MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2019/20

ELECTRIC RATE APPLICATION

Before Board Panel:

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

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

April 29, 2019

Pages 693 to 982

APPEARANCES

Bob Peters	)Board Counsel
Dayna Steinfeld	)
Roger Cathcart	)Consultant
Candace Martyszenko	)Consultant
Brady Ryall	)Consultant
Marla Boyd	)Manitoba Hydro
Odette Fernandes (np)	)
Matthew Ghikas	)
Byron Williams	)Consumers Coalition
Katrine Dilay	)
Antoine Hacault	)MIPUG
Jared Wheeler	)MKO
Markus Buchart	)
Corey Shefman (by phone)	)Assembly of
Senwung Luk	)Manitoba Chiefs

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--- Upon commencing at 9:02 a.m.

THE CHAIRPERSON: Good morning, everyone. I just want to check, Mr. Shefman, and/or Mr. Luk, are you on the line?

MR. COREY SHEFMAN (by phone): Yes, it's Mr. Shefman, here, for the Assembly of Manitoba Chiefs.

THE CHAIRPERSON: Great. Thank you very much. Good morning, everyone. Mr. Ghikas, welcome, witnesses, welcome. Mr. Williams...?

DR. BYRON WILLIAMS: Yes, good morning, Mr. Chair, and members of the panel.

Just by way of introduction, Byron Williams. To my left is my colleague, Ms. Katrine Dilay. To my right is Mr. Darren Rainkie, and Ms. Kelly Derksen, who will be testifying today.

In my -- our back row right now, Ms. Meaghan Erbus, manager of community engagement for Winnipeg Harvest, and Ms. Desorcy you'll see pop in with a cup of coffee in about eight (8) minutes, is what I'm predicting.

Perhaps while Mr. Simonsen approaches to swear the witnesses, I'd introduce an exhibit, which is our client's PowerPoint filed with the Board last evening. And our understanding is it -- it is Consumer Coalition Exhibit number 10. And if we can go to page 23 for just one (1) second, Mr. Simonsen has kindly pointed out a typo on the -- on the third last line. There's a reference to a letter of August 17th, and that should say August 27th, 2018.

And then Mr. Simonsen, please swear the witnesses.

CONSUMERS COALITION PANEL:

DARREN RAINKIE, Sworn

KELLY DERKSEN, Sworn

EXAMINATION-IN-CHIEF BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Is -- if Ms. Schubert can pull out the page 13 of the Consumer Coalition evidence.

And Mr. Rainkie, you've already been qualified, but will you confirm that between 1994 and 2017, you worked first with Centra Gas, and then with Manitoba Hydro and Centra?

MR. DARREN RAINKIE: Good morning, Mr. Chairman, members of the Board, all the hearing participants, and ladies and gentlemen. Yes, I can confirm that, Mr. Williams.

DR. BYRON WILLIAMS: And focusing on the period between 1999 and 2017, you served in various seri -- senior leadership roles, including manager of regulatory services, corporate treasurer, corporate controller, acting president and chief financial officer, and vice president, financial and regulatory affairs, as well as chief financial -- financial officer?

MR. DARREN RAINKIE: That's correct, Mr. Williams.

DR. BYRON WILLIAMS: If we can turn to page 14. Ms. Derksen, could you confirm that between 1994 and 2017, you worked in a variety of positions, first with Centra, and then with Manitoba Hydro and Centra?

MS. KELLY DERKSEN: Good morning to the members of the Public Utilities Board, ladies and gentlemen. Yes, Mr. Williams, I can confirm.

DR. BYRON WILLIAMS: And focusing on the period between 1999 and 2017, you served first in various analyst roles, and then in management roles, including manager, gas rates and regulatory services, and manager cost of service?

MS. KELLY DERKSEN: Yes, sir.

DR. BYRON WILLIAMS: If we can quickly

turn up Manitoba Hydro Coalition First Round Information Request number 2, and go towards the bottom of that page. That's great. Thank you.

Sequentially, Mr. Rainkie and Ms. Derksen, can you confirm that when you were retained by the Consumer Coalition, the terms of your retainer was to provide evidence that is fair, objective, and nonpartisan, related only to matters within your area of expertise, and to provide such addit -- additional assistance to the PUB as it may rea -- reasonably require to determine an issue?

MR. DARREN RAINKIE: I confirm that, Mr. Williams.

MS. KELLY DERKSEN: I confirm as well, Mr. Williams.

DR. BYRON WILLIAMS: And as part of your retainer, you were reminded that your duty was to provide assistance to the Public Utilities Board, and that that duty overrides any obligation to the Consumers Coalition?

MR. DARREN RAINKIE: Yes, Mr. Williams. That was abundantly clear.

MS. KELLY DERKSEN: Yes, sir.

DR. BYRON WILLIAMS: Mr. Rainkie and Ms. Derksen, can you confirm that your written evidence dated March 29th, 2019, the information responses of the Consumer Coalition to the Public Utilities Board, Manitoba Hydro, and MKO -- MKO, as well as Exhibit 10, the PowerPoint, were prepared by you collaboratively with your co-author William Harper, that they were prepared under your care and control, and are accurate to the best of your ability and knowledge?

MR. DARREN RAINKIE: I confirm that, Mr. Williams.

MS. KELLY DERKSEN: Yes, I confirm that as well, Mr. Williams.

DR. BYRON WILLIAMS: Thank you. That's enough about me. We'll let you -- invite you to go through your PowerPoint.

MR. DARREN RAINKIE: Great. Mr. Chairman, Mr. Derksen and -- Ms. Derksen and I have the covered spot, the last spot in the evidentiary hearing. It has the benefit of having all the testimony of everybody before us, but it also has the disadvantage that the Board has already testimony on a wide range of issues thus far.

So with that in mind, we have attempted to tailor our presentation through our slide deck to the most important points. We've placed a number of slides in the -- in what we've called the backup slide deck, one that we probably would have presented a more fulsome GRA process.

They're there for your reading enjoyment as you are deliberate on this important case. We use the same information as all other parties in the hearing process. We have noted similar issues and concerns as other participants, so no doubt there are -- there is some repetition.

We also believe that we have some unique insights as well, given our, you know, decades of hands-on business and regulatory experience in the senior roles that Mr. Williams just mentioned. So we asked the PUB's indulgence for just a while longer. We will take you through the path to get to our recommendations to ensure that you understand our evidence.

As part of our duty to provide the best independent device we can to the PUB, we're going to endeavour to pull the nose of the plane up a bit. After all, rate setting is really the art of balancing the interests. It's much more than credit reading -- radio -- ratio calculations.

We're going to put the evidence that is before you in the proceeding into the proper policy and rate setting context, considering Manitoba Hydro's business model, risks, and cost control opportunities, as well as the rate setting direction established by this Board in Order 59 of '18.

So what is the appropriate policy context for the PUB, and how has this policy context shaped our conclusions and recommendations? First, with respect to Manitoba Hydro's business model and risks.

I listened to the Manitoba Hydro witness panel evidence on day number 1 of the hearing with great interest, especially with respect to the concerns over the potential advancement of Keeyask. I appeared as a policy witness at the 2014 NFAT proceeding, and consistent with its business model, Manitoba Hydro proposed the advancement of Keeyask ahead of the need for domestic requirements, with the clear position that this advancement would benefit domestic customers by defraying a portion of the costs of the generating station. The recommendation for advancement of Keeyask was based on analysis of a wide range of possible financial outcomes and associated risks.

Myself and many other Manitoba Hydro witnesses, a number of which are in the current panel, testified that the Corporation could manage the risks, including multiple years of net -- of negative net income, and the credit rating implications, and the Corporation would take all necessary actions to manage its costs to mitigate the impact of the Capital Development -- Development Plan on domestic customers to the extent possible.

So fast forward five (5) years from the NFAT to 2019. The updated information that was presented at this hearing is that Bipole III has entered service $270 million under budget, and that there is a good possibility of Keeyask being advanced -- think it was to October of 2020, if I understood the evidence correctly. The evocations of these updates concerning about $14 billion of investment have to be, without a doubt, the biggest good news story for Manitoba Hydro, its stakeholders, its bondholders, in the history of the Corporation, and from all perspectives, business, reputational, financial, and operational.

The advancement of Keeyask is not a negative change in cirten -- circumstances that requires emergency regulatory action. It is the very delivery of the plan that was put forward by Manitoba Hydro at NFAT.

Second, with respect to long-term finances, the limited information provided Mani -- by Manitoba Hydro in this proceeding on its financial -- on its financial outlook would appear to suggest that there is an improvement from the last General Rate Application. This, of course, is consistent with the current assessment of the delivery of the two (2) largest capital projects at Manitoba's history at or below the capital cost estimates. These projects were the subject of much concern at the last General Rate Application.

We will only understand the full implications of these changes for rate setting when we have a complete, updated, and integrated financial forecast in front of us, and the appropriate testing can occur to meet the long-established regulatory requirements of this Board, but that won't happen until the next General Rate Application.

Third, with respect to cost control, in Order 59 of '18, the PUB found that Manitoba Hydro should take further steps to reduce its controllable costs in an era of major capital projects and the associated rate pressures on customers, which is consistent with the new Provincial Government's approach to managing costs in the public sector in

Manitoba. Gone are the days of budgeting based on last year's actual cost plus inflation. Our analysis outlines a number of concerns with respect to Manitoba Hydro's response to those findings.

Forth, with respect to rate setting policy, in Order 59/'18, the PUB signaled a shift away from the use of the equity ratio target, which has been used to derive indicated rate -- rate increases in past IFFs, to more of a focus on the appropriate level of financial reserves, and with a different target. The PUB also clarified how major risks such as drought should be incorporated to rate setting. We have utilized this guidance in coming to our conclusions and recommendations.

So when we sit back for a moment and look at this from a higher vantage point, the good news that flows from these key points in our analysis in general is that there are reasonable options for a rate increase that are available to the Public Utilities Board. These options allow the PUB to balance the interests to arrive at an outcome that is reasonable for both Manitoba Hydro and its customers. After all, that is the mandate of the Board.

In this presentation, which I will expect will run for the full ninety (90) minutes that has been allotted, we will explain how we arrived at our final recommendation that Manitoba Hydro can achieve its financial requirements through, number 1, more active cost control, and number 2, a lower 1.5 percent across-the-board rate increase for 2019/'20.

Now it's important to understand both of these recommendations taken together equate to about a 2.8 percent rate increase, and can assist with the transition to Keeyask, and help to manage net income and cash flow considerations. Now let me just back up for second. How do I get 2.8 percent?

We're recommend -- and I should have put a slide in this. It probably -- if I only had one (1) slide, it would have been the one that I put together for the Board, so I apologize for that. But 1 -- 1 and a half percent rate increase will generate about -- on an annual basis, will generate about $26 million.

Changing the Manitoba Hydro operating and administrative costs, or O&A, as I will call it for short, targets downward by 22 million to be more consistent with what I would expect from a regulatory perspective, would reduce costs by about $22 million. The total of 26 million and $22 million is $48 million in total. You can manage costs, you can manage credit ratings through not only rate increases, but also through cost control. A dollar is a dollar. It doesn't matter if it comes from the customer, or if it -- if it's -- comes from savings. A $48 million change represents about a 2.8 percent rate increase. So perhaps our position is not that far away from Manitoba Hydro's after all, but to do that, you need to look at those two (2) recommendations together.

So I will present the revenue requirement recommendations, and Ms. Derksen will present the cost of service rate design and regulatory process recommendations this morning. We should also acknowledge the significant contributions of the very capable Mr. Harper, who developed the analysis of the changes to Manitoba Hydro's financial outlook for 2007 '8 -- '17/'18 to 2019/'20, which are contained in Appendix A of our evidence.

So let's move into the actual presentation to slide 2 for a moment. I have a few quick hitters on this one. First, we thought it would be expected that the recent cold to normal weather would add as much as $50 million to Manitoba Hydro's bottom line in 2019/'20. However, Manitoba Hydro testified that there was an offset of negative usage such that the 2018/'19 financial results were tracking to 90 -- to $95 million projection.

Now in my experience, I don't ever recall a negative usage variance in the order of $50 million, so this raises a concern with me if there's a problem with the load forecast used in this updated application.

Second, 40 percent of the improvement in the 2019/'20 projected outlook is due to the reduction of Bipole III carrying costs as a result of lower capital costs, and about 20 percent of the improvement is due to the higher domestic revenues as a result of the delay in DSM programs. The reduction in Bipole III carrying costs is a permanent improvement to Manitoba Hydro's financial outlook, and based on the testimony with respect to the status of Efficiency Manitoba, and the current government direction of the status quo program, it would seem to appear that 60 percent of the improvement will not be at risk in 2019/'20.

Third, the $92 million improvement in 2 -- 2019/'20, in the updated application, is 300 -- is 33 million, sorry, higher than the original annualized rate increase of $59 million, but did not result in an amendment to the Manitoba Hydro rate application.

Moving to slide 3, as many other

parties, I guess, have noticed -- have noted already, many aspects of this are regulatory proceeding are unique and unprecedented, included the more -- including the more limited scope. Now it's not that these facts themselves are the concern. It is the implication of these facts for rate setting that is important, the most concerning of which are, number one, the lack of a long-term financial forecast, number 2, the lack of an updated or detailed O&A budget that represents close to 30 percent of the requested domestic rate revenue requirement for Manitoba Hydro's Manitoba customers, and number 3, financial targets and rate strategy that are currently under review by the new MHEB.

Now traditionally, these are all critically important elements to the PUB setting final rates on a just and reasonable basis. The absence of these elements from this regulatory proceeding pose significant challenges in evaluating Manitoba Hydro's rate proposals, and developing recommendations. We will -- we will expand on this later in the presentation.

Also, in recognition of the unique nature of the Manitoba Hydro application, the PUB took the unprecedented step of declaring the long-term financial forecast and financial plan to be out of the scope of the hearing in Order 1/'19, page 12.

So moving onto page -- or slide 4, the most important rate setting challenge is identified, and that is that it's not possible to apply the modified cost of service rate setting framework that has traditionally been used to set rates for Manitoba Hydro for decades in the absence of a reliable, integrated, and long-term financial forecast. This rate setting framework, by its very nature, looks forward into the forecast period to make informed judgments on how the rate increase proposed in the test year impacts the long-term financial outlook and rate trajectory of Manitoba Hydro.

The long-term IFF is the only document that allows the PUB to understand the big picture of Manitoba Hydro's financial outlook, financial performance indicators, overall borrowing requirements, and potential rate strategies. That's Manitoba Hydro's own evidence, by the way.

Incremental, directional, or one-off standalone calculations do not provide this information and are not reliable for rate setting purposes. Manitoba Hydro itself advances this concern in the response to Information Request PUB-1-9, which is summarized in slide 28 of the backup slides. We were -- we don't have to go there. That's the same position as prior GRAs and the NFAT, by the way.

IFR -- IFFs are subject to significant volatility when updating for more current strategies, information, and planning assumptions, and become outdated very quickly. As demonstrated in slide 41 of the backup slides, the oscillation back and forth between significant profits and losses in IFF 12 to IFF 16, which has formed the basis eventually of the Exhibit 93, to the tune of hundreds of millions of dollars derm -- demonstrates this fact. The PUB has always expressed a strong desire to make its rate determinations based on the most updated information available, and with good reason, given the volatility of Manitoba Hydro's IFFs.

Now, Manitoba Hydro has pointed out that despite these che -- significant swings in financial outlook, there was a similar indicative rate increases in these prior IFFs. The reason for that is that the indicative rate increases were first derived based on a goal-seeking exercise in IFF12 to achieve the attainment of a 25 percent equit -- equity ratio within the twenty (20) year IFF timeframe, which, for that forecast, was by 2031/'32.

In Manitoba -- sorry, in IFF13 to IFF15, the 3.95 percent indicative rate increases were maintained, and 2 percent rate increases were introduced for a varying number of years in the back end of the IFF to maintain the achievement of the 25 percent equity ratio within the twenty (20) year IFF period. The 3.95 percent indicative rate increases were not derived by the changes in the financial look -- outlook, but rather by the original equity goal seek in Manitoba Hydro IFF12.

Now, the last GRA that I testified at about Manitoba Hydro's rates was the 2015 GRA in -- in think it was May and June of 2014, and the basis of that forecast was Manitoba Hydro IFF14. Let's look a little bit at what has changed since then.

Financial reserves are up 1.1 billion to 3.0 billion. They're stabilizing, and it looks like they're improving, from the information that we have. The equity ratio is up 2 percent. Finance expense is down $100 million. O&A expenses are down, I think about 70 million or so. The major capital project risks, the risks of cost overruns, which is the largest risk when you're building two (2) projects with $14 billion, seems to be dissipating based on the evidence at this hearing.

So I think we have to look in terms of the Board's mandate at a -- at a question: where is the sharing with customers of this improvement? The answer under an equity ratio goal is, who knows? It may take twenty (20) years to -- for that sharing to occur. So as an independent expert with no longer my role to explain Manitoba Hydro's twenty (20) year 25 percent equity policy to the PUB, but rather, my role is to help it balance the interests.

So I think some of the Board's determinations in the last Order with respect to how rate setting should occur in the future are very germane and spot on. We have an improved outlook and we have reduced risks. Now what's the appropriate balancing between customers and the Utility in terms of rate increases?

In the last GRA, the goal seek for the 25 percent equity ratio was moved into the ten (10) year period to try to justify 7.9 percent rate increases for six (6) or more years. The now infamous Manitoba Hydro Exhibit 93 was not an official forecast of the MHEB, but rather an undertaking for MIPUG that produ -- produced the three point five-seven (3.57) indicative rate increases based on a specific goal seek of the 25 percent equity ratio by 2035/'36.

The modified cost of service rate setting approach requires a reliable financial forecast and acceptable financial target. Otherwise, how do you possibly go about proposing a reasonable rate strategy or rate path? We agree with Mr. Bowman's evidence on this.

Manitoba Hydro confirmed on day 1 of the hearing that it has neither of these critical elements of rate setting as they are part of the yet to be completed comprehensive review by the new MHEB. There is no indication on the record of this proceeding that the new MHEB endorses any past financial target or IFF.

So in Order 59 of '18, the PUB questioned the value of the equity ratio for rate setting purposes that has been used to derive the indicative rate increases in all of Manitoba Hydro's past IFFs. The PUB also found that a particular equity target or pace to achieve that target should not determine the rate increase. So let's remember this when we talk about past IFF; that was the past plan, but I think there was a big change that happened in terms of rate setting policy of this Board in Order 59 of '18.

And just further to that, in that

Order, the PUB found that there was merit in gaining a better understanding of the financial reserves required by Manitoba Hydro, including consideration of a rule-based regulatory framework, so a different framework that we've had in the past, with a target such as a minimum -- minimum retained earnings target or similar tests, so a different test than we've had in the past in terms of the equity ratio.

I think I'll move on to slide 5. So I would like to know address Manitoba Hydro's rebuttal evidence, and to demonstrate why relying on outdated directional and one-off calculations does not meet an acceptable regulatory standard for a final rate increase. We talk about this conceptually in section 5.2 of our evidence, but I think that the understanding of the deficiencies in figure 2 of Manitoba Hydro's rebuttal evidence makes this point very clear.

Perhaps we can pull up page 3 of Manitoba Hydro's rebuttal evidence for a second, our capable assistant.

(BRIEF PAUSE)

MR. DARREN RAINKIE: And I'm looking

for figure 2.

(BRIEF PAUSE)

MR. DARREN RAINKIE: So on this figure, the top set of rows is a summary of the key financial metrics from Exhibit 93 as it existed at the last GRA, but with one (1) single adjustment, as I understand it, to remove the 3.57 percent indicative rate increase and replace it with a 0 percent under the 2019/'20 column. You'll see that's highlighted in yellow.

The second set of rows is simply a summary of key financial metrics from Exhibit Number 93, unadjusted. And then the third set of rows are the differences between those two (2) top set of rows.

Now as I understand it, and on the basis of the -- of this figure, Manitoba Hydro testified on Day 1 of the hearing that missing a rate increase in 20019/20 would increase net debt and reduce retained earnings from those projected in the exhibit by $900 million roughly, you can see the $892 million in red, in the ten-year period to 2028/29, and that testimony was on Slide 20 of Manitoba Hydro's direct evidence.

But we have to be very careful to erroneously conclude from this Manitoba Hydro figure that without a 3.5 percent rate increase the long-term financial look -- outlook of Manitoba Hydro will have deteriorated by 900 million, from that which the PUB reviewed at the last GRA.

The problem with this line of thinking is that the financial outlook of Manitoba Hydro has already improved based on current factors, and there are a number of other potential changes that could lead to further significant improvement in the future. So there were a number of observations I'd like to make that will place this figure into the appropriate context for the Board.

First, Manitoba Hydro Exhibit 93 contains significantly outdated planning assumptions from early 2017, almost two (2) years ago, so regardless of what we talk about today, numerous planning assumptions have not been updated and tested in the current regulatory proceeding. This is not a reliable substitute for an updated and integrated IFF, in my opinion, and I've been involved in these hearings for over thirty (30) years.

Second, the top section of Figure 2 in Manitoba Hydro rebuttal has the outdated net debt projection from the last GRA of 22.628 billion under the 2019/20 column. Manitoba Hydro's own updated projection of net debt for 2019/20, without a 3.5 percent rate increase, is 22.061 billion. You'll find that figure in the response to Coalition-Manitoba Hydro 6J(I),and this amount was confirmed by Manitoba Hydro at page 399 of the transcript, so I don't think there's any disagreement on figures.

So Figure 2 of the Manitoba Hydro rebuttal evidence has a starting net debt for 2019/20 that is overstated by $567 million. This improvement in debt and net debt is due to the reduced borrowing requirements associated with a lower Bipole III capital cost and lower capital expenditures than forecast at the last Generate Rate Application. I expect that the lower starting projection of net debt will compound and grow over the ten-year period of Figure 2 and that if you restated Figure 2 for this improvement in debt -- in net debt, it may in and of itself eliminate any deterioration out to two thousand eight -- '28/29, that would result from a zero percent rate increase in 2019/20.

So just as the lack of a rate increase has a cumulative effect out ten (10) years, so does lower debt have a cumulative impact out ten (10) years. It -- they both work in the same direction. So, you know, I don't have the ability to calculate this but 567 million at the front end and may actually equate to 900 million at the back end of the forecast, at the ten (10) years.

So in other words, you may be able to have a zero percent rate increase in 2019/20 and still have the same net -- net debt levels in 2028/29, as those that were projected in Exhibit 93 at the last GRA.

Figure 2 has not been updated for the two thousand -- for the, sorry, the $270 million lower capital cost of Bipole III. This will reduce finance depreciation and capital tax expenses by 30 million in 2019/20, and by 70 million per year in the longer term after 2021/22, and you'll find that in PUB Manitoba Hydro first-round Information Request 57. I think this -- that was confirmed by Manitoba Hydro at page 451 of the transcript, so once again I don't think there's any disagreement on the figures.

So this should further improve equity, reduce debt, probably in the order of $250 million up to 2028/29. Now, how do I get that? Well, I simply take the relationship, if -- if there's $60 million in terms of a lower rate increase, that is about $600 million over ten (10) years, if it has a $900 million impact I think that the -- the cumulative effect is probably 1.5, 900 million divided by 600 million. So I've simply prorated that calculation using the same relationship to give you an idea of -- of how something that changes at the front end will affect something at the back end of a forecast.

Fourth, we recommended a 1.5 percent rate increase for 2019/20, not zero percent as assumed in Figure 2 of the Manitoba Hydro rebuttal evidence. A 1.5 percent rate increase represents an increase of about $26 million in 2019/20, which would compound to a higher level by the end of ten (10) years. This should further improve equity, reduce net debt, probably in the order of $400 million out to 2028/29.

Fifth, O&A targets are outdated and overstated by as much as $22 million in 2019/20 and growing to $32 million by 2022/23. I'll explain how I got that later in the presentation.

More active cost control by Manitoba Hydro would further improve equity and net debt levels out to 2028/29, probably in the order of $350 million.

Six, there is potential significant improvement in Figure 2, if interest rates are lower than forecast in Exhibit 93 due to slower than expected economic growth. I'm thinking back to the huge improvement in finance expense between IFF14 and IFF15 of $1 billion for the first ten (10) years of the IFF and 3.2 billion for the last twenty (20) years of the IFF, primarily as a result of lower interest rates. Perhaps the potential is lower now in the current financial market circumstances, but it has been lower than projected interest rates that have been the dominant impact in Manitoba Hydro's IFFs for some -- for quite some time now.

Seventh, if Keeyask is placed in service twelve (12) months earlier than projected, there could be significantly reduced capital expenditures from those projected in Exhibit 93. I note on page 78 of Order 59 of '18 that a slippage in the in-service date of Keeyask by eight (8) months was projected to come in at a cost -- additional cost of $900 million, or about $113 per month.

Using that mathematical relationship, a 12-month advancement of the project to October of 2020 would seem to directionally indicate cost savings in the order of $1.4 billion, so I'm somewhat confused by the Manitoba Hydro testimony that the control budget would still track to 8.7 billion with the 12-month and advancement. On the face of it, it doesn't seem possible, but we don't have information to really understand why that is.

So my purpose for going through this lengthy list with you is not to profess to have developed an updated IFF that can be used for rate-setting purposes. I simply want to ensure the clarity of the record, and like Mr. Bowman, point out that the -- those items that are on the record would tend to directionally show improvement in the long-term financial outlook of Manitoba Hydro.

My view is that trying to update the PUB based on outdated one-off and directional financial calculations is a fool's game. You will never be able to develop a reliable picture of Manitoba Hydro's finances that way, that will satisfy regulatory requirements. In my thirty (30) years of regulatory experience in this jurisdiction, rates have always been set on a reliable set of integrated forecasts and targets that allow the underlying variables to be adequately understood and tested, never on one-off directional calculations or demonstration or illustration purposes.

My advice to the PUB is not to rely on outdated and one-off calculation for rate-setting purposes. They just don't meet the regulatory standards of this jurisdiction that have been developed over decades, especially when an applicant is requesting a final rate increase.

Slide 6: Now, despite the challenges that I have outlined thus far in the presentation, when going to the initial analysis of Manitoba Hydro's reasons for application, it became readily apparent that the PUB's comprehensive rate-setting guidance from Order 59 of '18 would be very useful in helping to overcome these challenges.

After all, part of Manitoba Hydro's rationale for this expedited hearing process is that it is a supplement to the very comprehensive GRA process that was completed a year ago, so logically, why would we not apply the rate-setting policy guidance from the last GRA that is contained in this order?

Regulatory policy evolves over time and you always have to consider regulatory precedent in developing conclusions and recommendations.

As you recall, Order 59/18 is over three hundred (300) pages in length, with about a hundred pages of Board findings. The effort that the PUB expended in this decision would appear to demonstrate to me that it intended to provide broad policy guidance to Manitoba Hydro, Intervenors, and stakeholders, including the capital markets with respect to electric rate-setting in Manitoba.

I also see the PUB's guidance in Order 50/'19 -- 9/18 (sic) as being enduring. It is as relevant to a 3.5 percent rate increase proposal in 2019/20 as it was to a 7.9 percent rate increase proposal in 2018/'19, and I would suggest that it will remain relevant to whatever financial target rate strategy and proposed rate increase that the new MHEB develops during its comprehensive review.

Now the next few slides touch upon three (3) key aspects of Order 59/'18 that have the most significant impact on our analysis, conclusions, and recommendations, so I'm going to read your own words back to you. Please have some patience, you know what they are, but what I'm going to try to do is then tie it into why is it meaningful in this case.

So let's move to Slide 6, if we could.

So the first area on Slide 6 of the PUB's decision from the last Order 59 of '18 is that rate setting must consider the characteristics of Manitoba Hydro's operations, major capital projects for large up-front capital cost, low annual operating costs, and very long expected useful lives.

The PUB's assessment of Manitoba Hydro's operational context led it to the findings that the equity ratio is a questionable merit -- metric for a vertically integrated monopoly with a debt guarantee from the provincial government, like Manitoba Hydro, that the equity level target does not have the prominence suggested by Manitoba Hydro given the context in which the Utility exists, but the concern regarding the value of the equity ratio is compounded when Manitoba Hydro is going through an unprecedented major investment period, and that a particular equity level target and pace to achieve that target should not determine the rate increase approved in the General Rate Application. Those were the PUB's findings.

Now, despite the Manitoba Hydro position at the last GRA that the past financial plan had failed and was in error and that the back end of the 20-year forecast was little more than a hypothetical modelling exercise, one of Manitoba Hydro's justifications for the rate increase in this proceeding is that past IFFs had planned for the level in rate increase requested in this application. You'll find that in their direct presentation at page 6.

As such, the PUB findings have significant implications for this discussion as the indicative rate increases in the prior IFFs since IFF 12 and including Exhibit 93 are based on the former MHEB policy of a goal-seeking exercise to achieve the 25 percent equity target prescribed time frame in the 20-year IFF.

Slide 7. So in Slide 7, the second key area of PUB Order 59/'18 is the importance of Manitoba Hydro managing and reducing its controllable costs in the era of major capital projects with associated rate pressures. As a result of the PUB's comprehensive assessment in the last GRA, it found that Manitoba Hydro should find savings in business operations capital and can no longer continue to fund those -- those business operations capital at the historic level, that Manitoba Hydro should find further areas to reduce O&A costs in terms of staff reductions and supply chain management after the VDP concludes, at the current time of restructuring and transition which presents an opportunity for further cost control.

And number 3, that Manitoba Hydro should review and reduce its DSM spending for programs that are no longer cost-effective in light of the lower marginal value of energy, with the exception of programs targeted at low income and First Nation On-Reserves Customers.

Now, in my view, if you consider these findings as a whole, there is a clear rate-setting policy signal being provided to Manitoba Hydro by the PUB, that it must prudently and actively control costs to the full extent possible before it seeks rate increases from customers.

These PUB findings also have significant implications as one of Manitoba Hydro's positions in the 2019/'20 rate application is that the key drivers of its net income are "completely out of its control." That's Manitoba Hydro's direct presentation, page 10.

Slide 8: The three -- the third key area of PUB Order 59/'18 is how risk should be managed from a rate-setting policy perspective and the PUB's conclusion that there is merit in considering a rule-based regulatory framework.

The key PUB findings in this area which are consistent with the testimony of Morrison Park advisors at the last General Rate Application are:

(1) Manitoba Hydro's drought risk should be managed through a combination of retained earnings and regulatory action when it is actually

facing a drought and not through preapproval of rate increases;

(2) Manitoba Hydro's interest rate and export price risk should be managed through rate increases when those risks materialize and rates should not be set to increase retained earnings to manage those longer-term risks; and

(3) There is merit in gaining a better understanding of the financial reserves required by Manitoba Hydro and considering the establishment of a minimum retained earnings test or similar test for use in a rule-based regulatory framework.

These PUB findings have significant implications as Manitoba Hydro continues to frame its requested rate increase as a means to protect against low water flow risks and a strong message by the PUB to Manitoba Hydro in the capital markets that it was prepared to take regulatory action in times of actual significant water flows.

So combining the PUB finding on the questionable use of the equity ratio as a rate-setting target and the consideration of a minimum retained earnings target, I believe represents the PUB signalling a significant shift in policy in the framework and target that is used to set rates and the potential pacing of these rate increases.

The implications are that rate increases will no longer be based on goal seeking and the achievement of an equity ratio in a prescribed time frame and that the prior indicative rate increases are not determinate to the specific application that is now before the PUB, and for that matter, for those that will come before the PUB in the future.

Now, Mr. Bowman expressed this well in his evidence, indicating that at the last GRA it was increasingly an item of debate as to whether Manitoba Hydro's financial reserves have reached a sufficiently high level that they could be maintained at a stable rather -- level, rather than simply perpetually increasing them through additional net income.

The policy focus regarding building up of reserves has begun to change to what might be required in the future in terms of reserves to ensure rate stability of customers, from the past policy focus of an equity ratio that mathematically forces retained earnings to be built up to the 6 to $7 billion level by the end of the IFF.

And while a technical conference to review this new rate-setting policy direction of the

PUB was cancelled due to procedural considerations in Order 126 of '18, the PUB findings in order 59/18 remain as far as I'm concerned. The PUB also made it clear in Order 126 of '18 that parties are free to explore this alternate rate-setting framework and target at the next Manitoba Hydro General Rate Application.

So with that in mind, let's shift gears to discuss how we utilize the guidance that the PUB provided in Order 59 of '18 in order to move towards our conclusions and rate increase recommendation.

So any assessment of the future financial outlook of Manitoba Hydro for rate-setting purposes require -- require three (3) critical elements:

(1) a reliable long-term and integrated financial forecast;

(2) a clear financial target that we must be moving towards;

(3) a well-thought-out rate strategy that must ultimately balance the interests of the Utility and customers if it is to be consistent with the PUB's mandate to approve just and reasonable rates.

Manitoba Hydro's evidence from Day 1

of the hearing is that all of these three (3) critical elements are up in the air for discussion and are to be determined based on the new MHEB's comprehensive review of the Company. No party to this hearing, the PUB, Intervenor, or even the Manitoba Hydro witnesses themself, I think can prejudge the outcome of the MHEB review. That's certainly my understanding of their evidence.

So accordingly, the PUB directed at the front end in this process in Order 1 of '19 that the long-term financial forecast is not part of the scope of this hearing, so to state it really succinctly, the future is uncertain.

Manitoba Hydro has itself set the table that the long-term forecast is not available to be assessed in this proceeding, so the PUB and Intervenors are then left to ponder how do we approach a one-year rate application with -- with a significant scope limitation in that the traditional approach of setting rates is no longer available to us.

Rates are set based on future forecasts, not set based on past results or past plans, given the general prohibition of retroactive rate making. Past IFFs have indicated rate increases don't bind the PUB just as they don't bind the current

MHEB to the financial policy of a previous MHEB.

Manitoba Hydro was very adamant in the Information Request process that the MHEB policy from the last GRA does not represent its current position, which by its own evidence is a work in progress. So what do we conclude from that? Well, the past is just that, the past. All bets seem to be off.

So a result of these circumstances, the primary focus of our analysis was on the present, the 2019/'20 test year and the updated Manitoba Hydro financial projections for 2018/'19 and '19/'20, that are within the scope of this hearing, actually before the Public utilities Board.

With the circumstances, limitation, and guidance from Order 98 -- 59 of '18 in mind, the three-step process was followed to evaluate proposed rate changes in 2019/'20. First, assess 2019/'20 forecast to projected revenues and expenses in key financial metrics before any rate increase is considered.

You've always got to start if you're evaluating a rate increase proposal, to start with the financials without the rate increases, because if you look at them with the rate increases, that's not the purpose of the exercise.

Number 2, assess if Manitoba Hydro had appropriately managed costs for those financial levers that are within its control in order to mitigate the need for rate increases from customers. I mean, that's a clear expectation of a public utility, and a regulated public utility monopoly.

And number 3, consider the balancing of financial integrity and risks of Manitoba Hydro with the rate impacts on customers for 19 -- for 2019/'20.

So I'll now take you through this three-step process as it is important to understanding our conclusions and recommendations.

So Slide No. 10: So the first step in an analysis framework is to assess 2019/'20 projections and financial ratios to determine how well Manitoba Hydro is performing without the proposed rate increase.

There are a couple of quick points in Slide No. 10. First, the $64 million net income without a rate increase is higher than the financial objective of the Manitoba Hydro Electric Board of net income of $31 million from the original rate application, and it's higher than the expected net income from Exhibit 93 of $61 million, or if you had just Exhibit 93, for the, you know, the 20-year WATM that was discussed at that hearing. The $64 million is higher than both of those figures, and both of those figures included the indicative 3.57 percent rate increases by the way.

So generally the three (3) Manitoba Hydro key performance indicators or financial targets as they exist now, equity, interest coverage, and capital coverage, without a rate increase are similar or slightly improved compared to Manitoba Hydro Exhibit 93, both of which included the 3.5 percent indicated rate increases.

Our conclusion then is that there is no slippage of net income or the three (3) current performance indicators in 2019/'20 from those expected at the last GRA, even without a rate increase in 2019/'20. The 3.5 percent proposed rate increase has not been justified based on any quantifiable financial objective or financial metric in the 2019/'20 test year.

Now, just moving on to Slide 11 quickly, it -- it's a small point, there is some minor deterioration in the equity ratio, if you look at the second and third decimal place. It's due to the fact that there were some unrealized pension losses recorded in AOCI, so comprehensive income, that will -

- will not be reclassified to net income, so that given that the focus of rate -- rate setting is on net income and not AOCI, if you normalize those unrealized pension losses out of the 2019/20 equity ratio, they are virtually identical to those of Manitoba Hydro Exhibit 93, adjusted for the 20-year WATM.

So again there's -- there's nothing, no change in circumstance in '19/'20 that -- by Manitoba Hydro's metrics that justifies a 3.5 percent rate increase.

Slide number 12: So moving to slide number 12, sections 8.84 of our evidence go through a reasonably lengthy and detailed review of Manitoba Hydro's annual controllable costs as they relate to business operations, capital, demand-side management, and operating cost. This is consistent with step 2 of the analysis framework to assess that Manitoba Hydro has appropriately managed costs for those financial levers that are within its control in order to mitigate the need for rate increases from customers in 2019/'20.

Now, for 2019/'20, these controllable costs equate to $1.1 million. That's simply the total of operating costs, capital costs, and DSM.

Now, on backup slides 43, 44, and 45

that I had planned on going through this morning -- certainly there for the Board's review or for cross-examination purposes -- these slides all support the overall conclusion that Manitoba Hydro has not adequately responded to the PUB findings in Order 59/18 to reduce controllable costs.

So I would ask you to carefully review them in making your decision. They're important to the narrative and understanding of our conclusions and recommendations.

In the end, our rate recommendation only makes a quantitative rate-setting adjustment to deal with the outdated and overstated operating cost targets. We leave to the PUB to determine if it wants to make further rate-setting adjustments to the proposed rate increase related to business operations, capital, and DSM as a result of Manitoba Hydro's noncompliance with the PUB directives from Order 58/'19 (sic).

But the one item -- because it pertains and is actually an adjustment in our recommendation that I wanted to speak to on slide 12 -- and that's operating costs or O&A target costs. So based on our analysis from the backup slide number 45, we are proposing three adjustments to Manitoba Hydro's O&A

targets for 2018/'19 and 2019 that total $22 million.

The first adjustment is to make a normalization adjustment to remove the 8.1 million one time and non-recurring increasing collection costs from 2017/'18 to determine an adjusting starting point for Manitoba Hydro's O&A target calculations of $508.8 million. Normally from a rate-setting perspective, you normalize out one time -- you know, one-time events as Manitoba Hydro did in its financial statement when it had a gain on the sale of property.

So -- and this is in reference to Manitoba Hydro's rebuttal evidence, as well. My comments both will encapsulate our adjustments plus our reply.

You know, an increase in collection costs is an accounting journal entry based on an analysis of the collectibility of accounts receivable. There are no staffing implications of this adjustment. Manitoba Hydro didn't hire a hundred people. It simply made a journal entry in its general ledger to recognize that $8.71 million in 2017/'18. So Manitoba Hydro does not have to reduce or sever staff on a go-forward basis to make this adjustment to its O&A targets. It's simply a journal entry.

The second adjustment is to remove the

$7.3 million provision for unallocated transitional contingency funding for which there are no planned costs at all. It appears from the evidence that this amount was simply a plug to force the O&A target back to $501 million for 2018/19.

If we look back to Exhibit 78 from the last general rate application, which was, I think, the only support for the O&A numbers in the last general rate application, you'll note that in the update to IFF16 that there was about a $12 million increase in the savings related to the VDP, as well as the supply chain savings from the original IFF16, and that what we find is a $12 million provision for transitional business, you know, requirements being added like an equal and offsetting amount. So that's obviously, you know, getting right back to a $501 million O&A budget.

And as we heard earlier last week, you know, for 2019/'20, the number, despite the underlying budgets, is going to be $511 million. I don't understand that. I don't understand how you budget and you go through all the detailed budgets, and then you say we know what the number is before you even have that. So I think this is a plug. I hate to call it that, but, I mean, in my assessment that is what it is.

Now, that might be okay for corporate budgeting purposes, you know, in a transitional period like the VDP. The question that the Board has to ask itself: Is it okay for rate-setting purposes? Do we charge that to customers? You know, is that -- is that okay?

So my understanding is that this unallocated contingency was represented by Manitoba Hydro as being related to potential external consultant costs. So there are no internal staffing implications of this adjustment for which there are no planned costs. Manitoba Hydro does not have to reduce or sever staff on a go-forward basis to make this adjustment to its O&A targets.

Now, the third adjustment is to adjust the escalation assumptions in both years to 1 percent escalation. And this adjustment recognizes, number 1, the PUB findings in Order 59/'18 to further reduce costs in terms of both further staff reductions and further supply chain savings.

After all, you know, there's been tens of millions of dollars spent by Manitoba Hydro to get the VDP in the first place in terms of payments and millions of dollars spent on the supply chain initiative. So there is an expectation that those will continue to deliver savings for customers in the future. So the adjustment -- the first reason is that to -- to comply with those requirements in Order 59/'18.

The second is to recognize the environment of provincial budget constraints and wage freezes in the public sector in Manitoba.

And the third is the lower projected VDP and supply saving -- the chain savings compared to the last year rate. According to the evidence, those savings have been reduced by $47 million or about 41 percent. So one would expect that instead of doing things like pushing off the supply chain initiative, we would be advancing it quicker to make up for those lost savings that are no longer being recognized in operating costs.

So this adjustment lowers escalations from $12 million to $5 million on an annual basis or an adjustment of $7 million annually. Now, if we assume that the savings are realized for about 50 percent from staff attrition and 50 percent from additional supply chains savings, much the same as the PUB said look at both of those areas on a go-forward basis of -- let's just call it 50/50 for this purposes -- then 3.5 million of staff attrition would be required to meet this requirement, as well as $3.5 million of further supply chain savings.

Now, 3.5 million of staff attrition equates to about 35 EFTs annually assuming an average EFT cost of about $100,000 including pension and benefits. So the 35 EFTs would represent attrition of around 0.6 percent on an annual basis, and that's calculated taking the 35 EFTs divided by the 5,878 EFTs from page 7 of Manitoba Hydro's rebuttal evidence.

This level of annual attrition -- 35 EFTs -- does not require another VDP program to sever 300 employees with severance costs and waiting for a year for the employees to leave, et cetera, as suggested by Manitoba Hydro on page 6 of its rebuttal evidence or page 18 of its direct evidence presentation. This is simply consistent with active management of staffing levels and vacancies which is a basic expectation of the management of a publicly-owned, regulated, Crown utility like Manitoba Hydro and consistent with the PUB findings in Order 59/'18.

Now, there is a concern that Manitoba Hydro's reversion to an O&A budget approach -- which was used for many decades, by the way, at Manitoba

Hydro -- which is based on taking last year's actual cost plus 2 percent or more escalation, appears to suggest that Manitoba Hydro believes that its job of managing operating costs is largely finished after the VDP. It can return to a status quo of the current staffing levels.

Now, there is a hazard of referring to cost -- a cost-controlled -- to the cost control in general as a program. Managers take the message from that that a program has a beginning, a middle, and an end, and thereafter, we can return to a status quo.

A past -- a policy of last year actual cost plus 2 more percent escalation is not active management of their O&A costs by Manitoba Hydro. It's passive management in our opinion, and that's not consistent with the PUB findings from the last major decision.

I know from personal experience that the senior leadership at Manitoba Hydro reinforces active management of staffing levels as being part of ongoing -- the ongoing job of management versus a program with an end date that the very capable managers at Manitoba Hydro will deliver EFT reductions in excess of any stretched targets set by senior management. I know that because I experienced that, and I think what has now been referred to as the Committed Position Reduction Program, which was a name that was given to it at the last GRA. We didn't call it that back in 2013 when we first instituted it. We called it Good Management.

Now, it's important that the PUB continue to provide this rate-setting policy signal to Manitoba Hydro to further reduce costs in a period of transition as part of the decision that flows from this regulatory proceeding. A 1 percent escalation target for O&A that we propose would reduce the trajectory of the O&A costs for Manitoba Hydro -- sorry -- for Manitoba Hydro Exhibit 93 by $32 million by 2022/'23. This is the equivalent of about 1.9 percent rate decrease for customers and would preserve a more reasonable portion of the VDP and supply chain savings of $68 million.

I think my -- my time is getting low, so I better -- I guess I better move on, or I'm going to squeeze out Ms. Derksen here and she's not going to be happy with me at the end of this.

Slide 13: So how do we get to our recommendations? And I'm coming to that slowly.

So one of the key themes in Manitoba Hydro's application says it was filed in November of

2018 was the concern over the potential for losses in 2019/'20. So we'd filed Figure 2.10 in the original application that provided a number of downside and upside risk sensitivities, including water flow, winter weather, interest rates, and export prices.

The conclusion from this figure was that the likelihood of financial losses in 2019/'20, was much greater in the absence of a 3.5 percent proposed rate increase. At that time, Manitoba Hydro was projecting a loss of 28 million without the proposed rate increase.

So as a result of the improvement in the updated application of 92 million, the Coalition requested an updated information request to update Figure 2.10, and at the same time add on a less extreme water flow sensitivity introduced by Manitoba Hydro in the updated application, as well as to layer on four rate increase scenarios: zero, 1 percent, 2 percent, and 3.5 percent.

And Figure 17 that's on the chart here now -- on the slide here now -- is a summarization of that material. It only includes the downside by the way, not the upside.

So this particular figure -- Figure 17 -- includes the $22 million of rate-setting adjustments to reduce O&A that I previously discussed, and so it assumes that Manitoba Hydro is successful in reducing its operating costs by $22 million in 2019/'20.

It also combines a few of the downside risk sensitivities just to be on the conservative side -- so that's where I get the 50 percent combination and the hundred percent combination -- in the absence of a more sophisticated uncertainty analysis that would aggregate risks, consider probabilities, and potential negative or positive correlation of the various risks. So on this chart, we were trying to be fair and trying to look at a range of possibilities within the limited information that we had.

So on Figure 17, if we look down the 1 percent rate increase scenario column with the rate-setting adjustments, you will note that if you look at that block that has rate -- the risk sensitivities number 2 to 5, which are the norm water flow risk sensitivities, you'll see for the most part, they're expected to generate net income of around or above $30 million in 2019/'20. So a net income of $30 million is consistent with Manitoba Hydro's financial objective that it was willing to accept in the original rate application.

So based on this analysis, it was concluded that the 1 percent rate increase scenario performs well when considering the rate-setting adjustments and the non-water flow sensitivities number 2 to number 5 and that a 3.5 percent proposed rate increase is not required to manage non-water flow related risks in 2019/'20.

Now, on slide 14, we use the same information in what I call Figure 16, but it excludes the $22 million of rate-setting adjustments. It assumes that Manitoba Hydro is not successful in reducing its operating cost by 22 million.

So on Figure 16, when we look down the 2.0 percent rate increase scenario column -- if you look at the third column, which excludes rate-setting adjustments -- you will note that for the non-water flow risk sensitivities -- so that block that's number 2 to number 5 -- for the most part are expected to generate net income around $30 million in 2019/'20. So after the application of downside risk, it will still generate something that was Manitoba Hydro's original objective from the original application.

So based on this analysis, it was concluded that the 2 percent rate increase scenario performs well when the norm water flow risk sensitivities are considered and when there are no rate-setting adjustments, and that even if Manitoba -- if the PUB -- sorry -- accepts the Manitoba Hydro $500 million level O&A target for rate-setting, a 3.5 percent proposed rate increase is not required to manage non-flow related risks in '19'20, so slide 15.

So just before I move on to the options considered in the recommendation, I just wanted to add on one other recommendation that we make related to risks. One off for risk sensitivities have limitations for rate-setting, and there was no organized means to aggregate the probability, consequence, and residual risk facing Manitoba Hydro.

So to remedy this situation, we recommended that PUB direct Manitoba Hydro to enhance its uncertainty analysis for the next GRA to provide a robust quantitative tool to further guide the incorporation of risk and financial reserve considerations into rate-setting, and in accordance with the policy directions from the PUB from Order 59/'18 to consider a rule-based regulatory framework and a minimum retained earnings target or similar test for future GRAs.

Consistent with the recommendations of

the Consumers Coalition and MIPUG the last GRA, the uncertainty analysis could be enhanced to apply probabilistic thresholds to determine the appropriate rate path, management actions in terms of cost control and risk management, and regulatory action or rate response in terms of rate increase can also be added to the analysis to assist the PUB in analyzing the residual risk to rate stability for customers of the proposed rate increases and whether or not more aggressive regulatory action or rate increases are required to manage that residual risk.

Manitoba Hydro and the PUB could use this quantitative tool to actually test the robustness of various rate scenarios as it relates to the near to middle term financial outlook perhaps in the five (5) to ten (10) year planning horizon rather than relying on indicative rate increases derived from a goal seek on an equity ratio test that is projected to be achieved 20 years in the future.

There's more in, I think, Section 9.3 of our evidence, but I'll move on in the interest of time to slide -- what are we at now -- slide 17 -- sixteen?   You'll be happy to know, I'm in the stretch, Mr. Chairman.

The third and final step in the

framework of analysis was to consider the balancing of financial integrity and the risks of Manitoba Hydro with rate impacts to customers, to make a recommendation to the PUB for '19/'20.

As I mentioned at the front end of the presentation, the good news is that the PUB has options, and on slide 16, we outline a continuum of those options.

At one end of the continuum, the PUB could approve a no rate increase for 2019/'20, recognizing that the updated projection of Manitoba Hydro's net income for 2019/'20 of 64 million without the proposed rate increase is in line with expectations from the last GRA, and there is no quantifiable financial objective, financial metric, or non-water flow downside risk sensitivity that justifies a 3.5 percent increase for 2019/'20.

At the other end of the continuum, the PUB could approve a 3.5 percent rate increase on an interim basis, recognizing the concern over rate volatility associated with the in-service to Keeyask but also recognizing there is no reliable long-term forecast for acceptable rate-setting target available to the PUB, as evidenced in this proceeding, to award this rate increase on a final basis.

In the middle column, the PUB could approve a 1 percent to 2 percent rate increase on a final basis, recognizing that this level of rate increase would be sufficient to protect against the risk of losses in 2019/'20 due to non-water flow risks consistent with the PUB findings in Order 59/'18 of how risks should be addressed in rate-setting.

I think I'll move on to slide 17. So on slide 17, you'll see that the overall conclusion from our analysis that -- is that a 1 to 2 percent rate increase would balance the financial health of Manitoba Hydro with its customers' interests.

The conclusions that support this recommendation are as follows. This range is expected to generate net income for 2019/'20 of between a hundred and a hundred and fifty million if Manitoba Hydro can manage its O&A costs within a rate-setting target of 489 million. This range is expected to result in Manitoba Hydro key performance indicators, financial ratios for 2019/'20 that are consistent with or exceed those from the past GRA.

This range protects against the risk of financial loss in 2019/'20 from non-water flow risk and is consistent with the PUB findings from Order 59/18 on how risk should be addressed in rate-setting.

This range is sufficient to avoid the erosion of Manitoba Hydro's capital structure in 2019/'20, which is consistent with the regulatory precedent in Order PUB 512 where there was another instance where there was a significant scope limitation that was related to Manitoba Hydro's capital plans. And in that decision, that's how the PUB came to its determination.

This range is expected to generate net income for 2019/'20 of between 78 million and 93 million, even in the event that Manitoba Hydro is unable to manage its O&A costs within a rate-setting target of 489 million.

So the ultimate recommendation is the midpoint of this range -- 1.5 percent -- recognizing there was currently no rules-based or formulaic rate-setting framework to exactly specify a precise rate recommendation.

DR. BYRON WILLIAMS: Mr. Rainkie, before you leave this slide, you were before this Board in the 2015/'16 Hydro general rate application as CFO and policy witness, vigourously promoting the request for 3.95 percent rate increase.

Why are you now comfortable recommending a 1.5 percent rate increase for '19/'20?

MR. DARREN RAINKIE: So there are essentially three parts to that response, Mr. Williams: the unique scope of this hearing; recognition that the policy of the former MHEB at the time was driving the 3.95 percent proposed rate increase; and, most importantly, some significant policy developments in the rate-setting and provincial landscape in the last five (5) years.

So first of all at the 2015 GRA, Manitoba Hydro provided the PUB with a fully updated IFF and set of component forecasts, such as detailed at O&A forecasts, which was consistent with the modified cost of service rate-setting approach that had been applied for decades in Manitoba, So that's certainly one major difference.

Recognizing unique scope limitations in this proceeding, the long-term financial forecast that is required to apply that aforementioned rate-setting framework is not in the scope. So this is necessary to take a different approach and independently evaluate the appropriate level of rate increase that is necessary to balance the financial health of Manitoba Hydro with its customer impacts for the '19/20 test year directly using the three-step evaluation framework that I outlined earlier.

Second, my role as a CFO of Manitoba Hydro at the last year -- sorry -- the GRA in 2015 was to explain the Manitoba Hydro Electric Board policy and associated rate increases to the PUB. As I've outlined in the presentation, the express policy of the MHEB, prior to May of 2016, was to propose even annual rate increases to achieve a 25 percent equity target within a 20-year IFF time frame. The 3.9 percent even annual rate increases commenced in IFF12 and were maintained in IFF13 to IFF15.

I've already mentioned the significant improvement in the financial results between IFF14 and what is now before the Board, so I won't repeat that again here, other than to say, as Mr. Bowman testified on Thursday, that forecast was by far the poorest financial outlook in recent history.

And there was also a very significant uncertainty if the two (2) largest capital projects Manitoba Hydro's history would be completed on time and on budget. That was, after all, five (5) -- four (4) -- four (4) or five (5) years ago -- four (4) years ago.

And as I stated earlier, that all indications from the limited information on the record is that the financial outlook has improved since then and that financial reserves have stabilized in the area of $3 billion.

But importantly though, there's been a number of significant developments over the last five (5) years that have influenced the evolution with respect to the appropriate rate setting framework and target to use to set rates for Manitoba Hydro's customers.

Looking back, the first development was the extension of the financial forecast and indicative rate increases from twenty (20) to fifty (50) years at the 2014 NFAT. The goal sig (phonetic) was baked into the actual financial scenarios. And what we saw that is, of course, for -- poor financial results for the first ten (10) years and poor financial results for the next ten (10) years to achieve the 25 percent equity ratio.

And then there was the need for a one (1) time decrease in the order of 23 percent which we called the correction factor around 2032/'33, so a 23 percent decrease once you had just finished increasing rates by 108 percent; otherwise, the equity ratio was going to go off the chart in the third decade of the forecast.

In retrospect, I would think that this

is what led the PUB at the NFAT to a recommendation for Manitoba Hydro to relax its 25 percent equity ratio policy to moderate its proposed electric rate increases. This feast, and then famine, IFF analysis always left me a bit unsettled.

The second development was the development of the certainty analysis. It -- it was developed right near the end of the 2015 financial target review, and there was little time to understand its applications for rate setting.

And one -- once the change in government and in MHEB occurred in the spring of 2016 and the Boston Consulting Group review occurred in the fall of 2016, it went on to the back burner.

That was unfortunate. I was convinced at the time the further development of this impro -- important tool could help all Manitoba Hydro stakers -- stakeholders to understand its risks and capital requirements.

I just didn't have the vision at the time what the next generation should look like. This represented unfinished business for me when I departed Manitoba Hydro in early of 2017.

The third significant development was Order 59/'18 and its -- and -- and as this decision provided broad and clear guidance to Manitoba Hydro and its stakeholders on multiple aspects which I've already outlined in the presentation.

This Order was an extremely important contri -- contribution to the evolving discussion as to the appropriate rate setting framework for Manitoba Hydro and its customers.

It's unfortunate that the minimum retained earnings target technical conference was terminated for procedural reasons. I believe this was a missed opportunity. In my view, the need for -- the need to develop a more appropriate rate setting methodology for Manitoba Hydro in an era of major capital expansion is a major issue that dominates any process considerations of moving Manitoba Hydro back to a regulatory -- a regular regulatory cycle.

I'm concerned about some major progress on this issue before the next GRA, that you're just going to get back into a hearing with the same type of polarized positions from parties as you had during the last GRA and, to a certain extent, in this proceeding.

The fourth significant development for me personally is the opportunity to gain a better understanding of the DCAT Methodology that is used by the PUB to set target capital levels for MPI through some independent consulting work with the Consumers Association of Manitoba for the last MPI GRA.

I believe that there is some real potential to apply the institutional knowledge of the PUB, take the DCAT analysis and tailor it to the uncertainty analysis for Manitoba Hydro.

The fifth development is not related to the evolution of the rate setting framework, but rather recognition of the significant change in circumstances in public service landscape to Manitoba. The change in government of Manitoba in 2016 brought with it a much different policy direction with respect to budgetary constraints and rates of escalation of costs in the public sector in Manitoba, including provincial wage-freeze legislation for the public sector.

This new provincial policy framework is consistent with the PUB findings from Order 59/'18, that Manitoba Hydro should reduce its controllable costs.

So the modified cost of service rate setting framework worked well in the past, particularly when the target -- equity target ratio was in sight within the ten (10) year planning horizon; however, that target is been pushed at the twenty (20) year end of the forecast because of the major expansion.

I believe that the PUB is corrected to -- to consider a rules-based regulatory framework with the minimum retained earnings or similar tests in Order 59/'18.

This -- this alternative type of rate setting framework could bring the consideration of rate changes back to within the midterm planning horizon, much the same as the earlier application of the modified cost of service did twenty (20) or thirty (30) years ago when it was based on looking at ten (10) years, not twenty (20).

It's a more sensible approach than chasing the 25 percent equity target ratio and basing rate increases on a twenty (20) year goal seek.

So I think, Mr. Williams, I'll -- I'll cut off at that. I think that explains the po -- the position.

DR. BYRON WILLIAMS: Thank you. And, Ms. Derksen, we're going to over to you. And just subject to the board's guidance, I'll suggest that we'll try unfairly to work through the slides 18 to 23 in the next ten (10) minutes or so.

THE CHAIRPERSON: Well, we started a

little later, so we'll -- we can go to ten (10), fifteen (15) minutes, that's fine.

DR. BYRON WILLIAMS: Thank you, Mr. Chair.

MS. KELLY DERKSEN: Thank you. Good morning again. Cost of service is the phase of the rate making cycle where the Corporation's established revenue requirement as allocated to each of the customer classes.

A cost of service study is prepared on a snapshot basis. In other words, in the case of Manitoba Hydro, it considers only the revenue requirement established in the current test year.

A cost of service study is a basic and necessary tool used in ratemaking and the fundamental standard for which -- for assessing a just and reasonability of rates.

It is a zero-sum game, which means that, to the extent costs are shifted away from one (1) class resulting in lower rates for that class, those costs must be picked up and borne by other customer classes.

During the past two (2) or more decades, across the board rate increases were applied for by Manitoba Hydro and granted almost exclusively without strict reliance upon the zone of reasonableness.

This is no longer the case given PUB direction flowing from Orders 164/'16, which was the order flowing from the cost of service methodology review in 2016, as well as Order 59/'18.

The in-service of Bipole III, the largest asset in Manitoba Hydro's history, will have profound impacts to cost of service given that it's nearly a $5 billion asset, given that it's a generation-related, and given that there is no offsetting incremental export revenue to mitigate its effects in cost of service.

In the current trade application Manitoba Hydro is seeking a 3 1/2 percent rate increase, as we know, to be applied on an across-the-board base -- on across-the-board basis, with the exception of non-grid portions of diesel rates, without the support of the cost of service study.

I am concerned that no cost of service study was prepared. That said, my evidence is intended to provide the Board with perspectives and supporting analysis to assist it in arriving at an appropriate application of any rate increase to customer classes that may be granted flowing from this proceeding in its absence.

I will move to slide eighteen -- to slide 18. It is recommended -- sorry, it is intended -- this slide is intended to demonstrate that -- that the -- the PUB's intention with respect to differentiated rates flowing from Order 59/'18 achieved the results that the PUB had intended as shown by the -- the purple middle bar, And that, in absence of other -- the absence of the other changes directed by the PUB flowing from that order.

Slide number 19 is intended to demonstrate the impact of Bipole III compared to PCOSS18. First, it should be noted that PCOST -- a PCOSS is prepared on a snapshot basis, as I mentioned previously, on a point in time basis.

The revenue requirement underpinning current rates is reflected in column A. Column B is intended to provide an approximate revenue requirement that would have underpinned a cost of service study based on Manitoba Hydro's current rate request.

Cost of service generally does not explicitly consider past over or under recoveries of cost, nor does it explicitly consider upcoming cost, for example, Keeyask, with the exception perhaps of contribution to reserves or net income.

Secondly, the spreadsheet is intended to highlight those costs that tend to be most impactful on the results of the cost of service study.

Now, it's important to note that while the overall magnitude of a cost change can have significant impacts on the results of a cost service study, the -- the changes in the nature of costs, for example, with whether it's a generation or transmission asset, is particularly important in cost of service and can be very impactful.

Ms. Bauerlein spoke last week of operating and maintenance costs to say that the overall target O&A of $511 million is unchanged. And while they are working on the supporting details, those details will not impact the over -- the overall level of revenue requirement.

What has not been recognized, unfortunately, is that it is these details that is the heart of cost of service and are necessary for the proper functionalization of costs.

That said, however, operating and maintenance cost changes do not tend to have the same profound impacts on class RCCs like the addition of large generation -- of large investment and generation-related unless they are con -- concentrated in a particular area or function.

It is these -- excuse me, Mr. Bowman raised at transcript pages 587 to 588 the issue in his evidence in-chief that distribution cost changes have also not been considered and, to quote him, a fairly major story that, in part, has led to his conclusion that an across-the-board rate change is necessary.

While we agree with Mr. Bowman, overall, to his overall conclusion, where we part ways is the point of his assertion that distribution cost changes will have sizable impacts to class RCCs.

It is true that increases in distribution investments will impact class RCCs, however, changes in distribution costs tend to be much less impactful for several reasons as follows.

First, Bipole III, which is a generation-related asset for cost of service purposes, represents a 67 percent increase in generation-related investment compared to about a 17 percent increase related to distribution investment.

Secondly, the relatively small portion that distribution plant represents to residential classes overall cost to serve, which is about 28 percent for that class, and, similarly, for the GSS non-demand class of about 27 percent flowing from

PCOSS18.

And third, there's much more turn in distribution plant investments on account of two (2) factors. One (1) is that distribution -- the life of dis -- a distribution asset tends to be much shorter lived than generation asset, for example.

And secondly, there's continuous investment in distribution plant being made to accommodate urb -- urban sprawl, for example, or new subdivisions in various locations in the province.

The conclusion of this slide is that, while other cost changes will certainly impact RCCs, it is the addition of Bipole III, given its size, given that it's a generation-related asset with no incremental revenue offset that will have profound impacts to cost of service by class.

A couple key points on slide 20. Number 1, as we can see in the red bars in the table, the top left, all customer classes move into the zone of reasonableness with the inclusion -- excuse me, almost all customer classes move into the zone of reasonableness with the inclusion of Bipole III.

The GSL greater than hundred classes, RCC, has decreased by over 9 percent, which is almost the entire zone of reasonableness of 10 percent. And the residential classes RCC has increased into the zone of reasonableness to approximately 96.5 percent.

Moving on to slide 21. We are recommending that any rate increase granted by the PUB be applied on an across-the-board basis, number 1, because we believe that the PUB requires a strong evidentiary ba -- foundation on which to justify a differential rate increase.

And in the absence of a cost of service study, it is necessary that any rate increase be granted be applied on an across-the-board basis. We're also recommending it because of the -- the pending impacts of Bipole III that came on -- that came online or in service in 2018.

There are two (2) customer classes that will remain outside of the zone -- the upper bound zone of reasonableness or outside of the zone of reasonableness, those being the area and roadway lighting class as well as the GSS non-demand class.

We're recommending that nothing be done with the area and roadway lighting class at this time; there's just simply not enough information on the record. And we've raised concerns about the potential -- or about the impact of DSM costs to that class that may be artificially creating a higher zone of reasonableness than may realistically be the case.

With respect GS -- GSS non-demand, we're looking -- what we did is look over the course of a number of cost of service studies going back a decade, and this class is persistently outside the of zone a reasonableness. And even once you layer in Bipole III, it continues to be outside the zone of reasonableness.

And, on that basis, we suggest that there may be some movement for the PUB to differentiate rates for that class by applying something lesser than an average rate increase.

Third, in terms that these all non-grid rates, we recommend that these rates be included in any rate increase granted by this Board also on an across the ba -- the board basis. A diesel cost of service study is required and is not enough to support the rate exemption being sought.

Manitoba Hydro's brief rebuttal evidence pertaining to diesel is difficult to discern and, in any event, by no means can be considered a reasonable substitute for a proper diesel cost of service study which has not been prepared since 2010.

Finally, we conclude that there is no cost of service basis to freeze rates for First

Nations on reserve or diesel residential customers.

On a related note, I'd like to provide perspective regarding Ms. Carriere's statement at page 513 of the transcript, that Manitoba Hydro had not yet segregated the cost of serving customers within the First Nations class from the broader residential class.

The spirit of this class is not to isolate the cost to serve based on traditional cost characteristics associated with the class's energy, a class's demand and customer numbers.

Rather, this class was created flowing from a public policy decision of this Board to begin addressing matters of bill affordability. So I don't agree that it is appropriate to apply traditional cost of service principles for purposes of rate differentiation to a class which has been created as a result of a social policy decision.

Had this initiative been aimed more broadly at low income customers in general, it would not have even been possible to create such a class.

Creating a proxy class, as what has been done to date, is something we often do in cost allocation. In fact, the last time we did it when I was at Manitoba Hydro was the creation of an export class. So we recommend that that continue for the reasons that I have outlined.

DR. BYRON WILLIAMS: Ms. Derksen, unless the Board directs otherwise, I think, and with great apologies, I'm going to ask to skip slides 22 and 23 and just go to the summary of conclusions of your recommendations. And I apologize deeply.

MS. KELLY DERKSEN: There's some important perspectives that I would like to provide in slides 22 and 23, and I'll endeavour to do that through cross-examination.

If we then move, as you suggest, Mr. Williams, to our concluding slide.

DR. BYRON WILLIAMS: And you have my apologies, Ms. Derksen.

(BRIEF PAUSE)

MS. KELLY DERKSEN: In summary, we are proposing to the PUB a 1.5 percent rate increase be granted for Manitoba Hydro in the 2019/'20 test year. That Manitoba Hydro be directed to undertake uncertainty analysis to be enhanced for the next General Rate Application.

That any rate increase apply -- rate

increase granted be applied on an across-the-board basis, with the exception of the GSS non-demand class, and applied to all rate components of the bill. That a cost of service study should be prepared with each General Rate Application.

That Manitoba Hydro undertake a review of its ratemaking objectives for rate design for the next General Rate Application and that a robust compliance and directives -- filings with Intervenor participation should be implemented and included as part of a typical regulatory process. Thank you.

DR. BYRON WILLIAMS: And, members of the panel, thank you very much. Our witnesses are available for cross-examination or a brief refreshment break, whatever the Board de -- decides.

THE CHAIRPERSON: Thank you. We will -- we'll break until eleven o'clock. Thank you.

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

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

THE CHAIRPERSON: Okay, if -- if we could resume. I understand that Mr. Shefman will be going first on behalf of AMC. Mr. Shefman...?

CROSS-EXAMINATION BY MR. COREY SHEFMAN:

MR. COREY SHEFMAN (by phone): Thank you, Mr. Chair, and thank you, everyone, for indulging us as we do this by phone. Obviously, I'm not there, and so I will trust that the panel will decide among themselves who best to answer the questions.

On behalf of the Assembly of Manitoba Chiefs, thank you to everyone for -- for having us. I intend to be brief. Before I begin, I just want to make sure that I am coming through clearly.

THE CHAIRPERSON: Yes, we can hear you fine. Thank you.

MR. COREY SHEFMAN (by phone): Perfect. Thank you. Okay, so we heard this morning that your report recommends an across-the-board increase of 1.5 percent. And if we can go to page 114, Ms. Schubert, of the report. Thank you. The -- the report recognizes -- and I'm reading near the bottom -- the very end of the page:

> "The spirit of the FNOR class is not to isolate the cost to serve based on the traditional cost characteristics associated with this class, energy demand, and customer number, but rather, a policy

decision of the PUB to begin
addressing matters of bill
affordability."

In preparing your report, you did not consider those matters of bill affordability referenced in that section, correct?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Correct. Our -- our recommendation is that from a -- strictly from a cost to serve perspective, that there is no basis to conclude to either -- to -- to freeze rates for First Nations on reserve, or diesel residential.

MR. COREY SHEFMAN (by phone): Thank you. Now, you also said just before the break, I believe, that bec -- based on the -- the way in which -- or the rationale for creating the First Nation on reserve rate that it -- I'm not sure if these were your exact words, but I understood the gist of it to be, It doesn't make sense to treat the First Nations on reserve rate the same way in terms of setting their rates based on a traditional cost of service model, correct?

MS. KELLY DERKSEN: That's exactly

what I said, yes.

MR. COREY SHEFMAN (by phone): Okay. Now I -- I take it, then, in coming -- in coming in coming with your -- in coming up with your increase, your recommendat -- your recommended increase of 1.5 percent, you did not all -- you did not consider whether the factors that had led to the Board ordering the creation of this class and the rate freeze for the First Nations on reserve class had changed since Order 59/'18, correct?

MS. KELLY DERKSEN: Correct. We looked very narrowly from a cost to serve perspective, and recognized that there are policy considerations beyond the cost to serve that this Board may take in -- may take into account to determine rates that are just and reasonable at the end of the day.

MR. COREY SHEFMAN (by phone): And do you -- you -- you acknowledge -- you agree, I take it, that there are reasons why the Board may set rates beyond simply the cost to serve, correct?

MS. KELLY DERKSEN: I believe the Board, from a -- from a rate making perspective -- there's a -- a significant legal dimension to this issue, but from a strict rate making perspective, I believe the Board has that latitude, yes.

MR. COREY SHEFMAN (by phone): And in your report, you did not consider the disproportionate impact that the proposed increase, whether 1.5 percent or 3.5 percent, would have on First Nation rate payers on reserve relative to other residential ratepayers, correct?

MS. KELLY DERKSEN: Correct.

MR. COREY SHEFMAN (by phone): At page 127 of your report, in the first paragraph, you explain the rationale for including the First Nations on reserve class in the recommended 1.5 percent increase was because the -- in your words:

"There is no evidence to date to exclude the First Nations on reserve class from a rate increase."

And I understand that you've told us this morning that that is specifically with respect to evidence related to the cost to serve. But I wanted to confirm, prior to or after preparing your report, did you have an opportunity to review the 2017 Residential Energy Use survey?

MS. KELLY DERKSEN: We have looked at it briefly, yes.

MR. COREY SHEFMAN (by phone): And since preparing your report, have you had an opportunity to review the report of Mr. Raphals, the expert witness submitted in evidence by AMC?

MS. KELLY DERKSEN: I have reviewed, sir. I am not a -- an expert with respect to bill affordability and low income matters, and on that basis, we elected to restrict our recommendation on the basis of cost to serve. And so whether factors of bill affordability, which I understand the report is saying, have -- have perhaps gotten worse over time, as opposed to better in light of that residential land use survey, those may well be factors that I believe the Board has scope for determining -- at the end of the day for determining rates that are just and reasonable.

MR. COREY SHEFMAN (by phone): And you didn't take those factors into consideration in arriving at your conclusions in the report, correct?

MS. KELLY DERKSEN: That's correct.

MR. COREY SHEFMAN (by phone): Thank you very much. Mr. Chairman, those are all of our questions.

THE CHAIRPERSON: Thank you, Mr. Shefman. Mr. Hacault...?

CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: I'm kind of hiding in the back, which is a different position for me, but I'll ask a couple questions with respect to some of the rebuttal.

So if we -- and the slides that Manitoba Hydro put in as Exhibit 25, that rebuttal at page 4, the rebuttal itself at page 4, please, has a heading 'Negative net income is a concern to credit rating agencies'.

Do you see that, sir?

MR. DARREN RAINKIE: Yes. Good morning, Mr. Hacault. Yes, I do.

MR. ANTOINE HACAULT: And that theme is repeated again from slides 21 to 24 of Exhibit 25. Now first, I'm not too sure whether you can answer these questions, but can you advise whether in your previous role at Manitoba Hydro, you would have had occasion to meet representatives of credit rating agencies?

MR. DARREN RAINKIE: Yes, Mr. Hacault. I -- I was treasurer for two (2) years, and I was CFO for four (4) years, so I met with them many times.

MR. ANTOINE HACAULT: Okay. Which agencies would you have met with?

MR. DARREN RAINKIE: The -- now you're

testing my met -- my memory. I think over the -- at -- the timeframe, six (6), seven (7) years, I would have either been on the phone with all of them, or met some of them in person. Some of the -- some of the meetings were at the -- in conjunction with the Provincial review, and some of the meetings were in Hydro's offices, and some of them were over the phone, some of them were conversations that you get about, you know, an analyst asking you questions.

So I've had numerous touch points, if you like, with them over those years, with all of the rating agencies, the three (3) that are usually quoted in Manitoba Hydro's GRA.

MR. ANTOINE HACAULT: Am I right in understanding your answer that, in your capacity as treasurer and, CFO, those communications would go back about six (6) years, or would it be longer?

MR. DARREN RAINKIE: Back to 2006, if I remember correctly.

MR. ANTOINE HACAULT: 2006. Okay. Thank you, sir. Do you know who Vince Warden is and was?

MR. DARREN RAINKIE: I'm going to laugh at that one, because Vince and worked a -- a number of years together at Manitoba Hydro. Yes, I --

I know him. I still have a walk with him every once in a while. We live in the same neighbourhood, Mr. Hacault, so.

MR. ANTOINE HACAULT: And am I correct in suggesting to you, sir, that Vince Warden was a Senior Vice-President of Finance and Administration and CFO of Manitoba Hydro?

MR. DARREN RAINKIE: Yes, for many years, probably fifteen (15) or more.

MR. ANTOINE HACAULT: And would Mr. Warden have been there then when Hydro was contemplating undertaking major capital projects, including possible additions of Keeyask and Conawapa?

MR. DARREN RAINKIE: Yes, he -- he would have. I mean, those projects, and particularly Conawapa, have been chatted about for a long period of time, so he would -- he would have been around for those discussions, yes.

MR. ANTOINE HACAULT: Do you recall his phrase, "a decade of investment, followed by a decade of returns" in describing those projects?

MR. DARREN RAINKIE: Yes, Mr. Hacault. Who could forget that tag line?

MR. ANTOINE HACAULT: Now, go down -- what's on the screen here, starting from about line ten (10) going into eleven (11), sir, it starts -- and this is in the rebuttal of Manitoba Hydro, which is Exhibit 24. I'm quoting:

"Manitoba Hydro's debt represents over 40 percent of the total Province of Manitoba net debt as of March 31, 2019. Manitoba Hydro's weakening financial metrics have garnered additional scrutiny from the credit rating agencies."

And then there's a sentence that links additional scrutiny to a statement that S&P no longer considers Manitoba Hydro to be self-supporting, and it goes on.

I'm going to focus my question initially on the S&P change in ratings, sir, and to put that into context, I would ask Ms. Schubert to please bring up page 56 of Order 59/18, and in fairness to you I'll leave you read the second paragraph prior to me asking a question. It starts with the words:

"The different credit rating agencies use different methodologies."

So please read that paragraph to your

cell, sir. Then I'll ask you a question.

MR. DARREN RAINKIE: I think we can proceed. I was at Manitoba Hydro as the CFO when that downgrade occurred. I -- I was fully briefed by Treasury staff on the reasons for it, and so I think I can speak to that in general.

MR. ANTOINE HACAULT: Okay. So did Standard & Poor (sic) change its metric?

MR. DOUG HOUGHTON: Yes, it did. It -- it changed it, as it's indicated here, from self-supporting to stand-alone. My recollection is, is that that change had been contemplated for a couple of years before that, and, you know, that they were a little late in applying that to the MHEB. I think it was unfortunate that got, you know, incorporated into the rating downgrade for the province.

Clearly, when you look at that rating document, the whole document -- I don't mean go into one sentence and pulling them out -- that downgrade was related to the inability of the province to have any plan to balance its books. It was unfortunate that they somehow put the other part in with the -- with the main conclusion in that -- in that credit rating. They should have had two (2) sentences.

So I think this was a methodology

change. What we were communicated by Standards (sic) & Poor's, you know, it -- it wasn't a huge concern for them. It was just them changing their definition for us, and many of the other Crowns are not self-supporting either by the way, if I recall -- recall correctly, so.

So there -- you know, there's -- I was surprised that actually came into the slide deck because I thought we had dealt, you know -- the Board had dealt with that last time. That was not a -- in fact, you know, I -- my memory is not as great from a few years ago as it should be, but I seem to recall us after that doing some of the lowest debt issues in the history of Manitoba Hydro, so -- and there were questions from the Board about, you know, what -- what the impact of that was and we used to measure that by looking at the different spread between Manitoba and Ontario, and my recollection was there was no change in the spread after that.

So as it relates to credit ratings in the capital markets, the proof is in the pudding. When people are willing to, as -- as we heard last week, I guess it was, invest money in Manitoba Hydro for forty-nine (49) years at less than 3 percent when you're willing to do a global US debt issue for a billion dollars, and they know -- the investors know where that money is going. It's not -- even though it's advanced from the province, they would know on due diligence calls the night before or a day or two before that that money was going to be invested in -- in Manitoba Hydro.

So they understand that's being invested in assets. It's not, you know, social -- you know, paying for social programs, those types of things. So credit rating agencies are very sophisticated. They do not be -- need to be led by the nose.

MR. ANTOINE HACAULT: Sir, I'll suggest to you that they are concerned about it, and that the messaging from this Utility is that they should be concerned with it.

MR. DARREN RAINKIE: Well, certainly, sir, like, I'm not trying to be flippant about it. In -- when you're developing two (2) large projects with $14 billion, I would think that's the major concern from credit rating agencies quite -- quite frankly, that the -- the potential for cost overruns, you know, on -- on those projects. That to me is a dominant risk.

Just -- it just makes so much sense

that that's what you would be focused on, and the fact that now those projects seem to be coming in on -- on balance should be somewhat of a calming effect for the credit rating agencies, I would think, combined with the strong regulatory framework that we have here in Manitoba.

I mean, when I was making presentations to -- and just have -- having discussions with credit rating agencies, that's what always was underlined. So if anything, I'm not sure how to say this delicately, there's been a bit of a harmful narrative coming from Manitoba Hydro itself, not -- not with the current regime, but the past one in terms of, you know, messages like Manitoba Hydro can't pay its bills, you know, it's -- it's -- it's bankrupt, it's -- you know, it can't make its costs, its financial plan is failed, it didn't have a financial plan.

If there's any damage that has gone to Toronto in terms of the CFAs that do, you know, the -- credit ratings on this, it's kind of a message, so I'm not sure how you can come back here and ask customers to pick up the tab for that. It's unfortunate because, I would hazard a guess, under Mr. Warden's tenure and mine, we would never have said anything like that to the credit rating agencies.

MR. ANTOINE HACAULT: Sir, I'd like to move on to -- go back to the rebuttal and the quote that's been put, at line 21 on page 4 of the rebuttal, it's an extract from December 24, 2018, Moody's Interim Update on Manitoba Hydro Commercial Paper.

And, sir, do you agree with this view of Manitoba Hydro self-sufficiency?

MR. DARREN RAINKIE: Sorry, is there a view of Manitoba Hydro self-sufficiency, I think they said they were -- they are concerned about it but I don't think they've come to the conclusion yet that it's not self-supporting.

MR. ANTOINE HACAULT: What would it take for Manitoba Hydro to not be self-sufficient given the current low levels of rates?

MR. DARREN RAINKIE: You know, it's -- it's not something that can be measured by any one metric. It relates I think to confidence.

Certainly discussions that I had with the credit rating agencies and representatives of the syndicate that borrows money to the province is, the message that I always had or got was the credit rating agencies and, I guess, the -- the -- the bondholders, understand that the money that's being lent is being invested in hard assets that have, you know, lives of a hundred years or fifty (50) years and -- and are generating revenue in the case of Keeyask. So I don't know, every -- every year, because we were -- we were doing this capital build for a long time -- I asked the same questions of those -- of representatives: can we still borrow money next year, and how are things looking? And that's the reply that I got every year.

I went home at Christmas because a lot of them used to come, you know, and have lunch at Christmastime, and that was the question that I asked every time. And in the end, as I said earlier, that the real confidence vote is when people are willing to take a half a billion dollars out of their bank account or their pension fund or whatever it is and advance that to the province, then gets advanced to -- to Manitoba Hydro.

So not to be flippant about this, you would expect in a large capital build-out that these types of comments would -- would be here and you would expect that there would be concern, you expect that they would be watching very closely to see where these projects end up because the potential for them spiraling out of control in terms of cost overruns, you know, is the -- is the most difficult issue, because in terms of recovery of the cost, there's a strong regulatory framework that will -- will do that in Manitoba, but if the costs are much higher, that's a big concern.

MR. ANTOINE HACAULT: Thank you, sir. I'm going to move on to another subject very briefly. Take you to page 37 of your evidence, sir.

And specifically -- so if you can take time to read the two (2) paragraphs that are on the screen, I'm going to ask you a couple of questions with respect to capitalizing trust and how it gets portrayed for financial reporting services. Tell me when you're ready to --

MR. DARREN RAINKIE: I think I was ready before you asked the question, Mr. Hacault.

MR. ANTOINE HACAULT: Sir, I put to Manitoba Hydro witnesses with respect to the payments to the City of Winnipeg, comments by this board that those type of payments should not be in investing activities and should rather be in the operational side of it.

What are your comments on that?

MR. DARREN RAINKIE: Well, that payment is actually related to the purchase of asset called Winnipeg Hydro, if one recalls back to 2002-2003, so I think it's better grouped as an investing activity. The alternative would have been for Manitoba Hydro just to write a cheque based on what the valuation of Winnipeg Hydro is.

We chose to have a perpetual payment, if you like, and -- and so I -- you know, based on looking at the bigger picture on this, that it's not just a cash outflow but what that cash outflow relates to, the purchase of an asset, I think it's probably best in investing activity, although that wasn't the centre of my evidence here, Mr. Hacault. I wasn't kind of looking at that one, but that -- that would be my thoughts on that particular question.

MR. ANTOINE HACAULT: And -- and why are you saying, sir, that with respect to projects like Keeyask that the portrayal is preferred in one manner over the other?

MR. DARREN RAINKIE: Once again, I think when you broaden out and you look at -- let -- let's think about this in terms of Manitoba Hydro's annual report.

There are four (4) places that I can think of where capitalizing interests comes up: on the balance sheet, on the income statement, on the cash flow statement, and on the -- in the capital coverage ratio calculation, right. So financial reporting is about communicating to all your stakeholders, you know, the results of your company and where you're going.

So capitalized interest, on the income statement it's capitalized, on -- on the balance sheet it's capitalized, in the capital coverage ratio it's -- it's taken out of there so it's a consistent treatment with the first two (2).

For some reason on the cash flow statement Manitoba Hydro has decided to reclassify that as an operating activity. So, like when you look at your overall financial reporting, you've got four (4) things you're communicating in your annual report; three (3) of them are one (1) way and one (1) of them is the other way. So, like, to me that creates a confusion in and of itself; not to mention the fact that Manitoba Hydro's a regulated Utility and normally the principles of regulation and rate setting are such that -- it's more than normally. It's pretty much the -- the gold standard, if you like, that interest capitalized is part of a project until -- you know, until that project is in service. And then it becomes part of the revenue requirement.

MR. ANTOINE HACAULT: Thank you very much, sir, for doing your best to answer my questions.

Those are all my questions.

THE CHAIRPERSON: Thank you, Mr. Hacault. Mr. Ghikas, I'm going to give you an option. I -- I, quite frankly, don't like interrupting counsel in direct or cross. If you have an area where you can go for a half an hour, feel free; otherwise, we can adjourn now for lunch.

MR. MATTHEW GHIKAS: No. I'd very much like to get started, Mr. --

THE CHAIRPERSON: Okay. Thank you.

MR. MATTHEW GHIKAS: -- Mr. Chairman. Thank you. Before we launch into it, Manitoba Hydro has filed two (2) exhibits, Exhibits 30 and 31. One (1) of them is a book of materials that I will be referencing during the cross-examination, Mr. Chairman, and the other is something that we omitted from including in that book, so they're -- they're -- they've both been filed.

The information in -- in the book is partially information that's on the record and partially information that is -- is not on the record previously. That which was not on the record previously was provided to you my friends at the Consumer Coalition on -- on Sunday morning.

So with that, we'll just launch into

it.

--- EXHIBIT NO. 30: Manitoba Hydro Book of Documents

--- EXHIBIT NO. 31: Manitoba Hydro additional documents.

CROSS-EXAMINATION BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Good morning, Mr. Rainkie.

MR. DARREN RAINKIE: Good morning, Mr. Ghikas. It's good to see you back here Manitoba. It's been a while.

MR. MATTHEW GHIKAS: It's nice to be back. Good morning, Ms. Derksen. Nice to see you, as well.

MS. KELLY DERKSEN: Good morning. It's nice to see you, as well.

MR. MATTHEW GHIKAS: All of my questions today, Ms. Derksen, you'll be relieved to hear, are directed at Mr. Rainkie, so you can relax.

MS. KELLY DERKSEN: No surprise.

MR. MATTHEW GHIKAS: Mr. Rainkie, I wanted to start off with something that came out of this morning's evidence, your presentation this morning. And that was Mr. Williams asked you essentially to distinguish your role in the 2014 -- pardon me, 2015 GRA from what you're doing today.

And my notes -- according to my notes, what you indicated, one (1) of the factors was that your role as CFO was essentially to explain the Manitoba Electric Board policy to the PUB.

Do you recall that?

MR. DARREN RAINKIE: Yes, I do, sir. Mr. Peters reminds us that the Mani -- used to remind the Manitoba Hydro panel that before he started asking questions, so it's etched in my mind.

MR. MATTHEW GHIKAS: Okay. Can we -- you filed your CV in this proceeding as Exhibit Coalition 7-3, correct?

MR. DARREN RAINKIE: You know what? I don't have a good handle on the exhibits, but I think it's here.

MR. MATTHEW GHIKAS: It's popped up there in front of us. Thank you, Kristen. All right. I wanted to -- to turn you -- and, first of all, just a general comment. I -- I presume everything in here is an accurate portrayal of your experience?

MR. DARREN RAINKIE: Yes, it is, to

the best of my ability.

MR. MATTHEW GHIKAS: Okay. So if we can turn to page 3, please, under your heading, "Professional experience," and the fourth bullet down on this one. It begins with, "Guided."

Do you see that?

MR. DARREN RAINKIE: "Guided," yes.

MR. MATTHEW GHIKAS: Yes.

MR. DARREN RAINKIE: Yeah.

MR. MATTHEW GHIKAS: So if -- if I just read that to you then, it says that you:

> "...guided the development of corporate financial targets and the long-term financial forecast as well as corporate operating capital and financing plans that are consistent with the overall objectives of the Corporation and obtained endorsement from the audit committee and the Manitoba Hydro Electric Board, initiated...

And then you go on to talk about:

> "...initiated and provided executive oversight to a comprehensive review of corporate financial targets to

determine if they continue to be
appropriate during a period of
extensive capital investment of over
17 billion provided..."

And then you go on. And then you say:

"Provided policy guidance to support
the development of increasingly
sophisticated financial models to
provide scenario analysis over
fifteen thousand (15,000) financial
projections on key financial
variables, water flows, expert
prices, interest rates and capital
costs to evaluate the adequacy of
finance -- financial targets and
financial reserves and forecast the
long-term rate impacts of major
capital projects."

So that's an accurate description of your role, sir?

MR. DARREN RAINKIE: Yes. It's rather wordy, but it is, Mr. Ghikas.

MR. MATTHEW GHIKAS: And so, when you say that the outset of that bullet that you obtained endorsement from the Manitoba Hydro Electric Board of the -- of the financial forecasts and the financial targets, those were forecasts and financial targets you were recommending to the Board, correct?

MR. DARREN RAINKIE: Well, that we were recommending -- the executive was recommending to the -- to the Board, Mr. Ghikas, it wasn't Darren Rainkie solely.

MR. MATTHEW GHIKAS: But you were -- you were the executive responsible for that, correct?

MR. DARREN RAINKIE: In conjunction with the CEO. We both attended all meetings. Of course, the plans, as I said, are consistent with the objectives of the Corporation and the policy of the Board.

So, certainly, when you -- when you make recommendations to a Board, you understand what the policy is, Mr. Ghikas.

MR. MATTHEW GHIKAS: Okay. Presumably, you wouldn't have brought forward if you didn't agree with it, right?

MR. DARREN RAINKIE: Well, Mr. Ghikas, as I said, I looked at the policy of the MHEB. You know, at the time that we prepared forecasts, the equity ratio was, you know, a long-standing ratio for Manitoba Hydro since 1995.

As I explained in my presentation, there's been a number of developments in the last four (4) or five (5) years that has caused, I think, all of us to question whether that really is the -- the best way to go about things, you know, to -- to start it here. I'm going to do this in reverse, because if I do it the other way, the Board won't know what I'm talking about.

But you start here. You plot a course twenty (20) years out you draw a straight line for twenty (20) years, and that's what the indicative rate increases are.

MR. MATTHEW GHIKAS: Mr. Rainkie, though, it does indicate that you provided a comprehensive review of the corporate financial targets. Presumably, you did a comprehensive review of them at that time and you concluded that the comprehensive review yielded that those financial targets were -- were good ones, right?

MR. DARREN RAINKIE: They were, but that was a number of years ago, sir. And, as I mentioned in my direct, the development of the uncertainty analysis and the potential to use it to -- to bring, I guess, both financial review and rate setting within a shorter time frame, perhaps in the next five (5) to ten (10) years, is, I think, the -- the key difference.

If I could go back in time and had more time, that was delivered to me very quickly before we concluded on the matter, I -- I would've liked to have seen the next generation of that analysis. If I was still there, that's what I would be keying on.

MR. MATTHEW GHIKAS: So the other aspect of this is an overview of your regulatory experience. And if we go to page 2, the second bullet, we actually have a bullet there relating to the 2015 GRA as well as the interim rates application for the 2016/2017 year.

And you -- you characterize your role as executive policy witness and chief regulatory strategist for that application, correct?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Okay. And you applied a top-down strategy driven approach and drove the transformation of rate applications to increase revenues and manage deterioration in the financial outlook and maintain reliable service and stable rates while balancing the interests of ratepayers with the financial integrity of the Corporation.

So that -- that was your role and what

you perceived your role to be in that application?

MR. DARREN RAINKIE: Yes, Mr. Ghikas, yeah.

MR. DARREN RAINKIE: And so one (1) of the things that you're touting there is that -- that application balanced the approach -- balanced the interests of ratepayers with the financial integrity of the Corporation, correct?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Okay. And with you as the chief regulatory strategist, it was your strategy to pursue the rate request in that application, correct?

MR. DARREN RAINKIE: Well, sir, the application was approved by the Manitoba Hydro Electric Board under its policy. My role was then to go explain that to the Public Utilities Board. You're you're personalizing this to me like I was the only person at Manitoba Hydro.

There was a Board that provided a directive to go and ask for rate increases, and that's -- that's what a top-down strategy approach means. I took the strategy of the Public Utilities Board, as we'll see in my presentation -- sorry, of the -- of the Manitoba Hydro Electric Boar -- Board, and I explained that to the Public Utilities Board. That's always on my role.

MR. MATTHEW GHIKAS: Well, don't -- don't get me wrong, Mr. Rainkie, I'm just reading your words back to you. And you say you're a chi -- you were the chief regulatory strategist. So you were in fact the chief regulatory strategist in that application?

MR. DARREN RAINKIE: As -- as the CFO is, Mr. Ghikas. Sorry, I'm not sure what your point is on that. I took the policy of the MHEB and the forecasts that were approved by it, and I came here and explained to the Board -- Public Utilities Board, the perspective of the Manitoba Hydro Electric Board.

I -- I don't see an inconsistency there whatsoever now.

MR. MATTHEW GHIKAS: Now, the -- the other aspect that I wanted to pursue from this morning, Mr. Rainkie, was that you -- you indicated that now, as an independent expert, your role is to -- to balance the interests.

And I took from that that you seemed -- you felt liberated from your role of -- at Manitoba Hydro and that you could now balance the interests. And -- and that surprised me given what you said in your CV, that your approach in 2014 was to balance the interests of ratepayers and the financial integrity of the Corporation. Can you explain that?

MR. DARREN RAINKIE: Well, in 2015, Mr. Ghikas, I mean, I -- I come from a background of an equity ratio, worked big four (4) accounting firm. I'm chartered business evaluator. I've worked for Centra Gas where we used a rate base rate of return methodology for decades.

So I guess it wasn't that hard for me to pick up on and use a equity ratio target in Manitoba Hydro that had been established ni -- in 1995.

But as I said earlier, I -- I've looked at that since and looked at the development since and looked at the Board's directive -- directives in Order 59/'18 since, and I think there's a better way to do it. And I -- you know, I think it's a free country.

I think we all have the ability to look back and make changes in that perspective, so.

MR. MATTHEW GHIKAS: And --

MR. DARREN RAINKIE: And that's my perspective. I don't think there's an inconsistency there at all.

MR. MATTHEW GHIKAS: And so, Mr.

Rainkie, just to clarify, you never put forward when you're testifying previously that there was a better way to do it, correct?

MR. DARREN RAINKIE: Well, Mr. Ghikas, at that application I didn't know that there was a better way to -- to do it. The uncertainty analysis that I think is a good tool right now was in its initial development in NFAT, but it hadn't kind of migrated.

It was -- it was a way at NFAT of explaining differential rate increases, but it hadn't quite migrated to being useful for looking at financial reserves and such.

MR. MATTHEW GHIKAS: Okay. If we can turn, Kristen, to page 26 of the Exhibit 30, that book of documents. So, Mr. Rainkie, this is one (1) of the documents that we provided to Mr. Williams and Ms. -- Ms. Dilay on Sunday.

This is a Manitoba Hydro 2015 GRA overview and reasons for the application with your name on it, sir?

MR. DARREN RAINKIE: Yes, I -- I presented this.

MR. MATTHEW GHIKAS: Okay. Now, just if we go to slide 3 which is on page 28 of 118, you'd agree with me that what this slide is saying is that the approach that you were putting forward in this presentation on behalf of Manitoba Hydro was balancing the need for investment and stable and predictable rates?

MR. DARREN RAINKIE: Yes, that's what it says.

MR. MATTHEW GHIKAS: Okay. And you'd also agree with me, sir, that when you spoke to the slide, you indicated that, had you been -- well, let me just get the words here -- had you been considering rate increases from a strictly financial point of view, it would -- Manitoba Hydro would be requesting rate increases in the order of 5 1/2 to 6 percent. We have maintained the proposed rate increases of 3.9 percent with the consideration of customer sensitivity and mind.

Does that sound familiar, sir?

MR. DARREN RAINKIE: Yes, sir. That was the position of -- of the Board and the executive Manitoba Hydro.

MR. MATTHEW GHIKAS: And you?

MR. DARREN RAINKIE: Yeah, and myself. Yeah.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Based on the -- the financial targets that were established at the time, Mr. Ghikas, of course. I mean, you don't make rate applications just out of thin air. You have a forecast. You have a certain target, and -- and that's what you use to make recommendations.

I don't -- I'm not sure what else you would do.

MR. MATTHEW GHIKAS: So, Mr. Rainkie, is it your position now that Manitoba Hydro doesn't need any equity in its capital structure?

MR. DARREN RAINKIE: No, sir. My position is that, if you -- if Manitoba Hydro does a better job of cost control as well as a 1.5 percent rate increase, it can get pretty much back to what it's seeking in this application. That's the balancing that I'm purporting, Mr. Ghikas.

MR. MATTHEW GHIKAS: Okay. And -- but Mr. Rainkie, let's just be clear on this. You regard it as important for Manitoba Hydro to have equity in its capital structure, right?

MR. DARREN RAINKIE: Sure. And it -- it looks like, based on the forecast, that its financial reserves are going to stabilize around the $3 billion level and probably be much higher when you look at the information that was available at this hearing, as I tried to explain in a long-winded fashion this morning.

MR. MATTHEW GHIKAS: Okay. So let's, if we can, turn to page 1 -- or tab 1, page 4 of Exhibit 30. This is a copy of Manitoba Hydro's response to PUB 1-62(a) asking for historical information, and if I could just ask you to turn over to page 5. The first two columns is -- or -- yeah, the first two columns.

Do you take any issue, first of all, subject to check, with any of the numbers about the historic rate requests and the -- and the approved numbers there? You can take them subject to --

MR. DARREN RAINKIE: Yeah. I will, Mr. Ghikas. I don't want to hang you up here.

MR. MATTHEW GHIKAS: All right. So would you agree with me, Mr. Rainkie, that in the last 15 years that PUB has never once ordered a rate increase as low as the one that you are recommending?

MR. DARREN RAINKIE: Has never -- Sorry, Mr. Ghikas. You faded out there at the end.

MR. MATTHEW GHIKAS: Has never once

recommended a rate increase as low as you are recommending in the last fifteen (15) years.

MR. DARREN RAINKIE: That Manitoba -- sorry -- Manitoba Hydro hasn't recommended or --

MR. MATTHEW GHIKAS: PUB has never approved.

MR. DARREN RAINKIE: Okay. Sorry. Now I'm on track with you. Let me just look at the approved column.

MR. MATTHEW GHIKAS: So I think the low -- the last time there's one less than 1.5 percent. You have to go back to 2003, right?

MR. DARREN RAINKIE: So is that the new regulatory standard, Mr. Ghikas or -- I guess I'll address the Board. Is that the new regulatory standard that --

THE CHAIRPERSON: You know, Mr. Rainkie, I think --

MR. MATTHEW GHIKAS: I just -- I'm --

THE CHAIRPERSON: -- your answer is a yes and no. It's not asking us or asking counsel.

MR. MATTHEW GHIKAS: Mr. Rainkie, I'm just -- I'm --

THE CHAIRPERSON: He keeps asking you a question.

MR. MATTHEW GHIKAS: Okay.

THE CHAIRPERSON: If you go through the sheet and answer is there -- is there a rate of 1.5 or less in the past fifteen (15) years?

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: The last time is 2003, isn't it?

MR. DARREN RAINKIE: Yes, I see that.

MR. MATTHEW GHIKAS: Okay. And then that year, the PUB ordered a 0.72 percent decrease, right?

MR. DARREN RAINKIE: That's my memory, yes. That's correct.

MR. MATTHEW GHIKAS: Followed the very next year by a 5 percent increase?

MR. DARREN RAINKIE: Yes. That was related to a drought, Mr. Ghikas.

MR. MATTHEW GHIKAS: Right. And then if we look at the more recent approved increases -- you have these set out on page 54 of your evidence as well -- but if we look at them, in 2015/2016, the approved amount was 3.9 percent?

MR. DARREN RAINKIE: '15/'16, Mr. Ghikas?

MR. MATTHEW GHIKAS: Yes.

MR. DARREN RAINKIE: Oh, that 3.95.

MR. MATTHEW GHIKAS: Three point nine five, yes. And that is more than Manitoba Hydro is applying for in this application obviously, right?

MR. DARREN RAINKIE: Yes, that's simple math.

MR. MATTHEW GHIKAS: Yeah. And double what you are proposing, more than double, right?

MR. DARREN RAINKIE: If you only narrowly look at the rate increase, Mr. Ghikas. I'm proposing that with cost control, it's the equivalent of 2.8 percent.

MR. MATTHEW GHIKAS: And in 2016/'17, that's 3.3 percent?

MR. DARREN RAINKIE: Yes, with the same answer, Mr. Ghikas.

MR. MATTHEW GHIKAS: Yeah. And '17/'18, 3.3 percent?

MR. DARREN RAINKIE: Three point three six, (3.36), yes, Mr. Ghikas.

MR. MATTHEW GHIKAS: And in 2018/2019, 3.6 percent, right?

MR. DARREN RAINKIE: Yes, Mr. Ghikas.

MR. MATTHEW GHIKAS: And that was the

rate increase approved by the PUB in the order that also discussed signaling a new approach, correct?

MR. DARREN RAINKIE: That's correct. Order -- the last order from the last hearing.

MR. MATTHEW GHIKAS: And in your evidence -- we don't have to necessarily turn there; I think your math will be good -- but in your evidence on page 54, you calculated the averages over the recent four years, and that was 3.4 percent, correct?

MR. DARREN RAINKIE: Yes, Mr. Ghikas.

MR. MATTHEW GHIKAS: Okay. And now, in your -- in your evidence, if we can turn to page 10 please.

MR. DARREN RAINKIE: Right.

MR. MATTHEW GHIKAS: So page 10 under the heading 1.7, that's where you set out your overall conclusions, correct?

MR. DARREN RAINKIE: Correct.

MR. MATTHEW GHIKAS: And you provide four (4) summary reasons there, correct?

MR. DARREN RAINKIE: Sorry, Mr. Ghikas. You're -- you're cutting out on me.

MR. MATTHEW GHIKAS: Sorry. And you provide four (4) summary reasons there, correct?

MR. DARREN RAINKIE: Yes, I think. I

was searching to see if there was a fifth, but I think there's only four.

MR. MATTHEW GHIKAS: And every one of those supporting four points is referring to the financial position of Manitoba Hydro in '19/'20 alone, correct?

MR. DARREN RAINKIE: Yes. Of course, any rate change or cost reduction of Manitoba Hydro would continue on forever.

MR. MATTHEW GHIKAS: My point being, though, Mr. Rainkie, is you made no reference in the overall conclusion to Manitoba Hydro's financial position beyond that single year, correct?

MR. DARREN RAINKIE: No. But from my experience, I would know that a 1.5 percent rate increase and $22 million of cost reductions would translate into the IFF. I was responsible for the IFF for a number of years, Mr. Ghikas.

MR. MATTHEW GHIKAS: Okay. And now you've made the point obviously, Mr. Rainkie, that looking at a single year in isolation isn't what the Board normally does, right? You spoke about that extensively.

MR. DARREN RAINKIE: Yes, under the -- under the former rate-setting methodology that's been used. It's -- we tend to look forward, yes.

MR. MATTHEW GHIKAS: Right. And you've -- you refer to that in your evidence as the modified cost of service approach, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And you characterize that on page 44 of your evidence as essentially a rate-smoothing approach designed to promote rate stability and predictability for customers and balance the financial integrity of Manitoba Hydro with the rate impact some customers over the longer term, correct?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And rate smoothing is a good thing, Mr. Rainkie?

MR. DARREN RAINKIE: Yes, it is, Mr. Ghikas. I don't think anybody in this forum disagrees with that.

MR. MATTHEW GHIKAS: And as is predictability for customers?

MR. DARREN RAINKIE: Yes. Customers expect value, as well, Mr. Ghikas, not just rate increases. But there's more than -- there's more than that the customers expect, sir.

MR. MATTHEW GHIKAS: And balancing the

financial integrity of Manitoba Hydro with the rate impact some customers over the longer term is also a good thing, right?

MR. DARREN RAINKIE: That's right, combined with appropriate cost controls, sir.

MR. MATTHEW GHIKAS: Okay. Now you've, in fact, said in the past proceedings -- and we can go there if you like -- but essentially, if we're going to maintain rate stability for customers, we better pay attention to the future when we set rates; is that fair?

MR. DARREN RAINKIE: Yeah. That's why I was surprised that there was no financial forecast in this application because it kind of renders the past rate-setting methodology not capable of being applied.

MR. MATTHEW GHIKAS: Well, there is a financial forecast in the sense that there is Exhibit 93, correct?

MR. DARREN RAINKIE: No.

MR. MATTHEW GHIKAS: You just don't want to use it.

MR. DARREN RAINKIE: Well, I think -- I think I've already explained why that is an outdated and kind of misleading exhibit in 93.

But you know what, Mr. Ghikas? I -- I hope I made my point clear this morning that you can't manufacture a new forecast through one-off calculations. There's thousands of assumptions that go into an IFF.

So I think it's a fool's game to kind of, you know, make an adjustment here or two (2), and then I'll make one; you'll make one; Mr. Hacault will make one; I'll make another one. Where do we get to in that? Do we get to an overall product or not? I think we just have a bunch of different takes on -- on something, so.

MR. MATTHEW GHIKAS: And, Mr. Rainkie, if we look at page 46 of your evidence in section 5.2, that's the section where you set out essentially why you don't think that the rate-setting framework -- the modified cost of service framework -- can be used in the absence of a reliable forecast, right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And a couple of times in that section, you'll see -- for example, in the second paragraph there -- you referred to -- you referred to Manitoba Hydro as essentially self-imposing a one-year rate application, and you say that a couple of times. And my question to you is whether -- doesn't the Board get a say in how the applications are heard?

MR. DARREN RAINKIE: Yes, it does. But sorry, I'm not sure I'm connecting what those two (2) things are. Like, you -- you haven't provided a financial forecast to the Board for consideration.

The Board having a say: Of course, it always has a say. It's -- it's the Board's proceeding. But I'm not sure how you're connecting the two.

MR. MATTHEW GHIKAS: The Board has commented on the use of Exhibit 93 in this proceeding, right?

MR. DARREN RAINKIE: Can you point me to what you're referring to, Mr. Ghikas?

MR. MATTHEW GHIKAS: I'm referring to the letter of the Board of November 21st, 2018, PUB 1.

MR. DARREN RAINKIE: And what, in particular, are you asking me about, sir?

MR. MATTHEW GHIKAS: I'm just -- I'm just asking you, sir, to recognize that the PUB has actually spoken to this issue. If you want to see it specifically, it's the Board expects --

MR. DARREN RAINKIE: Sorry. Mr. Ghikas, I'm going to need more -- like, to agree to something, I'm going to need a more specific question. I -- I can't read a seven-page or a four-page letter in three (3) seconds. So if you can point me to something, I'll -- I'll respond to it.

MR. MATTHEW GHIKAS: Let's -- let's leave it. Let's leave it at this, Mr. Rainkie, 'cause I'm not going to get into a debate with you about what the letter says or not. That wasn't my intention.

Really, you didn't -- you didn't in this section 5.2 address that PUB's determinations in their letter of November 21st.

MR. DARREN RAINKIE: I'm not sure about 5.2, sir. But I addressed as my evidence that the PUB indicated that the financial -- long-term financial forecast was out of the scope. That meant something to me back in Order 119 on January 1st. I thought that meant that we were looking at a one-year rate application.

I didn't in my wildest dreams, after 30 years of being involved in this process, believe that we were going to seriously set rates from an illustrative calculation. I have not seen that in 30 years in this jurisdiction.

MR. MATTHEW GHIKAS: And the PUB does have a say in how the application unfolds, right?

MR. DARREN RAINKIE: Well, of course, sir. It's the ultimate arbiter.

MR. MATTHEW GHIKAS: This is a convenient time, Mr. Chairman.

MR. CHAIRPERSON: Mr. Ghikas, can I ask you for a rough estimate of how long you think you'll be this afternoon?

MR. MATTHEW GHIKAS: I do expect that I will be a while. I've got a number of things to cover. I know that time allocated me. My full expectation is to remain within the time that you've allocated. I've --

MR. CHAIRPERSON: I'm going to ask Mr. -- put Mr. Peters on the hook. I'm just wondering in terms of how long we take for lunch time.

MR. MATTHEW GHIKAS: Oh.

THE CHAIRPERSON: That's all.

MR. MATTHEW GHIKAS: Yeah. If we -- I was anticipating you would be taking the full hour, and I can live within that.

MR. CHAIRPERSON: Okay. So you think you would be what? Sorry.

MR. MATTHEW GHIKAS: It would be from 1 to --

MR. CHAIRPERSON: 3:45?

MR. MATTHEW GHIKAS: Yes. And I'm hoping it won't take that long.

MR. CHAIRPERSON: Mr. Peters, are you okay with the time after that?

MR. BOB PETERS: Yes, I will be.

MR. CHAIRPERSON: Okay. Thank you. So we'll adjourn for -- until one o'clock. Thank you.

MR. BOB PETERS: Thank you, Mr. Chairman.

--- Upon recessing at 11:59 a.m.
--- Upon resuming at 1:02 p.m.

THE CHAIRPERSON: Before we start, Mr. Shefman, are you online?

MR. COREY SHEFMAN (by phone): Yes, I am, Mr. Chair.

THE CHAIRPERSON: Okay. Thank you. Mr. Ghikas...?

MR. MATTHEW GHIKAS: Thank you, Mr. Chairman.

THE CHAIRPERSON: I'll just point for your notice, Mr. Ghikas, this is called sun outside.

MR. MATTHEW GHIKAS: I was aware of that, yes. Yeah.

THE CHAIRPERSON: Thank you. This morning, we had Vancouver weather. Now we have Winnipeg weather --

MR. MATTHEW GHIKAS: I noticed a distinct improvement.

THE CHAIRPERSON: -- thank you.

MR. MATTHEW GHIKAS: Yeah. I appreciate you doing that for me, Mr. Chairman.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Okay. Mr. Rainkie, I'd like to start with your evidence at page 49. And this is section 5.3, where you indicate that Manitoba Hydro's IFFs are subject to significant changes when they are updated for more current information and planning assumptions.

Do you -- are you with me?

MR. DARREN RAINKIE: Good afternoon, Mr. Ghikas. Yes.

MR. MATTHEW GHIKAS: Yes. Good afternoon to you, too.

The -- so this is the section where you outline, as you did on, I believe it was slide 41, the significant volatility as between updates making -- making, in your view, it difficult to rely on Exhibit

93, correct?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. So if we go over to page 51 -- sorry, 51 -- 50, pardon me. So here you have the key observations underneath this table. And just -- that's perfect. Actually, if you can scroll up slightly, Kristen, a little more. Thank you.

Okay, so these observations -- just to orient people, these observations are related to the line that says six (6) years after Keeyask in service 'A' and 'B'?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. And what you're essentially doing is taking the cumulative net income or losses, as the case may be, for each of the IFFs and indicating what they are for those six (6) years across that line?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Okay. So now the first observation you have, you indicated it -- well, the -- the first two (2), I guess, go hand-in-hand, and what essentially you're saying here is that between the preparation of MH 2012 and MH13, the cumulative financial results deteriorated by 855 million, right?

MR. DARREN RAINKIE: Yes, between '12 and '13, sir, if I'm tracking with you, yeah.

MR. MATTHEW GHIKAS: Yeah. And then if you look at the third observation, you're essentially making a point that in the one (1) year between MH13 and MH14, the projected cumulative financial results for that same six (6) year period were $772 million of losses, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And -- and so a further deterioration of approximately $1 billion, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And in observation 4, you are saying that between MH14 and MH15, there was a significant turnaround in the cumulative six (6) year results, and they improved by over $1 billion over that same six (6) year period, right?

MR. DARREN RAINKIE: I'll accept that math. Yes, sir.

MR. MATTHEW GHIKAS: And now, Mr. Rainkie, you were actually at Manitoba Hydro during this period that is depicted in the figure on page 50, MH12 through to MH15, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Okay, so now let's take a look at how the Company, with you as the chief regulatory strategist, responded to those changes. So in -- so MH-12, that was premised on 3.5 percent increase for 2013/2014, right?

MR. DARREN RAINKIE: Sorry, sir, can you repeat that?

MR. MATTHEW GHIKAS: So MH12 was premised on a 3.5 percent increase for 2013/'14?

MR. DARREN RAINKIE: Yes, that's my recollection.

MR. MATTHEW GHIKAS: Okay. And then indicative rate increases of three point nine-five (3.95) stretching out for the remainder of the forecast period, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And then MH13, you had been promoted to vice president, right?

MR. DARREN RAINKIE: Yes, Mr. Ghikas. Yes.

MR. MATTHEW GHIKAS: And so you were faced with the $855 million deterioration in those six (6) years after Keeyask, and MH13 maintained the same three point nine-five (3.95) indicative rate trajectory, right?

MR. DARREN RAINKIE: Yes, it did.

MR. MATTHEW GHIKAS: And now MH14 came along, and there was a further approximately billion dollar loss over those same six (6) years, and the -- Manitoba Hydro, under your direction as the strategist, applied for a 3.95 percent increase in the 2015 GRA, right?

MR. DARREN RAINKIE: Yes, that's right. You can see how my point earlier that searching on a 25 percent equity ratio in twenty (20) years is not very responsive to change in costs.

MR. MATTHEW GHIKAS: And -- and then also a three point nine-five (3.95) in 2016 and 2017 under that rate application too, right?

MR. DARREN RAINKIE: Yes, they were all three point nine-five (3.95), based on the goal seek, Mr. Ghikas.

MR. MATTHEW GHIKAS: All right. And the MH15 came, and there was an improvement of over $1 billion from MH14 over those six (6) years, and again -- correct?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Yeah. And IFF15,

or MH15, that was the basis for Manitoba Hydro's 2016/'17 supplemental application for rates effective April 1st, 2016, right?

MR. DARREN RAINKIE: Let me think about that, yes, I -- I'll go with you on that.

MR. MATTHEW GHIKAS: And that was an application that you were also responsible for as the chief regulatory strategist, correct?

MR. DARREN RAINKIE: I might have been acting CAO at that time, but yes.

MR. MATTHEW GHIKAS: Okay. And the interim rate request was again, Mr. Rainkie, three point nine-five (3.95), right?

MR. DARREN RAINKIE: Yes, and we're seeing the pattern here that I mentioned earlier in my direct.

MR. MATTHEW GHIKAS: Okay.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Sorry. Yes, Mr. Ghikan -- Ghikas. We're seeing the -- the pattern here that I talked about in my direct evidence this morning.

MR. MATTHEW GHIKAS: Okay. And the

same indicative three point nine-five (3.95), right?

MR. DARREN RAINKIE: That's right.

MR. MATTHEW GHIKAS: And so that was irrespective of changes in operating cost requirements, still a three point nine-five (3.95) trajectory, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And irrespective of changes in the Capital Plan, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: Irrespective of water levels, right?

MR. DARREN RAINKIE: Water levels at the front end, I suppose, because there would be a normal assumption after the first year or two (2).

MR. MATTHEW GHIKAS: You were assuming an average, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And irrespective of the export price forecast, right, still three point nine-five (3.95)?

MR. DARREN RAINKIE: Yes, Mr. Ghikas. I think it was irrespective of all of the assumptions, if you want to go through them.

MR. MATTHEW GHIKAS: I will, yes. So

irrespective of domestic demand forecast, too, right?

MR. DARREN RAINKIE: Yes, that's why that goal seek is a very blunt -- blunt target.

MR. MATTHEW GHIKAS: And irrespective of the debt levels or the equity level, right?

MR. DARREN RAINKIE: Yes, it -- it -- as I said, it's a -- it's a goal seek, so that calculation doesn't change.

MR. MATTHEW GHIKAS: And irrespective of the capital coverage ratio, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And irrespective of the interest coverage ratio, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: Okay. Now I'd like to turn to your evidence at page 64, please.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: The -- so the first paragraph at the top of 64 -- so this -- this says that if the proposed 3.5 percent rate increase is approved by the PUB, Manitoba Hydro's projected net income for '19/'20 of 115 million would be $87 million higher than the adjusted net income expected in the last GRA, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: Okay. Now you are presumably aware of Manitoba Hydro's evidence as to what's driven that improvement, correct?

MR. DARREN RAINKIE: Yes, I think I had it in one (1) of my slides.

MR. MATTHEW GHIKAS: Yeah, and it's in Appendix A as well. The -- so you understand that -- that rate increase is driven by improved water flow conditions and higher realized export prices?

MR. DARREN RAINKIE: The rate increase is driven by that, sir? I'm not sure I'm understanding your question.

MR. MATTHEW GHIKAS: That -- sorry, the -- pardon me, I misspoke. The improvement in net income, the $87 million, a significant driver of that is improved water conditions, right?

MR. DARREN RAINKIE: Yeah. It looks like we're getting back to average water conditions, and there's been lower Bipole costs, and not as much DSM spending, I think are the three (3) factors.

MR. MATTHEW GHIKAS: Okay. So if we can turn now to the book of documents, please, Kirsten, to page 23 of 118. And that's at tab 2.

DR. BYRON WILLIAMS: So I'll just indicate we did have the material not filed, but I -- I'm not sure we've ever been given the book of documents, so we will just -- may take a -- a couple seconds later to move along with the pages, but we'll stay with you, Mr. Ghikas.

MR. MATTHEW GHIKAS: Okay. I'll give you, Mr. Williams, the pages of the transcript as well.

All right. So -- so this is transcript from the Manitoba 2015 GRA, right?

MR. DARREN RAINKIE: That's my understanding.

MR. MATTHEW GHIKAS: And you testified at that preceding, right?

MR. DARREN RAINKIE: Correct.

MR. MATTHEW GHIKAS: Okay. So if we go to...

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: Page 1,800 of the transcript, in the upper right-hand corner, so here you have, just to orient us here, Ms. Carriere speaking, and she reported to you at that time, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And she's explaining at line 9 that the forecast is based on average water flows, and we just talked about that, right?

MR. DARREN RAINKIE: That's my understanding of the context, sir, just from looking at this snippet.

MR. MATTHEW GHIKAS: Right. And so she indicates at line 13, for example, that's what the 3.95 percent rate increases are predicate on -- predicated on. You might have short-term vol -- variability, but over the long term the 3.95 percent increases are what we need. So that's -- that's her evidence at that point, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Okay, all right. And then -- and then you go in to build on that response, Mr. Rainkie, at line 19 and you say:

"So, sir, just to follow up on that, just kind of the law of averages, if we were to take a short-term view of things and have a lower rate increase than 3.95 because of the short-term favourable water flows, mathematically if you accept that things will revert to average at some point and there'd be -- there will be lower water flows somewhere along that, then we would need higher rate increases at some point to get back to the 3.95. So it really depends on whether you want to take a short-term view of things or a long-term view of things. If you want to take a long-term view of things, we shouldn't veer off in either direction because of short-term pluses and minuses. And Manitoba Hydro, at least as long as I've been involved in the Corporation and as far as I can see back earlier than that, has a real gradual way of looking at this. That's the 3.95 percent, sir, drawing a straight line in terms of what we need. We're accepting losses in many years of the forecast after year three (3) or four (4), so our rate applications are not overly sensitive to short-term increases or decreases. We're taking a long-term view and of course we encourage the Board to take a long-term view as well, so that we can maintain those gradual 3.95 percent rate increases, if we steal from the front and we're going to have to give back at the back end, and it's kind of a mathematical thing in the end, you know, if you assume that things will be average over time."

And then the Chairperson goes on and asks a clarifying question, and at line 10 you provide a further response. You say:

"Exactly what we've been saying is I think we're trying to be open with the Board and customers that we expect 3.95 percent and that we're going to do as much as we can to maintain that level of rate increase and we're not going to veer up or down unless there's a big change in the long-term outlook."

Now, Mr. Rainkie, that was your

evidence at that time, right?

MR. DARREN RAINKIE: Yes, based on the policy of MHEB, yes.

MR. MATTHEW GHIKAS: And so you were encouraging the Board to take a long-term view and not a short-term view, right?

MR. DARREN RAINKIE: Yes, sir. The three nine fives were based on a 20-year review, so.

MR. MATTHEW GHIKAS: And you considered it important when preparing your integrated forecasts and your rate applications to be open about a 3.95 percent expectation, right?

MR. DARREN RAINKIE: Yes. I don't think we held back any information in that regard, Mr. Ghikas.

MR. MATTHEW GHIKAS: And your strategy as the Chief Regulatory Strategist was not to gear up or down unless there's a big change in the long-term outlook, right?

MR. DARREN RAINKIE: Sir, I'm not sure what the Chief Regulatory Strategist has to do with it, but the policy of the Manitoba Hydro Electric Board under these years of the forecast was to develop an average rate increase over a 20-year time frame, so I was explaining that policy to the Board at this --

on -- at this particular hearing. I guess the question becomes -- at that point we actually had a reliable long-term forecast to look at at this point, and for this proceeding we don't even but...

MR. MATTHEW GHIKAS: So at that point then the $855 million deterioration between MH12 and NH13 wasn't big enough of a change to depart from the trajectory, was it?

MR. DARREN RAINKIE: No, under that policy, and I think that's the problem, you know, for the Board members is that is it good to have a -- a rate-setting methodology that isn't responsive to changes in financial position. It's essentially a goal seeking, a -- and a Excel spreadsheet or a FNOR spreadsheet.

That's -- I'm not disagreeing with what you're saying in terms of -- I mean, this is the transcript, this is what it says, Mr. Ghikas, but I'm just trying to, like, clarify my evidence for both you and the Board. Is that a good way to set rates. I don't know. I've -- I started to question that myself in the last period of time.

MR. MATTHEW GHIKAS: And so similarly the improvement of over a billion dollars between MH14 and MH 15, that wasn't a big enough change either, right?

MR. DARREN RAINKIE: Well, yes, for the reasons I just explained, sir.

MR. MATTHEW GHIKAS: Right. And -- and now we have a 38-page appendix detailing the components of a one-year $87 million improvement between what was expected in the last decision and today, right?

MR. DARREN RAINKIE: Sorry, I'm not sure I understand the relevance of 38 pages, sir.

MR. MATTHEW GHIKAS: Well, maybe you can just answer my question. You filed an appendix, the purpose of which seems to be to articulate the details of an $87 million improvement between what you say was expected at the time of the last decision and today, right? That was the purpose of the appendix.

DR. BYRON WILLIAMS: Just -- Mr. Ghikas, you're referring to Appendix A to their evidence?

MR. MATTHEW GHIKAS: Yes.

MR. DARREN RAINKIE: Yes, that was the purpose. That is the only forecast that's before the Board.

MR. MATTHEW GHIKAS: And it -- and -- and that conclusion about the 87 million, that became the very first slide in your presentation, Slide 2, right?

MR. DARREN RAINKIE: Yes. And it actually was a $92 million improvement before you look at rate increases, sir, but, yes.

MR. MATTHEW GHIKAS: And so -- and that's the basis you say, sir, for reducing the rate increase from a 3.6 percent one in -- last year, to 1.5 percent now, right?

MR. DARREN RAINKIE: No, sir. That -- that -- that's not the case. What I'm saying is -- what's the old adage -- a dollar saved is two dollars earned. If you combine cost savings by Manitoba Hydro with a 1.5 percent rate increase, you can get close to a 2.8 -- the effect of a 2.8 percent rate increase, which is not too far off the 3.5 that Manitoba Hydro is requesting. I'm just saying we can get to it in a different way. I think these hearings are about options and I'm presenting a different option to the Board.

MR. MATTHEW GHIKAS: Okay. In -- if we look again at page 50 of your evidence, Mr. Rainkie, and we look at the figure again, if -- in your evidence -- your opening presentation this morning, Mr. Rainkie, you -- you noted that at the time of IFF14, that was very poor financial -- the time -- a very poor financial performance, and you noted the improvement that had occurred since then, right?

MR. DARREN RAINKIE: Yes, I -- I -- as I recall, retained earnings were grinding down by a billion or more dollars in that forecast.

MR. MATTHEW GHIKAS: Right. So -- but you were also at Manitoba Hydro, as I think we've established, for the creation of MH15, right?

MR. DARREN RAINKIE: Yes, I was, sir.

MR. MATTHEW GHIKAS: And if we were to compare MH15 to Exhibit 93, there would be a $715 million reduction, right, over those six (6) years?

MR. DARREN RAINKIE: If you looked at Exhibit 93 as it existed twelve (12) months ago in this hearing process -- I think if you looked at it as it existed today, I'm not sure because, as I noted in my direct, there's a $567 million improvement in debts. I'm not sure exactly where we sit right now.

MR. MATTHEW GHIKAS: Okay. And the -- it's improved though. Sorry, it's -- it's deteriorated since MH15.

MR. DARREN RAINKIE: I'm not sure, sir. I -- I don't have -- we don't have the forecast to determine that, so, you know, I'm not sure I can answer that question. I did my best in Figure 2, like when I reviewed in Slide 5 of my presentation, I did my best to look at Figure 2 and update the Board of -- of Manitoba Hydro's rebuttal and update the Board on what I -- what I thought we were at, but that's about the best I can do with one-off calculations and -- and illustrative calculations.

MR. MATTHEW GHIKAS: Okay. Let's turn to your opening presentation from the 2015 GRA. That's in the Book of Documents, tab 3, page 26. And I'm at Slide 50 of that, which is page 75 of 118.

MR. DARREN RAINKIE: Sorry, Mr. Ghikas, can you give me that cite one more time, please?

MR. MATTHEW GHIKAS: Sure. So I'm at Slide 50 of it, if -- if you're going off the slide numbers.

MR. DARREN RAINKIE: No, and I've got it on the screen now, sir. That's fine, I'm okay. I'm oriented with you, sorry.

MR. MATTHEW GHIKAS: All right, that's fine. That's fine.

All right. And so you -- at that time, sir, if you look at the bullets below, you were -- you were indicating the potential for financial results to change significantly based -- or to change quickly, correct?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And you were articulating that it's necessary that rate increases be implemented gradually, even in years with favourable water flows and financial results to balance out the inevitable years with lower water conditions in order to maintain average rate increases of 3.95 percent, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And you'd agree with me that today, sir, Manitoba Hydro's financial results are still subject to significant volatility based on potential changes in water flows?

MR. DARREN RAINKIE: Yes, they are, sir. Maybe a little less -- Mr. Bowman is the master of this in terms of going through the drought risk and figuring out the calculations. It -- it might have lessened a little bit but it's still a significant volatility, sir.

MR. MATTHEW GHIKAS: And the water flow conditions can change quickly, right?

MR. DARREN RAINKIE: Well, Mr. Cormie

is the mater os that and -- yes, I -- I understand that. We never doubt Mr. Cormie.

MR. MATTHEW GHIKAS: And the -- you're aware of Manitoba Hydro's evidence that the rapid turnaround in the water flow conditions, that took place over a relatively short period of time, between -- between the application and the supplement, right?

MR. DARREN RAINKIE: I think that occurred in the fall, because of a lot of rain, sir. I'm not sure how or what time frame the application was prepared but --

MR. MATTHEW GHIKAS: Now obviously water flow is not something that Manitoba Hydro can control, right?

MR. DARREN RAINKIE: No. That's why it has financial reserves, sir.

MR. MATTHEW GHIKAS: And the export prices, obviously Manitoba Hydro can't control those either, right?

MR. DARREN RAINKIE: No, unless Mr. Cormie has some strategies. I'm sure there's something he does in the marketplace to -- to get the most money that he can for Manitobans, sir, but ultimately mother nature will do what it -- it does.

MR. MATTHEW GHIKAS: And similarly

with the exchange rate?

MR. DARREN RAINKIE: Well, the exchange rate, we can't control it, but Manitoba Hydro has a -- a program to manage that by managing the inflows and outflows of US dollars to try to mute that the impact on its financial results.

MR. MATTHEW GHIKAS: And it still remains inevitable, to use your words from the slide, that there will be years of lower water conditions, correct?

MR. DARREN RAINKIE: Yes, that's -- that's why we have financial reserves, sir.

MR. MATTHEW GHIKAS: Okay. And if you go over one more slide, this also sets out the perspective that you are putting forward to the PUB, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And one of the things that you've indicated here is that the potential for rate instability for ratepayers is especially considering the upcoming period of extensive investment. You see that?

MR. DARREN RAINKIE: Yes. Back then was -- we were just starting the two (2) large projects, sir.

MR. MATTHEW GHIKAS: Right, and you were also in the process of replacing assets due to aging, correct?

MR. DARREN RAINKIE: Are you referring to Pointe du Bois, et cetera, sir?

MR. MATTHEW GHIKAS: Just general sustainment capital. There was aging assets, post-war assets.

MR. DARREN RAINKIE: Yes, sir. I'm with you on that, sir, yeah.

MR. MATTHEW GHIKAS: All right. So Manitoba Hydro is still in that process of replacing those aging assets, isn't it?

MR. DARREN RAINKIE: Yes, sir, it is.

MR. MATTHEW GHIKAS: And Bipole has just come into service, right?

MR. DARREN RAINKIE: Thankfully, yes, sir.

MR. MATTHEW GHIKAS: Okay. And Keeyask is still under way but potentially coming into service in 2020, right?

MR. DARREN RAINKIE: That's my understanding from the testimony, sir, yes.

MR. MATTHEW GHIKAS: And it will start affecting rates at that point?

MR. DARREN RAINKIE: It'll start affecting costs. I guess when it starts affecting rates is part of this process as well, sir.

MR. MATTHEW GHIKAS: Okay. And essentially there's only one rate cycle between this one and when Keeyask is slated to come into effect, right, come into service?

MR. DARREN RAINKIE: Oh, I'm not sure, sir. I think it's -- there's some variability. There could be one (1) or two (2), but I'm not sure. I don't understand that Manitoba Hydro's application is an emergency application for relief.

I mean, the fact Keeyask -- we knew Keeyask was going to come in for a number of years, and so this is -- this is the plan that was set before, sir. So -- so, I -- I don't know, like, one (1) rate cycle, I'm not sure if the whole world turns on that, sir, is my -- my point.

MR. MATTHEW GHIKAS: It was -- it was just more a factual question.

MR. DARREN RAINKIE: Oh, I'm sorry, it might be between one (1) and three (3) rate cycles, sir.

(BRIEF PAUSE)

MR. DARREN RAINKIE: But sorry, sir, you're going to have to repeat that now. Now I got off -- Mr. Ghikas, what was the --

MR. MATTHEW GHIKAS: We'll leave it --

MR. DARREN RAINKIE: Okay.

MR. MATTHEW GHIKAS: -- on that note.

DR. BYRON WILLIAMS: Well, there was an answer. And -- and I believe the answer was between one (1) and three (3) rate cycles. But just so -- because I just want the transcript to be complete. So I think that was Mr. -- I'll ask you to confirm that, Mr. Rainkie.

MR. DARREN RAINKIE: Yes, sir, that's -- that's correct.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Okay. All right. Now, just changing tacts here a little bit, Mr. Rainkie, today you suggested -- or you, I guess, raised a rhetorical question, that you couldn't understand why Keeyask's advancement wasn't resulting in savings equivalent to the costs that would be incurred if the project was delayed, right?

Do you recall that?

MR. DARREN RAINKIE: Yes. I -- my

understanding was there was a large contingency placed into the Keeyask budget in the last GRA for the deferral of the project, so I was wondering why there wasn't a corresponding reduction for advancement, sir.

MR. MATTHEW GHIKAS: And the -- the key word is your answer there, sir, was, "wondering," right?

MR. DARREN RAINKIE: Yes. I don't think there's been evidence placed on that yet.

MR. MATTHEW GHIKAS: You haven't done a detailed analysis of the project costs, right?

MR. DARREN RAINKIE: How would I, sir? I haven't.

MR. MATTHEW GHIKAS: Right. And you weren't involved in the negotiation of the construction contract, right?

MR. DARREN RAINKIE: Well, not the most current, sir. I was involved -- well, I was involved in the redo of the contract back in 2016, sir, but not -- not of current.

MR. MATTHEW GHIKAS: Okay. And -- and you're not intimately involved in the scheduling of the project, obviously?

MR. DARREN RAINKIE: No, sir.

MR. MATTHEW GHIKAS: Okay. And you'd

agree that scheduling and achievement of milestones during construction has an impact on costs?

MR. DARREN RAINKIE: Generally, yes, sir.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: All right. So we can turn now to your evidence at page 37, please.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: Okay. So in this section 4.4, sir, you deal with the debt-equity ratio and -- and observe that it has not materially deteriorated since the last GRA, right?

MR. DARREN RAINKIE: That's correct, sir.

MR. MATTHEW GHIKAS: You'd agree that it's closer to what you regarded as an absolute minimum equity ratio in the past than it is to the target?

MR. DARREN RAINKIE: I thought we had looked at 10 percent as being a low point, sir.

MR. MATTHEW GHIKAS: Right. And so

the current debt equity ratio is closer to 10 than it is to 25?

MR. DARREN RAINKIE: Yes, sir. I mean, that was -- everybody when we went into this development plan knew that was going to be the case. You know, Manitoba Hydro only obtained its 25 debt equity in its sixty (60) some year history about two (2) or three (3) years in that whole history, so that's why I'm questioning whether or not it's an appropriate target for rate setting, let alone financial purposes.

MR. MATTHEW GHIKAS: All right. And if we go over the page to page 40, over two (2) pages I should say, just above the heading, "4.5," there's a paragraph that says -- that starts off with the phrase:

> "If the AOCI loss is held constant, then the equity ratio without the proposed increase is 13.63 percent, which is virtually identically to the 13.37 percent equity ratio in the adjusted MH Exhibit 93 calculation."

Do you see that?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. And the -- the AOCI loss that you're referring to is an additional $99 million loss, correct?

MR. DARREN RAINKIE: Is it ninety-fi -- 99 or 95, sir? It was in that area. I think it might be 95.

MR. MATTHEW GHIKAS: You may be right. You may be right. Yes, you're correct. Thank you.

MR. DARREN RAINKIE: I've been working on this too long, sir, and if I can remember that by the way, but...

MR. MATTHEW GHIKAS: All right. And just to be clear, what you're doing here when you say you're holding the AOCI constant, effectively, you're removing the effect of that additional $95 million AOIC loss, right?

MR. DARREN RAINKIE: Yes. I was trying to understand what would have caused that minor deterioration.

MR. MATTHEW GHIKAS: Okay. And when you were the CFO of Manitoba Hydro you signed off on the annual reports, correct?

MR. DARREN RAINKIE: Yes, I guess I signed one (1) sheet in it, sir, in the -- in the front of the financial statements, yes.

MR. MATTHEW GHIKAS: Right. And they included financial statements, right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And when you prepared and signed off on the annual reports, you didn't remove the impact of AOCI losses when determining the equity ratio, did you?

MR. DARREN RAINKIE: No, sir. We were reporting -- we were reporting in that situation what the equity ratio was. For this purpose, I'm simply analyzing, like, what is the change, is it something that is a permanent change in retained earnings or is does -- is it something that may change.

Like, this is a pension loss likely as a result of a change in a discount rate assumption. If that discount rate cha -- changes in the future, then that may reverse. So I don't think -- I was trying to understand is this a permanent reduction in Manitoba Hydro's financial position or not. That -- that was the purpose.

I mean, it's $95 million out of $3 billion of retained earnings, sir, so I probably shouldn't have even brought it up this morning, but -- but that's -- that's what I was trying to do, if that makes sense or if that's understandable.

MR. MATTHEW GHIKAS: It's actually more than the $87 million net income that you're referring to, isn't it?

MR. DARREN RAINKIE: Yes, but the pension is very sensitive to the discount rate. If the discount rate goes up, that could be wiped out next year. It -- it's -- that's why it's an unrealized. That's why it doesn't -- what do the -- the -- us accountants call it?

It doesn't recycle the net income. It never goes into net income. It sits in that little bucket because there's things that go up and down and they offset each -- each other over time, sir.

MR. MATTHEW GHIKAS: Things can change just like water levels, right?

MR. DARREN RAINKIE: Certainly, they can, sir, yeah.

MR. MATTHEW GHIKAS: All right. And when you guided the development of the corporate financial targets and the long-term financial forecasts, as your CV says, you didn't design the metrics to exclude the impact of AOCI losses, did you?

MR. DARREN RAINKIE: No, sir. That was for financial reporting. I think I've explained what I was trying to do here for the Board's understanding.

MR. MATTHEW GHIKAS: You were also using those metrics in rate setting, were you?

MR. DARREN RAINKIE: Well, sir, given that we were -- I'll have to think about that one given that we were goal seeking twenty (20) years out.

MR. MATTHEW GHIKAS: Well, then answer is, yes, isn't it, Mr. Rainkie? You --

MR. DARREN RAINKIE: No, sir, I'm -- I'm not sure the answer is, yes. Maybe you should rephrase the question, sir, because -- because the -- what we -- what we were goal seeking on was the achievement of the -- of the equity ratio twenty (20) years --

MR. MATTHEW GHIKAS: Right. And when you --

MR. DARREN RAINKIE: -- forward. And -- and I can't remember the assumption with respect to AOCI in the -- in the financial forecasts, if -- if it -- you -- you obviously don't forecast those kinds of things, right, those changes in discount rates.

So I can't remember if that went to zero or if that was a huge factor at the end of twenty (20) years, sir, so that -- that's all I'm trying to say.

MR. MATTHEW GHIKAS: And when you were responsible for Manitoba Hydro's 2016 interim rates application you didn't calculate the equity ratio by removing the impact of AOCI loss, did you?

MR. DARREN RAINKIE: No, sir, I didn't.

MR. MATTHEW GHIKAS: Okay. Now, if you can change to page 40 for me.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: So, section 4.5 here says the interest coverage ratio for Manitoba Hydro for 2019/'20 has slightly improved since the last GRA. Do you see that?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And that -- you're indicating that -- on -- without an increase, that's the outcome, right?

MR. DARREN RAINKIE: Yes. In this, I was trying to compare the -- the latest financial information without a rate increase to the last financial information with a rate increase.

MR. MATTHEW GHIKAS: All right. And so, if we go over the page to figure 7, we will see, if we compare the -- the change, that's a change from 1.53 to 1.56, correct?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: So a point zero three (.03) improvement?

MR. DARREN RAINKIE: Yes. That's why I said it was a slight improvement.

MR. MATTHEW GHIKAS: Right. So can you tell me, Mr. Rainkie, how many times when you were the chief regulatory -- or sorry, chief financial officer and VP of regulatory, did you say, you know, wait, there's been a point zero three (.03) improvement, and so we don't need three point nine five (3.95)?

That never happened, did it?

MR. MATTHEW GHIKAS: No. But that's not the purpose. I -- I'm just trying to do the first step in that three (3) pa -- part analysis of saying how did things change between this year and the last GRA without considering a rate increase, sir. That -- that's the sole purpose of this -- this figure.

MR. MATTHEW GHIKAS: Okay. And if we go over the page to page 42, there's a section on the capital coverage ratio for Manitoba Hydro. And you indicate:

"To the capital coverage ratio for
MH for 2019/'20 has slightly
improved since the last GRA."

And that again, sir, is without the increase, right?

MR. DARREN RAINKIE: Yes, that was the purpose of this analysis.

MR. MATTHEW GHIKAS: Okay. And so, if we go over to page 43, we see in the middle there at the bottom of the third bullet, it's an increase in -- of zero point one two (0.12), sir?

MR. DARREN RAINKIE: Yes. Oh, sorry. Yeah. I mean, it's, yeah, point one two (.12), sir.

MR. MATTHEW GHIKAS: Okay. And -- and so I'll ask you again, similarly, you never said when you were -- when you were responsible for the regulatory filings, wait a minute, we have a slight improvement in the capital coverage ratio in one (1) year, so we don't need 3.95 percent.

That didn't happen either, did it?

MR. DARREN RAINKIE: No, sir. But you're continually forgetting our recommendation has the effect of a 2.8 percent rate increase, sir, so it's -- I -- I don't think we're recommending to reduce the rate increase. I think what we're saying is there's another option in terms of setting rates for the Board that involves some greater cost control for Manitoba Hydro, so I hope that's clear.

MR. MATTHEW GHIKAS: All right. Changing gears here for a moment, Mr. Rainkie. I actually had some questions just aimed at you because you're -- you have your accounting and finance designations. And I wanted to use you to clarify a few financial concepts if you wouldn't mind, and that is on the topic of EBIT, E-B-I-T, versus EBITDA, E-B-I-T-D-A.

There's been a reference in -- in the proceeding to EBIT to in -- interest coverage ratio as well as an EBITDA to interest coverage ratio. And I just want to make sure that it's clear about what each of those means, okay?

MR. DARREN RAINKIE: Sure.

MR. MATTHEW GHIKAS: So, now, the 'E' in the EBIT or EBITDA stands for earnings, right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And at a -- at a high level, corporate earnings are essentially a company's profits in a given period after expenses have been paid, right?

MR. DARREN RAINKIE: I'll accept that,

yes.

MR. MATTHEW GHIKAS: And now, in terms of what expenses Manitoba Hydro has, it doesn't pay income taxes, right?

MR. DARREN RAINKIE: Excuse me, sir. No, it doesn't.

MR. MATTHEW GHIKAS: Okay. But its expenses will include depreciation and amortization, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And so, earnings, like depreciation expense, are not necessarily cash, right?

MR. DARREN RAINKIE: No, sir. I mean, there's -- there's a big difference between accounting earnings and cash.

MR. MATTHEW GHIKAS: Okay. So, now, Manitoba Hydro used to use only an EBIT to interest coverage ratio, right?

MR. DARREN RAINKIE: That's correct, sir.

MR. MATTHEW GHIKAS: And you were involved in the decision to adopt an EBITDA to interest coverage metric, correct?

MR. DARREN RAINKIE: Yes. If I

remember correctly, it was a recommendation from KPMG, but the reason why is a little foggy in my mind, but I'm sure we're coming to that, you'll remind me of that.

MR. MATTHEW GHIKAS: So the target was -- that was set for EBIT to interest ratio was one point two (1.2) times. Is that -- recall?

MR. DARREN RAINKIE: Yes, I recall that, sir.

MR. MATTHEW GHIKAS: Okay. And the target -- the EBITDA interest ratio -- interest coverage ratio was 1.8 times, correct?

MR. DARREN RAINKIE: Yes. There was some form of a proration of that to get from the 1.2. I'm not sure there was a real sophisticated calculation as I recall, some kind of a proration how one would relate to the other.

MR. MATTHEW GHIKAS: Okay. Can you explain though why EBITDA interest target would tend to be higher than an EBIT to interest target?

MR. DARREN RAINKIE: Because you're adding back-- you're added back depreciation and amortization.

MR. MATTHEW GHIKAS: Okay. And so now, in the case of Manitoba Hydro, the depreciation in these calculations -- tat's essentially a proxy or a similar amount to what is spent on business operations capital, correct?

MR. DARREN RAINKIE: Not necessarily. It doesn't have to be. I mean, it's -- I guess in a business that has a very -- very short time frame of assets, it could be. But when you have a longer time frame of assets, then depreciation might not be the same as your sustaining capital expenditure.

MR. MATTHEW GHIKAS: But it -- it had been in the -- it had been in the past.

MR. DARREN RAINKIE: You know, sir, I don't -- I don't remember when the two (2) lines crossed. I'm not sure right.

MR. MATTHEW GHIKAS: All right.

MR. DARREN RAINKIE: We also had things in -- on transition to IFRS or like removal of negative salvage value. So there has been a lot of -- these things get a little more complicated when you change accounting policies because there's -- there's -- you can't compare them over five (5) or ten (10) years.

There's changes in accounting that happen, as well, and what does that mean? You -- you have to kind of sit down for a couple hours and stare at it, and say, you know, what -- what does that really mean for business purposes?

MR. MATTHEW GHIKAS: So, sir, are you aware of -- in '19/'20 that the forecast depreciation is 505 million?

DR. BYRON WILLIAMS: You might have misspoke. I heard the word '19/'20.

THE CHAIRPERSON: I was going to ask. What year are you --

DR. BYRON WILLIAMS: Are you talking about the fiscal year 2019/2020?

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Yes. The fiscal year of 2019/'20. Thank you.

MR. DARREN RAINKIE: You know what, sir, I don't know if I should get a -- depending on where you're going, I might have to get a source on that. If not, I'll -- I'll accept -- can you -- is it in Appendix 1 of the -- of the application? I mean, it -- it doesn't sound far off, sir. So let's -- let's for the -- the sake of moving forward, let's do that.

MR. MATTHEW GHIKAS: Subject to check?

MR. DARREN RAINKIE: Sure.

MR. MATTHEW GHIKAS: Okay. And I think it might be in front of us right now.

MR. DARREN RAINKIE: Okay.

MR. MATTHEW GHIKAS: Five hundred and eight (508)? Oh, that's the interim budget.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: And similarly, subject to check, the business operations capital for that period is 478 million?

MR. DARREN RAINKIE: Yes, I believe the updated '19/'20 business operations capital is that figure, sir.

MR. MATTHEW GHIKAS: Okay. And just getting back to the generics here, the business operations capital, which is replacing older assets, now requires a cash outlay essentially on an annual basis, correct?

MR. DARREN RAINKIE: Yes, sir. For those new assets being built.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: Thank you for

entertaining that.

MR. DARREN RAINKIE: I didn't know there was going to be a CPA exam this afternoon, Mr. Ghikas.

MR. MATTHEW GHIKAS: Not for this cowboy. Okay. So if we were to go actually to the current GRA application, which is MH-3, please, and I am at page 28.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Are we heading to the updated application, sir? Is that --

MR. MATTHEW GHIKAS: The original one.

MR. DARREN RAINKIE: The original, okay.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: So page 28 -- great. And I'm on Figure 2.11 here.

All right. So this is a comparison of year-over-year O&A costs, and for the period covered by the first column, that's when you were Vice-President of Finance and CEO -- CFO, correct?

MR. DARREN RAINKIE: I think all but two (2) months of that, sir, yes.

MR. MATTHEW GHIKAS: Okay. And in that year, the O&A expenditures were 536 million, correct?

MR. DARREN RAINKIE: Yes, that's my understanding.

MR. MATTHEW GHIKAS: Okay. And so for the 2019/'20 period forecast, the O&A expenditures are 511, so less, correct?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: That's despite being forecast to increase by 2 percent, correct?

MR. DARREN RAINKIE: That's correct, sir.

MR. MATTHEW GHIKAS: Now, one of the things that you have done in your adjustments to O&A is you've limited general wage increases and merit progression to 1 percent, correct?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: So -- and you spoke to this; I don't think we have to turn there necessarily -- but you spoke to this in slide 12 of your presentation this morning, and part of the -- part of the rationale you referenced was a public sector wage freeze; do you recall that?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. Now, the -- I assume you're -- you're referencing the Bill 28 and IBEW zeros across -- for the wage increases?

MR. DARREN RAINKIE: Sir, Bill 28 is the -- is the wage freeze legislation, yes. Yes.

MR. MATTHEW GHIKAS: Okay. You're aware, though, that although the IBEW employees are -- have had their wages -- wage increases frozen at zero that they only represent a part of the workforce.

MR. DARREN RAINKIE: Yes, sir. But I'm -- I'm not sure when the zeros are coming in for the other -- the other unions.

And there's also the matter of corporate exempt employees who tend to follow the union contracts or at least they had historically. So there is a table somewhere of wage gains, I think, in the -- in the IR somewhere, sir.

MR. MATTHEW GHIKAS: Yeah. It's actually -- yeah -- maybe we should just go there. It's Coalition MH 1-14(j). And if you scroll down, there's a table, so question J.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: Right. Is that the table you were thinking of?
MR. DARREN RAINKIE: Yes, sir.
MR. MATTHEW GHIKAS: Okay.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: So you'll see in this table here, so the IBEW -- it has TBD for January 1st, 2020?
MR. DARREN RAINKIE: Yes, I see that.
MR. MATTHEW GHIKAS: And so there are other bargaining units here, like AMHSSE that has a 1.5?
MR. DARREN RAINKIE: Yes, there is.
MR. MATTHEW GHIKAS: And CUPE that has a 1.5?
MR. DARREN RAINKIE: Yes, there is, sir.
MR. MATTHEW GHIKAS: Okay. And then the MHPEA, that's got a TBD, as well, right?
MR. DARREN RAINKIE: I -- I see that, yes.

MR. MATTHEW GHIKAS: And Unifor, (phonetic), that's gas, so it's sort of unrelated, right?

MR. DARREN RAINKIE: You know, I'll take your word for that.

I -- I would observe though, my -- my recommendation is over two years. So the wage gains on the line before what you just referenced are smaller. Some of them are set -- 0.75 percent, et cetera, although -- like my recommendation is not related that -- like, we're not going into the detail of calculations and saying let's add it all up.

My recommendation is saying -- and my understanding of the total EFTs of the company through probably 0.6 percent attrition, you could -- you could achieve a 1 percent escalation. So that's the spirit of the recommendations, sir.

MR. MATTHEW GHIKAS: And some of these agreements -- you know, they predate this rate period, correct? Like, the AMHSSE --

MR. DARREN RAINKIE: Some of them do, sir, yes.

MR. MATTHEW GHIKAS: All right. And I should say I misspoke when I was characterizing the IBEW rate increase. It actually says TBD in it. I think I may have said zero, but it's TBD.

MR. DARREN RAINKIE: My eyes are tired, sir. I'm having a hard time focusing on this, so I don't -- I don't blame you.

MR. MATTHEW GHIKAS: Thank you. All right. So every year -- in addition to just contracted wage settlements, every year some people at Manitoba Hydro are promoted, right?

MR. DARREN RAINKIE: Yes, they are.

MR. MATTHEW GHIKAS: And their compensation is affected by that obviously.

MR. DARREN RAINKIE: That's true.

MR. MATTHEW GHIKAS: And when you're budgeting, you have to account for that, correct?

MR. DARREN RAINKIE: You do. But as a -- you know, from an overall business perspective, you have to ask yourself why are people going through, you know, the -- the ranges. As people will go through the ranges, they are expected to be more productive.

So I think, once again, from an overall business perspective, you have to look at this that if you manage cost just by, okay, this is going up by one; this is going up by one, then, you know, it's a very passive management approach.

If you manage costs by looking at what your cost pressures are and then figuring out what you want to do, you can -- you can manage those costs down even more. So -- so I -- there's just a different -- I think I'm coming it from an overall business perspective, not just, you know, looking at -- at the actual 1 percents and 1.25 percents.

MR. MATTHEW GHIKAS: No. I got -- I got your characterization of passive versus active, and I understand that, and I'm going to park that rather than getting into a debate with you about who's doing what.

I just -- it's a simple question. When you're budgeting, it's important to account for the fact that some people may be increasing your compensation, right?

MR. DARREN RAINKIE: It is. It's also important to budget for what level of productivity you expect from a corporation. That's a key component of corporate budgeting.

MR. MATTHEW GHIKAS: And you haven't calculated any specific impact associated with promotions and the like, have you?

MR. DARREN RAINKIE: No. Generally, they have been in the 1 percent or more range is my recollection, sir.

MR. MATTHEW GHIKAS: And for non-union employees, for example, people may obtain merit increases even within a salary band, right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. And when you're budgeting, it's also important to account for that, correct?

MR. DARREN RAINKIE: As well -- as productivity, sir, yes.

MR. MATTHEW GHIKAS: And you haven't calculated a specific impact for merit increases within a salary band in terms of your recommendations, have you?

MR. DARREN RAINKIE: No. But I'm -- I've observed that the -- the targets start with a 2017/'18 number that has an $8 million increase in bad debt expense to it that has no actual staff costs with it.

So should -- should that carry forward into 2018/'19 and '19/'20 as part of the O&A? That -- that's what I'm having a hard time with, sir. There are cost pressures, but why would you do your budgeting that way? Increase cost by $8 million for something that was a journal entry.

So you -- I guess you have to take all this puts and takes into consideration, sir.

MR. MATTHEW GHIKAS: Yeah. That went beyond my question. So my question here -- I'll just move on.

The next question is every year unionized employees may be eligible for salary progression within their pay grade salary range, correct?

MR. DARREN RAINKIE: Sorry, sir, just say that one (1) more time? Every year...

MR. MATTHEW GHIKAS: Unionized employees may be eligible for salary progression within their pay grade range, correct?

MR. DARREN RAINKIE: Yes, sir. There's progression and merit, and I think we've already established that.

MR. MATTHEW GHIKAS: And -- and it's important to budget for that as well, correct?

MR. DARREN RAINKIE: Yes, so with the caveats I've put on the record in the last couple questions, sir.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: Now something that can also have an impact on your O&A budget is the mix of the type of work that employees are doing, correct?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And so, for example, some -- when employees do some work, it can be allocated to capital, and other work that they do can be allocated to O&A, correct?

MR. DARREN RAINKIE: Yes, sir, that -- that is actually in the Manitoba Hydro target calculation, and I have made no adjustment for that.

MR. MATTHEW GHIKAS: And so if employees, for example, spend more time on maintenance rather than capital projects, their result is a higher allocation to operating costs, correct?

MR. DARREN RAINKIE: Yes, it -- it can swing around, and then you make budgets usually based on normal assumptions, and an actuals can -- can come in -- in a different proportion, sir.

I -- I just want to make one (1) thing clear. Could we bring up a slide -- because I -- I'm not sure we're at cross purposes, here, sir. If we can access our -- our slide deck. And I think it was slide -- fif -- figure -- sorry, slide 12.

I -- I just want to make sure things are clear. If we look at the table to the left, and we go down to a line item called change in capitalization, that is -- and that is -- those figures are in Manitoba Hydro's own O&A target settings, so I've accepted those.

I -- I must admit, I don't really understand the swings. We only got one (1) chance, of -- one (1) round of IRs, so we didn't have a chance to get a better understanding of what was causing that, but I have not adjusted that part, sir, so I think -- I think I'm accepting -- even though I don't necessarily understand that under -- the reason for it, Manitoba Hydro's change in capitalization calculation.

So I'm not sure we're at cross purposes, here, sir.

MR. MATTHEW GHIKAS: So it is -- you'd agree with me that it is important that when Manitoba Hydro is managing the business, that they do that in a way that makes sense from the business perspective rather than trying to align employees in a manner that shifts costs from operating to -- to capital, or vice versa?

MR. DARREN RAINKIE: Well, sir, you --

you would budget based on assumptions and historical analysis. Obviously, what happens in the real world, if -- if you need -- if somebody needs to go and -- and do some maintenance, they do that. If somebody needs to go and work on a capital project, they do that. The actual results might be different than your kind of normalized calculation.

Seriously, yeah, I mean, things happen in the real world it -- that -- that get booked in your general ledger.

MR. MATTHEW GHIKAS: So, I mean, what -- what I'm getting at here, sir, is, if it's more efficient -- let's use an analogy. If it's more efficient for you to do an oil change now rather than run your car until it breaks down, you would want the oil change to be done, even though it has a short-term cost implication, right?

MR. DARREN RAINKIE: But your budget for your household expenditures for that year might not have included the oil change, but it might have to happen, because you don't want your car to -- to run down, sir, yeah.

MR. MATTHEW GHIKAS: Yeah, exactly --

MR. DARREN RAINKIE: But normally, rate setting would be on normalized budget assumptions, not on things that may occur, you know, on a one-off basis.

MR. MATTHEW GHIKAS: All right. And when you -- one (1) of your recommendations was that the cost savings could be achieved that -- in part by attrition of -- of employees, correct?

MR. DARREN RAINKIE: Yes, I was picking up on the -- the PUB findings in the last decision, and the -- the -- they expected cost reductions in terms of both staff and -- and the supply chain initiative.

MR. MATTHEW GHIKAS: Okay. And you made the point that if it's through attrition, you wouldn't have to lay people off, for example, right?

MR. DARREN RAINKIE: Sorry, sir. My -- my colleague and I were conferring for a second. Can you repeat that?

MR. MATTHEW GHIKAS: Sure. You made the point that if it was done through attrition, you wouldn't have to lay people off, correct?

MR. DARREN RAINKIE: Yeah. I was having trouble with the Hydro but -- rebuttal evidence that assumed another VDP to do this. I -- I would think we were back into normal attrition and -- and vacancy management as -- as is common with the

Provincial Government, and the City, et cetera.

So I -- I wasn't kind of thinking that we needed to pay people to leave, and -- and those types of things.

MR. MATTHEW GHIKAS: One (1) of the things that, with your calculation, what you've done is you've -- you've assumed that all of the costs of those thirty (30) people are allocated to operating costs, haven't you?

MR. DARREN RAINKIE: Well, sir, in a -- in a time of rebuilding the system, most likely the attrition -- like, attrition is about when positions come open, you ask yourself, do we fill them or not? If -- if Hydro was at a time where it's building a lot of business operations capital, that attrition would probably come more from the service side of the -- the business that would not be capitalized as much.

MR. MATTHEW GHIKAS: So that's -- that's an assumption, correct?

MR. DARREN RAINKIE: Yes, sir. I -- I was just replying to a table in rebuttal evidence, sir. I -- I didn't do a grand analysis of it on this slide.

MR. MATTHEW GHIKAS: Right. And so you'd agree with me that as an assumption, notwithstanding what you've -- what your supposition is, that it's highly unlikely that people who are just deciding to leave will all come from the side of the business that has their cost allocated to O&M -- O&A, rather than capital, isn't it?

MR. DARREN RAINKIE: Well, that's a fair point, but I mean, it -- it's not just about people deciding to leave. It's about how the Corporation reacts to it and deploys its resources, sir. Like, the Corp -- the Corporation is not helpless. It -- it can move people. If it loses a peop -- person, you know, in department A, it can decide that it fills that, but it may accept the attrition in department B, sir.

So there -- there is -- there is more than just the aspect of a -- of an individual employee deciding what they want to do.

MR. MATTHEW GHIKAS: Your -- your calculations that you're doing on slide 12, there, that are up in front of us, here, you haven't allowed for any escalation for compliance costs, for example, right?

MR. DARREN RAINKIE: Sorry, sir, for compliance cost in what regard?

MR. MATTHEW GHIKAS: Right,

environmental reliability standards, that sort of thing. You haven't built in escalation for that, have you?

MR. DARREN RAINKIE: Well, sir, we had a 1 percent escalation target for four (4) or five (5) years, which, like, is covered off all aspects of -- of the cost pressures, sir. So -- so no, I haven't -- I haven't got -- I mean, there was no detailed budget in this application to get into any, you know, level of calculation ser -- served, so, I mean, I'm not going to apologize for that.

MR. MATTHEW GHIKAS: No. So the answer, then, is there is not, correct?

MR. DARREN RAINKIE: No, sir, but as I said before, we've manage this before based on my -- my actual experience based on a 1 percent target.

MR. MATTHEW GHIKAS: And you haven't built in anything, for example, for software licenses, right?

MR. DARREN RAINKIE: No, sir, but I mean, is there anything built into this for technology advances and things like that, sir? Like, I mean, we can go through a list of a thousand things.

MR. MATTHEW GHIKAS: Yeah. There are puts and takes in every budget, aren't there, sir?

MR. DARREN RAINKIE: Yeah, and that's why, you know, normally -- normally when you make a provision for 1 percent, that's -- that's what happens. The company will manage towards that, sir. It -- it doesn't always find every last little bit of savings and identify it in a budget. It -- it makes those kinds of assumptions.

MR. MATTHEW GHIKAS: And you haven't allowed for increases in, let's say, gasoline costs for the vehicle fleet, right?

MR. DARREN RAINKIE: Not specifically, sir, no.

MR. MATTHEW GHIKAS: And you -- you'd agree with me that gas costs are up?

MR. DARREN RAINKIE: I know, sir, they've been up and down. Right now they're up. I'm not sure what they'll do in the next year or two. They could come back down to a lower level.

MR. MATTHEW GHIKAS: All right. So if we were -- one of the other aspects that you've indicated you've done on Slide 12 here is the non-labour and benefit components. Those are also being limited to 1 percent in your calculations, correct?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Right. So that's

half of Manitoba's CPI essentially.

MR. DARREN RAINKIE: I don't know if there's different measures of CPI, sir. It could -- it could be half or a quarter.

MR. MATTHEW GHIKAS: Okay. Now, I'm going to suggest to you that at the time of the 2015 GRA, under your oversight, that Manitoba Hydro had already pretty much chopped every bit of training and other non-employee O&M costs. Would you agree?

MR. DARREN RAINKIE: Yeah. I think we took a pretty strong stand on -- on training and travel.

MR. MATTHEW GHIKAS: But also other non-wage, non-employee O&M costs, right?

MR. DARREN RAINKIE: Well, sir, as I -- as I mentioned, we had the 1 percent -- we had the 1 percent escalation limit, so, yeah, we took a hard line on a number of areas.

MR. MATTHEW GHIKAS: And now you've -- you've read Manitoba Hydro's rebuttal evidence where they calculated that based on the current mix of capital and operating work that the recommendation, if translated into EFTs, that that would equate to cutting slightly over three hundred (300).

Do you recall that?

MR. DARREN RAINKIE: Yeah. I don't agree with that calculation.

MR. MATTHEW GHIKAS: And you -- you haven't done any work to determine the level of the split between the capital and -- and -- and O&A work yourself, have you?

MR. DARREN RAINKIE: Well, I accepted Manitoba Hydro's O -- O&A target to capitalization adjustment on this chart, sir, so I don't think there's any difference between myself and the company on that regard.

MR. MATTHEW GHIKAS: Okay. Can we go to the -- our Book of Documents, Exhibit 30, to page 14 of 118? This is the 2015 GRA transcripts, page -- page 301 I'm on here.

All right. On page 301, you're giving your PowerPoint presentation that we looked at, the one at tab 3, right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And you're starting to discuss operating costs on page 301, line 11. Essentially you get into that there.

MR. DARREN RAINKIE: I'm with you, sir.

MR. MATTHEW GHIKAS: And you're

talking about the review that you did. And then in line 22 you indicate that -- you reference three hundred and thirty (330) operational positions over the next three (3) years that had been slated for cutting, and then over on page 302 you say this:

> "I would note that Manitoba Hydro has a target in its forecast to limit operating increases to 1 percent over the 10-year period."

Pausing there, the 10-year period is from 2013?

MR. DARREN RAINKIE: It could be 2014, sir, but --

MR. MATTHEW GHIKAS: So:

> "While the three hundred and thirty (330) operational position reduction will allow us to meet those targets in the next three (3) years, we also have that 1 percent target going out to the end of the decade."

The end of the decade meaning starting in either 2013 or 2014.

MR. DARREN RAINKIE: It's getting late, sir, yes.

MR. MATTHEW GHIKAS: And then you go

on to say:

"So just mathematically. if the three hundred and thirty (330) operational position reductions get us through the next three (3) years, allows us to meet that target, some of the calculations we did in the recently filed Information Requests indicate that we would need reductions in the order of an additional six hundred (600) reductions to twenty (20), twenty-two (22), twenty-three (23), in order to make the 1 percent target that we've set. So that represents currently then, you know, eight (8) times three (3), almost 24 percent of EFTs charged to operations, so that is no small -- no small commitment to cost-containment. That is a large stretch target for Manitoba Hydro."

So that was your evidence back in 2015, correct?

MR. DARREN RAINKIE: Yeah. I guess

I'm talking about -- sir, let me just -- I haven't read this in four (4) years, so -- I guess I'm talking about somewhere in the neighbourhood of the a thousand reductions at that point, yes.

MR. MATTHEW GHIKAS: I think it's nine hundred and thirty (930).

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: So a nine hundred and thirty (930) reduction was no small commitment to cost-containment, right?

MR. DARREN RAINKIE: No. The public sector is very unforgiving. It's very, what did you do for me today.

MR. MATTHEW GHIKAS: Right. It's a large stretch target, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: Okay.

MR. DARREN RAINKIE: I mean, particularly at that point with the kind of policy framework, I don't -- I don't think we could have envisioned a VDP at that point.

MR. MATTHEW GHIKAS: So if we fast forward to today, Manitoba Hydro's voluntary departure program has resulted in workforce reductions of nine hundred (900) employees in the space of three (3) years ending March 31st, 2020, right?

MR. DARREN RAINKIE: That's my understanding of the magnitude, sir.

MR. MATTHEW GHIKAS: So that's two (2) years ahead of what you were contemplating at the time of the 2015 GRA, right?

MR. DARREN RAINKIE: Yeah. Of course, like, we would never, I don't think, been -- been allowed to do a VDP at that -- that point, but --

MR. MATTHEW GHIKAS: All right. Now, Manitoba Hydro's workforce, sir, is currently at the same level experienced fifteen (15) years ago, isn't it?

MR. DARREN RAINKIE: Yes. It had grown quite a bit over -- over the years. This is the trouble with last year plus 2 percent budgeting. That's -- that's what will happen again, if -- if Manitoba Hydro is not, you know, vigilant with its costs.

MR. MATTHEW GHIKAS: And in the past fifteen (15) years, the asset base has grown significantly, correct?

MR. DARREN RAINKIE: Yes, it is. So is the technology that people use to render services, sir.

MR. MATTHEW GHIKAS: Yeah. Since 2003, Manitoba Hydro has added Waskwatim, right?

MR. DARREN RAINKIE: Yeah. I can't remember how staff are there, sir, but it's not in the thousands, that's for sure.

MR. MATTHEW GHIKAS: And Riel?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And Keewatinohk?

MR. DARREN RAINKIE: Yes. I mean, all of those -- all of those projects, the operating cost budget was included in the -- in the targets just as -- as they are for Keeyask and, sorry, for Bipole in this hearing.

MR. MATTHEW GHIKAS: All of those assets have to be maintained, right?

MR. DARREN RAINKIE: That's right.

MR. MATTHEW GHIKAS: Maintenance shows up in O&A?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And the company's overall asset base has aged on average during that period, hasn't it?

MR. DARREN RAINKIE: Over ten (10) years, yes. I mean, there's -- there's also been a lot of refurbishment done at $500 million a year too.

MR. MATTHEW GHIKAS: The average age has increased over that period, hasn't it?

MR. DARREN RAINKIE: I would think so, sir. I don't -- I don't have that information.

MR. MATTHEW GHIKAS: Yeah. And generally speaking, you'll agree with me that older equipment tends to increase the amount of maintenance required?

MR. DARREN RAINKIE: Well, that one small part of Manitoba Hydro's operations, sir, yeah. As I said earlier, there is -- there is also supply chain initiatives and technology that wasn't around ten (10) years ago that helps companies be more efficient, so once again, taking an overall business perspective on things, there are puts and takes.

MR. MATTHEW GHIKAS: And in the last fifteen (15) years, sir, the regulatory requirements such as environmental and mandatory reliability standards have increased, right?

MR. DARREN RAINKIE: You know, sir, I -- I suppose so. I don't have a listing of those. I don't know exactly what comes and goes, sir. There's probably some things that have increased, others that have -- have let up.

MR. MATTHEW GHIKAS: Mandatory

reliability standards, that -- in the last fifteen (15) years, that's when they were introduced, during the last fifteen (15) years, right?

MR. DARREN RAINKIE: You know, sir, I -- I don't.

MR. MATTHEW GHIKAS: Okay. And there are operating costs associated with meeting environmental and regulatory requirements, like reliability standards?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And in the past fifteen (15), the customer base has grown significantly, hasn't it?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And there are operating costs associated with serving additional customers, aren't there?

MR. DARREN RAINKIE: There are. But as I said, there's other technologies. I mean, we -- we look at -- we -- we look at things in healthcare and education, are they getting last year's actual plus 2 percent.

I mean, there's been -- there's an increase in people that are going through the healthcare system, but yet, you know, there's an expectation in the public service that, you know, people maintain a very efficient operation, so.

MR. MATTHEW GHIKAS: Now, if we can turn to your evidence at page 53, Mr. Rainkie, please.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: All right. So, the heading here at the bottom, 6.1:

> "The proposed 3.5 rate increases is significant rate increase with a present value to customers in the order of 1.4 billion."

Do you see that?

MR. DARREN RAINKIE: I see that.

MR. MATTHEW GHIKAS: Okay. And if we go over to 55, right, in the second and third paragraphs, in both of those you're emphasizing significance of the rate increase to customers, correct?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And you reference a social discount rate, right?

MR. DARREN RAINKIE: Yeah, I think eventually we do.

MR. MATTHEW GHIKAS: Okay. Now, I just want to compare your comments there to what you said in 2015. So, if we can go to the loose version -- the loose document, which is appendix -- sorry, Exhibit 31.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: So, this is a transcript, as well, from the 2015 GRA, right?

MR. DARREN RAINKIE: By the document tag at the top, yes, sir.

MR. MATTHEW GHIKAS: Okay. So, if we go to page 3,796, please.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: Actually, 3,795, sorry. So, here, just for context, Mr. Rainkie, the chair at line 14 is asking you about a scenario that Manitoba Hydro did as an undertaking that increased in the short-term above 3.95 percent, right?

MR. DARREN RAINKIE: Yes, sir. I'm -- I'm trying to remember the context to -- to it because it's important. If -- if I recall, the chair asked me to think about a specific question, I don't know if it was over the weekend or over -- overnight, because of the $900 million of losses that has crept into the forecast, I think, if I remember correctly, asked me that question, so that was a response to that.

MR. MATTHEW GHIKAS: Okay. Thank you for that clarification. So let's just look at your answers.

MR. DARREN RAINKIE: I hope I -- my memory is correct.

MR. MATTHEW GHIKAS: Let's look at your answer starting at line 20. You say:

> "Well, sir, what you see demonstrated here is the power of early rate increases. I mean, it's just the time value of money. I mean, it's just -- you know, it's -- as your parents probably told you, invest early. Invest a little bit early versus waiting until the end of your life to build a retirement fund, and it will come much easier. And that's -- our forecast is -- is just like that. If we -- if we kick things down the road, it will --

very quickly can spiral out of control. I don't think it has to. I think we can accomplish all the investments that we have to make on behalf of customers.

I think we just need to ask customers to invest a little bit more up front, and -- and we can maintain that reliable safe power system that they've enjoyed for decades. But if we try to find ways of kicking it down the road, we are -- we are risking that finance expense line, you know increase. And, as I said, it's a bit of a truth serum in this -- in this whole equation."

So that was your evidence at the time, sir?

MR. DARREN RAINKIE: Yes, in the face of $900 million of -- of losses, sir. As I explained this morning, the current forecast has financial reserves of Manitoba Hydro stabilizing at $3 billion and increasing.

In the context, which is important, I

think, for the Board to understand of this 2015 hearing, that forecast, as we said, was the worst that Manitoba Hydro, I think, had probably in its history, I -- I'm not sure.

But certainly, in the time I was involved with the Company, reta -- the reserves were forecasted to grind down from, I think it was 2.8 billion to 1.9 billion, sir, so a much different circumstance.

If we want to pull up Manitoba Hydro 14, we can do it right now and look at it from one (1) of the past GRAs, sir, if it's that --

MR. MATTHEW GHIKAS: I -- I --

MR. DARREN RAINKIE: -- a matter of issues.

MR. MATTHEW GHIKAS: I -- yeah, I don't think there's a dispute that it -- it -- that MH 14 was -- was worse. Now, your focus in this passage was on the benefits of investing earlier to avoid higher financing costs in the future, correct?

MR. DARREN RAINKIE: Yes. As I outlined on -- on figure 2 of your rebuttal, a rate increase accumulates over time and a cost saving accumulates over time, it's just the -- the time value of money.

MR. MATTHEW GHIKAS: Okay. And the reference to, "asking customers to invest a little bit more up-front," that little bit more was your way of describing a succession of 3.95 percent rate increases?

MR. DARREN RAINKIE: I can't remember if it was the succession of them or -- I think the -- I think the request, to be fair, of the Chair of the PUB at this point in time was, is 3.95 enough for 2015/'16, if I remember correctly, sir.

So I'm not sure it was a string of increases or the one (1) that was before the Public Utilities Board at the time.

MR. MATTHEW GHIKAS: So in that application you were seeking 3.95 percent, right?

MR. DARREN RAINKIE: Yes, for 2015/'16, as I recall.

MR. MATTHEW GHIKAS: And you were using a indicative rate increase trajectory of 3.95 percent for twenty (20) years?

MR. DARREN RAINKIE: Yes. But this passage, I think, was talking about a specific question of the chair at the time about, what are your thoughts on 2015/'16, Mr. Rainkie.

We might have to go back to the earlier

transcript to find the context here if it becomes important, but --

MR. MATTHEW GHIKAS: And that's -- that's why I included so many changes, so we have that on there. The -- now, Mr. Rainkie, obviously, I -- I don't want to minimize, you know, the impact of the 3.5 percent increase on some people, but the entire time you were vice-president of finance and regulatory and CFO, you never once argued that 3.5 percent was too significant for customers to absorb, did you?

MR. DARREN RAINKIE: No, not that I can recall, sir.

MR. MATTHEW GHIKAS: And you never advocated for a rate increase less that 3.5 percent, did you?

MR. DARREN RAINKIE: No, sir. I -- I think I've explained what the policy was of the MHEB and the -- and --

MR. MATTHEW GHIKAS: Okay.

MR. DARREN RAINKIE: -- and -- and how the equity ratio affects the rate increases we were projecting.

MR. MATTHEW GHIKAS: Okay. So let's -- if we can turn to page 1 -- back to the book of documents, page 104.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: So, sir, you testified at -- at the NFAT, correct --

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: -- as a -- as a policy witness on the finance panel?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Okay. And you recognize this as a transcript from the NFAT?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. Now, if we look at page 3063. So -- actually 3062, my apologies.

So just for context here, we have at line 6 to 15, essentially, the chairperson is asking about a succession of 20-year rate increases of 3.95 percent, and then your -- you respond to that. And if you go down to line 10 on page 3063, that's where I want to start. You say:

"The other thing is, I think we have came to the realization over the year -- over the years because there was a period -- and boy Mr. -- Mr. Barnlund probably could help my memory here -- but there was a period of about seven years when Manitoba Hydro did not seek a rate increase in the 1990s, and there had -- has been periods where the results were good, and so we pulled back a rate increase. And then the results went poor, and we came back. And I think what we've learned through all that period is that having reasonable and regular rate increases is a better regime than kinda just pandering, you know, if you like, to good results or bad results. And, you know, for instance, we had a relatively -- or we're having a relatively decent year in 2013/'14, and it's -- it's a case in point in front of you right now in terms of our interim rate application. The tendency would be to say well, why do you need anything because you had a decent year? The fact of the matter is that in our system, we're -- we're projecting rate increases based on average water flows. We know we'll have good years; we know we'll have bad years. And if we draw -- put a straight line through it, I think it's the most responsible thing to do for customers. If we have a decent year and suddenly we give that back, and we're going to need to go back to 3.95 when we have a bad year to make up for that. And -- and so I think that we came to the realization in the last few years that it's better to -- we always have been a rate smoother in our history, but from time to time, it's been a gyration back and forth just because of the short-term financial results, I think. I think we -- we think now it's better to look over the long -- the long run. So..."

So that was your evidence at the NFAT, correct?

MR. DARREN RAINKIE: That's correct, sir.

MR. MATTHEW GHIKAS: And so it's

important, sir, not to pander when you have decent financial results in the short term?

MR. DARREN RAINKIE: That's why I'm recommending a rate increase with more appropriate cost controls, sir, yeah.

MR. MATTHEW GHIKAS: And in the --

MR. DARREN RAINKIE: Otherwise, I would be recommending, you know -- other parties have said maybe the rate increase could be zero here, but -- but I haven't recommended that.

MR. MATTHEW GHIKAS: And by pandering in the context of that transcript reference that we just looked at, you meant departing from a smooth trajectory of successive rate increases if circumstances appear to have improved from the prior year, correct?

MR. DARREN RAINKIE: Well, some of the recollection of history was -- I think there was, like, a 2.25 percent rate increase that was given on a -- on a conditional basis in the middle-2000s. Then the company said it didn't need it, and then it came back a couple months later and said that it needed it.

So I think I was thinking about some of those circumstances, sir, you know, as opposed to more current times.

MR. MATTHEW GHIKAS: So it would be the most responsible thing for customers, to use your words, to put a straight line through the volatility and short-term financial results, right?

MR. DARREN RAINKIE: Yes, sir. I mean, we have -- we have a year where we have, I think, average water flows, and so we're considering a rate increase, but we're also considering tighter cost control to -- to meet the financial requirements to Manitoba Hydro.

MR. MATTHEW GHIKAS: And because it would be undesirable to reduce rates in one year, only to have to go back to 3.95s in a bad year, right?

MR. DARREN RAINKIE: Yes. And I think it would be probably a good situation to, you know, miss a string of rate increases. The question becomes, you know, how do you -- how do you calculate those rate increases on a -- on a go-forward basis?

I mean, the -- it's, again, the policy. I was looking at in here was doing the straight line over 20 years. Given what I learned in the last four or five years, I'm not quite sure that's the best way to do it any longer.

MR. MATTHEW GHIKAS: So has it become more appropriate to pander since then?

MR. DARREN RAINKIE: No. It's not pandering, sir. It's, you know, recognizing what this very Board -- I think the conclusion they came to after the -- the last hearing -- it was kind of like a generic hearing. It wasn't even just a rate increase. I think it was a -- a more of how do we set rates in the future?

So I don't -- I don't think it's about pandering, sir. I think it's about what is the target and framework to use to set rates? Is it -- is it using a 25 percent equity target 20 years from now that has been achieved for a couple years in Manitoba Hydro's history? Are we chasing a 25-year target? Is that what we're going to set rates on?

That's what I'm asking. That's the information I'm putting to the Board. I think they got it right the last time, sir, and that is the significant change since NFAT and since the 2015 GRA.

MR. MATTHEW GHIKAS: And so when Manitoba Hydro prepared MH-15, and it showed over a billion dollars of improvement in the six years following Keeyask alone, it was -- it was still appropriate to adopt a 3.95 percent trajectory, right?

MR. DARREN RAINKIE: Well, sir, I think you're making my own argument for me. And my point is is that we essentially had, for a number of years, a rate-setting target that wasn't responsive to constant changes in the outlook. So maybe we should look at one that is.

Like, I think you're making my -- my point in -- in my evidence and my concern in my evidence for me, sir.

MR. MATTHEW GHIKAS: Mr. Chairman, this would be a convenient time. I probably have under a half hour left, but this is -- this is as fine a time as any if you want to take a break.

MR. CHAIRPERSON: Okay. We'll take a fifteen (15) minute break. Thank you.

--- Upon recessing at 2:35 p.m.

--- Upon resuming at 2:53 p.m.

THE CHAIRPERSON: If we could resume, Mr. Ghikas.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Thank you, Mr. Chairman. Okay, I just want to change topics to talk about business operations capital, Mr. Rainkie. And just to orient ourselves, your recommendation is somewhere between the -- a reduction of somewhere between 14 and $30 million, correct?

MR. DARREN RAINKIE: Sir, no, I -- I think in the end, just to clarify, we -- we didn't make any reduction. We -- we left those as qualitative considerations for the Public Utilities Board. We -- we didn't propose any reductions in the 1.5 percent, sir.

MR. MATTHEW GHIKAS: Okay. And just in terms -- thank you for that clarification. Just in terms of the impact of reductions to business operations capital, there was a IR that was posed, Coalition/Manitoba Hydro 30B, I guess it is. And that's included at page 108, 109 of the book of documents, Exhibit 30.

And you've seen this response before, obviously, Mr. Rainkie?

MR. DARREN RAINKIE: Yes, in my travels, I have. Yes.

MR. MATTHEW GHIKAS: Okay. And so it -- the upshot of this, without dwelling on it too much, Mr. Rainkie, is that the -- Manitoba Hydro's response was that a $100 million reduction in business operations capital in 2019/'20 would have a revenue requirement impact of $4 million, correct?

MR. DARREN RAINKIE: Sorry, I'm just trying to orient myself on the --

MR. MATTHEW GHIKAS: Yeah, it -- that's right, so --

MR. DARREN RAINKIE: Is that for 2018/'19, Mr. --

MR. MATTHEW GHIKAS: For 2019/2020, so bottom --

DR. BYRON WILLIAMS: You might have misspoke, Mr. Ghikas, and meant to say the 4 million was for the 2018/'19?

MR. DARREN RAINKIE: I -- I'm seeing 4 million under that column, sir, not the -- not the '19/'20 column.

MR. MATTHEW GHIKAS: It's -- it's in the -- it's -- so if you look at the -- the -- there's actually two (2) graphs here, right, in the bottom -- bottom, it's hard to tell, but there is a -- there is a bottom one here that says --

MR. DARREN RAINKIE: I see.

MR. MATTHEW GHIKAS: -- a hundred million reduction in '19/'20?

MR. DARREN RAINKIE: Yes, a dollar spent on capital in one year is probably a -- amortized in the next year at 7 or 8 percent, sir.

What this -- I guess the -- doesn't capture is the borrowing. Like, we shouldn't be flipping about a hundred million dollars worth of capital, obviously, because if you borrow a hundred million dollars for capital, that's going to be debt that you have, and that will, of course, only show up, maybe $7 million the next year, although $7 million is almost half a percent rate increase, too, so.

We -- we did not make adjustments for this, though, sir, but it's -- yeah, it's not as -- it's not impactful, to use Mr. Derksen's word from this morning, to revenue requirement as operating costs are, because every dollar of operating costs hits your revenue requirement dollar for dollar, sir.

MR. MATTHEW GHIKAS: Thank you.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: All right, so if we can turn to page 92 of the 118, please, of the book. And this is the NFAT transcript again. And...

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: The passage I'm

interested in actually starts on page 96. So the transcript page is page 3,030.

And you'll see, just to orient us, here, the -- the text at the beginning of that page, that's a question from the -- the Chair, expressing concern about a development plan in the -- in the NFAT.

And we go down, and you provide some clarification starting at line 19, and then make an observation starting at line 24. And your observation is this:

> "I'll just offer one (1) observation to make sure. I know I've said this a couple of times already, but I repeat things because they're important, is that the -- the new resources that are contemplated in any of the plans don't come into service before 2020 and 2023, you know, whether it's Keeyask or gas. The front part of this forecast that we have is real. The three point nine-fives (3.95s) are real in the next six (6) to eight (8) years. They're more a function of

refurbishing existing infrastructure
and reliability expenditures like
Bipole III."

So pausing there for a second, the six (6) to eight (8) years, that would take us to -- that would take us to approximately 2020 or 2022, right, because the NFAT was in 2014?

MR. DARREN RAINKIE: Yeah. I'm trying to remember if it was on 2013 information, Mr. Ghikas. Yeah, somewhere in that -- in that timeframe.

MR. MATTHEW GHIKAS: And if we go over to page 99 of 118...

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: Starting on page 3,045, which is the bottom right-hand corner, so Mr. Peters, at line 2, there, asks you:

"And in terms of base capital,
that's the underlying discretionary
management issue as to where that
capital gets spent on the base or
sustaining capital basis?"

And Mr. Schultz then provides a comment on the characterization of discretionary. And Mr.

Peters then clarifies and says:

"I wasn't suggesting that the discussion was whether you know what any specific project is, but when you get to the base capital project, some of them may get bumped year to year, depending on the Corporation's categorization of -- as to how essential that would be in a particular calendar fiscal year. Would that -- would that be true?"

And then, Mr. Rainkie, you responded at the top of page 3,046:

"Yes, I think I can accept that, Mr. Peters, as it's -- it's -- I think Mr. Schultz's point was that the whole thing isn't discretionary. That -- and -- and certainly, there are -- there is pressure on spending more on base capital, given the age of our system, but we do have the ability, you know, from a risk-based approach for projects, move them around to some degree."

And then there is an exchange about the

infrastructure issues facing utilities. And starting down at line 8 of page 3,047, Mr. Peters asks you:

"So to some extent, these base capital, or as you've taught me, the sustaining capital expenditures, those are putting pressure on consumer rates?"

And your response is this:

"Most definitely. That's why the myth of the 2 percent rate increase in Canada is -- is that, a myth."

So those were your -- that was your evidence in 2014 at the NFAT, sir?

MR. DARREN RAINKIE: Yes, sir. That's why I'm proposing the equivalent of a 2.8 percent this year.

MR. MATTHEW GHIKAS: And it was a myth because of the need to sustain aging assets, right?

MR. DARREN RAINKIE: That's right. I mean, that's -- that's why we took the approach we did. We didn't -- we didn't specify an inflationary rate increase, sir. We looked at the information that we had, and looked at the O&A forecast, and came up with our -- our recommendations.

MR. MATTHEW GHIKAS: And to your

point, no amount of risk-based timing adjustments is going to nullify the need to do that work, right?

MR. DARREN RAINKIE: No, but I do note that there has been a -- an asset management framework project at work at Manitoba Hydro for a number of years. I'm a bit concerned that it still is going to take a number of years for that to -- to be rolled out as I'm -- as I understand it.

So, you know, there's a need to prioritize capital expenditures better in the future, and I note the findings of the Board and the last Order, that they didn't feel that Mani -- Manitoba Hydro didn't have a -- a robust process to -- to do that.

So there is -- there are, as I said earlier, technologies available that will help you plan your business better, sir. So we shouldn't look at it as, you know, we're helpless. There are tools and things that we can do, priorities that we can set.

MR. MATTHEW GHIKAS: Right. But if you have an aging asset base, at some point, you're going to have to invest in it, right?

MR. DARREN RAINKIE: Yes, it -- it just goes to the -- the pace of that investment, sir, and being able to -- to ensure that your mix of expenditures between maintenance and replacement are, you know, optimal.

MR. MATTHEW GHIKAS: Making the 2 percent a myth, right?

MR. DARREN RAINKIE: Yes, sir. That's why, like I said, I'm proposing two point eight (2.8) on kind of an equivalency basis.

MR. MATTHEW GHIKAS: Thank you, Mr. Rainkie. Those are my questions, and I thank you, Mr. Chairman, commissioners, panel members.

THE CHAIRPERSON: Mr. Peters...?

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Mr. Chair. Good afternoon, Ms. Derksen, Mr. Rainkie.

I'd like to remind you that the questions by Board members or Board counsel are not designed to seek confidential information in your responses. Is that understood and accepted?

MR. DARREN RAINKIE: That's understood. I think most of the boring accounting stuff we do doesn't fall into the CSI portfolio, Mr. Peters.

MR. BOB PETERS: All right. Thank you. And we recognize that each of you have primary responsibility for specific sections of what has been marked as Exhibit Coalition 7, but recognizing this was a joint effort, our questions are to get the best responses for the Board, so either or both of you can respond. Is that also understood?

MR. DARREN RAINKIE: That's always understood, Mr. Peters.

MR. BOB PETERS: Thank you.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, you understand Manitoba Hydro was asking for a 3.5 percent increase across all rate classes, including the new First Nations on reserve rate class, but has some diesel zone exceptions, correct?

MS. KELLY DERKSEN: Yes, I understand that, Mr. Peters.

MR. BOB PETERS: And perhaps I should've asked that we could pull up the Appendix 11, page 3 of 26.

Just to orient the Board in terms of your understanding, at the bottom of this page, Ms. Derksen, is the diesel tariff for residential rates, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And this is coming out of Manitoba Hydro's application, so you understand that it already includes what Manitoba Hydro is asking for in terms of a rate increase on the various components?

MS. KELLY DERKSEN: That's my understanding, yes.

MR. BOB PETERS: And the basic charge for the diesel, Manitoba Hydro is asking that that be increased by 3.5 percent from what it used to be to come to this number that's now shown on page 3 of 26?

MS. KELLY DERKSEN: Yes. It's proposed to move from eight point o-eight (8.08) to the eight point three-six (8.36).

MR. BOB PETERS: And likewise on the energy charge, Manitoba Hydro is seeking to increase the energy charge by three point six (3.6) and -- 3.5 percent for this component of the rate?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: If we turn to page 10 of 26 in this same Appendix 11 of Manitoba Hydro's rate case, we see the general service for the diesel customers, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And in this regard, for these general service customers, approximately a hundred and seventeen (117) of them, right?

MS. KELLY DERKSEN: To the best of my knowledge, yes.

MR. BOB PETERS: All right. The basic monthly charge -- is also been increased by Manitoba Hydro in their proposal?

MS. KELLY DERKSEN: For both, yes.

MR. BOB PETERS: Okay. I'm just talking for the General Service customer. That General -- that basic monthly charge, Manitoba Hydro wants to increase that 3 1/2 percent to -- to arrive at the number that's on the page?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And for the energy charge, it is only the first 2,000 kilowatt hours that Manitoba Hydro is asking this board to increase by way of a 3.5 percent rate increase. Is that your understanding?

MS. KELLY DERKSEN: Could you ask me that again, please, Mr. Peters?

MR. BOB PETERS: I'll ask it this way, Ms. Derksen. Of the energy charge, is it -- which of the energy charges or both is Manitoba Hydro asking be increased in this General Rate Application for General Service diesel customers?

MS. KELLY DERKSEN: Yes, I understand now. It's the first 2,000 kilowatt hours for the diesel General Service customers.

MR. BOB PETERS: So anything over and above 2,000 kilowatt hours per month, Manitoba Hydro is not asking for any rate increase on that amount of the General Service customers' bill?

MS. KELLY DERKSEN: That's my understandings, Mr. Peters, but I should go through to their application. It's not explicit, so that's my understanding.

MR. BOB PETERS: I think you -- you ferreted that out on the IR process though, did you?

MS. KELLY DERKSEN: I think we got a rough -- yes.

MR. BOB PETERS: Okay. Before we leave this page, 10 of 26 of Appendix 11, we turn to the Government and First Nations Education Tariff. Again, Manitoba Hydro has included an increase in the basic charge for this customer grouping as part of the 3.5 percent rate increase?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: But not on the energy

charge at all in this case?

MS. KELLY DERKSEN: Correct.

MR. BOB PETERS: All right. We'll come back to those exceptions. But you're aware that the cost of service study that Manitoba Hydro does for its grid connected customers is not used for its diesel zone customers. Is that correct?

MS. KELLY DERKSEN: Yes, I'm well aware.

MR. BOB PETERS: And those diesel zone customers are in the communities of Shamattawa, Tadoule Lake, Brochet, and Lac Brochet?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And a separate diesel zone cost of service study is prepared to allocate all of the costs of that diesel zone.

MS. KELLY DERKSEN: It's kind of a -- a hybrid cost service revenue analysis but the point I wanted to draw to the Board's attention is, that has not been undertaken in probably close to a decade.

MR. BOB PETERS: Your recommendation, as I understood it, Ms. Derksen, is for this board to increase all components of all diesel customers by 3.5 percent.

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And you're not -- you're not convinced that there should be a freeze on the energy charge over 2,000 kilowatt hours for the General Service customer or a freeze on the energy charge for government and First Nations Education customers?

MS. KELLY DERKSEN: I just want to draw a distinction between the -- the freeze that was imposed, the rate freeze that was imposed on Diesel Residential customers flowing out of 59 of '18 is different than I believe what you're suggesting to me in your question. The rate freeze that you're speaking to is on account of the fact that there is no diesel cost of service study.

The Corporation has proposed no rate change to those elements, those components of the rates, and we're suggesting though -- our perspective is, given the length of time that has transpired since the last diesel cost of service study was prepared, given the significant changes flowing out of Order 164 of '16, which was the cost-of-service methodology review, which no longer allows an allocation of net export revenues to the diesel class, at some point we have to give -- and the fact, excuse me, that components of the diesel class rates are already being charged at grid levels, at some point we have to give serious consideration, in my view, to rolling in diesel rates, the cost of service into the big cost of service, and putting it all together. I'm not sure why at this point in time, given all of those circumstances, that the distinctions are being drawn to that degree.

MR. BOB PETERS: You're not convinced that a diesel cost of service study is needed before the energy charges to General Service customers in the diesel zone or government customers in the diesel zone is increased?

MS. KELLY DERKSEN: I'm not convinced because the -- the evidence that's on the record today has suggested that Diesel customers in general are substantially under-contributing, and on that -- and that's the only evidence that I have, despite -- you know, there's a couple of discussions and one Information Request. But for that, the only evidence that is on the record today is that there's a substantial under-collection of that group of customers overall.

MR. BOB PETERS: You're telling the Board that the revenue to cost coverage ratio for the diesel zone is well under the zone of reasonableness?

MS. KELLY DERKSEN: Yes. Yes, sir.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, I want to turn to the other cost of service study that's not before the Board, and that is for the test year.

You've commented that there's no prospective cost of service study for the grid connected customers for the year under which the revenue requirement is being sought?

MS. KELLY DERKSEN: There is not, no, sir.

MR. BOB PETERS: In your opinion, because there is no prospective cost of service study for the test year 2019/'20, does that mean that any rate increase by this Board should only be awarded on an interim basis?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I'm not sure that I would go that far. There might be -- there may be other reasons that Mr. Rainkie spoke to this morning for the Board to award a rate increase on an interim basis, but the fact that there is no cost of service study in and of itself, I'm not sure should hinder the Board from making an interim versus a final rate determination now.

The caveat is with respect to differentiated rates. That matter is different. Perhaps there is a justification to be made to apply rates or to give rates on an interim basis, if that were the case.

MR. BOB PETERS: All right. So maybe you've clarified for me, and I -- I suppose in fairness we should put up your direct evidence. That'd be Consumer's Exhibit 7-1, and on page 111 in the middle of the page just above the bold typing there's a -- the last sentence was to the effect that"

"It also means that a cost of service study must be prepared with each General Rate Application to support the PUB's final rate determination."

Do you see that sentence?

MS. KELLY DERKSEN: I do, but the context of that statement though, there -- there's a couple of pieces to it. Number 1 is, we're beyond the point in which Manitoba Hydro is applying for across-the-board rate changes by virtue of the PUB's direction flowing out of 164/16, as well as reaffirmed in 59 of '18.

So on that basis, because cost of service is now explicitly being used in order to determine what rate differentiation should be applied to each of the customer classes, if any, in that case then absolutely a cost of service study must be prepared.

MR. BOB PETERS: All right. Ms. Derksen, Manitoba Hydro is not seeking class differentiated rates, is it?

MS. KELLY DERKSEN: Not in this application, no, sir.

MR. BOB PETERS: And as I understood your evidence, and is it correct, that you support Manitoba Hydro's position such that if the Board were to award any rate increase, it should not result in class differentiated rates, with the exception of the General Service Small non-demand?

MS. KELLY DERKSEN: I think we come to that same conclusion but in different ways. At the end of the day, yes, I -- I agree with Manitoba Hydro.

MR. BOB PETERS: With the exception of the General Service Small non-demand?

MS. KELLY DERKSEN: I think there is room for the regulator to look at a lower than average rate increase for that class, not specifically focused on this test year, because obviously we don't have an explicit cost of service study to rely upon, but looking back over the course of the last decade and the rates -- the revenue to cost ratios for that particular class is certainly indicative and can provide more confidence I think to the regulator to award something less than average for that particular class.

MR. BOB PETERS: We'll come to that in a few minutes, Ms. Derksen, but I take from your answer and while you may come at it differently than Manitoba Hydro, you end up at the same destination and you've both, you and Manitoba Hydro, have concluded that without the prospective cost of service study for the '19/'20, or whatever it would be called, the Board should stay away from any differentiated rates, because that document is key.

MS. KELLY DERKSEN: Yes, with the caveat that we -- that I noted in my last response.

MR. BOB PETERS: The caveat being the General Service Small Non-Demand?

MS. KELLY DERKSEN: Correct, because

I'm not relying on a non-existing cost of service study to draw that conclusion.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, I believe it's the same chart in your evidence as it is in coalition Exhibit 10 this morning, so if we'll stay with the PowerPoint slides, Slide 19 if we could have Mani -- have Consumers Coalition Exhibit 10.

The -- the point of your putting this information before the Board, Ms. Derksen, is to show the Board that there are some significant costs that are now in effect that haven't been run through your cost -- through a prospective cost of service study?

MS. KELLY DERKSEN: I was trying to get two (2) points out of this. That's certainly is one (1) of them.

And the second one was, even if the regular -- the regulator found that it did have enough information on the record in order to impose differentiated rates, this gives some kind of directional information as well as some other slides to come as to what the revenue-to-cost ratios by class might look like by layering -- layering in Bipole III.

MR. BOB PETERS: Okay. Your -- your point is the magnitude of Bipole III is -- is what's key in terms of the cost of service study impact it would have on ultimate revenue-to-cost coverage ratios?

MS. KELLY DERKSEN: Yes. That's exactly -- it's of such significance to a cost of service study for the reasons I outlined this morning in my evidence-in-chief, that it will dwarf any other cost changes in a -- in a cost of service study. It's just that -- that big and it's -- it's the magnitude of the cost, it's the type of the cost. It's -- it's just so profound.

MR. BOB PETERS: And so the export revenue reduction -- I'm sorry, the revenue -- yes, the revenue from export revenue reduction that you show in this chart that's page 19 of Coalition Exhibit 10, you're telling the Board that that $36 million impact is relatively insignificant in the cost of service study?

MS. KELLY DERKSEN: I'll let you judge what 'significance' means, but in the context of Bipole III, it just is -- is -- in that context, is not significant enough to meaningfully move the revenue to cost ratios to unwind to any great degree the -- the ultimate impacts in the cost of service results.

MR. BOB PETERS: Do I take that answer to mean that the $36 million difference on the exports pales in comparison to the approximately $300 million of increased finance and depreciation expense coming from Bipole III?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: Okay. And, likewise, Mr. Bowman had commented, and I -- I think you had mentioned it in your direct evidence, that on some of the distribution costs that are coming, those, likewise, are relatively insignificant when you compare them to what the Bipole III is going to do to the cost of service study?

MS. KELLY DERKSEN: In my view and experience, yes, that's true.

MR. BOB PETERS: All right. And you said that we don't have a prospective cost of service study, but we do have, and I hope you do, Board counsel book of documents pages 85 and 86.

We'll start with page 85. Ms. Derksen, you will have seen this before, have you?

MS. KELLY DERKSEN: Yes, I've looked at -- at this extensively, sir.

MR. BOB PETERS: Oh. You're welcome. The -- the upshot of page 85 is that it takes -- it takes the last prospective cost of service study '18 and adjusts it for Board directives from the last Order of 59/'18 and comes up with an end result, correct?

MS. KELLY DERKSEN: That's correct. It's -- it's not the same as -- I don't believe -- my understanding of their evidence is it's not the same as what was used to differentiate rates flowing from Order 59/'18, but it is layering in some of the directives that it was able -- Manitoba Hydro was able to in order to arrive at some recognition of RCCs flowing from 59/'18.

MR. BOB PETERS: And if we go from -- from that qualified answer, Mr. Derksen, in terms of what we see -- or the Board sees on page 85 in the last column on the right to the first column on the -- on the left on page 86, we can see that on page 86 the initial RCC, including Bipole III, is provided?

MS. KELLY DERKSEN: I see that, yes.

MR. BOB PETERS: And we'll just wait until the screen catches up to us here so the panel can see us. Yes, the chart at the bottom, please, of page 86, figure 2.

So we jump from page 85 to 86 or from figure 1 to figure 2. And the notional difference here is that Manitoba Hydro has used their best efforts to indicate what would happen to the RCCs, the revenue to cost coverage ratios, if those costs that you had pointed out were part of the cost of service study?

MS. KELLY DERKSEN: Yes, I think that's true.

MR. BOB PETERS: How accurate are they?

MS. KELLY DERKSEN: I don't take -- I don't have -- I don't take issue with the first column, it's the remainder of the columns that I'm concerned about, Mr. Peters.

MR. BOB PETERS: Okay. Well, the remainder of the columns serve a different purposes that's related to differentiation of rates, correct?

(BRIEF PAUSE)

MS. KELLY DERKSEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, one (1) of your comments was that Manitoba Hydro, and I'll use my words, could have, should have prepared a perspective cost of service study to support this General Rate Application?

MS. KELLY DERKSEN: Those are about my words. And I said, But it didn't, so what do we do now.

MR. BOB PETERS: Okay. And if -- if -- was there enough time following February 14th filing of the updated or approved budget for Manitoba Hydro to put those assumptions and updated information through a cost of service study for this hearing?

MS. KELLY DERKSEN: If I -- if I had been there, and, you know, obviously I wasn't, I would have started last -- late last summer, early into the fall with the -- the -- when the initial application was being considered and prepared.

MR. BOB PETERS: All right. And if that hadn't been done, you're telling the Board here that there's a long lead period needed to -- to finalize a perspective cost of service study?

MS. KELLY DERKSEN: In my experience, it's about two (2) months of effort.

(BRIEF PAUSE)

MR. BOB PETERS: Ms. Derksen, before we leave page 86, one (1) of the -- one (1) of the steps the Board took in Order 59/'18 was that they did order rates be differentiated amongst the various customer classes, correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: They were trying to move classes that were outside of the zone of reasonableness inside the zone of reasonableness?

MS. KELLY DERKSEN: Yes, that's my understanding.

MR. BOB PETERS: All right. And if we look at the chart, figure 2 that's in front of us from page 86 of Board counsel's book of documents, which is PUB Exhibit 14, we can see that only the general service small non-demand and the area and roadway lighting classes are outside of the zone of reasonableness, which is set between decimal nine five (.95) and one point zero five (1.05)?

MS. KELLY DERKSEN: Yes, with the inclusion of Bipole III.

MR. BOB PETERS: And when I say, "Outside the zone of reasonableness," I'm talking about classes that are on the high side, which means that they're paying -- notionally paying -- paying more in the costs than the -- they otherwise would be responsible for?

MS. KELLY DERKSEN: Certainly, in the case of -- yes, I got your point. There could be classes who are below the zone of reasonableness who are also outside. And so, I understood that, in your question with respect to the GSS non-demand class, in my view, there's certainly an argument to be made that they -- they are in fact over contributing.

MR. BOB PETERS: I should also point out, Ms. Derksen, and also for the -- for the Board members, that this chart, figure 2, when we go to the far right-hand column and look at final RCC column, we see that the residential class and the First Nations on reserve are the same number, correct?

MS. KELLY DERKSEN: Yeah, this is where it starts to fall apart, but I'll answer your question. Just, basically --

MR. BOB PETERS: Okay.

MS. KELLY DERKSEN: -- yes, and -- and we'll see where we go from here.

MR. BOB PETERS: Well, from this figure, it appears that Manitoba Hydro has interpreted the -- the question that was posed such that they migrated the First Nations on reserve class back to the same revenue to cost coverage ratio as the residential class would end up under -- under various differentiations?

MS. KELLY DERKSEN: Yes, I -- I got your point. That, in of itself, isn't the biggest of concerns of the assumptions underpinning that figure, but, yes -- yes, I agree and I see that.

MR. BOB PETERS: And I believe, just for the record, AMC asked a question of Manitoba Hydro number 5 in which the RCC difference between the two (2) was maintained. Do you have a recollection of that?

MS. KELLY DERKSEN: To my knowledge, there's two (2) parts to that question. One (1) is, if the differential that exists today between the First Nations class and the residential class is maintained, what would the RCCs look like and, secondly, if the regulator was to impose another rate freeze for the First Nations on reserve class, what would the RCCs looked like in that scenario.

MR. BOB PETERS: All right. If we -- we've got to thank Ms. Schubert for -- for bringing it forward. What you see now on the screen in terms of figure 2 supposes that the First Nations on reserve rate remains unchanged from that of what it is today, and that would cause the final RCC number to remain lower?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And just so the Board understands how this chart -- I want to see if -- if this is correct. If the Board decides that there should be a zero percent rate increase to Manitoba Hydro flowing from this General Rate Application but the Board wanted to move the general service small non-demand into the zone of reasonableness in one (1) year, then that GSS non-demand class would receive a 10.02 percent rate reduction.

Is that your understanding?

(BRIEF PAUSE)

MS. KELLY DERKSEN: I'm not quite convinced that that would actually occur because there are some customer classes -- you'd need to support that 10 percent rate decreases for the GSS non-demand class somehow, and so some of -- some of the customer classes would have something other than a zero percent rate increase flowing from the application.

MR. BOB PETERS: And under that annual differentiation one (1) year, the residential rate, whatever the Board awarded, would have to go up an additional 2.10 percent and, likewise, the General Service Medium and the General Service Large zero to 30 kV would, likewise, also get higher than average rate increases to make up for the revenue shortfall that's not coming from the General Service Small non-demand?

MS. KELLY DERKSEN: That's the assumption underpinning this particular response which I -- which I don't agree with. And one (1) of the reasons I don't agree with is that that 10 percent differential is being charged to customer classes that are below unity, and that's problematic to me.

And I think it conflicts certainly with Order 59/'18 last year where the Board directed differential rates. And differential rates, the increment was to be charged by all customer classes either who were blow the zone of reasonableness or within the zone of reasonableness, so it conflicts with that.

It also is suggestive that those customer classes who are below unity are -- somehow, that they're under contributing. And from my perspective, as well as Manitoba Hydro's perspective, through their response to Coalition 38, states that, if you are within the zone of reasonableness, you're assumed to be fully funding the costs that you impose on the system.

And so, I take issue with the assumptions underpinning both of the responses to 61 -- PUB 61 and AMC 5 for that and other reasons. And I don't think that they can be used as a basis of rate differentiation flowing from this application.

MR. BOB PETERS: Your suggestion is that the two (2) problems that I heard from your answer, Ms. Derksen, was -- one (1) is you didn't find this treatment to be consistent with Board order 59/'18, which was the last Board order, correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And the second was that, once you hit the zone of reasonableness, that's close enough, and don't assume that, even if you're below unity, that you're not covering your costs?

MS. KELLY DERKSEN: Yes. A zone of reasonableness is also called a range of reasonableness, which is how I actually prefer to call it. And it's called a rangeable -- range of reasonableness for a reason. It's saying that those customers -- but because cost of service is not exact, that there are different ways to accomplish it and you will land with different results, that there's not one (1) true answer.

There's not -- unity isn't better than someone's RCC who is 99 percent or it classes RCC that's 105 percent, so -- and I think that's exactly what the -- the regulator was stating in its Order flowing out of 59/'18.

So implicit in that is -- is this perception, inappropriate, in -- in my view. We know that there's argument to be made that somehow classes below the unit -- below unity a hundred percent, are somehow under-contributing. And I -- and I disagree with that premise.

MR. BOB PETERS: So with the exhibit on the screen in front of us, which is AMC Manitoba Hydro first round five, we see, for example, the General Service small and on-demand class under the one-year annual differentiation has a zero percent additional rate charged to it or subtracted from it, correct?

MS. KELLY DERKSEN: Yes, correct.

MR. BOB PETERS: And you're saying that -- that that's the problem you have is that that class is under one-oh-five, and therefore, they should also be contributing something more than the average to help General Service Small and on-demand get closer to the zone of reasonableness.

MS. KELLY DERKSEN: Yes. Perhaps if I can say it in a more succinct way, I hope, there is no distinction to be -- to be drawn amongst RCCs of those customer classes that are within the zone of reasonableness.

MR. BOB PETERS: And so you're telling the Board before they start differentiating further, if they're going to do that in this case, they'd be cautioned and better off to have with them the cost of service study so you know which classes could take additional rate increases and which ones couldn't to support a differentiated rate for a class.

MS. KELLY DERKSEN: I'm not quite saying that, Mr. Peters. I think this was a scenario calculated based on some assumptions. I would not have calculated it in the same way.

If the regulator decided that he wanted to differentiated -- to differentiate rates flowing from this application, it could not rely on either PUB-61 or AMC-5 as the basis to do that.

MR. BOB PETERS: All right. I want to

turn, and we can leave AMC-5 on the screen because the -- the initial RCC, including Bipole III, is the same as the one that you saw in Board counsel's Book of Documents on page 86, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: All right. Ms. Derksen, you had said to me a few minutes ago that the only class to which you recommend a lower than average rate increase is the General Service small and on-demand, correct?

MS. KELLY DERKSEN: I think there's room for them to -- to be lowered, yes.

MR. BOB PETERS: All right. In a response you gave to the PUB and Coalition -- I think it was IR number 10 and if Ms. Schubert has that at hand, you were asked about this class.

And if we can go further into the answer and even a bit further. And, Ms. Derksen, if you need to come back to any of this, you will certainly ask, and it'll be granted.

But this answer that you provide reminds the Board of the harmonization that General Service small and on-demand, General Service small demand, and General Service medium are undergoing, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And one of the points you're telling this Board is that you have to be careful how much you adjust the General Service Small and on-demand because that may throw other aspects of this harmonization off key.

MS. KELLY DERKSEN: I think that's Manitoba Hydro's perspective. That's not my perspective.

My perspective is -- I think the focus ought to be placed on rate differentiation for the GSS and on-demand, given the significance of the -- of the divergence between the GSM classes, RCC, and the GSS and on-demand RCC, which based on PCOSS18 is approximately 20 percent.

And there's no amount, in -- in my experience and in my view, there's no amount of rate design or class consolidation that can accommodate for that level of divergence.

(BRIEF PAUSE)

MR. BOB PETERS: If we could keep on this information request and just go further up to see what's near the end of it. Sorry. I guess I should have said if we can go further down. Here. This is what I wanted.

Ms. Derksen, you say in your second last paragraph it may be difficult, perhaps not possible, to address the matter through rate design, and that matter that -- that you say you may not be able to address through rate design is keeping the classes in harmony while still bringing General Service small and on-demand into the zone of reasonableness?

MS. KELLY DERKSEN: Yes. And -- and part of my discomfort, Mr. Peters -- and I am as much at fault as -- as anyone is. I don't have a good history anymore of what gave rise to class -- to class harmonization.

And the best that I can recollect is that we wanted at the time -- this was back in the mid-2000s -- to be able to allow for more of a smoother transition between customers in the GSS on-demand and demand and GSM classes.

There was some anecdotal evidence that we became aware of back at the time that some customer classes -- sorry -- some -- some customers might have been trying to game it so -- to get a lower bill because of the way the rate structure was. That's the best information that I have. Manitoba Hydro doesn't seem to have a good handle on this, and no fault to them either. It's been -- it's been a long time.

But if -- if I read the response, the PUB issued directive number 28 flowing out of 59/18, which was that they wanted further information about why there was a declining block structure for these customer classes.

And in response to that directive in Manitoba Hydro's November -- if I can find it here -- November 12th letter at page 3, they're saying that the reason for the declining block rate structure was on account of class consolidation. While I have gone back into -- as far back as I can go into 2000 that that declining block rate structure existed long before class consolidation. So I think we've lost sight about what it is that we're trying to do, number 1.

Number 2, something is off to me. My intuition is, you can't get a 20 percent RCC differential between two (2) customer classes that are trying to be harmonized. If something under -- underpinning those classes -- either the types of customers, their load, the number of customers, their energy use -- something is driving that difference.

And so I think that needs to be investigated.

And that's why I'm saying move along with class RCC differentiation for the GSS and on-demand class because I think it will be some time before that other matter can get resolved. And I don't think it's reasonable that the Board would hold up a lower than average rate -- rate increase for this class in light of those circumstances.

MR. BOB PETERS: Does it fall from that answer, Ms. Derksen, that you're recommending separating the tariff for the General Service Small customers into two (2) separate tariffs, one for the General Service Small and on-demand and one for the demand?

MS. KELLY DERKSEN: I'm not really recommending anything at this point, other than Manitoba Hydro needs to have a good look at what's given -- is class harmonization still appropriate? And what's given rise to a 20 percent RCC differential that's occurred in the last decade?

And until we know that, I don't think it's appropriate to pursue class consolidation for that -- for that class.

MR. BOB PETERS: Back to Board counsel's Book of Documents PUB Exhibit 14, page 86.

So we'll go with Figure 2.

Ms. Derksen, in moving the General Service small and on-demand closer to the zone of reasonableness, you'll see that in this answer Manitoba Hydro provided what the rate differentiation would have to be if it was one (1) years, five (5) years or nine (9)years, correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And of those, are you suggesting there's room for all of those without causing problems for the other classes?

MS. KELLY DERKSEN: No, sir. In fact, I would not be supportive of an overall rate decrease for that class in light of Manitoba Hydro's financial circumstances.

To me, that suggests -- that's a -- a perverse kind of message -- messaging, number one. And I'll have to come back. I've lost my train of thought. But that certainly don't recommend a rate decrease. And so anything that is suggested that that class could have a rate decrease to me is not reasonable.

MR. BOB PETERS: Then I take from your answer, you're suggesting that if -- if there is a rate increase from this Board of greater than zero percent, then this class should be held at zero, while the other ones go up, but not this one.

MS. KELLY DERKSEN: I'll give you an example. I'm not suggesting to hold them at zero either. I am suggesting that if the -- if overall the Board were to approve a 1.5 percent rate increase that this class might be awarded a 1 percent rate increase or a -- a half-percent rate increase.

MR. BOB PETERS: And so you heard the reservations that came from Manitoba Hydro about differentiating the rate for the General Service Small and on-demand?

MS. KELLY DERKSEN: Yes. That's premised on the fact that they want to continue with class harmonization, which I just -- I can't understand in light of the circumstances that that should -- it sort of feels to me, my intuition, is that they're allowing the -- the tail wag the dog on this one, if -- if you will.

MR. BOB PETERS: Turning to the area in roadway lighting class while we were on this, Ms. Derksen. This is a class that is further away from unity than the General Service Small and on-demand, correct?

MS. KELLY DERKSEN: On paper, that's

what it appears, and that's with the inclusion of Bipole III.

MR. BOB PETERS: All right. And remind us that the area in roadway lighting class, that's -- half of that goes to the City of Winnipeg for their street-lighting program?

MS. KELLY DERKSEN: Approximately half, yes.

MR. BOB PETERS: And then the rest is for other towns, cities, municipalities, as well as agricultural producers who have Sentinel lights?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: All right. And even though this class you -- you said on paper. I think everything's on paper. Well, it used to be. On the screen, it's outside the zone of reasonableness that that is perhaps misleading, correct?

MS. KELLY DERKSEN: I believe it is misleading, Mr. Peters.

MR. BOB PETERS: And so your recommendation is that whatever rate increase the Board gives area and roadway lighting should also receive whatever average rate increase is granted.

MS. KELLY DERKSEN: That's what my recommendation is, yes.

MR. BOB PETERS: And so your reason for suggesting to the Board that this is misleading has to do with how demand side management expenses used to be allocated to the customer class that received the benefit from the program on a participation basis, which has now changed?

MS. KELLY DERKSEN: Yes, sir, I don't mean misleading in any -- any kind of un -- untoward context, but yes, it's true, demand side management costs in past years were allocated based on class participation. And, I guess, a gratuitous circumstance I think has arisen for that -- for them, which I -- there's just la -- a lack of information on the record at this point about.

But, it has to -- it -- it pertains to the fact that if you notice in -- in the City of Winnipeg and all across Manitoba, the street lights are now white instead of orange or yellow because Manitoba Hydro pursued the conversion to LED street lights, which is a significance cost that this class has avoided.

So, they've avoided both the cost of the DSM street lighting program by virtue of the cost allocation methodology change. They're also benefitting from the lower energy reduction and lower ultimate allocation of costs because they're using less energy because of the -- this program. So, I think really that these are -- that the RCC for this class is artificial and it would be my view that that would need to be can -- looked at.

More deeply, the details would need to be assessed before I'll -- would be, myself, prepared to undertake a rate increase that was lesser than average for that class.

MR. BOB PETERS: Okay, so, just to help and -- and let me start off by saying I wasn't suggesting somebody was -- was trying to mislead the Board, and I hope that didn't come through in my questions, but you're saying that on paper, the number may not bear true to what the reality of the situation is?

MS. KELLY DERKSEN: Yes. I think there are things going on underneath that class that need to be investigated --

MR. BOB PETERS: Okay.

MS. KELLY DERKSEN: -- before something lesser than average in terms of a rate increase were to be applied.

MR. BOB PETERS: So, these trucks that are out changing the colour of the lights and putting in LED street lights, those are DSM expenditures that they're incurring, correct? Capital expenditures?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: And, those are now, according to Board Order 164 of 16, those are now seen as a system resource to avoid future generation?

MS. KELLY DERKSEN: Yes, that's correct.

MR. BOB PETERS: And so DSM expenses are now functionalized as 100 percent generation?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: Not charged to the class anymore? Correct?

MS. KELLY DERKSEN: Correct.

MR. BOB PETERS: So, all those costs that are being incurred, aren't landing with this class?

MS. KELLY DERKSEN: Correct.

MR. BOB PETERS: That's the one (1) point you make. The second point you make is, by switching to an LED program, there's presumably electricity savings for the class, so their revenues are going to be lower.

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And that's the --

that's -- those are the gratuitous circumstances that have befallen this class?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: All right. That street lighting initiative is going to be finished in this fiscal year, is it not?

MS. KELLY DERKSEN: You know what, I'm not certain of that, Mr. Peters.

MR. BOB PETERS: All right. But, in any event, that -- that is shown in the -- it's capitalized and it's amortized over ten (10) years?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: Ms. Derksen, have you been able to estimate the DSM costs allocations to this class, based on the previous methodology?

MS. KELLY DERKSEN: We had, in my former life, done that analysis. It's not being put on -- to my recollection it was not put on the record in the last General Rate Application and I -- I know for certain it's not on the record in this application.

We did do some sensitivity analysis to see what the effect is; that's the best I can tell you though.

MR. BOB PETERS: All right, back to

diesel and you've identified to the Board, the -- the components of the diesel rates for which Manitoba Hydro is seeking rate increases.

But your recommendation, you've told us, is to apply any rate increase to all of the components of the diesel rate.

MS. KELLY DERKSEN: Yes, sir.

MR. CHAIRPERSON: Sorry, could I just ask a question on that. And what's -- what is the rate you're recommending for them?

MS. KELLY DERKSEN: That will be dependent on what you decide, Mr. Chair, at the end of the day.

THE CHAIRPERSON: Well, just for the record, I believe that when the question was first put, it was suggested that it was 3.5 percent whereas --

MS. KELLY DERKSEN: That's what Manitoba Hydro has applied for.

THE CHAIRPERSON: But I think the way it was suggested is that what you were recommending was 3.5 percent and what I understood was that your recommendation is 1.5 percent across the board.

I just wanted to correct the record because I think that when it came out, I know a number of the panel sort of got confused but -- so your recommendation is across-the-board 1.5 percent including diesel; is that correct?

MS. KELLY DERKSEN: I'm sorry for the lack of clarification, yes.

THE CHAIRPERSON: Okay, thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Ms. Derksen -- and I -- if I haven't been clear on my question, I apologize, that's on me. The -- are you adopting the recommendation that Mr. Rainkie has given or have the two (2) of you reached it together or how should the board understand that that is come to -- to that 1.5 percent?

MS. KELLY DERKSEN: Mr. Rainkie may want to add to this but Mr. Rainkie, Mr. Harper and -- and myself have come to that conclusion jointly.

MR. BOB PETERS: All right and then in terms of whatever rate this Board were to decide to award, ranging from zero to -- as Mr. Ghikas is asking for -- 3.5.

Anywhere in between you would say that that is the average rate increase that should be applied across all customer rates and rate components with the exception of the General Service Small and non-demand?

MS. KELLY DERKSEN: Right. So for example, if this Board awarded 1 1/2 percent rate increase and elected to differentiate rates only for the GSS non-demand class, as per our recommendation, everybody -- every -- every other classes' rates would be slightly greater than the 1.5 percent on account of that differentiation.

MR. BOB PETERS: In terms of the diesel class rate increases that Manitoba Hydro has -- has asked for, is it correct that Manitoba Hydro is forgoing, in your calculations, $1.6 million of revenues by not increasing the energy rates to governments and General Service customers beyond the 2000 kWh per month?

MS. KELLY DERKSEN: I think that's part of the calculation. I think there may be other costs that they may be forgoing that they have identified in one (1) of their responses, but that's certainly one (1) component, yes.

MR. BOB PETERS: And your -- your evidence, Ms. Derksen, points out that -- well, let's have -- let's have a look. If we could go to Appendix 12, Ms. Schubert. This is an appendix from Manitoba

Hydro's application, page 1 of 7.

When we look at residential First Nations on reserve, we can see here that Manitoba Hydro is requesting this Board that an average 3.5 percent rate increase apply to that new customer class, correct?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And this does not -- this request, Ms. Derksen, does not make up for the freezing of the rate in the last General Rate Application, does it?

MS. KELLY DERKSEN: No, it does not. To my -- my understanding that would hit net income at the end of the day.

MR. BOB PETERS: It would -- it would hit net income only if it wasn't recovered from other customer classes, if the foregone revenue from the First Nations isn't recovered from other customer classes?

MS. KELLY DERKSEN: This is where I get a little bit woozy so I'll say it in my words and maybe we can come to the same place.

Manitoba Hy -- my understanding of Manitoba Hydro's application is that it is seeking a 3.5 percent rate increase period. And so the fact that it is under collecting revenue on account of the rate freeze flowing from the Order last year that would hit net income. I think I've got that right.

(BRIEF PAUSE)

MR. BOB PETERS: I've -- I've got your point. I'm going to move to on this same chart, the residential diesel at the bottom of the -- of the page. Here we can see that even though it was 0 percent in Order 59 of 18, Manitoba Hydro's asking for 3 1/2 percent starting June 1 of 2019, which is for these great equivalent rates that are charged on the diesel?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And if we turn to page 3 of 7, here's where we'll see a little bit of the dichotomy is that under the General Service for diesel the basic monthly charge is to increase 3 1/2 percent as is the first 2000 kWh, but the excess over 2000 kWh is not increased; correct?

MS. KELLY DERKSEN: Correct.

MR. BOB PETERS: And that accounts for why the bill impact for the General Service diesel customers at the 5000 and 10,000 kWh per month hasn't kept up with the rate increases for the lower customers?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: And the bottom one, General Service, government and First Nations education in the diesel zone, if we can move that up on the screen, but we see here that only the basic monthly charge, according to Manitoba Hydro, should be increased 3 1/2 percent, but no other revenue should come from the government and First Nations education on account of the energy charge?

MS. KELLY DERKSEN: Yes.

MR. BOB PETERS: Ms. Derksen, did you did you calculate freezing of the First Nations on reserve residential rates in Board Order 59 of 18 had a result of that class not paying $1.7 million that would otherwise be payable?

MS. KELLY DERKSEN: I didn't do that calculation myself but I understand that to be the case.

MR. BOB PETERS: But do you also understand that that foregone revenue of $1.7 million was recovered from other customers to keep Manitoba Hydro whole?

MS. KELLY DERKSEN: Yes, I understand

that.

MR. BOB PETERS: And in this case, you -- you've -- you say that Manitoba Hydro's request is foregoing $1.6 million on account of diesel customers by not increasing the energy rates to the government and the general service customers?

MS. KELLY DERKSEN: That's Manitoba Hydro's position, Mr. Peters.

MR. BOB PETERS: Yes, but -- but it's $1.6 million?

MS. KELLY DERKSEN: Approximately, yes.

MR. BOB PETERS: Which is the same, approximately, as the $1.7 million that was frozen and not recovered in Order 59 of '18?

MS. KELLY DERKSEN: I noticed that as well, yes.

MR. BOB PETERS: You called that an inconsistency?

MS. KELLY DERKSEN: I did, yes.

MR. BOB PETERS: So on one (1) hand, you're saying that Manitoba Hydro was subsidizing the diesel rates for government and general service customers to the extent of $1.6 million a year, and on the other hand, Manitoba Hydro doesn't support a freeze on First Nations residential on reserve rates of the approximate $1.7 million a year?

MS. KELLY DERKSEN: Yes, it's a conflicting perspective, in my view.

MR. BOB PETERS: I -- I have your point.

(BRIEF PAUSE)

MR. BOB PETERS: I wasn't sure I was going to be this long, Ms. Derksen, but -- with you.

(BRIEF PAUSE)

MR. BOB PETERS: Can I summarize it correctly from your evidence that Manitoba Hydro should re-examine its goals and objectives of rate making as part of its corporate strategic plan and exercise that it's under -- that's currently undertaking?

MS. KELLY DERKSEN: Yes, I do.

MR. BOB PETERS: And why is that?

MS. KELLY DERKSEN: I -- I think there have been significant changes overall. I'll give you some for examples that can best articulate why I think it's important.

First of all, social policy has become an issue that is more important to this regulator by virtue of Order 59/'18. The issue of social rate making or social goals doesn't even appear in Manitoba Hydro's rate making objectives. It would be good to understand, at some point, and have some consistent and not divergent paths in terms of overall rate making.

We also have to be very careful in terms of the -- the tightness of the zone of reasonableness that exists. And I recognize an issue for another day in terms of unwinding what's trying to be accomplished at the revenue requirement level. And I'll give you an example.

The GSL greater than a hundred classes RCC, if you accept the evidence of Manitoba Hydro, their RCC will decline by about 9 percent, which is almost the entire zone or reasonableness. It is almost three (3) times the amount of the overall rate increase that Manitoba Hydro is -- is seeking, and it's even more than the 7.9 percent increase that this Board dismissed flowing out of Order 59 of -- of '18.

And so if one is not really careful in terms of the explicit goals of -- of rate making, that there's not some harmony brought to these goals, then what you're trying to accomplish in one (1) phase of your rate making cycle is going to compete and conflict with -- with the other end.

I -- we also know that there are a significant number of rate design directives that are on the table for Manitoba Hydro, including, for example, time of use, solar PV was one (1) that this Board identified flowing from the last Order there. Class consolidation is another.

And it seems to me to be an -- an advantageous time in the midst of having the MHEB review its overall philosophy in terms of rate make -- in -- in terms of rate setting, that it's important to have some renewed vigour, vision, however you want to call it, with respect to overall rate making objectives for those reasons.

MR. BOB PETERS: So how does that come back to this Public Utilities Board when it has to approve rates? What -- what change would -- would come before this Board as a result of that exercise?

MS. KELLY DERKSEN: I guess it depends on what kind of change that it is. Understanding, for example, how influential rates in other jurisdictions might be in terms of what this regulator ultimately includes -- directs in terms of a rate increase would be one (1). The zone of reasonableness, we have Keeyask coming down the pipe, if you will, and that's going to have significant RCC impacts to some customer classes that now might fall outside the -- the zone of reasonableness.

So if stability and gradualism are key revenue requirement objectives, then they also ought to be for cost allocation and rate design, which may be requiring reconsideration of -- of a zone of reasonableness, for example.

MR. BOB PETERS: All right. Thank you for that. The last area with you, ma'am, is -- I'm not sure it was a criticism at the Board, but let's get their attention by suggesting it might have been.

MS. KELLY DERKSEN: I'm not trying to.

MR. BOB PETERS: That -- and I'm going to look on your slide 23, the one that Mr. Williams steered you away from for some reason.

(BRIEF PAUSE)

MR. BOB PETERS: There seems to be a suggestion from you, Ms. Derksen, that a fulsome compliance filing after a PUB Order should be made by the Utility, and vetted through not only the Board, but also through the Intervenors. Have I summarized that correctly?

MS. KELLY DERKSEN: Yes, you have.

MR. BOB PETERS: That's not been the norm. Is that correct, from your experience?

MS. KELLY DERKSEN: I'm not sure what part of that's not been the norm. There's portions of that that certainly have been the norm on the Centra side of -- of the world, which we are suggesting be incorporated on the Manitoba Hydro side in terms of Intervenor participation.

I'd have to go back through twenty-five (25) years of history whether Intervenors have been included. I do recall periodically in past years that Intervenors, yes, have been included.

MR. BOB PETERS: All right. I -- I wasn't focusing on that part of it. But, for example, after the Board issued -- and Mr. Rainkie might have referenced this in his evidence, too -- after the Board issued Order 59 of '18, they should -- they have also required the Utility to run a new integrated financial forecast using the directives that the Board made in that -- in that Order as the basis for the IFF?

MS. KELLY DERKSEN: Yes, I -- I -- that is one (1) of our recommendations. We found it very time-consuming and therefore costly at the end of the day not to have that piece of information. I know that there's a strong legal aspect to this, but at the end of the day, I think we all need to be working from the same set of information, and it would be much more effective and efficient to do that.

And it's consistent with the PUB's directive, nevertheless, flowing out of 59 of '18, which stated to do -- to do so, in any regard.

MR. BOB PETERS: Ms. Derksen, you will not have forgotten that there is usually a time crunch between the Board issuing its GRA Order and the Utility turning around the directives and coming up with newly calculated rates?

MS. KELLY DERKSEN: I am absolutely aware of that. We've -- we've dealt with that on the Centra side of things in my career for twenty-five (25) years. I'm not sure why the same couldn't apply on the electric side.

MR. BOB PETERS: Well, it -- I'm not saying that -- and the Corporation has to turn around new rate schedules, often as a result of a Board Order, correct?

MS. KELLY DERKSEN: Yes, sir.

MR. BOB PETERS: Is there enough time for those new rate schedules, which are usually wanted as soon as possible by the Utility, to also prepare a new integrated financial forecast?

MS. KELLY DERKSEN: I'm not sure that it would be preparing a new financial forecast, but I guess it also depends on the breadth and depth of the direction flowing out of a particular order, but it -- it would take some effort to update the assumptions in -- in an IFF, no different than what is done on the Centra side.

MR. BOB PETERS: All right. What role would there be for Intervenors in this robust review of the compliance filing?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, maybe I'll give a Ms. Derksen a -- a break for one (1) minute.

Your last question, I think -- I think in terms of -- of Manitoba Hydro, you know, initial filing might be the year that's actually the test year on the integrated financial forecast side. Maybe later a more fulsome IFF might come out, so there might be some -- some ways of bifurcating what is done.

The -- the thing about it is, I mean, I know we tried to I think state it simply in the evidence, if you are working through the -- you know, if you're working for -- through a particular hearing, you're there, you're involved in 95 percent of it, and then the last piece happens, the order and the compliance filing, and then maybe several months later you come back and you -- you don't have an understanding of how the -- the last process ended.

So it's like watching a movie for, you know, two (2) -- two (2) hours and twenty (20) minutes and this is the last ten (10 minutes, and I think it would be more efficient if Intervenors were there to help -- to help. They could point out issues. Intervenors always have been available to turn things around on a quick basis. We've all -- we've all participated in these hearings for a long period of time.

So that's the spirit of the recommendations -- if you know the -- though how the last one ended, you're in a much better positioned to start the next one.

MR. BOB PETERS: All right. Mr. Rainkie, since -- since you are still here, the -- should net income from 2017/18 be a factor in any rate increase award from this board in this hearing?

MR. DARREN RAINKIE: No, sir. In my evidence I think I stated that -- came to the conclusion that that information was available to the Public Utilities Board at the start of the last hearing, so presumably the rate increase that was given for 2018/19 took that into consideration.

MR. BOB PETERS: And what about the net income level for 2018/19, should that be a factor in any way for this Board in considering what to do for fiscal 2019/20?

MR. DARREN RAINKIE: Given that it's a forecast year and -- and we're only really dealing with two (2) years of information in the filing and not a full IFF, I think that it's fair to -- to look at and see if it makes any difference in the -- in the rate increase.

MR. BOB PETERS: And the comment you made earlier, Mr. Rainkie, and I don't want to go on at length about it, but you've heard the Corporation's evidence that after February the 14th the Corporation was tracking to about a $95 million net income for the test year that is ended on March 31 of 2019?

MR. DARREN RAINKIE: Yes, sir, that's correct.

MR. BOB PETERS: And I -- I took from your direct evidence that you would have expected it to be a higher number?

MR. DARREN RAINKIE: Yes, I thought so. I was a bit confused by -- by the usage factor, negative variance, offsetting a very cold winter.

MR. BOB PETERS: But there's no evidence before this Board to suggest that it should be a higher number than what the Corporation has told us?

MR. DARREN RAINKIE: No, there isn't. We'll have to wait until August, I guess, to see the results of that.

(BRIEF PAUSE)

MR. BOB PETERS: Just to maybe end on financial ratios, and we talked with Mr. Ghikas about them, but in Manitoba Hydro's Exhibit 25, which was their direct evidence, I think there was Slide 19, was my note, that there was the financial ratios for the coming year.

And you understand and you've looked at -- Ms. Schubert, maybe if it's not a whole lot more work, could we put on the screen PUB Manitoba Hydro First Round 8, A to C Updated, and I'm looking at page 3 of 7.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, you would have reviewed these in the preparation of your evidence, correct?

MR. DARREN RAINKIE: Yes, sir.

MR. BOB PETERS: And it's your evidence to this board that these traditional financial ratios are better indicators of Manitoba Hydro's financial health for the test year rather than annual net incomes?

MR. DARREN RAINKIE: Well, in doing that, sir, I was -- that there was a -- a representation or an assertion in the initial application that one of the reasons for the application was there was a deterioration amount on Hydro's financial position, so I tested that, and when I looked at the ratios I came to the conclusion that that wasn't the case.

MR. BOB PETERS: All right. So while we have on the screen in front of us this now famous EBITDA to interest coverage ratio --- just as a starting point, EBITDA ends up being an absolute number, correct? It's not a ratio; it's a number, earnings before interest, depreciation, amortization?

MR. DARREN RAINKIE: Yes, it can be calculated as such, sir.

MR. BOB PETERS: Well, it -- it was, and it's a dollar amount, correct?

MR. DARREN RAINKIE: Yes, yes, that's right.

MR. BOB PETERS: And then you can -- you can divide that by your interest payments, and that's what's done here?

MR. DARREN RAINKIE: Yeah. We're dividing it by total finance expense.

MR. BOB PETERS: And is it correct that what's on the screen here, this EBITDA interest coverage is really the measurement of Hydro's ability to meet its interest payments with cash flow?

MR. DARREN RAINKIE: Yes, that's the intent of the ratio in general.

MR. BOB PETERS: And so when we see something for the test year at 1.61, what is that telling -- what is that telling the financial world and this Board?

MR. DARREN RAINKIE: Its telling the financial world and the Board that the cash flow generated internally is 1.6 times the total interest expense of the Corporation, including capitalized interest.

MR. BOB PETERS: Would it be -- not meant to be -- well, would it be correct to say that there's a -- a -- a 61 percent cushion?

MR. DARREN RAINKIE: I'm not sure about cushion. We think about it as times -- like, you know, it's not two (2) times; it's 1.6 times, so.

MR. BOB PETERS: All right. So the target though is 1.8 under this -- under this metric, correct?

MR. DARREN RAINKIE: Yes, it is.

MR. BOB PETERS: So how serious, in your view, is it that -- that now the Utility is at 1.6, not 1.8?

MR. DARREN RAINKIE: In the era of major capital expansion where the company recognize this is going to happen and the capital markets have been preconditioned to this for half a decade or more at least, I -- I don't think it's serious. As I talked about before, I think the capital markets have expressed their desire to place money in Manitoba with -- and recent debt issues.

MR. BOB PETERS: Was the appearance of this ratio, Mr. Rainkie, a factor in the Corporation switching from the EBIT to the EBITDA interest coverage ratio?

MR. DARREN RAINKIE: Well, sir, I think the focus on all of that review was on the equity ratio, and I -- that's something that's not in my -- in the back of my mind in terms of why we changed that, sir, you know, at the time, or why Manitoba Hydro changed it at the time. Sorry, I can't help you on that.

MR. BOB PETERS: You were there at the time?

MR. DARREN RAINKIE: Yes. I -- I was. I'm a bit older now and a bit greyer. I'm a bit thinner.

MR. BOB PETERS: Mr. Rainkie, we've heard in this hearing that one of the debt rating agencies also does their own calculations, and you're aware of that?

MR. DARREN RAINKIE: Yes. All debt rating agencies have done all of their own calculations for years, and they all have slightly different takes on the same thing.

MR. BOB PETERS: Do you recall the evidence, and if you don't I'll -- I'll bring it up, that Moody's released a December two -- 24th, 2018, report that, I believe, the words were, they look back for twelve (12) months and calculated what was called an adjusted EBITDA-to-interest expense ratio?

MR. DARREN RAINKIE: I'm not sure what -- what was actually on the record, Mr. Peters. It doesn't surprise me that they did that though.

MR. BOB PETERS: All right. Maybe we'll go to Manitoba Hydro Exhibit 25, slide 22. And I'm looking at the last bullet. On the last twelve (12) month basis, Moody's adjusted EBITDA to interest expense was 1.2x. Do you see that?

MR. DARREN RAINKIE: Yes. I think I went through this with Mr. Hacault earlier.

MR. BOB PETERS: How is that different from what we were looking at at PUB Manitoba Hydro IR 8 updated where we don't see 1.2 on that -- on that Information Response?

Do you know how Moody's cal -- did their calculation?

MR. DARREN RAINKIE: You know, no,

sir. Manitoba Hydro has a detailed spreadsheet that I think tracks these things. And I think we lost the last one. Maybe if we can go back to the last page. One (1) number was an EBIT and the other was a EBITDA.

You know, Moody's makes all kinds of adjustments on this, so one would have to actually look at the very detailed analysis they do in their credit rating report to understand it, I think.

MR. BOB PETERS: All right. If we go back to that IR, PUB Manitoba Hydro 8, and we go down to the capital coverage ratio, I know that the 2018 ratio of .46 was explained in the annual report.

I just want to talk and explain to the Board that this is the measure of the ability of cash flow from operation to fund the sustaining capital expenditures or base capital expenditures or what you and Mr. Ghikas called the business operations capital. Is that correct?

MR. DARREN RAINKIE: That's the general reason for the calculation, yes.

MR. BOB PETERS: Does the definition change from what was once base capital to what was then sustaining capital to what is now business capital have an affect on the capital coverage ratio?

MR. DARREN RAINKIE: I think they're

largely the same. Manitoba Hydro may have moved some projects that -- since -- since I have left that were major capital projects to base operations capital.

Like, you know, there's a -- there's a -- there can be changes in definition over time, sir.

MR. BOB PETERS: You can confirm, Mr. Rainkie, that Manitoba Hydro has continued to calculate its capital coverage ratio as it historically has?

MR. DARREN RAINKIE: Yes, that's my understanding.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of cash flow presentation, Mr. Rainkie, the Board has heard from Manitoba Hydro that they made -- I think they called them two (2) presentation changes, or at least that's the words I'm putting to you.

And you're familiar with that?

MR. DARREN RAINKIE: Yes, I am, sir.

MR. BOB PETERS: And one (1) of those presentation changes was a change from the direct presentation to an indirect presentation, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: Do I take from your evidence that you're not fussed and you actually support Manitoba Hydro's movement to the indirect methodology?

MR. DARREN RAINKIE: You're correct. I might have actually had a hand in that before I left, as well, because I think it's -- it's a more meaningful -- I mean, I'm an old-timer, so it's a more meaningful calculation of cash flow than the other alternative.

MR. BOB PETERS: But changing from direct to indirect doesn't change the amount of cash flow from operations, does it?

MR. DARREN RAINKIE: No. It just -- it just starts with net income and builds up so you have a better idea of how you get from your income statement to your cash flow statement.

MR. BOB PETERS: All right. The second change which I think you've said you didn't have a hand in was the reclassification of interest capitalized on capital projects as an operating activity rather than leaving it as an investment activity?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And you've given us

your evidence on that today and that's not something you would recommend?

MR. DARREN RAINKIE: No. I find it a bit confusing because of the, you know, three (3) out of the four (4) pieces of communication in the annual report are one (1) way and the other piece is the other way, so.

MR. BOB PETERS: But both presentations of the capitalized interest are acceptable to your accounting standards board?

MR. DARREN RAINKIE: I think so. The auditor's accepted the presentation.

MR. BOB PETERS: All right. Mr. Rainkie, in the few minutes I have left, if we could go to Board counsel's book of documents page 70, page 7-0, of PUB Exhibit 14.

You're not denying that Keeyask is going to put some -- some added costs onto the income statement, are you?

MR. DARREN RAINKIE: No. I'm just not sure what the proper figure is when you put it into an integrated financial forecast.

MR. BOB PETERS: And -- and so, while there may be uncertainty about the figure, and I've talked to the company about these numbers, there's a suggestion that the expenses for Keeyask could be as high as a half a bill dollars a year. And you'd say that would be in the ballpark?

MR. DARREN RAINKIE: I think we have to be careful because there are some operating costs that are already in the O&A targets and some capital costs -- capital tax costs, sorry, that are already in the -- in the forecast, so I'm not sure.

Like, this is an incremental calculation, I think, so I'm not sure it's -- and, of course, there's revenues that -- I saw various calculations on the record as high as 400 million or 370 million, so whether this is an accurate representation or not, I -- I cannot help you.

MR. BOB PETERS: Well, I'm not sure it's being held out to be an accurate representation, but what -- it's being held out as an example of -- of needing to address some -- some costs that are coming down -- down the line. And that's how -- is -- is tha how you can take this?

MR. DARREN RAINKIE: Yes, I -- I take it as an illustrative co -- calculation, yeah.

MR. BOB PETERS: The costs have been advanced earlier than their in-service years and -- and brought into the test year for this -- for this example?

MR. DARREN RAINKIE: Yeah, it's a strange concoction of moving dollars back and forth without having an integrated financial forecast and it's -- it's kind of a back in the napkin calculation, sir.

MR. BOB PETERS: All right. But on the back of the napkin there's still going to be some red ink down in that net income -- or loss line where right now there's $308 million of red ink, correct?

MR. DARREN RAINKIE: I'm not so sure, after the cross-examination and testimony of Mr. Bowman, that that number is that high. I think there'll be some red ink, as is always planned on the in-service of a large generating station.

MR. BOB PETERS: All right. And, Mr. Rainkie, in -- in fairness, and maybe I didn't mean to suggest otherwise, but my recollection is Mr. Bowman said that that net income line could be a loss of maybe around $140 million. And then, instead of an 18 percent onetime rate increase, it could be as low as a 9 percent onetime rate increase.

Is that consistent with your understanding of what he said?

MR. DARREN RAINKIE: Yes, it is. I

mean, I'd -- like, an 18 percent rate increase doesn't make any sense to me, so, I mean, this -- that's a nonsensical calculation, as far as I'm concerned.

MR. BOB PETERS: But you are saying that it's not nonsensical that there will be -- likely is going to be some net loss when Keeyask fully comes into service?

MR. DARREN RAINKIE: Yes. But, as I indicated this morning, with some of the improvement that's already, like, in -- in -- almost $600 million of net debt that's already there, I don't know when you put it all in the mix what the real number is; nobody knows at this hearing, so that's the problem.

MR. BOB PETERS: And -- and your point was Manitoba Hydro's previous IFFs have shown losses in consecutive years following the in-service of major plant?

MR. DARREN RAINKIE: Yes. And, in fact, the ones back in 2015 were much larger than -- than in Exhibit 93.

I mean, it's a planned thing, sir, to -- when -- when you have a generating station, that you're going to have some losses. It was understood -- understood by the company and stakeholders, the capital markets, as I said, for about the last five

(5) or more years.

MR. BOB PETERS: But at this --

MR. DARREN RAINKIE: I'm not trying to be flippant about it, but it has been -- it's not like anybody withheld it.

MR. BOB PETERS: No. At this point in time, based on the evidence that's before the Board, you're saying that these numbers on page 70 that are on the screen in front of us aren't reliable in any way because there's a lot of missing pieces that will -- will have an ultimate impact on that bottom line number?

MR. DARREN RAINKIE: Yes. I mean, there's hundreds of assumptions that go into an IFF. So when you pull out one (1) or two (2) and say, hey, this is an illustrative calculation, that's all well, but what happens to the other ninety-eight (98)?

And that's never been -- I mean, we've never set rates on this -- on this basis on an illustrative calculation, to my knowledge.

(BRIEF PAUSE)

MR. BOB PETERS: And your slide -- Mr. Rainkie and Ms. Derksen, slide 16 of Consumers

Coalition Exhibit 10 of your presentation today is the last point I want to, I believe, talk with you about today.

And, Ms. Derksen, you've now told me that there was some collaboration amongst the three (3) -- first of all, collaboration amongst Derksen, Rainkie, Harper to come to an assessment of what would be the recommendation to the Board?

MS. KELLY DERKSEN: I think that's fair.

MR. BOB PETERS: All right. And in -- in the evidence that we have here, Ms. Derksen and Mr. Rainkie, there's a continuum of rate options available to the PUB, ranging from no rate increase to 3.5, as proposed by Manitoba Hydro.

And that's been in your direct evidence; that's been in your written evidence; and that's what you've put in your slides, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: Mr. Rainkie, the -- you've given us how you came to your level of rate increase recommendation. I want to focus on the recommendation on a final basis, which you say in two of the three items you've listed on this continuum. Are you with me?

MR. DARREN RAINKIE: Yes, sir.

MR. BOB PETERS: And when you say a continuum, you've got 3.5 here. The Board could pick 3.4 or 3.2. Any other number between there and zero is what you're saying.

MR. DARREN RAINKIE: Yes. I -- I would just try and define the range that -- of possible options for the Board.

MR. BOB PETERS: At what point in your minds does the rate increase change from being a final rate increase to an interim rate increase?

MR. DARREN RAINKIE: Well, because of the unique nature of this application, I think if we are specifically given -- giving money for Keeyask on a basis that we have no forecast for, and I think it has to be on an interim basis until that forecast arrives, and we get a chance to test it.

If we're comfortable in giving a rate increase for 2019/'20 that protects Manitoba Hydro's capital from erosion within the test year, without kind of looking forward three years and saying we're going to do this without -- with blinders on, without a forecast, then -- then I think -- I think that should be final, sir, because it's kind of keeping it to the test year, so to speak.

MR. BOB PETERS: I'm just going to interrupt you. When you say protect Manitoba Hydro's capital, what are you referring to; one of their -- one of their financial ratios?

MR. DARREN RAINKIE: Well -- well, I was harking back to an order of the Board 5/12 where the Hydro had asked for rate increases based on its capital development plan but did not provide the plans to the Public Utilities Board, and the Public Utilities Board, the way it got past that, what I called, a scope limitation was to award an inflationary rate increase.

And the words that -- used in that decision was to avoid an erosion of capital in the test year. So if you're -- if you're concerned about something that's coming up in the future, I guess the last thing you'd want to do is -- you know is have a loss in '19/'20 on non-water flow related risks.

I mean, the Board has been clear in the last order that we're not putting a rate increase in to generate enough so that we can cover off all of the -- all of the drought risks that Manitoba Hydro faces. Is that clear, sir?

MR. BOB PETERS: Well, when you say "erosion of capital," you meant the capital structure, specifically the debt equity side.

MR. DARREN RAINKIE: Yes. I mean, maybe I'll just say it simply without the words in the -- in Order 5/12 that it's probably not a good time to have a loss in '19/'20 when you're -- when Keeyask is coming up in a -- a year or two. But that doesn't mean that the Board would award a 10 percent rate increase to cover off drought risk, which it said in the last order it wasn't going to do.

MR. BOB PETERS: All right. Mr. Rainkie, one of the other things that you recommend -- or actually, more accurately, you don't recommend is -- is deferring any revenue from the rate increase into a deferral account, and for purposes of our discussion, let's call it a Keeyask deferral account.

You don't -- you don't recommend doing that, do you?

MR. DARREN RAINKIE: You know, given that Keeyask is not that far away, I'm -- I'm not sure what the real value is of deferring and then having to amortize that amount that you would put in a deferral account very quickly. I think Mr. Bowman saw some symbolic value in it in his testimony, if I can use that term. I'm not sure --

MR. BOB PETERS: I think when Ms. Boyd examined him, I think it was more to the effect -- or Ms. Fernandes, it was more a messaging, is what I took from his answer. Is that what you heard?

MR. DARREN RAINKIE: Yeah. I -- perhaps that's a better word. Thanks for that, Mr. Peters.

I'm not all that convinced that there's -- that -- empirical evidence to that kind of messaging really makes a difference to Manitoba Hydro. So, you know, if we had started this a number of years ago, like the Bipole deferral account -- it was started about five years or something ahead -- then maybe that would make sense. But in this context, it didn't seem like it was serving a real purpose.

MR. BOB PETERS: You saw the Bipole III three deferral account is a successful strategy, did you?

MR. DARREN RAINKIE: I guess so, sir. Yeah. I don't -- you know, in the end -- in the end, your retained earnings are going to be what they are when you recognize the -- the revenue over the five years, right? Like, you're not going to -- you're not changing the cost of Keeyask -- sorry -- of Bipole by deferring.

So it's -- it's a bit of an accounting thing to, you know, recognize the revenue over a different period of time. So I don't -- I don't have a problem with it as a concept. In this circumstance, with it being a year or two away from Keeyask, I didn't see a real value.

MR. BOB PETERS: Is there any downside to using a Keeyask deferral account?

MR. DARREN RAINKIE: I don't think so, sir. I wouldn't -- you know, if that's the Board's will, that's the Board's will. I just didn't see a real value in and -- and specifically needed to do it.

MR. BOB PETERS: Mr. Chairman, I'd like to thank Ms. Derksen and Mr. Rainkie for their responses to the questions that have been posed. Those complete my questions.

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

(BRIEF PAUSE)

THE CHAIRPERSON: I have a question in relation to compliance orders. If the proposal is that the compliance order be sent to interveners and lo and behold there wasn't agreement on the compliance order, what would you suggest is the process to deal with the disagreement?

(BRIEF PAUSE)

MR. DARREN RAINKIE: There was a number of letters, I think, exchanged, Sir, on this last summer, I think, from the various parties. And I think there was a proposal that, you know, an order would be issued, parties would have time to consider that, and provide feedback, and then the Board would issue a final decision on that.

I think we're suggesting that in a number of circumstances, it's the interveners that have actually put the recommendation forward for the Board to have that directive in the first place, and it would be helpful -- it would be helpful for them to be part of the process as a result of that.

I think also, we see a meaningful role from interveners in terms of helping sort out when there are number of directives on the list and Manitoba Hydro is saying we don't have the resources to do them all. I think the interveners can play a meaningful role in helping with the prioritization of those directives and maybe having some unique options in terms of how they maybe can be dealt with on a more expeditious basis.

So I just think that the general proposition is that Intervenors -- they're here during the whole hearing more often than not. They recommended directive in the first place. They can have some meaningful input into it and how it -- how it eventually gets dealt with if it has been complied with, et cetera. So don't forget about the interveners in the process I think is the evidence.

THE CHAIRPERSON: Do you know another jurisdiction in Canada that follows that kind of process? And I -- I don't know the answer. This isn't a trick question. I'm just wondering what other jurisdictions do.

MR. DARREN RAINKIE: You know, it's too bad Mr. Harper wasn't here because I think he did mention at one point that there was a role for interveners in -- in compliance.

But I don't know. I just think, as I said, you know, you watch a movie for two (2) hours and twenty (20) minutes, and then it -- the screen goes blank for ten (10) minutes. You know, it's -- it's nice to -- to finish that process and -- and know what's going to happen for the next time, Sir.

THE CHAIRPERSON: Thank you, sir. Mr. Williams, any re-examination?

DR. BYRON WILLIAMS: No. Obviously, if the Board wants more in practice than other jurisdictions, I recollect the same comment from Mr. Harper.

THE CHAIRPERSON: Okay.

DR. BYRON WILLIAMS: So we're happy to share. And I did want to thank both the witnesses and especially commend Ms. Derksen for reading Mr. Peters' Book of Documents and giving him that important feedback, so -- but there is no re-examination or -- or re-direct, Sir.

THE CHAIRPERSON: Thank you. Ms. Boyd, you put in rebuttal before. You have the right if there's anything that was raised in the evidence of the interveners to put in further rebuttal evidence, which would be a very narrow scope, but, of course, it would be subject to cross-examination.

So I guess the question is: Does Manitoba Hydro wish to put in additional rebuttal evidence?

MS. MARLA BOYD: Thank you, Mr. Chair. No, we have none.

THE CHAIRPERSON: Thank you. Thank you. We'll adjourn until Wednesday 9:00 a.m. when we will start with closing submissions. Thank you.

--- Upon adjourning at 4:40 p.m.

Certified Correct,

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Michael McKenzie