capitalized under construction, as well
10 as any finance income.

11 The next largest is depreciation and
12 amortization, five hundred and seventy-nine million,
13 (579,000,000); that forms 22 percent of total
14 expenses. That consists of depreciation on our -- on
15 our assets over the useful life. These two (2)
16 categories alone form 59 percent of all expenses, and
17 they are fixed in nature.

18 Next, operating and admin or O&A, five
19 hundred and fifty-seven million (557,000,000); that
20 forms 21 percent of total expenses. It consists
21 primarily of labour and benefits, materials,
22 contracted services, overhead costs. These are all
23 associated with operating, maintaining, and
24 administering the facilities and programs of the
25 enterprise and providing services to our customers.

1 As construction of the major capital
2 projects come to an end, the onset of fixed costs,
3 finance, depreciation, and O&A, related to these
4 capital investments will now increase operating
5 expenses.

6 These costs are projected to reach six
7 hundred and nineteen million (619,000,000); 23 percent
8 of total expenses in fiscal '21/'22. Also, total
9 expenses include various payment to government for the
10 Provincial Guarantee Fee, water rentals, and capital
11 tax, which total four hundred and thirty-eight million
12 (438,000,000) or 16 percent of total expenses in
13 fiscal year '21/'22.

14 Now, let's take a look at our FTEs.
15 From the costs that have -- we have more influence
16 over is operating and admin, O&A. This includes wages
17 and benefit costs. Manitoba Hydro measures staffing
18 levels as full-time equivalents, FTEs.

19 Presently, we're at the lowest level in
20 almost twenty (20) years. As you can see, for each of
21 the five (5) years, there's a description of a
22 significant impact for that particular year. In
23 '16/'17 we had six thousand four hundred and eleven
24 (6,411) FTEs.

25 This was a pre-voluntary departure

1 program. And in '17/'18, the voluntary departure
2 began. In '18/'19, it was completed and the FTE level
3 was five thousand four hundred and seventy-five
4 (5,475); that was a decrease of 15 percent.

5 In 1020, the pre-pandemic level of five
6 thousand three ninety-one (5,391), a similar level to
7 the post-VDP (phonetic), and in 2021, we had the
8 impact of the one-time government cost saving
9 initiative to help pay for the pandemic through
10 external hiring freeze and unpaid days off.

11 So, in 2021, our FTE level is four
12 thousand nine hundred and fifty-four, (4,954). In
13 '21/'22, we're expected to land on five thousand.

14 Returning to post-VDP levels, we'll
15 talk about that for a few minutes. The level of
16 staffing at the completion of the VDP program in
17 '18/'19, what we considered to be the minimum staffing
18 levels that will allow Manitoba Hydro to continue to
19 provide safe reliable service to its customers, and
20 minimize life cycle costs of its assets.

21 Manitoba Hydro's assets are aging.
22 Without proper maintenance and investment, there is
23 greater risk that could impact reliability, compliance
24 with the environmental rules, the safety of the
25 public, and Manitoba Hydro empl -- employees.

1 In addition to this, Manitoba Hydro's
2 assets will increase to thirty billion
3 (30,000,000,000) in '22/'23, as a comparator to
4 '14/'15, that was seventeen billion (17,000,000,000).
5 This will drive ongoing requirements in operating,
6 maintenance, costs, and resources that are needed to
7 support this higher asset base.

8 In addition to operating and
9 maintaining an asset base of over thirty billion
10 (30,000,000,000), and a growing customer base,
11 resources are also needed to implement initiatives to
12 support our strategy.

13 If we want to approach this return to
14 post VDP staffing levels, deliberately and purposely,
15 recognizing that it will take time to build it back to
16 five thousand four hundred and twenty (5420) FTEs,
17 therefore, budget dollars have only been included for
18 five thousand one hundred and seventy-five (5,175)
19 FTEs in '22/'23.

20 There are other factors that impact
21 O&A. Inflation. As we all know we are in a period of
22 significant inflation. This is impacting the cost of
23 goods, materials, and services we purchase. However,
24 from '16/'17 through to '22/'23, Manitoba Hydro's
25 electric O&A expenditures have seen a compound annual

1 growth rate of 1.75 percent, which is aligned with the
2 compound annual growth rate of Manitoba CPI of 1.73
3 percent during that very same period.

4 Approved salary increases include wage
5 increases ordered by the Manitoba Labour Board or IBW,
6 our largest union, with an accumulative increase of
7 3.5 percent and approved GWI for corporate's exempt
8 staff.

9 With the winding down of major capital
10 projects, there is a shift from resourcing that worked
11 on construction activities to a focus -- that was the
12 focus of hydroelectric generation and transmission
13 line development to operating and maintenance
14 activities.

15 By way of comparison, we are capital --
16 we were capitalizing 43 percent of these construction
17 activities in fiscal '17/'18 and we are now
18 anticipated to drop to 33 percent in '22/'23.

19 Turning to capital expenses, by way of
20 background, Manitoba Hydro uses an asset management
21 system that optimizes life cycle cost to deliver safe,
22 reliable energy services to its customers and we
23 balance safety, reliability, risk and cost.

24 Capital spending relates to planned
25 projects to sustain ageing assets. Thirty (30)

1 percent of the business operations capital is
2 associated with capacity and growth. We address
3 anticipated increase in load and customer request for
4 service and mandated compliance work.

5 Factors to consider, the age of the
6 infrastructure, this is a significant risk.
7 Deferrals will increase risk of asset failure and
8 increase cost of maintenance in the long run. It is
9 not prudent or reasonable to cancel planned capital
10 investments in response to a short-term uncontrollable
11 event.

12 More than 90 percent of our spending,
13 in the business operations capital area, relates to
14 projects, or programs, that we have already commenced,
15 in other words, they are multi-year projects.

16 Deferral of ongoing capital projects
17 may not be possible from a safety perspective, and in
18 all cases, is inefficient and costly.

19 Referring to the need for rate relief.
20 This Board has recently provided guidance on the
21 appropriate way to address drought risk, by way of
22 retained earnings and regulatory action.

23 Retained earnings does not resolve the
24 cash flow deficiency in a test year. The drought
25 comes at a time when Manitoba Hydro is highly

1 leveraged, as a result of funding major capital at 87
2 percent.

3 Forty two (42) percent -- forty-two
4 cents of every dollar of revenue pays for interest
5 costs. All parties to this proceeding expected that
6 regular annual increases would be required, following
7 the in-service of these measured capital projects.

8 Independent of this year's extreme
9 drought and the significant financial impacts,
10 Manitoba Hydro continues to believe that annual rate
11 increases of at least 3.5 percent are required to meet
12 the financial needs of the Corporation.

13 Bringing major capital into service,
14 brings with it increased carrying costs. '21/'22 the
15 carrying costs of the Minnesota Transmission Line
16 Birtle, Great Northern Transmission line and five (5)
17 of the seven (7) units Keeyask is seven hundred and
18 eight million (708,000,000).

19 After taking into account the
20 amortization of the Bi-Pole 3 and the major capital
21 projects deferral account, the net impact to the
22 revenue requirement is a large six hundred and
23 nineteen million (619,000,000).

24 The unfortunate reality is that the
25 level of current debt has restricted the Corporation's

1 ability and left very little cash to cushion or deal
2 with non-controllable risks that may materialize.

3 While our '22/'23 preliminary plan
4 projects net income of two hundred million
5 (200,000,000), including the proposed 5 percent
6 increase, it is projecting a very small cash flow
7 surplus to fund core operations of fifty one million
8 (51,000,000). This is very small compared to the size
9 of Manitoba Hydro's operations and the uncontrollable
10 risks that we face.

11 Also, the '22/'23 plan assumes a return
12 to the use of forty (40) year flow record for
13 forecasting purposes. However, the possibility of low
14 water conditions in '22/'23 is elevated given the
15 drought conditions experienced this year.

16 It is essential for the financial
17 health of the Corporation that rate increases address
18 the very significant financial impact of the drought,
19 and increases to revenues associated with the major
20 capital projects.

21 Turning to the reasons for the proposed
22 increase. Financial impacts of current drought and
23 major capital projects coming into service require the
24 rate relief of 5 percent.

25 Manitoba Hydro recognizes that its

1 customers are struggling in the current COVID-19
2 environment, economic shut-downs, layoffs, high
3 inflation and rising natural gas costs.

4 These are tough economic conditions for
5 consumers, however, Manitoba Hydro rates ought not to
6 be set artificially low to further jeopardize its
7 financial integrity.

8 Financial impacts of the severe drought
9 have serve -- served to exasperate the vulnerable
10 financial circumstances of the Corporation.

11 Deferring required rate increases,
12 especially now during this emergency situation, caused
13 by the drought, is not prudent. Higher rate increases
14 will simply be required to recover the lost revenue in
15 the future, where gradual annual rate increases are
16 preferred.

17 In conclusion, I'd ask that the rate
18 relief and related requests be approved as filed.

19 And just a few concluding remarks.
20 Manitoba Hydro continues to believe in the -- in the
21 PUB process and this Board's role in the regulation of
22 electric rates.

23 We take that role very seriously and
24 attempt to provide open and transparent information to
25 assist this Board in its role.

1 Manitoba Hydro continues to provide
2 regular reporting to this Board, in an effort to
3 provide timely information.

4 I believe that a mutually respectful
5 relationship -- relationship with our regulator, and
6 all stakeholders, including the parties represented
7 here today, is essential for the benefit of customers
8 of Manitoba Hydro.

9 I'm looking forward to continuing this
10 relationship, as we engage with the Board on
11 submitting our next General Rate Application.

12 Thank you very much.

13 THE CHAIRPERSON: Thank you. Ms.
14 Grewal, I understand that your time is limited to this
15 morning. Is that correct?

16 MS. JAY GREWAL: That's correct.

17 THE CHAIRPERSON: Okay. So, Mr.
18 Peters, as I understand the process, you and other --
19 you and the counsel for the Interveners will be cross-
20 examining focusing on any questions to Ms. Grewal,
21 this morning and then we'll be resuming this afternoon
22 with Mr. Tess, back at Manitoba Hydro on-line for
23 questions relating to the finances. Is that correct?

24 MR. BOB PETERS: That is correct, Mr.
25 Chair.

1 THE CHAIRPERSON: Okay, so if you want
2 to start, Mr. Peters.

3

4 CROSS-EXAMINATION BY MR. BOB PETERS:

5 MR. BOB PETERS: All right. Thank you
6 and good morning, Ms. Grewal, Mr. Tess, and thank you
7 for your attendance today.

8 My name is Bob Peters and as Board
9 counsel, I will have some questions for you, as the
10 Chairman indicated this morning, and Mr. Tess you
11 might be stuck with me more into the afternoon, so
12 we'll -- we'll pick it up then as well.

13 But before I start with my questions, I
14 want to wish a good morning to the Board members and
15 to the ladies and gentlemen in this hearing room and
16 to the ladies and gentlemen on the Microsoft Teams
17 Video platform, as well as on the mic -- as on the
18 live stream from the Board's website.

19 And I'll indicate to the Board members,
20 that if at any time any of you have any questions,
21 please feel free to interrupt any of the lawyers who
22 are asking questions, to ask your own questions, when
23 they arise.

24 I think I can speak on behalf of all
25 that your -- your questions are appreciated by both

1 counsel and the witnesses at any time. We will
2 certainly adjust our questions accordingly.

3 Ms. Grewal, and Mr. Tess, and also on
4 behalf of all who will ask you questions, I want to
5 remind you that none of the questions that are coming
6 your way are designed to elicit your responses that
7 would put confidential or commercially sensitive
8 information on the public record.

9 So is that agreed and understood? And,
10 I believe, if you're testifying you can remove the
11 masks, that's your -- if you're -- your choice.

12 MS. JAY GREWAL: Thank you, absolutely
13 understood.

14 MR. BOB PETERS: All right and thank
15 you. And let me add though, Ms. Grewal, that should
16 any witness either this morning or this afternoon
17 believe that to fully answer any question and to
18 assist the Board that they need to provide the Board
19 with confidential information, then I would suggest
20 that Manitoba Hydro's witness speak with Ms. Fernandes
21 and Ms. Carvell, and that information can then be
22 provided to the Board in a manner that doesn't put it
23 on the public record.

24 Is that also acceptable, Ms. Grewal?

25 MS. JAY GREWAL: Absolutely.

1

2 CONTINUED BY MR. BOB PETERS:

3 MR. BOB PETERS: All right, I'll focus
4 my questions to you this morning, Ms. Grewal, but I
5 don't want Mr. Tess to think I'm deliberately
6 excluding him.

7 The Board wants the best answer from
8 Manitoba Hydro and if another witness believes they
9 can enhance the response and make it full -- full for
10 the Board, they are certainly welcome to provide that.

11 That's likewise agreed and understood,
12 Ms. Grewal?

13 MS. JAY GREWAL: Yes.

14 MR. BOB PETERS: All right. Lastly,
15 and by way of introductory comments, when persons on
16 the Microsoft Teams video link are asking questions,
17 it will be appreciated if the person states their name
18 before their first question, as that will assist
19 Ms. Woodworth in transcribing the hearing from a
20 remote location.

21 And something I've probably never said
22 before at a hearing, if people could remain on mute
23 until you're speaking, that will also make sure that
24 we don't have feedback problems in the room.

25 So, with that, Ms. Grewal, you are the

1 former Chief Financial Officer of BC Hydro and the
2 former President and CEO of the Northwest Territories
3 Power Corporation, correct?

4 MS. JAY GREWAL: Correct.

5 MR. BOB PETERS: And in those
6 positions, Ms. Grewal, would I be correct in
7 suggesting that you value long-term financial
8 forecasts for management planning purposes?

9 MS. JAY GREWAL: Yes.

10 MR. BOB PETERS: And, would you also
11 value long-term financial forecasts for regulatory
12 purposes?

13 MS. JAY GREWAL: Yes.

14 MR. BOB PETERS: You would have used
15 those long-term forecasts in those previous positions
16 at those public utilities.

17 Would that also be correct?

18 MS. JAY GREWAL: Correct.

19 MR. BOB PETERS: And, did you ever
20 testify at a regulatory hearing in regards to long-
21 term financial forecasts?

22 MS. JAY GREWAL: No, I have not
23 testified.

24 MR. BOB PETERS: Not even while you
25 were at the BC Hydro?

1 MS. JAY GREWAL: No.

2 MR. BOB PETERS: Can you, Ms. Grewal,
3 succinctly, if possible, tell this Board, what does
4 Manitoba Hydro believe is the value of a long-term
5 financial forecast?

6 MS. JAY GREWAL: Long-term financial
7 forecasts are the monetization of your long-term
8 financ -- business plan and direction. That's what
9 financial forecasts are, from my perspective.

10 And the value of that is that it allows
11 you to then measure and ensure that you're achieving
12 the financial performance that you anticipated, as
13 well as ensuring you're achieving the objectives that
14 were in your Business Plan.

15 It is a governance tool. It's also a
16 tool that actually helps you understand where what you
17 intended in your plan is not actually materializing as
18 anticipated.

19 MR. BOB PETERS: Thank you. Would you
20 also agree that there's better regulation when a
21 utility has a long-term financial plan before the
22 regulator?

23 MS. JAY GREWAL: I agree.

24 MR. BOB PETERS: And, you'd agree
25 because that, too, would allow the regulator to

1 measure the performance of the utility?

2 MS. JAY GREWAL: Absolutely, as long
3 as the financial plan is grounded in appropriate data,
4 and facts, and assumptions that would then cause that
5 long-term financial forecast to be of value in making
6 decisions as a regulatory body.

7 MR. BOB PETERS: In your previous
8 roles with public utilities, Ms. Grewal, were your
9 financial plans as long as 20 years out?

10 MS. JAY GREWAL: Absolutely, at BC
11 Hydro.

12 MR. BOB PETERS: Were they longer?

13 MS. JAY GREWAL: I can't recall if it
14 was longer. Typically, we would look at a five-year
15 and have a longer-term view and, what I would say,
16 when I was at BC Hydro, we were also in a state of
17 transition, because the government at the time had
18 introduced new energy policy that was having an impact
19 on -- on the utility.

20 MR. BOB PETERS: And it's common
21 ground that we don't have a long-term financial
22 forecast in this interim application, correct?

23 MS. JAY GREWAL: That is correct.

24 MR. BOB PETERS: And you are aware,
25 are you, that there was no long-term financial

1 forecast back at the 2019/'20 General Rate Application
2 proceeding?

3 MS. JAY GREWAL: I -- I was not here
4 at the time, but I understand that was the case --

5 MR. BOB PETERS: No, and I --

6 MR. JAY GREWAL: -- when the filing
7 was submitted.

8 MR. BOB PETERS: Right, and I
9 certainly understand, in the sports vernacular, that
10 both you and Mr. Tess are rookies here, so we'll keep
11 that in mind.

12 But you are aware that Manitoba Hydro,
13 before you arrived, Ms. Grewal, was using long-term
14 financial plans?

15 MS. JAY GREWAL: Yes, I am aware.

16 MR. BOB PETERS: And, the last one
17 that they filed with this Board was back in -- I guess
18 was based on 2016 data or was known as the IFF-16,
19 Integrated Financial Forecast 16?

20 MS. JAY GREWAL: Yes.

21 MR. BOB PETERS: And as Manitoba Hydro
22 testifies today, Ms. Grewal, Manitoba Hydro does not
23 have a long-term financial plan. Is that correct?

24 MS. JAY GREWAL: That is correct.

25 MR. BOB PETERS: And we understand

1 that, and your -- your answer to me previously was
2 that you wanted to make sure that you had the
3 underlying data to compile a long-range financial
4 plan, correct?

5 MS. JAY GREWAL: Correct.

6 MR. BOB PETERS: And, as I understand
7 it, Manitoba Hydro is in the process of developing a
8 long-range financial plan but, in my words, there are
9 many dominoes that have to come into place, or pieces
10 of the puzzle that have to be -- be assembled first.

11 MS. JAY GREWAL: And, there's two (2)
12 key pieces, or the dominoes, as you refer to them, in
13 the puzzle.

14 MR. BOB PETERS: And the first -- oh,
15 I'm sorry. I didn't mean to interrupt.

16 MS. JAY GREWAL: Sorry, that's okay.
17 The first one is energy policy, because energy policy,
18 as contemplated by the Province, and they started that
19 work this fall, engaged consultants, will define the
20 role of Manitoba Hydro in the evolving energy
21 landscape, and that will be key in us understanding
22 the role we play and, therefore, all implications that
23 has on our business in terms of how we operate today
24 and how we will operate in the future, and that will
25 reflect the energy landscape as it is changing, and

1 anticipated to change in Manitoba.

2 The second key component that will
3 impact a long-term financial forecast that will be our
4 best representation of Manitoba Hydro from a financial
5 perspective in the future is the Integrated Resource
6 Plan, and this is something Manitoba Hydro has never
7 undertaken, but it is a best practice, and that work,
8 we've been planning for it over the last year, and we
9 kicked off that process in September, through
10 consultation being the first step, and it will take
11 eighteen (18) months to complete, and I would also
12 like to point out that that eighteen (18) months is
13 the typical time-frame for undertaking an IRP.

14 Secondly, the IRP that we are
15 undertaking will not just consider the assets owned by
16 Manitoba Hydro, but will consider the full evolving
17 energy landscape, so we can plan according to the
18 impacts that our customers will have, on both supply
19 and demand, and then put that into our long-term
20 financial forecast, that will then be a -- as -- as
21 robust as we can possibly make it, but those two (2)
22 factors that I've just spoken to will have a material
23 impact, and, currently, it's unknown.

24 MR. BOB PETERS: But, Ms. Grewal,
25 Manitoba Hydro can't simply turn off the lights and

1 await the energy policy of the province to do its own
2 long-term plan, can it?

3 BOARD VICE-CHAIR KAPITANY: Mr.
4 Peters, can I just ask a question as well?

5 MR. BOB PETERS: Absolutely.

6 BOARD VICE-CHAIR KAPITANY: Yeah,
7 sorry, I know it's not easy being at your side here,
8 as opposed to. Thank you for your presentation, Ms.
9 Grewal.

10 BOARD VICE-CHAIR KAPITANY: Dr. Grant
11 and I were both members of the Needs For and
12 Alternatives To Panel back in 2014 and, at that time,
13 one (1) of our recommendations, which was accepted by
14 government, was that there should be an integrated
15 resource plan for Manitoba Hydro.

16 And, so, now, I hear you saying that
17 you're starting on this process, but it'll be eighteen
18 (18) months from now before there will be an
19 Integrated Resource Plan, and I'm -- I guess I'm
20 having trouble understanding how it can be this long
21 since the recommendation and the government accepting
22 it to Manitoba Hydro having what you state as a best
23 practice. And we believed that at the time and I
24 agree with you still

25 MS. JAY GREWAL: So I can't speak for

1 when I was not here at Manitoba Hydro, but, when I
2 joined Manitoba Hydro and I'll be finishing my third
3 year coming up, the first thing I did was step back to
4 say, we need a strategy to take us forward that is a
5 strategy that is not focussed on building these large
6 major capital projects, but what will we be after that
7 and what does that look like.

8 So, we undertook a rigorous process and
9 very quickly when we're looking at the evolving energy
10 landscape, and I was understanding what we do do in
11 Manitoba Hydro and what we don't, identified that an
12 integrated resource plan is a key body of work.

13 And we built that in as one of the
14 components of our long term strategy which is not --
15 which is out of scope but we call Strategy 2040. So I
16 can't comment from the past but I can say starting in
17 my second year we started that work and we were the
18 advocates for it.

19 To be quite frank, I hadn't reviewed
20 what was in NFAT and the recommendations at that point
21 and I recommended an IRP and committed us to it prior
22 to even being aware it was in NFAT.

23 BOARD VICE-CHAIR KAPITANY: Thank you.
24 I was recently at an energy symposium where experts
25 were talking about the need -- given the energy

1 environment that's emerging, the need to actual move
2 beyond integrated resource plans towards grid flex
3 (phonetic) and to system resource plans and I just
4 wonder if that's something that you're considering at
5 Manitoba Hydro or if you're focussing strictly on an
6 integrated resource plan at this point.

7 MS. JAY GREWAL: So I can't speak to
8 the specific details of our integrated resource plan
9 and what will be considering.

10 What I would say is the first phrase of
11 developing the integrated resource plan is
12 consultation; to understand both on the supply and
13 demand side what be coming and then that would inform
14 what we should be looking at.

15 In talking to CEOs of other utilities
16 that started this work earlier, including outside of
17 Canada, as you go through the -- the planning and you
18 look at the broader energy landscape, what it does is
19 identify a series of pathways.

20 There is no one (1) answer. It's a
21 series of pathways. And depending on that, you'll do
22 the additional background work to -- to speak to some
23 of the -- the concepts you were talking about.

24 But the implications of this are broad.
25 The implications, given the evolving energy landscape,

1 particularly -- and the reason why we need to look at
2 it broadly is Manitoba Hydro is accountable for
3 reliability.

4 So even as other intermittent sources,
5 variable sources of energy come in the system, at the
6 end of the day -- and we anticipate and we're going to
7 proactively pursue opportunities to make sure that
8 there's a market for our clean, dependable energy,
9 that we understand both sides, and how we then
10 optimize.

11 Our current thinking and view is it'll
12 be Manitoba Hydro's job, given responsibility for
13 reliability, given we operate the grid, to -- to look
14 at how all of these come in and play and are
15 integrated.

16 And that is the issue I think every
17 utility and regulator is seeking to understand and how
18 should that be governed. And we believe that some of
19 that potentially will come out of energy policy which
20 is why I referred to the fact it's important to
21 understand the role we play in -- in the future years.

22 And -- and I would like to speak to the
23 fact that an integrated financial forecast that looks
24 out twenty (20) years is going to be based on
25 assumptions for any utility going forward because

1 you're assuming what will happen in certain places.

2 There's the core business that we have,
3 absolutely, and the core assets. And we -- we can --
4 we're -- we're quite competent and capable as we look
5 at those, but -- and how we predict our balance sheet
6 and our -- our cost structure.

7 But the impact that all of these new
8 variables will have when we look in other regions and
9 we look in other geo -- geographical areas can be
10 quite material depending on how this plays out.

11 So it is not that Manitoba Hydro does
12 not want to have an integrated financial forecast
13 right now, the concern we have is to bring anything
14 forward that two (2) or three (3) years from now will
15 still reflect the reality that we're facing because
16 the Integrated Financial Forecast is a part of a
17 planning tool.

18 And if there are still currently
19 unknowns in our plan, we wouldn't want to bring
20 something forward that doesn't provide the data and
21 information that would support the PUB in determining
22 something as material as rates and rate increases.

23 BOARD VICE-CHAIR KAPITANY: Thank you.

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Thank you, Ms.
2 Grewal. I take from your answers to the Vice-Chair
3 that you're expecting that your Integrated Financial
4 Forecast that you're developing will contain consumer
5 rate increases?

6 MS. JAY GREWAL: As we showed in NFAT,
7 as we've consistently said, we anticipate rate
8 increases of 3 1/2 percent each year for the coming
9 few years based on what we know today.

10 And the key driver behind that is these
11 major capital projects that are now coming into
12 operation, and those costs are now part of our -- our
13 operating costs, and particularly the -- particularly
14 Keeyask which is the largest project that we've ever
15 built.

16 So those are non-controllable costs
17 that will be impacting Manitoba Hydro's cost structure
18 in the future that we anticipate will result in
19 increases in rates. And we've been saying this I
20 believe since 2009.

21 MR. BOB PETERS: And, Ms. Grewal, let
22 me rephrase my question.

23 Leaving aside -- leaving aside the next
24 few years, as you said, but in an integrated financial
25 forecast that will be developed -- and let's

1 hypothetically suggest it's twenty (20) years -- you
2 would expect that Integrated Financial Forecast of
3 twenty (20) years would also contain indicated rate
4 increases to -- to make the numbers work?

5 MS. JAY GREWAL: It's implicit --

6 MS. ODETTE FERNANDES: I was going to
7 say I believe that's a bit speculative, Mr. Peters.

8 MR. BOB PETERS: It certainly is, Ms.
9 Fernandes. I'll -- I'll come at it this way if I can,
10 and I thank my colleague.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: For the next few
14 years, it sounds like Manitoba Hydro was planning on
15 using the short-term forecasts and budgets.

16 Would that be correct?

17

18 (BRIEF PAUSE)

19

20 MR. AUREL TESS: Yes, that's correct.

21 MR. BOB PETERS: And, Ms. Grewal, you
22 indicated that the first domino, in my words, that had
23 to fall was the Provincial Energy Strategy, and the
24 second domino was going to be the Integrated Resource
25 Plan.

1 If that is the case, what can Manitoba
2 Hydro do now while it awaits those -- those dominoes?

3 MS. JAY GREWAL: So firstly, I would
4 say energy policy and the Integrated Resource Plan are
5 proceeding in parallel, which is not what was ideal.
6 Manitoba Hydro has been advocating for energy policy
7 for two (2) years, since we started our work on -- on
8 Strategy 2040.

9 So we're now doing that work in
10 parallel where we'll keep checking back and marrying
11 the two (2) to ensure that there is alignment between
12 energy policy and the work we're doing with the
13 Integrated Resource Plan.

14 In the -- in the interim, what we're
15 currently working on and trying to develop is at least
16 a two (2) to three (3) year financial forecast, and
17 we're -- we're currently working on that.

18 We've shared with you our projected
19 budget for next year, and one (1) of the things that
20 we've undertaken as part of Manitoba Hydro being
21 effective and efficient and having the capabilities to
22 operate in this new, evolving energy landscape is a
23 strategic and enterprise planning group with that
24 capability.

25 And we're -- we've gone through and are

1 building out how we actually budget and forecast and -
2 - and maturing our models and our capabilities in that
3 front.

4 The other side of that capability in
5 the work that we're doing is we're now putting in
6 place -- and we've been at this for a year. And
7 again, all of these activities are multi-year journeys
8 in terms of maturing and building out the processes.
9 And -- and the -- the data points and the metrics that
10 we need is enterprise risk management.

11 So, that will also then come into play.
12 But you are correct. We're -- we are working towards
13 developing a three (3) year forecast in the absence of
14 clarity on energy policy and -- and the IRP, but it
15 will still take us a bit more time.

16 And we're preparing, in recognition of
17 the fact, that there will be a full rate application
18 hearing. It's -- and we're working on that
19 collectively.

20 It's not that we're not focussed on it
21 because it is important. It's just we want it to be
22 something that we can bring forward to the PUB with
23 confidence and with the ability to explain what it is
24 telling the PUB in terms of Manitoba Hydro's
25 operations.

1 THE CHAIRPERSON: Mr. Peters...?

2 Sorry, can I just interrupt for a sec, a quick
3 question? Can you finalize the IRP until the energy
4 policy's finalized?

5 MS. JAY GREWAL: It's difficult to say
6 because we -- there's currently a consultant that the
7 province has engaged. We've actually -- I actually
8 spent three (3) hours with the team, walking them
9 through our strategy, what we saw as evolving energy
10 landscape as one (1) of -- one (1) of the stakeholders
11 that they're soliciting feedback from.

12 Their work, I believe, is to be wrapped
13 up as consultants in the spring. And then there will
14 be a report to government.

15 So, I can't speak to government as to
16 when energy policy will be in place, but I would --
17 I'm assuming, based on conversations with the
18 consultants, that there will be a lot of analysis, and
19 we actually are providing a lot of the data and
20 analysis to them, that there will be enough there that
21 will start to inform us and help us shape particularly
22 what they may think the role of Manitoba Hydro is in
23 this.

24 So, we're doing our best to ensure that
25 we stay in lockstep. But I can't speak to when the

1 province will or will not have energy policy formally
2 in place from a -- given the processes on their side.

3 So, we're -- we're moving ahead though
4 with our IRP because we absolutely have to given the
5 energy landscape is changing as we speak. And we need
6 to be able to do, as has been pointed out, this longer
7 term planning.

8 And that will inform the -- the
9 positive about the IRP approach that we're taking,
10 which is similar to what we did with Strategy 2040,
11 there's broad consultation with all stakeholders, with
12 all customer groups, and they'll have different
13 avenues and opportunities.

14 So, we can pull that in. And our
15 analysis may also help the province with shaping
16 energy policy.

17 THE CHAIRPERSON: I apologize, Mr.
18 Peters, I've got a followup.

19 You're talking about broad -- I know
20 about the broad consultation for IRP. Are you saying
21 there was broad consultation with -- on Strategy 2040,
22 as well?

23 MS. JAY GREWAL: There -- there was.
24 The first step that we took, there were diff -- over
25 ninety (90) different individuals or stakeholder

1 groups that were identified that there was
2 consultation with in terms of providing input as to
3 their views on Manitoba Hydro, which was input along
4 with -- then you do the typical, you know, landscape
5 analysis and the like, as we started to shape it.

6 But, yes, there was consultation,
7 including with various customer groups.

8 THE CHAIRPERSON: Would that have
9 included Chemtrade or Gerdau?

10 MS. JAY GREWAL: I actually
11 specifically did meet with them, not specifically on
12 the strategy, but have met with them. And I believe
13 there was a meeting with MIPUG. And there was an
14 opportunity for them to provide input.

15 THE CHAIRPERSON: Thank you.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: Thank you, Ms.
19 Grewal. That two (2) to three (3) year financial
20 forecast or plan that you mentioned, that still not
21 completed, is it?

22 MS. JAY GREWAL: No, it's not. We've
23 only just completed our -- our forecast, not -- that's
24 just recently went to our Board this week for '22/'23.
25 We still have some -- some work to do on that.

1 And once we move through that and
2 through this process is when we'll be in a position to
3 start to -- to, in a more concentrated way, focus on
4 that.

5 MR. BOB PETERS: All right. Thank
6 you. And the forecast that you provided to your Board
7 for the next fiscal year of 2022/'23, that contains
8 more detail than you were able to provide when this
9 interim application was filed.

10 Is that correct?

11

12 (BRIEF PAUSE)

13

14 MR. AUREL TESS: That is correct,
15 yeah. There is more detail contained in that.

16 And, also, in addition to what Jay was
17 -- was saying regarding strategy and enterprise
18 planning, we are moving into the next cycle. I think
19 we've broken a bit of a path there in terms of
20 building a better plan and building a way to build a
21 better plan.

22 And our enterprise planning group is --
23 is gearing up for this next General Rate Application,
24 which is another part of the reason why we need the
25 enterprise plan.

1 MR. BOB PETERS: And can you tell this
2 Board today, Ms. Grewal and Mr. Tess, what is your
3 time line for the filing of the next General Rate
4 Application?

5 MS. JAY GREWAL: Once we complete this
6 process with the PUB, we'd like to engage with the PUB
7 on both the scope, as well as the timing of that
8 application given some of the topics that we've just
9 been talking about.

10 MR. BOB PETERS: So, at this time,
11 it's uncertain and it's going to be subject to further
12 discussions?

13 MS. JAY GREWAL: It -- it will be in
14 2022. It's a discussion as to when and how much
15 quality information we'll have available at that time.

16 MR. BOB PETERS: Thank you. A
17 question that -- and, Mr. Tess, the Board is aware
18 that Manitoba Hydro provides presentations to debt
19 rating agencies.

20 Are you a part of that process?

21 MR. AUREL TESS: Yes, I am.

22 MR. BOB PETERS: Ms. Grewal, do you
23 attend those? Maybe it's all virtual these days, but
24 I think it used to be a travel arrangement.

25 MS. JAY GREWAL: I did attend them in

1 my first year here. But now that we have Aurel in the
2 chair, Aurel is -- is doing an admirable job
3 representing Manitoba Hydro.

4 MR. BOB PETERS: All right. Well,
5 we'll -- we'll keep the report card secret for now.

6 But, Mr. Tess, on page 34 of Board
7 counsel's book of documents, and I'm quite certain you
8 won't have memorized these, this is PUB Exhibit 7, and
9 it was provided to parties to try to focus the
10 documents from the seven hundred (700) that you
11 provided to seventy-five (75) that -- that I wanted to
12 focus on, when -- Mr. Tess, when you make these long -
13 - when you make these presentations to the bond rating
14 agencies, you -- you use a lot of graphics, we note.

15 And one (1) of the graphics I just
16 picked from the filing is a cashflow from operations.
17 And this suggests to me, a non-accountant, that to --
18 to prepare this statement, you would need a ten (10)
19 year forecast out to 2030.

20 Am I right or am I wrong on that?

21 MR. AUREL TESS: There are assumptions
22 that would go into that, yes, Mr. Peters.

23 MR. BOB PETERS: And where do those
24 assumptions come from?

25 MR. AUREL TESS: Well, there are an

1 underpinning assumptions with -- with regard to all
2 the revenues and expenses. They are derived through
3 our process of -- of looking at longer term.

4 We have a unit that's specifically
5 dedicated to that.

6 MR. BOB PETERS: So, to -- to prepare
7 this cashflow from operations, Manitoba Hydro would
8 have to have an operating statement out ten (10)
9 years, a balance sheet out ten (10) years, and then
10 derive the cashflow out ten (10) years?

11 MR. AUREL TESS: There would -- as I
12 said, there would have to be assumptions made about --
13 about the future. But let me just step back for a
14 minute and -- and let you know that -- that these --
15 these forecasts are prepared for credit rating
16 agencies for a specific purpose.

17 They aren't approved by our -- by our
18 Board, for example, as an official formal forecast,
19 but they are prepared for that purpose, for examining
20 the self-sufficiency of Manitoba Hydro.

21 And, in particular, in this round of
22 discussions with credit rating agencies, they are --
23 they were uniquely fixed in terms of setting -- seeing
24 when Manitoba Hydro could be in a position to repay
25 debt and -- and maintain self-sustainability.

1 So, it -- it is really only one (1)
2 scenario, one (1) path to achieving the targets that
3 are -- that were laid out in the -- in the legislation
4 that was presented in the Bill 35.

5 But I do want to categorically state
6 they're not reflective of our long-term forecast, our
7 rate strategy that is approved by our Board.

8 MR. BOB PETERS: All right. And we
9 know from what's on the screen in front of us that the
10 2021/'22 year is -- is probably depicted incorrectly
11 in light of what you filed in your interim
12 application?

13 MR. AUREL TESS: Absolutely. This was
14 based on the budget numbers, and -- you know, for
15 '21/'22.

16 Also, I'd like to point out that, when
17 we do talk to credit rating agencies, we did talk to
18 them about -- you know, we had a little bit of
19 discussion about our strategy, the evolving energy
20 landscape, the same caveats that -- that Jay was
21 talking about in term -- in terms of the missing
22 variables of the IRP, you know, energy policy still
23 being up in the air.

24 Those were all discussed with the
25 credit rating agencies. It wasn't something that we

1 put out there and said, you know, that this is -- this
2 is based on an underpinned strategy. So it didn't
3 have those -- that formality to it.

4 MS. JAY GREWAL: And just to add to
5 what Mr. Tess has shared, we would not have produced
6 this other than for that specific purpose. It -- it's
7 not something that -- that we -- that will guide as we
8 go forward. It was a very point-in-time-specific
9 purpose for the credit rating agencies. And providing
10 something, in their view, is better than nothing.

11 But it definitely does not have the
12 robustness -- or, as Mr. Tess pointed out -- does not
13 have the -- consider the evolving energy landscape.
14 And therefore, would not be used by Manitoba Hydro for
15 planning purposes, nor would we suggest or recommend
16 it should be used by the PUB.

17 MR. BOB PETERS: All right. Thank you.
18 We have your point. The last topic --

19 THE CHAIRPERSON: Yeah, I'll also say,
20 Mr. Peters, I'm giving you an extra ten (10) minutes
21 because of panel questions.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: I don't want to
25 encroach on others because I can speak, certainly,

1 with Mr. Tess.

2 But I would like to jump to exhibit --
3 well, in -- in your slide deck that was presented this
4 morning, there was an indication on slide 15 that -- I
5 think it was -- 16 percent -- slide 15, 16 percent of
6 your expenses relate to government expenses.

7 That's correct? And you gave a number,
8 I think, of \$438 million.

9 MR. AUREL TESS: It is 16 percent,
10 correct.

11 MR. BOB PETERS: Mr. Tess, I'm not
12 sure if you're aware or not, but with the -- the good
13 help of your counsel and probably some people back at
14 the office, a payment to government schedule was
15 prepared and the -- in the Board counsel's book of
16 documents, there's a draft of it on page 70. But
17 Manitoba Hydro was kind enough to revise it with new
18 numbers.

19 And I'm showing on the screen now what
20 I'm going to ask be marked as PUB Exhibit 8, if your
21 counsel's accepting of that, recognizing it was from
22 Manitoba Hydro.

23 You're familiar with these payments to
24 government, are you, Ms. Grewal and Mr. Tess?

25 MR. AUREL TESS: I am, yeah. Yeah.

1

2 --- EXHIBIT PUB NO. 8: Manitoba Hydro payments to
3 government - December 9,
4 2021.

5

6 CONTINUED BY MR. BOB PETERS:

7

8 MR. BOB PETERS: And you mentioned
9 \$438 million, Mr. Tess. And I look to the Manitoba
10 Hydroelectric segment 2021/'22 forecast column, and I
11 go down to the four hundred and thirty-eight (438).

12 So our numbers are the same and,
13 subject to any further check by your -- by Manitoba
14 Hydro, you'll accept these numbers as -- as accurate?

15

MR. AUREL TESS: Yes.

16

17 MR. BOB PETERS: And on this document
18 -- while, itself, explanatory, would the Board
19 understand it correctly that it's really only the
20 water rentals that have gone down from what was
21 budgeted?

22

23 That's the significant drop or, in
24 Manitoba Hydro's case, the expense saving?

25

MR. AUREL TESS: That's the only
26 material change. Because it is tied to -- it's
27 variable because of the water generation, the
28 hydraulic generation. And that's -- that's the number

1 that goes down with -- with the drop in -- in
2 hydraulic generation. Correct.

3 MR. BOB PETERS: And it's because, as
4 you say, not as much water ran through the turbines?

5 MR. AUREL TESS: Correct, yeah.

6 MR. BOB PETERS: Now, on page 343 of a
7 seven hundred (700) page compilation of Manitoba
8 Hydro's application, Manitoba Hydro again provided to
9 -- I believe this was also to a bond rating agency,
10 and you disclosed this contract portfolio to them.

11 Have I got that right, Mr. Tess?

12 MR. AUREL TESS: That's correct, yeah.

13 MR. BOB PETERS: And would it also be
14 correct that all of these export contracts are made
15 out of energy that's not needed by Manitobans?

16 MR. AUREL TESS: That would be
17 correct, yeah.

18 MR. BOB PETERS: This is surplus to
19 Manitoba's needs?

20 MR. AUREL TESS: Correct.

21 MR. BOB PETERS: And --

22 MS. JAY GREWAL: Assuming average
23 water.

24 MR. BOB PETERS: Well, I'm just --
25 just going to take Mr. Tess to that. This is called

1 firm export contract sales. So can the Board take it
2 that these firm sales are coming out of dependable
3 water? Or are you able to answer that?

4 MR. AUREL TESS: Yeah, the -- yeah,
5 exactly. The establishment of these contracts, we're
6 -- we're constantly looking at the availability of
7 water to -- to meet domestic energy needs.

8 There's also opportunity sales that
9 aren't included in this graphic that even above that
10 surplus that we sell in the export market.

11 MR. BOB PETERS: All right. And so,
12 that surplus -- so what's shown on the -- on the
13 screen in front of us from page 343 of 700 of the
14 application, plus what Ms. Grewal says when there's
15 average or above average water, there's even
16 additional opportunity exports.

17 MR. AUREL TESS: That's what I was
18 getting at, yeah.

19 MR. BOB PETERS: Yeah, they're not
20 shown on here, but not --

21 MR. AUREL TESS: They're not shown on
22 there, no.

23 MR. BOB PETERS: -- they're -- they
24 vary probably by the day, is that -- is that fair?

25 MR. AUREL TESS: Yeah, I would say so.

1 MR. BOB PETERS: And is it also
2 correct that for every -- to affect the sales that are
3 shown on the screen, on the slide, there's water
4 rentals that are paid to the Province relating to
5 those sales?

6 MR. AUREL TESS: Yeah. I mean,
7 there's -- there's -- it's based on hydraulic
8 generation. The water rentals are a direct
9 relationship with hydraulic generation. There is --
10 as far as I know -- no connection to the amount of
11 sales to, you know -- on the export market.

12 MR. BOB PETERS: Okay. So also for
13 opportunity exports, it's based on generation. So if
14 it's based on generation and that generation is used
15 for opportunity exports, the Province would also be
16 getting water rental fees related to that.

17 MR. AUREL TESS: Any water that runs
18 through a turbine, that's how -- that's how the deal
19 is arranged, yes.

20 MR. BOB PETERS: All right. And debt
21 guarantee fee is -- is a mathematical calculation at
22 the year end based on the amount of debt that the
23 Province is --

24 MR. AUREL TESS: Right. The gross
25 amount of debt, yeah.

1 MR. BOB PETERS: And capital and other
2 taxes is, likewise, a mathematical calculation --

3 MR. AUREL TESS: Yeah.

4 MR. BOB PETERS: -- at year end?

5 MR. AUREL TESS: Yeah.

6 MR. BOB PETERS: Ms. Grewal, in this
7 application, there have been a lot of questions as to
8 what Manitoba Hydro is doing to, in my words, tighten
9 its own belt in light of the drought. And Mr. Tess
10 commented on his slides on some.

11 But not mentioned was approaching the
12 Province to see whether the Province would consider
13 scaling back or foregoing some of the payments that
14 Manitoba Hydro is obligated to make to ease the
15 financial burden that the drought is causing Manitoba
16 Hydro.

17 Has it made such a request?

18 MS. JAY GREWAL: We -- we are aware
19 that there are requests with government that have made
20 -- made by the PUB and other parties on that topic.
21 That is within government's purview at this time.

22 On an ongoing basis, we do have
23 conversations about -- as we do our planning and we --
24 we -- we talk to government about the -- the dollar
25 levels and revenue that they're -- they're getting

1 from Manitoba Hydro.

2 But we did not formally make a request.

3 MR. BOB PETERS: And when you say the
4 -- that you're aware that the PUB has made requests,
5 you're referring to its Board Order, is that -- that
6 may provide recommendations to government?

7 MS. JAY GREWAL: Correct.

8 MR. BOB PETERS: And what you didn't
9 mention, Ms. Grewal, is that not only the PUB, but
10 there was also a commission done by the former Premier
11 of Saskatchewan, Brad Wall.

12 Are you familiar with that?

13 MS. JAY GREWAL: I am.

14 MR. BOB PETERS: And is it correct
15 that Manitoba Hydro has been tasked with implementing
16 all of the recommendations in the Brad Wall report?

17 MS. JAY GREWAL: We received a
18 directive to that effect. I would just like to
19 qualify though that there are fifty-one (51)
20 recommendations. And of those fifty-one (51)
21 recommendations, I believe it is in the mid-thirties
22 to -- ish -- that are directly within the control of
23 Manitoba Hydro to implement solely within the purview
24 of Manitoba Hydro.

25 I would say a dozen-plus more are ones

1 that are more complex or involve actions or decisions
2 by government that government has to take.

3 Government has set up a committee to
4 work with Manitoba Hydro on the implementation and
5 their oversight. The focus of the committee has been,
6 in the early days, specifically on contracting
7 methodology. And we've been working with them on
8 that.

9 But we've not proceeded any further
10 than that. There is still work that we are doing as
11 Manitoba Hydro to analyze the recommendations, to
12 understand what would be required to meet the
13 recommendation, including, from a resourcing
14 perspective, which would also then have potential cost
15 implications.

16 MR. BOB PETERS: All right. And I
17 think you're -- you're foreshadowing where you think
18 I'm going and you're probably correct.

19 That, included, as a recommendation --
20 2.6, I believe -- of the Brad Wall Commission was the
21 recommendation that where the operating costs of new
22 generation projects exceed the export revenues, then
23 there's a recommendation to the effect that the
24 government should reduce or suspend its collection of
25 transfers, such as water rentals, capital tax, and

1 debt guarantee fees. You're aware of that?

2 MS. JAY GREWAL: I am aware of that.

3 But I would like to clarify that I believe that

4 section of the Brad Wall Report refers to future

5 projects.

6 MR. BOB PETERS: I think -- I think

7 you're close. I think it does say future governments.

8 And maybe --

9 MS. JAY GREWAL: Oh, pardon me.

10 Future governments.

11 MR. BOB PETERS: -- maybe it is future

12 projects as well.

13 Are you telling me that that

14 recommendation is off the table with respect to the

15 current government?

16 MS. JAY GREWAL: Actually, I'm not

17 making any statement with respect to that

18 recommendation and the current government.

19 MR. BOB PETERS: Certainly, you're

20 telling us that they're aware of it and that there is

21 a committee, at least, as between Manitoba Hydro and

22 the -- and the government that it's looking at?

23 MS. JAY GREWAL: Correct.

24 MR. BOB PETERS: My last question,

25 and, Mr. Tess, it probably comes to you, is on page 7

1 of Board counsel's book of documents. And these are
2 the financial statements -- actually, if we can go to
3 page 7.

4 This is actually a cashflow statement,
5 and -- and this will work. Mr. Tess, my question of
6 you and Ms. Grewal, is looking down that forecast
7 2021/'22 column we see:

8 "Cash paid to suppliers and
9 employees of one-point-one six four
10 billion (1.164)."

11 Are you with me?

12 MS. JAY GREWAL: Yes.

13 MR. AUREL TESS: Yeah.

14 MR. BOB PETERS: And that includes --
15 that -- that's the -- that includes the payment of
16 Manitoba Hydro's employees, right?

17 MR. AUREL TESS: Correct.

18 MR. BOB PETERS: So, the question is:
19 Related to this future planning, has Manitoba Hydro
20 quantified what costs of this strategy, 20/40, are
21 being paid for out of that current salary to
22 employees?

23 MS. JAY GREWAL: In terms of the
24 current salary to employees, there has been no change
25 in our current number of FTEs to support strategy

1 2040. The way we've approached strategy 2040 is we
2 engaged the organization more broadly.

3 We -- we re -- reallocated specific
4 individuals to support this work. But the work also
5 involved individuals within each business unit, who by
6 business unit in the past were focussed on this work.
7 But there is no net new increase in our headcount at
8 this time, as we built Strategy 2040 to then
9 understand what the implications are.

10 There will be an impact, we anticipate,
11 as we are implementing Strategy 2040, but that impact
12 will again, also depend on what the role is of
13 Manitoba Hydro in the evolving energy landscape that
14 is different than the work that we currently do.

15 MR. BOB PETERS: All right. Thank you
16 for that answer. So, I distill that answer to be, Ms.
17 Grewal, that, yes, Manitoba Hydro has employees
18 working on Strategy 2040, but no new employees are
19 working on it, it's -- it's just a reallocation of
20 existing resources and existing costs?

21 MS. JAY GREWAL: In terms of the
22 people as you question, yes, absolutely.

23 MR. BOB PETERS: All right. And if we
24 go down that same column, Ms. Grewal and Mr. Tess,
25 I'll go down to the additions to property, plant, and

1 equipment line. That's where I understand, Mr. Tess,
2 that the Company shows where it's spending money on
3 its business operating capital.

4 It would be included in that number.
5 Would you agree with that?

6 MR. AUREL TESS: I would agree with
7 that, yeah.

8 MR. BOB PETERS: Can you answer the
9 same question then, Ms. Grewal, as to whether there
10 are any capital expenditures in the current year we're
11 in, related to Strategy 2040?

12 MS. JAY GREWAL: Strategy 2040 was
13 formally approved by our Board last January. And most
14 recently, we made some minor updates earlier this week
15 with the Board.

16 And I -- I can confirm at this point in
17 time, from a capital perspective, there is nothing in
18 our business operating capital specifically related to
19 Strategy 2040.

20 And it would be premature for us to do
21 that without continuing to do the work on the IRP and
22 understanding energy policy. The -- what you see
23 there is our tipit -- typical business operating
24 capital that we use to maintain the assets and
25 operations of Manitoba Hydro as they are today.

1 MR. BOB PETERS: Before Ms. Fernandes
2 slaps my wrist, but in terms of the Strategy 2040,
3 when does Manitoba Hydro believe that it will have a
4 completed, is it a document, or is it a series of
5 documents? What -- what is -- what does the end look
6 like and when?

7 MS. JAY GREWAL: So, Manitoba Hydro
8 has a completed Strategy 2040 that has been approved
9 by our Board. And that underpins the budget and our -
10 - our plans for the coming fiscal.

11 I look forward to an opportunity to
12 share it with all of you now that it is formalized and
13 we now have -- are able to show what that looks like
14 in terms of the actions that we take going forward.

15 But it is -- it is, for lack of a
16 better term, it's -- it's come out of the oven fully
17 baked and ready to serve.

18 MR. BOB PETERS: All right. With
19 that, Mr. Chair, I'd like to certainly thank Ms.
20 Grewal for her answers to my questions, and likewise,
21 Mr. Tess, although he and I will have a further
22 opportunity this afternoon. Thank you, Ms. Grewal.

23 THE CHAIRPERSON: Thank you and -- and
24 I apologize to the other Interveners, as we are a
25 little behind.

1 Just one (1) question, Ms. Fernandes,
2 do you want this entered as an exhibit?

3 MS. JAY GREWAL: Yes, please.

4 THE CHAIRPERSON: Ms. McMillan, if you
5 could enter the Manitoba Hydro PowerPoint as an
6 exhibit, please.

7

8 (BRIEF PAUSE)

9

10 --- EXHIBIT NO. MH-5: Manitoba Hydro PowerPoint

11

12 THE CHAIRPERSON: Okay. We'll shift
13 to Consumers Coalition. I don't know if it's Mr.
14 Williams.

15

16 CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

17 DR. BYRON WILLIAMS (by Teams): Good
18 morning, Mr. Chair and members of the panel, as well
19 as the Hydro witnesses. And I just want to indicate
20 for our clients, you certainly don't need to apologize
21 for a delay flowing from Mr. Peter's conversation. We
22 always expect a delay will follow in terms of Mr.
23 Peter's time estimates. We -- we plan accordingly.

24 Ms. Grewal, I'm -- most of my questions
25 will be directed to you and recognizing our time

1 limitations, we'll -- we'll try to keep then cogent.

2 You would agree that Manitoba Hydro has
3 a legislated monopoly on the retail sale of electrical
4 power in Manitoba, correct?

5 MS. JAY GREWAL: That is -- that is
6 correct. The only point I would make is there all
7 others that are selling electricity, such as at
8 charging stations, but the price-structure they're not
9 using is not by the kilowatt hour, it is by the time.

10 DR. BYRON WILLIAMS (by Teams): Yeah.
11 And the vast majority of -- of Hydroelectric customer
12 -- or electric customers in Manitoba, currently
13 purchase their electricity from Manitoba, agreed?

14 MS. JAY GREWAL: That is correct.

15 DR. BYRON WILLIAMS (by Teams): And
16 given its monopoly, you would agree that it is
17 incumbent on Manitoba Hydro to be transparent and
18 clear in all its interactions with its captive
19 ratepayers, agreed?

20 MS. JAY GREWAL: As clear and as
21 transparent as the information that we have to share.

22 DR. BYRON WILLIAMS (by Teams): And
23 without asking you to elaborate, I would ask you to
24 confirm that Manitoba Hydro understands that it has an
25 important role to play in helping Manitobans

1 understand their energy opt -- options and make
2 informed choices, agreed?

3 MS. JAY GREWAL: Agreed. And
4 actually, that is imbedded in our Strategy 2040.

5 DR. BYRON WILLIAMS (by Teams): And --
6 and when Manitoba Hydro is communicating its plans to
7 ratepayers, it wants its customers to have confidence
8 in your plans and to be able to make decisions based
9 upon those plans, agreed?

10 MS. JAY GREWAL: Absolutely, as long
11 as we have the information to share for the type of
12 decisions that they're looking to make. And that is
13 reliable information from our perspective.

14 DR. BYRON WILLIAMS (by Teams): And
15 you understand, of course, Ms. Grewal, that being able
16 to make an informed decision, with confidence in
17 Manitoba Hydro's plans is important for all
18 residential consumers whether they live in rural
19 Manitoba, the north, the inner city, or in our
20 suburbs, agreed?

21 MS. JAY GREWAL: That is fair.

22 DR. BYRON WILLIAMS (by Teams): And it
23 is also fair to say that consumers, whether they are
24 residential, industrial, or business, do not like
25 surprises, agreed?

1 MS. JAY GREWAL: I would say Manitoba,
2 as per its customers, also does not like surprises,
3 but agreed.

4 DR. BYRON WILLIAMS (by Teams): And,
5 Ms. Grewal, you recall speaking to the Standing
6 Committee on Crown corporations on or about June 29th,
7 2021. Do you recall that?

8 MS. JAY GREWAL: Yes, I do.

9 DR. BYRON WILLIAMS (by Teams): And in
10 that appearance, you'll recall as well that you shared
11 that Manitoba Hydro's budget for the '21/'22 was
12 premised on a 3.5 percent rate increase, effective
13 October 1st, 2021, agreed?

14 MS. JAY GREWAL: Correct.

15 DR. BYRON WILLIAMS (by Teams): If I
16 could ask Ms. Schubert to pull up the first quarter
17 report of the amount of the Hydro-Electric Board from
18 August 2021 and, Ms. Schubert, I'm looking
19 specifically to page 2 of 12 towards the bottom of the
20 screen. And I'll note that the link can also be found
21 in MFR-4.

22 Yeah, that -- Ms. Schubert, just the
23 last full paragraph that's not in blue.

24 And, Ms. Grewal, this quarterly report
25 would have been provided by Manitoba in August of

1 2021, subject to check, is that right?

2 MS. JAY GREWAL: Correct.

3 DR. BYRON WILLIAMS (by Teams): And,
4 if we look at the last paragraph on this page in
5 black, not -- not the blue at the bottom, I'll suggest
6 to Ms. Grewal that in this paragraph, Hydro is first
7 of all noting a significant decrease in net income in
8 the '21/'22 year, as a result of unfavourable water
9 conditions.

10 Do you see that in the first two (2)
11 para -- two (2) sentences?

12 MS. JAY GREWAL: Correct.

13 DR. BYRON WILLIAMS (by Teams): And as
14 we go down in this paragraph, Manitoba Hydro is -- is
15 acknowledging that were in a drought, agreed?

16 MS. JAY GREWAL: Correct.

17 DR. BYRON WILLIAMS (by Teams): And,
18 in the last sentence in this paragraph, Manitoba Hydro
19 is telling us that its forecast for the '21/'22 year
20 has been adjusted -- adjusted to reflect an overall
21 rate increase of 2.5 percent, as compared to the
22 budget rate increase of 3.5 percent.

23 Would that be accurate?

24 MS. JAY GREWAL: That's correct.

25 DR. BYRON WILLIAMS (by Teams): And,

1 focusing purely on the mathematics Ms. Grewal, and
2 subject to check, going from 3.5 percent in October
3 1st, 2021, in terms of a rate increase, to 2.5 percent
4 meant foregoing roughly \$10 million in revenues in
5 '21/'22, agreed? Subject to check?

6 MS. JAY GREWAL: Subject to check.
7 Yes.

8 DR. BYRON WILLIAMS (by Teams): So, in
9 August, Manitoba Hydro was telling ratepayers that due
10 to unfavourable water, it's expected that revenues
11 were down about 180 million or so from the plan, would
12 that be fair?

13 MS. JAY GREWAL: Roughly, yes,
14 correct.

15 DR. BYRON WILLIAMS (by Teams): And
16 you are also forecasting a lower rate increase of 2.5
17 percent, as compared to what you had indicated in late
18 June of 2021. Agreed?

19 MS. JAY GREWAL: Correct.

20 DR. BYRON WILLIAMS (by Teams): And,
21 Ms. Grewal, in November 2021, by virtue of this
22 interim rate application, Manitoba Hydro was telling
23 Manitobans you needed 5 percent. Is that correct?

24 MS. JAY GREWAL: That's correct.

25 DR. BYRON WILLIAMS (by Teams): So, in

1 the time period between late June 2021 and mid-
2 November 2021, Hydro at various points in time
3 indicated that the rate increase would be 3.5 percent,
4 2.5 percent, and 5 percent. Agreed?

5 MS. JAY GREWAL: Correct, but we need
6 to be clear as to what the circumstances were that led
7 to the change in the rate increase and also the
8 drought, in August, well, that is what we understood
9 at that point in time.

10 If you recall in, I believe was it
11 2019, when we came forward based on September concerns
12 about a drought, we had concerns that the drought
13 would have a material impact on our revenues and,
14 therefore, on net income.

15 We came in and filed an application and
16 during the time frame from when we filed to later that
17 fall into the winter, the -- actually drought
18 conditions reversed.

19 So, one (1) of the things I'd like to
20 point out is that, initially we signaled June of this
21 year, the impact of the drought. And we were still
22 within the normal 5 percent range of tolerance we
23 would expect.

24 As we continued through the fall, and
25 this is a risk we face at Manitoba Hydro every year,

1 given our hydrology and our reservoirs, it is that
2 fall, late summer/fall precipitation that has a
3 material impact on where our reservoirs are at, as
4 well as on the inflows.

5 So, we typically do not know with
6 certainty, and as the panels this afternoon and on
7 Monday speak to, it's how the scenarios narrow the
8 probability that the revenue will either bounce back
9 up, due to precipitation, or will continue to be
10 negatively impacted by the lack of inflows in
11 precipitation.

12 DR. BYRON WILLIAMS (by Teams): Thank
13 you Ms. Grewal. And I appreciate as in that
14 discussion of organizational risks, and with that
15 helpful segue, we're going to ask Ms. Schubert to take
16 us to your 70th Annual Report for the year ended March
17 31st, 2021 and specifically, PDF page 48, which is
18 also a -- a link to which is also on the record in
19 terms of MFR-5.

20 And, Ms. Grewal, you see before you
21 page 48 and at -- at the top of the page, you will see
22 a reference to top organizational risks.

23 Do you see that, Ms. Grewal?

24 MS. JAY GREWAL: I do.

25 DR. BYRON WILLIAMS (by Teams): Yes,

1 and then I'm going to direct your attention right down
2 to the bottom of this page of top organizational risks
3 to a -- a reference in terms of succession planning.

4 Do you see that as well?

5 MS. JAY GREWAL: I do.

6 DR. BYRON WILLIAMS (by Teams): And,
7 one of the risks that Manitoba Hydro is identifying,
8 in terms of top organizational risks -- top operation
9 -- top operational risks is that appropriate planning
10 for staff turnover, mentoring and -- and transition or
11 may not -- may not be in place, or be insufficient and
12 that would be a -- a significant organizational risk
13 from the Corporation's perspective.

14 Would that be fair?

15 MS. JAY GREWAL: That's fair.

16 DR. BYRON WILLIAMS (by Teams): And it
17 would also be accurate to say, and you can certainly
18 refer to Mr. Tess if you need or look to PUB-M -- MH
19 1-5 for confirmation.

20 But subject to check, it would be fair
21 to say that in calendar year 2020, Manitoba Hydro saw
22 an increased number of retirements that far exceeded
23 the levels typically seen. Would that be fair?

24 MS. JAY GREWAL: That is correct and
25 that was driven by the fact that there were

1 legislative changes to the pension plans that made it
2 attractive to actually retire at that point and I
3 believe, pull out your full pension, rather than
4 saying in -- staying in.

5 So, that was actually driven by changes
6 in legislation to the pension plan.

7 DR. BYRON WILLIAMS (by Teams): Right,
8 and in a normal year, where Manitoba Hydro might see,
9 in terms of those eligible, a take-up of 20 percent,
10 in the 2020 calendar year there was a take-up in the
11 range of 30 percent. Agreed? Subject to check?

12 MS. JAY GREWAL: Agreed.

13 DR. BYRON WILLIAMS (by Teams): And,
14 of course, you're aware, Ms. Grewal that Mr. David
15 Cormie is no longer with the Corporation after 44
16 years of service. Agreed?

17 MS. JAY GREWAL: Unfortunately,
18 agreed.

19 DR. BYRON WILLIAMS (by Teams): Yes,
20 and, Mr. Grewal -- Mr. Grewal, now Mr. Cormie --

21 MS. JAY GREWAL: Thanks.

22 DR. BYRON WILLIAMS (by Teams): -- was
23 the -- the well recognized and long-term director of
24 Wholesale Power and Operations at Hydro, agreed?

25 MS. JAY GREWAL: Yes, he was.

1 DR. BYRON WILLIAMS (by Teams): And
2 the author of critical export agreements with US and
3 Canadian Utilities? Correct?

4 MS. JAY GREWAL: I -- I would say it
5 would be misrepresented to say he was the author,
6 because these -- all of these transactions are quite
7 complex. It involves a team, but I would say Mr.
8 Cormie was the lead for Manitoba Hydro on his team.

9 DR. BYRON WILLIAMS (by Teams): Thank
10 you for that clarification.

11 And it would also be fair to say that
12 Mr. Cormie was a key player in Hydro's response to the
13 last major drought in '03/'04 and in planning for and
14 responding to other significant adverse effects. That
15 would be fair?

16 MS. JAY GREWAL: I can't speak to the
17 past --

18 MS. ODETTE FERNANDES: Yeah, Mr.
19 Chairman, you -- I don't see how this is relevant to
20 the current application before the Board.

21 THE CHAIRPERSON: Well, I -- I -- I
22 will allow leeway, I -- I think that Ms. Grewal has
23 provided the answer, which is she can't speak for the
24 past, but I -- I was going to interrupt and Mr. -- Mr.
25 Williams, you're over your time already.

1 Can you wrap it up?

2 DR. BYRON WILLIAMS (by Teams): I'm --
3 I'm not actually, Mr. Chairman, it's been fifteen (15)
4 minutes.

5 THE CHAIRPERSON: I -- I'm sorry. I'm
6 sorry, no, you've got more time. I -- I
7 miscalculated, sorry, go ahead.

8

9 CONTINUED BY DR. BYRON WILLIAMS:

10 DR. BYRON WILLIAMS (by Teams): And
11 just in -- in terms of relevance, Mr. Chair, and
12 members of the panel, this has been identified as a
13 strategic policy issue and what we're trying to get at
14 is the loss of institutional memory and, in terms of
15 responding to significant adverse events, such as --
16 such as the -- such as a drought.

17 Without meaning to belabour the point,
18 Ms. Grewal, it's also correct that Mr. Warden is no
19 longer serving on the Manitoba Hydro-Electric Board,
20 is that correct?

21 MS. JAY GREWAL: That is correct.

22 DR. BYRON WILLIAMS (by Teams): And,
23 it would be accurate to say that, with the exception
24 of Mr. -- Mr. Tennenhouse, there are very few, if any,
25 Manitoba Hydro senior officials who were listed in

1 the, for example, the 2015/'16 Annual Report, who are
2 still with the Corporation.

3 Would that be fair?

4 MS. JAY GREWAL: Well, from my
5 perspective, the way I would define 'senior' with the
6 Manitoba Hydro is not just the executive team, but
7 also the Directors, because they play a key role in
8 stewarding Manitoba Hydro.

9 So, I can't speak at the Director level
10 and I can't speak to the level of turnover, because I
11 was not here at the time to know where the turnover
12 may have occurred.

13 DR. BYRON WILLIAMS (By Teams): Okay.
14 In terms just before we leave slide or page 48, would
15 it be accurate to suggest, Ms. Grewal, that, on this
16 list of top organizational risks, droughts do not
17 occur -- or do not appear?

18 MS. JAY GREWAL: That is correct, but
19 what I would like to speak to is that this was
20 designed from the perspective of not the risks that we
21 deal with on an every day, every year basis.

22 This was the emerging risk that our
23 Enterprise Risk Management team will be focussed on
24 going forward.

25 So, as I pointed out earlier, Manitoba

1 Hydro never had an enterprise-enterprise risk
2 management methodology, framework, or discipline, and
3 that is something we've been working on over the last
4 year to put in place.

5 I do not disagree that drought is a
6 risk. It is a risk we always face, and this was
7 really trying to articulate the new risks that we
8 anticipate that we will be facing.

9 DR. BYRON WILLIAMS (by Teams): Okay.
10 Thank you. And, just recognizing I've got about three
11 (3) minutes left, as a general statement, a good
12 relationship with the regulator is important for all
13 public utilities, whether they are Crown Corporations
14 or investor-owned.

15 You'd agree with that, Ms. Grewal?

16 MS. JAY GREWAL: So, this is my third
17 Crown utility and the third time working with a public
18 utilities board, and I absolutely believe in a process
19 that is transparent and fair, that ensures that the
20 best interests of Manitobans and our customers are
21 protected.

22 DR. BYRON WILLIAMS (by Teams): Just,
23 with my last two (2) questions, Ms. Grewal.

24 Based on your experience in the utility
25 world, a key component of any important relationship

1 is trust, agreed?

2 MS. JAY GREWAL: I think a key
3 component of any relationship is trust.

4 DR. BYRON WILLIAMS (By Teams): Fair
5 enough, and you would agree, as well, that for
6 Manitoba Hydro's relationship with the PUB, the Public
7 Utilities Board, to prosper, the Public Utilities
8 Board has to be able to trust that Manitoba Hydro will
9 keep its word and uphold its commitments, agreed?

10 MS. JAY GREWAL: Agreed.

11 DR. BYRON WILLIAMS (By Teams): Thank
12 you.

13 Mr. Chair, certainly on behalf of our
14 clients, we have many more questions and many we'd
15 like to ask Ms. Grewal in future conversations, but I
16 hope that I've come within my time limits, and we
17 thank you for this opportunity.

18 THE CHAIRPERSON: Yes. I apologize,
19 Mr. Williams. It showed my great arithmetic
20 abilities.

21 So, we're at 10:37. It's not on the --
22 on the schedule, but I'm going to propose that we have
23 a short break, until -- for ten (10) minutes, and then
24 we'll resume with -- with Mr. Hacault. Okay, ten (10)
25 minute break.

1

2 --- Upon recessing at 10:40 a.m.

3 --- Upon resuming at 10:52 a.m.

4

5 THE CHAIRPERSON: Okay. Are we ready?

6 We're ready. Okay. Sorry. If we could resume, Mr.

7 Hacault.

8

9 CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

10 MR. ANTOINE HACAULT (by Teams): Thank
11 you, Mr. Chair.

12 Good morning, Ms. Grewal. My name's
13 Antoine Hacault, and I represent Manitoba Industrial
14 Power Users Group. I'll try and cover areas that
15 weren't covered or fully covered by Mr. Peters and Mr.
16 Williams.

17 I understand that you came to this role
18 in January of 2019, correct?

19 MS. JAY GREWAL: Correct.

20 MR. ANTOINE HACAULT (by Teams): And
21 just something that's arisen out of the other
22 questions.

23 In the past, I think it's been
24 established that Manitoba Hydro has never done an IRP,
25 correct?

1 MS. JAY GREWAL: That is correct.

2 MR. ANTOINE HACAULT (by Teams): But
3 Manitoba Hydro, notwithstanding the lack of an IRP
4 over decades, has submitted IFFs and applications to
5 this Board, correct?

6 MS. JAY GREWAL: Correct.

7 MR. ANTOINE HACAULT (by Teams): Now,
8 just on MIPUG's involvement in the 2040 Plan and what
9 I understood to be a submission on that plan which was
10 prepared by Deloitte, my information is that MIPUG was
11 given an opportunity to provide a written submission
12 in 2019.

13 Would that be consistent with your
14 memory?

15 MS. JAY GREWAL: Because Deloitte was
16 the party that facilitated the stakeholder engagement,
17 I'm assuming that's correct.

18 MR. ANTOINE HACAULT (by Teams): Okay.
19 And my information is that there were no further
20 consultations with MIPUG after that initial
21 consultation in 2019.

22 Would that be consistent with what you
23 understand?

24 MS. JAY GREWAL: There is. I would
25 just like to also share, though, the intention -- and

1 what we're -- we will be doing is, now that we've
2 finalized Strategy 2040 with the input from all the
3 stakeholders, we will be going out and engaging back
4 with the stakeholders that provided the input to share
5 Strategy 2040 and to -- to get -- to -- to show how --
6 where the feedback they provided us, how that
7 materialized.

8 MR. ANTOINE HACAULT (by Teams): Thank
9 you very much for that answer.

10 Ms. Schubert, if you could go to page
11 10 of our book of documents, of the PDF.

12 I've put on the screen -- and hopefully
13 counsel had shared with you. I have a paper copy if
14 it's required. This is part of PUB Order 69/19 which
15 was issued on May 28, 2019. I'd just bring your
16 attention to Directive number 7.

17 So shortly after you arrived, the PUB
18 was setting out a directive that it wished that
19 Manitoba Hydro file with its next GRA filing an
20 Integrated Financial Forecast or other long-term
21 financial forecast.

22 Do you agree?

23 MS. JAY GREWAL: Yes.

24 MR. ANTOINE HACAULT (by Teams): Okay.
25 And if we go to page 16 of this same PDF, this is in a

1 more recent Order when there's the discussion of
2 substantial -- substantial change in circumstances.

3 Under the first bullet, the PUB
4 expresses that in issuing that Order which we just
5 identified, being Order 69/19, the Board relied upon
6 the representation of Manitoba Hydro that it would
7 file its long-range financial forecast and full GRA
8 with the Board in the fall of 2019.

9 Is that consistent with your
10 understanding?

11 MS. JAY GREWAL: Correct.

12 MR. ANTOINE HACAULT (by Teams): Okay.
13 And I think you indicated in presenting the slides
14 that you had initially directed to your staff to
15 prepare a GRA as per this representation by Manitoba
16 Hydro.

17 Is that correct?

18 MS. JAY GREWAL: The staff had started
19 on -- on the process, correct.

20 MR. ANTOINE HACAULT (by Teams): Okay.
21 But that was put on hold, as I understand, correct?

22 MS. JAY GREWAL: When the Bill 44 was
23 introduced, we stepped back to assess what the
24 implications of Bill 44 would be for us, particularly
25 given, that Bill 44 had in it a transition period

1 during which we were not going to be filing
2 applications with the PUB.

3 And during that time, both the PUB and
4 Manitoba Hydro were to prepare for the first filing.
5 And my understanding is that that included some of
6 these components we've talked about such as energy
7 policy and -- and for us to develop an integrated
8 resource plan.

9 MR. ANTOINE HACAULT (by Teams): But
10 you'll agree that Bill 44 and Bill 35 were never
11 enacted. They were just bills, correct?

12 MS. JAY GREWAL: Agree.

13 MR. ANTOINE HACAULT (by Teams): And
14 until they're law, the -- there's no compliance
15 required with those pieces of legislation, correct?

16

17 (BRIEF PAUSE)

18

19 MS. JAY GREWAL: I -- I would -- I
20 wouldn't use the word 'compliance'. We are owned by
21 the government, and this is legislation they were at
22 that time planning to implement.

23 MR. ANTOINE HACAULT (by Teams): But
24 you'll agree there was nothing as far as a statute or
25 a law which implemented the terms and conditions of

1 Bill 44 and Bill 35. In fact, now it's been
2 withdrawn, correct?

3 MS. JAY GREWAL: That's --

4 MS. ODETTE FERNANDES: Sorry. Mr.
5 Chairman, I think we're all aware that the Bill was
6 introduced into the legislature, and then, after that
7 time, there was another piece of legislation that was,
8 in fact, enacted which introduced a 2.5 percent rate
9 increase that was legislated.

10 And again, I'm trying to be cautious
11 here, but I know the focus of this hearing is to focus
12 on the interim application, and Ms. Grewal has already
13 sort of provided the background information leading up
14 to where we are today.

15 So my concern is, really, with regards
16 to how this is relevant when the Board has, firstly,
17 indicated that the status update proceeding is
18 suspended and that this -- the focus of this hearing
19 is to address the interim application.

20 THE CHAIRPERSON: Okay. Well, we'll
21 see where -- we'll see where M. Hacault goes, and if -
22 - if we don't think it's relevant, we will either stop
23 him or we will ignore it.

24

25 CONTINUED BY MR. ANTOINE HACAULT:

1 MR. ANTOINE HACAULT (by Teams): In
2 any event, to date, Manitoba Hydro has chosen not to
3 file a General Rate Application for the reasons that
4 you've indicated?

5 MS. JAY GREWAL: For the reasons that
6 I've indicated.

7 MR. ANTOINE HACAULT (by Teams): And
8 if we go to page 18 of our book of documents, you'll
9 confirm that Manitoba Hydro received a mandate letter
10 dated April 24, 2019, and that was after you were --

11 MS. JAY GREWAL: Before.

12 MR. ANTOINE HACAULT (by Teams): -- in
13 your position?

14 MS. JAY GREWAL: Oh, sorry. Yes, it
15 was after, correct. Apologies.

16 MR. ANTOINE HACAULT (by Teams): And
17 as per slide 16 of your slide deck produced today, the
18 FTEs as of the date of that letter were five thousand
19 three hundred and ninety-one (5,391).

20 Am I understanding that table
21 correctly?

22 MS. JAY GREWAL: Correct.

23 MR. ANTOINE HACAULT: Okay. And
24 subject to check, a 8 percent reduction in that number
25 would be in the range of a reduction of some four

1 hundred and thirty (430) FTEs or bring the number
2 under five thousand (5,000)?

3 MS. JAY GREWAL: Can you just
4 specifically remind me to what -- which year you're
5 speaking to?

6 MR. ANTOINE HACAULT: To -- to the
7 year in which that mandate letter was provided, April
8 24, 2019.

9 MS. JAY GREWAL: Okay. So, that would
10 be the five three nine one (5,391)?

11 MR. ANTOINE HACAULT: Yes.

12 MS. JAY GREWAL: Correct.

13 MR. ANTOINE HACAULT: And I just said,
14 subject to check, an 8 percent reduction of that
15 number would be in the range of four hundred and
16 thirty (430) less FTEs or somewhere south of five
17 thousand (5,000) FTEs?

18 MS. JAY GREWAL: It was. But I -- I
19 do want to clarify that this is the specific number of
20 FTEs where we had bodies or -- or people in seats.
21 That is what the FTE is. It is not the level to which
22 we were -- would be hiring to to serve Manitobans.

23 So, with government, I've had ongoing
24 discussions, and we've always been clear. And I'd
25 need to go back and check specifically how the mandate

1 letter may have been worded. There was -- because we
2 report out on our FTEs in our accountability letter
3 back to the province.

4 And in the mandate letter we
5 continually refer back to the 15 percent reduction and
6 that we are holding at that level.

7 MR. ANTOINE HACAULT: Okay. Maybe we
8 can go to page 19 of the PDF, which is the portion of
9 the letter of April 24, 2019, which speaks to what you
10 indicate. In the middle of the screen, you'll see
11 that the province is indicating, and I'm quoting for
12 the record:

13 "In the past, our Crown corporations
14 have struggled to properly manage
15 their costs and strayed outside
16 their mandates. Expect you to
17 scrupuly manage -- scrupulously
18 manage all operating costs,
19 deferral, non-critical capital
20 projects without clear return on
21 investment and carefully examine
22 business plans for opportunities to
23 achieve improved financial results.
24 We also expect the Board to
25 carefully examine overall staffing

1 [and this is addressed in the
2 Manitoba Hydro-Electric Board]
3 efficiencies.

4 Centrally, we have reduced overall
5 management by over 15 percent."

6 So, that would be the 15 percent you're
7 talking of, correct?

8 MS. JAY GREWAL: That is correct. And
9 I -- and I would just like to point out, in
10 discussions that I have had with government, this
11 specific clause.

12 So, there are sections in the mandate
13 letters that apply to every single Crown, and then
14 there are specific ones that are designed for a
15 specific Crown.

16 And when I had the conversation with
17 government to say we've reduced it by 15 percent and
18 we are holding it at that because to go any lower
19 would impact safety and reliability, the expectation
20 in discussions -- and, as I said, how we've reported
21 out, and it's been accepted, is that we hold to the
22 staff -- not the staffing levels, but the -- the
23 proposed FTE because staffing is how many people
24 you're actually able to have in the seat given
25 attrition, people leaving, different changes, is that

1 we hold it to the VDP -- post-VDP level.

2 MR. ANTOINE HACAULT: Okay. And this
3 15 percent speaks to a reduction in management. But
4 then it -- it continues and says, "and reduced overall
5 headcount by 8 percent" and --

6 MS. JAY GREWAL: And --

7 MR. ANTOINE HACAULT: -- "and an
8 expectation that you work towards the same or more."

9 MS. JAY GREWAL: So -- so, I would
10 like to clarify. What Manitoba Hydro did was actually
11 exceed the 8 percent target. We did 15 percent across
12 the entire organization.

13 MR. ANTOINE HACAULT: If we go to
14 slide 16, I don't want to belabour this, but I want to
15 make sure I understand your -- your answer because you
16 just explained to me that the year that's shown,
17 2019/'20, had a total FTEs of five thousand three
18 hundred and ninety-one (5,391).

19 And I put to you an 8 percent reduction
20 in accordance with this last sentence in the mandate
21 letter which was applicable for that year would bring
22 you down to somewhere south of five thousand (5,000)
23 employees. You agreed with that calculation.

24 You're saying now that 8 percent does
25 not apply and that directive by the government does

1 not apply?

2 MS. JAY GREWAL: And so, I did not
3 understand the context at the time, that it was
4 specifically linked to the mandate letter.

5 But very clearly, I'd like to state
6 that Manitoba Hydro, in '16/'17 and into '17/'18
7 because it took us two (2) years, reduced its full FTE
8 because there were -- everybody was in a -- there --
9 those were real people in -- in roles, by 15 percent.

10 And what we are doing is holding our
11 maximum FTEs to that level after the 15 percent
12 reduction.

13 MR. ANTOINE HACAULT: Okay.

14 MS. JAY GREWAL: So, that exceeds the
15 8 percent. We just did it earlier. And, as I said,
16 that clause in the mandate letters is generic and each
17 Crown had achieved different levels of performance
18 relative to the reduction in FTE.

19 MR. ANTOINE HACAULT: Okay. But to be
20 clear, this letter is specifically addressed to your
21 Crown?

22 MS. JAY GREWAL: It is specifically
23 addressed to our Crown. I'm just sharing what -- when
24 I raised this, when I saw the mandate letter, that
25 this was my understanding based on discussions with

1 government.

2 MR. ANTOINE HACAULT: So, in short,
3 what you're telling this Board is that Manitoba Hydro
4 does not intend to reduce the headcount by 80 (sics)
5 percent post-mandate letter time frame of April 24,
6 2019?

7 MS. JAY GREWAL: What I am saying is
8 Manitoba Hydro did it in advance of receiving that
9 letter.

10 THE CHAIRPERSON: Sorry, if I could
11 just interject. I -- I believe you meant 8 percent.

12 MR. ANTOINE HACAULT: Eight percent.

13 THE CHAIRPERSON: You said 80 percent.

14 MR. ANTOINE HACAULT: Yeah, 8 percent.
15 I correct the record.

16 MS. JAY GREWAL: I heard that number,
17 too.

18 MR. ANTOINE HACAULT: I'll correct it.
19 Sorry about that.

20

21 CONTINUED BY MR. ANTOINE HACAULT:

22 MR. ANTOINE HACAULT: But -- so,
23 you've answered in a different way. You say, well, we
24 did it before, so we don't need to do it after. But
25 my question to you was:

1 Manitoba Hydro does not intend to apply
2 the 8 percent reduction after April 24, 2019?

3 MS. JAY GREWAL: Manitoba Hydro does
4 not have the ability to cut an additional 8 percent
5 and ensure reliability and safety.

6 THE CHAIRPERSON: Sorry, Mr. Hacault,
7 I believe Mr. Tess wanted to add something.

8 MR. AUREL TESS: Just a quick comment.
9 Just further to the letter, the mandate letter being,
10 you know, generic to all Crowns, the government did
11 approve our FTE level of fifty-four twenty (5,420) in
12 the '21/'22 budget so that they had all the
13 information. They had the mandate letter, and that
14 was what was approved by the province.

15

16 CONTINUED BY MR. ANTOINE HACAULT:

17 MR. ANTOINE HACAULT: Okay. Well, I
18 don't think we can get into discussions with the
19 province. If I'd asked questions about that, your
20 lawyer would get up pretty quickly. But I'll move on
21 because I have very limited time, also.

22 I've also included in this material the
23 business plan report for 2021. And at the end of that
24 report, I think we're at tab -- page 29 of my PDF,
25 there is kind of a list of capital structures.

1 Have you received a report from your
2 staff as to which capital projects which form part of
3 the table at section 6.4 of that report are, and I'm
4 quoting from the mandate letter:

5 "Non-critical capital projects
6 without a clear return on investment
7 which were to be deferred."

8 MS. JAY GREWAL: So, I'd like to speak
9 to Manitoba Hydro's asset management methodology. We
10 use C55, Copperleaf, which is a methodology. And it's
11 a technology-based tool, also, which inputs a number
12 of different variables.

13 Manitoba Hydro does not do an ROE, as
14 we all know; that's not our regulatory model and
15 framework. Our investments that we make balance and
16 tradeoff reliability, tradeoff safety, tradeoff life
17 cycle costs. And all of those come into determining
18 which projects we -- how we invest in and maintain the
19 projects and go forward.

20 So, it's difficult to say it's an ROE
21 because when it's -- if it's a reliability issue, if
22 it's a safety issue -- but all of those components
23 come in here because we're responsible for
24 reliability.

25 MR. ANTOINE HACAULT: So, I guess, the

1 short is that, because you're applying different
2 criteria, you don't -- you can't identify which of
3 these projects would fit that mandate letter as being
4 non-critical capital projects without a clear return
5 on investment. You wouldn't be able to identify that?

6 MS. JAY GREWAL: We absolutely have
7 here critical projects, but we do not do an ROE given
8 the nature of the assets and the factors that go into
9 determining how we invest in these projects. Those
10 criteria. Those criteria.

11 And I'm trying to recall the full --
12 but there are five (5) or six (6) criteria that the
13 Asset Management Model then balances out, based on the
14 weighting. Is this more of a reliability issue? Is
15 it a safety issue? Is it a life cycle cost issue?

16 Because we deal with very long-term
17 assets that have a certain life. There are times
18 where we can invest and extend the life, but should we
19 be investing relative to other options to replace that
20 asset with other -- other means by extending other
21 assets. So -- so it's not quite as simple as an ROE.

22 But, absolutely, we identify the
23 critical projects. But we do not use ROE as the
24 methodology to do that.

25 MR. ANTOINE HACAULT: Okay. Thank

1 you. I only have a couple minutes left, so I
2 appreciate your long answers, but it means I'm not
3 getting very many of my questions through.

4 I'll skip quite a few of them and go to
5 page 92 of the PDF, which is Hansard of your
6 testimony.

7 And the bottom right last paragraph,
8 it's at the bottom. It's recording that you would
9 have stated -- firstly, with respect to that
10 transcript, you'll adopt the contents and confirm the
11 accuracy?

12 MS. JAY GREWAL: Correct.

13 MR. ANTOINE HACAULT: Okay. And at
14 the bottom, it reads:

15 "That 3 1/2 percent rate increase
16 was an assumption that Manitoba
17 Hydro put forward as a potential
18 rate increase based on the analysis
19 we did, based on the risks
20 identified earlier."

21 And I could take you through them. But
22 one of the risks was a drought risk, which you
23 identified because you had low water conditions.
24 Correct?

25 MS. JAY GREWAL: So we do not actually

1 model in specifically drought conditions. As you'll
2 hear from the panels, we assume average water every
3 year. And then, we manage the variability.

4 But that is how we look at drought. We
5 do not actually -- nor would it be prudent -- for us
6 to assume what the financial impact of a potential
7 drought would be when there's uncertainty associated
8 with that.

9 And I would call into point, the last
10 time we faced a drought was 2003.

11 MR. ANTOINE HACAULT: But I'm putting
12 to you that the 3 1/2 percent was based on an analysis
13 Hydro did -- just trying to quote from you said here -
14 - based on risks identified earlier, and one of those
15 risks was flooding, correct?

16 Are you following me so far?

17 MS. JAY GREWAL: I am.

18 MR. ANTOINE HACAULT: And it was also
19 based on the fact that your cost structure is
20 increasing materially with Keeyask coming into
21 service. And those statements continue to be true
22 today?

23 MS. JAY GREWAL: They do continue to
24 be true. But when I referred to risks, I was not --
25 from my perspective -- including drought. Because

1 that is never something we build into our financial
2 forecast or our assumptions on rates when we go
3 forward, unless we specifically -- as in this Interim
4 Application -- can -- can quantify what the impact of
5 the drought is.

6 MR. ANTOINE HACAULT: Okay. I don't
7 have time to take you through them, but I'll just
8 reference the -- the pages of the PDF and Hansard for
9 the record. Page 61, the Hansard, page 69 -- of the
10 Hansard where drought risks are specifically
11 identified.

12 I'll move on now to --

13 THE CHAIRPERSON: Mr. Hacault, you --
14 you're actually over, but I'll give you a couple more
15 minutes.

16

17 CONTINUED BY MR. ANTOINE HACAULT:

18 MR. ANTOINE HACAULT: Okay. Thank you
19 very much. I just have a couple questions with
20 respect to page 114 of this PDF.

21 Would you agree that Hydro would not
22 providing misrepresentations to the rating agencies on
23 these presentations?

24 MS. JAY GREWAL: We would present
25 information to the rating agencies and be very clear

1 on the qualifiers for that information we're
2 presenting.

3 MR. ANTOINE HACAULT: And at page 138
4 of the PDF, that's where you would have reported --
5 and this was different than the previous reports --
6 that there was an intention to include a 2.5 percent
7 rate increase for three (3) consecutive years,
8 correct?

9 MS. JAY GREWAL: We were reporting
10 here what the government had announced.

11 MR. ANTOINE HACAULT: Yes. And I
12 guess I'll have a chance to ask Mr. Tess questions
13 about this. But are you able to say, looking at page
14 133 of the PDF, slide 20 -- we see at the top, it
15 says:

16 "Assumed electric rate increases of
17 3.5 percent, 2022 to 2023. Zero-
18 point-five-five --

19 MS. JAY GREWAL: 2030

20 MR. ANTOINE HACAULT: 2030, sorry.
21 Point-five percent -- .55 percent after."

22 What's the cumulative increase over the
23 twenty (20) years, do you know?

24 MR. AUREL TESS: I could -- I could
25 provide that to you in the afternoon panel. We don't

1 have that in front of us.

2 MR. ANTOINE HACAULT: Thank you. Is
3 Manitoba Hydro able to commit as to when it will file
4 a GRA, however limited it might be?

5 MS. JAY GREWAL: As I stated earlier,
6 Manitoba Hydro's intention and commitment is, after we
7 complete this process, is to work with the PUB to
8 determine the scope and the timing of the filing of
9 the next GRA, which absolutely will be in 2022.

10 It's -- it's a case of a discussion
11 based on us being in a position to provide the best
12 possible information. But, ultimately, it will be the
13 decision of the PUB.

14 MR. ANTOINE HACAULT: Okay. The other
15 questions, I think I can ask Mr. Tess. Thank you very
16 much for answering the questions.

17 THE CHAIRPERSON: Thank you, Mr.
18 Hacault.

19 If we could go now to Mr. Buchart
20 online.

21 MR. MARK BUCHART (by Teams): Yes, Mr.
22 Chair. Can you hear me? Hello?

23 THE CHAIRPERSON: Yeah, we -- we can
24 barely hear you, Mr. Buchart. And I'm -- I'm trying
25 to see why we can't -- we can't see you at all.

1 MR. MARK BUCHART (by Teams): How
2 about now?

3 THE CHAIRPERSON: Hello? There.
4 There we have you.

5 MR. MARK BUCHART (by Teams): All
6 right.

7 THE CHAIRPERSON: Okay. You're going
8 to have to speak up loudly, please.

9 MR. MARK BUCHART (by Teams): All
10 right. I'll be brief.

11 THE CHAIRPERSON: Thank you.

12

13 CROSS-EXAMINATION BY MR. MARK BUCHART:

14 MR. MARK BUCHART (by Teams): My
15 question for Ms. Grewal is: When did Hydro begin
16 suspecting there was a drought event affecting low
17 water levels in 2021? Roughly what time period?

18 MS. JAY GREWAL: It would have been
19 late in June in 2021, where we were starting to see
20 that it was not average water. But it was still
21 within the tolerance of 5 percent or less, which we
22 often see at that point. But that's a trigger for us
23 to then put in -- start to think about and monitor
24 very closely water levels.

25 MR. MARK BUCHART (by Teams): Thank

1 you. And when did Manitoba Hydro know with -- with a
2 fair amount of certainty that there was, in fact, a --
3 a drought and severe impact on water reserves.

4 MS. JAY GREWAL: I would say that as
5 we moved into late September is when we became more
6 proactive and more concerned about the drought.

7 And I would say specifically mid-
8 October is when we -- based on our modelling and
9 analysis, which is -- what we do is we have a broad
10 range of scenario and we're doing forty (40) year
11 flows, as will be discussed later. That the -- the
12 flow scenarios keep narrowing and it went from forty
13 (40) down to, I believe, ten (10), to five (5), to
14 ultimately, in mid-dish (sic) late October, is when we
15 landed at one (1) scenario.

16 MR. MARK BUCHART (by Teams): So
17 you're saying that after the Ministerial directive of
18 September 22nd, that's when Hydro knew there was a
19 serious drought?

20 MS. JAY GREWAL: We knew there was a
21 drought. There was still the potential though that
22 precipitation could have mitigated the degree of the
23 impact of that drought.

24 And that is common every single year.
25 It's not until, typically -- assuming there's such a

1 thing as normal weather for us now -- it's not until
2 mid to late October, based on history, that we have
3 the certainty as to what the inflows and level of
4 precipitation will do in terms of our hydrology and
5 generating capability.

6 MR. MARKUS BUCHART (by Teams): All
7 right. And in your direct evidence you mentioned that
8 Manitoba Hydro prepared with compliance with Bill 35,
9 had it been passed.

10 Did Manitoba Hydro make any
11 preparations to make a rate application before this
12 Board, either interim or -- or a General Rate
13 Application, prior to the ministerial directive?

14 MS. JAY GREWAL: Manitoba Hydro did
15 not, because the legislation was still outstanding,
16 and the -- also, secondly, that it had the time frame
17 for both the PUB and Manitoba Hydro to prepare and we
18 would not -- I believe according to the legislation as
19 it was drafted, we would file in the '23/'24.

20 MR. MARKUS BUCHART (by Teams): Is it
21 fair to say that Manitoba Hydro assumed that the
22 Public Utilities Ratepayer Protection and Regulatory
23 Reform Act Bill 35 would be passed?

24 MS. JAY GREWAL: Our understanding is
25 that government was intending to pass it.

1 MR. MARKUS BUCHART (by Teams): All
2 right. Did -- did Manitoba Hydro have a plan B in the
3 eventuality, which is as it turned out, that the bill
4 would not be passed?

5 MS. JAY GREWAL: We did not.

6 MR. MARKUS BUCHART (by Teams): And so
7 therefore, it's fair to say that Manitoba Hydro did
8 not prepare for any rate application, really, until
9 ordered to do so?

10 MS. JAY GREWAL: That is correct. I
11 would like to point out, though, that the timeframe
12 when the legislation was pulled and the directive was
13 provided, was very short.

14 MR. MARKUS BUCHART (by Teams): Those
15 are my questions. Thank you.

16 THE CHAIRPERSON: Thank you, Mr.
17 Buchart. We're at the point now for the panel to ask
18 additional questions. I -- I'm going to start with
19 Mr. McCutcheon.

20 Mr. McCutcheon, do you have any
21 questions for Ms. Grewal or Mr. Tess, understanding
22 you may have further chance to ask Mr. Ques -- Tess
23 questions on -- on Monday.

24 BOARD MEMBER MCCUTCHEON (by Teams):
25 Yes, thank you, Mr. Chair. I -- I just have one (1)

1 fairly straightforward question to ask.

2 The 5 percent interim rate request from
3 Manitoba Hydro, in listening to the testimony this
4 morning, am I on the right assumption in saying it's
5 actually -- it has two (2) components?

6 So either the 2 1/2 percent that was
7 part of the Bill 35 that was withdrawn, or the 3 1/2
8 percent that has been referenced by Mr. Tess and Ms.
9 Grewal this morning in the long-term plan, which would
10 reflect MH-93. And the -- and the remaining component
11 that would get you to 5 percent is the rate that's
12 required -- or is being put in place in recognition of
13 the financial challenges the -- the drought has -- has
14 created.

15 So, in fact, that -- that 5 percent
16 represents two (2) parts. Is that -- am I viewing
17 that correctly?

18 MR. AUREL TESS: It does have two (2)
19 parts. I think -- I think we laid that out in the
20 application in terms of looking at the impact of the
21 drought with the 1 1/2 percent, the 3 1/2 percent
22 being something we had planned for in our -- in our
23 budget. I wouldn't say it was tied to Bill 35.

24 It was just something that we -- we had
25 unknown for some time, given all the additional

1 capital costs with the -- sorry, with the projects
2 coming into service, we -- we knew we were going to
3 incur significant costs on our income statement. The
4 financed depreciation cost, et cetera, in the 6 to
5 \$700 million range, accumulatively.

6 So, you know, the 3 1/2 was
7 contemplated in that regard and the 1 1/2 percent is
8 contemplated in terms of the cost of the drought.

9 BOARD MEMBER MCCUTCHEON (by Teams):

10 Okay. Thank you. My other questions probably would
11 be more for Ms. Grewal.

12 With your experience in these types of
13 -- of Crown corporations, I'm curious what your view
14 is longer term with Net Zero being on the horizon.

15 Manitoba Hydro is really great
16 positioning as far as having surplus green energy to
17 sell.

18 Do you view that sometime in the
19 future, and hopefully not too far in the future, that
20 the value of -- of the net energy that Manitoba has
21 for sale will actually maybe have a return to the rate
22 -- domestic ratepayers of Manitoba that have supported
23 these large capital investments?

24 So, in the simplest terms, will -- do
25 you think at some point these capital investments will

1 be -- will have a positive financial impact on the
2 domestic ratepayers of Manitoba?

3 MS. JAY GREWAL: So, to provide a
4 short answer, I look forward to coming forward and
5 sharing Strategy 2040 in which we speak to that,
6 because the evolving energy landscape creates
7 opportunities for us, but it also has risks for us.
8 And I think it would -- that the answer to that
9 question would be in the context of that, and I look
10 forward to that opportunity.

11 BOARD MEMBER MCCUTCHEON (by Teams):
12 Thank you. That's all my questions, Mr. Chair.

13 THE CHAIRPERSON: I'd ask any of the
14 other panel members if you have questions? No? Dr.
15 Grant?

16 BOARD MEMBER GRANT: I'm not sure who
17 to direct this to. I was -- I think it was in the
18 slide deck on the first slide on the interim report
19 and there was reference to intergenerational equity.
20 And I appreciate you've got a unique problem when
21 you're building assets that last, you know, a century
22 or more, but...

23 Can -- can you maybe just elaborate on
24 -- in the context of -- of this hearing, what you're
25 thinking is there. And if I can not make it too

1 leading a question, I'm thinking about, you know,
2 issues around, you know, amortizing the cost of a new
3 hydro dam over a -- an extended period, or potentially
4 amortizing the cost of a -- a drought.

5 So, can I just maybe -- if you could
6 elaborate on your thinking on -- on that matter as a
7 guiding principle?

8 MR. AUREL TESS: Sure. So, in
9 consideration of the rate increase that -- that we're
10 putting together here, we undertook to look at
11 intergenerational equity. In particular, in relation
12 to the interest costs on the four -- 348 million of
13 money that we are estimating we'll have to borrow to
14 pay for the drought.

15 And so we looked at the, for example,
16 the potential interest cost of that being roughly \$13
17 million give -- given on our current weighted average
18 cost to capital. So -- so we looked at that as -- as
19 not something that we should be passing on to future
20 generations, and should at least be paying for -- for
21 that portion of it through the 1.5 percent. That was
22 the rationale we used in terms of that.

23 MS. JAY GREWAL: And -- and in
24 addition to that, because that -- that additional
25 borrowing for our core operations, that Mr. Tess was

1 referring to is that is borrowing, as I said, for core
2 operations. And should future generations pay for
3 that, because at the same time, not only are we
4 borrowing, but it just reduced our equity, because our
5 debt would have gone up almost 1 percentage point.

6 MR. AUREL TESS: And so, it's -- it's
7 really not possible to recover that amount of money in
8 one (1) year. We looked at, you know, what would be a
9 reasonable and fair amount to implement, given --
10 given the interest costs we talked about and -- and to
11 try to contribute a bit to paying back the principle
12 that we'll have to borrow going forward. So, that was
13 kind of the rationale we used.

14 THE CHAIRPERSON: Sorry, Ms.
15 Hamilton...?

16 BOARD MEMBER HAMILTON: Thank you. I
17 just have a followup from a question that Mr. Hacault
18 asked with regard to the mandate letter and the
19 reduction that you've indicated of 15 percent staff
20 overall.

21 Was that a reduction from the pre-
22 voluntary departure program number of FTEs or what is
23 a different number?

24 MS. JAY GREWAL: It was a -- a number
25 from the pre-VDP and through that process, over two

1 (2) years, we reduced across the organization, or FTE
2 by 15 percent.

3 BOARD MEMBER HAMILTON: Thank you.

4 THE CHAIRPERSON: Ms. Grewal, you --
5 you outlined, when talking M. Hacault, that -- that
6 the plan is to go out to stakeholders with Strategy
7 2040 and indicate where their comments are found
8 within the document.

9 Is Strategy 2040 cast in stone? What
10 happens if you -- you get a cold reception from
11 stakeholders about -- on the strategy?

12 MS. JAY GREWAL: So -- so, what I
13 should have said is because we can't do strategy by
14 consensus for all stakeholders, because stakeholders
15 have come at everything from a different perspective.

16 But we did take all of their feedback
17 and input and feed it into as -- as one (1) data
18 point, because there's also other data points in terms
19 of we learn through this what the imp -- potential
20 impact is of the evolving energy landscape.

21 So, Strategy 2040 has been approved in
22 its current form by the Board. That being said, once
23 energy policy is finalized, we will revisit Strategy
24 2040 to make sure it's aligned and considers energy
25 policy.

1 But we've been proactive in sharing our
2 thinking on Strategy 2040 because it was very much
3 driven by these external factors that we don't have
4 control over.

5 So, and the second thing I would say
6 is, strategy is never static. It's based on the
7 environment that you're operating in and we made
8 certain -- certain assumptions, but we didn't lock
9 them in, so our analysis at the time on what did we
10 think would be the pace of EV for transportation, and
11 then more broadly for fleets and what that might do to
12 supply and demand.

13 We did that as assumptions, based on
14 data, looking in other geographies. We're now going
15 through the IRP process, as well as we -- we are
16 undertaking an EV study to get greater data, so that
17 would probably refine it in some instances, in terms
18 of our initiatives.

19 But overall as a strategy and
20 directionally, I believe that won't materially change.

21 THE CHAIRPERSON: Okay, but in terms
22 of, for example, EV policy -- EV portion of the
23 strategy, there is a big difference if the government
24 says we're not putting any money into any subsidy into
25 EV for cars, versus doing what other -- BC and -- and

1 Quebec have done --

2 MS. JAY GREWAL: Yeah.

3 THE CHAIRPERSON: -- or on charging
4 stations. So your strategy assumptions need to wait
5 what -- to see what the energy policy states.

6 MS. JAY GREWAL: You're -- and --
7 which will -- will align it to it, so the question
8 earlier was had we made -- is there any capital in our
9 business operating capital tied to Strategy 2040.

10 No, because we're not doing anything to
11 harden or prepare the grid until we'd have the IRP
12 completed that would tell us.

13 So, you're absolutely correct. Our
14 assumption on EV charging as we look at jurisdictions
15 where there were no subsidies, because at that point
16 in time and talking to government, they were not
17 intending any subsidies.

18 So, that's why I was saying it's very -
19 - we -- they have been very clear and meticulous in
20 documenting our assumptions, to make sure if any of
21 those assumptions are no longer valid or the data
22 point goes up or down, that we then revisit Strategy
23 2040 and realign it.

24 THE CHAIRPERSON: But as part of your
25 stakeholder consultation, you may find out that some

1 of your assumptions are no longer valid.

2 MS. JAY GREWAL: Well, actually I
3 think where we're going to find out, is through the
4 Integrated Resource Plan, where there is even more
5 broader and detailed consultation.

6 And already, I -- I didn't get an
7 opportunity to get the number today, but I think we're
8 -- we've got over five thousand (5000) responses from
9 Manitobans already in terms of the initial phase of --
10 of -- of the questionnaire that's gone out for -- to
11 get just a higher level understanding and then we'll
12 continue to evolve it.

13 THE CHAIRPERSON: Okay. I -- I'm
14 going to just put forward a comment before Ms.
15 Fernandes gets angry at me, but just -- which you
16 likely wouldn't know, but in terms of the relationship
17 between Manitoba Hydro and the PUB and the importance
18 of the information provided.

19 I was appointed in 2016 and we were
20 looking for an asset condition assessment report from
21 Manitoba Hydro, which was finally presented in 2018,
22 because we were -- I was pretty adamant that we
23 receive it, especially when I found out that the first
24 directive was -- was issued in 2008.

25 So, it took ten (10) years to get

1 information, which makes it very difficult for the
2 Board to do its job. So, that's just an unsolicited
3 comment and...

4 My final question is for Mr. Tess, and
5 I -- I'm wondering, Kristen, if you could bring up PUB
6 Exhibit 8, which is the table of payments to
7 government.

8 Mr. Tess, I just have a few questions
9 for you on this and I just want to get it firmed in my
10 mind. Am I correct in saying that the profitability
11 of Manitoba Hydro, to a large degree, depends on your
12 water levels?

13 MR. AUREL TESS: Correct.

14 THE CHAIRPERSON: And your water
15 rentals will go up when you're having a good year and
16 you're making money and your water rental rates go
17 down when you're having a poor year.

18 MR. AUREL TESS: That's right, it's --
19 it's driven by the hydrology of -- at the time, yes.

20 THE CHAIRPERSON: And as I look at
21 this table, I note that, for example, Hydro Quebec
22 receives dividends -- sorry, issues dividends to the
23 Province of Quebec.

24 Would I be correct in saying that the
25 Province of Quebec would get more dividends if Hydro

1 Quebec is making more money, that it is tied to the
2 profitability of Hydro Quebec, to your knowledge?

3 MR. AUREL TESS: I -- I wouldn't -- I
4 actually don't have a lot of knowledge about how their
5 dividend process works. And obviously --

6 THE CHAIRPERSON: Ms. Grewal,
7 generally, when corporations issue dividends, are the
8 dividend levels higher or --

9 MS. JAY GREWAL: I would -- I would --
10 I would say that my experience with BC Hydro is the
11 case that you described for sure.

12 THE CHAIRPERSON: Okay, so -- so the
13 more money the utility makes, the more money the
14 province receives.

15 MS. JAY GREWAL: Correct.

16 THE CHAIRPERSON: And, Mr. Tess, in
17 relation to debt guarantee fee or capital or other
18 taxes, those are fixed by way of formula or something
19 else, completely separate from the profitability of
20 Manitoba Hydro?

21 MR. AUREL TESS: There -- there's no
22 dependency there. The -- the relationship with the
23 debt guarantee fee is on gross debt so it's a
24 percentage, you know, the 1 percent of gross debt.

25 So, as that has been going up over the

1 years, that's been escalating.

2 THE CHAIRPERSON: Right.

3 MR. AUREL TESS: Yeah, exactly. But
4 getting back to your question about, you know, Hydro
5 Quebec, I -- I'm sure there is -- there -- there would
6 have to be some consideration of -- of capital that
7 would have to remain within the organization to -- to
8 keep their, you know, their debt tech re-targets where
9 they are right now, cause they are substantially
10 better than ours.

11 THE CHAIRPERSON: Okay. Thank you.
12 Those (AUDIO ISSUES).

13 We're a little over, but we're going to
14 -- does an hour give you enough time, Mr. Tess, to get
15 back? Okay. So, we'll, you know, let's reconvene at
16 -- at 12:45. Okay?

17 Thank you. Thank you, Ms. Grewal.

18 MS. JAY GREWAL: Thank you for the
19 opportunity.

20 THE CHAIRPERSON: Thank you.

21

22 --- Upon recessing at 11:37 a.m.

23 --- Upon resuming at 12:48 p.m.

24

25 THE CHAIRPERSON: Ms. Schubert, are we

1 ready to go? Yes. Okay, we will resume the hearing
2 at this point. Ms. McMillan, would you swear in the
3 witnesses please? Oh, I just get -- I guess just...

4 Yeah, Mr. Tess has been sworn in.

5 MS. ODETTE FERNANDES (by Teams): Mr.
6 Chairman, can you hear me?

7 MR. CHAIRPERSON: I can.

8 MS. ODETTE FERNANDES (by Teams):
9 Good, I just thought maybe I would before the
10 witnesses are sworn in, I would just briefly introduce
11 them, as I do.

12 THE CHAIRPERSON: Certainly. Thank
13 you.

14 MS. ODETTE FERNANDES (by Teams): So,
15 again, along with Mr. Tess and Ms. Grewal, I don't
16 know what your screen looks like, but I'll get the
17 witness to wave.

18 We do have Mr. Alastair Fogg, who is
19 the Director of Enterprise Risk Management and we also
20 have Mr. Kevin Gawne, who is the Energy Supply
21 Planning Department Manager, and I believe she is
22 familiar to you, but we also have Shannon Gregorashuk,
23 who is the Director of Rates and Regulatory Affairs.

24 And just in terms of a couple of
25 preliminary matters, I do note that the CVs for the

1 panel have been marked as Manitoba Hydro Exhibit No. 4
2 and Manitoba Hydro's Direct Presentation from this
3 morning has been marked as Exhibit No. 5.

4 And, then, just for purposes of this
5 afternoon and Monday, we are appearing before you from
6 360 Portage and we do have -- we are abiding by COVID
7 protocols in our offices as well, and that includes
8 masking and physical distancing and limited room
9 capacity.

10 So, our traditional back row support is
11 not necessarily immediately available. So, the
12 witnesses will do their best to respond to your
13 questions, but there may be times when a witness may
14 need to consult with a back row person and we may need
15 a bit of time just to allow the exchange of that
16 information. So, with that, I will ask that the panel
17 members be sworn. Thank you.

18 THE CHAIRPERSON: Thank you
19 Ms. Fernandes. Ms. McMillan...?

20

21 MANITOBA HYDRO PANEL NO. 2:

22

23 AUREL TESS, Previously Affirmed

24 ALASTAIR FOGG, Sworn

25 KEVIN GAWNE, Sworn

1 SHANNON GREGORASHUK, Sworn

2

3 THE CHAIRPERSON: Mr. Peters...?

4

5 CROSS-EXAMINATION BY MR. BOB PETERS:

6 MR. BOB PETERS (by Teams): Yes.

7 Thank you and good afternoon. I am just going to

8 confirm that Board Member McCutcheon is also on the

9 line. I am confident he is. I just don't. I do now

10 see him. Thank you very much. Mr. Chair --

11 MS. ODETTE FERNANDES (by Teams):

12 Sorry, Mr. Peters?

13 MR. BOB PETERS: Yes.

14 MS. ODETTE FERNANDES (by Teams): You

15 should be used to me interrupting you by now.

16 I -- I, there is one -- something that

17 I did not do this morning that I had intended to do

18 this afternoon, before you began, and that was just

19 asking Mr. Tess a few questions related to adopting

20 the evidence that has been filed by Manitoba Hydro,

21 just procedurally.

22 MR. BOB PETERS: I'll do that, if you

23 want.

24 MS. ODETTE FERNANDES (by Teams):

25 Okay. We can do that. Thank you.

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: I'm used to assisting
3 Manitoba Hydro counsel.

4 Okay, I just want to remind the Board
5 Members that, if at any time, you have questions this
6 afternoon, the witnesses would appreciate your asking
7 them as soon as you think of them I think and counsel
8 would likewise appreciate that and don't -- don't be
9 shy about interrupting and we can certainly adjust our
10 time.

11 Before I get to Mr. Tess, I would also
12 just indicate that what will be marked as Exhibits for
13 my friends at MIPUG, their Book of Documents, I
14 believe, will be MIPUG Exhibit 3, the Undertaking, Mr.
15 Chair, that Gerdau, a presenter, gave to you, will be
16 marked as MIPUG Exhibit 4, and then Mr. Hacault's
17 opening comments were displayed on the video screen,
18 so those will be marked as Exhibit 5.

19 I think I have it fairly current and,
20 while I'm on the topic, I would like to indicate to
21 all parties who have a copy of Board counsel's Book of
22 Documents that, somewhere between the approval stage
23 and the production stage, a header got put in and, if
24 anybody printed it and it has a header that attributes
25 it to Manitoba Hydro '21/'22 Interim Rate Application

1 PUB MFR-15 Attachment 3, I don't know exactly how that
2 happened, but that's my error, and I would certainly
3 appreciate no one telling Ms. Steinfeld or Ms. Hart
4 about that.

5 So, with that, Mr. Tess, back to you
6 when you're ready to go.

7 MR. AUREL TESS (by Teams): My
8 apologies. I'm still trying to manage my glasses, my
9 mask, and my headset now.

10 MR. BOB PETERS: You and me both.

11

12 --- EXHIBIT NO. MIPUG-3: MIPUG Book of Documents,
13 December 9, 2021

14

15 --- EXHIBIT NO. MIPUG-4: MIPUG Undertaking - Year-
16 to-year comparison
17 industrial rate increases,
18 December 10, 2021.

19

20 --- EXHIBIT NO. MIPUG-5: MIPUG Opening comments
21 notes, December 10, 2021

22

23 CONTINUED BY MR. BOB PETERS

24 MR. BOB PETERS: Mr. Tess, this
25 2021/'22 Interim Rate Application by Manitoba Hydro,

1 as well as the Appendices, the Minimum Filings
2 Responses, and the Responses to Information Requests
3 was prepared either by you or under your supervision,
4 sir?

5 MR. AUREL TESS (by Teams): Correct.

6 MR. BOB PETERS: And, Mr. Tess,
7 Manitoba Hydro is adopting all of that filed, written
8 information as Manitoba Hydro's evidence before this
9 Hearing, before the Board?

10 MR. AUREL TESS (by Teams): That is
11 correct.

12 MR. BOB PETERS: All right. Thank you
13 sir. On the --

14 MR. AUREL TESS (by Teams): You're
15 welcome.

16 MR. BOB PETERS: -- first page of
17 Board Counsel's Book of Documents, Exhibit 7 is an
18 Application Summary, and it contains what the Board
19 should understand, Mr. Tess, as to what Manitoba Hydro
20 is asking, and I believe this parallels from your
21 presentation this morning, but the first request is an
22 overall increase in general consumers' revenue of 5
23 percent, starting effective January 1, 2022, correct?

24 MR. AUREL TESS (by Teams): Correct.

25 MR. BOB PETERS: And, Mr. Tess,

1 although it is more than semantics, Manitoba Hydro has
2 set a 5 percent overall increase in revenue but
3 Manitoba Hydro has not sent a 5 percent rate increase
4 to each and every customer class, have they?

5 MR. AUREL TESS (by Teams): I just
6 want to confer with Shannon on that.

7 MS. SHANNON GREGORASHUK (by Teams):
8 That's correct, Mr. Peters. In addition to the
9 overall 5 percent revenue increase, Manitoba Hydro is
10 proposing to obtain the requested revenue increase
11 through differentiated rate adjustments to the
12 customer classes and those are summarized in Figure
13 22, on page 43 of our Application, and detailed in the
14 Proposed Rate Schedules, filed as Appendix 4 to the
15 Application.

16 MR. BOB PETERS: And, thank you. I
17 should have indicated as well to Ms. Gregorashuk, to
18 Mr. Gawne, and to Mr. Fogg that the Board wants, as I
19 said earlier this morning, the best evidence from
20 Manitoba Hydro.

21 So, if you feel you can assist in an
22 answer that's come forward that will provide better
23 clarity and more information to the Panel, please
24 provide it.

25 Ms. Gregorashuk, the 5 percent revenue

1 increase that Manitoba Hydro is requesting, Manitoba
2 has quantified that as \$27 million in the current test
3 year, correct.

4 MR. AUREL TESS (by Teams): That's --
5 I can answer that Bob -- Mr. Peters, apologies. Yes.

6 MR. BOB PETERS: And, Mr. Tess, that
7 will equate to \$88 million over a full 12-month
8 season, 12-month year?

9 MR. AUREL TESS (by Teams): In the
10 '22/'22 fiscal year. Yes, correct.

11 MR. BOB PETERS: All right, and, in
12 terms of the rate increases, Manitoba Hydro has
13 interpreted the Public Utilities Board's previous
14 pronouncements on differentiated rates and has used
15 that as Manitoba Hydro's basis for proposing the
16 differentiated rates in this proceeding?

17 MR. AUREL TESS (by Teams): That's my
18 understanding. I'll ask Ms. Gregorashuk to respond as
19 well.

20 MS. SHANNON GREGORASHUK (by Teams):
21 My apologies. I'm fumbling around a little bit.

22 That's correct, Mr. Peters. We have
23 applied differentiation consistent with the Board's
24 previous direction, both in terms of the gradual
25 movement of the classes that remain outside the zone

1 of reasonableness, over the seven of the ten years
2 remaining, consistent with the Board's previous
3 directive, as well as shared the impact of doing that,
4 equally across all customer classes that are within
5 the zone of reasonableness.

6 MR. BOB PETERS: Mr. Tess, while we
7 hear that Manitoba Hydro wants 5 percent more revenue,
8 is Manitoba Hydro indifferent as to what the exact
9 rate increases are to the customer classes?

10 MR. AUREL TESS (by Teams): From a
11 policy perspective, I -- I think that would be
12 accurate. Yep.

13 MR. BOB PETERS: Not to put it too
14 basic but, as long as Manitoba Hydro has the
15 opportunity to earn the additional revenue, Manitoba
16 Hydro will leave it to the PUB to decide which rate
17 classes get what rate increases.

18 MR. AUREL TESS (by Teams): Correct.
19 We made a recommendation in our application but, of
20 course, we're open to other recommendations that --
21 that the PUB may have.

22 MR. BOB PETERS: All right. Thank
23 you, and the second item on page 1 of Board counsel's
24 Book of Documents is a request by Manitoba Hydro to
25 begin to recognize the revenues from major capital

1 deferral account established by the Board in Order 69
2 of 19 and to recognize that gradually over 24 months,
3 correct?

4 MR. AUREL TESS (by Teams): That is
5 what we are asking for. Yes. Correct.

6 MR. BOB PETERS: Manitoba Hydro no
7 longer wants to put the money away but Manitoba Hydro
8 wants to start drawing it out. Would that be true?

9 MR. AUREL TESS (by Teams): It --
10 we're not actually asking for money to be drawn out
11 because the reserve is not a cash reserve. This is a
12 transaction, a non-cash transaction, that would draw
13 down upon a deferred account and take the -- the funds
14 into -- take the money into revenue.

15 But I didn't want to leave anyone with
16 the impression that there's -- there's a reserve
17 account with this fund -- this funds -- the funds in
18 it.

19 MR. BOB PETERS: All right. Manitoba
20 Hydro's asking the Board to stop the accumulation of
21 more money onto the deferral account and, for
22 accounting purposes, to allow Manitoba Hydro to start
23 withdrawing money from that deferral account on
24 January 1 of 2022?

25 MR. AUREL TESS (by Teams): That is

1 correct.

2 MR. BOB PETERS: And while Manitoba
3 Hydro wants to withdraw that money over twenty-four
4 (24) months, those twenty-four (24) months span into
5 three (3) fiscal years.

6 Is that also correct?

7 MR. AUREL TESS (by Teams): That is
8 correct.

9 MR. BOB PETERS: And as you said, Mr.
10 Tess, there's no separate cash account for this money,
11 and this money is going to approximate \$100 million on
12 January 1 of 2022?

13 MR. AUREL TESS (by Teams): That's
14 correct.

15 MR. BOB PETERS: No separate bank
16 account because Manitoba Hydro has received the money
17 and Manitoba Hydro has already spent the money,
18 correct?

19 MR. AUREL TESS (by Teams): We've
20 spent the money, used it to offset borrowings, that's
21 correct.

22 MR. BOB PETERS: And what you're
23 telling the Board is that, rather than keep it as an
24 actual cash reserve account, Manitoba Hydro has
25 reduced its borrowings by the monies that have come in

1 from this -- from this 2.5 percent rate increase?

2 MR. AUREL TESS (by Teams): I would
3 say that's accurate, yeah.

4 MR. BOB PETERS: All right. Thank
5 you. Mr. Tess, was Manitoba Hydro in any way
6 disadvantaged by having the 2.5 percent rate increase
7 revenue put into a notional accounting deferral
8 account?

9 MR. AUREL TESS (by Teams): I wouldn't
10 say we were disadvantaged, no. I think it's -- it's
11 really looking at matching -- matching revenues and
12 expenses.

13 And I -- I think that was the intention
14 of -- of the Board when the -- when the Order was made
15 to -- to defer those amounts to -- to match the -- the
16 capital costs that are coming on with the major
17 capital projects. So I don't think that put us in any
18 kind of disadvantage.

19 MR. BOB PETERS: All right. And we'll
20 come to that matching a little bit later this
21 afternoon.

22 I'd like to turn, though, to page 2 of
23 Board counsel's book of documents and look at the
24 waterfall as -- I'm not sure those are my words, but
25 this is the -- this is the visual depiction, Mr. Tess,

1 of much of what you told the Board this morning when
2 you presented in terms of what's -- what's happened to
3 Manitoba Hydro since they prepared their 2021/'22
4 budget?

5 MR. AUREL TESS (by Teams): Yes.

6 MR. BOB PETERS: So starting at the
7 left-hand side of this graph, the blue chart indicates
8 that Manitoba Hydro had \$177 million of net income
9 budgeted for this current fiscal year, correct?

10 MR. AUREL TESS (by Teams): Yes, that
11 is right.

12 MR. BOB PETERS: And if we understood
13 Ms. Grewal this morning, that 177 million included
14 revenue from 3 1/2 percent rate increase?

15 MR. AUREL TESS (by Teams): The
16 assumption in that budget was that it was a 3 1/2
17 percent rate increase effective October 1, 2021,
18 correct.

19 MR. BOB PETERS: And then the
20 waterfall is getting higher because there were higher
21 domestic revenues, correct, than -- than were
22 forecast?

23 MR. AUREL TESS (by Teams): Yeah,
24 that's correct. As -- as we go across to the right-
25 hand side, you see positive impacts on net income, and

1 then you move into the negative impacts on net income
2 to get to the -- the forecasted amount.

3 MR. BOB PETERS: Was the higher
4 electric domestic revenue due to more people working
5 at home and paying domestic rates?

6 MR. AUREL TESS (by Teams): Well, we
7 did see some drop. I believe there was a -- a minor
8 drop in -- in revenue in -- in our industrial and
9 commercial customer base offset by residential --
10 increases in residential usage. And we -- we
11 attribute that to the pandemic with more people
12 working at home and drawing more electricity during --
13 during the day than they normally would, yes.

14 There was also some weather effects
15 built into that, so it's kind of a multi-factored --
16 yeah. It's -- there's a lot of -- there's a lot of
17 impacts in there in terms of weather as well, and so.

18 MR. BOB PETERS: All right. And I was
19 just going to mention that higher electric domestic
20 consumption is influenced by the weather, as you've
21 said, and it could have been colder than what Manitoba
22 Hydro thought was going to be the normal year.

23 And that would give rise to additional
24 revenue?

25 MR. AUREL TESS (by Teams): It could,

1 yeah. In the summer months, you also -- if you have a
2 -- a hotter summer, you could see more usage for, for
3 example, air conditioning. So that would drive up
4 revenues as well.

5 MR. BOB PETERS: All right. The
6 foreign exchange gains is -- is just a mathematical
7 calculation based on Manitoba Hydro's exports and the
8 revenues it receives from American exports?

9 MR. AUREL TESS (by Teams): Yeah. We
10 -- we have a situation currently where the -- the
11 Canadian dollar, as you probably know, has been a
12 little stronger.

13 So this creates a bit of a natural
14 hedge for us against the -- you know, the -- the US
15 dollar export revenue that is down so much in the next
16 column by three hundred and ninety-eight (398) points,
17 so exactly.

18 MR. BOB PETERS: Well, let's turn to
19 that. The -- the red mark on this graph is the
20 decrease in net export revenue that you've spoken
21 about in your opening comments. And that's reflected
22 by three (3) components as you I believe explained
23 this morning.

24 One (1) of those is there's less money
25 coming from the export customers because you're not

1 shipping much -- as much electricity.

2 The second is Manitoba Hydro's having
3 to buy more energy that it hadn't budgeted on.

4 And then the third is there's a -- a
5 water rental adjustment, and that all is wrapped up
6 into the \$398 million reduction.

7 MR. AUREL TESS (by Teams): That's
8 correct, yeah.

9 MR. BOB PETERS: The extension of the
10 major capital deferral account, is this Manitoba
11 Hydro's way of showing the Board that the 2 1/2
12 percent rate increase that they gave is generating \$22
13 million that Manitoba Hydro can't reflect on its
14 operating statement because it's in a deferral
15 account?

16 MR. AUREL TESS (by Teams): I would
17 say we're -- we're simply following the direction of
18 the Board there to put it in a deferral account.

19 The -- the amortization of the -- of
20 the deferral account is -- is really our proposal to -
21 - you know, the -- some -- some of the rationale was
22 we collected this amount over two (2) years, and it --
23 it would seem appropriate to -- to amortize it over
24 two (2) years.

25 We also have the -- the costs that are

1 coming in and that we've talked about that -- that it
2 could be matched or applied against, which I believe
3 was the intention of the Board.

4 MR. BOB PETERS: All right. In terms
5 of the rate increase reduction, does that represent
6 the difference between the 3.5 percent that Ms. Grewal
7 assumed in her \$177 million budget and what would be
8 generated by a 5 percent rate increase on January 1?

9 MR. AUREL TESS (by Teams): I'm not
10 sure. You might have to express that a different way.
11 I'm trying to reconcile what you just said.

12 So we -- we were projecting the 3 1/2
13 in the budget, and we're asking for the 5, and you're
14 saying what's the delta between that? Is that the
15 question?

16 MR. BOB PETERS: Well, I was
17 suggesting that -- is that where the \$8 million
18 negative came from? And so the -- the better way to
19 ask the question, Mr. Tess, would have been for me to
20 ask you: What's the \$8 million reduction related to
21 rate increases?

22

23 (BRIEF PAUSE)

24

25 MR. AUREL TESS (by Teams): Sorry.

1 I'm not -- I'm not clear where the 8 million is coming
2 from.

3 MR. BOB PETERS: I'm looking on the
4 waterfall chart --

5 MR. AUREL TESS (by Teams): M-hm.

6 MR. BOB PETERS: -- and I'm looking --

7 MR. AUREL TESS (by Teams): Oh, okay.
8 Sorry.

9 MR. BOB PETERS: -- two (2) bars over
10 from the \$398 million reduction.

11 MR. AUREL TESS (by Teams): Right.
12 Yeah. That is the -- that is the variance between the
13 budget and -- and the rate increase we are now
14 forecasting, correct.

15 MR. BOB PETERS: So if I do my math
16 right -- don't ever assume that's correct -- that we
17 know that \$27 million would be realized on Jan -- if
18 you got the 5 percent rate increase on January 1,
19 correct?

20 MR. AUREL TESS (by Teams): That's
21 correct.

22 MR. BOB PETERS: And we see then that
23 there's an \$8 million reduction in -- in rate increase
24 revenue, so that tells us that, had Ms. Grewal's 3 1/2
25 percent rate increase gone in effect on October 1st,

1 she would have received \$8 million more than the 27
2 million, or she would have budgeted on receiving \$35
3 million total?

4 MR. AUREL TESS (by Teams): That would
5 be the -- yeah, that is the rate differential amount
6 between --

7 MR. BOB PETERS: All right.

8 MR. AUREL TESS (by Teams): -- between
9 what we're -- yeah, exactly.

10 MR. BOB PETERS: And just quickly
11 summarizing, you're showing the Board that there's
12 some increase in Keeyask expenses, and these were over
13 and above what was expected.

14 And does that mean Keeyask is coming
15 into service, some parts of it, quicker than what was
16 expected?

17 MR. AUREL TESS (by Teams): That's
18 correct. So, if you have the -- the appreciation and
19 amortization interest, the cost would -- would hit the
20 income statement earlier if -- if the project is
21 coming into service earlier; that's correct.

22 MR. BOB PETERS: Is there any way on
23 this waterfall, Mr. Tess, to see what Manitoba Hydro
24 is proposing for this new Keeyask in-service deferral
25 account or is it not visible on this waterfall?

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(BRIEF PAUSE)

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MR. AUREL TESS (by Teams): I'll just have to consult with my colleagues on that for a second. I'll just -- just give me a minute here.

MR. BOB PETERS: Certainly.

(BRIEF PAUSE)

MR. AUREL TESS (by Teams): No.

(BRIEF PAUSE)

MR. AUREL TESS (by Teams): There was a lag between -- my colleagues weren't able to keep up with the question, so I just had to consult on that one.

So, there is a bar there major capital deferral, it's 22 million, Mr. Peters, that I can direct you to.

MR. BOB PETERS: Yes, I see it.

MR. AUREL TESS (by Teams): Yeah. And so, with the major capital deferral, the assumption in the budget would have been an October 1 commencement

1 date for that, and now it's being assumed to be a
2 January one.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: I interpret that
7 answer, Mr. Tess, to indicate that, by stopping the
8 inflow of money into the major capital deferral
9 account on January 21, there's a \$22 million
10 difference between that and the day that Manitoba
11 Hydro would otherwise expect to start withdrawing it?

12 MR. AUREL TESS (by Teams): Yeah.
13 Again, it's not withdrawing the funds, but it's just
14 amortizing the -- the deferral account, but that is --
15 that is what that variance is, as you described.

16 MR. BOB PETERS: All right. Thank
17 you.

18 MR. AUREL TESS (by Teams): Yeah.
19 Yeah.

20 MR. BOB PETERS: And I understand it's
21 not sitting in a -- in a savings account. I call it a
22 notional accounting account. Is that -- is that fair?

23 MR. AUREL TESS (by Teams): Yeah.
24 It's -- it's a deferral account is -- is not
25 necessarily represented by cash, correct.

1 MR. BOB PETERS: And -- yes. Thank
2 you. I'd like to turn to the financial statements on
3 page 4 of Board counsel's book of documents. And I
4 may come back to this with some regularity in my
5 questioning, Mr. Tess.

6 But just to help -- help the panel
7 understand it, the actual column for 2020/'21, that
8 was for the year ended March 31 of '21?

9 MR. AUREL TESS (by Teams): Yeah, our
10 fiscal year-end is March 31st. And the actuals there
11 are for the fiscal ended March 31, 2021, correct.

12 MR. BOB PETERS: And -- I'm sorry. I
13 don't mean to cut you off.

14 MR. AUREL TESS (by Teams): No, just -
15 - just saying that is correct.

16 MR. BOB PETERS: Thank you. And in
17 that last fiscal year, Manitoba Hydro made \$116
18 million of net income?

19 MR. AUREL TESS (by Teams): That's
20 correct.

21 MR. BOB PETERS: And part of that, a
22 smaller part of that, came from a 2.9 percent rate
23 increase that your President testified came from a
24 piece of legislation. I think it was the Budget
25 Implementation Act?

1 MR. AUREL TESS (by Teams): That's
2 correct. That was implemented in December 2020, as I
3 recall. It was 2.9 percent only on electric, and it
4 was implemented through BITZ, the Budget
5 Implementation Tax Act.

6 MR. BOB PETERS: Are you able to
7 confirm, Mr. Tess, that that \$116 million of net
8 income for 2021 is about twice as much as was
9 originally budgeted by Manitoba Hydro?

10 MR. AUREL TESS (by Teams): Yeah, just
11 give me a moment. I'll check the budget numbers. And
12 I'll be right with you.

13 MR. BOB PETERS: Thank you.

14

15 (BRIEF PAUSE)

16

17 MR. AUREL TESS (by Teams): The
18 budgeted net income for the electric segment was 37
19 million.

20 MR. BOB PETERS: And so, while the
21 budget was 37 million, Manitoba Hydro came in
22 significantly above that, correct?

23 MR. AUREL TESS (by Teams): Yes.

24 MR. BOB PETERS: Now, there were some
25 many factors, and I don't want to take too long on

1 them, but one (1) of the factors that led to that was
2 Keeyask is not fully in service in the 2020/'21 year.
3 Some of the costs of Keeyask will -- will come over in
4 the year we're currently in; they didn't come in as
5 expected last year in the budget.

6 Do you agree?

7 MR. AUREL TESS (by Teams): That's
8 correct. That's -- yeah, I would agree with that,
9 yeah.

10 MR. BOB PETERS: And that was close --
11 that was about \$97 million? Or if you don't know, I'm
12 fine with that, as well.

13 MR. AUREL TESS (by Teams): That's
14 subject to correction. I can get that number for you.
15 I don't have it handy.

16 MR. BOB PETERS: No, no, no, that's
17 fine.

18 MR. AUREL TESS (by Teams): Okay.

19 MR. BOB PETERS: There were also COVID
20 savings last year that your President spoke about this
21 morning, and that would be reflected in that actual
22 column?

23 MR. AUREL TESS (by Teams): That's
24 correct, yeah.

25 MR. BOB PETERS: So, Mr. Tess, when

1 Manitoba Hydro initially drafted its budget, which is
2 in the column right next to the actual column, when it
3 drafted the budget for the 2021/'22 year, did Manitoba
4 Hydro know it was going to earn 116 million of net
5 income in 2020/'21?

6 MR. AUREL TESS (by Teams): We had --
7 we definitely had preliminary numbers. As -- as you
8 know, we go through a stub period where we have an
9 audit that -- that takes place from the period April
10 to June roughly.

11 And subject to any adjustments that the
12 auditors may have, we had preliminary numbers that
13 told us that we were -- we were going to do better
14 than the -- the budget anticipated.

15 MR. BOB PETERS: And knowing that you
16 were going to do better than the budget anticipated,
17 Manitoba Hydro still inserted an assumption of 3 1/2
18 percent rate increase in the budget year of 2021/'22?

19 MR. AUREL TESS (by Teams): That's
20 correct, yeah.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: The numbers that we
25 reviewed, Mr. Tess, in that waterfall are really

1 contained in the numbers that are in the column called
2 'Forecast 2021/22', is that correct?

3 MR. AUREL TESS (by Teams): Yeah, it's
4 the difference between those two (2) columns. So you
5 have the -- the budget for '21/'22 versus the forecast
6 for '21/'22. It's just summarized at a high level in
7 the waterfall graph.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: And as we move in
12 then to the forecast column, you've indicated this
13 morning that the rate increase assumption that is
14 contained on the line item underneath these columns
15 moved upwards from 3 1/2 percent to 5 percent
16 influenced by the drought, correct?

17 MR. AUREL TESS (by Teams): That's
18 correct. I think you can see the line items separated
19 there. You have them highlighted. The 27 million in
20 the forecast and then the 88 million in '22/'23.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: In answer to some
25 questions this morning, Mr. Tess, to Board Member

1 McCutcheon, Manitoba Hydro indicated That the 1 1/2
2 percent rate increase was additional to what was
3 planned, and that was because Manitoba Hydro found
4 itself in a drought, correct?

5 MR. AUREL TESS (by Teams): That's
6 correct.

7 MR. BOB PETERS: Manitoba Hydro
8 calculated what is the net present value of that
9 additional 1 1/2 percent rate increase that it's now
10 seeking?

11 MR. AUREL TESS (by Teams): We haven't
12 engaged in any net present value analysis, if that's
13 the question. No, we have not.

14 MR. BOB PETERS: Would it be at least
15 \$400 million to your estimate? Or are you unable to
16 even take a guess at that?

17 MR. AUREL TESS (by Teams): I wouldn't
18 be prepared to guess at it. I think to give you a
19 more robust response, we could certainly provide that
20 to you. But, no, I wouldn't want to take a guess at
21 it right now.

22 MR. BOB PETERS: All right. Well, I -
23 - then only if you can provide it by Monday morning,
24 before other counsel ask questions. But, if not, then
25 I won't expect it.

1 MR. AUREL TESS (by Teams): How about
2 if I look to my colleagues at the next break and then
3 we'll -- we'll figure out when we can get that to you.

4 MR. BOB PETERS: All right. Thank
5 you, sir.

6 MR. AUREL TESS (by Teams): If that
7 works. You're welcome.

8 MR. BOB PETERS: Yeah. Thank you.

9 Now, on page 9 of Board counsel's book
10 of documents, there's an indication that if Manitoba
11 Hydro was to calculate the rate increase required to
12 avoid \$190 million loss, it would work out to, as I
13 understand the evidence, about 12 percent for twelve
14 (12) months, is that what the -- that's --

15 MR. AUREL TESS (by Teams): Yeah,
16 exactly. Yeah, that's based on the net income
17 calculation. And I believe that takes you to, kind
18 of, a breakeven situation.

19 MR. BOB PETERS: Yes, it would -- it
20 would recover the better part of that \$190 million
21 that's now shown as the loss.

22 MR. AUREL TESS (by Teams): Correct.

23 MR. BOB PETERS: And so, while we're
24 on the question, for Manitoba Hydro to put a rate
25 increase in so that it lost no money in this fiscal

1 year, the rate increase would have to be at least
2 three (3) times that 12 percent number, wouldn't it?

3 MR. AUREL TESS (by Teams): If you're
4 talking about collecting it over three (3) months --
5 is -- is that your question, Mr. Peters?

6 MR. BOB PETERS: It is, yes.

7 MR. AUREL TESS (by Teams): That would
8 be accurate, yeah.

9 MR. BOB PETERS: And -- and I think
10 you said, in your answer to the Chair this morning in
11 a question, that it would -- it would just be an
12 unreasonable rate request to -- to not lose money this
13 year from Manitoba Hydro's perspective.

14 The rate increase would have to be too
15 large and it was something Hydro wasn't -- wasn't
16 contemplating.

17 MR. AUREL TESS (by Teams): It was
18 something that was -- that was -- we looked at this as
19 part of our principles. And the main considerations
20 that we looked at were limiting deterioration of
21 financial health, and preserving that financial health
22 of the Company, intergenerational equity, rate
23 stability, and predictability for our customers.

24 And that size of a rate increase would,
25 obviously, cause lots of problems for our customers,

1 especially given the -- the background of the economic
2 inflation we're in right now, as well as, you know,
3 the high -- high price of gas and -- and the pandemic.

4 MR. BOB PETERS: Also on page 9, Mr.
5 Tess, Manitoba Hydro indicates that if Manitoba Hydro
6 wanted to just recover the amount of money it's going
7 to have to borrow to make up for this drought, it
8 would need a rate increase of 21 percent for twelve
9 (12) months.

10 Have I interpreted that correctly?

11 MR. AUREL TESS (by Teams): Yeah, I
12 think that's -- that's the cash view that we're giving
13 you there, in terms of how much money we'd have to
14 borrow. The \$348 million even with the rate increase
15 would garner a rate increase of 12 -- 12 percent --
16 twenty-one (21) -- sorry. Let me just check that.

17

18 (BRIEF PAUSE)

19

20 MR. AUREL TESS (by Teams): Sorry,
21 it's 21 percent. That would be with the rate
22 increase, just to be clear.

23 MR. BOB PETERS: Sorry, that 21
24 percent is on top of a 5 percent rate increase?

25 MR. AUREL TESS (by Teams): No, no.

1 Sorry, let me clarify.

2 So if -- if we were borrowing the \$348
3 million -- and the three-forty-eight (348) assumes a
4 rate increase, right? So we're assuming we'd borrow
5 less because we got the 5 percent. We'd have to
6 implement rates of -- in addition to the 5 percent --
7 like, the -- without any rate increase at all, it
8 would be 21 percent.

9 MR. BOB PETERS: I -- I understand
10 your point now.

11 MR. AUREL TESS (by Teams): Yeah.
12 Yeah, okay.

13 MR. BOB PETERS: But while we're on
14 that point, Mr. Tess, and I was maybe going to ask it
15 later, so I'll try not to repeat myself.

16 But if I turn back to page 7, you've
17 just told the Board that, because of the drought,
18 Manitoba Hydro is going to have to borrow \$348 million
19 that it hadn't planned to borrow.

20 Have I got that right?

21 MR. AUREL TESS (by Teams): That's
22 correct. Yeah.

23 MR. BOB PETERS: And so, when I turn
24 back to your cashflow statement on -- on, I guess,
25 page 7 of Board counsel's book of documents, and I

1 look down the forecast 2021/'22 and I go to the bottom
2 of it, it looks to me like Manitoba Hydro is going to
3 have \$1.121 billion of cash left over at the end of
4 the fiscal year.

5 Is that the correct interpretation of
6 that column?

7 MR. AUREL TESS (by Teams): That would
8 be the cash balance at the end of the year. Keeping
9 in mind that that money is borrowed. It's not -- it's
10 not being generated -- you know, it's not all being
11 generated through -- through core operations.

12 MR. BOB PETERS: No, I --

13 MR. AUREL TESS (by Teams): Core
14 operating activities. Yeah.

15 MR. BOB PETERS: Sorry. Yeah, we'll
16 come back to that. But my point is, you've said that
17 if Manitoba Hydro wanted to borrow its way out of this
18 drought -- these are my words -- you'd have to borrow
19 \$348 million to keep Manitoba Hydro whole.

20 MR. AUREL TESS (by Teams): Yeah.

21 MR. BOB PETERS: Okay. And so, I'm
22 looking at the cashflow statement and I'm saying, why
23 would you have to borrow a penny when you're sitting
24 on \$1.121 billion?

25 MR. AUREL TESS (by Teams): Well, part

1 of our -- part of our debt management strategy is to
2 have at least six (6) months of -- of working capital.
3 There's a liquidity question here, Mr. Peters, that we
4 have to address as well.

5 So following our policies for
6 liquidity, to manage liquidity risk, we would have to
7 have that amount of cash on hand at the end of the
8 year.

9 MR. BOB PETERS: Well, maybe I should
10 ask it this way, Mr. Tess.

11 MR. AUREL TESS (by Teams): M-hm.

12 MR. BOB PETERS: Is Manitoba Hydro
13 going to go out and borrow a brand new \$348 million of
14 debt on account of the drought?

15 MR. AUREL TESS (by Teams): And the
16 answer is yes.

17 MR. BOB PETERS: And has it done it
18 yet this year?

19 MR. AUREL TESS (by Teams): I would
20 say yes. And maybe the two (2) lines that are
21 relevant are the proceeds from long-term debt and the
22 retirement of long term debt. And you can see the
23 differential between those two (2) numbers there.

24 MR. BOB PETERS: Roughly \$700 million
25 of difference. You're -- I see what you're saying.

1 You're telling me that the 348 million is included in
2 the two-hundred -- the 2.093 billion?

3 MR. AUREL TESS (by Teams): That would
4 be accurate, yeah. Retirement of -- the retirement
5 line, to be clear, is not -- is not us paying back
6 debt.

7 It's -- it's, essentially, re-financing
8 existing debt. And then, we're -- were going out to
9 the market and borrowing more -- borrowing more. And
10 that's what's shown on the proceeds from the long-term
11 debt.

12 MR. BOB PETERS: All right. And I --
13 I think we're on the same page, Mr. Tess, but I didn't
14 realize that the three hundred and forty-eight (348)
15 has -- was it separately borrowed, or was it just part
16 of a previous borrowing?

17 MR. AUREL TESS (by Teams): It -- it's
18 a forecast, and we don't traditionally separate our
19 borrowing plan that way. It's more of a consolidated
20 view and we manage liquidity on a consolidated basis.
21 So, it wouldn't be parsed out that way.

22 MR. BOB PETERS: All right. And this
23 column on the forecast, on the cashflow statement that
24 we're looking at, under forecast '21/'22 shows that at
25 year-end there's going to be 1.121 billion and you've

1 agreed to that. That'll be cash at the year end?

2 MR. AUREL TESS (by Teams): That's
3 correct.

4 MR. BOB PETERS: And that money was
5 borrowed in advance of Manitoba Hydro's need?

6 MR. AUREL TESS (by Teams): There is
7 pre-funding that we do for liquidity purposes. And to
8 be clear, we do work with the Treasury division of the
9 Province on this as well. And I believe it's the same
10 policy that's followed with the Province of Manitoba,
11 who guarantees our debt.

12 But I think one (1) of the key messages
13 here is that when you get into the '22/'23 year, we're
14 essentially using, you know, the -- that money that
15 was borrowed to fund '22/'23 as well. So, the pre-
16 funding amount does -- does not become necessary
17 because of the winding down of some of the capital
18 projects.

19 And so, it's needed for business
20 continuity purposes, but when you see the -- you know,
21 the funding in the following year, it's really using
22 money that was borrowed in the previous year.

23 MR. BOB PETERS: All right. What I
24 see in the following year, Mr. Tess, in the
25 preliminary plan 2022/'23 column, is that Manitoba

1 Hydro is going to borrow \$1.1 billion as proceeds of
2 long-term debt.

3 They're going to retire, or in your
4 words, refinance long-term debt for almost exactly the
5 same amount, correct?

6 MR. AUREL TESS (by Teams): That's --
7 that's correct.

8 MR. BOB PETERS: And then we go to the
9 bottom of the page, the cash at the end of the year is
10 really only about half of what it is this year, which
11 reflects that Manitoba Hydro has used some of the cash
12 pre-borrowed this year for next year's expenses?

13 MR. AUREL TESS (by Teams): To
14 cashflow the next -- the following year's expenses,
15 that's correct.

16 MR. BOB PETERS: And Manitoba Hydro
17 pre-borrowed it because it was an attractive interest
18 rate?

19 MR. AUREL TESS (by Teams): It -- it's
20 part of our policy that -- that we follow for
21 liquidity purposes and it's become something that's
22 even more important since really the -- the COVID
23 crisis has hit, and managing liquidity when -- when
24 you have projects the size that we're managing.

25 So, that's -- that was something that -

1 - that we've been doing and we continue to do it.
2 However, in '22/'23, with the winding down of the
3 construction period of those major capital projects,
4 we -- we don't need as much.

5 So, that's why you see the funds being
6 used from the previous year to bring the carrying
7 value of the cash balance down to five hundred and
8 ninety-two million (592,000,000).

9 MR. BOB PETERS: All right. We're
10 getting a little deeper than I had hoped, but the --
11 the proceeds of long-term debt in '22/'23, and the
12 retirement of long-term debt in '22/'23, that signals
13 to the Board here, does it, that the borrowings for
14 Keeyask are virtually over?

15 MR. AUREL TESS (by Teams): Well,
16 there are -- there are still capital funds required
17 for it, but it's -- it's not as intensive as -- as it
18 had been in the previous years. That's why the six
19 (6) months is no longer required.

20 MR. BOB PETERS: And -- and so where
21 do I see the borrowing for Keeyasks -- for Keeyask in
22 '22/'23?

23 MR. AUREL TESS (by Teams): I believe
24 we have that information for you if you want to just -
25 - I'll get back to you in a second with that.

1 MR. BOB PETERS: Yeah, okay. And I --
2 I will --

3 MR. AUREL TESS (by Teams): Yeah.

4 MR. BOB PETERS: -- well, have some
5 questions on it or I did have, if I can remember them.
6 Yes. Yes.

7 Mr. Tess, if you're still there, the
8 Vice Chair has a question.

9 MR. AUREL TESS (by Teams): Yeah, I
10 was just getting the Keeyask number for you. Sorry.

11 BOARD VICE-CHAIR KAPITANY: Sure. Do
12 you want to wait until you've got that number, Mr.
13 Tess? It's not really --

14 MR. AUREL TESS (by Teams): Yeah.

15 BOARD VICE-CHAIR KAPITANY: -- my
16 question isn't related to that, but I can wait.

17

18 (BRIEF PAUSE)

19

20 MR. AUREL TESS (by Teams): Yeah, it's
21 roughly 300 million on Keeyask.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: And in a career
25 limiting move, I'll interrupt the Vice Chair, but the

1 -- the 300 million on Keeyask, to finish the thought,
2 Mr. Tess, that's money that's been preborrowed this
3 year that you're going to spend next year?

4 MR. AUREL TESS (by Teams): Correct.
5 Yeah.

6 MR. BOB PETERS: All right. I've got
7 the point, and thank you, Vice Chair, for letting me
8 finish that.

9 BOARD VICE-CHAIR KAPITANY: Not career
10 limiting at all. Mr. Tess, my question is about the
11 cash at the end of the year, the cash balance of the
12 1.1 billion that you and Mr. Peters were just
13 discussing.

14 And you -- I think I heard you say that
15 -- that your policy is to keep six (6) months of
16 working capital and that's why you want to have that
17 1.1 billion.

18 My question is: In the case of a
19 drought, which you've said is an urgent situation,
20 would the Corporation consider relaxing that policy?

21

22 (BRIEF PAUSE)

23

24 MR. AUREL TESS (by Teams): Just one
25 (1) second, please.

1 (BRIEF PAUSE)

2

3 MR. AUREL TESS (by Teams): To answer
4 your question, I -- you know, looking at it from a
5 risk management perspective and -- and that liquidity
6 is -- is something that's very real, and we saw
7 examples of that during the height of the pandemic, if
8 we can call it that where borrowings were -- were hard
9 to get.

10 So, it's -- it's not something that we
11 would consider, because I think it would add more risk
12 for us in terms of the -- you know, the -- the
13 additional equity that's needed to manage through a
14 drought.

15 BOARD VICE-CHAIR KAPITANY: So, you're
16 saying that during the -- the height of COVID, you had
17 difficulty accessing credit?

18 MR. AUREL TESS (by Teams): Yeah,
19 there was a period of time where, I believe even
20 governments had a hard time with getting money through
21 what's called the syndicate.

22 So, there was -- there was challenges
23 there for sure, until the Bank of Canada stepped in
24 and then -- then eased up on the markets and since
25 then we haven't had problems. But it's something that

1 could arise.

2 BOARD VICE-CHAIR KAPITANY: Thank you.

3 MR. AUREL TESS (by Teams): You're

4 welcome.

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: Mr. Tess, back --

8 back to page -- page 4 of Board Counsel's book of

9 documents. We were discussing -- or we started our

10 discussions about rate increases and the different

11 test years, and the budget years, and the forecast

12 years.

13 I distill from all of that that

14 Manitoba Hydro is totally resigned that it is going to

15 lose money in this current fiscal year, and it's going

16 to lose a lot of money.

17 There's no other solution, according to

18 Manitoba Hydro?

19 MR. AUREL TESS (by Teams): I believe

20 strongly that we've -- we've implemented many measures

21 to -- to -- that -- that we can, that are within our

22 control to -- to offset these -- these -- the -- the

23 cost of the drought.

24 So, yes, I think the plan we've put

25 together, which is in front of you, is -- is what we

1 think will happen in '21/'22 and in '22/'23 currently.
2 However, there's always, you know, things that can
3 turn around.

4 But the water levels are something that
5 are -- are pretty much a known quantity by the end of
6 October and I think Jay was talking about that this
7 morning. It really -- essentially it's about the
8 narrowing of the range of possibilities.

9 Once you get down to the end of the
10 precipitation period and you're into the snow pack
11 period, that additional precipitation in the winter
12 could help you in -- in the spring runoff, for
13 example, but it doesn't help in this fiscal year. It
14 might help in nex -- the next fiscal year.

15 And our -- our water expert, Mr. Kevin
16 Gawne might have more to comment on that.

17 MR. BOB PETERS: I'll invite him in a
18 -- in a little while this afternoon. I do want to
19 come back to the hydrology, and I've -- I've got a few
20 questions that -- if it can wait from your end, Mr.
21 Tess?

22 MR. AUREL TESS (by Teams): Oh,
23 absolutely, yeah.

24 MR. BOB PETERS: All right. So,
25 resign to a loss, it's a question of how big is the

1 loss and Manitoba Hydro's best estimate sitting before
2 the Board today, is it's going to be a hundred and
3 ninety million (190,000,000) if Manitoba Hydro gets a
4 5 percent rate increase on January 1, 2022, correct?

5 MR. AUREL TESS (by Teams): That's
6 correct.

7 MR. BOB PETERS: And turning to page
8 12 of Board counsel's book of documents, there was a
9 series of, I suppose six (6) scenarios that were
10 presented in terms of rate increases and what does it
11 do or mean to Manitoba Hydro.

12 And on page 12 of Board counsel's
13 Exhibit 7, the Manitoba Hydro application is in the
14 first column under forecast '21/'22, followed by the
15 preliminary plan, correct?

16 MR. AUREL TESS (by Teams): That's
17 right.

18 MR. BOB PETERS: And these are numbers
19 that are simply brought over from the interim
20 application, correct?

21 MR. AUREL TESS (by Teams): Yes.

22 MR. BOB PETERS: And, then Manitoba
23 Hydro, in response to a request, has done some
24 scenario analysis, and all of the numbers that are
25 shown here, are for scenarios that range between a

1 zero percent rate increase to a 4 percent increase on
2 January 1st of 2022. Correct?

3 MR. AUREL TESS (by Teams): That's
4 correct.

5 MR. BOB PETERS: All right. I'm not
6 going to go through them in any detail, but
7 mathematically anything less than 5 percent presents a
8 -- a worse -- a worse scenario than the 5 percent
9 scenario.

10 MR. AUREL TESS (by Teams): That's
11 right. All scenarios provide either negative cash
12 flow to fund operations, or they're less than the 51
13 million we would anticipate in '22/'23, with the 5
14 percent increase.

15 So, the 3 to 4 percent is in the range
16 of providing for the budgeted rate increase that we
17 know is required to fund the large capital project
18 costs that are coming into service in '22/'23.

19 And even with the, you know, the 5
20 percent rate increase, we're still susceptible to all
21 of the volatile factors that are out there for
22 Manitoba Hydro, water flow, weather, interest rates
23 and energy prices.

24 MR. BOB PETERS: Okay, thank you, Mr.
25 Tess. And you -- you focused right in on the bottom

1 line of the -- of the chart that's in front of the
2 panel from Board counsel Book of Documents page 12 on
3 the cash flow

4 And, as I understood your answer just
5 now, at -- at 3 to 4 percent rate increase, just
6 barely scrapes by in terms of Manitoba Hydro's cash
7 flow for next year.

8 MR. AUREL TESS (by Teams): That's
9 correct, yeah.

10 MR. BOB PETERS: I think we've got
11 your point. I'd like to -- I guess I'll go back to
12 page 4, please, of the document and look at that
13 preliminary plan year.

14 That's the year that starts in about
15 three and a half (3 1/2) months, Mr. Tess?

16 MR. AUREL TESS (by Teams): That's
17 correct. It starts April 1, yeah.

18 MR. BOB PETERS: Yes, I understood
19 from your president this morning, that she took the
20 budget, and these are my words, for the '22/'23 year
21 to the Board, very recently. I believe it was this
22 month and the Board approved it.

23 Did I hear her correctly?

24 MR. AUREL TESS (by Teams): Yes,
25 that's correct.

1 MR. BOB PETERS: And, was the budget
2 that was taken to the Manitoba Hydro-Electric Board in
3 November or December of this year, is it exactly the
4 same as the one that's before the Public Utilities
5 Board shown in the column called Preliminary Plan
6 2022/'23?

7 MR. AUREL TESS (by Teams): It is the
8 same.

9 MR. BOB PETERS: So, the Board had no
10 changes to it? Or the -- management made no changes
11 and the Board accepted management's preliminary plan?

12 MR. AUREL TESS (by Teams):
13 Recommendations? Yeah, it was accepted. Absolutely.
14 Yeah.

15 MR. BOB PETERS: So, it's no longer a
16 preliminary plan, it is now, what you would call the
17 budget? Is that -- am I using the words right?

18 MR. AUREL TESS (by Teams): Well,
19 there is one other step we go through and that's to --
20 to go through the province's summary budgeting
21 process, that really doesn't finish until the spring,
22 depending on timing.

23 MR. BOB PETERS: Well, I'm -- I'm not
24 understanding that answer, Mr. Tess.

25 Does that mean the Province of Manitoba

1 can still change your now preliminary plan/budget?

2 MR. AUREL TESS (by Teams): They do
3 have a -- all I can tell you is that they do have an
4 approval process for -- for reviewing our -- our
5 budget and our materials and I -- the possibility does
6 exist. They do have the approval of our business plan
7 as well.

8 MR. BOB PETERS: And that's a role,
9 sir, that you have familiar -- you're familiar with in
10 your -- your previous employment, correct?

11 MR. AUREL TESS (by Teams): That's
12 correct. Yeah.

13 MR. BOB PETERS: So, maybe just help
14 this Board understand that there's a risk that this
15 preliminary plan for next year will be changed based
16 on what the government does with its summary
17 budgeting.

18 MR. AUREL TESS (by Teams): Well,
19 there -- there is -- there is a process that we go
20 through that -- that provides for all reporting
21 entities to submit their -- their -- their preliminary
22 budgets to -- to the province.

23 In -- in the case of Crown
24 corporations, there's also the business plan, that's
25 part of the Crown Services Act, where it's submitted

1 to the province.

2 In the past -- in -- in the time I've
3 been here, there haven't been changes to it. It's
4 been -- we've received feedback, for example, on the
5 business plan. You know, we -- we've been asked lots
6 of questions. There's a pretty disciplined process
7 you go through with reviewing the, you know, the
8 financials, as well as other -- other topics of
9 interest to government.

10 So -- so I can't -- I can't make a
11 calculation of the risk, but I can just tell you about
12 the process.

13 MR. BOB PETERS: And is there, as we
14 speak today, is there an approved business plan by the
15 govern -- by the government for '22/23?

16 MR. AUREL TESS (by Teams): Not for
17 '22/'23. There is one for '21/'22 that we have on our
18 website that -- that has been approved. '22/'23 is
19 something we're just submitting to them now, after the
20 Board has approved it.

21 MR. BOB PETERS: Okay, thank you.
22 I've got your point.

23 At the bottom of the column, it shows a
24 proposed percent increase in 2022/'23 of zero percent.
25 Do you see that, Mr. Tess?

1 MR. AUREL TESS (by Teams): I -- I do.
2 Yeah.

3 MR. BOB PETERS: Do I gather from the
4 testimony of the president this morning, that Manitoba
5 Hydro's intention is to come before this Board next
6 year to request a rate increase higher than zero
7 percent?

8 MR. AUREL TESS (by Teams): Well, the
9 -- the plan we have right now includes the zero
10 percent and -- and the reason for that is, we do have
11 a substantial amount of work ahead of us to put
12 together our next General Rating Application to the
13 Public Utilities Board.

14 It -- we know it's going to be a multi-
15 year rate application. Could be a combined rate
16 application with electric and gas. So there's, you
17 know, a substantial amount of work and then there's
18 the time to -- to go through the process to get the
19 rates approved.

20 So, for budgeting purposes, we made
21 this assumption, however, having said that, as our
22 president had noted this morning, and I believe I
23 noted it as well in my presentation, we will do
24 everything we can to work with the Public Utilities
25 Board to -- to get, you know, a rate increase on a

1 more timely basis.

2 But, that's something that we have to
3 work with the Public Utilities Board on, I believe.

4 MR. BOB PETERS: And I take from that
5 answer, Mr. Tess, that Manitoba Hydro will be wanting
6 a -- another rate increase next year, the timing and
7 the amount of which has not yet been determined.

8 MR. AUREL TESS (by Teams): I think
9 that's accurate, yeah.

10 MR. BOB PETERS: Mr. Tess, in your
11 business plan to the government for '22/'23, did that
12 contain an assumed rate increase?

13 MR. AUREL TESS (by Teams): The
14 government received exactly the same plan that you're
15 looking at here, as well as the Board, so there wasn't
16 a different submission made to -- to either party.

17 MR. BOB PETERS: Okay, I appreciate
18 that and your -- the -- so your answer is that the
19 business plan that Manitoba Hydro submitted to the
20 province contains a zero percent rate increase for
21 fiscal '22/'23?

22 MR. AUREL TESS (by Teams): Correct.

23 MR. BOB PETERS: Mr. Tess, I -- I have
24 a point here to make. I think it's on page 33 of my
25 book of documents, and dug out some old information

1 from Manitoba Hydro about the net present value.

2 And so when we -- we talk about rate
3 increases and you've said the 5 percent only gives you
4 27 million this fiscal year, but it gives you 88
5 million next fiscal year.

6 In fact, Mr. Tess, it gives you a lot
7 more money out into infinity, correct?

8 MR. AUREL TESS (by Teams): That would
9 be correct. There's all the compounding effect of
10 that rate increase that would take place as well.

11 MR. BOB PETERS: And that would take
12 place if you got another rate increase on top of the 5
13 percent rate increase?

14 MR. AUREL TESS (by Teams): That's
15 correct.

16 MR. BOB PETERS: And so, Manitoba
17 Hydro has considered the net present values of rate
18 increases and does Manitoba Hydro have a -- an
19 estimate of what the net present value is of the five
20 (5) percent rate increase that's being sought?

21 MS. ODETTE FERNANDES (by Teams): Mr.
22 Peters, if I recall correctly, Mr. Tess did testify
23 that he hadn't engaged on any analysis and that is
24 part of the undertaking that we are going to go back
25 and review.

1 MR. BOB PETERS: Thank you, Ms.
2 Fernandes. Just let us know if -- if you're going to
3 provide it.

4 And I was wondering if, based on this
5 exhibit, Ms. Fernandes, subject to your letting the
6 witness answer, whether Mr. Tess would like to
7 estimate what that would be based on this information
8 or whether he would like to take it away.

9 MS. ODETTE FERNANDES (by Teams): I
10 think the best scenario for us right now is just to
11 take it away and just provide something that Mr. Tess
12 is comfortable providing to this Board.

13 MR. BOB PETERS: All right. Thank
14 you, Ms. Fernandes.

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: I'd like to turn at
18 this time back to page 4 of book -- of Board counsel
19 book of documents.

20 And, Mr. Tess, on the preliminary plan
21 year for next year, would it be correct for the Board
22 to note that Manitoba Hydro is preliminarily planning
23 or now budgeting for what will amount to a normal
24 year? Or maybe an average year would be a better
25 word, an average year.

1 MR. AUREL TESS (by Teams): I think
2 that's -- I think that's one (1) way of characterizing
3 it for sure because, I mean, one (1) of the main
4 considerations is the recovery from the drought that
5 we're forecasting in '22/'23.

6 When we go back to our forty (40) year
7 flow average or forty (40) year flow methodology in
8 '22/'23, that essentially is forecasting, you know, a
9 recovery of net export revenue. And of course,
10 imports go back to something more -- more normal, as
11 you can see on that line, too. So I think that would
12 be accurate.

13 MR. BOB PETERS: From your last
14 answer, Mr. Tess, you're telling the Board that to
15 develop the preliminary plan that you've put before
16 this Public Utilities Board, the Manitoba Hydro-
17 Electric Board, and now the Government of Manitoba,
18 Manitoba Hydro is assuming an average of four (4)
19 possible water flow years that will have the financial
20 impact that we see in the column on page 4.

21 MR. AUREL TESS (by Teams): I think it
22 was forty (40), not four (4).

23 MR. KEVIN GAWNE (by Teams): And
24 perhaps I could help with this question, Mr. Peters.
25 Just to start out --

1 MR. BOB PETERS: Mr. Gawne? Is that
2 Mr. Gawne?

3 MR. KEVIN GAWNE (by Teams): Yes, it
4 is. Yes, this is Mr. Gawne. Real quickly, I'll
5 introduce that. So, yeah, my name is Kevin Gawne.
6 I'm a registered professional engineer in Manitoba,
7 and I have twenty-three (23) years of experience with
8 Manitoba Hydro.

9 For the last ten (10) years, I've been
10 working and managing the Energy Operations Planning
11 Department and also -- which has merged with the
12 Resource Planning Department and is now called Energy
13 Supply Planning.

14 My responsibilities include in this
15 role overseeing energy operations -- energy operations
16 planning, management of our rivers and reservoirs,
17 and, in preparation of -- to prepare forecasts for
18 export revenues and generation costs.

19 Let me get this mask off.

20

21 (BRIEF PAUSE)

22

23 MR. KEVIN GAWNE (by Teams): Mr. Tess
24 was not lying. Okay. Pardon me for that.

25 MR. BOB PETERS: No, no. Take your --

1 MR. KEVIN GAWNE (by Teams): Yeah. I
2 -- I did want to add, Mr. Peters, at the outset there
3 was some discussion about the absence of Mr. Cormie at
4 this hearing, and I did want to -- to mentioned that.

5 I had the pleasure of working with Mr.
6 Cormie since prior to 2000, and I have worked in
7 various roles under his leadership, including
8 operating and managing the reservoir system through
9 the '03/'04 drought.

10 So we've -- we've had -- we've had many
11 experience, to use your sport's vernacular. I
12 wouldn't call myself a rookie, I would call myself a
13 firm team member that's now been called up in the
14 absence of our former captain.

15 So with all of that, I did want to
16 provide some background. But -- so to explain the --
17 the preliminary plan and how that's prepared
18 addressing water supply conditions, we modelled the
19 remainder of this fiscal year, which is, as -- as
20 we've heard already, based on a fairly narrow range of
21 flow conditions for the remainder of the year.

22 And we -- so then we have a good
23 picture of what our storage will be at the beginning
24 of '22/'23, which we know is going to be below
25 average. So we are accounting for, you know, the

1 drought conditions certainly that have occurred to
2 date.

3 And then next year, we assume a forty
4 (40) potential different water supply conditions based
5 on recent hydrology. And our net export revenues is
6 actually calculated as the average of the revenues and
7 costs from each individual simulated hydrologic year.

8 So it's -- it's not based on an average
9 flow year. It's average revenues and costs assuming a
10 range of possible flow conditions.

11 And we're not projecting that the
12 drought is going to end. We're not projecting that
13 the drought is going to necessarily continue. We're -
14 - we're assuming a range of potential flow -- flow
15 conditions, and in there is drought and in there is
16 favourable water conditions.

17 MR. BOB PETERS: Thank you for that.

18 MR. KEVIN GAWNE (by Teams): So
19 hopefully that helps out.

20 MR. BOB PETERS: It does, and don't go
21 too far. I'll -- I just want to tidy up a few things.

22 Can you tell this Board, Mr. Gawne, on
23 what date did you do your water flow analysis that
24 gave rise to the interim application that's sitting
25 before the Public Utilities Board?

1 MR. KEVIN GAWNE (by Teams): The --
2 there -- the forecast for '21/'22 and the preliminary
3 plan for '22/'23 was prepared on October 23rd, I
4 believe, and that included essentially water
5 conditions up to October 20th and actual -- actual
6 generation and export revenues up till the end of
7 September. So essentially, it was a bit of a
8 simulation for the beginning of October, yeah.

9 MR. BOB PETERS: Okay. So, Mr. Gawne,
10 this Board always likes the -- the best evidence
11 before it.

12 Are you able to update this Board on
13 what's happened from a hydrological basis since
14 October 23rd, and whether -- whether the numbers that
15 are coming through are -- are still exactly the same
16 or whether there's been movement on them, or do you
17 know?

18 MR. KEVIN GAWNE (by Teams): Well, we
19 -- we look at water conditions pretty much every
20 business day, so we're certainly monitoring
21 conditions.

22 Precipitation overall has been pretty
23 close to average since the time that this was
24 prepared, so, yeah, the -- the position or the
25 projection isn't materially different. There's --

1 there's puts and takes that'll change every day with
2 new outage forecasts coming in and, you know, actual
3 production and -- and details like that.

4 But, for the most part, the water
5 conditions have not changed materially, and I think
6 we'll have a better position on -- better idea of what
7 '22/'23 will look like in terms of flows not until
8 late in -- late into the end of winter when we have a
9 better idea of snow pack.

10 MR. BOB PETERS: And what does that
11 mean; April 1st? Mr. Gawne, April 1st of 2022?

12 MR. KEVIN GAWNE (by Teams): No. We
13 will be monitoring conditions carefully through the
14 winter. I know, however, though, that it's -- like it
15 is important to realize we'll have an accurate
16 representation of our storage in the spring, of
17 course, our reservoir storage.

18 But hydraulic generation for '21 --
19 pardon me, for '22/'23 will be very much dependent on
20 -- on the rainfall we receive next year. And as we've
21 heard before many times from Mr. Cormie, we receive a
22 lot of our water during the -- during the summer
23 season.

24 So, you know, we will have a very good
25 picture on where '22/'23 will be in terms of hydraulic

1 generation and revenues associated with water supply,
2 you know, again towards the end of -- towards the end
3 of the rain season in '22/'23, so into the late
4 summer/fall period.

5 MR. BOB PETERS: So the end of June,
6 the beginning of July of 2022?

7 MR. KEVIN GAWNE (by Teams): Well, Mr.
8 Peters, I think, as we've heard earlier this morning,
9 we -- we have had significant rain events occur in the
10 fall, so that can be a big part of the supply to our
11 system. We saw that in 2018 and we saw that in 2019.
12 Unfortunately, we did not see it -- see it this year.
13 We didn't see it in 2021.

14 So to say at a specific time in the
15 year or mid-summer that we'll know for sure what the
16 hydraulic generation will be, I think is -- I don't
17 think we'll be able to do that. There'll still be
18 considerable uncertainty.

19 MR. BOB PETERS: All right. Thank
20 you. And while you're still there, Mr. Gawne, this
21 preliminary plan column that we've been talking about
22 was prepared on the basis that Manitoba Hydro takes
23 each of the last forty (40) water flow years and
24 simulates that flowing through the existing generation
25 that it has right now and then takes the average of

1 the financial results.

2 Have I got that right?

3 MR. KEVIN GAWNE (by Teams): Mostly.

4 The existing generation we have now, plus new
5 generation coming into service. Of course, we're
6 putting units in service at Keeyask, so we have two
7 (2) more units to come in.

8 So, that will be in -- in our
9 preliminary plan that's assumed to be in service
10 before April 1st, 2022. But, yeah, for the most part,
11 we're assuming forty (40) different hydrologic cases
12 accounting for the storage conditions coming out of
13 this year and, essentially, transitioning to each and
14 every one of those flow cases starting in the spring.

15 And a lot of that'll be driven by,
16 again, snow melts that we experience from the snow
17 that accumulates this winter, and -- and then rainfall
18 next summer and next fall.

19 So, we're --

20 MR. BOB PETERS: I think --

21 MR. KEVIN GAWNE (by Teams): Yeah. Go
22 ahead, sorry.

23 MR. BOB PETERS: And -- thank you. I
24 will come back to you in a few minutes. But I wanted
25 to switch now to a new topic on the revenue

1 requirement of major capital projects. And I'll again
2 start with Mr. Tess.

3 On the book of documents, page 35, we
4 have a chart, Mr. Tess. And I believe, without
5 referring to the specifics of it, you were mentioning
6 this in your testimony previously today, sir?

7 MR. AUREL TESS (by Teams): That's
8 correct, m-hm.

9 MR. BOB PETERS: And what you're
10 showing the Board in figure 18, which is on page 35 of
11 Board counsel's book of documents, is that each of the
12 major assets that Manitoba Hydro has been building has
13 a cost as soon as parts of them come on service.

14 And -- and those costs become called
15 revenue requirements, correct?

16 MR. AUREL TESS (by Teams): That's
17 correct.

18 MR. BOB PETERS: And to be a bit more
19 specific, the revenue requirement costs for these
20 projects are mostly finance expense, and then some
21 depreciation expense, and then a little bit of O&A
22 expense.

23 Have I got that right?

24 MR. AUREL TESS (by Teams): The
25 categories are correct, yeah. The -- I think for sure

1 O&A, managing the higher asset base is -- is something
2 that will be -- you know, will be one (1) of the
3 drivers of O&A costs, along with -- but the biggest
4 expense would be the depreciation and finance expense.

5 MR. BOB PETERS: And of those two (2),
6 Mr. Tess, the finance would be the largest expense?

7 MR. AUREL TESS (by Teams): Yes.
8 There's also a small impact from capital tax, I
9 believe, as well, yeah.

10 MR. BOB PETERS: Okay. Good comment.
11 I got that. And -- and once these assets are in
12 service, the annual costs of those assets are no
13 longer added to the balance sheet.

14 But then for accounting purposes,
15 they're going to be recorded over on the operating
16 statement, and that's -- that's what you do?

17 MR. AUREL TESS (by Teams): That's the
18 accounting of it, yeah. The -- the costs are recorded
19 on the -- on the operating statement and the assets
20 are depreciated over their useful life. And you see
21 the asset balance declining, assuming there's no other
22 additions to the -- you know, to the asset categories.

23 But that's -- what you're -- you're
24 speaking of is exactly correct. Those costs get
25 transferred to the income statement.

1 MR. BOB PETERS: And the -- and the
2 Board will see that when it compares your results from
3 your last actual fiscal year to what's the forecast
4 for this year.

5 They'll see the finance expense and the
6 depreciation increasing related to these assets that
7 are now coming into service or have been in service?

8 MR. AUREL TESS (by Teams): That's
9 correct, yeah.

10 MR. BOB PETERS: Now, on page 35, when
11 we're looking at these assets, I'm going to focus on
12 Keeyask. This chart suggests that in the year we're
13 in, only \$282 million of Keeyask costs are in the
14 operating statement.

15 Is that correct?

16 MR. AUREL TESS (by Teams): That's
17 correct.

18 MR. BOB PETERS: And then next year,
19 it's going to be \$499 million?

20 MR. AUREL TESS (by Teams): Correct.

21 MR. BOB PETERS: Mr. Tess, help on
22 this one. I had thought Keeyask was going to be fully
23 in service the year we're currently in.

24 Am I right on that?

25 MR. AUREL TESS (by Teams): We expect

1 to have all seven (7) turbines commissioned. There
2 will be some additional capital costs, I think we've
3 talked about that, in -- in 2022/'23.

4 And you're wondering about the -- the
5 increase in costs of Keeyask in '23/'24. Is that
6 question, Mr. Peters?

7 MR. BOB PETERS: Yeah. You're looking
8 at my notes, so, yes, that is the question. How --
9 how -- if Keeyask is complete, why are the revenue
10 requirements going up?

11 MR. AUREL TESS (by Teams): Let me
12 just get some detail on that, and I'll be right with
13 you.

14

15 (BRIEF PAUSE)

16

17 MR. AUREL TESS (by Teams): So, thanks
18 for the time. So -- so, with the Keeyask project,
19 there are still costs, and we -- we refer to them as
20 trailing costs. Notwithstanding that the seven (7)
21 turbine units are in service, there are still
22 additional costs that are incurred in the future
23 years.

24 I think we do have something on our
25 Capital Plan that we might be able to refer to there.

1 But that's the reason for the escalating costs as you
2 go through from '21/'22 to '23/'24.

3 MR. BOB PETERS: Are trailing costs --
4 as an example, one (1) of them would be the
5 dismantling of the -- the camp?

6 MR. AUREL TESS (by Teams): I think
7 that's a good example, yeah, for sure.

8 MR. BOB PETERS: All right. We'll
9 check the -- the capital information you provided.
10 Thank you.

11 Now, Mr. Tess, while the Board looks at
12 all of these revenue requirements and that are coming
13 in, the only one (1) of those that is not yet fully
14 complete is Keeyask, correct?

15 MR. AUREL TESS (by Teams): I believe
16 so, yeah. Yeah.

17 MR. BOB PETERS: And there's a gross
18 impact summary two-thirds of the way down figure 18.
19 And I'm going to go to the '22/'23 year, just I think
20 it makes my point a little easier, that there's \$912
21 million of gross impact related to those six (6)
22 capital projects, correct?

23 MR. AUREL TESS (by Teams): Before you
24 -- before you deduct the amortization of the capital
25 reserve and the -- well, the two (2) capital reserves,

1 the Bipole and the MCR for Keeyask, correct.

2 MR. BOB PETERS: So -- so, you're
3 showing the gross revenue requirement impact, but I
4 don't see any offset in terms of the revenues that
5 would have come from Keeyask or the exports that maybe
6 went over the Birtle line or the -- the load savings
7 that Bipole 3 allows the Company to realize, the
8 transmission loss reduction.

9 Those revenues that come from these
10 assets is not depicted on this chart, is it?

11 MR. AUREL TESS (by Teams): The
12 revenues are not included on the chart, but they are
13 included in the -- in the projected export revenue
14 line in the '22/'23 preliminary plan.

15 MR. BOB PETERS: Yes. Thank you. And
16 -- and, again, I'm not looking for any confidential
17 information as to any of them.

18 But, the Board would expect that in the
19 Net Extra-provincial Revenue line shown on the
20 operating statement, there's some money that's coming
21 as a result of exports that notionally can be
22 attributed to Keeyask?

23

24 (BRIEF PAUSE)

25

1 MR. AUREL TESS (by Teams): Notionally
2 might be the way to describe it. We don't -- we don't
3 look at -- because we're an integrated utility and --
4 and the way -- you know, the way we -- we don't
5 account for the energy separately from each -- from
6 each project, so that's a very challenging exercise to
7 undertake because we're optimizing the way we do our
8 exports and we're optimizing the entire grid.

9 So, you know, you -- you might look at
10 it as a project basis and try to assume what it might
11 be. And I think there's some analysis in our
12 application that attempts to do that, but it's not
13 something that we -- we don't look at it that way
14 because it's very challenging to do that.

15 MR. BOB PETERS: One (1) way to say
16 that, Mr. Tess, if I understood your answer, is that
17 you cannot tell this Board that you took an electron
18 that came out of Keeyask and shipped it to
19 Minneapolis. You can't stream it; can't keep track.

20 MR. AUREL TESS (by Teams): You said
21 it much better than I did, Mr. Peters. Thank you.

22 MR. BOB PETERS: Okay. I'll take
23 that.

24 Now, Mr. Tess, before I deal with the
25 last few lines on figure 18, I don't see on this

1 sheet, do I, the new Keeyask in-service deferral
2 account that we're going to talk about later today?

3 MR. AUREL TESS (by Teams): Just let
4 me consult with my colleagues for one (1) sec.

5

6 (BRIEF PAUSE)

7

8 MR. AUREL TESS (by Teams): Okay.

9 Yeah, it is included in the -- in the five-twenty-six
10 (526), for example, on '23/'24. So the -- the
11 appreciation amount would have been taken into account
12 there.

13 MR. BOB PETERS: Okay. So what you're
14 telling the Board is that the numbers they're seeing
15 in figure 18 have been reduced for Keeyask to reflect
16 the deprecation and finance expense that have put in -
17 - have been put into a deferral account.

18 MR. AUREL TESS (by Teams): That's
19 correct.

20 MR. BOB PETERS: So we don't see it as
21 a discrete item, but the total numbers shown for
22 Keeyask have been reduced to reflect the Keeyask in-
23 service deferral account?

24 MR. AUREL TESS (by Teams): That's
25 correct. We do provide the amortization of that on a

1 different schedule, if --

2 MR. BOB PETERS: We'll come to that.

3 MR. AUREL TESS (by Teams): We'll come
4 to that, yeah.

5 MR. BOB PETERS: Okay. Thank you.

6 I want to end the discussion on figure
7 18, Mr. Tess, that while you give the gross impact,
8 that gross impact we now know has been reduced for the
9 deferral account for Keeyask.

10 But against that gross impact, Manitoba
11 Hydro is also subtracting the revenue deferral
12 accounts that this Board established, correct?

13 MR. AUREL TESS (by Teams): That's
14 correct.

15 MR. BOB PETERS: And the major capital
16 deferral account, this Board haven't given permission
17 yet to do it, but that's being requested in this
18 Application?

19 MR. AUREL TESS (by Teams): That's
20 correct. We depicted it as we are requesting in the
21 Application.

22 MR. BOB PETERS: Yes, and this is
23 consistent with your slide 10 on your deck, where you
24 were going to take 12 million in the current year, 50
25 million next year, and then the balance of 37 million

1 the following year?

2 MR. AUREL TESS (by Teams): That's
3 correct. Yeah.

4 MR. BOB PETERS: Now, the Bipole 3
5 deferral account -- you call it a reserve -- again,
6 there's no cash sitting there, is there, Mr. Tess?

7 MR. AUREL TESS (by Teams): There is
8 not. It's -- it's basically the same explanation I
9 gave you on the -- on the major capital reserve for
10 Keeyask. So I -- I don't need -- I don't think I need
11 to repeat it.

12 But, essentially, it's -- it's that --
13 it's a non-cash transaction.

14 MR. BOB PETERS: Understood. And the
15 Board did approve the Bipole 3 reserve account being
16 spread out over five (5) years, is that your
17 understanding?

18 MR. AUREL TESS (by Teams): That's my
19 understanding, yes.

20 MR. BOB PETERS: And what this shows
21 is that, this year, next year, and then there's a
22 little bit left over for the 2022 -- the '23/'24 year?

23 MR. AUREL TESS (by Teams): Yes.

24 MR. BOB PETERS: And those deferral
25 accounts reduce the revenue requirement that will show

1 up on the operating statement, correct?

2 MR. AUREL TESS (by Teams): That is
3 correct, yeah.

4 MR. BOB PETERS: And to quantify it,
5 if I can, let's pick the '22/'23 year.

6 According to Manitoba Hydro's request,
7 you would put \$127 million of deferred money on the
8 operating statement against the costs of these assets.

9 MR. AUREL TESS (by Teams): That's
10 correct. Yeah.

11 MR. BOB PETERS: And that 127 million,
12 at roughly \$17 million a percentage point, would mean
13 a 7 1/2 percent one-time rate increase is being
14 avoided by using these deferral accounts.

15 MR. AUREL TESS (by Teams): I think
16 that's roughly right. Yeah.

17 MR. BOB PETERS: Okay.

18 MR. AUREL TESS (by Teams): Yeah.

19 MR. BOB PETERS: Now, Mr. Tess, I'll
20 come to this as well. But you -- you keep reminding
21 me -- and that's never a bad idea -- that these
22 deferral accounts that the Board set up, they're not
23 cash transactions.

24 You don't have it sitting as cash,
25 correct?

1 MR. AUREL TESS (by Teams): That's
2 correct, yeah.

3 MR. BOB PETERS: And the same --
4 that's because you've used the cash already to avoid
5 borrowing when you had that money.

6 MR. AUREL TESS (by Teams): Correct.
7 Yeah.

8 MR. BOB PETERS: And the money -- the
9 money from ratepayers was more valuable to reduce debt
10 than it was to sit in a savings account and earn
11 interest. Is that a blunt way of putting it?

12 MR. AUREL TESS (by Teams): I think
13 it's better value for money, for sure. Yeah.

14 MR. BOB PETERS: All right. And the
15 same can be said, can it not, Mr. Tess, with the
16 retained earnings of Manitoba Hydro?

17 MR. AUREL TESS (by Teams): Can you
18 clarify that, the same could be said that it's not --

19 MR. BOB PETERS: Okay.

20 MR. AUREL TESS (by Teams): -- a non-
21 cash reserve?

22 MR. BOB PETERS: Well, these -- yes.
23 Let me -- let me rephrase the question. Thank you.

24 As with all of Manitoba Hydro's equity
25 and retained earnings, they're not sitting as cash

1 because Manitoba Hydro has already invested them back
2 into the business?

3 MR. AUREL TESS (by Teams): Well,
4 that's -- that's correct. So the cash we have on our
5 balance sheet is -- is borrowed. The fixed assets
6 that represent -- that are, kind of, I would say,
7 behind the retained earnings -- so in our equity
8 balance -- are property, plant, and equipment for the
9 most part. So they're not liquid assets that we could
10 access for -- for the purpose of a drought or any
11 other emergency.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: Mr. Tess, I want to
16 turn to a new topic about the Keeyask in-service
17 deferral account that we've -- we've just highlighted
18 a little bit to the Board already.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: That new Keeyask in-
23 service deferral account will contain -- let's go to
24 page 51 of Board counsel's book of documents and we'll
25 -- we'll get the exact numbers for the Board.

1 So on page 51, we have a continuity
2 schedule from the regulatory deferral accounts, Mr.
3 Tess. You're with me?

4 MR. AUREL TESS (by Teams): I am.

5 MR. BOB PETERS: And in the middle of
6 the page, conveniently highlighted in yellow, is what
7 Manitoba Hydro is proposing to do.

8 And that is, in the year that's already
9 closed, Manitoba Hydro put \$15.9 million of costs that
10 would otherwise end up on the operating statement,
11 Manitoba Hydro put those into a deferral account.

12 MR. AUREL TESS (by Teams): That's
13 correct.

14 MR. BOB PETERS: And it's proposing to
15 the do the seventy -- sorry, 73.5 million for the
16 current year we're in, and then another 14.063 million
17 the following year.

18 MR. AUREL TESS (by Teams): That's
19 correct.

20 MR. BOB PETERS: And would it be
21 correct to understand that this new deferral account
22 is calculated as the difference between how Manitoba
23 Hydro used to treat major assets under Canadian
24 Generally Accepted Accounting Principles, and now how
25 -- how International Financial Reporting Standards

1 requires Manitoba Hydro to report the costs of major
2 assets.

3 MR. AUREL TESS (by Teams): That's --
4 that's accurate, yeah.

5 MR. BOB PETERS: Can you tell the
6 Board why this deferral account is only being proposed
7 in this Application and not previously?

8 MR. AUREL TESS (by Teams): Sure. So
9 this -- this is a practice that has been consistent
10 and, most recently, with the Wuskwatim generating
11 station is -- is the accounting practice that we have
12 followed. And it's -- it's a consistent approach to
13 recognizing expenses and the revenue requirements.

14 It also provides a better matching of
15 costs associated with the seven (7) turbines as they
16 come into service and match with the revenue that they
17 generate.

18 And it has the impact of slowing down
19 the costs from being recognized on the income
20 statement. And, therefore, it smooths out the revenue
21 requirement for customers.

22 So there are lots of pros to this.

23 I know that our annual report refers
24 to, you know, the -- the PUB Board approval for the
25 in-service deferral Keeyask. And the thinking there

1 was that it would come -- at our next opportunity to
2 come to the Board to discuss this -- this deferral
3 with you and the pros and cons of it.

4 MR. BOB PETERS: But in this
5 Application, on the very first page of Board counsel's
6 book of documents, Manitoba Hydro is not asking, in
7 this Interim Application, for approval of the Keeyask
8 in-service deferral account, is it?

9 MR. AUREL TESS (by Teams): It's not
10 being -- it's not being called out there, for sure,
11 Mr. Peters.

12 But the intention is to disclose it to
13 you to -- to indicate the rationale behind it. And to
14 really build that consensus, that -- that is something
15 that we would want to continue in terms of our
16 consistent accounting practice.

17 MR. BOB PETERS: And to be clear from
18 an accounting perspective, Mr. Tess, Manitoba Hydro
19 requires the Public Utilities Board to approve this
20 regulatory deferral account, correct?

21 MR. AUREL TESS (by Teams): That's not
22 my understanding, no.

23 MR. BOB PETERS: It's not your
24 understanding?

25 MR. AUREL TESS (by Teams): Yeah. And

1 because we -- we had discussions about this during our
2 year end process and ess -- essentially, because it's
3 consistent with our -- our practice, our past
4 practice, that is our understanding of --
5 interpretation of the accounting standards.

6 MR. BOB PETERS: Then -- so, if you
7 don't need the PUB approval, why would you be bringing
8 it to the PUB for approval later?

9 MR. AUREL TESS (by Teams): It's
10 really for information, Mr. Peters. Let me clarify,
11 we're really bringing it to you for -- to be fully
12 transparent on how the accounting was -- was done and
13 that it is consistent with past practice.

14 MR. BOB PETERS: So, Manitoba Hydro's
15 auditors do not require the PUB to approve a new
16 regulatory deferral account?

17 MR. AUREL TESS (by Teams): That's
18 correct.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: So, let me play that
23 out, Mr. Tess. On one (1) example the Board approves
24 your application as filed.

25 Does that have any implications as to

1 whether this Board is or is not approving this
2 deferral account?

3 MS. ODETTE FERNANDES: Mr. Peters, I
4 think this is delving into a -- a provision of legal
5 opinions and legal interpretations of a statute, which
6 this witness is not in a position to respond to.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Thank you, Ms.
10 Fernandes. Let me -- let me ask this question then.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: If the Public
15 Utilities Board does not approve this deferral
16 account, will that mean Manitoba Hydro will have to
17 restate its financial statements from the 2020/'21
18 year, Mr. Tess?

19 MR. AUREL TESS (by Teams): We -- we
20 would follow the Board Orders and if that involves a
21 retroactive adjustment on our financial statement,
22 that would be the case, yes.

23 MR. BOB PETERS: And -- and maybe Ms.
24 Fernandes is inviting that for closing submissions on
25 behalf of Hydro to explain to the Board why Board

1 approval is not needed on this. And -- and I'll -- I
2 -- I don't want to ask Mr. Tess a legal question, but
3 from an accounting perspective, Mr. Tess, you're
4 telling us that Manitoba Hydro does not need PUB
5 approval of a new regulatory deferral account?

6 MR. AUREL TESS (by Teams): And -- and
7 that, again, goes back to the past practice and -- and
8 following our accounting policies consistently. And
9 that's part of our -- our rationale for putting it --
10 setting it up in the first place and to follow that --
11 that standard accounting practice.

12 THE CHAIRPERSON: Sorry, Mr. Peters.
13 Can I ask a question?

14 MR. BOB PETERS: Yes, certainly.

15 THE CHAIRPERSON: Mr. Tess, under your
16 past practice, did you disclose the in-service
17 deferral accounts to the PUB or was it just a -- an
18 internal journal entry?

19

20 (BRIEF PAUSE)

21

22 MR. AUREL TESS (by Teams): Sorry for
23 the delay. I had to get a brief technical explanation
24 from a period of time where I wasn't here.

25 But -- so -- so essentially going back

1 in time under different accounting standards, we had
2 under -- under CGAAP, essentially the -- the same
3 treatment, but it wasn't something that would come out
4 in a deferral account, because IFRS-4 really is -- is
5 something that came in subsequent, of course, that
6 we're following the CGAAP.

7 And that's where the -- the deferral
8 accounts would have been disclosed, starting with that
9 accounting standard.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: Thank you, Mr. Tess.
13 So, you're indicating to the Chair that this has never
14 arisen in the past, because Manitoba Hydro in past was
15 following the accounting guidelines that you've called
16 the Canadian General Accepted Accounting Practices,
17 correct?

18 MR. AUREL TESS (by Teams): Yeah,
19 that's correct. So, we're -- we're being consistent
20 with that, but it wouldn't have been disclosed as a
21 capital reserve -- a capital deferral, because of the
22 difference in accounting standards.

23 MR. BOB PETERS: Okay. Mr. Tess, and
24 as much as -- as Ms. Fernandez doesn't want me to ask
25 you legal questions, I'm going to delve a little bit

1 into the accounting here and you can educate me,
2 perhaps.

3 But, CGAAP, or Canadian Generally
4 Accepted Accounting Principles are no longer being
5 used by Manitoba Hydro, correct?

6 MR. AUREL TESS (by Teams): That's
7 correct. We're following IFRS now.

8 MR. BOB PETERS: And to follow IFRS,
9 you would have to show approximately, and we're
10 looking at the screen in front of us, you would have
11 to show \$73.591 million of expense on the operating
12 statement this year if you strictly followed IFRS,
13 correct?

14 MR. AUREL TESS (by Teams): If we
15 follow it with -- without the regulatory aspect of
16 IFRS, which is, I think, IFRS-14, that's correct,
17 yeah.

18 MR. BOB PETERS: And what you're
19 foreshadowing, Mr. Tess, is that under IFRS, instead
20 of having to show the \$73.5 million of additional
21 costs on the operating statement, there is a provision
22 under International Financial Reporting Standards
23 where a utility can use a deferral account, or a
24 regulatory deferral account to take it off of the
25 operating statement?

1 MR. AUREL TESS (by Teams): That's
2 correct.

3 MR. BOB PETERS: And in this case,
4 Manitoba Hydro has, I'm going to use the word
5 'unilaterally' done it, but has done it on the advice
6 of their auditors?

7 MR. AUREL TESS (by Teams): It wasn't
8 on the advice of the auditors, but they -- of course,
9 we discussed it with them.

10 MR. BOB PETERS: So, this was Manitoba
11 Hydros idea from the start?

12 MR. AUREL TESS (by Teams): I'd say
13 that's accurate, yeah.

14 MR. BOB PETERS: And why wasn't this
15 Manitoba Hydro's idea back in the 2017/'18, '18/'19,
16 '19/'20 GRA?

17

18 (BRIEF PAUSE)

19

20 MR. AUREL TESS (by Teams): Thanks,
21 Mr. Peters, for the time. It's challenging for me to
22 -- to answer for a time period where I wasn't here.

23 But essentially, you know, when the --
24 when the Keeyask generating station was being put into
25 unit is when we really started looking at this more in

1 depth.

2 So, that -- that's really the timing of
3 it, is -- is really probably the answer you're looking
4 for.

5 MR. BOB PETERS: All right. Before I
6 leave the screen, I'd just like Ms. Schubert to -- let
7 me see a little bit more towards the bottom. I think
8 I highlighted one (1) more number on here. If we can
9 -- oop. If we can come back and get both of the
10 highlighted lines on it.

11 So, what you're telling the Board here,
12 Mr. Tess, in terms of how this table works is,
13 Manitoba Hydro has taken \$15.9 million, plus \$73.5
14 million, plus fort -- and will take \$14.0 million off
15 of the operating statement, and that rounds up to
16 about \$104 million, correct?

17 MR. AUREL TESS (by Teams): That's
18 correct.

19 MR. BOB PETERS: And by taking it off
20 the operating statement, you're not going to show a
21 big loss in net income, because you don't have the
22 revenues to pay that, correct?

23 MR. AUREL TESS (by Teams): It forms
24 for the revenue requirement exactly, yeah.

25 MR. BOB PETERS: But rather than

1 asking ratepayers today to pay this \$104 million
2 dollars, you're proposing on the faintly highlighted
3 line, Keeyask in-service deferral to start charging it
4 back to consumers at approximately \$1.014 million a
5 year.

6 MR. AUREL TESS (by Teams): That's
7 correct because we're amortizing it over ninety-five
8 (95) years I believe.

9 MR. BOB PETERS: And that's because
10 Manitoba Hydro believes that Keeyask would now be
11 depreciated over ninety-five (95) years.

12 MR. AUREL TESS (by Teams): Correct.

13 MR. BOB PETERS: And is -- is that --
14 is there a new depreciation study in use at Manitoba
15 Hydro, Mr. Tess?

16 MR. AUREL TESS (by Teams): There was
17 one that we implemented -- some changes that were
18 recommended. I could -- I could get some details of -
19 - for you on that.

20 MR. BOB PETERS: So, do I take from
21 your answer there was no new depreciation study, but
22 there were, in my words, a few tweaks to the old one?

23

24 (BRIEF PAUSE)

25

1 MR. AUREL TESS (by Teams): Okay, so -
2 - so we -- we had a study done in 2019 that, using --
3 using your words Mr. Peters, was tweaking of the rates
4 that -- that were recommended in the study.

5 MR. BOB PETERS: Okay, so I'm
6 understanding that the most current study then is the
7 2019 study and that's in use today by the Utility?

8 MR. AUREL TESS (by Teams): That's
9 correct.

10 MR. BOB PETERS: One (1) last topic
11 related to this deferral account, Mr. Tess, I'll go at
12 it this way, sir.

13 Manitoba Hydro on January 1, 2022 will
14 be sitting with about a hundred (100) million dollars
15 in the major capital deferral account set up by this
16 Board in its last order to the Company? Correct?

17 MR. AUREL TESS (by Teams): Correct.

18 MR. BOB PETERS: And, so that's a
19 hundred (100) million dollars sitting there, and I
20 know it's not cash, but now you've taken about a
21 hundred (100), maybe a hundred and four (104) million
22 dollars of costs away and those costs are the very
23 reason that the Board set up the deferral account, was
24 to pay for the cost of some of these major assets.

25 And I take from Manitoba Hydro's

1 answers, that you're not interested in using that
2 hundred (100) million dollars to pay off this hundred
3 and four (104) million dollar deferral. Am I correct?

4 MR. AUREL TESS (by Teams): That's not
5 what we've proposed, for sure, and when we've -- when
6 we thought through this, it's -- it's looking at the
7 deferral to be in -- in consistent with our past --
8 past practice, which I think I went through some of
9 the benefits of -- of doing that in terms of smoothing
10 out the -- the impact as well.

11 MR. BOB PETERS: And so, Mr. Tess,
12 what you are telling the Board is, you want to defer a
13 hundred and four (104) million dollars of Keeyask
14 costs, not let it hit the operating statement as a
15 hundred and four (104) million, but bring it back as
16 \$1 million a year for the next ninety-five (95) years.
17 Correct?

18 MR. AUREL TESS (by Teams): That's
19 correct. Yeah.

20 MR. BOB PETERS: And then use the
21 hundred (100) million dollars sitting in the major
22 capital project deferral account on January 1, 2022,
23 and start bringing that -- giving credit back to the
24 ratepayers for that on the operating statement, over,
25 I guess we said twenty-four (24) months.

1 MR. AUREL TESS (by Teams): That's
2 correct. Yeah.

3 MR. BOB PETERS: So, in essence,
4 Manitoba Hydro gets a bigger bang for its buck by
5 using the Board's major capital deferral account
6 rather than a -- in -- in -- over twenty four (24)
7 months, rather than spending it all at once to take
8 care of this hundred and four (104) million dollar
9 deferral?

10 MR. AUREL TESS (by Teams): The way we
11 kind of looked at it was the customer gets -- gets the
12 benefit of that, because -- because of the
13 amortization period that we're looking at for that --
14 the difference in the depreciation values and it --
15 you know, and just to -- looking at the pros and cons
16 of this, again, these -- these are non-cash entries,
17 they don't affect or increase, or decrease, our cash,
18 but they do have an impact on revenue requirement net
19 income.

20 And the way we arrived at -- at what
21 we're proposing here, is -- is essentially to -- to
22 smooth out the costs over the ninety-five (95) year
23 period that you've mentioned.

24 There are still significant other
25 capital costs that can offset the major capital

1 reserve that we're proposing be amortized over twenty-
2 four (24) months.

3 So, the -- the in-service costs here
4 that -- the deferral of -- rather -- of, you know,
5 hundred and three (103) -- hundred and four (104)
6 million, is -- is really only a small part of -- of
7 the -- the other costs that are bring -- brought into
8 the income statement.

9 MR. BOB PETERS: I think we have your
10 position, Mr. Tess, so thank you on that.

11 I want to turn to a -- a new topic and
12 I hope it doesn't look like a Consumer Coalition's
13 title, but my -- my question to you, Mr. Tess, that
14 I'm going to develop is: Does Manitoba Hydro's
15 interim application contain a good news story?

16 And, what I mean by that is, if we go
17 back to page 4 of Board counsel's Book of Documents,
18 we see under the year we're in, called Forecast
19 '21/'22, we see a hundred and ninety (190) million
20 dollar loss that you have essentially testified, Mr.
21 Tess, is unavoidable at this point in time and that
22 hundred and ninety (190) million dollar loss already
23 reflects \$27 million from a 5 percent rate increase on
24 January 1, of 2022. Correct?

25 MR. AUREL TESS (by Teams): Yes.

1 MR. BOB PETERS: So, I don't want to
2 diminish the drought and the severity of the drought
3 in the year we're currently in, and that's not at all
4 -- that's not at all what I want and the -- the
5 Corporation has suffered \$398 million reduction in net
6 export revenues and I acknowledge that from your
7 filing and also this hundred and ninety (190) million
8 dollar forecast net income loss is clear.

9 But because we don't have any long-term
10 financial plan from Manitoba Hydro, Mr. Tess, and we
11 look over to the 2022/'23 column, I'm asking whether
12 or not Manitoba Hydro believes there's a good news
13 story in that column, and the good news story is with
14 a zero percent rate increase next week, Manitoba Hydro
15 has paid back the loss that it would have suffered in
16 the drought year.

17 Do you see that as a good news story,
18 sir?

19 MR. AUREL TESS (by Teams): I think
20 the challenge, Mr. Peters, with that is, as we've
21 pointed out, and what really concerns me gravely, is
22 the -- is the cash deficiency that -- that the -- the
23 Corporation is -- is looking at.

24 And, you know, as we've demonstrated
25 with the cash flow report, we're not -- we're not

1 paying back -- we're not even -- we're not paying --
2 beginning to pay back for the -- the cost of the
3 drought in '22/'23.

4 So, it's -- it's something that --
5 that's very concerning to me and I think it's
6 concerning to our entire executive. If I can -- if I
7 can speak for them, is -- is that challenge that we
8 face.

9 On top of the -- having the highly
10 leveraged balance sheet that we talked about in the
11 presentation, coming off the construction period.

12 MR. BOB PETERS: And -- and Mr. --
13 Mr. Tess, that highly leveraged capital ratio -- the
14 capitalization ratio that the Corporation has that
15 you've called it, that's a matter of long-term
16 financial forecasting, correct?

17 MR. AUREL TESS (by Teams): You're --
18 you're speaking about the long-term debt, Mr. Peters?

19 MR. BOB PETERS: Well, I'm talking
20 about your debt/equity ratio and some of those
21 financial targets that you want to move to a -- a
22 different financial target.

23 And I'm suggesting that that's --
24 that's really something we're going to see in the
25 long-term financial plan from the Company.

1 MR. AUREL TESS (by Teams): You're --
2 you're correct on that, yes.

3 MR. BOB PETERS: All right, but let's
4 stay with what we have because we have the 2022/'23
5 year and, if memory serves, and you just raised the
6 cashflow problem, next year Manitoba Hydro will have
7 51 million cash positive, if I remember the number.

8 Am I correct?

9 MR. AUREL TESS (by Teams): That's
10 correct.

11 MR. BOB PETERS: Now, you've also said
12 that's a very skinny amount relative to the -- to the
13 size of Manitoba Hydro, and -- and that is a concern
14 from -- from your operation, correct?

15 MR. AUREL TESS (by Teams): It is a
16 concern given -- given all the uncontrollable risks
17 that we face, you know, whether water and interest
18 rate risk and so on, yes.

19 MR. BOB PETERS: All right. Well,
20 you've just walked with me on page 35 of Board
21 counsel's book of documents, that the chart up at
22 Figure 18 on page 35, you've just walked with me that
23 the net impact on the operating statement for next
24 year is \$785 million related to those five (5) major
25 capital projects, correct?

1 MR. AUREL TESS (by Teams): That's
2 correct.

3 MR. BOB PETERS: And even with \$785
4 million of -- of costs related to those projects,
5 Manitoba Hydro will come out with a zero percent rate
6 increase \$200 million to the good, correct?

7 MR. AUREL TESS (by Teams): That's the
8 forecast, yes.

9 MR. BOB PETERS: Yes. Now, we'll get
10 to Mr. Gawne and see if he's going to be the grinch,
11 but we'll -- we'll come to him in a few minutes.

12 So -- so while you're agreeing with me
13 on the numbers -- and I -- I accept your comment about
14 the cashflow.

15 Mr. Tess, before your time and before
16 your president's time with Manitoba Hydro, but not
17 before your time at government across on Broadway, you
18 would have been familiar that following the in-service
19 of some of Manitoba Hydro's major capital projects,
20 Manitoba Hydro was going to and was planning to incur
21 financial losses for several years.

22 Do you recall that personally, sir?

23 MR. AUREL TESS (by Teams): I'm trying
24 to recall if -- if we were anticipating financial
25 losses, but for sure there was -- there was the

1 profile of the debt, the gross debt, which forms 44
2 percent currently of the province's gross debt, as I
3 understand it.

4 So it -- it -- when we talk -- when we
5 talk to credit rating agencies, it is also something
6 that's -- you know, that's significant for them. I
7 think the -- the credit rating agencies refer to it as
8 contingent liability.

9 So I would be familiar with the
10 additional costs that were going to be hitting the
11 income statement for the Utility, and then through the
12 -- through the accounting process would -- would also
13 impact the government's financial statements.

14 MR. BOB PETERS: All right. Now, I
15 apologize. I don't -- I don't have your -- your bio
16 in front of me, sir, and I -- I don't have it
17 committed to memory.

18 But were you aware that after the 2014
19 NFAT or the Needs For an Alternative To review of
20 Hydro's projects by this Board, the government green-
21 lighted Manitoba Hydro to proceed with Keeyask?

22 MR. AUREL TESS (by Teams): I wasn't
23 familiar with that, no.

24 MR. BOB PETERS: Okay. And after
25 Keeyask was given the green light, in the -- we're

1 going to compare our -- our failing memories here, but
2 in the IFF 2014, which would have been the first IFF
3 following the approval of Keeyask, Manitoba Hydro was
4 predicting losses in approximately eight (8) years,
5 with those cumulative losses being close to \$900
6 million.

7 Does that ring a bell to you, or do you
8 want to take that --

9 MS. ODETTE FERNANDES (by Teams): Mr.
10 -- Mr. Peters, you know, I think this is unfair
11 questioning of this witness. As he indicated this
12 morning, he's only been here for a couple of years,
13 and he shouldn't be expected to be intimately familiar
14 with all of the filings of Manitoba Hydro prior to his
15 time here at Hydro.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: Thank -- thank you,
19 Ms. Fernandes. And I -- I've got your point. So I
20 can also I think help out. And, Ms. Fernandes, I know
21 -- I know it wasn't before your time, but let me --
22 let me turn to page 26 of Board counsel's book of
23 documents.

24 Mr. Tess, here's a document that was
25 prepared again before your time, but I just want to

1 stay on this page.

2 You'd recognize this, Mr. Tess, as the
3 -- containing the format of a typical Manitoba Hydro
4 integrated financial forecast, would you, sir?

5 MR. AUREL TESS (by Teams): This --
6 this would be the Exhibit 93?

7 MR. BOB PETERS: Yes. This is not --
8 let me be clear, this is not Manitoba Hydro's
9 integrated financial forecast, but it's in the form of
10 one, correct?

11 MR. AUREL TESS (by Teams): Right.
12 Yeah, exactly. So my -- my understanding of this is
13 it was a scenario that was requested by one (1) of the
14 Intervener parties during -- during the General Rate
15 Application process.

16 MR. BOB PETERS: And would it be your
17 understanding that this is the last integrated
18 financial forecast that Manitoba Hydro has provided to
19 the Board?

20 MS. ODETTE FERNANDES (by Teams):
21 Again, Mr. Peters, as you noted, this isn't a Hydro
22 financial forecast. It was a scenario that was run
23 based on a number of assumptions that were provided by
24 Manitoba Hydro. But it was filed to be responsive to
25 an Information Request by an Intervener.

1

2 CONTINUED BY MR. BOB PETERS:

3 MR. BOB PETERS: Yes. Thank you, Ms.
4 Fernandes. And I think Mr. Tess has it exactly right.
5 It was -- it was exactly that.

6 And on this scenario that was run, Mr.
7 Tess, you can see on the net income line that there
8 are years in which there are losses in net incomes.

9 Do you see that?

10 MR. AUREL TESS (by Teams): I do.

11 MR. BOB PETERS: And I'm suggesting,
12 sir, that that's not unexpected by Manitoba Hydro
13 because when a new major asset of \$8.7 billion comes
14 in service, there are depreciation costs, there are
15 financing costs, and there are O&A costs that would
16 come crashing down onto the income or operating
17 statement, correct?

18 MR. AUREL TESS (by Teams): That's
19 correct.

20 MR. BOB PETERS: And so I only show
21 this not -- not because I'm testing anybody's memory,
22 Mr. Tess, but I'm showing that there was an
23 expectation.

24 And if you choose, you can go back and
25 look at some of Manitoba Hydro's own integrated

1 financial forecasts, leaving out the ones that assume
2 a 7.9 percent annual rate increase. And I believe in
3 every one of those, you will see that there are losses
4 that are expected by the Utility.

5 Would you take that, subject to check?

6 MR. AUREL TESS (by Teams): So may I
7 consult for one (1) second?

8 MR. BOB PETERS: Sure.

9

10 (BRIEF PAUSE)

11

12 MR. AUREL TESS (by Teams): Okay.

13 I'll take that, subject to check, Mr. Peters.

14 MR. BOB PETERS: And -- and the only
15 point there, Mr. Tess, the one I think you made to me
16 in -- three (3) answers ago, and that was that
17 accountants know that there's costs going to be coming
18 for these major projects that have to be reckoned
19 with.

20 And in this case, the rate revenue
21 wasn't sufficient to erase the costs, so there's a
22 negative that's showing on the net income line.

23 MR. AUREL TESS (by Teams): Yes.

24 MR. BOB PETERS: The point I'm trying
25 to get to, and I was trying to make it a good-news

1 story until Ms. Fernandes jumped in, so I'll blame her
2 for that. But let's -- let's look at page 23 of Board
3 counsel -- well, no, sorry.

4 Before we go, Mr. Tess, on the sheet
5 that's in front of you, you will see that there are
6 percent increases of rates. In the black ink was
7 three point five seven (3.57) was an equal annual rate
8 increase that was the -- the variable that was solved
9 for on this scenario.

10 Do you see that?

11 MR. AUREL TESS (by Teams): I do see
12 that, yeah.

13 MR. BOB PETERS: And you see above it
14 in red ink the rate increases that were given to
15 Manitoba Hydro.

16 MR. AUREL TESS (by Teams): Correct.

17 MR. BOB PETERS: You see three point
18 six (3.6) from the Public Utilities Board in the 2019,
19 and then there's a zero for the '19/'20 because that
20 2.5 percent rate increase ended up in the deferral
21 account, so it wouldn't show up here as -- as revenues
22 from consumers yet, would it?

23 MR. AUREL TESS (by Teams): Yeah, I
24 see your logic. By putting a zero there, the 2 1/2s
25 would have been essentially deferred.

1 MR. BOB PETERS: Right.

2 MR. AUREL TESS (by Teams): Yeah.

3 MR. BOB PETERS: And then the two
4 point nine (2.9) came from the provincial government -
5 - you called it BITZA (phonetic) -- on December 1st
6 of 2020?

7 MR. AUREL TESS (by Teams): Correct.

8 MR. BOB PETERS: Okay. And the -- the
9 current year is still a question mark as we put on the
10 sheet.

11 But if we turn now to page 23 of Board
12 counsel's book of documents, under MH-93, just by
13 adding up those rate increases that the Board either
14 approved or were forecast in that MH-93 document, you
15 will see that it would come out to about 23.17
16 percent. And I don't think that's compounded. It's
17 just cumulative.

18 You'll accept that?

19 MR. AUREL TESS (by Teams): Yeah.

20 MR. BOB PETERS: And then, if we look
21 over to the right-hand column of the top -- the chart
22 on the top of the page, under the 2021/'22 interim
23 application that we have before us, if we take the
24 actual approved rate increases that the Corporation
25 has received, even with the 5 percent that you're

1 asking for today, Manitoba Hydro's cumulative rate
2 increase is 18.47 percent compared to 23.17 that
3 Exhibit 93 showed, correct?

4 MR. AUREL TESS (by Teams): One (1)
5 thing. I -- I have a question on the table where it
6 shows --

7 MR. BOB PETERS: Sure.

8 MR. AUREL TESS (by Teams): -- in
9 1920, 2.4 percent. So, here we're showing, I believe
10 -- wasn't that the year we had 2.5 percent --

11 MR. BOB PETERS: Yeah.

12 MR. AUREL TESS (by Teams): -- that
13 went into the capital reserve?

14 MR. BOB PETERS: And Ms. Fernandes, or
15 certainly, Ms. Gregorashuk, will explain that there
16 was a Court of Appeal challenge, things didn't go as
17 well as some parties wanted, and there were some rate
18 adjustments --

19 MR. AUREL TESS (by Teams): Oh, right.

20 MR. BOB PETERS: -- as to who should
21 end up paying and who should pay how much.

22 The Corporation wanted about -- it
23 worked out to 2.4 percent of additional rate increases
24 even if the revenue number got a little bit higher, so
25 that's --

1 MR. AUREL TESS (by Teams): Okay.

2 Yeah.

3 MR. BOB PETERS: -- that's a
4 discrepancy. And I didn't explain it very well, but
5 it's -- I think it's minor in both of our minds, is
6 it, sir?

7 MR. AUREL TESS (by Teams): Yes, it
8 is, yeah. I just want to --

9 MR. BOB PETERS: All right. So, the--

10 MR. AUREL TESS (by Teams): Yeah.

11 MR. BOB PETERS: So, the point I'm
12 taking is that, if -- if the Board the last time it
13 had a full GRA with Manitoba Hydro was thinking that
14 3.57 percent annual rate increases were going to be
15 necessary to help get Keeyask paid for, we now look to
16 the right-hand side, and it looks like only 18.47
17 percent was needed because next year there's --
18 there's a \$200 million profit.

19 Do you see my -- my suggestion to you,
20 sir?

21 MR. AUREL TESS (by Teams): Yes, I do.
22 Yeah.

23 MR. BOB PETERS: And again, that's the
24 premiss under which maybe we have a good news story in
25 this filing in addition to the drought. And I haven't

1 got you convinced yet, but you can see the logic
2 behind where I'm going?

3 MR. AUREL TESS (by Teams): Yeah, I
4 can see that, yeah.

5 MR. BOB PETERS: All right. In the
6 middle of the page, just briefly, there's a comparison
7 of two (2) fiscal years.

8 And, in this case, the fiscal years are
9 compared, the same ones, 2022/'23 is compared with
10 2022/'23 from the Exhibit 93 to this plan that's
11 before the Board today. And that's just a year-to-
12 year comparison, and it still looks like it's going to
13 be positive on that basis, sir.

14 There's -- the Corporation is -- is
15 doing better than what was expected. Would you accept
16 that?

17 MR. AUREL TESS (by Teams): Yes.

18 MR. BOB PETERS: All right. The
19 bottom of the page is where I really wanted to go.
20 And the bottom of the page is showing -- you'll see
21 that the years don't line up.

22 Do you see that the MH-93 is 2023/'24
23 and the preliminary plan is only '22/'23, sir?

24 MR. AUREL TESS (by Teams): Yes.

25 MR. BOB PETERS: And you can confirm

1 to this Board that the preliminary plan year of
2 2022/'23 is the first year in which Keeyask is fully
3 in service, correct?

4 MR. AUREL TESS (by Teams): That's
5 correct.

6 MR. BOB PETERS: Now, you'll have to
7 take it subject to check because, again, I appreciate
8 you weren't there. And maybe you can make Ms.
9 Fernandes check that. But I think on MH-93 the
10 2023/'24 year was Manitoba Hydro's then assumed first
11 year that Keeyask would be a hundred percent in
12 service.

13 Will you accept that premiss, sir,
14 subject to -- to check?

15 MR. AUREL TESS (by Teams): Just one
16 (1) sec.

17

18 (BRIEF PAUSE)

19

20 MR. AUREL TESS (by Teams): Sorry for
21 the delay. So, we couldn't confirm the in-service
22 date assumptions in the -- we -- we can get that, I
23 believe.

24 But I do want to -- to point out though
25 that the -- there is some -- we did have a chance to

1 take a look at the major drivers that were behind the
2 difference really between Exhibit 93 and the
3 preliminary plan.

4 And the two (2) main drivers are, 1)
5 the Sask Power sale was not factored into -- to that
6 scenario, and number 2) the scenario does not reflect
7 the lower interest rate environment we're currently
8 experiencing.

9 So, I don't know if that's help you --
10 helpful to you, Mr. Peters, in understanding the
11 difference.

12 MR. BOB PETERS: And it -- it is
13 helpful to the panel, Mr. Tess, and we appreciate --

14 MR. AUREL TESS (by Teams): Yeah.

15 MR. BOB PETERS: -- that. We do not
16 want -- we are not asking you to do an analysis
17 between those two (2). Trust me, some day Exhibit 93
18 won't even be a memory but, right now, it's the last
19 IFF this Board has seen, so it's -- it's back in the
20 forefront.

21 But my -- my only comment, sir, was to
22 compare the first year in-service, if I am correct,
23 that in the MH-93 it was 2023/'24 assumption, compared
24 to '22/'23 in the preliminary plan, it looks like
25 Manitoba Hydro may have turned the corner.

1 And I'm not sure you're going to agree
2 with me, but you're not going to disagree with me?

3 MR. AUREL TESS (by Teams): Well, I
4 think the challenge is -- is we do have to look at the
5 -- the fuller picture of the debt levels that -- that
6 we're still -- you know, we still have those -- those
7 high debt levels. And the income statement doesn't
8 really give you that full -- fulsome picture of that,
9 Mr. Peters.

10 MR. BOB PETERS: All right. I have
11 one (1) more topic before I'm going to ask for the
12 afternoon break, if I can. And I want to go back to
13 PUB Exhibit 8. And I'm going to talk hydrology. And
14 I'll get Mr. Gawne to also assist.

15 But you'll recall, you were gracious
16 enough this morning, Mr. Tess, to review this payments
17 to government chart. And you first came up with the
18 \$438 million that is in the current year forecast,
19 correct?

20 MR. AUREL TESS (by Teams): That's
21 correct.

22 MR. BOB PETERS: And we talked about
23 the different payments to government. And then I
24 believe we also showed page 343 out of 700 of the PDF
25 that contained Manitoba Hydro's filing.

1 And on page 343 there was a colourful
2 depiction of the export contracts that we understand
3 were presented by Manitoba Hydro to the debt rating
4 agencies.

5 Is that also correct?

6 MR. AUREL TESS (by Teams): That's
7 correct.

8 MR. BOB PETERS: And I believe, your
9 hydrological knowledge being better than mine, you
10 indicated that even over and above these firm
11 contracts Manitoba Hydro was selling opportunity or
12 spot market energy into the MISO market, and other
13 markets, I guess?

14 MR. AUREL TESS (by Teams): That's
15 correct.

16 MR. BOB PETERS: All right. Mr.
17 Gawne, did I get any of that wrong this morning, or
18 can you provide any further assistance in interpreting
19 the capacity that is being used over and above what
20 Manitobans are actually using on the system?

21

22 (BRIEF PAUSE)

23

24 MS. ODETTE FERNANDES (by Teams):
25 Obviously, Mr. Gawne did not appreciate the question.

1 MR. BOB PETERS: Or struggling with
2 the technology already, Ms. Fernandes?

3 MS. ODETTE FERNANDES (by Teams): I
4 believe so. He is trying to get right -- he's trying
5 to get back into the meeting.

6 MR. BOB PETERS: All right. We'll
7 certainly, I expect, let him in. But I do want to --
8 Mr. -- Mr. Tess, until we have Mr. Gawne back, I do
9 have some -- just a couple of other questions about
10 hydrology. And I was hoping that we could discuss
11 them without -- at our level but certainly welcome Mr.
12 Gawne to assist us.

13 MR. KEVIN GAWNE (by Teams): Okay, my
14 apologies.

15 MR. BOB PETERS: Oh, all right.

16 MR. KEVIN GAWNE (by Teams): I'm back.

17 MR. BOB PETERS: You're back?

18 MR. KEVIN GAWNE (by Teams): Yeah.

19 MR. BOB PETERS: In your absence, I
20 was showing Mr. Tess where we discussed this morning
21 with the Board's payments to government, and, also,
22 the -- the export chart that is presented to the debt
23 rating agencies. You're familiar with it, sir?

24 MR. KEVIN GAWNE (by Teams): Yes, I
25 am.

1 MR. BOB PETERS: Is it accurate?

2 MR. KEVIN GAWNE (by Teams): I haven't
3 looked at this chart in great detail, but subject to
4 check, I think it's accurate. It was -- if it was
5 presented to the bond rating agencies, yes.

6 MR. BOB PETERS: All right.

7 MR. KEVIN GAWNE (by Teams): This is a
8 chart of our capacity sales -- our long-term capacity
9 sales to various customers. So actually, if I could
10 just add, some of the discussion this morning I think
11 was maybe confusing a few topics.

12 We were talking about dependable energy
13 and dependable water. Those aren't necessarily the
14 same things, so Manitoba Hydro supplies these long-
15 term contracts normally with surplus hydro, but we
16 also will rely on other forms of energy to meet these
17 sales under drought conditions such as we're currently
18 experiencing.

19 So we use -- we rely on dependable
20 energy and that consists of -- in addition to our
21 hydro use of our storage reservoirs, but thermal
22 generation and imports.

23 Now this chart here is capacity, which
24 is a different topic entirely, but I think for the --
25 that's the capability of the system. And we have that

1 capability of the system, you know, for a certain
2 number of hours of the day, even under drought
3 conditions. And we'll meet those commitments as we
4 are now.

5 So hopefully that's helpful. Just a
6 distinction between dependable energy and -- and
7 dependable water, they're one and the same.

8 MR. BOB PETERS: Yes. Thank you for
9 providing that correction.

10 But while we're on this topic, and
11 we'll continue, Mr. Gawne, this Application before the
12 Board indicates that some eighteen (18) months ago,
13 before Manitoba Hydro was seeing any drought, Manitoba
14 Hydro stopped using the hundred-and-eight (108) year
15 flow data and, instead, went to the most current forty
16 (40) years of flow data. Correct?

17 MR. KEVIN GAWNE (by Teams): Some
18 eighteen (18) months ago, for our current budget that
19 we've prepared and submitted here, and also the -- the
20 preliminary plan, they're based on the -- pardon me --
21 the current year forecast and the budget for --
22 preliminary budget for '22/'23 is based on forty (40)
23 years.

24 Just I'm trying to get the reference on
25 the eighteen (18) months ago, sorry.

1 MR. BOB PETERS: I believe I read in
2 the filing and -- that -- first of all, let me ask it
3 this way, Mr. Gawne.

4 MR. KEVIN GAWNE (by Teams): Sure.

5 MR. BOB PETERS: When did Manitoba
6 Hydro ditch the hundred-and-eight (108) years and go
7 to the forty (40) year flow records for its
8 forecasting of the financial results of the Company?

9 MR. KEVIN GAWNE (by Teams): For --
10 okay. We have -- first of all, let me say we have not
11 discarded the long term flow record. We are using the
12 shorter term records, the last forty (40) years, for
13 our financial budget year and also for our operations
14 planning in this -- in the current fiscal year that
15 we're in.

16 The long --

17 MR. BOB PETERS: Mr. Gawne --

18 MR. KEVIN GAWNE (by Teams): Yes.

19 MR. BOB PETERS: -- let me -- let me
20 interrupt you, sir. And I know that's dangerous with
21 Ms. Fernandes.

22 But -- but when you say you're not
23 using the hundred-and -- or you haven't disregarded
24 the hundred-and-eight (108) year flows, you're using
25 the hundred-and-eight (108) years for reliability and

1 system planning, would that be true?

2 MR. KEVIN GAWNE (by Teams): We are
3 using it for reliability, certainly, for system
4 planning. Also for reliability for operations
5 planning in this next operation's horizon.

6 So we are protecting, you know, energy
7 and reservoir storage for spring of 2022. So that we
8 can continue to meet our firm load if we were to
9 experience the worst drought on record of that entire
10 record.

11 So we're -- we're -- when we say
12 'reliability planning,' it's -- we're worrying about
13 the -- or preparing for the forty (40) forty-one (41)
14 drought to potentially occur starting in spring of
15 '22.

16 It's just not one of the flow cases
17 that's used in the multiple flow cases to prepare the
18 budget for -- for '22/'23. So --

19 MR. BOB PETERS: And I believe it was
20 clear -- I hope I was and, if I mis-spoke, then I -- I
21 apologize.

22 But for financial -- for financial
23 calculation purposes, approximately eighteen (18)
24 months ago, I suggest Manitoba Hydro went to a forty
25 (40) year flow record, as opposed to the hundred-and-

1 eight (108). Am I wrong?

2 MR. KEVIN GAWNE (by Teams): For the
3 budget, for the year beyond the current fiscal year,
4 that's correct.

5 MR. BOB PETERS: Okay. So --

6 MR. KEVIN GAWNE (by Teams): But the -
7 - for our long term financial planning, I anticipate
8 we will continue to use the longer record. And the
9 reason for that, of course, is there is a wealth of
10 information in that record, including multi-year
11 droughts. And we want to preserve this -- you know,
12 the chronology of the hydrology of the system and
13 we'll continue to use that record in -- in our system
14 planning.

15 And also, I -- I believe, in our
16 financial planning. But that's -- again, that's
17 beyond the budget year. And there's good reasons why
18 we use the shorter records.

19 The budget year and the current fiscal
20 year, that's explained, I think, quite thoroughly in
21 Coalition 1. Particularly, the -- the spatial -- you
22 know, the detail of -- of the shorter record gives us
23 the ability to better model the system and the budget
24 year. Gives us the ability to better reflect the
25 state of the entire system, so that we're -- you know,

1 we're producing better forecasts in the near term.

2 When you get into the out years beyond
3 -- beyond '22/'23, the -- that level of detail is not
4 necessary because, effectively, the -- you know, the
5 smaller reservoirs in the system that you're
6 modelling, that -- that effect gets washed out going
7 that far out in to the future. So I -- I anticipate
8 we'll continue to use the longer record.

9 MR. BOB PETERS: Okay. Thank you --
10 thank you for that. That's new news to us. And we'll
11 await the long-term financial forecast to see how that
12 worked out.

13 But on page 22 of Board counsel's book
14 of documents, we see a plot of the forty (40) years
15 that were used in the calculation of the financial
16 impacts on extra-provincial revenues for the '22/'23
17 year, correct? Mr. Tess? Mr. Gawne?

18 MR. KEVIN GAWNE (by Teams): Yes,
19 correct.

20 MR. BOB PETERS: So in my mind, I'm
21 envisioning forty (40) little dots on this page and
22 they happen to be joined by a solid blue line.

23 Am I -- is that what this line is
24 showing?

25 MR. KEVIN GAWNE (by Teams): Yeah,

1 each one of those -- yes. There's forty (40) -- forty
2 (40) dots that are used and sorted to construct that -
3 - to illustrate that distribution.

4 Each one (1) of those dots is prepared
5 by simulating the operation of our system and all the
6 generation costs and export revenues associated with -
7 - with that particular flow case.

8 MR. BOB PETERS: And Mr. Gawne, you
9 started off with forty (40), and, like your President
10 said, it -- just by the afflection (phonetic) of time
11 and the amount of precipitation that fell or didn't
12 fall, you reduced the forty (40) down to about ten
13 (10).

14 And then, I think, after a few more
15 weeks, the ten (10) ended up being four (4). And
16 eventually, the four (4) turned into one (1), meaning
17 there was only one (1) of those forty (40) flow cases
18 that could be mirrored that happened this year.

19 And that's what's shown to the Board
20 here?

21 MR. KEVIN GAWNE (by Teams): In
22 general terms, I think -- I think you've characterized
23 it well.

24 It's really -- of the years -- the
25 '21/'22 year is -- is a unique year and these are

1 historic years themselves. So that's not to say that
2 the hydrology in any one (1) of these cases that was
3 used to prepare this distribution is going to map out
4 to be the same as -- as what occurs in this current
5 fiscal year.

6 MR. BOB PETERS: All right. And --

7 MR. KEVIN GAWNE (by Teams): So the --
8 the range of uncertainty -- yes, it -- it is still
9 pretty broad during the rain season. And even heading
10 into the fall, as I was discussing earlier. We can
11 have those fall floods.

12 I can -- I think it's -- actually, it
13 might be quite helpful to -- to refer back to some
14 previous testimony by David Cormie. He had provided
15 to the Board about the -- the topic of uncertainty in
16 flows and forecasting flows and -- and revenues for
17 the -- for the budget year.

18 And if you'll just bear with me for one
19 (1) second.

20

21 (BRIEF PAUSE)

22

23 MR. KEVIN GAWNE (by Teams): It was
24 from the 2019 Rate Application. I don't know if we
25 need to go there, but I believe it was MH Exhibit 25

1 where -- and in the transcripts in that Rate
2 Application, page -- it starts at page 75.

3 Essentially -- and I'll just summarize
4 it and we can go there if -- if you would like, but
5 Mr. Cormie was walking through an explanation of how
6 water conditions evolved through the 2018 water year
7 and how conditions were quite dry up until later in
8 the -- September, I believe it was, and we had quite a
9 good turnaround on the Winnipeg River Basin, which as
10 we know is a key basin in our system.

11 So, it turned out that water conditions
12 had improved quite significantly over the course of
13 the few weeks in the fall. But then Mr. Cormie goes
14 on to explain how despite that improvement and the
15 fact that the Province was forecasting almost a record
16 flood, or a flood similar to 2009 I think it was in
17 the charts that he illustrated, that he's speaking to
18 in this transcript here where, essentially, the -- the
19 Red River flood that was forecast in the spring on
20 March 28th, effectively was cut in half by -- in terms
21 of volume only three (3) weeks later in a revised
22 forecast.

23 So -- and that -- that was in the
24 spring of 20 -- the spring of 2019, I believe. Where
25 just in that short timeframe our flow forecast can

1 change. So, things can change. So, the -- the point
2 is, there -- there is, you know, that range of water
3 supply uncertainty, and that exists through the --
4 through the rainfall season.

5 MR. BOB PETERS: Thank you, Mr. Gawne.
6 I'd like to turn to page 16 as I wrap up this topic of
7 hydrology. On the Board -- book of documents, that
8 blue line on that chart, to Mr. Tess, Mr. Gawne, is
9 the same one that was included in the original
10 application, correct?

11 MR. KEVIN GAWNE (by Teams): Correct.

12 MR. BOB PETERS: And then in one (1)
13 of the Information Requests, which is what you're
14 showing here is, Mr. Gawne, you used the hundred and
15 eight (108) flow records and showed what it would look
16 like and you put that on this same chart, superimposed
17 it with the green line, correct?

18 MR. KEVIN GAWNE (by Teams): The
19 hundred and eight years (108) years is the green line
20 by my chart here and the blue line is the four (4) --
21 forty (40) years.

22 MR. BOB PETERS: Thank you. I think
23 we're on the same page.

24 So, where I'm going with this is when
25 you're predicting the results for next year or into

1 the future, is the P50 or the probability that 50
2 percent of the time you'll be too high and 50 percent
3 of the time you'll be too low, is that the best number
4 to use when you're doing a forecast, Mr. Gawne?

5 MR. KEVIN GAWNE (by Teams): No. And
6 the reason I say no is because, as we know, this
7 system is not linear, or it's not to use -- it's not a
8 symmetric affect with water supply on -- on Manitoba
9 Hydros generation, and therefore, on its revenues.

10 So, our -- our -- yeah, our system only
11 has the ability to use so much water. So, in a flood
12 we're spilling and in a drought, you know, we're
13 purchasing power or using more expensive generation.
14 And that, as the water supply gets lower, we're having
15 to get into more, and more expensive supplies.

16 So it's a -- it's a skewed relationship
17 and we've said it's not symmetric.

18 MR. BOB PETERS: Yeah, so it's not
19 symmetric, meaning you've got a -- a deeper downside
20 than you do a higher upside?

21 MR. KEVIN GAWNE (by Teams): Correct.
22 Yeah, so they --

23 MR. BOB PETERS: And --

24 MR. KEVIN GAWNE (by Teams): Sorry.
25 Yeah, so the median -- the median, which is just the

1 middle of a ranking of numbers is -- is different than
2 the average. And the average for flex (phonetic),
3 really what -- you know, over a number of years that
4 should be your average outcome.

5 MR. BOB PETERS: On this graph, Mr.
6 Gawne, if we took the P50 forecast level, what would
7 be the net income forecast for the 2022/'23 year that
8 is currently shown as 200 million?

9 What would it be if we used the P50
10 number?

11 MR. KEVIN GAWNE (by Teams): Yeah, so
12 our -- our preliminary plan for '22/'23 is the average
13 of the blue dots, essentially, right.

14 But if we were to use the median, and
15 sorry, you are speaking of the long-terms flow record
16 or are you speaking of the -- the blue line, using the
17 forty (40) years of records? Let's restate that
18 question, sorry.

19 MR. BOB PETERS: Yes, let's do them
20 for both, Mr. Gawne.

21 MR. KEVIN GAWNE (by Teams): Okay.
22 Sure.

23 MR. BOB PETERS: We're going to use
24 the P50 level for the preliminary plan that's been
25 filed. And instead of 200 million, what would be the

1 approximate net income that would be in the forecast?

2 MR. KEVIN GAWNE (by Teams): It would
3 be about two hundred and two (202). It's very tight
4 to the 50th percentile, the average in that case.

5 MR. BOB PETERS: All right.

6 MR. KEVIN GAWNE (by Teams): I think
7 it looks to me -- I'm just eye-balling it. Let's say
8 47th percentile is the average.

9 MR. BOB PETERS: I'm not going to hold
10 you to it and it's not going to come out of your or my
11 paycheck.

12 MR. KEVIN GAWNE (by Teams): Based on
13 my chart.

14 MR. BOB PETERS: Let's do that same --

15 MR. KEVIN GAWNE (by Teams): Sir, can
16 I -- can I just -- pardon me. I just want to consult
17 here for one (1) second.

18 MR. BOB PETERS: Certainly.

19

20 (BRIEF PAUSE)

21

22 MR. KEVIN GAWNE (by Teams): Okay.

23 Sorry. I'm back, sir. Mr. Peters?

24 MR. BOB PETERS: Yes, sir. Are you
25 waiting for my question, sir?

1 MR. KEVIN GAWNE (by Teams): Yeah.

2 Thank you.

3 MR. BOB PETERS: All right. Thank you
4 for telling us that if we use the P50 level, the
5 preliminary plan might be as high as two million two
6 or somewhere around there.

7 But if we did the same P50 with your
8 long-term hundred and eight (108) flow records on the
9 green line, and we take the P50, wouldn't the net
10 income for next fiscal year be closer to \$250 million?

11 MR. KEVIN GAWNE (by Teams): The math
12 -- or the -- you know, the sorting of the data would
13 work out that way if you sort them out and the 50th
14 percent up the list would be around 250 million.

15 Again, Mr. Peters, though the -- the
16 use of a median isn't -- isn't helpful because of the
17 asymmetry of the -- the effect of water supply on our
18 net export revenues and this is why we use the average
19 of the simulated results.

20 Recognizing that, you know, the 50th
21 percentile -- or, pardon me, we'll -- we'll never land
22 on the average exactly. There will be years where
23 we're above the forecasts based on the average, or
24 there'll be years where we're below.

25 But I think it would be mis -- we would

1 not be using the best information if we were to base
2 the forecast on the median revenues that's on results
3 like this. You can imagine --

4 MR. BOB PETERS: All right.

5 MR. KEVIN GAWNE (by Teams): Like in a
6 very simple term, imagine there was only three (3)
7 flow cases and we had -- the high flow case gave us
8 \$200 million in revenue and the middle flow case gave
9 us zero. There was -- there was no -- we were
10 breakeven. And then the low flow case, because of the
11 asymmetry, we lost \$400 million.

12 If you took the median result of that,
13 we'd be breaking even. So, if we project out that
14 we'll be breaking even every year based on a median,
15 that sounds good. But -- but the reality is, we would
16 get any one of those three (3) and the average would
17 be, you can check my math, minus 66 million.

18 So, the median doesn't tell us the
19 whole story. The average gives us a better -- a
20 better reflection of what we can expect on average.
21 And then, or course, this year that we're in already,
22 we know that we're not in the average or the median.

23 So we have the information in front of
24 us about '21/'22. Clearly we're on the -- on the less
25 favourable side of that distribution.

1 MR. BOB PETERS: All right. I thank
2 you for your answers. They've been helpful, Mr.
3 Gawne.

4 I'm going to ask the Chair for a short
5 afternoon recess and then I'll conclude my questions
6 after that and I'll turn the microphone over to Mr.
7 Buchart so that he can also ask his questions. Thank
8 you.

9 THE CHAIRPERSON: We'll -- we'll break
10 for fifteen (15) minutes and return at, according to
11 my watch, 3:35. Thank you.

12

13 --- Upon recessing at 3:20 p.m.

14 --- Upon resuming at 3:41 p.m.

15

16 THE CHAIRPERSON: Mr. Peters...?

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Yes, thank you, Mr.
20 Chair. Mr. Tess, you're still there?

21 MR. AUREL TESS (by Teams): I am.

22 MR. BOB PETERS: Yes, thank you.
23 Staying with my theme of good news, Mr. Tess, is it
24 factually true that the level of retained earnings
25 reported by Manitoba Hydro in its last annual report

1 for the year ended March 31, 2021 of approximately
2 \$3.1 billion was the highest level in the seventy (70)
3 year history of Manitoba Hydro's existence?

4 MR. AUREL TESS (by Teams): Yes,
5 that's accurate. Along with the highest debt levels.

6 MR. BOB PETERS: And the highest asset
7 evaluation?

8 MR. AUREL TESS (by Teams): Yes.

9 MR. BOB PETERS: And on page 5 of the
10 Board counsel Book of Documents, the panel will see
11 and we -- we -- you -- you -- as you've noted this
12 morning, or your chair noted -- or your president
13 noted, the annual report has been filed but on page 5
14 of the Book of Documents, we have a snapshot on a
15 balance sheet, and we go down to the retained earnings
16 and we carry it across to the forecast -- sorry, to
17 the year that closed of 3.074 billion, which was
18 rounded up to 3.1 billion. Correct?

19 MR. AUREL TESS (by Teams): That's
20 correct.

21 MR. BOB PETERS: And Manitoba Hydro
22 started its budget for the '21/'22 year forecasting an
23 increase, but because of the hundred and ninety (190)
24 million dollar loss that it's now projecting the net -
25 - sorry, the retained earnings will drop under \$3

1 billion. Correct?

2 MR. AUREL TESS (by Teams): 2-8-8-5,
3 correct.

4 MR. BOB PETERS: And, in the
5 preliminary plan for 2022/'23 it's back up to the \$3.1
6 billion mark?

7 MR. AUREL TESS (by Teams): Correct.

8 MR. BOB PETERS: Now, Mr. Tess, do
9 you, in general, consider retained earnings to be the
10 financial reserves of Manitoba Hydro?

11 MR. AUREL TESS (by Teams): I don't
12 consider re -- retained earnings to be the same as
13 reserves.

14 Now, it depends on how you define
15 'reserves'. Like, we've been talking about the major
16 capital reserve, for example, as a -- as a deferred
17 capital reserve that is -- does not have cash
18 underneath it to support it, right?

19 Retained earnings are -- are similar in
20 that regard. They may not -- may or may not be made
21 up of, you know, liquid assets.

22 MR. BOB PETERS: And you've corrected
23 me not once, not twice, but three times today, Mr.
24 Tess, on that very point, that these reserves aren't
25 cash, and -- and -- I -- I -- I do actually appreciate

1 that and I appreciate you telling me that.

2 But other than perhaps a sinking fund,
3 does Manitoba Hydro have any cash reserves of any
4 kind?

5 MR. AUREL TESS (by Teams): No, we
6 have the -- we have a sinking fund that we're
7 legislated to put money into, but we, essentially, the
8 money goes in and it goes out. And there's some
9 technical details behind that, but I won't get into
10 it, but we don't maintain a balance in the sinking
11 fund.

12 We haven't -- and it -- it is dedicated
13 for debt repayment, but we haven't maintained a
14 balance in the sinking fund since, I believe, 2016 --
15 yeah, 2016.

16 MR. BOB PETERS: And -- and so, Mr.
17 Tess, under your definition, Manitoba Hydro has no
18 financial reserves because you don't have -- you don't
19 have a cash bank account or a -- cash on hand.

20 MR. AUREL TESS (by Teams): Yes, we --
21 you know, as you know, we're capital intensive, we
22 have non-liquid assets. We -- we, you know,
23 approaching \$30 billion but the -- the liquid assets
24 we have on hand, again, are -- are borrowed, so
25 they're -- they're not available for, you know, to

1 depend upon for -- for things like drought.

2 MR. BOB PETERS: And so what -- what
3 to you is the benefit of having the retained earnings?

4 MR. AUREL TESS (by Teams): Well, I
5 think it -- it is an indicator of -- of the equity
6 levels of -- of the Corporation, but if you look at
7 other -- other utilities, I think we've done some
8 comparison to other utilities that have liquid assets,
9 for example, on top of their, you know, their -- on
10 top of their property plant equipment and -- and what
11 they have invested in their major capital, so they
12 would be in, for example, a better position to react
13 to a drought like we're in right now. Does that help?

14 MR. BOB PETERS: Well, I'm not sure.
15 It -- you're saying other hydroelectric companies are
16 sitting on cash waiting for a drought and we're not.

17 MR. AUREL TESS (by Teams): I -- I --
18 I'm not saying that, I'm saying their -- their balance
19 sheets may have more liquid liquidity to them than we
20 do.

21 And, you know, when -- when you look at
22 our balance sheet, as I said -- as I mentioned, the
23 liquidity we have is -- is for business continuity,
24 it's not there for emergency purposes.

25 But, if you go back to 2016, there was

1 a balance there that was sitting in our -- our sinking
2 fund, for example. Now it is, by legislation, to be
3 used for debt repayment, but it was money that was set
4 aside to pay back debt.

5 MR. BOB PETERS: So does Manitoba
6 Hydro aspire to set aside cash in a cash account at
7 some point in the future?

8 MR. AUREL TESS (by Teams): Well, that
9 would be -- that would be the long-term plan is to get
10 to the point where we are repaying debt and -- and not
11 simply incurring high interest costs and it really is
12 not a sustainable level of interest costs that we're
13 at right now.

14 So, our plan would be to reduce debt
15 and for the financial health of the Corporation.

16 MR. BOB PETERS: So Manitoba Hydro
17 does not see its retained earnings as being there to
18 help smooth out the downturns in the business cycles
19 that may confront Manitoba Hydro?

20 MR. AUREL TESS (by Teams): I would
21 say that if -- if the retained earnings consist of
22 liquid assets that would help us react to these kinds
23 of emergencies, that would be a different scenario.

24 I believe that was the case in the
25 2002/'03 drought, that previous drought. The balance

1 sheet was in -- we had more liquid assets that were
2 available.

3 MR. BOB PETERS: All right, I don't
4 recall that but I'll take that subject to my checking.

5 In this interim application, Mr. Tess,
6 isn't Manitoba Hydro using its retained earnings to
7 cushion the \$190 million loss that it expects this
8 year.

9 MR. AUREL TESS (by Teams): It's --
10 it's reducing retained earnings, absolutely.

11 MR. BOB PETERS: And you don't see
12 that as being a cushion or a reserve for a negative
13 event?

14 MR. AUREL TESS (by Teams): I don't.
15 Not -- not because of the cash situation as I
16 mentioned earlier that -- sorry, to keep harping on
17 this, but it is something that keeps us up at night
18 and having to borrow that amount of money just to pay
19 just to pay for core operating doesn't -- doesn't
20 assist the Corporation.

21 Retained earnings don't -- don't help
22 in that regard.

23 MR. BOB PETERS: All right on -- and
24 what you're saying is that because retained earnings
25 are not cash, Manitoba Hydro has to borrow its way out

1 of the drought?

2 MR. AUREL TESS (by Teams): Exactly.

3 MR. BOB PETERS: Okay. On page 42 of
4 Board counsel's book of documents, there is words that
5 I think we've spoken of already today, that Manitoba
6 Hydro's going to have to borrow about \$348 million,
7 correct?

8 MR. AUREL TESS (by Teams): Yes.

9 MR. BOB PETERS: And that \$348 million
10 will cost on an annual basis about \$13 million?

11 MR. AUREL TESS (by Teams): That's
12 correct.

13 MR. BOB PETERS: And that \$13 million
14 represents 0.8 percent of a rate increase needed to
15 just pay the interest cost.

16 MR. AUREL TESS (by Teams): Yes.

17 MR. BOB PETERS: And because Manitoba
18 Hydro is increasing its debt to, in my words, borrow
19 its way out of the drought, the debt ratio is going to
20 increase a percentage point to about 87 percent debt
21 and then 13 percent equity.

22 MR. AUREL TESS (by Teams): Correct.

23 MR. BOB PETERS: And you I believe
24 already agreed with me, Mr. Tess, that no reasonable
25 rate increase that Manitoba Hydro would dare ask of

1 this Board will prevent the debt ratio from rising
2 this year.

3 MR. AUREL TESS (by Teams): That's
4 correct.

5 MR. BOB PETERS: Manitoba Hydro's
6 resigned to the fact that the debt ratio is going to
7 rise.

8 MR. AUREL TESS (by Teams): Yes.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: As we sit here today,
13 Mr. Tess, and I think we heard it a little bit from
14 Mr. Gawne at the end of his evidence just a few
15 minutes ago, Manitoba Hydro doesn't know with any
16 certainty as to whether or not we're at the front end
17 of a five (5) or a seven (7) year drought, do we?

18 MR. AUREL TESS (by Teams): That's
19 correct.

20 MR. BOB PETERS: And while I know that
21 Mr. Gawne may use some antecedent regression analysis
22 that Mr. Cormie taught him to figure out expected
23 flows from prior months, there are no tools in
24 Manitoba Hydro's tool box to forecast whether or not
25 we're going to have a drought.

1 MR. AUREL TESS (by Teams): That's my
2 understanding, but maybe I'll turn it over to my
3 colleague to provide a more fulsome response to that.
4 Mr. Gawne...?

5 MR. KEVIN GAWNE (by Teams): Thanks,
6 Mr. Tess.

7 Yeah, the regression relationships that
8 we have discussed in -- in front of this Board in the
9 past are helpful at times in the year and when --
10 essentially, when conditions have stabilized and we're
11 getting out of the rain season and there's a good
12 correlation between current month flows to the next
13 few months.

14 But the further out you get in time,
15 the -- that regression relationship gets weaker. But,
16 you know, as we've said in our application, if you
17 have a very wet year, it's -- the chance of having a
18 slightly wetter year in the following year exists and
19 is better than it being a dry year.

20 If you have a very dry year, the
21 following year there's -- there's a chance that it
22 could be dry, more so than if the prior year was an
23 average year or a wet year.

24 So -- so there is some memory, some
25 persistence in the system, and that's what these

1 regression relationships work off. But when you get -
2 - when you get well out there on the horizon multiple
3 months, they're less reliable.

4 So I think -- you know, and -- and
5 there was a PUB-MFR-3, I believe, asking about those
6 statements about perhaps the increased likelihood of
7 drought occurring in '22/'23, but not being able to
8 definitely calculate that. That -- that exists.

9 Essentially, in -- in simple terms, you
10 can imagine that the basin right now is a sponge, and
11 we've had multiple months of below-average rain. So
12 the sponge is a little dry, and it'll take -- it'll
13 take some more rain before that sponge starts to kind
14 of leak out water again. And that's the case for --
15 that's the case for the start of '22/'23.

16 MR. BOB PETERS: All right. Mr. Tess,
17 back to you. On page 37 of Board counsel's book of
18 documents, the -- the information provided relates to
19 a five (5) year and a seven (7) year drought.

20 Do you see that?

21 MR. AUREL TESS (by Teams): I do.

22 MR. BOB PETERS: And I'm thinking that
23 those numbers, sir, might be coming off of page 40 of
24 Board counsel's book of documents from a prior General
25 Rate Application, but let's stay with -- with them.

1 What's interesting -- and I'd like you
2 to explain to the Board on this page 37 -- is, if
3 there was a five (5) year drought and the net extra-
4 provincial revenue goes down cumulatively by \$1.3
5 billion, why is it that Manitoba Hydro cannot
6 calculate at this time the finance expense related to
7 that?

8

9

(BRIEF PAUSE)

10

11 MR. AUREL TESS (by Teams): The -- the
12 reason in a nutshell is the long-term forecast that
13 we're -- that we can use to -- to project out with all
14 the variables included in it.

15 MR. BOB PETERS: All right. Until you
16 have a long-term financial forecast, you won't be able
17 to quantify the finance expense related to this
18 notional five (5) year or seven (7) year drought?

19 MR. AUREL TESS (by Teams): That's
20 right.

21 MR. BOB PETERS: All right.

22 MR. KEVIN GAWNE (by Teams): Sorry,
23 Mr. Peters. If I could just interrupt.

24 The -- the IR I was referring to
25 previously was an error. I was referring to PUB-MH-2,

1 just to get that on the record. Thanks.

2

3 (BRIEF PAUSE)

4

5 MR. BOB PETERS: All right. Thank
6 you. I'd like to turn, Mr. Tess, to discuss with you
7 Manitoba Hydro's actions for mitigating the financial
8 impacts of this drought, and I'm going to start with
9 operating and administrative expenses.

10 And the summary that I have, Mr. Tess,
11 from the evidence that was provided this morning and
12 in the filing is that Manitoba Hydro has indicated
13 that it's not going to be cutting back on its O&A, or
14 operating and admini -- administrative expenses to
15 reduce the cost of the drought for the various reasons
16 that have been cited, correct?

17 MR. AUREL TESS (by Teams): That's
18 correct. We have a -- a plan to -- as we forecasted,
19 for five thousand and twenty (5,020) FTEs, and -- and
20 the O&A number that you have is what we're planning to
21 -- to spend in this fiscal year and next, yes.

22 MR. BOB PETERS: All right. On page -
23 - let's -- let's go to page 60, please, of the Board
24 counsel's book of documents, and here the Board will
25 see -- and leave it aside from what you have on your

1 screen, sir, the compounded annual growth because
2 Manitoba Hydro corrected those numbers. I didn't in
3 my book of documents, and that's my error, so I
4 apologize for that.

5 But the chart is what I wanted to focus
6 on -- and there were no corrections to the chart -- is
7 that from the 2021 -- 2020/'21 actual of \$534 million
8 being spent on O&A on the electric side, the
9 preliminary plan is that that's going to increase up
10 to five ninety-five (595), correct?

11

12 (BRIEF PAUSE)

13

14 MR. AUREL TESS (by Teams): Oh, sorry.
15 I was muted. Yes, that's correct.

16 MR. BOB PETERS: And -- and that \$61
17 million, Mr. Tess, is mostly going to be spent -- when
18 we turn to page 61 of Board counsel's book of
19 documents and look at the chart on that page, that's -
20 - that \$61 million is mostly going to be spent on as
21 many as four hundred and sixty-seven (467) new
22 employees.

23 MR. AUREL TESS (by Teams): So, your
24 four sixty-seven (467) is going from what number to
25 what number, Mr. Peters?

1 MR. BOB PETERS: I -- okay, that's a
2 fair question. I was at 2020/'21 actual.

3 MR. AUREL TESS (by Teams): Okay.

4 MR. BOB PETERS: And then I'm going to
5 the 2022 preliminary plan year which is starting in
6 three and a half (3 1/2) months.

7 And if I have my math's right, there's
8 four hundred and sixty-seven (467) new full-time
9 equivalent positions that will be planned to be
10 created?

11 MR. AUREL TESS (by Teams): Yeah. The
12 one thing I would say there is the fifty-four twenty
13 (5,420) we aren't budgeting for, I believe it's two
14 hundred and forty-five (245) FTEs out of the fifty-
15 four twenty (5,420), so you won't see that in the O&A
16 cost.

17 The fifty-four twenty (5,420) is
18 something that, as we discussed this morning, is a --
19 is a level we need to staff to to -- to get back to
20 the post-VDP level.

21 We really left that there is a marker
22 for where we're going. I know it's a bit confusing
23 because we -- we had this number in -- in our
24 application, but the number that we have in the costs
25 are for fifty-one seventy-five (5,175) FTEs, and you

1 would have saw that in the presentation this morning.

2 MR. BOB PETERS: Okay. I -- I tried
3 to do the math while you were doing that, Mr. Tess,
4 and let me try it on this way.

5 Of that approximately four hundred and
6 sixty-seven (467) new -- new hires, only two hundred
7 and fifty-five (255) or so are going to be actually on
8 boarded in 2022/'23, and the balance, whatever it was,
9 a hundred and forty-five (145) or a hundred and twelve
10 (112), would still come on maybe in following years?

11 MR. AUREL TESS (by Teams): In
12 following years, yeah. And we haven't actually done
13 the detailed work to -- to assess, you know, that --
14 that plan for those -- those FTEs.

15 MR. BOB PETERS: All right. And the
16 preliminary plan that's been filed doesn't have the
17 detail like on page 66 of Board counsel's book of
18 documents.

19 For the -- for the current year, we
20 don't have the same level of detail available yet for
21 the 2022/'23 year, do we?

22 MR. AUREL TESS (by Teams): We do not
23 have that yet, no.

24

25

(BRIEF PAUSE)

1 MR. BOB PETERS: Now, on the topic of
2 these EFTs, this morning, your president, and I think
3 you agreed that some people have been reassigned new
4 responsibilities, and some of those people are now
5 doing Strategy 2040 preparation work, correct?

6 MR. AUREL TESS (by Teams): I'm not
7 sure we characterize it as preparation work, but it's
8 more reorganization of -- of function where you're --
9 you're moving from, you know, a number of new
10 functions. We're using the same, you know, FTE levels
11 to get there.

12 But, for example, in -- in the CFO
13 area, we've got enterprise risk management. We've got
14 enterprise planning. Those are enablers for Strategy
15 2040. That's how we view the business model
16 reorganization, as supporting Strategy 2040, not
17 necessarily working on the strategy, as -- as has been
18 characterized.

19 MR. BOB PETERS: How many EFTs are
20 supporting the strategy?

21 MR. AUREL TESS (by Teams): So, in
22 terms of in my unit, I believe we have seven (7)
23 people that -- that work on -- on the strategy, but
24 it's also enterprise planning, it's also integrated
25 with our budgeting function.

1 So, it's -- it's not just full-time
2 working on strategy.

3 MR. BOB PETERS: Only seven (7)
4 people?

5 MR. AUREL TESS (by Teams): Roughly,
6 yeah, subject to check. I can -- I can get back to
7 you on that.

8 MR. BOB PETERS: No, that's -- that's
9 fine.

10 MR. AUREL TESS (by Teams): Yeah. But
11 to be fair -- to be fair, the -- the entire
12 organization works on strategy. It's -- it's
13 something that -- you know, that is dispersed amongst
14 all the business units, so it's everyone's job to work
15 on strategy.

16 MR. BOB PETERS: But they haven't been
17 dedicated to the Strategy 40 team that I heard about
18 this morning?

19 MR. AUREL TESS (by Teams): That's
20 correct. Strategy and -- and enterprise planning is a
21 -- is a separate unit within the CFO business unit.

22 MR. BOB PETERS: All right. Of these
23 equivalent full-time positions that are planned to be
24 added, are any of them coming from the construction
25 side of the business where their salaries have been

1 capitalized up until now?

2

3

(BRIEF PAUSE)

4

5 MR. AUREL TESS (by Teams): Yeah, they
6 wouldn't be -- they wouldn't be, in our minds,
7 considered incremental; they're -- they're being
8 redeployed.

9 In some cases, they were working on
10 capital activity, I can say that, either part-time or
11 full-time.

12 MR. BOB PETERS: Well, then just help
13 me. On page 60 of -- 61, sorry, of -- sorry, let's go
14 back to 60 on the book of documents, please, Board
15 counsel's book of documents, page 60, the chart at the
16 bottom of the page.

17 Are the -- are these costs for --
18 include capitalized salaries, or are these just --

19 MR. AUREL TESS (by Teams): No, those
20 are -- those are net of capitalization, Mr. Peters.

21 MR. BOB PETERS: All right. So, my
22 question then was --

23 MR. AUREL TESS (by Teams): Sorry.

24 MR. BOB PETERS: -- are any of the
25 people whose salaries are currently capitalized coming

1 back and will show up as EFTs (sic) on the operating
2 side?

3 MR. AUREL TESS (by Teams): I would
4 say that's accurate, yeah.

5 MR. BOB PETERS: Does that make up --
6 how many people at Keeyask -- my recollection this
7 morning, the evidence of your president was there
8 could be about five hundred and fifty (550) people up
9 at Keeyask still from its hay day of twenty-one
10 hundred (2,100), and some of those are Hydro employees
11 and some are contractors.

12 So, how many FTEs does Manitoba Hydro
13 still have up at Keeyask?

14 MR. AUREL TESS (by Teams): I'll see
15 if we have that number. Bear with me.

16

17 (BRIEF PAUSE)

18

19 MR. AUREL TESS (by Teams): Mr.
20 Peters, we can undertake to get that for you. We
21 don't have it with us right now.

22 MR. BOB PETERS: All right. Again, if
23 your counsel can make it available to parties, and I
24 know they'll be working the weekend, before Monday,
25 when my colleagues testify so at least they get an

1 answer to that before -- before they ask you
2 questions, if that's possible.

3 If it's not possible, then we'll have
4 to do without it, Mr. Tess.

5 MR. AUREL TESS (by Teams): It is
6 possible.

7 MR. BOB PETERS: Okay. Thank you.

8 MR. AUREL TESS (by Teams): Yeah.
9 Yeah.

10 MR. BOB PETERS: And are you
11 suspecting that every one of those employees of Hydro
12 that are -- that is currently at Keeyask will then
13 come back and be one of the EFT (sic) positions filled
14 on the -- on the operating side?

15 MR. AUREL TESS (by Teams): I -- I
16 would say we'll have to get the numbers for you. But
17 there are a number of staff that would be considered
18 term but that would leave the project completely and
19 wouldn't come back to Manitoba Hydro or wouldn't come
20 back to a position to service the operating side of --
21 of the enterprise.

22 MR. BOB PETERS: All right. Thank
23 you. I'll look forward to that.

24 I'd like to turn to Hydro's mitigation
25 measures with respect to capital. And this might be

1 unfair to Ms. Vejagis (phonetic), but I'll still do
2 it.

3 On page 224 of Board -- of the PDF that
4 contains Manitoba Hydro's application -- oh, thank you
5 -- on page 224 of 700, at the bottom -- sorry -- yes,
6 this is perfect.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Not totally perfect.
11 Could we -- could we please scroll a couple of pages
12 ahead? No. I think -- I wanted page 11 of 11. And
13 I... Right there. Right there, whatever page that
14 is.

15 I'm looking at the column, Mr. Tess,
16 that says, "2021/'22 forecast dollars millions." And
17 if we go down to business operations capital, I see a
18 number of 523 million. Do you see that?

19 MR. AUREL TESS (by Teams): Yes.

20 MR. BOB PETERS: That's in the current
21 numbers that are before the Board. That's -- that's
22 included in the property plant and equipment
23 additions?

24 MR. AUREL TESS (by Teams): Correct.

25 MR. BOB PETERS: And next year, it's

1 \$545 million?

2 MR. AUREL TESS (by Teams): Yes,
3 correct.

4 MR. BOB PETERS: You -- you and your
5 president taught us a new word, Mr. Tess, called in
6 flight on capital projects.

7 The essence of it is these projects are
8 projects, or you called them something else, or
9 programs are already underway, correct?

10 MR. AUREL TESS (by Teams): That's
11 correct. Our -- our estimate is -- well, there's
12 around three thousand (3,000) business operations,
13 capital projects or programs. Approximately 90
14 percent of those are, as you put it, or we put it
15 earlier, in flight, so they're multi-year.

16 MR. BOB PETERS: Does that tell -- are
17 you telling the Board here that, for next year, the
18 expenditure of \$545 million for 90 percent of those
19 projects, the shovels are in the ground?

20

21 (BRIEF PAUSE)

22

23 MR. AUREL TESS (by Teams): Yes, they
24 -- I mean, shovels in the ground. It depends on how
25 you define that. We -- we could be in the design

1 phase with the projects. We could be in the scoping
2 phase, where we're incurring some capital costs for
3 example.

4 But I believe they -- that's why we
5 just categorize them as, you know -- they're -- they
6 are in flight. They're ongoing.

7 MR. BOB PETERS: Now, leaving aside,
8 Mr. Tess, the specific projects, is it correct that
9 for every dollar of reduced capital spending, there is
10 a dollar-for-dollar benefit to the cash flow
11 challenges being experienced by Manitoba Hydro?

12 MR. AUREL TESS (by Teams): It would
13 improve our ability to -- we consider business
14 operations capital core funding for the -- for the
15 enterprise. So if we were to reduce that, yes.

16 MR. BOB PETERS: All right. So let's
17 look at that column for preliminary plan 2022/'22.

18 Of that \$545 million, if 90 percent of
19 it is in flight, it means 10 percent may be stuck on
20 the ground and that 10 percent would be \$54.5 million.

21 My math, I'm correct, sir?

22 MR. AUREL TESS (by Teams): That's
23 approximately correct, yes.

24 MR. BOB PETERS: And that would mean
25 that Manitoba Hydro's cash flows would increase by

1 \$54.5 million if 10 percent of those projects were put
2 on pause?

3 MR. AUREL TESS (by Teams): I think
4 we're talking -- if you're talking next year, that
5 would not help the cash flow issue for '21/'22.

6 Also from a risk management
7 perspective, we're -- we're not in favour of -- of
8 doing that. I think we laid out some -- some issues
9 with -- with that from a risk perspective.

10 You're essentially -- you could harm
11 the reliability of -- of the grid. In some cases,
12 some of these projects are very important for safety
13 and reliability and business continuity so.

14 MR. BOB PETERS: I'm not -- I'm not
15 going to debate the specific projects and --

16 MR. AUREL TESS (by Teams): Yeah.

17 MR. BOB PETERS: Lord knows Mr. Fogg,
18 I think, had a -- had his share in that last time we
19 chatted about it. So we're not going to go there.

20 But while you agree with me on the
21 math, you're trying to defend that some of these proje
22 -- like, now you're saying 100 percent of them can't
23 be stopped. But leave that aside.

24 In the year we're currently in, Mr.
25 Tess, there is no way that you can help your cash flow

1 situation because the die is cast already, correct?

2 MR. AUREL TESS (by Teams): I would
3 agree with that. Not without harming -- there --
4 there might be some possible -- be some possible --
5 you know, there could some -- some things you could do
6 but we -- we can't find any that wouldn't harm -- you
7 know, that wouldn't cause any risk -- further risk for
8 us.

9 MR. BOB PETERS: Can you confirm, on a
10 new topic, Mr. Tess, that Manitoba Hydro has not
11 experienced any problems related to its capital
12 structure when its placed debt this last year?

13 MR. AUREL TESS (by Teams): Let me
14 confer with my colleagues, but I don't believe we
15 have. Hang on.

16

17 (BRIEF PAUSE)

18

19 MR. AUREL TESS (by Teams): No, we
20 have not experienced that in the last year.

21 MR. BOB PETERS: So put bluntly, no
22 rating by a bond rating agency has denied Manitoba
23 Hydro obtaining debt as it's required.

24 MR. AUREL TESS (by Teams): Well, our
25 debt is placed through the -- the provincial --

1 through the Province. And so, we -- we have not
2 experienced that this year, no. You're correct.

3 MR. BOB PETERS: Ms. Stephens has, I
4 think, educated us all about the syndication through
5 it.

6 And am I oversimplifying it, Mr. Tess,
7 but the syndicates through which Manitoba Hydro's debt
8 has placed strike me as being rather sophisticated.
9 And they're not relying on a subscription to a debt
10 rating agency to determine whether or not they -- they
11 place Manitoba Hydro's debt.

12 Do you agree with that in general?

13

14 (BRIEF PAUSE)

15

16 MR. AUREL TESS (by Teams): So I just
17 conferred with Steven (phonetic) and it -- it -- they
18 have their own analyst when placing debt in the
19 domestic market. However, international placements,
20 there are some -- they do rely, to a certain extent,
21 on a credit rating agency's reports.

22 MR. BOB PETERS: But they have their
23 own internal people to make the final decision on
24 that.

25 MR. AUREL TESS (by Teams): Yeah.

1 That's accurate.

2 MR. BOB PETERS: All right. And you
3 indicated, I think, in discussion with the Vice-Chair,
4 there were some -- some situations where there was --
5 I think the word we've learned, again, is
6 'dislocation' and no provincial syndicated borrowings
7 were being transacted.

8 MR. AUREL TESS (by Teams): It was
9 very challenging, if not impossible, to place debt
10 during -- during the -- I would say starting with the
11 beginning of the -- the medical health emergency
12 period.

13 I'm just going to think -- I think it
14 was roughly two (2) months, three (3) months, month-
15 and-a-half, okay. It felt like longer.

16 MR. BOB PETERS: I can appreciate you
17 were staying up longer at night maybe. That was the
18 issue. But --

19 MR. AUREL TESS (by Teams): Well, yeah
20 -- yeah, we had over a billion dollars to refinance
21 and I wasn't sleeping much during that period.

22 MR. BOB PETERS: But you can confirm
23 to this Board that the problem with this dislocation
24 was causing for provincial syndicated debt had
25 absolutely nothing to do with Manitoba Hydro's debt

1 rating by the debt rating agencies?

2 MR. AUREL TESS (by Teams): I think I
3 can confirm that because I -- it was really the
4 external forces that were going on in the market that
5 we had, you know, not -- not to do with Manitoba
6 Hydro.

7 This was to do with the pandemic and
8 the uncertainty of that -- you know, that all
9 investors had at the time. And, you know, it wasn't
10 until the Government of Canada stepped in to start
11 intervening in the market that we -- we saw
12 improvement.

13 MR. BOB PETERS: Thank you, sir. I
14 want to turn to my last topic and that is Manitoba
15 Hydro's response to mitigating this drought by using
16 hedging.

17 And, Mr. Tess, I understand Mr. Fogg is
18 primarily responsible for the -- the placement of
19 hedges within Manitoba Hydro. Have I got that right?

20 MR. AUREL TESS (by Teams): He's --
21 he's one of -- one of the team members for sure and a
22 subject matter expert.

23 MR. BOB PETERS: All right and I hope
24 he's aware, as you are, Mr. Tess, that none of my
25 questions are designed to elicit commercially

1 sensitive information because the Board has received
2 your appendix -- I think it was Appendix 2 in
3 confidence, as well as some other information and that
4 hasn't been put on the public record and you're aware
5 of that, Mr. Tess?

6 MR. AUREL TESS (by Teams): I'm aware
7 of that, yes. Thank you very much for reminding me.

8 MR. BOB PETERS: And the public
9 documents that you have filed has shown that Manitoba
10 Hydro has placed hedges on electricity prices and also
11 on natural gas prices, correct?

12 MR. AUREL TESS (by Teams): Correct.

13 MR. BOB PETERS: And would it be
14 correct also that the hedges are to provide some price
15 certainty as to market prices, so that they don't
16 exceed the hedge for some of the volumes you have?

17 MR. AUREL TESS (by Teams): It is to
18 provide certainty in the market -- what we're
19 purchasing energy at, for sure. That's to buy at a
20 fixed price to hedge against the -- you know, the --
21 the possibility of higher prices at peak low periods
22 and so on.

23 But I'll ask my colleague, Alastair
24 Fogg, to -- to comment further.

25 MR. ALASTAIR FOGG (by Teams): Yeah,

1 thank you, Mr. Tess.

2 Mr. Peters, maybe to clarify a little
3 bit, we would be looking at financial hedges to really
4 protect against the downside risk related to prices we
5 may experience in the future when those imports are
6 required.

7 The imports themselves, the physical
8 energy imports, are -- are purchased either on the day
9 ahead or real time basis. But through the hedging,
10 you're mitigating your exposure to what those prices
11 would be when you have to make the purchase.

12 MR. BOB PETERS: Thank you, Mr. Fogg.
13 And you're telling the Board that these are done
14 through financial instruments. You're not actually
15 making future -- future buys.

16 MR. ALASTAIR FOGG (by Teams): We are
17 not. It's not a firm purchase of energy. It's a
18 financial instrument based on the anticipated level of
19 imports with information provided by Mr. Gawne and his
20 team.

21 MR. BOB PETERS: And, Mr. Fogg, for
22 you to place a hedge, somebody has to take a contrary
23 position to what you're -- what you're assuming,
24 correct?

25 MR. ALASTAIR FOGG (by Teams): That

1 would be correct. And also, just to clarify, the
2 actual team placing those hedges would be our
3 wholesale power trading area.

4 As Mr. Tess mentioned, enterprise risk
5 management, my team works with them, as well as Mr.
6 Gawne's team, to look at those types of decisions to
7 be made and appropriate risk management actions.

8 MR. BOB PETERS: Okay. I'm not sure
9 what that -- that's just a technical -- that's --
10 that's how internally you deal with who does the
11 actual purchasing?

12 MR. ALASTAIR FOGG (by Teams): That's
13 correct.

14 MR. BOB PETERS: Okay. Mr. Tess, and
15 -- and Mr. Fogg, you've told the Board that you expect
16 to lose 190 million this year and you expect to make
17 200 million next year, correct on that?

18 MR. AUREL TESS (by Teams): Yes.

19 MR. BOB PETERS: And can you confirm
20 whether the \$190 million loss this year already takes
21 into account the hedging that is done at Manitoba
22 Hydro, or are those possible hedging results not
23 incorporated into the \$190 loss?

24 MR. ALASTAIR FOGG (by Teams): Mr.
25 Peters, the -- the 190 million would -- would factor

1 in what hedges had been placed at the time of our
2 filing, as well as what we anticipated in terms of
3 future market prices.

4 We would have to wait and see in terms
5 of the actual market prices that we experience through
6 the next several months as those imports are acquired.

7 MR. BOB PETERS: What you're telling
8 the Board, Mr. Fogg, is that the actual results of
9 those hedges will not be known until the months in
10 which the energy is consumed?

11 MR. ALASTAIR FOGG (by Teams): That --
12 that's when we'll have full knowledge of what the
13 impact is. That's correct.

14 MR. BOB PETERS: And, Mr. Fogg, has
15 Manitoba Hydro considered placing additional hedges
16 over and above what it already has to try to further
17 protect the financial position of the company?

18 MR. ALASTAIR FOGG (by Teams): That's
19 an ongoing consideration for us, yes, as we look at
20 market prices, which continue to be volatile right
21 now, to look at further protection where appropriate
22 in those months.

23 MR. BOB PETERS: Is it factually
24 correct, Mr. Fogg and Mr. Tess, that as we sit here
25 today, it is still possible that Manitoba Hydro's net

1 income for 2021/'22 could be lower than \$190 million?

2 MR. AUREL TESS (by Teams): You're
3 talking about the net loss, right, Mr. Peters?

4 MR. BOB PETERS: Yes, I am.

5 MR. AUREL TESS (by Teams): It's
6 possible, yes.

7 MR. BOB PETERS: And it's also
8 possible it could be less than a \$190 million loss?

9 MR. ALASTAIR FOGG (by Teams): There -
10 - and just to add, Mr. Peters, there certainly remains
11 variables related to weather, for example, through
12 this winter that we'll need to see whether that's a
13 colder winter or a warmer winter and that will have --
14 certainly have an impact on what that final result
15 from a net income perspective is.

16 MR. BOB PETERS: Mr. Tess, is there
17 anything to be gained by -- by Mr. Fogg telling the
18 Board whether on a mark-to-market basis, Manitoba
19 Hydro is in the money today or out of the money today,
20 or does that have any bearing on the interim
21 application before Mr. Fogg is asked that question?

22

23 (BRIEF PAUSE)

24

25 MR. AUREL TESS (by Teams): Yeah,

1 because of the market volatility we don't -- we don't
2 see the relevance of that question. Not -- not to put
3 it that way, but it's -- it's just not something that
4 would be something we could help you with at this
5 particular time.

6 It's just the volatility of the market
7 almost changes on a day-to-day basis right not.

8 MR. BOB PETERS: Mr. Fogg, has it been
9 disclosed on the public record how far into the future
10 these hedges are placed? And if you don't know the
11 answer to that for certainty, I don't want you to put
12 it on the record, but do you know if it's on the
13 public record as to how months forward you have hedges
14 in place?

15 MR. ALASTAIR FOGG (by Teams): I -- I
16 don't believe, Mr. Peters, we put that on the public
17 record, no, subject to check.

18 MR. BOB PETERS: All right. Then I --
19 we won't ask it. And I'll take Mr. Tess' advice and
20 not ask you about mark to market.

21 But are you sleeping well at night, Mr.
22 Fogg, or are you awake a lot? No. Okay. I'll
23 withdraw that.

24 I would -- I would at that point, Mr.
25 Chairman, I'd like to thank Manitoba Hydro's

1 witnesses, Mr. Tess, Mr. Gregorashuk -- Ms.
2 Gregorashuk, and Mr. Fogg, and Mr. Gawne for their
3 answers to my questions. I have nothing further.

4 I would also like to thank Manitoba
5 Hydro's lawyers, Ms. Carvell, and Ms. Fernandes, and
6 the absent Mr. Czarnecki. And while not for lack of
7 trying, Mr. Czarnecki's schedule could not be altered
8 for his attendance today, but he was instrumental in
9 assisting the Board in holding this hearing before
10 Christmas and he probably took the brunt of trying to
11 get everybody else's schedules adjusted.

12 So, his efforts are greatly
13 appreciated. And lastly on the public record, I want
14 to use this opportunity to save some postage and wish
15 everybody a Happy Holiday and Merry Christmas.

16 THE CHAIRPERSON: Thank you, Mr.
17 Peters. I understand that Mr. Buchart is online and
18 he has a few questions, so maybe we can deal with them
19 before we close for today.

20 Mr. Buchart, thank you for being so
21 patient.

22

23 CROSS-EXAMINATION BY MR. MARKUS BUCHART:

24 MR. MARKUS BUCHART (by Teams): No
25 problem. Thank you, Mr. Chairman. This will be quite

1 short. One of the witnesses, in answer to Mr. Peters'
2 Board counsel's questions, said that Manitoba Hydro is
3 indifferent as to which rate classes pay for the 5
4 percent revenue increase that's been applied for in
5 this Application.

6 Is that correct?

7 MR. AUREL TESS (by Teams): My -- my
8 recollection of -- of that statement was that we have
9 a recommendation in the Application.

10 But, you know, in terms of how the
11 Board views that, it's really the purview of the
12 Board, I think. But I can -- I can also ask Ms.
13 Gregorashuk to comment further.

14 MS. SHANNON GREGORASHUK (by Teams):
15 Thank you, Mr. Tess. I -- I just wanted to clarify, I
16 believe that question was in the context of, is
17 Manitoba Hydro indifferent as to whether the Board
18 approves differentiation across the customer classes
19 to obtain its required additional revenues or if we
20 would accept an across-the-board rate increase to all
21 customer classes.

22 MR. MARKUS BUCHART (by Teams): Yes,
23 and -- and my recollection confirm -- you can confirm
24 it, was that -- the answer was that Manitoba Hydro
25 would be indifferent.

1 MS. SHANNON GREGORASHUK (by Teams) I
2 think, you know, as Mr. Tess said, it would be
3 entirely up to the Board as to what it deems, you
4 know, appropriate to approve at this time.

5 Certainly, the -- what our proposal is
6 consistent with what the previous direction of this
7 panel has been, which is to bring certain customer
8 classes that are outside the zone of reasonableness
9 into the zone on a very gradual basis and to share
10 that impact across customer classes.

11 Our proposal is simply consistent with
12 that direction.

13 MR. MARKUS BUCHART (by Teams): Okay.
14 To use a different term than 'indifferent,' would
15 Manitoba Hydro oppose any rate increases that were --
16 that were uneven between the different classes?

17 MS. SHANNON GREGORASHUK (by Teams) I
18 think one (1) of the overriding principles that we
19 would want to ensure is that the rate increases would
20 allow us to fully collect the approved revenue
21 requirement.

22 And so, how the Board determine how we
23 would do that across the customer classes, we would
24 certainly accept.

25 MR. MARKUS BUCHART (by Teams): Right.

1 And if the Board were to order that some classes had
2 no increase and other classes had an increase,
3 Manitoba Hydro would it oppose that?

4 MS. SHANNON GREGORASHUK (by Teams):
5 Again, to the extent that those classes that did not
6 receive their increase and the other customer classes
7 -- or we were able to ensure we could collect the full
8 revenue requirement from those classes, I don't think
9 we would have a concern.

10 I think it's also important to
11 consider, we filed for based on a 'P' cost, or a
12 perspective cost of service study that shows where
13 certain customer classes are in relation to the zone
14 of reasonableness and so to the extent that we
15 wouldn't want to inadvertently push one (1) class
16 outside that zone, that would be something else we
17 would want to consider.

18 MR. MARKUS BUCHART (by Teams): Right.
19 Those are my questions, thank you.

20 THE CHAIRPERSON: Thank you, Mr.
21 Buchart. I'd like to thank the Manitoba Hydro panel
22 for appearing today.

23 We're going to adjourn today and we
24 will resume at 9:00 a.m. on Monday. I wish everyone a
25 happy and safe weekend. Thank you.

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(MANITOBA HYDRO PANEL RETIRES)

--- Upon adjourning at 4:30 p.m.

Certified Correct,

Wendy Woodworth, Ms.