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2
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8
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MANITOBA PUBLIC UTILITIES BOARD

RE:

MANITOBA HYDRO'S
APPLICATION FOR APPROVAL OF
ENERGY INTENSIVE INDUSTRIAL RATES

Before Board Panel:

- Graham Lane - Board Chairman
- Robert Mayer - Board Member
- Susan Proven - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
December 9th, 2008

Pages 258 to 467

APPEARANCES

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3
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20
21
22
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24
25

1	TABLE OF CONTENTS	
2		Page No.
3	Exhibit List	261
4	Undertakings	262
5		
6	MANITOBA HYDRO PANEL:	
7	VINCE WARDER, Resumed	
8	ROBIN WIENS, Resumed	
9	MICHAEL DUDAR, Resumed	
10	HAROLD SURMINSKI, Resumed	
11	DAVID CORMIE, Sworn	
12		
13	Continued Cross-examination by Mr. Bob Peters	264
14	Cross-Examination by Mr. Byron Williams	420
15		
16	Certificate of Transcript	467
17		
18		
19		
20		
21		
22		
23		
24		
25		

1	LIST OF EXHIBIT		
2	Exhibit No.	Description	Page No.
3	MH-7	Three (3) graphs: Total On-Peak Net	
4		Interchange, April 1/'05 to November	
5		1/'08; Total Off-Peak Net Interchange,	
6		April 1/'05 to November 1/'08;	
7		Manitoba Interconnection Loadings,	
8		July 25 to August 1/'05	405
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

UNDERTAKINGS

1	No.	Description	Page No.
2	3	Manitoba Hydro to reconcile the information on PUB MH 1-14(c)	
3		Supplementary with the price of 5.53 cents and explain any foreign exchange	
4		adjustment and any other adjustments	___300
5	4	Manitoba Hydro to provide average monthly on-peak_____	354
6	5	Manitoba Hydro to indicate what would happen if time-of-use market rates were applied to all load growth_____	395
7	6	Manitoba Hydro to correlate PUB/MH-16A to what is showing on Exhibit MH-7 _____	413
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

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

2

3 THE CHAIRPERSON: Good morning, everyone.
4 Welcome back.

5 Mr. Peters...? Or does Ms. Ramage have
6 any undertakings to file?

7 MS. PATTI RAMAGE: No, we don't.

8 THE CHAIRPERSON: Okay, then we can move
9 on.

10 MS. PATTI RAMAGE: We are going to need
11 Mr. Cormie sworn.

12 THE CHAIRPERSON: Oh, I'm sorry. Mr.
13 Gaudreau, do you want to take care of that small
14 oversight? I'm sure Mr. Cormie remembers from a few
15 years ago, in any case.

16

17 MANITOBA HYDRO PANEL:

18 VINCE WARDER, Resumed

19 ROBIN WIENS, Resumed

20 MICHAEL DUDAR, Resumed

21 HAROLD SURMINSKI, Resumed

22 DAVID CORMIE, Sworn

23

24 THE CHAIRPERSON: Mr. Peters...?

25

1 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

2 MR. BOB PETERS: Yes, thank you, Mr.
3 Chairman. Good morning panel and welcome here Mr.
4 Cormie.

5 I will start this morning, Mr. Chairman,
6 by just going back to Mr. Dudar. And he and I were
7 engaged in some questions and answers yesterday and I
8 asked him a question, perhaps without giving it enough
9 forethought, and I suggested his answer may have likewise
10 followed my example.

11 But I was talking about whether it made a
12 difference for customers if you gave them credit and
13 raised the baseline -- or didn't raise the baseline and
14 allowed them to just reduce their actual consumption.

15 Have you thought about that further, Mr.
16 Dudar?

17 MR. MICHAEL DUDAR: Yes, I have. That --
18 that wasn't the -- the question that I was going to
19 respond to, but I -- I still -- still believe that my --
20 my answer from yest -- or from yesterday is -- is
21 correct.

22 When -- when we got into a discussion that
23 -- surrounding the -- the differential between the energy
24 savings for the mining and primary metals industry, that
25 they offset the projected load growth for that industry.

1 And mathematically that -- that's true if you compare the
2 old load forecast to the energy savings.

3 The -- the problem that I had is when we
4 were developing this version of the rate, I did a lot of
5 consulting with the mining and primary metals industry
6 and they had significant input into the -- the terms and
7 conditions of the rate that we put forward. And -- and
8 they provided me with a lot of information on their --
9 their growth plans, as of August/September of this year.
10 And -- and those growth plans weren't necessarily
11 reflected in the load forecast that -- that we put
12 forward.

13 And -- and so my -- my problem was, in
14 discussions with the customer in development of the rate,
15 I knew that they required the -- to take advantage of the
16 3 percent growth allowance for the first five (5) years;
17 some of the 2 percent growth allowance for the next few
18 years; the 10 percent step change; and -- and also the
19 environmental credits to keep their load below their
20 allowable baseline.

21 And in some cases the customers actually
22 had to implement significant energy efficiency
23 improvements to their existing facilities to move forward
24 with their plans, and still keep their load growth below
25 the allowable baseline, or pay the higher -- higher

1 price.

2 And -- and that's -- that was the problem
3 I was having, was that we were sort of comparing the
4 energy savings which we had data on, a -- a load forecast
5 that didn't represent the customers' load growth
6 projections at that time, and I -- I wanted to try and
7 clarify that, because we did spend a lot of time with
8 those customers. We -- we had meetings with all levels
9 within the organization from President and CEO down to --
10 to operating staff, so it was a very broad consultation,
11 and -- and they provided me with a lot of information
12 about their future plans.

13 And it's -- I didn't want to make it seem
14 like the -- the 3 percent growth allowance, and the --
15 the other -- other terms and conditions weren't material
16 to their -- their actual plans.

17 MR. BOB PETERS: So you've clarified that
18 you had extensive meetings with them, and those growth
19 allowance numbers, as well as the DSM credits and energy
20 efficiency credits, will, for all intensive purposes,
21 offset any actual growth, such that they will stay below
22 the -- the baseline?

23 MR. MICHAEL DUDAR: That's -- that's
24 correct, for that -- that group of customers.

25 MR. BOB PETERS: Did you have that same

1 level of discussions with the other industry groupings?

2 MR. MICHAEL DUDAR: We -- we had
3 discussions in -- in a similar vein. Some of the -- some
4 of the other customers identified things that they wanted
5 to do, and we could not always accommodate their -- their
6 growth plans.

7 MR. BOB PETERS: Why could you
8 accommodate the growth plans for the primary metals
9 industry, but not some of the other industries?

10 MR. MICHAEL DUDAR: When -- when we
11 looked at -- essentially two (2) -- two (2) reasons:

12 One (1), as -- as Mr. Warden mentioned
13 yesterday was the significant in -- impact when -- when
14 you base a growth allowance on a percentage of what you
15 already have, if you're a very large customer that
16 equates to a very large growth.

17 The -- the other issue that I think we ran
18 into is -- is that for two (2) companies in -- in the
19 same business, if they both wanted to expand by the same
20 amount of tonnage of production, they would both require
21 the same amount of energy. And the smaller customer for
22 -- for that expansion, it would take him probably about
23 forty (40) years to get his incremental energy for that
24 incremental production at embedded rates. For the large
25 customer, it would take him less than five (5) years.

1 So the -- the dilemma we got into is -- is
2 when we -- when we chose to use a -- a percentage growth
3 allowance mechanism, we had that disparity with two (2)
4 customers competing in the same business with physically
5 different amounts of power consumption. And -- and we --
6 the -- the cap at -- at the upper end essentially put
7 those two (2) customers at -- at -- on -- on a sort of
8 level playing field, because in -- in both cases, for
9 incremental expansion of their facilities, they would be
10 both subject to the -- the marginal cost proxy for that
11 incremental production.

12 And that's -- that was primarily why --
13 why they weren't -- their -- their recommendations
14 weren't -- weren't suggested -- or weren't -- weren't
15 implemented.

16 MR. BOB PETERS: Why does Manitoba Hydro
17 feel it necessary to level the playing field between two
18 (2) competitors in the market?

19 MR. MICHAEL DUDAR: We -- we believe that
20 it -- it would have created an unfair competitive
21 situation for -- for those two (2) customers, that we
22 didn't want to put ourselves in -- in the middle of. We
23 -- we were trying to -- trying to balance, sort of, rate
24 impacts to other -- other ratepayers; the need for -- for
25 allowing for some -- some growth; not trying to create

1 too much market disturbance; it -- it -- and -- and then
2 sort of recognizing when -- when you -- when you got into
3 -- into companies in -- in northern Manitoba that they
4 don't have access to natural gas, some of the other
5 energy fuels that you would get in the south, their --
6 their operating costs are different.

7 So -- so we were very cognizant of -- of
8 the -- the difficulties of -- of operating a facility in
9 -- in northern Manitoba, and we -- we tried to balance
10 all those needs and -- and come up with something that --
11 that sort of addressed, as best we could, meeting those
12 requirements.

13 MR. BOB PETERS: So in doing that
14 balancing, you acknowledge that there were pros and cons
15 of -- of almost every decision that you'd have to make in
16 designing the rate?

17 MR. MICHAEL DUDAR: Absolutely. And --
18 and I think there -- there were, regardless of -- of what
19 factors you used, there -- there would be pros and cons.
20 We -- we looked at different mechanisms for growth. We
21 looked at different methods of setting the baseline.

22 At -- at the end of the day, I -- you were
23 asking yesterday about the -- using installed capacity of
24 a customer's facility as -- as a mechanism for -- for
25 baseline. The -- the company that suggested that, we --

1 we considered it; we looked at the difficulty of trying
2 to assess that, and -- and make adjustments, and -- and
3 equate their production capacity to consumption of
4 electricity when -- when that occurred. And we -- we
5 felt that the -- the complexity of -- of that sort of
6 mechanism didn't -- didn't warrant pursuing it, and --
7 you know, any further than a cursory look.

8 But that customer was also one (1) of the
9 companies that spoke at the September 11th meeting in --
10 in support of Manitoba Hydro's current proposal. So --
11 so they were -- while they had suggested that in the past
12 -- for the past hearing, they are -- they were satisfied
13 that the proposal that Manitoba Hydro brought forward met
14 their requirements.

15 MR. BOB PETERS: While Manitoba Hydro had
16 to make various judgments then in designing the Energy
17 Intensive Rate that's now before the Board, one (1) of
18 the -- one (1) of the factors that all of these customers
19 had in common was that they had to have electricity for
20 their production; they -- they didn't have another energy
21 option.

22 Would that be true?

23 MR. MICHAEL DUDAR: That's true for most
24 cases. The pipelines did have other energy options, and
25 -- and in Ile Des Chenes, up to probably six (6), seven

1 (7) years ago they used natural gas for -- for
2 compression.

3 MR. BOB PETERS: And Manitoba Hydro
4 convinced them to go to electricity, and now their --
5 their equipment is all running on electricity?

6 MR. MICHAEL DUDAR: No, the -- natural
7 gas was more valuable as a -- to -- as a saleable
8 commodity, as opposed to using it to compress natural
9 gas. So they got more money from it selling it into the
10 US market then -- that -- that was -- that was their
11 decision.

12 MR. BOB PETERS: Understood. And I think
13 we talked yesterday that one (1) of the presenters from
14 the GRA hearing indicated that the province approached
15 one (1) of the pipeline transport companies, and asked
16 that company to convert to electricity from their fossil
17 fuel source.

18 MR. MICHAEL DUDAR: I believe that's
19 correct.

20 MR. BOB PETERS: Yeah, and you don't take
21 issue with that, back in the -- back whenever that
22 happened?

23 MR. MICHAEL DUDAR: No, I'm -- I'm not
24 aware of -- of the discussions, but I think that was in -
25 - in the '60s some time.

1 MR. BOB PETERS: The '60s or the '70s?

2 MR. MICHAEL DUDAR: Mr. Wiens indicated
3 1965.

4 MR. BOB PETERS: I won't go there
5 further, but I will -- I will see if Mr. Cormie is on our
6 time zone this morning.

7 And Mr. Cormie, in your absence, every
8 time the panel struggled, they just said, Well wait to
9 ask Mr. Cormie, so thank you for coming back today.

10 Mr. Cormie, let's start off with your
11 present responsibilities for the Corporation include
12 what?

13 MR. DAVID CORMIE: Mr. Peters, I'm
14 Division Manager for Power Sales and Operations. I
15 manage Manitoba Hydro's activities in the external
16 markets, including Ontario, Saskatchewan, Alberta, and in
17 the United States. I'm also responsible for all the
18 long-term sale negotiations outside of -- of Manitoba
19 Hydro.

20 MR. BOB PETERS: In your negotiations of
21 long-term sales, those end up in written contracts, is
22 that correct?

23 MR. DAVID CORMIE: Yes, they do.

24 MR. BOB PETERS: And to the layperson
25 those would appear complicated because they've not only

1 gone through various engineers and economists but
2 probably some lawyers have had some fingerprints on those
3 contracts.

4 And they're relatively complicated for the
5 layperson?

6 MR. DAVID CORMIE: Yes, they are.

7 MR. BOB PETERS: But in the industry in
8 which you work, in terms of long-term sales, the parties
9 will be familiar with the various provisions and the
10 various requirements, terms, and conditions?

11 MR. DAVID CORMIE: Yes. And we're not
12 dealing with a unique situation. Both parties to these
13 negotiations have done them many times and it's -- it's
14 normal business for companies to contract to a long-term
15 in this nature.

16 MR. BOB PETERS: Your short-term sales,
17 or your -- your non-long-term sales, Mr. Cormie, those
18 are done without the benefit of a detailed contract

19 Is that correct?

20 MR. DAVID CORMIE: No, that's not
21 entirely true, Mr. Peters. The -- the only transactions
22 that aren't done with -- without written contracts are
23 those of sales that are of -- about two (2) weeks or less
24 in nature. And the majority of those transactions are
25 done in the day ahead market with MISO. Any -- any

1 transaction longer than two (2) weeks has a written
2 contract associated with it.

3 And -- and they are called opportunities,
4 yes.

5 MR. BOB PETERS: All right then, and
6 thank you for that. You said in your description of some
7 of your responsibilities for the Corporation, that you
8 are responsible for managing external markets, and you
9 named, I believe, Saskatchewan, Ontario, and Alberta as
10 three (3) provinces in which you have external sales.

11 Is that correct?

12 MR. DAVID CORMIE: Yes, that's correct.

13 MR. BOB PETERS: Are external sales
14 different than export sales?

15 MR. DAVID CORMIE: No, they're not.

16 MR. BOB PETERS: I can understand our
17 geographic location and proximity to Saskatchewan and
18 Ontario and the export sales into those provinces could
19 be through tie-lines that we have with each of those
20 provinces?

21 MR. DAVID CORMIE: Sale to Ontario and
22 Saskatchewan are over Manitoba's interconnections with
23 those provinces, yes.

24 MR. BOB PETERS: And how many points of
25 interconnection do we have with Saskatchewan and how many

1 with Ontario?

2 MR. DAVID CORMIE: I believe there are
3 five (5) interconnections west and there are three (3)
4 interconnections east into Ontario.

5 MR. BOB PETERS: All right. Before we
6 leave Ontario, now let -- let me leave Ontario for a
7 minute.

8 And you also mentioned Alberta. We don't
9 have any tie-line capacity with the province of Alberta,
10 do we?

11 MR. DAVID CORMIE: Saskatchewan has an
12 open access transmission tariff and Manitoba Hydro is
13 able to purchase transmission service through
14 Saskatchewan to reach the Alberta market.

15 MR. BOB PETERS: And again, those sales
16 to Saskatchewan, Ontario and Alberta, would those be
17 considered opportunity sales?

18 MR. DAVID CORMIE: Yes, they are, except
19 that we have one (1) long-term contract with Ontario
20 Power Generation that goes back to 1958; it's for the
21 delivery of Lake St. Joseph return energy. It's a very
22 small contract but it's -- it is a long-term contract.

23 MR. BOB PETERS: Without getting deeply
24 into that one, Mr. Cormie, that's in exchange for their
25 managing a reservoir in a certain capacity we -- Manitoba

1 Hydro provides them with energy?

2 MR. DAVID CORMIE: Yes. The -- the --
3 Ontario diverts water into the Winnipeg River for the
4 benefit of Manitoba Hydro. And in exchange for that
5 water we return to them half of the energy that's
6 generated from that water on the Winnipeg River to
7 Ontario.

8 MR. BOB PETERS: Are you able to put on
9 the public record the -- the volume of that transaction
10 in the last -- each of the last two (2) years?

11 MR. DAVID CORMIE: On an annual basis
12 it's -- under average flows it's around 88,000 megawatt
13 hours.

14 MR. BOB PETERS: Now, even though the --
15 the -- the other sales you make to Saskatchewan, Ontario,
16 and Alberta, are considered opportunity sales, you do
17 have the ability then to make them into -- into firm
18 sales or dependable sales.

19 Is that correct?

20 MR. DAVID CORMIE: Yes. And we've had a
21 long history of trade with Saskatchewan and Ontario that
22 has involved some major long term sales. The -- the last
23 one was a 200 megawatt sale for five (5) years that began
24 in 1988 and went for five (5) years. That was a firm
25 power sale.

1 MR. BOB PETERS: To which province?

2 MR. DAVID CORMIE: That was wi -- to
3 Ontario.

4 MR. BOB PETERS: That contract is
5 expired?

6 MR. DAVID CORMIE: That's correct.

7 MR. BOB PETERS: It hasn't been renewed?

8 MR. DAVID CORMIE: No, it hasn't.

9 MR. BOB PETERS: And there are no plans
10 for -- that you can indicate now with a firm -- firm
11 sales to Saskatchewan, or Ontario, or Alberta?

12 MR. DAVID CORMIE: We continue to be in
13 discussions with Ontario and with Sask Power over long
14 term sales, but there -- there have been no signed term
15 sheets or agreements yet.

16 MR. BOB PETERS: Is that a polite way of
17 saying Manitoba Hydro is ready, willing, and able, but
18 the counterparty hasn't yet come to the same position?

19 MR. DAVID CORMIE: What -- what I can
20 say, Mr. Peters, is that -- that we've been in
21 discussions with those companies and we were able to come
22 to deals -- better deals, I believe, with US companies
23 that made it much more difficult for us to offer to

24 Saskatchewan and Ontario a product that was equivalent to

25 MR. BOB PETERS: And right. Thank you. Mr. Cormie, in some

1 jurisdictions in which you sell your energy by way of
2 written contract, do those contracts make their way
3 physically to the public record in those jurisdictions?

4 MR. DAVID CORMIE: I believe in the -- in
5 -- in Minnesota, contracts -- redacted contracts get
6 filed in the public record, yes.

7 MR. BOB PETERS: All right. You
8 qualified your answer by indicating redacted contracts
9 are filed; does that answer suggest then that the
10 pertinent information on pricing is -- is abridged?

11 MR. DAVID CORMIE: That's -- that's
12 correct. There -- there may be some other commercially
13 sensitive terms and conditions associated with the
14 valuation of the contract that are -- that are -- that
15 are redacted. But it is mostly a price issue.

16 MR. BOB PETERS: Is the un-redacted
17 contract filed in confidence with the Minnesota
18 regulator, do you know?

19 MR. DAVID CORMIE: I can't answer that
20 with certainty, no.

21 MR. BOB PETERS: Has Manitoba Hydro ever
22 been asked if it would provide permission for its
23 contracts to be publicly disclosed in jurisdictions other
24 than Manitoba?

25 MR. DAVID CORMIE: Would you repeat that

1 please?

2 MR. BOB PETERS: Has Manitoba Hydro been
3 requested to provide permission to allow a contract
4 involving Manitoba Hydro to be put on the public record
5 in a jurisdiction other than Manitoba?

6 MR. DAVID CORMIE: Generally one (1) of
7 the terms in the contract is that, where required by a
8 regulator to file a contract, that is -- that is a reason
9 for -- for -- for filing, we accept that. And we're --
10 the contract just requires the filing utility to notify
11 Manitoba Hydro that that's going to take place.

12 MR. ROBERT MAYER: Is that the same for
13 Manitoba Hydro dealing with -- if we required you to file
14 the contracts, would that same clause apply to you?

15

16 (BRIEF PAUSE)

17

18 MR. DAVID CORMIE: I can't speak to
19 whether the Public Utility Board has jurisdictions over
20 Manitoba Hydro's contract. I can say that the National
21 Energy Board clearly has jurisdiction and if -- were the
22 National Energy Board requiring Manitoba Hydro to file
23 the contract, we would do so.

24 MR. ROBERT MAYER: Thank you.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Cormie, has Manitoba
3 Hydro received notification from a counterparty's
4 jurisdiction that the contract is going to be placed on
5 the public record?

6 MR. DAVID CORMIE: Not in an un-redacted
7 form.

8 MR. BOB PETERS: So any notifications
9 that Manitoba Hydro gets is that the contract will be put
10 on the public record, but it will have sensitive
11 commercial -- commercially sensitive information,
12 including price, redacted?

13 MR. DAVID CORMIE: That's correct.

14 MR. BOB PETERS: Is there any objection,
15 and I asked this of your -- of your panel colleagues
16 yesterday, as to whether or not there would be any
17 objection on the part of Manitoba Hydro to file on the
18 Manitoba record, that information that appears on the
19 public record in a counterparty's jurisdiction?

20 I don't have -- I don't have access --

21 MR. DAVID CORMIE: I believe anything
22 that's in the public record could be made available to
23 this Board. We -- we -- are concerns will have already
24 been dealt through the -- through the redact -- I'm not
25 sure this is a word, redactation.

1 MR. BOB PETERS: You're allowed to make
2 them up today.

3 Mr. Cormie, another area yesterday where I
4 had some questions, was to deal with the pricing that is
5 used in this application to -- by Manitoba Hydro to
6 propose its new Energy Intensive Industry Rate. In a
7 book of documents which hopefully someone saved you a
8 copy, at Tab 9 -- sorry, Tab 8 of the book of documents,
9 on page 8-1, the very first page, is set out an extract
10 from Manitoba Hydro's application. And it talks about
11 determining the energy rate and the proxy to be used for
12 marginal cost, is the average price of extraprovincial
13 sales during the previous two (2) fiscal years.

14 You're aware of that?

15 MR. DAVID CORMIE: I am.

16 MR. BOB PETERS: And in the application,
17 Manitoba Hydro suggest that the average of the two (2)
18 years of extraprovincial sales was fifty-five dollars and
19 twenty-seven cents (\$55.27) per megawatt hour, or to my
20 way of thinking, five point five three (5.53) cents per
21 kilowatt hour.

22 And that's Manitoba Hydro's evidence, sir?

23 MR. DAVID CORMIE: It is.

24 MR. BOB PETERS: Now when we want to
25 explore where that number fifty-five dollars and twenty-

1 seven cents (\$55.27) per megawatt hour comes from, a lot
2 of fingers pointed your way in your absence, according to
3 my recollection, and in essence suggested that that
4 pricing information came from essentially your
5 department.

6 Would you agree with that?

7 MR. DAVID CORMIE: Yes. We keep the
8 records for all transactions and it would have been
9 derived from -- from those records.

10 MR. BOB PETERS: And other than Manitoba
11 Hydro telling us that on -- on page 8.1 in the book of
12 documents, we'd have no way of knowing whether that was
13 true or not.

14 Do you agree?

15 MR. DAVID CORMIE: Yes, you would have to
16 take our word for it. However, I would say that the
17 auditors are my best friends these days and they -- they
18 -- the -- because the export sales are such a huge volume
19 of dollars for Manitoba Hydro, it take -- it receives
20 lots of scrutiny and -- and they're audited and I have no
21 doubt that they are correct.

22 MR. BOB PETERS: I -- I appreciate that
23 answer and I don't want you to take from my questioning
24 the doubting of the veracity of the information, or your
25 belief in it.

1 But in terms of it -- in terms of this
2 number being transparent or available for others to -- to
3 look at and decipher on their own, that wouldn't be
4 possible, would it?

5 MR. DAVID CORMIE: No, because the
6 pricing is -- is very complicated, and I'm sure you've --
7 you're aware of that. Even where we filed the
8 information with the National Energy Board, and it's in
9 the public domain, that information doesn't necessarily -
10 - isn't -- isn't necessarily transparent. It -- it's not
11 obvious from looking at those numbers whether -- what are
12 the firm prices for the contract and what -- when -- and
13 -- and whether there's other sales taking place in --
14 under those contracts that aren't associated with the
15 delivery of firm energy.

16 And I -- I think an example of that, Mr.
17 Peters, is that under contracts, let's assume it's a
18 dependable contract, there is a fixed quantity of power
19 and energy that is being sold at the firm price. In
20 addition to that, customers have the choice of purchasing
21 additional energy at market prices under that contract.
22 And all those energy sales would show up under that
23 National Energy Board licence and -- and then would end
24 up being a blended price.

25 And I -- I think if you turn to that table

1 that's on page 8.4 of your book of documents, you'll see
2 an example of that, where we're showing winter off-peak
3 sales under dependable energy sales of seventeen dollars
4 (\$17) a megawatt hour.

5 Those are where customers chose to buy
6 market-priced energy from Manitoba Hydro under their
7 dependable contract, and it ends up getting thrown in to
8 that dependable contract pool. And although it's not the
9 fixed firm price for the energy, it is -- it is being
10 sold under the dependable energy contract.

11 So that's why you have to -- you have to --
12 - I can't say that it's -- it's not necessarily that
13 clear what the -- what the prices are. You have to be
14 very familiar with what's going on with each and every
15 contract.

16 MR. BOB PETERS: Thank you, Mr. Cormie.
17 You mentioned the word "auditor;" are those auditors you
18 talk about internal auditors or are they external
19 auditors?

20 MR. DAVID CORMIE: They're both.

21 MR. BOB PETERS: Do I take from that
22 answer, and Mr. Warden can help me if -- if needed, that
23 your auditors understand these contracts so intimately
24 that they can determine which sales are firm, which are
25 opportunity and how to decipher the pricing codes in the

1 contracts?

2 MR. DAVID CORMIE: I provide the auditors
3 the information that they require. I'm -- I'm not -- I
4 can't speak to whether they -- they know what they're --
5 I'm assuming they know what they're looking for. But we
6 get tested and that's the process and we supply them the
7 information they want.

8 MR. BOB PETERS: Oh, that's a fair answer
9 and I -- I don't want you to speculate as to what your
10 auditors know or don't know. That was improper.

11 My -- my point is you've -- you've
12 acknowledged these are complicated contracts. You've now
13 explained to the Board, and I think the Board appreciates
14 your showing them on the book of documents, which
15 yesterday we marked as PUB Exhibit Number 8, and Tab 8,
16 page 8.4, that you had some -- some winter off-peak sales
17 at one point seven (1.7) cents a kilowatt hour, correct?

18 MR. DAVID CORMIE: That's correct.

19 MR. BOB PETERS: Was -- do you consider
20 that -- that sale as a firm energy sale? You do, don't
21 you? It's included in your dependable column.

22 MR. DAVID CORMIE: It is a -- it is being
23 sold under -- out of -- under a dependable energy
24 contract. But I -- but I think that there is a fine
25 distinction to be made between what we were required to

1 sell in that price, and what is an opportunity sale at --
2 under that contract, where the customer can come to us
3 and say: We hold this transmission position with you,
4 we'd like to use it to purchase some energy from you at
5 market prices.

6 And -- and we're getting -- we're getting
7 a market price; it's not a price that's dictated in the
8 contract; it's not a long-term forward fixed price; it is
9 the price that is being -- of energy that's being sold at
10 that time. And that customer would rather take delivery
11 of that under the contract using the transmission
12 reservation that's available, in order to either provide
13 more reliable delivery or to save some transmission
14 service charges.

15 MR. BOB PETERS: I'm going to jump ahead
16 in my thought process. But an -- but a question
17 yesterday that I had of your panel in your absence was
18 whether or not the Tab 8, page 8.1, calculation was the
19 correct calculation when it comes up with the five point
20 five three (5.53) cents a kilowatt hour.

21 And then I drew your panel-mates attention
22 to the very document you mentioned, that's page 8.4,
23 which showed that there were different dependable energy
24 sales, and in the far right-hand column under Total
25 Dependable, and the two (2) year dollars per megawatt

1 hour shows as fifty four dollars and sixteen cents
2 (\$54.16) per megawatt, correct?

3 MR. DAVID CORMIE: I -- I see the fifty-
4 four sixteen (54.16) yes.

5 MR. BOB PETERS: And my suggestion
6 yesterday, or at least I was quizzing the panel on:
7 Well, if that's the two (2) year average price that
8 you've broken down, why is it on page 8.1 that you're
9 suggesting it should -- the -- the rate that's being
10 charged should be based on fifty five dollars and twenty
11 seven cents (\$55.27), instead of fifty four dollars and
12 sixteen (\$54.16)?

13 Do you understand my question?

14 MR. DAVID CORMIE: Well, the -- the fifty
15 four dollars and sixteen cents (\$54.16) includes some
16 energy that was delivered in the off-peak that is not a
17 firm price.

18 MR. BOB PETERS: And --

19 MR. DAVID CORMIE: And I -- I believe I'm
20 correct in saying this. We have no long term firm off --
21 fixed priced off-peak obligations, so there shou -- there
22 -- that -- although that table shows dependable energy
23 sales -- off-peak winter and off-peak summer, those
24 prices are not fixed firm forward prices. Those
25 represent current market prices.

1 And -- and because they are significantly
2 lower then the average, they will drive the average down
3 to fifty-four sixteen (54.16). The av -- the -- if you
4 were to unwind those calculations and just look at the --
5 at the on-peak firm prices, you would get a number above
6 the fifty-four sixteen (54.16).

7 MR. BOB PETERS: Thank you, Mr. Cormie.
8 And I think you're explaining what your colleagues
9 perhaps were wanting the Board to hear yesterday. And
10 even though the proxy is based on the historic two (2)
11 year average firm export price averages, those averages,
12 now we find, don't include any firm off-peak sales,
13 either in winter or in summer, correct?

14

15 (BRIEF PAUSE)

16

17 MR. DAVID CORMIE: I'd have to defer that
18 to Mr. Wiens. I'm not sure what -- what -- I -- I'd rely
19 on him to tell us what's in that other number.

20 MR. BOB PETERS: Okay, well that's fair.
21 You're -- you're simply indicating that under dependable
22 flow conditions, Manitoba Hydro has made, and continues
23 to make, off-peak sales that are pursuant to a market
24 price, not a negotiated price.

25

1 MR. DAVID CORMIE: There -- you -- you
2 use the words "under dependable flow conditions;" under
3 dependable contracts there are no firm obligations, but
4 we -- customers do have the opportunity of purchasing
5 off-peak energy under those contracts, and they -- those
6 prices end up going into the dependable energy sales
7 calculation.

8 MR. BOB PETERS: Mr. Cormie, under each
9 contract that you have, is Manitoba Hydro obligated to
10 sell at market price for non-firm energy? Is that a
11 condition and term of the contracts?

12 MR. DAVID CORMIE: That is -- that is a
13 usual term in -- in the contract. Generally the
14 contracts have two (2) types of energy: one (1) is -- is
15 the guaranteed energy that -- that Manitoba Hydro must
16 provide and the customer must purchase; and then there's
17 an opportunity for what's called supplementary energy,
18 which is for the delivery of additional energy outside
19 the hours that are specified -- outside the five (5) by
20 sixteen (16) hours.

21 And the reason that is, is that customers
22 have bought not only energy but they've bought capacity,
23 and the capacity is the right to take energy at any time.
24 In the -- but in -- in those hours when supplementary
25 energy is offered it's at a price determined by Manitoba

1 Hydro.

2 So if -- if Manitoba Hydro is in the
3 position of -- of selling energy to the market at that
4 time, we would show it to the customer in market price.
5 If we were under dependable flow conditions and the
6 customer asked for supplementary energy, we would price
7 it so that they -- that buying it from Manitoba Hydro
8 wouldn't be an economic choice they would make. But they
9 could if they -- if, you know, we would say market price
10 is a hundred dollars, our price today is two hundred
11 dollars (\$200), why would you buy it from Manitoba Hydro
12 under those prices.

13 So we have the choice. We can, in effect,
14 control the delivery of supplementary energy, but because
15 the customer needs to be able to say at all times he has
16 access to energy under the contract and -- and this gives
17 them access except under those extremely low flow
18 conditions.

19 MR. BOB PETERS: Thank you for that, Mr.
20 Cormie. And -- and that access to energy -- the
21 supplementary energy access is because the customer
22 already has the capacity on the transmission that may not
23 be -- being utilized for the guaranteed energy.

24 Would that be correct?

25 MR. DAVID CORMIE: Not only does he --

1 does it -- are the transmission arrangements in place
2 twenty-four (24) hours a day, but the -- the capacity is
3 there twenty-four (24) hours a day.

4 And so what Manitoba Hydro's done is sold
5 the customer the right to call that unit or that -- that
6 power purchase as a resource and that resource is
7 available all the time. And so that, you know, in effect
8 we've -- we've committed to providing that -- providing
9 an alternative to that customer building another
10 generating station.

11 So in the case of a -- the 500 megawatt
12 sale that we're currently in place with Xcel Energy, that
13 deferred the construction of a generating station in
14 Minnesota. And -- and that -- the customer wants the
15 ability to buy energy as he would operate his own
16 generating station twenty-four (24) hours a day. The
17 contracts obligate them to buy it at -- at least for the
18 five (5) by sixteen (16) hours and pay the fixed -- the
19 price that's determined, and that's what we call the firm
20 price.

21 But generally, they -- they expect that
22 there will be energy available in other hours if -- if we
23 can come to agreement on the pricing terms.

24 MR. BOB PETERS: I appreciate that. And
25 actually your -- you last few words are the point I want

1 to focus on, is the only reason the customer would --
2 would buy the supplementary energy is if Manitoba Hydro's
3 price was competitive with the market price that they
4 could get elsewhere.

5 MR. DAVID CORMIE: Yes. That as well as
6 if the -- if the delivered energy cost was better than
7 their alternative. And the energy -- the -- the
8 delivered energy cost is the cost of the energy that
9 Manitoba Hydro sells, plus the cost of transmission
10 service charges and market charges.

11 And so if -- under -- for example, under a
12 dependable energy contract there's transmission that's
13 already been bought and paid for, and so there are no
14 additional market charges associated with using that
15 transmission. And so a customer may choose to buy energy
16 under that transmission because he -- he's still getting
17 the energy at a market price but he's saving on the
18 transmission charges. So, in effect, his delivered cost
19 is less.

20 And -- and so to the extent that they own
21 the -- they own the transmission capacity, have the
22 rights to it, they'll want to use it, and -- and because
23 they bought and paid for that. It's a sunk cost and now
24 they're able to save on the incremental transaction
25 charges.

1 MR. BOB PETERS: Thank you, Mr. Cormie.
2 Recognizing it's the delivered cost that's going to be
3 important to the counterparty, the counterparty will then
4 do the calculation based on not only Manitoba Hydro's
5 supplementary available energy price, but take into
6 account any competitor's price and the transmission
7 related to a competitive offering in weighing their
8 options, correct?

9 MR. DAVID CORMIE: That's correct.

10 MR. BOB PETERS: And your point is, the
11 customer under these arrangements with Manitoba Hydro
12 because of the guaranteed take or pay provisions, as I
13 call them, at the firm price, they're also having the
14 transmission capacity available to them twenty-four (24)
15 hours a day. And if they can use it to their financial
16 advantage they will buy from Manitoba Hydro at Manitoba
17 Hydro's price. Alternatively, they will go to the market
18 for another source.

19 MR. DAVID CORMIE: And that's correct.
20 One (1) additional factor is that the long-term firm
21 transmission arrangements is firm transmission. Whereas
22 if they were to take it from us on a spot market basis
23 using non-firm transmission, there's a risk that the
24 transaction could be curtailed if there were transmission
25 problems.

1 So there's a preference to use the firmest
2 transmission supply available, which is the transmission
3 that's available under the firm contract. And so not
4 only is there price -- pricing reasons but there's
5 reliability -- are reasons and that's what they -- that's
6 what incents customers to use those transmission service
7 arrangements.

8 MR. BOB PETERS: Thank you, Mr. Cormie.
9 Still sticking with page 8.4. When the Board looks at
10 that chart on 8.4 and looks at the dependable energy
11 sales, are there any dependable energy sales included in
12 the top half of that schedule that are to the province of
13 Ontario, Saskatchewan or Alberta?

14

15 (BRIEF PAUSE)

16

17 MR. DAVID CORMIE: I'll have to check on
18 this, Mr. Peters. I -- I believe the Ontario Lake St.
19 Joseph contract is in -- in the winter -- in the off-peak
20 calculation, but I'll have to check and confirm that for
21 you.

22 MR. BOB PETERS: All right. If it's in
23 the off-peak calculation, Mr. Cormie, it's your advice to
24 Mr. Wiens that he not use that information in calculating
25 the two (2) year average firm price.

1 Is that correct?

2 MR. DAVID CORMIE: It would understate
3 the average price if the off-peak were included.

4 MR. BOB PETERS: While you used the words
5 "it would understate" the price, what it would do is it
6 would bring down the average of the peak prices, correct?

7 MR. DAVID CORMIE: Yes, I agree with
8 that.

9 MR. BOB PETERS: But you will also agree
10 that it is all considered dependable energy sales, from
11 dependable resources?

12 MR. DAVID CORMIE: No, the volumes that
13 are being -- in the off-peak will include some non-
14 dependable energy sales. They are -- but they are --
15 they're not coming from dependable resources, but they
16 are being sold under a dependable contract.

17 MR. BOB PETERS: Let me see if I
18 understand that. Even though you have on the top part of
19 the chart on page 8.4 of the book of documents, you have
20 some off-peak sales, both winter and summer, you're now
21 indicating that some of those are from non-dependable
22 resources.

23 Have I got that correct?

24 MR. DAVID CORMIE: Yes, as we discussed a
25 few minutes ago, Mr. Peters, the customer has the choice

1 of -- of taking additional energy under the depend --
2 under the dependable contract. But that energy is not
3 considered to be dependable energy. It is -- it is non-
4 dependable energy but it is being sold under the
5 dependable energy contract.

6 MR. BOB PETERS: Thank you. No, I
7 understand your point. And the only reason it's then on
8 the top half of the chart on page 8.4, not the bottom
9 half of the chart, is because it is tied up under the
10 dependable contract; that's the genesis of giving the
11 counterparty the right to acquire the power. But that
12 doesn't indicate how it's going to be provided, whether
13 it's dependable resource or an -- an opportunity
14 resource.

15 MR. DAVID CORMIE: You're correct.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Mr. Wiens, we're going
20 to give Mr. Cormie just a short break here. While we're
21 still on page 8.4, he politely pointed fingers back at
22 you, indicating that in coming to the calculation on page
23 8.1 of fifty-five dollars and twenty-seven cents (\$55.27)
24 per megawatt hour, the Board will see on page 8.2 of the
25 book of documents, Manitoba Hydro's derivation of the two

1 (2) input numbers for that calculation under the firm
2 export sales. And that's on PUB-14C which is at page 8.2
3 of the documents, sir.

4 MR. ROBIN WIENS: Yes?

5 MR. BOB PETERS: And the firm export
6 sales, or the top two (2) numbers, and those numbers,
7 sir, are not the numbers that come from the top half of
8 page 8.4.

9 Is that correct?

10

11 (BRIEF PAUSE)

12

13 MR. ROBIN WIENS: Yes, they're close, but
14 they're not the same.

15 MR. BOB PETERS: All right. Then maybe
16 you can explain to the Board where Manitoba Hydro derived
17 the firm export sales revenue numbers and gross energy
18 sales numbers to get a unit price?

19

20 (BRIEF PAUSE)

21

22 MR. VINCE WARDEN: Mr. Peters, for
23 purposes of reporting our export sales numbers internally
24 at Manitoba Hydro, for management reporting purposes we
25 do break the export sales down into long-term sales and

1 short-term spot sales.

2 There are a number of adjustments that go
3 into that calculation -- foreign currency-type
4 adjustments, for example -- that have an impact on the
5 amount that's reported internally. The number that Mr.
6 Wiens derived, the fifty-five point three (55.3) or
7 fifty-five dollars and twenty-seven cents (\$55.27) per
8 megawatt hour, was sourced from that internal reporting
9 system -- internal management reporting system, which as
10 we've been discussing isn't identical to the chart found
11 at 8.4, but it's mainly due to those miscellaneous
12 adjustments that affect the revenue number and the split
13 that we -- we have between long-term and short-term sales
14 for internal reporting purposes.

15 So the number that Mr. Wiens derived was
16 simply taken from that management system that we use at
17 Manitoba Hydro, and he has averaged those -- the two (2)
18 years to come up with the fifty-five twenty-seven (55.27)
19 per megawatt hour.

20 MR. BOB PETERS: Mr. Warden, are you
21 aware in the miscellaneous adjustments that are made,
22 whether the winter off-peak and the summer off-peak
23 values shown on the top half of page 8.4 are removed, or
24 not removed?

25

1 MR. VINCE WARDEN: I believe they are
2 included, so they're not removed.

3 MR. BOB PETERS: All right.

4

5 (BRIEF PAUSE)

6

7 MR. BOB PETERS: Mr. Warden, I appreciate
8 they're internal management system documents. Is there
9 an ability to reconcile from what we have on page 8.4, to
10 take us to what we have on -- on pages 8.1 and 8.2 of the
11 book of documents?

12 MR. VINCE WARDEN: Yes, we can do that.

13 MR. BOB PETERS: And can you spell out
14 for the Board the -- the -- I think you mentioned foreign
15 exchange is an adjustment and also some other
16 miscellaneous adjustments.

17 MR. VINCE WARDEN: That's right.

18 MR. BOB PETERS: And you -- you can show
19 the Board where that came from?

20 MR. VINCE WARDEN: Yes, we can do that.

21 MR. BOB PETERS: Okay.

22 MR. VINCE WARDEN: We'll do that. We'll
23 take that as an undertaking.

24 MR. BOB PETERS: Thank you very much,
25 sir. I think that'll be helpful.

1 --- UNDERTAKING NO. 3: Manitoba Hydro to reconcile
2 the information on PUB MH 1-
3 14(c) Supplementary with the
4 price of 5.53 cents and
5 explain any foreign exchange
6 adjustment and any other
7 adjustments
8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: Mr. Wiens, you've --
11 once we see -- and we have your total numbers of the
12 fifty-five twenty-seven (55.27) per megawatt hour as the
13 average two (2) year price for firm extraprovincial
14 sales, from that number there's no dispute that there has
15 still has to be a demand charge backed out of that
16 number?

17 MR. ROBIN WIENS: That's correct.

18 MR. BOB PETERS: All right. We'll --
19 we'll come to that.

20 Mr. Cormie, you -- you foreshadowed book
21 of documents Tab 9 in one (1) of your previous answers to
22 me. The information in the book of documents at Tab 9,
23 sir, it's my understanding it comes from National Energy
24 Board reports.

25 Is that your, likewise, understanding?

1 MR. DAVID CORMIE: Yes, those are the --
2 that's the information that Manitoba Hydro is required to
3 file monthly with the National Energy Board.

4 MR. BOB PETERS: And both yourself and
5 your colleagues yesterday, sir, were -- were putting a
6 caveat forward to -- to the Board to say that that
7 information that's on the public record isn't
8 transparent, necessarily, as to what Manitoba Hydro's
9 actual sales results are in the various contracts.

10 Would that be true?

11 MR. DAVID CORMIE: Yes, I think that's
12 true. And it's -- it's true because of the issue of the
13 delivery and sale of supplementary energy under the
14 contract, that is above and beyond the firm fixed price
15 obligation that Manitoba Hydro has. And -- and so there
16 -- there may be more energy and more dollars reported
17 than is the minimum required under the contract, which
18 would be the firm portion of it.

19 MR. BOB PETERS: So there's no -- there's
20 no doubt that the firm portion of the contracts are
21 reported, but on top of that maybe some of the
22 supplementary sales revenue as well.

23 MR. DAVID CORMIE: And the megawatt hours
24 associated in addition to the revenue -- in addition to
25 the revenue, yeah.

1 MR. BOB PETERS: Yes, under the -- under
2 the volumes it'll -- it'll show -- it'll show -- it'll be
3 a blended number for both dollars and megawatts.

4 MR. DAVID CORMIE: Total vol -- total
5 volume of megawatt hours, the revenue from the energy
6 sales, plus the demand charge.

7 MR. BOB PETERS: Would it reflect from
8 the counterparties' perspective their true receipt and
9 dollars amount that they've paid to Manitoba Hydro?

10 MR. DAVID CORMIE: Absolutely.

11 MR. BOB PETERS: It just won't, for
12 Manitoba Hydro's portion, set out which portion was part
13 of the firm con -- or the dependable contract, as you've
14 called it, and which may have been under the
15 supplementary?

16 MR. DAVID CORMIE: That's correct.

17 MR. BOB PETERS: I note in columns 1, 2,
18 and 3 on page 1 of 5 of the book of documents, Tab 9,
19 which is PUB-14C -- sorry -- to use Ms. Ramage's eyes --
20 14E, the -- the contract appears in a price range --

21 MR. DAVID CORMIE: Could you give that
22 reference again, please?

23 MR. BOB PETERS: I'm sorry, it's the
24 first page in the book of documents under Tab 9.

25 MR. DAVID CORMIE: Yes, okay.

1 MR. BOB PETERS: And it looks to me it's
2 fourteen (14) -- PUB/Manitoba Hydro-14E.

3 MR. DAVID CORMIE: Yes.

4 MR. BOB PETERS: If we flip ahead to page
5 3 of 5, we see that those -- the pricing for those first
6 three (3) columns on a unit price basis is in the range
7 of, you know, five (5) to nine (9) cents a kilowatt hour,
8 Mr. Cormie?

9

10 (BRIEF PAUSE)

11

12 MR. DAVID CORMIE: I'll agree with that.

13 MR. BOB PETERS: And if we look
14 specifically at the first column prices, as found on page
15 3 of 5 of the document at Tab 9 of the book of documents,
16 it strikes me that the first column prices are -- are
17 significantly higher than the prices in -- in the second
18 and third -- contracts listed under the second and third
19 columns.

20 Do you also agree with that?

21 MR. DAVID CORMIE: I do.

22 MR. BOB PETERS: Can you explain to the
23 Board what the reason for that is; why the -- that price
24 would be so much higher then the other two (2) prices.

25

1 (BRIEF PAUSE)

2

3 MR. DAVID CORMIE: These three (3)
4 contracts are long-term firm transactions that were
5 entered into several years ago. The contracts have
6 different escalators associated with them.

7 The -- the first contract, part of that
8 escalator includes a natural gas escalator. And as a
9 result of the very high costs of natural gas, the export
10 price reflects a much higher price than the other two (2)
11 contracts.

12 MR. BOB PETERS: Thank you for that
13 explanation. Are natural gas escalators included in more
14 current contracts from these long-term historical ones
15 that you've identified?

16 MR. DAVID CORMIE: Given the recent
17 history of natural gas volatility, customers are very
18 reluctant to have natural gas escalators in their
19 contracts.

20 MR. BOB PETERS: I'm not sure how far I
21 can go with you, Mr. Cormie. And I do want to protect
22 and -- and respect the commercial sensitivities and I
23 have your answer.

24 Manitoba Hydro would like to have
25 escalators that are tied to an alternate fuel that might

1 be on the margin for some of these companies such as
2 natural gas and your counter parties are reluctant to --
3 to go there, so, it's a matter of negotiation.

4 MR. DAVID CORMIE: It is and especially
5 on these -- on long-term contracts. Generally, customers
6 want to tie it to an inflation indicator like the GDP
7 deflator for the US. And over the long run, that is a --
8 is -- tracks power prices very well. It -- it doesn't
9 have the volatility that natural gas prices do but it --
10 it serves us well and -- and that's where customers are
11 really -- they -- they want a product that, you know,
12 tracks inflation and -- and we're -- we're comfortable
13 negotiating something around -- around inflation.

14 MR. BOB PETERS: Mr. Cormie --

15 MR. DAVID CORMIE: And the use of -- of
16 natural gas escalator, it all depends on where natural
17 gas is at at the time and if we were to negotiate a
18 contract that had a natural gas escalator in it last
19 summer when natural gas was very high or last winter,
20 really, the only place natural gas can go is down. So it
21 -- it depends on where you are in the natural gas cycle
22 whether you really want to have natural gas as part of
23 your escalator.

24 So it's -- it all depends on the point in
25 time; you're discussing that in your negotiations whether

1 it's good to have gas or not in the -- in the index.

2 MR. BOB PETERS: Thank you, Mr. Cormie.
3 On page 2 of 5 of the document at Tab 9 of the book of
4 documents there are some listings of contracts again in
5 columns.

6 And I take it that these EPE followed by a
7 number are codes for the various written contracts that
8 Manitoba Hydro has with counter parties?

9 MR. DAVID CORMIE: These -- these are the
10 -- the licence numbers that the National Energy Board
11 assigns to the -- the contract. It's like your driver's
12 licence number; it's assigned by the regulator.

13 MR. BOB PETERS: On page 2 of 5 I take it
14 the Board would be looking at summer sales on that
15 specific page; is that correct?

16 MR. DAVID CORMIE: Yes, you'll notice
17 under EPE-33 there are deliveries only in the months of
18 June and July in 2005, August and September in 2006 and
19 July, August, and September of 2007. This contract gives
20 the customer the right to purchase a fixed quantity of
21 energy in the summer season from May 1st to the end of
22 October.

23 The customers chooses to schedule it in
24 the months of the summer when their peak demand occurs so
25 that they get maximum value for the purchase, but

1 Manitoba Hydro has the right to limit deliveries to a 20
2 percent capacity factor in that contract and so they want
3 to concentrate it in the -- in the months where it will
4 do them the best or do them the most value.

5 The contract 34, similar things although
6 the customer there is entitled to choose -- is choosing
7 to take some market priced energy as well under that
8 contract and -- and so you can see that the -- the
9 deliveries are spread out over a longer period of time.

10 MR. BOB PETERS: And I see that the
11 licence number EPE-45 and EPE-46, those are -- those have
12 been discontinued?

13 MR. DAVID CORMIE: EPE-45 and 46 were
14 Manitoba Hydro's general permits. EPE-45 was our permit
15 to sell firm power, and EPE-46 was to sell interruptible
16 power.

17 And -- and that's different from
18 dependable and opportunity. All -- under an opportunity
19 sale, you can sell firm power, and so there will be some
20 -- there will be some short term firm sales, as opposed
21 to long term firm sales under EPE-45.

22 Our general permit expired in -- at the
23 end of October in 2005 and it was renewed, and it was
24 replaced with EPE-268 and EPE-269, which is our new
25 generic permits. And those permits go until the end of

1 October 2010.

2 And so unless -- unless the energy is
3 actually being sold under a contract that we receive
4 National Energy Board approval, all other contracts
5 will default to those two (2) permits, the general
6 permits. And we just have to classify on whether it's a
7 sale of firm power, or what the National Energy Board
8 calls interruptible power.

9 MR. BOB PETERS: If it's a sale of firm
10 power, is -- is that the same definition that Manitoba
11 Hydro uses?

12 MR. DAVID CORMIE: Firm power can be sold
13 out of dependable resources or non-dependable resources,
14 and so that's a different definition. We would -- it can
15 be firm for a summer but that doesn't mean that -- that
16 we have built resources or the customer has deferred --
17 deferred the construction of resources. Whereas
18 generally we would -- we would use the term "dependable"
19 when it affects the development sequence of either the
20 supplier or the -- or the purchaser.

21 MR. BOB PETERS: You can't tell, Mr.
22 Cormie, from looking at these documents whether the
23 summer sales, for example, in the first three (3) columns
24 on page 2 of 5, were included in the firm contract
25 average pricing used by Mr. Wiens and Mr. Warden?

1 MR. DAVID CORMIE: Columns 2 -- 1 and 2
2 on page 2 of 5?

3 MR. BOB PETERS: Yes, and column 3, as
4 well.

5 MR. DAVID CORMIE: They will be included
6 in the -- in the dependable energy sales, yes.

7 MR. BOB PETERS: All right. So they --
8 they were out of dependable resources, as defined
9 Manitoba Hydro?

10 MR. DAVID CORMIE: That's correct.

11 MR. BOB PETERS: And, Mr. Wiens and Mr.
12 Warden, in terms of the price, that is the proxy for the
13 rate that is before the Board, when it comes out of firm
14 energy, you're using the Manitoba Hydro definition, as
15 opposed to the National Energy Board definition.

16 Would I have that correct?

17 MR. ROBIN WIENS: That's correct.

18 MR. BOB PETERS: Thank you, sir. Mr.
19 Cormie, while we're still on Tab 9, if we look to the
20 column under EPE permit number 24 -- no, I'm sorry, 224 -
21 - it's about the third column from the right-- that
22 appears to be a fairly significant large firm export
23 contract, correct?

24 MR. DAVID CORMIE: Yes, that's correct.

25 MR. BOB PETERS: Probably in the range of

1 200 -- sorry, 2,000 mega -- gigawatt hours a year?

2

3 (BRIEF PAUSE)

4

5 MR. DAVID CORMIE: That is the NSB 500
6 megawatt sale, and there is approximately 2,300 gigawatt
7 hours a year, yes.

8 MR. BOB PETERS: And that's approximately
9 60 percent of the total firm exports that Manitoba Hydro
10 makes?

11 MR. DAVID CORMIE: That sounds
12 reasonable.

13 MR. BOB PETERS: And it's also about -- I
14 guess, for the '06/'07 year, it was about \$9 to \$10
15 million a month that Mr. Warden saw yielded from that
16 contract?

17 MR. DAVID CORMIE: That's correct.

18 MR. BOB PETERS: And an average price
19 would have been probably in the range of five point eight
20 (5.8) cents a kilowatt hour?

21

22 (BRIEF PAUSE)

23

24 MR. DAVID CORMIE: I'm looking at page 3
25 of 5, Mr. Peters, in the fourth column, and that

1 indicates recent lay prices in the range of five and a
2 half (5 1/2) cents -- five (5) to five and a half (5 1/2)
3 cents a kilowatt hour, yes.

4 MR. BOB PETERS: And that -- that's for
5 the -- both the '06/'07 year, plus the '07/'08 year?

6 MR. DAVID CORMIE: That's correct.

7 MR. BOB PETERS: And that approximate
8 five point five (5.5) cents includes both energy and
9 demand charges?

10 MR. DAVID CORMIE: That does.

11 MR. BOB PETERS: And because this
12 contract appears to be approximately 60 percent of the
13 total firm exports of Manitoba Hydro, this contract would
14 have substantial influence on the average export price of
15 energy, would it not?

16 MR. DAVID CORMIE: It would.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: In the column of 224 EPE
21 permit number, are you able to put on the record as to
22 what is the firm component of that sale, of that
23 approximate 2,000 gigawatt hours a year? Or is it all
24 firm?

25

1 (BRIEF PAUSE)

2

3 MR. DAVID CORMIE: Under that contract,
4 the customer has the opportunity to buy supplementary
5 energy. If there was supplementary energy sold in any
6 particular month, it would reflect in the average --
7 average price. I believe the vast majority of the energy
8 that is sold there though, is the -- is the guaranteed
9 energy, and -- and to the extent that there would be some
10 supplementary energy it would be very small, and would
11 have a very small affect on the price.

12 MR. BOB PETERS: Would it be small, such
13 as 10 percent number, which from 8. -- from page 8.4 of
14 the book of documents we see the off-peak sales are
15 approximately 10 percent of the on-peak sales, and so
16 that's where I come up with that 90 percent firm, and
17 maybe 10 percent not firm?

18 MR. DAVID CORMIE: I would -- I wouldn't
19 -- based on my knowledge of deliveries under that
20 contract, I would suggest that it's much less than 10
21 percent.

22 MR. BOB PETERS: And you're not able to
23 provide a -- a ballpark estimate of that at this time?

24 MR. DAVID CORMIE: Well, I've -- I've
25 given you a ballpark estimate, and I would say the vast

1 majority, probably well in excess of 95 percent of the
2 energy, is the firm portion.

3 MR. BOB PETERS: Thank you, sir. The
4 last column, EPE 269, that appears in Tab 9 of the book
5 of documents, as the largest export sale that Manitoba
6 Hydro makes, both for the '06/'07 year and the '07/'08
7 year.

8 I -- would that be correct? Close to
9 6,000 gigawatt hours a year?

10 MR. DAVID CORMIE: Yes. And the
11 quantities of energy that will be sold under the general
12 purpose interruptible permit number will fluctuate,
13 depending on flow conditions. And we've had very good
14 water conditions in the last several years and so
15 there'll be very large volumes of energy being sold under
16 those -- those permits.

17 MR. BOB PETERS: This would be considered
18 the opportunity sales category then, that Manitoba Hydro
19 has. Would that be correct?

20 MR. DAVID CORMIE: That's -- that's
21 correct. But in addition, the energy that's being sold
22 under two sixty-eight (268) probably a -- a large portion
23 of that will be opportunity sales as well.

24 Our requirement is to go to the Natural
25 Energy Board for a specific licence or permit whenever

1 the contract exceeds five (5) years in duration. And --
2 and if -- if they do exceed five (5) years, then we get a
3 specific licence number. If it's less than five (5)
4 years, it can fall under the general permit, and -- of --
5 what would be EPE 268. And it would be my judgment here
6 that the majority of those transaction would be
7 opportunity sales, even though they would go under the
8 firm permit.

9

10 (BRIEF PAUSE)

11

12 MR. DAVID CORMIE: Mr. Peters, I can
13 confirm that the Lake St. Joseph energy is included in
14 your handout number 8, on page 8.4. And that sixteen
15 dollar and eighty-seven cents (\$16.87) cents per megawatt
16 hour for winter off-peak sales, includes the Lake St.
17 Joseph energy.

18 Now all Lake St. Jos -- not all of it, but
19 the vast majority of Lake St. Joseph energy is delivered
20 to Ontario Power at night during the off-peak hours, and
21 the rate is -- is very, very low, in terms of today's
22 dollars. And so that sixteen dollar and eighty-seven
23 cent (\$16.87) cent amount probably includes a few
24 megawatt hours at very high prices, and a very large
25 number of megawatt hours at a -- at a low price, driving

1 the price down to sixteen dollars and eighty-seven cents
2 (\$16.87) cents.

3 And so, you know, you -- you had asked the
4 question -- one would ask the question: Well, why would
5 Manitoba Hydro be selling sixteen dollar and eighty-seven
6 cent (\$16.87) cent power at a time when the on-peak price
7 is at sixty-two dollars and ninety cents (\$62.90) cents?

8 Well, we don't. It's just that that
9 contract drives the weighted average price down to
10 sixteen eighty-seven (16.87). So that's the -- the
11 response to that.

12 MR. BOB PETERS: I thank you, and perhaps
13 also Mr. Miles.

14 Mr. Cormie, as the unit prices for the
15 firm energy, you've showed us, includes demand charges,
16 those demand charges have to be removed to get an energy
17 rate that will be included in the -- in the proxy that
18 Manitoba Hydro has put before this Board, correct?

19 MR. DAVID CORMIE: When we negotiate
20 long-term firm power prices, we -- we don't negotiate a
21 separate -- initially we don't negotiate a separate
22 demand and energy price. It is a -- it's an energy
23 price. And then we negotiate how that energy price is
24 split out between demand and energy to come up with --
25 with a split. But it's -- it's -- you start with the

1 all-in price and you work backwards. And --

2 MR. BOB PETERS: Maybe -- can you tell
3 the Board why you do that? Not -- you don't pancake
4 them, you kind of go all-in and then you negotiate an
5 amount for the --

6 MR. DAVID CORMIE: Well, at -- yeah, at -
7 - at the end of the day the customer wants to know what
8 his energy is going to cost, including demand and -- and
9 energy. And -- and generally when you're comparing
10 alternative resources you use the all-in price.

11 And so when Manitoba Hydro is negotiating
12 the customer is looking at his alternative cost, the cost
13 of building a generating station, that's the capital
14 portion. Usually the capital portion is reflected in the
15 demand charge. But then he has to look at his fuel and
16 incremental O&M and his other, you know, the potential
17 for carbon taxes and they -- and he rolls that all into
18 an average price for the -- per-megawatt hour. And he
19 compares that to Manitoba Hydro's price that they're --
20 they're quoting and he's saying: Where's, you know,
21 which -- which of these alternatives is better for their
22 -- their customers, including all the tax implications on
23 -- on their side.

24 And so we, you know, that's -- that's how
25 the -- that's how we -- we are an attractive alternative.

1 We're looking at an all-in price and -- and then we then
2 develop a split between demand and energy. And generally
3 the split between demand and -- demand and energy is
4 done, because in the US with -- privately held or
5 publicly -- or privately held, the shareholder pays the
6 capital and the -- and the consumer pays the energy
7 charges, and so it's important that they have a split
8 between demand and energy.

9 And -- and so Manitoba Hydro doesn't
10 really care a lot about what the split is, as long as at
11 the end of the day we're getting our -- our required
12 dollar per megawatt hour for the -- for the electricity.
13 And we're very amenable to splitting it between demand
14 and energy however the customer -- whatever the customer
15 would like, because at the end of the day we're going to
16 get our \$9 million a month, whether it comes from the
17 energy or it comes from the demand charge.

18 And then the customer is also very
19 concerned about, you know, the escalation on the demand
20 and escalation on the energy, and so there's a -- there's
21 a discussion going on there as well.

22 But that's the price of long-term sales,
23 is the all-in price, including the demand. And -- and
24 that should be the basis of -- of our lost opportunity,
25 or our gain, if we were to have a reduction in -- in firm

1 domestic load.

2 MR. BOB PETERS: Well, I was going to
3 suggest that once we've come to the numbers and it'll be
4 subject to the undertaking from Mr. Warden, but at fifty-
5 five dollars and twenty-seven cents (\$55.27) per megawatt
6 hour, let's deduct from that the demand charge that's
7 used in permit number EPE-224 as a -- as a proxy.

8 Do you know what that demand charge is in
9 EPE-224?

10 MR. DAVID CORMIE: Yes, I do.

11 MR. BOB PETERS: Is it something you can
12 put on the public record?

13 MR. DAVID CORMIE: No, it's not.

14 MR. BOB PETERS: Well, even if you could,
15 what you just told the Board in your second-last answer,
16 Mr. Cormie, is Manitoba Hydro really doesn't care what
17 that -- and -- and that's not meant negatively, Manitoba
18 Hydro really has no position on what the demand charge is
19 in that contract, because that's for the counterparty --
20 for the counterparty to balance and justify at their end?

21 MR. DAVID CORMIE: I -- I agree with you
22 -- with that and -- and -- but we do -- we do care. We -
23 - we would like to have a really high demand charge,
24 because that revenue flows regardless of whether we
25 deliver a megawatt hour of energy or not.

1 So it's -- we -- we want to -- we want to
2 show it -- we want to be competitive. We want to be
3 competitive on energy and we want to be competitive on
4 demand, and -- and we can't be outrageous in asking for
5 100 percent demand and no energy.

6 MR. BOB PETERS: No, I -- and I
7 apologise, Mr. Chairman and Mr. Cormie. I didn't mean
8 Hydro doesn't care in the -- in a flippant sense; it was
9 just that it's financially not -- it's financially
10 indifferent, once you know what the one (1) price is
11 you're going to get.

12 MR. DAVID CORMIE: To the extent that the
13 escalators on the demand and the energy aren't the same,
14 well, I think we would be indifferent, but with caution.

15 MR. BOB PETERS: All right. Mr. Cormie,
16 recognizing you -- you don't feel you're able to put on
17 the public record the demand charge from that specific
18 NEB permit contract, can you indicate to the Board what a
19 typical demand charge component is in the market price,
20 in the MISO region?

21

22 (BRIEF PAUSE)

23

24 MR. DAVID CORMIE: Well, it depends on
25 the -- on the term of the contract. Short-term demand

1 charges can be as little as five hundred dollars (\$500) a
2 megawatt month for winter capacity; long-term firm power
3 could be as much as five (5) -- six thousand dollars
4 (\$6,000) a megawatt month. There's a huge range.

5 And the short-term market is very volatile
6 and given the uncertainty on where the co -- MISO
7 capacity market is going right now, the MISO capacity --
8 short-term capacity price is -- is really not a good
9 indicator of -- of long-term capacity.

10 MR. BOB PETERS: Does that last answer
11 suggest that capacity is -- availability is shrinking and
12 it's driving up the demand charge?

13 MR. DAVID CORMIE: No, there's just --
14 there's -- there's just uncertainty that the -- the
15 capacity market is evolving today. And -- and it's --
16 it's going to -- it's going to be relatively -- or much
17 different than -- than it was in the last twenty-five
18 (25) years, when we were in the MAP capacity market
19 (phonetic).

20 And -- but in the long run, the capacity
21 price is high because the cost of constructing new
22 facilities is getting more and more expensive, because
23 the environmental restrictions are becoming greater and
24 those costs need to be captured in the capital cost. And
25 so capacity is becoming more expensive.

1 MR. BOB PETERS: Maybe I can approach it
2 this way. Mr. Cormie, what would be the estimated
3 typical demand charge for large industrial customers in
4 Minnesota?

5 MR. DAVID CORMIE: I'm not aware of that
6 number.

7 MR. BOB PETERS: From PUB/Manitoba Hydro-
8 24, I just have a marginal note to myself here, that it -
9 - it could be as -- approximately nine dollars (\$9) per
10 kVA, per month.

11 Would you have any reason to think that
12 would be out of line?

13 MR. DAVID CORMIE: I don't have any
14 knowledge of those numbers. I --

15 MR. BOB PETERS: All right.

16 MR. DAVID CORMIE: -- would refer that to
17 somebody in rates.

18 I guess, Mr. Peters, all I can comment is
19 that we provide the capacity and energy. Customers buy
20 more than that. They buy service, they buy distribution,
21 transmission.

22 Our product is delivered at the boarder,
23 to which a utility in the US has to arrange for
24 transmission, and all the other services and losses, and
25 -- and they have a rate making process as well. So I'm

1 not sure that wholesale capacity prices reflect down to
2 the whole -- to the retail level.

3 MR. BOB PETERS: All right. Maybe I can
4 engage Mr. Wiens for a few minutes with you, Mr. Cormie.
5 On book of document 8.1, Manitoba Hydro has backed out a
6 demand charge. And that demand charge that's backed out,
7 Mr. Wiens, is shown as five dollars and forty cents
8 (\$5.40) divided by seven hundred and thirty (730) hours;
9 it comes out to point seven four (.74) cents?

10 Is that correct.

11 MR. ROBIN WIENS: That's correct.

12 MR. BOB PETERS: And, so if we start wit
13 -- that's your proposal to this Board, is that demand
14 charge be -- backed out of decimal seven four (.74)
15 cents, and that will result in the energy charge that's
16 included in the GSL greater than one hundred (100) rate--

17 MR. ROBIN WIENS: Yes.

18 MR. BOB PETERS: -- rate case? All
19 right. Mr. Wiens, if we're talking about the contract
20 that Mr. Cormie and I were talking about, a long term
21 fixed contract down to the MISO customers, if we as -- if
22 we assume the demand that Mr. Cormie wasn't able to tell
23 us about, in terms of specifics, was the same as it was
24 in Manitoba, would that then result in a demand reduction
25 of approximately one point five (1.5) cents as opposed to

1 the point seven five (.75) cents?

2 MR. ROBIN WIENS: Can you repeat that
3 question --

4 MR. BOB PETERS: All right.

5 MR. ROBIN WIENS: -- and maybe give me an
6 idea of where you're coming from with the one point five
7 (1.5)?

8 MR. BOB PETERS: Let me come at it this
9 way. Mr. Cormie, I took from his answers he was cautious
10 in terms of providing the Board with what a typical
11 demand charge should be from the specific contract; and
12 in terms of what the market was, there's a wide range;
13 what Minnesota has as -- typical industrial, the demand
14 charges he wasn't aware of.

15 And, so I'm wondering does the EPE-224
16 contract demand compare to Manitoba Hydro's General
17 Service Large greater than one hundred (100) demand
18 charge?

19 MR. ROBIN WIENS: I have no idea of what
20 the EPE-224 demand charge is.

21 MR. BOB PETERS: All right. Then from a
22 proxy perspective, if we -- can we assume the demand, Mr.
23 Wiens, for the sales of the kind I was talking with Mr.
24 Cormie about, are also the same as in Manitoba, five
25 dollars and forty cents (\$5.40) per kVA, is that a safe

1 assumption for the Board to make?

2 MR. ROBIN WIENS: Well, I'm looking at
3 here, the -- the large rate for -- at -- at the
4 transmission levels for Artale (phonetic) Power, which is
5 in that region, and they're looking at -- the effective
6 demand charge for large loads would be six dollars and
7 sixty cents (\$6.60) a kilowatt in the Minnesota, and five
8 dollars and sixty-five cents (\$5.65) in North Dakota.

9 MR. BOB PETERS: And, so in Manitoba is
10 five dollars and forty cents (\$5.40) the correct demand
11 charge to start with?

12 MR. ROBIN WIENS: Five dollars and forty
13 cents (\$5.40) is the demand charge for General Service
14 Large over a hundred kV.

15 MR. BOB PETERS: And if we applied that
16 demand charge to the 500 megawatt sale to the States,
17 what would end up being the reduction from the -- from
18 the all-in energy price?

19 MR. ROBIN WIENS: That's not a
20 calculation that I've made, Mr. Peters. If you're
21 looking at five dollars and forty cents (\$5.40), it -- we
22 -- we would have to -- if you were going to assume five
23 dollars and forty cents (\$5.40), I think we would have to
24 go and take a look at that particular contract to see
25 what the result would be, but I don't know if the demand

1 charge for that contract is five dollars and forty cents
2 (\$5.40) or some other higher or lower number.

3 MR. BOB PETERS: No, I appreciate we
4 don't know it, Mr. Wiens, but I was just suggesting that
5 if we assumed it was five dollars and forty cents
6 (\$5.40), the same as the GSL greater than one hundred
7 (100) customer, then that would yield a demand charge to
8 be backed out of about one point five (1.5) cents.

9 MR. ROBIN WIENS: I -- I don't follow
10 that arithmetic.

11 MR. BOB PETERS: Perhaps I can leave you
12 over the break. My way of calculating it -- I hate to
13 put this on the public record, but I took the 500
14 megawatt sale, I multiplied it by the five dollars and
15 forty cents (\$5.40), multiplied that by twelve (12)
16 months and then divided it by two thousand (2,000) -- two
17 thousand (2,000) hours and I came up with --

18 MR. ROBIN WIENS: Mr. Peters, I don't
19 know if that's the way it's applied, so I -- I couldn't
20 confirm or deny your numbers.

21 MR. BOB PETERS: All right. Where --
22 leaving aside the calculation, Mr. Wiens, is the premise
23 supportable; that the demand that -- that picking a
24 demand rate on the fixe contract to the States, using
25 that as the -- the proxy and then backing it out from the

1 US contract and using that same amount to back out from
2 the -- from the price you want to charge in your Energy
3 Intensive Industry Rate?

4 MR. ROBIN WIENS: I -- I can't even
5 answer that, Mr. Peters. I don't know if that premise is
6 supportable.

7 MR. BOB PETERS: Well, maybe you can
8 think about that over the break, Mr. Chairman, and this
9 might be an opportune time for a morning coffee break.

10 THE CHAIRPERSON: Sounds like a good
11 time. Okay, we'll be back in fifteen (15) to twenty (20)
12 minutes.

13

14 --- Upon recessing at 10:33 a.m.

15 --- Upon resuming at 10:59 a.m.

16

17 THE CHAIRPERSON: Okay, we're back.

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

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: Before the break, Mr.
22 Wiens, Mr. Cormie, we were focussing on the demand charge
23 that had to be subtracted from the average price of
24 extra-provincial sales during the previous two (2) fiscal
25 years and on page 8-1 of the book of documents under Tab

1 8, Mr. Wiens, you confirmed that the number that Manitoba
2 Hydro was backing out was .74 cents.

3 And we -- we see how that was derived and
4 I was exploring whether there were other options that
5 should be considered such as the actual demand rate in
6 your long-term energy contract that I understand is under
7 the permit EPE-224, but Mr. Cormie's not prepared to
8 provide that on the public record.

9 The typical demand charge in the MISO
10 region appears variable and the local demand charges in
11 the various companies, Mr. Wiens, you've put some of
12 those prices on. And I've wondered if -- if five dollars
13 and forty cents (\$5.40) should be assumed as the demand
14 charge in that long-term contract and then calculate what
15 that quantifies to per kilowatt hour and back that out of
16 the price?

17 Do you understand the premise of my
18 question, Mr. Wiens?

19 MR. ROBIN WIENS: Yes, Mr. Peters, I do
20 and I -- I think, first of all, you have to consider that
21 the -- the -- as -- as Mr. Cormie stated, the all-in
22 energy amount is -- is the relevant amount for the
23 purposes of the opportunity value to Manitoba Hydro, so,
24 that's what you want to realise.

25 Now, in the calculation on -- that you've

1 shown at Tab 8 on page 1 of your book of documents, what
2 we have done is simply taken the demand charge within
3 Manitoba, the five point four dollars (\$5.4) and we've
4 divided it by the number of hours in a month. That
5 effectively assumes 100 percent load factor.

6 And the basis of that is that notionally
7 looking at this we had looked at the -- the demand
8 charges recovering transmission cost, and the energy
9 charges recovering the supply cost and, typically, when
10 we calculate our all-in marginal costs, we look at a
11 seven hundred and thirty (730) hours a month or eight
12 thousand seven hundred and sixty hours (8,760) a year.

13 Alternatively, if you wanted to look at a
14 load factor of an associated load, I would argue that the
15 appropriate load factor to look at is the load factor of
16 the customers in Manitoba which I did a quick calculation
17 over the break and is in the order of 83 percent.

18 So if you wanted to substitute something
19 for the point seven four (.74), you would substitute
20 approximately point eight nine (.89) and then back that
21 out.

22 MR. BOB PETERS: What you've done is
23 you've taken 83 percent of the hours in a month instead
24 of the seven hundred and thirty (730)?

25 MR. ROBIN WIENS: That's correct.

1 MR. BOB PETERS: All right. What about
2 this suggestion, Mr. Wiens? If we start from the premise
3 that there's approximately -- let's use 500 gigawatt
4 hours a year of lower consumption by industry in Manitoba
5 that is targeted, and that Manitoba Hydro wants to export
6 instead of having it consumed by Manitoba industries or
7 they're indifferent to that as long as they get the same
8 price, but if Manitoba Hydro was going to export that 500
9 gigawatt hours a year, and let's use the 5 by 16 firm
10 period that Mr. Cormie told us about, Manitoba Hydro will
11 need available capacity to export that, correct?

12 MR. ROBIN WIENS: Yes.

13 MR. BOB PETERS: And 125 megawatts would
14 be a reasonable estimate of the capacity needed to export
15 that 500 gigawatt hours a year; do you agree with that?

16

17 (BRIEF PAUSE)

18

19 MR. DAVID CORMIE: You had used 500,000
20 megawatt hours? 500,000 megawatt hours divided by 8,760
21 hours in a year gives a 57 megawatt load at 100 percent
22 capacity factor.

23 MR. BOB PETERS: All right. Let me --
24 let me stop you there, Mr. Cormie. You talked about a
25 2,000 gigawatt hour a year long-term contract to the

1 States, correct?

2 MR. DAVID CORMIE: Yes.

3 MR. BOB PETERS: And that was done at
4 approximately 500 megawatts of capacity?

5 MR. DAVID CORMIE: Approximately, yes.

6 MR. BOB PETERS: So if I take the 2,000
7 gigawatt hours a year and take a quarter of that which is
8 my 500 gigawatt hours a year --

9 MR. DAVID CORMIE: Mm-hm.

10 MR. BOB PETERS: -- and take a quarter of
11 the capacity that goes with it, that's 125 megawatts a
12 year and I suggest that would be a reasonable -- a
13 reasonable capacity needed to export under the conditions
14 that we've talked about?

15 MR. DAVID CORMIE: Well, I've done the
16 calculation. 500,000 megawatts is equivalent to 57
17 megawatts at 100 percent load factor. If you want to put
18 that into the on-peak of -- at a -- at a 47 percent
19 capacity factor of -- which is a 5 by 16 period, that
20 works out to 120 megawatts of -- of capacity.

21 So a reduction of base -- a reduction of a
22 Manitoba load will -- could result in an additional 120
23 megawatt 5 by 16 sale.

24 MR. BOB PETERS: All right.

25 MR. DAVID CORMIE: Not adjusting for any

1 distribution losses assuming that both are at the -- at
2 the common bus (phonetic).

3 MR. BOB PETERS: Thank you. Now, Mr.
4 Cormie, if a Manitoba Hydro customer needs 85 megawatts
5 of capacity to use that 500 gigawatt hours, then there
6 would be a difference between the hundred and twenty
7 (120) and the eighty-five (85) by the Manitoba customer,
8 correct? And I appreciate we're talking load factor
9 differences here.

10 MR. DAVID CORMIE: So the -- the --
11 instead of having a -- a 57 megawatt sale for 100 percent
12 of the time, let's assume that it was an 80 percent load
13 factor, that would work out to be -- that would be 71
14 megawatts of -- of demand.

15 MR. BOB PETERS: So the Manitoba customer
16 would need 71 megawatts of demand, but if you exported
17 it, you'd need a hundred and twenty (120)?

18 MR. DAVID CORMIE: To take it to the on-
19 peak, yes.

20 MR. BOB PETERS: All right. So there's a
21 difference. There's -- there's seventy-one (71) needed
22 locally --

23 MR. DAVID CORMIE: Mm-hm.

24 MR. BOB PETERS: -- and you need more
25 than that --

1 MR. DAVID CORMIE: To move --

2 MR. BOB PETERS: -- approximately 50
3 megawatts more to move it down to the States?

4 MR. DAVID CORMIE: To move it into the
5 on-peak hours, yeah.

6 MR. BOB PETERS: And that 50 megawatts
7 more that you need has a value, doesn't it?

8 MR. DAVID CORMIE: It has a value, or a
9 cost?

10 MR. BOB PETERS: Well, it'll have a cost
11 to Manitoba to move -- to move the electricity to the
12 export market.

13 MR. DAVID CORMIE: Mr. Peters, we -- you
14 -- you're talking about a firm sale, yes?

15 MR. BOB PETERS: Yes, I am.

16 MR. DAVID CORMIE: Manitoba Hydro's
17 limitation on making firm sales is energy, not demand.
18 And, so if the -- so we -- we run out of energy -- de --
19 dependable energy before we run out of capacity, and so
20 there -- there would be free capacity available to make
21 that equivalent sale.

22 And the only cost would be in reduced
23 opportunity sales, and so the amount that we export would
24 remain the same; it would just be reallocated between
25 dependable sales and opportunity sales.

1 The -- the opportunity costs will be
2 offset because there's a demand charge now available from
3 the firm sale.

4 And in addition, I would expect that we
5 would be able to sell the -- the firm power at a higher
6 price than our long term expected opportunity sale. So,
7 I don't believe that there is an overall cost.

8 MR. BOB PETERS: Under your answer, that
9 50 megawatts of capacity is free because it's not the
10 limiting factor.

11 MR. DAVID CORMIE: That's correct. In --
12 in addition, the transmission is not the limiting factor.
13 It's always dependable energy that is the factor.

14 And, so a reduction in domestic industrial
15 load frees up dependable energy that can be taken to the
16 export market. And -- and generally we have a surplus of
17 capacity when we are dependable energy constrained, and
18 so that -- that is not a -- a constraint.

19 MR. BOB PETERS: Under Manitoba Hydro's
20 curtailable rates program, Manitoba Hydro pays for
21 capacity?

22 MR. DAVID CORMIE: Yes, we do.

23 MR. BOB PETERS: About \$6 million a year?

24 MR. ROBIN WIENS: We'll take that,
25 subject to check.

1 MR. BOB PETERS: Why are you paying for
2 capacity if -- if notionally it's free?

3

4 (BRIEF PAUSE)

5

6 MR. DAVID CORMIE: I -- I didn't say it
7 had no value. I just said that -- that entering into a -
8 - a long-term firm export is a better use of our
9 capacity, and is more valuable to us than -- than taking
10 it to the opportunity market. And it -- it isn't -- the
11 capacity has no value. That's not a correct statement.

12 The capacity does have value. Its best
13 value is when it's used to serve a firm export sale. We
14 get the -- the maximum return for that.

15 MR. BOB PETERS: And I was going down
16 that road with you, Mr. Cormie, to try to quantify what
17 that 50 megawatts of value would be.

18 MR. DAVID CORMIE: Well, it allows us to
19 enter in -- that -- it allows us to enter into a long-
20 term firm sale for that half million megawatt hours at a
21 premium price compared to what we would otherwise get in
22 the opportunity market when you include the demand
23 charge.

24 MR. BOB PETERS: But it's a demand charge
25 you can't tell me about.

1 (BRIEF PAUSE)

2

3 MR. DAVID CORMIE: I can't tell you about
4 the demand charge under any specific contract.

5 MR. BOB PETERS: Well I'm wondering if
6 it's worth the five dollars and forty cents (\$5.40) that
7 Manitoba Hydro shows in its proxy calculation.

8 MR. DAVID CORMIE: Well the five dollars
9 and forty cents (\$5.40), based on my understanding,
10 reflects the embedded cost of capacity in -- to serve a
11 customer in the General Service Large customer class, and
12 that's the embedded cost.

13 And, you know, that includes a lot of
14 things. It doesn't necessarily reflect the lost
15 opportunity cost of capacity on the export market.

16

17 (BRIEF PAUSE)

18

19 MR. DAVID CORMIE: What I can say, Mr.
20 Peters, is that -- that our -- our customers are buying a
21 -- long-term firm power from Manitoba Hydro at a cost
22 that's very close to their cost of alternative new
23 generation. And if it was more expensive they wouldn't
24 choose us and if we -- but we're very careful to price it
25 so that it's attractive to them, but at the same time

1 it's not a -- a bad deal for Manitoba Hydro.

2 MR. BOB PETERS: Mr. Cormie, the product
3 that you export under your firm contracts is not the same
4 product as you would sell to the General Service Large,
5 greater than 100 kV customers under the energy intensive
6 rate, is it?

7 MR. DAVID CORMIE: No. It's -- it is an
8 inferior product, because -- for a domestic customer we
9 provide firm transmission and reserves on the capacity
10 amount. For example, if the customer, let's say it was a
11 hundred megawatt load, we would have to reserve at least
12 a 10 percent spare capacity to deal with outages and --
13 and provide a reliable product.

14 The power that is being sold as long-term
15 firm power in the export market we are not required --
16 the product that we sell does not include reserves. The
17 customer is responsible for riding the reserve capacity.
18 And the -- and the -- we are not providing firm
19 transmissions. So that if our -- the transmission system
20 in Manitoba suffers a catastrophic failure we're allowed
21 to curtail service under the contract.

22 If the cust -- if the -- if the Manitoba
23 Hydro system suffers a similar contingency in Manitoba we
24 do -- we have back-up transmission available to prov --
25 continue to provide service to industrial customers. So

1 the industrial customers in Manitoba receive a premium
2 product compared to our export prices -- your export --
3 our export contracts.

4 And we don't sell firm power, we sell
5 what's called System Participation Power. And System
6 Participation Power where the customer assumes the risks
7 of transmission and generation in outages in Manitoba.

8 MR. BOB PETERS: Well, that 10 percent
9 reserve of capacity is -- is much less than the 50
10 megawatt difference in my example, sir, isn't it? It's a
11 -- it's a much smaller reserve?

12

13 (BRIEF PAUSE)

14

15 MR. DAVID CORMIE: They're -- they're not
16 -- they're not the same. The -- let me give you an
17 example. Let's say that Manitoba Hydro has 5,000
18 megawatts of -- of accredited generation capacity, and we
19 have 3,000 megawatts of domestic firm load; that means
20 that there's a -- 2,000 megawatt of capacity available to
21 go to the export market.

22 Manitoba Hydro could sell all -- if it had
23 -- if dependable energy wasn't an issue it would sell all
24 that energy in the -- in the export market, 2,000
25 megawatts. The question though would be whether we

1 allocate it between an opportunity sale or a firm sale.
2 Whereas, in the 3,000 megawatts of Manitoba load, there
3 is built in the 10 percent buffer for the contingency.

4 So there would be, let's say, 2,700
5 megawatts of load plus three -- 300 megawatts of
6 reserves. So for every megawatt that's freed up by a
7 reduction in -- in industrial load it frees up a -- it
8 frees up 1.1 megawatts of capacity for an -- for an
9 export sale.

10 But all it does is change the amount of --
11 of capacity of the two -- of -- it's just an allocation
12 of the -- a different allocation of the 2,000 megawatts
13 of surplus that we have. And the -- it -- it doesn't
14 change the amount that we are able to export on any
15 particular day. There's -- there's 2,000 megawatts that
16 go to the market; some of it is firm and some of it is
17 non-firm.

18 So, there is no -- there is -- there is no
19 spare capacity needing to be held back for the export
20 sale.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Thank you for the
25 example, Mr. Cormie.

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: I think I have your
4 point. I'll consider that further. I did want to just
5 turn to two (2) other areas with you.

6 And yesterday, I believe the witness panel
7 indicated that there are no firm contract sales to
8 Canadian provinces with a possible exception of the Lake
9 St. Joseph one.

10 You can confirm that?

11 MR. DAVID CORMIE: Yes, I can confirm
12 that. For the last two (2) years.

13 MR. BOB PETERS: Correct, in the last two
14 (2) years. In the book of documents, Tab 9, where we
15 were, the very last page is Information Request
16 PUB/Manitoba Hydro-14F, and listed on 14F are
17 extraprovincial sales to Saskatchewan and Ontario.

18 And if one takes the time to break them
19 down into your fiscal years, they were about 500 gigawatt
20 hours per fiscal year in '06/'07, as well as in '07/'08?

21

22 (BRIEF PAUSE)

23

24 MR. DAVID CORMIE: That sounds
25 reasonable. If -- if that's what you've calculated from

1 these numbers, I accept those.

2 MR. BOB PETERS: I have slightly more
3 than that; a five hundred and twenty-eight (528) in the
4 first year or five sixty-nine (569), but for -- for my
5 purposes I'm rounding that to approximately 500 gigawatt
6 hours a year.

7 And you'll accept that, subject to check?

8 MR. DAVID CORMIE: Yes.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: When one looks at
13 PUB/Manitoba Hydro-25, this, Mr. Chairman and Board
14 Members, was in a package stapled together left on
15 various chairs last evening of some more Information
16 Requests, in an effort to keep everybody from flipping
17 their big binders open. Included in those four (4)
18 stapled pages was a copy of PUB/Manitoba Hydro-25 answer.

19 Have you that, Mr. Cormie?

20 MR. DAVID CORMIE: I have that, yes.

21 MR. BOB PETERS: And you can find the
22 Information Request PUB/Manitoba Hydro-25?

23 MR. DAVID CORMIE: I have that, yeah.

24 MR. BOB PETERS: Can you confirm that
25 other direct sales than those 500 gigawatt hours that we

1 showed in PUB/Manitoba Hydro-14, amounted to
2 approximately 373 gigawatt hours in '06 and 482 gigawatt
3 hours in '08? '06/'07, I should have said?

4 MR. DAVID CORMIE: I'm sorry, where are
5 you getting those numbers?

6 MR. BOB PETERS: I'm on PUB/Manitoba
7 Hydro-25 and I'm looking at the opportunity Canadian
8 exports for '06/'07 and '07/'08.

9 Thank you, Mr. Vice-Chair. It's the
10 supplementary page, Mr. Cormie. I apologise for that
11 reference.

12 Have you located it, sir?

13 MR. DAVID CORMIE: I -- I have the
14 supplementary response, yes.

15 MR. BOB PETERS: And I'm suggesting that
16 in addition to the 500 gigawatt hours a year that we
17 talked about in PUB/Manitoba Hydro-14Fm there's also
18 about 373 gigawatt hours in '06/'07 and 482 gigawatt
19 hours in '07/'08.

20

21 (BRIEF PAUSE)

22

23 MR. DAVID CORMIE: Yes.

24 MR. BOB PETERS: And while we're looking
25 at that supplementary answer to PUB-25, do I take it then

1 that of that 373 gigawatt hours in '06/'07, approximately
2 100 gigawatt hours to supply that contract was sourced
3 from the MISO region?

4 MR. DAVID CORMIE: That's correct.

5 MR. BOB PETERS: And if we follow it
6 through for the next year, '07/'08, approximately 244
7 gigawatt hours was purchased in MISO and then sold in
8 Canadian exports, in '07/'08?

9 MR. DAVID CORMIE: That's correct.

10 MR. BOB PETERS: Just so the Board
11 understands this arrangement, this is not the sales of
12 energy generated by Manitoba Hydro's generating assets,
13 is it?

14 MR. DAVID CORMIE: That's correct.

15 MR. BOB PETERS: Now is all of this
16 opportunity -- Canadian opportunity exports sourced from
17 other than Manitoba Hydro's generating assets?

18 MR. DAVID CORMIE: No, it can include
19 Manitoba Hydro generation as well.

20 MR. BOB PETERS: Does it?

21 MR. DAVID CORMIE: Yes. We've indicated
22 in the second line: In addition there are other sources,
23 including Manitoba generation, purchases from Ontario,
24 Saskatchewan and Alberta.

25 MR. BOB PETERS: And you can confirm that

1 in those years that in fact did happen, that you used
2 Manitoba generation to make those opportunity exports?

3 MR. DAVID CORMIE: Yes, clearly, Mr.
4 Peters, because, let's say, for example, in 2005 and '06
5 we exported 1.4 million. Of the six hundred -- of that
6 six hundred thousand (600,000) was from purchases. So
7 the balance came from Manitoba generation and the
8 purchases from Ontario, and Saskatchewan, and Alberta.

9 MR. BOB PETERS: In your answer to me,
10 Mr. Cormie, you're -- you're confirming that some
11 Manitoba Hydro generation was used, but you're not
12 telling me it was all Manitoba Hydro generation, for the
13 difference?

14 MR. DAVID CORMIE: No, because there are
15 -- there are transactions that occur directly from the
16 MISO market and being sold directly into the Ontario
17 market, and -- and that volume includes those
18 transactions.

19 MR. BOB PETERS: I'm not sure if Mr.
20 Wiens taught me this word, but is that arbitrage
21 opportunities that are being taken advantage of by
22 Manitoba Hydro?

23 MR. DAVID CORMIE: Yes, we're in a --
24 we're a market participant in the Ontario market and in
25 the US MISO market, and in the Alberta market, and when

1 there are price spreads available in the day ahead, in
2 the real-time markets, we buy low and sell high.

3 MR. BOB PETERS: Maybe talk to a broker,
4 I know.

5 But, Mr. Cormie, back in the book of
6 documents at Tab 9, the last page, PUB-14F, you agreed
7 with me that there was approximately 500 gigawatt hours a
8 year sold from Manitoba Hydro into Saskatchewan and
9 Ontario. And then you, also in your answer to me,
10 suggest that to fill up the Canadian exports that are
11 shown on PUB/Manitoba Hydro-25 Supplementary, not only do
12 you buy from MISO and sell into the Canadian provinces
13 other than Manitoba, but you also would use Manitoba
14 generation.

15 Why wouldn't the Manitoba generation show
16 up in PUB-14 as opposed to PUB-25?

17 MR. DAVID CORMIE: Well, the -- like,
18 when -- the question was: Provide data on our
19 extraprovincial sales. And that means energy that is
20 sold out of Manitoba and goes in to these two (2)
21 markets. Whereas, the energy that is purchased in MISO
22 and is sold into Ontario doesn't flow through the
23 Manitoba system and so it's an off-system transaction.
24 And -- and so these extraprovincial sales directly from
25 Manitoba show up in PUB-14F and it doesn't include the

1 merchant transactions that occur off-system.

2 MR. BOB PETERS: Are those merchant
3 transactions that occur off-system included in the
4 derivation of the energy rate that's included in the
5 Energy Intensive Industry Rate proposed before this
6 Board?

7 MR. DAVID CORMIE: Merchant transactions
8 show up in opportunity sales and they are not part of the
9 dependable sales calculation.

10 MR. BOB PETERS: So the answer is, no,
11 they -- they're not a component of the energy rate for
12 the Energy Intensive Industry Rate that's proposed?

13 MR. DAVID CORMIE: I agree with you.

14 MR. BOB PETERS: Thank you.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Mr. Cormie, in your
19 absence yesterday we reviewed certain sections from the -
20 - the Board's last Order to Manitoba Hydro, being the GRA
21 Order. It was found in Tab 2 of the book of documents,
22 and the -- the extract I've included on -- has page 378,
23 and there's a paragraph by the Board under Marginal Cost
24 Values for Export that I want to talk to you about.

25 In that Board Order, the Board indicated,

1 and I'll -- I'll paraphrase it -- no, I'll read extracts
2 of it.

3 That in light of the transmission tie-line
4 constraints, the Board questions Manitoba Hydro
5 assumptions of the relative value of export sales and
6 domestic load growth during the off-peak period.

7 And then the Board goes on and says:

8 "Accordingly, the Board directs Hydro
9 to provide an in-depth analysis of the
10 value of peak versus off-peak energy
11 sales into the MISO region."

12 And other than the Information Requests,
13 Hydro hasn't filed an in-depth analysis of the value of
14 peak and off-peak energy sales into the MISO region. Is
15 that correct?

16 MR. ROBIN WIENS: It was not filed with
17 the Application, Mr. Peters. We did provide some
18 information as you can see from the response to --

19 MR. BOB PETERS: PUB-12B, Mr. Wiens?

20 MR. ROBIN WIENS: -- 12B is one and --
21 and the material that appears at your book of documents,
22 Tab 8, I believe, page 4.

23 MR. BOB PETERS: All right. That's --
24 that's the extent of the information then provided in
25 terms of the analysis of peak versus off-peak sales in

1 the MISO? Mr. Wiens or Mr. Cormie?

2 MR. ROBIN WIENS: I think there's
3 probably other information scattered through the informa
4 -- the responses, but I would say that that captures most
5 of it in those two (2) references.

6 MR. BOB PETERS: All right. And Mr.
7 Cormie, Manitoba Hydro gets its highest export values for
8 firm exports in the 5 by 16 time period? Is that
9 correct?

10 MR. DAVID CORMIE: Yes, but there will be
11 hours in the opportunity market where it does receive
12 higher values, but --

13 MR. BOB PETERS: On average it's --

14 MR. DAVID CORMIE: -- on average the
15 long- term firm sales will return a premium price to
16 Manitoba Hydro as compared to the other hours of the
17 week.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Mr. Cormie, is it -- is
22 it your answer, if I recall what you said a few minutes
23 ago, that Manitoba Hydro is not constrained on tie-lines
24 for firm, that is dependable exports, that are on-peak?

25 MR. DAVID CORMIE: That's correct.

1 MR. BOB PETERS: And those on-peak
2 exports are by way of the written contracts that we've
3 talked about, and included in those is access to
4 transmission, correct?

5 MR. DAVID CORMIE: That's correct.

6 MR. BOB PETERS: And that essentially is
7 all of your contracts into the MISO region then are on-
8 peak or 5 by 16 deliveries.

9

10 (BRIEF PAUSE)

11

12 MR. DAVID CORMIE: I -- I believe the --
13 your question is to indicate that all our firm export
14 sales are 5 by 16 sales, and -- and that's what we have
15 to date.

16 We have no other sales that go outside of
17 the 5 by 16 period, except when the customer chooses to
18 buy supplementary energy under the contract.

19 MR. BOB PETERS: Thank you for -- for
20 that answer, Mr. Cormie. When we turn to the opportunity
21 contracts, is Manitoba Hydro constrained in its summer
22 peak opportunity sales?

23

24 (BRIEF PAUSE)

25

1 MR. DAVID CORMIE: The -- if you were to
2 look at all hours of the year, and -- and if you were to
3 look at them during the summer and the winter periods
4 separately, you would see that tie-line constrains are
5 export, less than -- less than 10 percent. Probably less
6 than 5 percent of the time.

7 And, so transmission is generally not a
8 barrier to making sales. The sales that would be
9 constrained because of transmission aren't firm export
10 sales; they are short term opportunity sales. And if we
11 were to run into a limitation on the US tie-line, we
12 would look for alternative markets. Maybe the Ontario
13 price would be a little bit lower. And we would then
14 divert some sales to the Ontario market, and if the
15 Ontario market were now filled at that price, then we
16 would con -- continue to look for other sales in the
17 Alberta market.

18 And -- but overall when you -- when you
19 include all the markets that we have access to, our
20 analysis over the last few years has indicated it's less
21 than 10 percent of the time that -- that we are
22 constrained, and probably more likely 5 percent of the
23 time.

24 MR. BOB PETERS: Mr. Cormie, at the --
25 the little handout of Information Requests that I

1 provided to the Board and to you, there are four (4)
2 pages stapled together. I believe the last one (1) will
3 be entitled PUB/Manitoba Hydro First Round 85G.

4 And Mr. Chairman, I want to the Board to
5 note that this Information Request did not come from the
6 current proceedings, but this came from the GRA
7 proceedings at the last hearing.

8 Did you locate that, Mr. Cormie?

9

10 (BRIEF PAUSE)

11

12 MR. DAVID CORMIE: This response is
13 PUB/MH-185?

14 MR. BOB PETERS: Yes, sir.

15 MR. DAVID CORMIE: I have that.

16 MR. BOB PETERS: And the maximum export
17 capability is shown in there as approximately 19,000
18 gigawatt hours a year to the USA?

19 MR. DAVID CORMIE: That's -- that's
20 correct.

21 MR. BOB PETERS: That number still is
22 correct? And it's a theoretical maximum, I'm taking it.

23 MR. DAVID CORMIE: That is -- that is a -
24 - an export of 2,175 megawatts for every hour of the --
25 of the year. And it is only theoretical; it -- it

1 doesn't have any -- any practical value.

2 The -- the reason it has no practical
3 value is that we have to reserve space on the
4 transmission line in order to provide room for
5 uncontrolled electricity flows. We also have to reserve
6 space on the transmission line to deliver our share of
7 reserves to the United States, and so we can't schedule
8 up to the 2,175 megawatt value.

9 The -- the scheduling limit to the United
10 States, instead of two thousand one seventy five (2,175)
11 today is two thousand and fourteen (2,014), and that --
12 and so we can enter into scheduled deliveries at that
13 amount. We have to reserve the balance for what I call
14 the -- the capacity benefit margin and the transmission
15 reliability margin.

16 So the nineteen thousand (19,000) is -- is
17 high. It also assumes that we have 2,175 megawatts of
18 surplus capacity and energy available year round, and we
19 don't have that. And, so if we -- if we did have it, I
20 guess we -- we could export, you know, close to the
21 nineteen thousand (19,000), but because of the nature of
22 the Manitoba load being much higher in the wintertime,
23 our surpluses in the winter are less than 1,000
24 megawatts. so we have 2,000 megawatts of tie-line space,
25 but only 1,000 megawatts of surplus generation, so it's -

1 - it's just an unrealistically high number.

2 MR. BOB PETERS: All right. Let's see if
3 we can narrow that down to something more realistic, Mr.
4 Cormie. In terms of dividing that nineteen thousand
5 (19,000) by twelve (12) months, we'd get approximately
6 1,583 gigawatt hours per month. And then if you took --
7 47 percent of that would be the equivalent of on-peak
8 time, correct?

9 MR. DAVID CORMIE: Could you ask the
10 question again?

11 MR. BOB PETERS: Yes, sir. If we -- if
12 we try to work it down by -- to a calculation of maximum
13 export capability per month, I divided that nineteen
14 thousand (19,000) by the twelve (12) months and I came up
15 with 1,583 gigawatt hours a month. And if you take that,
16 subject to check, I also then multiplied that by 47
17 percent, because you told the Board, or your panel mates
18 did, that on-peak is 47 percent of the time. And I came
19 up with about 744 gigawatt hours per month of on-peak.

20 And you're telling me that's theoretical
21 maximum, but it's not the -- the maximum that is in
22 reality, correct?

23 MR. DAVID CORMIE: Yes, I -- I'm
24 wondering, Mr. Peters, I'm getting -- a good year of
25 actual operation to compare to is during the flood of

1 2005/2006, when Manitoba Hydro had record high generation
2 of 37 million megawatt hours. And if my memory -- if my
3 memory serves me correct, I think we exported about 16
4 million megawatt hours in that year.

5 I would suggest that that's very close to
6 the theoretical maximum amount of megawatt hours that we
7 can export. I have to check the annual report to see if
8 that quantity is correct.

9 But it's -- theoretically it -- we just
10 don't have the capacity to -- surplus capacity to export
11 much more than that.

12 MR. BOB PETERS: What does that come down
13 to then on a monthly basis? Is that 650 gigawatt hours a
14 month?

15

16 (BRIEF PAUSE)

17

18 MR. DAVID CORMIE: Yeah, in -- in the
19 range of -- of 13 to 1,400 megawatts. I have the number
20 here. In net metered interchange, in 2006, in the annual
21 report, was 13.7 million megawatt hours, and on an
22 average basis that would have been around 1,560
23 megawatts.

24 MR. BOB PETERS: And what's the average
25 monthly on-peak?

1 (BRIEF PAUSE)

2

3 MR. DAVID CORMIE: We'd have to get that
4 number for you, Mr. Peters. It's -- we have significant
5 capacity constraints in the wintertime and, you know,
6 with the -- the Manitoba load is -- is up and we need to
7 use our surplus generation to serve Manitoba load. So I
8 -- I take that as an undertaking to provide that
9 information.

10

11 --- UNDERTAKING NO. 4: Manitoba Hydro to provide
12 average monthly on-peak

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: Well, in terms of our
16 discussion now, can we assume that the -- the maximum
17 export capability is approximately 650 gigawatt hours a
18 month? Are you comfortable using that assumption as we
19 go forward?

20

21 (BRIEF PAUSE)

22

23 MR. DAVID CORMIE: I -- I don't like to
24 use that average, Mr. Peters, because in the summertime
25 we have -- we can export 2,000 megawatts around the

1 clock. In the wintertime we don't have 1,000 meg -- or
2 2,000 megawatts of surplus, because we have 1,000
3 megawatts of additional heating load. And so -- and we
4 have water supply issues in the wintertime because of ice
5 restrictions.

6 And so to talk about an annual average
7 number is not meaningful. All I can tell you is that in
8 2005 and '06, we had the best market access availability
9 we've ever had. Our generating fleet worked wonderfully,
10 and we were able to export 13,700 gigawatt hours.

11 And I believe that's the maximum and I can
12 tell you what the -- and I believe that's -- that's as
13 high as it's ever going to be, because as the Manitoba
14 load grows between 75 and 100 megawatts a year, that
15 number will only go down until we develop new hydraulic
16 generation. And, so in the short term I wouldn't suggest
17 that we will ever be able to export more than the -- the
18 13,700 gigawatt hours that's shown in the annual report.

19 MR. BOB PETERS: Maybe we can go this
20 way, Mr. Cormie. In the materials that were provided to
21 you was PUB/Manitoba Hydro-16A. I believe that was in
22 the -- it's the front page of the -- the extracts I
23 photocopied last evening.

24 Do you have that, sir?

25 MR. DAVID CORMIE: Yes, I do.

1 MR. BOB PETERS: In looking at the
2 '06/'07 year, which is in the top half of the chart, can
3 you tell the Board for the on-peak sales which months
4 were there constraints on the tie-line?

5

6 (BRIEF PAUSE)

7

8 MR. DAVID CORMIE: I can't tell from
9 these numbers the months in which we were constrained,
10 but during the Summer of 2006 and during the Summer of
11 2007 water supply was not an issue. We had very high
12 flows and you can see that by the volumes of off-peak
13 energy that are being taken to market. May of 2006
14 through August of 2006, almost 600,000 megawatt hours of
15 energy is going to the off-peak market because we have --
16 we were in very high river flow conditions.

17 And, so during those months we would have
18 been maxing out the on-peak sales. And you can see that
19 the on-peak sales reached a maximum in June of 2006 of
20 around 806,000 megawatt hours.

21 The limitate -- limiting factor in Summer
22 sales is to the extent that there's air conditioning
23 demand in Manitoba; that means that we have to use our
24 surplus capacity in order to meet Manitoba demand. And
25 you can see in August of 2007 almost 980,000 megawatt

1 hours of off -- on-peak sales, again with an unlimited
2 water supply, because the off-peak sales were in the
3 order of 672,000 megawatt hours.

4 So I suggest that it's more a -- a
5 capacity issue on the generation, then it is availability
6 of the -- of tie-line in the on-peak. And it -- and --
7 and the capacity issue is determined by the -- the
8 exports are determined whether we have a very mild Summer
9 or a very hot Summer. In a hot Summer, we will need to
10 keep more capacity to serve Manitoba load, and that will
11 diminish the amount of -- of energy going to the on-peak
12 market.

13 MR. BOB PETERS: I took from your answer
14 that in the '06/'07 year, for the months of May, June,
15 July, and August, you probably were at your maximum tie-
16 line capacity.

17 Is that correct?

18 MR. DAVID CORMIE: No, we were at our
19 maximum generation capacity. And I suspect that we are
20 being -- we would be limited in the off-peak hours when -
21 - the tie-line will be limiting only in the off-peak
22 hours when we now have a lower Manitoba load. So surplus
23 generating capacity is no longer the binding constraint;
24 finding a market -- getting market access is a
25 constraint.

1 But when you look at these -- actually you
2 --when you look at flows on the interconnections during
3 the last two (2) years, and we've done that analysis, it
4 shows that given the -- all the constraints, the -- that
5 imposed by Manitoba load, that imposed by our generating
6 capacity, that imposed by maintenance requirements on our
7 units, and that imposed by water supply over the last few
8 years, its' -- the -- the tie-lines have been a
9 constraining factor, less than 10 percent of the time.
10 And it's not that they -- they don't constraint, it's
11 just that it's not -- they are -- the tie-line
12 constraints are not the major limiting factor, they are
13 one of the minor factors.

14 MR. BOB PETERS: Okay. Let's see if I
15 can explain this to the Board. In looking at the months
16 of -- let's took -- May of 2006, a month that you
17 identified, Mr. Cormie --

18 MR. DAVID CORMIE: Yes.

19 MR. BOB PETERS: -- you're suggesting
20 that in May of 2006, for you in-peak exports of 790
21 gigawatt hours in that month there was not a tie-line
22 constraint.

23 Have I got that correct?

24

25 (BRIEF PAUSE)

1 MR. DAVID CORMIE: I would -- I would say
2 that the -- the tie-line was not constraining in -- in
3 many of those hours, given that volume. There --
4 clearly, there could have been some hours it was -- was a
5 constraint, but -- but overall it was relatively few.

6 And -- and the reason the tie-line would
7 be -- is because May is not a heating month and it's not
8 an air-conditioning month, so there's lots of surplus
9 capacity in Manitoba that's not needed to serve the
10 Manitoba load that can now be used to generate for the
11 export market. And -- and in those light-load months
12 that's the months in which tie-lines is more likely to be
13 a constraint. Especially during the off peak when
14 overnight energy demands are very low in Manitoba and --
15 and there could be -- tie-lines could be constraining.

16 MR. BOB PETERS: Mr. Cormie, if there
17 hadn't been generation compat -- generation capacity
18 constraints, as you've suggested, would the on-peak sales
19 have been 10 percent more?

20

21 (BRIEF PAUSE)

22

23 MR. DAVID CORMIE: All I can do is look
24 at August of 2007, where I can see that we did export as
25 much as 980 megawatt hours, and would suggest that that

1 is a -- probably the best that could be done.

2 MR. BOB PETERS: So, Mr. Cormie, back to
3 my May of 2006, you marketed 790 gigawatt hours at
4 approximately five point seven (5.7) cents a kilowatt
5 hour?

6 MR. DAVID CORMIE: That's correct.

7 MR. BOB PETERS: And so you were getting
8 five point seven (5.7) cents on peak, and you also sold
9 off peak for three (3) cents less, for two point seven
10 (2.7) cents a kilowatt hour, correct?

11 MR. DAVID CORMIE: That's correct.

12 MR. BOB PETERS: And you're telling the
13 Board that you had -- that you weren't limited by tie-
14 line capacity, at least not very much during that month?

15 MR. DAVID CORMIE: I'm -- yeah, that's
16 correct, yeah.

17 MR. BOB PETERS: And so why would you
18 sell 670,000 megawatt hours at twenty-seven dollars (\$27)
19 when you could have sold it on-peak for fifty-seven
20 dollars (\$57)?

21 MR. DAVID CORMIE: Because we ran -- we -
22 - we had -- all our generators were already running in
23 the on-peak and -- and there was more -- more water
24 available and rather than opening the spillway, we chose
25 to market the extra water and -- and energy in the off-

1 peak and gain twenty-seven dollars (\$27) a megawatt hour.

2 We were already maxing out the generating
3 capacity that was available and -- and that resulted in
4 790,000 megawatt hours. The transmission was probably a
5 limiting factor in a few of those hours but it would have
6 been generating capacity that would be the predominant
7 constraint.

8 MR. BOB PETERS: But if the maximum was -
9 - if we go down to August of 2007, when you said there
10 probably was no constraints, 790 gigawatt hours is
11 considerably less than the 981 gigawatt hours that you
12 got in August of '07, correct?

13 MR. DAVID CORMIE: Yes. But you're
14 making the assumption that the Manitoba energy demand is
15 exactly the same and that our maintenance schedule is
16 exactly the same in both years, and -- and it's -- I
17 don't think you can make that assumption.

18

19 (BRIEF PAUSE)

20

21 MR. DAVID CORMIE: We -- we have -- May -
22 - May is a maintenance month. So we don't generally do
23 maintenance June, July, August because that's a premium -
24 - the premium months of the year.

25 There's a huge financial incentive to sell

1 the energy on-peak. We would only choose to sell the
2 energy off-peak having already fully utilised all the
3 resources that we had available in the on-peak. It --
4 it...

5 MR. BOB PETERS: I understand --

6 MR. DAVID CORMIE: It's -- maybe it needs
7 to be said -- it would be a stupid blunder to do anything
8 different. It's not something that we would do. We...

9 MR. BOB PETERS: Certainly not
10 deliberately, is what you're telling us, Mr. Cormie?

11 MR. DAVID CORMIE: Why -- why sell low
12 when you can sell high?

13 And -- and what's not shown here is that
14 there are several hundreds -- thousands of megawatt hours
15 that are actually going over the spillway, but they don't
16 show up in the sales because they're -- it's energy
17 that's not generated.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Let's just focus for a
22 minute then on the generation constraints that you --
23 that you indicate would be the major constraint, because
24 it would be silly -- a silly blunder to do otherwise if
25 you had the available capacity, Mr. Cormie.

1 The generation constraints, that could
2 happen because, firstly, there would be insufficient
3 water and storage; that could be one (1) of the problems;
4 not in this particular fact example, per se, but that is
5 a generation constraint?

6 MR. DAVID CORMIE: For the hydraulic
7 generation, yes.

8 MR. BOB PETERS: And -- but that wasn't
9 factually a constraint in '06/'07 fiscal year, or in the
10 '07/'08 fiscal year?

11 MR. DAVID CORMIE: No, those were both
12 very good water years.

13 MR. BOB PETERS: And even going forward,
14 we haven't yet talked to Mr. Warden, but we understand
15 it's a good water still going forward?

16 MR. DAVID CORMIE: We're having a good
17 year.

18 MR. BOB PETERS: So the generation
19 constraint is that you don't have enough generators that
20 can be -- that water can run through the turbine and spin
21 them to create more electricity; that's a -- that's a
22 limitation that you're -- you're saying existed factually
23 in '06/'07 and '07/'08?

24 MR. DAVID CORMIE: That's correct. You
25 know, we, at generating station, we have the choice of

1 how many units to install and -- and our planners
2 determine the optimum size and number of generators to
3 install. And once they're installed, that's our
4 available capacity and we can't generate beyond that, in
5 spite of the fact there may be more water available. And
6 that's an economic calculation that is done in sizing a
7 generating station.

8 MR. BOB PETERS: And then if you have
9 lots of water but not enough generators, your choice is
10 either to store the water and when the storage is full,
11 it has to spill over?

12 MR. DAVID CORMIE: That's correct.

13 MR. BOB PETERS: The -- the generating
14 constraints from what you talked about, I take it those
15 were constraints that were only on the off-peak -- sorry,
16 only on the on-peak hours?

17 MR. DAVID CORMIE: Well, if the unit --
18 if the unit is out of service, it -- it would be out for
19 a week at a time, both on-peak and off-peak, so
20 generally, we try and do our maintenance during the off-
21 peak hours and on weekends when prices are lower and --
22 and maximise the availability of the fleet during the on-
23 peak hours, but that's not always possible with extended
24 outages.

25 And there are -- there are stations where

1 we're doing unit overhauls and -- and generators may be
2 out of service for six (6) months as construction work is
3 undertaken.

4 So, you know, to the extent that we can do
5 maintenance during the low-value, off-peak hours we do
6 that, but at times we have to take them out in the on-
7 peak hours as well.

8 MR. BOB PETERS: But in terms of actual
9 generation of electricity, you are constrained only on
10 the off-peak hours?

11

12 (BRIEF PAUSE)

13

14 MR. BOB PETERS: Let me re-ask the
15 question, Mr. Cormie. On PUB/Manitoba Hydro-16A, any
16 generating constraints that -- that you had would show up
17 on the on-peak side of the ledger, as opposed to the off-
18 peak side.

19 Would that be correct?

20 MR. DAVID CORMIE: They -- for sure they
21 will show up in the on-peak. If -- if tie-line capacity
22 is constraining in the off-peak, whether we had that last
23 unit available at a generating station would make no
24 difference because it would be tie-line constraint that
25 would be -- would be limiting in the off-peak.

1 So it's most likely that a generation
2 constraint in the on-peak -- a generation constraint in
3 the off-peak, but in a few of the off-peak hours it will
4 be transmission constraint.

5 MR. BOB PETERS: And seasonally, does
6 Manitoba Hydro notice a difference then between the
7 winter and the summer in terms of generation constraints?

8 MR. DAVID CORMIE: There are less
9 generation constraints in the wintertime. And in the --
10 let me -- let me put it this way. We do our maintenance
11 during the shoulder months, in -- in the Spring and in
12 the Fall, and in trying to have all the generation
13 available in the other months, winter and summer.

14 But in the wintertime water supply is --
15 is a constraint, because we can't get the water from Lake
16 Winnipeg to the large generating stations in the winter,
17 due to ice limitations at the outlet. And so water
18 supply limits our ability in the wintertime, which --
19 which means that Manitoba Hydro goes to the off-peak
20 market and buys the energy it needs at night in order to
21 maximise the use of its generation in the on-peak.

22 So there's -- purchases are used to
23 balance in the wintertime, where in the summertime we can
24 provide adequate water, in -- in good water years, to the
25 summer market.

1 MR. BOB PETERS: Mr. Cormie, in the few
2 minutes we have before the lunch recess I wanted to just
3 ask you about some information that was provided to the
4 Board in the evidence by Mr. Chernick. And in aspects of
5 his evidence, he suggested that there were hundreds of
6 megawatts of additional summer on-peak exports possible,
7 and they were possible with the existing transmission.

8 Do you recall his evidence, sir, and I
9 appreciate it may have been some time --

10 MR. DAVID CORMIE: Yes, I -- I reviewed
11 his evidence. I think Mr. Chernick was using the maximum
12 tie-line capability, rather than the scheduling tie-line
13 capability and as a result, he -- he probably overstated
14 the amount of surplus that is there.

15 But there -- there is surplus available.
16 I don't -- don't disagree with his conclusion that
17 there's surplus, but to the extent he was basing that on
18 the maximum theoretical limit, rather than the scheduling
19 limit, it's overstated.

20 MR. BOB PETERS: And the maximum is the
21 theoretical limit that we looked at on PUB-85G from the
22 GRA, Mr. Cormie, that was the maximum theoretical limit?

23 MR. DAVID CORMIE: Right. The -- that --
24 that exhibit shows 2,175 megawatts to the US, when we can
25 only schedule to two thousand and fourteen (2,014). I

1 believe it shows four hundred (400) to -- or three
2 hundred and fifty (350) to Ontario; we can only schedule
3 to two sixty-three (263). It shows three hundred and
4 seventy-five (375) to Saskatchewan, and it's -- on
5 average if we counted on more than a hundred (100) I
6 would be -- I would be surprised, because of the
7 constraints within Saskatchewan.

8 MR. BOB PETERS: I think, Mr. Cormie, you
9 mixed up -- and I hate to interrupt, but you -- you mixed
10 up I think the export and the import columns. The
11 maximum theoretical exporting to Ontario is shown as
12 three hundred (300), not two hundred (200), and -- and
13 four hundred and fifty (450) to Saskatchewan?

14 MR. DAVID CORMIE: Yeah, the -- the
15 maximum export is shown as three hundred (300). We -- we
16 only have two hundred (200) firm and we have sixty-three
17 (63) non-firm for a total of two sixty-three (263).

18 Saskatchewan is shown as four fifty (450).
19 We can -- we can rarely export more than a hundred (100)
20 on -- on that line, so it's -- the total from a
21 scheduling perspective, realistically, is two thousand
22 three hundred and seventy-seven (2,377), compared to the
23 twenty-nine twenty-five (2,925) that's shown as the
24 maximum.

25 But even if you use the twenty-three

1 seventy-seven (2,377) as the limit, it's less than --
2 it's less than 10 percent, more likely 5 percent of the
3 time, that these transmission constraints -- these
4 scheduling limitations actually bottle energy in Manitoba
5 that we are trying to export.

6 MR. BOB PETERS: And just so the -- the
7 record is clear, the word "scheduling" that you used
8 means sales that are committed to go to the counterparty?

9 MR. DAVID CORMIE: That -- that's
10 correct.

11 MR. BOB PETERS: Mr. Chairman, in light
12 of the time, this is also an appropriate time in my notes
13 to take a break. I will -- I will be brief after lunch
14 with the witness panel before I hand it off to alert my
15 colleagues.

16 THE CHAIRPERSON: Very good, Mr. Peters.
17 See you all back at 1:15. Thank you.

18

19 --- Upon recessing at 12:02 p.m.

20 --- Upon resuming at 1:22 p.m.

21

22 THE CHAIRPERSON: Okay. Welcome back,
23 everyone. Ms. Ramage, you were passing out, it looks
24 like, an undertaking?

25 MS. PATTI RAMAGE: It's not actually an

1 undertaking, Mr. Chair. What it is, is Mr. Cormie
2 thought it may assist the Board to graphically depict
3 what he was attempting to explain this morning, in terms
4 of firm and non-firm sales and constraints, with respect
5 to same.

6 THE CHAIRPERSON: Oh, very good then.
7 Mr. Peters...?

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: All right, Mr. Cormie,
11 we're in the sprint to the finish line here, and I -- I
12 don't want you slowing me down, but let's -- let me just
13 -- before we get to your document, finish on the points
14 we talked of just below -- before the lunch recess.

15 In essence, you told the Board that
16 whatever the theoretical maximum is, in terms of their --
17 of Manitoba Hydro's inter-tie capacity, there are
18 practical reasons for constraints, and 2,014 megawatts is
19 essentially the maximum capacity, correct?

20 MR. DAVID CORMIE: 2,014 megawatts is the
21 -- is the scheduling capacity to the United States by
22 itself.

23 MR. BOB PETERS: All right. I should
24 have used the words, "scheduling capacity to the US"?

25 MR. DAVID CORMIE: Right.

1 MR. BOB PETERS: All right. And you did
2 show us the other scheduling capacities to the other
3 provinces, so I don't want to go there.

4 But in terms of the that scheduling
5 capacity to the States, if we multiply that by the hours
6 in the month and then multiply that by 47 percent to get
7 the on-peak capacity, my number comes up to just under
8 seven hundred (700).

9 Is that the same as yours, 700 megawatt
10 hours?

11

12 (BRIEF PAUSE)

13

14 MR. DAVID CORMIE: Well, I -- I get 8.4
15 million megawatt hours.

16 MR. BOB PETERS: Right.

17 MR. DAVID CORMIE: 2,014 megawatts.
18 Eight thousand seven hundred and sixty (8,760) hours a
19 year, 47 percent of the time.

20 MR. BOB PETERS: I was doing seven
21 hundred and thirty (730) hours a month. Why wouldn't
22 that be the right number?

23 MR. DAVID CORMIE: Oh, div -- divided by
24 twelve (12). I get 700 megawatts.

25 MR. BOB PETERS: Good. We -- and I

1 certainly don't blame you for double-checking my numbers,
2 so don't ever suggest -- let me suggest that.

3 So let's -- let's say we're around 700 --
4 700 gigawatt hours per month. When I looked, Mr. Cormie,
5 at PUB-16A, which was a document that I handed out this
6 morning, I'm given to assume that for every month shown
7 on-peak, that is in excess of 700 gigawatt hours,
8 something has happened to give you that ability to
9 export, that you don't have, just based on your inter-tie
10 capacity to the United States.

11 Am I correct?

12 MR. DAVID CORMIE: Yes, you're correct.
13 The thing that's -- is -- is different, is that that
14 table includes all sales to Ontario, Saskatchewan,
15 Alberta and the US, not just to the US.

16 MR. BOB PETERS: And those -- those sales
17 to Alberta are included in there as well?

18 MR. DAVID CORMIE: Yes. All opportunity
19 sales are included.

20 MR. BOB PETERS: And so we've also called
21 them, I think this morning, those are the merchant
22 transactions, or the merchant sales, that you make.

23 Those are also included, correct?

24 MR. DAVID CORMIE: I don't believe we
25 have any merchant sales to Alberta.

1 MR. BOB PETERS: But you do have to
2 Ontario, and perhaps Saskatchewan?

3 MR. DAVID CORMIE: There will be no
4 merchant sales to Saskatchewan. The merchant sales will
5 be the buying out of the MISO market and selling into the
6 Ontario market.

7 MR. BOB PETERS: And those Ontario
8 merchant sales then may be included in the on-peak
9 monthly export numbers that you show?

10 MR. DAVID CORMIE: Yes, because they are
11 part of the opportunity sales volumes.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: And before I leave that,
16 on page 8.4 of the book of documents, Mr. Cormie, can you
17 include, then, that the opportunity sales on that
18 schedule include the merchant sales, or the trading
19 transactions, that you've told us about this morning?

20 MR. DAVID CORMIE: No, we've excluded the
21 merchant transactions from the opportunity sales in that
22 table, because we're trying to reflect the value of the -
23 - Manitoba's generation, not of our -- our merchant
24 activity outside of Manitoba.

25 It also excludes hedging revenues. There

1 are some timing differences and we had to make some
2 adjustments for contracts for differences.

3 MR. BOB PETERS: Explain to the Board the
4 hedging comment, Mr. Cormie, please.

5 MR. DAVID CORMIE: Manitoba Hydro buys
6 insurance for transmission-line congestion. And unlike
7 most insurance policies this policy that we purchase has
8 the opportunity of -- of returning more money back to
9 Manitoba Hydro than we pay in premiums. And it -- it's
10 become a -- a significant source of revenue, because of
11 our ability to predict when congestion will occur.

12 And -- and so those revenues -- normally
13 insurance premiums would be a cost, those are -- but
14 those -- those end up being, I'd say, a negative cost or
15 we end up getting paid back more than we pay -- than we
16 paid for the insurance. And so there's revenues that --
17 that flow to the Company that -- that have been excluded
18 from -- from these calculations.

19 MR. ROBERT MAYER: I'd sure like to know
20 how you can buy that kind of insurance, that pays me back
21 something other and life insurance?

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Is the premise of that
25 insurance -- Manitoba Hydro's understanding of the

1 transmission constraints that will exist and being able
2 to purchase insurance to cover it in -- in the event that
3 does happen?

4 MR. DAVID CORMIE: That -- those -- that
5 insurance -- if Manitoba Hydro is -- knows that it's
6 going to be a heavy seller into the MISO market, and we
7 potentially can depress the price at our -- our point of
8 sale at the border, we can -- we can buy insurance to
9 protect the price to any other location in the MISO
10 market. Generally we protect the price to Minneapolis.

11 And so we buy that insurance and against -
12 - it's an insurance against the prices collapsing. And
13 that -- that purchase of insurance is based on a
14 calculation of how often we think congestion might occur,
15 how much the price might collapse, and we determine a
16 price at which -- the maximum price for the insurance
17 that we're willing to pay, at -- at which point it -- we
18 would be better to take the loss than to pay the premiums
19 on the insurance.

20 So we're indifferent to owning the
21 insurance, because we -- if -- if we buy the insurance at
22 the price we're willing to pay, if we pay more than that,
23 we're paying for -- for -- we're -- we're not getting any
24 additional value.

25 So we -- we enter into an auction, we buy

1 the insurance if we -- we acquire the insurance. If the
2 auctions clears at the price we're willing to pay, that
3 gives us the insurance policy. And then what happens is
4 the congestion happens more often, or to a greater extent
5 than -- than we anticipated, and the insurance company
6 pays out and the -- the payout exceeds the premiums that
7 -- that we paid at the auction, and -- and it generate --
8 it becomes a source of revenue for the Corporation.

9 It's not intended to be a -- a speculative
10 transaction; it is -- it's to hedge the risk of price
11 collapse. It's just that -- that because we know how
12 often or we -- we control the flows on the
13 interconnection, we know how to manage our water supply
14 and our generation, we're a much more intelligent
15 purchaser of -- of insurance than the standard market
16 participant. And -- and so it ends up that we end up
17 generating I think about \$8 million a year in -- in
18 revenues associated with the hedging program.

19 MR. BOB PETERS: Recognizing it may be a
20 modest \$8 million a year, does that number show up in any
21 way on the Information -- on PUB-16A. Because you've
22 told us it doesn't show up on page 84 of the book of
23 documents, but does it -- does that number show up on
24 PUB-16A?

25 MR. DAVID CORMIE: No, that won't be in

1 16A, because again we're -- we're getting -- we're
2 getting paid out by the insurance company and it's not
3 associated with the actual price that we receive. These
4 are the actual -- 16A is the actual prices that we
5 received. In addition to that, there is these other
6 revenues.

7 MR. BOB PETERS: And Manitoba Hydro in
8 your words takes out that insurance, Mr. Cormie, even
9 though you're telling the Board that the capacity on the
10 tie-lines is seldom constrained?

11 MR. DAVID CORMIE: The -- the capacity of
12 the line is different then -- whether the price will
13 collapse. If the price collapses, that's not because
14 there's not enough transfer capability. The megawatt
15 hours will flow, it's just that they flow at a discount.

16 And we -- we want to protect those --
17 those spot market transactions from -- from low prices.
18 And if we know in advance that we are going to have
19 energy that's not been -- the price is exposed to -- to
20 spot market prices, it can collapse, then we insure those
21 megawatt hours.

22 Energy that's sold under contract, the
23 price is already fixed; we're not -- we're not exposed to
24 any price uncertainty. But energy that is not -- that's
25 at market prices, it's subject to congestion, financial

1 congestion, not physical congestion, then we -- we buy
2 the -- we buy the -- the insurance to protect against the
3 -- the dramatic drop in price.

4 MR. BOB PETERS: All right. I -- I was
5 thinking physical congestion, but you're indicating that
6 the -- the financial congestion is as a result of the
7 market collapsing at the time you make those spot sales.

8 MR. DAVID CORMIE: Yeah, and -- and these
9 are referred to as financial transmission rights in the
10 MISO market. In Ontario they call them transmission
11 rights, but in the US they're called FTRs. They can pay
12 out, or they're also -- they -- they are an obligation.
13 They can go against you and you may have to pay. They
14 can -- they -- you can benefit or dis-benefit from
15 holding those.

16 We're very careful on which ones we buy,
17 and -- and overall it's -- it's been a -- a good -- a
18 good activity for Manitoba Hydro.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: Mr. Cormie, would it be
23 only a coincidence, or is it by design, that the
24 information on PUB-16 is almost exactly the same as on
25 page 8.4 of the book of documents? And I'm looking at

1 the totals for those -- for those transactions.

2 MR. DAVID CORMIE: Well, there -- there
3 is only one (1) source of information, so it's not
4 coincident or by design. We answer the question as it's
5 asked and the source of the information is exactly the
6 same, so I -- I'm not sure what your question is.

7 MR. BOB PETERS: Well, I thought one (1)
8 of them excluded certain transactions, and yet one (1) of
9 the other ones may have included those same transactions,
10 and I wonder if there was a disconnect because of that.

11 MR. DAVID CORMIE: Can you give me an
12 example of the compare --

13 MR. BOB PETERS: I'll -- I'll take that
14 to your counsel, and if we're going to proceed with it
15 we'll do it by way of an undertaking, I think would be
16 the best -- the best use of the time, Mr. Cormie.

17 I do want to ask you though, sir, you've
18 told the Board that '07/'08 was a high water-flow year,
19 correct?

20 MR. DAVID CORMIE: Yes.

21 MR. BOB PETERS: And even projected
22 forward, it's looking good, I think your words were.

23 MR. DAVID CORMIE: Yes, we'll have a -- a
24 favourable year.

25 MR. BOB PETERS: And in essence, you were

1 pretty -- pretty much maxed-out on what you could export
2 on- peak at your five (5) by sixteen (16) times for
3 energy in the summer of '07/'08?

4 MR. DAVID CORMIE: Yes, we -- we're
5 spilling water on the Nelson River quite a bit of the
6 summer and fall months, and we would be generating as --
7 as much as we were capable of.

8 MR. BOB PETERS: And you couldn't have --
9 you couldn't have exported any more, even if it had been
10 made available from reduced domestic demand by customers?

11 MR. DAVID CORMIE: Because the generation
12 is the limiting factor, a reduction in Manitoba demand
13 would have resulted in more exports, but the total number
14 of megawatt hours generated would have been the same.

15 MR. BOB PETERS: But you would have had
16 to sell it off-peak at a lower price, correct?

17 MR. DAVID CORMIE: Well if the reduction
18 in Manitoba demand was in the on-peak, then there would
19 have been more available to take to the on-peak market.
20 The generation is fixed. The question is whether it's
21 dropped off in Manitoba, or whether it take -- it's taken
22 outside the province.

23

24

(BRIEF PAUSE)

25

1 MR. BOB PETERS: When I look at the
2 information provided in PUB-16, it suggests the tie-lines
3 were full during those months, and I think you gave us
4 August as -- as the highest month example; that would
5 have been a -- a month in which there was constraint on
6 the tie-lines for on-peak exports?

7 MR. DAVID CORMIE: Are we talking this
8 Summer, or in the Summer of 2007?

9 MR. BOB PETERS: '07/'08.

10 MR. DAVID CORMIE: Last Summer, the same
11 argument would apply. There was no lack of water. Our
12 generation would have been maxed-out during all hours in
13 the summertime, and a -- a reduction in Manitoba load in
14 the on-peak would have translated into an increase in
15 exports in the on-peak. And during the off-peak, there
16 would have been additional exports up to the capacity of
17 the -- the tie-line that was available at the time.

18 MR. BOB PETERS: Have you found a
19 situation, Mr. Cormie, where even when Manitoba Hydro has
20 surplus five (5) by sixteen (16) capacity, the market may
21 not take it at the price you want?

22 MR. DAVID CORMIE: Yes, there are times
23 when -- and most of the time is when we offer our gas
24 generation into the market. We offer it in every day as
25 required by the market. But our gas generators at

1 Brandon are not very efficient, relative to the market,
2 and so on a daily basis the MISO says: No thank you,
3 Manitoba Hydro, we don't require your gas generation
4 today, it's too expensive. We have less expensive
5 alternatives available.

6 So our gas generation rarely is in the
7 money, and is rarely dispatched for -- for economics.

8 MR. BOB PETERS: Mr. Wiens, over to you,
9 sir. In the rebuttal evidence of Manitoba Hydro, there
10 is discussion about Manitoba Hydro equating the average
11 revenues from its residential class or its General
12 Service Small or General Service Medium class as a
13 benchmark for the General Service Large classes.

14 Do you remember that discussion,
15 generally?

16 MR. ROBIN WIENS: Perhaps you could refer
17 me to a page number, Mr. Peters.

18 MR. BOB PETERS: Page 13 of 29, lines 6
19 to 15.

20 MR. ROBIN WIENS: Yes, I see that.

21 MR. BOB PETERS: When the Board reads
22 that, there's a suggestion from Manitoba Hydro that if
23 Manitoba Hydro can sell a kilowatt hour to a residential
24 customer, it's financially better off than if it sells a
25 kilowatt hour to a GSL greater than one hundred (100)

1 customer?

2 MR. ROBIN WIENS: It depends on -- it
3 depends on the price that's able to be obtained at the
4 time. And the reference here is to the -- to the average
5 opportunity sales revenue during the course of, I
6 believe, either one (1) or two (2) years. And what it is
7 saying is that if we had a temporary reduction in
8 residential load during that time, not necessarily a
9 sustained one, then that kilowatt hour would -- diverted
10 into opportunity sales it may not achieve as much revenue
11 as the residential customer would give it.

12 We're talking in the short term here. If
13 -- if the residential load increases by a kilowatt hour,
14 typically during that period it would have given more
15 than an opportunity sale in the export market, on
16 average. But if that kilowatt -- the longer that
17 kilowatt hour lasted on -- as additional demand, then the
18 short-term opportunity value is going to be less and less
19 relevant, and you're going to have to look at something
20 more that's firm and eventually you have to look at
21 transmission and distribution.

22 But in the very short term, that's what
23 you're looking at.

24 MR. BOB PETERS: Book of documents, Tab
25 16, sneaks in quietly some pages from the MIPUG evidence

1 at the General Rate Application. I believe it was marked
2 as an exhibit but I don't have it handy, so I reproduced
3 the -- the discussion following it. But I've got a page,
4 number 28, showing there; Mr. Wiens, have you found that?

5 MR. ROBIN WIENS: Yes.

6 MR. BOB PETERS: If we talk just bulk
7 power costs, the bulk power costs to serve General
8 Service Large greater than 100 kV or to serve a
9 residential customer aren't that different.

10 Do you agree with that?

11 MR. ROBIN WIENS: Well, it depends on
12 what you think is a material difference but --

13 MR. BOB PETERS: All right --

14 MR. ROBIN WIENS: -- you're -- you're
15 looking at something in the order of, I don't know, 10 --
16 12 percent difference.

17 MR. BOB PETERS: That being the
18 residential customer's more expensive to provide bulk
19 power for?

20 MR. ROBIN WIENS: That's what this is
21 showing, yes.

22 MR. BOB PETERS: All right. And so if
23 you were to sell that kilowatt hour that was freed up on
24 the short term and you sold it for an opportunity price,
25 no matter what that opportunity price was, you'd have to

1 measure that against the costs you would receive from
2 these classes had it been sold to the -- to one (1) of
3 the domestic customers?

4 MR. ROBIN WIENS: Why -- why would that
5 be, Mr. Peters?

6 MR. BOB PETERS: Well --

7 MR. ROBIN WIENS: I don't quite
8 understand why that would be.

9 MR. BOB PETERS: Well --

10 MR. ROBIN WIENS: This is -- this is an
11 allocated embedded cost. What we're talking about here
12 is marginal revenue versus marginal cost. They're not
13 the same concept.

14 MR. BOB PETERS: I appreciate the -- the
15 difference in concept, but the suggestion that -- is it
16 Manitoba Hydro's suggestion that a kilowatt hour saved by
17 a domestic customer has more value or less value than a
18 kilowatt hour saved from a GSL greater than 100 kV
19 customer?

20 MR. ROBIN WIENS: Well, it -- it may very
21 well, and -- and the -- the reason for this difference is
22 likely to be because of the distribution. And this is --
23 this is an average over a year, and the distribution of a
24 residential customer's load is different from the
25 distribution of a large industrial customer's load, both

1 with reference to time of day and with reference to
2 season.

3 So this -- this would be reflected in --
4 in the difference between those -- these numbers. The --
5 the other factor, of course, is that the residential
6 customer is getting that kilowatt hour at distribution
7 voltage so it takes a little bit more energy at the
8 generator to get that same kilowatt hour to the
9 residential customer.

10 So those are the things that will account
11 for the differences in the embedded cost that's shown in
12 here. And the same factors will count for the difference
13 in the -- in the -- the value of the marginal energy
14 sold. The residential customer giving up a kilowatt hour
15 on average is giving it up at times when it has more
16 value.

17 But this is the embedded cost and I'm
18 referencing the short-term marginal cost or the
19 opportunity value.

20 MR. BOB PETERS: All right. I've -- I
21 understand your difference and I appreciate your showing
22 us on the document on book of documents number 16. What
23 in essence it comes to when it's the embedded cost, Mr.
24 Wiens, is that there is a distribution in customer
25 service component that is quite significant for the

1 residential customer compared to the general service
2 large customer.

3 MR. ROBIN WIENS: The customer service
4 component doesn't enter into the -- when you're looking
5 at bulk -- at bulk power; that's -- that's typically
6 treated in tandem with the distribution cost. But the --
7 the distribution losses are factored in to this bulk
8 power cost for residential.

9 MR. BOB PETERS: All right. And -- and
10 the other -- the point I'm making at line 5 of the book
11 of documents, page 28, line -- line 5 of that chart,
12 shows that there are distribution costs for residential
13 customers incurred by Manitoba Hydro on an embedded basis
14 of about three and a half (3 1/2) cents a kilowatt hour,
15 whereas they're less than -- they're -- they're point
16 zero four (.04) cents for the GSL greater than one
17 hundred (100) customer.

18 MR. ROBIN WIENS: That's correct.

19 MR. BOB PETERS: All right.

20 MR. ROBIN WIENS: But these are not the
21 same thing, again, as marginal costs.

22 MR. BOB PETERS: Got your point, Mr.
23 Wiens. Thank you.

24 In the rebuttal evidence, Mr. Wiens, it
25 talked a little bit about the new long-term export sales.

1 And that was on pages 3 and 4 of 29, lines 15 to 31 on --
2 and then also on lines 1 to 17, just for the record.

3 But my -- my question, Mr. Wiens, is to
4 ask whether Manitoba Hydro has prepared a new power
5 resource plan which incorporates the new contract sales
6 as well as the proposed Bipole III, Keeyask and Conawapa
7 generating station projects?

8 MR. HAROLD SURMINSKI: Yes. Manitoba
9 Hydro is in the -- in the process of preparing the
10 resource plan and getting it finalized. It's in draft
11 form right now.

12 MR. BOB PETERS: And when -- when, Mr.
13 Surminski and Mr. Warden, do you expect it to be in final
14 form available for the Board?

15 MR. VINCE WARDEN: Are you saying this
16 Board, Mr. Peters, or...?

17 MR. BOB PETERS: Yes. Yes.

18 MR. VINCE WARDEN: Okay --

19 MR. BOB PETERS: I appreciate you're --
20 you're answering that to suggest that it has to first go
21 through your Board, Mr. Warden?

22 MR. VINCE WARDEN: That's correct. And
23 the --

24 MR. BOB PETERS: All right.

25 MR. VINCE WARDEN: -- and the plan is to

1 take an updated resource plan, integrated financial
2 forecast to the Manitoba Hydro Board. I believe the date
3 is January 22nd, and from there it would be filed with
4 this Board.

5 MR. BOB PETERS: And in that rebuttal,
6 Mr. Wiens, there's reference to -- and Mr. Cormie, to
7 import energy guarantees that will preclude shorter-term
8 energy shortages.

9 Do you recall evidence to that effect?

10 MR. DAVID CORMIE: Yes, I do.

11 MR. BOB PETERS: And will the specifics
12 of those guarantees be provided to the Board at the time
13 the Power Resource Plan is filed? To this Board.

14 MR. HAROLD SURMINSKI: I can give you
15 information that the Power Resource Plan includes the
16 supply-demand tables, and within those tables we give the
17 -- the export sales, that is the energy flowing out, and
18 the energy guarantees or imports flowing in. So in those
19 tables you -- you could gather the information that
20 you're talking about, yes. The guarantees coming back.

21 MR. BOB PETERS: It'll be discretely
22 identified, is what you're telling the Board?

23 MR. HAROLD SURMINSKI: If you wish it to
24 be, we can separate it out because we normally include it
25 together with others. But in this case we could separate

1 it out.

2 MR. BOB PETERS: Maybe do what the
3 accountants do, and attach a note, and we can -- we can
4 follow the note.

5 MR. HAROLD SURMINSKI: Yes.

6 MR. BOB PETERS: Okay. Mr. Dudar, when
7 we talked earlier today, you had told the Board about how
8 you perhaps had the unenviable assignment of meeting with
9 some large customers, talking about your proposal, and
10 then putting parameters around it, correct?

11 MR. MICHAEL DUDAR: That's correct.

12 MR. BOB PETERS: Without getting into any
13 specifics, would you agree that it -- it's somewhat
14 uncomfortable when you do that, when you know there's
15 going to be winners and losers in the sense of somebody's
16 going to have to pay more, and somebody might not have to
17 pay more?

18 MR. MICHAEL DUDAR: It -- it's
19 uncomfortable, but -- but the discussions -- you -- you
20 deal with the issue, and -- sort of independently, and
21 then deal with any other issues that you have to work
22 with them. They -- they're still a customer, and -- and
23 there's other customer service issues, energy efficiency
24 project issues that -- that need to be dealt with.

25 So you -- you need to separate this

1 particular issue from -- from other business issues that
2 we deal with the customers on.

3 MR. BOB PETERS: And I'm sure it was
4 nothing less than professional, Mr. Dudar, and nothing
5 that I'm suggesting is to the contrary. But did you --
6 did you consider why not making all companies pay a new
7 rate for some of the load, or some of the load growth?

8 Was that a discussion point that was
9 taken?

10

11 (BRIEF PAUSE)

12

13 MR. MICHAEL DUDAR: I -- I don't think we
14 -- we really looked at that. We -- when -- when we made
15 our -- our presentation at -- at the previous GRA, we --
16 we indicated that we had a concern, with respect to the
17 rapid growth of two (2) particular customer classes
18 within Manitoba. And -- and to deal with that specific
19 issue, we -- we created these economic exemptions, and --
20 and hurdle rates, and -- and things of that sort.

21 Our -- our concern with those -- those two
22 (2) customer classes didn't go away. What -- what went
23 away was the -- the use of -- of some economic benefits
24 formula. And -- and when we removed that, we needed to --
25 - to come up with another mechanism to provide for some

1 growth, while still ensuring that we didn't have rapid
2 unconstrained growth by those two (2) particular customer
3 classes, or -- or that if they choose to -- to grow in
4 Manitoba, that they would pay a higher rate for that
5 growth.

6 And -- and we felt that -- at least for
7 most of the targeted customers, that they receive some
8 opportunity to reduce their costs over time with the
9 current proposal.

10 MR. BOB PETERS: Even after removing the
11 economic exemptions that were talked about at the General
12 Rate Application Hearing, some customers still had to --
13 had to pay a higher rate for some portion of their energy
14 growth, otherwise this rate was -- wasn't going to
15 accomplish what Manitoba Hydro wanted it to accomplish,
16 correct?

17 MR. MICHAEL DUDAR: That's correct.

18 MR. BOB PETERS: And I'm not going to put
19 words in Mr. Chernick's mouth, he'll do that quite well
20 himself I'm sure when he's here, but there was a
21 suggestion that I took from his evidence, and Ms. Tait-
22 Milne will be more familiar with it than I, but it's
23 suggested that if every industrial customer faced
24 marginal cost at some point, that might be a better
25 efficiency signal.

1 MR. MICHAEL DUDAR: Higher -- higher
2 electricity prices would make the job of my engineers and
3 -- and marketing staff easier to sell the benefits of
4 energy efficiency. It -- it wouldn't remove the
5 technical -- the need for the technical support that we
6 provide.

7 If you look at jurisdictions that have
8 high electricity prices they don't necessarily have
9 higher participation rates and energy efficiency
10 programs. They in a lot of cases have more whining for
11 the first little while, quickly moving to acceptance.

12 And -- and what we've found is that the
13 approach we took, starting with our industrial programs
14 back in 1992, was to focus on both energy and non-energy
15 benefits so that if the customer implemented an
16 efficiency project, it looked at waste material
17 reductions, productivity improvements, maintenance cost
18 reductions, product quality improvements, and in many
19 cases the non-energy benefits outweighed the -- the value
20 of the electricity savings. A higher price for
21 electricity would have possibly increased the
22 participation in those programs, but without the emphasis
23 on those other non-energy benefits we still wouldn't have
24 had the same level of success and participation that we
25 had in our programs.

1 MR. BOB PETERS: Mr. Dudar, has Hydro
2 examined any rate scenarios that employed the actual
3 monthly time-of-use market rates for maybe '06/'07 and
4 '07/'08, for all load growth by your -- by your ten (10)
5 largest customers?

6 MR. MICHAEL DUDAR: I -- I haven't done
7 that and Mr. Wiens indicated that he has not as well.

8 MR. BOB PETERS: So you have no idea what
9 would be the additional revenue from -- from that type of
10 a scenario?

11 MR. ROBIN WIENS: No, we don't.

12 MR. BOB PETERS: Is that something that's
13 easy to calculate, based on the above baseline forecasts
14 you have in this filing, Mr. Wiens?

15 MR. ROBIN WIENS: Well, I -- I don't want
16 to put the back row on the spot. I suspect that they can
17 calculate that fairly readily. The schedule of prices is
18 available or specified to do that. We can at least look
19 at it.

20 MR. BOB PETERS: I would ask you to look
21 at it, is the undertaking, Mr. Wiens, and if it is
22 something that can be generated for the benefit of the
23 Board, to show the Board what would happen if time-of-use
24 market rates were applied to all load growth, that might
25 be a useful -- useful piece of information.

1 MR. ROBIN WIENS: Mr. Peters, if we're
2 going to do this, I -- I would need precise specification
3 of what -- what you are looking at. If you could
4 identify a schedule, if -- if that -- if that was your
5 preference, or -- or provide us with a schedule just to
6 make sure we're getting you what you're looking for.

7 MR. BOB PETERS: Thank you, and I'll --
8 I'll work on that through your counsel, Mr. Wiens.

9

10 --- UNDERTAKING NO. 5: Manitoba Hydro to indicate
11 what would happen if time-of-
12 use market rates were applied
13 to all load growth

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Mr. Warden, Mr. Wiens,
17 Mr. Dudar, what we've been talking about for the last
18 couple of days has been one (1) energy efficient --
19 sorry, one (1) intensive industry rate that is supposed
20 to fit all customers and that's how it's proposed, even
21 though only a small number will actually pay under that
22 rate, correct?

23 MR. ROBIN WIENS: Well, it's designed to
24 fit any customer who passes the hurdle levels of 100
25 gigawatt hours and being served at 30 kV or higher.

1 MR. BOB PETERS: And some customers,
2 we're told, in British Columbia, maybe all industrial
3 customers, will face a marginal cost number when they're
4 using electricity. And I know there's some -- some
5 differences and some qualifications to that Mr.
6 Ostergaard will tell us about. But in that jurisdiction
7 all industrial customers are going to face marginal cost
8 for at least some of their load?

9 MR. ROBIN WIENS: That's my
10 understanding, is that all transmission level customers
11 served at transmission voltages, which I think they
12 define in British Columbia as 69 kV and higher, will have
13 a baseline energy set. And 90 percent of that baseline
14 will be served at embedded costs minus, and the other 10
15 percent would be served at marginal cost. And the minus
16 from the embedded cost is set to be revenue-neutral, with
17 respect to the total baseline load.

18 That is -- that is a -- a rate program, if
19 you will, that targets every customer served with
20 transmission voltage. But it's looking at different
21 objectives than what this proposal is looking at, so I --
22 and I -- I have to emphasize that.

23 That proposal is intended to be revenue
24 neutral with respect to domestic revenues, or the
25 domestic class. This is revenue neutral overall, with

1 respect to Man -- or in targeting on revenue neutrality,
2 with respect to Manitoba Hydro's overall revenue,
3 including from exports.

4 So it's -- it's quite a different animal
5 in that respect, and -- in that it is -- it is targeting
6 low growth of the -- the most rapid low growth that's
7 happening in the system. It's not targeting every
8 customer regardless of their load.

9 MR. BOB PETERS: Do you agree that the
10 British Columbia model -- and I appreciate your concise
11 statement of some of the parameter differences -- the BC
12 model would also have perhaps energy conservation as a
13 larger focus than does Manitoba, in this rate.

14 MR. ROBIN WIENS: I -- I think that it
15 does -- certainly it does have energy conservation at
16 the margin, within the 10 percent framework. And it may
17 be a different sort of energy conservation than what this
18 rate is targeting. This -- this rate is saying, you know,
19 if this energy is worth it to you, then by all means; if
20 it's not, then presumably that load won't appear.

21 So -- so it -- it -- it's not that it
22 doesn't have an energy conservation in effect, but it may
23 be less specifically targeted at that than the BC
24 program.

25 MR. BOB PETERS: Fair enough. And we --

1 we have some anecdotal evidence also on the record that
2 in Quebec the Hydro Quebec Utility has an obligation to
3 serve up to 50 megawatts, I believe, of new load, at an
4 embedded cost rate.

5 MR. ROBIN WIENS: Yes.

6 MR. BOB PETERS: And if a large industry
7 wants to move to the Province of Quebec and needs
8 electricity greater than that, in a greater supply, then
9 the Province of Quebec steps in and negotiates the rates
10 and other matters above the 50 megawatts.

11 MR. ROBIN WIENS: That's my
12 understanding.

13 MR. BOB PETERS: And, so the province
14 would consider in that case a myriad of factors,
15 presumably to determine whether or not the industry
16 should be afforded a -- a preferential rate, or what
17 higher rate it should pay for its supply.

18 MR. ROBIN WIENS: I -- I'm sure they do.

19 MR. BOB PETERS: And to some extent,
20 speaking as an economist, Mr. Wiens, that wouldn't be a
21 lot different than what Manitoba Hydro was putting its
22 mind to at the GRA when it had economic criteria in terms
23 of where companies could get an exemption.

24 Those would be some of the same types of
25 factors you would expect Quebec would be looking at --

1 MR. ROBIN WIENS: Well I -- I would
2 expect that. But the Government of Quebec will review it
3 in light of the -- whatever values it brings to bear on
4 that, and that may well be one (1) of them but there
5 could be others as well.

6 MR. BOB PETERS: Of course. And Mr.
7 Warden and Mr. Wiens, you've told the Board that there's
8 thirty-four (34) customers on your system, I believe,
9 that are greater than 30 kV, and those are the ones in
10 the largest two (2) sub-classes, correct?

11

12 (BRIEF PAUSE)

13

14 MR. ROBIN WIENS: That sounds right.

15 MR. BOB PETERS: Yeah, I'm taking it from
16 the fifth tab of the book of documents, and the new
17 numbers you gave me.

18 But thirty-four (34) customers, it's not a
19 huge number of customers, Mr. Wiens and Mr. Warden, so
20 why does a one (1) rate for all have to apply in
21 Manitoba, when potentially Manitoba Hydro could -- could
22 perhaps propose individual rates for some of the affected
23 customers to accomplish what you want?

24

25 (BRIEF PAUSE)

1 MR. VINCE WARDEN: Mr. Peters, we never -
2 - we never considered individual rates for customers. We
3 think what we have before the Board accomplishes our
4 objective without going down that road.

5 MR. BOB PETERS: Well, in some respects -
6 - and I -- I'm not going to argue the point, that's
7 certainly not for me to do -- but in -- in some ways, you
8 know, you -- you put Mr. Dudar between a rock and a hard
9 place when he has to negotiate with two (2) companies in
10 the same industry sector who will -- who will see the
11 results of your proposal impact them differently.

12 And I was suggesting, what if Mr. Dudar
13 went to these companies and said, Okay let's do a --
14 let's do a specific rate for each company that recognizes
15 some of our concerns. We can maybe recognize when you as
16 a company are profitable, more so than in times of
17 economic depression and we can -- we can negotiate a rate
18 that would accomplish both objectives.

19 MR. VINCE WARDEN: Well, Mr. Peters, I
20 can only I guess repeat my previous answer. We didn't --
21 we didn't consider that.

22 MR. BOB PETERS: Is there any merit to
23 considering that even at this time, Mr. Warden, where
24 there may be ways to accomplish what Manitoba Hydro needs
25 to accomplish and also take into account the specific

1 company concerns of the relatively few large customers
2 that are -- that are potentially impacted?

3 MR. PETER WARDLE: Well, there's ten (10)
4 customers, as we've indicated, that are potentially
5 impacted by this rate. I -- individual customer rates
6 are something we have not considered and I must admit it
7 doesn't have a lot of appeal to me. I don't think that
8 Mr. Dudar is necessarily between a rock and a hard place
9 in -- in his discussions with customers. He had -- he
10 had -- he did have a lot of -- of discussions, meetings
11 with customers, and I think what was arrived at was a
12 proposal that was satisfactory if not necessarily
13 accepted. They I think understand our issue and was
14 satisfactory to the majority of those customers, I would
15 venture to say.

16 MR. BOB PETERS: Well -- well, the ones
17 to whom it was satisfactory, and we may even hear from
18 some of them, they're the ones whose oxes didn't get
19 gored in this proposal, in the vernacular. Isn't that
20 the case?

21 They're not going to be the ones who have
22 to get out their chequebook for the higher Energy
23 Intensive Rate, where unfortunately, three (3) or four
24 (4) of the ten (10) may have to. And I just wondered if
25 there was an opportunity or an idea to -- to see if

1 certain parameters could be recovered individually.

2 MR. VINCE WARDEN: Mr. Peters, I believe
3 the proposal we have before this Board is the best
4 possible. We did look at a number of options, discussed
5 those options with our customer base, and the one we came
6 up with, I believe, is the best possible option at this
7 time.

8 MR. BOB PETERS: Mr. Warden, I appreciate
9 that answer and I -- I was playing a bit of the devil's
10 advocate, as opposed to just the advocate there.

11 The -- the gas side of your business has a
12 special contract arrangement if Mr. Wiens can confirm
13 that, with one (1) of your largest customers under a
14 special contract customer class.

15 Does that still exist, Mr. Wiens?

16

17 (BRIEF PAUSE)

18

19 MR. ROBIN WIENS: Mr. Peters, that class,
20 if you will, consisting of one (1) customer is referred
21 to as a Special Contract Class, but the same principles
22 of rate are used -- rate development are used to
23 determine the rates for that customer are used for all
24 the other customer classes.

25 MR. BOB PETERS: I'll accept -- you're --

1 you're saying it's on an -- on an embedded cost basis is
2 what you're suggesting, Mr. Wiens, correct?

3 MR. ROBIN WIENS: Yes, it's on an
4 embedded cost basis and the characteristics that go into
5 allocating embedded costs are those same characteristics
6 that are used to allocate costs to the special contract
7 customer.

8 MR. BOB PETERS: What barriers do you
9 see, Mr. Wiens and Mr. Warden, to -- to my bright idea
10 about individual arrangements with, say, the top ten (10)
11 customers that you serve, recognizing you have perhaps
12 bottom-end requirements and the top-end may be defined,
13 in terms of price by way -- what the market indicates?

14 What barriers would there be for Manitoba
15 Hydro to seek to do those type of arrangements, because
16 we're no longer talking embedded costs as Mr. Wiens
17 reminds me regularly?

18 MR. ROBIN WIENS: Well, yes, we are for
19 the load below baseline; only for the load above baseline
20 are we talking something tied to marginal cost.

21 MR. BOB PETERS: Yes, and I'm talking
22 about negotiating something between, let's say then,
23 embedded rates and a marginal cost rate that will
24 accomplish your revenue goals, as well as perhaps some
25 company-specific goals; are the factors of which perhaps

1 we don't have a clue of and maybe Mr. Dudar is the only
2 one who knows specifically what they are.

3 MR. VINCE WARDEN: I think we also have
4 to be aware and cognizant of the fact that we do have
5 uniform rate legislation in the province, and I'm not
6 sure that that legislation -- we would have to look at
7 that -- whether it would even permit us to have
8 individually negotiated contracts with customers. It
9 probably wouldn't.

10 MR. BOB PETERS: All right. Let me leave
11 that --

12 MR. ROBERT MAYER: Mr. -- whoa, whoa.
13 How does uniform rates legislation apply to the major
14 industrial customers? I always thought that it sort of
15 applied to the residential and that's where we had those
16 Zones A, B and C.

17 MS. PATTI RAMAGE: It requires that all
18 customers of a -- of the same class be charged the rate,
19 regardless of location in the province. It isn't limited
20 just to residential customers.

21 MR. ROBERT MAYER: It can't be determined
22 by location? It doesn't say they all have to be
23 identical, does it?

24 It says you cannot discriminate because of
25 -- because of location; that's what I thought it said.

1 MS. PATTI RAMAGE: I -- I'd have to take
2 a look at it, but I believe it also says of similar
3 characteristic. But I -- I'd want to check that.

4 MR. ROBERT MAYER: You do that.

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: Mr. Cormie, I have
8 perhaps done a little disservice to you, sir. I've left
9 the document that you worked your lunch hour over to
10 prepare, and I've given it an exhibit number, if Ms.
11 Ramage agrees, Manitoba Hydro Exhibit 7.

12

13 --- EXHIBIT NO. MH-7: Three (3) graphs: Total On-
14 Peak Net Interchange, April
15 1/'05 to November 1/'08;
16 Total Off-Peak Net
17 Interchange, April 1/'05 to
18 November 1/'08; Manitoba
19 Interconnection Loadings,
20 July 25 to August 1/'05

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: My copy, sir, consists
24 of -- of three (3) unnumbered pages. But you were going
25 to use this to show the Board what you determined were

1 your opportunities on interchange capacity, correct?

2 MR. DAVID CORMIE: Yes. And would you
3 like me to go through those page-by-page?

4 MR. BOB PETERS: Please

5 MR. DAVID CORMIE: Okay.

6 MR. BOB PETERS: Please show the Board
7 what you wanted -- or please explain to the Board what
8 you wanted to show with these charts.

9 MR. DAVID CORMIE: The -- the chart on
10 page 1 shows the net flow on all -- all the
11 interconnections out -- out of Manitoba. On the vertical
12 axis the numbers range from fifteen hundred (1,500) at
13 the top to minus two thousand five hundred (2,500) at the
14 bottom. When the number is positive that means Manitoba
15 is importing power, it's a net addition to our supply.
16 And when we're exporting, it means the -- the energy is
17 being exported, and so minus twenty-five hundred (2,500)
18 would mean an export of 2,500 megawatts.

19 The horizontal scale indicates the percent
20 of time or the probability of exceedance, that the flow
21 on the line -- on -- on all the lines exceeded the -- the
22 magnitude shown by the solid black line.

23 And on page 1 we're just showing the on-
24 peak period. And you can see at the hundred percent of
25 time, where it says one (1) on the -- a hundred percent

1 of the time the exports were less than, I -- I believe,
2 at numbers like minus 2,300 or 2,250 megawatts. And --
3 and you can work your way across there and you can look
4 at the median value, the 50 percent time, exports were
5 about minus 1,600 megawatts. And then all the way up to
6 zero percent of the time where it shows the maximum
7 import of 1,000 megawatts.

8 In addition I've shown two (2) horizontal
9 lines: One at the export value of 2,014 megawatts,
10 indicated by total firm capability, and that includes, as
11 shown in the note, a fourteen -- or 1,814 megawatts to
12 the US, plus 200 megawatts to Ontario, plus zero
13 megawatts to Saskatchewan.

14 And that's how the two thousand and
15 fourteen (2,014) -- and that's the firm export limit. We
16 have firm rights to export power on those lines at that
17 amount. And if you trace that horizontal line across
18 until it intersects the solid black line, it -- it
19 crosses ninety (90) -- at -- at about 94 percent.

20 So you can see 94 percent of the time,
21 exports were less than the total firm transfer capability
22 out of the province.

23 If you add the non-firm component into the
24 firm component, you now get a total export capability of
25 2,377 megawatts. And you can see from the solid black

1 line that at no point did we ever have exports at the
2 theoretical scheduling maximum of two thousand three
3 hundred and seventy-seven (2,377); they were always less
4 than that.

5 So based on that lower right-hand corner
6 of the chart, I come to the conclusion that during the
7 on-peak hours, rarely were we even approaching the export
8 limits for the period of April 1st, 2005, to November the
9 1st, 2008. There was always some factor that limited
10 exports, whether it's Manitoba demand, generation
11 capability reduced by maintenance, reduced by our
12 capability to bring power out of the north by the DC, but
13 rarely did we get to the point where we had exports
14 greater than 2,104 megawatts, which was the -- the firm
15 transfer capability. And never did we get to an export
16 where we were using -- utilizing the non-firm capability.
17

18 The period from 2005 to-date has been a
19 period of high water, so generally we haven't been short
20 of water, so this is -- doesn't reflect a period of -- of
21 more average conditions. In a period of more average
22 conditions the line would be even lower because there's -
23 - water supply conditions could be constraining.

24 The second page shows the same situation
25 for the off-peak period. And again I come to the same

1 conclusion that we have firm capability out of the
2 province of 2,014 megawatts, and it shows exports were
3 less than that approximately 88 percent of the time. And
4 never did exports reach the theoretical scheduling limit
5 of 2,377 megawatts.

6 And again, I would come to the conclusion
7 that less than 10 percent of the time did we even
8 approach the scheduling limits.

9 Now, that doesn't say that transmission
10 limitations weren't a limiting factor, but not at the
11 theoretical limits. During periods when the tie-lines
12 are taken out of service for outages for example, it's no
13 longer -- we're no longer capable of -- of exporting
14 those theoretical maximums; there's a "D" rate on the
15 line and we haven't indicated what those "D" rates --
16 they can -- they can be right down to zero if all the
17 transmission lines are taken out simultaneously.

18 So that's how I came to the opinion that
19 transmission limits at the theoretical level scheduling
20 limit is constraining somewhere -- somewhat less than 10
21 percent of the time.

22 In order to explain more in a
23 chronological fashion, I've shown on the third chart a
24 week of interchange activity. Again, on the top of the
25 chart we're showing periods when we were importing and on

1 the bottom of the chart, indicated by the red dots
2 showing a period -- the -- the hourly exports over -- and
3 this is the total of all exports during this period.

4 This period of July the 25th to August the
5 1st, 2005, was in the middle of our highest period of
6 water ever recorded in Manitoba and so again, water
7 supply is not a consideration. There's more than enough
8 water to load all our generators all the time.

9 What we'll see is that during the first
10 few hours of each day exports are around 2,300 megawatts,
11 plus or minus a few megawatts, and then when you get to
12 about hour 7, hour 8, hour 9, as the -- the -- you can
13 see that the export levels start to drop and -- and then
14 during the daytime, the middle hours of each day, you can
15 see exports are around -- between 1,800 or 1,900
16 megawatts and 2,000 megawatts.

17 And I would read this chart from Monday to
18 Friday, as indicating that during those hours of the
19 daytime when Manitoba air conditioning load is high, we
20 have insufficient surplus to load the transmission line
21 to the same amounts that you see at the nighttime
22 loadings.

23 And you'll notice the nighttime loadings
24 from Monday through Friday night are pretty well the
25 same, at a -- at a relatively uniform 20 to 100

1 megawatts, which I would guess that that was probably the
2 2,014 megawatt value, plus some interchange going to
3 Ontario.

4 Then you'll notice on the weekends, the
5 exports dropped down dramatically during the daytime on
6 the Saturday and then again during the Sunday. And we're
7 not -- although the Manitoba load is complete -- is -- is
8 much reduced during those weekend days, exports drop off
9 dramatically, and I would suspect that those are due to
10 outages on the DC line. We need to take transmission
11 lines out of service in the province to do maintenance
12 and sometimes it's a complicated switching task, and
13 reductions in the exports are needed when we take those
14 units out of service.

15 What I notice in this period of time that
16 -- that we are tie-line limited overnight around the
17 2,250 megawatt line, but if you look back on the duration
18 curves, or the probability curves, you'll see that
19 there's no plateau at that -- that level. If you go back
20 to the previous chart in the off-peak.

21 If tie-lines were limiting at that 2,250
22 megawatt a significant amount of time, there would be a
23 flat portion of the -- of the black line indicating that
24 tie-line limits at the -- at that number were very
25 common. And you don't see that in this chart. You see a

1 gradual transition from megawatt level to megawatt level.
2 There's no plateauing occurring.

3 And what -- that would indicate to me,
4 that the -- the exports that we were seeing in that one
5 (1) week of July are not a very common occurrence when
6 we're sitting there at that -- at that -- that export
7 loading level. On the graph, there are probably four
8 thousand (4,000) hours of data plotted for each year for
9 -- what is this? Three (3) years, three and a half (3
10 1/2) years.

11 So there's probably twelve thousand
12 (12,000) hours of export activity -- export and import
13 activity shown on each one of these graphs. And so it is
14 a significant sample, but it is a sample from a period of
15 high water when we would expect to see the transmission
16 limitations being of the greatest constraining -- being
17 the greatest constraining factor, and from this chart I
18 don't see that to be a great percent of the time.

19 MR. BOB PETERS: Thank you for that, Mr.
20 Cormie, and also thank you for the extra work you did to
21 prepare this.

22 I'll take a picture worth a thousand words
23 or maybe that's a thousand questions.

24 But before I go there, is there a way to
25 correlate PUB/Manitoba Hydro-16A to what you're showing

1 on Manitoba Hydro Exhibit 7? And 16A was the -- the two
2 (2) years, '06/'07 and '07/'08, monthly on-peak and off-
3 peak exports by month?

4 MR. DAVID CORMIE: Well, we would have to
5 do the charts for that specific period, April 2006 to
6 March 2008, two (2) years out of the three and a half (3
7 1/2) years that we've shown in the chart.

8 MR. BOB PETERS: Can that be done as an
9 undertaking, Mr. Cormie?

10 MR. DAVID CORMIE: We'll do that, yes.

11 MR. BOB PETERS: All right. Thank you.

12

13 --- UNDERTAKING NO. 6: Manitoba Hydro to correlate
14 PUB/MH-16A to what is showing
15 on Exhibit MH-7

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: Mr. Warden, I was going
19 to move to a topic of -- of money with you and I had put
20 in the book of documents, starting on Tab 10, and
21 including Tab 11, the latest financial information that -
22 - that would have been on the public record from the
23 Corporation, only to be outdone by you and your counsel
24 filing a new IFF '08 on the eve of the hearing.

25 so that new document is now publicly

1 available, sir?

2 MR. VINCE WARDEN: Yes, the new document
3 being integrated financial forecast IFF '08-1.

4 MR. BOB PETERS: And even though IFF '08-
5 1 is now available, on my transmittal letter there was a
6 caveat attached to it, that it's -- while it was
7 prepared, there's a new one that's going to be going to
8 the Manitoba Hydro Board in the month of January.

9 Have I got that right?

10 MR. VINCE WARDEN: You have. And I
11 believe the covering letter that you referred to
12 explained the reasons why that was the case.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: And just so the record
17 is clear then, you are going to extend this IFF out from
18 ten (10) years to a twenty (20) year forecast. And you
19 were going to include 300 megawatts of wind. And you
20 were also going to review the capital expenditure
21 forecasts of some of your major capital projects. And
22 you were also going to add in any recognition of IFRS
23 impacts.

24 Correct?

25 MR. VINCE WARDEN: That's correct.

1 MR. BOB PETERS: What we do sere from the
2 information provided in the book of documents at Tab 10,
3 is that when the GRA last -- last sat, you had indicated
4 to the Board that the -- the \$264 million net income
5 number for fiscal '08 would be exceeded and indeed it
6 was.

7 The actual number there would be
8 \$340 million for the electric side, correct?

9 MR. VINCE WARDEN: That's -- that's
10 correct, yes.

11 MR. BOB PETERS: I was concerned with --
12 and wonder if you can tell the Board whether the
13 revenues, the general consumers' revenue, at approved
14 rates, back in the GRA, do you recall there being an
15 issue about whether there was double-counting for this
16 energy intensive industry rate revenue?

17 We had a little discussion about whether
18 it was added in or double-counted because you would have
19 notionally otherwise received it on the export market.

20 Mr. Wiens, can you help me out?

21 MR. ROBIN WIENS: The back row has
22 fortunately anticipated your question, Mr. Peters, and I
23 can say that whatever reason the revenue from -- the
24 additional revenue from the difference between the
25 current rate and the second tier rate applied to the

1 expected usage over baseline is included in the first
2 line on that IFF.

3 MR. BOB PETERS: It's included on the new
4 IFF, the IFF '08-1?

5 MR. ROBIN WIENS: Yes, it is.

6 MR. BOB PETERS: All right. And when we
7 talk about expected revenues, Mr. Wiens, at Tab 12 of the
8 book of documents, is that the expected revenue that has
9 been included in that top line?

10 MR. ROBIN WIENS: That appears to be the
11 case, yes.

12 MR. BOB PETERS: And these numbers, it's
13 -- it indicates there they haven't been adjusted for any
14 DSM savings, so the numbers would be less than this,
15 perhaps only slightly less than this?

16 MR. ROBIN WIENS: They would be less,
17 yes.

18 MR. BOB PETERS: All right, thank you.

19 Mr. Warden, the o-nine (09) number, it --
20 does it include the new rate, the -- the last rate
21 approval from the Board?

22 MR. VINCE WARDEN: Yes, it -- on IFF '08
23 we're referring to now? The --

24 MR. BOB PETERS: Yes.

25 MR. VINCE WARDEN: -- updated forecast?

1 It does -- it does include the revenue, yes, in '08/'09,
2 the 5 percent, July the 1st of '08.

3 MR. BOB PETERS: All right. Mr. Warden,
4 in terms of your revenue forecast for 2010, I'm sorry,
5 for -- for 2009, that takes into account the update
6 that's at Tab 11 of the book of documents, where you show
7 that after six (6) months you're -- you essentially are
8 exceeding the targets you had last year?

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARDEN: No. Sorry, would you
13 just repeat that question, please?

14 MR. BOB PETERS: Yes, my apologies, Mr.
15 Warden. Let me come at it this way. Your net income for
16 '09, why isn't it \$340 million, as opposed to three
17 hundred and eight (308), when all indications are that
18 we're -- we're tracking the same as -- the same as last
19 year's results, perhaps even a little bit better?

20 MR. VINCE WARDEN: Well, the six (6)
21 month results were, in fact -- the quarter that we just
22 reported on, were in fact slightly better than the year
23 previous. So all -- all other things being equal you
24 would think we should be in the \$340 million range rather
25 than the three-o-eight (308).

1 We are seeing, though, some trends in the
2 opposite direction. The impacts of the plummeting of
3 oil; natural gas prices is having an effect on the prices
4 we are getting in the export market. There are other
5 costs that are -- that are increasing at a rate that are
6 somewhat different than what we had in the previous
7 forecast.

8 So the -- based on what we know today, the
9 -- the year that we had last year will not be replicated
10 this year; we'll be slightly below where we were last
11 year in total.

12 MR. BOB PETERS: Subject to being updated
13 on your next quarterly results?

14 MR. VINCE WARDEN: Well, I think the --
15 the next quarter will start to show that we aren't as
16 favourable as we were, compared to the previous year at
17 the end of September.

18 MR. BOB PETERS: All right, just wrapping
19 up on the Energy Intensive Industry Rate, Mr. Wiens.
20 While it's proposed as a rate for Board approval, in
21 terms of it being adjusted, or requested to be adjusted
22 by the Corporation if it was approved, the rebuttal seems
23 to suggest it will be something that's looked at every --
24 every GRA is it, or is it every couple of years,
25 whichever is the longer?

1 MR. ROBIN WIENS: Well, every -- every
2 GRA for sure. And if it were to become apparent in
3 between GRAs that it would be appropriate to bring a --
4 an application specific to that rate to this Board, that
5 would be done.

6 MR. BOB PETERS: Mr. Chairman, I'm going
7 to thank Messrs. Ward and Wiens, Dudar, Surminski, and
8 Cormie for their answers to my questions. I'm going to
9 hand the microphone over to my colleague opposite, Mr.
10 Williams.

11 If there were something that came up as a
12 result of that last exchange with Mr. Cormie that I still
13 have questions on, I'll -- I'll beg the indulgence of the
14 Board and the witnesses to go back at it, but I thank the
15 witnesses for their attention and their answers.

16 THE CHAIRPERSON: Thank you, Mr. Peters.
17 Mr. Williams, we might as well take our
18 midafternoon break and then you can begin afresh.

19 MR. BYRON WILLIAMS: Okay. Thank you,
20 Mr. Chairman.

21
22 --- Upon recessing at 2:32 p.m.

23 --- Upon resuming at 2:57 p.m.

24

25 MS. PATTI RAMAGE: Perhaps while Mr.

1 Warden is out of the room, I would just put on the
2 record, in terms of the exchange Mr. Mayer and I had,
3 just so the parties are all clear. I found the Uniform -
4 - what we refer to as the Uniform Rates Legislation and
5 just to read it into the record. It is:

6 "The rates charged for power supplied
7 to a class of grid customers within the
8 province shall be the same throughout
9 the province."

10 Mr. Mayer was not -- he was correct,
11 because in an interpretation clause, just to be clear, it
12 also says that you can't define a class by location.

13 THE CHAIRPERSON: Thank you.

14 MS. PATTI RAMAGE: So I think that means
15 we were both right.

16 THE CHAIRPERSON: Can't have it any
17 better than that.

18 Okay, Mr. Williams?

19

20 (BRIEF PAUSE)

21

22 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

23 MR. BYRON WILLIAMS: Good afternoon, Mr.
24 Chairman and Members of the Board.

25 Either I'm more environmentally sensitive

1 than My Learned Friend, Mr. Peters, or less organized,
2 I'm not sure which. I do have a few exhibits but I'll
3 probably share that with the Board tomorrow morning. And
4 I'll be primarily going through this big old book of
5 Information Responses provided by Manitoba Hydro, so you
6 may want to have that at hand, as well as Mr. Peters'
7 environmentally unfriendly blue book of documents and the
8 Application itself.

9 And I don't know if my first question goes
10 to Mr. Surminski or Mr. Cormie, but it's -- I saw these
11 two (2) here and was just reminiscing about our wonderful
12 experience during Wuskwatim. And it's to the -- the
13 Hydro members, and it's a -- it's a small question about
14 tie-line capacity, and I'm sure you've had enough of
15 those from Mr. Peters. Mine -- mine goes to a much
16 simpler point.

17 But the -- the rule of thumb that I recall
18 employing during Wuskwatim, was that on an annual basis
19 we know that annual firm on-peak export opportunities to
20 the US were limited to the range of 10,000 gigawatt
21 hours, due to tie-line capacity.

22 Does that statement sound roughly
23 familiar?

24 MR. HAROLD SURMINSKI: Yes, I recall
25 that. I think we had a series of graphs and -- and we

1 used that -- that benchmark number on those to indicate
2 whether we had surplus beyond tie-line limits or not.

3 MR. BYRON WILLIAMS: And again, I -- I
4 don't want to -- recognizing that that's probably at a
5 theoretical level, but would that figure be roughly still
6 the case, perhaps a...

7 MR. HAROLD SURMINSKI: I'd say yeah, it's
8 still valid. We have not increased our interconnection
9 capabilities since that time.

10 MR. BYRON WILLIAMS: Would it also be
11 fair to say that Manitoba Hydro's domestic use is
12 currently a bit over 20,000 gigawatt hours annually?

13 Would that be fair --

14 MR. HAROLD SURMINSKI: Yeah -- twenty-
15 four thousand (24,000) now.

16 MR. BYRON WILLIAMS: So it's more than --
17 than twice the -- the other figure we discussed, correct?

18 MR. HAROLD SURMINSKI: Correct.

19 MR. BYRON WILLIAMS: Now, you can -- just
20 a couple of short questions with regard to an -- Mr. --
21 you can probably turn to Tab 12 of Mr. Peters' book,
22 which is the response to PUB/Manitoba Hydro-1-15 sub G,
23 and I -- I think this is probably towards Mr. Wiens.

24 Do you have that, Mr. Wiens?

25 MR. ROBIN WIENS: I do.

1 MR. BYRON WILLIAMS: And generally, you -
2 - you had a very brief discussion with Mr. Peters on this
3 subject towards the end of his short cross-examination.
4 And what this generally shows, as I understand this
5 table, is the expected incremental revenue associated
6 with the ten (10) likely affected customers billed on the
7 Energy Intensive Industrial Rate, with the caveat that
8 these estimates do not reflect any adjustments for DSM
9 savings.

10 Is that right?

11 MR. ROBIN WIENS: Yes.

12 MR. BYRON WILLIAMS: And I didn't...

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: I didn't take a note
17 of the exact question Mr. Peters asked, or your exact
18 response but I -- I believe the thrust of his question
19 was that the -- the actual additional revenues -- I think
20 he said something like -- would be a little bit smaller
21 when you took into account the DSM savings. And your
22 response, Mr. Wiens, was something like, They would be
23 smaller.

24 Is that fair?

25 MR. ROBIN WIENS: That's what I recall.

1 MR. BYRON WILLIAMS: And I'm just trying
2 to get a sense of the magnitude of -- if you can give me
3 a guess of how much smaller, Mr. Wiens.

4

5 (BRIEF PAUSE)

6

7 MR. ROBIN WIENS: I'm advised that
8 initially you are looking at something in the order of 20
9 percent less in the first year, 10 percent or so less in
10 the second year, and gradually declining -- the
11 difference gradually declining over time.

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: Thank you, Mr.
16 Wiens. Just in terms of that -- that estimate of, let's
17 say, 20 percent for the first year less, is that a number
18 the Corporation's pretty confident in? Like, is -- how -
19 - how firm are we on that number?

20 MR. ROBIN WIENS: Well, I haven't asked
21 any questions about them, so I can't speak as to how firm
22 they might be. That's -- that's not something that I
23 would -- I would necessarily want to put on the record
24 without having had a chance to study them myself.

25 MR. BYRON WILLIAMS: Okay. But I guess

1 what we're looking at then, just recognizing that there
2 may be -- neither you or I are sure of the -- how
3 confident we are in that reduction. We're looking at,
4 instead of additional revenues of 13.1 million, we're
5 looking at additional revenues about \$2.6 million less
6 than that.

7 Is that about right?

8 MR. ROBIN WIENS: Yes.

9 MR. BYRON WILLIAMS: And again, for the
10 year 2010 to '11, instead of additional revenues of -- of
11 \$20 million, we're probably looking at additional
12 revenues, assuming a 10 percent DSM adjustment, of about
13 \$18 million.

14 Would that be fair?

15 MR. ROBIN WIENS: Yes, based on these
16 numbers that I've just looked at.

17 MR. BYRON WILLIAMS: Excuse me for one
18 second, Mr. Wiens.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Just my rough count
23 for the '09/'10 year would be additional revenues about
24 10 million to 10 1/2 million.

25 Does that sound about right, sir?

1 MR. ROBIN WIENS: Yes.

2 MR. BYRON WILLIAMS: Can you give me a --
3 a sense of how that compares to the -- the expected total
4 electricity bill for these top ten (10) customers in the
5 '09/'10 year, sir?

6

7 (BRIEF PAUSE)

8

9 MR. ROBIN WIENS: You may be in luck, Mr.
10 Williams. It may take us a couple of minutes to find it,
11 so if you want to proceed and -- and we'll let you know
12 when we have that.

13 MR. BYRON WILLIAMS: And you recognize,
14 of course, Mr. Wiens, that I have a rather fragile
15 memory, so I'm relying upon you to -- to get back to me
16 on that, sir.

17 MR. ROBIN WIENS: Well, we have more than
18 one (1) memory over here so...

19

20 (BRIEF PAUSE)

21

22 MR. ROBIN WIENS: Mr. Williams, just
23 while we're looking for that, are you looking at that
24 percentage in terms of the ten (10) customers potentially
25 affected, or the customers that we think will actually --

1 our load forecast says will actually be affected in the -
2 - in that year?

3 MR. BYRON WILLIAMS: Mr. Wiens, of course
4 you -- you've asked the question to me better than I've
5 asked it to you, so why don't we do it in -- in both.

6 Would that be --

7 MR. ROBIN WIENS: I was --

8 MR. BYRON WILLIAMS: -- possible?

9 MR. ROBIN WIENS: -- I was afraid you'd
10 say that.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: Thank you. And I
15 apologize for making you go back and forth to your back
16 row and I appreciate their assistance.

17 This question can go either to Mr. Warden
18 or to -- to Mr. Wiens. Well, let's start with Mr. Warden
19 though.

20 Mr. Warden, you recall a bit of a
21 discussion with Mr. Peters yesterday, in terms of the
22 question of whether the energy intensive rate was revenue
23 neutral?

24 Do you recall that, sir?

25 MR. VINCE WARDEN: Yes, I do.

1 MR. BYRON WILLIAMS: And I'm not holding
2 you to this, but as I understood your answer -- and you -
3 - and you also spoke about this with Mr. Mayer as well.

4 Do you recall that, sir?

5 MR. VINCE WARDEN: Yes.

6 MR. BYRON WILLIAMS: We do tend to recall
7 our conversations with Mr. Mayer, for some reason.

8 In terms of your answer, I understood you
9 to say that it's not revenue neutral to any -- to the
10 particular companies, but the intent was it -- for it to
11 be revenue neutral for the Corporation as a whole.

12 Do I have your -- that point correct, sir?

13 MR. VINCE WARDEN: That's correct.

14 MR. BYRON WILLIAMS: And, Mr. Wiens, you
15 -- you had a similar conversation with Mr. Peters today.
16 I believe you suggested that you were targeting revenue
17 neutrality overall.

18 Is that fair?

19 MR. ROBIN WIENS: Yes.

20 MR. BYRON WILLIAMS: So just when we look
21 at that, recognizing that Mr. Warden has already said
22 we're not looking at revenue neutrality for a particular
23 company, and it's also fair to say that this proposal is
24 not revenue-neutral for the -- the two (2) subclasses
25 involved or for the general service large class as a

1 whole.

2 Would that be fair?

3 MR. ROBIN WIENS: Relative to what the
4 revenue would be absent this rate, no, it is not.

5 MR. BYRON WILLIAMS: And we'll come to
6 that point perhaps maybe tomorrow.

7 But as I understand the primary purpose of
8 this -- of -- of this application -- again you had this
9 discussion with Mr. Peters and I don't want to entrench
10 on it too much -- but your primary purpose is really to
11 protect the revenue base against revenue pressures
12 resulting from increased sales to customers who are
13 paying, in your view, significantly below short-run,
14 marginal costs, as defined by firm export sales.

15 Would that be right?

16 MR. VINCE WARDEN: That's correct.

17 MR. BYRON WILLIAMS: Mr. Wiens, Mr.
18 Harper is not here to -- to help me today or to give
19 evidence, so -- but he did want me to talk with you a
20 little bit about gradualism and the principle of
21 gradualism as it can be -- can be applied in the cons --
22 context of rates and rate changes.

23 So I'm going to suggest -- are you
24 familiar with that concept, Mr. Wiens?

25 MR. ROBIN WIENS: Yes, I am.

1 MR. BYRON WILLIAMS: And I'm going to
2 start with residential customers and inverted rates for a
3 second. And one (1) way to -- to -- in which the
4 principle of gradualism can be applied in the context of
5 rates and rate changes, could be to gradually implement a
6 particular rate concept or idea to a particular set of
7 customers.

8 Would that be fair, sir?

9 MR. ROBIN WIENS: Yes.

10 MR. BYRON WILLIAMS: And I think a great
11 example of this from the last hearing, I hope you'll
12 agree with me, is the residential inclining block rate
13 where the principle is to charge a rate reflective of
14 marginal costs for usage in the second -- second energy
15 block.

16 Would you agree with that -- that point,
17 sir?

18 MR. ROBIN WIENS: Well, certainly that
19 can be introduced on a gradual basis, yes.

20 MR. BYRON WILLIAMS: And if -- and that
21 principle, in the context of inverted rates, would be
22 called for moving the second energy block rate towards
23 marginal costs gradually. In -- and one (1) of the
24 purposes of that would be to reduce the bill -- year over
25 year bill impacts.

1 Would that be fair, sir?

2 MR. ROBIN WIENS: Yes.

3 MR. BYRON WILLIAMS: And I'm going to
4 suggest to you and -- and perhaps you'll agree with me,
5 that in that context gradualism has merit, particularly
6 if there's an understanding of where the rates are going
7 in the future, because not only does it avoid significant
8 rate impacts, it also allows customers, over time, to
9 adjust their usage, so as to offset future impacts.

10 Would that be fair, sir?

11 MR. ROBIN WIENS: Yeah, generally
12 speaking. Yeah, that would be fair.

13 MR. BYRON WILLIAMS: I -- I want to speak
14 to you of gradualism in a -- in another context. And I'm
15 going to suggest to you another way to apply this
16 principle of gradualism in the context of rates and rate
17 changes is to apply a rate principle to a subset of
18 customers with the intent of gradually extending that
19 concept to a larger set of customers.

20 Are you familiar with that, Mr. Wiens?

21 MR. ROBIN WIENS: Well, certainly I can -
22 - I can conceive of it, but it's definitely not the same
23 thing as we were talking about a moment ago.

24 MR. BYRON WILLIAMS: Absolutely.
25 Absolutely not. There you might -- and there you might

1 implement it just for a subset, perhaps because you may
2 have concerns about that it may not be practical in the
3 short term to roll it out to a larger group of customers.

4 Would that be fair, sir?

5 MR. ROBIN WIENS: That's one (1)
6 possibility, yes.

7 MR. BYRON WILLIAMS: And you also may
8 have a concern that there may be some teething issues,
9 some learning issues, so you being a cautious -- you may
10 choose to implement it gradually rather than to the whole
11 -- the whole rate base.

12 Would that be fair, sir?

13 MR. ROBIN WIENS: That's another
14 possibility.

15 MR. BYRON WILLIAMS: I wonder -- I don't
16 believe this is in Mr. Peters' book, so if the MPI
17 witnesses -- or MPI; wrong Utility -- if the Manitoba
18 Hydro witnesses could turn to the Corporation's response
19 to RCM/TREE-1-22 please.

20

21 (BRIEF PAUSE)

22

23 MR. ROBIN WIENS: Yes.

24 MR. BYRON WILLIAMS: Mr. Wiens -- and
25 I'll be moving to Mr. Dudar in a few minutes probably --

1 but you can see here the question is -- the question
2 posed by RCM/TREE is:

3 "Why cannot the Energy Intensive Rate -
4 - cannot or should not be applied to
5 all General Service Large customers?"

6 And as I understand the Corporation's
7 response, it's twofold:

8 Number 1, being that it could in theory be
9 applied to all large GSL -- GS Large customers, but there
10 are significant costs associated with administering --
11 administering the rate.

12 And also just going down to the bottom
13 paragraph, it appears that the Corporation's looking to
14 implement inverted rates, if feasible, for all GSL
15 customers, and that the energy intensive rates provisions
16 could be rolled out into the rate structure.

17 Is that a fair summary of this response?

18 MR. ROBIN WIENS: Yes.

19 MR. BYRON WILLIAMS: I want to explore
20 the first point that I -- I see there up in the -- the
21 first paragraph, that there are significant costs
22 associated with administering the rates. And that
23 certainly could go to Mr. Dudar or to Mr. Wiens or
24 whoever on the Hydro panel.

25 But I wonder if you could describe at a

1 high level what these significant costs are please?

2

3

(BRIEF PAUSE)

4

5 MR. MICHAEL DUDAR: Depending on what the
6 -- the rate might look like, there -- there is a
7 significant amount of work in dealing with developing the
8 baselines, managing it on an ongoing basis, keeping track
9 of the usage to ensure that when -- when a customer
10 exceeds their baseline, ensuring that the -- the customer
11 receives their appropriate level of growth -- growth
12 allowance, if there were environmental projects
13 evaluating and assessing the -- the energy efficient
14 solution for the environmental -- environmental
15 compliance.

16 Those -- those would be some of the -- the
17 administrative tasks that would add -- add costs.

18 MR. BYRON WILLIAMS: Thank you very much
19 for that, Mr. Dudar, and we're going through a number of
20 -- of those for a few minutes.

21 But just at a high level again, and I
22 appreciate your full answer from before, your section, I
23 take it, is primarily involved with the development of --
24 of this Energy Intensive Rate and the dealings with
25 clients.

1 Is that fair?

2 MR. MICHAEL DUDAR: I -- I was involved
3 with the development of components of -- of the rate and
4 with the meetings and consultations with customers.

5 MR. BYRON WILLIAMS: And can you give me
6 some sense of how lengthy the process has been in this
7 most recent iteration?

8 MR. MICHAEL DUDAR: Manitoba Hydro's
9 probably spent in -- internally, we -- we've been working
10 on -- on various forms of this rate for probably almost
11 two (2) years now, internally. We've had multiple
12 meetings with customers.

13 The -- the last consultation sessions with
14 customers was -- was very compressed and very intense and
15 that probably stemmed about a month. August and
16 September.

17 MR. BYRON WILLIAMS: Thank you, Mr.
18 Dudar, for that. I wonder if -- if you could turn to the
19 -- the actual original Application of Hydro dated
20 September 30th and in particular to Attachment 2 to that
21 Application.

22 MR. MICHAEL DUDAR: I have that.

23 MR. BYRON WILLIAMS: And, Mr. Dudar, just
24 to be a little more precise, I -- I want to start you off
25 on page 3 of 8 which is -- well, first of all, the

1 document is entitled "The Customer Baseline Energy Level
2 Guidelines" and I'd like you to move to page 3 of 8,
3 Section 3.3.

4 Do you see that, sir?

5 MR. MICHAEL DUDAR: I do.

6 MR. BYRON WILLIAMS: You mentioned that
7 there was a lot of work in developing the baseline and
8 again, without asking you to read in or detail this, a
9 key step is -- is found in Section 3.3, I'd suggest to
10 you, which is determining the -- the consecutive twelve
11 (12) -- twelve (12) months during the thirty-six (36)
12 month period, getting that initial energy CBEL, is that
13 fair, sir?

14 MR. MICHAEL DUDAR: That -- that's the
15 first step that would be taken.

16 MR. BYRON WILLIAMS: And just flipping
17 over to Section 3.5 of this attachment of these
18 guidelines, this section deals with -- with circumstances
19 where they -- where someone may want to refine that
20 twelve (12) month consecutive period, one -- one way of
21 which would be through
22 force majeure events, is that correct, sir?

23 MR. MICHAEL DUDAR: That's correct.

24 MR. BYRON WILLIAMS: And force majeure is
25 F-O-R-C-E M-A-G-E-U-R-E (sic) for the record.

1 And so there's a possibility that there
2 can be -- could be some debate with -- with customers in
3 terms of -- in setting up the baseline in terms of force
4 majeure events.

5 Is that correct, sir?

6 MR. MICHAEL DUDAR: That's correct.

7 MR. BYRON WILLIAMS: Just -- I -- I
8 believe the PUB asked a question with regard to this and
9 I was never sure if there was an answer.

10 It might be PUB -- you don't need to turn
11 there but have -- have -- has -- have any client or
12 customers to date identified any force majeure events
13 with regard to their CBEL, sir?

14 MR. MICHAEL DUDAR: We -- we haven't had
15 detailed discussions with customers regarding the
16 calculation of the CBEL but none of the customers have
17 mentioned anything to me in our discussions.

18 MR. BYRON WILLIAMS: But that is
19 certainly something that could -- that could come up or
20 if you were expanding this program to a number of other
21 firms that -- that may indeed come up. Is that fair,
22 sir?

23 MR. MICHAEL DUDAR: That's correct.

24 MR. BYRON WILLIAMS: It's also possible,
25 still staying with Section 3.5, if a customer could

1 demonstrate unusual conditions during the entire thirty-
2 six (36) reference period, that an earlier period could
3 be chosen to establish the initial CBEL. Is that
4 correct, sir?

5 MR. MICHAEL DUDAR: That is correct.

6 MR. BYRON WILLIAMS: Just moving on to
7 Section 3.6 and that deals with adjustments going back in
8 time for DSM projects, is that correct, sir?

9 MR. MICHAEL DUDAR: That's correct.

10 MR. BYRON WILLIAMS: And where are we in
11 that process? Is that completed, sir?

12 MR. MICHAEL DUDAR: We -- we've done an
13 initial estimate of the DSM savings that for -- for
14 projects where customers have applied for Power Smart
15 incentives.

16 MR. BYRON WILLIAMS: And how lengthy do
17 you anticipate this -- this process to be, sir?

18 MR. MICHAEL DUDAR: We -- we would need
19 to sit down and discuss -- the process would be to sit
20 down with the customers and -- and review Manitoba
21 Hydro's estimates of the projects that they've
22 participated in.

23 They would also have an opportunity to
24 bring to the table projects that they initiated but did
25 not have Manitoba Hydro Power Smart incentive

1 involvement.

2 There -- there is an estimate that would
3 need to be done for technologies like motor replacements.
4 There -- there was back in the early '90's, Manitoba
5 Hydro had an Energy Efficient Motor Program so we need to
6 come up with -- with some sort of mechanism to determine
7 how much of those motor savings would be attributed to
8 their -- their current DSM savings credit.

9 MR. BYRON WILLIAMS: Thank you, Mr.
10 Dudar, for that thoughtful answer. Would I be correct in
11 suggesting to you that this is a, for each individual
12 company, a fairly time consuming and labourious effort on
13 the part of Manitoba Hydro?

14 MR. MICHAEL DUDAR: It -- it is indeed.
15 Our tracking software was not as robust as I thought it
16 would be. Initially I thought this would be a relatively
17 simple process to go through and pull the files, but it's
18 a lot more onerous for my engineering group to actually
19 come up with reasonable numbers for -- for past projects
20 and -- and just gathering the data. Some is
21 computerized, some of the information is -- is hard-form
22 paper and -- and some of it is going back through reports
23 and -- and calling out the pertinent information and then
24 assembling that and -- and totalizing their -- their
25 energy savings.

1 MR. BYRON WILLIAMS: And this is for only
2 ten (10) companies, sir?

3 MR. MICHAEL DUDAR: That's correct.

4 MR. BYRON WILLIAMS: Do you tremble at
5 the thought of having to do it for thirty (30) or forty
6 (40) or -- or two hundred (200) companies, sir?

7 MR. MICHAEL DUDAR: As you increase the
8 volume of -- of customers the -- the work would -- would
9 increase significantly. A lot of the smaller customers
10 have a lot of small projects that would be -- need to be
11 quantified and -- and tabulated.

12 MR. BYRON WILLIAMS: So, Mr. Wiens may
13 want to slap me for using this term, but there -- there's
14 not a lot of economies of scale in doing, you know, two
15 hundred (200) CBELs versus ten (10), sir?

16 MR. ROBIN WIENS: Probably not economies
17 of scale. We may be able to realize some reduction in
18 the amount of time spent because we get up the learning
19 curve a little bit. But I don't think that's going to be
20 related to scales, it's going to be related to our
21 ability to deal with it.

22 MR. BYRON WILLIAMS: Thank you both, Mr.
23 Wiens and -- for being gentle, and Mr. Dudar.

24 There's also, moving to page 5 of 8 of the
25 guidelines, there's also a process for CBEL revisions.

1 Is that correct, sir?

2 MR. MICHAEL DUDAR: That's correct.

3 MR. BYRON WILLIAMS: And one that caught
4 my eye in that section is Section 4.2(d), and I
5 understand that that deals with customers with pre-
6 approved environmental projects that installed energy-
7 efficient equipment. Is that right, sir?

8 MR. MICHAEL DUDAR: That's -- that's
9 correct for compliance with environmental regulations.

10 MR. BYRON WILLIAMS: And there is a --
11 and if I've misstated this you'll correct me, there's a
12 potential to revise upwards the baseline for -- for
13 certain pre-approved environmental projects if it -- if
14 they meet certain conditions. Is that fair, sir?

15 MR. MICHAEL DUDAR: That's correct.

16 MR. BYRON WILLIAMS: And would I be
17 correct in suggesting to you that in terms of the body
18 responsible for pre-approving the environmental project,
19 that would be, at least as a starting point, staff from
20 Manitoba Hydro's business engineering department. Would
21 that be fair?

22 MR. MICHAEL DUDAR: That would be
23 correct.

24 MR. BYRON WILLIAMS: But you also
25 recognize that there may be cases or instances where they

1 lack the technical expertise to -- to evaluate the
2 project. Is that fair, sir?

3 MR. MICHAEL DUDAR: That's correct. And
4 -- and in -- even in evaluating traditional Power Smart -
5 - industrial Power Smart projects, where a customer has a
6 very unique project and the expertise is not resident
7 within Manitoba Hydro, we will seek out an international
8 expert to provide review and guidance to Manitoba Hydro
9 in -- in assessing the -- the project and the projected
10 savings, based on the -- their -- their expertise.

11 MR. BYRON WILLIAMS: So it -- so it's
12 nothing new but it's another layer, another step that
13 Manitoba Hydro may be obliged to -- to take in, in these
14 cases?

15 MR. MICHAEL DUDAR: That's correct.

16 MR. BYRON WILLIAMS: Moving on to, again,
17 under the subject of revisions, Section 4.2 sub E, on
18 page 6 of 8, there also are some rules relating to
19 affiliate transactions.

20 Is that correct, sir?

21 MR. MICHAEL DUDAR: That's correct.

22 MR. BYRON WILLIAMS: And the good news
23 for a company is that a company that grows through
24 acquisition of an existing Manitoba company could have
25 their aggregated CBEL increased by the amount of the

1 acquired company's CBEL in certain circumstances.

2 Is that correct; sir?

3 MR. MICHAEL DUDAR: That's correct.

4 MR. BYRON WILLIAMS: But am I -- am I
5 right in suggesting to you that -- that -- a revised
6 upward CBEL, that type of transaction, would be
7 disallowed if -- if Manitoba Hydro determined that the
8 purpose of the acquisition was to avoid higher
9 electricity costs alone?

10 Is that fair, sir?

11 MR. MICHAEL DUDAR: That's correct.

12 MR. BYRON WILLIAMS: Can you describe,
13 just in a little detail, how Manitoba Hydro sees that --
14 that working, sir. And specifically I'm looking at how
15 will it -- is there a reporting obligation, and also how
16 Manitoba Hydro intends to test whether the purpose of the
17 acquisition is to avoid higher electricity costs?

18 MR. MICHAEL DUDAR: It -- it will not be
19 a simple process. If -- if a company were to acquire
20 another business that may or may not be related to its
21 primary business, and shortly thereafter shut it down, we
22 -- we would probably question that -- that acquisition,
23 the purpose of the acquisition, and -- and challenge --
24 challenge the -- the company's purpose for doing that.
25 We do not intend to review every acquisition made of --

1 of companies and businesses within Manitoba, in an -- in
2 an attempt to determine whether there was an attempt to -
3 - to game the system.

4 MR. BYRON WILLIAMS: So the -- the one
5 (1) circumstance that you've outlined where your
6 suspicions would be aroused, at least would be if a
7 company was purchased and then shortly thereafter shut
8 down.

9 Is that right, sir?

10 MR. MICHAEL DUDAR: That's -- that's one
11 (1) of the reasons that we might look at it.

12 MR. BYRON WILLIAMS: And -- and again,
13 realizing that we're looking into the future, but I'm
14 trying to understand your guidelines, can you contemplate
15 other circumstances where that -- that might occur?

16 MR. MICHAEL DUDAR: There -- there
17 probably are. What we were attempting to do is -- is try
18 and close loopholes and provide some -- some provisions
19 to protect the ratepayers of Manitoba, should customers
20 try and do different things.

21 In -- in discussions with counterparts in
22 -- in other utilities, one (1) of the concerns they
23 expressed about some of their existing rates targeted at
24 the industrial customers, was how customers attempted to
25 game the system. And -- and their suggestions to

1 Manitoba Hydro was to try and close as many loopholes as
2 you could, because if there's an opening, people will
3 find innovative ways to -- to take advantage of -- of the
4 rate.

5 MR. BYRON WILLIAMS: Thank you, Mr.
6 Dudar. I'm probably moving to, well, a related subject,
7 but I'm not sure if I require Mr. Wiens' attention or
8 not.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: Do you have an
13 answer to the earlier questions for me, Mr. Wiens, or...?

14 MR. ROBIN WIENS: It's not complete yet,
15 but it's getting there.

16 MR. BYRON WILLIAMS: And I apologize for
17 pulling you -- pulling you away from that.

18 Going to Mr. -- and -- and if I've got the
19 wrong person I apologize even more. Going to Mr. Peters'
20 document, PUB Exhibit Number 8, the PUB counsels' book of
21 documents, Tab 5.

22

23 (BRIEF PAUSE)

24

25 MR. BYRON WILLIAMS: And -- and again, I

1 don't want to walk too -- too much over what Mr. Peters
2 has already discussed, but what this is, as I understand
3 it, is -- provides from the -- the perspective Cost of
4 Service Study from March 31st, 2008, a customer demand
5 and energy cost analysis. Is that right, Mr. Wiens?

6 MR. ROBIN WIENS: Yes, that would be
7 embedded costs in each of those categories after
8 allocation of net export revenues to each of the classes,
9 and then divided by whatever was the metric used to
10 measure those quantities.

11 MR. BYRON WILLIAMS: Okay, and I -- and I
12 thank you for that. Just -- just as a -- a helpful
13 reminder, there's a -- and you've discussed this with Mr.
14 Peters, so I apologize for this, but there's -- under the
15 customer heading, it -- it says "Number of Customers".

16 And I -- I think you agreed, if you'll
17 confirm for me, that -- that you -- that might better
18 read, The number of metered customers. Would that be --
19 or number of meters. Would that be fair?

20 MR. ROBIN WIENS: Well, technically
21 number of meters, or number of service points. Some
22 customers have more than one (1) service point. For the
23 purpose of this analysis, each service point is a
24 customer.

25 MR. BYRON WILLIAMS: Fair enough. In

1 terms of the General Service Large, all -- including all
2 three (3) sub-classes, would I be correct in suggesting
3 to you that there's close to three hundred (300), about -
4 - about two hundred and ninety-four (294) service points?
5 Would that be correct, sir?

6 MR. ROBIN WIENS: That looks about right.

7 MR. BYRON WILLIAMS: And you've already
8 broken that down with Mr. Peters that certainly -- and
9 the GSL Large between 30 and 100 kV and over 100 kV, the
10 number of service points is a -- a bit higher than the --
11 than -- than the number of customers, correct, sir?

12 MR. ROBIN WIENS: Yes.

13 MR. BYRON WILLIAMS: And I'm assuming
14 that that is also the same for the -- the largest number
15 of service points, being the two hundred and fifty-two
16 (252) associated with less than 30 kV. Is that right,
17 sir?

18 MR. ROBIN WIENS: Yes, it's certainly
19 possible, indeed even likely, that some customers have
20 more than one (1) service point. I wouldn't think it
21 would be a lot of them, but it's quite likely that there
22 are some.

23 MR. BYRON WILLIAMS: So within the
24 General Service Large class, recognizing that this is
25 just an estimate, it's certainly safe to say that

1 there's, based upon at least this point in time, two
2 hundred and ninety-four (294) service points, and
3 certainly well over two hundred (200) customers. Would
4 that be fair, sir?

5 MR. ROBIN WIENS: I would think that's --
6 that's most likely, yes.

7 MR. BYRON WILLIAMS: Just going over to
8 the -- the metered energy as measured in megawatt hours,
9 I wonder if you'll agree that for GSL, General Service
10 Large, the class as a whole, that the metered energy here
11 totals somewhere in the range of 7.8 million megawatts.
12 Would that sound correct, subject to check?

13 MR. ROBIN WIENS: 7.8 million megawatt
14 hours, yes.

15 MR. BYRON WILLIAMS: It's an important
16 caveat, thank you. 7.8 megawatt hours, thank you for
17 that, Mr. Wiens.

18 And would it be fair to say that -- I'm
19 going to suggest to you anyways that close to 80 percent
20 of that, being about 6.2 million megawatt hours, is in
21 those -- resides within the -- the two (2) sub-classes,
22 GSL between 30 and 100 kV, and GSL larger than 100 kV?

23 MR. ROBIN WIENS: That's -- yeah, that's
24 fair.

25 MR. BYRON WILLIAMS: So those

1 approximately forty-two (42) service points account for
2 80 percent of the metered energy. Is that about right,
3 sir?

4 MR. ROBIN WIENS: Yes.

5 MR. BYRON WILLIAMS: And just to refine
6 this point a little bit more, and -- and the -- the
7 information appears in RCM/TREE/Hydro-1-22. You don't
8 need to turn there, Mr. Wiens, unless you feel obliged to
9 double check me, which is always -- never a bad idea.

10 But, Mr. Wiens, I'm going to suggest to
11 you that focussing exclusively on the ten (10) existing
12 customers who may be affected by the Energy Intensive
13 Rate, that those ten (10) alone account for approximately
14 75 percent of all energy usage within the GSL class.
15 Does that sound about right, sir?

16 MR. ROBIN WIENS: Yeah, I believe we have
17 a response somewhere that refers to 94 percent within the
18 GS Large over 30, so 94 percent of 80 percent, you're
19 pretty close there.

20 MR. BYRON WILLIAMS: I was going to get
21 to that, Mr. Wiens, so I thank you for anticipating that.

22 And just to finish up on this point and
23 I'm sure Mr. Dudar can help me just as well, by focusing
24 on these ten (10) Manitoba Hydro has undertaken a -- a
25 fairly intensive administrative task, correct?

1 MR. MICHAEL DUDAR: That's correct.

2 MR. BYRON WILLIAMS: But you've managed
3 to capture 75 percent of the -- of the total load within
4 the -- the GSL class, is that correct?

5 MR. MICHAEL DUDAR: That's correct.

6 MR. BYRON WILLIAMS: And I think you'll
7 agree with me, I'm going to ask you to agree with me that
8 the administrative costs associated with performing a
9 similar task for the -- the remaining members of this
10 class would be -- I'm going to suggest to you time
11 consuming, significant and onerous, would that be fair?

12 MR. MICHAEL DUDAR: That would be very
13 fair.

14 MR. BYRON WILLIAMS: And I -- I'm -- I'm
15 -- this may go again to Mr. Wiens but -- Mr. Wiens, and I
16 -- I -- you've read Mr. Chernick's evidence, I -- I
17 assume?

18 MR. ROBIN WIENS: Yes, I have.

19 MR. BYRON WILLIAMS: Would I be correct
20 in suggesting to you that in his evidence he -- he looks
21 at applying a concept such as an Energy Intensive Rate
22 more broadly in two (2) different ways, first of all,
23 applying the concept to other customer classes besides
24 GSL 30 to 100 and GSL greater than 100 kV? That's one
25 way he looks at it, is that right?

1 MR. ROBIN WIENS: Yes.

2 MR. BYRON WILLIAMS: And he also looks
3 at, even within the two (2) subclasses being GSL 30 to
4 100 kV and GSL greater than 100 reducing the -- the
5 approach of reducing the baseline for these customers to
6 whom the rate applies or tightening growth allowances.

7 Would you agree with that, as well, sir?

8 MR. ROBIN WIENS: Yeah. He appears to be
9 recommending a negative growth allowance.

10 MR. BYRON WILLIAMS: So with those two
11 (2) concepts of Mr. Wiens, I want to focus first on -- on
12 some of the implications of applying the concept to other
13 customer classes besides the two (2) subclasses.

14 Is it -- are you prepared to do that with
15 -- with me, Mr. Wiens?

16 MR. ROBIN WIENS: Well let's see where
17 you go.

18 MR. BYRON WILLIAMS: You've become more
19 cynical, Mr. Wiens. No, I'm just teasing you.

20 I think we've already agreed that it -- it
21 becomes, applying this to more customers as a starting
22 point becomes administratively more difficult because the
23 number of customers for whom that baselines need to be
24 established increases almost exponentially as one
25 introduces additional classes.

1 MR. ROBIN WIENS: Well if you're talking
2 about going beyond the -- below the 30 kV level, we've
3 got a lot more numbers there than -- than if you
4 restricted it to the 30 kV level.

5 But even within that, we're looking at
6 four (4) times the number of -- of -- or three (3) times
7 anyway -- the three (3) -- three and a half (3 1/2) times
8 the number of customers that we're talking about here.

9 If you go beyond to the under 30 kV, then
10 you're looking at twenty-five (25) times the number.

11 MR. BYRON WILLIAMS: Thank you for that.
12 And you'll -- you'll also agree with me that the payoff
13 for that administrative effort is not the same in that
14 the megawatt hours likely to -- to be captured per
15 customer decrease quite rapidly within -- within those
16 groups?

17 MR. ROBIN WIENS: Oh -- oh, yes, very
18 much so.

19 MR. BYRON WILLIAMS: And maybe you'll
20 think I'm speculating on this but if you're increasing --
21 I'm just suggesting here as you've suggested whether it's
22 four (4) times or -- or twenty-five (25) times, you're
23 likely to get even more complaints and -- and disputes
24 that -- that may need resolution.

25 Is that fair?

1 MR. ROBIN WIENS: Yes, we would -- we
2 would think that to be the case.

3 MR. BYRON WILLIAMS: Going back to what I
4 understand to be the primary purpose of this -- this
5 application -- and I wonder if you'll agree with me, a
6 core -- at least a core rationale for Hydro is trying to
7 protect domestic customers by ensuring that exports
8 aren't usurped by sales at -- at below marginal rates to
9 domestic customers.

10 Is that a key concept?

11 MR. ROBIN WIENS: Yes, that's -- that's
12 certainly a key concept here.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: Again, I don't know
17 if you'll agree with me or not, Mr. Wiens, but I wonder
18 if you'll agree with me that as the number of customers
19 to whom this -- some sort of energy intensive rate is
20 applied is increased, the more this kind of key concept
21 seems to be undermined, and I'm going to suggest to you
22 because there's an increasing number of domestic
23 customers who are paying higher rates, based on an
24 argument that otherwise the rates would be higher?

25 Can you follow that, Mr. Wiens?

1 MR. ROBIN WIENS: Well, some would fall
2 into that category, Mr. Williams. I'm -- I'm -- I -- I
3 couldn't hazard a guess at this point how many.

4 MR. BYRON WILLIAMS: At a -- at a certain
5 point in time, Mr. Wiens, it almost becomes a circular
6 argument though, that -- that we're paying higher rates
7 to ensure that we don't pay higher rates.

8 Can you see some customers taking that
9 perspective?

10 MR. ROBIN WIENS: Well, yeah, as -- as
11 you take the concept further down into the general
12 service medium and the General Service Small and
13 ultimately the residential class, well, that -- that
14 would be a perception, anyway.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: I'm going to move to
19 stay -- probably back to Mr. Dudar.

20 Mr. Dudar, in terms of the CBEL, my
21 understanding is that Hydro's CBEL determinations will be
22 provided in confidence to the Public Utilities Board for
23 it's information.

24 Is that fair?

25 MR. MICHAEL DUDAR: That's correct.

1 MR. BYRON WILLIAMS: Mr. Dudar, I'm --
2 I'm going to suggest to you that it's likely that -- that
3 companies, or it's certain, that companies have a
4 financial interest in -- in revising their -- their
5 baseline upwards.

6 Would that be fair?

7 MR. MICHAEL DUDAR: Yes, that's correct.

8 MR. BYRON WILLIAMS: And taken from the
9 perspective of protecting the revenue base, Manitoba
10 Hydro has an interest in resisting revisions upward, in
11 that they may impair the revenue base, correct?

12 MR. MICHAEL DUDAR: Manitoba Hydro would
13 -- would assess the -- the information from the customer
14 and -- in an attempt to treat them fairly, and -- and we
15 wouldn't try to reduce the CBEL if we didn't believe that
16 it -- it was appropriate.

17 MR. BYRON WILLIAMS: And I have no doubt,
18 Mr. Dudar, that -- that you'll -- you'll attempt be fair,
19 but certainly companies would understand, you'll agree
20 with me, that Manitoba Hydro from a financial perspective
21 has -- benefits the lower the baseline is?

22 Is that not right?

23 MR. MICHAEL DUDAR: That's correct.

24 MR. BYRON WILLIAMS: And am I correct in
25 suggesting to you that final approval, in terms of the

1 baseline, resides with Manitoba Hydro?

2 Is that the thrust of this proposal?

3 MR. MICHAEL DUDAR: That's correct.

4 MR. BYRON WILLIAMS: There is no
5 mechanism for Public Utilities Board approval, correct?

6

7 (BRIEF PAUSE)

8

9 MR. MICHAEL DUDAR: That's correct.

10 MR. BYRON WILLIAMS: And there is no
11 alternative dispute resolution process laid out in the
12 application, would that be fair?

13 MR. MICHAEL DUDAR: That's correct.

14 MR. BYRON WILLIAMS: And that would apply
15 not only for the setting of the initial baseline but for
16 any revisions to the baseline, as well final approval
17 resides with Manitoba Hydro, correct?

18 MR. MICHAEL DUDAR: That's correct.

19 MR. ROBERT MAYER: Mr. Dudar, does that
20 include -- there's also no dispute -- dispute resolution
21 mechanism even if you got into a dispute as to whether or
22 not the company had an incidence of force majeure during
23 the three (3) year period immediately preceding the
24 implementation?

25 MR. MICHAEL DUDAR: That provision was

1 not included in this rate proposal.

2

3 CONTINUED BY MR. BYRON WILLIAMS:

4 MR. BYRON WILLIAMS: Mr. Dudar, does the
5 Manitoba Hydro anticipate that there may be some risk of
6 conflict or dispute between companies in terms of their
7 initial or revised based CBEL and Manitoba Hydro?

8 MR. MICHAEL DUDAR: I expect there will
9 be.

10 MR. BYRON WILLIAMS: Do you also
11 anticipate or...

12

13 (BRIEF PAUSE)

14

15 MR. ROBERT MAYER: Can I get back to that
16 force majeure issue again? I'm looking at Appendix 2 to
17 the Application and I -- I was incorrect in the thirty-
18 six (36) months but the twelve (12) month period is
19 selected.

20 The force majeure issue is still in there,
21 right?

22 MR. MICHAEL DUDAR: The --

23 MR. ROBERT MAYER: Three point five
24 (3.5).

25 MR. MICHAEL DUDAR: The force majeure

1 clause is still in effect.

2 MR. ROBERT MAYER: And there -- if there
3 was a dispute as to whether or not the event constituted
4 a force majeure, there is no provision -- Hydro's
5 decision would be final and there's no ability to appeal
6 that decision?

7 MR. MICHAEL DUDAR: There is no mechanism
8 to -- to appeal to a -- to a third party. The
9 expectation would be that Manitoba Hydro and the customer
10 would be able to come to some resolution.

11 If not at my level, the customer would be
12 able to take it up to Manitoba Hydro's executive for --
13 for further resolution.

14 MR. ROBERT MAYER: Okay. Lets -- let me
15 just pose a -- a hypothetical to some extent.

16 We have -- we know what the base metal
17 prices were when you first started -- or the commodity
18 prices were when we first started into this process.

19 We also knew that at least the one (1)
20 company that I'm relatively familiar with was planning
21 significant expansion to what -- what they called the 1-
22 D.

23 It is also my understanding that in the
24 last week they have suspended that 1-D due to what they
25 are suggesting is rather significant economic force that

1 would require them to do that.

2 And although that's not a force majeure in
3 terms of flood tempest or whatever else, it certainly is
4 something that may, in fact, affect what they would have
5 used for power during the course of that particular year.

6 MR. MICHAEL DUDAR: That -- that's
7 correct. But their reduction in energy consumption would
8 not impact their -- their baseline.

9 Once -- once the baselines are set, they -
10 - they do not go down, they -- they only go up. So -- so
11 a change in -- in the price of the commodity and -- and a
12 reduction in their energy consumption would not impact
13 that customer when the commodity prices come back up and
14 -- and they move forward with their -- their expansions.

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: I hesitate to get
18 distracted, but what the heck. Let's say -- it is
19 possible certainly, Mr. Dudar, is it not, that there may
20 be new companies in Manitoba that ultimately get to --
21 excuse me, there may be existing companies in Manitoba
22 that are not currently subject to the Energy Intensive
23 Rate which -- which at some point in the future may come
24 to be subject to the Energy Intensive Rate?

25

 MR. MICHAEL DUDAR: That is correct.

1 MR. BYRON WILLIAMS: So if that was a
2 company which had a major economic impact, let's say in
3 2009, but was above the -- the CB -- or subject to the --
4 the Energy Intensive Rate in about 2010 or 2011, that
5 economic event could -- could be included -- or it could
6 be something that in the future would be part of the
7 consideration of the CBEL. Would that be fair?

8 MR. MICHAEL DUDAR: If -- if the company
9 -- the -- the company would probably -- if the company
10 was expanding and growing, they -- they probably would be
11 in an industry that -- that would not be affected by --
12 by the current recession, and -- and, so I -- I don't see
13 that you could claim the recession as being a -- an
14 unusual operating condition for that particular company.

15 If -- if a -- if a company -- as -- as we
16 came out of the recession, and -- and the company
17 suddenly started to grow -- grow significantly, their --
18 their baseline would be set at a hundred (100).

19 And in previous, the -- the way the
20 agreement is structured is -- is if they had thirty-six
21 (36) months of unusual operating conditions, which if the
22 recession lasted for thirty-six (36) months they could
23 claim that, but because their load was below the baseline
24 before, using a earlier load wouldn't work for them. So
25 I -- I don't think I agree with you.

1 MR. BYRON WILLIAMS: And I probably --
2 didn't ask the question. You answered it better than I
3 asked it anyways. I thank you for that.

4 Where we -- we were was that you -- you
5 did indicate that you did see the potential for some
6 conflict or dispute between companies and Hydro?

7 MR. MICHAEL DUDAR: Yes.

8 MR. BYRON WILLIAMS: And you'll -- you'll
9 agree with me that companies also might ultimately come
10 to the view that Hydro was not disinterested in that
11 dispute in the sense that they had a -- a financial
12 interest in taking a position adverse to the companies.
13 Will you agree with that?

14 MR. MICHAEL DIDAR: I would.

15 MR. BYRON WILLIAMS: If you have nearby,
16 or you can accept this subject to check, Appendix 3 to
17 the -- you probably don't need to turn there, but
18 Appendix 3 to the Information Responses of Manitoba
19 Hydro, First Round. That's the BC Hydro rate schedules,
20 18-2-3?

21 MR. MICHAEL DUDAR: Where is that again?

22 MR. BYRON WILLIAMS: It -- if -- if you
23 look in the Appendices to the First Round Information
24 Responses, it would be Appendix 4, excuse me, BC Hydro
25 Rate Schedule Effective April 1st, 2008.

1 And, Mr. Dudar, you could probably accept
2 this subject to check from me, if -- if --

3 MR. MICHAEL DUDAR: Okay.

4 MR. BYRON WILLIAMS: My -- my
5 understanding -- I'm directing your attention to the
6 first revision of page 46, which is probably the second
7 page in.

8 MR. MICHAEL DUDAR: Okay.

9 MR. BYRON WILLIAMS: Mr. Dudar, would I
10 be correct in suggesting to you -- and just looking to
11 about two-thirds of the way down the -- the page, do you
12 see on the lefthand side a heading, Customer Baseline
13 Load? Do you see that, sir?

14 MR. MICHAEL DUDAR: I do.

15 MR. BYRON WILLIAMS: Is it -- based upon
16 -- is it your understanding that in -- that the BCUC has
17 a final approval for the customer base baseline load with
18 regard to the -- the stepped rate program, sir?

19 MR. MICHAEL DUDAR: That's what it
20 indicates.

21 MR. BYRON WILLIAMS: And is that your
22 understanding as well?

23 MR. MICHAEL DUDAR: That is my
24 understanding.

25 MR. BYRON WILLIAMS: Do you have any --

1 and you may not -- do you have any sense of why the -- in
2 British Columbia they have -- lean towards having an
3 independent approval for the -- for the customer baseline
4 load?

5 MR. MICHAEL DUDAR: I am not aware of why
6 they chose that mechanism.

7 MR. BYRON WILLIAMS: Can you identify any
8 concerns from the perspective of Manitoba Hydro why it
9 would be inappropriate to have an independent
10 determination of -- of the customer baseline load?

11

12 (BRIEF PAUSE)

13

14 MR. VINCE WARDEN: Mr. Williams, I think
15 Manitoba Hydro's position would be that we don't see the
16 need for an independent determination of that baseline.
17 There may, however, be good logic for -- for having an
18 appeal process. If -- if a customer of Manitoba Hydro
19 cannot agree, it may be appropriate to have an appeal
20 process to the -- to this -- this Board.

21 MR. BYRON WILLIAMS: Thank you for that,
22 Mr. -- Mr. Warden. And is that -- is that something
23 Manitoba Hydro is -- is currently proposing or planning
24 to propose?

25 MR. VINCE WARDEN: Well, it is not part

1 of our application.

2 MR. BYRON WILLIAMS: But you can see the
3 logic that -- that it may be beneficial?

4 MR. VINCE WARDEN: Yeah, I think our
5 expectation is that we will be able to agree with
6 customers on the appropriate baseline, but in the event
7 that doesn't happen, it would seem reasonable to have
8 some other avenue.

9 MR. BYRON WILLIAMS: Mr. Wiens, and I
10 appreciate -- I appreciate -- Mr. Warden, excuse me, I
11 appreciate that very much.

12 Let's take a different perspective,
13 though. Can -- can you see -- you've -- Mr. Warden,
14 you've indicated that it's your expectation that the --
15 Manitoba Hydro and -- and the individual companies may be
16 able to -- or will be able to agree on the baseline; that
17 was your statement, sir?

18 MR. VINCE WARDEN: Yes.

19 MR. BYRON WILLIAMS: Can you understand
20 why from the perspective of other customers in the system
21 why they might want an independent review of that
22 baseline, sir?

23 MR. VINCE WARDEN: Well, there is
24 ultimately going to be an impact on revenue requirement
25 and from that perspective other customers would have an

1 interest in that, yes.

2 MR. BYRON WILLIAMS: So so far I've been
3 able to get you to go so far as to think -- to see some
4 logic in -- in an appeal mechanism based upon perhaps a
5 concern of other customers. Can I persuade you that
6 there might be some logic in -- in having the final
7 decision rest outside of Manitoba Hydro?

8 MR. VINCE WARDEN: No, I wouldn't go that
9 far.

10 MR. BYRON WILLIAMS: Subject --

11 MR. ROBERT MAYER: Should have quite
12 while you were ahead.

13 MR. BYRON WILLIAMS: No guts, no glory,
14 right? Mr. Chairman, this is an appropriate time. I
15 don't know if Mr. Wiens has some brilliant answers for me
16 as of yet or not.

17 MR. ROBIN WIENS: Mr. Williams, I was
18 waiting for you to steam down a bit and I would have
19 interjected so you've given me the opportunity now.

20 If we look at the revenue from the portion
21 of the rate above the -- above the first block rate and
22 the portion of the load above the baseline level, and I'm
23 referring to the year 2009/'10 which is the first year
24 that we would anticipate this to be in effect, prior to
25 looking at the DSM, the percentage of the universe --

1 applied to the universe, the revenue from the universe of
2 customers that would be potentially exposed, that is the
3 ten (10), it is about 6 percent. And if you look after
4 DSM, what we expect will be post-DSM, it is about 4.8
5 percent of the revenue.

6 Now, if you move to -- if you move to
7 looking at only the specific customers that are actually
8 based on this load forecast actually expected to get into
9 the second block, you're looking at something in the
10 order of 6.5 percent of their revenue that would
11 otherwise occur at only the first block rate.

12 And if you look at -- with DSM, you're
13 looking at something in the order appl -- again, only to
14 the customers who are expected to -- to actually get into
15 the second block, you're looking at something in the
16 neighbourhood of 8 percent.

17 MR. BYRON WILLIAMS: Thank you, Mr.
18 Wiens.

19 THE CHAIRPERSON: Okay. Thank you, Mr.
20 Williams.

21 Okay, we'll adjourn for the day. We'll
22 see you back tomorrow morning at nine o'clock. Thank
23 you.

24

25 (PANEL RETIRES)

1 --- Upon adjourning at 4:05 p.m.

2

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4

5 Certified correct,

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Cheryl Lavigne, Ms.

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