



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

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

Before Board Panel:

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

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
December 18, 2017

1 APPEARANCES

2 Bob Peters ) Board Counsel

3 Dayna Steinfeld )

4

5 Patti Ramage ) Manitoba Hydro

6 Odette Fernandes (np) )

7 Helga Van Iderstine (np) )

8

9 Byron Williams (np) ) Consumers Coalition

10 Katrine Dilay )

11

12 William Gange (np) ) GAC

13 Peter Miller (np) )

14

15 Antoine Hacault ) MIPUG

16

17 George Orle ) MKO

18

19 Senwung Luk (np) ) Assembly of

20 Corey Shefman (np) ) Manitoba Chiefs

21

22 Kevin Williams ) Business Council

23 Douglas Finkbeiner ) of Manitoba

24

25 Daryl Ferguson (np) ) City of Winnipeg

1 LIST OF APPEARANCES (cont'd)

2

3 Christian Monnin )General Service

4 )Small, General

5 )Service Medium

6 )Customer Classes

7

8 William Haight )Independent Expert

9 William Gardner (np) )Witnesses

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

TABLE OF CONTENTS	
	Page No.
1	
2	
3	List of Exhibits 2036
4	List of Undertakings 2037
5	
6	CONTINUED MANITOBA HYDRO PANEL 2 re REVENUE
7	REQUIREMENT
8	LIZ CARRIERE, Previously Sworn
9	LOIS MORRISON, Previously Sworn
10	DAVID CORMIE, Previously Sworn
11	SANDY BAUERLEIN, Previously Sworn
12	JOEL WORTLEY, Previously Sworn
13	SUSAN STEPHEN, Previously Sworn
14	CHUCK STEELE, Previously Affirmed
15	JAMES MCCALLUM, Previously Sworn
16	HAL TURNER, Previously Affirmed
17	GERALD NEUFELD, Previously Affirmed
18	DAVID SWATEK, Previously Sworn
19	TERRY MILES, Previously Sworn
20	GREG BARNLUND, Previously Sworn
21	
22	Cross-Examination by Mr. Kevin Williams 2040
23	Cross-Examination by Mr. Christian Monnin 2059
24	Motion by Mr. Bill Haight 2124
25	Submissions by Ms. Patti Ramage 2129

	TABLE OF CONTENTS (cont'd)	
		Page No.
1		
2		
3	Reply by Mr. William Haight	2140
4	Discussion	2159
5	Re-Cross-Examination by Mr. Bob Peters	2171
6	Re-Direct Examination by Ms. Patti Ramage	2216
7		
8		
9		
10		
11		
12		
13	Certificate of Transcript	2238
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1	LIST OF EXHIBITS		
2	EXHIBIT NO.	DESCRIPTION	PAGE NO.
3	MH-84	Answer to Undertaking No. 7	2147
4	MH-85	Answer to Undertaking No. 8	2147
5	MH-86	Answer to Undertaking No. 12.	2149
6	MH-87	Manitoba Hydro's written response to	
7		undertaking given under advisement	2158
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

LIST OF UNDERTAKINGS

1	2 NO.	DESCRIPTION	PAGE NO.
3	13	Manitoba Hydro to provide whether they can continue to meet their contractual obligations if the delay of Keeyask is longer than thirty-two (32) months	2090
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

1 --- Upon commencing at 9:01 a.m.

2

3 THE CHAIRPERSON: Good morning,  
4 everyone. I hope you had a nice weekend. Ms.  
5 Steinfeld...?

6 MS. DAYNA STEINFELD: Thank you, Mr.  
7 Chair. We're going to begin today with the Business  
8 Council of Manitoba. I understand they expect to be  
9 approximately fifteen (15) minutes, at which point in  
10 time GSS/GSM, in cap, will conduct their cross-  
11 examination. We also expect that requests will be  
12 made for a few parties to follow up on some  
13 undertakings that were filed in the last few days.

14 Before turning it back over, I'd just  
15 like to note, as well a reminder to the parties, that  
16 the Board no longer requires proposed expert witnesses  
17 to be qualified as an expert prior to their direct  
18 testimony. And the process that the Board has  
19 followed since the Cost of Service Study methodology  
20 review has been to have the party introducing the  
21 expert witness, briefly review the qualifications or  
22 CV of that expert to indicate to the Board and other  
23 parties the specific areas that the expert will be put  
24 forward to testify on. There will not be a void dire  
25 process where parties would have the opportunity to



1 question the qualifications or expertise; rather, the  
2 witness will be allowed to provide their direct  
3 evidence, including opinion evidence. And on cross-  
4 examination, it is open to parties to question the  
5 expert witness as to qualifications and expertise,  
6 such that in closing submissions the party may request  
7 that the Board limit the weight that should be given  
8 to the expert witness' testimony.

9                   We suggest that if any party has  
10 questions that they get in touch with Board counsel.  
11 Thank you, Mr. Chair.

12                   THE CHAIRPERSON: Thank you. Mr.  
13 Williams...?

14                   MR. KEVIN WILLIAMS: Thank you, Mr.  
15 Chairman. Thank you for accommodating my --

16                   THE CHAIRPERSON: Excuse me. Ms.  
17 Ramage, did you --

18                   MS. PATTI RAMAGE: I just wanted to  
19 interject, that we understand Mr. Williams has a date  
20 at the courthouse at 9:30 and will go first, but we  
21 had a matter we wanted to address and we'd ask that  
22 we'd -- after Mr. Williams is complete, we could --  
23 we'll get on the mic to deal with that.

24                   THE CHAIRPERSON: Certainly. Okay.  
25 Mr. Williams...?

1 MR. KEVIN WILLIAMS: Thank you. Thank  
2 you for accommodating my scheduling difficulties, Mr.  
3 Chairman.

4

5 CROSS-EXAMINATION BY MR. KEVIN WILLIAMS:

6 MR. KEVIN WILLIAMS: I just want to  
7 start with a few questions about the Manitoba Hydro  
8 Act itself, and I don't know who -- who they're best  
9 directed at, but I'll look across the room and see who  
10 responds and I'll follow it up from there, so.

11 Pursuant to Section 40 of the Manitoba  
12 Hydro Act, Manitoba Hydro is required to establish  
13 depreciation and stabilization reserves.

14 Is somebody familiar with that?

15 MR. JAMES MCCALLUM: Yeah, I -- I've  
16 read the act.

17 MR. KEVIN WILLIAMS: Okay. Can -- can  
18 you explain, in simple terms, what the purpose of the  
19 depreciation and stabilization reserves mandate by the  
20 Act is?

21 MR. JAMES MCCALLUM: Well I -- and I -  
22 - and I just --

23 MS. PATTI RAMAGE: May --

24 MR. KEVIN WILLIAMS: Section 40 of the  
25 Act, sorry.

1 MS. PATTI RAMAGE: Mr. McCallum can  
2 explain the need for reserves. I'm not sure that it's  
3 fair to ask him to explain the legislative part, but -  
4 - so it's -- it's a partial objection but I think he  
5 can proceed on the basis knowing that it's not a legal  
6 opinion.

7 THE CHAIRPERSON: Yes, well, let's --  
8 let's see what the question is.

9 MR. JAMES MCCALLUM: Okay. So maybe  
10 we can pull -- was it Section 40?

11

12 CONTINUED BY MR. KEVIN WILLIAMS:

13 MR. KEVIN WILLIAMS: Forty.

14 MR. JAMES MCCALLUM: Forty.

15

16 (BRIEF PAUSE)

17

18 MR. KEVIN WILLIAMS: And -- and just  
19 so we're clear, I'm -- I'm not interested in what --  
20 you speaking as to the legislative intent, I'm  
21 actually just asking you from Manitoba Hydro's  
22 perspective what their understanding is of -- of this  
23 is.

24 MR. JAMES MCCALLUM: And -- and it's  
25 best I don't speak to the legislative intent, but, you

1 know, in my mind specifically as to I think your  
2 question was -- was on depreciation, but I believe and  
3 it might be a little further down in 40-2, but there's  
4 a provision or -- or a idea in the Act that reserves  
5 should be drawn from ratepayers and collected and  
6 maintained to allow for renewal and reconstruction of  
7 the fixed works to the -- of the Corporation.

8 MR. KEVIN WILLIAMS: And -- and have  
9 such reserves been establis -- been established by  
10 Manitoba Hydro?

11 MR. JAMES MCCALLUM: Well, I think our  
12 argument is that, you know, rates have been -- rate  
13 increases have been insufficient certainly over the  
14 last ten (10) years. If you recall back -- and I  
15 don't know that we need to pull it up, but -- but to  
16 our direct evidence of the policy panel I think it's  
17 Hydro Exhibit 64, page 66, you can -- you can see a  
18 chart that shows Manitoba Hydro's net income over the  
19 last nine (9) or ten (10) years. And you can see our  
20 net income goes from about \$350 million a year to  
21 basically zero. While our fixed assets, our net plant  
22 in service go from 8 billion to 12 billion.

23 So I would -- and -- and then if you  
24 look forward from there, you know, a financial plan  
25 basis 3.95 percent rate increases will see the net

1 plant in service doubling again to 25 billion while  
2 we've flipped to a significant net loss position.

3                   And this is of great concern to  
4 Manitoba Hydro. We would argue that there are no  
5 reserves being -- being paid in rates to address  
6 significant infrastructure renewal needs and to  
7 address financial stability, rate stability and to  
8 provide for the unknown which is that we -- we  
9 obviously do our best to forecast but Manitoba Hydro  
10 is subject to significant volatility in its financial  
11 results owing to many things including weather, export  
12 prices, hydrology and interest rates.

13                   So we would argue that, no, there's  
14 been extremely limited contribution to reserves over  
15 the last eight (8) or ten (10) years.

16                   MR. KEVIN WILLIAMS:     So -- so do I  
17 take it from that response that -- that -- that there  
18 aren't reserves reflected in the integrated financial  
19 that are before the Board?

20                   MR. JAMES MCCALLUM:     Well, it -- it -  
21 - you know, reserves I think is -- is a concept that  
22 you need to understand and in one (1) line of thinking  
23 reserves are -- is your equity position. I think that  
24 we would look at it and say that is, in part, true,  
25 equity is debt avoided. And that's really important

1 to us.

2                   However, equity -- book equity that is  
3 the accumulation of net income made since the  
4 Corporation was -- was began and hasn't been added to  
5 in the last, you know, number of years is really not  
6 that useful as a -- as a buffer. When you have no net  
7 income and things start going badly whether it's low  
8 water conditions or -- or something else that you  
9 haven't predicted, then you need to fund your business  
10 and the only way you do that is by borrowing more  
11 money or increasing rates.

12                   You don't have -- equity is not a --  
13 it's not a cash pile. It's -- at least not -- not the  
14 way we do it. It's not a cash pile that you -- you  
15 look to and draw from to help subsidize your business  
16 when you don't have the revenue you need to run it.

17                   MR. KEVIN WILLIAMS: Thank you.  
18 Turning now briefly to Section 41 of the Act which is  
19 -- relates to the establishment of a sinking fund.

20                   Are you familiar with that provision of  
21 the Act?

22                   MR. JAMES MCCALLUM: I am. I'm  
23 fortunate that Ms. Stephen is beside me this morning.  
24 She can speak more directly to how the sinking fund  
25 provisions work.

1 MR. KEVIN WILLIAMS: I'm -- I don't  
2 really have specifics as to how they work. My  
3 questions are very general in nature so -- so has a  
4 sinking fund been established?

5 MS. SUSAN STEPHEN: We do have a  
6 legislated requirement to make a sinking fund  
7 contribution on an annual basis. As of late for  
8 probably the last two (2) or three (3) years we have  
9 made the minimum legislated requirement and we have  
10 withdrawn it for debt maturities in the same year.

11 MR. KEVIN WILLIAMS: And so I take it  
12 then, Ms. Stephen, as a consequence of that response  
13 that -- that the activity with respect to the sinking  
14 fund is reflected in the integrated financial  
15 forecasts that are before the Board as it relates to -  
16 - to the transaction that you just said how it was  
17 used; is that fair?

18 MS. SUSAN STEPHEN: That's correct.

19 MR. KEVIN WILLIAMS: Thank you. I  
20 want to turn now for a moment to reserves and  
21 regulatory deferrals. I looked at the testimony of  
22 Stephen, Ms. Bauerlein and Mr. McCallum and -- so  
23 someone who tried to be an accountant but failed, I  
24 would inarticulately refer to these deferrals and  
25 reserves as representative of timing differences

1 between when the cash event occurs and when it's  
2 reflected in the Manitoba Hydro's income statement.

3 Is -- would you agree with that?

4 MS. SANDY BAUERLEIN: Good morning. I  
5 would characterize it as really timing differences  
6 between when costs are necessarily for financial  
7 reporting purposes versus when they're recognized for  
8 rate setting purposes.

9 MR. KEVIN WILLIAMS: So I -- I thought  
10 of them as revenue expense items that are not  
11 recognized in the income statement in the year that  
12 they occur from a cash flow perspective.

13 Is that -- is that fair?

14 MS. SANDY BAUERLEIN: Some accounting  
15 can be accrual based so it's not necessarily cash  
16 based but you can think of it that way. You can think  
17 of it as -- typically it's expenses that are incurred  
18 in one (1) year that we would recognize as a period  
19 expense for financial reporting purposes but for rate-  
20 setting purposes they're reflected over a longer -- or  
21 different timeframe.

22 MR. KEVIN WILLIAMS: It's becoming  
23 more apparent by the moment why I never became an  
24 accountant, I suppose.

25 Let me try to run it down to ground



1 with an example. So, Manitoba Hydro builds a  
2 generating station, and -- and -- for the most part  
3 all the cash outlays are incurred prior to that  
4 generating station -- station's in-service date.

5 Is that reasonable?

6 MS. SANDY BAUERLEIN: That is correct.

7 MR. KEVIN WILLIAMS: However, the  
8 expense associated with the outlay of that cash is  
9 reflected over a number of years through depreciation  
10 or amortization on the Corporation's income  
11 statements; isn't that correct?

12 MS. SANDY BAUERLEIN: That is correct.

13 MR. KEVIN WILLIAMS: As it relates to  
14 Bipole III, the reserve account represents cash that  
15 is coming in from rate increases that have been  
16 granted; isn't that correct?

17 MS. SANDY BAUERLEIN: The Bipole III  
18 reserve?

19 MR. KEVIN WILLIAMS: Yeah.

20 MS. SANDY BAUERLEIN: Yes, reflects  
21 cash that's been coming in that has been set aside for  
22 when Bipole is in service, correct.

23 MR. KEVIN WILLIAMS: Correct. And  
24 from an accounting perspective that reserve won't be  
25 utilized in the income statement until Bipole III goes

1 into service. Do I have that right?

2 MS. SANDY BAUERLEIN: And it won't be  
3 reflected in revenue, correct, until -- yes.

4 MR. KEVIN WILLIAMS: But the revenue's  
5 reflected on the income statement, right?

6 MS. SANDY BAUERLEIN: Correct.

7 MR. KEVIN WILLIAMS: Thanks, okay. But  
8 the cash receipts from the rate increases granted,  
9 which have been attributed to the Bipole III reserve  
10 account, have been consumed in -- in Manitoba Hydro's  
11 ongoing operations; correct?

12 MR. JAMES MCCALLUM: Yes, that's --  
13 that's correct. If -- our net debt amount is  
14 reflective of having collected and I don't have the  
15 figure in front of me, but a couple hundred million  
16 dollars of -- of rates associated and allocated to the  
17 Bipole III reserve. It's not a cash -- we don't have  
18 that cash sitting on our --

19 MR. KEVIN WILLIAMS: I sta --

20 MR. JAMES MCCALLUM: -- a special  
21 account.

22 MR. KEVIN WILLIAMS: -- that's what my  
23 understanding was as well.

24 Now, from our test -- from your  
25 testimony, Mr McCallum, the other areas where

1 deferrals or reserves are utilized, you indicated were  
2 demand-side management expenditures, correct?

3 MR. JAMES MCCALLUM: That's one (1)  
4 area, yes.

5 MR. KEVIN WILLIAMS: Certain  
6 depreciation and amortization accounts, correct?

7 MR. JAMES MCCALLUM: I don't know that  
8 -- depreciation and amortization wouldn't flow through  
9 a regulatory deferral account, other than certain --  
10 maybe Sandy should -- maybe Ms. Bauerlein should speak  
11 more. I think we're getting a few things kind of --

12 MS. SANDY BAUERLEIN: Well, you may be  
13 talking about the difference between depreciation  
14 methodologies. So for financial reporting purposes,  
15 we use the equal life group method of depreciation,  
16 compliant with IFRS. For rate-setting purposes we use  
17 the average service life methodology compliant with  
18 Canadian Generally Accepted Accounting Principles.

19 So the differential and depreciation  
20 between those (2) is captured in a regulatory  
21 deferral.

22 MR. KEVIN WILLIAMS: Okay. Thank you.  
23 And as it relates to certain site restoration costs  
24 are deferrals or reserves used for those?

25 MS. SANDY BAUERLEIN: Site restoration

1 costs are deferred, correct.

2 MR. KEVIN WILLIAMS: And certain --  
3 certainly, some of the regulatory costs are as well?

4 MS. SANDY BAUERLEIN: Our regulatory  
5 costs are also deferred, yes, and amortized over a  
6 different timeframe. Typically those costs would be  
7 at a period expense.

8 MR. KEVIN WILLIAMS: And in each case  
9 the actual cash outlay or receipt in a particular year  
10 is not fully reflected in that year's financial  
11 statements due to the timing differences; is that  
12 fair?

13 MS. SANDY BAUERLEIN: It's not  
14 reflected in the statement of income but you would see  
15 your cash in your -- your cash flow statement.

16 MR. KEVIN WILLIAMS: Okay. So now I  
17 want to turn, for a moment, to Appendix -- Manitoba  
18 Hydro tab 3, Appendix 3.8, and I just want to run a  
19 couple of these concepts to ground for a moment.

20 So unfortunately they're all labeled  
21 page 1 of 6, but I'm looking at the first page 1 of 6.  
22 So, if we look at the Bipole III reserve account.  
23 This is the projected operation statement for Manitoba  
24 Hydro 16 updated with the interim rate grant. I see  
25 that -- that for 2017, 2018, the Bipole reserve

1 account is reflected as a reduction of revenue for --  
2 for those years totalling about \$247,000.

3 Do I have that correct?

4 MR. JAMES MCCALLUM: I'm sorry, sir,  
5 where -- where do you see 200 -- these are all in  
6 millions.

7 MR. KEVIN WILLIAMS: Sorry, I  
8 misspoke, 96 million and 151 million total 247.

9 MR. JAMES MCCALLUM: They -- they --  
10 yes, they do but in -- in fiscal 2018, we will be  
11 collecting roughly \$151 million in customer rates and  
12 allocating that to the Bipole reserve. And last year  
13 we did the same to the extent of 96 million.

14 MR. KEVIN WILLIAMS: Yeah, I don't  
15 think we're saying anything different.

16 MR. JAMES MCCALLUM: Okay. Just the  
17 add -- the adding them I just wanted --

18 MR. KEVIN WILLIAMS: Right, yeah, but  
19 I guess what I then notice is as we move to 2019 to  
20 2024, that timeframe.

21 MR. JAMES MCCALLUM: Yep.

22 MR. KEVIN WILLIAMS: We now see  
23 additions to revenues coming from the Bipole III  
24 reserve account.

25 MR. JAMES MCCALLUM: That's right.

1 We've -- we've made an assumption that we will  
2 amortize into our revenues this Bipole III reserve  
3 account over five (5) years after Bipole comes into  
4 service. And so that's a -- it's -- it's not cash,  
5 unfortunately. Cash has already been received but  
6 this is just the -- flowing it into your revenue as  
7 you spoke to a timing difference.

8 MR. KEVIN WILLIAMS: Right. And so --  
9 so are you able to say -- like, when you add up the  
10 number of millions of dollars that are being reflected  
11 as additional revenue in the years 2019 to 2024, I  
12 noted that they added up to \$348 million.

13 MR. JAMES MCCALLUM: It's more -- it's  
14 closer to 400 million in the first half of 2019 we're  
15 collecting. If you looked at our financial statements  
16 for -- for fiscal 2019, you'd see from March through  
17 August -- or April through August, you would see a  
18 deduction in allocation to the Bipole III reserve  
19 account.

20 MR. KEVIN WILLIAMS: Right.

21 MR. JAMES MCCALLUM: Which then  
22 reverses when you begin amortizing that account in the  
23 second half of the year when -- when Bipole is in  
24 service. So, the two (2) net off to that \$1 million.

25 MR. KEVIN WILLIAMS: I see, okay.

1                   MR. JAMES MCCALLUM:    But the total  
2 amortization over five (5) years, subject to check, is  
3 400 million.

4                   MR. KEVIN WILLIAMS:    Okay.  Now if you  
5 look down to the -- still on that same statement to  
6 the net movement in the regulatory deferral.  I -- I  
7 note that -- that it is positive through 2023, and  
8 then -- and then reverts to a negative position for  
9 the balance of the forecast.

10                   Can you explain why it is that the --  
11 that that happens?

12                   MS. LIZ CARRIERE:    Until 2023 we're  
13 capitalizing ineligible overhead to a regulatory  
14 deferral account, as well as the difference in  
15 depreciation methodology is also being capitalized to  
16 a deferral account to that date.

17                   We stopped capitalizing it and then  
18 we're left with the amortization of it thereafter.

19                   MR. JAMES MCCALLUM:    Yeah, so -- so I  
20 guess, Mr. Williams, the way to look at it or the way  
21 that a non-accountant see it, is in the first five (5)  
22 or six (6) or seven (7) years of the forecast these  
23 regulatory deferral accounts are basically caused by  
24 differences between how the financial reporting  
25 standards tell us to -- you know, to -- to put the

1 numbers together and then any differences that -- that  
2 a regulator wants to see.

3                   So in -- in the first four (4) or five  
4 (5) years we're seeing the effect of -- of certain  
5 regulatory direction that causes certain expense items  
6 to be instead capitalized to a regulatory asset and  
7 then we see later in those years, later in the  
8 forecast, kind of a reversing effect as we see  
9 amortization of those deferrals eclipse additions.

10                   MR. KEVIN WILLIAMS:    Okay.

11                   MS. SANDY BAUERLEIN:    I just wanted to  
12 note that also in 2019/'20 you start seeing  
13 amortization of Conawapa.

14                   MR. KEVIN WILLIAMS:    Okay.  Thank you.  
15 Now then if we move three (3) pages ahead in the same  
16 exhibit and we look at the operating statement,  
17 there's a regulatory deferral balance reflective on  
18 the asset side.

19                   And once again we see it increasing to  
20 approximately 1.111 billion in -- sorry, 1.246 billion  
21 in --

22                   MR. JAMES MCCALLUM:    I think we need  
23 to go a page up.

24                   MR. KEVIN WILLIAMS:    Oh, sorry.

25                   MR. JAMES MCCALLUM:    Backwards.  There



1 we go.

2 MR. KEVIN WILLIAMS: Okay, so it goes  
3 to 1.289 billion in 2023, and then starts -- starts  
4 reducing. And so -- so -- so are you able to explain  
5 exactly why it is that that's occurring?

6 MR. JAMES MCCALLUM: This is the --  
7 sort of the impact of what we just spoke about on the  
8 statement of income. In the first few years we are  
9 capitalizing to -- to the regulatory asset a number of  
10 things to -- to -- which -- which has the effect of --  
11 of increasing income, and so you see that balance  
12 build up.

13 A good chunk of that from 2019 to 2020  
14 is -- is Conawapa but there are, you know, a number of  
15 other significant contributors. And then as you get  
16 out towards 2025 you start seeing the cumulative  
17 effect of depreciating these -- these -- and these are  
18 assumed -- we've made assumptions around, you know,  
19 depreciation or amortization periods that, you know,  
20 as part of this we're looking for some -- some  
21 direction from the Board on, but our assumptions are  
22 in there and you see that we start working down this -  
23 - this asset over time through amortization.

24 MR. KEVIN WILLIAMS: And -- and I take  
25 it then your responses would be the same as it relates

1 to the Bipole III reserve account and the liability  
2 and equity side, as well as the regulatory deferral  
3 balance in terms of the -- the timing difference and -  
4 - and -- and what's happening as it relates to those  
5 various accounts?

6 MS. SANDY BAUERLEIN: Yes, it's just  
7 the collection of that money and then you're seeing  
8 the drawdown or amortization over the five (5) year  
9 period. Same on the asset side, again, that big  
10 increase in 1920 as you're adding the additional  
11 Conawapa and then you slowly start amortizing that  
12 under the assumption that we made of thirty (30)  
13 years.

14 MR. KEVIN WILLIAMS: How, if at all,  
15 do these regulatory deferral accounts impact on the  
16 need for the requested rate increase?

17 MR. JAMES MCCALLUM: Well, I would --  
18 I would argue that have limited impact.

19 MR. KEVIN WILLIAMS: Are you able to  
20 explain briefly why that is?

21 MR. JAMES MCCALLUM: Well, I think  
22 the, you know, the heart of our -- our rate case here  
23 is that we need to come to terms with our debt balance  
24 and the growth in our debt balance and these are, you  
25 know, important tools by which to, you know, to

1 provide for the recognition of income and expense.

2 But in the main, these are not really  
3 cash items and its cash that -- that we look to to  
4 kind of, in part, judge revenue rates sufficiency but,  
5 most importantly, as a means to come to terms with a -  
6 - with a debt that -- that isn't sustainable?

7 MR. KEVIN WILLIAMS: Okay, thank you,  
8 those are my questions.

9 THE CHAIRPERSON: Thank you, Mr.  
10 Williams. Ms. Ramage...?

11 MS. PATTI RAMAGE: Mr. Chair, thank  
12 you. What Manitoba Hydro wanted to do this morning  
13 was address a request from counsel for MGF to extend  
14 the deadline for the filing of MGF's answers.

15 THE CHAIRPERSON: Can I interrupt for  
16 a second. I was informed by counsel. This may take  
17 awhile. What -- what I would propose is that we  
18 finish the matters with this panel and then deal with  
19 it after, as a procedural motion. So that we -- we  
20 deal with Mr. Monnin. We have the cross-examinations,  
21 deal with the undertakings, have the -- we have the  
22 issue of the presentation on the question that I had  
23 asked before. Then deal with re-examination in then  
24 with the procedural motion at that time.

25 Because what I don't want to do is I

1 don't want to get into a situation where we're  
2 extending this panel sitting here on a procedural  
3 motion that may or may not relate to them but relates  
4 to the position of Manitoba Hydro.

5 MS. PATTI RAMAGE: That seems  
6 appropriate. Board counsel had asked all parties to  
7 put their position in writing, and I thought it was  
8 important that parties, before they do that,  
9 understand Manitoba Hydro's position and Manitoba  
10 Hydro's timelines but we can do that after the panels  
11 are done, but, if they're to put their submissions in  
12 writing this evening, we thought --

13 THE CHAIRPERSON: Well, let's -- let's  
14 see where we are at noon. I want to give parties an  
15 adequate -- adequate time but it's also a matter I  
16 think we need to set aside adequate time for and I  
17 don't want to see a situation where Mr. Monnin is  
18 sitting here for maybe an hour to two (2) hours or  
19 whatever. I'd like to get through the -- the cross-  
20 examination of this panel by the Intervenors first and  
21 then we'll --

22 MS. PATTI RAMAGE: That seems --

23 THE CHAIRPERSON: -- deal with it,  
24 okay.

25 MS. PATTI RAMAGE: -- reasonable. We

1 would just like to have time to speak to it before  
2 parties speak to --

3 THE CHAIRPERSON: You will absolutely  
4 have time to speak to it. Mr. Monnin...?

5 MR. CHRISTIAN MONNIN: Thank you, Mr.  
6 Chair, and if gives you any further comfort to Ms.  
7 Ramage, and I'm given a two (2) hour slot today. I  
8 don't expect to take up to two (2) hours. I'm quite  
9 confident I'll be done within the hour.

10

11 CROSS-EXAMINATION BY MR. CHRISTIAN MONNIN:

12 MR. CHRISTIAN MONNIN: Could you  
13 please proceed to Manitoba Hydro Exhibit 60, at slide  
14 41 please. I'd like to start with some questions on  
15 OM&A. Thank you.

16 Now here at slide 41 of Exhibit 68  
17 Manitoba Hydro states that:

18 "A rate request is not meaningfully  
19 impacted by further reductions to  
20 OM&A expense and describes an  
21 illustrative exercise which arrived  
22 at 7.41 percent."

23 And I want to peremptorily apologize  
24 for two (2) things. I'm a little under weather so if  
25 I'm coughing into the microphone, I apologize and if

1 my voice is a little hoarse again, to ask me to repeat  
2 the question. And on the issue of repeating  
3 questions, I've tried my level best going through the  
4 transcripts of this panel and hopefully I don't  
5 double-down and ask you a questions that's already  
6 been asked.

7                   Is anyone on the board able to -- for  
8 clarification, provide an estimate of the incremental  
9 savings derived from a reduction of an additional 500  
10 FTEs as identified in this slide?

11                   MR. JAMES MCCALLUM: I assume your  
12 question -- you said "Board" but -- panel?

13                   MR. CHRISTIAN MONNIN: Pardon me,  
14 panel, correct.

15                   MR. JAMES MCCALLUM: Five hundred  
16 (500) operational staff would -- Ms. Bauerlein likely  
17 creating incremental savings in the order of \$50 to  
18 \$60 million?

19                   MR. CHRISTIAN MONNIN: And can  
20 Manitoba Hydro speak to a breakdown position  
21 reductions performed in this analysis, as we see on  
22 slide 41?

23                   MR. JAMES MCCALLUM: No, this was just  
24 illustrative using -- using five hundred (500) staff  
25 at -- at kind of an average, fully loaded cost.

1 MR. CHRISTIAN MONNIN: And when you  
2 were working through this analysis, you - being  
3 Manitoba Hydro -- I won't take you there but, for  
4 example, at PUB-Manitoba Hydro IR-13 (a) to (c),  
5 there's a table in the form of that -- that response  
6 identifying the breakdown on the projections, was that  
7 done with respect to the analysis that's found at --  
8 at slide 41?

9 MS. SANDY BAUERLEIN: This was, again,  
10 as Mr. McCallum indicated an illustrated example. We  
11 took an average salary for employees, assuming that,  
12 again, there would have to be some type of a severance  
13 compensation if you were to reduce by a further five  
14 hundred (500) people and so it wasn't to which people  
15 would leave, it was just doing a -- a basic assumption  
16 as to the impacts on the rates.

17 But, as well, it's important to note  
18 that we feel that the further reductions to our  
19 staffing levels, again, we're going down to about  
20 thirty-two hundred (3200) operational employees as a  
21 result of the -- the VDP program, so, this would take  
22 us down a further five hundred (500) from that which  
23 we actually feel puts the -- the Corporation at risk.  
24 So, we're not looking at the full six thousand (6,000)  
25 employees, you're only looking at now starting at

1 about thirty-two hundred (3200).

2 MR. CHRISTIAN MONNIN: And -- and when  
3 you say you -- you feel it puts the Corporation at  
4 risk, that is something that was determined by --by  
5 whom in particular at Hydro?

6 MR. JAMES MCCALLUM: It was determined  
7 by the -- the executive of Hydro and I think, you  
8 know, you would have heard or -- or seen in Mr.  
9 Shepherd and my's presentation that the -- our direct  
10 evidence at the policy panel that, you know, we --  
11 we've taken all the steps that we think we can, and  
12 that if we thought we could cut more, we would have  
13 cut more.

14 It -- you know, these were the steps we  
15 took before formulating and concluding our financial  
16 plan where the last piece was the requisite rate  
17 increases. So, clearly, we've given a lot of thought  
18 and attention to -- to what can Hydro do on its own  
19 accord to mitigate rate inc -- increases and rate  
20 impacts to our -- our customers.

21 MR. CHRISTIAN MONNIN: And when Hydro  
22 here states just at slide 41 that the rate request is  
23 not meaningfully impacted about -- who are they  
24 referring to that -- who is it not meaningfully  
25 impacting; Hydro or the ratepayer?



1                   MR. JAMES MCCALLUM:    I think what  
2 we're saying is that five hundred (500) operational  
3 staff would be an extremely significant cut over and  
4 on top of the seven hundred (700) or so operational  
5 positions that will be out by the end of January of  
6 next year, and over and on top of the four hundred  
7 (400) plus operational positions that were reduced  
8 over the last several years, with the consequence of  
9 being able to reduce the -- the rate increase from 7.9  
10 to 7.4 percent, which I think we would say in the  
11 context of 7.9 percent is not a material move.

12                   We're not remotely suggesting that --  
13 that, you know, any rate impact isn't -- isn't of --  
14 of concern or challenge to our customers.

15                   MR. CHRISTIAN MONNIN:    So if I can  
16 take away from that -- and there's a whole lot to  
17 unpack in that answer, sir -- if I can take away from  
18 that, Hydro saying that it -- it -- the impact is not  
19 a meaningful impact on the rate request that it's  
20 putting forward going from seven point nine (7.9) to  
21 seven point forty-one (7.41), correct?

22

23   (BRIEF PAUSE)

24

25                   MR. JAMES MCCALLUM:    We -- the -- .5

1 percent on 7.9 percent, the -- the purpose of the --  
2 the illustration, and again, it's an illustration, we  
3 can't do this. We can't do it. So the purpose of the  
4 illustration was to say even if we could -- and this  
5 is symptomatic of, really, all the offer -- all the --  
6 all the -- the avenues you might want to go down  
7 around changing the model.

8           At the end of the day, nothing changes  
9 the big iceberg of \$25 billion in debt. It drives  
10 everything. So as -- an infeasible operational  
11 headcount affects the rate increase by .5 percent.

12           MR. CHRISTIAN MONNIN:   And perhaps I  
13 can view it from a different angle and put it this way  
14 to you, sir. Manitoba Hydro is not in a position to  
15 suggest in any way whether a .49 percent of a rate  
16 increase is meaningful to a ratepayer or not, correct?

17           MR. JAMES MCCALLUM:   Correct.

18           MR. CHRISTIAN MONNIN:   Thank you. If  
19 you can go to Appendix 5.1, please. That would be the  
20 UMS Group report. The UMS Group was engaged by  
21 Manitoba Hydro in September of 2016 to conduct a GAAP  
22 assessment of its assessment management capabilities.

23                           Is that correct?

24           MR. JAMES MCCALLUM:   That -- that's  
25 correct. I think we are probably in the process of

1 alerting Mr. Wortley that he might be required here.  
2 We had not understood from your email last night you  
3 wanted to examine on UMS, which is fine, we just need  
4 to get the right personnel.

5 MR. CHRISTIAN MONNIN: Well, I'm  
6 sorry. My -- the email on Friday, I think, and I just  
7 sent two (2) orders across. And my understanding --  
8 my take-away from Ms. Ramage last week was, Anything  
9 that's not on the record needs to be given a heads-up,  
10 which I did my level best to circulate to --

11 MR. JAMES MCCALLUM: I'm -- and it was  
12 Friday, for -- for the --

13 MR. CHRISTIAN MONNIN: And I'm not --

14 MR. JAMES MCCALLUM: -- and it wasn't  
15 criticism at all. I just -- we -- we hadn't been --  
16 everything in our evidence is fair game. We -- we're  
17 not disputing that. It's just we didn't have the  
18 right people here.

19 MR. CHRISTIAN MONNIN: And -- and I  
20 took it like that, and please don't fret about  
21 criticism. I truck and trade in the misery of others,  
22 and I get criticized on a daily basis, so.

23 MR. JAMES MCCALLUM: Okay. Then I'll  
24 --

25 MR. CHRISTIAN MONNIN: No harm, no

1 foul. Thank you.

2 MS. PATTI RAMAGE: Mr. Wortley is on  
3 his way.

4 MR. CHRISTIAN MONNIN: I -- I  
5 apologize for -- for that gap. Perhaps if I can jump  
6 to something -- well, I...

7 MR. JAMES MCCALLUM: He'll be right  
8 up.

9 MR. CHRISTIAN MONNIN: Thank you.

10

11 (BRIEF PAUSE)

12

13 THE CHAIRPERSON: Nice to see you,  
14 Mr. Wortley.

15 MR. JOEL WORTLEY: Thank you. It's a  
16 pleasure to be here.

17

18 CONTINUED BY MR. CHRISTIAN MONNIN:

19 MR. CHRISTIAN MONNIN: Mr. Wortley,  
20 over here, good morning. I apologize. I'm the reason  
21 why you had to come to the panel on short notice.

22 I was asking some questions with  
23 respect to the UMS Group's report on asset management  
24 GAAP assessment, and as I'd stated earlier, my  
25 understanding was that UMS was engaged in September of

1 2016 to conduct a GAAP assessment of its asset  
2 management capabilities. Is that correct?

3 MR. JOEL WORTLEY: That's right. UMS  
4 was hired to come in and work with us to identify  
5 opportunities for improvement.

6 MR. CHRISTIAN MONNIN: And the scope  
7 of the assessment was to evaluate Manitoba Hydro's  
8 curs -- current asset management capabilities, and  
9 practices, and make recommendations for implementing a  
10 best practice asset management system; correct?

11 MR. JOEL WORTLEY: That sounds about  
12 right. I'd have to review the exact wording of their  
13 engagement, if that's what you're reading from.

14 MR. CHRISTIAN MONNIN: Kristen, if you  
15 can go down one (1) page, perhaps I will make a few --  
16 a couple pages.

17 And a brief compris -- if I understand  
18 correctly, this report comprised a review of Manitoba  
19 Hydro's existing corporate business unit level asset  
20 management practices and comparisons to indusy --  
21 industry best practices.

22 Are you able to educate me what asset  
23 management is at a very high-level?

24 MR. JOEL WORTLEY: So asset  
25 management, as we've talked about a little bit

1 previously in this forum, often gets confused a little  
2 bit. There is -- there is making decisions about  
3 assets, which is usually termed as managing assets,  
4 and then there's asset management, which is how you  
5 run your asset-intensive business, and it's the  
6 alignment of all your activities to cert -- to your  
7 business objectives to realize value from your assets.  
8 And so in -- in the broadest sense, asset management  
9 is how you run your company.

10 MR. CHRISTIAN MONNIN: And Kristen, if  
11 you can go to page 4, please, of this report. Under  
12 the heading 'Strategic Value of Asset Management',  
13 among others, UMS report that benefits which can be  
14 achieved by Manitoba Hydro through the -- the  
15 maturation of its asset management system include --  
16 and I'm looking at the fourth bullet -- fifth bullet  
17 down:

18 "Improved effectiveness of  
19 expenditure dollars through focus on  
20 performance management and  
21 continuous improvement, and then  
22 optimizes use of human resource by  
23 matching the workforce in terms of  
24 size and composition to the work  
25 required, rather than creating work

1 to keep the workforce busy."

2 Is that correct?

3 MR. JOEL WORTLEY: That's what it  
4 says, yes.

5 MR. CHRISTIAN MONNIN: And if you go  
6 to Tab -- sorry, page 7, please. In particular, after  
7 the stream of bullets, UMS identifies a number of gaps  
8 with Manitoba Hydro for which no current initiative is  
9 underway to close, and below is a summary of these key  
10 gaps, along with corresponding key recommendations.

11 And if you go to the next page over,  
12 please. And at page 8, some of the key recommend --  
13 no, sorry. UMS noted that:

14 "Some of the key elements of an  
15 asset management system are missing  
16 from Hydro today. These include  
17 audits, controls, and performance  
18 metrics, which leadership can use to  
19 ensure to the stab -- the  
20 suitability, adequacy, and effective  
21 -- effectiveness of the system."

22 Is that correct?

23 MR. JOEL WORTLEY: That is what the  
24 report says, yes.

25 MR. CHRISTIAN MONNIN: And again:

1 "Different functions within each  
2 business unit have different roles  
3 in the asset life cycle leading to a  
4 situation where no one (1) group or  
5 function is responsible for  
6 optimizing total asset life cycle  
7 cost. In addition, most asset  
8 management efforts are focused on  
9 capital spending with minimal  
10 attention given to optimizing O&M,  
11 which is a key part of the asset  
12 life cycle."

13 Correct?

14 MR. JOEL WORTLEY: That's right.

15 That's what it says.

16 MR. CHRISTIAN MONNIN: And under the  
17 heading 'Recommendations', namely, they recommend deci  
18 -- that Manitoba Hydro's decide on, declare, the  
19 operating model for asset management, roles, decision-  
20 making processes, goals, and key performance  
21 indicators, and the timetable for implementing these  
22 changes.

23 What has Manitoba Hydro done with these  
24 recommendations?

25 MR. JOEL WORTLEY: I -- as you noted,



1 the report was commissioned in 2016. Since then, a  
2 number of -- a number of initiatives have been put in  
3 place, first of all being our corporate asset  
4 management initiative to centralize asset management  
5 responsibility for the Company, which involved  
6 creating my own position, as the director of strategic  
7 business integration; involved creating the corporate  
8 asset management executive counsel, a group of vice-  
9 presidents responsible for ensuring -- or the  
10 stewardship of asset management within the Company;  
11 and a corporate asset management steering committee of  
12 directors responsible for deploying those asset  
13 management practices within their respective groups.

14           We've got a number of more technical  
15 initiatives underway to improve our asset health:  
16 indexing to create a corporate value framework to  
17 provide a common basis for valuing projects, and to  
18 roll out a computer foundation called C55 to allow  
19 portfolio management planning and the optimization of  
20 capital expenditures.

21           The next -- next on our list of things  
22 to do is to continue down our -- the development of  
23 our corporate asset management framework, phase 1  
24 being this UMS report, where we looked for having UMS  
25 come in and identify opportunities for improvement.

1 Phase 2 is to develop asset management policy  
2 strategies and objectives, and phase 3 is a roadmap to  
3 close gaps and move us towards best practice.

4 MR. CHRISTIAN MONNIN: And so we're --  
5 we're in phase 1, or we've started phase 2 now?

6 MR. JOEL WORTLEY: Phase 1 is  
7 complete. Phase 2 is next.

8 MR. CHRISTIAN MONNIN: And the -- at  
9 the foot of page 8, another recommendation is:

10 "Develop processes, implement tools  
11 to address operations and  
12 maintenance spend and the trade-off  
13 between O&M and capital in each  
14 business unit."

15 And that is comprised in phase 2?

16 MR. JOEL WORTLEY: No. If -- if you  
17 continue down the report towards the end, the -- UMS's  
18 recommendations are broken into four (4) steps. I  
19 think it's -- keep going.

20

21 (BRIEF PAUSE)

22

23 MR. JOEL WORTLEY: There, I believe,  
24 or one (1) page back. There we go.

25 And so what they're recommending is

1 that first, you need to create the right environment,  
2 then design the change the things that you want to  
3 accomplish, and then implement. And as you roll  
4 things out and they become adopted, then you work at  
5 achieving excellence.

6 MR. CHRISTIAN MONNIN: Okay, so when  
7 we were going through phase 1, 2, and 3, where do  
8 those fit in with these -- these four (4) steps?

9 MR. JOEL WORTLEY: So phase 1 and 2  
10 would be -- phase 1 would be prior to these steps.  
11 Phase 1 was the -- the baseline. Phase 2, creating  
12 the right environment, is we're currently sitting, and  
13 phase 3, in terms of the roadmap, will be designing  
14 the change.

15 MR. CHRISTIAN MONNIN: And then the  
16 other two (2) implement the change?

17 MR. JOEL WORTLEY: That's right.

18 MR. CHRISTIAN MONNIN: That's the  
19 phase -- is that another phase, or?

20 MR. JOEL WORTLEY: We haven't named it  
21 a phase at this point. We'll have to see how we roll  
22 that out.

23 MR. CHRISTIAN MONNIN: And as -- as  
24 far as a roll-out for these phases, what's the  
25 timeline are we looking -- that we're looking at?

1                   MR. JOEL WORTLEY:    The -- there's no  
2 particular schedule being established right now. I  
3 expect that phase 2 will roll -- or will -- will be  
4 executed over the next year or so. The actual timing  
5 for phase 3, the roadmap and the execution really  
6 depends on what we're going to try to accomplish, and  
7 that -- that's subject to a cost/benefit analysis to  
8 see which -- which gap's first, and how long is it  
9 going to take, and what it's going to cost.

10                   MR. CHRISTIAN MONNIN:   Does Manitoba  
11 Hydro at this point have any notion or idea of this --  
12 the cost savings or benefits that can be availed from  
13 proceeding with this -- these recommendations?

14                   MR. JOEL WORTLEY:    We haven't  
15 progressed far enough to be able to do a delta -- or a  
16 -- a cost analysis or a benefit analysis --  
17 opportunity analysis for our own business. We know  
18 from other experience, we know from UMS themselves  
19 that other companies have achieved savings -- I  
20 believe UMS quotes 20 -- 20 percent, something like  
21 that. It -- it's in the early part of the report if  
22 you want to see it.

23                   MR. CHRISTIAN MONNIN:    No, that's  
24 fine. Thank you.

25                   Ms. Bauerlein, I have some questions

1 for you still on -- on O&A. And as I understand  
2 matters in this GRA, Manitoba Hydro did not have the  
3 ability to prepare a detailed operating and  
4 administrative expense breakdown. Is that correct?

5 MS. SANDY BAUERLEIN: Correct.

6 MR. CHRISTIAN MONNIN: And the reason  
7 for that is -- is due to the fact that the full  
8 measure and impact of, for example, the voluntary  
9 departure program, and other directions are -- are  
10 still moving along. Is that correct? They're not  
11 come -- they're not finalized yet?

12 MS. SANDY BAUERLEIN: That's correct.  
13 To do a detailed budget, we have to understand exactly  
14 where every person is going to be and exactly what  
15 function they're going to be doing. With the people  
16 leaving, there's still a lot of transition happening  
17 across the Company.

18 MR. CHRISTIAN MONNIN: And my  
19 understanding on the evidence to date is that Manitoba  
20 Hydro has handled the voluntary departure program and  
21 the delimiting of positions internally. Is that  
22 correct?

23 MS. SANDY BAUERLEIN: That is correct.  
24 In some cases -- in many cases, the positions are  
25 delimited. In other cases, sometimes staff are

1 redeployed to a position that a person may be leaving,  
2 but we feel that is a critical role, and that another  
3 subsequent follow-on position would be eliminated.

4 MR. CHRISTIAN MONNIN: And is Manitoba  
5 Hydro intending to hire any exterior -- external  
6 experts or consultants as it moves along with the  
7 workforce reduction plan and the optimizing of the  
8 O&M?

9

10 (BRIEF PAUSE)

11

12 MS. SANDY BAUERLEIN: On some areas  
13 may be looking to -- for assistance in trying to  
14 manage their specific functions. So while as -- as a  
15 company we haven't hired a consultant, there are  
16 certain areas that are looking for assistance to help  
17 refine some of their -- their processes.

18 MR. CHRISTIAN MONNIN: Kristen, if you  
19 could please go to Appendix 12 -- sorry, 10.12, and  
20 page 2 of 5. It's an operational cost and breakdown  
21 of benchmarking as prepared by the Boston Consulting  
22 Group.

23

24 (BRIEF PAUSE)

25

1 MR. CHRISTIAN MONNIN: I'd said 2 of  
2 5. I apologize, it's 4 of 7 on this -- this slide.  
3 If you scroll down a little bit, please. As a  
4 footnote number 1, it:

5 "...appears determined by size of  
6 global Hyd -- Hydro generation  
7 fleet."

8 Is Manitoba Hydro able to -- other  
9 than from that footnote, based on its dealings with  
10 Boston Consulting Group, are they -- is Manitoba Hydro  
11 able to describe the basis for selecting the  
12 utilities, and the numbers of utilities, and whether  
13 any of these selective comparatives are verily  
14 integrated to prepare this benchmarking study?

15 MS. SANDY BAUERLEIN: I'm not aware as  
16 to what -- how the section process was for the  
17 comparison that was done by BCG.

18 MR. CHRISTIAN MONNIN: And I  
19 understand that one (1) of the cost-saving measures  
20 that Hydro is looking for it pertains to supply change  
21 cost savings?

22 MS. SANDY BAUERLEIN: That is correct.

23 MR. CHRISTIAN MONNIN: Has Manitoba  
24 Hydro done anything to identify the streamlining and  
25 the savings that can flow from that?

1 MS. SANDY BAUERLEIN: Yes, it does.  
2 We have a supply chain initiative which, again, we  
3 have identified specific activities, similar to the  
4 capital asset management processes. We have different  
5 activities happening within different waves.

6 And as we discussed in the opening  
7 presentation, we expect to see -- or achieve savings  
8 of around -- a cumulative savings of around 150  
9 million by -- I think it's 2021 -- 20 -- around that  
10 timeframe.

11 MR. CHRISTIAN MONNIN: Are -- are you  
12 familiar with what's referred to as a total factor  
13 productivity analysis?

14 MR. JAMES MCCALLUM: I have not heard  
15 that term.

16 MR. CHRISTIAN MONNIN: It represents a  
17 study -- the total quantity of outputs of a firm  
18 relative to the quantity of all the inputs of it --  
19 that it employs. Is this something that -- anyone in  
20 Manitoba Hydro in the panel has -- has heard of in the  
21 past?

22 MS. SANDY BAUERLEIN: I have not.

23 MR. CHRISTIAN MONNIN: Thank you. I  
24 have now some questions with respect to Keeyask.

25 THE CHAIRPERSON: Sorry, Mr. Monnin,



1 can I just interrupt for a second? Can I just ask, on  
2 the GAAP assessment report, when was it actually  
3 ordered? When -- when was there a decision made to  
4 move forward with a gap assessment report?

5 MR. JAMES MCCALLUM: This is the UMS  
6 report, sir, on asset management?

7 THE CHAIRPERSON: Yeah.

8 MR. JAMES MCCALLUM: I -- I think  
9 we'll have to get back to you on that.

10 THE CHAIRPERSON: Okay. I -- I'm just  
11 wondering -- the -- the second question I had was:  
12 Who made the decision? Is this a management decision,  
13 or is this something that was reviewed with the Board?  
14 And you can get back to me on that one as well.

15 MR. JAMES MCCALLUM: Before my time.  
16 I'll have to --

17 THE CHAIRPERSON: Okay.

18 MR. JAMES MCCALLUM: -- endeavor to  
19 find out.

20 THE CHAIRPERSON: Thank you. Sorry,  
21 Mr. Monnin?

22

23 CONTINUED BY MR. CHRISTIAN MONNIN:

24 MR. CHRISTIAN MONNIN: Not a problem,  
25 Mr. Chair. Thank you.

1 I have some questions that I'd like to  
2 put to the panel with respect to Keeyask. Mr.  
3 McCallum, my take-away from your evidence on the  
4 policy panel was that Manitoba Hydro recognizes and  
5 anticipates that Keeyask will be a net detractor to  
6 its financial position for a considerable --  
7 considerable period of time. Is that correct?

8 MR. JAMES MCCALLUM: Yes, that's  
9 correct. As we look at the future, here, we are  
10 seeing that domestic load growth is considerably  
11 slower than we had earlier anticipated, and we are --  
12 which pushes out the -- the need for Keeyask in order  
13 to serve customers in the Province of Manitoba to a  
14 later date.

15 And then the capital cost has obviously  
16 increased significantly, and the export pricing on the  
17 opportunity market has -- has not recovered the way we  
18 had previously hoped and planned. And so as a result,  
19 you know, our -- and -- and this is in -- in Tab 2 of  
20 our application, albeit using some -- some dated and  
21 higher export pricing, but you can see that there is a  
22 material negative differential between the revenues we  
23 anticipate for Keeyask and the incremental carrying  
24 costs when the asset comes into service.

25 MR. CHRISTIAN MONNIN: And the take-

1 away from that is based on the current outlook for its  
2 costs and the revenues that flow from it, that  
3 considerable period of time can feasibly be measured  
4 in decades. Is that correct?

5 MR. JAMES MCCALLUM: Yeah -- whether  
6 it's decades being 20 years, I'm -- I'm not sure. It  
7 depends a lot on the assumptions you look at, but  
8 clearly into the 2030s.

9 MR. CHRISTIAN MONNIN: And so safe to  
10 say that Manitoba Hydro reviews and would agree that  
11 Keeyask is a primary driver of the proposed rate  
12 increases?

13 MR. JAMES MCCALLUM: It's a  
14 significant driver of the rate increases, but so too  
15 are the limited contribution to reserves that's been  
16 made over the last several years, and, of course, in  
17 service of Bipole III reliability project next year.

18 MR. CHRISTIAN MONNIN: And Kristen, if  
19 you go to Tab 2, please, of the application, page 58  
20 of 61.

21

22 (BRIEF PAUSE)

23

24 MR. CHRISTIAN MONNIN: And I think  
25 this -- looking at lines 16, Mr. McCallum, I think

1 this ties into the evidence that you were just  
2 providing, starting on line 16, going to the last  
3 period on line 20:

4 "Since its last year rate  
5 application, Manitoba Hydro's  
6 experienced a further deterioration  
7 of its anticipated expert revenues,  
8 significant weakening in its  
9 forecast of domestic load, and sig -  
10 - significantly increased capital  
11 costs associated with its major new  
12 generation and transmission  
13 projects. In response to these  
14 challenging conditions, Manitoba  
15 Hydro is dramatically advancing the  
16 pace and scale of internal cost  
17 reductions."

18 Now, I'm -- I'm reading that not  
19 because -- I know everyone can read very well. I'm  
20 just reading that for the benefit of the record, and I  
21 thank you for your patience and allowing me to do  
22 that.

23 And so, in view of the changing  
24 environment, here's the question: In view of the  
25 changing environment, did Manitoba Hydro consider

1 alternatives of scaling down, or modular versions of  
2 Keeyask in order to different portions of the capital  
3 costs?

4

5 (BRIEF PAUSE)

6

7 MR. JAMES MCCALLUM: I was just  
8 looking around to ensure that Mr. Miles was -- was  
9 with us. But, you know, at the heart of the Boston  
10 Consulting Group review of -- of the summer of 2016  
11 was looking at, really, both major capital projects  
12 and the financial impact of -- of same, and to examine  
13 whether there were opportunities to -- to delay or  
14 halt the projects. And that analysis kind of came  
15 back with, you know, in a -- in a punchline, no choice  
16 but to move forward.

17 And as the Keeyask project,  
18 subsequently, we -- we reviewed and -- and updated the  
19 control budget in February or March of 2017, and --  
20 and we -- and this is in our evidence -- refreshed,  
21 you know, a similar analysis to what BCG did of the  
22 Keeyask project and concluded that, again, the -- the  
23 best path forward for impacts on -- on ratepayers in  
24 the Company was to finish the project and get it in  
25 service.

1 MR. CHRISTIAN MONNIN: So I twigged to  
2 the use of the word -- or the -- in your response,  
3 sir, I twigged to you saying, In a punchline, BCG came  
4 back.

5 Was -- did BCG conduct an examination  
6 on the merit of such options and that would reduce the  
7 rates inquired -- the -- the rates that are now being  
8 required? More than a punchline, did it actually do  
9 an analysis of -- of scaling back or doing modular  
10 versions?

11 MR. JAMES MCCALLUM: I'll have to --  
12 to let Mr. Miles speak to even the feasibility of any  
13 modular concept. Certainly in our -- our -- and --  
14 and I wasn't here for the BCG work to speak to -- to  
15 rate impact analysis. We did do those analyses in  
16 February and March of this year to quantify and -- and  
17 similarly confirm that -- that the rate impacts were  
18 far worse by abandoning the project versus completing  
19 it.

20 MR. TERRY MILES: Maybe I -- Mr.  
21 Monnin, exactly what do you mean by modular options  
22 and different options? I'm not aware of any  
23 alternatives that -- that BCG would have looked at in  
24 terms of alternate structure makeup, but if you could  
25 provide a little more clarification as to what you

1 mean by modular --

2 MR. CHRISTIAN MONNIN: Sure. Modular  
3 -- I believe Keeyask is -- is it seven (7) turbines?  
4 If you could scale that down, it would be modular.  
5 Looking -- if you could have two (2) going rather than  
6 the -- than the seven (7), then you can scale those  
7 out. That's what I would be referring to as modular.

8 And -- and in particular on that piece  
9 is I would -- would appreciate to know if -- if Boston  
10 Consulting Group conducted such an analysis to  
11 consider these alternatives and -- and where -- where  
12 that could be found.

13 MR. TERRY MILES: I -- I don't believe  
14 Boston Consultants considered those types of things.  
15 I think with a project like Keeyask, once it's at the  
16 state that it was at, about 75 to 80 percent of the  
17 actual cost is in the civil works, the main structures  
18 that are there. The mechanical turbines and that then  
19 ends up being incremental on top of those. And then  
20 typically, completing those and installing those  
21 resources actually helps to extract the value from  
22 that.

23 Once you've invested in the 75 to 80  
24 percent of the civil -- civil works, the turbines and  
25 that actually help extract the value of it, and

1 there's benefit in completing those at the time to do  
2 that, not -- the alternative is to not completing the  
3 turbines at the time. That would be my -- my  
4 understanding of that.

5 MR. CHRISTIAN MONNIN: So I appreciate  
6 it's qualified that depending -- it is qualified on --  
7 based on the -- on the -- the point where Keeyask was  
8 -- was -- and what the situation was, and -- and the  
9 part of its development, it's -- with that  
10 qualification, is it safe to say that Boston  
11 Consulting Group did not conduct such an analysis?

12 MR. TERRY MILES: I'm -- I'm not aware  
13 of the analysis, and I'm not aware that they were  
14 asked -- asked to do that. I can't comment on that.

15 MR. JAMES MCCALLUM: Yeah, nor -- nor  
16 can I, but to -- to my awareness and knowledge, no.

17 MR. CHRISTIAN MONNIN: Okay. If you  
18 can go to Manitoba Hydro -- I believe it's MFR-72,  
19 page 1...

20

21 (BRIEF PAUSE)

22

23 MR. CHRISTIAN MONNIN: Yes, I'm sorry,  
24 and it really just -- and that -- I don't need to drag  
25 everyone there, but what I'm looking at is the -- I



1 would draw your attention to the June 2nd, 2016 letter  
2 from BCG, to -- setting out the scope of work. And  
3 one (1) of the bullets is, "What viable alternatives  
4 exist to maximize value?"

5                   And I think we've established that they  
6 haven't looked at alternatives. But my suggestion was  
7 -- would it -- being that under the scope of work,  
8 that would have been something they ought to have  
9 looked at?

10                   MS. PATTI RAMAGE: If I could  
11 interject, Mr. Monnin?

12                   MR. CHRISTIAN MONNIN: Please.

13                   MS. PATTI RAMAGE: I don't think we've  
14 established what BCG did at all. We've established  
15 that this panel is not aware of -- of what that was.

16                   MR. CHRISTIAN MONNIN: Well, then  
17 we'll leave it at that. Thank you, Ms. Ramage.

18                   (BRIEF PAUSE)

19

20 CONTINUED BY MR. CHRISTIAN MONNIN:

21                   MR. CHRISTIAN MONNIN: Is -- is -- and  
22 I -- I apologize. I'm asking this question because  
23 the pole's in front of me, and that's of my own  
24 making. I could have moved.

25                   Is Mr. Cormie on the panel this

1 morning?

2 MR. JAMES MCCALLUM: No, he's not here  
3 this morning.

4 MR. CHRISTIAN MONNIN: Okay. I will  
5 ask the questions regardless that I were going to put  
6 to Mr. Cormie. If someone is able to respond to them,  
7 all the better; if not, then I will move on.

8 You may recall an exchange with my  
9 friend Mr. Peters. Mr. Cormie was put questions about  
10 the delay of Keeyask to thirty-two (32) months, and  
11 whether that would have any impact on Hydro's current  
12 contractual obligations. And Mr. Cormie's evidence  
13 was that they had -- that "they" being Manitoba Hydro  
14 had the resources to meet the obligations if the delay  
15 was extended to thirty-two (32) months.

16 As Mani -- can Manitoba Hydro provide -  
17 - anyone on the panel provide any -- is able to answer  
18 this question: What would happen if the delay was  
19 further than thirty-two (32) months, say an extra  
20 twelve (12) months? Would that affect Manitoba  
21 Hydro's abilities to meet its contractual obligation?

22

23 (BRIEF PAUSE)

24

25 MR. CHRISTIAN MONNIN: And Kristen, if

1 you could go to PUB book of documents, Exhibit 42, Tab  
2 4, page 182, that'll set out the contracts, the  
3 obligations that I'm referring to.

4

5 (BRIEF PAUSE)

6

7 MR. JAMES MCCALLUM: I -- I think  
8 we'll need Mr. Cormie to speak specifically, but I --  
9 I would just say that there -- there are important  
10 kind of pieces of calculus that go into a delay  
11 decision that go beyond Manitoba Hydro's ability to  
12 service the contract from -- from its excess  
13 dependable energy without Keeyask, which is, I think,  
14 where you're -- you're going, and those include the  
15 contractual terms of these export contracts that are  
16 specific to Keeyask.

17 But also not to be missed is we're  
18 building this -- this project in partnership with four  
19 (4) Cree nations who have -- Manitoba Hydro has made  
20 commitments to. And so there -- there is much more  
21 that goes into this analysis than simply whether we  
22 have the additional dependable power.

23 MR. CHRISTIAN MONNIN: That's fair.  
24 And I suppose this is something that Mr. Cormie would  
25 have to -- to respond to, but I appreciate the other

1 factors in the consideration of meeting the  
2 obligations, but this was really specific to being  
3 able to meet the resource obligations. And Mr.  
4 Cormie's evidence was that, you know, with a thirty-  
5 two (32) month delay, if Manitoba Hydro had the  
6 resources, it could enter the market.

7                   If -- if you could go to -- if thirty-  
8 two (32) months delay occurred, then I was just  
9 wondering whether the resources would be there if the  
10 delay was greater than thirty-two (32) months.

11                   MR. JAMES MCCALLUM: We -- we will  
12 have to reserve on that. I -- I don't personally have  
13 the answer.

14                   MR. CHRISTIAN MONNIN: That's fair.

15

16   (BRIEF PAUSE)

17

18                   MS. PATTI RAMAGE: Mr. Monnin, would  
19 you like that by undertaking, or -- we have put out  
20 the call for Mr. Cormie, but --

21                   MR. CHRISTIAN MONNIN: You know,  
22 whatever's easier for you folks over there. Frankly,  
23 I'm -- I'm fine either way.

24                   MS. PATTI RAMAGE: Let -- let's take  
25 it by undertaking, and if Mr. Cormie -- I believe he's

1 in meetings, but if we can pull him away, we'll get  
2 him back here and deal with it that way, if -- if this  
3 morning, we can get him here. And -- and we  
4 apologize. We weren't aware that --

5 THE CHAIRPERSON: Yeah. No.

6 MS. PATTI RAMAGE: -- Mr. Cormie was  
7 specifically required this morning.

8 THE CHAIRPERSON: Yeah. That's fine.  
9 We'll deal with it.

10 MS. PATTI RAMAGE: Gave him a pass.

11

12 --- UNDERTAKING NO. 13: Manitoba Hydro to provide  
13 whether they can continue  
14 to meet their contractual  
15 obligations if the delay  
16 of Keeyask is longer than  
17 thirty-two (32) months

18

19 CONTINUED BY MR. CHRISTIAN MONNIN:

20 MR. CHRISTIAN MONNIN: Kristen, if you  
21 can go to some of the IRs, GSS/GSM Manitoba Hydro 1-4,  
22 please.

23

24 (BRIEF PAUSE)

25

1 MR. CHRISTIAN MONNIN: Thank you.

2 Now, this might seem a little picayune, but here on  
3 the response we're referring to cancellation costs.  
4 And here we have 1.35 billion. And when I'm looking  
5 at the tab 2 application, it's 1.3 billion. And I say  
6 it's picayune because we're only looking at the  
7 difference being 1.3 and 1.35.

8 And I'm just wondering why there's that  
9 difference, and is it just because at the time of the  
10 application, vis-a-vis the time of response to the IR?  
11 Can anyone elucidate me on that over there?

12

13 (BRIEF PAUSE)

14

15 MR. TERRY MILES: Can you repeat the  
16 question, please, Mr. Monnin?

17 MR. CHRISTIAN MONNIN: Absolutely. In  
18 tab 2 of your application, Manitoba Hydro quantifies  
19 the additional cancellation costs of Keeyask at 1.3  
20 billion, and in this IR it's quantified at 1.35  
21 billion. And I said I appreciate it's picayune. It's  
22 very small, but I'm just wondering what the  
23 discrepancy is, and whether that's just because of the  
24 temporal issue of when the application was filed.

25 MR. JAMES MCCALLUM: No, I -- and I'll

1 let Mr. Miles overrule me. I -- I believe what's  
2 happened -- the -- the number I have in my head from  
3 February or March of this year when we -- when we, you  
4 know, refreshed our analysis of -- of whether to carry  
5 on with the Keeyask project in light of the new  
6 capital budget -- the number I have in my mind from  
7 then is 1.35 billion as being our estimate -- and it's  
8 important to emphasize estimate of -- of the  
9 cancellation costs and remediation costs. And so I --  
10 I can't -- I don't know how that ended up being 1.3  
11 billion in the -- in the application. It could well  
12 be just a typographical matter.

13 MR. CHRISTIAN MONNIN: And did -- did  
14 Hydro include the sunk costs in making a determination  
15 of whether or not to proceed with Keeyask?

16 MR. JAMES MCCALLUM: No, the sunk  
17 costs were taken as -- as just that, sunk costs. This  
18 was an analysis of paths forward, comparing the path  
19 of expending the additional capital to finish the  
20 project, obtaining the benefit of the export  
21 contracts, versus a path of halting construction,  
22 remediating the site, paying the breakage costs  
23 associated with the relationships that are contingent  
24 on the project. And then constructing the -- the  
25 comparison analysis was to construct a gas plant

1 projected, you know, with a new projected need date  
2 for new resources.

3 MR. CHRISTIAN MONNIN: My Friend Mr.  
4 Williams referred to his failure in -- in going to  
5 accounting. My track record is even worse and it'll  
6 reflect in this question.

7 What's the difference between a sunk  
8 cost and actual costs incurred?

9 MR. JAMES MCCALLUM: Well, a -- a sunk  
10 cost is typically, at least in my mind, thought of as  
11 a cost that's in your rearview mirror. It's been  
12 expended. You can't do anything to recover it. And  
13 so really when you're -- when you're managing a  
14 business you're looking at the path forward and  
15 looking at the best decision you can make basis where  
16 you're at.

17 So when we -- when you -- you ask the  
18 question of, you know, is -- is Keeyask going to be --  
19 effectively your question was: Is your -- is Keeyask  
20 going to be a net drag on Manitoba Hydro's income in  
21 the years after it comes into service. The question -  
22 - the answer that was -- is clearly yes.

23 But that doesn't mean that it is wrong  
24 choice to finish the project. What you're doing is  
25 you're -- you're saying, There's not much I can do



1 about what's already been expended. But a -- a half  
2 built generating station is of no use to anyone. And  
3 so your path -- you're -- you're looking at alternate  
4 paths forward. Do I expend the remaining 4-odd  
5 billion dollars and finish the project? Or do I not  
6 do that -- expend in our estimate is 1.35 billion,  
7 forgo the export revenue tied to the project and have  
8 the ratepayers pay the interest cost on -- on 5 or \$6  
9 billion invested with no functioning asset to show for  
10 it? That's the analysis.

11 MR. CHRISTIAN MONNIN: I want to try -  
12 - try this again because -- and try to break it down  
13 even more simply because my brain only thinks in very  
14 simple ways.

15 And so I think my question was  
16 definition-wise, what's the difference between sunk  
17 costs vis-a-vis actual costs incurred? Are they the  
18 same, or are they a different animal?

19 MR. JAMES MCCALLUM: No, I'd regard  
20 them the -- as the same.

21 MR. CHRISTIAN MONNIN: All right. So  
22 here we have sunk costs at 2.8 billion, in this IR.  
23 And, Kristen, if you can go to the IR previous to that  
24 MH-1-3(a) to (c), page 3 of 3 is -- is fine. And  
25 again, this might just be because this is actual costs

1 as April 3rd of 2017. We have -- and my understanding  
2 now from your evidence is sunk costs at 2.8 in the  
3 previous one (1) is the same as actual costs incurred.  
4 This is 3.348 billion. And I'm just trying to  
5 understand why there's a difference on these IRs for  
6 the sunk costs or the actual costs incurred.

7 MR. JAMES MCCALLUM: One (1) moment.

8

9 (BRIEF PAUSE)

10

11 MR. JAMES MCCALLUM: So I believe -- I  
12 believe the difference -- and we'll, subject to check  
13 -- it's an excellent question, Mr. Monnin. But -- but  
14 I believe if you look down to the --

15 MR. CHRISTIAN MONNIN: It might be my  
16 only one (1).

17 MR. JAMES MCCALLUM: If you look down  
18 to -- and, I'm sorry, I've lost the reference for  
19 which IR this is, but if you look -- just for the  
20 record's purposes -- if you look down at the bottom  
21 you'll see interest of 0.476. That's \$476 million.  
22 That has been capitalized to the project, bringing the  
23 total from 2.8 billion to 3.348.

24 So I believe in the answer to the other  
25 IR that you referenced the 2.8 billion was without the

1 -- it was sort of the -- the sunk costs of -- you  
2 know, for buying nuts and bolts and widgets and  
3 concrete. And then you also need to consider the  
4 interest we've expended on the funds borrowed to  
5 progress the project to date. So that would be the  
6 difference.

7 MR. CHRISTIAN MONNIN: Thank you, Mr.  
8 McCallum. Kristen, if you can go to IR GSS/GSM 1-6,  
9 please.

10

11 (BRIEF PAUSE)

12

13 MR. CHRISTIAN MONNIN: Oh, if you'd --  
14 that's -- scroll up a little bit more. Thank you.  
15 Here -- a little bit more, please. Perfect. Here  
16 GSS/GSM puts one (1) statement from Hydro that's found  
17 at page 43 it's app -- of its application. And it  
18 speaks to:

19 "In examining the original decision  
20 BCG analyzed the NPV, net present  
21 value, of Keeyask and then Keeyask  
22 plus the US tie-line project against  
23 the base case of gas-fired  
24 generation, and concluded that the  
25 Keeyask 2019/'20 ISD with US tie-

1 line provided the greatest benefit  
2 to both Manitoba Hydro and the  
3 province."

4 And Hydro was asked to reconcile that  
5 statement with BCG's statements below which read as  
6 follows:

7 "Conversely, a decision to build  
8 Keeyask and its associated  
9 infrastructure was an imprudent one  
10 (1) due to a failure to fully assess  
11 the risks associated with moving  
12 forward. And all three (3)  
13 projects, the Bipole III, Keeyask,  
14 and the associated tie-line should  
15 have been reviewed on an aggregate  
16 basis instead of individually to  
17 properly assess the collective risks  
18 of conducting all projects at once.  
19 While a Bipole III could have been  
20 pursued as a standalone project, the  
21 feasibility to Keeyask and the tie-  
22 line were both dependent on one  
23 another and on construction of the  
24 Bipole III as well."

25 Now with respect to the answers

1 provided, I just want to clarify a few points. Now,  
2 I've always been accused of having a firm grasp on the  
3 obvious, but the first response is as follows:

4 "Manitoba Hydro's interpretation of  
5 the above statements."

6 Is it safe to say that that's exactly  
7 what this is? It's a centre -- Manitoba Hydro's  
8 interpretation? It did not go back to Boston  
9 Consulting Group to confirm that?

10 MR. JAMES MCCALLUM: That's correct.

11 MR. CHRISTIAN MONNIN: And the next  
12 page over, Kristen. And the last paragraph:

13 "As to statement 2, Manitoba Hydro  
14 infers that BCG's conclusion is" --

15 And again, is it safe to say that  
16 Manitoba Hydro did not go back to BCG to confirm this  
17 -- what is being inferred?

18 MR. JAMES MCCALLUM: That -- that's  
19 right.

20 MR. CHRISTIAN MONNIN: Now, Mr. Chair,  
21 I had circulated some orders that I had some questions  
22 for on Friday. And they were really with respect to  
23 an exchange that My Friend Dr. Williams had with Mr.  
24 Barnlund. I appreciate he's not on the panel. I can  
25 defer these questions to the panel where Mr. Barnlund

1 will be participating in. I have no problem with  
2 that. But I thought it prudent to have them ready,  
3 because the exchange occurred with respect to the  
4 revenue requirement panel.

5 MS. PATTI RAMAGE: Mr. Chairman, we  
6 can have Mr. Barnlund --

7 THE CHAIRPERSON: Ms. Ramage...?

8 MS. PATTI RAMAGE: -- here and I am  
9 also told Mr. Cormie is on his way, so.

10 THE CHAIRPERSON: I guess we'll keep  
11 going.

12 MS. PATTI RAMAGE: We might as well  
13 keep going.

14 THE CHAIRPERSON: Yeah, I'm just --  
15 Mr. Monnin, do you have other questions besides those  
16 for Mr. Cormie or Mr. Barnlund?

17 MR. CHRISTIAN MONNIN: I -- I see that  
18 Mr. Cormie has just -- just entered. The ones that I  
19 have, the balance would just be for Mr. -- for Mr.  
20 Barnlund. And again, I --

21 THE CHAIRPERSON: Okay. Well --

22 MR. CHRISTIAN MONNIN: -- I have no  
23 problem delaying those to the next panel.

24 THE CHAIRPERSON: Well, no. But if  
25 Mr. Barnlund is on the way we might as well deal with

1 it now. Mr. Cor -- if Mr. Cormie could be seated, and  
2 then we'll -- we can put his -- your questions to him.  
3 And then if Mr. Barnlund --

4 MR. JAMES MCCALLUM: Do you think  
5 you're finished with Mr. Wortley?

6 MR. CHRISTIAN MONNIN: I am. Thank  
7 you.

8 MR. JAMES MCCALLUM: Okay.

9 THE CHAIRPERSON: Thank you, Mr.  
10 Wortley. Mr. Cormie, good morning.

11 MR. DAVID CORMIE: Good morning, sir.

12 THE CHAIRPERSON: Mr. Monnin.

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

15

16 CONTINUED BY MR. CHRISTIAN MONNIN:

17 MR. CHRISTIAN MONNIN: Good morning,  
18 Mr. Cormie.

19 MR. DAVID CORMIE: Good morning.

20 MR. CHRISTIAN MONNIN: And I -- I  
21 appreciate you being to attend this morning to answer  
22 a few -- the very few questions I have for you.  
23 Perhaps, Kristen, out of fairness it would be of  
24 benefit to putting up PUB book of documents at Exhibit  
25 42-4, page 182.

1                   Mr. Cormie, during cross-examination on  
2 this panel by My Friend Mr. Peters on behalf of the  
3 Board, there was an exchange between yourself and him  
4 with respect to Hydro's obliga -- ability to meet its  
5 obligations under contract, and -- that are found at  
6 page 182. And your answer on that at page 1278, no  
7 need to go there, but was:

8                   "Subject to check, Mr. Peters, I  
9 believe we do. We also have the  
10 ability to acquire resources in the  
11 short-term if that became necessary.  
12 We can enter the market, and if it  
13 was necessary acquire resources if -  
14 - if there were a thirty-two (32)  
15 month -- months for additional  
16 delay."

17                   And do I understand that on the one (1)  
18 hand this answer, Mr. Cormie, is Manitoba Hydro can  
19 meet its obligations in two (2) ways: by going into  
20 market, or with the current resources it has.

21                   MR. DAVID CORMIE: Well, clearly, Mr.  
22 Monnin, if we didn't have Keeyask, if it didn't come  
23 into service, that would be a significant strain on  
24 our system under the planning criteria. However,  
25 because we are also building a new 500 kV transmission



1 line to the United States, we have access to  
2 additional resources that could be called upon from  
3 the market in the circumstances that things were  
4 delayed further than what we're planning. And -- and  
5 we would -- we would go to the market and use that  
6 firm transmission to pro -- to acquire those  
7 resources if necessary.

8 MR. CHRISTIAN MONNIN: And this  
9 exchange with Mr. Peters was in particular regard to a  
10 thirty-two (32) month delay.

11 What would occur in that scenario if  
12 the delay was greater than thirty-two (32) months?

13 MR. DAVID CORMIE: Well, we'd have to  
14 -- we'd have to -- we would be monitoring the progress  
15 of Keeyask. And -- and probably a year in advance of  
16 any deficiency that we would identify that put the  
17 company at risk, we would go to the market and acquire  
18 the resources.

19 MR. CHRISTIAN MONNIN: And are you  
20 able to say today whether -- if Keeyask was delayed  
21 for greater than thirty-two (32) months, whether  
22 Manitoba Hydro would be able to meet its obligations  
23 as set out on page 182 here?

24 MR. DAVID CORMIE: Which -- what --  
25 182 is that table of contracts? Mr. Monnin, if you

1 remember, Manitoba Hydro supplies system power to all  
2 its con -- under all its contracts. It's from our  
3 portfolio of resources, including purchases. There  
4 are -- there are no contracts that are specifically  
5 tied to any specific resource. And so we would add a  
6 system resource, either a capacity purchase, or if --  
7 if necessary, we would enter into a call option for  
8 energy. And that would become part of our portfolio,  
9 and it would be completely suitable for meeting any of  
10 our obligations either in -- to -- under our export  
11 sales or to our -- to our Manitoba customers.

12 MR. CHRISTIAN MONNIN: So to unpack  
13 that, the answer would be that Hydro would be able to  
14 meet its contractual obligations if the delay was  
15 greater than thirty-two (32) months; correct?

16 MR. DAVID CORMIE: Well, I'm -- I'm  
17 expecting that given our -- that the Great Northern  
18 transmission line and the Minnesota/Manitoba  
19 transmission line would be in service we can tolerate  
20 additional delays, yes.

21 MR. CHRISTIAN MONNIN: Thank you.  
22 Those are my questions. Mr. Chair, this might be an  
23 appropriate time to have the quick morning break. I  
24 see Mr. Barnlund has arrived.

25 THE CHAIRPERSON: I'm sorry. Sorry.

1 Mr. Monnin, how long do you think would be with Mr.  
2 Barnlund?

3 MR. CHRISTIAN MONNIN: I'd -- probably  
4 about ten (10), fifteen (15) minutes.

5 THE CHAIRPERSON: Well, why don't we  
6 do Mr. Barnlund now and then we can -- if we're done  
7 with him then Mr. Cormie, Mr. Barnlund can -- can  
8 leave unless they're required by -- well, I guess  
9 you're the last one (1) up, so. I'd just like to get  
10 through this and free up people so they don't have to  
11 sit here if they're not needed. So why don't we  
12 proceed, Mr. Monnin, and you can finish your cross.

13 MR. CHRISTIAN MONNIN: If I might just  
14 take thirty (30) seconds to refresh my glass of water,  
15 I'd...

16

17 (BRIEF PAUSE)

18

19 MR. CHRISTIAN MONNIN: My Friend has  
20 been kind enough to -- to take that on for me, so I'll  
21 -- and I'll just proceed.

22 THE CHAIRPERSON: Certainly.

23

24 CONTINUED BY MR. CHRISTIAN MONNIN:

25 MR. CHRISTIAN MONNIN: Thank you.

1 Good morning, Mr. Barnlund.

2 MR. GREG BARNLUND: Good morning.

3 MR. CHRISTIAN MONNIN: Mr. Barnlund, I  
4 understand that you're the person who has been  
5 identified by Manitoba Hydro as being responsible for  
6 responding to and dealing with Board Orders.

7 Is that correct?

8 MR. GREG BARNLUND: That's correct.

9 MR. CHRISTIAN MONNIN: And in that  
10 regard you are the appropriate person to respond to  
11 any questions relating to the Board Orders; correct?

12 MR. GREG BARNLUND: That's correct.

13 MR. CHRISTIAN MONNIN: Now, I'm  
14 mindful of what was -- the -- the concern was raised  
15 by My Friend Ms. Ramage last week ensuring sufficient  
16 time to receive and review documents that are not  
17 currently on the record for this GRA. I sent an email  
18 out on Friday, December 15th, copies of Board Order  
19 Number 101/04, and Board Order Number 34/05.

20 Did you receive copies of those Orders,  
21 sir?

22 MR. GREG BARNLUND: Yes, I did.

23 MR. CHRISTIAN MONNIN: And are you  
24 able to confirm that you had sufficient time to review  
25 those Board Orders?

1 MR. GREG BARNLUND: I gave them a -- a  
2 quick review. I'm -- I'm prepared to speak to them,  
3 yes.

4 MR. CHRISTIAN MONNIN: Okay. I'd like  
5 to take you back to an exchange that you had with My  
6 Friend Dr. Williams on December 12th, 2017. For the  
7 record, those can be found at pages 1469 and 1459 of  
8 the transcript. No need to take you there now.

9 Mr. Barnlund, you may recall you jumped  
10 in on an exchange between Dr. Williams and Mr.  
11 McCallum on the issue of rate shock. Do you recall  
12 that?

13 MR. GREG BARNLUND: Yes, I do.

14 MR. CHRISTIAN MONNIN: And do you  
15 recall your evidence that you advised that Manitoba  
16 Hydro did not consider that the 7.9 percent increase  
17 as being requested to meet the threshold of rate  
18 shock?

19 MR. GREG BARNLUND: That's correct.

20 MR. CHRISTIAN MONNIN: And you then  
21 advised that that was based on in 2004 the PUB looked  
22 at Manitoba Hydro's -- sorry, the PUB, the Board, the  
23 Public Utilities Board looked at Manitoba Hydro's  
24 application for an August 1 rate increase.

25 Is that correct?

1                   MR. GREG BARNLUND:    That was the one  
2   (1) I spoke to when I was exchanging with Mr. Williams  
3   -- with Dr. Williams. I might add, too, that there  
4   are some -- in other jurisdictions if you'd find the  
5   Ontario Energy Board and the Alberta Utilities  
6   Commission more clearly define a threshold for rate  
7   shock as being a 10 percent increase.

8                   MR. CHRISTIAN MONNIN:   Right. But in  
9   the evidence that you provided that day when you  
10  exchanged with Mr. Williams, you specifically referred  
11  to a 2004 Public Utilities Board of Manitoba's  
12  decision.

13                                   Is that correct?

14                   MR. GREG BARNLUND:    That's correct,  
15  yes.

16                   MR. CHRISTIAN MONNIN:   Okay. And I'm  
17  going to suggest to you that that decision is Order  
18  Number 101/04.

19                                   You have no reason to contest that?

20                   MR. GREG BARNLUND:    I believe that's  
21  correct.

22                   MR. CHRISTIAN MONNIN:    And based on  
23  the Board Order in 2004, the Board Order of the Public  
24  Utilities Board of Manitoba, your evidence was that as  
25  long as the increases were no more than 8 or 9 percent

1 then they would not be considering those as rate  
2 shock.

3 That was your evidence?

4 MR. GREG BARNLUND: That was a finding  
5 -- and I'm just going to look it up here on which page  
6 of the Board Order it was.

7 MR. CHRISTIAN MONNIN: It's page 24 if  
8 you want to go there, and we'll take you there in --  
9 in --

10 MR. GREG BARNLUND: Okay.

11 MR. CHRISTIAN MONNIN: -- in a bit,  
12 but I'm just more fixed -- I'm concentrated on your --  
13 your evidence right now, sir.

14 MR. GREG BARNLUND: Okay.

15 MR. CHRISTIAN MONNIN: Do you recall  
16 give -- your -- your evidence of last week that was as  
17 long as the increases were no more than 8 or 9  
18 percent, then they would not be considering those as  
19 rate shock? Was that your evidence, sir?

20 MR. GREG BARNLUND: That was what I  
21 read in the Board Order, yes.

22 MR. CHRISTIAN MONNIN: Pardon me? Can  
23 you repeat?

24 MR. GREG BARNLUND: That was what I  
25 read from the Board Order, yes.

1 MR. CHRISTIAN MONNIN: Okay.

2 MR. GREG BARNLUND: It's on page 27 of  
3 Order 101/04.

4 MR. CHRISTIAN MONNIN: And now, we'll  
5 get to the Board Order in just a moment, and also  
6 Board Order 34 -- 34.05. And when you said in your  
7 evidence last week that we don't considered it to be  
8 rate -- meeting the threshold of rate shock, and that  
9 rate shock threshold is 8 to 9 percent, when you mean  
10 "we," obviously you mean your evidence was on behalf  
11 of Manitoba Hydro?

12 MR. GREG BARNLUND: Well, to be clear  
13 I think that Manitoba Hydro's position is that a rate  
14 increase of 7.9 percent would not constitute rate  
15 shock. We would -- we do not have an official policy  
16 threshold in terms of what would be deemed as rate  
17 shock. However, we're cognizant of a level of 10  
18 percent as being widely recognized in the utility  
19 industry as constituting a potential for rate shock.

20 MR. CHRISTIAN MONNIN: And we'll get  
21 to that in a bit. I'm just dealing with your evidence  
22 and dealing with what this Public Utilities Board of  
23 Manitoba has opined -- or has determined to be rate  
24 shock. And now, this decision that we're -- we're  
25 referring to, and we'll get to it, it sets a threshold



1 of rate shock of 8 to 9 percent.

2 Is that correct?

3 MR. GREG BARNLUND: I wouldn't  
4 characterize it as it set a threshold of 8 to 9  
5 percent. It determined that Manitoba Hydro's increase  
6 was not -- did not constitute rate shock. And it  
7 simply opined that other Intervenor's had indicated a  
8 range of between 8 to 9 percent as being their  
9 definitions of constituting rate shock.

10 MR. CHRISTIAN MONNIN: So having this  
11 Board identify the threshold of rate shock -- and we  
12 can get -- that's page 27, as you quite said -- right  
13 -- right said, Mr. -- Mr. Barnlund. The last  
14 paragraph:

15 "In coming to a decision on the rate  
16 increases, firm and conditional, the  
17 Board considered the issue of rate  
18 shock and opines that the rate  
19 increases for most customers would  
20 be within the thresholds put forth  
21 by the Intervenor's, i.e., no more  
22 than 8 to 9 percent for any  
23 customers for the August 1, 2004  
24 increase, and much less for most."

25 Are you able to advise whether Manitoba

1 Hydro's decision to put forward a 7.9 percent increase  
2 in this GRA was in light of the threshold here being 8  
3 percent? Did that have any factor in -- in the rate  
4 that was being put forward?

5 MR. JAMES MCCALLUM: I -- I can answer  
6 that. The answer is no --

7 MR. CHRISTIAN MONNIN: Okay.

8 MR. JAMES MCCALLUM: -- because this  
9 is the first time that I've been made aware of this  
10 Board Order.

11 MR. CHRISTIAN MONNIN: The second, if  
12 you refer to last week's evidence of Mr. Barnlund.  
13 Now, Mr. Barnlund, in your exchange with Mr. -- Dr.  
14 Williams last week, you also provided further evidence  
15 that while the proposed rate increases in this GRA are  
16 difficult, and that's your evidence, they do not  
17 equate to rate shock because the rate shock also  
18 infers a sudden surprise on the customer.

19 Do you recall giving that evidence?

20 MR. GREG BARNLUND: Yes, I do.

21 MR. CHRISTIAN MONNIN: And you've  
22 added that Manitoba Hydro had been very clear in terms  
23 of its communications of its financial situation in  
24 indicating that there would be a need for continual  
25 rate increases of this order of magnitude; correct?

1 MR. GREG BARNLUND: Yes, that's  
2 correct.

3 MR. CHRISTIAN MONNIN: And based on  
4 this heads up, for lack of a better term, Manitoba  
5 Hydro would not necessarily consider this to be rate  
6 shock.

7 Is that correct?

8 MR. GREG BARNLUND: That's correct.

9 MR. CHRISTIAN MONNIN: And would you  
10 agree with me, sir, that -- just bear with me for a  
11 moment.

12

13 (BRIEF PAUSE)

14

15 MR. CHRISTIAN MONNIN: Now, if you  
16 look at what this Board has said at page 27 here, and  
17 I'm suggesting to you that there's no reference on  
18 this -- in this paragraph or anywhere else in the  
19 order that the Board established that provided it was  
20 communicated properly, it wouldn't be rate shock.

21 Do you agree with that?

22 MR. GREG BARNLUND: I'm -- I'm not  
23 aware of any other clear, I think, policy distinction  
24 this Board has made. I might, I guess, maybe draw  
25 your attention though to some of the decisions that

1 this Board has made with respect to the natural gas  
2 utility, Centra Gas Manitoba, which, of course, deals  
3 with a much more volatile cost structure due to the  
4 fact that a great deal of that cost as passed on to  
5 customers is a cost of gas that's procured in the  
6 wholesale market.

7                   And there's been ten (10) at least --  
8 or ten (10) occasions where this Utilities Board has  
9 approved increases to natural gas customers in excess  
10 of 10 percent. And a situation in 1999 and 2000 when  
11 wholesale commodity prices really increased at a -- at  
12 a very fast pace, the Utilities Board passed through  
13 an increase upwards of 25 percent on one (1) occasion.

14                   MR. CHRISTIAN MONNIN:     Okay.  So  
15 that's -- I appreciate that.  And we can maybe get to  
16 that at a later time.  But this Order here, sir, is --  
17 is a general rate application for Manitoba Hydro, the  
18 -- the PUB 101/04; correct?

19                   MR. GREG BARNLUND:     Yes.  And -- and  
20 you were asking me about the surprise to customers.  
21 And certainly some of the gas rate increases that have  
22 been approved by this Board were driven by some  
23 surprising changes in the wholesale market where there  
24 is relatively little notice that was provided to  
25 customers of those changing conditions.  And that was

1 more of an issue of rate shock to be contended with  
2 than what we are certainly referring to here in this  
3 General Rate Application, sir.

4 MR. CHRISTIAN MONNIN: So I think it's  
5 best to take this in pieces in order to ensure that we  
6 move along in a timely fashion. So if you can go to  
7 page 24 of the decision. I just want to go through  
8 what the order -- what the -- what the PU -- Public  
9 Utilities Board said here.

10 MR. GREG BARNLUND: Yes, sir. I have  
11 that.

12 MR. CHRISTIAN MONNIN: Okay. So if  
13 you could scroll down a bit, please. Now, the last  
14 two (2) paragraphs, I think we can agree on -- on the  
15 penultimate paragraph that's before the last one (1):

16 "The two (2) concerns of the Board  
17 when dealing with Manitoba Hydro  
18 applications, the interest of the  
19 Utility's ratepayers and the  
20 financial health of the Utility.  
21 Together, in the broadest  
22 interpretation, these interests  
23 represent the general public  
24 interest."

25 You take no issue with that, sir?

1 MR. GREG BARNLUND: Yes, sir.

2 MR. CHRISTIAN MONNIN: And here, the  
3 second paragraph, or the last paragraph, rather:

4 "In a sense, Manitoba and ratepayers  
5 are fortunate that the objective of  
6 avoiding rate shock plays a role in  
7 rate setting. In the case of other  
8 commodities, oil and gas, the market  
9 price changes ignore the concept."

10 Do you agree with that, sir?

11 MR. GREG BARNLUND: I see that  
12 statement, yes.

13 MR. CHRISTIAN MONNIN: We're dealing  
14 with a different beast here.

15 Do you agree with that, sir.

16 MR. GREG BARNLUND: Well, I would  
17 agree that certainly for -- for products or  
18 commodities that are transacted at a market price that  
19 -- that the potential for rate shock does exist for  
20 those particular commodities, yes.

21 MR. CHRISTIAN MONNIN: Now, I wasn't  
22 here in 2004. And -- and I wasn't here for Board  
23 Order 35 -- 34/05, which I also shared. But, Mr.  
24 Barnlund, were you here at that time?

25 MR. GREG BARNLUND: I was employed

1 with Manitoba Hydro, but I was not involved in those  
2 applications at that time.

3 MR. CHRISTIAN MONNIN: Okay. But you  
4 -- you familiarized yourself with these Orders?

5 MR. GREG BARNLUND: Yes, sir.

6 MR. CHRISTIAN MONNIN: Now, my  
7 understanding of that at this time frame, November --  
8 Board Order 101/04 and Board Order 34/05, we were  
9 dealing with a significant -- an extremely significant  
10 financial impact of a drought; correct?

11 MR. GREG BARNLUND: That's correct,  
12 yes.

13 MR. CHRISTIAN MONNIN: And at page 28  
14 of Board Order 101/04, the Board is referring to  
15 conditional and firm -- sorry, firm and conditional  
16 rate increases.

17 Do you agree with that?

18 MR. GREG BARNLUND: Yes.

19 MR. CHRISTIAN MONNIN: And -- and my  
20 understanding of that point, what they're referring to  
21 here is that the Board in this decision gave firm rate  
22 increases and conditional rate increase. A firm rate  
23 -- and the reason for that can be found -- bear with  
24 me again.

25

1 (BRIEF PAUSE)

2

3 MR. CHRISTIAN MONNIN: At page 22,  
4 last paragraph:

5 "Accordingly, after careful  
6 consideration and realizing the  
7 additional burden that will be  
8 placed on the economy, the Board has  
9 determined to vary Manitoba Hydro  
10 rate -- rate increases."

11 And what the Board determined in this  
12 decision was to give a firm increase of 5 percent, and  
13 conditional increases of 2.5 percent in April and  
14 October of the following year, pending satisfactory  
15 information being filed by Manitoba Hydro to the  
16 Board, that those rate increases were set -- were --  
17 were necessary.

18 Do you agree that's what occurred, sir?

19 MR. GREG BARNLUND: And I -- and I  
20 think what was occurring at the time and -- and part  
21 that was taken into consideration by the Utilities  
22 Board in arranging these increases on a firm and on a  
23 provisional basis, was that a number of things in  
24 addition to the significant loss that have been  
25 occurred -- that had been incurred, excuse me, in the



1 year of the drought.

2                   This Board also expressed a concern  
3 with the ability or the pace at which the Utility was  
4 approaching attaining its revenue -- or, sorry,  
5 attaining its equity targets. And it had concerns  
6 that -- that the Company was not on track to be able  
7 to do that appropriately. It was also concerned that  
8 in the face of looking at the construction of  
9 Wuskwatim, which was scheduled to occur within the  
10 next couple of years that this Board expressed a  
11 concern that -- that sufficient financial strength had  
12 to be -- had to be obtained by the Corporation in  
13 light of that major capital expenditure. And the  
14 Wuskwatim plant, at that point in time, was budgeted  
15 to be probably a eight hundred thousand (800,000) --  
16 or a \$800 million project.

17                   MR. CHRISTIAN MONNIN: So you're  
18 not disputing that in Board Order 101/04, that after  
19 careful reflection realizing additional burden that  
20 would be placed on the economy, the Board varied the  
21 rate increases. It staggered them, for lack of a  
22 better term.

23                   You don't dispute that at least, sir?

24                   MR. GREG BARNLUND: It did -- it did  
25 more than stagger them. It actually awarded the

1 Utility more than it had requested.

2 MR. CHRISTIAN MONNIN: But, sir,  
3 you're not going to disagree that it gave a lesser  
4 increase, and then conditional increases where  
5 Manitoba Hydro was required to return before the Board  
6 to justify that these conditional increases were  
7 necessary.

8 Do you agree with that, sir?

9 MR. GREG BARNLUND: No, I think to  
10 make clear, the Utilities Board awarded Manitoba Hydro  
11 a larger increase for August 1 than it had initially  
12 requested, and then followed by requiring Manitoba  
13 Hydro to file, on a provisional basis, updated  
14 financial information prior to considering any -- or  
15 its next rate increase for April 1 of 2005.

16 MR. CHRISTIAN MONNIN: Is it safe to  
17 say, sir, that Manitoba Hydro views the issues of  
18 economic competitiveness and economic development as  
19 something that, while important, are mostly beyond its  
20 mandate and control?

21 MR. JAMES MCCALLUM: Sorry, Mr.  
22 Monnin, can you repeat the question?

23 MR. CHRISTIAN MONNIN: Is it safe to  
24 say that Manitoba Hydro views that the issues of  
25 economic competitiveness and economic development is

1 something that, while important, are mostly beyond  
2 Manitoba Hydro's mandate or control?

3 MR. JAMES MCCALLUM: Well, I think  
4 clearly Manitoba Hydro has an interest in economic  
5 development. Economic development and -- and growth  
6 support Manitoba Hydro's business. I think our  
7 concern would be trying to use rate strategy in order  
8 to artificially deal with issues of economic  
9 competitiveness that go far beyond electricity rates.

10 MR. CHRISTIAN MONNIN: Is it safe to  
11 say that in preparing this application Manitoba Hydro  
12 did not turn its mind to the impact of the impending  
13 carbon tax and what that will have on -- on  
14 ratepayers' ability to absorb the proposed rate  
15 increases?

16 MR. JAMES MCCALLUM: Well, at the time  
17 we prepared our application we didn't have knowledge  
18 of the Province of Manitoba's choices around the  
19 carbon tax.

20 MR. CHRISTIAN MONNIN: You had  
21 knowledge that the federal government was imposing --

22 MR. JAMES MCCALLUM: Of course.

23 MR. CHRISTIAN MONNIN: -- which would  
24 apply to all provinces, unless a province has opted  
25 out and did their own; correct?

1 MR. JAMES MCCALLUM: That's my  
2 understanding.

3 MR. CHRISTIAN MONNIN: So there was a  
4 knowledge of a carbon tax of one (1) form, shape, or  
5 another at the time; correct?

6 MR. JAMES MCCALLUM: I would say  
7 that's correct.

8 MR. CHRISTIAN MONNIN: So is it safe  
9 to say that that didn't factor into Manitoba Hydro's  
10 analyses while preparing this application?

11 MR. JAMES MCCALLUM: I wouldn't --  
12 yeah, I would agree with that directionally.

13 MR. CHRISTIAN MONNIN: And is it safe  
14 to say that in the same vein that Hydro has not  
15 attempted to identify the trade-offs between the  
16 impact of the rate increases on its financial health -  
17 - health on the one (1) hand, and that of the province  
18 and the ratepayers on the other hand in preparing its  
19 application.

20 Is that safe to say?

21 MR. JAMES MCCALLUM: Sorry, can you  
22 repeat your question?

23 MR. CHRISTIAN MONNIN: Sure. In the  
24 same vein, is it fair to say that Manitoba Hydro has  
25 not attempted to identify the trade-offs between the

1 impact of the rate increases on its financial health,  
2 on the one (1) hand, that of the province and the  
3 ratepayers on the other hand?

4 MR. JAMES MCCALLUM: Oh, I don't think  
5 I'd agree with that. I think we had a tremendous  
6 amount of discussion around the executive and board  
7 around impacts of the rate increases on -- on the  
8 economy. I think, ultimately, our job is to look  
9 after the health of the Utility and I think what we  
10 put forward here we've said is what we believe is the  
11 minimum required to do so.

12 MR. CHRISTIAN MONNIN: And in those  
13 deliberations was an in-depth analysis done on behalf  
14 of Manitoba Hydro on the impacts that these rate  
15 increases would have on the one (1) hand, and on the  
16 benefits -- or on the impacts to the province and the  
17 ratepayers on the other hand?

18 MR. JAMES MCCALLUM: In-depth analysis  
19 -- no, when we relied on the judgement and experience  
20 of the executive team and its Board of Directors who  
21 are collectively a group of fairly experienced  
22 individuals.

23 MR. CHRISTIAN MONNIN: Mr. McCallum,  
24 members of the panel, members of the Board. Thank  
25 you. Those are my questions.

1 THE CHAIRPERSON: Thank you. We will  
2 break until 11:00. Ms. Ramage and Mr. Haight, I want  
3 to talk to the Panel about the issue of the motion.  
4 So we may revisit it immediately after we come back or  
5 we may wait till later. But they haven't had an  
6 opportunity to even know that there is a proposed  
7 motion, so. Okay. Thank you.

8

9 --- Upon recessing at 10:43 a.m.

10 --- Upon resuming at 11:05 a.m.

11

12 THE CHAIRPERSON: Okay, we're going to  
13 start. I guess -- our understanding is this matter  
14 relates to one (1) of our IACs. Mr. Haight's here,  
15 I'm just wondering, Ms. Ramage, if where to start  
16 would be for Mr. Haight to give us a background and  
17 then Manitoba Hydro could put forward your position.

18 MS. PATTI RAMAGE: That would make  
19 sense, it's Mr. Haight's request so.

20

21 MOTION BY MR. BILL HAIGHT:

22 MR. BILL HAIGHT: Thank you, Mr.  
23 Chair, I am here today just to speak to the issue of  
24 the deadline for MGF. One (1) of the IEC's that has  
25 been retained to give expert opinion evidence in this

1 proceeding. To extend its deadline for provision of  
2 its IRs by two (2) days from January 3rd to January 5.

3                   There are a couple things that I -- I  
4 want to advise of and -- and one (1) of them, in  
5 particular, is -- is the timing of this request and  
6 the request -- the timing of it being made at this  
7 juncture.

8                   The -- when the schedule was announced  
9 and the IR deadlines were posted on the schedule, MGF  
10 immediately made known to me its concerns that there  
11 was a deadline for them to be provided with the IRs is  
12 this Friday, December 22nd, and that their IR  
13 responses are to be provided by January 3rd.

14                   They made me know that their concern  
15 was -- was this: It was that MGF closes their office  
16 for Christmas; has done so for the last twenty (20)  
17 years, and the three (3) principals that are with the  
18 preparation of this report all, prior to the schedule  
19 being announced, had made plans to be out of town, and  
20 some out of the country.

21                   And so when the made this known to me,  
22 we were also -- they were heavily involved in  
23 preparing their report which is significant and  
24 substantial as -- as I think everybody knows, it was  
25 actually just posted today, this morning, on PUB's

1 website, having been with Manitoba Hydro and other --  
2 Manitoba Hydro and PUB since Friday, December 8th for  
3 the purposes of redaction.

4           My advise to MGF at that time was, you  
5 know, work on the report. Get that report in. Once  
6 the parties can see its scope, its breath then  
7 perhaps there -- you'll be in a better position to ask  
8 for this brief extension. Some good can be engendered  
9 by providing that report, getting it in, so that the  
10 IRs can be dealt with. My thinking that it wouldn't  
11 be a significant ask for me to then appear and speak  
12 with Hydro, speak with your counsel about this short  
13 extension.

14           So the difficulty is -- is -- is that  
15 despite efforts by both Manitoba Hydro's counsel and I  
16 to try and work at some form of compromise that we  
17 could come to you with today, that has not been  
18 possible. We have not been able to agree on this  
19 extension.

20           I have sent around over the weekend a  
21 request to have the time extended to January 5. I  
22 have received responses from counsel for MIPUG,  
23 counsel for the Coalition that they are not opposed to  
24 -- to this request. It does but Hydro in a difficult  
25 spot and I'll let Ms. Ramage speak to that.



1                   But, some of the things that were  
2 discussed is, all right, you've had the report since  
3 December 8th going through the redaction process, do  
4 you have IRs to identify -- that have come to light as  
5 a result of the redaction process; if you do, give  
6 them to us, we'll start working on them right now.  
7 And so that, therefore, the amount of IRs that would  
8 come in on the 5th would be significantly less and --  
9 and that -- that efforts could be made by MGF to try  
10 and provide IR responses right away, this week.

11                   Unfortunately, I'm told that that's not  
12 possible and -- and MGF remains prepared to do  
13 whatever it can this week to try to deal with that.  
14 These plans were made before the schedule was  
15 announced. They're plans that had been in place --  
16 the travel plans of the principals and the closing of  
17 the office.

18                   And so what I'm proposing is -- is that  
19 the deadline for MGF's response has been moved to the  
20 5th; that we could provide Hydro with some more time  
21 to provide its IRs if -- and we could bump the 22nd to  
22 the 29th, and that would accommodate Hydro in some  
23 fashion in terms of providing it with some extra time  
24 in order to get the IRs to MGF.

25                   And then, as you know, there is the

1 issue of the redactions to the IRs that have to be  
2 dealt with; that was to be dealt with on the 5th. I  
3 had proposed that we move that to the 9th and then  
4 provide Hydro effectively with that weekend to deal  
5 with Irs. I know that there is the week of the 8th to  
6 the 12th is going to be a busy week with Daymark  
7 appearing on that -- at that time in order to talk  
8 about load forecasts and export forecasts.

9                   But, it is a very short time frame that  
10 we're seeking and there is a very reasonable  
11 explanation for the -- not only the request but the  
12 timing of the request and I would respectfully ask  
13 that Daymark might be accommodated and that Hydro be  
14 accommodated as well in order to get the process fully  
15 and completely before this -- the panel.

16                   THE CHAIRPERSON: Mr. Haight, I'm just  
17 looking at the schedule. I'm trying to figure out,  
18 your proposal for Hydro would be to move the response  
19 from when to when?

20                   MR. BILL HAIGHT: So firstly to move  
21 the -- the IRs that are to be provided by all parties,  
22 including Hydro from the 22nd to the 29th; that would  
23 accommodate not only Hydro, but all -- all Intervenors  
24 and -- but, as I've said, MIPUG and the Coalition have  
25 advised that they have -- do not have a concern or

1 they're not opposed to the request that's being made  
2 by MGF. This is just my suggestion as to how all  
3 parties might be less inconvenienced by the request.

4 Then to move the IR responses for -- of  
5 MGF and Daymark on the Sask Power, we don't need to  
6 move Daymark's but to move the IR responses cleared  
7 for the public by Manitoba Hydro from January 5 to  
8 January 9.

9 Subject to any questions that any  
10 members may have, that's my submission.

11 THE CHAIRPERSON: Any questions from  
12 the Panel?

13 Ms. Ramage...?

14

15 SUBMISSIONS BY MS. PATTI RAMAGE:

16 MS. PATTI RAMAGE: Yes, Mr. Chairman,  
17 the basis for this request is MGF's offices closing  
18 for the holidays. We've heard from Mr. Haight that's  
19 been a practice of that firm for many, many years and  
20 it was known to them. It was known to them last  
21 summer. It was known to them in October when the  
22 schedule was developed. It was known to them when the  
23 schedule was issued. It was known to them in November  
24 when they asked for a second extension. It was known  
25 to them when -- in that second extension there was two

1 (2) options. One was just give it to Stanley  
2 (phonetic) or give it to both of us.

3 THE CHAIRPERSON: I'm sorry, just give  
4 it? I missed the word.

5 MS. PATTI RAMAGE: Stanley Consulting;  
6 their subconsultant.

7 THE CHAIRPERSON: Yes, okay.

8 MS. PATTI RAMAGE: That they were  
9 having issues with. It was known to them when they --  
10 when they said, the Board has two (2) options, one,  
11 just give it to Stanley or give it to both of us. But  
12 they preferred that it be given to both of us.

13 And never during any of those -- that  
14 series of events was it raised that the schedule that  
15 was on the board had IRs due between December 19th and  
16 -- because December 19th was the October date,  
17 December 19th and January 3rd.

18 So, we went through that entire period,  
19 granted a number of ext -- this Board granted a number  
20 of extensions and that was never raised.

21 Manitoba Hydro, we simply don't  
22 understand why it's only being raised, the logic of  
23 that. But if I could deal with the request in two (2)  
24 parts:

25 First, there -- there was a discussion

1 regarding or a request that Manitoba Hydro -- that  
2 Manitoba Hydro file its Information Requests earlier  
3 this week. So of a as-it-goes type Information  
4 Request process. This isn't it possible. The report  
5 has been received one (1) week later than first  
6 expected. And Manitoba Hydro of -- that was on  
7 Friday, December 8th. We worked diligent --  
8 diligently for the following week to get -- to extract  
9 the CSI from it and get it filed. And we filed it at  
10 Board counsel's request one (1) day earlier than the  
11 Board had asked.

12                   The focus now shifts for our staff from  
13 that CSI review, which is a very important process,  
14 how they shift Information Requests and we are  
15 expecting there's going to be a high volume of IRs  
16 coming out of this report. It is lengthy. It covers  
17 four (4) major capital projects. And it contains a  
18 number of errors that Manitoba Hydro had attempted to  
19 address directly with MGF during that C -- as part of  
20 that CSI review process but MGF did not make those  
21 changes.

22                   We don't know if the reason MGF did not  
23 make those changes was because it didn't have time or  
24 because it disagrees with Manitoba Hydro, but they're  
25 significant and we need to be able to focus our time

1 on the Information Request process in order to address  
2 that.

3 Frankly, the report that -- the  
4 concerns we have, ultimately, would support our rate  
5 increase but that's not how to proceed with this. We  
6 have to get the best information in front of this  
7 Board so we need to address those concerns.

8 The project groups are already working  
9 under an extremely compressed timeline to develop  
10 their Information Requests and the Panel should  
11 understand that by necessity part of the process at  
12 Manitoba Hydro shop is that we have to review the  
13 report and those requests with our First Nation  
14 partners. The process can't be fast tracked. This is  
15 a two hundred and fifty-eight (258) page report, and  
16 it's a complex subject matter.

17 The October 5th schedule that we were  
18 all working with gave us eleven (11) days to file IRs.  
19 That was tight. And as a result of the extension  
20 granted to MGF in November, we were cut back to eight  
21 (8) days; that's razor thin.

22 Now, MGF -- or Mr. -- Mr. Haight has  
23 suggested that we bump the date from the 22nd to 29th.  
24 I want to be clear, Manitoba Hydro hasn't asked for  
25 that extension. It has planned all of its processes

1 and all of its work for the 22nd date. We are dealing  
2 with people on the major projects here and they have  
3 significant responsibilities for those major projects.  
4 They can't, at a drop of a hat, re-organize all of  
5 their work processes.

6           We have a schedule and we have to stick  
7 to it. The projects are, by our own admission, still  
8 have risk, and we need our people's eye on the ball  
9 and they need to be able to count on schedules and  
10 they need to be able to plan accordingly.

11           I want to point out that also the  
12 request is for two (2) additional dates: January 3rd  
13 to January 5th. And that may not sound like a lot but  
14 there's two (2) issues at play here: First, following  
15 the November extension the deadline for Manitoba  
16 Hydro's rebuttal -- and I'm not sure why because it  
17 didn't -- was a part of their extension -- was cut by  
18 three (3) days. So we went from January 15th to  
19 January 12th; twelve (12) days to nine (9) days. Nine  
20 (9) days barely allows Manitoba Hydro enough time to  
21 file its rebuttal evidence by the revised deadline.

22           The entire schedule was already  
23 condensed to allow MGF to file its report late, and  
24 that greatly impacted Manitoba Hydro's ability to  
25 react and respond thoroughly, but we've adjusted all

1 of our timelines to do that.

2                   Now, following that November 28th  
3 request, Manitoba -- I want to be clear on this,  
4 Manitoba Hydro, in the juggle of days, lost eight (8)  
5 days of preparatory time for its IRs and for its  
6 rebuttal. MGF lost three (3).

7                   And as it stands, staff are going to be  
8 working simultaneously on rebuttal, on drafting its  
9 presentation for direct, which comes to the Board on  
10 January 18th, and preparing for cross-examination, and  
11 all the while monitoring what's going on in this  
12 hearing, because there has been crossovers, as we've  
13 seen this morning. Now, some of those same staff are  
14 also working on redacting the Daymark report that's  
15 related to the Manitoba-Saskatchewan transmission  
16 line, so they have that added task.

17                   So the suggestion that we move from  
18 January 5th to 9th, which is the first we've heard of  
19 that suggestion, but I can say right off the top of my  
20 head doesn't work, because our staff are already  
21 double-booked there with Daymark, and they can't do  
22 that next task.

23                   So to take away any days from our  
24 ability to respond is extremely concerning. We have  
25 to present our direct on January 18th. The notion



1 that we move our rebuttal to -- I'm seeing what the  
2 proposal is -- yeah. There is no change in the  
3 rebuttal, so that we would do our rebuttal, and then  
4 three (3) days later be testifying, it -- it's simply  
5 not possible. This is a topic on which Manitoba Hydro  
6 is seeing this just now, and our rebuttal is going to  
7 be our capital presentation, and there's going to be a  
8 lot of material to cover, and -- and it's just not  
9 possible.

10                   And the other concern I have is, in  
11 terms of all of the changes that have been made to  
12 date, as I've said, it has impacted Hydro and we have  
13 responded, but in our view, the ability to use  
14 Manitoba Hydro staff that as the release valve has  
15 been completely exhausted now. The timelines are too  
16 tight. We can't get to it.

17                   We -- the second concern, anyways, I  
18 had with the -- the January 2nd -- 3rd to 5th change  
19 is that we were told that the main principals will be  
20 away December 22nd to January 3rd, and our view is  
21 it's high -- we've been through this IR process many  
22 times, and we know based on the reports that there is  
23 going to be some substantial IRs coming, and it's  
24 highly unlikely that MGF would be able to complete its  
25 answers in such a short period of time. They're

1 effectively saying they can turn around IRs in two (2)  
2 days.

3                   So we are already anticipating a  
4 further request by MGF in the new year for a further  
5 delay, and that puts the entire hearing schedule at  
6 risk. So by changing anything right now, we have to  
7 keep our powder dry. We can't extend now for holidays  
8 knowing that there is a high risk of -- yet another  
9 risk -- another request coming down the pipe.

10                   I -- Mr. Haight mentioned this morning  
11 that MIPUG and Coalition have not opposed this  
12 request. They have no skin in this game. This is  
13 about Hydro being able to respond to this report, and  
14 it's an important report, and there are gaps in the  
15 report that need to be addressed.

16                   It -- it may be that MGF will agree  
17 with Manitoba Hydro, but it may be that they won't,  
18 and it's going to take time to deal with that. And to  
19 -- to use up that time now is unwise, because if our  
20 concerns manifest themselves and they don't get it done  
21 by January 3rd, we're going to be looking at juggling  
22 the schedule.

23                   And in that regard, we would simply ask  
24 now that we be consulted before making any of those  
25 kind of specific changes, because as I've indicated,

1 Manitoba Hydro has planned all its activities around  
2 the current schedule, and we have a business to run,  
3 and our subject matter experts made commitments to  
4 other parties and to other work, and the huge proj --  
5 these huge projects are ongoing, and we've got to be  
6 able to work with that schedule. We can't just flip  
7 these people around, or otherwise we're risking --  
8 putting at risk what all of us want to protect.

9                   We shouldn't be blindly changing the  
10 staff schedules at this point in order to accommodate  
11 what is -- I -- I was dumbfounded by this request on  
12 Saturday, that -- that -- and I think there's an  
13 obvious answer, and I think the obvious answer right  
14 now is we have to stick with the schedule we've all  
15 been working to.

16                   And it's -- it's -- I don't want to be  
17 the Grinch and tell somebody that their Christmas is  
18 gone, but they were told back in October, and so for  
19 this to come in on Saturday morning to us was -- it's  
20 an understatement to say that we were surprised.

21                   One moment.

22

23                   (BRIEF PAUSE)

24

25                   MS. PATTI RAMAGE:    And I think maybe

1 to show the importance, Mr. McCallum wanted me to  
2 remind again that we just -- we're not in a position -  
3 - we -- we think there's going to be a lot of IRs. We  
4 think there's going to be a lot of material to address  
5 in rebuttal, and we just aren't in a position to shave  
6 that down any further.

7                   And -- and I would repeat, we didn't  
8 ask for December 29th. We have work plans over the  
9 holidays, to be working on the rebuttal. We need to  
10 get the IRs done, get to our -- our next stage. There  
11 has to be some linear -- I -- I don't even know if  
12 it's a word, but we need to work in a linear fashion  
13 to be able to move this thing forward, and adding more  
14 and multiple layer of tasks is -- just doesn't work.

15                   THE CHAIRPERSON: All right. Ms.  
16 Steinfeld...?

17                   MS. DAYNA STEINFELD: Mr. Chair, can -  
18 - can we -- I would just ask that Ms. Ramage --  
19 clarify and confirm her comments regarding the  
20 deadline for the Hydro rebuttal having changed at some  
21 point in this process.

22                   It's my understanding that it was  
23 always scheduled to be filed for the rebuttal of  
24 Daymark, Sask Power and MGF on January 12th, so if  
25 we'd just ask her to check that and confirm. I'm

1 looking now at the schedule that dated back to prior  
2 to the MGF request for an extension, so if that could  
3 be checked and confirmed for the purposes of the  
4 record.

5                   It may also be helpful to clarify the  
6 timing between when Hydro first received the MGF  
7 report and the deadline of the responses. I think the  
8 calculation is being done by Ms. Ramage as between  
9 when the CSI redactions were completed, and when the  
10 IRs were due, but it may be helpful to put on the  
11 record the timing between when Hydro received the  
12 report in its unredacted form from MGF and the timing  
13 of the IR question deadline.

14                   MS. PATTI RAMAGE: If you give me a  
15 moment, I can call that up right now.

16                   THE CHAIRPERSON: Sure.

17

18                   (BRIEF PAUSE)

19

20                   MS. PATTI RAMAGE: Yes. With respect  
21 to the filing of Manitoba Hydro's rebuttal, I can  
22 confirm that, as indicated in the PUB's letter of  
23 October 5th, it indicated that Manitoba Hydro's  
24 rebuttal evidence on the MGF report would be filed on  
25 January 15th. That was changed, I believe, subject to

1 check, on the November 28th report or letter from the  
2 Board, and that was changed to January 12th. So my  
3 comments stand on that aspect.

4                   In terms of timing between CSI, again,  
5 I -- I don't think it's useful to do this on the mic,  
6 for me to check the dates. I will check them  
7 afterwards, but based on my review here, I don't have  
8 a reason to believe these dates are incorrect. What  
9 Ms. Steinfeld might be referring to is that we -- I  
10 referred to the date we have from the time we have CSI  
11 released to the time we have our IRs filed, and there  
12 may be a misconception that we start working on IRs  
13 when we get that report.

14                   The task at hand is to get the CSI  
15 done, and while you may think of topics, IRs are not  
16 being developed. It's not -- it -- it's just not a  
17 process -- the process can't accommodate that. You --  
18 you focus on the task at hand, get that done, and then  
19 you move to the next task of -- of answering IRs. But  
20 I will check, but I do believe the dates we've put on  
21 the record are correct.

22                   THE CHAIRPERSON:    Okay.  Mr.  
23 Haight...?

24

25 REPLY MR. BILL HAIGHT:

1                   MR. BILL HAIGHT:    Thank you.  A few  
2  brief comments in reply.  You heard Ms. Ramage say  
3  that the report substantively supports Hydro's rate  
4  application, so I -- I wonder how something could be  
5  procedurally unfair when substantively, it's -- it's  
6  helping Hydro.  So I -- I --

7                   THE CHAIRPERSON:   Well, here -- here's  
8  the -- sorry.  Sorry to interrupt.  Here's the  
9  problem.

10                  MR. BILL HAIGHT:    M-hm.

11                  THE CHAIRPERSON:   We haven't seen the  
12  report.

13                  MR. BILL HAIGHT:    M-hm.

14                  THE CHAIRPERSON:   We're not going to  
15  deal with the report.  In terms of the substance, I --  
16  I, you know, I -- I -- you made the comment -- as far  
17  as I'm concerned, I don't care.  I'm -- we're dealing  
18  with the procedural motion, not with the substances,  
19  so I -- I think -- the substance of the report, you  
20  know, to talk about the substance of the report before  
21  we actually receive the report into evidence just --  
22  just doesn't -- I don't think it's the appropriate way  
23  to deal with it.

24                  So I -- I, you know, I -- I'm sorry to  
25  interrupt, but we -- we need to deal with the

1 procedural issue and the dates, so.

2 MR. BILL HAIGHT: I -- I hear you, Mr.  
3 Chair, and -- and I only wanted to make that comment  
4 as well, because when you were -- when you are looking  
5 at the issue of procedural fairness, the fact that  
6 counsel to Manitoba Hydro indicated that on the record  
7 I think something that you want to --

8 THE CHAIRPERSON: Yes.

9 MR. BILL HAIGHT: -- keep in mind.  
10 And the other point is -- is Ms. Ramage spoke about  
11 beg -- you know, beg -- beginning to work on rebuttal,  
12 but you also said that their rebuttal is -- is  
13 essentially their capital project presentation. So  
14 Manitoba Hydro has known for some time -- if we want  
15 to talk about when people knew things -- Manitoba  
16 Hydro has known for a long time what its capital  
17 presentation is going to be. Of course, it has to  
18 fine-tune that, but it knows when it made the rate  
19 application.

20 And -- and it's had MGF's report since  
21 December 8th. So it's known, since it's reviewing  
22 that, and -- and the point is made that, Well, you're  
23 looking at CSI, and so therefore you have to -- if you  
24 just do that process, and then the next process, the  
25 substance of that report is clear, and when Manitoba



1 Hydro read -- reads that, and has been reading it  
2 since December 8th, it's known at that point in time  
3 what its rebuttal evidence is going to be. It's clear  
4 from the report.

5                   So -- so to suggest and to confine  
6 timelines about the schedule of when CSI is done, when  
7 IRs are done, it really overlooks the fact that their  
8 capital presentation and their rebuttal are the same,  
9 and -- and that they have known for a long period of  
10 time what that case is that they have to meet, and  
11 that they've had the Daymark report since December  
12 8th, so those are the only comments in -- in reply --  
13 MGF, excuse me. Thank you.

14                   THE CHAIRPERSON: Thank you. My  
15 understanding is that MIPUG's position is on the  
16 record on this issue. Is that correct?

17                   MR. ANTOINE HACAULT: It -- it's not  
18 on the record in the sense of we haven't filed an  
19 exhibit, but I will put it on the record we did send  
20 an email confirming we're not opposed to this two (2)  
21 day extension. We can work with it, and I guess what  
22 I would encourage -- I see some discussion happening  
23 here while we might able to get with -- together with  
24 MGF and correct a lot of these things we might have to  
25 do through interrogatories.

1                   We've always encouraged, as an  
2 Intervenor, open discussions and -- and trying to deal  
3 with things in a collegial way. I'm sure parties will  
4 try to do that, but there are ways to solve a two (2)  
5 day problem if people are talking to each other in  
6 answering IRs, and -- and -- and I'd ask the Board to  
7 consider and encourage the parties to continue to  
8 cooperate in these proceedings, as we have always  
9 tried to.

10                   THE CHAIRPERSON:    Ms. Dilay...?

11                   MS. KATRINE DILAY:    I can also confirm  
12 on behalf of the Coalition that we did not oppose the  
13 extension of time requested by MGF, and we would also  
14 echo MIPUG's comments on that.

15                   THE CHAIRPERSON:    Thank you. Mr.  
16 Monnin, I don't know if you want to take your position  
17 now, or file something in writing by the end of the  
18 day?

19                   MR. CHRISTIAN MONNIN:    You know, I'll  
20 -- I'll sit firmly on the fence on this one, Mr.  
21 Chair. I -- I am fine either way, whichever the Panel  
22 finds, we will -- we'll proceed, and that's about all  
23 I can say at this point, so.

24                   THE CHAIRPERSON:    Okay.

25                   MS. PATTI RAMAGE:    Mr. Chair, I should

1 correct something.

2 THE CHAIRPERSON: Go ahead --

3 MS. PATTI RAMAGE: I'm advised by --

4 THE CHAIRPERSON: -- Ms. Ramage.

5 MS. PATTI RAMAGE: -- Ms. Minier

6 (phonetic) in the back row that I misspoke.

7 THE CHAIRPERSON: Okay.

8 MS. PATTI RAMAGE: In terms of

9 Manitoba Hydro corrections. I said, "in CSI process."

10 It has been an ongoing process in terms of those

11 corrections, and Manitoba Hydro did not receive

12 responses in terms of when it -- it -- when it

13 submitted its response to MGF, because they

14 provided...

15

16 (BRIEF PAUSE)

17

18 MS. PATTI RAMAGE: -- there was --

19 there was back-and-forth, but they -- those changes

20 weren't incorporated and -- and I -- Manitoba Hydro

21 can't respond to something it hasn't seen. So it's --

22 THE CHAIRPERSON: Yes.

23 MS. PATTI RAMAGE: -- it's nonsensical

24 to suggest that we should respond before we can

25 prepare our response to a report we haven't seen.

1 THE CHAIRPERSON: Yeah. Mr. Orle...?

2 MR. GEORGE ORLE: All that trouble for  
3 and take no position on the matter.

4 THE CHAIRPERSON: Thank you. As I  
5 understand it, counsel sent it to me and to all the  
6 Intervenors and gave me until the end of today. So  
7 we're -- the Board -- the Panel is not going to  
8 consider this until the time is elapsed in case any of  
9 the other Intervenors want to respond. And we will  
10 consider it in due course.

11 Mr. Hacault made the comment about the  
12 parties working together. Throughout this process  
13 we've tried to ensure all counsel knew what was going  
14 on. We've actually had a lot -- very good cooperation  
15 in terms of the schedule. This is a difficult matter  
16 to schedule. Our counsel spent an enormous amount of  
17 time and, quite frankly, this panel went through  
18 numerous schedules, so if there is an opportunity for  
19 counsel to try and come to some resolution of this  
20 they -- I guess they have today. Otherwise, the Panel  
21 will deal with this issue either at the end of today  
22 or sometime tomorrow and we will provide our decision  
23 to the parties.

24 Okay. On that note, I guess we are  
25 into the issue of the undertakings?

1 MS. PATTI RAMAGE: I have provided Mr.  
2 Simonsen with a number of undertakings. And does the  
3 Panel have them?

4 MR. KURT SIMONSEN: Not yet.

5 MS. PATTI RAMAGE: Okay.

6

7 (BRIEF PAUSE)

8

9 MS. PATTI RAMAGE: The first two (2)  
10 of the undertakings that are being distributed are  
11 Number 7 and Number 8. Mr. Simonsen had already  
12 assigned them Manitoba Hydro Exhibit 84 for Number 7,  
13 and Exhibit 85 for Number 8.

14

15 --- EXHIBIT NO. MH-84: Answer to Undertaking No.

16 7

17

18 --- EXHIBIT NO. MH-85: Answer to Undertaking No.

19 8

20

21 MS. PATTI RAMAGE: And I wanted to --  
22 with respect to Number 7, the copy that was  
23 distributed electronically on which the paper copies  
24 provided have one (1) error in it that we wanted to  
25 correct. We will get a new electronic copy to Mr.

1 Simonsen, but rather than kill trees, on Undertaking  
2 Number 7, if you first look to the chart on the --  
3 it's on page 3 of 5. We should delete the reference  
4 to gigawatt hours. The slash in gig -- the -- or the  
5 slash stays. Just "gigawatt hours" should come out.  
6 That's an incorrect reference.

7                   And then similarly on page 4 that  
8 follows you'll see in the last two (2) columns of the  
9 right -- to the right, it should refer to not gigawatt  
10 hours but megawatt hours. And as I say, that  
11 correction will be made on the electronic copy, but we  
12 are hoping people could just do it by pen rather than  
13 reprinting all of these.

14

15   (BRIEF PAUSE)

16

17                   MS. PATTI RAMAGE:       Okay. The next --

18                   BOARD MEMBER KAPITANY:    Ms. Ramage,  
19 can I just ask on that table, page 4 of 5, is it all  
20 three (3) columns that we're meant to change gigawatt  
21 hours to megawatt hours, or just the second last  
22 column?

23                   MS. PATTI RAMAGE:       It was the two (2)  
24 last columns, net cost -- net cost, it's mega -- it  
25 said "gigawatt hour." It should be megawatt hours.

1 And net cost, megawatt hours year over year increase  
2 should change.

3 BOARD MEMBER KAPITANY: Okay. So the  
4 domestic load remains in gigawatt hours?

5 MS. PATTI RAMAGE: Yes, it does. Too  
6 many papers at once here. So the --

7 BOARD MEMBER KAPITANY: And then page  
8 5 of 5 as well? Sorry.

9 MS. PATTI RAMAGE: Yes.

10 BOARD MEMBER KAPITANY: Okay. Thank  
11 you.

12 MS. PATTI RAMAGE: The next  
13 undertaking that we've provided is Manitoba Hydro  
14 Underna -- Undertaking Number 12. And that was  
15 producing the IFF runs that assume zero payments to  
16 government. That was provided to MKO at transcript  
17 page 1987. And that should now be given Manitoba  
18 Hydro 86.

19 Is that correct, Mr. Simonsen?

20 MR. KURT SIMONSEN: That's correct.

21

22 --- EXHIBIT NO. MH-86: Answer to Undertaking No.  
23 12.

24

25 MS. PATTI RAMAGE: And then lastly we

1 have a revised IR. This is an IR that Mr. Miles was  
2 asked about by both the Coalition and PUB counsel.  
3 It's a revision to PUB/Manitoba Hydro 1st Round  
4 131(b)(c), and that was -- actually it was in the IR  
5 itself, indicated that we would update values when  
6 they became available. And they are available. We  
7 have updated them.

8 Now, in this IR I should also explain  
9 that on page 3 of that IR, there is -- redactions have  
10 been made. Those redactions are exactly the same as  
11 in the original response with the same redaction code.  
12 So it's -- it's just an update to that information.  
13 So we will -- the CSI version will be with the Board  
14 and this is the public version.

15 MR. KURT SIMONSEN: Do you want that  
16 as an exhibit? That'll just be a -- a bolt on to the  
17 existing IR?

18 MS. PATTI RAMAGE: I think that's all  
19 we have to do with that one (1).

20 MR. KURT SIMONSEN: Thank you.

21 MS. PATTI RAMAGE: Mark it as revised.

22

23 (BRIEF PAUSE)

24

25 MS. PATTI RAMAGE: One (1) other point.



1 Undertaking 8. It's --

2 THE CHAIRPERSON: Sorry, which one  
3 (1), Ms. Ramage?

4 MS. PATTI RAMAGE: Undertaking 8. Oh,  
5 no, I'm sorry. It's Undertaking 7 is -- it's just the  
6 double-side of both pages.

7 THE CHAIRPERSON: Okay. Good. Thank  
8 you.

9 MS. PATTI RAMAGE: There is no further  
10 change.

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: Mr. -- sorry. Ms.  
15 Ramage, are you done? What --

16

17 (BRIEF PAUSE)

18

19 MS. PATTI RAMAGE: Just to be clear,  
20 because I'm not sure I addressed it, I thought -- is  
21 in Undertaking 8, the second page also has a graph  
22 with gigawatt hours that should be crossed out. The 7  
23 and 8.

24 THE CHAIRPERSON: Okay. That's the  
25 one (1) in the heading? Got it. Okay.

1 MS. PATTI RAMAGE: Correct.

2 THE CHAIRPERSON: That's it?

3 MS. PATTI RAMAGE: Yes, it is.

4 THE CHAIRPERSON: Mr. Hacault...?

5 MR. ANTOINE HACAULT: Thank you, Mr.

6 Chairman. Manitoba Industrial Power Users Group  
7 thanks Manitoba Hydro for having put this information  
8 together. As you will note in -- in the response to  
9 Undertaking Number 7, provided last night, most of the  
10 references are to materials which are not on the  
11 record.

12 And some of the information  
13 unfortunately isn't necessarily readily available on,  
14 I'm going to say, the electronic record. Some of the  
15 references to evidence which supports this graph dates  
16 back to applications and General Rate Applications  
17 which were only done in a paper format. So I think  
18 we're actively trying to pull some of those from  
19 InterGroup's archives.

20 And in the circumstances I'm unable to  
21 advise whether or not we have any questions. We'll do  
22 our best to deal with it as soon as we can and advise  
23 the Board as soon as we can. But as I said,  
24 unfortunately, this graph and information was not  
25 largely based on the current records. So we didn't

1 have a chance to ask IRs on it. And we've got to dig  
2 out some material to determine whether or not we would  
3 need to do that.

4 THE CHAIRPERSON: Okay.

5 MS. PATTI RAMAGE: Mr. Chair --

6 THE CHAIRPERSON: Sorry.

7 MS. PATTI RAMAGE: -- Mr. Hacault is  
8 correct --

9 THE CHAIRPERSON: Okay.

10 MS. PATTI RAMAGE: -- that it was not  
11 based on IRs, but it was in response to --

12 THE CHAIRPERSON: Right.

13 MS. PATTI RAMAGE: -- MIPUG's  
14 evidence. Therefore, there wouldn't have been an IR  
15 process for that, but...

16 THE CHAIRPERSON: Mr. Hacault, do you  
17 have any --

18 MS. PATTI RAMAGE: We will attempt to  
19 assist --

20 THE CHAIRPERSON: I'm sorry, Ms.  
21 Ramage?

22 MS. PATTI RAMAGE: I -- I said we can  
23 assist MIPUG as required.

24 THE CHAIRPERSON: Yeah. Do you have  
25 any idea what sort of time frame we're talking about?

1 We're talking this week or are we talking after  
2 Christmas?

3 MR. ANTOINE HACAULT: I would expect  
4 this week. To the extent we don't have ready access  
5 to the archives, Ms. Ramage has kindly indicated that  
6 she'll assist. So we'll do our best to advise this  
7 week whether we have any questions.

8 THE CHAIRPERSON: And if you -- right.  
9 And if you could, if you do have questions, if you  
10 could determine which witnesses on this panel you  
11 would need to ask questions, so that we don't have to  
12 bring back everybody if they're not needed.

13 MR. ANTOINE HACAULT: Yes, Mr.  
14 Chairman, we will do that. And prior to the previous  
15 questioning, we had an exchange with Ms. Ramage as to  
16 which people we needed on the panel. And I am  
17 grateful for the good cooperation we've received in  
18 making those people available. And I'm sure that'll  
19 continue.

20 THE CHAIRPERSON: Thank you. We have  
21 -- sure, go ahead.

22 VICE-CHAIRPERSON KAPITANY: Ms.  
23 Ramage, can you just clarify now, on this graph page 3  
24 of 5, what is the units on the y-axis, the y-axis of  
25 the graph? What are the units?

1 (BRIEF PAUSE)

2

3 MS. LIZ CARRIERE: It's -- it's an  
4 index of net costs.

5 VICE-CHAIRPERSON KAPITANY: Thank you.

6 MS. LIZ CARRIERE: And revenue, sorry.

7

8 (BRIEF PAUSE)

9

10 MR. JAMES MCCALLUM: Sorry. Madam  
11 Vice Chair, if, if it's helpful the graph is an  
12 indexed graph trying to show the relationship and the  
13 changing relationship between net unit costs and --  
14 and customer rates taken from the 2000 starting point  
15 through to 2017, and then -- and then going forward.  
16 And so it's indexed to one hundred (100) as to say at  
17 that point how have they changed relative to each  
18 other since then.

19 MS. LIZ CARRIERE: Thank you. Sorry I  
20 missed the nineteen (19) -- ninety-nine (99,000)  
21 equals a hundred. Thank you.

22 THE CHAIRPERSON: Okay. I believe the  
23 -- the remaining piece prior to re-examination, Ms.  
24 Ramage, would be the -- the issue that was raised  
25 before about the presentation on the decision-making

1 process for the business operations capital budget.

2 And I had spoken to -- to Board counsel and asked him  
3 to prepare questions if there are follow-up. I'm just  
4 -- I don't expect it's going to take very long.

5 I'm -- I'm thinking that what we should  
6 do is break for lunch now, and then we can do that  
7 right after lunch and then finish with your -- with  
8 your re-examination. And I think that probably will  
9 conclude the matters before this panel, subject to the  
10 -- you know, to Mr. Hacault's possible questions of  
11 this panel later on.

12 Okay.

13 MS. PATTI RAMAGE: Yeah, that sounds  
14 fine.

15 THE CHAIRPERSON: Okay. So we'll  
16 break for -- we'll -- we'll break till one o'clock.  
17 Thank you.

18

19 --- Upon recessing at 11:50 a.m.

20 --- Upon resuming at 1:05 p.m.

21

22 THE CHAIRPERSON: Ms. Ramage...? Did  
23 you want to put that on the record?

24 MS. PATTI RAMAGE: Yes. This  
25 undertaking is Manitoba Hydro's -- took this

1 undertaking under advisement and that was with respect  
2 to getting permission, and providing details and  
3 analysis to support a request for an equity injection  
4 and as indicated in the response to the undertaking,  
5 Manitoba Hydro respectfully declines to provide the  
6 information.

7                   In discussions with Mr. Peters he  
8 requested Manitoba Hydro put its position in writing.  
9 So we have provided our position in the response to  
10 the undertaking and as you will note and we can  
11 address it in further detail, if required, and if  
12 parties take issue but Manitoba Hydro has declined on  
13 the basis of relevance and on the basis of public  
14 interest privilege.

15                   And if I could comment under the  
16 relevance because, Mr. Chair, you made this comment on  
17 Friday with respect to a similar topic. We include in  
18 our comments regarding relevance the concept of making  
19 recommendations on matters which are not strictly  
20 within the PUB's mandate and we address that issue in  
21 this indicating that these types of recommendations  
22 have arose out of evidence produced in the context of  
23 the normal review of rates and we think that is quite  
24 different from embarking down a path of inquiry for  
25 the sole purpose of making a recommendation on matters

1 that are beyond this Board's mandate.

2 So, I will file that and await further  
3 directions, if any, on how we'll deal with that.

4 THE CHAIRPERSON: Okay, thank you.

5 MS. PATTI RAMAGE: And if I didn't say  
6 it, I think it's Exhibit 87.

7 THE CHAIRPERSON: Exhibit 87, yes, I  
8 was just going to say that. Okay. Exhibit 87.

9

10 --- EXHIBIT NO. MH-87: Manitoba Hydro's written  
11 response to undertaking  
12 given under advisement.

13

14 THE CHAIRPERSON: I guess the next  
15 matter was the issue of your presentation or Hydro's  
16 presentation on this issue of the decision-making for  
17 the business operations capital budget, and we have  
18 had evidence before about the way it was done for  
19 distribution, transmission and generation, and whether  
20 there are priorities set on -- on a corporate basis.

21 There was a suggestion, I guess there's  
22 testimony, that it wasn't done on a corporate basis,  
23 it was done with the different groupings and I had  
24 asked if you could explain to us what the decision-  
25 making process is, and I believe Mr. Wortley had said



1 that there's -- there's a view of moving -- and I  
2 guess it was a three (3) to five (5) year period  
3 toward something on more of a corporate basis.

4                   And I'd just be interested in knowing  
5 how you decide how to budget for it when you may be in  
6 a position not to have enough money for the requests  
7 of -- of all of your divisions which, quite frankly,  
8 has always been my experience.

9                   So if somebody wants to go through  
10 that.

11                   MS. PATTI RAMAGE: Yes and Mr. Wortley  
12 and Ms. Bauerlein have prepared some brief comments  
13 for the Board.

14                   THE CHAIRPERSON: Thank you.

15                   MS. SANDY BAUERLEIN: Good afternoon.  
16 I thought if we could just bring up IR -- it's PUB-MH-  
17 1-64(b). It actually has a schematic diagram of sort  
18 of how the current process works today and how we set  
19 targets and allocate our targets to each of the  
20 different groups. So, if we could bring that up I'd  
21 thought then I would just -- we'd walk through that,  
22 Mr. Wortley and myself, and talk a little bit about  
23 where we're at today and -- and where we see ourselves  
24 going in the future.

25                   So, it kind of starts on the far left

1 side. So, you'll see there's a box that talks about  
2 executive committee establishes business operations  
3 capital targets. So, again, we're not a new company  
4 so those are really the targets -- each CEF you're  
5 taking a look at what was approved in that - in the  
6 prior CEF.

7                   And so when looking at that early in  
8 the development of the capital expenditure forecast  
9 the -- the four (4) vice-presidents responsible for  
10 generation, transmission, distribution assets, as well  
11 as assets such as like our buildings and IT meet with  
12 finance and -- and now it would be Mr. McCallum and we  
13 discuss some sort of what has changed or what might be  
14 different in terms of what was approved previously.

15                   So if I kind of give an example, back  
16 in 2012/'13 the overall target for business operations  
17 capital was around 430 million. In 2016/'17, it's 530  
18 million. And in that five (5) year window there's  
19 been a lot of discussions at the vice-president level  
20 talking about -- we have a capacity -- there's been a  
21 problem in some capacity in certain geographic areas  
22 of the province, which I think we've talked about  
23 throughout this hearing or at times in this hearing.

24                   So, these were sort of raised by both  
25 the vice-president of transmission and the vice-

1 president of distribution at the time. So, you know,  
2 there was evidence pointing towards we had some issues  
3 along areas like Lake Winnipeg East in the southern  
4 Steinbach area. Within the City of Winnipeg we have  
5 some substation issues.

6           And so while it's not a sort of precise  
7 calculation, it's looking at, here is some of the  
8 issues here is what we think it's going to cost,  
9 here's some of the resource constraints, you know, we  
10 have financial constraints from the perspective of we  
11 typically in the past have looked towards the capital  
12 coverage ratio as an indicator of, you know, whether  
13 or not that was a reasonable ability for us to -- to  
14 spend, and we looked at, you know, people  
15 availability, as well as availability of -- of perhaps  
16 contracting out that work.

17           So while it wasn't anything exact, it  
18 did help us establish sort of the allocation for what  
19 that pot of money should look like and you can see  
20 that over the five (5) years we have increased that  
21 allocation.

22           It's important to note when we do this,  
23 though, we kind of look a lot -- and I think Mr.  
24 Wortley has talked about this and -- and perhaps can  
25 elaborate a little further, is we do look a lot at the

1 short -- the -- the next couple years, next one (1) to  
2 three (3) year timeframe.

3                   Really, the targets beyond that are  
4 right now currently sort of set just based on  
5 historical spend and anything that we might sort of  
6 know of in the future. But again, they're -- they're  
7 fairly preliminary and as those years become closer,  
8 we refine them.

9                   So in each year even when we look at  
10 the allocation of the target to each of the areas,  
11 again, we're looking at where the specific  
12 requirements are. So, for example, if you compare the  
13 capital expenditure forecast from CEF15 to CEF16,  
14 you'll see again that there was a -- based on a review  
15 of where some of the risks were and the requirements,  
16 there was a -- a reallocation of -- of actually a  
17 change in the overall target, as well as a  
18 reallocation of that target funds from the generation  
19 portfolio to, you know, some in the transmission and  
20 distribution portfolio is based on -- on the  
21 understanding of the risk and the needs and the  
22 requirements.

23                   So that's sort of at the highest level  
24 how the targets are established and it's an iterative  
25 process. Those targets are then finalized by approval

1 of the capital expenditure forecast by executive  
2 committee as the sort of input into the integrated  
3 financial forecast, and then they are also now  
4 finalized by the MHEB capital -- capital committee, so  
5 it's a subcommittee of the Manitoba Hydro Electric  
6 Board.

7                   So I'll let Mr. Wortley add to that a  
8 little bit in terms of where we now take the target  
9 and how we, you know, prioritize the investments  
10 within those targets.

11                   MR. JOEL WORTLEY: So the first thing  
12 it's really important to understand that all -- albeit  
13 it's one (1) supply chain and one (1) company, the --  
14 the role of generation versus transmission versus  
15 distribution, there's -- it's very different.

16                   And so if we think about that first  
17 when you're planning your investments, the first thing  
18 to come off the table are the really big things.  
19 You're going to make sure that you've got the security  
20 of your dams locked down because a cascading failure  
21 of, say, the lower Nelson River is just completely  
22 unacceptable. So when you're talking about planning  
23 investments, those things have already been taking  
24 care of, and you've also secured the things that would  
25 say -- insure you against a -- a provincewide blackout

1 because that's -- that's not acceptable either. When  
2 you're getting into really the -- the marginal  
3 planning in terms of optimization, you're into the  
4 marginal risks and the marginal benefits.

5                   And the marginal risks and benefits are  
6 very different from generation to transmission to  
7 distribution. Because in generation any excess energy  
8 is sold on the export market. It's simply a revenue  
9 question. If you decide not to invest in a generating  
10 unit and it comes off-line, you lose the revenue that  
11 you have gotten by exporting that energy on the export  
12 market.

13                   In transmission, it's a question of  
14 bulk grid reliability and revenue to a certain extent  
15 if you're dealing with a -- a tie-line or an export  
16 line. And so, as you decide whether to invest or not,  
17 again, the premise being that your big risks and your  
18 -- your customer connections, your capacity issues  
19 have come first, you're into that -- that marginal  
20 area of: Can I afford to be without this particular  
21 element from a reliability perspective? And if you --  
22 if you've -- if you've done your job well you won't --  
23 the difference is hard to see. If you've done your  
24 job poorly, you have big problems with rolling  
25 blackouts or brownouts, and grid reliability issues.

1 And so in generations its revenue; in transmission  
2 it's reliability; and distribution, it's direct impact  
3 to the customer in terms of outage and -- and not  
4 having the energy when they want it.

5                   And so when you -- when you line those  
6 three (3) things up, and you say what -- what's the  
7 level of risk tolerance that I should apply across the  
8 board with these things, they're very difficult to  
9 compare to each other. You can't say that this much  
10 reliability is worth that much outage time for -- from  
11 a customer they're different units.

12                   And so what happens in our current  
13 practice is that each of those groups is responsible  
14 for planning their capital such that they reduce those  
15 risks, the risk to their particular portion of the  
16 business to an acceptable level.

17                   As we go forward and what we're doing  
18 is we're moving from that individual portfolio  
19 perspective to a common basis evaluation for the  
20 Company. And what that means is we've developed  
21 something called the corporate value framework. And  
22 the corporate value framework works in five (5)  
23 categories to use twenty-eight (28) different value  
24 measures to assess how much risk am I buying down or  
25 how much benefit am I achieving from this particular

1 investment.

2                   And it will give you a score on a  
3 common basis, a common denominator, whether it's in  
4 generation, transmission or distribution such that  
5 you've got a -- a means of comparing them to each  
6 other.

7                   The ele -- elements of common risk:  
8 environment, safety, corporate citizenship are all  
9 done on a -- on a common consequence scale, but the --  
10 the revenue -- well, revenue is revenue it's easy,  
11 it's dollars, but the -- the reliability and the  
12 customer reliability need to be levelled against the  
13 other, each other.

14                   And so we've done that in this  
15 corporate value framework, and -- and it -- it brings  
16 that leveling of risks and benefits such that you do  
17 get a common denominator evaluation of all your  
18 investments, which is cal -- you can calibrate it.  
19 You can change it such that if you -- if you're  
20 finding that the output is not supporting your  
21 corporate objectives, it can be re-leveled and -- and  
22 you can carry on.

23                   On the basis of that corporate value  
24 framework, we are in the process of and -- and the  
25 three (3) to five (5) year time frame was mentioned,



1 the corporate value framework exists today. It's  
2 being piloted. It's been rolled out. We will be  
3 using it in the next little while to optimize each of  
4 our investment portfolios. So you'll have an  
5 optimized portfolio in generation, an optimized  
6 portfolio in transmission, and an optimized portfolio  
7 in distribution.

8           You can then take that and compare them  
9 to each other because they're on -- they're on a  
10 common point system to say, well, the last dollar that  
11 went into generation bought his many points and the  
12 last dollar that went into distribution bought that  
13 many points. Maybe, you know, if they're not the  
14 same, if they're out of whack, would give you the  
15 opportunity to -- to -- to adjust.

16           And that's exactly what we're working  
17 on. That's our -- our objective of optimizing or  
18 executing portfolios and would be the information that  
19 we would use to adjust targets as we go forward.

20           The other piece of information is the  
21 longer-term outlook and so the same tools and the same  
22 monitoring of asset condition, forecasting, and  
23 degradation, and therefore forecasting of end-of-life  
24 of assets will be used to say, well, how much money  
25 are we going to need longer-term to keep the assets

1 functioning, to keep the system safe and reliable and  
2 to make sure that we don't get into a situation where  
3 we're -- we're suddenly surprised or overwhelmed by a  
4 -- a bulge in asset replacements.

5           And so that -- that -- that is not an  
6 easy thing to do. Forecasting anything is fraught  
7 with uncertainty. Forecasting then an asset is going  
8 to expire and what you might think you might want to  
9 do about it when it does expire, cause you may not be  
10 a straight replacement, you might want to intervene  
11 some other way, whether it's life extension, or some  
12 operating mitigation. Trying to understand what it  
13 might cost you in ten (10) years to -- to deal with  
14 that asset has a lot of uncertainty in it.

15           And so, we want to make sure as we  
16 approach that that we're not burying a lot of time and  
17 expense in forecasting -- you know, trying to fine-  
18 tune a forecast number that doesn't really change  
19 anything. It's got to be meaningful and so that --  
20 those are steps ahead of us to see how -- how good are  
21 these forecasts; do they drive decisions; and then if  
22 they do, it's worth it. If -- if they don't well  
23 that's a lot of engineering and a lot of -- a lot of  
24 time spent producing forecasts that isn't worthwhile.

25           THE CHAIRPERSON:   Mr. Wortley, when

1 you -- you moved to this system where you're going to  
2 be, sort of establishing common measurements, how to  
3 you actually test against it? What do you do, for  
4 example, let's say you've moved -- you're now using  
5 this -- this new system and you're at the end of year  
6 one, how are you testing whether you're actually  
7 achieving the kind of results you were hoping for  
8 versus just, you know, creating a more complicated  
9 system that's difficult to evaluate?

10 MR. JOEL WORTLEY: So the -- the  
11 testing of the output comes in a number of different  
12 forms; mostly to do with release, running scenarios,  
13 sensitivity analyses, looking at, if I -- say if I --  
14 if I subtract 10 percent of my capital what -- what  
15 happens if I add 10 percent more. Do I actually get  
16 more value?

17 And so there's that portfolio level of  
18 questioning my output but then within a project  
19 there's a -- there's another level of questioning or  
20 testing that goes on, which is that, if are you using  
21 the system to its full capability instead of having  
22 one (1) project, one (1) solution in the system,  
23 you've got one (1) project with three (3) or four (4)  
24 different options that you're considering for that  
25 particular issue.

1                   And so when you run the optimizer  
2 you're allowing the computer to look at -- the  
3 computer understands how the asset is going to degrade  
4 over time. It understands -- you've told it  
5 potentially that your costs may go up, your costs to -  
6 - to mitigate may go up over time as degradation  
7 carries on it. It -- it understands the difference  
8 between you're A, B and C options and -- and will  
9 allow trade-offs.

10                   And so if it chooses, say, option B  
11 you've got the opportunity to look at that and say,  
12 hmm, it chose B over A, which had a cost difference of  
13 whatever it happens to be, Does -- does that make  
14 sense? Does that make sense from a risk tolerance  
15 perspectives? Does that make sense from a value  
16 perspective? Did I get enough value? Did I feel like  
17 I -- I got what I paid for.

18                   And so you can see it at the project  
19 level. You can see it at the portfolio level. You  
20 can -- you can run scenarios and -- and test the  
21 output to say: Does this risk -- level of risk  
22 tolerance that's coming out here, does the place where  
23 the dollars are being programmed make sense.

24                   And fundamentally that's the test  
25 you've got to come back to. Because at the end of the

1 day, generation knows its business and knows where --  
2 where the revenue is at stake. Transmission knows  
3 where reliability is at risk and distribution knows  
4 where the customers are at risk.

5                   And if we got something out in a black  
6 box type scenario that didn't make any sense at all,  
7 then we're definitely doing it wrong and that's not  
8 the case at all. It's -- it's not black box. It's  
9 very transparent. You can see this mon -- this money  
10 buys down these risks. So you've got the opportunity  
11 to -- to question. You don't have to accept what  
12 comes out. It is just a decision support tool, not a  
13 decision tool.

14                   THE CHAIRPERSON: Do you have any  
15 questions. Mr. Peters...?

16

17 RE-CROSS-EXAMINATION BY MR. BOB PETERS:

18                   MR. BOB PETERS: Yes, thank you. I  
19 would like to follow-up on -- on just a couple of  
20 areas if I could, Mr. Chair, and Mr. Wortley, and Ms.  
21 Bauerlein.

22                   Would it be correct that the capital  
23 budgets are not currently based on the quantified and  
24 objective processes that Manitoba Hydro intends to use  
25 after phase 3 of its capital asset management program

1 is implemented?

2 MR. JOEL WORTLEY: You've almost got  
3 it right there in that the -- the -- phase 3 is not --  
4 not directly related to the capital asset management  
5 practices or, sorry, the capital planning practices  
6 that we're implanting.

7 The plans to deploy our capital asset  
8 planning tools are already in motion. They're not  
9 waiting for phase 3. Phase 3 of our corporate asset  
10 management framework is the larger endeavour about  
11 aligning the Company's activities. The capital  
12 planning processes and tools are being deployed  
13 currently and by the end of this year they'll all be  
14 in place and what needs to happen before the -- the  
15 three (3) to five (5) year timeframe comes from  
16 building the data sets, getting good at the processes  
17 and challenging the -- the outputs such that we get to  
18 a place where we are confident that we're -- that  
19 we're getting what we need out of these systems.

20 MR. BOB PETERS: Mr. Wortley, does  
21 that suggest to the Panel that the phase 3 is going to  
22 take place sometime after the next three (3) to five  
23 (5) years that you've spoken about?

24 MR. JOEL WORTLEY: Not necessarily.  
25 These things -- it's -- it's a journey and it's a

1 journey that happens in different phases, and it  
2 happens very broadly across the organization. And so  
3 the challenge is to foster the changes you want to see  
4 in a coordinated and efficient fashion without  
5 overloading areas. If you -- if you try to move too  
6 quickly, undoubtedly people check out.

7                   So no, phase 3 does not have to wait  
8 for the completion of the capital planning tools. It  
9 will happen when the Company's ready.

10                   MR. BOB PETERS: And you're not able  
11 to put time estimate on when the Company will be ready  
12 for that?

13                   MR. JOEL WORTLEY: I could estimate  
14 right now that it -- it -- we would likely start phase  
15 3 towards the end of the coming year, but at this  
16 point that's uncertain.

17                   MR. BOB PETERS: In the Manitoba Hydro  
18 rebuttal evidence which was Manitoba Hydro, I think  
19 it's, Exhibit 52, and specifically on page 49, which  
20 is on the monitors in front of us, at the end of the  
21 second paragraph there is a sentence that says:

22                               "Past practice has been to assume  
23                               that past renewal investment  
24                               requirements are indicative of  
25                               future mid and long-term renewal

1 investment requirements."

2 Do you see that?

3 MR. JOEL WORTLEY: I do.

4 MR. BOB PETERS: Does that suggest  
5 that that is no longer the practice or is that still  
6 the practice as we sit here today?

7 MR. JOEL WORTLEY: With respect to  
8 CEF16, that is the practice. I'd say we are in  
9 transition. It will not be the future practice.

10 MR. BOB PETERS: So what you're  
11 telling the Board is that instead of using that -- the  
12 new science and the computer assistance that you just  
13 mentioned in a previous answer from your asset  
14 management techniques, for the two (2) test years that  
15 Hydro is -- has before this Board, Manitoba Hydro is  
16 relying on the trends, and assuming that things will  
17 be the same as they have been in the past?

18 MR. JOEL WORTLEY: Not quite. This  
19 sentence refers to mid- and long-term investment  
20 requirements. So, these are outside of the test  
21 years.

22 The test year investments are programed  
23 based on current issues, current condition of the  
24 assets and the need to ensure the safe, reliable  
25 operation of the system.



1                   MR. BOB PETERS: All right. Well,  
2 let's -- let's stay with that thought in terms of the  
3 test year and we may have to go back to -- well, let  
4 me ask the question and we'll see if we need the  
5 schematic back up again.

6                   But, would the Board be correct in  
7 understanding, Mr. Wortley, that the current and the  
8 test years and the capital budgets that Manitoba Hydro  
9 has in those test years would -- would be coming down  
10 in front of the senior executives to the management?

11                   MR. JOEL WORTLEY: They begin with the  
12 senior executive, yes. It's -- it's sort of a top-  
13 down/bottom-up meet-in-the-middle type process where  
14 the -- the needs identified in the operating areas are  
15 -- are brought up, and the -- the need for constraints  
16 and limiting spending are brought down from the upp --  
17 executive of the Corporation with a bit of a  
18 negotiation in-between.

19                   MR. BOB PETERS: All right. Maybe we  
20 could go back then just to show the Panel that  
21 Schematic. Thank you.

22                   We see in the top left-hand area of the  
23 screen, and this is PUB first round interrogatory 64  
24 (a) and (b) that the executive committee will  
25 establish the budget, the capital targets; correct?

1 MS. SANDY BAUERLEIN: As I said, those  
2 are really the establishment from, you know, prior  
3 CEF. Again, we're not starting at square 1. So  
4 that's really saying today if I was looking at CEF16,  
5 I would be starting with what had been approved in  
6 CEF15 for those years.

7 MR. BOB PETERS: But there can be  
8 adjustments to what was approved previously, and  
9 you've told the Board about that this afternoon;  
10 correct?

11 MS. SANDY BAUERLEIN: That is correct.

12 MR. BOB PETERS: But I also see Mr.  
13 Wortley's point, I think, that the capital expenditure  
14 forecast inputs comes from the bottom-up is what I  
15 think I understood Mr. Wortley to say and then as well  
16 as from the top down.

17 Is that practically what happens, Mr.  
18 Wortley?

19 MR. JOEL WORTLEY: That's right.

20 MR. BOB PETERS: So in that particular  
21 instance, the executives know how much was approved in  
22 the prior year, and they're getting feedback from the  
23 vice-presidents as to how much they want for the  
24 current year, and they're going to meet somewhere in  
25 the middle?

1 MR. JOEL WORTLEY: That's right.

2 MR. BOB PETERS: I wonder if we could  
3 also go to, hopefully not forgotten, PUB Exhibit 42-4  
4 of the fourth book of PUB counsel documents and I  
5 think we'll go to page 578. And I think we can look  
6 at the bottom of the page, the last paragraph. It's  
7 not highlighted, but it relates to a point that Ms.  
8 Bauerlein and Mr. Wortley that you just talked to the  
9 Chairman about, and I'm looking at the end of the  
10 paragraph, starting in the middle. I'll read it for  
11 the record.

12 "On this basis approved capital  
13 targets are reviewed at the vice-  
14 president level to assess whether  
15 re-allocation of funds is required  
16 in order to balance operational  
17 priorities and optimize overall  
18 corporate value considering changes  
19 in business, financial and economic  
20 assumptions, as well as operational  
21 risk factors. Any proposed target  
22 adjustments are reviewed and  
23 approved by all impacted vice-  
24 presidents to balance operational  
25 priorities and risks."

1 Do you see that portion I read?

2 MR. JOEL WORTLEY: I do.

3 MR. BOB PETERS: Now, does that  
4 suggest that currently as amongst the vice-presidents,  
5 they will have to make trade-offs as between who gets  
6 how much based on how they assess the risks?

7 MR. JOEL WORTLEY: That's correct.

8 MR. BOB PETERS: And you've already  
9 indicated that different divisions and I'm thinking of  
10 the generation as a division, the transmission as a  
11 division, and the distribution as a division, they may  
12 have different measuring sticks as to what their risks  
13 are; correct?

14 MR. JOEL WORTLEY: Yes, they have  
15 different risks, that's right.

16 MR. BOB PETERS: They have different  
17 risks and they -- and therefore measure them  
18 differently as well.

19 MR. JOEL WORTLEY: That's right.

20 MR. BOB PETERS: And so if the vice-  
21 presidents are supposed to decide who gets how much of  
22 the capital budget, how meaningful can that be if --  
23 if they are all using different risk definitions and  
24 assessments of risk?

25 MR. JOEL WORTLEY: This is the

1 challenge. And it -- and it's not an easy one to  
2 overcome. In this particular case with this practice.  
3 the vice-presidents are -- are the operating vice-  
4 presidents. They understand their operations and they  
5 understand where -- they define what is a tolerable  
6 level of risk to carry with respect to their  
7 operation. And so this -- look at the -- at the -- at  
8 their targets and the unfunded -- the work they can't  
9 fit into their targets is a look at what risks are  
10 there to my business at this level of funding.

11                   And teaching in -- in the perspective  
12 of their own operating context: Is this tolerable or  
13 not? And if it's -- if they deem it to be  
14 intolerable, then it's up to them to bring that --  
15 that perspective forward, make their case to the other  
16 vice-presidents to say -- to demonstrate that it's not  
17 tolerable.

18                   MS. SANDY BAUERLEIN: Which is really  
19 what they've done over the last number of years with  
20 respect to some of the issues around some of the  
21 capacity constraints. So, they've been bringing those  
22 risk assessments forward for discussion.

23                   MR. BOB PETERS: And, Ms. Bauerlein,  
24 what you're telling the Panel is that the capacity  
25 constraints -- do I assume that's mostly transmission?

1 MS. SANDY BAUERLEIN: And  
2 distribution, a lot of substations. So again, it's in  
3 certain geographic parts of -- of the province and --  
4 and even parts of -- of the City of Winnipeg.

5 MR. BOB PETERS: So would it be  
6 accurate then to suggest that the -- the vice-  
7 presidents of transmission and distribution have to  
8 convince the vice-president of generation that their  
9 risks are of a higher priority than what perhaps the  
10 VP generation has on -- on that VP's risk register?

11 MR. JOEL WORTLEY: It's about a  
12 discussion for what's -- what's best for the Company,  
13 what's best for the customer.

14 MR. BOB PETERS: And is it correct  
15 then that under this corporate value framework that  
16 you're -- you're migrating to, Mr. Wortley, Manitoba  
17 Hydro's executive has not yet sat down and established  
18 corporate wide risk measures and acceptable levels?

19 MR. JOEL WORTLEY: The corporate value  
20 framework is -- embeds those risk tolerances, those  
21 risk levels in terms of how the consequences are  
22 rated. And so within the corporate value framework,  
23 there are fourteen (14) identified consequence  
24 categories, each with nine (9) levels of impact.

25 And so how you -- how you balance those

1 defines your risk tolerance. And so the corporate  
2 value framework, as it exists today, has been  
3 developed based on existing practice. So it's  
4 essentially a documentation of our current risk  
5 tolerance. It gives us the opportunity now, as we go  
6 forward, to change it. To say we want to take more  
7 risk in this area, or we see that we need to reduce  
8 our risk in this area and actually target those  
9 outcomes.

10 MR. BOB PETERS: And so you're telling  
11 the Panel that going forward you'll be making use of  
12 this corporate value framework by looking at each of  
13 those fourteen (14) risk areas and the nine (9)  
14 different risk levels for each of the operating units?

15 MR. JOEL WORTLEY: The corporate value  
16 framework is applied on an investment -- at an  
17 investment level. You can then use it to roll up  
18 aggregate, how much risk is -- what is the risk level  
19 under a particular consequent -- or sorry, under a  
20 particular category or how much risk am I buying down  
21 on a particular portfolio.

22 So it becomes the basis for  
23 communicating those -- those elements, as well as  
24 making decisions as to the acceptability.

25 MR. BOB PETERS: Just so the panel

1 understands that answer, Mr. Wortley, doesn't this  
2 corporate value framework mathematically give the  
3 information that still, then, has to be subjectively  
4 analyzed by -- by the vice-presidents?

5 MR. JOEL WORTLEY: Absolutely. You --  
6 you'll never get to a place where you take the human  
7 factor, the -- the judgment out of the decision. The  
8 -- the corporate value framework provides a  
9 quantification for consideration by the decision-  
10 makers.

11 MR. BOB PETERS: And -- and -- so how  
12 long until that corporate value framework is fully  
13 populated by all of the units?

14 MR. JOEL WORTLEY: So the -- it's  
15 being -- it was rolled out this year to all operating  
16 groups, and they're starting to use it. It will take  
17 some time, which is why we've given this three (3) to  
18 five (5) year window for -- for getting fully up and  
19 running with -- with the tool, and that there are a  
20 number -- dozens and dozens of projects already  
21 existing in the system, and so to -- to score them  
22 all, and to score them all rel -- reliably and  
23 repeatably is going to take some time.

24 And so we want to work our way into it  
25 and make sure that we're getting solid -- solid data,



1 solid, repeatable outcomes before we -- we -- walk  
2 before we run, in a sense. And so I would anticipate  
3 that all new projects in the coming year will be put  
4 through the -- the screening through the corporate  
5 value framework, or certainly most of them. And then  
6 in -- in time, the older projects that were not  
7 screened will be completed and -- and weeded out of  
8 the system such that you'll arrive at a place where  
9 all projects have a -- a common basis scoring.

10 MR. BOB PETERS: I don't want to go  
11 over matters that we've previously talked about, but  
12 an example that I believe was given by yourself to  
13 this Board was when Pointe du Bois was reevaluated,  
14 changing from one (1) Capital Expenditure Forecast to  
15 another, there was an economic decision made that the  
16 export revenues wouldn't be sufficient to justify  
17 proceeding on Pointe du Bois. Is that correct?

18 MR. JOEL WORTLEY: That is correct.

19 MR. BOB PETERS: Was that decision not  
20 to proceed on Pointe du Bois as a result of the  
21 corporate value framework, or was that as a result of  
22 -- of the vice presidents just looking at the  
23 economics of the project?

24 MR. JOEL WORTLEY: It was primarily  
25 the economics of the project, which obviously would be

1 available without the corporate value framework. What  
2 the corporate value framework allows you to do is --  
3 is to take that evaluation a step further and to say,  
4 Pointe du Bois is a hundred year old powerhouse with  
5 some safety issues associated to it. And so by  
6 deciding to -- if I have two (2) options, to continue  
7 operating in its current mode, I'm taking safety risks  
8 every day by having staff working in that environment,  
9 as well as foregoing the potential for additional  
10 revenue if I -- I re-power the units.

11                   So we're re-powering the units, it may  
12 bring financial benefit, but it may also bring a  
13 safety benefit, and it may even bring an environmental  
14 benefit, depending on -- on your particular scenario.  
15 The corporate value framework allows you to consider  
16 all of those things in one (1) scoring rather than  
17 simply the financial payback of that investment.

18

19   (BRIEF PAUSE)

20

21                   MR. BOB PETERS:    So, Mr. Wortley, when  
22 -- when Pointe du Bois was on the Capital Expenditure  
23 Forecast, some money had to be found from other  
24 divisions to support the increased spending on that  
25 generation station. Would that be correct?

1 (BRIEF PAUSE)

2

3 MR. JOEL WORTLEY: In -- in essence,  
4 anytime there's a spending in the program or in the --  
5 in the CEF, it's -- you're committing dollars  
6 somewhere that you can't go somewhere else. So in  
7 that sense, yes, by committing money to Pointe du  
8 Bois, it's money that was not available to go  
9 somewhere else. The -- when Pointe du Bois was added  
10 to the forecast, I can't tell you if something was  
11 specifically displaced to make room for it.

12 MR. BOB PETERS: Mr. Chair, I was  
13 looking at page 568 of Board counsels' fourth book of  
14 documents just to orient myself back to the discussion  
15 that we had previously.

16 And -- and Mr. Wortley, let's not spend  
17 much time on this, but the comparison between the  
18 Capital Expenditure 15 and 16, we already saw that  
19 under the generation line items at the top of the  
20 page, that there was \$140 million of savings found  
21 over the next ten (10) years, correct?

22 MR. JOEL WORTLEY: That's correct.

23 MR. BOB PETERS: And I think it's  
24 common ground that that savings is almost all  
25 attributable to the Pointe du Bois decisions to -- to

1 not proceed with the -- I'm going to call it the  
2 powerhouse and the station to --

3 MR. JOEL WORTLEY: That's correct.

4 MR. BOB PETERS: -- to upgrade it. So  
5 now that that \$140 million comes off, does that allow  
6 transmission and distribution increase budget to -- to  
7 fill the gap based on their needs as opposed to a  
8 corporate rebalancing of the risk?

9 MR. JOEL WORTLEY: So in this  
10 particular case, the needs at the time were to add  
11 some spending in transmission and on the distribution  
12 system to account for some capacity issues, but  
13 overall, not all the money was required, and so the  
14 target overall was reduced. And so you can see in the  
15 bottom row that over the ten (10) years, we see a  
16 fifteen (15) to sixteen (16), the total went down by  
17 \$240 million.

18 MR. BOB PETERS: But Mr. Wortley, if  
19 we stay on the 2018 column, and we go down just past  
20 generation and wholesale, we'll see that transmission  
21 increased -- it looks like 7 million, and the  
22 marketing and customer, which we now understand to be  
23 distribution, has increased by about 8 million,  
24 correct?

25 MR. JOEL WORTLEY: That's right.

1                   MR. BOB PETERS:    And so when  
2 generation has gone down, it looks like transmission  
3 and distribution have been increased to help fill that  
4 gap, and I'm wondering was that based on a risk  
5 assessment, or was that just based on there being  
6 available cash or capital?

7                   MR. JOEL WORTLEY:    The additional  
8 money in transmission and distribution, beginning in  
9 2018, reflects the capacity demand due to regional  
10 load growth.  So it's not a question of pushing money  
11 around.  It's a question of funding the risks it  
12 needed.

13                  MR. BOB PETERS:    Mr. Wortley or Ms.  
14 Bauerlein, can you indicate to the panel how the  
15 executive team ensures that the decisions being made  
16 provide a net benefit to the ratepayer?

17                  MR. JOEL WORTLEY:    As we've discussed,  
18 I think quite a bit here, the -- it's about that  
19 balance of cost performance and risk that's going to  
20 deliver for the customer.  It's the customer,  
21 ultimately, who is subject to that balance of cost --  
22 cost performance and risk, and essentially, the -- the  
23 safe, reliable operation of the system is deemed to be  
24 what's best for the customer.  And so these are the  
25 dollars are required to protect that safe and reliable

1 operation and make sure that the customer -- we're  
2 there when the customer needs us.

3 MR. BOB PETERS: And in three (3) to  
4 five (5) years, Manitoba Hydro hopes to have a  
5 numerical basis on which to assess and quantify that  
6 risk to make that judgement that it's now making?

7 MR. JOEL WORTLEY: That's right.

8 MR. BOB PETERS: Because presently,  
9 it's making that value judgement without the empirical  
10 data?

11 MR. JOEL WORTLEY: It's making that  
12 value judgement essentially on the assumption that we  
13 want to continue the -- the level of performance and -  
14 - and balance of risks that we've had to date. And so  
15 the -- the indicators are -- are positive in terms of  
16 the customer experience, are positive in terms of the  
17 assets, in terms of how long the assets are living,  
18 positive in terms of the amount of reinvestment  
19 required. And so the -- the tacit assumption is that  
20 by carrying on, we're -- we're doing at least what's -  
21 - what, at face value, is the right thing for the  
22 customer.

23

24

(BRIEF PAUSE)

25

1                   MR. BOB PETERS:    But at this point in  
2 time, Mr. Wortley, I thought we covered it, that the -  
3 - Manitoba Hydro doesn't have a mandate from its  
4 ratepayers as to how much more they want to spend on -  
5 - on the system upgrades.  Is that correct?

6                   MR. JOEL WORTLEY:    It would be fair to  
7 say that we don't have a mandate from the customer as  
8 to how much more they want to spend, nor do we have a  
9 mandate from the customer as to how much less  
10 reliability they like, so that -- that, yes.  You're  
11 correct.

12                   MR. BOB PETERS:    All right.  Okay.  
13 I'd like to, Mr. Chair, just turn to a matter that I -  
14 - I mentioned to my friend Ms. Ramage that I was going  
15 to start with Mr. Wortley, and see if this was  
16 something that was on this panel and not the capital  
17 panel.

18                   And I wanted to start with an IR that  
19 might make it to Board counsels' fifth book of  
20 documents, but it's not presently compiled, and that's  
21 an undertake -- sorry, an Information Request PUB  
22 Manitoba Hydro First Round 62.

23                   And this one has a chart.  I'm not  
24 going to review the chart in any detail, but Mr.  
25 Wortley, you're familiar with these progression of

1 Capital Expenditure Forecast numbers?

2 MR. JOEL WORTLEY: I've seen before.  
3 I haven't studied them ad -- ad nauseam.

4 MR. BOB PETERS: All right. And I  
5 wouldn't expect you to, sir, in fairness, but one (1)  
6 of the concerns is that when a project makes it to the  
7 Capital Expenditure Forecast list, that means it has  
8 to go up the channels and make it to the vice  
9 presidents, and then to the executive of Manitoba  
10 Hydro. Would that be correct?

11 MR. JOEL WORTLEY: The approval  
12 process is such that depending on the dollar value, it  
13 goes to an appropriate level of management for -- for  
14 approval, and then the plan itself does go up to  
15 executive to be approved. So there's an individual  
16 approval of the project, and then there's an approval  
17 of the plan.

18 MR. BOB PETERS: And --

19 MR. JAMES MCCALLUM: And just to jump  
20 in, the plan is all the CEF, or Capital Expenditure  
21 Forecast, is approved by the Board of Directors.

22 MR. BOB PETERS: Thank you, Mr.  
23 McCallum. That means it's gone through the executive  
24 committee at Manitoba Hydro?

25 MR. JAMES MCCALLUM: That's right.



1                   MR. BOB PETERS:    Would it be correct  
2   that when an item makes it to the Capital Expenditure  
3   Forecasts, that item includes what are the expected  
4   in-service costs, Mr. Wortley?  Like, that is for Ms.  
5   Bauerlein, those are the costs that the Corporation  
6   expects it will have incurred up until the date that  
7   that item becomes in service and of use to the  
8   ratepayers?

9                   MS. SANDY BAUERLEIN:   Not necessarily  
10  when the item is first placed in the CEF.  The -- and  
11  Mr. Wortley can expand a little bit further, but that  
12  may be sort of a -- which is why we've now sort of  
13  redefined sort of the look and feel of our report, to  
14  give a better perspective on when things are here, as  
15  we think there's a potential investment, and we've  
16  done some from preliminary work to assess at a high  
17  level, and then there's, of course, further refinement  
18  as to what the overall scope, and overall  
19  requirements, and therefore, in-service costs of the  
20  project will be as it progresses through that -- that  
21  analysis.

22                   Mr. Wortley, do you want to add to  
23  that?

24                   MR. JOEL WORTLEY:    The practice has --  
25  had been that to begin any sort of work on project, an

1 approval -- a -- budget had be raised and -- and  
2 approved to -- to do any sort of work on the project,  
3 including defining its scope to any real extent. As a  
4 result, what often happened was that a -- a very, very  
5 rough budget was put into the system long before there  
6 was any clear understanding of the scope of the  
7 project, which inevitably turned out to be wrong, way  
8 wrong, because it was produced at a time when there  
9 was no clear understanding of what was actually trying  
10 to be accomplished or what the scope of work was going  
11 to be.

12                   And so we -- we've discontinued that  
13 practice now in favour of a practice that allows some  
14 money to be spent on some preliminary engineering to  
15 define the scope, schedule the project, and therefore,  
16 firm up the budget before it's approved. But what  
17 you'll see here in many instances, I'm sure, if we  
18 look, is a situation where that initial budget, which  
19 was a bit of a guess, turns out to be very different  
20 from the final number.

21                   MR. BOB PETERS: All right, Mr.  
22 Wortley and Ms. Bauerlein, I am going to give you a  
23 chance to explain to the panel the current system. So  
24 we'll -- we'll come to that with the aid of, I think,  
25 one (1) of the Information Requests.

1                   But Mr. Wortley, is the process the  
2 same on this Capital Expenditure Forecast for business  
3 operations capital items, as it is for the major new  
4 generation items?

5                   MR. JOEL WORTLEY:    It is insofar as  
6 that anytime the -- the budget can only reflect what  
7 you know what you know about the project.  So if  
8 you're very early in the project life cycle, you don't  
9 know a lot about it.  Your -- your budget is  
10 inevitably uncertain.  As the project progresses, the  
11 scope is defined, the design is completed, the  
12 projects -- contracts are let, ground is broken, you  
13 learn more as you go, you gain more confidence, more  
14 certainty in the actual cost.

15                   And so if you're very early in the  
16 project, whether it's a major new gen and  
17 transmission, or whether it's business operations  
18 capital, inevitably, you don't know a lot about what  
19 it's going to cost, but as you progress into the  
20 project, and it -- its scope matures, you gain more  
21 confidence.

22                   MR. BOB PETERS:    Okay.  Well, let's  
23 follow that through, and I'll ask that your --  
24 Manitoba Hydro's rebuttal evidence, Manitoba Hydro  
25 Exhibit 52 be brought up again, and specifically, page

1 53 of that document, 53 of 78, if that's available,  
2 and I believe what we have here is -- is what -- what  
3 I think will help the Board understand.

4 I want to start with -- the premise of  
5 this is Manitoba Hydro's rebuttal to METSCO, one (1)  
6 of the experts that was engaged by the Consumers  
7 Coalition, correct?

8 MR. JOEL WORTLEY: Correct.

9 MR. BOB PETERS: And one (1) of the  
10 observations that METSCO made was -- and Mr. Wortley,  
11 in fairness, I think you made the same one, is it  
12 appears that Manitoba Hydro's capital costs are  
13 materially underestimated relative to what actually  
14 becomes the capital cost, correct?

15 MR. JOEL WORTLEY: That's correct.

16 MR. BOB PETERS: And so you took --  
17 Manitoba Hydro took the time to explain in this  
18 rebuttal -- and I'm now looking at line 13 -- at the  
19 time these projects were conceived, and -- and Mr.  
20 Wortley, let's assume these projects are either  
21 business operations capital, or major new generation,  
22 it really doesn't matter. Are you okay with that?

23 MR. JOEL WORTLEY: Yeah, I think  
24 that's fair.

25 MR. BOB PETERS: All right. So when

1 these projects are conceived, and that means that --  
2 and I don't -- you know, somebody's come up with the  
3 idea that you need a new substation, you need a new  
4 generating station, you need a new transmission line.  
5 Somebody's come up with that idea?

6 MR. JOEL WORTLEY: That's right.

7 MR. BOB PETERS: And -- and I'm not --  
8 and I'm not belittling the work that it takes to get  
9 to that decision, but somebody's come up with the  
10 idea, then at the time they come up with the idea,  
11 they're also supposed to put a -- a project budget  
12 estimate forward for that idea. Is that correct?

13 MR. JOEL WORTLEY: That's right.

14 MR. BOB PETERS: And so what you're  
15 telling the panel is if you need a new substation, a  
16 new transmission line, a new generating station, the  
17 Manitoba Hydro folks who conceived the idea should  
18 also put a price tag on it?

19 MR. JOEL WORTLEY: Yes. Again, this  
20 is the -- the past practice where the transmission  
21 line is a great example, where you may have a starting  
22 point and an end point to that transmission line, but  
23 not a route. And so if you put an estimate on that  
24 transmission line on day 1, without knowing what route  
25 it -- the line needs to follow, inevitably, that

1 estimate is not going to be very good.

2 MR. BOB PETERS: Mr. Wortley, you told  
3 the Board that -- and -- and I want to stick with it -  
4 - this is the historic way Manitoba Hydro used to do  
5 things?

6 MR. JOEL WORTLEY: That's right. In  
7 our current practice --

8 MR. BOB PETERS: And -- and -- well, I  
9 -- I'm going to let you get there, but you've got to -  
10 - you've got to trust me on that, and your counsel  
11 will make sure I do, but when you say it's  
12 historically how you did it, when did Manitoba Hydro  
13 have the about-face, or the change in methodology?

14 MR. JOEL WORTLEY: It -- it's happened  
15 a little bit over time in that -- in the last -- in  
16 the last year or so, we've -- we've adopted a formal  
17 process by which the groups can now raise what's  
18 called a -- a capital investment concept to get a  
19 little bit of money to do some preliminary  
20 engineering, but in -- in years prior to that, there  
21 was some opportunity to rai -- raise some preliminary  
22 engineering money that some groups were taking  
23 advantage of. So it -- it's a little bit inconsistent  
24 on when it happened in which groups.

25 MR. BOB PETERS: Okay. So it's

1 relatively new with -- we'll say within the last year,  
2 and you're trying to get to a common platform?

3 MR. JOEL WORTLEY: That's right.

4 MR. BOB PETERS: And you're not quite  
5 there yet?

6 MR. JOEL WORTLEY: I -- I would think  
7 we're -- I would say we're -- we're there in terms of  
8 -- we're there in terms of when projects are raised  
9 today, the approval on the -- the approval on the  
10 project justification is not proposed until there's a  
11 firm definition of the scope, schedule, and budget.  
12 You need that in order to value -- there's no point in  
13 scoring the value the of the project if you -- if you  
14 don't really know what it costs, because the -- the  
15 value is obviously not going to be correct either.

16 However, projects last a long time at  
17 Manitoba Hydro. A lot of our -- our big jobs have  
18 been over many years, and so you can have many  
19 projects in the system that were still started under  
20 the old process that will be there for many years to  
21 come. So it -- it will appear, even though the -- the  
22 practices in place today to avoid the situation, the  
23 hangover is still there from the past practice and  
24 will be for many years.

25 MS. SANDY BAUERLEIN: So I did want to

1 add, in the last CEF, we actually tried to, from a  
2 presentation perspective, make it a little clearer by  
3 defining executing projects, so these are projects  
4 that are underway, versus one (1) that we were calling  
5 potential investments. So this is really where you  
6 know you're going to build a transmission line, but  
7 again, we're not sure exactly what the route is. So  
8 we were trying to make it a little clearer in even our  
9 presentation of the Capital Expenditure Forecast, the  
10 difference.

11 MR. BOB PETERS: So does Capital  
12 Expenditure Forecast 16 contain the new methodology,  
13 Ms. Bauerlein?

14 MS. SANDY BAUERLEIN: It -- it  
15 contains the new presentation, and Mr. Wortley said,  
16 the transition of some of the -- the new methodology  
17 where we're trying to actually have now scope approved  
18 separate from actual project costs.

19 MR. BOB PETERS: All right, and we'll  
20 come to that. I promised again. So CEF17 will be the  
21 first time the Board will be able to see the Capital  
22 Expenditure Forecast using the new methodology that  
23 Manitoba Hydro has migrated to?

24

25

(BRIEF PAUSE)



1                   MR. JOEL WORTLEY:    For new projects,  
2 that will be the case. Year 1 in the CEF is a mixture  
3 of projects in flight and new starts. So the new  
4 starts, that -- that will be the case.

5                   I guess maybe I should add one (1) more  
6 clarification, which is that there are instances where  
7 a project was first conceived many years ago, and then  
8 followed in time, and -- and deferred, because it  
9 wasn't needed right away, that's still -- still  
10 waiting to be actioned. And so when that one comes up  
11 to be executed in year 1, it will still have somewhere  
12 on the books an initial project justification that was  
13 done under the old -- under the old process.

14                  MR. BOB PETERS:    All right. I -- I  
15 want to complete the old process as quickly as I can,  
16 and I'm still on Manitoba Hydro's Exhibit 52, page 53  
17 of 78, and I was still up on lines 13 and 14.

18                  And so you've told us that under the  
19 old methodology, which we have seen on the  
20 progression of Capital Expenditure Forecasts that  
21 we've just had on the monitor, this old process had  
22 the project budget estimated and approved prior to  
23 ending -- engineering or planning being done to define  
24 the project scope, correct?

25                  MR. JOEL WORTLEY:    That's right.

1                   MR. BOB PETERS:    And so who approved  
2 that?  Who -- under the old system, who was approving  
3 this capital expenditure if it hadn't gone yet to  
4 engineering or planning to define the scope?

5                   MR. JOEL WORTLEY:    Again, depending on  
6 the level of spend, the appropriate level of  
7 management, as per the policy, would be required to  
8 improve the investment.

9                   MR. BOB PETERS:    Okay.  So remind the  
10 panel, in terms of the level of spend, is there a  
11 dollar amount that has to make it to the executive  
12 committee and the vice president level?

13                  MR. JOEL WORTLEY:    Yes.

14                  MR. BOB PETERS:    And what's that  
15 dollar amount?

16

17                                   (BRIEF PAUSE)

18

19                  MR. JOEL WORTLEY:    It -- it's changed  
20 a little over time, which makes them -- I don't want  
21 to give you a half hour long answer.  At -- at one  
22 time, it was anything over 2 million was going to EC,  
23 executive committee.

24                  MR. BOB PETERS:    And -- and is that  
25 your best understanding as to what was used at the

1 time CEF16 was prepared?

2 MR. JOEL WORTLEY: CEF16 was approved  
3 under our new process, and our new process has  
4 multiple -- new process and new policy has multiple  
5 approval levels. I think 25 million?

6 MS. SANDY BAUERLEIN: Current -- under  
7 the new approval policy, 25 million goes -- anything  
8 greater goes to executive committee. Anything greater  
9 than fifteen (15) goes to our corporate asset  
10 management executive counsel.

11 MR. BOB PETERS: And anything lower  
12 than fifteen (15) goes to the director level?

13 MS. SANDY BAUERLEIN: Vice-president  
14 is --

15 MR. JAMES MCCALLUM: An individual  
16 will get the director level, an individual vice-  
17 president can approve up to a fifteen (15), \$15  
18 million project. The corporate asset management  
19 executive counsel, which is the four (4) operating  
20 group. That's marketing and customer service,  
21 transmission, generation, and then human resources and  
22 corporate services, those four (4) and me as the chief  
23 financial officer are on that committee. I chair it,  
24 and that approves projects between 15 and \$25 million.  
25 Above \$25 million goes to the full executive

1 committee, which includes any remaining vice-  
2 presidents, plus the president, of course, and then  
3 above 50 million, a project goes to the Board of  
4 Directors of Manitoba Hydro.

5 MR. BOB PETERS: Okay. I think I've  
6 got the -- the latter, there, and I thank you, Mr.  
7 McCallum.

8 I would like to complete on this item  
9 in front of us on the screen, this page 53 of the  
10 rebuttal.

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: What you're showing  
15 the Board on lines 18 to 21 is that this original  
16 estimate that may have made its way to the original  
17 Capital Expenditure Forecast was, by Manitoba Hydro's  
18 expectations, expected to be wrong in a significant  
19 way, because no engineering or planning had been done  
20 for that?

21 MR. JOEL WORTLEY: It was the best  
22 information at hand at the time.

23 MR. BOB PETERS: But Manitoba Hydro  
24 chose not to get better information which was  
25 available at the time. Would that be true?

1 MR. JOEL WORTLEY: Better information  
2 was not at hand at the time, it would have had to have  
3 been studied and -- and the engineering advanced to  
4 get better information.

5 MR. BOB PETERS: And Manitoba Hydro  
6 chose not to do that, at that -- at the initial stage?

7 MR. JOEL WORTLEY: You know, it's the  
8 life cycle of a project. And so at that time the  
9 project was relatively immature. As it progressed  
10 that level of maturity increased and a better  
11 definition of scope, schedule and budget would have --  
12 would have resulted. So it wasn't so much a choice  
13 not to get it, it just hadn't been gotten yet.

14

15 (BRIEF PAUSE)

16

17 MR. BOB PETERS: I'd like to -- was  
18 there anything further? Thank you. I'd like to turn  
19 to tab 5, page 4 of 28 of Manitoba Hydro's  
20 application. And I believe Ms. Bauerlein and Mr.  
21 Wortley, this will make good on my promise to you to  
22 get to a current state.

23 Under this, what is described on lines  
24 7 to 13 is the current state that Manitoba Hydro  
25 talked about, and that was depicted in the capital

1 expenditure forecast narrative. Correct?

2                   And I'm sorry on the screen, I would  
3 ask for page 4 of 28 of Manitoba Hydro's tab 5 and  
4 there it is at 5.1.2. That's correct.

5                   But one (1) of the things that's said,  
6 Mr. Wortley, on line 9 is that certainty in the  
7 capital plan is the highest in the year one (1).

8                   Do you see that?

9                   MR. JOEL WORTLEY: I do.

10                  MR. BOB PETERS: That -- that doesn't  
11 intuitively follow to me that -- that certainty is  
12 available in year one (1) because the scope is  
13 defined, the schedule and the budget is all known.

14                  I thought you were telling us that  
15 longer-term projects, you didn't have that certainty  
16 and you expected that the number would change over  
17 time, and likely grow over time?

18                  MR. JOEL WORTLEY: This -- what's  
19 being referenced here is that in year one (1) of the  
20 forecast is the one that you know the most about. And  
21 so it's the ones -- the projects that you're  
22 committing to begin, the ones that have already been  
23 committed and are in flight. Every year beyond that  
24 has a growing level of uncertainty as to actually what  
25 work you're going to perform, as in which projects are

1 going to be in the plan and which ones are out.

2                   And so year one (1) is the one that has  
3 the most mature projects 'cause they're ready to begin  
4 execution, as well as the ones that are already in  
5 flight that are even further more mature than the ones  
6 you're about to begin and, therefore, the ones you  
7 know the most about.

8                   MR. BOB PETERS: All right. I didn't  
9 understand it to mean that it was the year of the  
10 capital expenditure forecast in which you had most  
11 certainty, I thought it was year one (1) of a project  
12 is the year in which you have the most certainty, and  
13 that's certainly not the case?

14                   MR. JOEL WORTLEY: No. This -- this  
15 refers to year one (1) of the forecast.

16                   MR. BOB PETERS: Mr. Wortley, if  
17 Manitoba Hydro chose, they could assign resources to a  
18 project and engineers to a project and accountants to  
19 a project to -- to, essentially, study it and scope it  
20 to a pretty finite number very early in the planning  
21 cycle.

22                   Would that be true?

23                   MR. JOEL WORTLEY: The very act of  
24 advancing the studies you're describing is -- is to  
25 mature it through the planning cycle. So no, you

1 can't do it early in the planning cycle, because what  
2 you're doing is advancing the planning cycle by -- by  
3 doing those studies.

4 MR. BOB PETERS: Okay, you're going to  
5 have help me understand that or explain it so that I -  
6 - how is it that you can't study a project initially  
7 and know exactly what it's going to cost you in three  
8 (3) years to bring this project in using the  
9 assumptions as to interest rate assumptions as to  
10 escalation.

11 Why can't Manitoba Hydro determine that  
12 before the shovel goes in the ground?

13 MR. JOEL WORTLEY: You can advance  
14 your planning, you can advance your definition, and  
15 you can advance -- for instance, take your design  
16 right through to contract ready, we'll say, ready to  
17 be bid. What I was trying to say was that by doing so  
18 you are not at the beginning of your planning process  
19 anymore. Within your project you are some ways into  
20 your planning of that project.

21 MR. BOB PETERS: All right. And so  
22 Manitoba Hydro's current methodology is Manitoba Hydro  
23 doesn't study the details of the project until it's  
24 advanced through various years of -- of process?

25 MR. JOEL WORTLEY: The two (2) are



1 synonymous in that as you -- as you start from an --  
2 an idea, we think we want to do this, that's the first  
3 step in your -- your planning process for that  
4 project. From there you may identify different  
5 alternatives, different concepts, what's the right  
6 solution to this particular problem. And those as --  
7 as your planning progresses may be developed, flushed  
8 out, to the point where you have some understanding of  
9 their relative merits.

10 A particular option at some point is  
11 chosen to be further advanced in terms of flushing out  
12 the scope, the design, coming to a place where more of  
13 the details are known and the budget is -- is more  
14 mature.

15 MR. BOB PETERS: The last sen -- the  
16 last sentence, Mr. Wortley, on page 4 of 28 of  
17 Manitoba Hydro's tab 5 reads:

18 "Long-term planning investments have  
19 only a notional definition of scope,  
20 schedule, and budget."

21 Do you see that?

22 MR. JOEL WORTLEY: I do.

23 MR. BOB PETERS: What would be a long-  
24 term planning investment? Would that be a generating  
25 station, as an example?

1                   MR. JOEL WORTLEY:    No, in this sense  
2 long-term means things that been identified as one day  
3 going to need to be invested in. And so, for  
4 instance, we will know how many transformers we've got  
5 on the system. We will know that eventually some of  
6 those transformers are going to need to be replaced  
7 and, therefore, a long-term planning investment may be  
8 to put some -- flag some money for re-investment in  
9 those transformers.

10                   And so the -- the scope is  
11 transformers, the schedule is sometime in the future,  
12 and the budget is rough. In time, as those long-term  
13 planning investments come in -- into the nearer term,  
14 which transformer gets identified. The one that's in  
15 rather -- relatively poor shape may be identified as  
16 going to be the one that might be next. Its  
17 particular size, where it is, what work is going to  
18 have be done to -- to address the degradation. Is it  
19 just the transformer? Are there other works that will  
20 need to be done around it.

21                   Those -- all those things are  
22 considered and built to -- into a project plan such  
23 that now you have some definition of -- of scope,  
24 schedule, and budget. And so what's being  
25 differentiated here is that long-term outlook to say,

1 we know there's been a need to be money spent versus  
2 we have a particular potential investment that we're  
3 considering.

4 MR. BOB PETERS: I'd like to turn to  
5 page 5 of 28, the next page on -- on Manitoba Hydro's  
6 document and -- and conclude my questioning in this  
7 area.

8 This is a -- an attempt to  
9 conceptualize Manitoba Hydro's current capital  
10 planning model, Ms. Bauerlein?

11 MS. SANDY BAUERLEIN: That is correct.

12 MR. BOB PETERS: Now the axis are not  
13 identified with any scale other than that time runs  
14 out on the right and capital increases on the left.  
15 Correct?

16 MR. JOEL WORTLEY: That's right.

17 MR. BOB PETERS: And when we see the  
18 word "target" on this capital planning model, that's a  
19 target that has been set by the executive level as to  
20 where the executive currently feels the capital budget  
21 is best set?

22 MR. JOEL WORTLEY: That's right.

23 MR. BOB PETERS: And, Ms Bauerlein,  
24 you were cleared to show the Board that executing  
25 projects is a new terminology meaning these are

1 projects that are already underway and were developed  
2 prior to the new methodology.

3 MS. SANDY BAUERLEIN: Already underway  
4 or about to begin in that next -- that year one (1) as  
5 Mr. Wortley was talking about. So they're about -- so  
6 you're looking at year one (1), and you're looking at  
7 projects that are in flight or projects that are --  
8 that are going to begin.

9 MR. BOB PETERS: And that could be  
10 either business operations capital, or that could be  
11 major new generation and transmission assets.

12 MS. SANDY BAUERLEIN: That is correct.

13 MR. BOB PETERS: And so, the Board  
14 would understand that in the first year of the CEF  
15 when the most certainty is there, the certainty is  
16 really only as to the target level of money that's  
17 available?

18 MR. JOEL WORTLEY: What -- what's  
19 trying to be depicted here is that if you stood in  
20 year zero (0), as we are today, and you look forward,  
21 you would see that in year one (1) of the CEF you've  
22 got some program spending, which is the -- the base of  
23 the diagram here, and that's -- that's money being  
24 spent on common assets, a certain number of run-to-  
25 fail assets that you know are going to need to be

1 replaced annually. And so there's money flagged  
2 there, but it's not broken up into individual  
3 projects.

4 Up from that in the executing projects  
5 triangle, there are a collection of projects and you  
6 can think of them is as -- as layers, horizontal  
7 layers. Where up near the top of the triangle they're  
8 just endings so they don't have a lot of spending in  
9 the -- in the current year or they only run just  
10 beyond the current year.

11 And down on the bottom of the executing  
12 projects triangle maybe are ones that are just  
13 beginning and are going to run for several years.

14 The top portion up there is that little  
15 wedge of scope development, are the projects that have  
16 been -- or the potential investments that have been  
17 identified that need flushing out in terms of their  
18 scope, schedule and budget. So a little bit of money  
19 is identified to advance the engineering, firm up the  
20 scope, firm up the schedule, and the budget for those.

21 Beyond that, in the potential  
22 investments are specific projects, so, specific  
23 assets, specific projects with a preliminary scope,  
24 schedule and budget that are being considered. They -  
25 - they're -- they're not tied to a particular time

1 frame yet, but they're out there and are being  
2 considered potentially to be advanced execution next  
3 year, the year after, as required.

4           And then out -- even in -- further into  
5 the future, the long-term planning investments that we  
6 talked about a minute ago, where through watching the  
7 degradation of the assets, monitoring the asset  
8 health, you know that there is going to be money that  
9 will need to be spent on certain assets, but you  
10 haven't flushed them out into how much money, when to  
11 do what.

12           And so in time those long-term planning  
13 investments are developed into potential investments,  
14 and in time, their scope is developed to give them a  
15 firm budget and schedule and they arrive at the first  
16 year of the CEF to be actioned or to put a shovel in  
17 the ground. And so --

18           MR. BOB PETERS: I'm sorry.

19           MR. JOEL WORTLEY: And that -- that is  
20 the life cycle or the -- the development of -- of  
21 projects from those long-term planning to executing.

22           MR. BOB PETERS: Why is it that the  
23 scope development item stays stagnant where it is and  
24 lets the calendar elapse to bring all of the long-term  
25 planning investments closer to it, ra -- instead of

1 having the scope development moved out further or  
2 having monies allocated further out so that you can  
3 study the long-term planning much earlier than  
4 currently done?

5 MR. JOEL WORTLEY: So what's trying to  
6 be depicted here is that year one (1) is the only year  
7 that you can actually do things in. Everything --  
8 beyond that is things you can see but you -- you can't  
9 do work in year five (5) until year five (5) becomes  
10 year one (1). If that makes any sense.

11 This is a -- this is a look forward.  
12 And so it's not what you're going to do in year five  
13 (5), it's what you know about year five (5) or year  
14 ten (10) or -- or the outlook.

15 The choices you make are all about year  
16 one (1). What am I going to start this year? How  
17 much engineering am I going to do? How much  
18 construction am I going to do?

19 By doing some scope development work on  
20 a particular potential investment, you then gain the  
21 information to know whether you want to put it in as  
22 an executing project next year, or maybe you find out  
23 it's going to be significantly more expensive than you  
24 originally thought and it gets deferred.

25 MR. BOB PETERS: Thank you. I believe

1 I have your points. Last question to you, Mr.  
2 McCallum, you told us the ladder of approval levels  
3 and the dollars amount that went with it.

4 I -- I neglected to ask, and I will  
5 now: At what level does Manitoba Hydro seek approval  
6 from the province of Manitoba for any of these  
7 projects, if at all?

8 MR. JAMES MCCALLUM: I -- I -- the  
9 answer to that is there's no dollar level upon which,  
10 that I'm aware, that we go to the province of  
11 Manitoba, although -- and perhaps Ms. Bauerlein or Ms.  
12 Ramage can jump in, my understanding was that certain  
13 classes of project, for example, a new generating  
14 station require a provincial approval, amongst others.

15 MR. BOB PETERS: Is that approval as a  
16 result of environmental issues? Is that what you're  
17 referring to?

18 MR. JAMES MCCALLUM: Yeah, I -- I  
19 can't speak to that. I think obviously The Clean  
20 Environment Commission is one. I think there's layers  
21 of approval for including federal for extra-provincial  
22 transmission lines.

23 Yeah, I can't speak to the specific for  
24 the approval of a new generating station, for example,  
25 certainly requires environmental licensing but I'm not



1 aware of if there's other provincial approvals for  
2 other reasons.

3 MR. BOB PETERS: All right. Thank  
4 you. Mr. Chair, I want to thank the Panel again.  
5 Those are the questions that I have.

6 MR. CHAIRPERSON: Thank you. Ms.  
7 Ramage, re-examination, do you have any? And if so do  
8 you want a break? Or do you want to go straight into  
9 it?

10 MS. PATTI RAMAGE: We would like a  
11 break please.

12 MR. CHAIRPERSON: Okay. And how long  
13 would you like?

14 MS. PATTI RAMAGE: Ten (10) minutes.

15 MR. CHAIRPERSON: Sure, fifteen (15).

16 MS. PATTI RAMAGE: Okay. If we're  
17 bargaining.

18 MR. CHAIRPERSON: I like even -- even  
19 numbers. I'm not very -- you know, if we say ten (10)  
20 minutes we'll be back in fifteen (15) anyway, so.  
21 Okay, thank you.

22

23 --- Upon recessing at 2:14 p.m.

24 --- Upon resuming at 2:36 p.m.

25

1 THE CHAIRPERSON: Ms. Ramage...?

2

3 RE-DIRECT EXAMINATION BY MS. PATTI RAMAGE:

4 MS. PATTI RAMAGE: Yes, we have a  
5 couple of matters for redirect. The first I would  
6 like to put to Mr. Wortley, and it relates to  
7 questions I believe posed by you, Mr. Chairman, that  
8 we will respond to in redirect is the easiest way of  
9 doing it.

10 And Mr. Wortley, with respect to the  
11 Corporation's asset management journey, could you tell  
12 us how and when the decision was made to perform a  
13 GAAP assessment?

14 MR. JOEL WORTLEY: As -- as we've  
15 discussed a little bit, asset management is still  
16 relatively new in North America. It's come out of  
17 Europe and -- and Australia in the last decades, and  
18 so the -- the North American -- the ISO standard was  
19 written in 2014, and in 2015 a number of individual  
20 efforts were started at Manitoba Hydro in different  
21 parts of the Corporation to improve their asset  
22 management practices such that in -- in late '15/early  
23 '16, the executive committee directed that a more  
24 concerted, more coordinated effort be undertaken by  
25 the Corporation to manage its asset management

1 practices.

2                   And at that time in January 2016, the  
3 corporate asset management executive council and  
4 steering committees were -- were created with  
5 membership from the operating groups and it was under  
6 this -- under the governance of these committees that  
7 the GAAP assessment was first -- was first proposed,  
8 as well as the -- as part of the -- the three-phase  
9 framework development that we've talked about several  
10 times.

11                   And so in -- in April '16, the RFP was  
12 released to perform the GAAP assessment. It was  
13 wrapped up by December of '16, and in response to the  
14 findings of the GAAP assessment, a little bit of  
15 reorganization took place at Manitoba Hydro to which  
16 the -- the hybrid model referred to in the UMS report  
17 was created by -- by forming a -- a central seat for  
18 asset management, which is my own position under Mr.  
19 McCallum and the -- the nature of the corporate asset  
20 management executive councils and steering committees  
21 was -- was shifted to have a central role and a  
22 central authority as in Mr. McCallum took over  
23 chairing the corporate asset management steering  
24 committee, I took over -- sorry, the corporate asset  
25 management executive council. I took over chairing

1 the corporate asset management steering committee, and  
2 that's the basis on which we've moved forward.

3 MS. PATTI RAMAGE: Thank you, Mr.  
4 Wortley, and now to you, Mr. McCallum. Over the past  
5 couple of weeks you've been asked a number of times  
6 questions regarding your knowledge of the regulatory  
7 text principles of public utility rates by James  
8 Bonbright. You've been called upon to read a number  
9 of chapters of Bonbright and the Coalition included a  
10 number of excerpts of that text in its book of  
11 documents.

12 Your discussions with Mr. Williams  
13 were, however, fairly abbreviated. Given you were  
14 directed to Bonbright and certain excerpts have been  
15 placed on the record, do you have any additional  
16 observations regarding Bonbright's views on the used  
17 and useful concept that was -- the discussion was cut  
18 off at transcript page 1515 but do you have any  
19 additional observations to add to the discussion?

20 MR. JAMES MCCALLUM: Yes, I do.  
21 During the first week of the hearing each of Mr.  
22 Monnin, Mr. Hacault and Dr. Williams made an -- an  
23 effort to make clear that I'm not steeped in complex  
24 theology of regulatory principles.

25 I can report I'm still not, but I did

1 take the time to go read parts of Dr. Bonbright. And  
2 I wouldn't claim to be any more expert than two (2)  
3 weeks ago but when I listened to Dr. Williams and  
4 reading the evidence that -- that he asked us to look  
5 at, I expected to find pretty strong statements that  
6 would be a great affront to the Bonbright doctrine for  
7 a utility that for when adding new -- major new works,  
8 you can't do anything other than capitalize the  
9 interest costs and wait until the asset was in-service  
10 and not a moment sooner to begin recovering from your  
11 customers, you know, those costs through the recovery  
12 of depreciation expense and interest.

13                   And so the issue here is the idea of  
14 quote "used and useful," unquote, a fundamental  
15 regulatory principle. This is the notion that it  
16 would be a breach of principle to charge today's  
17 ratepayers for Keeyask and Bipole III before those  
18 assets are in-service. So here we find a regulatory  
19 principle that has been put forward in what I would  
20 regard as an incomplete and misleading way as a  
21 justification for putting off coming to terms with our  
22 -- what we regard as our unsustainable debt load.

23                   So when I look to Bonbright on the  
24 issue of capitalization of interest during  
25 construction, I found this quote: [quote]

1 "As long as this withholding  
2 practice exists, as I think it  
3 should, at least in times of rapid  
4 plant expansion there arises a need  
5 for some rate making provision where  
6 the company may eventually receive  
7 an adequate compensation for its  
8 advanced commitment of capital. The  
9 standard provision of this nature,  
10 and the one that I believe most  
11 satisfactory is that of a compound  
12 allowance for interest during  
13 construction. An allowance not  
14 restricted to the contract interest  
15 that the company may pay on loans  
16 designed to finance the construction  
17 work." [closed quote]

18 Bonbright goes on to say that any  
19 practical rule of rate control by appeal to general  
20 principles of accounting is unconvincing to him but,  
21 instead, the funda -- fundamental question is whether  
22 the provisions for compensation on capital that has  
23 been tied up in work under construction should take  
24 the form of a rate-based enhancement or rate of return  
25 based enhancement. Dr. Bonbright favours the latter.

1 It is not that the Utility should not be paid for  
2 tying up capital, but that it should be paid through  
3 the determination of its rate of return. But Manitoba  
4 is not a rate-based rate of return jurisdiction. I'm  
5 aware of that. I'm aware of that much.

6 I'm not remotely suggesting anything  
7 should be different; that's not in the scope of this  
8 application, and lies in the hands of government, in  
9 any event. But because we are not a rate-based rate  
10 of return environment, we have to really know what  
11 we're doing when we apply these regulatory principles.

12 The fair rate of return principle is  
13 the one that I have not heard the Intervenors talk  
14 about. I don't think they want to talk about it  
15 because it's the unifying principle, near as I can  
16 tell, that enables all of these other principles that  
17 can otherwise be put forward as the basis for putting  
18 off problems on tomorrow's customer.

19 The fair rate of return is the means by  
20 which a Utility can be regulating -- regulated using  
21 all of these principles without becoming financially  
22 unstable. So used and useful is a principle that  
23 sounds great in theory but can fail in the absence of  
24 a fair rate of return.

25 Turning back to Dr. Bonbright, do we

1 find great opposition? No, again, we find a scholar  
2 who is actually quite okay with the notion of the  
3 utility shareholder expecting to get paid for the  
4 value of tying up capital for years building large  
5 assets before they can be completed and brought into  
6 service.

7                   Again, his solution is to deal with it  
8 in the rate of return. Instead of capitalizing just  
9 the interest on borrowed funds, Bonbright supports  
10 capitalizing to the project to reflect a rate of  
11 return as well.

12                   So the issue is the timing and method  
13 of recovery, not the notion that the Utility should  
14 not be paid for tying up its capital for many years.  
15 With that promise, the Utility is able to attract  
16 capital, equity capital, which is another Bonbright  
17 principle we need to be aware of; that is to say, that  
18 regulation must allow the Utility to attract the  
19 capital it needs to keep it financially stable while  
20 it invests in step-change levels of plant investment.

21                   So rigidly following the Bonbright  
22 principles fails in the absence of a rate of return.  
23 We have to find another way. And as I discussed while  
24 being cross-examined we're skipping over the most  
25 important regulatory principle which is that the



1 public interest is the primary goal of ratemaking.  
2 The public interest trumps all. Bonbright says this.  
3 The PUB says this in Order 73/15, wherein they speak  
4 to the compelling policy interest to phase in the  
5 required rate increase over a number of years in  
6 advance of the in-service dates of the new major  
7 capital projects; as we done with Bipole and the  
8 Bipole III reserve.

9                   In keeping Manitoba Hydro financially  
10 stable is, as the Manitoba Court of Appeal has said, a  
11 key component of the public interest. We are  
12 midflight on a doubling of our asset base. It is not  
13 in the public interest to wait for these assets to be  
14 in-service. There's numerous examples in both  
15 constating legislation and regulatory practice  
16 throughout North America to supersede the used and  
17 useful principle to ensure that the Utility is  
18 financially stable and can support the timely and  
19 cost-effective addition of major assets.

20                   MS. PATTI RAMAGE: Thank you. And you  
21 had a discussion with Mr. Hacault beginning at  
22 transcript page 1708, where he had you acknowledge  
23 that Manitoba Hydro's assets have long lives and their  
24 costs will be covered in depreciation.

25                   Did those discussions serve to present

1 the full picture of this situation of the issues  
2 facing Manitoba Hydro?

3 MR. JAMES MCCALLUM: No, I don't  
4 believe it. And I'm going to, again, veer into a  
5 discussion of regulatory principle again, and the  
6 importance of this rate of return concept.

7 Mr. Hacault asked the revenue  
8 requirement panel questions regarding our business  
9 operations' capital; that's the ongoing regular  
10 expenditures we make to sustain our assets, maintain  
11 safe and reliable service, expand capacity to meet,  
12 you know, generally localized needs, and accommodate  
13 service extension to our new customers.

14 When you look historically over the  
15 last few years and prospectively, Manitoba Hydro's  
16 expenditures in this regard are actually fairly steady  
17 in and around the \$500 million a year mark and that's  
18 as we continue to try to manage investments related to  
19 continuously aging infrastructure. So Manitoba Hydro  
20 provided evidence at tab 2, pages 15 through 18, that  
21 has a material ongoing cash shortfall and this was the  
22 genesis of Mr. Hacault's questioning around our  
23 business operations capital. Cash shortfall at  
24 present electricity rates due in part to a substantial  
25 difference roughly \$250 million a year between what we

1 recover in revenue requirement through annual  
2 depreciation charges and what we must expend annually  
3 to maintain, replace and enhance existing  
4 infrastructure in the normal course.

5           The issue is that depreciation expense  
6 is determined based on the historical cost of assets  
7 when they're first installed. Manitoba Hydro's  
8 reality is at the cost of replacing these assets, as  
9 they expire, is an ongoing cash need that comes in the  
10 form of today's costs, which due to the age of our  
11 infrastructure and the inflation and construction  
12 costs and otherwise, bears almost no relation to  
13 historical cost.

14           As can be seen in the transcript, Mr.  
15 Hacault has Manitoba Hydro acknowledge that the  
16 replacement assets we build have long useful lives and  
17 at the cost of these -- buildings assets will serve  
18 today's and future ratepayers, and be recovered from  
19 the same in future depreciation. In other words, the  
20 assets will be paid for overtime and, therefore, there  
21 is no problem. Certainly not one that today's  
22 ratepayer should be asked to do anything about.

23           But there's a big problem and I think  
24 it's important that the Board get a complete picture  
25 on this point and -- and -- and I'll do so in tying

1 it, in due course here, to -- to -- to some of these  
2 Bonbright principles that we rely on and look to.

3 I -- I want to start with a simple  
4 example just to illustrate the issue and why it's  
5 critical we look at cash flow and cash flow  
6 deficiency. So imagine if we could produce, and this  
7 is a very simple example but bear with me, all of  
8 Manitoba Hydro's system to one (1) asset. And let's  
9 say the asset we acquired it in 1974 for \$250 million.  
10 And let's further assume that the asset has a fifty  
11 (50) year life. So that means, for accounting  
12 purposes, we'll depreciate that asset to the tune of  
13 \$5 million a year, and following the concepts here, we  
14 will -- we will recover from our ratepayers \$5 million  
15 a year on account of that -- that asset.

16 So the ratepayers of 1974 and 1975,  
17 they're paying \$5 million a year, which basically  
18 represents, you know, a then present day fair price  
19 for the one-fiftieth of the asset's usable life they  
20 are consuming each year. But as we know, inflation,  
21 whether modest like now or high like at other times,  
22 has been a fact of life for over almost any period in  
23 history. But the ratepayer keeps paying \$5 million  
24 per year regardless. B 2017 the ratepayer's still  
25 paying \$5 million per year, based on 1974 prices, but,

1 using 2017 money; that's a bargain.

2 Adjusted for inflation, 5 million in  
3 1974 is the same as 24 million today. So it becomes a  
4 bargain that the Utility struggles to afford, absent  
5 another approach. So that's play the very simplified  
6 example out further.

7 In 2024 we reached the end of our fifty  
8 (50) year life of the asset. It has to be replaced.  
9 Remember, we paid 250 million for it in 1974.  
10 Adjusting for inflation, by 2024 that asset will cost  
11 us \$1.4 billion to replace.

12 Let's assume it too is expected to last  
13 fifty (50) years. So now our depreciation charge, and  
14 following the model, the cost assigned to our  
15 ratepayers each year is \$28 million a year, up from  
16 five (5). So 2024, the ratepayer goes from paying 5  
17 million per year, to complete the final use and  
18 depletion of the old asset, wakes up the next day, has  
19 no change in service, but now must pay \$28 million a  
20 year; 450 percent more.

21 That's what happens if we dogmatically  
22 follow accounting policy as our means of assigning  
23 costs across the generations. It's actually worse.  
24 Our asset costs have not followed the basic consumer  
25 price index. I'll take Kettle Generating Station, for

1 example. We built it for \$250 million in 1974. Total  
2 coincidence. That works out to 1.2 billion today.  
3 The plant cost 1 million per megawatt of capacity in  
4 today's dollars.

5                   We built Limestone Generating Station  
6 in around 1992 for 1.43 billion. That's 2.3 billion  
7 in today's money, or roughly 1.7 million per megawatt.  
8 So in today's dollars, Limestone was 70 percent more  
9 expensive per unit of capacity than Kettle.

10                   While Keeyask is a different project,  
11 as each of them are, I'll just point out that at 8.7  
12 billion for 695 megawatts, Keeyask will be about \$12  
13 million per megawatt, better than twelve (12) times  
14 Kettle and six (6) times Limestone, both using today's  
15 dollars.

16                   And we can show examples like this  
17 throughout our asset fleet, from wood poles to -- to  
18 Bipoles. Costs have gone up both for inflation, but  
19 also for changes in construction standards and  
20 techniques.

21                   So the example I gave, the one that  
22 results in a 450 percent rate increase when we finally  
23 deplete this one (1) fifty (50) year old asset that  
24 once cost 250 million, start using our shiny new one  
25 that costs 1.4 billion due to inflation, probably

1 understates the cost increase and consequent rate  
2 impact. If we just used the escalation from Kettle to  
3 Limestone as our example, 70 percent, we would  
4 complete the depletion of a \$250 million asset and  
5 immediately replace it with a \$2.4 billion asset.  
6 Rates would need to increase tenfold, and it doesn't  
7 speak to the debt issue.

8                   On that day in 2024, when we switched  
9 from the old asset to the new asset, we go from paying  
10 interest on whatever's left of the original 250  
11 million in debt, presumably almost nothing, to paying  
12 interest on the new debt, which may be ten (10) times  
13 greater in value.

14                   So to recap, ratepayers, in an instant,  
15 go from paying 5 million of depreciation and virtually  
16 nothing in interest to paying 47 million in  
17 depreciation and \$118 million in interest, using a 5  
18 percent interest rate as an assumption. So rates must  
19 actually go up over thirty (3) fold. And would this  
20 be in the public interest?

21                   Obviously, it's a grossly simplified  
22 example. Manitoba Hydro's system is a compilation of  
23 thousands of assets in varying vintages with varying  
24 degrees of inflation impacts when you look to  
25 replacement value, and this smooths out and obscures

1 the very real issue we face of having failed to fund  
2 asset replacement in a way that doesn't compromise our  
3 balance sheet.

4                   The example is -- illustrates a signif  
5 -- significant issue of relentlessly -- relentlessly  
6 hewing to this notion or principle of cost causality.  
7 Current rate -- ratepayers are enjoying quite a break  
8 paying 1950s, 60s, and 70s prices, to consume and  
9 deplete a system where a lot of the major components  
10 were put in place ages ago, but that now need to be  
11 replaced in 2017 dollars.

12                   It results in a huge buildup of debt  
13 pressure, rate pressure, and rate volatility if we  
14 don't find a way to charge today's ratepayers for the  
15 reality of what it cost to continue maintaining and  
16 enhancing the system they use and rely on every day.  
17 And to put the problem off, to allow our debt to  
18 expand and expand at a rate much faster than the  
19 underlying customer base and load is growing, and it -  
20 - to explain and enable it under the guise of  
21 intergenerational fairness is frankly hypocritical.

22                   So how other utilities manage this  
23 issue, because we all have this issue in front of us -  
24 - it's not unique to Manitoba Hydro, it's not  
25 particularly unique to the present day. So again, I



1 turned as I was told to, to Bonbright, expecting to  
2 find pretty strong statements that it would be a  
3 violation of doctrine for there to be any recognition  
4 in customer rates for the fact that new assets are  
5 going to cost a lot more than the assets they replace.

6           What I found is quite interesting. Dr.  
7 Bonbright's chapter 11 is called "The Rate Base: Cost  
8 or Value?" He starts -- unquote. He starts the  
9 discussion of whether the rate base should be set at  
10 historical cost less depreciation, or at some proxy  
11 for replacement value by saying this debate is,

12                       "The most widely disputed legal  
13                       issue in the history of American  
14                       public utility regulation."

15           Reading further, Bonbright, at least to  
16 me, doesn't take the position that replacement value-  
17 based rate -- rate regulation is intellectually  
18 indefensible by any stretch. He appears to favour  
19 historical cost basis for the simple reason that it's  
20 significantly more practical and efficient from a  
21 regulatory standpoint, what he called superior  
22 administrative flexibility. In other words, he felt  
23 the confusion and unpredictability witnessed in trying  
24 to establish "fair value" was not worth the effort.  
25 It would be just too hard to get right as opposed

1 historical costs, which are known facts. They're non-  
2 negotiable.

3                   So he agrees the Utility must receive  
4 credit for replacement cost and cost escalation, but  
5 to deal with it through the determination and setting  
6 of a fair rate of return. So how does that work?  
7 Well, it means that the owners of a Utility know that  
8 when they put up new capital to build new assets, they  
9 will receive a rate of return, and per Bonbright, that  
10 rate will include an allocation for inflation, such  
11 that they protect against a diminution of the  
12 purchasing power of their capital.

13                   This promise of a fair return enables  
14 the Utility to attract equity capital, as I mentioned,  
15 a critical Bonbright principle, which allows the  
16 Utility to fund the renewal of its system at actual  
17 costs that were compromising its credit-worthiness or  
18 capital stability.

19                   In other words, the promise of a rate  
20 of return enables the Utility to not 100 percent debt  
21 fund replacement costs and avoid the risk of doing  
22 what Manitoba Hydro is doing, which is increasing debt  
23 at a much higher rate than the underlying customer  
24 base is growing.

25                   So if we don't have fair rate of return

1 in our model, what do we do? Well, the first thing we  
2 have to do is be aware of the difference between what  
3 we're recovering in our existing rates from historical  
4 costs, base depreciation, and we -- what we are having  
5 to reinvest in the system and -- to keep it reliable  
6 and safe.

7                   We have to identify, as Manitoba Hydro  
8 has, that all else being equal, 100 percent of this  
9 difference is being added to our debt. We have to  
10 recognize that particularly in a fairly low-growth  
11 environment, this has and will continue to contribute  
12 to a destabilization of our balance sheet, and  
13 therefore, we have to find another way.

14                   It's convenient to argue that we should  
15 simply be paid back over the fifty (50) or seventy  
16 (70) years, but that ignores the fact that we need the  
17 cash today, and that this issue is and will be  
18 presenting every year. So we are, each year, stacking  
19 and stacking again more debt without really increasing  
20 the number of customers who are around to help us pay  
21 for it. This is in part how debt gets out of all  
22 historical proportion to the size of our business,  
23 which I think we've amply demonstrated has occurred.

24                   So Manitoba Hydro's proposed solution  
25 is simple. We need to start listening to what the

1 Manitoba Hydro Act says. At Section 40, part 2,  
2 clause (b), and we spoke about this a bit this morning  
3 with Mr. Williams from Business Council, where it  
4 says:

5 "The Board shall establish,  
6 maintain, and adjust reserves such  
7 that they be used amongst other  
8 things, towards the renewal,  
9 reconstruction, and replacement of  
10 depreciated property and works."

11 Morrison Park Associates points to the  
12 need for reserves since there are no equity investors  
13 who have capital at risk. If we don't have a rate of  
14 return and a ready source of equity to provide for  
15 financial stability, then we have to turn to reserves.  
16 Reserves have to mean an annual charge on the  
17 customers, just as surely as customers are charged for  
18 interest, and operating costs, and everything else,  
19 and we've not been charging enough for reserves in  
20 today's rates. In fact, we haven't been charging at  
21 all. We have slowly but surely depleted the annual  
22 contribution -- contribution to reserves embedded in  
23 our rates at the same time as we have been  
24 dramatically growing our business.

25 Going forward. If we follow the 3.95

1 percent rate path, our net income will be negative  
2 over ten (10) years while our plant and service more  
3 than doubles. In 2017, we made thirty (30) million on  
4 the operations, and that's what we expect to make in  
5 fiscal 2018. These aren't contributions to reserves  
6 on a business that is twenty (20) billion and heading  
7 to thirty (30) billion in size of its assets.

8 In fact, Mr. Monnin pointed us this  
9 morning to Board Order 101/'04, wherein at page 13 the  
10 Public Utilities Board says:

11 "A net income of forty (40) million  
12 is minimal for a corporation with  
13 assets of then ten (10) billion."

14 So it -- a net income of negative two  
15 hundred (200) million is consequently more minimal for  
16 assets --

17 MR. CHAIRPERSON: Sorry, can I  
18 interrupt for a second. This isn't even close to  
19 redirecting, you know, Ms. Ramage. This isn't  
20 redirect, this is final argument. You know, and I  
21 expect -- I didn't want to interrupt, I was prepared  
22 to allow Mr. McCallum to do this but this is  
23 inappropriate.

24 If you have redirect -- you know what  
25 redirect is, you're seasoned counsel. If you have

1 redirect, ask in redirect. This isn't a time to give  
2 a -- to read a written speech. I've got Bonbright in  
3 my office, I can read Bonbright.

4           So if there's proper redirect put the  
5 questions to him. In my opening comments I asked that  
6 questions and answers be clear and concise. You know,  
7 there may be very well a good argument but it's for --  
8 for the argument phase, not for redirect because I  
9 don't want to get the next panel when you -- when  
10 you're asked for redirect, where you get to summarize  
11 your entire case and put it in an argument form.

12           MS. PATTI RAMAGE: Thank you, Mr.  
13 Chair, and I understand and I apologize. I will say,  
14 however, that because chapters of Bonbright were put  
15 to the witness this is where we were going to explain  
16 how it fits into the system. But we will --

17           MR. CHAIRPERSON: Yeah, but come on,  
18 Ms. Ramage, I mean, you could put questions to him,  
19 specific questions to him. I mean, redirect's  
20 intended for something not anticipated. I can  
21 understand putting a Bonbright question to him. And  
22 Mr. McCallum is reading very eloquently from written  
23 comments which are normally done by counsel at the end  
24 of the case.

25           This is -- I -- I don't know if this is

1 going to be included in your argument at the end of  
2 the case, but it may very well be, but it's just not  
3 appropriate for -- for redirect.

4 MS. PATTI RAMAGE: We will -- if I can  
5 have a moment with Mr. McCallum to...

6

7 (BRIEF PAUSE)

8

9 MS. PATTI RAMAGE: In light of your  
10 comments, Mr. Chair, we'll just -- we'll come -- we'll  
11 open Mr. McCallum up to any questions that he has on  
12 his comments.

13 MR. CHAIRPERSON: Does Panel have any  
14 questions?

15

16 (BRIEF PAUSE)

17

18 MR. CHAIRPERSON: Nope. I think we're  
19 fine.

20 BOARD MEMBER MCKAY: Can I make one  
21 (1) comment?

22 THE CHAIRPERSON: Sorry, Ms. McKay,  
23 yes.

24 BOARD MEMBER MCKAY: It's nice to know  
25 that the position has changed from the opening answer

1 -- the -- last week from Mr. McCallum and not knowing  
2 what Bonbright -- what I thought -- since he was dead  
3 by the time that second edition came out. So, it's  
4 good that you read the book.

5 MR. JAMES MCCALLUM: Just for the  
6 record, I didn't read all of it.

7 MR. CHAIRPERSON: Well, Mr. McCallum,  
8 if you wanted I have it and God bless you if you can -  
9 - it's a -- it's a well-written book in a few pages at  
10 a time.

11 Anyways, if we're -- we're done. We  
12 will adjourn and reconvene at 9:00 a.m. with panel 3  
13 tomorrow. Thank you.

14

15 --- Adjourned at 3:04 p.m.

16

17 Certified Correct,

18

19

20

21 \_\_\_\_\_

22 Sean Coleman, Mr.

23

24

25