



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
INTERIM RATE REQUEST
ORAL HEARING

Before Board Panel:

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba

July 18, 2017

Pages 1 to 95

APPEARANCES

1

2 Bob Peters) Board Counsel

3 Dayna Steinfeld)

4

5 Patti Ramage) Manitoba Hydro

6 Odette Fernandes)

7

8 Byron Williams) Consumer

9 Katrine Dilay) Coalition

10

11 David Cordingley) Green Action

12 Peter Miller) Centre

13

14 Antoine Hacault) Manitoba Industrial

15) Power Users Group

16

17 George Orle, QC) Manitoba

18) Keewatinowi

19) Okimakanak

20

21 Matt Nordlund) Business Council of

22) Manitoba

23

24

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1 --- Upon commencing at 9:05 a.m.

2

3 OPENING COMMENTS BY THE CHAIRPERSON:

4 THE CHAIRPERSON: Good morning,
5 everyone. Welcome to the first of two (2) days that
6 have been scheduled to hear oral submissions in
7 respect of Manitoba Hydro's request for a seven point
8 nine (7.9) rate increase to be effective August 1st,
9 2017, on an interim basis.

10 For the record my name is Robert Gabor,
11 and I am the chair of the Public Utilities Board, and
12 I'm chairing this panel. I'm joined on this panel by
13 Marilyn Kapitany, Sharon McKay, Shawn McCutcheon,
14 Larry Ring, and Hugh Grant.

15 At the outset, on behalf of the Public
16 Utilities Board I would like to congratulate Byron
17 Williams on his honorary degree from the University
18 of Winnipeg. He is certainly a worthy recipient. I
19 just question whether it was divine revelation that he
20 received the recognition prior to a hearing where
21 there is another Mr. Williams.

22 As -- as indicated in my opening
23 comments at the pre-hearing conference, these
24 proceedings are now streamed over the Internet from
25 the Board's website. As a result, members of the

1 public as well as representative of the parties
2 involved in Manitoba Hydro's General Rate Application,
3 will be able monitor the proceedings. Exhibits
4 referenced will also be posted on the Board's website
5 later the same day.

6 Parties are reminded that use of
7 acronyms is to be avoided to facilitate the
8 understanding of all those participating in and
9 viewing the proceedings.

10 Parties will be aware that Manitoba
11 Hydro included a request for a 7.9 percent interim
12 rate to be effective August 1st, 2017, in its General
13 Rate Application that was filed in May 2017. Manitoba
14 Hydro filed its written submission in respect of its
15 interim rate request on June 20th, 2017.

16 It also filed an update to its
17 integrated financial forecast, MH-16, on July 11th,
18 2017, and the Board expects the oral submissions of
19 all parties will also refer to this later fore --
20 latest forecast by Manitoba Hydro.

21 While I will turn to Board counsel
22 shortly for details of the procedures for the oral
23 submission -- submissions on Manitoba Hydro's interim
24 rate request, there are a few other matters to be
25 addressed.

1 Last week, Manitoba Hydro filed what it
2 calls a CSI process motion, and the Board would like
3 to hear from Manitoba Hydro and the appro -- approved
4 Interveners in respect of that motion. The Board
5 understand Manitoba Hydro hosted a workshop on July
6 13th, 2017, in respect of bill affordability in
7 residential rate design matters. The Board would
8 appreciate a brief oral report tomorrow for Manitoba
9 Hydro on that workshop and what is expected to be
10 accomplished and the anticipated time frame.

11 The Board further understands that a
12 technical conference on base capital, also known as
13 sustaining capital and/or business operations capital,
14 is scheduled for July 20, 2017. Again, the Board
15 would appreciate a brief oral report tomorrow from
16 Manitoba Hydro as to the details of that technical
17 conference and what is expected to be accomplished.

18 The Board can advise all parties that
19 it has engaged an independent expert consultant, MGF
20 Project Services, to review and report on aspects of
21 certain of Manitoba Hydro's major new capital
22 projects. The scope of work for MGF Project Services
23 has been made public and is posted in the Board's
24 website.

25 While the adage there is no property in

1 a witness holds for the independent expert consultant,
2 Intervenors are at liberty to communicate with the
3 consultant which should at least initially be through
4 the legal counsel for the consultant, Bill Haight and
5 Kim Gilson, of Duboff Edwards Haight & Schachter.

6 Should there be any requests to alter
7 or expand the scope of work for the independent expert
8 consultant, counsel -- counsel are to make such a
9 written request supported with reasons to the Board
10 for adjudication by August 11th, 2017.

11 The independent expert consultants are
12 expected to file a written report, answer Information
13 Requests, and testify orally at the public hearing.
14 The Board expects to engage at least one (1) and quite
15 possibly two (2) additional independent consultants --
16 expert consultants. And we'll notify parties when the
17 scopes of work are posted on the Board's website.

18 While parties are busy preparing their
19 focussed Information Requests for Manitoba Hydro which
20 are due July 24th, 2017, the Board will re -- be
21 reviewing the budgets proposed by the approved
22 Intervenors and communicating with the parties.

23 I'm now going to call on Board counsel
24 to provide the panel with the procedures for today and
25 tomorrow.

1 Ms. Steinfeld...?

2

3 OPENING COMMENTS BY BOARD COUNSEL:

4 MS. DAYNA STEINFELD: Thank you, Board
5 Chair, panel members, ladies and gentlemen. Turning
6 to my brief comments on procedures. There are copies
7 of the order of proceedings at the table in the back
8 of the hearing room. The Board will hear before the
9 lunch hour from four (4) approved Intervenors who have
10 requested an opportunity to make oral submissions.

11 The panel can expect to hear from the
12 Consumers' Coalition followed by the Manitoba
13 Industrial Powers User (sic) Group followed by the
14 Green Action Centre, and then by MKO. Those
15 Intervenors not making oral submissions have provided
16 brief written comments that have also been provided to
17 the panel. As noted by the Chair, Manitoba Hydro's
18 oral reply submission is scheduled to begin at 9:00
19 a.m. tomorrow, Wednesday July 19th, 2017.

20 Changing topics. The Chair mentioned
21 that Manitoba Hydro has filed a CSI process motion
22 that the panel will also hear today. We have
23 tentatively scheduled that motion for this afternoon
24 immediately after the lunch hour if the Intervenors
25 have concluded their oral submissions this morning.

1 However, we have also requested that
2 counsel for those parties interested in the CSI
3 process motion remain in this hearing room as soon as
4 the oral submissions on the interim rate application
5 are complete so that counsel can discussion Manitoba
6 Hydro's CSI process motion before the panel reconvenes
7 after lunch.

8 I would also like to take this
9 opportunity to welcome Nora Fien, a recently called
10 associate at Fillmore Riley, to the PUB hearing room.
11 We are delighted to have Nora's assistance on
12 regulatory matters and with this General Rate
13 Application.

14 As those are our comments, we suggest
15 the panel call on Dr. Byron Williams and Ms. Katrine
16 Dilay for the submissions by the Consumers' Coalition
17 in respect of Manitoba Hydro's interim rate
18 application. We will be referring to Dr. Williams as
19 Dr. Williams throughout this proceeding, so he -- he
20 may want to get used to it. Perhaps we'll let Dr.
21 Williams have a moment. And then I would suggest we
22 turn it over to him. Thank you.

23 THE CHAIRPERSON: I guess you thought
24 I was joking. But the -- the choice was: Is it B.
25 Williams and K. Williams? And we thought, well, Dr.

1 Williams and Mr. Williams is -- is a lot easier, so
2 Dr. Williams.

3

4 PRESENTATION BY CONSUMERS' COALITION:

5 DR. BYRON WILLIAMS: I'll just note
6 that I have a lot of relatives on the farm. You're
7 seeing a farm boy blush right now. And if you keep
8 talk -- calling me doctor, there'll be a lot of trash
9 talk on -- between Souris and Winnipeg.

10 Thank you very much to the Board for
11 this opportunity. I would like to introduce, from the
12 Consumer's Association behind me, Ms. Gloria Desorcy,
13 the Executive Director. In the back row somewhere is
14 Ms. Lori Baldwin from the Consumer's Association on
15 the far side, Barbara Nielsen, from the Consumer's
16 Association may be joining us a bit later this
17 morning. Mr. Benham from Winnipeg Harvest sends his
18 regrets.

19 The -- just moving to -- we'll try and
20 -- we've estimated about an hour for our intervention,
21 moving to the next slide. We want to just start out
22 with -- next slide, we just want to start out with a
23 couple of competing narratives that we -- our client's
24 submit underline this interim rate application.

25 Certainly one (1) perspective it

1 appears to be -- be advanced by Manitoba Hydro is that
2 only urgent rate shock level increases can pro --
3 protect Hydro and its ratepayers given an alleged
4 dramatic change in circumstances. So that's their
5 perspective.

6 Another perspective certainly
7 represented by our clients and others in this room, is
8 that we're relying on you. Only the Public Utilities
9 Board can protect Manitoba ratepayers and the Manitoba
10 economy against a rate shock rush to judgment, which
11 in our client's view, is inconsistent with the
12 methodological framework set out in PUB Order 59/'16,
13 is inconsistent with Hydro's current financial status
14 as measured by that framework. I see the PowerPoint
15 has come down.

16 Is inconsistent with an understanding
17 of the PUB reasoning flowing from the NFAT report, and
18 frankly, is inconsistent with the sound understanding
19 of the industry and of rate regulation. In terms of
20 that protective theme we note that many Manitobans
21 have already directly contacted this Board, over two
22 thousand (2,000), according to the Public Utilities
23 Board, as well as a record number of Intervenors,
24 eight (8).

25 And while we have not been privy to the

1 submissions of the Manitoban -- the over two thousand
2 (2,000) Manitobans, we know from the information and
3 the arguments filed to date, as well as in the pre-
4 hearing conference that there are date concerns about
5 rate impacts upon all consumers, including vulnerable
6 consumers, about impacts upon industry and the
7 economy, about Manitoba Hydro's ability to manage its
8 finances and its large capital projects, and certainly
9 concern about a rush to judgment, concern about on an
10 interim basis granting the rate shock level of
11 increase that Hydro is seeking.

12 This Board in its July 9th letter to
13 all parties -- all Intervenors set the key question
14 before you for this interim rate application, What has
15 changed in Hydro's integrate financial forecast since
16 Order 59/'16? And I'm just going that last line,
17 based on the Board mandated methodology for IFF-15.
18 IFF being Integrated Financial Forecast.

19 What has changed based on the Board
20 mandated methodology? Not on new methodologies, not
21 on new cashflow targets, not on non-Board approved
22 accounting approaches, but on the Board mandated
23 methodology.

24 And so a key question for Hydro, and we
25 look forward to hearing its response tomorrow, is why

1 not comply with the June 9th direction of the Public
2 Utilities Board? Why not make the Manitoba Hydro June
3 20th submissions consistent with the Board mandated
4 methodology for the integrated financial forecast?

5 There are three (3) interim rate
6 realities from which Manitoba Hydro cannot hide, it
7 cannot avoid. Reality number 1 is that the capital
8 coverage ratio has been the longstanding ratio by
9 Manitoba Hydro to measure its cashflow needs.

10 And we're providing you on this page,
11 being slide 8, with an excerpt from Manitoba Hydro's
12 application to the general rate application just two
13 (2) years ago highlighting the capital coverage ratio
14 of greater than one point two-zero (1.20) as its
15 target, and indicating that a capital coverage ratio
16 of greater than one point two-zero (1.20) provides
17 sufficient cashflow from operations to fund sustaining
18 capital expenditures and further reduces the need for
19 debt financing -- the core cashflow measure based upon
20 the -- Hydro's historic approach as well as what
21 flowed from the Board's mandated approach for the
22 integrated financial forecast, being fifteen (15).

23 Reality 2 is that there is no emergency
24 related to the capital coverage ratio in 2017/'18.
25 Even without an increase, even with zero, Manitoba

1 Hydro would still enjoy a higher capital coverage,
2 higher cashflow ratio for that year than forecast in -
3 - in the Integrated Financial Forecast '15.

4 And directing the Board's attention to
5 the third column in, the 2017/'18, you'll see that
6 even with zero, the capital coverage ratio would -- is
7 projected to be 1.33 percent. At one point six (1.6),
8 with a 1.6 percent increase, it would be 1.3 percent -
9 - 1.36 percent -- again, above the one point two (1.2)
10 target.

11 Reality 3 is that there is no emergency
12 related to net income in 2017/'18. Based upon
13 Manitoba Hydro's most recent information, the updated
14 filed last Wednesday, even at zero, they are
15 projecting net income of \$92 million in the '17/'18
16 year, and at 1.6 percent, 109 million, based upon the
17 information provided on Wednesday.

18 Our client has argued and continues to
19 argue that Hydro's interim rate submission is not
20 consistent with the Board-mandated methodology for
21 IFF-15 for three (3) reasons:

22 1. It is based upon a radical
23 reimagining of cashflow concepts for a regulated
24 public utility;

25 2. It is focussed on new and

1 aggressive financial target achievement dates
2 inconsistent with the Board's consideration in 2017;
3 and

4 3. It is inconsistent with the Board's
5 accounting directives.

6 And in our client's respectful
7 submission, it is open to this Board to draw an
8 adverse inference that Manitoba Hydro, given its, in
9 our view, failure to comply with the methodology that
10 it cannot credibly argue for a 7.9 percent interim
11 rate increase based upon the Board's mandated
12 methodology.

13 In the next section of our argument,
14 our client wishes to provide their interpretation of
15 the decision-making context flowing both from the
16 legislation and from past orders. We hear the word
17 'just and reasonable rates' a lot in this hearing.
18 It's what we're here for. And as you direct your
19 attention to the bottom of page 14, in essence, that
20 just and reasonable calculation is about identifying
21 sufficient funds to recover the necessary expenses and
22 reserves, taking into account compelling policy
23 considerations.

24 That's that balancing act that we speak
25 of, the financial health of the Corporation while

1 protecting ratepayers. And in this context, they're
2 all vulnerable ratepayers because they're all captive
3 to the Hydro monopoly.

4 This Board has said that there are four
5 (4) -- five (5) main elements of the just and
6 reasonable determination. We've set them out on slide
7 15. Two (2) that we wish to focus your attention on
8 the -- are the first two (2), ensuring that forecasts
9 are reasonably reliable, ensuring that actual and
10 projected costs incurred are necessary and prudent.

11 And it is critical to point out that
12 the Public Utilities Board at this stage in the
13 hearing is not in a position to make a judgment call
14 on the reliability of estimates, or the necessity of
15 expenditures at the interim rate stage. We haven't
16 had that chance. We haven't heard the other side of
17 the story.

18 And from our client's perspective, and
19 this is probably the most important slide, from our
20 client's perspective, shifting numbers and malleable
21 metrics make judgments on sufficiency, necessity, and
22 prudence very challenging. The Board's review of its
23 past decisions just underscores the regulatory reality
24 going back over half a decade that there have been
25 rapidly shifting and materially unreliable forecasts

1 and cost estimates from this Corporation.

2 Those who participated in the NFAT
3 hearing know that there was a cacophony of fast
4 shifting forecasts and assumptions, and the pace of
5 changing forecasts and estimates since the NFAT has
6 continued. And in this interim rate application, that
7 regulatory challenge, in our client's submission, has
8 been compounded by the malleable cashflow metric
9 deployed for the first time by our Crown monopoly.
10 And our clients ask: Can there be a just and
11 reasonable rate based on untested assumptions and
12 metrics that are materially shifting?

13 The Board's jurisdiction in making
14 orders is well known. It can order partial or other
15 relief. It is clear that it has the jurisdiction to
16 issue interim orders. We did want to highlight
17 Section 48 of the Act as a general point of principle,
18 highlighting:

19 "Except in the case of urgency, the
20 objective of enab -- giving a full
21 opportunity to all parties concerned
22 to produce evidence and be heard."

23 And from our client's perspective, that
24 underscores the importance of hearing from both sides
25 of the story before rushing to judgment.

1 Order 59/'16 is this Board's most
2 recent interim order, and there have been many of them
3 over the last few years. And from our client's
4 perspective, it outlines three (3) or four (4) main
5 points.

6 In that order, the Board said -- an
7 important question is the test year. And in that
8 Board order, finding that there was no additional
9 revenue needed for positive income in the test year,
10 it -- the Public Utilities Board concluded that Hydro
11 had not made a prima facie case for rate increases to
12 flow to revenues. So that, from our client's
13 perspective, is an important part of the analysis.

14 In that application, the Board also
15 looked beyond the test year, and certainly in -- given
16 rate shock concerns, did mandate a contribution to buy
17 -- to the Bipole 3 deferral account. So that was
18 certainly a consideration, and -- and is certainly
19 open to the Board in this hearing, as well.

20 And then there is language repeated in
21 a couple occasions in Board Order 59/'16 highlighting
22 that it was not prepared to consider future interim
23 rate applications unless warranted by unforeseen or
24 emergency situations, again presumably recognizing the
25 importance of hearing from both sides, and -- and

1 making this a clear message.

2 The final message from Board Order
3 59/'16, in our client's view, was the importance of
4 adhering and respecting to the Board's accounting
5 considerations. And the PUB has made it clear that it
6 expects its accounting directives to be complied with
7 for the purposes of interim rates, and our client
8 argues that Manitoba Hydro has not done so.

9 It is important to look at some older
10 orders in terms of interim rates, as well. Order
11 49/'14 asks: Would there be a deleterious effect to
12 Hydro in the absence of a rate increase? And during
13 the very lengthy 2010 through 2012 general rate
14 application, the Board also did see fit to grant
15 interim rate increases in non-urgent situations.

16 But in our client's submission, that
17 was a reflection of the fact that it was the
18 regulatory process that was -- was delaying things,
19 not Manitoba Hydro. Here, clearly the onus for this
20 interim rate application, for the delay in filing the
21 general rate application, rests squarely with Manitoba
22 Hydro.

23 Our client has made its principled and
24 policy concern with interim rate applications palpably
25 clear. In their view, it materially disadvantages

1 Intervenor and consumers, and that is especially the
2 case given their concerns with Hydro's credibility.

3 There is no opportunity for Intervenor
4 to produce evidence within the meaning of Section 48
5 of the Act. And the Board has noted that interim --
6 interim applications ought not to be the norm because
7 they do not offer the same level of public review.

8 And at the bottom of this slide, being
9 slide 21, our client has also highlighted from recent
10 Board orders the material credibility challenges
11 identified with regard to Manitoba Hydro, whether it's
12 their -- whether it's their operating, maintenance,
13 and administrative expense forecasts, load forecasts,
14 export prices, or capital costs. And the second-last
15 bullet is finance expense, which some Board members
16 will recall, our client has made a significant concern
17 in -- in the last two (2) proceedings.

18 From our client's perspective,
19 unattested methodological changes should not drive the
20 interim rate process. And they note that Manitoba
21 Hydro's financial forecasts, including the update and
22 the interim rate application rely upon material
23 changes to the methodology for estimating domestic
24 load and export revenues, a radical reimagining of
25 cashflow concepts for a regulated public utility, and

1 new and aggressive financial achievement dates.

2 Those three (3) bullets, those three
3 (3) realities underlying the forecast have not been
4 tested. Meaningful testing requires discovery, cross-
5 examination, and competing expert analysis.

6 Manitobans, those two thousand (2,000)
7 or more Manitobans, who sent in their comments and --
8 and the many other Manitobans who will be affected by
9 this rate application, they need to hear different
10 perspectives and to have the full story before their
11 informed voices can be heard by the independent
12 decision maker.

13 So in terms of how our client will
14 address the daunting challenge before this Board
15 approving or rejecting Manitoba Hydro's interim rate
16 application, we just wanted to set out their analytic
17 framework.

18 Again, we're guided by what the Board
19 has said in its July 9th letter, what has changed
20 based on the Board-mandated methodology. And question
21 1 that our clients ask is: Has Manitoba Hydro made a
22 prima facie case for an interim rate increase
23 contributing to its 2017/'18 revenues?

24 We've sub-paraphrased that question as:
25 Is Hydro likely to face an emergency situation in the

1 absence of a rate increase, taking into account two
2 (2) key factors, the projected cashflows based upon
3 the Board-mandated methodology, and the projected net
4 income for the 2017/'18 year based on the Board-
5 mandated methodology?

6 More colloquially, if you look at this
7 question, we -- we ask on behalf of our clients: Does
8 Manitoba Hydro find itself in an emergency adverse
9 circumstance not contemplated by the PUB at the time
10 of Board Order 59/'16 or the NFAT?

11 Question 2: Will there be a material
12 deleterious effect in the absence of a rate increase
13 justifying a contribution to the Bipole III deferral
14 account? If we persuade you that there's no
15 emergency, the second question we pose is: In the
16 absence of a rate increase, will there be a material
17 deleterious effect that might justify a contribution
18 to the Bipole III deferral account?

19 We ask, like the Board has, what has
20 changed in the integrated financial forecasts? We
21 also ask, from a procedural and substantive
22 perspective: Has Hydro -- has their interim rate
23 submissions complied with the 9th of June direction of
24 the Public Utilities Board? And what are the
25 tradeoffs between weaning Manitoba Hydro off its

1 unhealthy addiction to interim rates versus future
2 rate smoothing?

3 So in considering those questions, in
4 responding to those questions, our clients will also
5 remember ongoing challenges with Hydro's credibility,
6 the unattested nature of its evidence, and, as always,
7 rate shock.

8 The burden of proof. My colleague, Ms.
9 Dilay, reminds me that the burden of proof is on
10 Manitoba Hydro. It has to surmount the burden on
11 those questions. It is up to it.

12 So flowing from that burden of proof,
13 our clients ask: Has Manitoba Hydro demonstrated that
14 it is likely to face an emergency situation in the
15 absence of a rate increase?

16 And again, perhaps I'm getting a bit
17 annoying with repeating the Board's directive, but
18 this is the Board's directive. We do this analysis
19 based on the Board-mandated methodology, not something
20 recently advanced by Manitoba Hydro.

21 And we remind the Board at slide 31
22 that in terms of cashflow which Manitoba Hydro has
23 made central to its interim rate submissions, this is
24 the -- the -- that is the capital coverage ratio
25 greater than one point two (1.2) that historically has

1 been used by used by Manitoba Hydro to justify
2 sufficient cashflow, not something newly developed for
3 the purposes of the interim rate or the 2017/'18
4 general rate application, the capital coverage ratio.

5 And on slide 32, we present a
6 comparison between what Manitoba Hydro is employing
7 for the purposes of its interim submissions, the
8 revised metric, versus the capital coverage ratio.
9 And the important detail on this slide comes towards
10 the bottom of the page under IFF-16 updated.

11 And you will see that the not appro --
12 for the 2017/'18 year, the not appear -- approved
13 cashflow metric, Hydro's revised cashflow metric,
14 suggests \$688 million in terms of capital
15 expenditures. Using the definition of the Manitoba
16 capital coverage ratio that has been approved by this
17 Board, it is 526 million in terms of capital
18 expenditures, a \$162 million definitional difference.

19 And our clients submit for the purposes
20 of this Board's deliberations that it is that \$526
21 million figure that is consistent with the Board-
22 mandated methodology.

23 Hydro, in our client's view, in making
24 the argument that it has a cashflow problem, the only
25 basis for it is its malleable metric, the revised non-

1 approved metric. And our client says that is not the
2 appropriate metric.

3 Instead, if we look to the capital
4 coverage ratio, it -- it is clear that cashflow based
5 upon the approved metric is improved and above target
6 in 2017/'18. And again, you can just go three (3)
7 columns in under twenty-seven eighteen (2,718) and see
8 even with zero, that as compared to the one point two
9 (1.2) target, we would be at -- are projected to be at
10 one point three-three (1.33). And going down one (1)
11 line, even with an inflation-based rate increase, we
12 would be at one point three-six (1.36). Based upon
13 the updated IFF filed last Wednesday, Manitoba Hydro's
14 capital coverage target would be met even if there was
15 no interim rate increase approved.

16 Our client similarly concludes that
17 there is no emergency in terms of 2017/'18 net income,
18 and the numbers are stark and they're on slide 35, 92
19 million with no rate increase, and that's even using
20 an accounting treatment that is Hydro's, not the
21 Board's, and with a 1.6 percent inflationary increase,
22 projected net income of \$109 million, again with a
23 Hydro accounting treatment rather than the full Board-
24 mandated treatment, but that's the best information we
25 have to share with our clients and with this Board.

1 The Board in its interim rate
2 application used or seen in the past Order 59/'16, and
3 certainly for all of us, it is important to recall
4 that when the NFAT order came out, cost overruns and
5 revenue shortfalls were anticipated. And they were
6 certainly anticipated by our clients who did not
7 endorse Keeyask or Bipole III, but they were
8 anticipated by this Board.

9 And we've underlined an excerpt at
10 slide 36 from the NFAT Report, page 252. The Board
11 entered that hearing, and came out of that hearing
12 with a realpolitik realization that construction costs
13 will most likely grow, and revenue projections may not
14 be achieved. Not unexpected. Disappointing, but not
15 unexpected. It also identified a need for mitigation,
16 including taking internal actions to moderate rate
17 increases and relaxing over the -- a twenty (20) year
18 period, Hydro's debt-to-equity policy.

19 Our client's simple point here is that
20 Manitoba Hydro's current financial situation was not
21 unforeseen. It was specifically contemplated in the
22 family of PUB decisions, reaching from the NFAT report
23 to Order 59/'16. Our clients submit that there is no
24 basis for an emergency interim increase to bolster
25 Manitoba Hydro's cash flow or net income for the test

1 year of the interim rate 2017.

2 The capital coverage target ratio is
3 forecast to be exceeded even with no interim rate
4 increase, and forecast net income is positive and
5 close to -- to -- well, in the range of 90 million,
6 even with no interim rate increase.

7 Surprisingly, in the context of an
8 interim rate application, Manitoba Hydro talks a lot
9 about water conditions. But the reality is that our
10 best estimate for the 2017/'18 year, for this interim
11 rate application, is the forecast reservoir letters --
12 excuse me, forecast reservoir levels, underpinning
13 Manitoba Hydro's 2017/'18 outlook.

14 They have made no claims. They have
15 not asserted that it is not the best estimate for the
16 2017/'18 financial results. That is the reality that
17 we're faced with. There's a lot of water up north.
18 Just like the reality we're faced with in this
19 application at the interim level context, that export
20 levels -- or export prices in the export market are --
21 are depressed.

22 But Manitoba Hydro presents an
23 asymmetric analysis of reservoir levels compared to
24 export prices. So to the -- just in keeping in mind,
25 the higher water levels are more than offset by the

1 negative developments in the revised export price
2 forecast. But in some, Hydro is still looking at a
3 forecast net income with zero rate increase of \$92
4 million.

5 We repeat the question here at slide 40
6 of whether Manitoba Hydro has demonstrated a material
7 deleterious event -- event justifying a contribution
8 to the Bipole III deferral account. We've shared this
9 slide before, so I -- I will not repeat it.

10 Our clients will underscore, though,
11 that any analysis of -- analysis of what has changed
12 must consider Hydro's credibility challenges and the
13 interim nature of the hearing. Frankly, our client
14 places limited reliance on Hydro's forecasts of cost
15 beyond the test year, given their unreliable practices
16 of the past, the malleable metrics they have employed
17 in the interim rate application, and material,
18 untested methodology changes.

19 And given the malleable metrics
20 employed in the interim rate submission, in our
21 client's view, there is no basis to conclude that the
22 approach of the current leadership of Manitoba Hydro
23 will be any more reliable.

24 What do we know in the short-term? We
25 know in the test year things have improved. In all

1 cases, even when there is no interim rate increase for
2 '17/'18, the projected net income for 2017/'18 now
3 exceeds the forecast income in all of the integrated
4 financial forecasts' fifteen (15) scenarios, including
5 the one which Board Order 59/'16 is based upon. All
6 scenarios.

7

8

(BRIEF PAUSE)

9

10 DR. BYRON WILLIAMS: Looking at the
11 long-term update based upon the integrated financial
12 forecast '16 update, which came out last Wednesday,
13 again we haven't had a lengthy time to look at it but
14 clearly it repudiates conclusively the request for 7.9
15 percent. And based upon that updated achieving a --
16 forecast, achieving a 25 percent equity ratio by
17 2033/'34 would require about 4.5 -- 4.05 percent per
18 annum, consistent with kind of the analysis employed
19 by the PUB in Order 59/'16.

20 So that's the short term. Clearly
21 improved. The long term clearly no basis for 7.9
22 percent. Hydro argues with -- in really a manner
23 that's more appropriate for the General Rate
24 Application, that the previous rate plan is untenable.
25 But the same underlying market and global compe --

1 conditions that underpinned lower load and export
2 price outlooks -- outlooks have also reduced forecast
3 interest rates at least the near term.

4 And the forecast operating,
5 maintenance, and administrative cost reductions are
6 also assisting. And that point was very well made by
7 our Learned Friends and our colleagues from MIPUG in
8 their written outline and in their PowerPoint that
9 will be presented today.

10 Again, this is more a matter for the
11 General Rate application but our clients do not wish
12 to leave for the Manitoba public some sense of -- of
13 calamity that we have noted in past public
14 pronouncements by Manitoba Hydro. The previous rate
15 plan is still tenable, and there's good news in the
16 short term.

17 There's a lot of hard work ahead for
18 Manitoba consumers but for the purposes of the interim
19 Rate Application the extreme radical Rate Application
20 of Manitoba Hydro is not reliable, and should not be
21 adopted.

22 How do we apply the Coalition's Interim
23 Rate Analysis? Our client submits that there is no
24 credible case for a 7.9 percent increase, given the
25 scope of -- of the 9th of June letter of the Public

1 Utilities Board. They consider this 7.9 percent
2 interim in essence a preemptive strike by Manitoba
3 Hydro before consumers and Intervenors have had the
4 opportunity to hear or share, or present competing
5 evidence, and their views based on that evidence.

6 It is in essence a rate shock
7 application based upon non-approved, untested
8 methodological changes. And it is fundamentally at
9 odds with the direction of the 9th of June 2017 letter
10 of the Board to present an analysis based on a
11 methodology consistent with that -- flowing from that
12 order.

13 Our client considered a range from 3.36
14 percent to 4.05 percent unreasonable. They
15 acknowledge that that would be generally consistent
16 with Board Interim Order 59/'16. But they note that
17 the updated IFF suggests significantly stronger test
18 year results in terms of capital coverage and net
19 income, that no emergency has been demonstrated, that
20 Hydro's credibility challenges have been exacerbated
21 by material changes in its forecasting methodology and
22 metrics.

23 And, fundamentally for our client, that
24 Hydro did not comply with Board Order 59/'16 to get
25 its regulatory house in order to avoid the regular

1 stream of interim rate applications, and fundamentally
2 from our client's perspective and an adverse interest
3 -- inference is what they draw that Hydro did not
4 comply with the 9th of June letter of the Board in
5 terms of where its arguments should be focussed for
6 the purposes of the interim rate application.

7 Our client looked at an alternative
8 similar to that proposed by the Manitoba Industrial
9 Power Users Group of 1.6 percent, basically inflation.
10 Our clients note that inflation is a relatively
11 objective mea -- measure of some cost pressures, and
12 that based on the IFF-16 update, with an inflationary
13 increase, Manitoba Hydro is forecasting \$109 million
14 in net income. And that's even using Hydro's
15 accounting treatment rather than Board-suggested, at
16 least in one (1) or two (2) regards.

17 And clearly, our client finds that
18 there -- again, no credible evidence to suggest an
19 unforeseen or emergency situation. But again, they
20 rejected in their submissions this option, looking to
21 the stronger tester year results, the material change
22 in forecasting methodology and the reality that Hydro
23 did not comply with the interim order from last year
24 or the 9th of June mandate letter.

25 So our clients recommend zero for the

1 purposes of the interim. They note that a full rate
2 hearing is well underway, and in this case, the delays
3 ini -- initiating the process are not of the PUB's,
4 they're not of consumers. They are the sole
5 responsibility of Manitoba Hydro.

6 Our clients conclude vehemently that no
7 urgency or emergency has been demonstrated. They note
8 that Hydro's capital coverage target for '17/'18 would
9 be met even with no interim rate increase, and it has
10 forecast \$92 million even without a rate increase.
11 They note Hydro's failure to comply with past PUB
12 directives to avoid interim rate increases and get its
13 regulatory house in order, the credibility challenges
14 of this Corporation, the interim submissions not in
15 compliance with the Board's June 9th letter. And
16 finally, our clients conclude that the long-term
17 interests of consumers are best served by testing
18 Hydro's application in a full process before granting
19 any demonstrably necessary rate increase.

20 Our client also has some recommended
21 findings for the Board. For the purposes of the
22 interim application, they would recommend that the
23 Board reaffirm that, for the interim purposes, the
24 approved target for cashflow is the capital coverage
25 ratio; that they also conclude that the application of

1 a revised form of cashflow target proposed by Hydro,
2 CFO to CapEX, is not consistent with the Board-
3 mandated methodology for the integrated financial
4 forecast 15 as approved by the PUB in Order 59/'16.

5 They recommend that the Board find
6 that, based on the updated integrated financial
7 forecast, there is one hundred (100) -- there is a
8 \$162 million between Hydro's revised cashflow
9 calculation and the approved cashflow calculation.

10 They recommend that the Board find that
11 Hydro does not face an emergency issue in terms of the
12 adequacy of cashflow, and that its capital coverage
13 target would be met even if there was no interim rate
14 increase.

15 In terms of our clients' recommended
16 filings -- findings for the forecast of '16/'17 and
17 '17/'18, our clients recommend that the Public
18 Utilities Board that -- find that Manitoba Hydro's
19 forecast for 2016/'17 results, filed in support of its
20 interim rate application, does not comply with the
21 Board-method -- mandated methodology for IFF-15, and
22 that Hydro's forecast for 2017/'18, filed in support
23 of the interim rate application, does not comply with
24 the Board-mandated methodology; that based on the
25 updated forecast, Hydro is looking at 92 million in

1 ret -- net income even without a rate increase for
2 '17/'18, and 109 million based upon a 1.6 percent
3 increase. They recommend that the Board find that the
4 water flow forecast underpinning the 2017/'18 outlook
5 is the best forecast currently available for the
6 purposes of forecasting 2017/'18 financial results and
7 ultimately that there is no prima facie case based on
8 recent actual results or projected '17/'18 results for
9 an interim increase.

10 Our clients finally conclude and
11 recommend that the Board hold that no interim rate
12 increase be ordered, that no interim rate increase be
13 granted, and that by May 1st, 2018, Manitoba Hydro be
14 directed to present a proposal to the Public Utilities
15 Board and to consumers to bring its regulatory house
16 in order and end its unhealthy addiction to interim
17 rate increases.

18 Our clients acknowledge the tremendous
19 concern that this Board has heard from Manitoba
20 consumers, from industry, from businesses about this
21 rate application. They appreciate the opportunity to
22 make these submissions. And subject to any questions
23 from the Board, those are our client -- or our
24 client's comments.

25

1 QUESTION PERIOD:

2 THE CHAIRPERSON: Thank you. Does the
3 Board have any questions? No? Sorry.

4 BOARD MEMBER KAPITANY: Just -- just
5 one (1).

6 THE CHAIRPERSON: Okay. Well, you got
7 to press the button.

8 BOARD MEMBER KAPITANY: Mr. Williams,
9 back on slide 46 you made mention of the rate sho --
10 that this was a rate shock application?

11 DR. BYRON WILLIAMS: I -- I see that.

12 BOARD MEMBER KAPITANY: Could you just
13 say a bit more about your position on rate shock in
14 the spectrum of how rate applications such as this are
15 re -- are viewed by you?

16 DR. BYRON WILLIAMS: Yes. And thank
17 you for the question. And we've had a lot of
18 conversations with our clients about this. And when I
19 was much younger we probably -- and -- and in
20 significantly higher inflationary times, we probably
21 would have looked at rate shock in the range of -- of
22 at or around 10 percent.

23 In our client's perspective, in these
24 low inflationary times and with rate sho -- rate
25 increases proposed of 7.9 percent in -- for the

1 interim, and then cup -- compounded by 7.9 flowing out
2 from that, our clients conclude that that is a rate
3 shot, and they -- rate shock. And they -- they use
4 those words advisedly based upon their long-term
5 understanding of the term.

6 And by rate shock, in terms of the
7 consequences, our clients submit that it's beyond the
8 capacity of individual residential consumers to make
9 up without significant sacrifice. And -- and that
10 sacrifice is felt in different ways. We know for the
11 -- those who use Winnipeg Harvest services it means
12 going to the food bank much -- or somewhat sooner.
13 For others it may mean forestalling necessary choices.

14 So our clients clearly see this as
15 something that cannot be planned for, that cannot be
16 accommodated in the short -- short-term. Ultimately,
17 there are times when -- when those are -- the Board,
18 in its wisdom, may decide even with those consequences
19 that it's appropriate, but our clients say this is not
20 the time and not on this evidence and not with these
21 profound methodological changes.

22 BOARD MEMBER GRANT: Could you just
23 tell me where the 1.6 comes from? What inflation rate
24 are you citing there?

25 DR. BYRON WILLIAMS: We're working --

1 I can't say this with confidence. We're working off -
2 - I think the Board asked Information Requests using
3 1.6 percent as a proxy. Our friends from MIPUG have
4 used the same. I think that's reflective of --
5 generally of national infla -- inflationary trends,
6 Mr. Grant.

7 If the Board was want -- was thinking
8 of substituting something, we understand that fully,
9 but the 1.6 flows from the Board informa -- or MFRs.
10 I can't remember what the acronym stands for, but --
11 minimum filing requests, and -- and so we're using
12 that as the proxy for inflation. There's no magic in
13 the definition.

14 THE CHAIRPERSON: Thank you, Dr.
15 Williams.

16 Mr. Hacault, I don't want to cause a
17 break in your presentation, so maybe we'll take the
18 break for this morning and we'll reconvene at ten (10)
19 after 10:00. Thank you.

20

21 --- Upon recessing at 9:59 a.m.

22 --- Upon resuming at 10:15 a.m.

23

24 THE CHAIRPERSON: Okay. We'll --
25 we'll resume right now. We have a -- a phone line

1 open, I guess, for some people who couldn't hear --
2 receive the live stream.

3 Mr. Hacault...?

4

5 PRESENTATION BY MANITOBA INDUSTRIAL POWER USERS GROUP:

6 MR. ANTOINE HACAULT: It's -- it's not
7 liking this. I wasn't seeing light. I apologize.

8 Thank you very much, members of the
9 Board. We're going to be making an oral submission on
10 behalf of the Manitoba Industrial Power Users Group.
11 You have a fairly lengthy written submission, which I
12 won't go over, but I'll try and hit some of the
13 highlights and I'll also try to coordinate my comments
14 and not overlap too much with Mr. Williams -- or Dr.
15 Williams' comments.

16 And so I'll like to start with looking
17 back at what happens on a regular basis in front of
18 this Board. And previous Board Chair Gosselin
19 emphasized that every two (2) years, approximately, we
20 look at Hydro's situation in detail and it allows us
21 to adjust what's happening going forward, taking a
22 long-term look and what's the IFFs, or the integrated
23 financial forecasts say in the years that are really
24 close to what's happening.

25 And I, in previous submissions, kept on

1 hammering with respect to interim rates saying, Well,
2 listen, this is just like an emergency thing, because
3 we're at this on a full basis every two (2) years and
4 we can adjust how the boat is going in this big
5 corporation on behalf of Manitobans and on behalf of
6 the utility.

7 Because the one (1) thing we know for
8 sure is that the future is uncertain. So we won't be
9 able to predict everything with absolute accuracy.
10 Waterflows even change over the course of a year. So
11 getting back to the last review then, and it would be
12 the next slide, please, Diana, we extracted some of
13 the findings of this Board with respect to that
14 previous interim read ap -- rate application.

15 And we also emphasized the Board's
16 finding at page 4 that the Board concluded that
17 Manitoba Hydro's financial situation for the 2016/'17
18 fiscal year had improved and Manitoba Hydro does not
19 require additional revenues from a rate increase to
20 obtain a positive net income for 2016/'17.

21 Now we're talking 2017/'18 of course.
22 Now, the Board in understanding rate making for a
23 monopoly. A monopoly doesn't have competition, right?
24 So somebody has to act as a proxy. Somebody has to
25 decide what this Crown corporation is going to do and

1 what's prudent to do.

2 And in its wisdom when it looked at all
3 the metrics and at these big projects that are coming
4 on, including Keeyask, which is not going to start
5 turning turbines, I don't what the revised date, but I
6 think it's around '21/'22. You're not going to get
7 income from that facility, but you're going to get
8 both from Bipole III and from Keeyask some fairly
9 significant interest expense that's going to hit the
10 books because these are big assets when they come
11 online.

12 They don't hit the books before they
13 come online because of a fundamental regulatory
14 principal called used and useful. We don't make
15 ratepayers pay for things ahead of time if it's not
16 being used for them. You get into intergenerational
17 inequities, and a whole bunch of other things.

18 So the Board considered this, and
19 nonetheless said: Given that there's going to be a
20 fairly significant hit for those big assets we're
21 going to implement something in the Bipole III
22 project, and put it into that account. So when it
23 hits the books we don't get a rate shock, which is
24 another regulatory principal.

25 And it's important for Manitoba

1 Industrial Power Users Group, as you can understand.
2 They have to forecast prices, they have to, you know,
3 enter into contracts. They need some form of
4 stability from this Utility, and they're concerned
5 with its financial stability as much anybody is.

6 So we start with those two (2)
7 statements, and that has kind of guided a lot of the
8 comments that we make in this presentation, in
9 addition to themes similar to Dr. Williams, that Hydro
10 really didn't apply what was happening in IFF, so the
11 integrated financial forecast, of 2015 and bring it
12 forward. They didn't really apply all of the Board's
13 principles. They're looking for new things.

14 And new things, I'll deal with that
15 specifically. There's regulatory authorities across
16 Canada, and I quoted one in Alberta. On interim rate
17 increases, we don't get into contentious things. We
18 don't get into new things. That's something we should
19 do at a full hearing when we have the chance to have
20 experts here. We have a chance to cross-examine. We
21 have a chance to ask Information Requests, and to get
22 a good, balanced view on the contentious issues.

23 This brings us to another report --
24 next slide, please -- and I go back to a previous
25 report. Some members here will have gone through the

1 extensive hearing on needs for and alternative to
2 review. And there were quilts about probabilities,
3 and highs and lows, and where were we going to be and,
4 you know, the range of reasonableness of what was
5 going to happen.

6 And one (1) of the things from our
7 perspective that is important is, the panel in that
8 hearing specifically took the time to note that it
9 supported a relaxation of Manitoba Hydro's seventy-
10 five (75) to twenty-five (25) debt to equity ratio,
11 one (1) of the metrics that the Utility wants to use
12 to smooth out rate increases.

13 And the panel concluded that Manitoba
14 Hydro would still be left with sufficient retained
15 earnings if equity level was decreased. You may
16 recall that they actually went down pretty low for a
17 fairly lengthy time, and they finally caught up about
18 twenty (20) -- twenty (20) years later.

19 The reason I bring this to the Board's
20 attention -- and next slide also -- is that this
21 report of the Board went to the Minister. This is a
22 Crown corporation. And what did the Minister think of
23 what the Crown corporation should be doing for
24 Manitobans?

25 It asked Manitoba Hydro Electric board

1 to review its current 75:25 debt/equity ratio target
2 with the aim of moderating rates for consumers while
3 ensuring strong fiscal strength -- health for the
4 Corporation, including maintaining sufficient retained
5 earnings. And it further urged the Corporation to
6 maintain tight cost controls.

7 Again, it's not intended to give a
8 history lesson but I kind of -- I started thirty (30)
9 years ago. I was in this kind of rate-regulation
10 stuff. I had a hiatus, and then it started again.
11 But we had a huge risk here, dealing with water risk,
12 dealing with a whole bunch of risks because the Public
13 Utility Board was concerned about that.

14 And now we have what we've described a
15 change in attitude of the Corporation which, quite
16 frankly, we submit is inconsistent with these Board
17 findings. There's an aggressive target that's driving
18 seven point nine (7.9) rate increase. There's
19 different ways of looking at various items, raising
20 risk again, just like we're at an untenable risk.

21 If we're going to deal with contentious
22 issues like that, it should be at a full hearing with
23 the opportunity to present evidence on both sides.

24 And we asked Hydro -- and this is an
25 extract of its June 20 submission -- next slide,

1 please -- what changed, it acknowledged -- and there's
2 other things, but the first thing it acknowledged is
3 that there's no longer a willingness to relax the
4 equity ratio for an extended duration of fifteen (15)
5 years before recovering to its 25 percent minimum
6 equity target.

7 That's underpinning even the interim
8 rate. That's inconsistent with the PUB report, it's
9 inconsistent with the Minister's directive, and that's
10 not something that's been tested.

11 And it's inconsistent with how we
12 argued that we can, as a Crown Corporation, build
13 these big assets. They're there for sixty (60) to a
14 hundred years. And in the latter years, that's when
15 they really come to their own. They start producing a
16 lot of income for this Corporation, and Manitobans
17 benefit from the legacy assets that are there.

18 So the big challenge is: How do we
19 deal with that time period when -- in the previous
20 hearings, I called it a bulge. We had these big
21 capital spending and debts, and there's this hit to
22 Manitobans in the books if we don't smooth it out over
23 a long term. And that'll be the discussion for the
24 GRA.

25 Now, if we then go to the next slide,

1 I've extracted from page 7 of our written submission
2 some of the principles which other commissions have
3 applied in dealing with interim rates. As I said, we
4 do have two (2) year reviews. What's the special need
5 to do something in the interim for one (1) year?

6 I'm not very good at numbers, but there
7 is a possibility yet that the award's going to be
8 made, but the award will be delayed. So what's the --
9 I'm being serenaded by the looks of it.

10 The interim rate application is really
11 getting what Hydro wants earlier because it's made an
12 application for two (2) -- two (2) years' rate
13 increases. We're going to deal with that at the GRA.
14 Do we get it earlier? And does it make sense to give
15 a little bit in August of this year instead of waiting
16 till a bit later for rate stability and other reasons?

17 So the Alberta Utilities Commission --
18 and this is a 2005 decision, but it's been followed a
19 number of times over the course of the years, even in
20 the most recent decisions of that commission. It's no
21 longer called that.

22 And the ones that I want to focus on --
23 because they say that it depends on the cic --
24 circumstances; some of them may be more applicable.
25 The second bullet: Is the increase required to

1 preserve the financial integrity of the applicant or
2 to avoid financial hardship to the applicant?

3 And Mr. Williams went through some of
4 the metrics and some of the numbers and has submitted,
5 no. And I've got additional metrics I'll be putting
6 to you.

7 Another thing that's consistent, in our
8 view, with the June 9 letter of this Board on how we
9 should look at this interim rate application is the
10 last bullet:

11 "Contentious items may be excluded
12 from the amount collected."

13 What does that mean? Well, it means
14 that we had a Board that had thorough rate hearings
15 and established principles on how depreciation should
16 be calculated, what overheads are included, what was a
17 reasonable outlook on exports, on load forecast, what
18 was a reasonable outlook on reaching debt equity
19 targets. And those are contentious items that are
20 going to be dealt with in the upcoming hearing.

21 And so it's not unique to this Board to
22 take the view, well, the contentious stuff, we really
23 don't need to deal with that and try to deal with that
24 in an interim rate application. We've got an upcoming
25 rate -- a big rate application. We don't need to deal

1 with it in the interim.

2 The next slide, please. The Public
3 Utilities Board in Alberta also considers general
4 public interest factors. And the first bullet was
5 taken up by our Board in its last interim rate
6 application by saying, Well, listen, looking at
7 Keeyask, and Bipole, and -- and the hits that those
8 are going to have, we want to look in the long-term
9 and see whether it makes sense to put some money in a
10 deferral account to deal with that. And that is that
11 bullet that says:

12 "Interim rates should promote rate
13 stability and ease rate shock."

14 We know we've got positive income. We
15 know we've got cashflow. Does that deal with the
16 entire picture? And it's for that reason, and not for
17 the first reasons, that ultimately, you will see that
18 Manitoba Industrial Power Users Group recommends
19 inflation. And, by the way, it was inflation that the
20 Manitoba CPI -- used to be one point six (1.6_. We've
21 looked that up again. It's at one (1) now, but that's
22 where we got the number.

23 So should it be awarded based on actual
24 need today? No. Should it be awarded to reward
25 noncompliance with previous Board directions? No.

1 But is it in the public interest to give an
2 inflationary increase and put it in a deferral
3 account? We say, yes.

4 The next slide, please. Now, where are
5 we at today? This is a hydro utility, barely fires
6 its -- if ever, its coal plant, barely fires, if ever,
7 its turbines, gas-generated turbines. It runs on
8 water. How much fuel do we have in reserve? This is
9 from the updated filing, sorry, in response to the
10 directive. So it was filed in July '11.

11 And you will see that the black line
12 that goes in the middle of the big tan area is the
13 average water flows. You will see that there's a
14 squiggly line above that, which is the 2016 and '17.
15 And we had pretty decent water flows that year, too,
16 which can translate -- I miss -- misstated myself.
17 It's the energy in reserve which can translate into
18 flows, right. That's the heading.

19 So there's a lot in the battery. 2017
20 and '18 we see the red line. It's practically at
21 historical levels, well above the average and well
22 above last year. Why does that help us? Because
23 those huge energy in the reservoir storage tells us
24 that we've got a lot that we can drain down on the
25 lake and put through our turbines and generate

1 electricity. We are not in an emergency situation.
2 We are not under -- under averages. We're not hugely
3 reliant on huge rainfalls or anything. There's no
4 emergency. We're in really good shape as far as the
5 main risk and the reservoir water and water flows.

6 Next slide. What about the cashflow?
7 And here lawyers get confused when it's accounting,
8 and it seems to me that accountants can say, three (3)
9 plus three (3) equals five (5). I don't know how they
10 do it, but -- and that's not being critical, it's just
11 accounting can somebody -- sometimes be challenging.

12 And that's why if we were going to get
13 into the real nuts and bolts of accounting changes,
14 depreciation and all of that, we should deal with that
15 at -- at the general rate application. But our view
16 of the cashflow is set out in this slide. And the
17 things I would like this Board to take away from this
18 slide is that even in the update, so we -- I have one
19 (1) column.

20 Integrated financial forecast '16, then
21 MH-16 updated. If we keep the normal capital for the
22 capital forecast for 2016 at five twenty-six (526).
23 We've increased the cashflow by a nearly \$100 million
24 between the first forecast and the updated forecast we
25 received last week.

1 And if we even include \$30 million with
2 respect to major capital associated with existing
3 assets, and deduct that from the cashflow, you're
4 still left with free cashflow for major capital
5 spending or debt repayment.

6 Next slide. What about the expense
7 slide? There's always two (2) sides, right, what's
8 coming in and what's going out. What's happened since
9 the integrated financial forecast of 2015, and where
10 does that leave us?

11 So we can see in the top line,
12 operating and administrative expenses are projected to
13 change going through the updated forecast. So that's
14 improving. You've got less expenses to the tune of
15 \$19 million. That's good news. What about the
16 finance expense?

17 Well, Hydro thought in IFF-16 that it
18 was going to be able to reduce that expense by 22
19 million and that's changed, but it's still a good news
20 story minus 9 million. And what about depreciation,
21 amortization, and other expenses? Again, good news
22 story, down by 33 million.

23 Water rentals and assessments, that's
24 gone up. It's not a huge surprise. Look at the water
25 we have in reservoir. If you got good water, you've

1 got to pay more rental. It's not necessarily a bad
2 news thing, it's good news for the province. You're
3 going to get more water rentals. And it's good news
4 for Hydro, because we've got a lot of water storage in
5 reservoir.

6 What about fuel and power purchased?

7 Well, it's logical that if you're going to have a lot
8 of water in reservoir, you're going to have to buy
9 less fuel and less power. So we're to the good there.
10 Why? Minus fifty-eight (58) decrease in that expense.
11 And capital and other taxes are stable. But the
12 ongoing expenses as a whole, between the last interim
13 rate application, based on IFF-15, to the updated were
14 good, by over \$100 million.

15 Now, what about one (1) time corporate
16 restructuring costs? Let's take that away. Let's
17 assume we get all the benefit of that just in one (1)
18 year, and it's appropriate to deduct it all in one (1)
19 year. I don't -- I would suggest that that's not the
20 appropriate way to look at it.

21 If you're going to be spending \$50
22 million in corporate restructuring and it's going to
23 have long-term beneficial effects in reducing your
24 administrative costs, one would question as to whether
25 or not it's appropriate to -- to take the benefit of

1 that over a number of years, and not just hit the
2 books totally in one (1) year by the full \$50 million.

3 But even though we take that \$50
4 million all against the books, we still have minus
5 fifty-seven (57), so a lowering of expenses by \$57
6 million. That's good news. And when you look at the
7 final numbers at the very bottom, net costs allocated
8 to domestic customers, where are we at compared to the
9 last interim rate increase and the financials that
10 were produced there? We're to the good and less
11 expenses by a hundred and twenty-eight (128) million.

12 It's not a bad news story. It's not,
13 We're in real, real trouble here. It's not that
14 story. The story is we're controlling our expenses.
15 There's nothing to worry about.

16

17 (BRIEF PAUSE)

18

19 MR. ANTOINE HACAULT: This brings me
20 to the next slide, which is summary of the
21 conclusions, and I will have additional comments with
22 respect to each of those bullets, and those comments
23 are generally taken from our submission in the
24 sections that are cited at the end of most of the
25 bullets. So that...

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: I've covered the
4 first item by that graph that I went through. We say
5 that the integrated financial forecasts, and even the
6 update, shows lower net costs in 2017/'18 that must be
7 paid by ratepayers than the projections that were made
8 back in 2015.

9 And we also say that IFF-16, so the
10 integrated financial forecast, shows net income
11 increase. And we have a table on that issue with the
12 numbers and the source in our submission. The
13 increase between IFF-15 and IFF-16, so that's at page
14 13 of our brief, it increases from 7 million to 27
15 million. Not a huge number, but again, it's not the
16 story that we're in trouble.

17 We also had the slide on the cashflows
18 that I went through that we submit show we've got
19 enough to pay all the normal capital expenditures, and
20 a portion of the major capital spending and still
21 yield \$63 million for 2017 and 2018. And those
22 numbers are better under what we received last week.

23 Now, I do want to have some comments
24 under that. Well, what's the big difference in what I
25 see when I see -- Manitoba Hydro's said, Well, we've

1 got a huge cash deficiency.

2 You'll see in our submission that we
3 believe, based on the limited information that we
4 have, that this primarily rates -- relates to Hydro's
5 calculation, including capitalized interest from major
6 new generation and transmission projects.

7 Just by way of background, until the
8 projects are used and useful, and until those
9 facilities start generating income, the practice, both
10 regulatory and by this utility, has been to capitalize
11 interest so that you capitalize the interest while
12 you're building the facility. And when it starts
13 producing revenue, then you start paying off the debt
14 and the interest related to that facility. And again,
15 it goes back to the cornerstone regulatory principle
16 that consumers should not pay for something until it's
17 used and useful.

18 The long cost trajectory also is
19 something we looked at. And we didn't reproduce the
20 table, but it's at page 15 of our brief, and we looked
21 at an eleven (11) year period. By that time Bipole
22 will have hit -- by that time Keeyask will have hit
23 the books because -- '21/'22, I think.

24 And again, this table, in our
25 submission, was -- our submission, was before we had a

1 chance to look at everything. We still don't have all
2 the information on Manitoba Hydro update '16, but
3 there's not a whole lot of change that's happening
4 once you do all the pluses and the minuses and the
5 long-term outlook between Manitoba Hydro '15 -- or the
6 IFF-15, sorry -- and the IFF-16.

7 The net costs over that long time
8 period, if some of the members will have turned to
9 that particular table on page 15, changes by 46
10 million. Over eleven (11) years, I've come to know
11 that 46 million over that time period for this
12 Corporation, we can talk about a rounding error. It's
13 really not something to be worried about.

14 So we're not really in a different
15 position than we were in IFF-15 where the Board said,
16 Nothing to worry about. We'll put some money aside
17 for Bipole, but nothing to worry about on an interim
18 basis.

19 And these numbers are numbers, as you
20 will see, that we pulled out from the material that
21 was provided to this Board. And looking at eleven
22 (11) years is useful, once again. But let's be
23 reminded, during that eleven (11) year time period,
24 how many times are we probably going to look at and
25 readjust what needs to be done? If it's every two (2)

1 years, we'll be looking at it a total of five (5)
2 times.

3 We don't need to be hugely worried if
4 there's no significant change in that forecast today,
5 on an interim basis, because we're going to have four
6 (4) or five (5) opportunities to deal with any changes
7 as they come up over that time period.

8 The next item that I wish to speak to
9 is item 5 on the Summary of Conclusions. And this has
10 some overlap with Mr. Williams's submissions.

11 The new forecasts, in our respectful
12 submission, have conservative forecasting methods, yet
13 untested, so that for domestic loads, the forecasts
14 have them going down. There needs to be a discussion
15 about that because as soon as you put load forecasts
16 down it reduces the income that you think you're going
17 to get from domestic customers and it changes all the
18 numbers going forward.

19 That is not something that was part of
20 IFF-15 and it is one (1) of the contentious categories
21 that we say needs to be dealt with in the General Rate
22 Application, not in an interim basis.

23 And we note that, in our submission,
24 when they give a cone of probability of where these
25 loads are, they're in the lowest 24 percentile, so

1 there's a lot of upside. That's a very conservative
2 estimate. It's not somewhere in the middle. It's a
3 24th percentile. To me, that means that there's
4 basically 76 percent upside and only 24 percent
5 downside to it. So that's one (1) conservative thing
6 that they do that needs discussion.

7 The potential of large industrial loads
8 has been removed from load prote -- projections, as
9 far as we can see. Again, less load from an
10 industrial perspective, less revenue, it impacts what
11 you want to get as far as rate increases because
12 you're saying, well, listen, I'm going to have less
13 load, less revenue, so give me more. That needs to be
14 tested. It's been in the papers. Just like we've got
15 this 400 million pea plant coming in in Portage la
16 Prairie. Is it reasonable to not allocate anything
17 going forward and saying, well, listen, for the next
18 forecast period of twenty (20) years we're not going
19 to have any industrial loads that are going to be
20 added? It needs to be tested.

21 Another conservative item is forecast
22 of export prices. That's been reduced. How's it been
23 reduced? Historically, there was always a premium
24 that was applied to long-term dependable forecast
25 prices, so they had value, right? They were

1 dependable, so you could add a premium for that.

2 That's taken away now. That needs to be tested.

3 There's also -- capacity value has been
4 removed from pricing of potential future uncommitted
5 export sales from surplus dependable energy. We've
6 seen graphs of what that chunk of energy is, but
7 again, that's been removed.

8 Now, that leads me to a short
9 discussion on risk. If you've taken out all the
10 things that -- and you've brought it down that low, is
11 there a material risk that needs to be dealt on an
12 interim basis with respect to any of these
13 conservative approaches? Of course not.

14 If it was the other way, if you were
15 projecting huge increases if you're projecting huge
16 increases in export revenues and forecasts, then you
17 might have some concern, but not on an interim basis,
18 you shouldn't, in my respectful submission.

19 The next slide, please. And on that
20 topic of risk of extracted from Hydro's filing, what I
21 had referred to as the bulge in previous hearings,
22 you'll see that the numbers are fairly small,
23 unfortunately, on this slide. But getting into 2017
24 we're basically getting into -- you see there's a lot
25 of the green that's gone by. That's all the new

1 borrowing from Bipole III and getting into borrowing
2 for Keeyask. The green is all the new borrowing
3 requirements. And this is the beauty of a two (2)
4 year review. Who would have thought, certainly not
5 me, that interest would have stayed this low this
6 long. Patient two (2) year reviews are prudent.

7 Let's not get excited about things that
8 haven't happened yet. And plus there's a lot of that
9 green that's gone under our belt now, and that's
10 locked in for long term. That's not -- it's not five
11 (5) year lock-ins that Hydro does. There's a whole
12 debt schedule they have. I don't know all the -- the
13 lengths of them but they're long-term debts. Twenty
14 (20), thirty (30), sometimes forty (40) years, to my
15 recollection.

16 So that by 2021 to 2022, you see that
17 there's hardly no new borrowing. And by happenstance,
18 that happens to be when Keeyask is basically built.
19 And when you look even at all the refinancing, the one
20 (1) that's maturing, there's not a whole lot that's
21 happening compared to the new ones, and there's -- so
22 if you look at the tan and the blue lines, you'll see
23 that really once we get over this bulge it's clear
24 sailing.

25 Manitobans can be assured that they've

1 got their prices locked, that the risk has been
2 managed, and that they won't be having any big
3 surprises.

4

5

6 (BRIEF PAUSE)

7

8 MR. ANTOINE HACAULT: Next slide,
9 please.

10

11 (BRIEF PAUSE)

12

13 MR. ANTOINE HACAULT: So we say that
14 the update, and this is our Section 3.8 at pages 18
15 and going forward, in our view shows material
16 improvement for this year compared to the previous
17 integrated financial forecasts, particularly for cash
18 flows and positive impacts from sustained high water
19 reservoirs going into 2018/'19.

20 My understanding is that when we get
21 this late into the year with the water reservoir
22 levels where they are, Hydro has a certain amount of -
23 - a level of certainty as to where it's going in the
24 near future. They do a two (2) year projection on
25 water, and then it goes to -- I believe it's median --

1 average for the years after but they consider the
2 current water reservoir levels in deciding what's
3 going to happen in the next two (2) years.

4

5 (BRIEF PAUSE)

6

7 MR. ANTOINE HACAULT: Hopefully my
8 recollection is correct from previous hearings.
9 That's what I recall.

10 So that we've got, as I indi -- I
11 showed in the first slide earlier on in the update, an
12 improvement in our view of about a hundred million
13 dollars from the integrated financial forecast '16 to
14 the updated Manitoba Hydro '16. Again nothing that
15 cries out for urgency and a need for prompt and urgent
16 and interim action.

17

18 (BRIEF PAUSE)

19

20 MR. ANTOINE HACAULT: So that this
21 brings us to -- back full circle to the recommendation
22 of an inflationary interim rate increase, and saying
23 the Board still has the possibility, because remember
24 this is just interim, you don't have to give them 100
25 percent even if you thought, well, maybe they can

1 justify 3 percent.

2 Well, let's have a full hearing on the
3 3 percent. We're just talking about an interim
4 measure until you decide whether 3 percent, or less,
5 or more, is the right number. On an interim basis, we
6 suggest you don't need to say, Okay, well let's come
7 to the precise number that we think that they probably
8 demonstrated on a prima facie basis, because it is
9 just an interim measure.

10 So I'd like to conclude by going full
11 circle to why we say that it's not appropriate to put
12 the 1.6 percent directly into revenue and put it into
13 the deferral account.

14 We say that there's no unforeseen or
15 emergency circumstances or situations. It appears
16 that generally speaking, things are pretty positive.
17 We say that Hydro hasn't met the burden of proof, that
18 it needs this on an interim basis, that there's a huge
19 crisis happening. And we say that Hydro has to be
20 weaned off its approach of interim rates.

21 We've been arguing that for a long
22 time. For many hearings we weren't entitled to any
23 kind of financial assistance on coming to hearings,
24 including interim rate hearings, and we submitted, I
25 think on a pretty consistent basis at all those

1 hearings, that it was a lot of time, effort, and
2 energy if there wasn't a true emergency, to have to
3 prepare for this interim rate hearing, to try and make
4 submissions that make sense on an interim basis when
5 the control of whether or not that application needed
6 to be made was solely in the control of Manitoba
7 Hydro.

8 And in fact, we say that in this
9 circumstance that presents today, it's more egregious.
10 The Board knew that this was a problem and directed
11 Manitoba Hydro to file by certain dates. I'll
12 acknowledge there was a change in the Board. There
13 was a change in philosophy and all of that. But if
14 it's so important to get regular rates and regular
15 rate increases, why can't it be a priority for this
16 corporation to do it in a time basis and to comply
17 with a directive of this Board?

18 It's not a surprise. It couldn't be
19 clearer. This Board says, Please file it by this date
20 if you want an increase by August 1 -- by December 1.
21 And they choose not to follow the Board directive that
22 gives them continued interim rate increases when there
23 is no emergency, there is no crisis. We aren't out of
24 water here.

25 In my respectful submission, fosters --

1 well, it really doesn't matter. The Board can say,
2 Please -- direct us to do this, but we'll go in and
3 they'll give it to us anyways, because they've got
4 general discretion to do it. We'll just say we need
5 it.

6 And doing that in the context of the
7 previous Board decision, we ref -- respectfully submit
8 it sends a message to Manitoba Hydro that it can
9 ignore PUB directives without consequence. It
10 wouldn't happen in any other court that I appear in
11 front of. If there was a directive by the court it
12 would be followed or you wouldn't get your remedy.

13 It's as simply as that. I understand
14 that this Board has wide discretions, it's not a court
15 of law, but it is important because this Board deals
16 with things on a bi-annual basis, tries to deal with
17 Manitobans' concerns, and is the watchdog for
18 Manitobans with respect to this monopoly.

19 If we can't rely on this Board as
20 Manitoba Industrial Power Users to get rate hearings
21 on a regular basis so we know what our increases are
22 on a -- with certainly, not on an interim that may
23 change, because that causes a lot of problems for
24 industrials. They can't price stuff. They don't know
25 what to do.

1 Okay, we've priced this. It's on an
2 interim basis. It might be lower. It might be
3 higher. What do we do? It creates uncertainty for a
4 whole host of people, not just the group and the
5 sector that we represent.

6 Subject to any questions, that is my
7 oral submission.

8

9 QUESTION PERIOD:

10 THE CHAIRPERSON: Thank you. Any
11 questions? Ms. Kapitany, yeah.

12 BOARD MEMBER KAPITANY: Me. Hacaault,
13 going back to your page 6, you had listed one (1) of
14 the issues as contentious items may be excluded from
15 the amount collected when you're looking at an interim
16 application?

17 MR. ANTOINE HACAULT: Correct.

18 BOARD MEMBER KAPITANY: Could you give
19 some examples of what you meant by "contentious items"
20 there?

21 MR. ANTOINE HACAULT: Well, some of
22 them have been mentioned by Mr. Williams already.
23 It's the -- what I'll call the cashflow target to
24 CapEX. That's a whole new metric that's been adopted
25 by Manitoba Hydro, and it -- it was never adopted

1 before. It was always a one point two (1.2) target
2 and not kind of a revised definition of that.

3 And the other metric that's changed, in
4 our view, significantly, and we've mentioned it every
5 time we appear here, is the change to ramping up
6 increases to meet the 25 percent debt/equity ratio
7 within a short time frame instead of being patient.

8 That is acknowledged. It's -- it's a
9 major subject that's going to have to be discussed.
10 That's -- that's a contentious issue.

11 It -- the -- I won't get into
12 arguments, but at NFAT, we had the patient capital
13 approach: Listen, we would never build these things
14 if you didn't take the patient capital approach.
15 That's why we've got a Crown utility. Don't worry.

16 And I -- I asked some of the head Hydro
17 witnesses, Well, what about the rating agencies?
18 You've got all these big expenses. What's -- Don't
19 worry. We've told them that debt/equity's going to go
20 down. It's going to take a long time to recover.
21 They're not worried. They understand.

22 We need a debate about those things,
23 and those are drivers. And I've mentioned some others
24 just like -- it's unclear as to whether or not the
25 depreciation, the expense is dealt with the way the

1 Board asked it to deal with. Operational expenses, it
2 seems to be a def -- change in definition of what gets
3 expensed out or needs to be paid out right away as
4 opposed to capitalized on major expense -- major
5 capital projects.

6 BOARD MEMBER KAPITANY: Sorry. What
7 was that last one?

8 MR. ANTOINE HACAULT: The major
9 capital projects.

10 BOARD MEMBER KAPITANY: Yeah.

11 MR. ANTOINE HACAULT: There seems to
12 be a change in attitude in saying, Well, listen, our
13 sustaining capital now includes these additional
14 items, and before in IFF-15, it didn't include those.
15 So Mr. Williams listed some of them, and they're --
16 they're more fully set out in -- in our submissions.

17 There on page 8 is one (1) of them
18 where we put the heading 'Contentious Items May be
19 Excluded from the Interim Rate View or Analysis'.

20 BOARD MEMBER KAPITANY: Okay. Thanks
21 for the reminder of those. And my only other question
22 was your material pretty much used the 1.6 percent as
23 you went through in terms of if there was going to be
24 an increase to go into the Bipole III deferral
25 account, you cited the one point six (1.6) as

1 inflationary.

2 Dr. Grant asked about that earlier. Is
3 it still the 1.6 percent that you are --

4 MR. ANTOINE HACAULT: Well --

5 BOARD MEMBER KAPITANY: -- I'm not
6 saying recommending, but that you're referring to?

7 MR. ANTOINE HACAULT: -- our
8 recommendation was an inflationary increase. And at
9 the time we prepared our material, the Manitoba CPI
10 was one point six (1.6). That's when we presented our
11 initial letter. And we followed that from an
12 industrial perspective and analysis of the long-term.
13 And using the prior Board reasoning, we felt that it
14 was appropriate to put something into that deferral
15 account to deal with the new expenses that are going
16 to be hitting this utility with respect to Bipole III
17 and eventually Keeyask.

18 BOARD MEMBER KAPITANY: Thank you.

19 THE CHAIRPERSON: So are there any
20 other questions? Okay.

21

22 (BRIEF PAUSE)

23

24 THE CHAIRPERSON: Thank you, Mr.
25 Hacault. We'll now go to Mr. Cordingley, for the

1 Green Action Centre.

2

3 PRESENTATION BY GREEN ACTION CENTRE:

4 MR. DAVID CORDINGLEY: Good morning,
5 Mr. Chair, panel members. You should have all
6 received an electronic copy of our submission. If you
7 have not or if you prefer a hard copy, there are some
8 available at the back of the room. Additionally, it
9 should be read in addition to the letter that was
10 provided on May 26, 2017 by Mr. Gange as to our
11 initial position on rates, interim rates. That had a
12 little more information about rate setting that frames
13 the conversation.

14 With me today is, of course, Professor
15 Miller, from the Green Action Centre. The Green
16 Action Centre's submission on the interim rates is
17 guided by their inclusive vision of sustain --
18 sustainability. That includes sustainability of the
19 resource of Manitoba Hydro as a corporation as well as
20 a social justice component of sustainability, that is,
21 meeting members of the public's needs now and in the
22 future when it comes to energy requirements.

23 Ultimately, the position for Green
24 Action Centre is that, to the extent that Manitoba
25 Hydro has showed a need for an interim rate, an

1 interim rate should be granted to keep the Corporation
2 healthy and sustainable, but that we have had -- not
3 had adequate time to test the req -- requested rate of
4 7.95 percent.

5 As such, it's Green Action's
6 recommendation that the best alternative rate at this
7 point would be 3.36 percent on an interim basis, but
8 that also must be coupled with bill mitigation efforts
9 made to ensure that members of -- of the consu --
10 consumers are not pushed further into energy poverty.

11 Prima facie, there's a case for an
12 increase to the Manitoba Hydro rate on an interim
13 basis. Green Action notes that the fin -- the
14 financial health of Manitoba Hydro is important for
15 all consumers, provincial citizens, and Manitoba Hydro
16 insofar as it provides access to clean and affordable
17 energy to Manitobans.

18 The material provided by Manitoba Hydro
19 has indicated that there have been significant
20 additional costs above inflation, particularly with
21 increases to the Bipole III and Keeyask control
22 budgets.

23 In setting rates, this Board should
24 look at rate stability and predictability insofar as
25 it benefits customers in -- in setting a consistent,

1 stable, and predictable rate trajectory over several
2 years.

3 Further, it should be noted that any
4 pause in rates now where an interim rate may be needed
5 could have the effect of accelerating future
6 increases, and those increases could be greater.

7 Manitoba Hydro has asked for an interim
8 rate increase of 7.9 percent. Quite simply, there has
9 not been sufficient time to test this. And, as my
10 friends from the other Intervenors have pointed out,
11 there is a GRA approaching in six (6) months' time
12 where this will be fully and I'm sure hotly contested
13 and debated.

14 Thus, Green Action Centre's
15 recommendation is that the rate of 3.36 percent be
16 adopted on an interim basis. We're getting this from
17 Board Order number 59/'16. We say that's the -- the
18 best last time that Manitoba Hydro's financials were
19 tested by this panel with significant rigour.

20 Furthermore, it's consistent with the
21 rate trajectory that we've seen since 2013 with Order
22 43/'13, a 3.5 percent increase, 2014 with Order 49/'14
23 with a 2.75 percent increase, 2015 Order number 73/'15
24 with a 3.95 percent increase, and then finally, that
25 was Order 59/'16, which was the 3.36 percent increase.

1 But in addition to any interim rate
2 increase, Green Action Centre must stress that the
3 social justice component of sus -- sustainability must
4 be addressed. Quite simply, energy burdens are
5 becoming great in Manitoba. The report prepared by
6 the affordable energy workshop collaborative process
7 highlights some of those concerns, and those consumers
8 who are currently within the low income cutoff one
9 twenty-five (125) group will be further pushed into
10 energy poverty.

11 We've provided you with a graph on page
12 3 of our submissions which highlights the effects that
13 a rate increase will have on consumers who already are
14 within a --the low income cutoff one twenty-five (125)
15 group, and the extent that we'd be pushed past the 6
16 percent energy poverty threshold. You will note that
17 the 7.95 percent increase requested by Manitoba Hydro
18 by 2020 will have pushed 13.2 percent of the LICO one
19 twenty-five (125) group in -- past the energy poverty
20 threshold.

21 You'll see also that there's an
22 increase beyond the energy threshold -- poverty
23 threshold even for a 3.95 percent increase.
24 Fundamentally, any increase in the rate will increase
25 the rate of energy poverty in Manitoba. The issue for

1 -- for the interim rate is how much will we -- we
2 increase that -- will the rate increase that, but also
3 what is going to be done to mitigate that?

4 And to give some context to these
5 numbers, the -- the 2014 residential energy use survey
6 found that the Winnipeg Low Income Cutoff Group one
7 twenty-five (125) consisted of -- consisted of a
8 hundred and forty-two thousand one hundred and twenty-
9 four (142,124) households, thus a 1 percent increase,
10 based on those numbers that the -- of the energy
11 poverty level would represent approximately fourteen
12 hundred (14,000) households being pushed into energy
13 poverty.

14 So when we look at the difference in
15 the year 2020 between a rate increase of 3.9 percent
16 and a rate increase to 7.9 percent, we're looking at
17 approximately a 2 percent difference. That would
18 equate to approximately twenty-eight hundred (2,800)
19 citizens pushed beyond the energy poverty threshold.
20 Additional -- yes, thank you. Additional citizens
21 pushed beyond the energy poverty threshold. And
22 that's why we say at this point, a rate increase of
23 7.95 percent simply would not be appropriate.

24 But as we have noted, energy
25 affordability will be an issue regardless of what

1 interim rate increase is -- is approved. Thus,
2 affordability has to be an issue with res -- tied into
3 any interim rate increase. Energy affordability is
4 not a new issue before this Board. It has been raised
5 on many other occasions, including the past GRA. In
6 fact, the Order 73/'15 specifically noted that as
7 rates increased, affordability becomes a greater
8 concern for the citizens of Manitoba.

9 Green Action Centre expects that we
10 will lead significant evidence at the GRA with respect
11 to rate design, as that's an area that the Green
12 Action Centre has been sper -- specifically interested
13 in. But there's quite simply not enough time on an
14 interim basis to operationalize -- finalize and
15 operationalize a new rate design that would deal with
16 the affordability issues.

17 Thus it's our submission on an interim
18 basis that in -- tied into any interim rate increase
19 that's awarded, Manit -- directed or given to Manitoba
20 Hydro to undertake further efforts based on current
21 initiatives to target high -- the highest energy users
22 in the Province to assist them to ascertain why
23 they're high energy users, and assist them in lowering
24 their bills and energy consumption.

25 Green Action Centre also urges the

1 Board to direct Manitoba Hydro to focus efforts on
2 energy consumption on First Nations communities in
3 order to reduce the energy burden that arises due to
4 inadequate housing stock, and the apparent
5 insufficiency of Demand-Side Management Measures
6 Program for First Nations.

7 Green Action Centre also rec -- finally
8 recommends that in the course of the GRA, Manitoba
9 Hydro file a strategic plan to cap and reduce energy
10 burdens of low-income cutoff 125 customers that exceed
11 a 6 percent energy poverty threshold for household
12 income.

13 Thus it's Green Action Centre's
14 submission that it will support an interim rate
15 increase effective August 1st, 2017. The suggestion
16 is the 3.36 percent may be the most appropriate rate
17 at this time, and until a further examination is done
18 of the data at the General Rate Application; but that
19 at the same time directions must be given and measures
20 taken by Manitoba Hydro to ensure that any increase in
21 energy poverty is mitigated to the best extent
22 possible.

23 Subject to any questions, that's our
24 submission.

25

1 QUESTION PERIOD:

2 THE CHAIRPERSON: Thank you. Any
3 questions? Okay. Go ahead.

4 BOARD MEMBER GRANT: I've forgotten
5 the definition of 'energy poverty'. So you're using
6 this LICO 125 group: if you're spending more than 6
7 percent of your household income on energy.

8 The question is: What included in
9 energy? Is this natural gas and electricity, or it's
10 not including gasoline or --

11 MR. DAVID CORDINGLEY: The graph we've
12 provided represents both.

13 BOARD MEMBER GRANT: Both?

14 MR. DAVID CORDINGLEY: All -- all
15 energy costs.

16 BOARD MEMBER GRANT: Including
17 gasoline?

18 MR. DAVID CORDINGLEY: No.

19 BOARD MEMBER GRANT: Thank you. So
20 utility bills.

21 MR. DAVID CORDINGLEY: Just gas and
22 electricity, not gasoline.

23 BOARD MEMBER GRANT: Okay. Thank you.

24 BOARD MEMBER KAPITANY: Mr.
25 Cordingley, I just wanted to ask about the 3.36

1 percent that you recommend. It sounded to me from
2 your presentation that this is more a trajectory
3 number. I just wanted to confirm: Did you test that
4 at all against the Integrated Financial Forecast
5 updated for 2016?

6 MR. DAVID CORDINGLEY: No, we have
7 not.

8 BOARD MEMBER KAPITANY: Thank you.

9 THE CHAIRPERSON: Mr. Cordingley, I
10 just want to go to your chart for a second. And I
11 don't -- I don't know if your chart's right and your
12 number's wrong or -- but you've got seven point nine
13 five (7.95). Now, the request of Manitoba Hydro is
14 seven point nine (7.9).

15 Does the -- does the chart represent
16 seven point nine (7.9) or seven point nine five
17 (7.95)?

18 MR. DAVID CORDINGLEY: I believe the
19 chart is right, Mr. Chair. That was produced within
20 the Bill Affordability Working Group.

21 THE CHAIRPERSON: Okay.

22 MR. DAVID CORDINGLEY: And at that
23 point, seven point nine five (7.95) was selected,
24 although the results would be we say nearly similar
25 for seven point nine (7.9).

1 THE CHAIRPERSON: Yeah. My second
2 question is: You've got a lot of recommendations that
3 you want us to direct Manitoba Hydro and take certain
4 steps. One (1) of them is there's inadequate housing
5 stock, and you want Manitoba Hydro to focus efforts on
6 energy consumption on these communities to reduce the
7 energy burden.

8 Specifically, what -- what sorts of
9 examples would you see if the problem is the housing?
10 I mean, do you expect -- is -- is Manitoba Hydro
11 supposed to do programming in relation to the housing?

12 MR. DAVID CORDINGLEY: I -- I believe
13 what we were envisioning, Mr. Chair, is -- is more
14 Demand-Side Management Measures. My understanding
15 based on some of the workshops I've attended is that
16 Manitoba Hydro has some people on the ground in -- in
17 certain communities.

18 Our sugges -- one (1) suggestions we --
19 we would make is that simply by -- by providing that
20 person perhaps with a list of the highest users, that
21 person could knock on doors and offer to do a free
22 energy audit, and then assist them with any
23 programming, Demand-Side Management programming, that
24 was available to them obtaining that.

25 THE CHAIRPERSON: Okay. In terms of -

1 - earlier you talk about special efforts to target
2 high-energy users. Is that a DSM program as well?

3 MR. DAVID CORDINGLEY: Mr. Chair, my -
4 - my understanding of -- of what we -- what we would
5 envision for that is that the -- the programming is
6 offered to all high users.

7 THE CHAIRPERSON: M-hm.

8 MR. DAVID CORDINGLEY: The -- the DSM
9 measures would -- would come into play for those who
10 qualify based on income levels, but that energy audits
11 and -- and assistance with -- suggestions with
12 reducing energy consumption are provided to all high
13 energy users in Manitoba.

14 THE CHAIRPERSON: Thank you. Ms.
15 Kapitany...? Thank you Mr. Cordingley.

16 Sorry, Mr. Orle?

17

18 PRESENTATION BY MANITOBA KEEWATINOWI OKIMAKANAK:

19 MR. GEORGE ORLE: Thank you, Mr.
20 Chair, members of the Board. I appear on behalf of
21 Manitoba Keewatinowi Okimakanak. And with your
22 permission I'll refer to them as MKO henceforth.
23 Members of the Board, I'd like to first of all deal
24 with what an interim order is.

25 Judicial groups, quasi-judicial groups,

1 administrative groups, do not have an inherent right
2 to make interim orders. It's not something that you
3 can decide to do because of the fact that you think it
4 may be necessary or unnecessary.

5 The only way that a group such as yours
6 can make an interim order is if you're allowed to do
7 so by legislation. And there is legislation that does
8 deal with that fact in the Public Utilities Board
9 context. Section 47(2) is what allows you to make an
10 interim order.

11 That section and that section alone is
12 the authority by which you are guided to make an
13 interim order. And you should know first of all that
14 it's discretionary. You're not obligated to make it.
15 It doesn't say that you shall make an interim order if
16 you're convinced that one (1) is necessary. You may
17 make an order if you feel that it's necessary in the
18 circumstances.

19 Normally interim orders are not granted
20 or given liberally, because they directly take away
21 from what the jurisdiction of the Board or the
22 judicial institution is, and that is to make an order
23 that is in the best interest of the parties within the
24 jurisdiction that the particular Board has.

25 People depend on that. They don't

1 depend on -- on decisions being made that deal with a
2 portion of the problem, or that deal with part of the
3 problem without all of the evidence being before the
4 Board. People rely upon these. People's lives depend
5 upon it. They're not looking to have orders made that
6 are made in the absence of compelling evidence that
7 it's necessary.

8 So in this particular case the Board
9 itself, in Order 73/'15, indicated what it would look
10 at in response to requested rate increases. And the
11 Board indicated that it will scrutinize all future
12 requested rate increases and approve rates that are
13 justified by the evidence examined.

14 The Board stated they would scrutinize
15 all future requests of rate increases and approve
16 rates that are justified by the evidence examined.
17 That applies to your normal orders. Is there any
18 reason why it should not apply to interim orders? I
19 would suggest not. The Board, in fact, dealt with
20 that specifically in your Order 59/'16, where you
21 talked about what you would look at when there was an
22 interim application, and there were three (3)
23 considerations.

24 The Board would not consider interim
25 rate applications unless warranted by unforeseen or

1 emergency situations. Specifically, you set out two
2 (2) areas where you would consider an interim
3 application, unforeseen or emergency.

4 Secondly, interim rate applications
5 ought not to be the norm for Manitoba Hydro. This is
6 the second interim application you have. We haven't
7 even dealt with the first one that still remains
8 outstanding. You're now being asked to deal with a
9 second one. That should not be the norm. It sho --
10 ought to be discouraged.

11 And thirdly, that Manitoba Hydro is to
12 adjust its planning cycles to ensure required
13 information is available on a timely basis. Again,
14 these -- these are the considerations that you put
15 into effect in order to protect the public, to protect
16 the ratepayers, that decisions made by you would be
17 made only on the best evidence available and would
18 only be done in circumstances where you felt it was
19 warranted to interfere with final decisions.

20 In Order 73/'15, you also stated that:

21 "However, in setting just and
22 reasonable rates, the Board must
23 balance the interest of the
24 ratepayers with the financial health
25 of the utility."

1 That's a balance. Balance requires
2 that there be interest on both sides that you have to
3 take into consideration before you make that final
4 decision as to whether or not you ought to make an
5 interim order.

6 Now, we won't repeat the evidence.
7 We've always accepted the expertise put forward by the
8 Manitoba Power Users and the Coalition. Their experts
9 have been consistent in determining whether or not
10 there's justification for the rate increases and the
11 evidence that's being attributed to those rate
12 increases, or underpinning those rate increases.

13 I think it's particular to note that
14 almost all of the Intervenors have adopted the
15 arguments made by MIPUG and the Coalition. We believe
16 that the experts that they have retained and their
17 analysis of this information is the correct
18 information, and we're not going to go behind it or
19 ask the Board to go behind it.

20 And I would also add for -- at least
21 from this Intervenor's position, the fact that both
22 groups, the Power Users, the largest group, the most
23 financially viable group, is in agreement with the
24 Coalition that represents the less fortunate ones in
25 our society, that their analysis of this rate increase

1 is the same. They don't differ on it.

2 What they're saying is that, and this
3 is an important factor also, they're using Manitoba
4 Hydro's own evidence. They're not coming up with a
5 new analysis or coming up with a new financial
6 forecast. They're using Manitoba Hydro's own
7 forecast. And they're consistent on both approaches
8 that they don't meet the standard for an interim rate
9 increase at this time. And MKO is supportive of the
10 Coalition's position that a zero percent interim rate
11 increase ought to be imposed.

12 Now, in doing a balancing, primarily
13 what boards or judicial institutions do is they look
14 at what is the prejudice to either side in dealing
15 with an interim application? And that's where the
16 balance occurs, because somebody is going to be
17 affected, a better way or a lesser way, when you make
18 an order for an interim -- or you make an interim
19 order.

20 What your job is, to weigh what the
21 consequences are going to be on each side if you make
22 that interim order. The definition of 'interim' in
23 the dictionary is it's provisional or temporary, in or
24 for an intervening period. That's what an interim
25 order is. So you take a look at what is the balance

1 in dealing with it in that intervening period.

2 The prejudice, as seen from the
3 previous presentations to Manitoba Hydro, is minimal.
4 They're still receiving the amount of money that they
5 require to operate. It's within the norms that they
6 have accepted as being the amount necessary. We've
7 gone through hearings starting from the 'Needs For And
8 Alternative To' to the rate increases in 2016 dealing
9 with hundreds of thousands of dollars worth of
10 opinions, opinions from forecasters, economists.

11 All of them have talked about rate
12 increases in the 3 percent to 4 percent area. Not one
13 (1) time during any of these hearings did we have any
14 expert even go anywhere close to suggesting that for
15 financial viability, Hydro had to have a 7.9 percent
16 increase over a period of twenty (20) years. That
17 evidence was consistent.

18 Not one (1) outlier in any of these
19 hearings indicated that rate increases at that
20 magnitude would be necessary. How do we justify on an
21 interim application that, all of a sudden, there's a
22 rate increase of 7.9 percent that is necessary, not
23 necessary after a formal hearing, but necessary on an
24 interim basis without any of this being put forward?

25 Frankly, the only time that 7.9 percent

1 gets mentioned is part of a promotional campaign by
2 the Chairman of Manitoba Hydro. That's the first time
3 that we hear that something higher than what the
4 Public Utilities Board has heard over the last several
5 years is necessary.

6 Now, a statement on its own doesn't do
7 anything. You have to have something to back it up.
8 I have a great deal of admiration for all of the
9 employees and the lawyers and the consultants brought
10 forward by Manitoba Hydro, and I don't think that they
11 would at any time put forward any information that
12 they would not be able to justify or to put forward.

13 But the fact of the matter is that all
14 of the information they've put forward has been
15 analyzed by both Mr. Antoine Hacault's client, and by
16 Dr. Williams's client. Sorry, I coughed before I said
17 "Dr." and it's got no reflection on -- on that.

18 But that's the information that they
19 have, and that's all they can put forward. I'm sure
20 that if they had something that -- that reflected 7.9
21 percent that had not been dealt with by the Board
22 before, they would have put that forward. We don't
23 have that. And I would caution the Board against
24 making decisions based upon a statement made by an
25 executive of the Hydro board that can't stand up to

1 the scrutiny of what the actual evidence is.

2 Now, in terms of balancing the
3 prejudice, we've already mentioned there's very little
4 prejudice that'll occur to Manitoba Hydro in the event
5 that this rate is not approved. But you'll remember -
6 - I hope you remember, that when we made our
7 application for Intervenor status, I raised the issue
8 of what had occurred in Quebec, where high rates, or
9 high increases were made in Hydro rates passed by the
10 Board there without the knowledge that these rates
11 were actually being used to decrease the Provincial
12 debt load, not to improve Quebec Hydro. And over the
13 course of a number of years, they raised a substantial
14 amount of money that did not go toward ameliorating
15 rates or rate increases, but went somewhere else. I'm
16 not saying that that is the case here, but I'm talking
17 about what happens as a result of rate increases being
18 put forward that are not justifiable.

19 In that same Province, when those rates
20 were increased, there was a 500 percent increase in
21 cutoffs, shut offs, people being denied Hydro. A 500
22 percent increase due to those rate increases. How do
23 you justify on an interim basis if you're doing a
24 balancing to say to someone: Oh, by the way, this is
25 an interim cutoff because we're not quite sure yet

1 whether or not you should be paying these rates.

2 How do you justify to someone who has
3 to cut back on their costs for their children or their
4 costs for groceries and say: This was an interim
5 basis. We'll make it up to you at a later date.
6 That's not balancing. That's accepting one (1) side
7 over the other without taking a look at what the
8 prejudicial effect of it may be.

9 During the NFAT hearings, we had
10 evidence provided by Hydro that there was a
11 substantial number of ratepayers on First Nations that
12 were subject to shut offs, and that were in arrears,
13 substantially more than what occurred in southern
14 Manitoba. Rates are not rates. Rates are the same
15 whether you're in southern Manitoba or northern
16 Manitoba.

17 But if you're in northern Manitoba, you
18 pay higher bills. And you pay higher bills, number 1,
19 because of the weather; number 2, because you don't
20 have natural gas available to you to cut back on your
21 -- your rates. So you have these items that are not
22 within your control that lead to higher bills being
23 paid. What's the justification on an interim basis
24 raising those rates to a level that's even more
25 unaffordable without having all of the evidence put

1 forward?

2 In your decision from NFAT, you
3 indicated that you were allowing these higher rates
4 which were in the high 3 percent range, but it was
5 based upon a number of recommendations that there had
6 to be amelioration procedures put into place, that
7 there had to be more DSM put into place for First
8 Nations and -- and lower income people, that there had
9 to be a bill affordability package put together, that
10 there had to be ways of decreasing the costs for all
11 electric users.

12 That was a few years ago. That hasn't
13 happened. And now you're being asked to increase the
14 rates by 7.9 percent without one (1) area of
15 amelioration being available to these low income
16 families. That's not balancing. That's choosing
17 which group you want to prejudice for no reason that's
18 apparent on the record and the evidence at this point.

19 Those are my comments. They
20 essentially follow the original requests that we made,
21 that the rates were not justified by evidence, and I
22 would submit that even more so now that we've gotten
23 the new evidence, that that position is even clearer.

24 And it's our submission that, if you
25 are not satisfied that the evidence you have justifies

1 the rate, it's not up to the Board to come up with a
2 lesser amount. Your position is: Do we apply and do
3 we approve this interim rate increase?

4 And if you don't, then I would submit
5 that you ought not to put into something -- or put
6 something into place that has not had the ability to
7 be tested. If the evidence is wanting on the first
8 part, it's not up to the Board to try to fix it or to
9 recreate it or to restate it in a way that makes more
10 sense. Thank you.

11

12 QUESTION PERIOD:

13 BOARD MEMBER KAPITANY: Mr. Orle, I
14 just wanted to clarify. What I think I heard you say
15 was that there should be a zero percent increase. But
16 I also thought I heard you say you agreed with the
17 analysis of your colleagues, one (1) of whom suggested
18 an interim increase of 3.36 percent and one (1) of
19 whom suggested an in -- an inflationary increase to go
20 into the Bipole III deferral account.

21 Can you just clarify for me what your
22 position is there?

23 MR. GEORGE ORLE: Yeah. I -- what I
24 had meant to say is that I'm in agreement with the
25 Coalition on the -- on the amount that ought to be

1 agreed to, and that was zero percent. Sorry if I
2 didn't make that clear enough.

3 THE CHAIRPERSON: I've got a few
4 questions. Mr. Orle, are you suggesting that we don't
5 have the jurisdiction to give an amount less than 7.9
6 percent, our jurisdiction is zero or seven point nine
7 (7.9)?

8 MR. GEORGE ORLE: I'm not saying you
9 don't have the jurisdiction, but with all due respect,
10 Mr. Chairman, I don't think you have the expertise.

11 You've been given evidence from two (2)
12 sides. And if you're going to prefer evidence of your
13 own as to what that amount is without having you have
14 your independent consultants come back to you and say,
15 This is what we feel is appropriate, then -- and
16 again, this is not meant with any disrespect to the --
17 the panel. But it's your -- your job to look at the
18 evidence and to decide where you're going to take it
19 unless you've got independent evidence of your own.

20 THE CHAIRPERSON: Okay. Secondly, the
21 issue of prejudice, you made the point about the
22 testing of evidence at a GRA. Now, when we test the
23 evidence at the GRA, we also confirm the interim
24 rates, either granted or not granted.

25 Is that correct?

1 MR. GEORGE ORLE: Yes. You can adjust
2 the -- the interim rates at that point.

3 THE CHAIRPERSON: Okay. And we can
4 adjust them up or down?

5 MR. GEORGE ORLE: You can adjust them
6 up or down, but that presupposes that you've made an
7 interim order to begin with.

8 THE CHAIRPERSON: Well, we will make
9 an interim order. The interim order may be zero, but
10 that's still an interim order.

11 The issue of prejudice goes both ways,
12 though, doesn't it? I mean, you're going on the basis
13 that the in -- that the issue of prejudice is for
14 consumers. We would apply a rate too high, and then
15 later on we would lower it.

16 But if we decide later, after hearing
17 all the evidence, that the interim rate should be
18 higher than we ordered, then we're going to have to
19 raise the interim rate or effectively raise it in the
20 final order. And there would be prejudice at that
21 time as well, wouldn't there be?

22 MR. GEORGE ORLE: That's correct. I
23 was talking about balancing. I didn't say that there
24 was only prejudice on one (1) side. I've mentioned
25 that the prejudice to Manitoba Hydro, given the

1 numbers that have been used by my -- my colleagues, is
2 lesser than the prejudice that comes to particularly
3 my clients.

4 And in terms of alleviating that
5 prejudice, my clients aren't going anywhere. If you
6 decide that they should have paid more, they will pay
7 the more.

8 The same issue on the part of Manitoba
9 Hydro. If -- if these numbers are shown to be correct
10 on their part -- and there's a lot of question on that
11 -- I think that, in terms of my being able to prove
12 prejudice to -- to my clients, I can prove that with a
13 lot more certainty to the Board right now than
14 Manitoba Hydro is showing right now that it is a
15 prejudice to them based upon the numbers that they've
16 put forward.

17 THE CHAIRPERSON: Okay. Thank you.
18 Okay. We're -- I believe we are finished the
19 submissions. We'll break now for lunch. I understand
20 counsel will be discussing the issue of the CSI.
21 We'll resume at 1:30. Thank you.

22

23 --- Upon adjourning at 11:45 a.m.

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1 Certified correct,

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6 Cheryl Lavigne, Ms.

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