MANITOBA PUBLIC UTILITIES BOARD

Re: 2008/'09 GENERAL RATE APPLICATION

MANITOBA HYDRO

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

April 10th, 2008

Pages 1948 to 2178

APPEARANCES

Bob Peters		)Board Counsel
Doug Buhr		)City of Winnipeg
Byron Williams		)Coalition
Jennifer Scott	(np)	)TransCanada Keystone
Tamara Trull	(np)	)Pipeline
Tamara McCaffrey		)MIPUG
John Landry		)
Michael Anderson	(np)	)MKO
Patti Ramage		)Manitoba Hydro
Odette Fernandes		)
Bill Gange		)RCM/TREE
Dan Rempel		)
Peter Miller		)

TABLE OF CONTENTS

LIST OF EXHIBITS

UNDERTAKINGS

UNDERTAKINGS (Con't)

UNDERTAKINGS (Con't)

--- Upon commencing at 9:03 a.m.

THE CHAIRPERSON: Okay, good morning everyone. Mr. Peters, if you could remind us, after the fairly lengthy break, where we are.

MR. BOB PETERS: Thank you. Good morning, Mr. Chairman, Board Members, ladies and gentlemen. I'll start off with a couple of housekeeping matters, Mr. Chairman, and I think I'll pass the mic to Ms. McCaffrey after that. She has a matter to address. And perhaps Ms. Ramage can also let us know where the various undertakings are and when we might expect some of those.

But to start off with, Mr. Chairman, there's been a scheduling change and I've tried to communicate that to parties while we were away via emails. And I've circulated this morning on yellow paper -- and as noted I'm quickly run out of different colors to differentiate the different schedules. But the -- there has been a change in the days that we are proposing to sit at the end of April.

And we had -- excuse me, we had initially planned on sitting Monday the 28th, Tuesday the 29th of April as well as Wednesday the 30th, and as a result of witness availability those dates have been shifted and our intention now is to sit on the Wednesday, Thursday and Friday.

You will see on the yellow sheet that's been circulated that Wednesday the 30th of April is listed as an open day. That may be optimistic on my part, but I envision that day being needed to ensure that all counsel have concluded their cross-examination of the cost of service and rate design panel.

I will indicate that I will continue today with this panel for most of the day and if time permits, hand the microphone over to Mr. Doug Buhr from the City of Winnipeg, and then tomorrow will be Coalition and MIPUG. MIPUG will start tomorrow and I envision MIPUG being most of the 14th of April with this panel.

And then on the 15th I envision Mr. Gange will have returned from his out of town junket and will be on the microphone. And that's important, Mr. Chairman, on the 15th that Mr. Gange complete with this panel because his witnesses are coming on the 16th to testify.

Then as I said, the 30th would be a day if anybody has any remaining matters, and then MIPUG witnesses will be on May the 1st, and the Coalition witnesses on May the 2nd.

I've spoken with Mr. Williams and he has a

-- a matter that will keep him away from this hearing room for a couple of hours this morning, but he -- he has scheduled his witnesses for May the 2nd.

The closing submission dates remain the same.

So, with that preamble, unless there's any questions, Mr. Chairman, I'll suggest it be turned over to Ms. McCaffrey for just a minute, and then maybe Ms. Ramage, before I continue with the witness panel.

MS. TAMARA MCCAFFREY: Good morning, Mr. Chair, members of the Board. I wanted just to take a moment to introduce Mr. John Landry. Mr. Landry will be assisting MIPUG with respect to their intervention in terms of the shaping of the issues that we'll be looking at for the second hearing with respect to the new industrial rate.

Mr. Landry...?

MR. JOHN LANDRY: Thank you. It's a pleasure to be here in Manitoba before you, and I look forward to trying to help the Board in what is obviously a -- a very important issue for Manitoba.

THE CHAIRPERSON: Welcome.

Ms. Ramage, do you have anything?

MS. PATTI RAMAGE: Mr. Peters had mentioned this morning or suggested I might provide a status update on undertakings. I can advise that we're hoping that either at the break or after the lunch break to -- to get a number of undertakings -- probably in the area of fifteen (15), sixteen (16). I'm not sure how many offhand that represents in terms of if there's any outstanding after that; we'll -- I'd have to look into that. But there are a number on their way today.

THE CHAIRPERSON: Oh, very good. Okay, thank you.

Mr. Peters...?

MANITOBA HYDRO COST OF SERVICE AND RATE DESIGN PANEL:

KURT ROBIN WIENS, Resumed

CHIC THOMAS, Resumed

VINCE WARDEN, Resumed

HAROLD SURMINSKI, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS

MR. BOB PETERS: Yes, thank you, Mr. Chairman.

Mr. Warden, good morning. Yesterday was a budget day in Manitoba, and I'm wondering if you can, this morning, tell the Board whether, as a result of the provincial budget, the IFF that you have before this Board, found at Tab 10 of the first book of documents, would need revision?

MR. VINCE WARDEN: No, I'm pleased to say -- first of all, good morning -- I am pleased to say there's no more hidden fees in there for Manitoba Hydro that we could find, and the only issue is with respect to the coal plant in Brandon. The effect of the carbon tax will have some impact. We haven't deter -- specifically determined what the impact of that will be at this time.

But as far as the new year term is concerned, there should be no major impacts on the IFF.

MR. BOB PETERS: All right. And just on that note, the corporate capital tax in the budget, Mr. Warden, we have evidence before this Board, I believe, that the Corporate Capital Tax in Manitoba, it's being phased out, save and except for Crown corporations.

Is that still the case?

MR. VINCE WARDEN: That is still the case, yes.

MR. BOB PETERS: All right. And dealing with the carbon tax that you referenced, what is Manitoba Hydro's understanding as to when that will be implemented and the quantification of that?

MR. VINCE WARDEN: I don't have a good answer for that at this time, Mr. Peters. We're still reviewing that and perhaps later today or tomorrow I could have a -- a better answer for you.

MR. BOB PETERS: I think the Board would appreciate that, if your counsel could undertake to remind you that -- once you have additional information. And if you could tie that information to the IFF that's before the Board at Tab 10 of the book of documents, that might also be helpful.

MR. VINCE WARDEN: We can do that.

MR. BOB PETERS: Thank you.

--- UNDERTAKING NO. 67: Manitoba Hydro to indicate to Board, dealing with the carbon tax, what is Manitoba Hydro's understanding as to when that will be implemented and the quantification of that; tie that information to the IFF that's before the Board at Tab 10 of the book of documents

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Wiens, Mr. Thomas, good morning, at transcript page 1,945 we were talking about revenue-to-cost coverage ratios last time and the impact that reduced export revenue would have on those.

Do you recall, generally, that discussion?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: At page 56 of the book of documents that I circulated is a copy of Schedule B-1 from your latest cost of service study, correct?

MR. CHIC THOMAS: Sorry, Mr. Peters, that reference?

MR. BOB PETERS: It's -- if we're all on the same page, which I think we are, is Tab 56 of the book of documents.

MR. CHIC THOMAS: Fifty-five (55) in ours, but I've got it, yes.

MR. BOB PETERS: Let's not go there. I think you refused to update your book of documents, and that was at your peril, Mr. Thomas.

But, continuing, you've, in any event, found Schedule B-1 from your Cost of Service Study, correct?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And in the last column, column number 8, are the revenue-to-cost ratios that are before the Board based on your most current cost of service study.

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: That cost of service study and those RCCs include an amount of $165 million of net export revenue -- that's found at the bottom of -- of column 5 -- correct?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And last day we were having a discussion about what would happen if the net export revenue number would diminish and I suggested that would then have an effect on the RCCs.

Do you recall that?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And that next export number could diminish either because the volume of sales declines or the cost that you recover on your sales would be less than what you assume going forward, correct?

MR. CHIC THOMAS: We took it more as if the -- the price of the export sale was less than what's embedded in our study.

MR. BOB PETERS: All right. And do you want to disclose what price you've embedded in your study?

MR. CHIC THOMAS: Well, we don't -- you know, we can actually work out a per-unit price but in the study we work on the bulk of the number. I mean -- I mean we could easily calculate that number of -- you know, if that's something that you would like, Mr. Peters.

But it's not actually -- you know, we don't start with the -- the consumption and then multiply it by a price. It's just something we pull from the IFF, which is a bulk number.

MR. BOB PETERS: All right. I'm -- I'm going to come to that because I did that calculation over the break and we'll -- we'll see how I -- I did on that, Mr. Thomas.

I was suggesting to you last day that if Manitoba Hydro's estimate of its export price, its average export price, was incorrect and the net export revenue was lower than $165 million that would have effect of having less monies then to allocate back to the various customer classes, correct?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And if there's less money to allocate back to the customer classes, the revenue-to-cost coverage ratios will diverge further from unity that they already are?

MR. CHIC THOMAS: The model is always in unity, as I think the conversation between yourself and Mr. Wiens transpired that last day on the transcript that you reference. Because the model is in balance, I think

Mr. Wiens had suggested that overall, you know you're talking 100 percent, there might be some divergence within the classes but -- but overall it always come down to 100 percent between revenue and cost.

MR. BOB PETERS: And that may imply a higher rate increase from general consumer's revenue that's needed to keep it in balance?

MR. CHIC THOMAS: It could, yes.

MR. BOB PETERS: And there were a couple of scenarios that I attempted to show the Board last time and we were going to consider those further and maybe you've had the break to that, and one of the examples was what if there was no additional export revenue to allocate, and another one was dealing with perhaps a reduced number.

Have you had a chance to consider those types of scenarios?

MR. CHIC THOMAS: I'm sorry, Mr. Peters, I missed all that.

MR. BOB PETERS: All right. It is early. At the end of last day, transcript nineteen forty-five (1945) and nineteen forty-six (1946), we were just discussing whether -- what would be the specific impacts if that net export revenue that was allocated back to the customer classes was zero, and then another scenario as well; if it wasn't zero, what if it was something less than what it presently is, and I wondered if the Corporation has had time to think about that further?

MR. CHIC THOMAS: Yes, indeed we have and I think we have that undertaking prepared. And I'm not sure what Ms. Ramage's preference is whether we want to hand it -- I don't -- I don't believe we have copies made available now. We can certainly undertake to hand that out after the break. We could -- we could go through the numbers if you wish now. Unfortunately nobody has it in front of them other than myself so...

MR. BOB PETERS: All right, well let's start this way and -- and I think after the break would be a good time to circulate that -- but looking at the residential class can you tell the Board what would that RCCB -- it won't be 96.4 percent -- if the net export revenue is reduced down to zero, what would it be?

MR. CHIC THOMAS: Again, in -- in your references you are taking if net export revenue was to be reduced to approximately 115 million and in that case the revenue cost coverage goes to ninety-six point one (96.1), and if that net export revenue is reduced to approximately zero dollars the RCC goes down to ninety-five point three (95.3).

MR. BOB PETERS: All right. And I'll

leave it at that now until we -- we actually see the -- the undertaking that you file after the break. That'll be helpful.

MR. CHIC THOMAS: Fair enough.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Thomas, if I did my math correctly over the break and I took your export load at generation and divided that through the export revenues received, I would come up with an assumed number of about seven point one six (7.16) cents of your average cost of export.

MR. CHIC THOMAS: Subject to check, I'll assume that.

MR. BOB PETERS: So -- and that's just a mathematical calculation based on the numbers you have in your IFF, correct?

MR. CHIC THOMAS: That's correct.

MR. BOB PETERS: And that would suggest that you're telling the Board that in your IFF, you're assuming that your average export price is going to be about seven point one six (7.16) cents per kilowatt hour.

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: In fact would it be

correct to say that the actual export price in 2007/'08 for the Corporation has been closer to five (5) cents a kilowatt hour?

MR. CHIC THOMAS: That's -- that's been a number that we've used in a number of references, yes.

MR. BOB PETERS: Would I also be correct when I look back at your Prospective Cost of Service Study for '05 and '06, back in April the 12th of '07, I believe it was calculated, that the net export assumption, in terms of average cost, was about six point two two (6.22) cents?

MR. CHIC THOMAS: On next export? I think it would be lower on net exports. The gross is -- which one were you calculating on, Mr. Peters?

MR. BOB PETERS: You -- you -- you're correct. I'm talking gross calculation.

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And so back in the Prospective Cost of Service Study for fiscal '06, the derived average export price expected was approximately six point two two (6.22) cents per kilowatt hour.

MR. CHIC THOMAS: Again, subject to check, I'll accept that.

MR. BOB PETERS: And you'd agree with me that the domestic revenue that you would -- that you would include was based on approximately five point one (5.1) cents a kilowatt hour for both the '08 and the '06 fiscal years?

MR. CHIC THOMAS: You're talking just general consumer?

MR. BOB PETERS: Yes, I am.

MR. CHIC THOMAS: Just averaging revenue divided by -- that sounds about right.

MR. BOB PETERS: All right. And you're agree then that in both of those prospective cost of service studies the assumptions that Hydro has used for the average export price were higher than what actually has turned out to be the case?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: In one (1) instance the assumption in fiscal -- or the PCOSS '08 was seven point one (7.16) cents a kilowatt hour when it was actually closer to five point zero (5.0) cents a kilowatt hour.

MR. CHIC THOMAS: We'd have to check those but it sounds reasonable given the calculations.

MR. BOB PETERS: And likewise in the Prospective Cost of Service Study for fiscal '06 the assumption was six point two two (6.22) cents per kilowatt hour, when the actual was closer to five point two (5.2)?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: Mr. Thomas, does Manitoba Hydro acknowledge that a major reason for the residential class RCC staying outside or at the lower end of the zone of reasonableness is due to Manitoba Hydro's increased distribution plant expenditures?

MR. CHIC THOMAS: That's -- that's certainly a factor. Whether that's the singular factor that causes that I -- I think there's more to it than just attributing it to that one (1) single event or -- or item.

MR. BOB PETERS: Well, let's focus on that one (1) item. And if we stay in -- in everybody else's book of document, Tab 56, Mr. Thomas -- excuse me, and look to Schedule B-3 which is the last page in that book of documents, we get a summary of some of the costs that have been allocated, correct?

MR. CHIC THOMAS: The functional cost summary, yes, that's correct.

MR. BOB PETERS: And if we go to the second last column on the right hand side, we have distribution plant costs, correct?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: It appears that for the residential customers, there's $151 million of distribution costs that are -- end up being allocated to that customer class.

MR. CHIC THOMAS: That's correct.

MR. BOB PETERS: By comparison if we go down to the general service large greater than one hundred (100) kV class or subclass, they have a grand total of twenty-four thousand dollars ($24,000) of distribution costs.

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: At Tab 60 of the book of documents is the Information Request, PUB/Manitoba Hydro First Round 10.

Have you located that, Mr. Thomas?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And in this answer Manitoba Hydro provides the Board with a ten (10) year history of the investment and distribution plant. And it appears that back in 1997 the Corporation had a about a billion dollars invested in distribution, which you've now told the Board is mostly for residential customers, and by 2006 that's now up to $2.2 billion.

Would I have that correct?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: So it grew by over 100 percent in ten (10) years?

MR. CHIC THOMAS: Based on the numbers on the page, yes.

MR. BOB PETERS: And would you accept that the total assets of Manitoba Hydro over that same period grew from about 7.4 billion to 11.4 billion? And I -- I got that from page 100 of the annual report.

MR. CHIC THOMAS: I'll -- subject to check, I'll accept that.

MR. BOB PETERS: So the total assets of the Corporation grew in the range of 50 percent but the distribution assets, primarily for the residential class, grew by over 100 percent in those ten (10) years?

MR. CHIC THOMAS: If you compare these two (2) numbers, yes.

MR. BOB PETERS: And I suggested to you earlier that this increase in distribution plant drives the increase in class cost allocations for residential in the general service small to the extent that that pushes the revenue-to-cost recovery numbers, cost coverage numbers, further from unity because you're not recovering as much of that cost as is incurred?

MR. CHIC THOMAS: Well, the Cost of Service Study is always made to recover the revenue requirement of the Corporation as -- as set out in the IFF. Whether that revenue requirement number is increasing solely because of distribution plant or some other factors, I mean it's all bundled in there.

MR. BOB PETERS: You'd agree presently, Mr. Warden or Mr. Thomas, that Manitoba Hydro has an expectation that the classes who incur the costs will pay the costs?

MR. CHIC THOMAS: That's the intent, yes.

MR. BOB PETERS: And if we go to Document Number 59 in the book of documents there's a -- a page not calculated by Manitoba Hydro but prepared for total allocated costs by customer class on a -- on a dollars or cents per kilowatt hour basis before the export credit is given. Do you --

MR. CHIC THOMAS: I have that, yes.

MR. BOB PETERS: That suggests that according to the allocations of the costs, the residential class is allocated approximately eight (8) cents a kilowatt hour for the costs that are incurred?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And of that eight (8) cents we could break that down, could we not, Mr. Thomas, that about three point eight (3.8) cents is related to generation and transmission, and four point two (4.2) cents is related to distribution, to come up with our eight (8) cents?

MR. CHIC THOMAS: That would be fair.

MR. BOB PETERS: If we go down to the general service large class, the greater than 100 kV, by way of example we're looking at allocated costs of approximately three point three (3.3) cents per kilowatt hour for that subclass?

MR. CHIC THOMAS: Yes. Yes.

MR. BOB PETERS: And so if we look in the far right-hand column would it be fair for the Board to interpret that, that the residential class subsidy is approximately one point four (1.4) cents a kilowatt hour, whereas the general service large greater than 100 kV subsidy is -- is point one (.1) cent per kilowatt hour?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: I want to turn to one (1) of the questions that we dealt with briefly earlier, and I also think it's a matter raised in the MIPUG evidence, and it has to do with the allocation of demand-side management generation. My notes indicate that on the transcript page 1841 to 1842 there was some discussion about it, but I want to start this way:

The Public Utilities Board has suggested to Manitoba Hydro that it allocate demand-side management costs to export revenues.

MR. CHIC THOMAS: In order 11706, that's

correct.

MR. BOB PETERS: And would it also be correct that the Board was silent on how to treat the energy related to the demand-side management?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And Manitoba Hydro has deducted the demand-side management energy from export energy.

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And as a result of doing that, when it worked through your cost of service methodology, that results in 16 percent of generation costs being allocated to the export class.

MR. CHIC THOMAS: I haven't done the calculation, but it sounds about right.

MR. BOB PETERS: And just to be clear, we're talking only hydraulic generation, correct?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: But you would agree that Manitoba Hydro still has to generate hydraulically the amount of DSM energy to sell to other customers?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: So an alternative method of dealing with that energy would be to add it back to the domestic load to keep the energy in balance?

MR. ROBIN WIENS: That would be an alternative method of treating that, Mr. Peters. I don't know that it really does in fact have anything to do with the energy balance.

MR. BOB PETERS: All right. I'll take that as half a yes. I appreciate the qualification.

My suggestion on the energy balance, Mr. Wiens, and help me out here, is you still have to account for all the energy that is hydraulically generated and it's a question of do you deduct it from the export energy or do you add it back to the domestic load, because it has to be somewhere in your system or Mr. Surminski is not going to be happy?

MR. ROBIN WIENS: I haven't heard Mr. Surminski express any unhappiness about it.

Mr. Peters, following through on the directives from Order 117/'06, all thermal generation was assigned to the export class, all imports were assigned to the export class directly. Once you've done -- once you've done that, there is only one (1) other source of generation.

So what we're saying is that the demand-side management activity to-date has freed up a certain number of kilowatt hours of energy that are not being used by the domestic class. Notionally we've already assigned all other sources but hydraulic directly to the export class. So the energy, the hydraulic energy freed up by the demand-side management is then notionally available to the export class.

So it is -- yes, it is hydraulic energy that is assigned in respect of the DSM.

MR. BOB PETERS: Would you agree -- and I believe Mr. Thomas accepted it as being reasonable although he hadn't done the math, that when you deduct the DSM energy from the export energy, that results in a 16 percent allocation of generation cost to the export class, but if you did it the alternative method, that would result in 18.8 percent of generation costs being allocated to the export class?

MR. ROBIN WIENS: I can accept that directionally. We'd probably want to actually check the figures, but it's actually been done implicitly; we just don't have those numbers right in front of us.

MR. BOB PETERS: You can confirm that intuitively that makes sense, because that's what -- that's what would happen?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Does Manitoba Hydro agree, Mr. Wiens, that if continued with your methodology through to 2017 it would reduce the export generation costs to nearly zero?

MR. ROBIN WIENS: I can't confirm that without doing the math, but -- Mr. Peters, but you know, I can see that as a possibility, yes.

MR. BOB PETERS: Well, the reason that's a possibility is Manitoba Hydro is suggesting to this Board that its demand-side management program is going to continue, it's going to be successful, and back in, I think Tab 11 of the book of documents used with the revenue requirement panel, the Board saw that out by 2017 there could be 2,600 gigawatt hours per year attributed to demand-side management.

MR. ROBIN WIENS: We'll take that subject to check, Mr. Peters.

MR. BOB PETERS: And if you -- if you continue to deduct the demand-side management energy from the exports, that export class will end up having very little energy in that class and therefore, the allocation of generation cost will be greatly reduced.

MR. ROBIN WIENS: Well, you know, I think that follows through from the nature of what the plans are and how energy is going to be -- how energy requirements are going to be met to 2017.

As domestic load grows, if no more generation assets are added, the only place that exports can come from is from energy conserved. So that -- that would make sense.

Now the question of how you treat them in the Cost of Service Study, that might have to be revisited at that time. But I think if you're looking ahead, you're not putting it to 2017.

We're looking at -- Wuskwatim would be added but not more, and we're looking at ever growing domestic load so it's quite conceivable that all that would be left to be exported would be that which has been conserved.

MR. BOB PETERS: Would the alternative methodology that we discussed have the same end result of -- of reducing the export generation cost to nearly zero?

MR. ROBIN WIENS: No, I don't think it would, Mr. Peters.

MR. BOB PETERS: Mr. Wiens and Mr. Thomas, I think in Mr. Warden's direct evidence, as well as the evidence from yourselves, you indicated to the Board that there was a retained earnings deficiency revenue-to-cost calculation presented to this Board, correct?

MR. CHIC THOMAS: Yes, there was.

MR. BOB PETERS: That's a new presentation? Hasn't been presented to the Board before, has it?

MR. CHIC THOMAS: That's correct.

MR. BOB PETERS: And it's not based on embedded cost of service methodology, is it?

MR. CHIC THOMAS: Yes, it is.

MR. BOB PETERS: Well, would it be an attempt to show how close each class is to contributing to the target of 25 percent equity?

MR. CHIC THOMAS: That's one way to look at it. We have, over time, presented a number of different scenarios to the Board, be it RCC's pre-export revenue, marginal cost, this is just another one of those things to -- to try to illustrate those types of things. Yeah.

MR. BOB PETERS: Is this the only methodology that you've presented to the Board where the area and roadway lighting does not meet a threshold or, at least, a unity calculation?

MR. CHIC THOMAS: I'd have to check past ones, but it sounds about reasonable, yes.

MR. BOB PETERS: And the --

MR. ROBIN WIENS: Actually Mr. Peters there is one (1) other.

MR. BOB PETERS: Remind us again, Mr. Wiens.

MR. ROBIN WIENS: It would be in your Tab 54.

MR. BOB PETERS: This is the marginal cost?

MR. ROBIN WIENS: Correct.

MR. BOB PETERS: All right. Well, we'll come to that. Thank you, Mr. Wiens.

Suffice it to say under this retained earnings deficiency revenue-to-cost coverage calculation, no class contributes 100 percent of their share of that financial target?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And that target is $342 million away at this point in time, correct?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: At Tab 61 of the book of documents is a PUB/Manitoba Hydro First Round 99-B, and I take -- can the Board take from your answer that if every class was to contribute their share of the equity, it would require a 31 percent increase in domestic rates?

MR. CHIC THOMAS: That's how the calculation works out, yes.

MR. BOB PETERS: That's not Manitoba Hydro's proposal at this point in time, correct?

MR. CHIC THOMAS: To raise the rates by

that quantum, absolutely not.

MR. BOB PETERS: And it's not Manitoba Hydro's intent to use the revenue or the retained earnings deficiency RCCs as a future financial target?

MR. CHIC THOMAS: No. And as I just said, it was just another illus -- illustration of -- of presenting the RCCs.

MR. BOB PETERS: Mr. Thomas, did you, perchance, take all of the RCCs from all of the classes and then average them and treat the average as 100 percent or unity?

Did you do that calculation?

MR. CHIC THOMAS: Not quite sure what -- what you're saying by that. I mean...

MR. BOB PETERS: If you converted the average RCCs from the retained earnings deficiency -- if you treated the average as one hundred (100), or as -- as unity or a one hundred (100) base, if you will -- did you do that comparison?

MR. CHIC THOMAS: Within this one, no. We had done it, I think, in our cost of service methodology review. Mr. Wiens had gone through something where we took the pre-export revenue RCCs and normalized that over a hundred (100), yes.

MR. BOB PETERS: Did you -- well, would

you accept that the results for the retained earnings deficiency RCCs would be somewhat similar to what they are, in any event, through the various other methodologies, and if you accept the numbers the residential RCC would still be 94 percent?

MR. CHIC THOMAS: Subject to check, yeah that -- given the RCCs directionally, that's correct.

MR. BOB PETERS: And the general service large would still be over 100 percent, but maybe not by quite as much.

MR. CHIC THOMAS: Probably, yes.

MR. BOB PETERS: The area and roadway lighting would still be outside the zone of reasonableness, at about 111 percent?

MR. CHIC THOMAS: Again, subject to check, yes.

MR. BOB PETERS: So it might have the same or similar relative rankings as to what the Board saw in schedule B-1 at Tab 56 of the book of documents; not the same numbers, but the relative rankings?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: All right. Thank you.

I want to turn with the panel, Mr. Chairman, to discuss marginal cost. And marginal cost, Mr. Wiens, was a concept that was discussed at the Cost of Service Review hearing, correct?

MR. ROBIN WIENS: I believe so.

MR. BOB PETERS: And when we talk marginal cost, I thought you taught me, Mr. Wiens, that marginal cost was the cost of the last unit of energy produced and delivered by Manitoba Hydro at the common bus.

Is that one (1) definition of "marginal cost"?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And that contrasts with imbedded costs, which are the historical costs used to get the average cost, as found in the Cost of Service Study that you've done?

MR. ROBIN WIENS: In our situation, that contrasts, yes.

MR. BOB PETERS: The marginal cost, by the definition that we just talked about, being the cost of the last unit of energy produced, that can be calculated or measured, can it not, Mr. Wiens?

MR. ROBIN WIENS: Well, not to put too fine a point on it, as long as you can define which was the last unit of energy you can. In practice, to operationalize it, you may want to look at averaging it over time periods.

MR. BOB PETERS: Well, I'll suggest to you that in Manitoba Hydro's system, if Hydro was to calculate the marginal cost on the last kilowatt hour of energy it generates, it would probably use the Limestone Generating Station costs in that calculation.

MR. ROBIN WIENS: Mr. Peters, we -- in -- in the past that may have been true. You may have wanted to look forward to actually the next generating station, and look at what its costs would be, because a kilowatt hour added to the system demand is going to advance the day of which that next generating station is going to have to come into place.

But that's not the methodology, I think as Mr. Surminski has explained, that we've adopted in order to look at the marginal cost of generation. We've looked at what its opportunity cost is or its value in other markets as being an indicator of the marginal cost to Manitoba Hydro's system.

MR. BOB PETERS: All right. What you're telling the Board, Mr. Wiens, is that to calculate marginal cost, you could use Limestone, but you might want to look forward and use Wuskwatim, because that's the next planned additional generation in Manitoba.

MR. ROBIN WIENS: If you were trying to look at a longer-term marginal cost, that is true.

MR. BOB PETERS: And that kilowatt hour that is consumed by customers that advances the next generating station, that could be a kilowatt hour used in somebody's hot tub in their backyard, or it could be used in some energy-intensive industry, correct?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: You could also calculate a marginal cost, I suppose, Mr. Wiens, based on the value -- or sorry, based on the costs of your thermal generation in Brandon?

MR. ROBIN WIENS: If the thermal generation in Brandon was the generation at the margin, yes, you could do that.

MR. BOB PETERS: Is it --

MR. ROBIN WIENS: That would be -- that would be more in the nature of a short-run marginal cost because you would be talking about if the next kilowatt hour requires Manitoba Hydro to turn that generation off then that would be the marginal cost for that particular kilowatt hour in the short term.

MR. BOB PETERS: And a couple of answers ago you -- you mentioned Mr. Surminski has educated the Board that what Manitoba Hydro is putting forward isn't per se -- I won't call it a "marginal cost," it would be a marginal value.

Are you more comfortable with that?

MR. ROBIN WIENS: It -- it is a marginal value, but if you look at how it affects Manitoba Hydro, it -- it is a marginal cost. If we take a kilowatt hour off the export market, that adds to our cost to serve the domestic load by the value of that kilowatt hour.

MR. BOB PETERS: But if you charge that to -- to a customer who's using the hot tub, you're making more than you do on average on your export market?

MR. ROBIN WIENS: In the short term, that may well be correct, yes. In the longer term, when you look at having to -- when you look at having to add distribution to be able to serve that type of load, the marginal cost is going to increase, but in the short term where no distribution has to be added, you're quite correct. It may be simply the -- the value of that kilowatt hour in the export market.

MR. BOB PETERS: When we look what's before the Board, I have at Tab 62 of the book of documents, an answer to RCM/TREE/Manitoba Hydro Interrogatory Second Round Number 4-B. I think Ms. McCaffrey beat me to this one somewhere along the way, but let's have a look at that.

Have you located that, Mr. Thomas, with your private numbering system?

MR. CHIC THOMAS: I think we're on the same page now.

MR. BOB PETERS: Well, Manitoba Hydro wasn't on the same page when it -- when it stated that avoided cost of generation was the basis for the marginal value or the marginal cost it was embedding in the -- in the new proposed rates, correct?

MR. ROBIN WIENS: We did revise that response, Mr. Peters.

MR. BOB PETERS: So if it wasn't based on the marginal or the value of avoided costs of new generation, you're explaining to the Board that it's based on, predominantly, the export value?

MR. HAROLD SURMINSKI: Yes, Mr. Peters. Maybe I can assist in this area.

MR. BOB PETERS: Thank you and good morning, Mr. Surminski.

And when you say that the marginal value or marginal cost used in the new proposed energy-intensive industry rate is based on export revenues, you'd agree with me then that the export price is the primary proxy for the marginal cost that you've used?

MR. HAROLD SURMINSKI: Yes, and I think I've indicated earlier, it's maybe 85 percent of the generation component is the export price.

MR. BOB PETERS: And can you remind the Board what makes up the other 15 percent without disclosing any numerical proprietary information?

MR. HAROLD SURMINSKI: Yes, it is the import and thermal generation in Manitoba that could be displaced.

MR. BOB PETERS: And again it's -- it's based on a forecast, not on actuals but on what your forecasts are going forward?

MR. HAROLD SURMINSKI: Yes, it is based on and it is the simulation that we do of the ninety-four (94) flow conditions so the overall average of all that.

MR. BOB PETERS: And because it's a simulation of your ninety-four (94) flow years I believe in a thirty (30) year forecast period, is that right?

MR. HAROLD SURMINSKI: We do it for each year over a thirty (30) year period, yes.

MR. BOB PETERS: And you use -- you use then export prices as a primary proxy because you can't measure that in advance?

MR. HAROLD SURMINSKI: Can you explain what you mean by that? I'm not sure.

MR. BOB PETERS: Well, you're looking forward and coming up with an export price as the primary proxy for your marginal cost rate, and that's forward looking because you don't know with certainty what that future price is going to be.

MR. HAROLD SURMINSKI: It is based on our forecast best estimate of value on the export market.

MR. BOB PETERS: And as I discussed earlier this morning with Mr. Thomas, sometimes your forecast of what the export price is going to be and what your actual turns out to be are two (2) different numbers.

MR. HAROLD SURMINSKI: Yes, but I think those are -- when you compare a particular year, I can explain it this way, it's one (1) of the ninety-four (94) flow conditions. So there's -- there's a whole range of marginal costs dependent on different flow conditions. If you get above average flow conditions you're going to have a lower marginal cost; if you have below average flow conditions you'll have a higher marginal cost.

So just by sampling a specific flow year you are not getting a representative sample of what marginal cost in the future could be, or what the expected value could be.

MR. BOB PETERS: But the rate that you're proposing for the energy-intensive industry is based on the immediate short term proposed for April the 1st, correct?

MR. HAROLD SURMINSKI: Yes, but it's -- it's based -- the rate will take -- will be applied over several years, and there will be some years there will be low-flow conditions and some years high-flow conditions. On average it's expected to be the estimate that we get from the simulation.

MR. BOB PETERS: But on average that's average over thirty (30) years if not ninety-four (94) years, correct?

MR. HAROLD SURMINSKI: I wouldn't say thirty (30) years, but I'd say over five (5) years or ten (10) years you would expect to -- to get back to an average-type number.

MR. BOB PETERS: Do I take from that answer, Mr. Surminski, that Manitoba Hydro's proposal on the new energy-intensive rate is not to change it for five (5) or ten (10) years?

MR. ROBIN WIENS: No, Mr. Peters, I don't think that's what he's saying. He's -- the marginal cost estimate for each of the years in the thirty (30) year period going forward looks at what the medium or the average of the flow conditions is going to be.

Next year, which is the year on which we base the rate for the energy-intensive industry, and that rate is based on an assumption of a -- or the average of the ninety-four (94) flows, if, as Mr. Surminski stated, the -- the -- we're in a low-flow situation the marginal cost will be higher than that, if we're in a very high-flow situation it's going to be lower than that; that is the expected value over the whole range of water conditions.

We would expect that when we come for a rate change, which -- which maybe, you know, on a year by year basis or maybe two (2) years subsequent, maybe three (3) years subsequent, that we would look at changing that rate at that time and we would look at what the conditions are at that time and base the rate on that.

MR. BOB PETERS: That suggests to me, Mr. Wiens -- and you can correct me if I'm wrong -- that you're going to be looking on the short term, the immediate term, the current situation to dictate whether the rate changes not looking at the long-term average.

MR. ROBIN WIENS: Well, we're looking at the -- at the short term, but the estimate of the short term is -- is one (1) year ahead and it would tend to be based on the expected value, not the drought value or the flood value; it would be based on the expected value. And in the short term, first of all because most of the other parameters, other than flow that go into the estimate of that, we have more confidence in them in the short term.

But secondly, we wanted to be conservative in setting this rate. If we were to set the rate based on an estimate of thirty (30) years it would higher than what we've actually applied for, because we expect over the period of the forecast that the value of energy is going to be increasing.

MR. BOB PETERS: Help me -- help me, Mr. Wiens. When you talk about the one (1) year expected value you will agree that you're not setting the rate initially based on one (1) year forward looking data?

MR. ROBIN WIENS: We're setting the rate based on the expected value in the near term year that would be determined by the whole range of flow conditions.

MR. BOB PETERS: And if those flow conditions changed for only the current year that would have just a minimal impact on your average, would you agree with that?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: Perhaps you could clarify that question, we don't understand.

MR. BOB PETERS: You used ninety-four

(94) years of data, and you run that through every scenario in those ninety-four (94) years in each of the next thirty (30) years to come up with your thirty year (30) forecast, Mr. Surminski.

MR. HAROLD SURMINSKI: Yes. And marginal cost results for every year of those thirty (30) years.

MR. BOB PETERS: And I'm suggesting that if -- if the current year developed where there were low flow conditions, that would not materially affect the rate, and it would probably be even lost in a rounding error over all of those years that you're doing that average.

MR. ROBIN WIENS: I would go so far, Mr. Peters, to say the way we've designed this, it would not affect it at all, because we don't look at the -- Mr. Surminski's people, when they do this forecast, they don't do it for the nearest possible term year, the 2008 year on which we base the Cost of Service Study. They begin in the next year.

We -- we designed this based on the marginal cost for '08/'09 and admittedly, we're -- we're coming into that year now. But when we filed this application, we were a year away and that was based on the full range of the '94 flow conditions.

The 2007/'08 year, if it had been a

drought, would not have affected that estimate. If it had been a flood would not have affected that estimate.

MR. BOB PETERS: And -- and that's my point, Mr. Wiens. In terms of coming back to the Board to adjust the rate, there'll be no adjustment needed because over the long -- over the methodology that you use, the averaging will -- will smooth out any near term adjustment.

MR. ROBIN WIENS: Well, I -- if I'm wrong, please forgive me, but I think we're confusing two (2) concepts here.

If we come back two (2) years later to adjust the rate, yes, it's still going to be based on the '94 flow conditions, and it's going to be based on -- on the nearest year of the '94 flow conditions but other factors two (2) years down the road may have changed.

We may have had a change in the markets that we're operating in. We may have had other -- other factors affecting the rate either up or down. So our estimates may have changed two (2) years down the road.

MR. BOB PETERS: All right. I have your point, Mr. Wiens. You can confirm to the Board that included in your assumptions is an environmental premium?

MR. HAROLD SURMINSKI: Yes, in our export price forecast, we include consideration of environmental considerations.

MR. BOB PETERS: And you wouldn't disclose to the Board what that number was, and that's still your position, correct, Mr. Surminski?

MR. HAROLD SURMINSKI: Yes, that's correct.

MR. BOB PETERS: Is it the same assumption used in the IFF as used in the -- in the new proposed energy-intensive rate?

MR. HAROLD SURMINSKI: Yes, it's entirely consistent. We use the same forecast for all resource evaluations.

MR. BOB PETERS: And was the foreign exchange assumptions the same as in the IFF?

MR. HAROLD SURMINSKI: Yes, that's correct.

MR. BOB PETERS: Did Manitoba Hydro use the existing tie line constraints in -- in their model as well?

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: From the discussion with Mr. -- Mr. Wiens, I'm -- I'm not sure I have a clear picture as to how many years Manitoba Hydro thinks the calculation of its marginal cost will be valid, and I'm hearing Mr. Wiens say that it may be adjusted or need to be adjusted on an annual basis.

Is that the Corporation's view?

MR. ROBIN WIENS: We do -- we do re-estimate on an annual basis, Mr. Peters.

MR. BOB PETERS: And that may give rise to -- to an application to the Board to change that -- the marginal cost or marginal value rate for energy-intensive industry.

MR. ROBIN WIENS: Yes. In -- in deciding whether Manitoba Hydro -- whether or not Manitoba Hydro is going to apply for a rate change, we would look at a number of factors, and that would be one of them.

MR. BOB PETERS: Has Manitoba Hydro done any sensitivity analysis on lower export pricing than what's assumed in their current IFF?

MR. HAROLD SURMINSKI: We do it for specific resource evaluations.

MR. BOB PETERS: Well, in the specific example of the energy-intensive rate that's proposed, if the export price, on average, is one (1) cent lower that what Manitoba Hydro is forecasting, what does that do to the proposed rate?

MR. ROBIN WIENS: Mr. Peters, presuming that our proposed rate is approved by this Board, it really will not have any affect on it.

We would go forward, and -- and if -- if the one (1) cent lower event is confirmed to be influenced by long-term factors in the marketplace, then we would make the adjustment the next time we estimate the marginal cost. And that would flow through to the rate when we would make another rate application.

MR. BOB PETERS: That's telling the Board, Mr. Wiens, that you're going to only forward look, and you're not going to look in the rearview mirror in terms of setting the rate. You're not going to base any aspect of the rate on actual results, but only on forecast results.

MR. ROBIN WIENS: Mr. Peters, when Mr. Surminski and his people undertake the revision of the rate, they certainly calibrate their modelling and they calibrate their assumptions that go into the model on a rearward look.

MR. BOB PETERS: And I think you're answering my question in the affirmative by saying that only if events that lead to actual continue and are then included in your forecast, would there be a change in the -- in the forecast rate.

MR. ROBIN WIENS: I -- I think that's correct, Mr. Peters. If -- if your -- your example, you're one (1) cent lower than forecast resulted from what our best analysis would show to be a permanent change or a long-term change in the marketplace, that would be re-calibrated. If it were based on the fact that in that particular year we had significantly higher than average flows, then that -- that wouldn't be re-calibrated forward.

MR. HAROLD SURMINSKI: Yes, Mr. Peters. I could take this opportunity -- I think earlier in the hearing I tried to indicate when we discussed the five (5) cents and -- and what is the -- the expected value in a market, and I think I did indicate that using a historic low year is not a good indicator, without normalizing that year, to average flow conditions.

If you chose a high-flow year and you got low marginal costs, that is not representative of what's expected under more normal flow conditions.

MR. BOB PETERS: Mr. Surminski, can you calculate a marginal cost for on-peak as well as off-peak prices?

MR. HAROLD SURMINSKI: Yes, we do that, in fact.

MR. BOB PETERS: Have you done it with respect to the proposed new energy-intensive rate -- what that would look like if it was an on-peak and an off-peak rate?

MR. HAROLD SURMINSKI: I -- I don't know what you mean. In effect, it is both on and off-peak because of the way we -- we model it. It is a high capacity factor, and -- and there is off-peak energy in that process.

We don't -- we haven't done a calculation in if it's all off-peak or -- if that's what you're getting at.

MR. BOB PETERS: Well, what you've told the Board is you've combined off-peak and on-peak assumed export prices to come up with your marginal cost rate that you're proposing.

MR. HAROLD SURMINSKI: Yes, that's right.

MR. BOB PETERS: And I'm -- and I'm -- what I'm trying to get at is if the Corporation was so inclined or the Board was so inclined or it was a matter that needed to be looked at, marginal cost rates could be calculated for on-peak as well as off-peak. There could be two (2) separate calculations.

MR. HAROLD SURMINSKI: Yes, that's right.

MR. BOB PETERS: Have you done that with respect to this proposed rate?

MR. HAROLD SURMINSKI: No, I have not broken it out for the two (2) components.

MR. BOB PETERS: Can you indicate to the

Board, directionally, what you would expect to happen?

MR. HAROLD SURMINSKI: Generally, we expect off-peak rates are about thirty dollars ($30) a megawatt lower than on-peak.

MR. BOB PETERS: And so, to the extent that the current proposed rate before the Board has an average of the two, would we expect then that the off-peak would drop by the equivalent of thirty dollars ($30) a megawatt hour, and the on-peak would increase by a similar amount?

MR. HAROLD SURMINSKI: Yes, if they were equal proportions -- 50/50 -- yes.

MR. BOB PETERS: And remind me -- remind me -- the waiting of your on-peak and off-peak sales; it was -- let me not speculate. You've put it on the record already.

MR. HAROLD SURMINSKI: Yes, 47 percent is on-peak.

MR. BOB PETERS: So my assumption of 50/50 would be close?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: Mr. Peters, after our discussion, there's -- excuse me, there's a difference in inputs on the prices. What I was quoting was a differential of thirty dollars ($30) is the difference between on and off-peak if you actually sell equally in all those periods.

But what our system is heavily weight our exports into the on-peak period, so -- so that proportion would not necessarily apply to the marginal cost component, or say our last increment, we normally use our reservoirs to reshape that energy and place a greater percentage, a much greater percentage, of the energy in the on-peak period.

MR. BOB PETERS: Just thinking that through, though, Mr. Surminski, if it's 47 percent on-peak, isn't that close enough to half to call it half, and therefore half of -- half of your sales are thirty dollars ($30) a megawatt hour less on average and half would be thirty dollars ($30) a megawatt hour more?

MR. HAROLD SURMINSKI: I think you have to think of it in terms of when is -- if you have a saving of energy that's like an -- energy-intensive industry of 90 percent capacity factor, we don't sell it in exactly the hours that its -- that were saved. We wouldn't be selling it in exactly the same hours. We would be concentrating those sales into on-peak hours whenever we were able to.

So it's that proportioning that comes into play. It's not the hours of when the energy is saved, it's -- it's when it's actually sold that comes into the -- into the rationing here.

MR. BOB PETERS: And I take it from that answer and the previous one, then, that when you weight your on-peak sales, they will largely influence that rate more than will the -- will the off-peak.

MR. HAROLD SURMINSKI: Yes, that's correct.

MR. BOB PETERS: If the export prices are primarily -- and I think your number was 85 percent -- responsible for determining the marginal cost in the new proposed rate, can you just explain briefly to the Board what if any role do the following have in determining the marginal cost rate. The import prices in the short term, Mr. Surminski, what percentage of the time are those going to be factors in determining the marginal cost rate that's proposed.

MR. HAROLD SURMINSKI: There's a remaining -- first of all the 85 percent applies to only the generation component -- that does not include the transmission and the distribution -- so of that generation component, there's only 15 percent left. I'd be guessing that it's -- it depends on what years we're in the system. We -- you know, we're simulating, or we're looking forward to, but it's approximately half and half thermal, half -- half to be thermal and half import for the 15 percent, so you could say 7 1/2 percent each.

MR. BOB PETERS: Is that short-term import prices or long-term or both, is included in that approximately 7 1/2 percent waiting.

MR. HAROLD SURMINSKI: That was a short term?

MR. BOB PETERS: And likewise on the thermal generation side, you're looking at short-term?

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: Does wind generation play any role in determining the marginal cost rate?

MR. HAROLD SURMINSKI: No. I had to think about it.

It's not displaced, it's not dispatchable, so it -- we just -- just take it as it comes.

MR. BOB PETERS: And what about new hydraulic generation, such as Wuskwatim, does that play any role in determining the marginal cost rate?

MR. HAROLD SURMINSKI: Not in terms of its cost. It -- it influences the saturation of the tie-lines so it has an indirect affect. If we have a large plant on the system and there's a lot of surplus energy saturating tie-lines and tending to reduce marginal costs, but it's all related to how much surplus the system has.

MR. BOB PETERS: The more surplus the system has, the lower the export price expected?

MR. HAROLD SURMINSKI: Yes, that's correct, because you have sell at less valuable times and into off-peak hours.

MR. BOB PETERS: Mr. Wiens was kind enough to point us to Tab 54 of the book of documents and the various marginal cost calculations on that. I think Mr. Warden had also told us last day that there was no plans for the Corporation to get to marginal cost base rates for any class except the above baseline rates for the general service large class.

Did I get that right, Mr. Warden?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: When I look at Tab 54 and the -- the table that's included, there's revenue-to-cost coverage ratios on the right-hand column. If -- and I'm going to use "if" a few times in this question -- the Corporation was to propose moving towards marginal costs plus a notional environmental emissions cost consideration in their rates, how would -- how would you migrate from where you are now to -- to marginal cost rates that are influenced by these figures?

MR. ROBIN WIENS: I'm going to have to ask you, Mr. Peters, to clarify that question somewhat. Are you -- are you asking a question of if there was a policy decision that we were going to charge out every kilowatt hour at marginal cost? That's one (1) interpretation of your question.

The other interpretation is: If we were going to use marginal cost -- relative marginal cost as a guide to allocating embedded costs.

Now which of those two (2) is your question referring to?

MR. BOB PETERS: Let me start with your first suggestion, Mr. Wiens. If -- if there was a policy decision to charge out every kilowatt hour at marginal costs, you'd simply throw away the Prospective Cost of Service Study that you're already done and you'd have a brand new Cost of Service Study based on marginal costs?

MR. ROBIN WIENS: We might not throw it all out but we would revise it substantially, yes.

MR. BOB PETERS: All right. And what that would mean and we talked about it earlier, is there would need to be significant rate increases for each class moving forward on -- to recover their revenue-to-cost coverage ratio?

MR. ROBIN WIENS: Yeah, in the order of 50 percent.

MR. BOB PETERS: Now let's take the second scenario that you mentioned when you wanted clarification, and that was use the marginal costing as a guide to allocation of the embedded costs.

How would you migrate to such a plan?

MR. ROBIN WIENS: Well there's a number of ways that you can do this, Mr. Peters, but the simplest way and probably the easiest way to explain it is that you would look at employing a concept called, "Equal Portion of Marginal Cost".

If you look at the -- if you look at the very last number on that table, point six three three (.633), that is the system ratio of revenue to marginal cost for all classes, and what you will look at establishing is similar to what we have now, a zone of reasonableness around that 63.3 percent and look at where the various classes sit with respect to that number on the zone of reasonableness. And then you would formulate a plan to get there in whatever number of years you thought was reasonable.

MR. BOB PETERS: That includes differentiated rate increases in your -- in your migration plan?

MR. ROBIN WIENS: Depending on where the classes were, it could include that, yes.

MR. BOB PETERS: In essence you would have to set that 63.3 percent of overall system recovery to a baseline of a hundred and then calculate where each one fell relative to that?

MR. ROBIN WIENS: Well, simply, yes. What this -- what this tells you is that if you recover -- in this case, and assuming all the assumptions that go into it are reasonable, that if you recover 63 percent of your marginal cost overall then you're recovering the totality of your embedded cost.

MR. BOB PETERS: And as we saw last day, I think Mr. Wiens, you would do much more than recover the totality of your embedded costs if you got the full marginal costing, because that would -- that would provide the Corporation with, in my words, some windfall revenue.

MR. ROBIN WIENS: It would provide with significant revenue in excess of the costs that it was actually incurring on its operating statement.

MR. BOB PETERS: I want to turn to -- just a second please.

(BRIEF PAUSE)

MR. BOB PETERS: Before I leave book of documents 54, Mr. Thomas, Mr. Surminski, and Mr. Wiens, when the Board looks at the top half of that schedule that you've prepared on marginal costs you'll agree that the top half of the page doesn't include all of the -- all of the costs that are incurred, correct?

MR. ROBIN WIENS: It doesn't include all the marginal costs of generating, transmitting, and distributing the energy to the domestic customer classes, correct.

MR. BOB PETERS: Because some of those costs are found on the bottom half of this schedule?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And so when you have -- come up with revenue-to-cost-coverage ratio in the top portion of the page, the top half of the page, that's not a -- a full valid comparison to the previous revenue-to-cost coverage ratios because it doesn't include all the costs.

MR. ROBIN WIENS: Well, what it does include are the -- in the case of generation, of course, we value that energy at opportunity cost, so there's no further adjustment required for generation. But in the case of all the other functions; transmission, sub-transmission, distribution, the marginal cost estimates -- and I believe the document which -- the document which summarizes those and calc -- shows the calculations of those has been filed here, but it relates to the capital cost of expanding the system to be able to distribute the incremental kilowatt hours. We recognize that that's not complete so the bottom of the page was added.

Now the bottom of the page simply represents the actual operating and maintenance costs that come out of the 2008 embedded Cost of Service Study that's filed with this Board. And it -- it may not be fully representative of marginal costs; it's -- it's probably pretty close to the upper bound of what the marginal costs would be, because in -- incremental kilowatt hours is not necessarily going to cause your operating and maintenance to increase proportionately.

But it's intended to be representative. We recognize that if we left those costs out we would be understating the cost, particularly for classes that are served further down the distribution system. So we wanted to make that adjustment.

MR. BOB PETERS: All right. With that clarification then, the top half of the page uses all of the revenues but not all of the costs, correct?

MR. ROBIN WIENS: Yeah, those are simply

the revenues that are projected in the 2008 Cost of Service Study, and those revenue numbers should be the same on the top as they are on the bottom.

Now, I might point out here, Mr. Peters, that owing to some of the review we had before the break, we went back and took a look at this document and it's likely that we -- in fact I know we are going to be filing an update to it because we found some errors -- transcription errors, in particular -- that were made in preparing it, and so we're going to update that document for -- for the Board very shortly.

MR. BOB PETERS: That doesn't change the -- the principle of any of the answers given relative to this document, it just changes the specific numbers?

MR. ROBIN WIENS: It -- it will change some of the specific numbers -- well, considerably more than others.

MR. BOB PETERS: All right. We'll wait for that.

MR. VINCE WARDEN: Mr. Peters, could I just clarify one point?

MR. BOB PETERS: Yes.

MR. VINCE WARDEN: As Mr. Wiens correctly pointed out, if we were -- if we were to go to a fully marginal cost pricing, it would result in an increase of

-- rate increase of around 50 percent which I think you referred to as "windfall profits."

I just wanted to make it clear, those windfall profits would only be to the extent that they exceeded the 32 percent rate increases required to get to the retained earnings number -- our debt/equity ratio.

So, really, it's -- it's only windfall -- or the problem of excess revenues would only be related to the difference between those two (2) numbers.

MR. BOB PETERS: And when has excess revenue been a problem?

MR. VINCE WARDEN: Not to date.

MR. BOB PETERS: All right. I've got your point. You're just indicating to the Board that even though marginal costs will recover -- the marginal cost-based rates would recover more than imbedded cost-based rates, you still haven't achieved your financial target until you get to 75/25 debt/equity.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: And once you get to 75/25 debt/equity, any of the remaining revenue would be the surplus revenue which would be a happy problem to have.

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: All right.

I want to turn directly to the energy-intensive industry rate issue. And would I be correct, Mr. Wiens, that in the Cost of Service Review that lead to Board Order 117 of '06, Manitoba Hydro raised a concern about energy-intensive firms that use energy as a manufacturing input?

MR. ROBIN WIENS: I think energy is a "feedstock" was the term we used.

MR. BOB PETERS: Would you agree with me, Mr. Wiens, that that concern about energy-intensive firms using energy as a feedstock is the same concern, but on a much larger scale, than homeowners putting in hot tubs all across the city?

(BRIEF PAUSE)

MR. ROBIN WIENS: I'm not sure I can agree with that, Mr. Peters. There's a whole lot happening in that type of an analogy. So the best answer I can give you is possibly.

MR. BOB PETERS: Manitoba Hydro was concerned that energy-intensive industry would locate in Manitoba, and low-priced electricity consumption in Manitoba by such industry would displace higher export sales opportunities.

MR. ROBIN WIENS: And thereby increase the average cost of energy to all consumers in the province, yes.

MR. BOB PETERS: And thereby lead to, perhaps, higher customer bills for all Manitobans?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Would you agree with me, Mr. Wiens, that the primary concern of Manitoba Hydro was new customers coming to Manitoba?

MR. ROBIN WIENS: No, I would not.

MR. BOB PETERS: Your primary concern was existing customers?

MR. ROBIN WIENS: Our concern was both.

MR. BOB PETERS: In Board Order 117 of '06, the Board threw out a suggestion for Manitoba Hydro to consider establishing a new energy-intensive industrial class relative to new energy loads.

Do you recall that?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Manitoba Hydro didn't do that, and they're not proposing that, correct?

MR. ROBIN WIENS: Well, what we are proposing is effectively the same thing, Mr. Peters. We're proposing to have basically the same rate structure, but to have different terms apply to when the second block would kick in.

So it's not a separate class. It certainly could be designed as a separate class and have the same effect but, formally, no, it's not a separate class.

MR. ROBERT MAYER: Mr. Wiens, what you've done or what you're suggesting we do is we grandfather the existing industries in at a certain usage, correct?

MR. ROBIN WIENS: Yeah, broadly speaking, that's correct, yes.

MR. BOB PETERS: And if we turn to Tab 63, Mr. Wiens, of the book of documents, I've included the General Service Proposed Rate Schedule. Correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Just so the Board knows what the specific request is, Mr. Wiens, you are asking -- you being Manitoba Hydro -- are asking approval of all three (3) pages included in the book of documents, Tab 63, correct?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: Are you also asking for Board approval of the one (1) document found in Tab 64 of the book of documents?

MR. ROBIN WIENS: Yes, Mr. Peters, we are.

MR. BOB PETERS: All right. So would you agree that, collectively then, the documents at Tabs 63 and 64 form the request from the Corporation?

MR. ROBIN WIENS: Yes. We've provided other material that helps clarify that over the course of the review of this application, but substantially, yes, that's correct.

MR. BOB PETERS: And to follow-up on the vice-chair's question just a few minutes ago, when you look at the general service customers, first of all, the -- the new rate that you're proposing doesn't apply to any other class other than the general service large class, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And you have a baseline energy rate which is sometimes called a heritage rate or the old rate or the existing rate, but it's meant to reflect a rate based on embedded costs.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And the above -- sorry, the energy above baseline rate is the new rate that we talk to. It's been referred to as the energy-intensive industry rate, certainly the above baseline rate.

And I think even one (1) of the Intervenors called it the punitive rate. And you understand that to be the -- the energy above baseline rate?

MR. ROBIN WIENS: I know what they're referring to, yes, Mr. Peters.

MR. BOB PETERS: All right. In addition to the energy rate, there's a demand rate for each of the sub-classes of general service large, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Any changes proposed to those demand charges?

MR. ROBIN WIENS: None.

MR. BOB PETERS: Now just to follow-up again on the vice-chair's comment, am I correct and would the Board be correct that the new proposed energy-intensive industry rates would apply to existing Manitoba-based industrial customers?

MR. ROBIN WIENS: Yes, subject to the definition of their baseline.

MR. BOB PETERS: And it would also apply to new energy-intensive industry customers coming to Manitoba?

MR. ROBIN WIENS: Yes. Again, subject to the definition of their baseline.

MR. BOB PETERS: Now we had suggested that there were no new energy-intensive industry customers on the horizon for, perhaps out, maybe as much as a year. We had that discussion before?

MR. ROBIN WIENS: Yes, we did.

MR. BOB PETERS: Is that still the case?

MR. ROBIN WIENS: Yes, to the best of our knowledge.

MR. BOB PETERS: In Board Order 117 of '06, the Board also suggested that Hydro take into account that existing industry came to Manitoba, remained in Manitoba, expanded in Manitoba, with certain assumptions as to energy pricing and supply. Do you recall that?

MR. ROBIN WIENS: I -- I don't recall that precisely, Mr. Peters, but that's certainly the spirit in which we've designed this rate.

MR. BOB PETERS: My notes reflect that on page 55 of Board Order 117 if you wish to check it. And do you recall the Board also suggesting that a distinction between new and existing industry is reasonable?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Would I be correct and would the Board be correct in assuming and reviewing your materials that the only distinction now proposed between existing Manitoba customers and potential new Manitoba customers, is that the new baseline for new customers is set at 39 gigawatt hours with no future growth allowance permitted?

(BRIEF PAUSE)

MR. ROBIN WIENS: Yes, Mr. Peters, subject to the potential exemption clause but other than that, yes.

MR. BOB PETERS: So the Board understands it that if a Manitoba industry exists and uses 39 gigawatt hours of energy a year, they have an opportunity to grow their business in Manitoba and still have the heritage or the baseline energy rate apply.

MR. ROBIN WIENS: Up to 78 gigawatt hours a year.

MR. BOB PETERS: But if the industry is a new-established industry or a new competitor comes to Manitoba, at 39 gigawatt hours a year, they are not afforded any future growth allowance at the baseline energy rate.

MR. ROBIN WIENS: Well, they're afforded the same growth allowance as the existing industry, the difference being that the existing industry has already established an initial amount prior to application of the growth allowance.

MR. BOB PETERS: I'm not sure that's correct in my of thinking, Mr. Wiens, so let me just understand that. If a new customer's baseline is set at 39 gigawatt hours a year, they are entitled to the baseline energy rate?

MR. ROBIN WIENS: For the 39 gigawatt hours.

MR. BOB PETERS: Are they also allowed a future growth allowance?

MR. ROBIN WIENS: No.

MR. BOB PETERS: All right. So they can't grow to 78 gigawatt hours and still take the baseline energy rate?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: All right. And so existing Manitoba industries can grow from thirty-nine (39) to seventy-eight (78) at the baseline energy rate?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: I want to turn, still on this topic, to another suggestion in the Board Order, where the Board -- and I think it's book of documents Tab 53, or extracts from the Order -- but Directive 4-A was request for Hydro to report -- to prepare a report and recommendations with respect to establishing a new energy-intensive industry class, including criteria developed after broad consultations with industry and government and any rate design recommendations.

In that aspect, am I correct that there was no consultation with -- with Manitoba government?

MR. VINCE WARDEN: Government was aware of the direction we were taking with the energy-intensive rate and supported that direction.

MR. BOB PETERS: And just so we're clear, I'm also -- remember reading in Appendix 46 of the filing, a somewhat voluminous appendix, there appeared to be reference that MIPUG had written two (2) letters to the Government to invite participation, but a response from the Minister indicated the Government did not intend to participate in the consultations.

Are you aware of that?

MR. VINCE WARDEN: Yes, I am. I think that correspondence also indicated what I -- I just indicated as well, and that was that the government supported the direction of Manitoba Hydro.

MR. BOB PETERS: Your answer, Mr. Warden, is that while there were no consultations directly with the Government, the Government was certainly kept aware of Manitoba Hydro's plans?

MR. VINCE WARDEN: Well, there were

consultations between Manitoba Hydro and the Government, but not Government with -- with the MIPUG or a large customer group.

MR. BOB PETERS: And so when you say consultations with the Government, that would be part of the normal reporting that Manitoba Hydro would do with the department that it reports to?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Would -- and I want to press you a bit further on that -- were there any discussions between Manitoba Hydro and the Manitoba Department of Science, Technology, and Energy, and Mines?

MR. VINCE WARDEN: The discussions that I'm aware of were at the minister level, the minister responsible for Manitoba Hydro.

MR. BOB PETERS: And I was trying to push you a bit further and I'll keep trying, Mr. Warden; did -- did that go to the minister who was responsible for Science, Technology, Energy, and Mines, to your knowledge?

MR. VINCE WARDEN: Not to my direct knowledge, no.

MR. BOB PETERS: And maybe that was a poor question, the -- when you answer that I'd like you also to answer to the Board in terms of the corporate knowledge, did Manitoba Hydro as a corporation enter into discussions with the department that relates to science, technology, energy and mines?

(BRIEF PAUSE)

MR. VINCE WARDEN: I have been informed, Mr. Peters, that there -- there have been consultations with -- with Energy and Mines.

MS. TAMARA MCCAFFREY: You know, if I might just interrupt, Mr. Peters, I'm just noting the time. There are some concerns that I'm having with respect to some of the admissibility from a hearsay perspective.

I appreciate the Board can allow hearsay in certain circumstances. I would like to have an opportunity, if -- if it's an appropriate time to take a break, just to review a couple of -- of things. I may want to make some submissions at this point.

MR. BOB PETERS: I'm prepared to do that Mr. Chairman. It might help. I also just wanted to know the same question of the Corporation related to the Manitoba Department of Competitiveness, Training, and Trade which, I understand, has a separate minister -- a different minister -- and I just wanted to know if those consultations included that department as well.

And I'll -- I'll take the recess at this time and give Ms. McCaffrey an opportunity to consider the questions and the possible answers.

THE CHAIRPERSON: Well, just to allow that consideration, we might as well get the answer to that question.

MR. VINCE WARDEN: Not to my knowledge.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Not to the Corpor -- Corporation's knowledge. And I appreciate that -- that puts you in a difficult position, Mr. Warden, because the Corporation has six thousand (6,000) other employees. But -- but --

MR. VINCE WARDEN: Yeah.

MR. BOB PETERS: -- that's -- you're not aware of that.

MR. VINCE WARDEN: Not --

MR. BOB PETERS: Not to say that people--

MR. VINCE WARDEN: -- not aware, but I do expect that the minister responsible for Manitoba Hydro has interaction with -- with those other ministries as well.

MR. BOB PETERS: I'll leave it at that,

and --

THE CHAIRPERSON: Okay, we'll take the break, and Ms. McCaffrey can have a chance to consider the matter.

--- Upon recessing at 10:32 a.m.
--- Upon resuming at 10:58 a.m.

THE CHAIRPERSON: Okay, Mr. Peters.

CONTINUED BY MR. BOB PETERS:

MR. PETERS: Thank you. Just before the morning recess, I was asking questions of the panel and, specifically, in terms of what consultations with which Government departments.

In one (1) of the answers that Mr. Warden gave, I believe he may have referenced a letter that I can't locate at this time, and I'm not certain that it's in this filing, in this Application.

But I understood Mr. Warden to be referring to a letter back from the minister responsible for Manitoba Hydro essentially indicating they didn't intend to participate in the consultations.

Did I have that correct?

MS. PATTI RAMAGE: Yes, and if I can

assist by virtue of recollection, is that that letter that Mr. Warden is referring to is not on the record of this proceeding. It has been discussed, but a copy has not been filed to -- certainly to my knowledge.

MR. BOB PETERS: And before the recess, Ms. McCaffrey had a concern about Mr. Warden wearing too many hats and speaking for, specifically, the Government as well as the Corporation.

And I -- I'm not going to engage her on that point because I think she's right, but I wonder if I could, at this point, request of Mr. Warden, to file a copy of the letter to which he referred.

MS. TAMARA MCCAFFREY: If I just might jump in at this juncture, which may assist Mr. Peters. I'll give you a moment to confer with Mr. Cathcart.

It's not that -- I don't want to suggest there's anything prejudicial in this letter in -- in a particular sense, other than it kind of is prejudicial to the process. It's inappropriate for Mr. Warden to give evidence on behalf of the -- of the Government of Manitoba.

I'm not suggesting mala fides at all, but it's inappropriate that -- that the Government of Manitoba isn't here. The Government of Manitoba didn't come to the table with MIPUG in consultations with

Manitoba Hydro and -- a letter or otherwise -- it would be inappropriate for evidence from the Government of Manitoba to come through -- through in this proceeding.

Particularly at this stage and I'm suggesting -- I'm not accepting that there is such evidence either that would be subject to be given any kind of weight with respect to where the Government views this particular proposal for a number of reasons.

But I don't think -- I don't think filing a letter is going to make any difference. It's not appropriate to have evidence from the Government of Manitoba given through Manitoba Hydro or -- or through a letter to another party.

Like it's just -- that's just not where it comes from without the ability to test and cross-examine.

THE CHAIRPERSON: Mr. Peters...?

MR. BOB PETERS: I believe in the proceedings there was an Information Request. It might have been by RCM/TREE asking for the consultations that the Corporation embarked in leading up to the new proposed rate.

And a list was provided. There was also, at Appendix 46, a chronology of the consultations that occurred, and the chronology did reference -- I'm suggesting it referenced and I'm embarrassed to say I can't quite find the document in that Appendix at this point -- the fact that MIPUG had sent two (2) letters to the Government inviting consultation.

And in my words, the Government declined, and I think that was confirmed by Mr. Warden. I was hoping that that decline to be involved in the consultation could be cleared up whether it was an unequivocal decline or whether there was anything in that letter that would suggest the position of the Government in terms of either policy or policy direction to the Corporation.

And for that reason I thought it would be helpful to the process and the Board to -- to review that. And I'll leave it to the Board to consider the objection and the concern raised by Ms. McCaffrey as well as my comments as to whether that would help the board or not.

THE CHAIRPERSON: Well, all we have in front of us is Manitoba Hydro, and we're -- the Board was simply inquiring as to the support for the proposal that they've put before the Board.

Ms. Ramage...?

MS. PATTI RAMAGE: Yes, Mr. Chair. Manitoba Hydro, I understand, has copies of these letters. I believe the copies, as I understand it, were actually received through MIPUG members providing them to Manitoba Hydro.

The letter is something between the Government and MIPUG. And if you recall, we had put together an affidavit of Mr. Wiens in response to a motion where we put as many documents together as we could. We made the conscious decision not to include those letters only because they weren't our letters.

And if you recall it, the motion I suggested it might be appropriate for MIPUG to file them because it was a correspondence between them and Government, not between Manitoba Hydro and Government.

Therefore we didn't, at the time, feel it appropriate to include it in our evidence, but Manitoba Hydro certainly supports the idea that they do have bearing on this matter. It just wasn't a document that was ours; that we felt appropriate to include in our materials.

So we have no objection to going in, and I think it does explain somewhat of where the Government was coming from. But as I say it -- it's not our document. MIPUG does -- it is however correspondence between MIPUG and the Government.

THE CHAIRPERSON: Ms. McCaffrey...?

MS. TAMARA MCCAFFREY: Again, no question that letters MIPUG wrote to the Government and tried to get them to come to the table and was given the brushoff, simply put.

I don't have those letters. We do have them. They were -- they were sent to MIPUG members. I don't personally have them. We can get them. If the Board wants to file them, that's fine. My concern is not -- is not there's anything in there other than -- the Government has been essentially silent here.

There's been no participation or involvement. They're -- for this -- for a letter --

MR. ROBERT MAYER: Ms. McCaffrey, you're now giving evidence that appears to be, as much if not comment and opinion, certainly the same type of hearsay that you're suggesting that Mr. Peters was attempting to obtain.

I think this Board is taking the position that we will set the Hydro rates within our -- within our jurisdiction. If somebody wishes to do something about it after we set the rates then I suppose some government policy may be involved, but at this point in time I'm not sure where we have to be on that.

MS. TAMARA MCCAFFREY: Well, Mr. Mayer, as a lawyer, the difficulty I have is having a suggestion of evidence that -- that could be given weight in a situation where there's no foundation and there's no ability to cross-examine and test -- test the extent of -- of that evidence. Again, there hasn't been a formal policy direction from the Government in this letter or otherwise.

So I'm certainly not attempting to give evidence. My concern is -- is preserving the evidence that's before this Board on this record in this process.

THE CHAIRPERSON: Mr. Peters...?

MR. BOB PETERS: All right. My last comment, Mr. Chairman is when I said I couldn't locate the copy of the -- of it -- it, I couldn't locate the paper copy and that'll tell you how far I have come in a short time when -- when I can find something quicker electronically than I can on paper.

But I'm going to quote from -- from Appendix 46 where they were -- a chronological response was provided to the Board Directive about consultations and this in Manitoba Hydro's response; it's a -- it's a short response:

> "In order to facilitate a more comprehensive and useful consultation process MIPUG sent two (2) separate letters to the provincial government to invite government input into the

consultation process, however these
invitations were rejected by Minister
Selinger."

With that on the record and the possibility of there being a letter to have Mr. Selinger speak for himself in that letter, I think counsel would agree that it would be more appropriate that we see the letter, either produced by MIPUG or Manitoba Hydro and let the letter speak for itself.

THE CHAIRPERSON: Sounds sensible. Ms. Ramage, you have the letters?

MS. PATTI RAMAGE: We can get them shortly.

THE CHAIRPERSON: Very good.

MS. TAMARA MCCAFFREY: And -- and that's fine, the letter can -- the letter can go in but again no -- with no ability to -- to cross-examine or to -- to look at that in any -- any meaningful way.

THE CHAIRPERSON: We understand that.

MS. TAMARA MCCAFFREY: But MIPUG, I'm sure, can also get a copy of the letter. I don’t have one here but...

THE CHAIRPERSON: Yes, that is fine. Okay, Mr. Peters.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: My next question may assist Ms. McCaffrey, and we'll let her decide if that's the case, but I'm also look at the same appendices, this time in paper. The pages are not numbered in appendix 46, but it happens to be the second last page of the rather thick appendix, and there is a question, and I believe the question may have been posed by MIPUG and answered by Manitoba Hydro, and I'm going to read it and ask the question of Mr. Warden if this remains the Corporation's position.

And the -- the question is Question Number 6:

> "What directions has Manitoba Hydro received from the province with regard to these new policy changes?"

The answer is:

> "Manitoba Hydro periodically provides the province with updates on this file but no specific directions have been received other than through the Board of Manitoba Hydro."

Mr. Warden, is that answer accurate to-date?

MR. VINCE WARDEN: Yes, Mr. Peters, and I think that pretty much sums up what I previously testified.

MR. BOB PETERS: And then perhaps to even soften it further, while the government is aware of what Manitoba Hydro has proposed there's been no direction, specifically one way or the other, with that proposal?

MR. VINCE WARDEN: Well, Mr. Peters, I think I did say that the Government supports the direction that Manitoba Hydro has taken, so perhaps that does take it a step further than what is stated in the section that you just quoted.

MR. BOB PETERS: And rather than rely on your saying that, I think Ms. McCaffrey's point and the point for the record would be, if there is something that supports that answer, such as the letter from the Minister, you'll file that?

MR. VINCE WARDEN: Well, the letter from the Minister that has been referenced is a letter to MIPUG and so I would think it would be the responsibility, in my view, of MIPUG to file that letter.

MR. BOB PETERS: All right. We'll let the lawyers sort that out.

But if -- is there any other documentation from the Government that will take it the step further that you did to indicate that there is support?

MR. VINCE WARDEN: No, there's no -- there's no specific documentation -- there have been discussions that I am aware of.

(BRIEF PAUSE)

MR. BOB PETERS: One of the consultations that -- that did take place involved Manitoba Hydro and MIPUG as well as major and key account customers, and a presentation was made to them on August the 28th of 2006 as found in Appendix 46 of the materials.

Do you recall that, Mr. Wiens?

MR. ROBIN WIENS: I do.

MR. BOB PETERS: And in -- you were there?

MR. ROBIN WIENS: I was.

MR. BOB PETERS: You and Mr. Dudar, at least, were there?

MR. ROBIN WIENS: Yes, Mr. Dudar was there as well.

MR. BOB PETERS: I provided the Board with an extract from Appendix 46 which contained the presentation. Mr. Wiens, I'll -- I don't have it in the book of documents, but if you need to refer to it, I'd ask you to look in your Appendix 46.

MR. ROBIN WIENS: We have it here, Mr. Peters.

MS. PATTI RAMAGE: If it's of any assistance, it's also Exhibit 'C' to Mr. Wiens' affidavit in the motion. If -- if that's of help in locating it.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Ms. Ramage.

When Manitoba Hydro made this presentation, Mr. Wiens, it was responding to the Board Order in terms of consulting with industry, correct?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: Did all existing industrial customers in the general service large class get notice of this meeting?

MR. ROBIN WIENS: No.

MR. BOB PETERS: How many customers are there? There's fourteen (14) customers in that class?

MR. ROBIN WIENS: I think fourteen (14) locations, twelve (12) customers.

MR. BOB PETERS: And why wouldn't they all be notified?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, there were broadly two (2) groups that we went through in terms of invitations to the meeting. MIPUG was one (1) of them, and the other group -- Mr. Dudar and his people have assembled what they call a "customer advisory group" that is representative of a wide range of typically general service large customers in all three (3) classes of general service large -- and members of that group were also invited to the meeting.

MR. BOB PETERS: Would it be correct that Manitoba Hydro would expect MIPUG to also have communications with its constituents?

MR. ROBIN WIENS: That is, indeed, what we were assuming.

MR. BOB PETERS: And in this presentation, Manitoba Hydro set out how it identified the concern that it raised at the Cost of Service hearing before the Board?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: There's a suggestion, in the presentation, that the rapid growth of electricity intensive industries over a short period of time relative to other sectors is problematic.

That statement was in the presentation?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And that's reference to what we discussed earlier this morning, Mr. Wiens, where -- where as residential customers can continue to provide load growth, the concern of the Corporation is that a few large energy-intensive industries will require considerable load growth much quicker than the aggregate of the residential class.

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: There's also an indication that there's a perception that these electricity intensive industries provide little direct or indirect long term benefits to the Manitoba economy.

MR. ROBIN WIENS: Yes, I see that.

MR. BOB PETERS: And on what was that based?

(BRIEF PAUSE)

MR. ROBIN WIENS: Manitoba Hydro has a general understanding of the level of employment in -- not in every specific customer but a general understanding of employment in a fairly wide range of its customers; that's what it was based on.

MR. BOB PETERS: All right, so it would be generally -- a general -- a general concern by

Manitoba Hydro is that some industries use a lot of electricity but don't have a -- a lot of employees.

MR. ROBIN WIENS: Yeah, I think that's fair, yes.

MR. ROBERT MAYER: That -- that appears to be the issue on the criteria, if I recall correctly, when we dealt with MIPUG's motion -- was the issue of the criteria for the exemption because -- because it appeared to have been based largely, if not exclusively, upon jobs per kilowatt hour or something similar to that.

MR. ROBIN WIENS: Well, it -- it's related to that, Mr. Mayer, but the criteria themselves referenced -- referenced the -- some of the payroll and -- and other -- other factors, not specifically the job content.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I'll refer, Mr. Vice Chair, back to Tab 64 of the book of documents and look at the exemption criteria a little bit later in my questioning of these witnesses.

Mr. Wiens, what you told those assembled for the presentation on August 28th of 2006 was, to the effect, that there's a portion of the industry in Manitoba which has had a load growth disproportionately large relative to other industrial, as well as residential, customers.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And, again, the concern is that Manitoba Hydro would lose revenue from its bottom line by selling it to energy-intensive industry rather than exporting it on the market.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: The example that you've given in -- it's on the fifth page, and I apologize. These aren't numbered, but it's the fifth page.

There's an example provided of a 100 megawatts of new additional load.

Have you located that, Mr. Wiens?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: What you've done in your example is you've -- you calculated -- for a 100 megawatt load, you've probably assumed somewhere in the neighbourhood of 750 gigawatt hours a year of -- of energy?

MR. ROBIN WIENS: It would be close to that, yes.

MR. BOB PETERS: And you've assumed approximately three point three (3.3) cents in terms of domestic rates or the baseline energy rate or the heritage rate or the old rate?

MR. ROBIN WIENS: Yes. Yes.

MR. BOB PETERS: And then you calculate that same load based on what would be the foregone export revenue using some of the assumptions that Mr. Surminski has made -- as to export prices.

MR. ROBIN WIENS: It may have been -- well, not -- not his assumptions, but the result of his modeling. Or it may have been -- I don't recall exactly -- it may have been based on historical average export prices. It was one or the other.

MR. BOB PETERS: And the revenue reduction that's identified is then indicated to have to be spread over the entire customer load -- entire domestic customer -- and that would result in rate increases for all from a relative few industry members -- industry customers using 100 megawatts of additional energy.

MR. ROBIN WIENS: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: If $18 million a year is the additional revenue required, doesn't that translate loosely to 1.8 percent rate increase on average?

MR. ROBIN WIENS: I think if you go to the next line, that's exactly what it says.

MR. BOB PETERS: And then how do you reconcile that with using the marginal cost approach where there'd be an 8.2 percent additional rate increase for each 100 megawatt load.

MR. ROBIN WIENS: Well, that's -- no, that's not a marginal cost approach. That is a marginal approach where, as you can see, the resulting rate increase is applied only to the class in which the expanding customers reside. And all other rate classes are held harmless.

If that -- and this was just to -- to provide an example. It's not that that was ever seriously being proposed, but that would be the impact if only the one class had to bear the increased $18 million dollars.

MR. BOB PETERS: Manitoba Hydro also indicated at this presentation, Mr. Wiens, that there was a suspension of the existing service extension policy back in August of '06?

MR. ROBIN WIENS: I -- I -- you probably want to check the date, but the -- it -- it definitely did occur, yeah, I think it was '05.

MR. BOB PETERS: Does that suspension

remain in place till today?

MR. ROBIN WIENS: Yes, it does.

MR. BOB PETERS: That was a unilateral decision by Manitoba Hydro without PUB approval?

MR. ROBIN WIENS: My understanding, Mr. Peters, is that that is Manitoba Hydro's decision to make.

MR. BOB PETERS: We'll leave that legalese out, but in terms of -- it never came before the Board, is -- is what I was trying to get at.

MR. ROBIN WIENS: No, it did not.

MR. BOB PETERS: While we're reviewing this document -- excuse me, Mr. Wiens -- I just want to touch briefly on a couple of other jurisdictions, and you had a whole portion of your presentation dealing with other jurisdictions. One of them was the BC Hydro approach, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And in BC Hydro, was that really an inverted rate structure with the last block of energy being the most expensive?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And in BC's situation, they afforded customers on a revenue-neutral basis, I suppose, on average, 90 percent of their baseline at the heritage rate, and the 10 percent would be more at a marginal cost rate?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And even if you were a new customer setting up in British Columbia, you would qualify for the heritage rate on 90 percent of your base load?

MR. ROBIN WIENS: I believe that's the case, yes.

MR. BOB PETERS: That's not what's proposed by Manitoba Hydro, though?

MR. ROBIN WIENS: No, it's not.

MR. BOB PETERS: And in the BC Hydro example, the last 10 percent of the base load -- the baseline load, would -- would be at the significantly higher marginal cost rate, and that would send a price signal, hopefully, to that industry to try to find ways to conserve energy.

MR. ROBIN WIENS: It would send a price signal to that industry to look for ways to conserve energy at the margin. It does not send a price signal to industries looking at locating within British Columbia or at industries which are significantly expanding within British Columbia.

It does send a price signal within the

range of the existing operation that you can achieve savings equivalent to the marginal cost per kilowatt hour, per megawatt hour saved for the first 10 percent.

MR. BOB PETERS: But if your baseline grew, they would also then be subject to the additional marginal cost rate for additional expansion?

MR. ROBIN WIENS: They would be subject to the same percent of the larger baseline. Yeah, our understanding of the BC Hydro structure is that the baseline can be reset on an ongoing basis.

So the company could expand -- for example, double its size -- and it would receive -- the 90 percent would be double the energy at the existing heritage rate; and again only the last 10 percent, so it allowed for continuous resetting, which does send a price signal in terms of conservation measures or self-generation measures that could be taken within the short term.

MR. BOB PETERS: Manitoba Hydro doesn't agree with that methodology because it -- it doesn't attract -- attach the -- the new rate to the new load.

MR. ROBIN WIENS: I -- I wouldn't say Manitoba Hydro disagrees with the methodology. We just don't think that it -- it deals completely with the issue with which Manitoba Hydro is being faced.

MR. BOB PETERS: You'd agree that BC Hydro is being faced with the same issue as Manitoba Hydro issue -- Manitoba Hydro on this matter?

MR. ROBIN WIENS: Yes. Generally, yes.

MR. BOB PETERS: In terms of Hydro-Quebec, their approach was to have a heritage rate and a baseline and then have a determination of whether or not the industry provided sufficient economic benefits to the province and if they -- if it didn't then there would be a marginal rate or something larger than a heritage rate it charged to that new load.

MR. ROBIN WIENS: Well, I believe they defined something comparable to Manitoba Hydro's growth allowance, and beyond that there would be a decision made outside of Hydro Quebec in terms of what -- in terms of what rate would apply to load in excess of that.

MR. BOB PETERS: And that decision made in -- in Quebec would have been made by the provincial government?

MR. ROBIN WIENS: That is our understanding.

MR. BOB PETERS: Do you know on what basis the Quebec Government would be making their decision?

MR. ROBIN WIENS: Our understanding is

that it would relate to economic impact of the additional load.

MR. BOB PETERS: And would they be using economic impact measures the same or different from what Manitoba Hydro is proposing in their exemption -- or criteria?

MR. ROBIN WIENS: They would be similar. I
-- I wouldn't say they would be the same. They would be similar.

MR. BOB PETERS: Would they be using multipliers?

MR. ROBIN WIENS: I don't know the details of the approach they're using; if that's possible.

MR. BOB PETERS: You also reference in your presentation materials utilities in the United States implementing programs using marginal cost-based rates for load growth.

Do you have any more extensive material on -- on how those jurisdictions are doing it?

MR. ROBIN WIENS: No. And I believe we referenced only one (1) which is a fairly major one, Bonneyville Power.

MR. BOB PETERS: I want to turn to the

eighth page, it might also be known as the fourth last page in the -- in the document.

Would I be correct, Mr. Wiens, to say that the three (3) industries identified are the three (3) industries with which Manitoba Hydro has the greatest concern, and therefore are the three (3) industries that really are the focus or the target of the energy-intensive rate proposed by Manitoba Hydro?

MR. ROBIN WIENS: Well, if I have the page correct, those would be the industries in terms of either existing or expanding load, or industries from which Manitoba Hydro's received inquiries. There are others that could be added to the list but we don't see them on the horizon.

MR. BOB PETERS: All right.

THE CHAIRPERSON: You're talking now about the schedule? It says, "chlorate industry, pipeline, internet server."

MR. ROBIN WIENS: I think that's what we're talking about.

MR. BOB PETERS: Yes, thank you, Mr. Chairman.

THE CHAIRPERSON: I just want to make sure.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes. Yes, the chlorate industry, the pipeline industry, and internet server farms and data centres are the -- are the three (3) industries that would be the focus of Manitoba Hydro's new rate, based on Manitoba Hydro's present understanding of what's happening out in the marketplace.

MR. ROBIN WIENS: Yes, that's correct.

MR. BOB PETERS: How did Manitoba Hydro come to a calculation of the direct jobs per gigawatt hour that are listed on the chart?

(BRIEF PAUSE)

MR. ROBIN WIENS: My understanding, Mr. Peters, is that the job numbers were provided by the companies themselves to Manitoba Hydro's representatives.

MR. BOB PETERS: When we talk the chlorate industry, Mr. Wiens, would that also be known as the electrochemical industry?

MR. ROBIN WIENS: It certainly is an electrochemical industry.

MR. BOB PETERS: And the pipeline industry, what you're referring to here is the compression and the -- the movement of products on a pipeline?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: When you refer to internet server farms -- being a bit of an old aggy, maybe not as much as Mr. Williams, but this -- this was a new one to me -- server farms really represents a new technology base setting up using a lot of computers, a lot of servers, to process customer service inquiries and information.

Is that your understanding?

MR. ROBIN WIENS: To facilitate the storage and transmission of data for any number of purposes.

MR. BOB PETERS: There was an article in yesterday's Winnipeg Free Press about a company adding a thousand (1,000) jobs to Manitoba in a high-tech service centre.

Did you happen to catch that article?

MR. ROBIN WIENS: No, Mr. Peters, I didn't.

MR. VINCE WARDEN: I did, Mr. Peters, if you --

MR. BOB PETERS: And thanks.

MR. VINCE WARDEN: I had time to read the paper.

MR. BOB PETERS: Well, I'm sure it was after hours, Mr. Warden. And I -- I won't -- my understanding is the company is looking to expand its Winnipeg information technology presence over the next five years and add as many as a thousand jobs.

MR. VINCE WARDEN: Yes, and that's definitely not the type of industry that we would be targeting with this rate. As Mr. Wiens has indicated, it's primarily the -- the pipeline and chlorate industries that we have the greatest concern with at this time.

MR. BOB PETERS: Mr. Warden, in terms of the internet server farms, I just need some understanding. Is -- is the industry that was coming to Manitoba or announced an intention to come to Manitoba, and not on the target of the new rate simply because of the number of new jobs it will create?

MR. VINCE WARDEN: Yes, it -- the internet server farms are -- are simply servers. They're -- they're a processing facility that uses large amounts of -- of energy with very few jobs.

So those are the ones that we had some -- some concerns about. There was some inquiries as to locating in Manitoba because of the low power rates, but that appears to have gone away. We haven't heard anything of that in recent times.

MR. BOB PETERS: I'm gathering from that answer that the -- the company that was in yesterday's newspaper was never a consideration in terms of Manitoba Hydro for attracting the new energy-intensive rate?

MR. VINCE WARDEN: No.

MR. BOB PETERS: So it was a different type of server farm which would really just be the hardware with no people to work it.

MR. VINCE WARDEN: Essentially that's right, yes.

MR. BOB PETERS: And from your previous answers, I'm taking that whatever interest may have been in locating server farms in Manitoba, at this point in time that interest has cooled or, at least, isn't pressing?

MR. VINCE WARDEN: There has been no recent interests that we're aware of.

MR. ROBIN WIENS: Mr. Peters, we do continue to get inquiries but we haven't had any -- any, I would say, substantive interest shown.

MR. BOB PETERS: Mr. Wiens, since Manitoba Hydro unilaterally suspended the existing service extension policy for new loads, has Manitoba Hydro declined any new services since 2005?

MR. ROBIN WIENS: I don't believe so, Mr. Peters.

MR. ROBERT MAYER: Can somebody, for my edification, tell me what that policy was and what has been stopped? I don't understand this service extension policy.

MR. ROBIN WIENS: Mr. Mayer, Manitoba Hydro has had a long standing service extension policy in terms of what it is prepared to invest in facilities to serve customers; for general service large customers, in particular, to have -- for those customers served at voltages, requesting service at voltages over 30 kV.

The policy was that Manitoba Hydro would invest up to three (3) times the anticipated annual revenue provided that that was being spent on extending the common grid. It didn't apply to dedicated facilities. It applied only to expenses required to strengthen or extend the common grid to be able to serve those customers.

In 2005 we recognized that, in most cases, the cost of serving those alone, in terms of foregone energy revenues compared to the revenues we had obtained from those customers were significant so that at the very least, we looked at abandoning that; that we would no longer invest anything to connect those customers; that the customers would not be denied service but they would have to pick up the costs of connecting.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Wiens, it was an economic feasibility test that you had run on a proposed expansion, correct?

MR. ROBIN WIENS: As a rule of thumb, Mr. Peters, it was not a detailed economic feasibility test, it was a -- an extension policy rule that Manitoba Hydro has, as I've said, followed for a significant number of years now.

MR. BOB PETERS: And I gathered from your previous answer that there hadn't been a -- anybody declined the service under that change or suspension of policy.

MR. ROBIN WIENS: That is my understanding.

MR. BOB PETERS: And would it have -- would it be open to a customer to invest -- to -- to still come here, but forego the three (3) times annual revenue contribution by Manitoba Hydro to expanding the -- the common grid?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: So the customer could

pay it.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: But under your new proposed energy-intensive rate there is no provision to allow for customer payment of additional monies to compensate for the -- for not having to pay the marginal cost rate.

(BRIEF PAUSE)

MR. ROBIN WIENS: Yeah, Mr. Peters, we are not currently proposing any change to what's in place right now.

MR. BOB PETERS: But you're proposing, once the Board -- if the Board was to approve your application as filed, you would lift the suspension on your service extension policy.

MR. ROBIN WIENS: Not necessarily, although I suspect we'd want to review it.

MR. BOB PETERS: Why wouldn't you lift it?

MR. ROBIN WIENS: As I say, we would -- we would likely want to review it to see if there was a basis for lifting it. There may not be.

After all, new loads locating in the

province, some would continue to receive energy at the low embedded cost rate. And even the marginal cost rate is only compensating for the additional costs incurred. It's not going beyond that.

So, yes, there's a -- if there is a change in the rate that is going to apply, it would be -- it would be correct to review it, but it doesn't necessarily mean to say that we would lift it.

MR. BOB PETERS: On page 9 of the presentation you made, there was a provincial economic benefit comparison of some typical Manitoba industry, including mining and forestry, food processing, manufacturing and transportation.

Have you that chart?

MR. ROBIN WIENS: Yes, Mr. Peters.

MR. BOB PETERS: And who provided you with the direct jobs per gigawatt hour that's referenced in that chart?

MR. ROBIN WIENS: It would be the same answer. It was provided in discussions with -- through the relationship with Manitoba Hydro's energy sales representatives.

MR. BOB PETERS: Thank you. And when we turn back -- when we turn back to the chlorate industry example on page 8 of the presentation, it has a relatively low number of direct jobs per gigawatt hour of energy, correct?

MR. ROBIN WIENS: Relative to the numbers on the succeeding page, yes.

MR. BOB PETERS: Well, on the succeeding page -- let's take transportation, has a high number of direct jobs per gigawatt hour.

MR. ROBIN WIENS: That's our information, yes.

MR. BOB PETERS: The chlorate industry would need an ability to ship their product, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And they may use trucking firms?

MR. ROBIN WIENS: They probably do. Or rail.

MR. BOB PETERS: And let's stick with my example of the trucking firms. If -- and many of them don't own their own trucking firm, or their own trucking capabilities, correct?

MR. ROBIN WIENS: It's certainly a possibility.

MR. BOB PETERS: In my example it is. And where I'm going, Mr. Wiens, is that the chlorate industry may not have many direct jobs, but they may need to ship their product by truck and would employ trucking firms to do that.

You can envision that?

MR. ROBIN WIENS: Sure. The indus -- the industry will acquire inputs from -- from sources other than Manitoba Hydro. Yes, they will.

MR. BOB PETERS: And those trucking firms that they engage are not considered direct jobs or direct labour costs, correct?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: They're not considered contract labour costs, are they?

MR. ROBIN WIENS: They -- they may be or they may not be.

MR. BOB PETERS: Okay, in my example they're not. But, Mr. Wiens --

MR. ROBIN WIENS: That's fair, Mr. Peters.

MR. BOB PETERS: -- what I'm saying is they're not on the payroll of the chlorate company; they'd be on the payroll of a -- of a separate trucking firm, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And they, in fact, could keep many in that trucking firm gainfully employed hauling their product.

MR. ROBIN WIENS: They could keep some people employed in that firm hauling the product.

MR. BOB PETERS: And in Manitoba Hydro's rate that's before the Board, and we'll come to some of the qualifications, there is no regard for the employment of the trucking firm or their employees in your calculation of the exemption based on the number of employees.

MR. ROBIN WIENS: That would be incorrect, Mr. Peters. There is no specific and -- there is no specific consideration with respect to that particular customer.

However, that was given consideration in determining the -- the criteria that there would be additional economic benefits over and above the ones that are particularly described there which are total labour costs and tax revenues received by provincial or local governments.

The criteria were set themselves to recognize that there are those in addition, but we did not want to explicitly include those in the calculation because we believed that they were more difficult to verify then the actual payroll and tax numbers that we included in the criteria.

MR. BOB PETERS: Well let's -- let's flip to Tab 64 so we can maybe have this discussion right now, Mr. Wiens.

On the exemption criteria, and I've jumped a bit ahead in my notes here, on Tab 64 you list the proposed exemption criteria, and my suggestion to you is that the chlorate industry employing a trucking firm to haul its product would not qualify for any exemption under (a) of your exemptions.

Do you agree with that?

MR. ROBIN WIENS: We don't -- we don't believe that it would. But you can't be absolutely certain until you actually do the calculation.

MR. BOB PETERS: I understand that but in terms of a direct payroll cost, hiring a trucking firm and truckers to haul your product isn't a direct payroll cost as envisioned by this exemption.

MR. ROBIN WIENS: Sure, we'll go with that.

MR. BOB PETERS: All right. And then under number 'B' --

MR. ROBERT MAYER: Well, don't go away from that yet, Mr. Peters. It says plus contract labour. For example, I know that Inco -- sorry, Vale Inco contracts with Kleysen to haul product to and from its plant in Thompson; that is very clearly a direct contract cost.

Where would that fit?

(BRIEF PAUSE)

MR. ROBIN WIENS: You know, in the case that you're referencing, Mr. Mayer, this is probably a separate business. This is probably not contract labour.

A better descriptor of contract labour might be along the lines of -- of the forestry industry where there are workers that are contracted where they are not on the direct payroll of the -- of the Corporation, but they're contracted with -- on a seasonal or even a long term basis.

But they're con -- they're considered contract rather than direct employees.

MR. ROBERT MAYER: Okay, then I -- I'll give you another example. Many firms, and I'm not sure exactly where Vale Inco is at this, but for a number of years, they employed and I think they still do, a security company.

Virtually, they were on full time over many, many, many years. But that was very clearly a different company, one time owned by the former premier of the province, and it was essentially associated with -- with the mining company.

Where does that fall?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Mayer, I -- I think the -- the distinction here is what we're talking about in terms of contract labour, is if this is something that the company could provide itself on-site but chooses to contract, that would be considered under the rubric "contract labour".

If it was something that the company would -- well, maybe they could choose to do it themselves, but the operations are occurring off the site, like long-distance trucking, that would not be considered contract labour.

MR. ROBERT MAYER: But then the Metropol Security contract might be.

MR. ROBIN WIENS: It would be.

THE CHAIRPERSON: Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Mr. Chairman. When the -- when the chloride industry customer retains an accountant, retains a lawyer -- is that contract labour?

MR. VINCE WARDEN: Mr. Peters, I think we're going to have to come up with a -- a definition for exactly what contract labour is. We can go through any number of examples, and I think you're probably asking for the judgment of people on the panel as to whether or not that's included within the definition of "contract labour."

I think, as we proceed with this, we've provided very broad definitions for what we think the exemption criteria should be.

Contract labour is -- obviously, it's open to some interpretation. We would have to define that more precisely as we -- as we get deeper into this.

THE CHAIRPERSON: I would think that would be very helpful, because we could go on forever. It could be IT specialists. It could be a whole variety. It could be right down to the service of lunch.

MR. VINCE WARDEN: I agree.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: All right, and -- and --

THE CHAIRPERSON: Why don't you take it as an undertaking and provide a broader definition of what you mean?

--- UNDERTAKING NO. 68: Manitoba Hydro to provide Board with a definition of "contract labour"

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Just to follow-up on -- on that, unless you had something at this time, Mr. Warden.

MR. VINCE WARDEN: I don't think we've necessarily put our minds to exactly what contract la -- we can -- we can -- if it was important to the Board, we could come up with that definition, which could then be debated as to whether or not it was all inclusive or not.

But I think we'll always -- that until that is precisely defined, that we will certainly have that debate. If it's the will of this Board that we define that at this stage, we -- we could certainly undertake to do that.

THE CHAIRPERSON: Well, at least on an interim basis so we know what you mean. I mean, nowadays, with the current industry, there's a whole variety of business models that are carried on. Some people just have very small core employee groups and contract out this, that and virtually everything else.

So I think it's a meaningful thing to ask.

MR. VINCE WARDEN: Fair enough. We will do that.

MR. ROBERT MAYER: I'm sure, Mr. Warden, we're going to hear from somebody about the spin-off. I mean we -- we always hear about spin-off whenever anybody announces something happening in the province; there's going to be this many direct jobs, and we anticipate this many in terms of spin-off.

That's clearly an indirect benefit, but is it an economic benefit, and is it an economic benefit that will be considered when you deal with the criteria?

MR. VINCE WARDEN: Yes. And, again, I think we have to emphasize that we do expect our new industrial rate to apply to very, very, very few customers. And the intent is to capture those industries -- most especially the chlorate and the pipeline industries for which we know there are very few benefits to the province.

Now we can certainly better define our -- our criteria perhaps. We can always refine this more, but I think we have to keep in mind that it's -- it is primarily those two (2) industries that we are concerned about.

THE CHAIRPERSON: Okay, but you'll give a shot at it?

MR. VINCE WARDEN: We will.

THE CHAIRPERSON: Thank you.

Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Wiens, back to an answer you'd previously given me. You'd acknowledge that it's more difficult to measure indirect economic benefits, but those benefits still exist.

MR. ROBIN WIENS: Yes, they do.

MR. BOB PETERS: And in a -- a single industry town or city, there are significant indirect benefits from that industry that may or may not be included in the criteria that you've presently put forward.

MR. ROBIN WIENS: Well, they're not explicitly included in the criteria that we've put forward. In our discussions leading up to the development and filing of these criteria, we've certainly looked at indirect effects, and we decided, because of the difficulty of measuring them rather than explicitly include them, we would reduce the numbers that you see here from what we would have had, had we not -- from what we would have had, had we explicitly tried to take consideration of these indirect effects.

MR. BOB PETERS: All right, I understand your point. One of the points I was going to try to get to was that if the chloride industry industrial customer was facing the rate that you now propose, would it not be to that chloride industry's customer -- customer's benefit to immediately go out and buy the trucking company that they use to haul their product, so they can get the benefit of the two (2) to three hundred (300) direct jobs per gigawatt hour that would be in that industry?

(BRIEF PAUSE)

MR. VINCE WARDEN: Well, Mr. Peters, I think you are putting forward a hypothetical situation in which, if yes, if that customer could demonstrate that there were incremental jobs in that order of magnitude then they would have to be considered for the heritage rate.

MR. ROBERT MAYER: And they, of course, wouldn't have to buy the trucking company. They can go out and buy the trucks, put their own drivers on it.

MR. VINCE WARDEN: That's correct, yes.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I want to use the remaining time before the lunch break to just focus back on a suggestion the Board made in its Order 117/'06 and that was:

> "Manitoba Hydro's proposal should include a proposal for a rate or a new rate class representative of marginal costs, reflective of time of use, i.e., average sales prices for exports."

Do you recall that, Mr. Wiens, Mr. Thomas?

MR. ROBIN WIENS: Could you give us a reference to that, please?

(BRIEF PAUSE)

MR. BOB PETERS: I don't have my full copy of Order 117 present but also on page 7 of 28 of Order 8/'08 I think there was -- the Board itself quoted from its previous order, and if you had Order 8/'08 handy, the Board -- the Board quoted some of its comments from the previous order.

Ms. Ramage, I have a note here that was on page 7 of 28 in Order 8/'08. But let me -- let me proceed this way and we can check what the Board said. I know your counsel's ahead of me...

MS. PATTI RAMAGE: No, I have Ms. Fernandes.

(BRIEF PAUSE)

MR. ROBIN WIENS: While I see it, Mr. Peters, in Order 8/'08, I would have liked to have checked the context in 117/'06, but I think we can proceed.

MR. BOB PETERS: All right. Well, I'll let you do that over the lunch recess if you want, Mr. Wiens, but you'll agree with me that Hydro doesn't put forth time-of-use rates in their new energy-intensive industry rate?

MR. ROBIN WIENS: I would agree with that.

MR. BOB PETERS: Manitoba Hydro could put forward time-of-use rates as it has the technology in place for the general service medium and the general service large classes, does it not?

MR. ROBIN WIENS: Most of the general service large, yes. The general service medium, no.

MR. BOB PETERS: And it's general service large that we saw at the book of documents, Tab 63, is the focus of the new energy-intensive rate, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: I understand from the materials somewhere I read that it would take approximately twelve (12) months for Manitoba Hydro to get internally organized to come up with a time-of-use proposal. Did I read that right?

MR. ROBIN WIENS: I think it was twelve (12) to eighteen (18), and it was not only to get internally organized but also to engage in some consultations over it as well.

MR. BOB PETERS: The billing system would have to brought up to speed and some consultation with the customers to whom it would apply?

MR. ROBIN WIENS: Well, the very first step in that would be that we would -- we would have to come up with a recommendation for the rates themselves that we would want to apply, and to have some understanding of how that would affect demands on Manitoba Hydro's system and how it might affect our ability to shape -- to shape loads using our hydraulic generators.

Yes -- then we would want to -- obviously to make sure we had a billing system in place to do it. I believe that we -- our current billing system does have the capability but it would require some additional programming in -- in order to operationalize that capability.

MR. BOB PETERS: Manitoba Hydro hasn't taken the steps to look at the load shapes and how it could -- how it would be impacted by time-of-use rates?

MR. ROBIN WIENS: Not in detail, no, Mr. Peters.

MR. BOB PETERS: And you'd still have to make an application to this Board for approval of any such new rates, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Would you agree that time of use is a departure from marginal cost?

MR. ROBIN WIENS: No, they're entirely compatible.

MR. BOB PETERS: Well, they're compatible because -- well, let me explain that -- or ex -- explore that with you. They are compatible only if the marginal cost rate or marginal cost value is based on the same factors as the time-of-use rate.

MR. ROBIN WIENS: You can have marginal cost-based rates either with or without a time of use component.

MR. BOB PETERS: Well, with a time of use component, you go to the market to determine what the price is at the time the energy is used, correct?

MR. ROBIN WIENS: Well, you -- you can do that or you can do it indirectly in terms of the -- the way that Mr. Surminski uses market information to develop estimates of marginal cost. In the situations where you go directly to the market, you're usually looking at -- at more of a real-time price mechanism where the value of energy in the market would set the rate for that hour.

MR. BOB PETERS: To keep Manitoba Hydro whole in terms of the concern that you have -- that Manitoba Hydro has, if you could get three (3) cents on the export market for your energy, you want that new energy-intensive customer to pay you at least three (3) cents?

MR. ROBIN WIENS: Yes, on average over time you want it to be equivalent.

MR. BOB PETERS: And if the export price was eight (8) cents, you'd want that energy-intensive new load to also return to the Corporation eight (8) cents a kilowatt hour?

MR. ROBIN WIENS: Again, over time, yes.

MR. BOB PETERS: And that would have the

re -- the effect in those time-of-use rates as -- as the domestic customer paying the same as the export customer?

MR. ROBIN WIENS: If the customers were paying for all kilowatt hours based on marginal costs, that would be approximately correct.

MR. VINCE WARDEN: Mr. Peters, I think the -- the difference though, is with the -- with an export customer when the -- when the rates, the prevailing rates are only three (3) cents, we -- we have the option of storing in -- that water and selling it later when the price is six (6) cents. We don't have that option with the domestic customer.

MR. BOB PETERS: While you may have that option in theory, Mr. Warden, in practice, Manitoba Hydro has tended to generate hydraulically as much as it can sell and the tie-lines can take.

MR. VINCE WARDEN: We are constrained by tie lines, that's absolutely correct.

MR. BOB PETERS: Manitoba Hydro has a precedent for domestic customers paying the same as the export customers with its surplus energy rate, does it not?

MR. ROBIN WIENS: Yes. That surplus energy rate is related to the value of opportunity sales or the last -- the last integral of opportunity sales that is expected to be sold in the export market the following week. Or it may be related to imports or thermal, but it's short-term values rather than the kind of longer-term estimates that Mr. Surminski provides.

MR. BOB PETERS: And you'd agree with me that the short-term estimates, Mr. Wiens, have been of late, in the last year, certainly, fairly -- fairly accurate?

MR. ROBIN WIENS: If -- if you average over that time period, I think that's correct, yes.

MR. BOB PETERS: And that's all in a design to keep the Corporation revenue neutral?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: Mr. Chairman, this might be an appropriate time for the lunch recess, and I'll pick it up after the -- the break.

THE CHAIRPERSON: Very good, Mr. Peters.

--- Upon recessing at 12:00 p.m.

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

THE CHAIRPERSON: Okay. Ms. Ramage, it appears that you've been very busy again.

MS. PATTI RAMAGE: Yeah. We have quite a stack for you here.

THE CHAIRPERSON: We noticed.

MS. PATTI RAMAGE: If I could begin, the first document -- because I'll zip through the rest but just to explain --

MR. DOUG BUHR: Excuse me, Mr. Chairman. Some of us are without copies, and it's kind of hard to follow.

THE CHAIRPERSON: We can't have that. Are you making extra copies, Mr. Gaudreau?

MS. PATTI RAMAGE: Just while those are being passed out, the top document is a clarification to an earlier undertaking. Insofar as we understood, the PUB was requesting something slightly different when we revisited this undertaking.

So the first is out of order, and I'm -- I'm suggesting it be given Exhibit Number MH-48-1 so it attaches to the original 40 -- Exhibit 48 that it clarifies.

THE CHAIRPERSON: Very good. Good idea.

--- EXHIBIT NO. MPH-48-1: Clarification of Undertaking 48

MS. PATTI RAMAGE: And then moving on we have Undertaking 48 which we suggest be Exhibit MH-50:

--- EXHIBIT NO. MH-50: Response to Undertaking 48

MS. PATTI RAMAGE: Undertaking Number 50 be given Exhibit MH-51.

--- EXHIBIT NO. MH-51: Response to Undertaking 50

MS. PATTI RAMAGE: We're just a little out on sync here because Undertaking 51 becomes Exhibit MH-52.

--- EXHIBIT NO. MH-52: Response to Undertaking 51

MS. PATTI RAMAGE: And then Undertaking 52 becomes Exhibit MH-53.

--- EXHIBIT NO. MH-53: Response to Undertaking 52

MS. PATTI RAMAGE: Now we skip one (1), and Undertaking 54 becomes MH Exhibit-54.

--- EXHIBIT NO. MH-54: Response to Undertaking 54

MS. PATTI RAMAGE: Undertaking 58 becomes Exhibit MH-55.

--- EXHIBIT NO. MH-55: Response to Undertaking 58

MS. PATTI RAMAGE: Undertaking 60 be assigned Exhibit MH-56.

--- EXHIBIT NO. MH-56: Response to Undertaking 60

MS. PATTI RAMAGE: Undertaking -- or response to Undertaking Number 61 be assigned Exhibit MH-57.

--- EXHIBIT NO. MH-57: Response to Undertaking 61

MS. PATTI RAMAGE: Undertaking 62 be assigned Exhibit MH-58.

--- EXHIBIT NO. MH-58: Response to Undertaking 62

MS. PATTI RAMAGE: Undertaking 63 -- and there's two (2) parts, sub A and B -- be assigned MH-59.

--- EXHIBIT NO. MH-59: Two (2) part response to Undertaking 63

MS. PATTI RAMAGE: Undertaking 65 be

assigned MH-60.

--- EXHIBIT NO. MH-60: Response to Undertaking 65

MS. PATTI RAMAGE: Undertaking 69 be assigned MH-61.

--- EXHIBIT NO. MH-61: Response to Undertaking 69

MS. PATTI RAMAGE: Undertaking 70 be assigned MH-62.

--- EXHIBIT NO. MH-62: Response to Undertaking 70

MS. PATTI RAMAGE: And then the next is Manitoba Hydro's response to MKO Exhibit Number 6-1, and we suggest that be assigned MH Exhibit Number 63.

--- EXHIBIT NO. MH-63: Response to Exhibit MKO-6-1

MS. PATTI RAMAGE: And then Manitoba Hydro's response to MKO Exhibit Number 6-2 we suggest be assigned MH-64.

--- EXHIBIT NO. MH-64: Response to Exhibit MKO-6-2

MS. PATTI RAMAGE: Manitoba Hydro's response to MKO Exhibit 6-3 be assigned Exhibit MH-65.

--- EXHIBIT NO. MH-65: Response to Exhibit MKO-6-3

MS. PATTI RAMAGE: And, finally, Manitoba Hydro's response to MKO Exhibit 6-4 be assigned MH-66.

--- EXHIBIT NO. MH-66: Response to Exhibit MKO-6-4

THE CHAIRPERSON: Thank you very much.

Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you and good afternoon.

This morning, Mr. Chairman, I was not able to put my finger on where in Board Order 117 of '06 the Board made reference to time of use, and I've located that, with the assistance of my colleagues, at page 54 of Board Order 117 of '06, if that assists Mr. Wiens, although I think he did locate it.

And there was a direction by the Board there that there be establishment of a new industrial class; one that would include new industrial heaver --

heavy energy consuming firms meeting a to-be-defined profile with respect to time of use, energy consumption and demand. And I wanted to tidy that up and make sure the record was clear on that.

I also wanted to tidy up a matter, that I had a chance to think further about, from Mr. Surminski. And you mentioned something this morning, Mr. Surminski, that I think the Board might appreciate understanding a bit better. And I understood you to be telling the Board that you normalized the past export prices.

Did I hear that correctly?

MR. HAROLD SURMINSKI: I think more so we calibrated our starting point of export prices to historic conditions.

MR. BOB PETERS: That suggests to me that you didn't use the actual export prices as your starting point.

MR. HAROLD SURMINSKI: Yes. Okay, now I recall. Yes, normalizing because actuals could result from flow conditions which are higher or lower than expected. So normalizing -- the appropriate technique would be to normalize for expected conditions and use that as your take-off point.

MR. BOB PETERS: Why would that be the appropriate point when you're already starting from a known number?

MR. HAROLD SURMINSKI: Because the known number is biased by the flow conditions that -- that occurred in that year.

MR. BOB PETERS: The known number relates to the specific year that has just transpired, based on actual results.

MR. HAROLD SURMINSKI: Yes, but we predict future values based on expected conditions or a weighted average of all possible conditions, so we -- we cannot predict what -- what the flow condition will be in a future year. Our best estimate is -- is a weighting of all the possible flow conditions.

MR. BOB PETERS: Does your normalization process include any factors other than flow conditions?

MR. HAROLD SURMINSKI: Offhand, I can't think of any, no.

MR. BOB PETERS: And did that normalization take place for your calculation of expected export prices using normalized past three (3) years data?

MR. HAROLD SURMINSKI: We use several years. We actually use -- use all years in the past, and we make adjustments, up or down, depending on the flow conditions and -- and follow the trends that -- of fundamental factors, for example, of natural gas prices and other funda -- fundamentals that may be affecting price.

MR. BOB PETERS: Well, I gathered from your answer that instead of using your actual results as a starting point, you've normalized the actual results and your normalize them for probably as -- as many as -- is it three (3) years?

MR. HAROLD SURMINSKI: Yes, at least. And I -- it just occurred to me that when I said I couldn't think of any other factor; natural gas prices would -- would also be a factor that would come into -- into normalizing.

MR. BOB PETERS: And your normalizing it has a tendency then to inflate the export prices above what you actually received; that's been the experience?

MR. HAROLD SURMINSKI: Only in high flow conditions. If we had above normal flow conditions marginal costs or export values are lower than you might expect, so in -- in -- if flow conditions are above average as they have been since the drought of '03, you would expect yes, the -- our best estima -- best estimate to be higher than the experience.

MR. BOB PETERS: Can you provide the Board with -- with some information that shows how your normalized those -- those recent prices upwards?

MR. HAROLD SURMINSKI: No, I cannot. It's not a -- a specific technique that's used, it's a -- it's a judgment.

MR. BOB PETERS: That would be your judgment?

MR. HAROLD SURMINSKI: Staff in my area, yes.

MR. BOB PETERS: Can you indicate the percentage increase in the past three (3) years of the normalization to actual prices -- actual export prices?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: I think I would have some difficulty in doing that, because we -- we use -- we use our consultants as -- also as indicators of -- of the early years. But -- but usually we use judgment on where we're starting from, because the consultants, first of all, are forecasting prices in -- in the US which is not exactly Manitoba Hydro's experience, so -- so there's adjustment factors taking place.

For example, our consultants provide a forecast at Minnesota Hub; adjustments are required to bring those prices back to Manitoba border node, due to losses and constraints, transmission constraints. So it's -- it's a fairly complex process.

MR. BOB PETERS: Okay. Appreciating that, can you tell the Board what were the normalized export prices for the last three (3) years?

MR. HAROLD SURMINSKI: No, I cannot offhand.

MR. BOB PETERS: But that's not a number that's -- you --you're suggesting not be disclosed in the public record, it's just a number you don't have readily available?

MR. HAROLD SURMINSKI: Yes, that's correct.

MR. BOB PETERS: All right. Well then if it's not readily available would you undertake to provide it through your counsel to the Board?

MR. HAROLD SURMINSKI: I could attempt to do that. It's -- it's not -- it's not a mathematical process. It's -- it's nothing that we could just clearly define. But we could -- we could make some judgments and -- and indicate the factors of, you know, whether we expected the price in any year to be high because of flow conditions and natural gas prices. We could directionally at least give you an indication of that.

--- UNDERTAKING NO. 69: Manitoba Hydro to indicate to Board whether they expect the price in any year to be high because of flow conditions and natural gas prices

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Well, I'll -- I'll press you for more. I'll accept -- I'll accept that offer, Mr. Surminski, but I'm also wondering if you can provide the Board with a more quantitative indication as to what your normalization process did to your expected export prices that you're using in your marginal values and your marginal cost forecasts.

MR. HAROLD SURMINSKI: It -- this would require new work that we -- basically new work that we haven't done, but we -- we could undertake to -- to at least give you an indication of -- of how our export price forecast from our consultants connects up with the history that we've experienced in the past.

--- UNDERTAKING NO. 70: Manitoba Hydro to indicate to Board how their export price forecast from their consultants connects up with

the history that they've
experienced in the past

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Help the Board understand why this is new work, Mr. Surminski, because you have actual export prices that you've achieved; you've given a forecast of export prices, we've reviewed that earlier this morning; and -- and now you're saying that instead of starting with the known number and what you did get for export you want to normalize that, and in the past three (3) years that has had the impact of increasing the forecast export price, correct?

MR. HAROLD SURMINSKI: Yes. Well, I guess one (1) of the factors is -- actually in my planning work we do not use the first -- we do not need the first two (2) years, so actually my work starts three (3) years out in time. It's the operations planning area that -- that does the -- does their own forecast of the first two (2) years.

MR. BOB PETERS: Can you use the rearview mirror and give us the three (3) years that have passed as opposed to the three (3) years that are going forward, in terms of what the normalization has done?

MR. HAROLD SURMINSKI: We can attempt to

do that as --

MR. BOB PETERS: All right, thank you, appreciate that undertaking and we'll see what happens.

--- UNDERTAKING NO. 71: Manitoba Hydro to indicate to Board what the normalization has done to export prices the past three (3) years

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Just before I leave that, can you explain to the Board how you normalize for natural gas prices.

If you're expecting natural gas prices to be a certain number and in the short term or the immediate term they are not that number, you stick with what your forecast was, or what your consultants were telling you?

MR. HAROLD SURMINSKI: Well, yes, the forecast for natural gas prices we -- we use a longer term forecast, so the first two (2) years are -- have very unique factors that may be influencing prices.

MR. BOB PETERS: If natural gas prices are determined by Manitoba Hydro to be low, does that mean that your export price assumption would be understated and you would normalize it by increasing it?

MR. HAROLD SURMINSKI: If actual experience of gas prices were low -- lower than what we would expect our forecast to be, we would -- we would modify those -- those prices for our starting forecast.

Yes, because two (2) years out in time, that would be a factor, if prices were actually forecasted to be higher than they were in experience, and the low prices in experience caused low export prices there's a need to -- to normalize then bump up your export prices.

MR. BOB PETERS: And that bumping up of the export price as expected would have the impact of increasing the marginal cost rate that you have before this Board?

MR. HAROLD SURMINSKI: Yes. Our marginal cost rate is influenced by our forecast of natural gas prices two (2) years out.

MR. BOB PETERS: Mr. Warden, from a policy perspective this new energy-intensive rate is to protect the bottom line of Manitoba Hydro, would that be fair?

MR. VINCE WARDEN: It's more so to protect the customers of Manitoba Hydro than the bottom line.

MR. BOB PETERS: Protect the customers that aren't using energy on an intensive basis?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Would you agree with me that the pre-legislation revision in the mid-'90s for Manitoba Hydro focussed Manitoba Hydro to provide power adequate for the needs of its domestic customers?

MR. VINCE WARDEN: Very succinctly, yes.

MR. BOB PETERS: And do you also agree that Manitoba's -- Manitoba Hydro's mandate changed somewhat in the mid-1990s with the revised legislation to also allow Manitoba Hydro expressly to develop power resources for export purposes?

MR. VINCE WARDEN: Yes, I believe that was 1997.

MR. BOB PETERS: And do you agree that there is an inherent conflict between selling power on export market and selling power to domestic customers?

MR. VINCE WARDEN: No, I wouldn't see a conflict.

MR. BOB PETERS: Would -- would there be a conflict for Manitoba Hydro's bottom line, in terms of its net income, when you can sell it domestically for on average five point one (5.1) cents, but on the export market your average may only be five (5) cents?

MR. VINCE WARDEN: I think the -- the average we talked about last year being five (5) cents was approximately right. The forecast for export revenue is going forward as -- is a higher price than that.

MR. BOB PETERS: On a normalized basis, correct, Mr. Surminski?

MR. HAROLD SURMINSKI: Yes, that's correct.

MR. BOB PETERS: All right.

MR. HAROLD SURMINSKI: That's exactly the point I was trying to make.

MR. BOB PETERS: And we'll thank Mr. Warden for helping us make that point.

My -- my suggestion though, Mr. Warden, and I can't seem to convince you that it's somewhat ironic that if Manitoba Hydro sold more to its residential customers at six (6) cents a kilowatt hour, it would, on average, be doing better than if it sold that energy on the export market based on last year's actual experience.

MR. VINCE WARDEN: Yes, I would agree with that based on last year's experience, if we were to sell all that export revenue to residential customers.

If our objective was to enhance the bottom line which really isn't what we're here for, but if that was the objective, that would be the result.

MR. BOB PETERS: Well, if it's not the objective to enhance the bottom line, the objective is to try to be revenue-neutral as -- from a total utility perspective.

MR. VINCE WARDEN: With respect to the industrial -- the new industrial rate, yes, that is correct. We are attempting to be revenue-neutral vis-a-vis the -- the new rate and the export market now -- the revenue foregone -- foregone from the export market.

MR. BOB PETERS: You're not trying to use the new rates for additional profits?

MR. VINCE WARDEN: No.

MR. BOB PETERS: Put in my words, Manitoba Hydro wants the new rate on new energy-intensive load to yield the same as if that incremental energy was sold on the export market.

MR. VINCE WARDEN: Yes, that's correct.

MR. BOB PETERS: And as we saw this morning, Manitoba's Hydro -- Manitoba Hydro's forecast of export revenue has, on at least a couple of occasions, been higher than their actual experience.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And if that's the case and Manitoba Hydro is basing the new rate on --

predominantly on export prices, it may not be revenue-neutral. It may over-recover if you're incorrect on your export assumptions.

MR. VINCE WARDEN: Well in any one (1) year our -- our forecast is based on an assumption of water flow conditions, and we know that year-by-year those -- those actual conditions will be different than -- than what we're assuming in the forecast.

Over the term of the forecast however, we do expect that the export revenues will be very close to what we have in the forecast.

MR. BOB PETERS: Is it the export revenues or the average export price?

MR. VINCE WARDEN: Well, I think it's both because the price is somewhat affected by the availability -- the quantity that we sell.

MR. BOB PETERS: Does Manitoba Hydro intend to track the actual export price received on average, compare it to the marginal cost rate that's now before this Board and then refund money if it's over-collected?

MR. VINCE WARDEN: Refund money to --

MR. BOB PETERS: It's a new concept, Mr. Warden, obviously. Sorry to spring that on you right after lunch. But -- but -- let me -- let me start over.

It starts under the assumption that Manitoba Hydro wants to remain revenue-neutral with the energy consumed above the baseline rate, and then I'm wondering the only way you're going to know if you're revenue-neutral is to do an analysis with hindsight, correct?

MR. VINCE WARDEN: Well, that's true. But again, we would not be able to look at any one (1) year because of the -- the differences that occur from year-to-year because of water flow conditions and export prices and all the other variables that affect the export market.

So we would have to -- if we're going to do such a hindsight review, we would have to look at -- at a -- over a number of years and that's what we tend to do with rate applications.

We look at experience versus projections and we adjust the -- our view of the future accordingly.

MR. BOB PETERS: You're acknowledging in that answer that in any one (1) year you may overcharge under this new marginal cost rate compared to what your actual experience was on the export market.

MR. VINCE WARDEN: Yes, I'm acknowledging there -- there could very well be a variance either over or under.

MR. BOB PETERS: And how would you know if you're under-collecting?

MR. VINCE WARDEN: Well, again, the same hindsight review that you referenced could -- could indicate whether or not we're over or under versus the -- the marginal cost of energy.

MR. BOB PETERS: Would the Corporation be comfortable using deferral accounts with which it has experience on the gas side, to track actuals versus forecast, to keep not only the utility whole but the customer whole?

MR. VINCE WARDEN: Well, in -- in effect, although we don't explicitly ha -- I wouldn't propose explicit deferral accounts. The net effect would be the same because any future rate applications that we would bring forward would have a reflection of the experience, whether that be positive or negative, and -- and use that experience going forward.

MR. BOB PETERS: So you're saying there is -- there is not a de facto deferral account, but Manitoba Hydro will be held accountable as if there was a deferral account with hindsight review.

MR. VINCE WARDEN: Yes, I think the net effect would be the same.

MR. BOB PETERS: If a customer has a

baseline set and then it's adjusted for whatever reason for -- under the exemption criteria, will Manitoba Hydro check the actual consumption of that customer, after the fact, to see if that exemption was appropriate?

MR. VINCE WARDEN: Yes, there would be a monitoring that would take place.

MR. BOB PETERS: And if there was an -- an incorrect calculation or a -- a wrong assumption in setting of that baseline as adjusted by the exemption criteria, would the Corporation rebill that customer at the higher rate if there was energy excluded from the exemption?

(BRIEF PAUSE)

MR. ROBIN WIENS: Because we're -- we're -- in the case of a new customer, for example, we -- we're looking forward. We've got an estimate; we don't have any experience, and if it turns out that we were wrong, that is something that we would look at.

MR. BOB PETERS: Well, and that's -- if you're wrong and more monies would be owing to the Corporation, you would look at it?

(BRIEF PAUSE)

MR. ROBIN WIENS: We're looking for -- in that type of a situation, Mr. Peters, we're looking forward with a good faith estimate that the exemption is actually going to apply or that the particular baseline defined is actually going to apply.

And in retrospect, if that turns out not to be the case, we definitely would want to reevaluate. That's not the -- the same thing as the cost of the energy -- changing because of circumstances.

MR. BOB PETERS: But you'd reevaluate it and you'd rebill the customer if -- if the assumptions that were initially made that granted them a favourable rate weren't, in fact, true.

MR. ROBIN WIENS: That's correct, Mr. Peters.

MR. BOB PETERS: Does it follow that you would also provide a refund when you did a hindsight analysis and a corporation to whom you didn't give an exemption shows you, after the fact, that they should have had an exemption that you would refund money to them.

MR. ROBIN WIENS: Well, that would -- that would likely follow, Mr. Peters.

MR. BOB PETERS: So Manitoba Hydro would be prepared to do that?

MR. ROBIN WIENS: We'd certainly be prepared to look at that, yes.

MR. BOB PETERS: Can't get you quite there, Mr. Wiens, but I appreciate you're being cautious, and you're being cautious because you don't have any practical experience with it.

MR. ROBIN WIENS: That's right. I -- I -- I mean, I -- I believe we have actually put words on the record with respect to the exemption. If it turned out to not work out, then we would want to revisit it. We haven't put the opposite -- haven't put the opposite situation in -- on paper, on the record.

But I -- I think it would flow that we would want to reexamine that if that did indeed turn out to be the case.

MR. BOB PETERS: Mr. Surminski, what has been the lowest monthly export price in 2006 obtained by Manitoba Hydro for its exported energy? I'm sorry, let me rephrase the question.

Looking back at Tab 12 of the initial book of documents where we reviewed some National Energy Board data, would you agree with me that on the record of these proceedings the lowest monthly export price, on average, in fiscal 2008 for the Corporation is approximately 3.29 cents a kilowatt hour?

MR. HAROLD SURMINSKI: Yes, I see -- I see that as September '07. Is that the number that you're looking at?

MR. BOB PETERS: It is.

MR. HAROLD SURMINSKI: In the last column there?

MR. BOB PETERS: Yes.

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: And would you agree with me that the lowest energy price Manitoba Hydro received on its Surplus Energy Program is less than one point five (1.5) cents a kilowatt hour for off-peak energy?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: Are you deriving this from the Surplus Energy Program?

MR. BOB PETERS: It's much easier when I ask the questions, but it -- I was deriving it from Board Order 13 of '08 which was February 27th, Manitoba Hydro Surplus Energy Rates Program where the Board approved surplus energy rates at that time, and they attached a graph showing the weekly off-peak prices as, essentially, the last page.

And I see something down lower than one

(1) cent or certainly lower than one and a half (1 1/2) cents a kilowatt hour for -- for as many as thirteen (13) weeks.

MR. HAROLD SURMINSKI: Yes, if you derive it from that source, there are numbers as low as that.

MR. BOB PETERS: And when we look at Tab 63 of the book of documents, and we look at your energy above baseline rate, we're looking in the range of five point six eight (5.68) cents, correct?

MR. ROBIN WIENS: Yes, that's correct.

MR. BOB PETERS: And would you agree with me then that if we look to see what Manitoba Hydro has received for its export prices, what it has received for its surplus energy prices, the above-baseline rate is considerably higher -- almost twice as -- twice as much?

MR. ROBIN WIENS: Mr. Peters, there's a -- over the history of the Surplus Energy Program, there's a whole range of energy prices. These prices refer to what Manitoba Hydro receives or believes it can receive for short-term opportunity sales made within in the window of about one (1) week, under the conditions that exist, and for a sale of a relatively small magnitude. And that's varying from, as you say, less than a cent a kilowatt hour for some off-peak periods up to well over ten (10) cents a kilowatt hour during the on-peak.

And what we're talking about here is opportunity energy which is not quite the same thing as the firm energy we would expect to be selling under the energy-intensive rate.

MR. BOB PETERS: But the energy-intensive rate energy -- sorry. The energy-intensive rate would apply even in situations where you have electricity available at one and a half (1 1/2) cents or three point two nine (3.29) cents.

MR. ROBIN WIENS: Mr. Peters, the rate applied for is based on the expected value of energy that's sold in the export markets. It's not based on a particular time period.

If you wanted to look at something like that, we would have to be looking at something more along the lines of a real-time pricing program.

MR. BOB PETERS: Which is the time-of-use that we talked about before lunch?

MR. ROBIN WIENS: Not necessarily even that. If we talk about going forward with a firm time-of-use pricing, we're talking probably a relatively small number of periods; perhaps as small as -- as three (3), maybe as many as twelve (12).

If you want to capture those very low-cost energy, then you've got to define much smaller periods than that, and the same way the SEP Program which is there's no rate certainty at all. It changes from week to week.

MR. BOB PETERS: But you'd agree with me that keeping Manitoba Hydro revenue-neutral could require almost that level of effort to make sure that it was revenue-neutral from what it could take on its export market?

MR. ROBIN WIENS: The expectation of these expanding or new loads in the Province that would be subject to application of the energy-intensive rate is that we're talking about firm loads.

Typically, we're not going to arrange or negotiate any firm sale in the export market at rates as low as one (1) or one and a half (1 1/2) cents a kilowatt hour.

Those are typically negotiated as long-term firm sales that have -- would have a higher applicable rate and not necessarily a time-of-use component to them.

MR. BOB PETERS: But Manitoba Hydro has sold firm energy for one and a half (1 1/2) cents or three point two nine (3.29) cents.

MR. HAROLD SURMINSKI: In fact, that Tab that you referred to, that three point two nine (3.29) is not from energy. It's -- it's interruptible energy.

MR. BOB PETERS: No, but my question was that when you have a surplus of -- of flow or high flow conditions, you end up finding yourself in a situation where you will have firm energy that you will sell at a low price; low as one point five (1.5) cents for example, or certainly three point two nine (3.29) cents.

MR. HAROLD SURMINSKI: We do not call that firm energy. It's opportunity because it -- it occurs into short-term and a relatively short-term, say within a year.

MR. BOB PETERS: Are you saying then that your firm sales rate has only been as low as five point two (5.2) cents a kilowatt hour in recent years?

MR. HAROLD SURMINSKI: It depends on the contract. Some -- they could be lower because these were contracts negotiated several years ago at -- at lower prices.

But currently we would not negotiate new contracts at -- at that low a price.

MR. BOB PETERS: Well I was trying to get at that, but what has -- what would you -- what are you prepared to put on the record as the lowest price you have recovered for firm energy sales?

MR. HAROLD SURMINSKI: I would have to

investigate that to -- to determine the number.

MR. BOB PETERS: Do you want to give us a ballpark and come back if you're wrong?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: Yes. I think we need a clear definition of "firm". We -- we have firm -- normally our firm sales are one (1) year out and longer and -- and long duration sales.

We have short-term firm sales that are negotiated six (6) months in advance. So we'd need a clear definition of the type of product you would like information for.

MR. BOB PETERS: Well I also thought we were talking about firm as the exports made under the dependable energy constraint.

MR. HAROLD SURMINSKI: Yes, okay. Those are the one (1) year out and longer. I would have to -- I couldn't guess right now what the -- the past -- what the lowest single sale is and what the magnitude of it is.

It's -- it's not only the -- the price. It's also the volume that's associated with it would be a factor.

MR. BOB PETERS: I suppose from a perspective that may be helpful to the Board, Mr. Surminski, if you could do a short-term, a mid-term and a long-term -- I'll call it a guesstimate -- but using your research capabilities and that of your colleagues, as to what is -- what has been the lowest export price achieved by the Corporation, that would be helpful.

And I'm -- and find out what year that -- that occurred in the short-term being one (1) year ago, the mid would be two (2) years ago and long-term would longer than two (2) years ago.

Can you try that, sir?

MR. HAROLD SURMINSKI: Oh yes. I -- I was interpreting quite differently your short, mid and long term. I thought you were meaning sales in those time frames. But you mean going back one (1) year, two (2) year or three (3) years --

MR. BOB PETERS: Yes, it is.

MR. HAROLD SURMINSKI: -- for a long -- for a firm product, a long-term firm product.

MR. BOB PETERS: No, I was going back the one (1) year, the two (2) years and longer than two (2).

MR. HAROLD SURMINSKI: But for a dependable energy product?

MR. BOB PETERS: Yes. For under

dependable flows.

MR. HAROLD SURMINSKI: Yes.

--- UNDERTAKING NO. 72: Manitoba Hydro to provide Board a short-term, a mid-term, and a long-term guesstimate as to what has been the lowest export price achieved by the Corporation. Also indicate what year that occurred in the short-term, being one (1) year ago; the mid-term, two (2) years ago; and the long-term, longer than two (2) years ago

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Am I correct in assuming, Mr. Wiens, that if no new energy-intensive industry customer comes to Manitoba in 2009, and we also assume that the existing industrial customers use exactly the same load in fiscal '09 as they did in fiscal '08, there would be no incremental revenue from the proposed new rate that's before the Board had it been approved April 1st, 2008?

MR. ROBIN WIENS: That's correct, Mr. Peters. But just to go one (1) small step beyond, we've indicated that that isn't actually the case. We put that on record a couple of weeks ago.

MR. BOB PETERS: It only seems that long, Mr. Wiens. But what you put on the record was that there has been a new load since January 31st, 2000 -- I'm sorry, since December 31st, 2007, there has been a new load from the existing Manitoba industrial customers, correct?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And was that 25 megawatts, I remembered that?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And if that 25 megawatts was not part of the baseline of those companies but was outside of the baseline calculation, and they weren't exempt under any of the exemption criteria, that would be worth about $6.6 million to Manitoba Hydro?

MR. ROBIN WIENS: That's right. On an annualized basis, and that would mean for the upcoming fiscal year -- the one we've just begun.

MR. BOB PETERS: And -- and what underpins that assumption, Mr. Wiens, is that the calculation of an industrial customer's baseline is done in the years prior to December 31st, 2007?

MR. ROBIN WIENS: Correct.

MR. BOB PETERS: And you were careful and put on the record where in your application you refer to December 31st, 2007, and I didn't check to see if it was specifically spelled out in tabs -- the documents in Tab 63 or 64 of the book of documents, but you're telling the Board that was the initial consideration by the Corporation?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: All right. Existing Manitoba industry using the same load in fiscal '09 as they did in fiscal '08, Mr. Wiens, will result in the Corporation receiving approximately 2.8 percent more revenue if the rate increase that's before the Board is approved. And I -- I said using the same load as they did last year. The only increase is going to be the 2.8 percent general rate application amount.

MR. ROBIN WIENS: Yes, that's correct.

MR. BOB PETERS: In the book of documents, document 71 is a hypothetical example that I'd like to walk through hopefully quickly with you, Mr. Wiens and Mr. Thomas. Book of documents Number 71. Let's not get our hopes up too high...I have it at 71. Oh, I don't want to do that.

It's headed, "Hypothetical Impact of New Rate GSL Greater than 100 kVa".

MR. ROBIN WIENS: I have that, Mr. Peters.

MR. BOB PETERS: In this example, Mr. Wiens, it's called hypothetical, and I want you to tell the Board eventually how hypothetical it is. And I don't -- and I'm not asking for you to disclose specific customers' names or -- or loads.

But the way it's designed in this hypothetical, it starts with fourteen (14) customers to whom this hypothetical new rate may apply and twelve (12) of those customers have loads above 78 gigawatt hours on an annual basis. Do you see that?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And the total load of those twelve (12) customers would be approximately 5,800 gigawatt hours per year?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And the average then is 480 gigawatt hours?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Under my scenario, and -- and by the way, you have customers in your general service large class that are -- that are of that magnitude, let's say?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: In my example, the six (6) customers in the middle column are exempt from the new rate, and there will be no additional charges above the baseline rates to them, that is, their baseline charge for 480 gigawatt hours each, and there's an adjustment that will allow them to grow their -- to grow their load but there's no further charges to them. Their rate based on the baseline rate would be collectively $11.3 million a year.

Would you agree with the math?

MR. ROBIN WIENS: 480 gigawatt hours a year all charging out at the existing rate.

MR. BOB PETERS: Yes.

MR. ROBIN WIENS: Well, I'm not sure I agree with the math, Mr. Peters, but -- but let's proceed anyway. Let's -- let's say that I didn't just use my calculator and I said, I'll accept it, subject to check.

MR. BOB PETERS: All right. Let's remember that there was six (6) customers in that example whose -- whatever growth they had would have been charged at the old rate and, collectively, you would expect $68 million of revenue from those customers.

MR. ROBIN WIENS: If you're only talking

about the revenue from energy charges, Mr. Peters, you're pretty much correct.

MR. BOB PETERS: All right, thank you for that polite correction. I'm -- I'm -- what you're telling the Board is I haven't included any demand charges.

MR. ROBIN WIENS: That's right.

MR. BOB PETERS: All right. Let's stay with just the energy charges and turn to that column called "Six Customers With a -- the BLC of -- the Baseline of 480 Gigawatt Hours Each", and there's no growth allowed for those customers at the baseline rate, and any growth that they have, which I've assumed would be 200 gigawatt hours, each of them, over the next three (3) years; that would attract the above-baseline rate in my example.

MR. ROBIN WIENS: Okay, I'm following you.

MR. BOB PETERS: And just so we're quite transparent; that increase in load growth was picked off the load forecast on page 29 where there is an assumed load forecast growth over the years. And I've divided that primarily amongst those six (6) customers.

MR. ROBIN WIENS: Okay.

MR. BOB PETERS: And then when the

customers look at their energy bills, they'll be charged the baseline rate for the -- which will total $11.3 million each, and then the above-baseline will be a little bit more than that at 11.4 million for their additional 200 gigawatt hours.

Math is close?

MR. ROBIN WIENS: Again, if you're just looking at energy charges, not demand charges, that's correct.

MR. BOB PETERS: And then is it correct that from those six (6) customers, Manitoba Hydro would receive revenue of $136 million on an annual basis, compared to just the $68 million it would have received from the six (6) customers to whom the new rate did not -- did not apply.

MR. ROBIN WIENS: Yes, all -- assuming all of the foregoing, yes --

MR. BOB PETERS: All right.

MR. ROBIN WIENS: -- that falls out of it.

MR. BOB PETERS: And let's -- now let's look at our assumptions and say, of your total customer base, which we saw in the Cost of Service study -- I'm looking at Schedule B-2 at Tab 56, just to get the specific numbers, Mr. Wiens -- but we see that the general service large has fourteen (14) customers.

And I think you clarified that for me today to say it was -- I'm looking at schedule B-2 down at general service large greater than 100 kV -- fourteen (14) customers, I'd understood you to tell the Board that it was really twelve (12) customers, but fourteen (14) locations.

Would that be correct?

MR. ROBIN WIENS: You know, I think that's right, but for the purposes of the Cost of Service study, we treat them as -- as fourteen (14) customers.

MR. BOB PETERS: And of those fourteen (14) customers, Mr. Warden, I think, has told the Board that he would expect the new energy-intensive rate that's being proposed to -- to apply to maybe -- to fewer than half.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Is it -- can you be more specific as to what your expectations are as to how many of those general service large customers would be exposed to the -- to the -- the new rate?

MR. ROBIN WIENS: Based on our preliminary review, it would be less than five (5).

MR. BOB PETERS: So, if I've guesstimated six (6), I'm wrong but not that far wrong.

MR. ROBIN WIENS: Well, you may not be too far out on -- on the number of customers. We could quibble on the amount of energy that's involved, but, I don't know, I think you're just trying to show something by example, so, you know, we can go there.

MR. BOB PETERS: All right. And -- and by example, you would find that there would be $70 million of additional revenue that would come from the six (6) customers that I've identified. And that's the difference between the 136 million per year and the 68 million per year.

(BRIEF PAUSE)

MR. ROBIN WIENS: Again, Mr. Peters, with all of the foregoing assumed, that's what falls out it. But if you'll look at our IFF, you -- you'll understand that's not what we're assuming, in terms of the total additional revenue.

MR. BOB PETERS: Does that suggest to the Board, Mr. Wiens, that the baseline will either be adjusted or there will be exemptions provided for some of those five (5) or six (6) customers, so that the total amount of revenue wouldn't be as large as shown here?

MR. ROBIN WIENS: Well, among other

things, Mr. Peters, it's -- some of the load growth that you've referred to, the average of 200 gigawatt hours each, is going to happen with the customers that you have in your example assumed are exempt. So the -- the load growth is not going to be for those customers that are affected as much as what you've shown in here.

MR. BOB PETERS: What you're saying is that load growth will be split out over twelve (12) customers, not just six (6) as I've depicted it?

MR. ROBIN WIENS: Well, over everybody in this -- in this example, yeah.

MR. BOB PETERS: If we look at the two existing customers on the far right-hand column with a total load of a 100 gigawatt hours and an average load of 50 gigawatt hours, that would be their baseline, correct, at 50 gigawatt hours per year?

MR. ROBIN WIENS: Sure.

MR. BOB PETERS: And they would be allowed load growth of, on average, 28 gigawatt hours a year to get them from 50 gigawatt hours to 78 gigawatt hours.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And everything below 78 gigawatt hours would be charged at the heritage rate or the baseline energy rate?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: By the way, why is 78 gigawatt hours used as the maximum load to which existing customers can grow their load?

MR. ROBIN WIENS: It's -- it's approximately equal to the use by a high load factor customers of about 10 megawatts of capacity.

(BRIEF PAUSE)

MR. BOB PETERS: Sorry, Mr. Wiens, would you mind repeating that answer.

MR. ROBIN WIENS: 78 gigawatt hours is the use that would be made by a customer with about 10 megawatts of capacity operating at a high load factor which these customers typically do.

MR. BOB PETERS: Was it selected because of -- of the 10 megawatt reference or was it derived from the actual customer usages?

MR. ROBIN WIENS: It was a trade-off, Mr. Peters, between having just too many customers to deal with on this rate, and -- and also making sure that we were able to capture some of the significant larger growing loads in the province.

MR. BOB PETERS: In my example for these

two (2) existing customers who can grow their load by 50 gigawatt hours at the baseline rate, if there's no additional growth then their annual bill for energy is 1.84 million and collectively they're at 3.7 million.

You'll accept that as an example?

MR. ROBIN WIENS: That would follow, yes.

MR. BOB PETERS: I want to go back to those twelve (12) existing customers where you indicated that the load growth that -- that this example assumes take place with six (6) customers may be spread over all twelve (12) customers, if I took your evidence correctly.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: When we look at the load forecast, particularly on page 29, it appears that the -- the load growth that I've assumed is coming from the -- the electrochemical industry as well as the petroleum transport industry and not from the other customers.

And is that -- do you agree with that?

MR. ROBIN WIENS: The load growth is coming from more than just those groupings of customers.

There are -- the load forecast also -- also forecasts that there is -- there will -- there is some potential large industrial load that we're not able to identify specifically which industry it falls into. So that is also part of the load growth.

MR. BOB PETERS: I take from your load growth forecast that the electrochemical industry has approximately four (4) constituent customers and the petroleum transport has two (2).

Would you agree with that?

MR. ROBIN WIENS: No. No, it would be two (2) and two (2).

MR. BOB PETERS: And I'm assuming that the 1,300 gigawatt hours of load growth out of 1,700 comes from those four (4) customers.

MR. ROBIN WIENS: You know, I think that's something we'd have -- we'd have to go back and check. I -- I don't believe -- I believe there's probably some of this coming from what we've called this potential large industrial load as well.

MR. BOB PETERS: Well, I'd appreciate it if you just undertake to check that and verify that and let me know if -- if that's correct, or whether my -- my example has a more correct assumption.

MR. ROBIN WIENS: We'll certainly undertake to do that, Mr. Peters.

--- UNDERTAKING NO. 73: Manitoba Hydro to indicate for Board if the 1,300 gigawatt hours of load growth

out of 1,700 comes from the
four (4) constituent
customers in the
electrochemical industry and
the petroleum transport
industry

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Mr. Wiens. In terms of the energy-intensive rates, sir, that are found at Tab 63 of the book of documents, this Tab 63 contains your proposed rate schedule for the general service large class, correct?

MR. ROBIN WIENS: Yes, it does.

MR. BOB PETERS: Would I be correct in suggesting that there are three (3) components to your rate being the baseline amount, the rate above baseline and the exemption criteria? The three (3) components that have to be considered for any particular customer.

MR. ROBIN WIENS: Well, the baseline defines where the rate would be -- where the different rate would be applied. So it's -- it's going to be the factor that affects the bill.

MR. BOB PETERS: Likewise the exemption criteria could be a factor that affects the bill.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And would you agree that those components are integral to the overall rate?

MR. ROBIN WIENS: Well you can't understand the affect of the rate without understanding them. At least you can't understand the affect of the rate on individual customers.

MR. BOB PETERS: And Manitoba Hydro then wouldn't be asking this Board to implement an above baseline rate, without also having approved the baseline setting methodology as well as the exemption criteria?

MR. ROBIN WIENS: Well, Mr. Peters, I'm not going to speak to -- if that's a legal question, I'm not going to speak to it, but I -- I recognize that you want to look at all of those factors approving the rate.

MR. BOB PETERS: And I -- I didn't mean to ask a legal question and I apologize if you interpreted it that way, and we'll leave that for Ms. Ramage in her closing submissions to suggest to the Board.

But you would agree with me, Mr. Wiens, that the impact on revenue of the above baseline energy rate could be totally removed if the exemption criteria were changed from what you have filed?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And the energy above baseline rate would be meaningless if the baseline itself wasn't set as proposed by Manitoba Hydro?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: So when I was suggesting that they're integral, they -- they all relate to each other in terms of the way they've been developed and put forth before this Board?

MR. ROBIN WIENS: Yes. In order to apply the rate, we have to have all those factors in place.

MR. BOB PETERS: And we talked about, a few minutes ago, about the number of customers to who this -- to whom this new rate may apply, and if that's the case why does Manitoba Hydro under their general service tariff include an above -- energy above baseline rate for the general service large customers that don't exceed 30 kV?

MR. ROBIN WIENS: In an abundance of caution, Mr. Peters, I don't expect -- I can't identify a particular customer served at that voltage that might be subject to it, but it was simply put there in an abundance of caution. It -- it could arrive or potentially could arrive that that could happen.

You'll recall that we're talk -- in terms of applicability of the growth allowance and definition of the baseline that it's not just going to apply to a single location, it's going to apply to that customer's multiple locations, and in that context it could apply potentially to under 30 kV.

MR. BOB PETERS: And the average load of those under 30 kV customers is about 6 gigawatt hours a year, but you're telling me that if you aggregate them you'll -- you can get closer to the 39 gigawatt hour limit?

MR. ROBIN WIENS: Well, you're saying that's -- that's the average load and I'll accept that subject to check. Some will be larger than that, some will be smaller.

When we do talk about aggregate it is how this how will apply, so it wouldn't necessarily take a large number of loads under 30 kV; it could be one (1) load that's over and one (1) that's under, and -- and you could quite easily thereby arrive at -- at the baseline or higher.

MR. BOB PETERS: Is the same answer applied for the general service large 30 to one 100 kV, that's it's out of an abundance of caution at this point in time that it's included?

MR. ROBIN WIENS: No, we actually expect that there could be some even individual loads in that group that -- that could potentially be affected by it.

MR. BOB PETERS: Are there any customers in that class presently at greater than 39 gigawatt hours a year?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: On an individual basis? Or is that on a combined basis, an aggregated basis?

MR. ROBIN WIENS: In some case individual and in other cases combined.

MR. BOB PETERS: Mr. Wiens, does the Corporation contemplate reducing the 39 gigawatt hour threshold at any point in time?

MR. ROBIN WIENS: Does the Corporation contemplate reducing?

MR. BOB PETERS: Yes.

MR. ROBIN WIENS: We hadn't thought about that, Mr. Peters.

MR. BOB PETERS: Has there been any rate design thought for the general service large zero to 30 kV as well as the 30 to 100 kV subclasses of introducing a further stepped rate as a second block in-between -- in-between the baseline energy rate and the energy above baseline rate?

MR. ROBIN WIENS: At a general level, yes, not in detail.

MR. BOB PETERS: I'm not sure I understand that answer, Mr. Wiens. That means the Corporation is thinking of going in that direction but at this point in time it's -- hasn't got anything concrete or any proposal?

MR. ROBIN WIENS: That would be correct.

MR. BOB PETERS: And what timeline do you envision this coming to maturity within the Corporation to decide whether it would a go or a no-go, in terms of making an application for a new rate?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, twelve (12) to eighteen (18) months is the timeframe that we're thinking in.

MR. BOB PETERS: Does that apply for all of the subclasses of the general service large?

MR. ROBIN WIENS: It's certainly something we would -- we would think about, all subclasses of general service large. For most customers within this -- within this group we have relatively sophisticated metering, so it's quite possible that we may want to include step-rates and/or time-of-use rates for all customers in the general service large class.

That's not a commitment to do so but it certainly means that we would look at it.

MR. BOB PETERS: Why would you do that if you had a marginal value or marginal cost rate set as your -- as your tail block rate?

MR. ROBIN WIENS: Why would we do what?

MR. BOB PETERS: Why would you introduce stepped rates between the first block and the tail block if you have a tail block set at -- at marginal cost?

MR. ROBIN WIENS: Oh, I see. I see. What -- what we would likely look at is, no, it would be -- it would be a two (2) block rate, with the -- with the second block being based on marginal cost.

MR. BOB PETERS: That's really what it is, proposed right now, isn't it?

MR. ROBIN WIENS: It's strictly for the energy-intensive customers. If you are looking at a more generalized step rate, it would be of a different flavour, probably. It would not just apply to expansions. It would apply to some of the existing load.

MR. BOB PETERS: Can you explain to the Board why there are three (3) different energy above-baseline rate amounts, going from five point nine four (5.94) to five point seven five (5.75) to five point six eight (5.68)?

MR. ROBIN WIENS: It's parallel to the existing rate structure, where we consider the impact of losses between the different voltages in determining the rate.

MR. BOB PETERS: And is the baseline energy rate a 2.8 percent increase over currently approved rates for those subclasses?

MR. ROBIN WIENS: That would be close. Well, it's probably a little more than that, because we didn't change the demand -- the demand charges.

(BRIEF PAUSE)

MR. ROBIN WIENS: Yeah, we -- we are asking to collect the entire revenue increase, which would average 2.8 or 2.9 percent through the energy charge. We're not proposing a change to the demand charge. So it would be higher, it would be probably in excess of 4 percent.

MR. BOB PETERS: On a -- on a rate component basis, just for the energy side?

MR. ROBIN WIENS: For the energy rate, yes.

MR. BOB PETERS: All right. I've got your point.

At the book of documents Tab 65, the derivation of your five point six eight (5.68) or five point seven (5.7) cents runoff rate was provided. And we've already talked about the marginal cost of generation and its components with Mr. Surminski, in terms of being based on the expected forecast of ener -- of export pricing.

But the marginal cost of transmission, can you indicate to the Board how that was developed?

(BRIEF PAUSE)

MR. ROBIN WIENS: I -- I cannot speak to the details of that, but the -- the premise is that they looked at advancing the requirement to add either distribution or transmission one (1) year over what's in the current plan and what that impact would be on the Corporation's capital program, divided by the number of kilowatts or megawatts that it would support. That's a very high level.

MR. BOB PETERS: I appreciate that, Mr. Wiens.

Why is it when the Board would add up the marginal cost of generation, at four point eight (4.8) cents, with the marginal cost of transmission, at point eight (.8) cents, they'd come up with a number closer to five point six (5.6) rather than the six point four (6.4) that's shown here?

MR. ROBIN WIENS: Yes, they would. And that would be because the four point eight (4.8) is an error.

MR. BOB PETERS: And what should that number be?

MR. ROBIN WIENS: I believe five point five eight (5.58).

(BRIEF PAUSE)

MR. BOB PETERS: Were the marginal costs of generation and the marginal costs of transmission calculated as based on 100 percent load factors?

(BRIEF PAUSE)

MR. ROBIN WIENS: The capacity component was indeed divided by eight thousand seven hundred and sixty (8,760) hours in a year to put it on an energy equivalent basis.

MR. BOB PETERS: And the Corporation then deducts the current demand charge so that you're not double counting on the demand side?

MR. ROBIN WIENS: That's right.

(BRIEF PAUSE)

MR. BOB PETERS: Remind me of the foreign exchange rate that was used in the marginal cost calculation. Was it the US dollar at one dollar and seventeen cents ($1.17) Canadian?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: We're trying to trace that. We believe it was the 2006 forecast of currency exchange rate that was used here. So it would be in that area, but that's subject to check.

MR. BOB PETERS: All right, if it's different, please let the Board know by way of an undertaking through your counsel.

MR. HAROLD SURMINSKI: Yes, we could do that.

--- UNDERTAKING NO. 74: Manitoba Hydro to indicate for Board if the foreign exchange rate that was used

in the marginal cost
calculation was a US dollar
at one dollar and seventeen
cents ($1.17) Canadian

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: In addition to the rate itself, on page -- the second page at Tab 63 of the book of documents -- and the bottom right-hand corner, it's labelled as page 13 of 26 -- there's a determination of baseline which, Mr. Wiens, is an important part, if not integral part, of the whole rate design?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And in this you make it clear that in determining the baseline, you will take companies as well as their affiliates and treat them as one (1) customer.

Have I got that right?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: How does Manitoba Hydro define "affiliates"?

MR. ROBIN WIENS: It will be the same ownership.

(BRIEF PAUSE)

MR. BOB PETERS: If there's the same ownership of more than one (1) company, regardless of what they do, they will be considered affiliates for the purposes of the new rate?

MR. ROBIN WIENS: Same parent company, yes.

(BRIEF PAUSE)

MR. ROBERT MAYER: Mr. Wiens, I'm assuming that two (2) companies that -- or two (2) customers that are owned by the same, quote, "holding company," at least to be affiliated would have to have -- would have to be in at least a related business or would have to both be high-intensity power users.

I mean, you wouldn't take Inco -- let's -- let's do something that I know something about. You wouldn't take -- as previously happened with what was then Inco Limited, the -- the division that, for example, mined in Thompson, Manitoba, would you lump it with the division that produced batteries in the States when they acquired Eveready for a brief period of time?

Not Eveready, the other one. But it doesn't matter, it was a battery company.

(BRIEF PAUSE)

THE CHAIRPERSON: We will just take the afternoon break right now and give you a chance to mull over this a bit, because we are thinking on this, too.

--- Upon recessing at 2:34 p.m.
--- Upon resuming at 2:59 p.m.

THE CHAIRPERSON: Okay, we have got an hour left, Mr. Peters. Let's see what you can do with it.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes, sir. Thank you.

Before the break, panel, we were discussing the definition of "affiliates."

And I noted that the simple definition would be, "companies that had the same parent company would be considered affiliates."

Is that the position of the Corporation?

MR. ROBIN WIENS: Yes, I recall that.

MR. BOB PETERS: How is "customer" defined in the terms -- in terms and conditions of Manitoba Hydro's terms and conditions of service?

MR. ROBIN WIENS: It's -- it's a point of delivery. It's a meter.

MR. BOB PETERS: And so to the extent that you will aggregate metres under common ownership, it'll -- it'll be different than the definition in the terms and conditions.

MR. ROBIN WIENS: Yes, it will be. But, you know, I would like to add at this point that we're talking about this in terms of establishing the growth allowance. That is the purpose for defining the abrogation. And I -- the -- the idea here is to -- is to define this thing tightly, because otherwise it could run -- run away from us.

When we -- if you get to the next stage of looking at the applicability of this rate, which is the -- the examination with respect to exemption, we would look, at that point, back at the individual entities, rather than at the definition of the aggregate customer.

MR. ROBERT MAYER: Mr. Wiens, I -- I understand, and I think the Board understands, that what you're trying to do is prevent an artificial split of what is ordinarily a company in order to obtain two (2) baselines or to keep their -- to get around what we're -- what you're trying to do with this new rate. I think we understand that.

I think we were -- however, some of us were of the opinion your definition may be a little broad, at least insofar as the way you've been defining it.

That wasn't the question.

MR. ROBIN WIENS: That's fine. I -- I won't respond to it then. Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Well, the situation, Mr. Wiens -- I don't want to give too many examples here, but a Manitoba Corporation has a business in Manitoba. It also has a separate affiliate in Ontario. And that Ontario affiliate also has a wholly owned subsidiary back in Manitoba doing something else.

Are the two (2) businesses in Manitoba affiliated? And, again, I'm not meaning to be a legal -- not asking a legal question.

But is that -- does that attract the radar of the Corporation to suggest that they're going to be affiliated for the purposes of this rate and the growth allowance?

MR. ROBIN WIENS: Sorry. I would think we would definitely want to examine it. It may well be -- it may well be affiliated.

MR. BOB PETERS: Well, is the purpose of aggregating them to prevent the "gaming of the system," in my words?

MR. ROBIN WIENS: Those are your words, Mr. Peters, but it is to define this thing tightly.

MR. BOB PETERS: So the fact that there may be separate legal entities involved and have been for a number of years isn't sufficient to provide the protection that these entities should be considered separate customers for the purposes of the new rate?

(BRIEF PAUSE)

MR. ROBIN WIENS: Again, the definition of the aggregate is meant to apply to the determination of the growth allowance. And I -- I think we would, at least initially, want to apply that pretty rigorously and look to, perhaps, examining whether or not there ought to be exceptions or not subsequently -- subsequent to that.

MR. BOB PETERS: In the not too distant past, I was of the understanding that one of our donut shops was an affiliate of one of our fast food hamburger shops here in Manitoba, and that may no longer be the case.

But you're generally familiar with -- with what I'm referring to?

MR. ROBIN WIENS: At a -- at a very high level as an example, sure.

MR. BOB PETERS: All right. Not to suggest you visit either, Mr. Wiens, but -- but I'm just wondering, for the purposes of -- of determining whether this growth allowance would apply, you would -- you would aggregate those two (2) separate entities with all of their Manitoba operations to determine whether or not they are under the allowable limit?

MR. ROBIN WIENS: Yes, we would, provided they otherwise would have been subject to the rate. And that -- that's a fairly important qualifier, because if you're talking about donut shops, most of them are not served on at the general service large rate.

MR. BOB PETERS: I -- I was only looking at it from the definition of affiliates.

But your qualification to that is that one or the other would already have to be a general service large customer?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: You indicate in the notes found on the second page at Tab 63 of the book of documents that the energy above baseline will not apply to new loads or expansions of loads associated with provincial and municipal government accounts and other public sector infrastructure, such as water and waste treatment plants, hospitals, and schools.

Correct?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: Why should they get exclusion from the new rate if they would otherwise be subject to it?

(BRIEF PAUSE)

MR. ROBIN WIENS: We took the position, Mr. Peters, these are public sector infrastructure intended to benefit all rate payers who are a wide subset of rate payers.

MR. BOB PETERS: But it may be that these government accounts, when aggregated, would cause Manitoba Hydro to have to build a new generating station?

MR. ROBIN WIENS: That's generally true of any grouping of customers. The perspective on these was these are public sector infra -- infrastructure, that they're intended to benefit a very wide subsection of Manitoba society, if not all Manitobans. And so they would be considered exempt.

MR. BOB PETERS: But very seldom do they

benefit all Manitobans for each specific department, but they would be rather targeted to -- to a smaller share of the -- of the taxpayers of the province?

MR. ROBIN WIENS: Certainly in some cases, yes.

MR. BOB PETERS: But by being public sector, that provides them with -- with immunity from the above-baseline rate, no matter what their expansion plans are?

MR. ROBIN WIENS: Yes, it does. I -- I would add, typically, Mr. Peters, public sector -- although this was not the rationale for excluding them -- but typically public sector loads would be smaller than the load size that would -- that would be the -- the amount of the growth allowance or the -- or the 78 gigawatt hours.

There may be one (1) or two (2) exceptions, but mostly they fall under that.

MR. BOB PETERS: Not if you aggregate them.

MR. ROBERT MAYER: Wouldn't it be --

MR. ROBIN WIENS: To -- to -- to the level of the government of Manitoba, probably not.

MR. ROBERT MAYER: I was going to say, Wouldn't that be an interesting affiliation, if you took the province of Manitoba and all its Crown corporations -- I'm assuming Manitoba Hydro probably hits the high end of power usage -- and affiliated all them together with any other local government district or Board commission or whatever else?

I'm wondering how far you can actually go. And I recognize the Province of Manitoba is very clearly public sector, as is the rest of those I mentioned. But I can just see where -- when you get to affiliating and you're affiliating in such a -- with such a broad definition, I'm wondering at what point it gets almost absurd.

MR. ROBIN WIENS: Was that a question, Mr. Mayer?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Let's -- okay, and Mr. Mayer referenced Manitoba Hydro itself, but Mr. Warden, Manitoba Hydro doesn't bill itself for its energy and demand every month, does it?

MR. VINCE WARDEN: No, we don't.

MR. BOB PETERS: That's a cost of doing business that gets deducted from whatever generation there is in the province?

MR. VINCE WARDEN: We -- we do measure

that usage, Mr. Peters, but we don't bill ourselves for that use.

MR. BOB PETERS: You simply meter it so you know what it is, and that's deducted from the overall generation?

MR. VINCE WARDEN: That's correct.

MR. BOB PETERS: I was going to ask you how many gigawatt hours a year your new tower was going to consume, but I'm not sure if you know that yet.

MR. VINCE WARDEN: No, we don't know that yet. It'll be very small relative to another building of that size.

MR. BOB PETERS: Yes, I've read the materials -- microscopic.

Is it correct that of the general service large customers greater than 100 kV, twelve (12) of them are already over 78 gigawatt hours a year?

(BRIEF PAUSE)

THE CHAIRPERSON: While they are checking it out, Ms. Ramage, we have got two (2) other exhibits here?

MS. PATTI RAMAGE: That's correct. We have Manitoba Hydro Undertaking Number 72, and that is the undertaking provided to Mr. Peters this morning.

THE CHAIRPERSON: Exhibit 67?

MS. PATTI RAMAGE: And that will be Exhibit 67.

--- EXHIBIT NO. MH-67: Response to Undertaking 72

MS. PATTI RAMAGE: And then we also have an -- the update to Appendix 11.2 and that would be Manitoba Hydro Exhibit Number 68.

--- EXHIBIT NO. MH-68: Update to Appendix 11.2

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Wiens, I think I'm waiting for an answer from you as to whether or not twelve (12) of your existing general service large, greater than one hundred (100) kV customers are already using more than seventy-eight (78) gigawatt hours a year of energy.

MR. ROBIN WIENS: And I think the answer

is yes, and that would be contained in Tab 71 of your book of documents, actually.

MR. BOB PETERS: I'm not asking you to use that hypothetical there to confirm that, but based on my understanding --

MR. ROBIN WIENS: No, no. This is -- this is a response to MIPUG/Manitoba Hydro Round 1, 35.

MR. BOB PETERS: Thank you for the clarification.

And -- and there's two (2) customers then that are between thirty-nine (39) and seventy-eight (78)?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And at the book of documents on Tab 63, second page, which is numbered page 13 of 26, note Number 3 talks about customers with an aggregated ener -- annual energy consumption of more than 78 gigawatt hours will not be entitled to any growth allowance.

Is that number one hundred (100) correct?

MR. ROBIN WIENS: No, the number seventy-eight (78) is correct. That is a misprint.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of the baseline that we're talking about, the baseline is to be set for existing customers based on their maximum twelve (12) month aggregated energy consumption for the previous three (3) calendar years, starting January 1, 2008.

Is that correct?

MR. ROBIN WIENS: Ending January 1, 2008.

MR. BOB PETERS: All right.

MR. ROBIN WIENS: Ending December 31, 2007.

MR. BOB PETERS: Thank you, thank you.

And the growth allowance that's permitted, of 39 gigawatt hours, would only be if those customers aren't already at 78 gigawatt hours a year?

MR. ROBIN WIENS: Or more, correct.

MR. BOB PETERS: And that means there's only two (2) customers who would be entitled to growth allowance under this proposed rate that are currently in the general service large rate class?

MR. ROBIN WIENS: Over 100 kV?

MR. BOB PETERS: Yes, over 100 kV.

MR. ROBIN WIENS: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: If a new customer comes

to Manitoba and has 39 gigawatt hours of consumption as their baseline, there would be no growth allowance permitted to that customer under the proposal before the Board?

MR. ROBIN WIENS: Sorry, a new customers comes?

MR. BOB PETERS: Yes, with a -- with a baseline of 39 gigawatt hours, they get zero growth allowance.

MR. ROBIN WIENS: They get no growth allowance above the 39 gigawatt hours. They're starting from a base of zero when they -- before they come, so they get 39 gigawatt hours, which is similar to what is available to an existing customer.

MR. BOB PETERS: But an existing customer can grow from 39 gigawatt hours a year to 78 gigawatt hours a year and still qualify for the lower baseline energy rate?

MR. ROBIN WIENS: That's true.

MR. BOB PETERS: But the new customer doesn't get the same growth potential beyond 39 gigawatt hours a year?

MR. ROBIN WIENS: It is true that the existing customer, at 39 gigawatt hours, will have access to an additional thirty-nine (39), for a total of seventy-eight (78). A new customer will also have access to an additional thirty-nine (39), but they can't go beyond that.

MR. BOB PETERS: But they -- the new customer, Mr. Wiens, is starting at zero in your books?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: So if they move into Manitoba with a 39 gigawatt hour requirement, they've maxed out at the -- at the low rate?

MR. ROBIN WIENS: That is correct.

MR. BOB PETERS: Why have you differentiated between the two (2)?

MR. ROBIN WIENS: We don't believe that we have. We -- we're offering the same 39 gigawatt hours to each of them. It's just that the existing customer happens to have been here previously and has an established load.

MR. BOB PETERS: So you're calling the first 39 gigawatt hours of the new customer their growth allowance?

MR. ROBIN WIENS: In effect, yes.

MR. BOB PETERS: But when they come to Manitoba with a 39 gigawatt hour a year energy requirement, they can't grow that beyond that at the lower baseline energy rate?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And any load above that 39 gigawatt hours would attract the higher marginal cost rate?

MR. ROBIN WIENS: Subject to their qualifying for an exemption.

MR. BOB PETERS: And likewise, the existing customer may qualify for an exemption that takes them beyond 78 gigawatt hours in total?

MR. ROBIN WIENS: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: One of the adjustments made to the baseline is 100 percent of the verified Power Smart energy savings from 1992 to present, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And that's only for existing customers in Manitoba?

MR. ROBIN WIENS: Yes, because we have no verified Power Smart savings with respect to customers that aren't here.

MR. BOB PETERS: But if a customer came from British Columbia, where there is a Power Smart Program, you wouldn't accept their verified Power Smart savings and extend their baseline beyond 39 gigawatt hours a year?

MR. ROBIN WIENS: No, it's new load for Manitoba.

MR. BOB PETERS: Who has to do the verification?

MR. ROBIN WIENS: Well, the verification from Manitoba Hydro's perspective would be done by our business engineering professionals.

There's -- there's two (2) -- there's two (2) types of -- of Power Smart energy savings. One (1) of those where Manitoba Hydro has been a participant in that program, and so we would have data from the past from the customer's participation. The other is conservation efforts that may have been undertaken independently by the customer that would have to be verified by Manitoba Hydro.

(BRIEF PAUSE)

MR. BOB PETERS: While you allow 100 percent of the verified Power Smart energy savings, that will add to whatever baseline they can establish, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: That could take them beyond 78 gigawatt hours a year?

MR. ROBIN WIENS: Yes, it could.

MR. BOB PETERS: But you're only affording them 50 percent of the additional energy consumed by an energy efficient solution required for compliance with Canadian Environmental Protection Act?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, the -- the 50 percent is there because we -- we want to recognize it. It's -- it's not necessarily that -- we're looking at situation where there could be a considerable amount of excess energy.

And as a -- as a general rule we did not want to put ourselves on the hook for just any and all types of energy that may be attributable to environmental compliance.

That doesn't mean to say that we wouldn't take a careful look at -- at something else if it could be shown to be -- to be appropriate to do so.

MR. BOB PETERS: So the 50 percent is a guideline as a -- as a minimum amount that you would afford to raise the baseline?

MR. ROBIN WIENS: We -- we would look at the 50 percent for sure.

MR. BOB PETERS: And maybe more?

MR. ROBIN WIENS: Depending on the characteristics of it, yes.

MR. BOB PETERS: When we talk about Power Smart savings for corporations in the general service large, greater than 100 kV subclass, whose average energy consumption would be about 480 gigawatt hours a year, how significant would those savings be, Mr. Wiens?

How much more room does that buy them on their baseline; give the Board any idea of any example or quantify that?

MR. ROBIN WIENS: I think we would have to undertake to do that. I -- I can't do that off the top of my head.

MR. BOB PETERS: Is it in the range of, at best, 10 percent? Or are you saying that there's some exceptional savings?

(BRIEF PAUSE)

MR. ROBIN WIENS: If you -- if you wanted any more certainty, Mr. Peters, we would have to undertake. We're just looking at one where they did have a significant number of projects, and it was in the order of 5 percent.

--- UNDERTAKING NO. 75: Manitoba Hydro to indicate to Board how significant the Power Smart savings would be in the general service large, greater than 100 kV subclass, whose average energy consumption would be about 480 gigawatt hours a year

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And that would be, probably, the high water mark in terms of the energy savings for some of these general service large, greater than 100 kV companies?

MR. ROBIN WIENS: I don't want to say that for sure until we've had a chance to look at them. Most would probably fall under that, but there could be one (1) or two (2) that would be more than that.

MR. BOB PETERS: Mr. Wiens, continuing at Tab 63 with the terms and conditions of the determination of the baseline, there were some notes there that I was reviewing.

And note Number 5 doesn't allow any company's unused growth allowance to be bought, sold, or transferred to another company to increase that company's baseline load.

That's even if that other company is purchased by the energy-intensive industry?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And again, in my words, that's to prevent the gaming of people buying additional capacity under these terms and conditions so that they avoid the higher energy charge for their extra energy?

MR. ROBIN WIENS: Yes, again, with the proviso those -- those aren't our words.

MR. BOB PETERS: Yes. In my example earlier today, and I'll -- would it be gaming the system, in my words, if the chlorate industry customer decided to buy a trucking fleet to transport their product and get the benefit of the additional jobs to gigawatt hour ratio that may come with that and the number of employees that may come with that?

MR. ROBIN WIENS: Well, let's be clear here. I think in situations like this we're talking about defining the baseline. The company, whoever they are, buying additional -- buying back into their supply line, for example, is really dealing with whether or not they would qualify for an exemption. So we're talking about two (2) different aspects of the rate.

MR. BOB PETERS: All right, a good clarification.

What you're telling the Board is in establishing the baseline you wouldn't look at the same factors that I -- I raised, in terms of whether there be an exemption provided, based on the number of employees?

MR. ROBIN WIENS: Yeah, they're two (2) different factors.

MR. BOB PETERS: Fair enough. But point Number 6 is that if -- if a company was setting its baseline and acquired another Manitoba company, the baseline would be increased by the amount of the acquired company's baseline load less any unused growth allowance. You wouldn't be allowing any growth allowance in that situation.

MR. ROBIN WIENS: Yes, the acquiring company would have access to its own growth allowance, but not to the growth allowance of the company it was acquiring.

MR. BOB PETERS: And, again, is that for the same reason; to prevent -- the words I've used is "gaming the system"?

MR. ROBIN WIENS: It's -- it's to assure

that we're not providing more than the baseline allowance to any one (1) entity.

MR. BOB PETERS: But there may be legitimate reasons for that commercial transaction to acquire another company. You're just not allowing the base -- the growth allowance to follow within that transaction for rate-setting purposes.

MR. ROBIN WIENS: That's right.

MR. BOB PETERS: I want to spend some time on the exemption criteria found at the book of documents, Tab 64, and these are the economic indicators as to whether additional exemption should be provided to any particular business.

Is that correct, Mr. Wiens?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Again, they're part and parcel of the rate that you've got before the Board?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: The exemption criteria is only needed if the customer's load otherwise would attract the above baseline rate, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Is it also correct that if Manitoba Hydro grants an exemption, that means that every Manitoba domestic customer's rate will go up because of that?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Can you tell this Board how much Manitoba rates have gone up, domestically, since 2004 due to the energy-intensive industry -- industries that are here or came here?

MR. ROBIN WIENS: I can't give you an answer to that, Mr. Peters, off the top of my head. Rates go up or we request rate increases for -- for various reasons. So we would have to go back and take a look at that in order to be able to provide you any meaningful answer to that question.

MR. BOB PETERS: I'm not asking you do that, because you haven't come before this Board and -- and pointed the finger at energy-intensive industry and said, Here's one of the reasons why we need the rate increase.

That hasn't been a way you've broken down your rate increases.

MR. ROBIN WIENS: No, we haven't done that.

MR. BOB PETERS: To do it now, you'd have to go back and back-calculate how much you could attribute to growth in the energy-intensive industry, and attribute that to -- to that specific industry and divide it over the customer base, domestically.

MR. ROBIN WIENS: We would have to run some what-if scenario in terms of how our IFF would have been affected by that.

MR. BOB PETERS: Well, that's essentially what you did in your presentation when you and Mr. Dudar presented to the MIPUG and other groups, is you made an assumption that the $18 million of foregone revenue would have to be picked up by every Manitoban's rate increasing by 1.8 percent.

MR. ROBIN WIENS: That's correct. We looked at it, in effect, in isolation.

MR. BOB PETERS: But that's not how you've set your rates and come before this Board for a rate increase.

MR. ROBIN WIENS: No, we look at a number of other factors, and some of them may be offsetting.

MR. BOB PETERS: Did this exemption criteria come from Manitoba Hydro's calculation, or was it an external consultant or perhaps assistance from the Provincial Government?

How did it an exemption criteria get developed?

MR. ROBIN WIENS: It was developed internally.

MR. BOB PETERS: Is it Manitoba Hydro's understanding that, at a minimum, the exemption criteria will be further examined by this Board at a subsequent PUB hearing?

MR. ROBIN WIENS: I think the Board has so directed so it's a moot question.

MR. BOB PETERS: Well, that's your understanding as well. You're not -- you're not expecting this Board to approve exemption criteria as a result of the filing that's presently before them.

MR. ROBIN WIENS: No, we're not.

MR. BOB PETERS: In the -- in the materials, Mr. Wiens, is it correct that Manitoba Hydro characterizes the exemption criteria as modified cost benefit calculation based on the factor income method of valuing economic benefits?

MR. ROBIN WIENS: I believe we have.

MR. BOB PETERS: And -- and I'm sure that would keep economists, perhaps like yourself, keenly interested. But all you're telling the Board in that is that there is -- there is a methodology that Manitoba Hydro is using for the purpose of developing their exemption criteria?

MR. ROBIN WIENS: Yes. It's essentially saying that we are taking a look at pretty much at the direct income effects of the expansion. Or in the case of the third criteria, of the ongoing operation.

MR. BOB PETERS: I probably got those words out of the book of document Tab 67 although I can't put my finger on it at this point in time, Mr. -- Mr. Wiens, and I was going to suggest maybe I'd fallen asleep somewhere and I didn't mark it, but -- but I -- I'm only saying that in jest. These -- these developments came from the economists at Manitoba Hydro.

Would that be correct?

MR. ROBIN WIENS: The discussion that you're referring to did, yes.

MR. BOB PETERS: And I'm talking to the main developer of the criteria being yourself.

MR. ROBIN WIENS: Actually no. I was involved, but I wouldn't attribute myself the main developer of it.

MR. BOB PETERS: Can you tell the Board what other utility would use a similar modified cost benefit calculation based on the factor income method to value economic benefits?

MR. ROBIN WIENS: I'm not aware of any, Mr. Peters.

MR. BOB PETERS: Is it correct for the Board to conclude that the methodology used by Manitoba

Hydro does not recognize regional economic multipliers?

MR. ROBIN WIENS: It does not recognize them directly. But in earlier versions of formulating this, we had -- we had higher multipliers for the criteria that we were going to apply to a broader range of impacts.

And we decided for purposes of a simple straightforward exposition that we would reduce the multiplier of the criteria.

In other words, the three (3) times or the four (4) times that you see in Tab 64 of your book of documents that we would reduce them from numbers that were higher than that before and proportionately reduce the factor incomes or the incomes that we would consider as falling within the test.

MR. BOB PETERS: Can I sum up that answer as suggesting to the Board that the Corporation lowered the multiplier to ignore the indirect impacts?

MR. ROBIN WIENS: That would be -- that would be correct.

MR. BOB PETERS: Indicate, Mr. Wiens and to the Board, that at Tab 67 of the book of documents from pages 9 to 13, there's a discussion in a paper that I believe Manitoba Hydro prepared for MIPUG as to why the regional economic multipliers wasn't the methodology preferred.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Was this shared with anyone other than MIPUG; other than now in these proceedings being filed as an answer to an Information Request?

MR. ROBIN WIENS: No.

MR. BOB PETERS: Does the Province of Manitoba use type 1 or type 2 multipliers to your knowledge, Mr. Wiens?

MR. ROBIN WIENS: I'm not in a position to speak for the Province of Manitoba.

MR. BOB PETERS: No, I wasn't asking you to do that. I'm just asking if you're aware that they do use regional economic multipliers in their evaluation of the economic benefits of any certain industry or proposed business.

MR. ROBIN WIENS: As far as I'm aware they -- they may use both.

MR. BOB PETERS: When I turn back to Tab 64 of the book of documents and look at the exemption criteria, my understanding of a previous answer is that these multipliers that are listed in here have been reduced from what they were initially.

MR. ROBIN WIENS: In our initial

discussions, yes.

MR. BOB PETERS: In your initial discussions with MIPUG and other key -- key contacts?

MR. ROBIN WIENS: Yes, I believe we may have shared the -- the earlier version with MIPUG.

MR. BOB PETERS: And what were the multipliers in the earlier version?

MR. ROBIN WIENS: Well, we've had a couple of changes since then so I believe for "A" it would have been six (6), for "B" it would have been eight (8). Now "C" is the one we've had a couple of changes from since so it -- I'm -- I'm not going to recall exactly what it may have been. I'd have to refresh my memory.

MR. BOB PETERS: Were the indirect impacts included in the earlier versions with the higher multipliers?

MR. ROBIN WIENS: Not -- again, not specifically, but what we had proposed to do at that time was to take the -- the direct as described here and gross them up by a factor of two (2) which is typical of -- in the Manitoba input/output model to account for the indirect effects.

MR. BOB PETERS: Mr. Warden, if Manitoba Hydro wants to charge higher electricity rates for electrical energy-intensive energy, why wouldn't Centra Gas want to do the same for their natural gas-intensive industries?

MR. VINCE WARDEN: Are you talking about the commodity costs of natural gas or the distribution-related costs?

MR. BOB PETERS: Well, the commodity costs are the flow-through on the gas side, correct?

MR. VINCE WARDEN: The commodity costs are a flow-through, exactly, yes.

MR. BOB PETERS: And -- but there are energy-intensive industries on the natural gas side as -- as well, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And why wouldn't you want to treat those the same as you would those using high amounts of electricity?

MR. VINCE WARDEN: Well, there -- they are paying the -- the exact costs of the commodity that they consume whether they -- whatever that usage may be.

MR. BOB PETERS: They're paying the market cost on the date or certainly in the month in which they consume it?

MR. VINCE WARDEN: Yes, those that buy their -- their natural gas from -- from Centra Gas, yes.

MR. BOB PETERS: Under the electricity proposal before the Board, it would be a forecast or expected value of the export not, in fact, what export value is achieved on any given date that would be paid, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: Would one (1) of the intentions, perhaps unspoken, be that Manitoba Hydro would just as soon these energy-intensive industries located in other jurisdictions?

MR. VINCE WARDEN: No. No, I wouldn't think so. As long as we can remain revenue-neutral, we'd prefer to have them here.

MR. BOB PETERS: What about the case, Mr. Warden, where an energy-intensive industry wants to come to Manitoba; agrees to pay your -- your rate above baseline? What assurance do you need that that corporation's going to stay in Manitoba for a period of three (3), five (5), ten (10), twenty (20) years?

MR. VINCE WARDEN: Well, to the extent that we recover all of our service extension costs that -- we wouldn't really need that assurance because if they were to leave the province at any time, that energy would be available for sale on the export market.

MR. BOB PETERS: And in terms of

recovering your service extension costs, I gather there isn't, per se, a policy but there's a rule of thumb that you'll let -- Manitoba Hydro will contribute three (3) times the annual expected revenue from that company to go towards expansion?

MR. VINCE WARDEN: Well, the -- the policy has been in place for some time, but the -- it is based on a -- on a rule of thumb as -- as Mr. Wiens referred to it as a "three (3) times revenue allowance" but it is -- it is an improved policy of Manitoba Hydro.

MR. BOB PETERS: Well, how long does it take Manitoba Hydro to recover the service extension costs from a customer? How long do you build into your feasibility test? Is it three (3) years?

MR. ROBIN WIENS: It depends on the customer, Mr. Peters. As I said it -- it is a policy, but it's not typically organized as a feasibility test which is what's done on the gas side.

It's a longstanding policy that Manitoba Hydro will invest up to three (3) times subject to certain conditions affecting the type of plant that's being considered, and in some cases that may be recovered in ten (10) years, in other cases twenty (20) and in other cases not -- perhaps many, many, many years beyond that into the future.

MR. BOB PETERS: And what happens if that industry or that customer, Mr. Wiens, leaves before the company has recovered its -- its costs for service extension?

MR. ROBIN WIENS: Well, the costs may have to be recovered by other customers. You may get lucky, and you may find that if it's a dedicated facility that another customer will come along and take over that plant or take over the use of that line. If we're talking about additions to the main grid, eventually over time, you may have low growth on the grid that will utilize it and pay for it.

MR. BOB PETERS: I take from that answer that all other domestic customers would be expected to pick up the slack and subsidize the cost that would otherwise be paid by that industry that's exited the province?

MR. ROBIN WIENS: To the extent that there were stranded costs that would be what would happen to them.

MR. BOB PETERS: Does Manitoba Hydro examine the financial statements and the credit worthiness of perspective new companies coming to Manitoba looking for electricity?

MR. ROBIN WIENS: No, not normally.

There have been -- there have been cases where the load may have been considered uncertain that Manitoba Hydro would request an up-front payment of what it would normally invest and then would refund that after a period of time. But no, we wouldn't look at the financial details of the companies.

MR. BOB PETERS: In essence, the remaining domestic customers are captive and exposed to the risk of a company leaving the province before they've paid back their service extension costs?

MR. ROBIN WIENS: Well, as I say, to the extent that those costs are stranded and not taken up by another customer, that is the end result. I should add that -- that typically relative to the overall system costs, these are not -- these are not huge costs that are incurred or stranded.

MR. BOB PETERS: I'm -- I didn't quite understand that last part of your answer, Mr. Wiens. You're suggesting that it's unlikely that the amount of service connection costs that are not paid back won't -- won't be very significant?

MR. ROBIN WIENS: That's what I'm saying, relative to the overall revenue requirement of Manitoba Hydro.

MR. BOB PETERS: Any quantification of

that if a customer -- that you can give the Board where a customer has left the province without paying their --

MR. ROBIN WIENS: You know, I don't have any specific actual examples but to take a fairly extreme case, if Manitoba Hydro had invested, say, $10 million in extension costs to serve a customer and the customer were to leave or shut down shortly after that, you're probably looking at, at most a quantum of -- of, say, eight hundred thousand (800,000) or a million relative to the annual revenue requirement of a -- of a billion dollars, and that's an extreme example.

Today, with our current moratorium on investment in large customer service extensions, that's not going to happen at all.

MR. BOB PETERS: Well, I think you told me that no customer has been refused service under that moratorium on the service extension. Have customers come in and paid their own service extension costs in full rather than wait for the Corporation to ante up their three (3) times --

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: -- revenue?

MR. ROBIN WIENS: Yes, they have.

MR. BOB PETERS: All right. Is there any promise to review that or refund that if the Corporation lifts the moratorium?

MR. ROBIN WIENS: We haven't made any such undertaking.

MR. BOB PETERS: In terms of the exemption criteria back at Tab -- book of documents Tab 64, I see three (3) proposed exemption criteria, and those are the only three (3) that are before this Board, Mr. Wiens?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And the first one, or "A":

> "The sum of the incremental direct payroll plus contract labour is three (3) times the incremental cost of new or expanded load to all rate payers."

First of all the -- the cost of the new or expanded load to all rate payers is the difference between the baseline rate and the above baseline rate multiplied by the load?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And -- and that's the portion of the load that would be incremental and charged at the higher rate if there wasn't such a rate in -- in place?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And I know we've had a little bit of discussion about incremental direct payroll.

Does that imply how many new full-time positions or how -- sorry -- how many -- how much money is applied for new payroll-related to the expansion, no matter how it -- how the customer is using those additional employees?

MR. ROBIN WIENS: Yes, it's the incremental payroll associated with the incremental load.

MR. BOB PETERS: If a company was going to acquire additional employees to expand its accounting system and also wanted to do something on the electrical manufacturing side, and does the expansion -- will you be dividing up which new employees relate to which function and where they should be housed in this rate calculation?

MR. ROBIN WIENS: Well, we would be looking at trying to identify the payroll expansion that was associated with the load expansion.

If it was very clear that something was happening that wasn't associated with the load expansion, we wouldn't include it.

MR. BOB PETERS: In terms of contract labour -- I appreciate there's an Undertaking out to the Chairman on that -- but in terms of a definition of "contract labour," what that's meant to depict is somebody who is not directly on the payroll.

MR. ROBIN WIENS: Yeah, that would be fair.

MR. BOB PETERS: And "contract labour" would imply employing a party who is, by definition, an "independent contractor" selling their services.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: For which the customer wouldn't have responsibilities for things like benefits.

MR. ROBIN WIENS: Probably not. I mean, that -- that would probably be built into the contract rate that they were paying the customer, if at all.

MR. BOB PETERS: And the -- the three (3) times multiplier effect here was based on an analysis done by Manitoba Hydro?

MR. ROBIN WIENS: It's actually -- Mr. Peters, it's -- it's based on a judgment call that reflects the relative apparent distribution of the benefits relative -- the benefits falling disproportionately to a relatively small number of individuals associated with the operation and the costs being incurred by all Manitoba Hydro ratepayers.

MR. BOB PETERS: Can you explain how you decided where that judgment would be exercised in terms of the benefit to the customer, but the cost to all Manitobans?

MR. ROBIN WIENS: As I say, Mr. Peters, it was a judgment call. We didn't want it to be overly onerous, and we didn't want it to be capturing, you know, every customer that came to Manitoba or expanded their load in Manitoba.

But we did want to recognize that a one-for-one, you know, equivalency was giving very targeted benefits; the same value as the costs to a wide range of Manitoba Hydro customers.

MR. BOB PETERS: At a one-to-one ratio, there would be too much benefit to the customer, and not enough benefit to the rest of the domestic customers in Manitoba Hydro.

MR. ROBIN WIENS: Yes, you could put it that way.

MR. BOB PETERS: And that was your judgment or Manitoba Hydro's judgment?

MR. ROBIN WIENS: That was Manitoba Hydro's judgment.

MR. BOB PETERS: The purpose of this exemption is to consider the value of the labour-intensive industries based solely on job creation.

Is that correct?

MR. ROBIN WIENS: Are you just talking about this one (1) item, "A"?

MR. BOB PETERS: Number "A".

MR. ROBIN WIENS: Number "A" -- it's looking at the in -- it's intended to be a proxy to recognize the incremental economic benefits associated with that expansion.

MR. BOB PETERS: But then it's only measured by job creation.

MR. ROBIN WIENS: It's measured by payroll. You can have high-paying jobs and low-paying jobs, so those -- those industries in which the jobs are high paying, the jobs would be weighted more so than in other industries.

MR. BOB PETERS: So an energy-intensive industry that gives its -- gives its president or general manager a 500 percent rate increase would have that additional payroll weighed against this formula under "A."

MR. ROBIN WIENS: Again, that's not associated with the increase in load. On the face of it, does not appear to be associated with the increase in load.

MR. BOB PETERS: Well if it's -- if I told you in my example that it was -- the 500 percent increase in salary was because the business had expanded and there was additional responsibilities and expectations on the general manager, does that now make it part of the formula that would be considered direct payroll?

MR. ROBIN WIENS: Sure.

MR. ROBERT MAYER: Stock options too.

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Just so we're clear, nothing in -- in the exemption criteria lettered "A" is concerned about the value of goods and services purchased as inputs from local companies.

There's no spinoff to that effect?

MR. ROBIN WIENS: That's not explicitly included, no. As I've mentioned before, it was indirectly considered in the route that we got to this Number 3.

MR. BOB PETERS: In terms of the exemption criteria Number B, this one deals with not only incremental direct payroll plus contract labour, as did "A," but it also brings in incremental taxes paid to either Manitoba or a municipality.

And the multiplier there is four (4) times greater than the incremental cost of new or expanded load, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Are royalties included in the incremental taxes to the province or the --

MR. ROBIN WIENS: Paid to the Province or the municipality, yes.

MR. BOB PETERS: And when you say four (4) times the incremental -- sorry, plus the incremental taxes paid, do those taxes include payroll income tax, property tax, fuel tax, corporate capital tax?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Every tax paid to the provincial government or the municipality?

MR. ROBIN WIENS: Yes.

MR. ROBERT MAYER: Grants in lieu of taxes, sir?

MR. ROBIN WIENS: Yes.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And again, the four (4) times multiplier was Manitoba Hydro's judgment as to what would -- what would be a balance of the benefit from the expansion and the otherwise cost to all Manitobans?

MR. ROBIN WIENS: Yes, we -- we've expanded the definition of the economic benefits, and so we've increased the -- we have increased the -- the criteria number.

MR. BOB PETERS: I think on the surface I would have expected the criteria number to go down because you've expanded the factors that would be taken into account, because you're now adding in things like taxes and -- directly to the province or the municipalities.

(BRIEF PAUSE)

MR. ROBIN WIENS: If you look -- if you think of this in terms of, you know, relative to the "A" part of it, a customer that would opt to just have indirect payroll -- direct and indirect payroll considered might -- was probably also paying some taxes as well. So, you know, we've -- we've enlarged the number to account for that.

We're expecting that those benefits are going to be -- remember, it's relative to the cost, which is the -- the electric energy revenue being given up, it's not relative to itself. So that's why we've increased the number here.

You would expect that as you add the benefits, they should provide a bigger number, relative to the cost.

MR. BOB PETERS: Did you come down to quantifying it by direct payroll per gigawatt hour? Did you come up with those numbers like you used in your presentation?

(BRIEF PAUSE)

MR. ROBIN WIENS: I -- I think we may have looked at some of that internally, and it's probably implicit in what we've arrived at here. But I don't have anything explicit with me today.

(BRIEF PAUSE)

MR. ROBIN WIENS: I don't have any.

MR. BOB PETERS: All right. That's why I never liked chess. I could never figure out whose turn it was.

The -- do I take, from that answer and the pause, that breaking it down to a dollar amount per gigawatt hour of benefit to the customer compared to the cost to all domestic customers wasn't the deciding line.

It was -- that wasn't used as a factor in -- in coming to that conclusion?

MR. ROBIN WIENS: Mr. Peters, it -- it is implicit in the calculations that we did so we could produce those numbers for you. I just don't have them here.

MR. BOB PETERS: Well, then I'm going to ask you to undertake to do that so we could have a look at those if you would, Mr. Wiens. Thank you.

--- UNDERTAKING NO. 76: Manitoba Hydro will produce for the Board calculations concerning the criteria number

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: In turning to the third exemption criteria before we recess for the day, this one looks a lot like -- it's under Number "C." To me, Mr. Wiens, it looks a lot like Number "B" except the Number "4" is changed to twenty (20) times.

Can you explain why those two (2) are different?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: It talks about total

direct payroll not related to the expansion.

MR. ROBIN WIENS: Yes, this is intended to recognize a situation where a customer may be looking to expand their load but they're not necessarily expanding their operation. They're making it more efficient or alternatively, they may be actually required to do this in order to preserve the operation so there was an option given to look at the totality of their operations.

MR. BOB PETERS: Is this --

MR. VINCE WARDEN: And it -- and it may be a customer with a very large payroll existing which we would want to recognize.

MR. BOB PETERS: What you're saying by that answer, Mr. Warden, is a company with an existing large payroll that does an expansion and the expansion wouldn't otherwise qualify for the benefit but if you diluted the effects by taking into account the total direct payroll, it would qualify?

MR. VINCE WARDEN: And met this criteria of twenty (20) times, yes.

MR. BOB PETERS: And, Mr. Wiens, what did this twenty (20) times number start out at and maybe you can provide the Board with that information as to what it initially was and -- and how it came down to twenty (20) times?

MR. ROBIN WIENS: It was forty (40).

MR. BOB PETERS: And again it was a matter of judgment?

MR. ROBIN WIENS: It was the same judgment as we applied to the other two (2) factors that we were going to measure the direct impacts only rather than looking at direct and indirect.

MR. BOB PETERS: And in Number "C" there's no limit on the expansion load that can be consumed?

MR. ROBIN WIENS: Well, no, it cannot -- the cost to it -- the cost of it, so the ratepayers generally cannot exceed 5 percent of the direct benefits associated with the existing operation of the company.

MR. BOB PETERS: No, I understand the math, but there's no limit on the amount of the expansion that would otherwise be available?

MR. ROBIN WIENS: Well, only that it would be cumulative, like the customer couldn't come back every year or every second year and -- and look for something that would be equal to 5 percent or less of the existing operation. This is -- this is a one (1) time only or it could be cumulative but cumulatively could not exceed 5 percent of the existing operation.

MR. BOB PETERS: But that -- okay, 5 percent of the existing operation will be shielded from the new rate?

MR. ROBIN WIENS: If this were the criterion that the customer chose to ask for an exemption on.

MR. BOB PETERS: And so that customer could expand their load by whatever amount as long as it was 5 percent or less than their -- their total load and receive the incremental -- and receive, sorry, the lower rate?

(BRIEF PAUSE)

MR. ROBIN WIENS: We're -- we're not -- it's not a limit on the load, per se. It is a limit on the -- on the cost to the existing other ratepayers.

MR. BOB PETERS: Okay, I understand the point but the other point that follows from that then, Mr. Wiens, is that if the -- if a corporation uses option "C" to get an exemption from you, the cost to Manitoba Hydro of that exemption is then borne by the rest of the domestic customers.

MR. ROBIN WIENS: Yes, it is. As in this case with all these exemptions.

MR. BOB PETERS: Thank you. Mr. Chairman, in light of the hour, this would be an appropriate time to recess, and I -- I will finish with this panel -- I believe I'll finish by coffee break tomorrow morning.

THE CHAIRPERSON: Very good, Mr. Peters. See you all tomorrow.

(WITNESSES RETIRE)

--- Upon adjourning at 3:58 p.m.

Certified correct,

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Cheryl Lavigne