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 11th, 2008

Pages 2179 to 2403

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	(np)	)RCM/TREE
Dan Rempel		)
Peter Miller		)

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UNDERTAKINGS

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

THE CHAIRPERSON: Okay, welcome back everyone.

Mr. Peters...?

MANITOBA HYDRO COST OF SERVICE AND RATE DESIGN PANEL RESUMED:

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, good morning. Mr. Chairman, I'd like to start with this panel on undertaking that was given -- or sorry, it's not even an undertaking. It's an update to Appendix 11.2. it's Manitoba Hydro Exhibit 68.

Mr. Wiens, you forewarned us that you were filing this and I think you also forewarned us that some of the changes were substantial yesterday.

Do you recall that?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Is it the Corporation's

evidence that this document now would replace what is previously been included as Document number 54 of the book of documents?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Can you confirm, Mr. Wiens, that the operating and maintenance costs shown in the bottom half of the page of Manitoba Hydro Exhibit 68 reflect embedded costs?

MR. ROBIN WIENS: In the broad sense of the meaning, yes. They're the forecast costs out of the Prospective Cost of Service Study for 2008 for operating and maintenance in each of those four (4) functions.

MR. BOB PETERS: And when I check those numbers, Mr. Wiens, against Schedule E-1, page 2 at Tab 55 of the book of documents, why is it that the transmission O&M as well as the distribution O&M don't reconcile?

MR. CHIC THOMAS: I might jump in here, Mr. Peters, and good morning. Part of the reason is that we don't include direct costs in there so there's some direct costs that -- that aren't included.

So if you go to the second page of Schedule E-1, you will see some -- some direct costs.

MR. BOB PETERS: I'm just going to have you assist us with that, Mr. Thomas.

You said Schedule E-1, page 2 of 2?

MR. CHIC THOMAS: I did.

MR. BOB PETERS: And that's at Tab 55 of the book of documents?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: Can you tell me which direct costs you -- you didn't include in your calculation of the marginal costs?

MR. CHIC THOMAS: Well the first big difference was these are just the domestic classes of course, so you can see that -- that up above on Schedule E-1, we have a large deduction to -- for the export class.

MR. BOB PETERS: Is that for generation only though, Mr. Thomas?

MR. CHIC THOMAS: No. If you look about halfway down the page, it's -- it's labeled "EO-2 Transmission Export."

MR. BOB PETERS: And that difference was $5.7 million?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And if I compare your Exhibit 68 to Schedule E-1, the difference is closer to $19 million?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And I'm needing some help to try to reconcile the two (2). You've given me 5.7 million of that.

(BRIEF PAUSE)

MR. CHIC THOMAS: Perhaps we should just undertake to show you that reconciliation, Mr. Peters, instead of --

MR. BOB PETERS: All right. For the transmission O&M as well as the distribution O&M then, Mr. Thomas?

MR. CHIC THOMAS: Absolutely.

--- UNDERTAKING NO. 77: Manitoba Hydro to provide Board with a reconciliation of the transmission O&M numbers and distribution O&M numbers

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Can you also explain at this time why the marginal cost of transmission as determined on a two (2) coincident peak basis doesn't include O&M costs?

MR. ROBIN WIENS: Because the study only estimated capital costs or forecast capital cost.

MR. BOB PETERS: Shouldn't O&M costs be included in that calculation?

MR. ROBIN WIENS: That's why they've been included in the bottom of the page, Mr. Peters.

MR. BOB PETERS: Is it correct that the upper half of Manitoba Hydro Exhibit 68 has RCC calculations that employ revenue that includes revenues derived from the basic customer charges or the basic monthly charges?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: On a marginal cost basis shouldn't that be removed?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, what -- what we've done here is we've -- we've taken the low-end marginal cost which excludes any operating and maintenance and, in effect, assumes that operating and maintenance marginal cost is at or close to zero.

And shown the revenue, the total revenue, from the customer classes against that, recognizing that that is almost certainly and underestimate, we have provided an estimate that would include the imbedded cost for 2008 for operating and maintenance of those functions on the bottom page with the same revenue.

MR. BOB PETERS: Does that render the revenue-to-cost ratio on the top half of the page virtually meaningless, Mr. Wiens, in your view?

(BRIEF PAUSE)

MR. ROBIN WIENS: I think what it does is probably it sets an upper bound on what those revenue-to-cost coverages would be.

MR. BOB PETERS: But not one that would be reliable in determining how that class is doing relative to marginal cost?

MR. ROBIN WIENS: Well, it's not precise. Neither of them is precise, they are -- they are approximate. By the nature of marginal costs, you're not always going to be able to be as precise as you can be with imbedded costs; that's one (1) of the virtues of imbedded costs. They may not be the right concept in all cases but you can measure them fairly precisely. Marginal costs, in terms of pricing, is the correct concept but you're getting a rougher measure of it.

MR. BOB PETERS: Can you explain to the

Board why these revisions have been made at this time?

MR. ROBIN WIENS: Very simply there was a couple of fairly significant transposition errors in the first version that we didn't catch.

MR. BOB PETERS: But it appears that there's more than just numbers being transposed, is there not? The -- the revenue is down roughly $150 million --

MR. ROBIN WIENS: Sorry, Mr. Peters, transposition from the PCOSS '08 trans -- in other words transposing -- in some cases we had transposed numbers from the PCOSS '08 table from the wrong column. It was not the correct column.

MR. BOB PETERS: All right. I thank you for that clarification.

Mr. Warden, yourself and Mr. Surminski, the last vestiges of the revenue requirement panel still with us, but on Manitoba Hydro Exhibit 48-1 which was a clarification to Undertake -- Undertaking 57, just a couple of quick questions and I'm hoping you can be the person to provide the answers. I'm actually not looking for more undertakings but if that's the only way you can address it I understand that as well.

In looking at Manitoba Hydro Exhibit 48-1 the average interest on debt is shown at 6.5 percent, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Mr. Page told the Board that they -- that he expected the average interest to be about 7 percent including the 1 percent guarantee fee.

Should that not be closer to 7 percent?

MR. VINCE WARDEN: Well, I think when Mr. Page responded he did say approximately 7 percent, so the six and a half (6 1/2) is a more precise estimate of what that interest rate is or will be.

MR. BOB PETERS: There's also no transmission depreciation shown on this clarification, Exhibit Manitoba Hydro 48-1.

Where -- where will that be shown?

MR. VINCE WARDEN: Well, the -- the way the costs are recovered within the partnership is for all the capital costs to be recovered in the -- in the form of a -- as indicated in this exhibit, in the form of a mortgage payment. So the depreciation interest would all be -- would all be incorporated within that mortgage payment number of twenty-two, one sixty-two (22,162).

MR. BOB PETERS: Of the portion -- at the top of the page the portion financed by debt, that is of the -- the capital cost, at $926 million, two hundred and eight (208) of that is funded by Manitoba Hydro by way of Manitoba Hydro debt, correct?

MR. VINCE WARDEN: In your -- to derive the two hundred and eight (208) you would be taking the 67 percent of the three-o-eight nine thirty (308,930) -- is that correct? Is that what you did?

MR. BOB PETERS: Yes, assuming that --

MR. VINCE WARDEN: Yes --

MR. BOB PETERS: -- was --

MR. VINCE WARDEN: -- that -- that's --

MR. BOB PETERS: -- for the other partner.

MR. VINCE WARDEN: -- that's correct, yes.

MR. BOB PETERS: And that $208 million that would be -- that's funded by Manitoba Hydro's debt, where is that interest cost accounted for on this sheet?

MR. VINCE WARDEN: That would be on the financial statements of the parent, it would not be in -- on this sheet.

MR. BOB PETERS: Undertaking 54 led to Manitoba Hydro Exhibit 54. I think that made Ms. Ramage happy yesterday.

One (1) of the things that appears in there, Mr. Warden, is that in the capital expenditure forecast for the rerunnering of Kelsey the Board was looking at $184 million of forecast capital cost to complete that project. It now appears that's been updated to 216 million.

Is that correct?

MR. HAROLD SURMINSKI: Yes, I can respond to the Kelsey question.

MR. BOB PETERS: All --

MR. HAROLD SURMINSKI: That's correct, it has increased.

MR. BOB PETERS: And that's over and above what was been filed in your capital expenditure forecast?

MR. HAROLD SURMINSKI: Yes, an update was undertaken in the fall after the capital expenditure forecast was released.

MR. BOB PETERS: And that one -- that one project went up $32 million?

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: Have there been updates done for the other major capital expenditures in the forecast last fall?

MR. HAROLD SURMINSKI: No, this one was updated because we had experience of the first unit being in service. Its output was -- was measured and it wasn't quite what it -- was expected so there was a review of the entire project for remaining units at that time.

MR. BOB PETERS: So that's the only one that needed revision?

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: Manitoba Hydro Undertaking 69 resulted --

MR. VINCE WARDEN: Mr. Peters, maybe -- sorry, I --

MR. BOB PETERS: Yes?

MR. VINCE WARDEN: -- just want to make sure we've interpreted your question correctly.

Other capital projects are revised during the year as needed so Kelsey would not be the only capital project would -- that would be revised since last fall. It's a continuous process when -- when a capital project requires revision, for whatever reason, it's brought before executive committee, and that is revised and updated each fall when -- when that -- when that capital plan is presented to the Board of Manitoba Hydro for approval.

I just wanted to make sure I was clear on what --

MR. BOB PETERS: No, I appreciate the clarification. That suggests to the Board, I think, Mr. Warden, that there may be an update to the capital expenditures forecast filed in this proceeding. You may have some of those items updated or changed from what's been filed.

MR. VINCE WARDEN: That's true. We don't -- we don't change the bottom line, so to speak, of the capital expenditure forecast. We do make revisions to specific items within that forecast though, and that update is, as I mentioned, presented to the Board for -- Manitoba Hydro for approval every fall.

MR. BOB PETERS: If you don't change the bottom line, does that mean you find, within your forecast, other projects that you can cut back on if a project goes to a higher cost?

MR. VINCE WARREN: To the extent possible we do do that. There is in our capital expenditure forecast which I don't have in front of me right now, but there's an item which we refer to as a cost flow adjustment which is a reconciling item to the bottom line, and that number will change depending on whether or not there are other offsets in the capital expenditure forecast.

MR. BOB PETERS: Are you in a position to provide an update to the major capital generation and transmission expenditures that have changed from the capital expenditures forecast other than Kelsey?

MR. VINCE WARREN: We can certainly do

that. The only hesitation I would have is that until such a time as those are represented to the -- the Board of Manitoba Hydro, they're not officially approved.

MR. BOB PETERS: That would be understood in the undertaking. They would still be subject to the Board's review of them, the Manitoba Hydro Board's review.

MR. VINCE WARREN: We could do that, yes.

--- UNDERTAKING NO. 78: Manitoba Hydro to provide Board with an update to the major capital generation and transmission expenditures that have changed from the capital expenditures forecast, other than Kelsey

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Can you tell this board whether the Wuskwatim Generating Station has been subject to a revision since the last capital expenditure forecast?

MR. VINCE WARREN: No, the Wuskwatim project is unchanged.

MR. BOB PETERS: What about the head

office building?

MR. VINCE WARREN: Unchanged.

MR. BOB PETERS: And then that would be as of last fall -- or since last fall?

MR. VINCE WARREN: That would --

MR. BOB PETERS: Till current, till -- as we're sitting here today?

MR. VINCE WARREN: That's correct.

MR. BOB PETERS: In terms of Manitoba Hydro Undertaking 69, which was Manitoba Hydro Exhibit 61, would the Board be correct in understanding -- I'll just give this a minute please.

Mr. Thomas, it might -- it might be one (1) that you're involved in here. That's Manitoba Hydro Exhibit 61, which was Manitoba Hydro's Undertaking 69. The Prospective Cost of Service Study '06, either April or the -- or the revision of it, it employed a drought situation, or a drought scenario data as inputs to the median conditions, is that correct?

(BRIEF PAUSE)

MR. CHIC THOMAS: I'm sorry, Mr. Peters. If you're talking to me, I've been tuned out for the last little while, so.

MR. BOB PETERS: I have that effect on people. No. Mr. Thomas, looking at Exhibit 61, and there's a chart on the bottom part of the page, and I want to look at the -- let's look at the top part of the chart.

The 2003/'04 export seasonal values, that was based on the Prospective Cost of Service Study '06 data?

MR. CHIC THOMAS: Yes. And what goes into the '06 is -- as mentioned in that, is the '03/'04 actual data.

MR. BOB PETERS: That was drought actual data?

MR. CHIC THOMAS: I believe it's been put on the preceding -- so far that it's more the tail end of the drought, but yes, it's -- it's part of the drought.

MR. BOB PETERS: In contrast to that, the 2005/'06 export seasonal values were used in the Prospective Cost of Service Study '08, and that used a high flow data to input median consideration -- conditions?

MR. CHIC THOMAS: Well the actual data from -- was from '05/'06, yeah. And that was a return to more normal levels.

MR. BOB PETERS: So if you accept that

one (1) of the -- one (1) of the inputs was the tail end of a drought, and one (1) was near record flows, or high flows, wouldn't something in between, or perhaps an average been more appropriate?

MR. CHIC THOMAS: You know, I guess you could do it one (1) of several ways. And perhaps an average, I mean, would have mitigated some of the -- some of the discrepancy between the two (2) years.

In the past we've always used the actual, and we were just following that practice this time around as well.

MR. BOB PETERS: When you do your Surplus Energy Program Weighting of Generation, do you use a five (5) year average?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: Would that be an appropriate methodology to sort out some of the discrepancies here?

MR. CHIC THOMAS: Well, I mean, when you're considering these two (2) sets of data, obviously an average or some other method would probably be a little more appropriate. I guess over the long term some of those swings aren't as evident but as a general comment, you know, an average might be -- might be better going forward.

MR. BOB PETERS: Thank you. Mr. Surminski, Manitoba Hydro Undertaking 58 is now Manitoba Hydro Exhibit 55, this might be directed for you.

In the calculations that were done before the Clean Environment Commission, did Manitoba Hydro use normalized export prices?

MR. HAROLD SURMINSKI: Yes. Well, we would not use the term "normalized" because they're out in time and this is -- our best forecast.

MR. BOB PETERS: But I mean normalized in the sense that we talked about yesterday, where you will -- you will impute a value different than your actual experience in the near term.

MR. HAROLD SURMINSKI: Yes, but the near term did not come -- come into -- into play here because it was '09 and on that the advancement -- as soon as the plant was on was 2009 --

MR. BOB PETERS: So --

MR. HAROLD SURMINSKI: -- and that was 2003 when we were working in --

MR. BOB PETERS: So in my words there would be no need to normalize the values in this chart, you simply use your expected values.

MR. HAROLD SURMINSKI: Yes, that's why I said we wouldn't call it "normalized."

MR. BOB PETERS: All right. All right, thank you. I want to turn with the panel to Tab 68 of the book of documents and talk about some other rate issues this morning.

In terms of residential rates the basic monthly charge for residential customers remains unchanged at six dollars and twenty-four cents ($6.24) a month.

Is that correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And if you have 200 amp service, that amount doubles, that basic monthly charge doubles?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: It's been six hundred -- sorry, it's been six dollars and twenty-four cents ($6.24) a month for how long, Mr. Wiens?

(BRIEF PAUSE)

MR. ROBIN WIENS: We're checking that, Mr. Peters. It's been a number of years. It was act -- it was changed very, very -- in a very, very minor way the last year. But substantially it's been there for a number of years.

MR. BOB PETERS: And it's designed to recover what, Mr. Wiens?

MR. ROBIN WIENS: It's intended to recover the -- a part of the fixed costs that do not vary with the customers use, either in terms of energy or capacity requirements.

MR. BOB PETERS: Put in the vernacular it would be the customer service costs or the plant at the local level which would include meter services and --

MR. ROBIN WIENS: Customer related costs.

MR. BOB PETERS: And those actual customer related costs are about twenty-one dollars and sixty-one cents ($21.61) a month?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: I think that Information Request is at Tab 70 of -- of most everybody's book of documents.

Mr. Wiens, that means that on average it's -- it's under-recovering by some significant amount the actual customer costs that are incurred for the customer, correct?

MR. ROBIN WIENS: The rate does not recover -- or the rate recovers only a small portion of the embedded customer related costs, yes.

MR. BOB PETERS: The -- the portion of

customer costs that are not recovered in this rate are then recovered volumetrically?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And there is some inherent cross-subsidization amongst customers within classes in that situation.

Do you agree?

MR. ROBIN WIENS: On a purely embedded cost basis that would be true, Mr. Peters.

MR. BOB PETERS: You'll also recall at the last Centra Gas General Rate Application the Utility's rate increase was added to the basic monthly charge?

MR. ROBIN WIENS: I do recall that.

MR. BOB PETERS: Would that be an appropriate step for the electricity side of the business?

MR. ROBIN WIENS: No, it would not.

MR. BOB PETERS: Why is that?

MR. ROBIN WIENS: I -- I believe we've had some of this discussion on the record already in this proceeding, Mr. Peters, that definitely on a system-wide basis for domestic customers, we want to recover the embedded cost through the rates. We have a little less certainty when we get down to the class level, and when we get down to the level of the individual items in the rate structure, we have less certainty.

Further, we have other factors that we want to consider when we're setting the rates, and one (1) of those factors is certainly the -- the embedded cost of energy is significantly below the marginal cost of energy.

So we believe that if we're going to depart to any significant degree from -- from marginal cost, probably best to do that in items in the rate structure that are the least sensitive; in other words, fixed costs, recovering -- recovering the -- the fixed costs.

If we wanted to move our energy rates closer to marginal cost and still bear some general relationship with the class rate to embedded cost, then we're looking at departing from marginal cost or from embedded cost in a more significant way from items in the rate structure that we would consider to be, and generally the industry views as, less elastic.

So if you want to -- if -- if you want to move up your -- your rate for energy to recognize a conservation, to recognize an appropriate price signal, you're going to reduce it somewhere else. And the least elastic part of the rate structure is the basic monthly charge.

There -- there are other reasons that, historically and traditionally, the basic monthly charge in most utilities has -- the rate is under-recovered relative to embedded cost, and some of them have to do with other desiderata in the rate design criteria such as customer understandability and acceptability.

MR. BOB PETERS: But I heard Mr. Warden tell the Board that the Corporation has no plans to go to marginal cost rates for other customer classes other than the general service large above baseline rate.

MR. ROBIN WIENS: Yes --

MR. BOB PETERS: So --

MR. ROBIN WIENS: -- and -- and this is not a marginal cost design, however, it is recognizing marginal cost in the design of rates that recover embedded cost.

MR. BOB PETERS: If the marginal cost rate to recover customer costs was done on a marginal cost basis, that basic monthly charge would be twenty one dollars and sixty-one cents ($21.61) a month, wouldn't it?

MR. ROBIN WIENS: Most of the -- most of the customer-related costs are current costs so I wouldn't necessary say that the marginal cost would be twenty-one dollars ($21) a month, but that's the best proxy we have right now for the marginal costs so fair enough.

But as -- as I noted, Mr. Peters, that if you're going to depart from marginal costs in order to achieve some other constraint on revenue, that being overall embedded cost, then the best place to depart from it is in those parts of the rate structure that are least elastic, and that is what we believe the best basic monthly charge to be.

MR. BOB PETERS: All right. I think I've got your point on that, Mr. Wiens. This residential rate that's shown on Tab 68 of the book of documents is the first express inverted rate other than the energy-intensive rate for general service large, correct?

MR. ROBIN WIENS: Yes, there's a nominal inversion there.

MR. BOB PETERS: Yes, and -- and you've said it before in these proceedings. The nominal inversion is that the first block is at five point nine eight (5.98) cents a kilowatt hour and the -- the tail block or the second block is six point zero one (6.01) cents a kilowatt hour?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: So this is the start of

an -- of an inverted rate for the residential class from what I understand your evidence to have been?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Would you agree that the type of residential customer impacted most by this rate structure would be the all-electric homes?

MR. ROBIN WIENS: All customers are affected by it. The one that's most likely to have bill increases related to it would be the all-electric home.

MR. BOB PETERS: The customer that would be most affected on their bills would be the all-electric home?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Manitoba Hydro has about a hundred and thirty-five thousand (135,000) of those all-electric customers?

(BRIEF PAUSE)

MR. ROBIN WIENS: That sounds pretty close.

MR. BOB PETERS: I think I took that from the number of meters on your electric load forecast so it may be close. Let's take it as close.

Is the change from -- the -- the first

block of energy last time this or the rate that currently the Board approves is 175 kilowatt hours per month, correct?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And you're now proposing that first block be increased to 900 kilowatt hours per month?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Is that increase designed to mitigate the impact on the all-electrical houses?

MR. ROBIN WIENS: It will have that effect, Mr. Peters, but it was designed really to provide for basic level of use at the lower rate -- the first step of the rate, and use in excess of that at the higher inverted, or nominally inverted part of the rate.

MR. BOB PETERS: So the increase in the rate block was really futuristic in that somewhere down the road when that inversion is greater, you -- the Corporation wants the first block to be discounted to allow for a basic level of consumption by all customers.

MR. ROBIN WIENS: That would be generally right, yes.

MR. BOB PETERS: It wasn't designed specifically for the all-electric customer?

MR. ROBIN WIENS: No, it was not.

MR. BOB PETERS: One (1) of the benefits of it is it will give the all-electric customer a bit of a break in the heating months, because you know for sure that their electric bill is going to be greater than 900 kilowatt hours per month?

MR. ROBIN WIENS: In most cases that's certainly true, and it could be considerably higher.

MR. BOB PETERS: And in most cases for the homes that use natural gas for heat, they might be able to manage their electric consumption to stay within that first block of 900 kilowatt hours per month?

MR. ROBIN WIENS: Yes, depending on the size of the house and the amenities in it.

MR. BOB PETERS: In terms of the impact on the all electric home -- I'm just not sure if Mr. Kuczek and I ever did agree -- but 25,000 kilowatt hours per year was my estimate of the consumption of a typical all-electric home located, lets say, in Winnipeg.

MR. ROBIN WIENS: You're talking about all uses, not just the electric heat portion of the use?

MR. BOB PETERS: That's fair. I'm talking all uses.

MR. ROBIN WIENS: Okay, that's -- that's close.

MR. BOB PETERS: And with the additional two (2) cents a kilowatt hour added onto that consumption, it would work out to probably fifty dollars ($50) a year more for the all electric home than for the home heated by natural gas?

MR. ROBIN WIENS: I -- I don't understand, Mr. Peters, the reference to two (2) cents a kilowatt hour?

MR. BOB PETERS: Sorry, point -- point -- five point (5.) -- sorry, I was doing the math as between the six point zero one (6.01) and the five point nine eight (5.98), the -- the different levels. Point zero two (.02)...

THE CHAIRPERSON: That's three one-hundredths (3/100ths) of a cent, isn't it?

CONTINUED BY MR. BOB PETERS:

MR. ROBIN WIENS: Point zero zero zero three (.0003).

MR. BOB PETERS: We'll do the math --

MR. ROBIN WIENS: Dollars.

MR. BOB PETERS: -- later -- dollar, yes, it was -- okay. I think we agree on that.

But the impact on that is about three dollars and eighty-six cents ($3.86) a month, or fifty dollars ($50) a year?

MR. ROBIN WIENS: The impact of the three one hundredths (3/100ths) of a cent on how -- on --

MR. BOB PETERS: On the 25,000 kilowatt hours per year. Seventy-five dollars ($75) a month --

MR. ROBIN WIENS: Seven dollars and fifty cents ($7.50) over the entire year.

MR. BOB PETERS: I'll redo my math and I'll come back if I've -- if I've calculated it wrong.

Should the block size -- what I was trying to get at is, the impact on the all-electric home is going to be more than a 2. -- a 2.8 percent increase on average for their rates, correct?

MR. ROBIN WIENS: It -- it will be, and I'm sure somewhere in this material we have the exact number, and we'll get that.

MR. BOB PETERS: But the -- the point is, should the block size be increased for the all-electric customer?

(BRIEF PAUSE)

MR. ROBIN WIENS: Well, we are going to have to wrestle with that problem in -- in the future, Mr. Peters, and at this point I'm not sure exactly what the -- what the solution to that is.

We -- we've seen evidence coming from the Intervenors that we should try to target specifically the electric heat customer and increase the first block size for that customer. We see that there are -- in other parts of the country, and I'm referring to Ontario, where there's an attempt to recognize that through a -- a more general rate structure. That's certainly, administratively, the easiest way to go about it.

Specific targeting electric heat customers, while it may look very desirable in principle, is not as easy as it sounds. And you're going to, depending on how you design it administratively, you're going to have a lot of false positives. There are a lot of false negatives, and we haven't fully wrestled with that question.

But we do recognize that as we move forward with -- with fully implementing in inverted rates that we are going to have to deal with that question.

So the answer to your question, Mr. Peters, is yes in theory, but we haven't fully dealt with that yet.

MR. ROBERT MAYER: Mr. -- Mr. Wiens, you're on a subject now that's very dear to my heart. I'm looking at PUB/MANITOBA HYDRO First Round Number 12, the response there.

And where -- I'll just read the portion that I'm interested in.

"The intention is..."

It's under the residential class. We're talking about the rate inversion.

"It is the intention -- the intention is that the price in the second block will move towards marginal cost in the residential -- in the residential rate."

Wouldn't that have the result of base -- especially for those of the people who live in places where you do not have a cost effective option -- wouldn't that, in effect, have the -- wouldn't that have the result of eliminating or reversing the equal -- equalization of rates legislation, because you would impose upon electrical customers who, by their location, and I'm suggesting northern Manitoba, would bear a more significant cost than anyone in southern Manitoba?

MR. ROBIN WIENS: Well, I don't believe, in a technical sense, that it would violate the rate equalization because the same rate would apply across the province.

It would certainly lead to unequal bills, and to that extent, I -- I agree with you, Mr. Mayer.

MR. ROBERT MAYER: My -- my notes say they're trying to do through the back door which they can no longer do through the front door, Mr. Wiens.

MR. ROBIN WIENS: Well I'm -- you know, I'm not going to try to give a legal interpretation of the legislation, but I -- I believe that the rate is certain -- would certainly be equal across the province.

And in fact, if we try to do some type of a distinction between say areas where natural gas was available and where they weren't, and that's another option in terms of dealing with this issue, that in that sense we almost -- my belief is we almost certainly would be violating the equalization of rates across the province.

So what I'm saying is that we recognize that we have an issue here. We recognize that we have to deal with it, and one of the constraints that we have to look at when we're dealing with it is that legislation.

MR. ROBERT MAYER: I understand that, but the -- there have been some suggestions, especially out of the evidence of -- if I recall correctly, RCM/TREE, about how do we attempt to deal with that whole issue of all electric heat where there is no realistic alternative.

I -- I quite -- can't lay my hands on that evidence right now. I have it with me here somewhere, but I hadn't quite expected this to come up at this point in time, but thank you.

MR. VINCE WARDEN: Mr. Mayer and Mr. Peters, I just want to reiterate what Mr. Wiens had said.

We -- because the inversion is so slight with this application that we didn't think it would be a huge issue with respect to electric heat. We do recognize that we're going to have to deal with this in future rate applications.

We've talked about various methods of -- of dealing with that, and we will certainly recognize the -- the issue in future applications.

MR. ROBERT MAYER: My concern, Mr. Warden, is the expressed intention in the answer to PUB/MANITOBA HYDRO First Round Number 12 to move to marginal cost with those in -- in the second block rate which would have a serious effect, in my opinion at least, on residential customers who don't have an option to electric heat.

MR. VINCE WARDEN: Yes. And there are ways though of dealing with that. You know, we've talked about seasonal rates and such, but we will have some kind of a solution, we think, with the next application.

THE CHAIRPERSON: I guess this matter becomes even more complicated now with natural gas approaching the electricity cost level. And potentially with another spike could pass it again like it did during Katrina.

MR. VINCE WARDEN: Absolutely, that is an issue as well.

THE CHAIRPERSON: Yes, very complex.

Okay, Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Would it be fair to say that because the inversion is nominal and some quantify it at seven dollars and fifty cents ($7.50) a year, that it -- it really isn't seen as -- as a significant problem at this point of time, but in the future it certainly is seen by the Corporation as being a potential problem?

MR. VINCE WARDEN: Yes, Mr. Peters, we agree with that.

MR. BOB PETERS: And as the Vice-Chair was saying, it might have been Mr. Chernick's evidence where he was proposing a summer block rate of -- the first block would be 600 kilowatt hours in the -- in a summer month, and then it would 16,00 kilowatt hours per month in the winter months; that's one (1) way of dealing with it in a seasonal basis.

MR. ROBIN WIENS: Well, that's certainly one (1) way. Mr. Chernick's evidence was also though that that would be limited to electric heat customers, and we have some concern with the issue of trying to specifically identify and pinpoint electric heat customers. But in its broad intent that would be the type of approach that we would be looking at; it may not be precisely that one but it be broadly that type of an approach.

MR. ROBERT MAYER: I --

MR. BOB PETERS: You did indicate in the -- I'm sorry.

MR. ROBERT MAYER: I did note in your response to that same Interrogatory that you equated electric heat customers, or at least put them in the same line as the people who were heating their hot tubs in their backyards.

MR. ROBIN WIENS: If we did, Mr. Mayer, that wasn't the intent.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And I appreciate your answer about Mr. Chernick's suggestion of how to -- to address electric-only customers. In the Province of

Ontario you mentioned in a previous answer, they've got a first block at 600 kilowatt hours per month in the summer and then they go to a 1,000 kilowatt hours per month in the winter; that's their second block, correct?

MR. ROBIN WIENS: That's right. And that applies to all customers who are taking energy on the regulated rate in Ontario.

MR. BOB PETERS: All right. And that's -- that certainly is a distinction and a difference between what Mr. Chernick was proposing.

MR. ROBIN WIENS: That is -- that is the difference, yes, or the major difference.

MR. BOB PETERS: Does the Corporation agree that while the inversion in this instance is modest or nominal, the all-electric issue will need to be refined for future rate increases?

MR. ROBIN WIENS: Absolutely.

MR. BOB PETERS: That assumes, Mr. Wiens, that the rate increases that are approved by this Board are added to the last block of energy to increase the inversion, correct?

MR. ROBIN WIENS: That would likely be the approach we would take, yes.

MR. BOB PETERS: As opposed to putting any rate increases on the basic monthly charge, for example, which you say is the least elastic of the -- the rate issue -- rate components?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: In terms of residential inverted rates, do inverted rates in principal penalize those residential customers who are least able to adjust their load?

MR. ROBIN WIENS: In some cases, yes.

MR. BOB PETERS: Not in every case?

MR. ROBIN WIENS: Well, I'm -- I'm assuming that you're -- here you're still thinking about electric heat customers who -- who may have difficulty adjusting their load, either because of the availability or price of alternative fuels or the cost of modifying their houses in order to -- in order to accept another source of space-heating energy. And to that extent, yes.

In other cases that -- that may not be the case, but that's certainly the largest block of customers that we'd have to be concerned about.

MR. BOB PETERS: Well, then let's consider those who heat with natural gas and have a first block of 900 kilowatt hours a month, but let's also say they have a medical appliance that they have to use in their home that uses a lot of electricity, they'd have limited elasticity with that medical appliance being on.

You'd accept that as a -- in my example?

MR. ROBIN WIENS: Yes, that -- that would be true. I'm not familiar with the kind of electric usage of some of these appliances, but that could be a possibility.

MR. BOB PETERS: And likewise for those homes where, for whatever reason, the owner or the occupant is unable to do demand-side management measures or where demand-side management measures don't make an economic business case for the home owner, the inverted rate will then penalize them because they're least able to adjust their load?

MR. ROBIN WIENS: I'm not sure that I can get into this fully without our demand-side management experts being here, Mr. Peters. That may be a possibility. One (1) of the things that a higher marginal rate does in a second block is it increases the range of demand-side management measures that would become economic from the customer's perspective.

MR. BOB PETERS: All right. Well, we won't go -- we won't go back to that. What options can the Corporation think of at this point of time would ameliorate the impacts of the inversion on customers who are least able to adjust their load?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, the question of affordability I guess is something that we have to think about every time we ask for a rate increase, whether it's involved in an inverted rate or simply a rate increase that we're asking to rates generally.

Those -- those issues still exist. They may be somewhat -- somewhat more of a concern because we're looking at the last block being inverted. There -- there may be some special -- some special situations that we have to consider as we move forward.

Today what we're looking at, if we were to move to the marginal cost based second block in one (1) move today, we're looking at something that would not be in excess of eight (8) cents. So it's -- it's not like we're even moving to where rates are for every kilowatt hour in jurisdictions like Ontario, where if you combine the distribution and energy charges they're looking at ten (10) or eleven (11) cents right now.

But it is something that we would have to consider as we move forward.

MR. BOB PETERS: Residential customers are already under your cost of service, your imbedded cost of service methodology being cross-subsidized by other classes, correct?

MR. ROBIN WIENS: Arguably, and to a -- to a -- not a huge degree, yeah.

MR. BOB PETERS: So the answer is yes, but not a lot?

MR. ROBIN WIENS: That's fair.

MR. BOB PETERS: Is the only viable solution an adjustment on the first block size for specific customer reasons?

MR. ROBIN WIENS: That may be an option, Mr. Peters. I think that the -- going forward we have to look at it in totality.

Certainly the fact that you have, if you have a first block size as large as 900 kilowatt hours, that you've got a -- you've got a -- in terms of -- our -- our likely scenario moving forward is adjustments only to the second block where most of the -- any rate increase being applied to the second block, you have an element of stability there that I would think would be, except for extremely large uses, would act to constrain the overall rate increase on residential customers, other -- other than those that have -- have a lot of electric heat; which as I've said again, we're going to have to take a look at -- at how we would deal with those specifically.

If other situations come to our attention that we feel we would need to have -- make some special accommodation for, we would look at those.

MR. BOB PETERS: Such as -- such as a social service exemption?

MR. ROBIN WIENS: I'm not sure what you mean, Mr. Peters, by a social service exemption.

MR. BOB PETERS: If it was requested through a so -- a social service agency, that there be an adjustment made to a customer's electric account, at least the size of the blocks, that would be something that the Corporation would look at or consider?

MR. VINCE WARDEN: That -- that's not a poli -- a current policy of the Corporation, Mr. Peters, and we haven't contemplated that.

MR. BOB PETERS: All right, thank you. At Tab 68, the second page deals with general service small rates.

We've talked about these, but you can confirm for me, Mr. Wiens, that the basic monthly charge for the general service small customer doesn't recover the fixed customer costs either?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: And you can also confirm that the demand and energy for this class is not totally in balance because the demand billing is 120 percent of the allocated demand costs?

MR. ROBIN WIENS: On an embedded cost basis, that's true.

MR. BOB PETERS: And you haven't calculated it on any other basis though?

MR. ROBIN WIENS: Not for individual elements within the rate structure although we could do that.

MR. BOB PETERS: In the general service medium rate which was also included as -- it's page 11 of 26, but it's the last page included in the book of documents Number 69 -- again, the demand and energy is out of balance to the extent that the demand revenue is 118 percent of the allocated demand costs under the embedded Cost of Service Study?

MR. ROBIN WIENS: Yes, I think we had some discussion on this at an earlier stage in these proceedings. And I made the point then that these are what we could call legacy rates, and in past -- in past applications we were looking at a different cost of service methodology that had assigned more costs on the demand basis.

But today, yes, we're looking at a demand rate that is approximately 118 percent above the embedded cost that we've calculated for.

MR. BOB PETERS: Is there any long term plan of the Corporation to get the energy and the demand more in balance?

MR. ROBIN WIENS: Our current plan, Mr. Peters, which we've been proceeding with over the last several years, is that we would apply rate increases in these classes into the -- into the energy side, not to the demand side, and we would hold the demand side constant so that over time these would become re-balanced.

MR. BOB PETERS: Well, over time I suppose you -- you'd rely on the demand cost to increase with no additional demand charge to get it into balance.

MR. ROBIN WIENS: Yeah, we expect that that would happen, yes.

MR. BOB PETERS: And the energy side of the equation, looking at Tab 69 of the book of documents and the chart there that deals with demand and energy revenue cost percentages, relatively speaking, the energy side of the rates is under recovering the costs and the demand side is over recovering the costs.

MR. ROBIN WIENS: Relative to embedded cost, yes.

MR. BOB PETERS: And you're saying that you'll deal with the energy side by trying to convince this Board to increase the energy rate for customers when you're successful in your rate applications.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And on the demand side, what will bring that back into balance is simply the demand costs being inflated with no additional demand rate increase.

MR. ROBIN WIENS: That's what we expect, yes.

MR. BOB PETERS: When we talked earlier, just a few minutes ago, about the residential customers, one (1) of the -- one (1) of the things that -- had at the gas hearing that I think you're familiar with, Mr. Wiens, was that by putting the rate increase or part of the rate increase through the basic monthly charge, that would have the effect of recovering more money from the people who would seasonally use their fireplace for example, or a barbecue, and would also capture those who -- who would use the pools and the air conditioning and the other -- other features to a greater extent than -- than I suppose the majority of the class.

That would be one (1) of the impacts of increasing the basic monthly charge, correct? Those who use more will end up paying more.

MR. ROBIN WIENS: That's not what the basic monthly charge is all about. Those costs, if somebody is using a -- heating a pool or using a gas barbecue, are recovered in the energy charge.

The basic charge is intended to recover the cost of facilities that are in place; costs which don't vary with respect to use of energy.

MR. BOB PETERS: But those customers who -- let's just use the pool as the example who -- who maybe are the all electric home but they have a gas heated pool, they have fixed costs that they're not fully recovering in their basic monthly charge like everybody else. But by increasing the basic monthly charge, you're then getting more money back from those customers.

MR. ROBIN WIENS: You're getting more money from customers that you were previously recovering on a volumetric basis so you're recovering it from -- you're recovering it from everybody. You're recovering it from -- from people who don't use pools and -- and barbecues in the summer and from those who do.

MR. BOB PETERS: But that's the cross-subsidization we talked about. By increasing the basic monthly charge, those who don't have a lot of volume won't be expected to recover fully, in an annual basis, those costs because they're not -- they're not using a lot of volume.

MR. ROBIN WIENS: I -- I may be missing something here, Mr. Peters, but by increasing the basic monthly charge you are simply moving recovery away from volumetric charges and into a basic monthly charge. Those --

MR. BOB PETERS: Okay.

MR. ROBIN WIENS: -- those customers who are -- who are burning more gas are -- are -- when the charge is recovered volumetrically, they are paying those costs. Now you're moving it away, everybody is paying more of those costs.

(BRIEF PAUSE)

MR. BOB PETERS: I think we agreed earlier, Mr. Wiens, that the basic monthly charge is now at six dollars and twenty-four cents ($6.24) a month and to recover the actual customer cost it should be twenty-one dollars and sixty-one cents ($21.61)?

MR. ROBIN WIENS: Prior to -- prior to the allocation of exports which now are applied to distribution-related, customer-related costs as well but --

MR. BOB PETERS: All right. Fair --

MR. ROBIN WIENS: -- but eighteen (18) versus twenty-one (21), it's not a -- not a big deal.

MR. BOB PETERS: And if the customer doesn't use sufficient volume to recover the difference between the six twenty-four (6.24) and the twenty-one (21) in their volumetric charge, you would get -- you would make the customers pay who are incurring those costs by increasing the basic monthly charge?

(BRIEF PAUSE)

MR. ROBIN WIENS: If your criterion in the rate design is strictly recovering embedded costs on a system class and a rate structure element basis, that would be correct.

MR. BOB PETERS: In the curtailable rates program of the Corporation, this is where the customer, I understand, offers to curtail their load. The customer will get a discount for doing that, and the customer can make up what they curtailed on an off-peak basis, correct?

MR. ROBIN WIENS: The customer receives a discount for standing ready to be curtailed on demand. Whether they make up the energy on an off-peak basis or not is up to them.

MR. BOB PETERS: And in terms of the number of customers, how many customers are -- are taking advantage of the curtailable rates program?

MR. ROBIN WIENS: There are four (4).

MR. BOB PETERS: And in this application before the Board, the Board is seeking modification to the curtailable rates program because Manitoba Hydro wants the option to use part of a customer's curtailed load but not 100 percent of it?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, that's not the intent of what we're asking for.

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Peters, the modification that we're asking for is a modification to the terms and conditions currently.

If -- if there is a certainty that curtailments are not going to be available because the load is already shut down for whatever reason of the customer's, under the current provisions we want them to tell us forty-eight (48) hours in advance of any such shutdown. What we're asking for is to reduce that period of notice to twenty-four (24) hours.

I'm sorry, I'm advised that it's the reverse.

MR. BOB PETERS: All right. The Corporation would like additional notice of when the customer intends to have curtailable load available?

MR. ROBIN WIENS: Not available. If the customer is going to be shutting down voluntarily for their own reasons, we're asking them to give us forty-eight (48) hours notice so we know we don't have that available for curtailment.

MR. BOB PETERS: Thank you for that clarification. Is the Curtailable Rates Program still financially beneficial to Manitoba Hydro?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Does the Corporation intend to expand it?

MR. ROBIN WIENS: We're having some internal discussions about that now.

MR. BOB PETERS: And are the penalties -- are the penalties being sought to be changed for customers reneging on their -- on their commitments?

MR. ROBIN WIENS: No, there's -- there's

no -- there's been no application to change those.

MR. BOB PETERS: Is it still a minimum of 5 megawatts of load to be curtailed?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And so does that -- does that restrict it to the general service large greater than 100 kV customers?

MR. ROBIN WIENS: No. It -- it certainly restricts it to general service large, and probably makes it most available to the customers that are over 30 kV.

(BRIEF PAUSE)

MR. BOB PETERS: Would curtailed customers have the option to access replacement energy at above baseline rates from the Corporation?

MR. ROBIN WIENS: We don't currently have that provision. If the customer can take replacement energy off-peak that they wouldn't otherwise taken, they can take it. Other than that, no.

(BRIEF PAUSE)

MR. BOB PETERS: In terms of the Surplus Energy Program, this was the program that we've talked about where Manitoba Hydro would make available energy to customers domestically, provided they would pay the price that the Corporation forecasts it would get on the export market?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And the Corporation is now wanting to -- to have this rate option be available through to March 31 of 2013?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Why so far out?

(BRIEF PAUSE)

MR. ROBIN WIENS: Well, when we originally requested this program -- to be able to offer this program, we -- we -- we requested to be able to offer it for a five (5) year period with the expectation that we would be able to renew it beyond that.

So we're in the year 2008 today, that's five (5) years hence. We -- we would just like a five (5) year window to have some certainty going forward that we're going to be able to continue offering this program.

MR. BOB PETERS: Manitoba Hydro -- Manitoba Hydro makes money on this Surplus Energy Program, albeit modest?

MR. ROBIN WIENS: Some years we make a little bit. Some years we drop a little bit, but the intent is that it would be revenue-neutral.

MR. BOB PETERS: Why would Manitoba Hydro sell surplus energy at a low price if it could store it in a reservoir instead for a future date when it may need it at a -- at a higher value?

MR. ROBIN WIENS: Well, I'm going to have to cede the floor to Mr. Surminski if we're talking about system optimization. But my understanding is that these quantities are quantities that would have been sold on the export market anyway, and that they're simply diverted for domestic use. Or alternatively, that we may have in situations where we may have to import to serve this load, then we'll import, and they'll compensate us for the price.

So we believe that we're revenue-neutral with respect to this; that the value of that energy is -- is what we're getting from those customers.

MR. HAROLD SURMINSKI: I can add a bit. And additional factor may be putting it in storage doesn't mean that -- that you may utilize it in the future, because you may get high flows in the future and -- and have to spill it.

MR. BOB PETERS: Isn't it better to have

it in the bank and spill it if you don't need it than -- than not have it and have to import it at higher costs?

MR. HAROLD SURMINSKI: I'm not sure how I could respond to that.

MR. ROBIN WIENS: Mr. Peters, our -- our system operating people operate the system, and they operate it on the basis of probabilities. You don't know in advance what's going to happen.

But they operate it to maximize the value of the water, and that's what we're doing with the surplus energy program as well.

MR. BOB PETERS: The problem I have with that answer, Mr. Wiens, is we know that say off-peak the surplus energy program is resulting in energy being sold at let's say one and a half (1 1/2) cents a kilowatt hour for maybe thirteen (13) weeks and wondering why that it wouldn't have a greater value if it was in storage.

MR. ROBIN WIENS: Again, within the limits of my technical ability to understand this, our system operating people operate the system to maximize the value of the water.

Sometimes that's what the value of the water is. You could put it in storage and yes, maybe down the road they would have a higher value or maybe down the road you'd be spilling it.

MR. BOB PETERS: In addition to the extension on the surplus energy program term, the Corporation's also seeking approval of the interim orders to date, correct?

MR. ROBIN WIENS: Yes, we are.

MR. BOB PETERS: Have any of the customers who have used the surplus energy program come back after the fact and requested rate adjustments?

MR. ROBIN WIENS: No.

MR. BOB PETERS: On the Limited Use Billing Demand, LUBD, is -- I have it here, that was to mitigate high demand charges determined by the winter ratchet, correct?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And the winter ratchet to put it into some explanation is that the demand charge component of the rates that we've gone through, that would be set in the winter months, correct?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: And a customer would be billed 70 percent of their winter demand even in months where their demand didn't exceed that on an actual basis.

MR. CHIC THOMAS: There's -- there's other terms too. 25 percent of contract demand and -- but -- but typically it's the 70 percent is the ratchet part that would be applicable in other months.

MR. BOB PETERS: Would the Board be correct that the origin of the Limited Use Billing Demand was for customers who had high demands in the winter and low demands in the summer?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: Would it be correct that if that was the initial target audience, the people who now -- and the customers who now take advantage of the Limited Use Billing Demand have a high summer peak and not a winter peak.

MR. CHIC THOMAS: Yes, Mr. Peters, that's correct. Yes. Mainly for the -- the people that don't have high demand charges in the wintertime that would make use of this program.

MR. ROBIN WIENS: Mr. Peters, the -- the -- certainly the -- when the design of the program was undertaken, there was a concern about the effect of the winter ratchet, but it wasn't only that.

There are some customers that have very, very low load factors even though they don't operate solely in the winter. They may operate year round or they may operate solely in the summer in some cases.

But that -- they were operating at very low load factors and therefore, their cost of energy was high, and they may not have been because of the -- the greater diversity associated with a low load factors, they have been imposing not the same demand costs on the system as the class average.

And we wanted to recognize that for very low load factor customers.

MR. BOB PETERS: This would be revenue-neutral, Mr. Wiens, for load factors lower than -- or at 18 percent.

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: And the customers you're talking about would be -- have a load factor of less than 18 percent.

MR. ROBIN WIENS: It would not be beneficial for them to -- to use this rate if their load factor was higher than 18 percent.

MR. BOB PETERS: How many customers are we talking approximately?

MR. CHIC THOMAS: There's a hundred and twenty-three (123) customers, Mr. Peters.

MR. BOB PETERS: Thank you for that approximation. And which class are they predominantly in?

MR. CHIC THOMAS: There's sixty-eight (68) in the small demand, twenty-two (22) medium, seventeen (17) in the less than thirty (30) and sixteen (16) in the greater than one hundred (100).

I'm sorry, that's one (1) in the greater than one hundred (100).

MR. BOB PETERS: Does your information also indicate how many of those hundred and twenty-three customers (123) pay a winter ratchet, based on a winter ratchet?

(BRIEF PAUSE)

MR. CHIC THOMAS: None, Mr. Peters, because most of them are the small demand customers, they're not subject to the -- to the ratchet, so.

MR. BOB PETERS: And the other ones who are subject to the demand have the summer peak not a winter peak?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: It's now the intention of the Corporation to make this a permanent offering?

MR. ROBIN WIENS: It is a permanent offering as far as we understand, Mr. Peters.

MR. BOB PETERS: Well, to confirm the interim orders that relate to this offering?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: In terms of the winter ratchet that's used to set the demand billing minimum threshold, what would be the cost to Manitoba Hydro if the winter ratchet was removed?

MR. ROBIN WIENS: Mr. Peters, I can advise what the revenue impact of it would be, but that's not the only cost that we'd be talking about. Revenue impact is in the order of $2 million a year. The cost impact would relate to the need to advance distribution facilities in the event that the removal of the ratchet generated an increase in winter demands, and I don't have a precise number for that.

MR. BOB PETERS: What you're telling the Board is that if the winter ratchet was removed, the customers may not be given the appropriate signal and would increase their winter demand resulting in the Corporation having to put in more facilities to -- to meet that capacity.

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: If there were time-of-use rates, would Manitoba Hydro need the winter ratchet?

MR. ROBIN WIENS: It would depend on the design of the time-of-use rates. The -- in some cases the winter ratchet is a pretty effective means of controlling demand. And -- and I -- I can -- I am recalling that our customer service people have spent an awful lot of time working with customers to assist them in reducing their demand during the peak months in order to avoid or lessen its impact.

Time-of-use rates do provide a price signal. For some customers that may be an effective price signal, for others it -- it may not be as effective a price signal as the ratchet.

But if we were to go to and be able to implement a time-of-use rate because we were -- we had installed the technology, to some extent certainly it would be a substitute.

MR. BOB PETERS: In your second last answer to me, Mr. Wiens, you indicated that one (1) of the costs to the Corporation would be the cost of advancing distribution infrastructure, correct?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: Would a -- and that was the initial purpose for the winter ratchet was to suppress the winter demand so that there wouldn't be a driving of the new capital construction projects related to -- to the capacity?

MR. ROBIN WIENS: That's generally the purpose of a -- that type of -- that type of a rate structure that has a seasonal ratchet. It recognizes that that's the season in which the peak requirements occur, and that's when the -- when those peak requirements are elevated that generates the need to add to distribution facilities.

MR. BOB PETERS: Would Manitoba Hydro agree that no longer is demand the primary constraint but rather generation energy is the limiting factor?

MR. ROBIN WIENS: In the case of our generation resources, that is true, but that's not true in the case of regional transmission and distribution.

MR. BOB PETERS: So you're saying regional transmission and distribution is a more limiting factor than generation energy?

MR. ROBIN WIENS: I'm saying that the -- that that demand is still an issue, with respect -- demand continues to be an issue with respect to those facilities.

The fact that we don't see capacity as a constraint in generation is -- is simply because if we plan and have capability available to meet the energy requirements of the system, with the current configuration, we would be meeting the capacity requirements for the generation resource.

But that's not true of regional transmission and distribution.

MR. BOB PETERS: Okay, thank you for that. Mr. Surminski or Mr. Wiens, maybe Mr. Warden, the winter peak in '05/'06 was about 5,000 megawatts?

MR. VINCE WARDEN: We can give you the precise number, Mr. Peters, if you can just wait one moment.

MR. HAROLD SURMINSKI: You're including export sales, and domestic peak is significantly lower than that.

MR. BOB PETERS: I'm including the 1,800 megawatt hours for export.

MR. HAROLD SURMINSKI: All right. Megawatts, yes.

MR. BOB PETERS: So roughly 5,000 megawatts was the winter peak?

MR. HAROLD SURMINSKI: I -- I don't have that, but subject to check, that sounds correct.

MR. BOB PETERS: Where I was going with this, Mr. Surminski, is if you accept that, subject to check, in terms of a relative number, the summer peak for the '05/'06 fiscal year was about 4,900 megawatts, and that also included the export calculation.

MR. HAROLD SURMINSKI: Yes, that sounds correct.

MR. BOB PETERS: So what the Board is

seeing then is that the winter peak and the summer peak are -- are almost identical at this point in time.

MR. HAROLD SURMINSKI: Yes, it's -- it's determined by the generation we have. So the generation is relatively similar. There's little difference. Winter is somewhat reduced because of ice effects, but it's the total generation that's determining it.

It's the combination of domestic and sales equaling generation that we have.

MR. BOB PETERS: Mr. Warden, my dear former colleague, Mr. Gardner, Q.C., would take pleasure in asking you what was the peak in the fiscal '08 year that the Corporation had?

Is that information available?

MR. VINCE WARDEN: Mr. Peters, unfortunately I don't have that at hand. We -- we can certainly get that but --

MR. BOB PETERS: Well I suppose it would be certainly of factual interest for the date and the quantity so that we compare to the maximum generation capacity.

MR. VINCE WARDEN: Mr. Peters, just for clarification, you're asking the domestic peak or the peak including exports or both?

MR. BOB PETERS: I can't refuse the last

offer, Mr. Warden. Let's have -- I wanted the total number but broken down for domestic and -- and for exports so -- that would be helpful.

MR. VINCE WARDEN: Yes.

--- UNDERTAKING NO. 79: Manitoba Hydro will provide the Board with total peak in the fiscal '08 year, and also broken down for domestic and for exports

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I want to turn to diesel for just a few minutes. In this application it was noted earlier, Mr. Thomas and a question was posed to your friends on the revenue requirement panel, and I think I've forgotten the question, but it -- it did have reference to the fact that the growth that is forecast over the next twenty (20) years for the diesel zone essentially doubles.

Is that your understanding?

MR. CHIC THOMAS: Yes, I recall that and that's correct.

MR. BOB PETERS: Can you explain to the Board why the Corporation is forecasting such growth in the diesel zone?

MR. CHIC THOMAS: Well, it's -- it's simply the way that we forecast. Basically what our -- our people that do that work is -- is they look at the last years -- the last ten (10) years of actual data for both consumption and number of customers and just project that forward into the forecast.

MR. BOB PETERS: So that's based on essentially population growth as opposed to any other change.

MR. CHIC THOMAS: Well there's -- well there's -- they take that average for the number of customers added as well as the consumption history as well.

MR. ROBIN WIENS: Mr. Peters, just the context, doubling of consumption over a period of twenty (20) years can be achieved by an annual increase of 3 1/2 percent a year.

MR. BOB PETERS: Increasing demand by 3 1/2 percent per year will double consumption over twenty (20) years is your -- your math? It's the rule of seven (7) divided by two (2)?

MR. ROBIN WIENS: However way you look at it. I don't use that rule. I calculate it precisely, Mr. Peters.

MR. BOB PETERS: Of course. But the -- but the increase in the diesel community, Mr. Wiens, is not attributed to increasing the availability of electricity for space heat?

MR. ROBIN WIENS: No.

MR. BOB PETERS: In fact, the forecast assumes the same -- the same load restrictions as currently applied?

MR. ROBIN WIENS: Yes.

MR. BOB PETERS: Does the increased requirement for generation indicate new generating facilities will be required at all or some of the four (4) diesel communities?

MR. CHIC THOMAS: Notwithstanding a replacement of age -- age and equipment. Replacing generating facilities purely on a load growth is something that -- that the people that are responsible for that look at that on an annual basis.

Currently there are no plans to replace any of the generating stations that exist now.

MR. BOB PETERS: Do I take from that answer, Mr. Thomas, that the current generating stations could meet this demand, the 26 gigawatt hours a year in -- in 2026/'27?

(BRIEF PAUSE)

MR. CHIC THOMAS: Currently what we have in place will not meet a doubling of energy use as suggested in the forecast. However, our -- our people are looking more in a five (5) to ten (10) year forecasting window in terms of generation requirements.

MR. BOB PETERS: So in the five (5) to ten (10) years there's no plans to replace or upgrade the diesel generation?

MR. CHIC THOMAS: Strictly on the basis of load growth, no.

MR. BOB PETERS: Can you update the Board as to whether a run of the river plants, or what has been called "Small Hydro" before this Board, is being examined by -- as a generating source for electricity for the diesel zone?

MR. CHIC THOMAS: I believe we were directed by this Board to examine several options other than diesel. And that is one (1) option that has been studied.

MR. BOB PETERS: And -- and what is the conclusion of the Corporation with respect to run of the river generating stations or "Small Hydro" as it's been known?

(BRIEF PAUSE)

MR. VINCE WARREN: Mr. Peters, Manitoba Hydro has completed reports, and has shared those reports with the leaders of those First Nations, and we are awaiting their -- their comments, and it might be more appropriate to -- to have those comments before we put our conclusions on the record.

(BRIEF PAUSE)

MR. ROBERT MAYER: Several years ago when Tim Sale was still the Minister, I saw a video of the rapid that is located on a river between Brochet and Lac Brochet that was designated, or said to be designated for one (1) of these mini-hydro projects.

And it seems to me that was quite a few years ago. And if we're still talking diesel generation and replacing diesel generation as our population doubles, I'm a little concerned about that.

I really thought we were making progress toward something other than diesel. So when can we be looking at, at least, something definitive in terms of attempting to find another solution for what we're doing in those poor communities?

MR. VINCE WARREN: Well, Mr. Mayer, I can answer in a very general way and say that of all the options that had been reviewed, diesel still remains as the low cost, most efficient option for each of those poor communities.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Thomas, in terms of the diesel zone you annually run a -- what we'll call a "diesel cost of service study?

MR. CHIC THOMAS: Typically, yes.

MR. BOB PETERS: It's not a full cost of service study like we've seen for your imbedded costs, correct?

MR. CHIC THOMAS: It's a full cost of service study for the diesel zone.

MR. BOB PETERS: So it's -- on a small basis, or a small scale relative to the cost of service study done for the --

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: -- the grid costs. You do that to determine whether or not there are costs that are not being recovered from the rates being charged in the diesel community?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: When's the last time the diesel rate was adjusted? Was it two (2) years ago?

MR. CHIC THOMAS: I think so, yes, it was -- the order's on the tip of my tongue, but it was approximately that, yes.

MR. BOB PETERS: And can you tell the Board whether the diesel costs continue to be fully recovered from the rates that are being charged?

MR. CHIC THOMAS: Sorry, Mr. Peters?

MR. BOB PETERS: I was just asking whether you can confirm for the Board whether or not the costs to serve the diesel zone are still being fully recovered by the rates that are being charged to the diesel zone.

MR. CHIC THOMAS: To that earlier question, it was January '01 that our rates changed in the diesel zone. In terms of --

MR. ROBIN WIENS: January 1/'07.

MR. BOB PETERS: It's hard to answer two (2) questions at once. You should try asking two (2) questions at once.

MR. CHIC THOMAS: Going back to your last question about are we still recovering the full cost in the diesel zone, again by direction of Order 117/'06 we're ordered to bring forth a diesel study once the settlement gree -- agreement is finally settled. We have done some preliminary work and the full cost rate that -- that we have forecasted is very close to what is in place now.

MR. BOB PETERS: Do I take from that answer that the only thing holding up the Corporation from coming in and asking for new rates for the diesel zone is conclusion on the settlement agreement?

MR. CHIC THOMAS: That would be fair.

MR. ROBERT MAYER: We -- we only have at this point in time an interim order on diesel rates, as I understand it, and we are awaiting this elusive signature before Manitoba Hydro applies to make those rates permanent.

Is that an accurate description of where we're at?

MR. VINCE WARDEN: Yes, it is, Mr. Mayer. And I think at the -- with the last panel we discussed the interim or the pending payment that was due at March 31st. I can advise that that payment has been made and I'm optimistic that we are very close to the signing of that agreement now, yes.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Thomas, back in Tab

3 of the revenue requirement book of documents that I had circulated there was a listing of the interim orders, and the Vice-Chair has indicated that the -- the diesel community is presently -- has rates that are approved under an interim order, and you can confirm that, correct?

MR. CHIC THOMAS: I can.

MR. BOB PETERS: And in fact the rates that are currently in effect in the diesel zone under an interim order are premised on three (3) preceding orders that were interim in nature as well?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: Now, I'm just a little confused. I understand you're waiting for this agreement to be -- to -- to be inked or to be finally executed.

Why is that holding up any change in a rate application?

(BRIEF PAUSE)

MS. PATTI RAMAGE: Mr. Peters, I'm not sure because it's really not appropriate for me to give evidence, but it's the legalities of the agreement and various conditions that have to be satisfied and final rate approval is the last in the series of conditions.

We wouldn't want to have final rate approval and then not have other conditions precedent -- find out they weren't satisfied.

MR. ROBERT MAYER: If I recall our reasons for making it an interim order was to basically insist upon a settlement happening, or we had, if I recall correctly, offered to take that to the Court of Appeal for an interpretation on who was responsible to provide power on reserve.

But I think I understand why we can't come back and we can't do much more with it until somebody actually puts pen to paper on the outstanding agreement which we understand, although all the payments have been made, somebody isn't getting around to doing.

THE CHAIRPERSON: Mr. Peters, I think we'll take the break right now because we've got something else to do.

MR. BOB PETERS: Thank you.

--- Upon recessing at 10:31 a.m.

--- Upon resuming at 10:54 a.m.

THE CHAIRPERSON: Okay, welcome back. Mr. Peters, you're still -- still delivering the pitches.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And as I -- as I indicated to colleagues at the break, I promised to be finished by the morning coffee break. I just didn't anticipate the Board taking an early coffee break. Okay, maybe not.

Just a few matters of cleanup, no new areas. Before the recess we were talking about diesel rates and we -- we understand the complexities that exist relative to the resolution of the agreement amongst Manitoba Hydro, MKO and INAC.

My question, and this may have legal undertones, but is there any prohibition on Manitoba Hydro from coming back to this Board to apply for a new interim rate for the diesel zone?

MR. VINCE WARDEN: No.

MR. BOB PETERS: Thank you. Mr. Thomas, is a change in the diesel rate zone -- the diesel zone rates needed now to recover any deficiency?

MR. CHIC THOMAS: As I'd said before the break that we have done a preliminary '08 number, and the numbers are relatively close.

Now we haven't firmed up that number, but right now we're confident that they're fairly close.

MR. BOB PETERS: I think that's what you

said before the break but in terms of being close, can you indicate to the Board whether there is -- since your last rate approval from this Board -- whether there is a surplus or a deficiency in the amount of monies recovered from the diesel zone relative to the costs incurred by the diesel zone?

MR. CHIC THOMAS: There would be a slight deficit.

MR. BOB PETERS: Are you able to put the order of magnitude of the deficit before the Board at this time?

MR. CHIC THOMAS: I'm not prepared to do that, Mr. Peters, because as I said we had done an initial draft of our '08 study. It -- it hasn't been through the approval process so -- so I don't think that would be appropriate at this time.

MR. BOB PETERS: And the Corporation recalls that the last deficit arose as a result of not coming forward for rate increases when -- when the costs didn't -- when the rates didn't recover the costs that were being expended?

MR. CHIC THOMAS: That's fair.

MR. BOB PETERS: And the Corporation is -- is concerned not to allow that to happen again?

MR. CHIC THOMAS: Absolutely.

MR. BOB PETERS: Is there a timeline, Mr. Thomas as to when the Corporation feels it may be making an application for a change in the interim rates to the diesel zone?

MR. CHIC THOMAS: In terms of our study and shoring that up and finalizing it, no. We could -- we could come to the Board probably early in the fall but notwithstanding the schedule of the Board and of course other matters before Manitoba Hydro is the other matter in terms of the actual schedule and when we might apply.

MR. BOB PETERS: And that could be made independent of whether there's been a final execution of the settlement agreement.

MR. CHIC THOMAS: As Mr. Warden just indicated, yes.

MR. BOB PETERS: Thank you. Back to residential rates for just a minute, most homes are built in the City of Winnipeg with -- is it 100 amps of service?

MR. ROBIN WIENS: I would say there's -- there's a legacy of 100 amps. Most home that are built now are built with two hundred (200).

MR. BOB PETERS: How would a homeowner know if they have 100 or 200 amps?

(BRIEF PAUSE)

MR. ROBIN WIENS: Well, they could check their panel, and if they were uncertain, they could call their electrician.

MR. BOB PETERS: All right, or --

MR. ROBIN WIENS: Or they could call Manitoba Hydro.

MR. BOB PETERS: If a homeowner increases from 100 to 200 amps, would there be an expectation on Manitoba Hydro that the basic monthly charge would double?

MR. ROBIN WIENS: No, our basic monthly charge is set on a standard of 200 amps or less.

MR. BOB PETERS: All right. Thank you for that clarification. Anything over 200 amps, 201 and upwards will attract an additional six dollars and twenty-four cents ($6.24) per month?

MR. ROBIN WIENS: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Thomas, this morning we had some discussion about the marginal costs in Manitoba Hydro's Exhibit 68, and I think you were going to take an opportunity, I don't know if you did have time at the break, but to consider some additional information relative to that exhibit?

MR. CHIC THOMAS: Yes, thanks, Mr. Peters. Yeah, we were talking earlier about the Marginal Cost Study and you were questioning the -- the number for the transmission and why it had changed significantly.

The reason is the -- it -- it's the direct cost, and also it's the allocated costs to exports that is in the -- in the -- the allocated line for transmission, the fifty-two (52) number.

(BRIEF PAUSE)

MR. CHIC THOMAS: So yes, if you look at the Schedule E-1 --

MR. BOB PETERS: You're looking at Tab 55 of the book of documents?

MR. CHIC THOMAS: Yes, thank you.

MR. BOB PETERS: Sorry, and you're on page 2 of 2?

MR. CHIC THOMAS: I'm on page 1 of 1.

MR. BOB PETERS: Okay.

MR. CHIC THOMAS: Or 1 of 2.

MR. BOB PETERS: Sorry, I'm -- I'm now

with you.

MR. CHIC THOMAS: Okay. So if you take that -- that fifty-two thousand (52,000) and then subtract thirteen (13), which is the -- the cost within that that is allocated to exports, we'll arrive back at our thirty-nine (39) that is now in that schedule.

(BRIEF PAUSE)

MR. BOB PETERS: Where will I find the 13 million that's allocated directly to the exports?

MR. CHIC THOMAS: Well it's not on this page. It's -- it would be in the Allocation Study. But I can tell you that it's -- it's part of that 52 million.

(BRIEF PAUSE)

MR. BOB PETERS: The distribution also had an anomaly. Did you have time to resolve that or...?

MR. CHIC THOMAS: I thought we were just talking about the transmission. I wasn't aware that...

MR. BOB PETERS: All right, let me -- let me review it further and see if I have anything on follow-up.

MR. CHIC THOMAS: Sorry, Mr. Peters, I've

-- I've got it.

So the -- so the sixty-five (65) is the one we're -- if we go to Schedule E-1 again in -- in, I think it's fifty-five (55) in the book of documents, and if you look at about halfway down the page we have Tables D-32 to D-40 --

MR. BOB PETERS: Mm-hm.

MR. CHIC THOMAS: -- so that adds -- I -- that's 50 million. And then if you take the -- the distribution plant numbers directly below that, what we call the -- the "customer tables," C-23 through C-41, you add those two (2) together, that'll be your sixty-five (65).

MR. BOB PETERS: Good, thank you. I -- I appreciate that -- the clarity.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Thomas, when -- you've given us the components of the 65 million that you've got on Table 68, Schedule E-1 on the next page shows $72.6 million on account of distribution O&M. And reconciling the 65 million with the 72.6 million is also an issue we might need some undertaking help on.

MR CHIC THOMAS: I -- I believe that's

the dedicated street lighting number on the second page. Right before we go to the summaries there's one called CO-1 distributing -- distribution lighting. And I think if I subtract the two (2) we should get the right number.

MR. BOB PETERS: I think that plus the diesel might be the answer.

MR. CHIC THOMAS: Yes, I think you're right. I'm not as quick on the calculator as Mr. Wiens, unfortunately.

MR. BOB PETERS: I don't use a calculator, and that's obvious. So that would be the explanation on that, Mr. Thomas?

MR. CHIC THOMAS: Yes.

MR. BOB PETERS: All right. Thank you. Mr. Warden, maybe in an attempt to give you the last word, when you review the Corporation's rate structure and its rate schedules, you'd agree that they're very interrelated and if not only interrelated also complex?

MR. VINCE WARDEN: Yes, they are interrelated and to the extent that a change in any one (1) component of those schedules has an effect on the other components, it is somewhat complex, yes.

MR. BOB PETERS: So how it applies to specific customers could have some differences based on a whole host of factors that would cause different bills to come out for customers?

MR. VINCE WARDEN: Yes, although I think from an individual customer perspective, the rates are fairly straightforward. We have a residential customer, we have a basic monthly charge, a first block and second block, so I think the electric rates are probably less complex than the gas rates that appear on the same bill.

MR. BOB PETERS: Thank you, Mr. Warden. Is it Manitoba Hydro's assertion that the Manitoba Hydro rates and the proposed changes in this general rate application are entirely consistent with fair and reasonable rates that are not prejudicial or unduly discriminatory?

MR. VINCE WARDEN: Yes, I would agree with that statement given the -- the circumstances we are in. We -- we are striving to get, of course, to our debt/equity target. We've been doing that for many years. So given that we aren't there yet, the rates that we have before this Board under all those considerations of -- of financial targets, customer sensitivity, yes, I would agree that our rates are -- are just and reasonable in this application.

MR. BOB PETERS: Thank you. Mr. Chairman, I'd like to thank Messrs Surminski, Thomas, Wiens, and Warden, in addition to Ms. Flynn, Ms. Arnal, Ms. Harms, and Mr. Dudar, who is hiding behind, for their assistance in answering my questions.

I will review the undertakings, and if I have anything further I'll request permission to -- to advance those questions. But at this time I suggest you turn it over to my colleague, Mr. Buhr, on the opposite side.

THE CHAIRPERSON: And thank you, Mr. Peters, for a comprehensive and spirited cross-examination.

Okay, Mr. Buhr...?

MR. DOUG BUHR: Thank you, Mr. Chairman. I should advise the Board that in -- in homage to Mr. Peters I too have prepared a book of documents which I would ask the Board secretary to circulate. I hasten to add that it's -- it's only four (4) tabs, so I think I've got them in the right order. And it shouldn't take us too long to go through them.

(BRIEF PAUSE)

MR. DOUG BUHR: In all honesty, Mr. Chairman, the reason I put this together was simply to have everything in one (1) place, so that you weren't searching through a whole bunch of volumes of documents.

THE CHAIRPERSON: It is helpful.

CROSS-EXAMINATION BY MR. DOUG BUHR:

MR. DOUG BUHR: Mr. Wiens, before we get into that, I want to start with the discussions that have taken place between Manitoba Hydro and the city pursuant to Board Order 117/'06.

MR. ROBIN WIENS: Yes.

MR. DOUG BUHR: And in fact, you and Mr. Thomas and Ms. Ramage have been involved in those discussions, is that correct?

MR. ROBIN WIENS: That is.

MR. DOUG BUHR: Would you agree that there had been a variety of issues that had been on the table in those discussions?

MR. ROBIN WIENS: Yes, I would, a fairly wide range in listed issues.

MR. DOUG BUHR: And that there's been a fair amount of information exchanged in relation to those issues?

MR. ROBIN WIENS: I believe so, yes.

MR. DOUG BUHR: And some of those issues are fairly complex?

MR. ROBIN WIENS: Yes.

MR. DOUG BUHR: And that none of those

issues are on the table at this Hearing?

MR. ROBIN WIENS: I don't believe so.

MR. DOUG BUHR: In short, the parties have decided to see if we can work those issues out?

MR. ROBIN WIENS: That's correct.

MR. DOUG BUHR: Thank you. If you go to Tab 1 of my book of documents, it's -- it even has an exhibit number, CITY/HYDRO Number 2. I like that when -- when Manitoba Hydro's up to seventy-eight (78) or something I think.

If you look at -- and this is an extract from your application. Under the heading, "Area and Roadway Lighting," you start by saying there's a 1 percent increase being proposed, that equals two hundred thousand dollars ($200,000).

Did you want -- more that you want from us?

MR. ROBIN WIENS: Yes.

MR. DOUG BUHR: Okay. And then -- and I'm -- I think I'm right in saying that I think the balance of that paragraph proceeds to talk about three (3) alternative methods.

Do I have that right? I think there's PCOSS, there is the RCC prior to allocation of net export revenue, and there's retained earnings deficiency?

MR. ROBIN WIENS: Yes.

MR. DOUG BUHR: Okay. And we'll talk about the PCOSS in a minute. In terms of the RCC relative to net export revenues, I asked you to update one (1) of your charts that you had filed in your rebuttal evidence.

Have you had an opportunity to do that to show area and roadway lighting, in terms of net export?

MR. ROBIN WIENS: Yes, we've done that.

MR. DOUG BUHR: Is -- is that already -- has that already been filed by Hydro or do we need to file it as an exhibit now?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Buhr, that was a request of yours offline and I believe we strictly provided you with copies. I'm -- I had thought we were going to be making some copies as well but I don't believe that it's been filed as a -- as a document in these proceedings.

MR. DOUG BUHR: Do you have the copies?

MR. ROBIN WIENS: It may be one (1) of the victims of the -- of the long adjournment.

MR. DOUG BUHR: Just -- there is one (1)

other as well that you were preparing, have you made copies of that, the financial overcharge?

MR. ROBIN WIENS: We definitely prepared these items. Again, the question of the copies is just what we're checking into.

MR. DOUG BUHR: Okay. Well, while that's being made, let's -- let's move on then perhaps to the other model that you used there, which is retained earning deficiency. And I think the results of that are shown on the next page of Tab 1.

MR. ROBIN WIENS: Yes.

MR. DOUG BUHR: And the area and roadway lighting is 5 1/2 percent higher than any other class?

MR. ROBIN WIENS: That looks right.

MR. DOUG BUHR: And in fact whichever of the three (3) methods is used, area and roadway lighting was and is outside or above any zone of reasonableness?

(BRIEF PAUSE)

MR. ROBIN WIENS: Mr. Buhr, if you -- if you look at the same page in your book of documents, in respect of prior to -- in the first column that's prior to the application of the request of rate increase by Manitoba Hydro and it is, yes, it is slightly above the zone of reasonableness.

In the case of the middle column which is -- includes the rate increase of 2.9 percent for all classes except street lights. It is just slightly below.

And in the case of the retained earnings deficiency, it is the highest revenue cost coverage, but it is -- it is also below 100 percent.

MR. DOUG BUHR: Thank you.

(BRIEF PAUSE)

MR. DOUG BUHR: Let's move on then to Tab 2, and I want to see if I can summarize the information that appears in the chart as completed by Manitoba Hydro.

And the starting point is that except for three years, 1999, 2001, and 2002, area and roadway lighting is outside the zone of reasonableness?

MR. CHIC THOMAS: Yes.

MR. DOUG BUHR: And when you look specifically at 1999 and 2001, I suggest to you that those numbers are -- are an aberration? They're out of the ordinary?

(BRIEF PAUSE)

MR. ROBIN WIENS: They're certainly different from the other numbers in -- in the column, Mr. Buhr. There's probably an explanation for that, but on the -- on the surface of them, they are out -- outside of what the rest of them are showing.

MR. DOUG BUHR: And substantially so?

MR. ROBIN WIENS: Well, they're below a hundred (100), and every other one is above a hundred (100).

MR. DOUG BUHR: Thank you. So the result is that once since 1980 -- only once since 1980 -- has the city -- has the area and roadway lighting been within the zone of reasonableness?

(BRIEF PAUSE)

MR. ROBIN WIENS: That's what the numbers are saying, Mr. Buhr.

MR. DOUG BUHR: And if -- if the ideal is that RCC at one hundred (100), then area and roadway lighting has been overcharged every year except one (1)?

MR. ROBIN WIENS: If the ideal is one hundred (100). We have a zone of reasonableness. We look at between ninety-five (95) and one hundred and five (105). Prior to somewhere around 1994, it would have been one hundred and ten (110), ninety (90) to one hundred and ten (110), even eighty-five (85) to one hundred and fifteen (115) at -- in the -- in the early part of the 1990s.

But on this basis, it has been in most years above the zone of reasonableness.

MR. DOUG BUHR: Thank you. You had a discussion yesterday with Mr. Peters concerning the new energy intensive class. And there was some discussion about refunds. If somebody qualified for an exemption, but hadn't applied at the right time? Do you recall that?

MR. ROBIN WIENS: Well we had a discussion, at a theoretical level, about how we might handle the situation in which somebody either -- either didn't apply or wasn't found to be eligible for an exemption and then subsequently it was determined that it was the other way around, yeah.

MR. DOUG BUHR: And I -- I think the suggestion by you was that Hydro would consider a refund in that situation?

MR. ROBIN WIENS: I -- I think I said that yes, we would look at the -- look at whether that was warranted or not.

MR. DOUG BUHR: I take it you're not

prepared to do that for any other class?

MR. ROBIN WIENS: We're not looking at it for any of the existing classes, no.

MR. ROBERT MAYER: In all fairness, Mr. Buhr, the Hydro Panel appeared to have been taken -- taken aback by the very word "refund."

MR. DOUG BUHR: And I'm not surprised, Mr. Vice-Chair. Sorry, do we know what's happening with those -- other -- the two (2) exhibits?

MR. ROBERT MAYER: Proposed exhibits.

CONTINUED BY MR. DOUG BUHR:

MR. DOUG BUHR: Sorry, proposed exhibits, the Vice-Chair is correct. Well, I -- tell you what, let's continue.

You mentioned that the -- the zone of reasonableness was ninety-five (95) to one o five (105) was established in 1995?

MR. ROBIN WIENS: I believe that the Public Utilities Board accepted it in an order that they issued in March or April of 1996?

MR. DOUG BUHR: Yes, you're -- you're correct, Mr. Wiens. If you look at Tab 3 of the book of documents, and you'll see that I have -- I have highlighted -- there are three (3) pages in there, and I have highlighted comments on the first and third pages. I don't want to -- I'll give you a minute to read -- read them. I don't want to -- I don't think it's necessary to read them into the record.

(BRIEF PAUSE)

MR. ROBIN WIENS: That's fine, Mr. Buhr.

MR. DOUG BUHR: So at that time, at least, unity was the goal, right?

MR. ROBIN WIENS: Movement towards unity was the goal. It's -- to actually have rates precisely at unity and -- and track unity over time is probably not possible, but the idea was to target towards unity.

MR. DOUG BUHR: And that was in a Board Order issued in 1996.

MR. ROBIN WIENS: This order was issued in 1996.

MR. DOUG BUHR: And in fact that -- so Hydro's goal was eventually to get classes to unity, i.e., one hundred (100)?

MR. ROBIN WIENS: Was to move towards unity, was to -- was to stay within the zone of reasonableness and to move towards unity. As I've said to get to unity and to stay there is probably an illusive goal, but to move towards unity and be within the zone of reasonableness is what we were looking at.

MR. DOUG BUHR: Well, I -- I don't want to parse words with you, Mr. Wiens, but Hydro said that they were going to strive to bring all classes to unity but were unable to say when it may take place; that's the -- Tab 3, the first page.

(BRIEF PAUSE)

MR. ROBIN WIENS: It's -- yes, it says "strive." That was -- that would be a target.

(BRIEF PAUSE)

MR. DOUG BUHR: And since the zone of reasonableness was established by that order I think I'm correct in saying that there's been an excess or an overcharge of almost $11 million since that time assuming RCC should have been one hundred (100)?

MR. ROBIN WIENS: The difference between what actually happened and the one hundred (100) since 1996 is in the order of $11 million. I'll accept that, subject to check.

MR. DOUG BUHR: Yes, well that's one (1)

of the exhibits I think we're waiting for so...

MR. CHIC THOMAS: If I can interrupt here, Mr. Buhr, I think we have those copies available if we can --

MR. DOUG BUHR: Perfect. Let's -- maybe let's go back then and file the net export revenue exhibit --exhibit as the next one and I guess that's CITY/HYDRO-3?

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Buhr, the panel now has three (3) --

MR. DOUG BUHR: Right --

THE CHAIRPERSON: Book of documents could be Exhibit Number CITY-2.

MR. DOUG BUHR: No, it's -- it's actually CITY-3, I think, because my book of documents was 2.

THE CHAIRPERSON: That's what I -- sorry, that's what I said.

MR. DOUG BUHR: Oh, okay.

THE CHAIRPERSON: Book of documents would be Number 2.

MR. DOUG BUHR: Right.

--- EXHIBIT NO. CITY/HYDRO-2: Book of documents

THE CHAIRPERSON: So you want to introduce the other two (2) then?

MR. DOUG BUHR: Yes. There's one (1), CITY/HYDRO-3. This is an update to a chart that Manitoba Hydro produced in its rebuttal evidence -- is that correct?

THE CHAIRPERSON: Okay, so this would be Number 3 then?

MR. DOUG BUHR: Yes, it's headed, "Manitoba Hydro Increase Electrical Rates for 2008/'09 Rebuttal Evidence," and it's a -- there's a chart or a table.

THE CHAIRPERSON: Okay, CITY Number 3.

--- EXHIBIT NO. CITY/HYDRO-3: Update to a chart, "Manitoba Hydro Increase Electrical Rates for 2008/'09 Rebuttal Evidence"

MR. DOUG BUHR: And sir, you've got one (1) more schedule, "Area and Roadway Lighting COSS Revenue Cost and Export Allocations 1980 To Present?"

MR. DOUG BUHR: Yes, Mr. Chairman, and

that will be CITY/HYDRO Number 4.

THE CHAIRPERSON: Very good.

--- EXHIBIT NO. CITY/HYDRO-4: Schedule entitled, "Area and Roadway Lighting COSS evenue Cost and Export Allocations 1980 to present"

CONTINUED BY MR. DOUG BUHR:

MR. DOUG BUHR: And if I can go back to what CITY/HYDRO Exhibit Number 3, basically all this is is an update to a chart that you prepared in your -- for your rebuttal evidence, and what you've done is added the area and roadway lighting class at the bottom of that chart.

MR. ROBIN WIENS: Yes, Mr. Buhr, but I should also note that since the time we provided this to you, we have also updated the numbers in the first column of that chart.

But we can make those changes as we go through your questions.

MR. DOUG BUHR: That's where I was going to leave it, Mr. Wiens. If you want to provide those updates by all means, let's do it now.

MR. ROBIN WIENS: And these -- these are

updates that would follow through from the revised version of Appendix 11.2 that we handed out this morning called --

THE CHAIRPERSON: It's Manitoba Hydro 68.

MR. ROBIN WIENS: -- 68. That -- that's correct. And it -- it really would change the numbers in the first column, the Revenue to Marginal Cost Ratio.

You'll see that refers to Appendix 11.2 and I can go through them one by one if that's helpful, and people can cross them out or we can -- we can try and get a revision.

But under residential where it's now reading 60.6, it would be 61.4. General service small would be 66.2. General service small demand would be 59.7. General service medium would be 54.3. General service large would be 46 -- under 30 would be 46.5. General service large 30 to 100 would be 44.2. General service large over 100, would be 45.5, and area and roadway lighting would be 84.1.

CONTINUED BY MR. DOUG BUHR:

MR. DOUG BUHR: So anyway you slice it, it's substantially above everybody else.

MR. ROBIN WIENS: It is above everybody else.

MR. DOUG BUHR: Then if I can direct your attention to City Hydro Exhibit Number 4, can you basically summarize what this chart is showing us?

MR. CHIC THOMAS: What we've tried to do here, Mr. Buhr, is since 1980 through to the present what we've compared is the -- the revenue from area and roadway lighting to the costs allocated and -- and directly assigned in the Cost of Service through time.

And then across the columns we are calculating either the -- the overage or the underage in terms of revenue in excess of cost.

MR. DOUG BUHR: So from 1980 to 1994, it's $37.754 million?

MR. CHIC THOMAS: That's what the table shows. Just as a word of caution, there's a few in -- in those years you just mentioned, there are two (2) where we didn't -- didn't do a study and what we did was simply take the average of the study previously and the study after.

So -- but in essence the 37 is what -- what the number is, yes.

MR. DOUG BUHR: And the number for 1995 to 2008 is almost $11 million.

MR. CHIC THOMAS: Yes.

MR. DOUG BUHR: For a total of almost $49 million?

MR. CHIC THOMAS: That sounds about right, yes, Mr. Buhr.

MR. DOUG BUHR: And I think I'm correct in saying that to reduce area and roadway lighting RCC to 100 would mean a reduction of six hundred and twenty thousand dollars ($620,000) per year, in the bill?

The reference is Manitoba Hydro 1-2 and 1-3(d). It's in Tab 2 of my book of documents. It's the very -- the very last page in Tab 2, for example.

MR. CHIC THOMAS: Yes, I've got it, Mr. Buhr.

MR. DOUG BUHR: So six hundred (600) would require a -- a reduction of six hundred and twenty thousand dollars ($620,000) a year, right?

MR. CHIC THOMAS: Yes.

MR. DOUG BUHR: And in fact, what Hydro has proposed is a two hundred thousand dollar ($200,000) a year increase in the bill?

MR. CHIC THOMAS: Yes.

MR. DOUG BUHR: And I -- if I refer you to CITY/MANITOBA HYDRO-1-2, it's about halfway through Tab 2. There's a chart there, and that shows the effect of proposed rate -- any proposed rate change from 1 percent down to minus five (5)?

MR. CHIC THOMAS: Yes.

MR. DOUG BUHR: I then want to take you to City Manitoba Hydro 1-3. It's the next question in Tab 2. Is it fair to say that Manitoba Hydro hasn't exactly been aggressive in trying to reduce area and roadway lighting to one hundred (100) or even one-o-five (105)?

(BRIEF PAUSE)

MR. ROBIN WIENS: Well, Mr. Buhr, I guess it depends on what you mean by aggressive. If we can go through some of this history that you've put before us -- and I'm looking right now at your Exhibit City Number 4, going back to 1996 and 1997, the -- this Board directed 5 percent decreases --

MR. DOUG BUHR: Sorry, I just -- just --

MR. ROBIN WIENS: -- in each of those years.

MR. DOUG BUHR: -- no, just -- just to interrupt you one (1) minute. That's what the Board ordered. Do you remember what Hydro proposed for those two (2) years?

MR. ROBIN WIENS: I don't -- I don't have that, Mr. Buhr.

MR. DOUG BUHR: If I suggest to you that it was -- Hydro proposed zero and this Board said, No, a 5 percent cut in each of those two (2) years.

MR. ROBIN WIENS: That sounds right.

MR. DOUG BUHR: Thank you. Please continue.

MR. ROBIN WIENS: If -- if we -- if we move forward from there, we're -- we're into 1998, we did not have a Cost of Service Study in that year or a rate application for that matter. We get to 1999 --

MR. DOUG BUHR: Mr. Wiens, may -- if I may suggest, this may help you. If you go to Tab 2 and -- and look at the chart --

MR. ROBIN WIENS: That's where I am right now, yeah. If -- if you go to 1999, that was the year -- or the year immediately after the year in which we implemented our new financial reporting system which enabled us to much better track the cost of providing service.

And we got to ninety three point four (93.4), which would suggest -- in terms of revenue cost coverage, which would suggest that there wasn't a need to be aggressive.

MR. DOUG BUHR: In fairness, Mr. Wiens, we've already had this discussion, and you agreed with me that 1999 and 2001 were an aberration or something's out of the ordinary because they are so substantially different from what -- what both precedes and follows.

MR. ROBIN WIENS: Yes, I did say that in terms of the numbers themselves, Mr. Buhr, but I also said that we could find a reason for it, and that's what I am trying to track right now. We had the same result or a similar result in 2001. In 2002, we had a result which was slightly above 100 percent.

Now, you'll recall that 2002, 2003, and moving into 2004 was the period in which we had another significant change in our system that may have had an impact on the costs, and while I can't precisely label that -- that impact, that was when we integrated the facilities that were part of the purchase by Manitoba Hydro/Winnipeg Hydro, and that is likely having had an impact on it but now we get to the point at which we have -- we're in 2003 and 2004.

The first rate application in which Manitoba Hydro could have taken a look at this was in 2003 and 2004, and we were still, at that point, uncertain as to how effectively we had integrated that material; the -- the records of former Winnipeg Hydro into our records.

So when we came before this Board in 2004, which was the first rate application that we had brought to this Board since 1996, and I don't recall specifically what we requested for street lights. I think it was zero (0)...

(BRIEF PAUSE)

MR. ROBIN WIENS: I think it was zero (0), but -- but at that point, we were directed by this Board to apply 5 percent increase across the board subsequent to that rate hearing. Since that time, we have had another couple of across-the-board increases. We have not been able to address that. This application represents the first opportunity we've had since that time to address the situation with respect to street lighting.

MR. DOUG BUHR: And your way of addressing it was to get our RCC down to one o four point eight (104.8); in other words, two-tenths (2/10ths) of a point within the zone of reasonableness?

MR. ROBIN WIENS: That's correct.

MR. DOUG BUHR: Are you -- is Hydro proposing any further reductions to -- to get the area and roadway lighting down below that?

MR. ROBIN WIENS: We have not taken a

proposal either to this Board or internally to do that so we don't -- don't have a formal proposal to address that in place yet.

MR. DOUG BUHR: And just so we're clear, it's Manitoba Hydro's choice as to when and if it comes back to this Board for a rate increase?

MR. ROBIN WIENS: The specific timing -- Manitoba Hydro may have some control over that, but the Board has directed us now that we -- we can't let more than three (3) years go before coming back for a rate increase --

MR. DOUG BUHR: So are you saying to me--

MR. ROBIN WIENS: -- or an application of some sort.

MR. DOUG BUHR: Are you saying to me then that it will be another three (3) years from today before this -- before Hydro comes back to this Board?

MR. ROBERT MAYER: This Board hasn't decided that yet.

MR. DOUG BUHR: Okay. Thank you.

CONTINUED BY MR. DOUG BUHR:

MR. DOUG BUHR: You understand my concern, Mr. Wiens --

THE CHAIRPERSON: Mr. Buhr, I wouldn't

mind hearing Mr. Wiens' answer to the question.

MR. VINCE WARDEN: Mr. Buhr, if you look at the integrated financial forecast that was filed as a part of these proceedings we do have a -- a rate increase indicated in each and every year of that ten (10) year forecast so we will be back before this Board with another rate application for next year.

MR. DOUG BUHR: Thank you.

(BRIEF PAUSE)

CONTINUED BY MR. DOUG BUHR:

MR. DOUG BUHR: I want to take you to CITY/MANITOBA HYDRO-1-3(a). It's about halfway through Tab 2 of the book of documents.

MR. ROBIN WIENS: Yes, we -- I have that.

MR. DOUG BUHR: And in there it's -- what -- what is said is that:

"Manitoba Hydro considers this zone and time target to be under review in light of directives received in Order 117/'06."

MR. ROBIN WIENS: Yes.

MR. DOUG BUHR: Then there's a reference to COALITION/MANITOBA HYDRO-1-45A for further discussion?

MR. ROBIN WIENS: There's that reference.

MR. DOUG BUHR: Mr. Chairman, I don't think it's necessary for everybody to -- to actually go to 1-45A.

But would you agree with me, Mr. Wiens, that all that answer does is refer to PUB Order 143/'04 saying that:

> "Manitoba Hydro should ensure that all classes are within the zzz -- let me try that again -- ZOR over a reasonable period of time being five (5) to seven (7) years."

And I'm trying to figure out how that relates to what directions you got in Board Order 117/'06.

MR. ROBIN WIENS: Well, we may -- we may have an incorrect reference here given the volume of questions we asked -- or we responded to. It may take me some time to sort that out whether or not it is the correct reference and if it is not, which it is.

But let me try to elaborate here if that will be of some assistance.

MR. DOUG BUHR: Please.

MR. ROBIN WIENS: There were an extensive number of directives in Board Order 117/'06. Among those was the -- the facts that the Board wanted to see information related to marginal and notional environmental costs provided as supplemental information that the Board intended to give some weight to.

The Board also intended to give some weight to other concepts of embedded costs including with and without export revenues applied.

This proceeding is the first proceeding in which Manitoba Hydro's response to all of those directives in terms of changes that the Board wanted to see as to how costs were allocated. And Manitoba Hydro was not certain that they would necessarily all survive this -- this scrutiny that's happening during the current proceeding.

So that is the uncertainty that -- that we're talking about here when we say that we consider this zone and this time target to be under review because if the results differ substantially from what we had anticipated when we filed all this material; if the results of this review differs in any degree from what we actually filed, we may want to look at a different strategy for and perhaps, different targets.

So that's what -- that's what this is referring to. And if the -- if the reference to COALITION-45A is the wrong one, I apologize for that. It may have been another one. But that's what we were trying to -- trying to get at.

MR. DOUG BUHR: Thank you. So -- just so I understand, it's -- it's not Hydro's position that prior to Order 117/'06, the PUB only looked at the Cost of Service Study to determine rates?

MR. ROBIN WIENS: Sorry, I was just -- I was on the verge of finding that actual reference for you so I missed part of your question.

MR. DOUG BUHR: I'll wait.

MR. ROBIN WIENS: We believe it should have been COALITION-145B.

MR. DOUG BUHR: And that reference would not change what you've just given as your explanation for the statement?

MR. ROBIN WIENS: Well, the -- yeah that --

MR. DOUG BUHR: There's nothing in 145B that changes what you said.

MR. ROBIN WIENS: I -- I -- I haven't read it except my colleague has pointed out that we refer to at least some of it. I -- I would think that because that was not prepared in real time, it might be more comprehensive than the answer I've just given you on the record now.

MR. DOUG BUHR: Thank you. So let me -- let me go back then. Is -- is it Hydro's position that prior to Board Order 117/'06, the Board only looked at Cost of Service Study when it was determining rates?

MR. ROBIN WIENS: I -- we don't know the answer to that. They may well have looked at other things but in Order 117/'06, they specifically set out some of those other things that they would want to look at.

MR. DOUG BUHR: Well -- and -- and -- I'll direct you to Tab 4, my last -- my last tab, Mr. Chairman, I hasten to add. And again, I've highlighted some of the factors in there from the Board's Order that they would look at, and I'm simply suggesting to you that there's nothing new there.

They never -- this Board has never simply used Cost of Service Study to determine rates. It's looked at all of these factors that they set out in this Order.

MS. PATTI RAMAGE: Mr. Buhr, I'm not -- or, Mr. Chair, I'm not sure that Hydro can comment on what the Board looks at when it issues its orders. The -- the orders, we read them on their face, but I don't think it's -- it's for Manitoba Hydro to --

MR. DOUG BUHR: Mr. -- Mr. Chairman --

MS. PATTI RAMAGE: -- to provide evidence.

CONTINUED BY MR. DOUG BUHR:

MR. DOUG BUHR: Manitoba Hydro has been appearing before this Board for about thirty (30) or forty (40) years. If they don't know what factors you consider, there's a problem.

All I'm suggesting to you, Mr. Wiens, is that there's really not a heck of a lot of -- that this Board looks at a variety of factors when it determines rates; that's what Board Order 117/'06 says, and I'm suggesting to you that that's what this Board has done since 1989.

MR. ROBIN WIENS: That -- that may well be true, but -- but my reading of this is that it has never been so explicit about the factors that it would consider, nor have we had such extensive direction in terms of modifications to the Cost of Service Study that this -- that the Board wanted to see.

MR. DOUG BUHR: Okay, thank you.

(BRIEF PAUSE)

MR. DOUG BUHR: And if I -- sorry, direct you to CITY/MANITOBA HYDRO-1-3C, it's the second last page in Tab 2.

MR. ROBIN WIENS: We have that.

MR. DOUG BUHR: I'm -- I'm a little puzzled. It talks about a $1.1 revenue reduction, but I though to reduce this the RCC to one hundred (100) was six hundred and fifty thousand (650,000)? Or six -- sorry, six twenty (620), and that's on the next page.

(BRIEF PAUSE)

MR. CHIC THOMAS: Mr. Buhr, the discrepancy is that -- that on 3C that you're looking at is the area and roadway lighting class in total, whereas the six hundred and twenty (620) that you refer to is -- is what we approximated to be the city of Winnipeg.

MR. DOUG BUHR: Thank you for that. And going back to 1-3C, Hydro's answer then for the province-wide is that it's a 0.6 percent decrease in Manitoba Hydro's net income?

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

MR. DOUG BUHR: Now, does that change -- because this was prepared some time ago, does that change in light of the projected revenue being over $300 million?

Is that point six (.6) going to change?

MR. ROBIN WIENS: Yes, it will.

MR. DOUG BUHR: To what?

(BRIEF PAUSE)

MR. ROBIN WIENS: It looks like it would be about point four (.4).

MR. DOUG BUHR: Thank you.

MR. VINCE WARREN: Assuming 300 million as the number.

MR. DOUG BUHR: Fair enough. Is that a -- that is a reasonable assumption, I take it, is it?

MR. VINCE WARREN: It's reasonable.

MR. DOUG BUHR: Mr. Chairman, as I promised at the outset, I would be brief. I am done, thank you.

THE CHAIRPERSON: You are a man of your word, Mr. Buhr. No slight intended for previous speakers, of course.

I suggest we might as well take our lunch break now and we will come back at one o'clock instead of 1:15.

--- Upon recessing at 11:48 p.m.
--- Upon resuming at 1:02 p.m.

THE CHAIRPERSON: Okay, welcome back folks. If I've got this dance card right, next up is Mr. Williams for the Coalition.

Mr. Williams...?

MR. BYRON WILLIAMS: Yes, thank you, and good afternoon, Mr. Chairman, and members of the Board. I should note that Ms. Desorcy is here, apparently consulting on natural gas matters right now, and she's learned far more about area and roadway lighting, I think, than she ever planned to this morning, so that's great.

I have a couple thank you's as well. I do want to thank My Friend, Mr. Peters, first of all, and -- and the -- the consulting team again for their excellent work in terms of this issue, and also for scheduling their cross-examination so I get the prized Friday afternoon after a long, long week cross-examination slot where everyone's at their most alert. So I appreciate that Mr. Peters.

And Mr. -- I do want to say thank you as well to MIPUG. I was unable to be here yesterday -- yesterday morning, and MIPUG, and Mr. McLaren in particular, kindly agreed to brief me on everything I missed including a couple of the jokes or shots that Mr. Peters took at me. So if -- if I do go into Monday, I may have some responses to Mr. Peters.

Mr. Chairman, just in terms of bookkeeping, lacking either the organizational ability, or the resources of Mr. Buhr or Mr. Peters, I have got some -- I've got some documents just to assist in cross-examination. With two (2) exceptions they're all documents that have come from the record; the other two (2) are derived from the record and have been shared with Manitoba Hydro.

And I'm at the Board's pleasure, mostly their design to just assist parties in following along, and I'm not sure they require an exhibit number, except for two (2) of them, but I -- if -- I'll leave that to the Board's discretion, and when we come to the appropriate ones, I just recommend that we mark them as exhibits at that point in time.

THE CHAIRPERSON: Well, for reference sake, maybe it's better they are exhibits.

MR. BYRON WILLIAMS: We -- you -- we'd like to go through and get them all --

THE CHAIRPERSON: Sure, why not. Why not.

MR. BYRON WILLIAMS: I'll need Mr. Gaudreau's advice.

THE CHAIRPERSON: What number are we up to, Mr. Gaudreau?

MR. BYRON WILLIAMS: I'm sorry, Mr. Gaudreau, I could not hear you?

Excuse me, I'd recommend that COALITION-19 be the "reprinted without the express written permission of Manitoba Hydro load forecast."

--- EXHIBIT NO. COALITION-19: Load forecast reprinted without the express written permission of Manitoba Hydro

MR. BYRON WILLIAMS: COALITION-20 is the -- the small table, "Near Term Revenue Implications."

--- EXHIBIT NO. COALITION-20: Small table, "Near Term Revenue Implications"

MR. BYRON WILLIAMS: COALITION-21, I'd recommend be the small table, "Long Term Revenue Implications."

--- EXHIBIT NO. COALITION-21: Small table, "Long Term

Revenue Implications"

MR. BYRON WILLIAMS: COALITION-22 -- are we okay now? We...

THE CHAIRPERSON: I think a copy of the material -- we are missing one (1) copy.

I apologize, Mr. Williams. Now we are up to...?

MR. BYRON WILLIAMS: COALITION-22, which would be the reprint of the Manitoba Hydro response to PUB-2-49.

--- EXHIBIT NO. COALITION-22: Reprint of Manitoba Hydro Response to PUB-2-49

MR. BYRON WILLIAMS: COALITION-23, PUB/MH-1-57.

--- EXHIBIT NO. COALITION-23: Response to PUB/MH-1-57

MR. BYRON WILLIAMS: 24 is COALITION-2 -- or PUB/MANITOBA HYDRO-2-37.

--- EXHIBIT NO. COALITION-24: Response to PUB/MH-2-37

MR. BYRON WILLIAMS: COALITION-25 is the excerpt from the NERA study of 2005.

THE CHAIRPERSON: COALITION-25, the NERA excerpts.

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Wiens has been singled out again, Mr. Williams.

MR. BYRON WILLIAMS: I may need some answers from him today, Mr. Chairman, so I'm not singling him out.

I'd recommend -- and with apologies to Mr. Wiens, COALITION-25, be the NERA excerpt.

--- EXHIBIT NO. COALITION-25: Excerpt from the 2005 NERA Study

MR. BYRON WILLIAMS: COALITION-26 should be a table titled, "Manitoba Hydro Domestic Customer Class Ratios of Revenue to Marginal Cost." And that's a -- a new document based upon Exhibit 68 filed yesterday.

--- EXHIBIT NO. COALITION-26: Table entitled, "Manitoba Hydro Domestic Customer Class Ratios of

Revenue to Marginal Cost"

MR. BYRON WILLIAMS: COALITION-27 is -- should be the response to COALITION/HYDRO-1-59.

--- EXHIBIT NO. COALITION-27: Response to COALITION/ HYDRO-1-59

MR. BYRON WILLIAMS: So we have a bit logistical challenge here.

I apologize for that. I think we probably have -- we appear to be -- be missing that, but I'm going to -- do you have that, Mr. Chairman? You do, okay. So --

THE CHAIRPERSON: Mr. Gaudreau made copies.

MR. BYRON WILLIAMS: Okay. COALITION-28 should be perspectives on fairness and efficiency. I'm seeing nods from Manitoba Hydro.

--- EXHIBIT NO. COALITION-28: Perspectives on fairness and efficiency

MR. BYRON WILLIAMS: Next should be COALITION-29, which is -- I'd suggest be Interrogatory

Response PUB/HYDRO-1-83.

--- EXHIBIT NO. COALITION-29: Response to PUB/HYDRO-1-83

MR. BYRON WILLIAMS: COALITION-30, I'd suggest be the article by Mr. Rice, an excerpt from -- which is, "Household Electricity Demand Revisited," and this is material put on the record by TREE.

--- EXHIBIT NO. COALITION-30: Excerpt of the article by Mr. Rice, "Household Electricity Demand Revisited"

MR. BYRON WILLIAMS: COALITION-31 would be another excerpt from a article by Bernstein and Griffin, "Regional Differences and the Price Elasticity of Demand for Energy."

--- EXHIBIT NO. COALITION-31: Excerpt from a article by Bernstein and Griffin, "Regional Differences and the Price Elasticity of Demand for Energy"

THE CHAIRPERSON: Very good.

MR. BYRON WILLIAMS: The amazing thing is

I think I will be dealing with them in order. We'll see though.

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: And I think I'll start with Mr. Surminski. I know Mr. Kuczek's not here, you're -- I'll -- I'll ask you to refer to Coalition Number 19, which an excerpt from the May 2007 Electric Load Forecast.

Do you have that, sir?

MR. HAROLD SURMINSKI: It may be me or it may be Mr. Wiens. We talked about Mr. Wiens is in a -- a good -- just as good of position to respond to the load forecast.

MR. BYRON WILLIAMS: I'm find with whoever it is, as long as Mr. Wiens is not angry with me for missing that one (1) exhibit that I passed out.

MR. ROBIN WIENS: We'll see as the afternoon proceeds, Mr. Williams. It could be a deferral account.

MR. BYRON WILLIAMS: Mr. Wiens, thank you for your anticipated cooperation, and I'll ask you to turn to the next page, page 10, and at the top it's headed, "Residential." And I'll direct your attention to start with to the table at the bottom of page 10, which is a table, I suggest to you, which shows residential sales measured in gigawatt hours for a number of fiscal years.

And it -- it shows both sales and weather adjusted sales, is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And just directing your attention, first of all, to the left-hand side of that table, you'll see -- the column with the fiscal years, you'll see it's covering the years on the left-hand side from 1986/'87, starting with that fiscal year, going to 2006/'07.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And I just want to look at the sales in -- actual sales in terms of gigawatt hours. At the top we see way back in 1986/'87 residential sales in terms of gigawatt hours for that year -- the actual sales were a bit over 5,000 gigawatt hours.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And that they rose to -- to about 6,500 gigawatt hours for the year 2006/'07, is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And again just moving now to -- four (4) columns over to the fiscal year, starting 2007/'08 and the top right-hand corner, you'll see that what the last two (2) columns portray is the forecast in terms of the growth in residential sales measured in gigawatt hours for the years 2007/'08 through to two twenty-seven/two twenty-eight (227/228), is that -- 2028, sir.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And you'll see that growth is from about 6,500 kilowatt hours to a bit less -- or excuse me, 6,500 gigawatt hours to a bit less than 8,000 gigawatt hours.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And I just want to draw your attention as well as -- and thank you for your assistance, Mr. Wiens, to the chart or the graph I guess I'll -- or the figure at the top right-hand corner of the same page.

You'll agree with me that this is a graphical display of the -- the tables that we've just gone through, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: With the dots being the actual historical results, the straight dark line being the weather adjusted results, and the -- the light grey dots in line being the forecast.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And just again to look at this graphically, if we look at residential sales, we see that in 1988 they were just around or a bit above 5,000 gigawatt hours, and they've risen to about 6,500 gigawatt hours by 2008.

Do you see that, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And I'd like you, if I might, just get you to keep your finger on that -- that page but flip over to page 19. And what you'll see on page 19 in figure 7 is a similar graphical display for general service top consumers.

Do you see that, Mr. Wiens?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And just -- we're going to spend some time on that page, not too much, but just to get you to flip over one (1) -- one (1) more page as well, you'll see the page number 22. In the third column over, again you have actual and projected results for top consumers as measured in gigawatt hours for certain years.

Do you see that, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: Okay. Now by top consumers I understand that Manitoba Hydro means firms like Simplot, Hudson Bay Mining and Smelting, Louisiana Pacific.

Would that be right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: I'd just like to do with you if I might, Mr. Wiens, again kind of flipping figure 1 on page 10 and figure 7 on page 19.

I'd just like to -- you to compare the -- the results in terms of growth in sales for residential versus top consumers. And again, if we go back twenty (20) years to 1988, we see that residential sales are, as we've indicated previously, around 5,000 gigawatt hours.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And back in 1988 the sales in terms of gigawatt hours for general service top consumers, quite a bit lower at around 3,000 gigawatt hours, correct?

You can see it graphically displayed on figure 7, Mr. Wiens.

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: Now let's zoom forward twenty (20) years if we might. Again, we -- we see that -- you're with us, Mr. Wiens?

MR. ROBIN WIENS: I'm with you.

MR. BYRON WILLIAMS: Okay. If we zoom forward twenty (20) years again to -- let's say to 2007/'08 we see the -- the residential sales at about 6,500 gigawatt hours with the top consumers in the range of about 6,000 gigawatt hours for the year 2007/'08.

Is that about right, sir?

MR. ROBIN WIENS: That's right.

MR. BYRON WILLIAMS: So there's been a fair closing of the difference between them from twenty (20) years ago to -- to the 2007/'08 year, in terms of --

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: Thank you. And you may need to refer to the actual numbers on page 22 of this table, sir, but in terms of the forecast sales for general service top consumers, measured in gigawatt hours, versus the forecast sales for residential, measured again in gigawatt hours, you'll agree with me that by 2008/'09 or 2009/2010 -- 2010 at the -- the latest top consumers annual sales in terms of gigawatt hours are actually for -- forecasts to exceed the residential sales.

Do you see that, sir?

(BRIEF PAUSE)

MR. ROBIN WIENS: It looks about 29 -- 2009/2010.

MR. BYRON WILLIAMS: Okay. And just to -- to finish up with this if you'll go -- where -- where we're projected with this, if you look to 2017/2018 for residential -- that's at page 10, sir -- you'll see that they're forecast to be about 7,200 gigawatt hours in that year?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And if you again flip to page 22 you'll see that the top consumers by 2017/'18 are forecast to be at about 8,600 gigawatt hours.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: So just -- in terms of the -- the thirty (30) years covered by the historical plus forecast figures, to sum up, way back in the 1980s the residential sales were a fair degree above the top consumer sales annually, and by 2017/'18 the reverse is actually expected to be the case, that the top consumers are projected to be a significant degree above the residential sales.

Would that be fair, sir?

MR. ROBIN WIENS: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Are you preparing another answer for me, Mr. Wiens, or...?

MR. ROBIN WIENS: No, I'm anticipating your next question.

MR. BYRON WILLIAMS: Well, I'm going to try and trick -- no, I'm just teasing.

Mr. Wiens, you -- you -- I didn't provide this as a handout but the -- the response of Manitoba Hydro to COALITION-2-37 suggests that the May 2007 load forecast predicts that Manitoba Hydro's electric demand will grow by about 3,109 gigawatt hours from 2007/'08 to 2012/2013.

Are -- are you prepared to accept that, subject to check?

MR. ROBIN WIENS: Sure.

MR. BYRON WILLIAMS: And the source -- I think Ms. Ramage is just checking it up -- is COALITION-2-37.

Would you also accept that during this period electricity demand due to energy intensive, which I'm going to define as Hydro does as primary metals, chemicals, and petroleum customers is expected to increase by about 1,779 gigawatt hours at generation?

Would you accept that, subject to check, sir?

(BRIEF PAUSE)

MR. ROBIN WIENS: Sure, I'll accept that.

MR. BYRON WILLIAMS: So of the -- if I would suggest to you that the load increase, due to electric -- electricity-intensive industry for this period, the next five (5) years essentially, amounts to 57 percent of the load growth -- growth which I would calculate by dividing one seven seven nine (1,779) by three thousand one hundred and nine (3,109).

Would you accept that, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: So in the -- in the short term the -- a major driver in terms of the electron

-- electric load forecasts in the next five (5) years, a key driver is these energy-intensive industries.

Is that fair, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: In terms of your May 2007 load forecast would I be correct in suggesting to you that it does not take into account any -- or it makes no assumptions about the -- about how electric -- intensive electric users will respond to the new -- the new proposed rate for high intensity users?

MR. ROBIN WIENS: I believe that to be the case.

MR. BYRON WILLIAMS: And if it's not the case, you'll -- you'll correct me -- you'll correct me subsequently?

MR. ROBIN WIENS: Mm-hm, yes.

MR. BYRON WILLIAMS: Okay. I just want to turn back to the residential customers just for one (1) second. And -- and this actually is not from the -- the May 2007 load forecast. It comes from the May 2006 forecast. The page numbers's 14.

I don't have it in my materials, sir, but in the May 2006 load forecast at page 14, my -- Manitoba Hydro makes a comment about the growth in residential basic all-electric energy. And it suggests this sector has grown because most new homes in rural areas installed electric water and space heat.

Would that be a fair statement, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And it goes on to say that many of the new all-electric homes are being built in First Nation communities that do not have access to natural gas.

Would that also be a fair statement, sir?

MR. ROBIN WIENS: I haven't tested it personally, but I believe it to be a fair statement.

MR. BYRON WILLIAMS: So when we look at the -- the growth in all-electric homes in recent years, a fair bit of that has come from homes being built in First Nation communities that don't have access to natural gas alternatives, would that be fair?

MR. ROBIN WIENS: This is what -- this is what you're quoting the document as saying. I did not prepare the document. I cannot respond to exactly what proportion of the -- the new homes are on First Nations. If that were important then we would have to go back and take a look at it.

But that seems reasonable to me.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Well, Mr. -- Mr. Wiens, maybe if -- and if it turns -- I'm goin -- I'm not going to ask this as an undertaking, but I'm going to ask you to consider how feasible this request would be.

If -- if you could go back -- how -- if you could advise me how easy it would be to go back five (5) years in terms of the growth in all-electric usage and whether it's easy to attribute how much of that is due to growth on First Nation -- growth of homes on First Nation communities.

And also in terms of the corporation's forecast the next few years, again what percentage. And I'm not asking -- if you can advise perhaps on Monday as to whether it's eas -- readily accessible or not, would you agree to at least look at that, sir?

MR. ROBIN WIENS: We'll take a look at that.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: I'm sorry, Mr. Wiens, my back row is a fair bit farther away than -- than your back row.

MR. ROBIN WIENS: My initial advice here is that it may be possible. It may take some time though.

MR. BYRON WILLIAMS: Mr. Wiens, just from my -- it would be helpful information, but if it's a -- a ten (10) hour investment of time, I'm not sure that it's -- my clients are asking for that. But if it's an hour or two, then we'd appreciate you exploring that.

MR. ROBIN WIENS: We'll do what we can.

MR. BYRON WILLIAMS: I'm going to turn to a related subject in terms of addressing the -- the -- some issues around the proposed rates for new large industrial loads. And I'm not sure who the witness will be, but they may want to keep nearby again the Manitoba Hydro application Volume I, Tab 10.

And also there are two (2) -- the two (2) tables that I will be referring to are just COALITION-20 and COALITION-21.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Wiens, and again you may -- I provided this material to you in advance so you -- you may have had a chance to check it.

But for those who -- who don't trust my ability to accurately copy from a -- from a book, I -- I was -- the information for these two (2) tables is drawn from page 11 of 18 and page 12 of 18.

MR. ROBIN WIENS: Yes, and Mr. Williams, I -- I will comment on -- I want to suggest that it's your ability and maybe our ability to communicate on page 11, but I will suggest some -- some revisions to clarify these numbers.

I can do it now, or I can do it as you go through them.

MR. BYRON WILLIAMS: Why don't' you do it now, Mr. Wiens, if you can. First of all, the first one is COALITION-20.

Do you have any changes for that, sir?

MR. ROBIN WIENS: Changes or clarifications. If you go to the 4th column over, you've made reference to average opportunity exports. And that average would be covering the same period as the second column in your table.

MR. BYRON WILLIAMS: And I was going to clarify that myself.

MR. ROBIN WIENS: April 2003 to 2007. Now if you go to the last column in your table, you have said average opportunity exports '07/'08. That's not possible. We filed this information on August the 1st of '07.

So it's actually referring to the '06/'07 year up to January 31st of '07.

MR. BYRON WILLIAMS: Thank you, Mr. Wiens, and in terms of the other COALITION-21, do you have any changes to that?

MR. ROBIN WIENS: No, I don't.

MR. BYRON WILLIAMS: And I thank you for that, Mr. Wiens. Just in terms of the -- the case for the new large industrial load, my understanding is that Manitoba Hydro's position is that large energy intensive industry is being attracted to Manitoba on a scale that -- that's large enough to threaten the Corporation's revenue position.

Is that a fair statement?

MR. ROBIN WIENS: Yes. We've become concerned about it over the last number of years.

MR. BYRON WILLIAMS: And in terms of the -- turning -- I -- I want to look at, first of all, the near term revenue implications which I'm going to suggest to you are captioned in Coalition Number 20.

Your concern, in the short term, is that load is being diverted or there's a risk of load being diverted from the export market.

Is that the concern in the short term, sir?

MR. ROBIN WIENS: Well I -- I would say

that's how the impacts are principally realized in the short term. It's actually a concern in both the short and long term.

MR. BYRON WILLIAMS: And we're going to come to the long term in a -- in a moment, Mr. Wiens, but okay, how -- how concerns are realized in the short term.

And as I understand these concerns, it's essentially that Manitoba Hydro looking at the table on -- from COALITION-20, suggests that it's typical firm sales for a large load in Manitoba are three point two (3.2) cents per kilowatt hour, is that right, sir?

MR. ROBIN WIENS: It's -- it's in that order -- three point two (3.2), three point three (3.3).

MR. BYRON WILLIAMS: And that these sales are considerably lower, you would suggest than what you've averaged in terms of firm exports between April of 2003 and 2007.

Would that be right, sir?

MR. ROBIN WIENS: That would be correct.

MR. BYRON WILLIAMS: And as well as the average from exports for the fiscal '06/'07 year, correct?

MR. ROBIN WIENS: That's correct. One is showing over -- over a slightly longer term than the other, but they're both intended to demonstrate the same picture.

MR. BYRON WILLIAMS: And indeed going to the last two (2) columns in this table, it's also -- looking at both the longer term history and also the more immediate '06/'07 results, the -- the price that you even receive in -- in terms of average opportunity exports would be considerably more than a typical firm sale for large load in Manitoba.

Is that right, sir?

MR. ROBIN WIENS: Correct.

MR. BYRON WILLIAMS: Looking out into the very near term future, the forecast, and this is the column number 4, again, the -- the price that you expect to receive from average from exports in the near term future is considerably higher than the price you might -- or you will receive from a typical firm sale.

Is that right, sir?

MR. ROBIN WIENS: That's correct.

MR. BYRON WILLIAMS: From -- just in terms of clarification, the forecast near term financial period, what does -- what period does that cover; that figure of five point three nine (5.39) cents per kilowatt hour?

What are we looking at there?

MR. ROBIN WIENS: That was -- I don't

recall precisely, but it would likely refer to one (1) to three (3) years looking forward.

MR. BYRON WILLIAMS: Now, this -- this information was prepared in -- in -- sometime, I guess, in the summer of 2007.

Have the figures changed materially since then, Mr. -- Mr. Wiens, or do you still consider this representative, at least directionally, in terms of the -- the impact?

MR. ROBIN WIENS: Yes, I would.

MR. BYRON WILLIAMS: Turning to COALITION-21, Mr. Wiens, and you -- you correctly pointed out that there are both near-term and long-term revenue implications and -- and your -- your concern in the long term, again, is -- is not the -- not only the -- the effect on -- in terms of foregone export sales, but it's also the potential impact in terms of advancing costs in new generation and transmission.

Is that right, sir?

MR. ROBIN WIENS: Well, it does do that, but as Mr. Surminski has gone at great lengths to make sure that it's understandable on the record, we do look at production costing for estimating firm longer term marginal costs as well.

So more correct, while we certainly are

concerned about the advancing of -- of new generation and transmission, these costs are not going to be precisely associated with that advancement. They are production costing -- costs.

MR. BYRON WILLIAMS: But they give some guidance into the -- the concerns of the Corporation?

MR. ROBIN WIENS: Yes, they do.

MR. BYRON WILLIAMS: Now, again you -- you may or -- if -- Mr. Wiens, if you do have the -- the excerpt from Volume 1, Tab 10 of the application, page 12 of 18. It's -- it's not in the material that I prepared.

Do you have that, sir?

MR. ROBIN WIENS: Yes. Yes.

MR. BYRON WILLIAMS: And if you turn to page 12 of 18, lines 12 to 15, there's a statement there that:

"Unlike increases in other industrial loads or in commercial residential loads, growth of energy-intensive load is more influenced by Manitoba's current low power rates which are well below market rates."

I wonder if you could explain the -- well, first of all, did I read that correctly, and secondly, if you can explain the thrust of that -- that observation, sir?

MR. ROBIN WIENS: Well, our belief is -- I guess at some level, the level of rates can influence many decisions by people in -- in different classes.

But typically large industrial users that use a lot of electricity and in which electricity is a significant part of their cost of production are going to be more attracted by lower rates than say a residential customer making -- and this -- this may be putting too much of a contrast on it -- but a residential customer making a decision to come to Winnipeg is more likely to be influenced by a whole host of other factors before they look at the price of electricity.

Industry looking for a location typically unless it's -- and we're talking about energy-intensive industry or industry which is tied to a particular resource and the location of that resource looks at a wide range of -- of factors in terms of making their location decisions, and electricity may be one (1) of them, but it's typically not primary for a lot of other industry that is not energy intensive.

So what we're saying here is that it's -- it's not black and white. One (1) type of industry comes here strictly because of electricity prices and everybody else for other reasons.

There are gradations in there, but we're saying that energy-intensive industry is more influenced than other industry and more influenced than other customer classes by the price of -- of electricity.

And over time, I think, this has become a greater concern because I don't think there's anybody here in the room who hasn't been reading in the newspapers or seeing through the media about what's happen to the price of all types of commodities, including energy commodities.

And so there is, we believe, what would be an intensified look by energy-intensive industry at locations that have lower energy costs. And in terms of electricity, this is certainly one of those.

MR. BYRON WILLIAMS: And especially for energy intensive industry is, I understand your point, it's that the cost of electricity is such an important factor in -- or such an important percentage of their production cost that -- that -- that's what, in particular, makes Manitoba attractive to them.

Is that right, sir?

MR. ROBIN WIENS: That is correct. Now, again there -- there may be other factors at play at those location decisions.

But the greater the percentage of

electricity -- the percentage of production costs that electricity makes, the more likely, of course, a low rate is going to be attractive to those customers assuming that other conditions are reasonably conducive as well.

MR. BYRON WILLIAMS: Thank you for that, Mr. Wiens. Just again, and we're -- we're moving along I think fairly quickly, I draw your attention to Coalition Exhibit Number 22 which is the excerpt or it was actually the reproduction -- again without express written authority -- of Manitoba Hydro response to the PUB 2-49.

Mr. Wiens, first of all this -- what this table purports to do is provide the average industrial price per kilowatt hour for various utilities in -- in Saskatchewan, Ontario, Minnesota, North Dakota and Wisconsin.

Is that right, sir? As well --

MR. ROBIN WIENS: It -- it may be average, or it may be related to a benchmark load. It's -- it's -- both of those are present in this table.

MR. BYRON WILLIAMS: Thank you for that clarification. And what I understand Manitoba Hydro has done, in terms of -- for comparison purposes, is present the industrial price per kilowatt hour for -- for Manitoba, and it's kind of merged in the proposed rate for new and expanding loads as well.

Is that what it's done in -- in this response?

MR. ROBIN WIENS: Yes, it's looking -- it's looking at the forecast total revenue and dividing by the sales.

MR. BYRON WILLIAMS: And just -- the -- the graph speaks for itself, but I'm correct in suggesting to you that the rates for the US utilities are derived from the Edison Electric Institute Survey, is that right, sir?

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

MR. BYRON WILLIAMS: And I don't know if you wait with as much bated breath as I do for the new results from -- from Edison, but I think they're out yesterday or -- or today.

So they're -- the Edison 2008, sir, are -- are out. Were you aware of that, Mr. Wiens?

MR. ROBIN WIENS: No, we weren't.

MR. BYRON WILLIAMS: What I -- I've got the -- the book just next door. What I was wondering is whether it would be possible to update this table just to reflect the -- the most recent results from Edison?

Would you be able to do that, Mr. Wiens? I'll lend you my book.

(BRIEF PAUSE)

MR. ROBIN WIENS: We're reconsidering our participation in that survey as a result of falling behind Mr. Williams and receiving our copy.

MR. ROBERT MAYER: I was going to ask who forgot to pay the subscription?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I may have some more questions about that -- the survey on Monday, but I'll -- I'll let you dig it up.

Mr. Wiens, and I'm not sure where it appears on the record, but Manitoba Hydro did provide, on the record, a discussion paper about the new or expansion rate, baseline energy consumption level and exemption -- the -- the discussion paper.

Are you familiar with that document, sir? You've memorized it?

MR. ROBIN WIENS: So many documents have been filed in this proceeding, I can't say with certainty, but I -- I would take it you're referring to Appendix 60? And I believe that that also is provided in Mr. Peters' book of documents at Tab 67, if that's the one you're referring to.

MR. BYRON WILLIAMS: Mr. Wiens, that's perfect, thank you. If you could turn there.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And again, I don't have a lot of questions here, and I know My Friend, Ms. McCaffrey and her colleague will be exploring this, but I -- I do -- especially given that my client's here, I have a few questions about this.

I want to start off, Mr. Wiens, with the balancing act that Manitoba Hydro's striving for. I guess in terms of the concern or in terms of Hydro proposing this rate, it goes back to discussion we've had previously. It's a concern that low price energy consumption by energy intensive industries may be displacing higher priced export opportunities.

That's a key reason, correct?

MR. ROBIN WIENS: Ultimately it's the effect on Manitoba Hydro's bottom line.

MR. BYRON WILLIAMS: And going even further than that --

MR. ROBIN WIENS: And -- and --

MR. BYRON WILLIAMS: -- the effect on customer bills?

MR. ROBIN WIENS: Exactly.

MR. BYRON WILLIAMS: At the same time -- so recognizing that -- recognizing that the -- the extent that it displaces profitable export sales, there's a bottomline impact for other customers.

Hydro also recognize, I'd suggest to you, that in some cases there's -- there's benefits to Manitoba as a whole from expanding industrial load; whether through an increased tax base, increased payrolls, or being able to retain good corporate citizens.

Would that be fair, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And again, to assist my client, in terms of the exemption criteria, my understanding is that Manitoba Hydro may exempt a customer from the higher rates if the economic benefits to the Manitoba economy associated with the customers expansion or additional load exceed a pre-defined threshold.

Would that be fair?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: So again, just to rephrase it, the purpose of the exemption criteria is kind of to serve as gatekeeper, recognizing that in some cases the benefit to Manitoba as a -- as a whole, the positive benefit of -- of additional or -- or new load may out weigh the -- the negative impact on customer's bills, is that fair?

MR. ROBIN WIENS: It's what we're trying to do is to weigh the provincial benefits, which may in some cases be revenues to government. In other cases may be regional income benefits against the overall cost to the customers who would see rates have to go up because of the expansion of -- of load.

MR. BYRON WILLIAMS: Okay. And again, I don't have a lot of questions about this, but -- and I'm going to come to the -- the nearest study later, but you'll recall that in the nearest study on -- that was filed in 2005 addressing inverted rates and time of use, there was some discussion of a proposal by Mr. Jim Lazar for a consumer specific baseline inverted block rate design. Do you recall that?

MR. ROBIN WIENS: I recall it.

MR. BYRON WILLIAMS: And at a very high level, Mr. -- Mr. Wiens, I'm not asking for elaboration, but conceptually does that have some similarities with -- with what -- Manitoba's new proposed rate?

MR. ROBIN WIENS: Well, it has some obvious similarities in terms of having a tail block rate which would be at or close to marginal costs. There are also some fairly significant differences as well.

And if you'd like me to elaborate on those I can.

MR. BYRON WILLIAMS: Yeah, just so -- just so -- not too long, but yeah, that would be appreciated.

MR. ROBIN WIENS: This type of a rate design along the lines of what Mr. Lazar was thinking, and -- and he probably -- in fact, I think he did have some -- some details that -- that differ from what you would be looking at for a general type of inverted rate structure for large customers.

I believe, for example, that he didn't want to give any access to new customers to the first block rate except as it would be phased in over a number of years.

I'm not going to deal with that, but the major difference is that -- with a -- with a -- and I'll use BC Hydro as an example, it's a -- it's a particularly good example of this type of rate -- that a certain percentage of a customers baseline, however you would define that -- you could define it as the previous twelve (12) months.

You could define it as a longer period

than that. In fact, it does, in the end, become one (1) of the more difficult aspects of implementing and administering such a rate as administering the baseline.

But typically 90 percent of that baseline would be charged at an embedded cost base rate adjusted to assure revenue neutrality overall, while the other 10 percent would be charged out at marginal cost.

And over time as loads changed, the details of the provision could differ. But as loads changed, the benchmark would move with them. If a load went down, the benchmark would go down. If the load went up, the benchmark would go up.

That would be the significant difference between that type of a general inverted industrial rate and what we're proposing here, which would be that we would propose that the baseline -- or we are proposing, for this type of a rate, that the baseline would not be adjustable.

Generally speaking, if -- if circumstances changed and exemp -- exemption issues come into play, that's a possibility, but there would no -- be no general provision for adjustment. So that -- that's a significant difference.

Of course, another one is that this is applied to customers of a certain size and that some customers would be eligible for exemption, so tho -- those are differences between that and a -- a typical custom-made by customer inverted rate and baseline, as in the BC Hydro type of situation.

MR. BYRON WILLIAMS: That's very helpful, and again this is helpful to my client. In terms of the -- the differences you outlined, just so I understand it, one (1) is -- relates to how variable the baseline is, is that correct, sir?

MR. ROBIN WIENS: Yes, what provisions are made for varying the baseline.

MR. BYRON WILLIAMS: And the other two (2) relate to the -- the Manitoba one is focussed on a certain size of load and also exemptions are available under the Manitoba proposal, is that right?

MR. ROBIN WIENS: Yeah, that's -- that's correct, and -- and perhaps I could even add a third one, which is that in the type of inverted rate structure epitomized by the BC Hydro situation, the first block is 90 percent of the baseline.

There's nothing magic about 90 percent. It could be something different, and you'd want to look at the specific situation. But it's a certain -- typically below 100 percent. Where this -- this particular rate, we're saying the lowest the baseline would be would be the existing load, and in fact, there could be some allowance for growth and some allowance for other factors including previous Power Smart Program implementation.

MR. BYRON WILLIAMS: And again, this is helpful, and I -- I recognize others more versed in the issue will follow it up, but why -- why this approach rather than a more BC Hydro type approach, sir?

MR. ROBIN WIENS: Because, Mr. Williams, our -- our principal focus was on our concern about the growth of this type of load in Manitoba. We recognize that there -- there are some issues and some arguments for a more generalized type of inverted rate.

We simply had not arrived at being in the position where we were ready to design and implement that type of a rate, but we were definitely concerned about the impact of the growth of energy intensive industry in the province.

MR. BYRON WILLIAMS: Thank you. And again I'm sure others will address this at -- at greater length.

In preparing the -- the new proposed rate -- rate schedule or the -- accompanied by the development of the baseline and the proposed exemption criteria -- and I think you answered this question in discussion with

Mr. Peters yesterday, but would I -- would I be correct in suggesting that you did not solicit the advice of -- or input of NERA on -- on this proposed rate.

Would that be fair?

MR. ROBIN WIENS: That would be fair.

MR. BYRON WILLIAMS: Okay. And also again, based on your discussion with Mr. Peters yesterday, you -- you've not retained any other outside consultant to assist in the design of the rate, the exemption, or the baseline.

Would that be fair?

MR. ROBIN WIENS: That's fair.

MR. BYRON WILLIAMS: It is Friday afternoon with me missing my mic like that. I -- I want to turn to page 7 of the -- the discussion paper, specifically to the dispute resolution process.

Do you see that, Mr Wiens?

MR. ROBIN WIENS: I do.

MR. BYRON WILLIAMS: And my understanding of this section is that in the event that there's a dispute between Hydro and a customer around the -- surrounding either the calculation of the -- the baseline or any exemption application, it's proposed that the Public Utilities Board would act as an arbitrator.

Is that right, sir?

MR. ROBIN WIENS: That's what we're proposing.

MR. BYRON WILLIAMS: And the information provided by the customer to Manitoba Hydro in terms of the baseline information would be treated as confidential and not shared with any other party except for the Public Utilities Board on a confidential basis.

Is that right, sir?

MR. ROBIN WIENS: That would be the general rule, yes.

MR. BYRON WILLIAMS: Okay. To assist my clients, one (1) of the questions I was going to -- I'm -- I'm posing to you is what happens in the event that there's not a dispute; the -- the Manitoba Hydro and the customer agree on -- that it's -- that there is an exemption and that the -- that there is no -- no dispute about the baseline?

(BRIEF PAUSE)

MR. ROBIN WIENS: I'm sorry, Mr. Williams and Mr. Chairman. We've been through a number of iterations of this, and I'm just trying to -- just trying to recall -- make use of additional memories other than my own.

Yes, if Manitoba Hydro and the customer agree on these matters then the customer gets placed in the relevant class on the relevant rate and we proceed.

MR. BYRON WILLIAMS: And again I recognize there have been various iterations, but what I'm trying to get my head around for the benefit of my client is it anticipated that when a particular customer is being exempted from the higher rate that there will be some sort of approval by the -- the Public Utilities Board for these more beneficial rates?

(BRIEF PAUSE)

MR. ROBIN WIENS: That's not currently contemplated.

MR. BYRON WILLIAMS: And that's presumably -- I guess the Corporation's position would be that the rate's already been approved. It's the class that's been -- to which a customer's been assigned that is of -- that is within its own decision.

Is that right?

MR. ROBIN WIENS: That would be correct.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: What I'm -- how is it -- and again trying to -- in terms of the public's interest in knowing how will -- in terms of firms that are exempted from the -- the higher rates, is it anticipated they'll be published or how -- how will it be reported?

(BRIEF PAUSE)

MR. ROBIN WIENS: It's -- it's likely, Mr. Williams, that we would indicate in a succeeding rate application the number of -- number of customers for whom that type of a decision had been made, and that would trigger the ability for the Board to request further information.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And would it be anticipated -- and I'm trying to work this through for my clients. It would be anticipated that the Board would receive that information in terms of testing the merits of an exemption on a confidential basis?

MR. ROBIN WIENS: If it involved individual customers I would anticipate that it would receive it on a confidential basis or certainly that would be our proposal.

MR. BYRON WILLIAMS: You could -- given the -- the -- the bill impact implications of an exemption, you could understand how that information would be of -- of interest to ratepayers as a whole, Mr. Wiens?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And I guess you'd also be able to understand how if -- if you were from a firm that didn't receive the exemption, that information would also be of -- of interest.

MR. ROBIN WIENS: It could be, yes.

MR. VINCE WARDEN: Well, Mr. Williams, that firm would know why they didn't receive the exemption. So that would be of interest to them, but they would certainly know that.

I do again want to reiterate that the numbers of customers that this new rate will apply to, will be so small that I -- I don't see this as being a significant issue for this Board in terms of the number -- numbers of exemptions that are granted going forward.

MR. BYRON WILLIAMS: Could you understand how the merits of particular exemptions might be of concern, Mr. Warden?

MR. VINCE WARDEN: Not totally sure what you mean by the merits of a particular exemption.

MR. BYRON WILLIAMS: Well we've agreed that this is an important program because it's going to have an impact on the bottomline of the Corporation and on customer's bills, correct?

MR. VINCE WARDEN: It will do that, yes.

MR. BYRON WILLIAMS: We -- and you'll also agree with me that to the extent that exemptions are granted, that will put upward pressure on -- on customer bills, correct?

MR. VINCE WARDEN: It will.

MR. BYRON WILLIAMS: And so from a customer perspective -- and would you agree that to the extent that exemptions are granted, it may have a significant impact on customer bills?

MR. VINCE WARDEN: I could agree with that as well.

MR. BYRON WILLIAMS: So to the extent that it might have a significant impact on customer bills, customers -- general ratepayers as a whole -- would have an interest in making sure that the exemptions were meritorious and within the -- within the rules, correct?

MR. VINCE WARDEN: I guess -- upon

reflection I might just backup on that previous response. Significant is somewhat subjective.

We don't see, in the future, going forward with the -- with the assumptions that have been made in the integrated financial forecast.

We do not see significant increases to customer's bills under any scenario.

(BRIEF PAUSE)

MR. VINCE WARDEN: That -- by that puzzled look, maybe I'll elaborate. Under a scenario of whether or not there are multiple exemptions or few exemptions, the assumptions that we have in our forecast, as I've stated before, is that there will be very few customers to which this new rate will apply.

And therefore, because that assumes there will be a large number of exemptions, and it only applies to a few numbers of customers, even with those assumptions, the rate increases that we've projected going forward are very modest.

So the reference to significant impacts on rates, I would say would not be the case.

MR. BYRON WILLIAMS: And, Mr. Warden, just help me and my client sitting in the back row trying to figure out how important this is or not.

In terms of this new proposed rate then, is the primary benefit you see as -- as a deterrent for -- to deter new load from coming?

I'm trying to understand --

MR. VINCE WARDEN: No, we don't see it as a deterrent. We -- we just see it more as a -- as a revenue protection rate that we're -- we're proposing to this Board.

MR. BYRON WILLIAMS: But not a significant one?

MR. VINCE WARDEN: I don't think that was wha -- the context under which we referred to significant in our previous discussion. We were talking about the impact on ratepayers generally of the -- of the new rate and the potential for a large number of exemptions and what that impact might be.

And I was only making the point that in that scenario where there were a large number of exemptions the impacts on other customers will not be significant.

MR. BYRON WILLIAMS: Okay. And on that point, and then -- then we'll leave this, what would you define as significant, sir?

MR. VINCE WARDEN: Well, I think that is

probably my -- the point I was making before when I probably agreed -- agreed too readily to your -- your question as to whether or not the impacts may be significant on ratepayers. We have to define significant.

And when we look at our -- our financial forecast going forward, the magnitude of rate increases are in the order of 2.9 percent per year which given the rate of -- projected rates of inflation going forward, I would say that the real price of electricity is not going to go up by a significant amount.

MR. BYRON WILLIAMS: I understand your point. I do want to just -- in terms of where the Public Utilities Board is acting in -- as the arbitrator in terms of a dispute -- and I'd like some insight from the Corporation on how it sees the Public Utilities Board acting.

For example, if there is a -- a consumer comes forward and there is a -- a -- the Board acts as mediator, does it expect that the Board's decision will take the form of an order?

MR. ROBERT MAYER: This looks like reading point -- or Item 5, Dispute Resolution Process. This looks very much like a private arbitration.

MR. BYRON WILLIAMS: And I'm --

MS. PATTI RAMAGE: We're getting a little bit on the legalistic side, but I think Mr. Mayer has it correct. It's -- it's more along the lines of a private arbitration where Manitoba Hydro would be -- agree to be bound by the Board's decision.

MR. BYRON WILLIAMS: And again, I -- I'm -- it may be in the legal area, but I think it's important for my clients to understand. Is the customer agreeing to be bound by the -- the Board's decision as well? Is that the proposal? May --

MS. PATTI RAMAGE: I think I probably have to answer this for the Corporation. The customer implicitly would have to agree to be bound if they wanted to be changed. It's in Manitoba Hydro's discretion where a customer cla -- a customer assignment to a class is, so if they wanted someone else to change that, they would have to agree to be bound by the PUB.

There's no one else who would have authority to do that.

MR. BYRON WILLIAMS: And again and I apologize for this, but it's important for my clients to understand, is the expectation then that there would be no appeal from -- from the -- the Board's decision?

MS. PATTI RAMAGE: Mr. Williams, this might be something better put offline 'cause it's getting into the legalities of it all 'cause I'd have to be pulling out the Manitoba Hydro Act and looking at what is it -- within the exclusive jurisdiction of the corporation, but I believe this is one (1) of those items, so, no, I don't think there would be a further appeal.

But it isn't something that I've looked at in any detail.

(BRIEF PAUSE)

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Is Manitoba Hydro aware of other examples where the Public Utilities Board fulfills this role?

MR. ROBIN WIENS: Not in any detail, Mr. Williams, but I understand that the Public Utilities Board in British Columbia has a role in the issue of final determination of baseline amounts.

MR. BYRON WILLIAMS: And we may be able to have this discussion offline. I'll talk -- I'll chat -- chat about this with Ms. Ramage on the break, but I -- I may -- my clients certainly might benefit from a further description of this process in -- in writing.

Is Manitoba Hydro aware of what, if any, dispute resolution process there is in place in Quebec and the role that the regulator plays?

(BRIEF PAUSE)

MR. ROBIN WIENS: In Quebec? Can you elaborate on -- this is with respect to the -- the Order in Council from the Government saying that Hydro Quebec is exempt from providing -- my understanding no, that's a decision that's made by the Government of Quebec, and they -- they may have some internal review processes that I'm not aware of that would allow for further consideration. But that's -- my understanding is that the government has the final say.

MR. BYRON WILLIAMS: Thank you for that. I'll ask you to turn to Exhibit COALITION-23. We're moving to another subject related but -- which is the PUB Interrogatory to Manitoba Hydro Number 1-57.

And I wonder if you can confirm for me that what this table does is look at average US and Canadian export prices as compared to domestic, residential, and general service customer groups and it does so in Canadian cents per kilowatt hour.

Is that right?

MR. ROBIN WIENS: That's right.

MR. BYRON WILLIAMS: And I just want to draw your attention to the years 2002/'03 through 2006/'07.

Would it be fair to say to you that the average US and Canadian export rates are at or in some cases slightly above the combined residential and general service rates?

Would that be sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And I guess if we look at '04/'05 in particular it looks like the average US and Canadian exports were somewhere around five point five (5.5) cents per kilowatt hour. Is that right?

MR. ROBIN WIENS: That's what the graph would be illustrating, yes.

MR. ROBERT MAYER: Is that word at the top "water average export price"? Is that -- or is that "weighted average export price"? What's the word "water" in there about?

MR. ROBIN WIENS: I -- I do believe it's intended to be "average export." It may be "weighted." I don't think "water" was intended to be there. I can think of some.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I'd ask you to flip over one (1) more exhibit, Coalition Number 24 which is the -- you'll agree with me is the -- a graph of domestic prices separately for residential and general service.

Do you see that?

MR. ROBIN WIENS: I do.

MR. BYRON WILLIAMS: And focusing first on the General Service line, I wonder if you'd agree with me that between '92/'93 and 2006/'07, it stayed in that range between four (4) and four point five (4.5) cents per kilowatt hour.

Would that be fair?

MR. ROBIN WIENS: That's what it's showing.

MR. BYRON WILLIAMS: And the graph is also showing that for residential customers --

(BRIEF PAUSE)

MR. ROBIN WIENS: Sorry.

MR. BYRON WILLIAMS: It's okay. When the back row's that close, Mr. Wiens, it's not a problem. I'm the one who has to apologize.

When we look at residential, you'll agree with me that it shows in '92/'93 you're -- they're at a -

- at or about five point five (5.5) cents a kilowatt hour. By 2006/'07, they're a bit above six (6) cents per kilowatt hour?

That's what the graph displays, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: Staying with this graph for a second, if I were to plot the prices for general service large in excess of a hundred (100) --

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: -- would I be correct in suggesting to you that those would be lower than general service?

Would that be fair, sir?

MR. ROBIN WIENS: Yes, you would. The line that's shown here is all general service customers from the very smallest to the very largest are all rolled up into this average rate.

MR. BYRON WILLIAMS: So if I went to GSL large, greater than a 100 kV, I'd be -- would I be correct in suggesting to you that that line, its plot on the graph would be somewhere between three (3) and three-fifty (350) for -- for this time period? Would that --

MR. ROBIN WIENS: Yeah, it would -- it would be -- it would probably be tighter than that, but it would certainly be within that -- that rate. It may be a little below three (3) in the early years.

MR. ROBERT MAYER: My suggestion at this -- at this table was it might not hit the graph.

MR. ROBIN WIENS: It would hit it in some years.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I'm going to come back to this in -- in just one second but I -- I just want to -- and Hydro can just confirm this if it would and this is not in the material before you -- but would you accept, subject to check, based upon your response to PUB-1-57 that the average gross export rate forecast for fiscal '07/'08 was four point seven (4.7) cents per kilowatt hour?

Would you accept that?

MR. ROBIN WIENS: Are you talking about what we looked at previously, Mr. Williams?

MR. BYRON WILLIAMS: No, I'm not. I'm -- I'm referring to its -- the forecast for '07/'08 of -- from the IFF.

MR. ROBIN WIENS: Well we'll accept that, subject to check. We will check that one, yeah.

MR. BYRON WILLIAMS: And would you also agree, subject to check, based upon the IFF-07-1 that the average gross export rate forecast for fiscal '08/'09 is five point six (5.6) cents per kilowatt hour, subject to check?

MR. ROBIN WIENS: Sure.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: How am I doing, Mr. Wiens?

MR. ROBIN WIENS: Okay, from where I sit, Mr. Williams.

MR. BYRON WILLIAMS: Going back --

MR. ROBIN WIENS: We're looking at an IR response here, Mr. Williams, PUB to Manitoba Hydro Round One Number 57C: five point four (5.4) for '07/'08; five point six (5.6) for '08/'09.

MR. BYRON WILLIAMS: Thank you, Mr. Wiens, for that and clearly I missed that. Going back to the graph portrayed at COALITION-23, Mr. -- Mr. Wiens.

I wonder if Hydro would undertake to -- I love graphs. I wonder if Hydro would undertake to expand this graph in three (3) ways.

First of all by including the -- either the results or the forecast average export price for '07/'08 and the forecast for '08/'09.

And also if it would undertake to separately depict the domestic prices for residential customers on this graph and the domestic prices for GSL greater than a hundred (100) kV on this graph?

(BRIEF PAUSE)

MR. ROBIN WIENS: We'll undertake to do that, Mr. Williams.

--- UNDERTAKING NO. 80: Manitoba Hydro will expand for Coalition graph at COALITION-23 to provide the forecast average export price for '07/'08, and the forecast for '08/'09; and will also depict separately the domestic prices for residential customers and the domestic prices for GSL greater than a 100 kV

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Wiens and Mr. Chairman, I'm going to beg your indulgence. I'm just going to step down for a second to get a glass -- some water.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Thank you and I apologize for the delay. I'm going to be turning to Exhibit COALITION-25, which is the excerpt -- excerpt from NERA. And...

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Wiens, I'm going to be bouncing around this -- this document a fair bit, so I apologize for that.

But my understanding is that in terms of any studies in the -- in the Corporation's possession, in terms of a residential inverted rate, the big one, perhaps the sole one is the -- this NERA report.

Is that right, sir?

MR. ROBIN WIENS: That's right.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And it says some

interesting things, so I'm going to get your comments on -- and the Corporation's position on a number of points.

I -- I wonder if you could move, first of all, to page 14 -- not Roman numeral, but the actual number 14 -- to the section, "Manitoba Hydro's Marginal Cost."

Do you see that, Mr. Wiens?

MR. ROBIN WIENS: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And just directing your attention to the -- the first paragraph, I'm going to suggest to you that the thrust of it is that efficiency and conservation reasons for inverted rates require that those rates be based on some version of marginal costs.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And NERA, for the purposes of the this study, as I understand the -- the second sentence in this paragraph, was looking at -- at the generation transmission and higher voltage distr -- distribution marginal costs for the purposes of giving insight into an efficient tailblock rate for inverted rates.

Is that right, sir?

MR. ROBIN WIENS: Yeah, you're going to be testing my memory a bit on this as we go through it, but that -- that would seem to be right.

MR. BYRON WILLIAMS: Okay. And -- and just where I'm going with this, Mr. Wiens, and it's not a big point, but if you go to the second paragraph here on this page, NERA is -- appears to be suggesting that for the purposes of inverted rates, two (2) elements of the marginal costs of electric service play a -- a more peripheral role, customer margi -- marginal costs and local distribution facilities costs.

Would you -- would you agree with my characterization of their statement?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And in your view, is -- is that appropriate to assume, that -- that these two (2) play a more peripheral role, sir?

(BRIEF PAUSE)

MR. ROBIN WIENS: Well, everything has some degree of importance when you're trying to design rates, because we have to recover the costs of these facilities as well as any of the others. But relative to the big items, energy and capacity or energy expressed through time of use periods or capacity through time of use periods, these are relatively small compared to those items.

Is -- is that what you're getting at?

MR. BYRON WILLIAMS: Well, that's part of what I'm getting at.

I guess the other point though is NERA seems to be suggesting that because marg -- customer marginal costs are not a function of the customer's electricity use, that they're more peripheral in the design of -- of the -- the tailblock rate.

And I'm wondering if you agree with that statement, sir?

MR. ROBIN WIENS: In terms of the design of the tailblock, certainly, yes.

MR. BYRON WILLIAMS: And likewise, they're suggesting that the -- that -- that local distribution facilities, in terms of the design of the tailblock, are less relevant.

Is -- is that something you would accept as well, sir?

MR. ROBIN WIENS: Yes. Again, and this goes back to the discussion I had with Mr. Peters earlier today about what items are more and which items are less relevant in terms of the effect on -- on customer usage -- of customer usage.

MR. BYRON WILLIAMS: They're less driven by customer usage? Is that your point, Mr. -- Mr. Wiens?

MR. ROBIN WIENS: Yes. And the way that they are recovered is typically less elastic, in terms of customer response.

MR. BYRON WILLIAMS: Thank you. Now, directing your attention to page 43 of this study...

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And it's towards the bottom of this -- the page, under Roman numeral number VII. NERA asserts that the -- a key factor in their evaluation of inverted rates is the likely response of customers to the rate structure, and it describes that responsiveness as price elasticity.

Do you -- first of all, if I characterized that right, and do -- do you believe that they're correct in this statement, sir?

MR. ROBIN WIENS: Well, that's the -- price elasticity is the factor that mediates between the price and the effect on the customer's response.

MR. BYRON WILLIAMS: And before you get to -- to the definition, this is the -- in -- in terms of evaluating these programs, it's -- a key measure is the likely -- responsive customers to the new rate structure.

Is that fair, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And you and I have had this discussion before, so I -- I apologize for it.

But in terms of defining price elasticity, if I suggested to you it was the -- you could quantify it, for relative purposes, as the percent change in quantity demanded divided by the percent change in price.

Would you accept that, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And just to elaborate on it just for a couple more seconds, and it's -- it's not certainly in -- in the discussion on -- on this page.

But they're typ -- price elasticities are typically in the negative range, indicating that demand falls as price increases, typically?

MR. ROBIN WIENS: Yeah, if you want to get deep into economic theory, there are some caveats around that, but that is the normal condition.

MR. BYRON WILLIAMS: I'm not sure I'm

prepared to get that deep, Mr. Wiens. I appreciate you -- you not dragging me over the abyss.

Would it be fair to say that demand elasticities are generally considered of two (2) types, inelastic or elastic.

Would you accept that, sir?

MR. ROBIN WIENS: As a -- as a broad category -- broad categories, yes.

MR. BYRON WILLIAMS: And when we talk about inelastic demand, we're talking about less than -- for any given change in the price of the commodity, there's less than a proportionate -- proportional change in demand.

Is that fair, sir?

MR. ROBIN WIENS: That's fair, yes.

MR. BYRON WILLIAMS: Yeah. For example, if prices increase by 10 percent on a good with the price elasticity of minus point two zero (0.20), then demand for that good would only drop by 2 percent?

MR. ROBIN WIENS: Yeah, so that would be characterized as inelastic demand.

MR. BYRON WILLIAMS: Okay. That's helpful. I'll ask if you can turn to page 44 of the NERA Study.

And before I go into it, would you agree that at a high level, economic theory suggests that consumers' demand for energy is less sensitive to price changes than the demand from any other commodities?

Would you agree with that as a broad general statement, sir?

(BRIEF PAUSE)

MR. ROBIN WIENS: Well, if we broadened our discussion of theory, I think you might be able to relate the theory to the relative inelasticity. It has generally been found in studies of price elasticity of customers that -- there are some exceptions, but typically that they're inelastic, that the response is inelastic.

MR. BYRON WILLIAMS: And you're referring to energy customers, sir?

MR. ROBIN WIENS: Yes, I am.

MR. BYRON WILLIAMS: Okay. I just want to turn you to the table on page 44, "Own Price Elasticities by TOD [period]. in Season."

Do you see that, Mr. Wiens?

MR. ROBIN WIENS: I do.

MR. BYRON WILLIAMS: And I'm going to start with residential. And just to make sure I understand the concept, move over to the -- the summer column shoulder, and you see a figure there for residential, minus zero point zero two eight (0.028).

Do you see that, Mr. Wiens, on the first line?

MR. ROBIN WIENS: Yes, I do.

MR. BYRON WILLIAMS: If I read that correctly, does that suggest that for a 10 percent increase in price, you might anticipate a .28 percent decrease in use?

Would that be right, Mr. Wiens?

MR. ROBIN WIENS: That would be right.

MR. BYRON WILLIAMS: Okay. And that would be -- we've been discussing inelasticity.

That would be relatively inelastic, would you agree, sir?

MR. ROBIN WIENS: That would be highly inelastic.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Just on this -- if I could draw your attention down to general service large, kV greater than a hundred (100), again, the summer.

Maybe we'll look at the peak, here. You

see the figure of minus zero point one five zero (0.150), sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And as I understand that, that means for a 10 percent increase in price, there would be 1.5 percent decrease in use?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: Am I right in suggesting that that's still pretty inelastic, but it's much more elastic than residential, sir?

MR. ROBIN WIENS: That would be a fair characterization.

MR. BYRON WILLIAMS: So that category, at least according to this table, would be -- their consumption decisions would be much more responsive to price than residential.

Would that be fair?

MR. ROBIN WIENS: Yes, but still quite an inelastic response.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Are we okay?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Thank you.
MR. ROBIN WIENS: We're okay, Mr. Williams.
MR. BYRON WILLIAMS: Yeah. No, the -- we want to make sure we're right.
Mr. Wiens, I'm going to spend a couple more minutes on this -- this document. Maybe --
MR. ROBERT MAYER: Before you go any further, I've done some economics, probably not past two-o (20) something or other.
But if this graph on page 44 is correct and each of these elasticity stuff is showing a 10 percent increase and a -- virtually no drop, am I right in assuming that no matter what we set at the prices at, we're not going to lose any customers, virtually not going to lose any customers?
And if so, does it put lie to the argument of a number of people, including TREE/RCM, who will argue that pricing those will in fact reduce your consumption?
MR. ROBIN WIENS: Okay, Mr. Mayer, there's a lot in that question. I'm going to try to remember to address it all.
First of all, the numbers, as depicted here, Mr. Williams has been talking in terms of 10

percent price change. The numbers shown in here relate to 1 percent price change. And he's just trying to gross them up in order to make them, perhaps, more accessible, in terms of general discussion.

So when you see a -- a point one five (.15), that is .15 percent response to a 1 percent change in price. And Mr. Williams was using 10 percent, so it would be a 1.5 percent response to 10 percent.

MR. ROBERT MAYER: Does that follow necessarily?

MR. ROBIN WIENS: Yes. Yes, it does. It -- well, like all things mathematical, it depends on the shape of the curve, but it approximately follows.

Now, at the next level you're asking, Well, are these significant enough that we should be even worrying about price?

And my response would be, Well, this is some of the type of discussion that we've had all along, that we've had with Mr. Peters and with -- with Mr. Williams.

NERA is showing here what is representative types of elasticities. These folks would have -- and let me tell you, I haven't -- I've only looked at a small fraction of the number of elasticity studies that have been done in this field alone -- energy and -- and electricity. And that -- that would be getting up close to fifty (50).

NERA, I'm sure ,they sent me a list once. And there well over two hundred (200) studies on it. And -- and they would have access to this. So they're -- they're trying to boil this all down and make it simple and understandable. There are wide ranges around this.

For the general service large over 100 kV, this is supposed to represent some sort of typical. It would not, in my opinion, represent an energy intensive. There would be a significant higher elasticity than that and a significant lower elasticity to some other types of -- of industry.

And similar with residential. It's -- it is very low here, but some uses will be higher, some residential uses will be higher, and some will be virtually zero.

Now the other thing that I believe this is representing, and I'm -- I'm inferring this from NERA's general perspective, but it is representing short-term elasticity. So it's the response that would occur within a relatively short period of time where the price goes up 10 percent.

Well, I -- I can't -- I can't stop refrigerating my goods, so maybe I will be able to look at some of my more highly discretionary uses and cut back. But over five (5) years, I'm going to replace that refrigerator, I'm going to replace that freezer in response to those prices. So these elasticity numbers will go up.

But typically, the general consensus, the conventional wisdom, is that they're still going to be inelastic. You're still not going to get a response to price that is, in terms of quantity demanded, that is as great as the change in price.

And so in -- in some situations you might say it matters less. And -- and that's why we talk about some elements of the rate structure having -- making more sense to get the right price signal, because they are more elastic than others.

You -- you used the term, Mr. Mayer, does it mean we're have customers dropping off? Well virtually, that's not going to happen. There may be a few, but over -- over a -- a population of five hundred thousand (500,000) customers in Manitoba's case, or 5 million in Ontario, it's not going to be very many customers who are going to stop using electricity. But they may use less. It'll be the quantities that we're talking about.

THE CHAIRPERSON: So on that note, I

think we will take our break now, Mr. Williams.

--- Upon recessing at 2:34 p.m.
--- Upon resuming at 2:53 p.m.

THE CHAIRPERSON: Okay, welcome back everyone. Ms. Ramage, you have got a couple more undertakings to turn into exhibit?

MS. PATTI RAMAGE: Yes, we do. We have Manitoba Hydro Undertaking Number 76, which I suggest be marked Exhibit MH-69.

--- EXHIBIT NO. MH-69: Response to Undertaking 76

MS. PATTI RAMAGE: And Undertaking Number 71 dealing with the -- it's referred to as a carbon tax in the question, and I suggest that be marked as MH Number 70.

--- EXHIBIT NO. MH-70: Response to Undertaking 71

THE CHAIRPERSON: Yes, thank you.

(BRIEF PAUSE)

THE CHAIRPERSON: Very interesting, both of them.

Mr. Williams...?

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes, we were on the -- the subject of the NERA 2005 Study. And we may come back implicitly to the question posed by the Vice Chair just before the break.

Mr. Wiens, I just want to -- I'm going to take you just for a couple of seconds to Roman numeral number IV. It's right near the front of the study.

And just in -- in terms of the NERA analysis, I just want to, at a very high level, run you through Steps 1 through 4.

Do you have that in front of you, Mr. Wiens?

MR. ROBIN WIENS: I do.

MR. BYRON WILLIAMS: And as I understand it, through Steps 1 through 4, the first step was to develop revenue neutral rates using the generic rate structures under study and in the case of inverted block rates with -- using a runoff rate set close to marginal costs.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: The second stage, and I guess this goes back to our elasticity discu -- discussion, was to estimate the change in consumption for the class using estimates of demand elasticity.

Is that fair, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And, Mr. Wiens, just to go perhaps to the caveat you expressed to the Vice Chair, these estimates were -- were not used to predict changes in demands, but to evaluate the relative shifts which might occur in -- with the various tel -- tariff structures.

Is that -- that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: The third step was to estimate the changes in Hydro's costs resulting from the change in consumption, correct?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And then finally, to adjust the class revenue requirement by the amount of Manitoba Hydro's change in -- in cost, is that right?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And I wonder if you could -- if you'd turn to pages 46 to 48 of -- of NERA, please?

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Do you have that, Mr. Wiens?

MR. ROBIN WIENS: I do.

MR. BYRON WILLIAMS: And you'll see, starting at the -- the bottom of page 46 and then moving all the way through to the bottom of page 48, there are some -- what purports to be an evaluation of the effective TOD and inverted rates on Manitoba Hydro's revenue requirement.

Is that correct at a broad level, sir?

MR. ROBIN WIENS: If I -- if I recall correctly, there were a number of rate scenarios that were examined in utilizing those steps. We've just gone through describing NERA, made a determination of the impact of those types of rate design, yes.

MR. BYRON WILLIAMS: Thank you, Mr. Wiens. And of course, you did it much better than -- than I could have, and I appreciate that.

So they -- they looked at a -- a couple of scenarios for residential, and would I be correct in suggesting to you that for residential the change in revenue requirement after the low response was minus 2 percent under those two (2) scenarios?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And I won't go through all of them, but just for illustrative purposes, if we go to -- we'll see four (4) -- let's go to medium general service at the bottom of page 47.

You'll agree with me that they look at four (4) scenarios, with the highest revenue response being the response to Scenario 2, which is a minus 8.4 percent change in revern -- revenue requirement after the load response, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And if we go to the bottom of page 48, we see the large general service greater than 100 small "k" big "V."

And again, they go through -- you'll agree with me -- four (4) scenarios, with the -- the highest response being the response to Scenario 1, with a change in revenue requirement afer load response of minus 13.3 percent, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And, Mr. Wiens, just in terms of looking at this information, and I guess the contrast I'll draw is the change in residential under the

NERA scenario of minus 2 percent versus the change in large general service greater than 100 kV at the -- the largest scenario of minus 13.3 percent.

What analysis or what -- what does this tell us about -- about these -- these classes?

And I guess I'm going to -- are the results a function, to some degree, of elasticity and also the difference between the rates and marginal costs, sir?

MR. ROBIN WIENS: They are indeed a function of the differences in elasticity. And without trying to get into any detail, some of these scenarios have different rate structures described, and I'd have to refamiliarize myself with all of them. But there are differences among them. In some cases your -- you will be looking at a rate structure that is likely to have a greater impact than in other cases.

So those are the two (2) factors, principally, that are driving this.

MR. BYRON WILLIAMS: Okay. And by the two (2) factors just one was elasticity and the -- again, looking at the residential versus large general service, relatively speaking, there is more elasticity in terms of large general service, sir?

MR. ROBIN WIENS: That would -- I would

think that would be the bigger factor at play here.

MR. BYRON WILLIAMS: Okay. And the -- the other factor I believe you mentioned, and -- and if I'm incorrect, you -- was it rate structure?

MR. ROBIN WIENS: Yes, and I'm -- I'm going to be taxing my memory again here. But if -- if you -- if you look at, say, the large general service, you have four (4) scenarios that were examined.

And you'll see that two (2) of them involve what they've labelled as "CBL," which is customer baseline. That's code. There's inverted rates at play here. And you'll see that they have the biggest impact relative to the other two (2), which say "unblocked."

So I'm taking it that you've got -- you've got an inverted price signal in the first two (2) but not in the second two (2), and you'll see there is a -- a fair difference between the two (2) groups. So that's the rate structure aspect of it.

MR. BYRON WILLIAMS: And I may be being dense, in terms of just following up on the rate structure issue, and you'll forgive me for that.

In terms of the relative reduction in revenue requirement, residential compared to large industrial greater than 100 kV, would the -- the gap between the -- the current prices charged and marginal costs also be a -- a factor in the -- the relatively larger impact for large industrial, sir?

MR. ROBIN WIENS: Good work, Mr. Williams. That's -- that's correct.

MR. BYRON WILLIAMS: I hate to say -- use the word "significant." Would -- would it be a significant factor?

MR. ROBIN WIENS: You know, without going back and looking at these again, I -- I wouldn't want to say. But there is a difference, and that would -- that would be one -- another factor that would be in play here.

MR. BYRON WILLIAMS: Mr. Wiens, I'm -- I'm probably torturing your memory, but if you'll turn to page 26 and footnote 33 of that, sir?

(BRIEF PAUSE)

MR. ROBIN WIENS: Well, I'm going to have to look at both of those footnotes, because I can't decipher the number, but okay.

MR. BYRON WILLIAMS: There's a reference in -- in footnote 33, which indeed is the top one on this page, to a -- a term, "equiproportional marginal cost approach to class revenue allocations."

And I wonder, Mr. Wiens, if you're -- are you familiar with that term, at least in a -- in a general sense, sir?

MR. ROBIN WIENS: It must have been while you were away yesterday that I actually discussed it with Mr. Peters.

MR. BYRON WILLIAMS: I apologize for that. Did you define it for Mr. Peters?

MR. ROBIN WIENS: I can't recall.

MR. BYRON WILLIAMS: Could you do that for me?

MR. ROBIN WIENS: But -- yes, I think I did. I think I did define it, actually.

MR. BYRON WILLIAMS: I apologize, Mr. Wiens, for that, but could you define it again?

MR. ROBIN WIENS: We were looking at -- let's -- let's take a look at MH Number 68, if you will. This is just for the purposes of definition, so I -- I don't care if you look at the top or at the bottom. But if you look at -- let's -- let's look at the top.

Under the "total" line, you can see a revenue-to-cost ratio of 62.4 percent. If you were setting class revenue requirement on the basis of equal proportion of marginal cost, you know that for classes, all the classes combined, setting the revenue requirement at 62.4 percent will provide it.

If you would set it at the same level for every class, that is what's referred to as equiproportional marginal cost, and that's what's being referred in the footnote here.

MR. BYRON WILLIAMS: And, Mr. Wiens, just -- again, I apologize for -- for missing this discussion.

If I could simplify that, if -- if for example I wanted to, again, go into that table in Manitoba Hydro Exhibit Number 68.

If I wanted to figure out the -- the relative percentage of residential to -- to 100 percent, would I divide that by -- the 72.8 percent of residential by 62.4 percent?

Is that what you're -- you're talking about, sir?

MR. ROBIN WIENS: You're talking simply about translating it to a base of a hundred (100), and that -- that would be what you'd do.

MR. BYRON WILLIAMS: Staying with this -- this point -- and I know you did discuss this with Mr. Peters yesterday, because thanks to the excellent briefing of Mr. McLaren -- one of the points you -- you discussed with Mr. Peters is -- and I'll refer you to the paragraph just above sub (c) on page 26, the fourth line.

Since marginal cost revenues would be signif -- for example, a scenario where you were looking at moving to more marginal cost -- cost of service format rather than embedded costs.

"Since marginal cost revenues would be significantly higher than actual rever -- revenue requirement for all classes, some mechanism would be required to eliminate the marginal cost revenue gap."

Do you see that, sir?

MR. ROBIN WIENS: Yes, I do.

MR. BYRON WILLIAMS: And in the rest of this paragraph, NERA is discussing, I'm going to suggest to you, two (2) approaches that might be taken.

One would be to reduce the revenue requirement for those aspects of usage that have the least elastic response, such as customer related costs.

Do you see that, sir?

MR. ROBIN WIENS: Yes, I do.

MR. BYRON WILLIAMS: And an alternative, what they describe as a simple and fair approach, used in other jurisdictions would be to set class revenue requirements to an equal percentage of class marginal cost revenue.

Do you see that, sir?

MR. ROBIN WIENS: Yes, I do.

MR. BYRON WILLIAMS: And that's what we were discussing -- I was discussing inelegantly the equiproportional marginal cost approach.

Is that right?

MR. ROBIN WIENS: That's correct.

MR. BYRON WILLIAMS: Between the -- the two (2), do you have any preferences or -- or thoughts, Mr. Wiens?

MR. ROBIN WIENS: Well in principle, economists like NERA would probably tend to prefer the elasticity related approach.

In other words, you -- you -- depending on whether your revenue -- target revenue exceeds or falls short of marginal cost, you would either reduce or increase the revenue requirement of the class and inverse proportion to their elasticity. You can see that that may be somewhat difficult to apply. It may -- may require a lot of work and perhaps a lot of discussion about elasticities.

The person looking to apply something that is relatively less complex would prefer the equal portion of marginal cost.

MR. BYRON WILLIAMS: And --

MR. ROBIN WIENS: You know, I assume that you were going this direction in the first place.

MR. BYRON WILLIAMS: And I'm not -- but this is instructive, Mr. Wiens, and I'm not supposing anything.

But I -- and -- and in terms of any preferences you might have, both as an economist, but someone experienced in the complexities of these, do you -- do you have a preference at a conceptual level?

(BRIEF PAUSE)

MR. ROBIN WIENS: Balancing a number of factors, I think overall my preference -- again, assuming we were going with this approach -- would be the equal portion of marginal cost.

It's perhaps theoretically less correct, but in terms of other factors that you might consider, I -- I believe it would be more appropriate.

MR. BYRON WILLIAMS: Thanks, Mr. Wiens. I just appreciate your assistance. Just a couple of more questions about NERA.

And I'm going to direct your attention back to the Roman numerals, Roman numeral number VI in the bottom right-hand corner. Do you have that, Mr.

Wiens?

MR. ROBIN WIENS: I have the page.

MR. BYRON WILLIAMS: You're looking for a reference.

At the top, you'll see NERA'S commentary that it evaluated two (2) types of inverted block rates for residential customers.

Do you see that, Mr. Wiens?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And I wonder if you'll confirm for me that the one scenario they evaluated was the separate non-seasonal first blocks being defined for both standard customers and electric space heating.

Is that correct, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: So as I understand that, they -- in that scenario they were looking at a -- a all-electric block, which was different and presumably higher in terms of kilowatt hours per month, versus a standard customer block.

Is that right, sir?

MR. ROBIN WIENS: That -- that's certainly my recollection. If you wanted to go into this in many considerable detail, I would want to refresh myself with the -- the details of the analysis.

MR. BYRON WILLIAMS: Yeah, and I'm not really looking for much detail, Mr. Wiens. I -- I don't see that. But certainly if you feel the need to refresh yourself, please -- please do so.

The -- the other scenario that they looked at was having the same block sizes applied to residential customers but having them vary by season.

Do you see that, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And just for clarification purposes for my -- for my client, first of all, in terms of the proposal that's currently before the -- the Board by Manitoba Hydro, would I be correct in suggesting to you it -- it is different from -- conceptually from both of -- of these approaches, sir?

MR. ROBIN WIENS: Yes, you'd be correct.

MR. BYRON WILLIAMS: It's different from Scenario 1 in that it doesn't have a -- a different block size for standard versus all-electric.

Is that right?

MR. ROBIN WIENS: That's right.

MR. BYRON WILLIAMS: And it's different from Number 2 in that it doesn't have block sizes that vary by season.

Is that right?

MR. ROBIN WIENS: Again, that's right.

MR. BYRON WILLIAMS: And if we could turn to Roman numeral number XIV of the executive summary of this report.

And at the top you'll see the reference to residential customers, Mr. Wiens?

MR. ROBIN WIENS: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And as I understand the analysis of -- of NERA, in comparing the -- the two (2) proposed rate structures for residential customer inverted rates, they preferred the Scenario Number 2, which is the same first block varying by season, as opposed to a first block defined by whether or not one was all-electric.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And just in terms of understanding the NERA analysis, they rec -- my sense is that they, at the end of the day, they came down on that side because of concerns about administrative problems.

Would that be fair? If I'm

oversimplifying that, just correct me, sir.

MR. ROBIN WIENS: I think NERA was saying a couple of things here, and I'm -- I'm -- the cursory reading that I have today is -- is maybe -- I'm not, maybe, going to be able to draw as much out of it as I would be able to if I had a chance to go back and refresh myself with it.

But they're saying, first of all, that the structure, the alternative, which does not distinguish between all-electric and standard customers but does provide some benefit to large users in the winter in the form of a larger first block, but that it applies to all customers rather than specifically to electric heat customers.

They're saying, first of all, it produces higher welfare gains. And by that they mean it is a better allocation of resources. There is a higher -- now, it doesn't say anything about who benefits and who loses, but it says there is a higher overall benefit. So I would say that is probably the primary basis on which they're saying that that would be better.

A secondary basis is that there is an issue with trying to, first of all, make sure that you have all the electric heat customers identified in a separate rate schedule; second, making sure that you don't have anybody that isn't an electric heat customer in that schedule; and then maintaining that distinction for billing on an ongoing basis, which is administratively difficult.

And -- and the reason that they believe that there are more economic benefits is that you are moving electricity to a marginal cost, which is going to alter the choice of electricity as a fuel between that and other available fuels based on -- this is all subsumed in their elasticity argument.

So it's -- it's, I think, primarily the -- the economic efficiency argument and secondarily the -- the administrative cost argument that's at play here. But it's important to say that they do recognize the equity argument as well, and -- and that this is the consultant report. As Manitoba Hydro, we have to deal with all of them.

MR. ROBERT MAYER: That -- that raises an issue then, at least Board Member Proven and I have been kicking around the last little while, is I take it you have no way of telling from the base -- from -- from your base of operations which of us may or may not be heating with space heat as opposed to using our outdoor hot tub?

MR. ROBIN WIENS: Well we -- we could examine consumption of different customers and make an inference, but we can't be precise. In fact, we may be very wrong in some cases.

MR. ROBERT MAYER: I know that when I went to electric heat back in the '70s, I had to upgrade my service. And very fortunately for everybody, I suppose, I had to get a building permit because I was also renovating the basement and of course, there was a Hydro inspector who inspected the upgrade.

And I sort of assumed that's how you did everything. I have since found out that you can just hire an electrician to upgrade your service. Are -- are they telling anybody?

MR. ROBIN WIENS: This is getting outside my area of responsibility, Mr. Mayer. I do believe that at the time that a customer -- certainly at the time that a new customer is signed up, we make an effort to understand and quote our billing system accordingly; not that it affects how they're billed today, but just for our own understanding.

But we don't go back and check on those year after year and make sure that they're still in place. And -- and things change over time.

MR. ROBERT MAYER: So -- so there is a real issue of being able to determine exactly who is heating electrically and who is just wasting electricity?

MR. ROBIN WIENS: Who is heating electricity and who -- with electricity, and who is using it for other uses.

MR. ROBERT MAYER: Yes, but --

MR. ROBIN WIENS: It's further complicated. I believe, again, and the back row could maybe correct me if I'm wrong, but I do believe that we -- if somebody has the capability to heat with electricity, they have sufficient baseboards installed, for example, they would be quoted as electric heat.

But they may not use the electricity in that way. They may -- they may -- they may have other uses. They may have supplementary heat from other sources. The electricity may be supplementary to some other source.

You can see that -- that we -- we have an issue with being accurate about who has and who hasn't electric heat when we're talking about something in the order of four hundred and twenty thousand (420,000) residential customers.

MR. ROBERT MAYER: Quite frankly, sir, I didn't see that until now. Thank you.

MR. ROBIN WIENS: You're welcome.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Wiens, and -- and we'll probably come back to the inverted rate discussion a little bit on -- on Monday, but just while I'm on your -- would it be -- in the last little while, I'm going to suggest to you, we've discussed three (3) different approaches to inverted rates in terms of the blocks for residential customers.

One (1) is that current Hydro proposal which is no seasonal differentiation and no differentiation between standard and all-electric. Secondly, a seasonal differentiation, but only one with standard and all-electric in the same block. And then third, a differentiation based upon a all-electric block and a -- and a standard block, is that fair, sir?

MR. ROBIN WIENS: Sure.

MR. BYRON WILLIAMS: And my clients, we've got the -- certainly have the able advice of Mr. Harper, and recognizing right now that we're just talking about a relatively small difference, but going forward, do you have some advice or -- for my clients in terms of the optimal way to balance the economic efficiency, the equity, and the administrative complexity issues?

MR. ROBIN WIENS: How's my chain back there? We haven't resolved that, so that's why I'm -- I'm hesitant. No, if we had a good strong answer to that, we probably would have included it in our application.

So we don't, as of yet. We recognize that we have to deal with all three (3) of them. We certainly recognize that there is an issue with respect to Manitobans who do not have access to -- or reasonable access to substitutes to electric heat.

And we -- we know that we have to deal with that. I think if -- if it were -- the simplest way to deal with it is probably to do the same thing that Hydro One has done, which is to have a -- a low first block in the summer months and a higher one in the winter months. That could take care of a substantial part of the equity concern.

I don't know that it would take care of all of it. Clearly, the -- if you -- what Ontario Hydro has -- or Hydro One has is a summer season which they define as being May the 1st to October the 31st in which the first block is 600 kilowatt hours a month, and a winter season in which the first block is 1,000 kilowatt hours a month.

They are trying to saw off between the same issues as we are. They -- they probably -- or they may not have the same degree of concern with regard to electric space heating customers as we may have here. I haven't ascertained that, by the way, but they do have some degree of concern.

And the higher you make in this type of structure, the -- the higher you raise that breakpoint in the winter, the greater certainty you have that you're having -- you're having -- you're minimizing the impact on people who have difficulty finding another source and certainly would have to incur greater costs; in -- in capital costs terms, perhaps significantly greater costs.

So the higher you move that up, the -- the greater certainty you have that -- that you're being reasonable in terms of your treatment there. But conversely they -- you know, you're giving up -- there's a tradeoff here -- and you're giving up some of the economic efficiency benefit.

And it's a tradeoff between those. It's a tradeoff that Manitoba Hydro has to make, and it's presuming that we bring, at some point, a -- a proposal before this Board. It's a tradeoff that this Board will have to make that there's an economic dimension and there's a policy -- there's a cost dimension -- there's a policy dimension to it.

We weren't prepared to make that determination at this stage, and that's why we brought forward the fairly modest proposal that we have. We wanted to signal that this is the direction to go. We did not have a complete proposal to make.

MR. BYRON WILLIAMS: And -- and we're certainly not criticizing you for that, Mr. Wiens. Just in terms of the -- what you've, I think, described as the -- the -- what might be, administratively, more simple seasonal variation approach, are there, administratively, currently with Manitoba Hydro, any barriers to implementing that that -- that you can think of, sir?

MR. ROBIN WIENS: I believe that it is -- I believe that it is doable. There are certain costs that have to be incurred. There are certain changes that have to be incurred. I wouldn't want to go on the record as saying, you know, that it's -- it's -- it couldn't be done tomorrow. That's - those are discussions that have to be held with the people that are responsible for making sure we can bill those rates.

I believe it can be done within -- within the context of our existing billing system. I just don't know exactly the extent of the reprogramming and changes that have to be done to do it.

MR. BYRON WILLIAMS: Just a last followup question on this -- this point. And I realize it's -- it's premature. Are the -- does Hydro have any sense of the magnitude of -- of the costs involved in -- for example, if you went to a -- a seasonal approach akin to Hydro 1, the -- the administrative costs, sir?

If not, that's fine.

MR. ROBIN WIENS: You know, probably somewhere, somebody has an idea of it. I'm not that person.

MR. BYRON WILLIAMS: Would that be hard to get that idea, sir?

Mr. Wiens, let me leave it at this. If you could make inquiries -- if it's something that's going to take a lot of hours, don't do it, but I'm not asking for an undertaking -- I'm just asking if you can give some insight into it, we'd appreciate it.

(BRIEF PAUSE)

MR. ROBIN WIENS: I -- I'm just being reminded here that there's a lot of policy decisions that have to be made before we actually get into -- into costs, but we can -- we can make a preliminary inquiry, if -- if you'd like.

MR. BYRON WILLIAMS: Thanks, Mr. Wiens. Last reference in Nera, I'll ask you to turn to page 31 at the bottom.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. -- Mr. Wiens, you can see that there's a discussion at the bottom of 31, page 31, of the -- of this exhibit, in terms of Mr. Lazar's -- some of his thoughts in terms of a -- defining a first block of an inverted structure for commercial industrial customers.

Do you see that, sir?

MR. ROBIN WIENS: I do.

MR. BYRON WILLIAMS: And about halfway through the paragraph, there's a reference after footnote -- the number of footnote 41, to -- perhaps tying inverted rates tied to factors like employment, but NERA appears to be referencing some concerns that -- that doing so might have an even greater distortionary effect in terms of the customers' competitive positions, and that it -- such mechanisms could add incentives to add employers -- employees or to rent more spaces in areas with lower rental costs.

And I realize that I'm paraphrasing a high level but did -- did I get the thrust of the concerns expressed by NERA, sir?

MR. ROBIN WIENS: I think so.

MR. BYRON WILLIAMS: And just to assist

my client, do -- do you see these criticisms of Mr. Lazar by NERA having any applicability or offering any insight into the new industrial rates for -- for new or expanded loads being presented by Manitoba Hydro?

MR. ROBIN WIENS: I can agree that directionally that those types of incentives might be present. I -- I think the nature of the -- of the criteria that we're recommending is such that the likelihood is not high that this would happen.

You know, I understand that we're going to be spending some time in the future reviewing those criteria, but I think the way that they stand right now, it -- it's a possibility but it's likely to only happen in very borderline cases, which, I would think -- and I'm going a bit on a limb here speculating, but I think would not be sort of the mainstream situation.

MR. BYRON WILLIAMS: Okay. I like it when you speculate, Mr. Wiens, so I appreciate that. Cautiously though.

MR. ROBIN WIENS: You may be the only one.

MR. BYRON WILLIAMS: Mr. Chair -- Mr. Chair, I'm moving to another subject, but I wonder if I could stand down for just a couple of minutes. I want to just discuss with my client.

THE CHAIRPERSON: Yes, sir.

--- Upon recessing at 3:28 p.m.
--- Upon resuming at 3:35 p.m.

THE CHAIRPERSON: Okay, Mr. Williams.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Yes, thank you. I'm going to briefly refer to PUB Exhibit Number 13 which is the -- their second book of documents at Tab 54.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And -- and, Mr. Wiens, I -- I understand that you've updated -- first of all this -- this document is Appendix 11.2, is that right, sir?

MR. ROBIN WIENS: Yes, it is.

MR. BYRON WILLIAMS: And you've updated this document -- and I'm going to talk about that in just one (1) second, sir. But my understanding is, and again I missed this conversation but Mr. McLaren's given me an excellent briefing, you had some discussion with Mr. Peters yesterday about Appendix 11.2 as it appears in --

in front of you.

Is that right, sir?

MR. ROBIN WIENS: Yes, it is.

MR. BYRON WILLIAMS: And is my -- just to make sure my understanding of your discussion with Mr. Peters is correct, in terms of -- would I be correct in suggesting that in your conversation with Mr. Peters, in terms of some of the estimated marginal costs, in terms of, for example, customer costs you suggested to Mr. Peters that they might be overstated?

MR. ROBIN WIENS: Well, it's a possibility that -- that they could be. These -- these are average costs forecasts. If you're looking at the bottom group of numbers, the transmission O&M, subtransmission O&M, these are our forecast costs for 2007/2008, and if you divide them by the number of kilowatt hours they -- they are the average costs. These are the types of costs that if -- if we add a customer during the course of the year, that -- that is not likely to change our -- our costs, certainly not to the same degree as the average. So it could be an overstatement.

On the other hand, you know, some of them may be understated as well. These are our best guesses, our best ability to say what marginal operating costs are at this stage, and without going and doing a detailed study of it.

MR. BYRON WILLIAMS: And that's fair, Mr. Wiens. Just to -- to be -- to be -- hone in just a little bit though, with regards to customer service costs as captured on the bottom part of this -- this table would you -- would you agree that it's more likely that they're overstated than -- than understated, in terms of marginal cost?

MR. ROBIN WIENS: I -- I would say it's likely, although there are some elements in there that the reverse may be true.

MR. BYRON WILLIAMS: And again, referring to distribution costs on the bottom part of this table, would it also be reasonably likely that the marginal costs of distribution are overstated, sir?

MR. ROBIN WIENS: In the short term they probably are. As you moved out in the longer term, that -- that gap is likely to close.

MR. BYRON WILLIAMS: Thank you for that. I'd ask you to turn to Hydro Exhibit Number 68, which is the update to Appendix 11.2 which you filed yesterday.

Is that correct, Mr. Wiens?

MR. ROBIN WIENS: It is.

MR. BYRON WILLIAMS: And in terms of the -- the discussion we just had in -- in terms of the possibility of customer service costs being overstated in the -- in terms of marginal costs in the short term in Appendix 11.2, would that same statement hold true for the update, Manitoba Hydro Exhibit Number 68?

MR. ROBIN WIENS: Yes, it would, because it's based on the same information.

MR. BYRON WILLIAMS: And again, for distribution costs that -- that would be, as well, sir?

MR. ROBIN WIENS: Yes, although I'm qualifying this. I suspect if -- if we're wrong in any direction, that -- that would be where it goes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. --

MR. ROBIN WIENS: And I -- I might add as well, if you look at the quantum of these operating and maintenance costs on the bottom compared with the marginal costs on the top, if we're in error with respect to that, a 10 percent error is going to have or 20 percent error is going to be -- have a lot less impact than if we're in error on the top.

MR. BYRON WILLIAMS: And I -- I accept that and, Mr. Wiens, that's helpful. To the extent that you're in error, would you agree that those errors would be disproportionately borne by the residential class on the bottom part of that table?

MR. ROBIN WIENS: They would be -- because we're talking about the bulk of these costs relates to costs below the transmission level, they are going to have a disproportionate effect to the extent they -- they occur on residential general service small and to a lesser extent, medium.

MR. BYRON WILLIAMS: Mr. Wiens, thank you for that and I want -- if you could keep near at hand Hydro Exhibit Number 68, and we're going to be referring to Coalition Exhibit 26 in just a second.

And perhaps if your counsel could provide you with your -- or if you have it near at hand, your rebuttal evidence; in particular, page 37 and 38 of 65 in my version.

Ms. Ramage, I apologize for not providing you with this reference earlier. I'm referring to the rebuttal evidence of Manitoba Hydro. My version it's page 37 and 38 of 65, and the subheading is Manitoba Hydro GRA Proposed Class Revenue Requirement Increases.

Do you have that, Mr. Wiens?

MR. ROBIN WIENS: I do.

MR. BYRON WILLIAMS: And, Mr. Wiens, as I understand it, your discussion on both page 37 and 38 of your rebuttal evidence is you're responding to a proposal by Mr. Bowman and Mr. McLaren to differentiate rate increases in order to bring class RCC's in the Embedded Cost of Study -- Embedded Cost of Service Study to within the zone of reasonableness at a high -- high level, that's correct, sir?

MR. ROBIN WIENS: It is responding to parts of the evidence provided by Mr. Bowman and Mr. McLaren.

MR. BYRON WILLIAMS: And it's responding to evidence regarding differential rate increases, is that right, sir?

MR. ROBIN WIENS: That's correct.

MR. BYRON WILLIAMS: And as I understand your response, starting at line 21, Hydro makes the point that from its perspective that it -- it believes it's premature to differentiate among classes for at least two (2) reasons, correct, sir?

MR. ROBIN WIENS: That's correct.

MR. BYRON WILLIAMS: And I want to focus for the -- I guess the remainder of the afternoon on that second reason which I understand to be that -- that Order 117/'06 specifically noted factors other than embedded cost allocation should be considered.

Is that right, sir?

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

MR. BYRON WILLIAMS: And the point that you're making on the next page, page 38 of 65 in my version, is that when you take the perspective of marginal costs, that might provide a very different set of recommendations with respect to differential class rate increases.

Is that right, sir?

MR. ROBIN WIENS: Yes. Although not wanting to -- not wanting to take a prior view on where the Board might be with respect to weighting of that, we did -- did want to display what the consequences would be of accepting a significant weighting for that.

MR. BYRON WILLIAMS: And the -- again, not wanting to preempt the Board but in terms of providing that additional insight and perspective, you present that in the table MH-10 at the bottom of page 38 of 65, correct?

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

MR. BYRON WILLIAMS: Now is -- I understand this table and -- and you'll correct me if I'm wrong, but you've drawn it from Appendix 11.2, the non-updated version.

Is that right, sir?

MR. ROBIN WIENS: That's correct.

MR. BYRON WILLIAMS: And I wonder if you would undertake to refile this table reflecting the updated version presented in Manitoba Hydro Exhibit Number 68?

Could you do that, sir?

MR. ROBIN WIENS: Yes, we can.

--- UNDERTAKING NO.81: Manitoba Hydro to refile for Coalition table MH-10 reflecting the updated version presented in Manitoba Hydro Exhibit Number 68

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Wiens, although I always stumble over pronouncing it, you'll recall when we were discussing the NERA Report we discussed the equiproportional marginal cost approach to class revenue allocations used in jurisdictions such as California and New York, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: What I'm going to present to you, or wish to discuss with you, I guess pulling from Exhibit Number 68, I'm going to draw your attention to Coalition Exhibit number 26, sir, if -- do you have that?

MR. ROBIN WIENS: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And you'll agree with me -- I'll draw your attention first of all to the -- the second Coalit -- second column in Coalition Number 26. You'll agree with me that the -- the numbers represented in that table are drawn directly from the top upper right-hand of Exhibit Number 68, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And you see a description -- or a title one (1) column over of normalized marginal costs, I wonder if you'd agree with me that -- that what we've done is simply, for example, take -- lets take the number -- the residential from the -- the second column, the figure being zero point seven two eight (0.728)? We've normalized that by dividing it by zero point six two four (0.624) to yield the -- a -- the figure of one point one six seven (1.167).

Is -- is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And likewise we've done that with the rest of the column to bring it to a total of a one (1).

Is that right? On average?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And you'll agree with me that the -- the fourth column in, Marginal Costs, RC Capital, and OM&A, the last line of that really is drawn from the last line of Manitoba Hydro Exhibit Number 68.

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And again, what we've done in the final column is normalized that, for example, using the residential again; dividing the zero point six one four (0.614) by zero point five five eight (0.558) to yield the figure of one point one (1.1).

Is that right, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And again, if I'm wrong you'll correct me, but if one were setting rates based upon an approach like this, would this at least analytically be somewhat akin to the equiproportional marginal cost approach of -- to class revenue allocation of some other jurisdictions, sir?

MR. ROBIN WIENS: Yes.

MR. BYRON WILLIAMS: And again, if one

took that approach, one would see that, for example, residential customers would be at 1.1 percent and GSL greater than 100 KV would be at zero point eight one five (0.815).

Would that be right, sir?

MR. ROBIN WIENS: The math is correct.

MR. BYRON WILLIAMS: Okay. Conclusions we draw from it is -- is another question, is that right, Mr. Wiens?

MR. ROBIN WIENS: Yes.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: We may come back to that.

Mr. Chairman, I'm moving to another subject. It will take me about a half an hour. It's -- I'm at your disposal.

THE CHAIRPERSON: I think then we will close for the week, Mr. Williams.

MR. BYRON WILLIAMS: Okay.

THE CHAIRPERSON: So we will be back again on Monday. So I wish you all a good weekend.

(WITNESSES RETIRE)

--- Upon adjourning at 3:50 p.m.

Certified correct,

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Cheryl Lavigne