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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
March 3rd, 2008
Pages 1 to 240

APPEARANCES

1
2
3 Bob Peters)Board Counsel
4
5 Doug Buhr)City of Winnipeg
6
7 Byron Williams)Coalition
8
9 Jennifer Scott (np))TransCanada Keystone
10 Tamara Trull (np))Pipeline
11
12 Tamara McCaffrey)MIPUG
13 John Landry (np))
14
15 Michael Anderson)MKO
16
17 Patti Ramage)Manitoba Hydro
18 Odette Fernandes)
19
20 Bill Gange)RCM/TREE
21 Dan Rempel)
22 Peter Miller)
23
24
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1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Good morning, Ladies
4 and Gentlemen. Welcome to the beginning of the Manitoba
5 Hydro GRA. Today we begin the oral testimony phase of
6 the Board's determination of Manitoba Hydro's 2008/'09
7 General Rate Application.

8 The application and pre-filed evidence has
9 been received from Manitoba Hydro in various Intervenors
10 witnesses, information requests have been asked and
11 answered and late last week MH's rebuttal evidence was
12 filed.

13 My name is Graham Lane, I'm Chairman of
14 the Public Utilities Board. I'm joined by Vice-Chairman,
15 Bob Mayer, QC, and Board Member Susan Proven.

16 The Board is also assisted by our
17 Executive Director, Gerry Gaudreau and our Associate
18 Secretary Hollis Singh who will work with the Board
19 Advisors and counsels on this file.

20 In the spring of 2004 this Board last
21 considered a General Rate Application by Manitoba Hydro.
22 Subsequently the Board issued Order 101/04 which approved
23 a 5 percent increase in consumers rates, effective August
24 1st, 2004.

25 That last General Rate Application

1 followed a drought and also resulted in conditional rate
2 increases of 2.25 percent approved for April 1st, 2005,
3 and a further 2.25 percent that may have been available
4 October 1st, 2005.

5 Manitoba Hydro declined to seek the second
6 2.25 percent rate increase for October 2005 citing a
7 dramatic turnaround in water conditions following the
8 drought and the issuance of Order 101/04, together with a
9 favourable financial forecast for the fiscal year 2005.

10 However, the water conditions that were
11 favourable in 2005 were the opposite in 2006/07.

12 Manitoba Hydro then applied to the Board for a 2.25
13 percent rate increase. The Board granted that increase
14 on an interim basis in Order 21/07 to take effect March
15 1st, 2007.

16 That interim order is under consideration
17 in this General Rate Application as Manitoba has asked
18 that it be finalized.

19 In this Hearing Manitoba Hydro is also
20 requesting a 2.9 percent increase in 2008 across all rate
21 classes; that is, except for area and roadway lighting
22 for which a 1 percent rate increase is sought.

23 Before I turn to Board Counsel, Mr.
24 Peters, to expand on the application and the procedures
25 and make further introductions, I want to remind parties

1 that one (1) of the issues under consideration is the
2 proposed new rate for energy-intensive industry loads
3 that are not otherwise exempt from the new rate that
4 Manitoba Hydro proposes be set, a rate proposed to be
5 closer to the marginal cost than to embedded cost.

6 Approximately eighteen (18) months ago
7 when the Board issued Order 117/06, it along with some
8 other parties shared Manitoba Hydro's concern that new
9 and/or expanded industrial load may deleteriously affect
10 Manitoba Hydro's annual financial results, rates, and
11 planning, while not providing sufficient economic
12 benefits for Manitoba to justify the rates charged to
13 industry under the present rate schedule.

14 The Board, in Order 117/06, thus directed
15 Manitoba Hydro to consider establishing a new energy-
16 intensive industrial class relative to new energy loads.
17 Application will be defined by Manitoba Hydro criteria
18 yet to be developed and accepted by the Board.

19 Manitoba Hydro has now proposed new rates
20 for an energy-intensive industry load above a proposed
21 baseline, and not otherwise exempt.

22 The Board has heard submissions related to
23 a MIPUG -- Manitoba Industrial Power Users Group -- pre-
24 hearing motion, and the Board has agreed to sever for a
25 separate hearing any final decision on the exemption

1 criteria, and any other options that may be presented.

2 Intervenors interested in this issue are
3 invited to tell the Board in your opening comments how
4 your clients are planning to proceed and if a position
5 has been formulated.

6 In this proceeding, the Board wants to
7 hear Manitoba Hydro's full proposal, both in direct
8 examination and in cross-examination by the Intervenors.
9 And, correspondingly, the Board may or may not defer,
10 until that suggested subsequent proceeding, a decision on
11 other matters related to the Manitoba Hydro proposal for
12 a new industrial rate, if the Board deems that to be
13 warranted and in the public interest.

14 With these few comments, now I will ask
15 Mr. Peters to provide his opening comments and
16 introductions and provide the procedures that will be
17 followed for this hearing.

18 Mr. Peters...?

19

20 OPENING COMMENTS BY MR. BOB PETERS

21 MR. BOB PETERS: Thank you and good
22 morning, Mr. Chairman, Mr. Vice-Chairman Mayer, Board
23 Member Proven, ladies and gentlemen.

24 For the record, my name is Bob Peters and
25 I appear as Counsel to the Board in respect of Manitoba

1 Hydro's 2008/09 General Rate Application. The Board is
2 also assisted in this matter by Larry Buhr, professional
3 engineer from LAB Consulting and by Roger Cathcart,
4 Chartered Account, Cathcart Advisors.

5 Mr. Chairman, as you noted, Manitoba Hydro
6 is asking the Board to finalize the 2.25 percent interim
7 rate increase that this Board awarded in Order 21 of '07
8 effective March 1st, 2007. Additionally, Manitoba Hydro
9 is asking the Board to also approve a further average
10 rate increase of 2.9 percent, except for the 1 percent
11 increase proposed for area and roadway lighting.

12 Mr. Chairman and Board members, you will
13 also hear in this proceeding Manitoba Hydro's request to
14 extend the surplus energy program, and approve changes to
15 the curtailable rate program, and the limited-use billing
16 demand rate. There are many interim orders that Manitoba
17 Hydro now requests be finalized related to the Surplus
18 Energy Program, the Curtailable Rates Program, and the
19 limited-use billing demand rate.

20 As the Board also heard at the pre-hearing
21 conference, there is also the standing request for Board
22 approval of interim and ex parte orders that related to
23 service provided in the diesel rate zone. We will canvas
24 with the Utility, the status of the final execution of
25 the settlement agreement among Indian and Northern

1 Affairs Canada, who I'll refer to as INAC, MKO, and
2 Manitoba Hydro.

3 Finally, we will also canvas with Manitoba
4 Hydro its proposed solution to a concern that the Utility
5 has for energy intensive industry, either setting up or
6 expanding in Manitoba.

7 And as you noted, Mr. Chairman, there will
8 also be a subsequent proceeding to further address
9 aspects of this issue. I hope to be in a position to
10 present the Board with a proposed time line for that
11 subsequent hearing before the end of this proceeding.

12 Now turning to the proposed procedures for
13 this General Rate Application, parties will either have
14 on white paper or maybe those on -- some on blue paper
15 the proposed outline of procedures that I'd like to bring
16 to the Board's attention. As noted on the outline of
17 procedures, we are at the opening comments, and opening
18 comments I suggest will be invited from all of the
19 Intervenors as well as Manitoba Hydro following my
20 comments.

21 The Board has, as registered Intervenors,
22 the City of Winnipeg, Mr. Doug Buhr is present.

23 For the Coalition who, I'm sure I will
24 slip up, Mr. Chairman and Board members, but formerly
25 known as Consumers Association of Canada Manitoba and the

1 Manitoba Society of Seniors, they have joined with
2 Winnipeg Harvest and now we use the acronym, Coalition.

3 TransCanada Keystone Pipeline General
4 Partner Limited is also a registered Intervenor in these
5 proceedings. I have been in contact with Jennifer Scott,
6 counsel for Keystone. The Board will recall that Ms.
7 Trull appeared at the MIPUG motion.

8 It would be fair in my estimation, Mr.
9 Chairman, to indicate that Keystone will be monitoring
10 certainly the first aspects of the Revenue Requirement
11 Panel. They may or may not have questions when it
12 becomes their turn. And their interest is focussed
13 clearly on the second panel of Manitoba Hydro witnesses,
14 that will be the Cost of Service Rate Design Panel, and
15 that issue will be the energy-intensive rate that is
16 proposed by Manitoba Hydro. We'll have more from
17 Keystone as the Hearing proceeds.

18 The Manitoba Industrial Power Users Group
19 is represented in these proceedings by Tamara McCaffrey.
20 She is present with her consultants.

21 The Manitoba Keewatinook Ininew Okimowin,
22 MKO, as I suggest we refer to the acronym from here on
23 in, is represented today by Mr. Anderson.

24 And Manitoba Hydro has as counsel, Patti
25 Ramage and Odette Fernandes.

1 You will see, Mr. Chairman, as we turn on
2 the outline of procedures and also look at the calendar
3 that has been circulated that three (3) days this week
4 and three (3) days next week have been set aside with my
5 estimate that the Revenue Requirement and Demand Side
6 Management Panel will be before the Board.

7 The order would be for the swearing, and
8 introduction, and direct testimony of the Manitoba Hydro
9 witnesses, which will follow this morning. That will be
10 followed by cross-examination starting first with Board
11 counsel, and then the Intervenors in alphabetical order
12 unless they have otherwise agreed amongst themselves.

13 The second panel from Manitoba Hydro will
14 be the Cost of Service and Rate Design Panel, and it's
15 estimated that that panel will be seated on March 25 and
16 proceed for the days set that week, and probably also
17 will spill into April of 2008 and that would be on
18 April's 10 and 11.

19 If there's an opportunity, Mr. Chairman,
20 in the Board's schedule for additional days to be added
21 because I have made some scheduling changes I would
22 certainly be pleased to receive them, and I will canvas
23 them among counsel to see if we can revise the schedule
24 further.

25 Once we hear from the two (2) panels from

1 Manitoba Hydro there are three (3) Intervenors who have
2 witnesses as well. The Coalition has a panel of
3 witnesses of William Harper and Philippe Dunsky.

4 MIPUG has a witnesses panel of Patrick
5 Bowman and Andrew McLaren.

6 And Resource Conservation Manitoba and
7 Time to Respect Earths Ecosystems, has a panel of Steven
8 Weiss and Paul Chernick. We will schedule those
9 witnesses as we proceed forward.

10 And I -- I see in saying that, Mr.
11 Chairman, I neglected to introduce Resource Conservation
12 Manitoba and Time to Respect Earth's Ecosystems counsel
13 Mr. Gange and Mr. Rempel who are both present today along
14 with one (1) of their consultants Dr. Miller. I believe
15 Mr. McQuaker also has entered the room. So my apologies.

16 Looking through the --

17 THE CHAIRPERSON: So we'll have to
18 undertake analysis, Mr. Peters --

19 MR. BOB PETERS: Yes.

20 THE CHAIRPERSON: -- to determine why you
21 missed it.

22 MR. BOB PETERS: Thank you.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: In addition to having to

1 schedule the Intervenor witness panels, the -- the real
2 test will be estimating the time required of course, and
3 the calendar has been stretched out and it approximates a
4 day and a half per panel. If that's of sufficient again
5 we will require additional time and we will work with the
6 Board to schedule that.

7 The Board will note that oral closing
8 submissions have not been added to the calendar and we
9 will require dates to be arranged on that.

10 And I will indicate, Mr. Chairman, that
11 unless the Board has a contrary view, the Board often
12 extends to parties the opportunity to file a written
13 submission for their closing comments, in lieu of and
14 rather than attending for an oral submission, if that's
15 the preference of the party. But the Board does allow
16 the parties the opportunity for oral closing submissions.

17 MR. BOB MAYER: Mr. Peters, I see an
18 immediate problem. I hadn't seen this calendar before.
19 I thought we had originally scheduled the 28th and 30th
20 for argument with the 29th vacant. What happened?

21 MR. BOB PETERS: Mr. Vice-Chairman, as a
22 result of discussions in the last three (3) or four (4)
23 days, some of the earlier dates that we had been hoping
24 to sit with this panel had been removed from the
25 calendar. And that time I slotted, albeit unilaterally,

1 I -- I moved to use the two (2) dates at the end of the
2 month to fit in the witness panels.

3 As I indicated earlier, if -- if the Board
4 panel has available dates earlier, that we can make up
5 some dates, then certainly I will canvas the parties and
6 see if that is available to -- to move the schedule
7 forward.

8 But in short answer, Mr. Vice-Chair, the
9 dates that I removed from the schedule earlier, I had to
10 add the time and use those two (2) dates at the end of
11 April.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: The one (1) other aspect
15 of timing that is recorded on the calendar is that for
16 presenters. And, Mr. Chairman, I'll certainly check with
17 the Executive Director and check and see if there is an
18 indication of any presenters who wish to appear at 1:15
19 today.

20 And I will note that I believe the Board
21 has received a letter from one (1) presenter that we will
22 take into the record as a presentation, probably at 1:15
23 today. And I will check to see if there are others.

24 If I can turn to the exhibits briefly, and
25 I'll certainly invite other counsel to speak to their

1 exhibits, the Board has prepared and has circulated a
2 draft exhibit list, and, Mr. Chairman, I will suggest
3 that we take that exhibit list as -- as prepared. And
4 that when parties are introducing new exhibits, it would
5 be helpful if they could indicate the next exhibit number
6 for their exhibit so that will facilitate the
7 proceedings.

8 I won't review the twenty-eight (28) page
9 exhibit list in any detail, but indicate that it contains
10 the documents that heretofore the Board believes are
11 appropriate as exhibits. It will allow parties to speak
12 to that in their opening comments if they have any
13 suggested revisions or changes. But I -- I propose that
14 we proceed with this exhibit list and keep adding to it.

15 Now with those comments, Mr. Chairman, and
16 subject to any questions the Board may have of me, I'll
17 suggest that you turn it over to the Intervenors for
18 their opening comments, followed by any opening comments
19 and introductions from Ms. Ramage.

20 After opening comments, I would suggest,
21 according to the procedures, that the Board continue and
22 ask Manitoba Hydro to have their witnesses sworn and
23 introduced and the direct evidence, prior to their
24 witness panel being cross-examined.

25 Thank you, Mr. Chairman, those conclude my

1 comments.

2 THE CHAIRPERSON: Thank you, Mr. Peters.
3 So begin with opening comments then by City of Winnipeg,
4 Mr. Buhr.

5

6 OPENING COMMENTS BY THE CITY OF WINNIPEG:

7 MR. DOUG BUHR: Thank you, Mr. Chairman.
8 Mr. Chairman, Members of the Board, it's an unwritten
9 rule that no lawyer will ever say to a Board that they
10 are embarrassed to be taking up that Board's time. Why
11 that exactly is, I'll leave to those with the
12 inclination.

13 But to honour that rule I want to say to
14 you that I'm almost embarrassed to be taking up even the
15 short amount of time that I'll need. The reason is
16 because we are here, yet again, on the very same issue
17 we've been here on since 1989. Manitoba Hydro has
18 overcharged street lighting by millions of dollars,
19 proposes to continue doing so and not correct the
20 problem.

21 Once again, taxpayers of this city are
22 asking this Board to put an end to this kind of nonsense,
23 because it seems that only this Board can.

24 So, in short, Mr. Chairman, members of the
25 Board, I am almost embarrassed because all of this is so

1 obvious and yet here we are again. Thank you.

2 THE CHAIRPERSON: Thank you, Mr. Buhr.

3 For the Coalition, Mr. Williams. Are you
4 embarrassed as well, Mr. Williams?

5 MR. BYRON WILLIAMS: I am, Mr. Chairman,
6 because my opening statements will be somewhat longer
7 than My Learned Friend, Mr. Buhr, and perhaps not as
8 effective.

9

10 OPENING COMMENTS BY THE COALITION:

11 MR. BYRON WILLIAMS: But good morning Mr.
12 Chairman and Vice-Chairman Mayer, it's been a while since
13 we've seen you; and Board member Proven, and it's --
14 probably from your perspective it's been far too short of
15 a time since you last saw me. But it's -- it's great to
16 be here on behalf of my clients, the Coalition.

17 The aptly named Coalition representing, as
18 it does, a broad cross-section of residential consumers
19 including those on fixed incomes and many people,
20 individuals who participate in the workforce but
21 struggling to make ends meet on a day-to-day basis.

22 And before going into my opening
23 statements I did want to commend my -- my learned friend,
24 Mr. Peters, despite his grievous oversight in omitting
25 RCM/TREE his pronunciation of Cree -- Cree words has

1 really improved, at least my colleague, Mr. Anderson,
2 tells me that.

3 And I do want to thank Mr. Peters as well
4 for the -- the extensive work that he's put -- done in
5 terms preparing this volume of documents. And we all
6 make fun of Mr. Peters from time-to-time for -- for his
7 diligent and extensive cross-examination, but it greatly
8 reduces the -- the time that people who followup need to
9 -- to do in cross-examination allows us to focus our
10 work. So I thank him and the Board Advisories for that.

11 Obviously from the focus of my clients'
12 advice in this proceeding will be on the objectives of
13 the Crown Corporation Accountability Act and the Public
14 Utilities Board Act: achieving a just and reasonable rate
15 for the services which are regulated with regard to
16 Manitoba Hydro. And in the course of doing so it is, of
17 course, apt and important that we pay special attention
18 to issues of sustainability, perhaps issues that in the
19 past have been neglected, and -- and as we see the -- are
20 slowly increasing awareness of global warming issues. It
21 is important that -- that these have a prominent place in
22 this proceeding.

23 And my clients intend to carefully
24 consider and address these issues. But in doing so they
25 also have to remind the Board that they're looking at

1 this proceeding in the context of a proposed rate
2 increase for '08/'09, which is in excess of anticipated
3 inflation -- of anticipated inflation. And they're also
4 considering that rate increase which is, if it's
5 approved, which will be in excess of inflation, in the
6 context of increases over the last few years, again,
7 which have been in excess of inflation, and in the
8 context of IFF-07 which, again, is portending out it --
9 well into the next decade rate increases in excess of
10 inflation.

11 So while paying great attention to the
12 concept of a just and reasonable rate and also to issues
13 of sustainability my clients would submit that we would
14 do well to recall those two (2) great objectives of the
15 Manitoba Hydro Act, promoting the economy and efficiency
16 in the development, generation, transmission,
17 distribution, supply and end-use of power.

18 And the hypothesis that my clients will be
19 advancing for part of this proceeding, that they'll seek
20 the test, is that when we look at issues of economy and
21 efficiency -- and my clients interpret those issues to
22 include ensuring that overall expenditures are necessary
23 and prudent and not excessive -- the hypotheses they will
24 test is that these issues of economy and efficiency have
25 been more than a bit over shadowed in the past by

1 Manitoba Hydro.

2 Almost a natural response when you look at
3 the fast-paced developments going on in -- in the
4 industry as it embarks upon an aggressive expansion
5 program, and as it seeks to strengthen its lines of
6 revenue, and -- given the negative consequences of the
7 drought that took place earlier in this decade.

8 And my clients will test the hypothesis
9 that the concepts of economy and efficiency have been
10 over shadowed by focussing on two (2) of the great
11 drivers of the costs of Manitoba Hydro: OM&A and
12 interest expense.

13 And, in terms of OM&A, my clients will
14 seek to understand whether what they would generally
15 consider to be negative trends -- both over the past few
16 years and projected into the future -- whether those
17 negative trends, in terms of OM&A, are a consequence of
18 events beyond the Corporation's control or whether -- as
19 the ever-cautious Mr. Harper has concluded -- whether we
20 can reasonably and cautiously conclude that the OM&A
21 projections in this rate application are excessive.

22 In terms of financing expense, my clients
23 will try to understand whether the Corporation has truly
24 achieved its objective -- its stated objective -- of
25 achieving the optimal balance between cost and stability

1 or whether the Corporation's focus on achieving certainty
2 and stability in financing expense has lead it to under
3 emphasize tools which would enable it to lower costs.

4 And in looking at this issue, my clients
5 will also consider -- consider whether Manitoba Hydro has
6 equipped itself with the best analytical tools to make
7 those decisions in terms of achieving that optimal
8 balance.

9 I'm going to turn to the concept of
10 sustainability, and I won't be long. But I do want to
11 recognize that some parties in this room may suggest that
12 my clients -- representing, as they do, many individuals
13 who struggle to make ends meet -- are overly focussed
14 upon the issues of costs and economy and efficiency.

15 After all, while Hydro may no longer be
16 able to claim that it has the lowest total retail average
17 rate in North America -- at least according to its
18 response to a TREE Interrogatory -- it can still claim to
19 be among the top eight (8) or ten (10) in terms of lowest
20 costs overall -- prices overall -- as of December '07.

21 Might it not be argued by others in this
22 room that paying too much attention to costs detracts
23 from the larger issues, such as sustainability and the
24 risks faced by the Corporation as it aggressively
25 expands?

1 To those other clients -- to those other
2 parties, my clients would respectfully answer that for
3 someone working a low-wage job and using a food bank once
4 a month or for a senior struggling on a fixed income,
5 cost does matter, economy does matter, and efficiency
6 does matter. And they would argue that it's incumbent
7 upon all parties in this room to consider whether the
8 only way to achieve the other important objectives of the
9 Board is through rate increases in excess of inflation --
10 a rate increase or a series of rate increases in excess
11 of inflation or whether, rather than pursuing the
12 unilateral track of the past -- rate increases above
13 inflation -- it might be more productive to pursue a
14 multilateral track which also seeks to mitigate excessive
15 or unnecessary costs.

16 As I mentioned earlier, my clients will be
17 watching, with great interest, issues related to
18 sustainability. Indeed, that's why they've invited Mr.
19 Philippe Dunsky, one (1) of the leading experts in areas
20 of issues related to demand side management and
21 energy efficiency, to appear and to look carefully in
22 this proceeding at Hydro's new programs looking at low-
23 income programming for DSM, and to consider those
24 programs in light of energy efficiency best practices,
25 and to consider whether Hydro -- and more importantly,

1 low-income consumers -- will be achieving maximum bang
2 for the buck.

3 And certainly, we -- we're -- we're always
4 happy to have Mr. Harper, but we're especially pleased to
5 have Mr. Dunsky joining the Coalition panel of witnesses
6 for this proceeding.

7 And without stepping on the Friends of Mr.
8 Gange -- My Learned Friend, Mr. Gange -- my clients will
9 also be considering at a high level the Corporation's
10 broader family of DSM programs.

11 And they note that Manitoba Hydro has
12 labelled its DSM programs as "aggressive." One (1) of
13 the issues my clients will be considering in this
14 proceeding is whether labelling a program "aggressive"
15 also means that it's effective and efficient. And so
16 that's a question my client will look at.

17 And, again, they will look to issues
18 related to the -- a very important issue related to
19 inverted or inclining rates for residential customers.
20 And they will carefully consider whether it is time to
21 take some modest steps in that direction or whether there
22 are still too many barriers in terms of vulnerable
23 consumers in terms of their lack of access to appropriate
24 demand-side management programs.

25 My clients will observe with interest

1 issues relating to smart metering and the new large
2 industrial loads proposal. And just in responding to the
3 Chairperson's comments, my clients haven't developed a
4 position on that issue yet. They watch it with great
5 interest, and their current expectation would be that
6 they would focus most of their energy on this issue in
7 the subsequent proceeding, subject to how this Hearing
8 develops.

9 Finally, Mr. Chairman and members of the
10 Board, my clients will be offering their advice on issues
11 related to risk, rate stability, and the Corporation's
12 never ending journey towards a 75/25 debt equity ratio.

13 In looking at the -- the issue of the
14 75/25 debt equity ratio, my clients will, of course, be
15 mindful of the great news from the third quarter results
16 of Manitoba Hydro for this year. And they will also be
17 underlining the fact that as we -- as we seek to achieve
18 the -- the Board's directions and objectives from the
19 past, we have -- also have to be mindful that Hydro does
20 not allow those objectives to overshadow issues of
21 affordability and economy in its drive to seventy-five
22 (75).

23 Finally, Mr. Chairman, as always my
24 clients are looking forward to this proceeding. I've
25 been instructed to proceed in my ever collegial, gentle

1 inquisitorial fashion. So we're looking forward to the
2 proceeding.

3 I believe that Mr. Peters has already
4 introduced our exhibits so we'll -- we'll check it, but
5 subject to any questions those are the comments of the
6 Coalition.

7 THE CHAIRPERSON: Thank you, Mr.
8 Williams. I don't believe Keystone's present today.

9 MR. BOB PETERS: You're correct, Mr.
10 Chairman. I can indicate that I have been in -- in
11 discussions with Ms. Jennifer Scott. They are certainly
12 monitoring the proceedings and I think as was indicated
13 by Ms. Trull at the MIPUG motion, they are seeking to
14 work cooperatively with other Intervenors to ensure
15 there's no duplication.

16 But in terms of scheduling them on the
17 timetable Keystone is considering and will be monitoring
18 to see whether they do need to ask any questions of the
19 Revenue Requirement Panel. If they don't, which is
20 probably their expectation, they will certainly expect to
21 be here for the Cost of Service Rate Design Panel, and we
22 will introduce their counsel at that time.

23 THE CHAIRPERSON: Thank you, sir. MIPUG,
24 Ms. McCaffrey...?

25

1 OPENING COMMENTS BY MIPUG:

2 MS. TAMARA MCCAFFREY: Good morning, Mr.
3 Chair, Vice-Chair Mayer, and Board Member Ms. Proven.
4 It's great to be back here on behalf of MIPUG today.

5 MIPUG, as this Board I think is aware, is
6 an association of major industrial companies operating
7 throughout Manitoba. And these companies work together
8 on issues of common concern related to electricity supply
9 and the rates in Manitoba.

10 MIPUG has intervened in each of the
11 Board's reviews of Hydro's rates since 1988, as well as
12 the Board's review of the Centra Gas Acquisition in 1999
13 and Hydro's Major Capital Projects in 1990.

14 With me and assisting me in the course of
15 the General Rate Application is Mr. Patrick Bowman who
16 sits beside me, Mr. Andrew McLaren, and Ms. Mona Pollitt-
17 Smith. These consultants are from InterGroup Consultants
18 Limited and their assistance is invaluable, essential,
19 and without which the interventions of MIPUG would be of
20 much less utility and value. So we're happy to have them
21 assisting us today and throughout the Hearing.

22 MIPUG's membership currently includes the
23 following companies, Canexus Limited which is in Brandon;
24 Vale Inco Limited up in Thompson; Hudsons Bay Mining and
25 Smelting Company Limited in Flin Flon; Tembec

1 Incorporated, Pine Falls; Enbridge Incorporated in
2 Southern Manitoba, Gerdau Ameristeel in Selkirk; Erco
3 Worldwide in Hargrave; Koch Industries Incorporated, also
4 in Brandon; Tolko Industries in The Pas; Griffin Canada
5 Incorporated in Winnipeg; and also TransCanada Keystone
6 Pipeline GP Limited in Southern Manitoba.

7 The members operations are throughout the
8 province and they have significant capital investments
9 and -- and contribution to the economy of Manitoba.

10 MIPUG intends to participate in all
11 aspects of the Hearing. With respect to the GRA and the
12 proposed across-the-board 2.9 percent increase, MIPUG
13 will be exploring matters related to revenue requirement,
14 cost of service, and rate design.

15 Revenue requirement concerns relate in a
16 general way to finding appropriate mechanisms for
17 regulating hydro, including addressing the risk that
18 Hydro and rate payers face.

19 This is an area that has been notably
20 unstable over the past few years, particularly I'm
21 referring to Hydro's changing from asserting an absolute
22 need for rate increases to rejection of rate increases on
23 a fluctuating basis. The issue of stability and
24 predictability of rates is certainly on the table at this
25 Hearing.

1 With respect to revenue requirement, we
2 will also be exploring whether Hydro's financial targets
3 are really a meaningful signpost in the context of rate
4 setting, given that they are perpetually moving beyond
5 reach with every review, and the relationship between
6 Manitoba Hydro's capital spending and these targets.

7 With respect to DSM, MIPUG remains
8 concerned that Manitoba Hydro is under-utilizing DSM
9 options as a means for increasing its energy resources.

10 We will be exploring this during the
11 Hearing, both in cross-examination and also in the direct
12 evidence of Mr. Bowman and Mr. McLaren.

13 With respect to rate design, outside of
14 some minor progress for a few classes, Manitoba Hydro
15 still maintains rate designs for larger customers that
16 poorly reflect signals for efficiency.

17 We need to finally move forward to
18 implement a new revenue-neutral industrial rate designs
19 that will allow customers to benefit from their
20 conservation activities as well as opportunities for self
21 generation.

22 This is the wave of the future. This is
23 what modern rate design means in this context, and this
24 is what's being done in other jurisdictions.

25 For implementing radical and unprecedented

1 change to industrial rates, as proposed by Manitoba
2 Hydro, MIPUG will argue that they first need to develop a
3 modern rate design that ensures that customers have the
4 appropriate signals for efficient operation and for self
5 generation.

6 MIPUG will address this through the
7 evidence of Mr. Bowman and Mr. McLaren as well as through
8 cross-examination.

9 The final matter to be addressed is the
10 new industrial rate proposals. We recognize and we thank
11 the Board for indicating that it will defer final
12 approval on all particulars related to Manitoba Hydro's
13 proposed rate for new and expanding industrial loads
14 beyond the GRA until such time as a considered review can
15 take place.

16 As noted at our motion which we argued
17 before you on January 28th of this year, MIPUG has not
18 been able to prepared pre-filed evidence with regards to
19 this new rate within the GRA timelines, particularly
20 given the limited record and foundation for Hydro's
21 proposals filed by the applicant which is available to
22 date.

23 MIPUG will not provide direct testimony or
24 evidence with regards to the new rate in the context of
25 this GRA. We will, however, intend to do our best to

1 assist the Board through cross-examination with regards
2 to testing the material filed by Hydro.

3 Our cross-examination is directed at
4 assisting the Board to shape the next hearing. Our
5 objective here is to lay the foundation for the second
6 proceeding.

7 And we intend to use this to allow the
8 Board to consider the scope and the extent of the scope
9 for the second proceeding, identifying specific options
10 and alternatives that the Board may direct should be
11 considered at the subsequent hearing, in contrast to the
12 single concept which has been put forward by Hydro to
13 date.

14 The applicant, of course, has filed only
15 one (1) proposal. There's been no other evidence filed
16 with regards to consideration, evaluation, rejection for
17 any other proposals. And I'm not aware whether others
18 were even considered.

19 We would like to help the Board to
20 determine the types of information that it would require
21 from Manitoba Hydro for that subsequent proceeding. And
22 in MIPUG's view, there is substantial further evidence
23 not currently on record or provided by Manitoba Hydro
24 that would be helpful to the Board and that the Board
25 would require prior to making its determination regarding

1 any new industrial rate proposal.

2 I can indicate that MIPUG will be bringing
3 in another counsel -- a gentleman by the name of John
4 Landry, from the firm of Davis and Company in British
5 Columbia -- to assist MIPUG and the Board in reviewing
6 the adequacy of Manitoba Hydro's new industrial rate
7 proposal in the context of this GRA.

8 Mr. Landry will be attending through the
9 rate design portion of the Hearing and will be providing
10 assistance through conducting cross-examination of
11 Manitoba Hydro on issues surrounding the proposed new
12 industrial rate.

13 Mr. Landry has the particular background
14 with regards to the development of new industrial
15 proposals in other jurisdictions -- notably, British
16 Columbia and in the Yukon -- and his background and
17 experience, we believe, will be of significant value to
18 the Board, such that it justifies bringing in another
19 counsel in this proceeding.

20 With respect to the Board's Order and the
21 decision to hold a second hearing with respect to this
22 new proposal, not only with respect to the exemption
23 clause, but any matters that the Board is satisfied --
24 and we believe the Board will be satisfied -- that need
25 to be considered at the subsequent proceeding.

1 I can indicate that MIPUG will be
2 presenting options -- given that there is none currently
3 before the Board in this proceeding -- at the second
4 hearing, as alternatives to many of the aspects of the
5 rate that Hydro has pursued to date. Options that can
6 address the objective -- the concerns that the Board
7 shares with Manitoba Hydro regarding large industrial
8 users and its impact on the Utility and rates -- or its
9 potential impact on rates -- but yet options that are
10 more carefully crafted, in terms of actually achieving
11 the objective of addressing those concerns in a more
12 balanced and appropriate way.

13 With respect to getting ready for the
14 second hearing, MIPUG is continuing to pursue this
15 expertise and evidence regarding the issues raised by the
16 new industrial proposal, including the alternatives to
17 the proposal and the exemption criteria. We will have
18 this available to present for the Board's consideration
19 at the second hearing, and we look forward to having the
20 opportunity to do -- to provide this expert evidence at
21 the appropriate time.

22 We're happy to keep the Board apprised of
23 our efforts and progress with this regard, and we can
24 confirm that we have retained Mr. Peter Ostergaard who is
25 the former Chair of the British Columbia Utilities

1 Commission. He has confirmed that he will assist us with
2 respect to our involvement in the second hearing.

3 We also anticipate providing an expert
4 from Quebec, a former member of the Regie, which isn't --
5 it's all but confirmed, but we hope to have that
6 confirmed in the near future, and we will keep the Board
7 apprised of our efforts.

8 Both of these experts can provide direct
9 evidence regarding the practice in other jurisdictions,
10 and the most relevant and material considerations which
11 were debated when they considered the same or very
12 similar issues and concerns regarding industrial usage
13 and its impact on the Utility and ratepayers. In this
14 way, we hope they will assist the Board with looking at
15 practical options to address the concerns which Hydro has
16 identified and which the Board shares, without many of
17 the risks and pitfalls that are raised by Hydro's
18 approach.

19 On the subject of economic impact,
20 pursuant to an IR of the Public Utility Board, MIPUG is
21 also updating information on the economic impact of
22 industry in Manitoba. This will be provided as soon as
23 it is available. And MIPUG is hoping to have this made
24 available before the cost of service portion of the
25 Hearing commences.

1 We are continuing to pursue appropriate
2 additional expertise, regarding some of the economic
3 issues that are raised by the proposal and the exemption
4 criteria in particular. We will continue to keep the
5 Board apprised of the expertise and evidence that we
6 intend to provide with regards to this rate at the second
7 hearing.

8 Finally, on the subject of presentations;
9 MIPUG members have always appreciated the opportunity to
10 appear before the Board at all of Hydro's rate
11 applications and present their viewpoint for the Board's
12 consideration. This General Rate Application is no
13 exception.

14 Currently, we anticipate having our
15 members appear to make brief presentations before the
16 Board during the week of April 11th, and we continuing to
17 set that up through Board Counsel, as schedules of the
18 MIPUG representatives are confirmed.

19 Now, there has also been an interest, I
20 can indicate, that has been expressed to MIPUG members
21 from those in the larger communities in which MIPUG
22 industries operate. These people include contractors who
23 do work for MIPUG companies when they expand their
24 businesses, as well as local businesses, community
25 members and government representatives.

1 This would include people who might seek
2 to engage the Board outside of Winnipeg. The MIPUG
3 members have encouraged these parties to focus their
4 presentations on the second hearing when the more
5 substantive matters surrounding the new rate will be
6 discussed.

7 Subject to any questions you may have,
8 that completes my opening comments. Thank you.

9 THE CHAIRPERSON: Thank you, Ms.
10 McCaffrey.

11 Mr. Anderson...?

12

13 OPENING COMMENTS BY MKO:

14 MR. MICHAEL ANDERSON: Good morning, Mr.
15 Chair, Mr. Vice-Chair, Board Member Proven, Mr. Peters,
16 Manitoba Hydro panel. And to my colleagues that have
17 spoken earlier this morning, thank you for your comments.

18

19 I appreciate being given the opportunity
20 to make opening comments on behalf of the Manitoba
21 Keewatinook Ininew Okimowin, which is Cree for the
22 Northern People's Government in Manitoba. And as My
23 Friend, Mr. Williams said, Mr. Peters' Cree is improving
24 and your pronunciation this morning was appreciated.

25 In respect of another kudo for Mr. Peters,

1 I suppose, is that we are eagerly looking forward to Mr.
2 Peters' book of documents to assist us in preparing. We
3 appreciate that the Board and its staff and counsel
4 synthesized the considerable volume of material and
5 evidence that's been filed to find those issues, that at
6 least, from the Board's perspective, are of interest to
7 the Board.

8 It assists Intervenors in -- in following
9 along in the material and not only is it available in
10 published form, it's just -- very diligently couriered to
11 all of us last week. It was also made available in
12 electronic form. And I thank Mr. Peters for making an
13 effort to burn some extra copies for us so I could send
14 also one (1) to our advisor Dale Hildebrand.

15 I'd -- I forgot in my previous comments on
16 the MIPUG motion to thank the Board and Manitoba Hydro
17 for electronic filing. It's of great assistance to us
18 for many reasons. The ability to bring the entire filing
19 into the room in my laptop assists me, but also it allows
20 us to transport copies of the material to our communities
21 and to others that might be interested much easier -- more
22 easily than where we're replicating massive volumes of
23 binders.

24 So again, I'd to thank the Board for
25 encouraging electronic filing and for Manitoba Hydro for

1 making that effort to make sure it's all available in
2 that form. It's important.

3 On that one (1) housekeeping matter, of
4 course, we've suggested in closing arguments before that
5 critical analyses including things like IFFs we would
6 like to see evolve into live spreadsheets where we can
7 actually begin to work with the numbers, change
8 assumptions.

9 So key information such as proof of
10 revenue, the relationship between that and -- and rate
11 setting and so forth instead of us spending a great deal
12 of time and cost rebuilding all those spreadsheets,
13 they're provided to us in a workable, useable form
14 directly by the -- by Manitoba Hydro.

15 So I'll refer to that again in our closing
16 comments, but would like to refer to that in the opening
17 as we evolve toward a more efficient and less costly
18 mechanism before the Public Utilities Board, in
19 considering the applications of Manitoba Hydro for rate
20 increases, for the confirmation of orders, and so forth.

21 In terms of MKO, the Manitoba Keewatinook
22 Inineew Okimowin, for the record we represent the thirty
23 (30) Northern most First Nations in Manitoba, and fifty-
24 six thousand (56,000) Treaty First Nation citizens.

25 Our First Nations signed Treaties number

1 4, 5, 6 and 10. And the traditional territories that
2 have been covered by Treaty and now are encompassed
3 within the Province -- the boundaries of the Province of
4 Manitoba cover some three-quarters (3/4s) of the
5 Province.

6 So we have a great deal of interest in
7 that region between the Nunavut boundary, the
8 Saskatchewan boundary, Ontario and a line at a diagonal,
9 roughly between the Duck Mountains and the Island Lake.
10 Everything north of that is MKO territory.

11 All of the citizens of the MKO First
12 Nations are customers of Manitoba Hydro. And which makes
13 MKO's intervention perhaps of interest is that we
14 represent both residential and general service customers.
15 Of course our citizens, our members, are residential
16 customers of Manitoba Hydro, but the First Nations are
17 general service customers of First Nations (sic).

18 So our governments are very interested of
19 course in the costs of providing service to its citizens
20 through arenas and community facilities, the operation of
21 the Band office, and so forth, and so power bills are an
22 important of that.

23 Mr. Peters mentioned the Board's interest
24 of course in the mediation between Indian and Northern
25 Affairs Canada, Manitoba Hydro and MKO in respect of

1 diesel electric costs, which were the highest in the
2 Manitoba Hydro system and remain so. And MKO became
3 actively involved in ensuring that there was affordable
4 power available to these four (4) remote First Nations
5 that remain ser -- being served by diesel generating
6 systems.

7 As an observation, we've also been
8 intervening before regulatory tribunals regarding the
9 business in Manitoba Hydro since 1984. I believe our
10 first tribunal appearance was in respect of the Northern
11 States Power contract Manitoba Hydro had and the
12 advancement of the limestone generating station, and that
13 caused us to appear before the National Energy Board.

14 We've subsequently been appearing on a
15 regular basis between -- before this Board regarding the
16 rates, special hearings, and so forth regarding Manitoba
17 Hydro. So we have considerable experience, expertise,
18 and information built up in -- in our archive in order to
19 follow the Corporation's business.

20 Part of the reasons for that, of course,
21 is that the MKO First Nations have a very intimate
22 relationship with Manitoba Hydro. The future of the
23 Corporation is directly tied to the future well-being of
24 our citizens. And that's largely and directly, of
25 course, because all of Hydro's major transmission and --

1 most of Hydro's major transmission and all of its major
2 generation is within the MKO region, all of it.

3 The relationship formally between our
4 First Nations began, of course, with the 1963 letters of
5 intent regarding the Grand Rapids Generating Station,
6 which then emerged into the first formalized agreement,
7 being the 1977 Northern Flood Agreement, which the
8 government in Manitoba announced on December 15th, 2000,
9 in a Ministerial statement had the force of treaty in
10 this province, would be considered by government as a
11 treaty.

12 And that was followed by the Four Bay
13 agreements, again on Grand Rapids, between 1990 and 1991,
14 signed with all of communities affected by the Grand
15 Rapids Generating Station.

16 And then between 1992 and 1997 there were
17 four (4) comprehensive implementation agreements
18 implementing the Northern Flood agreement signed with
19 Tataskweyak Cree Nation, the York Factory Cree Nation,
20 the Nisichawayasihk Cree Nation, and the Norway House
21 Cree Nation, also known as the Kinosewsiipi Cree Nation.

22 Subsequent to that there have been other
23 further agreements with the Cedar Lake -- Grand Rapids
24 affected communities, one recently signed with
25 Chemawawin.

1 So in addition to the physical presence
2 and the changes in the waterways in the MKO region, there
3 are a lot of -- there are several formal agreements
4 between the Corporation and our citizens in respect of
5 relationships with the community and provision of service
6 and so forth.

7 The provision of electrical service
8 continues to be governed generally by its relations with
9 the Public Utilities Board, but there are understandings
10 and expectations, at least in the minds of citizens,
11 regarding the cost of power, the availability of
12 electrical service, and so forth between our First
13 Nations and Manitoba Hydro.

14 The intimate relationship between our
15 communities also has been evolving over time. And as I
16 had mentioned in my motion -- comments in the MIPUG
17 motion, the relationship has substantially changed. When
18 the projects were initially built, they were -- the
19 irreversible, adverse social, environmental, and economic
20 effects were justified on the basis of providing power
21 for the province and for the -- for Canada.

22 Since the mid-1990s, at least the value of
23 a kilowatt/hour of power has been greater on the export
24 market than it has sold retail on the province in
25 Manitoba. And as Mr. Williams is discussing it's

1 changing the drivers for the Corporation's view of its
2 operations. The new industrial rate is another
3 manifestation of that different vision of the value of
4 power and how the Corporation should respond to it.

5 And so instead of providing service to the
6 citizens of Manitoba as a primary objective for all of
7 its operations -- in terms of their review of matters,
8 including the basic bread and butter of revenue
9 requirement, cost of service and rate design -- we're now
10 in this transition between Crown power -- that is, energy
11 developed as a result of government initiative -- and
12 government risk being involved in the creation of our
13 electrical system and moving in that transition to an
14 open market with open tariffs, open transmission tariffs,
15 with choice in the marketplace and so forth.

16 And all of -- many of the issues that
17 we're discussing in this proceeding, including the new
18 industrial rate, are manifestations of that transition.
19 So MKO is eagerly looking forward to the discussions on
20 these matters because of the close relationship.

21 Let us be clear, the development of
22 Manitoba Hydro system is a result of government policy.
23 It was government policy to reserve to itself the waters
24 of the province through the Water Powers Act. It was
25 government policy to make Manitoba Hydro the primary

1 actor for the development of those water powers, the
2 amendments to the Manitoba Hydro Act that -- established
3 at Section 15.2, that Manitoba Hydro would be the sole
4 purveyor of retail power in the province, are all related
5 to government's vision and energy policy for the
6 development of the waters of the province and for the
7 provision of electrical services in Manitoba.

8 So when issues that touch on government
9 policy are considered, MKO is deeply interested in these
10 changes. In terms of some of the changes regarding value
11 and our discussions about how First Nations that have
12 been affected irreversibly and adversely by the
13 development of the Manitoba Hydro system and how that
14 ties to changes in notions of value, I have some brief
15 examples to share with you because it informs and infuses
16 our thinking about our involvement.

17 For example, at the time the 1991
18 settlement was entered into with Grand Rapids First
19 Nation, Manitoba Hydro made a modest \$18 million in net
20 income on export revenues of \$97 million, while exporting
21 about 31 percent of total electricity production. The
22 total capital amount in the Grand Rapid settlement was \$5
23 million. So 5 million as a -- as a comparison to a
24 corporation earning a net income of about 18 million. It
25 may not seem unreasonable. It seems like there's some

1 sharing of value there.

2 Ten (10) years later in 2001/2002,
3 Manitoba Hydro's net income increased twelve (12) times
4 to 214 million on export revenues of 588 million, while
5 exporting about 42 percent of total electricity
6 production.

7 By 2005/2006 Manitoba Hydro's consol --
8 net -- net revenues ballooned to an all time corporate
9 record at that time of 415 million, and for the first
10 time in Manitoba Hydro's history, in '05/'06, more
11 revenues were made from exports and from the sales of
12 electricity within the province. That year Manitoba
13 Hydro was also recorded by the National Energy Board as
14 selling one-half (1/2) of all the electricity exported
15 from Canada to the United States.

16 So those are substantial changes in the
17 circumstances of the Corporation and its operations, from
18 when many of these agreements were entered into with our
19 First Nations providing compensation for the impacts for
20 the provision of service domestically to the citizens of
21 the Province of Manitoba.

22 Clearly the Corporation's drivers have now
23 focused on the generation of revenue and the maximization
24 of revenue. And as Mr. Williams was discussion, and MKO
25 shares the concern, about whether the focus on revenues

1 is overshadowing the focus on efficiency and cost
2 control.

3 If your revenues are rising we are
4 concerned in testing whether that maintains a rigours
5 focus on cost control. If you have the money to pay for
6 the things you need to do, the questions is: Are you
7 doing enough to make sure that you're spending less than
8 you -- only the dollars that you need to, to meet the
9 OM&A -- O&M -- operation, maintenance and administration
10 requirements.

11 In terms of other expenses, including
12 interest expense, it's very clear that a driving factor
13 of -- on Hydro's IFF and its plans are the addition of
14 new generation, new transmission systems. All of these
15 have a -- an effect on -- on driving the cost side of
16 Manitoba Hydro.

17 In the end, MKO's interests are ensuring
18 that there is affordable power, that the rates are just
19 and reasonable, but also inevitably that the operation of
20 Manitoba Hydro directly benefit the citizens of the MKO
21 First Nations, particularly, as we described in a
22 previous proceeding, the Hydro effected customers that
23 are along the developed waterway and are affected daily
24 by Manitoba Hydro's operations.

25 Turning I -- I suppose finally in my

1 opening comments to the new industrial rate, I had wanted
2 to reiterate that it remains MKO's position that the
3 objective of the rate, particularly the exemption, is a
4 matter of government policy.

5 And so if there are comments made publicly
6 regarding MKO's pursuit of the Crown of the Province of
7 Manitoba to examine this issue, it's not intended in any
8 way to suggest that the Board not ought -- ought not to
9 entertain Manitoba Hydro's submission as it's presented
10 to you, because you've of course ruled on the motion
11 raised by MIPUG and responded to by MKO. But just to
12 raise the point that MKO contin -- intends to pursue our
13 position that it's government policy that would be
14 working -- setting the exemptions for providing power to
15 new industrial customers in the Province of Manitoba.

16 And so if there's any discussion of that
17 outside of the Board, I just wanted to bring that to your
18 attention that may occur.

19 In terms of the Board order on the two (2)
20 proceedings, I -- I would like to just share my
21 understanding of the proceeding, and if I'm incorrect in
22 that understanding, I would welcome a clarification from
23 the Board or Board counsel on this matter, because it's
24 how we're proceeding.

25 In respect of the rate itself and the

1 exemption, it's our understanding that the border
2 indicate -- the order indicates that Manitoba Hydro will
3 be permitted to lead its evidence; to present its
4 material on the new rate and the exemption; that
5 Intervenor will be permitted to cross-examine Manitoba
6 Hydro and to discover what we will in respect of
7 Manitoban Hydro's proposal for the new industrial rate,
8 including the exemption.

9 It's my understanding, however, at the end
10 of this proceeding that the Board will not render an
11 order on the new rate until at least following the
12 submission of other evidence from the current Intervenor
13 or others on the new industrial rate and the exemption.
14 MIPUG has indicated an interest in leading evidence. I
15 can advise that MKO will lead evidence on this.

16 And so if there is an order by the Board
17 on the new industrial rate, it will await the conclusion
18 of this proceeding and the next proceeding prior to
19 making any decision, interim or otherwise, on the new
20 industrial rate.

21 Essentially, I see our proceeding in this
22 -- on examination of the new industrial rate here -- as
23 laying a foundation for a future proceeding in respect of
24 MKO's interests and those of our colleagues. Ms.
25 McCaffrey referred to other information that the Board

1 may find of benefit, and we look forward to pursuing
2 that.

3 But in essence that's how we see dealing
4 with a new industrial rate here. Hydro leads its
5 evidence. We discover Hydro's evidence. The Board
6 doesn't make an order on it until following the
7 entertaining of and -- and consideration of further
8 evidence from MKO, MIPUG, and others on the new
9 industrial rate at a future proceeding for which a
10 schedule has yet to be set.

11 With that, we greatly look forward to this
12 proceeding and to going through the considerable volume
13 of material, to the evidence being led by our -- the
14 participants in this proceeding, to Manitoba Hydro's
15 evidence, of course, and its comments on its various
16 proposals, and to the -- the guidance through this
17 proceeding by yourself, Mr. Chair, and by the members of
18 the Board.

19 And with that, Akwesane (phonetic). Thank
20 you very much.

21 THE CHAIRPERSON: Thank you, Mr.
22 Anderson. If we have got anything to add to help with
23 the clarification, it'll come after a bit more
24 reflection.

25 MR. MICHAEL ANDERSON: Thank you, Mr.

1 Chair.

2 THE CHAIRPERSON: Okay, Mr. Gange for
3 RCM/TREE...?

4

5 OPENING COMMENTS BY RCM/TREE:

6 MR. BILL GANGE: Thank you, Mr. Chair,
7 Members of the Board. Resource Conservation Manitoba in
8 Time to Respect Earth's Ecosystems are non-government
9 organizations committed to the advancement of a more
10 sustainable society in which our planet's natural
11 endowments of living and nonliving systems and resources
12 are valued, respected, and conserved.

13 Recognizing that this natural legacy is
14 finite and subject to degradation -- degradation and
15 depletion, we promote eco-efficiency, improving the ratio
16 of socie -- social benefits to environmental harms and
17 resource depletion as an in -- essential pillar of a
18 sustainable society.

19 At this Hearing, I will be appearing on
20 behalf of RCM/TREE, along with my colleague, Dan Rempel.
21 Professor Peter Miller will be in attendance throughout
22 most of this Hearing. Professor Miller is, as you
23 probably know, the Vice President of TREE. At today's
24 Hearing we're also joined by Randall McQuaker, the
25 Executive Director of Resource Conservation Manitoba, and

1 Carolyn Garlich, Policy -- Policy Committee Member of
2 RCM.

3 At the Hearing we will be -- we will be
4 presenting the evidence of Paul Chernick and Steve Weiss.
5 Mr. Weiss has appeared before this Board previously in
6 Centra Gas hearings. Mr. Chernick will be new to this
7 Board, although he has an impressive CV of appearances
8 before many regulatory bodies throughout North America.

9 Our objectives in these interventions are
10 to explore and urge the implementation of measures to
11 make the production and use of energy in Manitoba more
12 sustainable and just. RCM/TREE take a great interest in
13 a number of initiatives that Manitoba Hydro is pursuing
14 in this General Rate Application, which reflect previous
15 recommendations of RCM/TREE.

16 In particular the -- the proposals for
17 inverted rates are something -- or -- or is an issue that
18 has been proposed by RCM/TREE since the RCM/TREE
19 interventions first began in 2002.

20 Secondly, rates set at full marginal costs
21 for incremental load for the energy-intensive industrial
22 customers is something that has been considered
23 previously by RCM/TREE in the -- the hearing in 2004 and
24 in the recent Cost of Service Hearing, the economist
25 provo -- presented by RCM/TEE -- RCM/TREE, our Jim Lazar,

1 pointed out the potential negative impacts to the
2 Manitoba economy and other Manitoba Hydro customers from
3 a new energy-intensive, job-poor aluminum smelter under
4 current rates.

5 Thirdly, targeted programming for low
6 income customers introduced by Steven Weiss in his 2005
7 and 2007 Centra Gas testimony is something that is being
8 presented by Manitoba Hydro.

9 We applaud the introductions of these
10 measures, while noticing -- noting weaknesses in the
11 proposed measures as they stand. And the testimony of
12 our experts will recommend improvements and extensions of
13 the proposals currently before you by Manitoba Hydro.

14 Mr. Weiss proposes that low-income
15 measures be extended to include rate mitigation for low-
16 income customers facing a severe energy burden.

17 Mr. Chernick proposes more effective
18 alternatives for inverted rates in the residential sector
19 and for the new industrial rates, and shows how the
20 latter can be rolled up with inverted rates for the large
21 power users constructed on the BC Hydro model.

22 We agree with MIPUG that industrial rate
23 design is an urgent concern, and we would say that --
24 that Mr. Chernick has submitted proposals with respect to
25 this in addition to the new large industrial loads.

1 With respect to the subsequent hearing,
2 the evidence that we filed had -- had been prepared prior
3 to the -- the MIPUG motion being heard, and at that time
4 Mr. Chernick had provided information and evidence on
5 this issue. It is our intention to analyze the
6 information supplied by Manitoba Hydro and to participate
7 in the subsequent hearing.

8 We also note that two (2) of the three (3)
9 proposals that we are focusing on have generated
10 controversy, in part, based on jurisdictional issues.
11 Our position is that this Board does, indeed, have the
12 jurisdiction to consider these proposals under the Crown
13 Corporations Public Review and Accountability Act, and
14 pursuant to the Public Utilities Board Act.

15 If these issues are to be questioned
16 during the hearing, RCM/TREE will be pleased to provide
17 the Board with our thoughts on the jurisdictional issues
18 at that time.

19 With that, Mr. Chair, members of the
20 panel, we're ready to proceed and looking forward to the
21 evidence being produced. Thank you.

22 THE CHAIRPERSON: Thank you, Mr. Gange.

23 Ms. Ramage, do you have opening comments
24 for Manitoba Hydro?

25

1 OPENING COMMENTS BY MANITOBA HYDRO:

2 MS. PATTI RAMAGE: Yes. Good morning,
3 Mr. Chair, Vice-Chair Mayer and Board Member Proven.

4 For the record, my name is Patti Ramage
5 and I will be appearing as counsel for Manitoba Hydro
6 during these proceedings. I will be assisted, as I have
7 in the past, by Ms. Odette Fernandes, who is in our back
8 row.

9 I thought I would begin this morning
10 simply by introducing the Manitoba Hydro panel of
11 witnesses that is with me here today.

12 To my immediate right is Mr. Vince Warden
13 who is the Vice-President of Finance and Chief Financial
14 Officer of Manitoba Hydro. We have Willy Derksen, Manger
15 of Corporate Accounting. To his right is Ian Page,
16 Manager of Financial Planning. Then we also have Harold
17 Surminski, Section Head in the Resource Planning and
18 Market Analysis Department, and Mr. Lloyd Kuczek -- a
19 familiar face to this Board. He is the Division Manager
20 of Consumer Marketing and Sales.

21 I'd also take the opportunity to introduce
22 our back row who provide witness support to our panel. I
23 will start at the far right with Ms. Colleen Kuruluk, who
24 is the Manger of Marketing Programs. Next to her is
25 Joanne Flynn, Division Manager of Power Planning. Mr.

1 Greg Epp is the Financial Forecasting Supervisor.
2 Crystal Doering is the Corporate Accounting Regulatory
3 Coordinator.

4 We also have here today Mr. Manny Schulz
5 who is our Corporate Controller. And in the far left-
6 hand side, which may be difficult for the Board to see,
7 we have snuck in Mr. Robin Wiens, who is the Division
8 Manager of Rates and Regulatory, as well as Chic Thomas,
9 the Manager of Electric Rates and Regulatory.

10 These gentlemen will be moving to the
11 front row later on in these proceedings. For now,
12 they'll monitor for the -- from the back row.

13 Mr. Peters reviewed the exhibit list
14 during his opening comments. Manitoba Hydro would like
15 to, for the record, add to that list several documents
16 that were provided to Mr. Gaudreau this morning.

17 To be included as Manitoba Hydro Exhibit 6
18 will be the affidavit of publication and service of
19 notice of the application and pre-hearing conference,
20 that was -- that's dated October 11th of '07.

21

22 --- EXHIBIT NO. MH-6: Affidavit of publication and
23 service of notice of the
24 application and pre-hearing
25 Conference, dated October

1 11th, 2007

2

3 MS. PATTI RAMAGE: We also have the
4 affidavit of publication and service of -- the reminder
5 notice -- the reminder notice of the application and
6 hearing dated February 29th of 2008. And that will be
7 Manitoba Hydro Exhibit 7.

8

9 --- EXHIBIT NO. MH-7: The reminder notice of the
10 application and hearing,
11 dated February 29th, 2008

12

13 MS. PATTI RAMAGE: We have available CVs
14 for all of the witnesses and that includes Mr. Wiens and
15 Mr. Thomas. Ms. Fernandes can distribute those perhaps
16 at the -- the next break but maybe just for housekeeping
17 we were proposing that those would be entered into the
18 record as Manitoba Hydro Exhibits 8-1 through 8-7.

19

20 --- EXHIBITS NO. MH-8-1 TO 8-7:

21 CVs for Manitoba Hydro's witnesses

22

23 MS. PATTI RAMAGE: Normally, I don't make
24 any comments at the opening of these proceedings and --
25 and we simply go directly to the witnesses but I heard

1 this morning something of concern to me, and that was the
2 description of the process with respect to the new
3 industrial rate, because there appears to be a bit of a
4 disconnect between Manitoba Hydro's understanding of the
5 Board's order and what we heard this morning.

6 That -- the concern relates to MIPUG and
7 MKO's opening comments and while Manitoba Hydro
8 recognizes it's ultimately up to MIPUG how it wishes to
9 pursue this matter, what I heard was they intended to
10 file the bulk of their evidence and virtually all their
11 evidence with respect to the new industrial rate in the
12 subsequent hearing that was ordered by the Board in Order
13 8 of 2008.

14 But when -- Manitoba Hydro's understanding
15 of the Board's intent in that order is clearly a little -
16 - is quite different from that what we heard from Ms.
17 McCaffrey and Mr. Anderson.

18 And in that regard I refer to page 21 of
19 that order where the Board required Manitoba Hydro to
20 defend its proposal at the upcoming GRA. It established
21 that there would be a special hearing with respect to the
22 exemption require -- exemption criteria and any
23 outstanding rate matters is what -- is how Manitoba Hydro
24 interprets that order. Not -- Manitoba Hydro's
25 interpretation is that the rate itself will be dealt with

1 in the -- the focus of the rate will be during this GRA,
2 with the Board directing outstanding matters to be dealt
3 with at that subsequent hearing for cleanup, not to defer
4 everything to a subsequent hearing.

5 And I'm concerned that the MIPUG plan is
6 ignoring the spirit and intent of Order 8/2008, and in
7 doing so they're effectively granting themselves the
8 order they sought through their motion, but which I don't
9 believe was in fact granted by this Board.

10 And I bring this concern to the Board's
11 attention. I'm not sure at this juncture whether the
12 Board's even in a position to deal with that concern but
13 I wanted it noted on the record.

14 That having been said I would suggest that
15 the witnesses be sworn and we move towards filing our
16 direct evidence. And I'm not sure if this was the -- if
17 the Board wishes to take a break first but that concludes
18 my comments.

19 THE CHAIRPERSON: I think what we'll do
20 is we'll swear the witnesses and then we'll take our
21 break.

22 Mr. Gaudreau...?

23 MS. TAMARA MCCAFFREY: Mr. Chairman?

24 THE CHAIRPERSON: Yes.

25 MS. TAMARA MCCAFFREY: At an appropriate

1 time I -- I think it might be appropriate for MIPUG to
2 respond a little bit to -- to Ms. Ramage's comments,
3 perhaps after the break if it's acceptable to the Board.
4 Very brief.

5 THE CHAIRPERSON: After the break.
6 Mr. Gaudreau...?

7 MR. MICHAEL ANDERSON: MKO would echo Ms.
8 McCaffrey's comments, Mr. Chair.

9
10 MANITOBA HYDRO REVENUE REQUIREMENT AND DEMAND SIDE
11 MANAGEMENT PANEL:

12 VINCE WARDEN, Sworn
13 WILLY DERKSEN, Sworn
14 IAN PAGE, Sworn
15 HAROLD SURMINSKI, Sworn
16 LLOYD KUCZEK, Sworn

17
18 THE CHAIRPERSON: Thank you all, we'll
19 adjourn for fifteen (15) minutes.

20
21 --- Upon recessing at 10:13 a.m.

22 --- Upon resuming at 10:36 a.m.

23

24 THE CHAIRPERSON: Okay. So before we
25 begin with your questions of your panel, Ms. Ramage, the

1 panel wants to hear Manitoba Hydro's full application.

2 We will reserve a decision on, at minimum,
3 the criteria for the exemption. By this reading the
4 Board conclude on baselines and the rate at this
5 proceeding, or based on what it has heard, could leave
6 the whole issue, including the criteria, for
7 determination at the second hearing.

8 Parties will be given a chance during
9 cross-examination to raise any and alternatives that they
10 want considered at a subsequent hearing. But the Board
11 will ultimately rule what is at issue at the second
12 hearing. At minimum it will be the exemption criteria.
13 So we hope that clarifies our position.

14 Ms. Ramage...?

15

16 (BRIEF PAUSE)

17

18 MS. PATTI RAMAGE: Yes, Mr. Chairman.
19 Manitoba Hydro's understanding of the order, now that I
20 had the break to review the order in a little more
21 detail, was derived from page 4 where it said:

22 "While the Board is prepared to
23 consider alternate proposals, if any,
24 from Intervenors to address the concern
25 and risk identified by Manitoba Hydro

1 at the GRA proceeding, the Board will
2 not reach a conclusion on the exemption
3 criteria.

4 With respect to the exemption criteria,
5 alternate proposals may also be raised
6 by Intervenor at the separate
7 proceeding to be established by the
8 Board, and at that separate proceeding
9 the Board will proceed on a de novo
10 basis, with respect to the exemption
11 issue. By severing only the exemption
12 issue related to Manitoba Hydro's
13 proposed new energy intensive loads,
14 the Board will be placed in a better
15 position to better understand through
16 the GRA process, the scope and
17 magnitude of the concern raised by
18 Manitoba Hydro, which concern the Board
19 shared in Order 117 of '06."

20 So I think what our -- the real concern
21 here is the efficiency of the process, in terms of what's
22 going to happen at this second hearing. We had hoped to
23 hear from the other parties so that the Board could
24 refine on a go-forward basis the rate portion, followed
25 by the exemption criteria, and I -- I am concerned that

1 now we're only going to hear what Manitoba Hydro has to
2 say and -- and not hear about those other proposals so
3 that -- and miss some efficiencies in that second
4 hearing.

5 Having said that, I can advise that from
6 the panel's perspective, the panel dealing with this
7 issue is at the Cost of Service Panel and they would be
8 better put to answer when we get into the issue. That's
9 when we'll be going forward. And we have heard what the
10 Board has to say on this matter, but -- so that the Board
11 understands that was how we were coming into this process
12 thinking what the process was.

13 THE CHAIRPERSON: I am a little bit
14 reluctant to say much more as we are attempting to
15 clarify this issue. But --

16 MS. PATTI RAMAGE: Yeah.

17 THE CHAIRPERSON: -- Ms. Ramage, why do
18 you not begin with your direct.

19 MS. PATTI RAMAGE: Yes. I just thought
20 it helpful that everyone understand where we were coming
21 from so -- and it's helpful even to hear from MIPUG where
22 they're coming from because I had been wondering where
23 the evidence was.

24 But in any event I can begin the direct
25 evidence, although -- oh, Ms. McCaffrey seems to be

1 wishing to jump in.

2 THE CHAIRPERSON: Ms. McCaffrey...?

3 MS. TAMARA MCCAFFREY: Absolutely not
4 wanting to get into an argument at this stage, Mr. Chair,
5 two (2) very, very quick points of course.

6 Naturally the Board will leave it open to
7 make the determination that they feel are appropriate.
8 MIPUG is certainly not trying to grant themselves
9 something that the Board didn't -- and -- and that's why
10 we are participating to the fullest extent that we can,
11 but it's a little more limited without the development of
12 that evidence that goes beyond our usual forms of
13 expertise in the usual scope of issues that are before
14 this Board.

15 So certainly we are going to participate
16 as extensively and as thoroughly as we possibly can but
17 in -- on January 28th, when I indicated that our
18 evidence, for us to develop proposals, the applicants
19 developed one -- for us to develop alternatives is -- it
20 requires certain expertise and all the rest of it, it was
21 impossible for the GRA. That wasn't just an argument for
22 the adjournment, it -- it really was impossible and
23 that's why I try to, and will, continue to inform the
24 Board on a good-faith basis how we continue to do that in
25 this, and Ms. Ramage as well.

1 Certainly MIPUG would never even consider
2 arguing that -- that Manitoba Hydro wouldn't have an
3 opportunity to respond to any proposals at a second
4 hearing with -- with further evidence or rebuttal
5 evidence of their own as they deem appropriate. So we
6 certainly don't want anybody to be prejudiced here.

7 MR. MICHAEL ANDERSON: Mr. Chair, may I
8 make a comment?

9 THE CHAIRPERSON: Yes, Mr. Anderson.

10 MR. MICHAEL ANDERSON: Thank you. MKO
11 echos Ms. McCaffrey's comments about our expectations for
12 Manitoba Hydro's ability to test the evidence of the
13 Intervenors. We would not object to more fully exploring
14 that through evidence or rebuttal evidence filed by
15 Manitoba Hydro at the time. Obviously, the intention is
16 to have the best information possible.

17 The issue being, of course, in the
18 original motion and at risk of not -- not intending or
19 wishing to sound like we're entering into re-arguing the
20 original motion, we were in a situation where it was just
21 not possible to prepare evidence and file it on the
22 exemption and hence the order. That's recognized in the
23 Board's order as it's intent.

24 I make the practical observation in
25 respect of the rate though, and realizing your opening

1 evidence but leave those comments with the Board and
2 understanding clearly your opening comments upon return
3 from the break about what orders you may make in the
4 circumstances upon hearing the evidence in this
5 proceeding. Thank you, Mr. Chair.

6 THE CHAIRPERSON: We will see what comes
7 forth as the Hearing proceeds.

8 Okay, Ms. Ramage...?
9

10 EXAMINATION-IN-CHIEF BY MS. PATTI RAMAGE:

11 MS PATTI RAMAGE: Thank you, Mr. Chair.
12 Mr. Warden, would you please summarize Manitoba Hydro's
13 application before this Board?

14 MR. VINCE WARDEN: Yes. Good morning,
15 Mr. Chairman, members of the Board, ladies and gentlemen.
16 And I will just briefly summary -- summarize the
17 application as filed by Manitoba Hydro back in August of
18 2007.

19 We did file a General Rate App --
20 Application with the Board requesting the following:

21 Point Number A, approval of a 2.9 percent
22 across the board increase for all customer classes, with
23 the exception of area and roadway lighting, for which a 1
24 percent rate increase -- increase was requested.

25 B) Final approval of a -- of the 2.25

1 interim rate increase implemented March the 1st, 2007,
2 and approved in Order 2107.

3 C) Approval to extend the Surplus Energy
4 Program to March 31st, 2013.

5 D) Final approval of all Surplus Energy
6 Program interim rate orders.

7 E) Approval of modifications to the
8 Curtailable Rate Program and approval of all interim
9 orders related to this program.

10 F) Final approval of changes to the
11 Limited Use of Billing Demand Program.

12 G) Approval of interim ex parte orders
13 related to Diesel Electric Service.

14 And H) Approval of new general service
15 rate for large, new, or expanding industrial loads.

16 MS. PATTI RAMAGE: Mr. Warden, if this
17 rate application is approved, how much additional revenue
18 will be generated for Manitoba Hydro?

19 MR. VINCE WARDEN: Manitoba Hydro is
20 projecting that the 2.9 percent rate increase will
21 generate additional revenues of approximately \$30 million
22 per year, commencing in 2008/09.

23 MS. PATTI RAMAGE: And why is this
24 additional revenue needed by Manitoba Hydro?

25 MR. VINCE WARDEN: The additional revenue

1 is needed for a number of reasons. First, like any other
2 business, Manitoba Hydro is faced with increasing cost
3 pressures as it fulfills its mandate to provide energy to
4 Manitoba consumers. The relatively modest rate increase
5 of 2.9 percent is required to assist Manitoba Hydro in
6 keeping pace with its higher cost of doing business.

7 Secondly, because Manitoba Hydro has
8 significant requirements for funds to manage its
9 operating and capital programs, the more funds we can
10 generate internally, the less we'll have to borrow from
11 external markets. Reduced borrowing leads to reduced
12 debt, which in turn leads to reduced financing costs for
13 the ultimate benefit of Manitoba consumers.

14 Third, Manitoba Hydro has been striving to
15 achieve a capital structure which is more comparable to
16 that of other large Canadian utilities. Our target debt
17 equity ratio of 75/25 is actually quite modest when
18 compared to the current debt equity ratio of BC Hydro at
19 70/30 and Hydro Quebec at 64/36.

20 Steady progress towards the achievement of
21 financial targets is important for the financial well-
22 being of the Corporation as well as to provide confidence
23 to bond holders, rating agencies, and other state
24 quarters that Manitoba Hydro is a strong -- a financially
25 strong and self-sustaining corporation.

1 Fourth, Manitoba Hydro faces a number of
2 very significant risks which could have severe financial
3 consequences. These risks include the cost of a
4 prolonged -- prolonged drought, which could exceed \$2
5 billion; the loss of infrastructure due to weather or
6 some other catastrophic event; the loss of export
7 markets, which could occur for a number of reasons beyond
8 our control; and other such risks as interest rate risk,
9 foreign currency risk, the costs associated with an aging
10 infrastructure, and an aging workforce.

11 In order to properly maintain -- sorry, in
12 order to properly manage and prepare for the risks faced
13 by the Corporation, an adequate level of retained
14 earnings or equity is essential.

15 Another important reason that a rate
16 increase is needed is to prevent -- preserve rate
17 stability over the long term. While having rate
18 increases well below the rates of inflation over the past
19 ten (10) plus years has been good for electricity
20 consumers, there is currently such a large difference
21 between embedded cost rates and marginal cost rates that
22 it is prudent to now raise rates gradually over time
23 rather than be confronted with what would inevitably be
24 large rate increases in the future.

25 One need only look at the cost of building

1 Kettle Generating Station for \$324 million during the
2 1970s or Limestone for \$1.4 billion in the early 1990s
3 and compare that to the estimated cost of building a
4 similar-sized Conawapa at over \$5 billion, not including
5 another 2+ billion for a transmission line.

6 Clearly, the cost of power in the future
7 will need to be considerably higher than it is today.

8 MS PATTI RAMAGE: Is it appropriate that
9 Manitoba Hydro's rate increase be across the board?

10 MR. VINCE WARDEN: Yes, it is appropriate
11 that Manitoba Hydro's rate increase be across the board,
12 and we've referenced this to some extent in our rebuttal
13 evidence.

14 As directed by the PUB in Order 117/06, we
15 have filed with our application supplemental information
16 by customer class, which will allow the PUB to consider
17 the impacts of marginal costs on our Cost of Service
18 study.

19 Depending on the extent of consideration
20 the PUB chooses to give to marginal cost information, the
21 direction for class rate increases could be significantly
22 different than the direction that would come from the
23 embedded cost study alone. Our rebuttal evidence has
24 provided a table which indicates -- indicates how
25 different those results could be.

1 A further consideration, which was not
2 incorporated in our rebuttal evidence, is that
3 recognizing the reality of our retained earnings
4 deficiency, no class of service provides revenue equal to
5 100 percent of its cost, and that includes street
6 lighting.

7 In effect, until Manitoba Hydro reaches
8 its retained earnings target, there is strong rationale
9 for all rate increases to be across the board.

10 MS. PATTI RAMAGE: Could you please
11 provide the Board with an update on the progress Manitoba
12 Hydro is making towards achieving its financial and
13 operational targets?

14 MR. VINCE WARDEN: Yes, I am pleased to
15 report to the Board that Manitoba Hydro's financial and
16 operational performance is favourable in almost all areas
17 of our business.

18 Most gratifying is the significant
19 improvement in safety performance of employees, which has
20 been a huge concern and a key area of focus for us over
21 the past number of years.

22 While we still have not reached our safety
23 targets in terms of accident frequency, severity, and
24 high-risk incidents, our performance for the current
25 fiscal year is the best we've experienced in over ten

1 (10) years.

2 In fact, on the gas side of our business,
3 we were informed last month by the Canadian Gas
4 Association that Manitoba Hydro is to receive an award in
5 the -- this year for the best overall safety performance
6 in Canada.

7 This is -- this is a significant
8 achievement for the dedicated people in our Safety and
9 Health Division and for all employees who have made
10 safety their number one (1) priority.

11 As positive as our current safety
12 performance is however, the past year was marred by the
13 tragic loss of life of one (1) young employee and a
14 contractor working with that employee. This incident
15 points to the hazardous nature of the electricity
16 business and how essential it is to keep safety as our
17 highest corporate priority.

18 I also mentioned this at a previous gas
19 proceeding, but I think it's worth repeating here that
20 Manitoba Hydro was honoured in the fall of 2007 by J.D.
21 Power & Associates as having the highest ratings for
22 customer satisfaction of all utilities in Canada.

23 In the J.D. Power survey we scored
24 especially high in the areas of billing and payment,
25 communications, corporate citizenship, price, and value.

1 The J.D. Power results reaffirmed Manitoba Hydro's number
2 one (1) ranking in customer satisfaction based on surveys
3 conducted annually by the Canadian Electrical
4 Association.

5 In terms of system reliability, Manitoba
6 Hydro still ranks among the leaders in terms of lowest
7 outage frequency and lowest duration for customers
8 experiencing outages. There has, however, been an
9 increase in outage frequency and outage duration compared
10 to previous years, and this is an area of some concern.

11 On the employment equity front, Manitoba
12 Hydro continues to make significant strides in terms of
13 increasing designated group members as a percentage of
14 our workforce. And we continue to be the Canadian leader
15 in Aboriginal employment.

16 Based on our most recent statistics,
17 Aboriginals comprised 13 percent of our workforce
18 overall, and 39 percent of our workforce in Northern
19 Manitoba. At the Wuskwatim Project, which is well
20 underway, Aboriginals make up fully 64 percent of all
21 employees and contractors on site.

22 With respect to Manitoba Hydro's goal to
23 be a leading utility in protecting the environment and
24 propo -- promoting sustainable energy supply and service,
25 Manitoba Hydro was recen -- recently selected by the

1 Canadian Electrical Association as the 2007 winner of the
2 Environmental Commitment and Responsibility Award.

3 The ECR program has four (4) principles
4 that demonstrate members' -- member utilities' commitment
5 to managing the environmental component of their
6 businesses. These four (4) principles are:

7 To be more efficient in use of resources.

8 Number 2, to reduce the adverse
9 environmental impacts of our business.

10 Number 3, to be accountable to our
11 constituents.

12 And Number 4, to ensure that employees
13 understand the environ -- environmental implications of
14 their actions and have the knowledge and skills to make
15 the right decisions.

16 Finally, on the financial front, as
17 indicated in the recently issued quarterly report for the
18 nine (9) months ended December 31st, 2007, Manitoba Hydro
19 is having a good year, financially.

20 Updating financial results to January the
21 31st, 2008, net income in the electricity sector is
22 continuing the favourable trend referenced in the
23 quarterly report.

24 If the favourable variance is sustained
25 for the remaining two (2) months of this fiscal year --

1 and we expect it will be -- net income will exceed \$300
2 million for the year. This would represent the second
3 highest level of net income in the Corporation's history.

4 The favourable variance from the forecast
5 is in large part due to the excellent water flow
6 conditions and good export sales, volumes, and prices.
7 But the single most favourable variance from the forecast
8 is in Operating, Maintenance, and Administration, which
9 is \$16 million below forecast for the ten (10) month
10 period and \$9 million lower than the same ten (10) months
11 last year.

12 Well, this under-expenditure in OM&A may
13 be interpreted as favourable -- and it is -- it is not
14 entirely a good-news story. The main reason that we were
15 under-expended in Operating, Maintenance, and
16 Administration is that we are having significant
17 difficulty in hiring qualified professional and trades
18 personnel. We've never experienced this problem at
19 Manitoba Hydro before, and every indication is that it
20 will get worse before it gets better.

21 Historically, we've been quite successful
22 with a relatively passive recruitment and retention
23 strategy, but the competition in the labour market today
24 is intense. Good evidence of this was provided just last
25 week in the Free Press, where it was reported that

1 Manitoba employers are, quote, "having to shell out more
2 money to attract and retain workers."

3 The Free Press reported that the increase
4 in average weekly earnings in Manitoba was up 4.1 percent
5 in 2007, the largest increase in fifteen (15) years. The
6 province's Chief Statistician, Wilf Falk, was quoted as
7 saying:

8 "It's a reflection of demand for
9 workers. If you want to find somebody
10 good, you're going to have to pay
11 them."

12 This comes at a time when numbers of
13 permanent staff that must be recruited each year at Hydro
14 are expected to double from historical levels of
15 approximately one hundred and fifty (150) people per year
16 to three hundred (300) per year for the next several
17 years.

18 In large part, this is due to the
19 demographic of the workforce. There were one hundred and
20 seventy (170) retirements in 2007, which represents an
21 increase of 31 percent over 2006. At the beginning of
22 2008, Hydro has over seven hundred (700) employees
23 eligible to retire. Retirements are expected to rise to
24 approximately two hundred (200) per year and remain at
25 this level for the next decade.

1 than is optimal and customers calling our contact centre
2 are experiencing somewhat longer wait times.

3 Over the longer term, the staffing issue
4 is being addressed through such initiatives as the
5 introduction of a new trades trainee program; increased
6 emphasis on succession planning for key positions;
7 enhanced employment partnerships with Aboriginal
8 organizations; greater recruitment visibility at schools,
9 universities and colleges; and international recruitment
10 for engineers and other technical positions.

11 With respect to the recruitment of trades
12 trainees, the entry level of pay was recently increased
13 from fourteen dollars and thirty-three cents (\$14.33) per
14 hour to seventeen dollars and four cents (\$17.04) per
15 hour. Well, this increase is a substantial 19 percent
16 and will add approximately 1.1 million to our annual
17 payroll.

18 Our new rate of seventeen dollars and four
19 cents (\$17.04) per hour still lags well behind the rates
20 of SaskPower at twenty dollars and seventy-eight cents
21 (\$20.78) per hour, ENMAX at twenty-one fifty-four (21.54)
22 per hour, and BC Hydro at twenty-four dollars sixty-two
23 (\$24.62) -- twenty-four dollars and sixty-two cents
24 (\$24.62) per hour.

25 Clearly, we will have to keep a close eye

1 on this, and further increases may be necessary, because
2 these are the very companies that we're competing with
3 for talent.

4 MS. PATTI RAMAGE: Mr. Warden, will the
5 favourable variance in net income for 2007/2008 carry
6 over to a favourable variance in 2008/2009?

7 MR. VINCE WARDEN: Not necessarily.
8 While water conditions are looking good at this time,
9 this situation can turn around very quickly. The best
10 example of this is the record net loss of 436 million
11 incurred by Hydro in 2003/04, only to be followed just
12 two (2) years later by record net income of 415 million.
13 This swing of \$850 million in net income was almost
14 entirely due to the -- a dramatic change in water flow
15 conditions.

16 MS. PATTI RAMAGE: Does the range of
17 uncertainty around water flows, and hence net income,
18 provide justification for some form of a drought reserve?

19 MR. VINCE WARDEN: No, not at all. It
20 does point to the need of having an adequate level of
21 retained earnings to withstand the many risks that are
22 faced by the Corporation, including a drought, but having
23 a segregated reserve would serve no useful purpose.

24 Just to close on a positive note, assuming
25 net income is at or about 300 million for the year ending

1 March 31st, 2008, retained earnings will reach
2 1.8 billion at that date, and the debt-equity ratio will
3 be at 77/23.

4 And with the approval of the two point
5 nine (2.9) rate increase requested in this application,
6 Manitoba Hydro will continue to make progress towards the
7 attainment of the seemingly elusive, but very important,
8 financial target.

9 I might also add that even with the 2.9
10 percent rate increase, Manitoba Hydro will maintain its -
11 - its status of having the lowest overall elec --
12 electricity rate structure in Canada and amongst the
13 lowest in North America. Thank you.

14 MS. PATTI RAMAGE: Mr. Warden, one (1)
15 more question. And that is that Manitoba Hydro has
16 provided a filing to this Board, has filed two (2) rounds
17 of responses to Information Requests, as well as rebuttal
18 evidence.

19 On behalf of the Corporation, do you adopt
20 the evidence that has been filed to date?

21 MR. VINCE WARDEN: Yes, I do.

22 MS. PATTI RAMAGE: Thank you. And now
23 I'll turn to Mr. Derksen. Could you state your name and
24 responsibilities at Manitoba Hydro, including with
25 respect to this filing?

1 MR. WILLY DERKSEN: Yes, thank you. Good
2 morning, Mr. Chairman and members of the Board. My name
3 is Willy Derksen, and I hold the position of Corporation
4 Accounting Manager at Manitoba Hydro.

5 I'm a Certified General Accountant and
6 have appeared several times previously before the
7 Manitoba Public Utilities Board in proceedings relating
8 both to Manitoba Hydro and to Centra Gas.

9 I've held my current position at Manitoba
10 Hydro since 2006, and in that position my
11 responsibilities include corporate functions related to
12 financial accounting and reporting, budgeting, and
13 financial systems.

14 Prior to assuming my current position, I
15 held various senior and managerial financial positions at
16 Manitoba Hydro, Centra Gas, and Centra's predecessor
17 companies.

18 My main responsibilities relative to this
19 filing were the preparation of the actual and budgeted
20 financial statements along with the detailed support
21 information that accompanies them.

22 MS. PATTI RAMAGE: Thank you, Mr.
23 Derksen. Mr. Page, if I could ask you the same question.

24 Could you state your name and
25 responsibilities at Manitoba Hydro?

1 MR. IAN PAGE: Yes. Good morning, Mr.
2 Chairman and members of the Board. My name is Ian Page,
3 and I hold the position of Department Manager of
4 Financial Planning at Manitoba Hydro.

5 I'm a Certified Management Accountant, and
6 I also have an MBA and a BSC from the University of
7 Manitoba. This will be my first appearance at the -- at
8 Public Utility Board as a witness.

9 I've held my current position at Manitoba
10 Hydro since 1993. And under that -- in that role I --
11 sorry -- my responsibilities include preparation of the
12 annual integrated financial forecast, analysis of
13 strategic options for the company, business case
14 analysis, and commercial terms negotiations for
15 Aboriginal partnerships for new generating stations.

16 I've had other positions with -- within
17 the Financial Planning Department at Manitoba Hydro prior
18 to my current position. And prior to joining Manitoba
19 Hydro, I worked at the Department of Fisheries and
20 Oceans.

21 Regarding this -- this particular Hearing,
22 my responsibilities were the preparation of the
23 integrated financial forecasts that have been filed --
24 IFFs 06-3, 06-4 and 07-1 -- along with all the detailed
25 supporting information.

1 MS. PATTI RAMAGE: Thank you, Mr. Page.
2 Now turning to Mr. Surminski.

3 Could you state your name and
4 responsibilities at Manitoba Hydro please?

5 MR. HAROLD SURMINSKI: Yes. Good morning,
6 Mr. Chairman, members of the Board, Mr. Peters,
7 Intervenors, and others in -- in this room.

8 My name is Harold Surminski, and I hold
9 the position of Section Head in the Resource Planning and
10 Market Analysis Department of the Power Planning
11 Division. And they're the Power Supply Business Unit.

12 I'm a Professional Engineer registered
13 with the Association of Professional Engineers and
14 Geoscientists of the Province of Manitoba.

15 I have been with Manitoba Hydro for
16 thirty-two (32) years and have worked in the Resource
17 Planning area during my entire career. I have previously
18 testified before this Board in several proceedings
19 related to Manitoba Hydro electric rate applications.

20 My main responsibilities relative to this
21 filing are related to Manitoba Hydro's plans for -- for
22 future resource development, the determination of export
23 revenues and generation costs in the long term, the
24 expected cost of drought in the future. I am also
25 responsible for developing the marginal costs that are

1 used in evaluating resource options, including DSM. That
2 concludes my remarks.

3 MS. PATTI RAMAGE: Thank you, Mr.
4 Surminski. And now turning finally to you, Mr. Kuczek.

5 Could you please outline your
6 qualification and area of responsibility with respect to
7 this portion of Manitoba Hydro's filing?

8 MR. LLOYD KUCZEK: Good morning, Mr.
9 Chairman, members of the Board, Intervenors, and others
10 present.

11 I am a Professional Engineer registered
12 with the Association of Professional Engineers and
13 Geoscientists of the Province of Manitoba. I have a
14 Bachelor of Science degree and Electrical Engineering and
15 an MBA degree.

16 I've been employed with -- by Manitoba
17 Hydro over the past twenty-seven (27) years, and my
18 present position at Manitoba Hydro is Division Manager of
19 Consumer Marketing and Sales.

20 My division is responsible for long-term
21 planning of the Corporation's energy efficiency programs,
22 the design and delivery of energy efficiency and consumer
23 service programs that target both the residential and
24 consum -- commercial market sectors, for the evaluation
25 of program impacts and effectiveness, for consumer market

1 research, for developing a load forecast, for consu --
2 customer services provided through the Corporation's
3 customer contact centre, and for customer service
4 extension services.

5 MS. PATTI RAMAGE: Could you please
6 comment on the nature of Manitoba Hydro's energy
7 conservation program?

8 MR. LLOYD KUCZEK: Manitoba Hydro
9 currently offers one of the most aggressive and
10 longstanding commitments to DSM in North America.
11 Manitoba Hydro has been offering energy conservation
12 programs since 1989, and the Corporation has
13 significantly ramped up its efforts over the years to
14 capture energy effic -- efficiency opportunities.

15 Mani -- Manitoba Hydro's DSM efforts are
16 consistent with industry best practices and compare --
17 compare favourably to programs being offered by leading-
18 edge North American utilities and agencies.

19 MS. PATTI RAMAGE: Can you comment on how
20 you can support this position?

21 MR. LLOYD KUCZEK: I use an aggregate of
22 indicators and sources to support my assessment, which
23 include the Canadian Energy Efficiency Alliances
24 Evaluation of regional actions taken towards achieving
25 energy efficiency in Canada. This analysis is undertaken

1 by an independent party and involves a comprehensive and
2 broad assessment, including the evaluation of twelve (12)
3 parameters. This organization provided Manitoba with an
4 "A" rating, which was the highest rating in Canada, for
5 the past two (2) assessments.

6 Manitoba Hydro also received the Energy
7 Star Utility of the Year Award in recognition of their
8 promotion of the Energy Star brand.

9 Manitoba Hydro also received a number of
10 program-specific awards and other recognition indicators,
11 including phone calls from peers working at other
12 utilities inquiring about our leading-edge programs.

13 Manitoba Hydro's comprehensive approach to
14 pursuing energy efficiency opportunities, including
15 offering convenient financial support services and
16 working with the government at on -- excuse me -- on an
17 overall market transformation strategy will -- that will
18 ensure sustainability of energy efficiency.

19 Also, I use comparative information
20 received on -- on various energy efficiency efforts being
21 offered by leading edge -- leading energy conservation
22 organizations through North America, including
23 information received through conference calls involving
24 num -- numerous entities in North America and high-level
25 comparative data provided by the Consortium of Energy

1 Efficiency, which provided -- provides data on energy
2 efficiency budgets on a per capita basis for US and
3 Canadian regions.

4 In the most recent report Manitoba Hydro
5 was rated as the -- rated the highest in this category
6 for efforts targeting electricity for all regions in
7 North America.

8 And also added to that, SaskPower recently
9 contracted with Manitoba Hydro to help them develop their
10 energy efficiency plan.

11 MS. PATTI RAMAGE: And thank you, Mr.
12 Kuczek. Can you provide any comments about Manitoba
13 Hydro's low-income program?

14 MR. LLOYD KUCZEK: This program was just
15 recently launched, and we recognize that there will be
16 many challenges in ensuring that this program is
17 effective for both lower-income Manitobans and Manitoba
18 Hydro.

19 The Corporation, however, is confident
20 that the program will be successful, and it is Manitoba
21 Hydro's intent to make adjustments to the program as
22 deemed appropriate.

23 MS. PATTI RAMAGE: Thank you, Mr. Kuczek.
24 And with that, I can present this panel of witnesses to
25 Mr. Peters for cross-examination. We have a lot of

1 ground to cover and we -- I guess we can start
2 immediately.

3 THE CHAIRPERSON: He is eager to go.

4

5 CROSS-EXAMINATION BY MR. BOB PETERS:

6 MR. BOB PETERS: Thank you, thank you,
7 Mr. Chairman. Thank you to Ms. Ramage and the panel.

8 Mr. Chairman, I'm sure I speak for others
9 when I welcome Mr. Page to the panel. I know it may be
10 his first time on the microphone, but I know he's
11 probably had his fingerprints all over the application in
12 past. So welcome here.

13 I'd also like to welcome Mr. Claude
14 Betournay who is assisting me as a chartered accountant,
15 seated behind Mr. Cathcart and myself, and welcome him to
16 these proceedings.

17 Mr. Chairman and Board members, one (1) of
18 the things that I -- I did this morning was I handed out
19 a book of documents to parties, somewhat voluminous, with
20 forty-seven (47) tabs of extracts and documents. I
21 should indicate at the outset that not every document in
22 here is produced by Manitoba Hydro.

23 There were some analysis done using
24 Manitoba Hydro data, and we'll come to those and speak to
25 those. And I'm not asking the witnesses to necessarily

1 agree with them. But for ease of reference, I'm going to
2 ask that this book of document be marked as PUB Exhibit
3 12 and certainly indicate that it's available for any
4 party or witness to use and refer to and also indicate to
5 the witnesses that they are not restricted to this book
6 of documents.

7 If there are other documents that you
8 believe will assist the Board in understanding your
9 answer, I would encourage you to bring those to the
10 Board's attention, as well.

11

12 --- EXHIBIT NO. PUB-12: Book of documents

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: My last point, Mr.
16 Chairman and Board members, is to speak to Mr. Warden and
17 indicate that as the executive on the panel, my questions
18 may be directed his way. But, certainly, my questions
19 are directed to the panel, and the Board would like to
20 hear the position of the Utility through the witness who
21 is best able to address the -- the matter. So we expect
22 that others will partake, besides Mr. Warden and myself.

23 Now, Mr. Warden, with that introduction,
24 let's start off with you had relayed to Ms. Ramage some
25 of the aspects you were asking for in this General Rate

1 Application. And the first one you mentioned was a 2.9
2 percent increase across the board, save and except area
3 and roadway lighting.

4 Am I correct?

5 MR. VINCE WARDEN: Correct.

6 MR. BOB PETERS: And the request in the
7 application is for rates effective April 1st, 2008.

8 Also correct?

9 MR. VINCE WARDEN: Also correct.

10 MR. BOB PETERS: Mr. Warden, you probably
11 saw the calendar that I circulated this morning, and
12 perhaps crestfallen when you saw the -- the time we were
13 going to be taking on the GRA. But it stems -- it starts
14 in March, and it goes into April.

15 And because it goes past April 1st, the
16 date that Manitoba Hydro has set, can you indicate
17 whether the rate structure that you have included in this
18 application includes any retroactivity of rates if they
19 are introduced subsequent to April 1st?

20 MR. VINCE WARDEN: The rate structure
21 that has been filed, Mr. Peters, does not include any
22 provision for retroactivity.

23 MR. BOB PETERS: And so if the Board is
24 not able to approve an April 1st, 2008, order, but --
25 let's just use the next month -- it was to come May 1st,

1 there would be -- there would be foregone revenue for at
2 least that one (1) month, correct?

3 MR. VINCE WARDEN: That is correct.

4 MR. BOB PETERS: Has the Corporation
5 calculated how much that foregone revenue would be?

6 MR. VINCE WARDEN: I believe we have, Mr.
7 Peters. If you just bear with me for one (1) minute, I
8 can -- I can obtain that number if you need it at this
9 time.

10 MR. BOB PETERS: May as well, Mr. Warden,
11 we'll hold off. And if you can check to see what would
12 be the foregone revenue for the month of April and then,
13 while we're at it, maybe also the month of May.

14 MR. BOB MAYER: And in the unlikely event
15 we don't get everything settled before we hear from the
16 rest of what MIPUG wants to do, best get into October.

17

18 (BRIEF PAUSE)

19

20 MR. VINCE WARDEN: Apparently that number
21 isn't quite as readily available as -- as I thought it
22 might be. But we'll get that for you and provide that as
23 an undertaking, if that's okay?

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: I think the Board should
2 know that information, Mr. Warden. If you could -- if
3 you could obtain it, that would be appreciated.

4 MR. VINCE WARDEN: We will do that.

5 MS. PATTI RAMAGE: To clarify the
6 undertaking, that is May 1st?

7 MR. BOB PETERS: And -- and assuming a
8 May 1st order and assuming a June 1st order, for my
9 questions. I'll -- I'll --

10 THE CHAIRPERSON: Why don't you just say
11 the cost of deferral for a month, as we can easily figure
12 it out after we know one (1) month.

13

14 --- UNDERTAKING NO. 1: Manitoba Hydro to supply
15 Coalition with cost of
16 deferral for one (1) month

17

18 CONTINUED BY MR. BOB PETERS

19 MR. BOB PETERS: All right. With the
20 Chairman's clarification, we'd -- we'd just like to
21 understand that.

22 And Mr. Warden, you can confirm though
23 that if the Board Order is one (1) month or two (2)
24 months later or some other period later than what is
25 requested, the revenue that is foregone by the Utility is

1 -- it is foregone only once.

2 But it would, if your application was
3 approved, captured in the next fiscal year?

4 MR. VINCE WARDEN: That's right.

5 MR. BOB PETERS: And you told the Board
6 2.9 percent increase for all classes, except area and
7 roadway lighting. Let me ask one of Mr. Buhr's
8 questions.

9 Why does roadway -- area and roadway
10 lighting only get a 1 percent increase proposal in this
11 application?

12 MR. VINCE WARDEN: Well, historically,
13 area and roadway lighting has been in accordance with our
14 Cost of Service studies that have been presented in the
15 past, has been the class of service that has had the
16 highest revenue cost coverage.

17 That being -- having been said, as I
18 indicated in -- in my opening remarks, all classes of --
19 of -- are below the RCC of one hundred (100) in -- when
20 you consider the deficiency in -- in retained earnings
21 that the Corporation is striving to achieve.

22 So the 1 percent, the less than the
23 average, was simply a recognition of the higher RCC of
24 that class of service.

25 MR. BOB PETERS: And thank you for that,

1 Mr. Warden. Its revenue-to-cost ratio is the highest
2 above unity of all of the classes, and that was one of
3 the considerations that was given?

4 MR. VINCE WARDEN: Well, again, it
5 depends on how the RCC is expressed. If it's expressed
6 based on the traditional method of allocating export
7 revenues to the customer classes, then, yes, it is the
8 highest above unity.

9 However, as we've put forward -- forward
10 in these proceedings, with our Cost of Service study
11 there are -- are some alternative ways of looking at the
12 RCCs, one of which is the marginal cost approach.
13 Another is the retained earnings deficiency approach, the
14 latter of which would have all customer classes below an
15 RCC of one-hundred (100) or unity.

16 MR. BOB PETERS: Thank you for that, Mr.
17 Warden. In the book of documents that I hope you have
18 access to, Mr. Warden, there is a proof of revenue found
19 at Tab 2. And if you could just turn with me to that,
20 I'm looking at a proof of revenue, sir, that has been
21 revised in the bottom left-hand corner, would be in 2008,
22 the month of January the 18th.

23 Do you have that one, sir?

24 MR. VINCE WARDEN: I do.

25 MR. BOB PETERS: And in terms of a

1 snapshot of the dollars and cents of this application,
2 would you agree that this document is probably as good as
3 any at showing the Board where the revenue is that you're
4 seeking, the additional revenues that you're seeking from
5 the classes?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And first off, when you
8 tell the Board the application is essentially a
9 2.9 percent across the board increase, why is it that the
10 bottom line grand total shows closer to a 2.7 percent
11 average increase?

12 MR. VINCE WARDEN: Yes, well, as
13 explained on the preceding page in your book of
14 documents, Mr. Peters, the application was filed based on
15 the load forecast of May 2006.

16 The updated load forecast, it has some
17 differences. Updating for that -- for that load
18 forecast, the average -- the calculation works out to two
19 point seven (2.7) as -- as opposed to two point nine
20 (2.9). It's simply, though, an update with respect to
21 that -- that forecast.

22 MR. BOB PETERS: And the dollar amount
23 has fallen slightly from your first filing and is now the
24 \$29.6 million of additional revenue that you're seeking
25 through this application?

1 MR. VINCE WARDEN: Correct.

2 MR. BOB PETERS: When we look at the
3 individual classes, Mr. Warden, the residential class,
4 you're seeking a total of additional revenues from that
5 class of \$12.1 million?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And included in the
8 residential is the diesel residential.

9 And is this to reflect the increase in the
10 grid rates that will apply to the residential first-block
11 consumption in the diesel zone?

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

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: In looking at general
17 service, you have used the subclasses with General
18 Service Small, according to Manitoba Hydro's application,
19 to pay approximately \$5.9 million of additional revenue
20 if this rate increase is approved?

21 MR. VINCE WARDEN: That's right.

22 MR. BOB PETERS: And likewise for medium,
23 General Service Medium, a \$4 million increase, correct?

24 MR. VINCE WARDEN: Correct.

25 MR. BOB PETERS: And then when we go to

1 General Service Large, you have again the three (3) sub-
2 classes listed, a total of \$7.9 million of additional
3 revenues?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: And, Mr. Warden, are you
6 familiar enough with the proof of revenue to indicate to
7 the Board whether the amounts sought in the numbers
8 you've just given the Board for the general service
9 customers includes or excludes the proposed new energy
10 intensive rate?

11 MR. VINCE WARDEN: If you refer to the
12 bottom of that same page, Mr. Peters, you'll see that the
13 General Service Large addition -- additional revenue is
14 referenced at -- at the bottom of the page.

15 MR. BOB PETERS: And, sir, you're telling
16 the Board that the second-last line on the page, then,
17 reflects Manitoba Hydro's estimate of what additional --
18 additional revenues would be received if there was a new
19 energy-intensive rate implemented, as proposed by
20 Manitoba Hydro?

21 MR. VINCE WARDEN: Yes.

22 MR. BOB PETERS: Can you indicate to the
23 Board, would this revenue be coming from existing
24 customers or from new customers?

25 MR. VINCE WARDEN: It would come from

1 both, Mr. Peters.

2 MR. BOB PETERS: And can you explain to
3 the Board whether -- and I may be incorrect on this
4 assumption, Mr. Warden, but my understanding was that new
5 energy-intensive load was not forecast to come to
6 Manitoba as new load in the next -- certainly in the next
7 year.

8 Have I -- is that correct, or have I got
9 that wrong?

10

11 (BRIEF PAUSE)

12

13 MR. VINCE WARDEN: Well, it really
14 depends on how you define "new load." I think in terms
15 of the actual customers that -- that are involved, and
16 subject to check on this, but there are probably no new
17 customers, but there are substantially new loads
18 associated with some existing customers.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: And just so we're clear,
23 then, on that General Service Large additional revenue
24 line, second from the bottom, the reason it declined over
25 the initial filing to the updated filing by about four

1 hundred and twenty-six thousand dollars (\$426,000) was
2 due to a revised forecast on the -- on the load?

3 MR. VINCE WARDEN: Yes, and I think this
4 is also explained on the preceding page as to why the --
5 the drop occurred, so...

6 MR. BOB PETERS: Okay. Thank you for
7 that, Mr. Warden.

8 Would I also be correct that the next
9 panel of Manitoba Hydro's witnesses will be able to speak
10 with more particulars relative to the new rate proposal
11 for the energy-intensive industry?

12 MR. VINCE WARDEN: Yes, that would be the
13 best panel to address those questions to.

14 MR. BOB PETERS: All right. Mr. Warden,
15 the second matter you told Ms. Ramage that you wanted
16 this Board approval on -- and you find that at Tab 1 of
17 the book of documents -- was approval of the general
18 consumers' interim rates that were approved in Order 21
19 of '07, effective March 1st, 2007.

20 And that was the 2.25 percent increase
21 that the Chairman referenced in his opening comments?

22 MR. VINCE WARDEN: Correct.

23 MR. BOB PETERS: And so, just to recount,
24 then, what the -- the Chairman had mentioned, Manitoba
25 Hydro, in their last GRA in the spring of 2004 received a

1 5 percent rate increase effective August 1st, 2004?

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

3 MR. BOB PETERS: And then it applied for
4 one of the conditional rate increases and was successful
5 in a -- in a further 2.25 percent increase on, I think it
6 was, April 1st, 2005?

7 MR. VINCE WARDEN: Correct.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: The Chairman indicated
12 that Manitoba Hydro -- and your materials indicate --
13 that Manitoba Hydro declined to apply for the October
14 1st, 2005, conditional increase, citing higher and better
15 water flows and better financial outlook.

16 That's correct?

17 MR. VINCE WARDEN: That is correct.

18 MR. BOB PETERS: And so, a year later,
19 when the water flows weren't the same, Manitoba Hydro
20 then did apply, on an interim basis, for the 2.25 percent
21 increase and was successful in getting that, correct?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: That 2.25 percent would
24 have generated only one (1) month's revenue in March of
25 2007.

1 That would have been approximately \$3
2 million, sir?

3 MR. VINCE WARDEN: Yes, that's right, Mr.
4 Peters.

5 MR. BOB PETERS: Mr. Warden -- and maybe
6 Mr. Page can help us here too -- when that interim rate
7 increase was being sought by the Corporation, Manitoba
8 Hydro was forecasting its net income for the fiscal year
9 ending March 31st, 2007, to be \$102 million. And I got
10 that from IFF/06-2.

11 Do you recall that being correct?

12 MR. IAN PAGE: It sounds close. I've got
13 -- I've only got the electric statements handy with me
14 right now.

15 MR. BOB PETERS: Well I think that's what
16 I wanted, was not the consolidated, but just the electric
17 statements.

18 MR. IAN PAGE: We had 108 million
19 forecast that year.

20 MR. BOB PETERS: Was that in IFF-06-2?

21 MR. IAN PAGE: Yes. If you look at your
22 Tab 9.

23

24

(BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Page, just to stay
2 with me on that, the IFF found in Tab 9 of the book of
3 documents, titled "Electric Operations MH-06-2," and it's
4 a number of pages in, if people are leafing for it.

5 That MH-06-2 was filed in support of the
6 interim rate application, and it assumed that the rate
7 application would be granted at least February 1st, did
8 it not?

9 MR. IAN PAGE: That's correct.

10 MR. BOB PETERS: So the forecast here of
11 \$108 million included additional revenues that were
12 expected from the interim rate application if approved by
13 the Board?

14 MR. IAN PAGE: That's correct.

15 MR. BOB PETERS: And so while the rate --
16 the interim rate application was approved by the Board,
17 it wasn't approved for one (1) month later, so that \$108
18 million would not have been an accurate forecast in light
19 of the timing of the Board order?

20 MR. IAN PAGE: That's correct. If it was
21 -- if the February 1st was deferred appli --
22 implementation was deferred a month and then -- then that
23 \$7 million increase would drop to about 3 million.

24 MR. BOB PETERS: Mr. Page, when the
25 Corporation was applying for the interim rate increase

1 and -- and had a forecast then, say, of approximately a
2 hundred and two (102) or \$103 million, what was the
3 actual net income for March 31st, '07?

4

5

(BRIEF PAUSE)

6

7

MR. IAN PAGE: For the electric
8 operations, it was 121 million.

9

10 MR. BOB PETERS: So when the application
11 was made, the Board was of the understanding that the
12 revenue, the net income, for the year would be
13 approximately 103 million.

14 It turned out to be 121 million, correct?

15

MR. IAN PAGE: Yes, that's correct.

16

17 MR. BOB PETERS: And on top of that, the
18 Corporation was also awarded a rate increase of 2.25
19 percent, which would generate approximately \$22 million
20 on an annual basis.

21

Would that be correct?

22

23 MR. IAN PAGE: Are you referring to the
24 subsequent year?

25

MR. BOB PETERS: Yes, the subsequent
26 year.

27

MR. IAN PAGE: Yes.

28

MR. BOB PETERS: And the year it was

1 awarded, there was only \$3 million?

2 MR. IAN PAGE: Yes.

3 MR. BOB PETERS: All right. So the
4 Corporation was better off than forecast at the time of
5 the interim rate increase, correct?

6 MR. IAN PAGE: Yes, the actuals were
7 better than what we were anticipating.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Mr. Warden, back to Tab
12 1 of the book of documents, the Corporation was seeking
13 immediate interim approval to extend the Surplus Energy
14 Program to October 31, '08 as well as final approval to
15 March 31, 2013.

16 Correct?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: And the Board, in its
19 procedural Order 136/07, after the pre-hearing conference
20 in this matter, gave an immediate interim approval to
21 extend until April 30th of 2009.

22 Correct?

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

24 MR. BOB PETERS: And that eighteen (18)
25 month approval took care of the immediate urgency in

1 dealing with customers over the possible future of the
2 Surplus Energy Program?

3 MR. VINCE WARDEN: That's right.

4 MR. BOB PETERS: You lost no new
5 customers or -- sorry, you lost no existing customers as
6 a result of the extension by the Board, have you?

7 MR. VINCE WARDEN: We haven't.

8 MR. BOB PETERS: Attracted any new ones
9 that you know of?

10 MR. VINCE WARDEN: Not to my knowledge,
11 no.

12 MR. BOB PETERS: Just before I leave that
13 point -- and we'll discuss that with the second panel,
14 Mr. Warden -- would the Surplus Energy Program be
15 available to new industry intent -- or new intensive
16 industry in Manitoba?

17 MR. VINCE WARDEN: Yes, it would.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: We'll discuss that then
22 further with the next panel.

23 In terms of the next item of approval,
24 looking at Tab 1, Item Number 1(d), final approval of all
25 Surplus Energy Program interim orders that you've set

1 out. I've included in Tab 3 of the book of documents
2 Appendix 10.6, interim orders.

3 And there's five (5) pages of surplus
4 energy orders that the Corporation is now seeking be
5 finalized, correct?

6 MR. VINCE WARDEN: Yes, I understand we
7 checked the list, Mr. Peters, and it is accurate.

8 MR. BOB PETERS: And it may also, Mr.
9 Warden, include interim orders that have been issued
10 since the publication of Appendix 10.6.

11 Would that also be correct?

12 MR. VINCE WARDEN: Yes, Mr. Peters, we
13 would be looking for approval of all interim orders to
14 the -- to the date of the final order.

15 MR. BOB PETERS: The final order of this
16 Board?

17 MR. VINCE WARDEN: Correct, yes.

18 MR. BOB PETERS: Okay, thank you for
19 that. And, Mr. Warden, I'll see how far I can go with
20 you on the next item for which the corporation is
21 seeking. And that's approval of modifications to the
22 Curtailable Rate Program and also final approval of some
23 curtailable rates orders that are also found in Appendix
24 10.6.

25 Is it generally correct, sir, that

1 curtailable rates customers can offer to curtail a
2 portion of their load so Manitoba Hydro can then use that
3 freed up electricity?

4 MR. VINCE WARDEN: That's correct.

5 MR. BOB PETERS: And that's done because
6 Manitoba Hydro needs to keep an operating reserve as well
7 as respond to emergencies?

8 MR. VINCE WARDEN: That -- that is also
9 correct.

10 MR. BOB PETERS: And there's
11 approximately four (4) customers who partake of the
12 Curtailable Rates Program?

13 MR. VINCE WARDEN: Four (4) customers,
14 yes, Mr. Peters.

15 MR. BOB PETERS: And the -- excuse me --
16 the request to change, that the second panel will speak
17 to, Mr. Warden, is that the corporation wants forty-eight
18 (48) hours notice from customers as to the guaranteed
19 amount of energy that will be made available?

20 MR. VINCE WARDEN: Yes.

21 MR. BOB PETERS: And this may be an
22 unfair question for you, sir, and if you want to put it
23 off to the second panel, that's fine.

24 But can you explain to this Board now why
25 Manitoba Hydro would need forty-eight (48) hours of

1 notice of the customers' guaranteed curtailment as
2 opposed to, say, twenty-four (24) hours?

3 MR. VINCE WARDEN: It might be best to
4 put that off to the next panel, Mr. Peters.

5 MR. BOB PETERS: All right, I'll try to
6 remember to do that, sir.

7 And it is correct, though, that when a
8 customer does curtail and turns the electricity back to
9 be available to the Corporation, the customer's bill is
10 reduced by a curtailable load discount?

11 MR. VINCE WARDEN: That's right.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: Maybe defer the rest of
16 these to the next panel as we move forward with your
17 application.

18 One (1) of the other items you're asking
19 for, Mr. Warden, are limited -- or sorry -- approval of
20 changes to the limited use billing demand and ostensibly
21 asking for the Board to approve Orders 25 -- sorry --
22 27/05 on a final basis. And that was an order that dealt
23 with eligibility requirements.

24 Is that correct?

25 MR. VINCE WARDEN: Yes.

1 MR. BOB PETERS: All right, we'll talk to
2 the next panel about that. Let's -- let's not forget
3 Item Number G, which is you're asking for Board approval
4 of the orders that this Board has issued. And there's
5 four (4) of them found at Tab 3 of the book of documents.
6 And they come from your appendix, again, related to the
7 diesel zone.

8 Mr. Warden, can you tell the Board whether
9 that is a matter that will occupy the Board's time in
10 this Hearing, or is that going to have to wait until
11 another day?

12 MR. VINCE WARDEN: Well, as indicated in
13 the application, Mr. Peters, the approval being requested
14 is contingent upon the execution of that agreement --
15 that is the agreement between INAC, MKO, and Manitoba
16 Hydro.

17 That agreement has not been executed yet,
18 so we would not ask the Board to approve the interim
19 orders at this time.

20 MR. BOB MAYER: Mr. Warden, do we have
21 any idea when this might happen? It's been a while.

22 MR. VINCE WARDEN: It has been a while,
23 Mr. Mayer. The -- you are, I'm sure, aware of some of
24 the -- the situation that's developed at INAC. The
25 signing -- the execution of the agreement we thought was

1 imminent until that incident, and we're now on pretty
2 much a hold pattern.

3 We have, though -- in the -- in the
4 interim we have been receiving payments, the payments as
5 set out in that agreement. So the agreement is being
6 honoured, even though it's not signed.

7 MR. BOB MAYER: It seems to me though
8 that -- I understand there were some payments, but are
9 you getting your contributions to capital as well?

10 Any new capital, for example, which I
11 understand that agreement becomes -- it's necessary to
12 have that in place before you negotiate with and get
13 approval for any upgrades in those communities. And then
14 there's a percentage contribution back, if I recall
15 correctly.

16 Don't we need an execution in order to go
17 forward with that portion?

18 MR. VINCE WARDEN: We are proceeding on
19 the basis of the terms and conditions that are in that
20 agreement, even -- even though it's not signed. And, to
21 date, the parties have been able to negotiate
22 contributions in accordance with that structure.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Thank you, Mr. Warden.

1 And just for the completeness of the record, when you
2 refer to an incident involving INAC, you're referring to
3 some investigations that are proceeding at INAC.

4 Is that what -- is that correct?

5 MR. VINCE WARDEN: Yes, I am referring to
6 that, Mr. Peters.

7 MR. BOB PETERS: Yeah. And can you
8 confirm to the Board that the monies that were
9 contemplated to be paid to Manitoba Hydro under the
10 tentative settlement agreement have, in fact, been paid?

11 MR. VINCE WARDEN: Yes, the monies have
12 been paid in accordance with the schedule provided in
13 that agreement. As a matter of fact, there's been
14 advances provided -- or payments in advance of the
15 schedule. Another payment is due March 31st of 2008 --
16 end of this month -- and all indications we have are that
17 that payment will be made.

18 MR. BOB PETERS: So while the agreement
19 may not be fully signed, it is being treated by Manitoba
20 Hydro and others as if it was operable?

21 MR. VINCE WARDEN: Yes.

22 MR. BOB PETERS: Thank you.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Would it be correct that
2 once the agreement is executed, that is the time when
3 Manitoba Hydro will then apply to the Board for
4 finalization of the four (4) interim diesel orders?

5 MR. VINCE WARDEN: Yes, that would be
6 correct, Mr. Peters.

7 MR. BOB PETERS: Thank you.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Mr. Warden, when we
12 looked at the proof of revenue at Tab 2 of the book of
13 documents, there was reference to the diesel community
14 being impacted. And, as I understood your evidence, it
15 was as a result of the change in the grid rates.

16 Those grid rates also applying to the
17 residential consumption, at least up to a maximum in the
18 diesel communities, would also result in an increase of
19 revenue from those customers, correct?

20 MR. VINCE WARDEN: That's correct.

21 MR. BOB PETERS: And there's nothing in
22 the agreement that precludes Manitoba Hydro from
23 increasing the rates to the residential customers or to
24 the general service customers as long it's approved by
25 this Board?

1 attach to the other classes of service within the general
2 service large category. It would still be, though, the
3 largest of the large. We're -- we're talking about very
4 large customers here.

5 MR. BOB PETERS: And, Mr. Warden, then
6 help the Board understand; at Tab 4 of the book of
7 documents when we look at a rate schedule that's
8 proposed, identified in the bottom as page 12 of 26,
9 there is for the large seven -- seven hundred and fifty
10 (750) not exceeding 30kV, an energy above baseline rate
11 that is proposed, correct?

12 MR. VINCE WARDEN: There is, yes.

13 MR. BOB PETERS: And -- and maybe I
14 misunderstood your last answer, but customers, even in
15 that sub class, will be exposed to a new energy-intensive
16 rate?

17 MR. VINCE WARDEN: The rate schedule
18 provides for that, Mr. Peters, but the size of the load
19 is such that it's very unlikely that any customers would
20 -- in that category would fall -- would, in fact,
21 experience this rate.

22 MR. BOB PETERS: Does that same answer
23 apply to the large 30kV not exceeding 100kV classes?

24 MR. VINCE WARDEN: Yes, yes, it does.

25 MR. BOB PETERS: All right. So it's the

1 Corporation's expectation that it's only in the -- the
2 sub class of 100kV and larger that would be exposed to --
3 than having to pay energy costs above the baseline rate?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB MAYER: Mr. Peters, before you go
6 on, could we go back one (1) a bit to the diesel orders?

7 MR. BOB PETERS: Yes, sir.

8 MR. BOB MAYER: They're referred to in --
9 on Tab 1 as ex parte orders. On the face of it, one (1)
10 of them is a result of rates generated from Board Order
11 17/04.

12 My recollection is correct, that was an ex
13 parte, and I'm not convinced that most of the rest of
14 them were ex parte either inasmuch as they arose out of
15 diesel rates that followed general application hearings
16 or other rate applications.

17 Am I -- am I wrong on that?

18 MR. BOB PETERS: I think you're partially
19 wrong on that, Mr. Vice-Chair, and I think by getting
20 copies of the orders, maybe at the lunch hour, we can
21 review them.

22 The -- there was interim ex parte
23 applications made initially to -- to change the diesel
24 rates, and there was an increase in Order 17/04, then it
25 was further increased I believe also on an ex parte basis

1 in Order 46/04 up to as much as seventy-nine point one
2 (79.1) cents a kilowatt hour for full cost.

3 You will recall that that full cost rate
4 was cut approximately in half in Order 159 of '04 which
5 gave effect to the tentative agreement that we've
6 understanding is -- is still being treated as operational
7 even though the ink is not yet on the paper. And then
8 there was a further revision in Order 176 of '06 to
9 adjust the full cost rate from thirty-six (36) cents up
10 to forty-one point two seven (41.27). Mr. Warden --

11 MR. VINCE WARDEN: I'm sorry, Mr. Peters,
12 to interrupt, but --

13 MR. BOB PETERS: Yes.

14 MR. VINCE WARDEN: -- I -- I might just
15 back up on my previous answer. I -- I am informed that,
16 in fact, there are two (2) or perhaps three (3) customers
17 that are served at the voltage covered by Tariff 2008-61.
18 So it is possible that -- that there will be customers
19 that fit into that category.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: Thank you for that. If
23 you're able, my looking at the information on file, Mr.
24 Warden, tells me that in this general service large class
25 there are a total of two hundred and ninety-four (294)

1 customers -- and I ask you to just accept that subject to
2 check -- and fourteen (14) of those customers fit into
3 the large exceeding 100kV class.

4 Is it then your expectation that only two
5 (2) other customers, other than those fourteen (14), are
6 potentially exposed to the energy above baseline charge?

7 MR. VINCE WARDEN: Two (2) or perhaps
8 three (3).

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: Mr. Warden, while --
13 while, again, this will be covered with the second panel,
14 can the Board understand until it hears from that second
15 panel that the primary motivation of Manitoba Hydro for
16 this energy intensive industry rate would be to keep
17 Manitoba whole in terms of revenues that could other --
18 that could be eroded by such industry?

19 MR. VINCE WARDEN: That is the primary
20 motivation, Mr. Peters, yes. In fact it's the only
21 motivation.

22 MR. BOB PETERS: And Manitoba Hydro's
23 concern is that it could raise more monies on the export
24 market than it could on the domestic market for such
25 customers.

1 MR. VINCE WARDEN: Well, it -- it goes a
2 little bit beyond that. The -- even though what you said
3 is true, if we forego those monies on the export market,
4 that means that rates for other customers in Manitoba
5 would have to -- have to increase to make up that revenue
6 deficiency. So, it's more of a concern that the impact
7 of losing that load on the export market would have on
8 domestic customers.

9 MR. BOB PETERS: And at a high level, Mr.
10 Warden, before that new rate applies to any load,
11 Manitoba Hydro would want to establish a baseline for the
12 -- for each of the customers, correct?

13 MR. VINCE WARDEN: Correct.

14 MR. BOB PETERS: And while that is also
15 some of the materials from your application are included
16 in Tab 4, specifically on pages 13 of 26 and 14 of 26,
17 again to be reviewed with the panel -- the next panel --
18 there would be baselines established for not only
19 existing customers, but for new customers.

20 MR. VINCE WARDEN: That's right.

21 MR. BOB PETERS: And in a -- in addition
22 to baselines, there would be exemption criteria that may
23 exempt customers from the above baseline rate.

24 MR. VINCE WARDEN: Correct.

25 MR. BOB PETERS: And those exemption

1 criteria are found in Tab 5 of the book of documents, and
2 those haven't changed since the filing of the
3 application.

4 Have I got that correct?

5 MR. VINCE WARDEN: That's correct.

6 MR. BOB PETERS: When we're looking at
7 this with the next panel, Mr. Warden, would it be correct
8 to say that Manitoba Hydro has used export prices
9 primarily to quantify the marginal costs that go into
10 that above-baseline rate?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: When Manitoba Hydro
13 forecasts its export prices for the energy of which
14 you're talking here, it really can only be a forecast
15 until you actually consummate the sale, correct?

16 MR. VINCE WARDEN: That's correct for all
17 sales that aren't on a firm or contractual basis, yes.

18 MR. BOB PETERS: And -- but there are no
19 firm or contractual basis sales that are going to be
20 displaced if energy intensive load comes to Manitoba?

21 MR. VINCE WARDEN: Over the -- over the
22 short term, that's true, but not necessarily over the
23 long term.

24 MR. BOB PETERS: All right. And when
25 Manitoba Hydro does have a forecast of its -- of its

1 export values, there's a range generally utilized by
2 Manitoba Hydro?

3 MR. HAROLD SURMINSKI: Generally, we have
4 a best estimate and we use the best estimate in our
5 evaluation of marginal costs.

6 MR. BOB PETERS: Thank you, Mr.
7 Surminski. Would that -- would that best estimate,
8 though, be in terms of a high range and a low range that
9 you're familiar with?

10 MR. HAROLD SURMINSKI: We do provide the
11 high and the low as bounds, but our best estimate is the
12 basis for our evaluations.

13 MR. BOB PETERS: And your best estimate
14 for evaluations can change regularly?

15 MR. HAROLD SURMINSKI: We update -- yes,
16 we update our export price forecast every year on an
17 annual basis.

18 MR. BOB PETERS: You don't update it
19 during the currency of the year?

20 MR. HAROLD SURMINSKI: No, not -- not for
21 official purposes.

22 MR. BOB PETERS: But internally you've
23 got a pretty good idea then if you're -- if you're
24 meeting your forecast or whether you're going to be lower
25 than your forecast as you move forward?

1 MR. HAROLD SURMINSKI: I'm not sure how
2 far out in time you're -- you're talking about here?

3 MR. BOB PETERS: Let's just say one (1)
4 year's.

5 MR. HAROLD SURMINSKI: Our forecast is --
6 is based on a -- a much longer time period than one (1)
7 year for marginal costs, so the marginal costs do vary on
8 a year-by-year basis, but -- but we -- we do, you know,
9 extend our forecast for, like, twenty (20) years into the
10 future.

11 MR. BOB PETERS: And your forecast of
12 export revenue -- or export prices that you will receive
13 is influenced, is it -- it's by the market that you sell
14 into, correct?

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

17 MR. BOB PETERS: And many of the factors
18 that will change the price of your export value are
19 beyond your control?

20 MR. HAROLD SURMINSKI: Yes, that's
21 correct. For example, natural gas prices fluctuating in
22 the short-term would change export values.

23 MR. BOB PETERS: And then while we're on
24 that point then, Mr. Surminski, when Manitoba Hydro
25 exports, it is usually to displace natural gas generated

1 electricity?

2 Would that be fair?

3 MR. HAROLD SURMINSKI: Yes, that's
4 primarily the factor.

5 MR. BOB PETERS: It's not likely that
6 Manitoba Hydro's electrons are going to replace electrons
7 generated from coal, because coal is usually cheaper,
8 correct?

9 MR. HAROLD SURMINSKI: Yes. Yeah. It is
10 natural gas that sets the marginal clearing price,
11 particularly in the on-peak hours. In the off-peak
12 hours, coal generation could be setting the marginal
13 clearing price.

14 MR. BOB PETERS: And that's because coal
15 generation is -- you can't just turn that off and on, as
16 I understand the -- the operational aspects; that's a
17 relatively cheap source of energy to -- to use and,
18 therefore, if it can't be turned off and on, it maybe
19 that all the gas has been turned off, but you're still
20 left with coal running.

21 MR. HAROLD SURMINSKI: Yes. And the off-
22 peak the load demands are lower, so a base load resource,
23 such as a coal plant, would be sufficient in magnitude to
24 supply it at off peak. As loads increase in the on-peak
25 hours, new resources like natural gas plants must be

1 brought on.

2 MR. BOB PETERS: Okay. So maybe I'm --
3 so what you're telling the Board is that when Manitoba
4 Hydro has to compete with the off-peak coal that may be
5 out there, you expect low prices relative to what you
6 could get if it was natural gas providing the electricity
7 to be displaced?

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

10 MR. BOB PETERS: All right. Mr. Chairman,
11 in light of the hour, this might be an appropriate time
12 to take the lunch recess.

13 I'll continue with the panel after lunch,
14 but remind the Board that at 1:15 I'll also hopefully be
15 in a position to advise the Board if there are any
16 presenters that are coming forward.

17 THE CHAIRPERSON: Very good, sir.

18

19 (WITNESSES RETIRE)

20

21 MR. BOB PETERS: Thank you.

22 THE CHAIRPERSON: Fine. See you back at
23 1:15.

24

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

1 --- Upon resuming at 1:24 p.m.

2

3 THE CHAIRPERSON: Okay, we had agreed to
4 your presentations this afternoon. Sorry for the delay.
5 We had a couple of other orders to get out.

6 Mr. Peters, could you bring us up to date
7 on who the presenters are?

8 MR. BOB PETERS: Yes, thank you, Mr.
9 Chairman. Mr. Chairman, one (1) of the presentations to
10 be made is by Koch Fertilizers. And it was -- it's going
11 to be in written form. And it's a letter dated February
12 11th that was sent to Manitoba Hydro and copied to the
13 Board.

14 I'll suggest that I provide a copy of this
15 to Cheryl, and she will have it trans -- transcribed into
16 the record at this proceeding without having to read it.
17 We'll take it as read.

18

19 (WRITTEN PRESENTATION BY KOCH FERTILIZER CANADA

20 INSERTED BELOW)

21

22 Letter from Robert Rader, Managing
23 Director, Koch Fertilizer Canada, Ltd., to Mr. Bob
24 Brennan, President and Chief Executive Officer, Manitoba
25 Hydro, 820 Taylor Avenue, Winnipeg, Manitoba, R3M 3T1;

1 and to Public Utilities Board, dated February 11, 2008.

2 Koch Fertilizer Canada, Ltd. (KFCL) has
3 recently learned that Manitoba Hydro has or is preparing
4 to propose changes to the structure of electrical rates
5 at our Brandon, Manitoba facility to the Public Utilities
6 Board.

7 We are eager to work with Manitoba Hydro
8 to better understand these changes and their potential
9 impact on our business. On February 1st, we received a
10 copy of a document entitled, "General Service Large - New
11 or Expansion Rate Baseline Energy Consumption Level and
12 Exemption Application Discussion Paper." Based on our
13 review of this document, KFCL would like to communicate
14 several areas of concern:

15 1) When KFCL was acquired in September
16 2006, the new owners did so intending to invest in KFCL's
17 long term sustainability. To do this requires that we
18 continually invest in the growth of our business. As we
19 evaluate this proposal, it appears to penalize us for the
20 size of our initial investment, as the Brandon facility
21 has been a large electrical consumer for many years. The
22 proposed system of allowing a growth allowance of 38 GW.h
23 annually to all companies does not recognize our
24 historical value to the community and does not allow us
25 to grow at the same rate as other companies that

1 currently use less electricity. We recommend that the
2 growth allowance be a percentage of the base versus a
3 fixed number. In addition, growth in our business
4 normally requires substantial capital and comes in
5 relatively large amounts over long time periods versus
6 being ratable growth year over year. Again, the new
7 structure does not appear to recognize this difference.

8 2) In addition, KFCL strongly believes in
9 environmental stewardship. We are always looking for
10 ways to reduce our energy consumption and, in an area
11 where that is not possible, look at ways to reduce the
12 impact on the environment. KFCL would recommend that
13 these types of expenditures be credited 100 percent
14 versus 50 percent. This would best align everyone's
15 incentives in this area.

16 3) Finally, KFCL invests in growth
17 opportunities that may increase the volumes of products
18 produced without increasing payroll. However, these
19 products must be moved to customers by truck or rail.
20 This creates secondary positive economic impacts to
21 Manitoba that do not appear to be recognized under the
22 current proposal.

23 While conceptually the premise of the
24 proposed changes as we understand them are valid (i.e.
25 that new companies moving to Manitoba solely to take

1 advantage of cheap electricity while adding little or no
2 economic value to Manitoba should not be allowed to enjoy
3 the same rates as those that were here when the existing
4 infrastructure was made), we believe that it should be
5 possible to better meet that objective without penalizing
6 companies that have invested in and have been adding
7 value to Manitoba for years.

8 We appreciate this opportunity to provide
9 feedback on this proposal and look forward to working
10 with Manitoba Hydro in the future development of these
11 proposed changes.

12

13 (WRITTEN PRESENTATION BY
14 KOCH FERTILIZER CANADA CONCLUDED)

15

16 MR. BOB PETERS: The other presenters who
17 want to present orally, the Board received notice that
18 there may be two (2) individuals. One (1) was Mr. Robert
19 Dyck, who I don't see present in the hearing room at this
20 time. I'll keep an out to see if he does attend.

21 The second oral presenter who wanted an
22 opportunity was Mr. Allan Ciekiewicz, and he has
23 attended. I can indicate that Mr. Ciekiewicz has
24 prepared his own book of documents. And I have
25 circulated one (1) copy to each of the Board panel

1 Manitoba Hydro on TV the other day
2 bragging about a large surplus for
3 Manitoba Hydro this year. I hardly
4 think they need an increase. We
5 already had one (1) this year. I have
6 to email in for my opposition, as I
7 could not attend hearings as I am too
8 busy. Once again, no increase."

9 And that's the end of the -- the email,
10 sir.

11 THE CHAIRPERSON: Very good, Mr. Peters.
12 Okay, Mr. Ciekiewicz, you could begin now.

13
14 PRESENTATION BY MR. ALLAN CIEKIEWICZ:

15 MR. ALLAN CIEKIEWICZ: Oh, thank you.
16 And good afternoon to everybody.

17 Before I start, there's just a couple
18 things I have to go over. Most of this binder is made up
19 of attachments which I am not reading, I am not going
20 over. I refer to them throughout my presentation. So
21 we're not -- we're not going through this whole binder by
22 any means.

23 And -- and in some instances I may stop in
24 the middle of a page just to make an extra comment about
25 something that I'm reading about that I never wrote out.

1 So other than that, that's it, I'll get started.

2 I've broken it into about eight (8) or
3 nine (9) sections. The first one is the new office
4 building. I find it unfortunate that a new office
5 building was a part of the agreement to purchase Winnipeg
6 Hydro. The purchase the Winnipeg Hydro will costs
7 hundreds of millions of dollars in perpetuity. In
8 addition to that cost there's the cost of the new office
9 building, which apparently is supposed to be cost
10 neutral. It is interesting to note that the size of the
11 new office building, as stated in CEF-03-1.

12 Now after that there's a capital "A." All
13 my attachments are labelled with "As" -- are A1, A2,
14 stuff like that.

15 Was -- the size was to be four hundred
16 (400) square feet as required as part of the acquisition
17 of Winnipeg Hydro. In CEF-04-1 it states that the new
18 office building will be six hundred thousand (600,000)
19 square feet. In PUB-1-66-B it indicates the size of the
20 building to be six hundred and ninety-six thousand
21 (696,000) square feet.

22 What was the point of the open house in
23 October of 2004 and when not much was finalized? Not the
24 size, and definitely no one knew the cost, as I did ask.
25 The latest figure for the cost of the new office building

1 is approximately \$278 million. Apparently the new office
2 building is cost neutral because the cost savings
3 associated with the new building will be utilized to
4 provide offsets to cost pressures currently being
5 experienced and forecasted.

6 So how does a building under construction
7 with the price tag of \$278 million offer any immediate
8 offsets to cost pressures. Or as Mr. Brennan put it in
9 his letter of August 16th, 2005, that from a life cycle
10 cost perspective the projected future savings arising
11 from the building will offset the project costs,
12 resulting in no impact on rates.

13 Whatever method is being used to finance
14 the \$278 million, it is a large part of capital spending,
15 and it must be affecting the retained earnings and rates
16 now. If it was the case that a structure with a cost of
17 over one quarter (1/4) of a billion dollars will not
18 affect rates and the debt-equity ratio, then it makes one
19 wonder, How does a \$31 million increase in rate revenues
20 have any effect on the retained earnings?

21 Manitoba Hydro may have been considering a
22 new office building for many years before the Winnipeg
23 Hydro purchase. It is my opinion that the new office
24 building was nothing more than a carrot to convince the
25 Winnipeg council to accept the purchase agreement.

1 Also Manitoba Hydro knew that a drought
2 was imminent, if not already present, during 2002, which
3 makes the 2002 purchase of Winnipeg Hydro more
4 inappropriate.

5 Other than the fact that no incremental
6 costs are to accrue to Centra's customers, as ordered in
7 Board Order 99/07, what are the reasons that Centra's
8 customers have no responsibility for the costs of the new
9 office building?

10 If that is the case, why is there a
11 combination of statistics for both sections of Hydro,
12 that being the gas operations and the electric
13 operations? And does this also mean that funds
14 associated with the electric operations and its
15 customers' programs are not being used for the gas
16 operations customers' programs?

17 Two, Nisichawayasihk Cree Nation and the
18 Wuskwatim Generating Station. Other than the fact that
19 the Wuskwatim bidder on the massive Wuskwatim Dam project
20 pulled out, and other than the fact that further delays
21 will increase the cost of the project, I have another
22 concern.

23 If the Nisichawayasihk Cree Nation become
24 one-third (1/3) partners in the Wuskwatim Generating
25 Station that is to be used for export purposes for a

1 period of time until it is needed for domestic purpose,
2 what are Nis -- Nisichawayasihk Cree Nation's
3 responsibilities during a severe drought, when Manitoba
4 Hydro's own generation -- generation -- including the
5 Wuskwatim station -- cannot meet its export contract
6 obligations without additional costs, as was the case in
7 2003/04?

8 Will the Nisichawayasihk -- NCN be
9 responsible for its share, presently at one-third (1/3),
10 of the cost associated with meeting export contracts
11 during drought conditions?

12 I have read many parts of the agreement
13 between Manitoba Hydro's representatives and the NCN's
14 representatives but could not find the NCN's
15 responsibilities regarding the above question.

16 So that my question is understood by all,
17 let us say that after the Wuskwatim project is complete
18 and operational that the project is delivering nine
19 hundred thousand (900,000) megawatt hours of power to the
20 export market.

21 If a severe drought occurs and the
22 Wuskwatim project cannot meet the nine hundred thousand
23 (900,000) megawatt hours export obligation, is the NCN
24 Cree Nation -- is the NCN responsible for the cost asso -
25 - associated with the three hundred thousand (300,000)

1 megawatt shortfall to the export market, whether it be
2 short its pricing, bookout agreement, thermal generation,
3 import costs, et cetera.

4 I believe that Manitoba Hydro's customers
5 should not be responsible for -- for any costs incurred
6 and associated with the one-third (1/3) share of the NCN
7 if they cannot meet their obligations, whether it be due
8 to drought or some other factor. I think it's very
9 important to determine the answer to the above concern.

10 Three (3), the Brandon Coal Fired Thermal
11 Generating Station, Manitoba Hydro's response MIPUG-1-
12 5(b) states that early closure of Brandon Unit 5 in 2012
13 creates firm energy deficits in 2013 through 2015 -- I
14 think that was supposed to be 2025 -- and reduces
15 surplus available for export in every year.

16 Manitoba Hydro's response PUB-1-8(a)
17 states that the thermal plants were not constructed for
18 the purposes of export sales, rather for system
19 reliability during low water flows or drought conditions
20 for the benefit of the vested customers. There seems to
21 be a contradiction between the two (2) responses above.

22 It is interesting to note the percentage
23 of generating capacity for Unit 5 for the years '02/'03,
24 '03/'04, '04/'05, '05/'06, and '06/'07. They're 45
25 percent, 63 percent, 41 percent, 41 percent, and 50

1 percent, respectively. Even in the surplus -- surplus
2 water flow year of '05/'06, Unit 5 operated at 41 percent
3 capacity. For the '03/'04 drought year, Unit 5 operated
4 at 63 percent, an increase of 22 percent over the '05/'06
5 year.

6 Manitoba Hydro states on Page 3 of
7 Appendix 12.4 -- 12.4 that furthermore, Unit 5 operates
8 on coal, which can be stockpiled to minimize fuel price
9 risk, unlike natural gas. And by fueling a proportion of
10 its thermal resources with coal, Manitoba Hydro
11 diversifies its fuel choice options, contributing to fin
12 -- financial stability by reducing exposure to
13 fluctuating gas prices and severe drought.

14 If the '03/'04 drought had such a
15 devastating effect in the finances of Manitoba --
16 Manitoba Hydro, you would think that it would have been
17 more economical to offer a Unit 5 at a much higher
18 capacity instead of using the gas-fired units of Brandon
19 and Selkirk.

20 The percentages for the five (5) years
21 mentioned above indicate that Unit 5 must be operating
22 for export purposes frequently. But Manitoba Hydro's
23 response, Coalition 2-56(a), states for the circumstances
24 forecast for 2007/08 it was assumed that a 100 percent of
25 the thermal generation requirements were for domestic

1 water requirements. It appears that the forecast for
2 2007 and '08 is very different than what the past
3 operation of Unit 5 indicates, unless Manitoba Hydro is
4 relying on the premise that they don't know the source of
5 the export ele -- electron as it passes the border.

6 On page 5 of Appendix 12.4, Manitoba Hydro
7 states Unit 5 produces an average of twenty (20) to \$30
8 million per year in net income for Manitoba Hydro and in
9 drought years protects the corporation from up to 50
10 million in increased costs by limiting dependency on
11 higher price gas for generation and high cost imports.
12 Is that net income due to increased export revenue?

13 But Manitoba Hydro's response PUB-1-17(b)
14 states Manitoba Hydro does not consider Unit 5 to be a
15 profit centre, and as such it does not calculate annual
16 revenues and net income for the unit. This appears to
17 contradict a previous statement on Page 5 of Appendix
18 12.4.

19 Manitoba Hydro's response, PUB-1-17(c),
20 states conversion of Unit 5 to natural gas operation is
21 not economically feasible. Excuse me, I need some water.

22 However, and with respect to Manitoba
23 Hydro's finances and customer rates, why would, did,
24 Manitoba Hydro spend tens of millions of dollars to
25 convert in 2002 the coal-fired Selkirk Thermal Generating

1 Station to a natural gas fired station?

2 The cost of conversion and installing a
3 gas line was significant. In fact, the money could have
4 been used to retrofit the Selkirk station with the two
5 (2) main components necessary to make it as
6 environmentally friendly and financially important as the
7 Brandon station.

8 These two (2) components are a water
9 cooling tower and an electrostatic precipitator, which
10 removes 99 percent of the particulate matter from being
11 discharged to the atmosphere.

12 The Selkirk station was rated at 132
13 megawatts compared to the 105 megawatts of the Brandon
14 station, an increase of 26 percent capacity and,
15 therefore, an increase of 26 per -- 26 percent of the
16 annual net income of Brandon.

17 During the '03/'04 drought year, the
18 Selkirk gas-fired station operated at a low 13.5 percent
19 of its generating capacity. As an efficient pollution
20 controlled, coal fired station, it could have operated at
21 a much higher generation. And this would have protected
22 the Corporation from increased costs due to the jump.

23 And just to make this -- my -- some of
24 these statements clear to everybody here, I'm not
25 proposing that they should have actually left it as a

1 coal. I'm not even proposing that they should have
2 changed it to -- gas conversion. That was another
3 proposal, but that doesn't matter right now.

4 And at the bottom of the page, my
5 statements for the past seven (7) or eight (8) years
6 regarding the Brandon Coal Fired Thermal Generating
7 Station have been consistent, that being if Manitoba
8 Hydro is so environmentally friendly with respect to
9 greenhouse gas emissions, why do they operate a coal-
10 fired device such as Unit 5?

11 Section 4, the debt-equity ratio -- these
12 sections get longer and longer as we -- as I go through
13 this. Mr. Brennan, in response to my letter of July
14 2005, indicated that the debt-equity ratio of 75/25 has
15 not been achieved since Manitoba Hydro implemented a
16 debt-equity ratio target in 1989.

17 From the calculations for determining a
18 debt-equity ratio, the amount of retained earnings plays
19 a significant role in the determination of debt-equity
20 ratio. We are told on page 14 of IFF/07-1 that the debt-
21 equity ratio will remain constant at 78/22 until 2016/'17
22 due to major gener -- new generation and transmission
23 facilities.

24 On page 17 it states that drought risk
25 continues to be a risk of high importance in terms of

1 both likelihood and consequence of occurrence.

2 On page 20 it states that from a financial
3 perspective, Manitoba Hydro's best risk protection is
4 achieved through adequate -- adequate levels of equity --
5 retained earnings.

6 In Part 1 there it says, Manitoba Hydro's
7 response PUB/2-25(d), they indicate three (3) different
8 scenarios without the April 1st, 2007 increase, but
9 instead one (1) scenario -- I'm not going to read the
10 scenarios. They're all in the attachments.

11 The second part there, Manitoba Hydro's
12 response to Coalition-273(c), in the case that had there
13 not been a distribution to the province, that the debt-
14 equity would be achieved in 2012.

15 On page 3 of Tab 1 in Manitoba Hydro's
16 application for a rate increase of 2.25 percent for April
17 1st, 2005, it states it would take several years of good
18 water conditions to recoup the losses of 2003/'04. In
19 fact, even with the assumption of median water flow
20 conditions and general consumer rate increases each and
21 every year throughout the ten (10) year forecast period,
22 Manitoba Hydro does not recover to its pre-drought debt-
23 equity of 80/20 until 2012.

24 Mother Nature didn't agree, and two (2)
25 years later -- December 2006 -- a debt-equity ratio of

1 80/20 was achieved, as stated on page 3 of Mr. Brennan's
2 letter for a rate increase in February 2007.

3 Keeping in mind the above three (3)
4 mentioned Manitoba responses, it is interesting to note
5 that there are very likely other scenarios to consider
6 instead of relying on ratepayers to accomplish the debt-
7 equity ratio.

8 And, for example, one, if there would have
9 been such a positive impact on the target date for the
10 desired debt-equity ratio without the \$203 million
11 provincial withdrawal, then a scenario that is worthy of
12 consideration is one that indicates another impressive
13 increase in net revenues similar to '05/'06.

14 Or a scenario that includes two (2) years
15 of either successive or non-successive years of above-
16 average water flows, not like '05/'06.

17 Three, a scenario in which Manitoba
18 delayed construction of the new office tower for
19 several years.

20 Or a scenario that indicates the date of
21 reaching the desired debt-equity ratio of 75/25 if
22 Manitoba Hydro had not suffered such an expensive
23 decrease in net revenues for '03/'04 if the loss is only
24 100 million, or no loss or gain for '03/'04.

25 And 5) a scenario in which there are no

1 rate increases and no droughts. I don't reca -- recall
2 viewing any such scenarios, and I -- I reviewed the
3 binders related -- as I reviewed the binders related to
4 the General Rate Application.

5 It is obvious that the target date for a
6 debt-equity ratio of 75/25 is constantly changing. No
7 doubt this will continue, depending on the amount of
8 spending on Manitoba Hydro's part.

9 This is further verified by Manitoba
10 Hydro's response, PUB-1-62(a), that indicates by way of a
11 table the actual debt-equity ratio for the years 1999 to
12 2007 compared to the debt-equity ratio forecasted in IFF-
13 99-1.

14 It appears through much of the material
15 related to the General Rate Application that the debt-
16 equity ratio and drought risks go hand-in-hand. Much
17 effort is devoted to obtaining a specific debt-equity
18 ratio, thereby reducing Manitoba Hydro's vulnerability to
19 drought risks.

20 I would think that there may be other
21 means of reducing Manitoba Hydro's vulnerability to
22 drought risks. However, if Manitoba Hydro is able to
23 obta -- obtain a 75/25 debt-equi -- equity ratio, then
24 there's another very unacceptable risk that will be faced
25 by the ratepayers.

1 From page 31 of Board Order 101/04, it
2 states:

3 "Achieving a debt-equity ratio of 75/25
4 would provide increased rate stability
5 benefits and hold down financial
6 charges."

7 From page 37 of Board Order 101/04, it
8 states:

9 "To restrict any future dividend
10 payment until the 75/25 debt-equity
11 ratio has been achieved or exceeded."

12 This indicates to me that it would not
13 take the province very long to pass legislation that
14 would enable the province to once again call for a
15 dividend payment.

16 And where does that leave the taxpayer or
17 ratepayer? Back at square one and more -- more
18 increases, more drought risk concerns, et cetera.

19 Therefore, it's not reasonable for
20 Manitoba Hydro to attempt -- to attempt to achieve the
21 required debt-equity ratio on the backs of ratepayers
22 when another method of achieving their goal may be
23 available, such as export contracts and permits.

24 Also the water flows of '05/'06 have
25 indicated that water flows do play a significant part in

1 achieving the goal just as the water flows of the seven
2 (7) year period prior to the 2004 General Rate
3 Application kept rate increases to zero.

4 Green electric rates, I wasn't quite sure
5 how to word that one, so I just put the three (3) words
6 down there. For several years Manitobans have been
7 reminded by Manitoba Hydro of Manitoba Hydro's
8 commitments to reduce greenhouse gases.

9 The reminders have been mentioned in
10 Manitoba Hydro's annual reports, the current General Rate
11 Application, and other documents that indicate Manitoba
12 Hydro's exports help reduce greenhouse gas emissions.

13 By way of example, in Manitoba Hydro's
14 2007 annual report we were told that the end of 2006
15 Manitoba Hydro's average net greenhouse emissions were 27
16 percent below the 1990 levels, well exceeding the
17 voluntary commit -- commitment of a 6 percent reduction.

18 There should be no doubt in anyone's mind
19 that it is important to Manitoba Hydro, as a multibillion
20 dollar corporation, to main -- maintain such low levels
21 of greenhouse emissions, thereby leaving a small
22 environmental footprint.

23 Manitoba Hydro must be commended for such
24 an impressive achievement and respected for its
25 commitment to the environment with respect to greenhouse

1 gas emissions.

2 Any reasonable and prudent person would
3 also have to come to the conclusion that any all-electric
4 ratepayer who attempts to respect the environment must be
5 commended for his or her efforts and deserves the same
6 respect afforded to Manitoba Hydro.

7 However, at PUB-1-13(f) Manitoba Hydro
8 appease to be -- appears to be painting a completely
9 different picture when Manitoba Hydro considers the
10 efforts of individual all-electric ratepayers.

11 The Public Utility Board asked:

12 "Should electric heat customers be
13 treated differently? Example, a
14 special class?"

15 A one (1) word answer by Manitoba Hydro
16 was, No. This is -- that is mind boggling -- that is a
17 mind-boggling contradiction when considering everything
18 that we have heard and read over the pass several years
19 regarding Manitoba Hydro's efforts to reduce greenhouse
20 gas emissions

21 An individual electric ratepayer who
22 chooses an all-electric residence over using gas, oil,
23 coal or wood is contributing nothing to the environment
24 with respect to greenhouse gas emissions except for the
25 small portion of the total greenhouse emissions of

1 Manitoba Hydro. This cannot be said for the individual
2 who chooses gas, oil, coal, or wood as a source of heat.

3 Therefore, just as the multibillion dollar
4 corporation Manitoba Hydro, the individual all-electric
5 ratepayer is also leaving a very small environmental
6 footprint.

7 It is important to note that many or all-
8 electric residences do not have the choice of heating
9 their house with gas. I'm sure that Manitoba Hydro is
10 not recommending that if natural gas for heating is not
11 available for specific residences that the houses of
12 those residences be heated by oil, coal, or wood.
13 Therefore, for many all-electric ratepayers, electric is
14 nondiscretionary.

15 In effect the new rate structure for
16 residential customers is a punitive measure penalize --
17 by penalizing ratepayers of the all-electric,
18 nondiscretionary method of heating houses. One would
19 think that the all-electric ratepayer would be rewarded
20 and not punished for their positive use of electricity.

21 In -- in PUB 1-12(a) it states Manitoba
22 Hydro is utilizing a basic monthly charge and a two (2)
23 block energy rate. In the current application the block
24 structure is an inverted rate structure with the first
25 block of nine hundred (900) kilowatt hours per month.

1 But this structure prices energy above standard usage,
2 like lighting and basic appliances, with the higher rate
3 than the initial block.

4 The price distinction in the current
5 application is nominal. However, the intention is that
6 the price in the second block will move toward marginal
7 costs, thereby sending a more appropriate price signal
8 for uses which are discretionary, example air
9 conditioning and pool heating, or for which competing
10 fuels are available, like space and water heater.

11 Based on above response, Manitoba Hydro is
12 completely ignoring the ratepayer whose residence is all
13 electric with no access to competing fuels and,
14 therefore, nondiscretionary.

15 Following is a quote from the list of
16 questions that I sent February 24, 2005, to the Public
17 Utilities Board and Manitoba Hydro regarding the
18 condition of rate increase of April 1st, 2005. And it
19 was explained why ratepayers who live in all-electric
20 heat -- heat houses are not offered a lower rate for
21 using all-electric heat from environment --
22 environmentally friendly, hydraulically generated energy.

23 On Page 4 of Tab 10, Volume I, regarding
24 the inverted rate for residential customers, it states
25 that:

1 "For residential customers, no customer
2 will experience a -- a bill increase
3 which exceeds the greater of three
4 dollars (\$3) per month increase and
5 fall into the category of [I'm sorry]
6 three dollars (\$3) per month or 3
7 percentage points more than the class
8 average increase."

9 It is obvious that many all-electric rate
10 payers will exceed the three dollars (\$3) per month
11 increase and fall into the category of not exceeding the
12 3 percentage points per -- more than the class average.

13 In other words, many of the all-electric
14 payers will have part of their payment determined by the
15 amount, the class average, of energy used by everyone in
16 the class, and that's not acceptable.

17 As was stated in -- by Manitoba Hydro
18 during MIPUG hearing of January 28, 2008, page 108:

19 "Regardless of how -- how likely it is
20 that their load would be captured by
21 the -- the proposed rate, rate
22 certainty is needed [bold print added]
23 -- rate certainty is needed by all-
24 electric rate payers, especially
25 nondiscretionary heat use customers.

1 Also all-electric rate payers should
2 not have their payments determined by
3 how many percentage points above the
4 class average may apply to their
5 payment."

6 It appears that many all-electric rate
7 payers will be facing a rate increase greater than the --
8 than the increase in their rate of inflation. This is
9 not consistent with Manitoba Hydro's statement to keep
10 rate increases that are below the rate of inflation.

11 The idea of an exemption criteria that
12 will be or has been established for the industrial
13 classes is the very same approach that should be used for
14 all-electric residences, such as a nondiscretionary --
15 nondiscretionary, all-electric heat use list.

16 Manitoba Hydro's response to Coalition-2 -
17 - 2-64(a) indicates factors that make it undesirable to
18 vary block sizes, factors such as balancing the overall
19 requirement of the class, increased burden of customer
20 service staff to ensure customers are billed accurately,
21 increased metre reading costs as customers need to ensure
22 metres are read on those months when the block size
23 changes. Prorating consumption during a block change
24 could result in some customers overpaying for usage and
25 more customer complaints.

1 However, I believe there's another
2 approach to rewarding or calculating payments for
3 nondiscretionary all-electric heat use ratepayers, espe -
4 - especially those without access to natural gas.

5 If the block system must be utilized, that
6 all ratepayers pay the same amount for the first block,
7 they also all pay the same amount for the second block.

8 However, those ratepayers that use
9 electricity as a nondiscretionary use, such as heating
10 their residence, are given a rebate or a credit to their
11 bill at the end of the fiscal year or some other
12 appropriate time.

13 Meters could still be read as is done
14 presently. There won't be confusion as to when the block
15 size changes. There won't be any overpayment problem or
16 an increase in complaints.

17 The annual one-time rebate credit to all -
18 - to the all-electric customer would be based on the
19 amount of kilowatt hours of consumption that they are
20 above the first block.

21 This is easy to calculate, as Manitoba
22 Hydro's bills already have the consumption amounts on a
23 yearly basis on each customer bill. The rebate discount
24 could be different for the all-electric ratepayer that
25 uses electricity for heat purposes but has the

1 availability of a competing alternate fuel, as opposed to
2 the all-electric ratepayer that uses electricity for heat
3 purposes but does not have access to a competitive
4 alternate.

5 Example: this example -- I put in some
6 examples; I hope you can follow through with me. This
7 example is based on the first block set at nine hundred
8 (900) kilowatt hours per month, which I consider to be
9 much too low.

10 So the first block is nine hundred (900)
11 kilowatts of consumption at the established rate whatever
12 it's going to be. The remainder of kilowatt hours consumed
13 -- consumption over nine hundred (900) at the
14 established rate, whatever it's going to be.

15 If the annual consumption is greater than
16 ten thousand eight hundred (10,800) kilowatt hours but
17 less than thirty thousand (30,000) kilowatt hours, a flat
18 discount rebate of a certain percent of the established
19 rate is given.

20 If the annual consumption is greater than
21 thirty thousand (30,000) kilowatt hours, another flat
22 discount rate of a certain percent of the established
23 rate is given.

24 Or using Manitoba Hydro's definition of
25 all-electric -- Coalition 49(b) -- to be ten (10)

1 kilowatts, it would be easy for Manitoba Hydro by the use
2 of their code and to determine those customers who fall
3 into this category and deserve a flat discount of the
4 established rate.

5 Or, the remainder of the annual kilowatt
6 hours consumption over ten thousand eight hundred
7 (10,800) kilowatt hours, a flat discount rate, a rebate
8 of a certain percent of the established rate.

9 No doubt, other methods that give their
10 consideration for nondiscretionary all-electric use
11 ratepayers exist without giving rise to any undesirable
12 factors of concern for Manitoba Hydro as outlined above.

13 Another example could be that the average
14 of the last five (5) years of consumption from
15 nondiscretionary all-electric heat use ratepayers could
16 be used to determine a flat discount rate above and
17 beyond the first block consumption.

18 On page 85 of the transcripts for the
19 MIPUG hearing in January 2008, Manitoba Hydro states that
20 they have experts in rate design. In fact, they have a
21 department devoted to this function.

22 Surely, the rate experts can design a rate
23 structure that takes into account a nondiscretionary use
24 of electricity -- use ratepayers instead of designing a
25 rate structure that all actually penalizes those

1 ratepayers for the nondiscretionary use of electricity
2 for heat use.

3 Note -- you know, I should stop here for a
4 minute. In case some of you are wondering why it's
5 taking me so long to do this, I was given two (2) hours
6 for this presentation. So in case some of you are
7 sitting there wondering when I was going to stop, it
8 doesn't take me two (2) hours to do this, but I mean, I
9 was allotted that much time.

10 Okay, back to page 17. Note, Manitoba
11 Hydro in its PUB-1-12(a) response mentions a couple of
12 the electric uses that they consider discretionary, such
13 as air conditioning and pool heating. It doesn't mention
14 electric heat.

15 A discretion -- discretionary use criteria
16 must be established as to what constitutes discretionary.
17 When that is determined, it's very easy to determine the
18 amount of kilowatt hours consumed by those discretionary
19 uses of all-electric customers than to determine amount
20 that kilowatt hours consumed by those discretionary users
21 can easily be subtracted from the ratepayers' total
22 annual amount of kilowatt hours consumed. After that a
23 discount rebate can be applied to the remainder that is
24 greater than the first block.

25 Also, it would not be difficult to

1 determine those customers who are all-electric with a
2 competitive fuel alternate discretionary and those
3 customers who are all-electric, without a competitive
4 fuel alternate non-discretionary, then set a discount
5 rebate, as in the examples above, for all-electric
6 discretionary, all-electric non-discretionary.

7 The discount rebate can also vary
8 depending on the type of house, the year it was built,
9 the insulation levels, the windows, et cetera.

10 When I read the first volumes of the
11 General Rate Application, I was surprised and
12 disappointed to learn that Manitoba was applying for a
13 new inverted rate structure. As will be evidenced in
14 other sections of this presentation, the new rate
15 structure is punitive to the non-discretionary, all-
16 electric heat use customer.

17 I find the statement on page 51 of the
18 2007 annual report to be interesting and maybe
19 disturbing, that Manitoba Hydro will train purchasing
20 employees in environmentally responsible buying, but
21 Manitoba Hydro is missing the value of the
22 environmentally friendly or environmentally responsible
23 all-electric customers, especially in non-discretionary,
24 all-electric use -- use customers.

25 6. The new inverted rate structure.

1 Before I begin this section, I'm aware that one (1) of
2 the directives of earlier Board Orders was for a proposal
3 to end declining rate blocks to be accomplished on a
4 revenue-neutral basis. However, Manitoba Hydro's
5 proposal is not complete, as will be evidenced by this --
6 by this section.

7 This part of my presentation should not be
8 interpreted as my support for the proposed new rate
9 structure or my support for the rate increase.

10 Manitoba Hydro's response, Coalition
11 168(d) indicates that the application is proposing an
12 inverted rate for the residential class with the first
13 block set at nine hundred (900) kilowatt hours acting as
14 an adequate baseline among -- for most non-discretionary
15 consumption with the tail rates set to capture
16 discretionary uses for much -- for which a competing fuel
17 is available.

18 Manitoba Hydro's response also indicates
19 that an inverted rate will provide greater incentive for
20 customers to make wise energy choices by either cutting
21 back on discretionary uses -- usage, or invest in energy-
22 efficient products that reduce overall consumption.

23 The above statement does not mention what
24 the block rates should be for customers whose residence
25 is all-electric without suitable competing fuels avail --

1 fuels available.

2 In 1969, I made a wise environmentally
3 friendly energy choice with the help of Manitoba Hydro
4 when I decided to install all-electric devices in my
5 residence. However, once again in PUB-1-13-2 where the
6 Board asks will there be special treatment for all-
7 electric heat customers, the answer was "no."

8 Something is amiss here. It appears that
9 Manitoba Hydro is punishing the non-discretionary all-
10 electric heat use customer so that they have more power
11 to export, which may be a bigger problem as will be
12 stated in Section 8.

13 But Manitoba Hydro's response to RCM/TREE-
14 1-6(d) indicates that future applications will focus on
15 the inverted portion of the rate until such point that it
16 reaches a price close to the marginal cost. At this
17 point, customers receive an appropriate price signal to
18 either change fuel sources and/or conserve energy use.

19 In other words, Manitoba Hydro is
20 attempting to dictate to its customers that they should
21 change fuel sources if they don't agree with the new rate
22 structure. That is mind-boggling, especially when
23 Manitoba Hydro has made no mention of or intention of
24 presenting a reasonable alternative rate for non-
25 discretionary all-electric heat use customers.

1 Not to be facetious, but is Manitoba Hydro
2 suggesting that some customers should consider buying
3 coal from the Brandon Coal Burning Thermal Generating
4 Station? I think not.

5 And I also do not believe that Manitoba
6 Hydro is expecting non-discretionary all-electric heat
7 use customers to replace their existing all-electric heat
8 devices.

9 Manitoba Hydro's attitude regarding some
10 of the statements that they have made regarding the new
11 rate schedule are inappropriate. It appears that they
12 expect to be applauded for their environmentally friendly
13 limited amount of greenhouse gas emissions, but their own
14 non-discretionary all-electric heat use customers do not
15 deserve the same recog -- recognition.

16 The consequences of the proposed new rate
17 schedule are punitive to Manitoba Hydro's non-
18 discretionary all-electric heat use customers. In no way
19 does the new rate schedule recognize the environmentally
20 friendly footprint of the non-discretionary all electric
21 heat use customers.

22 It doesn't require much thought to realize
23 that all electric customers have been aware for a long
24 time that they will probably pay more for electric heat
25 than gas heat if it's available. I'm not sure if that

1 still applies today, because I'm not sure what the gas
2 rates are and how much it takes to heat a house.

3 However, it's a no-brainer for all
4 electric customers that they will pay higher bills if
5 they use more electricity especially to heat their --
6 sorry, however, it's a no-brainer for all electric
7 customers that they will pay higher bills if they use
8 more electricity especially if they heat their houses.

9 However, paying higher bills they are not
10 just related to consumption, but because it has been
11 determined by someone that the all electric con --
12 customer -- customers are more elastic and, therefore,
13 must pay still a higher price for energy is offensive.

14 Based on Manitoba Hydro's response,
15 RCM/TREE-1-14(a) indicates there are several thousand
16 customers who use the electricity as a heat source.
17 Unfortunately, it does not indicate how many of those
18 customer -- how many thousands use electricity as a heat
19 source on a non-discretionary basis that being no
20 available competing alternate fuel source.

21 That information would be very easy to
22 determine by Manitoba Hydro. The chart indicates there
23 are one (1) in a third times as many customers in the
24 range of twenty-six thousand (26,000) to plus forty
25 thousand (40,000) kilowatt hours, than in the range of

1 two thousand (2,000) to twenty-four thousand (24,000)
2 kilowatt hours.

3 I chose twenty-four thousand (24,000)
4 kilowatt hours as a dividing point as that is what is
5 used in the example of Winnipeg Free Press application
6 notice of February 23, 2008.

7 If the dividing point though was ten
8 thousand (10,000) kilowatt hours, is -- which is closest
9 to the first block consumption of ten thousand eight
10 hundred (10,800), then there would be seven (7) times as
11 many customers in the twelve thousand (12,000) to plus
12 forty thousand (40,000) kilowatt hours range, than in the
13 two thousand (2,000) -- than in the two thousand (2,000)
14 to the ten thousand (10,000) kilowatt hour range.

15 Therefore, the proposal before the Board
16 is placing the greatest burden of the residential revenue
17 requirement base based on a rate increase that has its
18 greatest increase impact on the all electric customers
19 with annual consumptions over ten thousand (10,000)
20 kilowatt hours. And this includes the non-discretionary
21 all-electric heat use customers.

22 On Page 7 the -- of the NERA Economic
23 Consulting Report referring to residential customers it
24 states -- I'm sorry, I get mad every time I read this
25 one:

1 "Customers with electric space heat
2 capability are typically more elastic
3 than those without, which implies that
4 it's more important for them to face a
5 marginal cost based price signal in the
6 heating season."

7 This suggests that the first block size in
8 an inverted rate -- inverted rate -- block rate should be
9 set low enough to put most con -- customers with electric
10 heat into the more efficient marginal cost base second
11 block.

12 It is my understanding from that quote
13 that if the all electric customers are relegated to the
14 second block -- block that it is expecting that the all-
15 electric customers because of the price elasticity --
16 elasticity to carry the burden of the expected revenues
17 for the residential class, with no consideration given to
18 the non-discretionary all electric heat use customer.

19 That appears to -- appears to be very
20 manipulative. Based on the chart information within in
21 Manitoba Hydro response to RCM/TREE-1-14(a) that is
22 exactly what Manitoba Hydro is -- Hydro is attempting to
23 do for the majority of all electric customers, including
24 the nondiscretionary all-electric heat use customers.

25 Elasticity is not a factor for

1 nondiscretionary all-electric use -- heat use customers.
2 The important factor is or was the availability of the
3 competing -- competitive alternate fuel source. Also it
4 does not illustrate Manitoba Hydro's commitment to
5 fairness for all groups of customers, as stated in
6 Manitoba Hydro's brochure titled, "How Manitoba Sets its
7 Electricity Rates," which states on page 2:

8 "Manitoba Hydro continuously thrives to
9 keep its rate structures as simple as
10 possible. Simplicity, however must be
11 balanced with other goals including
12 fairness for all groups of customers."

13 Not only is the proposed new restriction
14 not fair but it is also punitive. Besides the fact that
15 I'm not in favour or support of a rate increase, as I
16 will mention later on, that I've already mentioned, there
17 is something very disturbing regarding the matter, such
18 as a newspaper public notice in which the new and
19 inverted rate structure is not even named or described to
20 the public at large.

21 I place the same importance on the above
22 statement as the current concerns that MIPUG has
23 regarding the new rate structures for the industrial
24 sector, especially the criteria for exemption, as a
25 parallel to my concerns related to the need for non-

1 discretionary used criteria.

2 The notice in the Winnipeg Free Press, on
3 February 23rd, 2008, states that:

4 "A typical residential customer who
5 uses eight hundred (800) kilowatt/hours
6 per month will pay a dollar twenty-five
7 (\$1.25) more per month, and a
8 residential customer with electric
9 space heat and using two thousand
10 (2,000) kilowatt/hours per month will
11 see an increase of three dollars and
12 eighty-six (\$3.86) cents."

13 The problem with the information notice is
14 that no where does it state that Manitoba Hydro is
15 attempting to introduce an inverted rate schedule which
16 has not existed before; that Manitoba Hydro does not
17 state that they consider electric heat as a discretionary
18 use; that Manitoba Hydro makes no attempt to explain the
19 meaning of an inverted rate; that Manitoba Hydro in
20 subsequent rate applications does not share its intention
21 of sending a price signal for uses which are
22 discretionary; that the price distinction example in the
23 current application, slash, notice is only nominal and
24 misleading; that there will not be fair price for
25 customers who are all electric, even if competing fuels

1 are not available.

2 It does not indicate those -- all electric
3 heat uses that are going to be considered discretionary.
4 Therefore, our criteria list of discretionary uses must
5 be established before any form of inverted rate is
6 introduced.

7 It is void of examples of what will be
8 considered futuring for inverted rate consequences which
9 will not be nominal; that it does not indicate that some
10 ratepayers will have their payments determined in part by
11 the average use of a class.

12 Is not -- it is not an increase of
13 2.9 percent for all customers within specific rate
14 classes, which is misleading. If the different percent
15 increases are considered, the 2.4 percent and the
16 3.2 percent, it means that the all-electric customer is
17 paying 33 percent more for electricity.

18 The new rate structure is based on one
19 study done by NERA Economic Consulting. How could anyone
20 support Manitoba Hydro's proposal for such a punitive new
21 inverted rate schedule with so much important information
22 missing?

23 There is no mention of how much of a
24 difference there will be between the block rates and the
25 block size in subsequent years, that one (1) of the

1 blocks will be decreasing while a second block is
2 increasing. Examples are needed for the different block
3 rates and block sizes that could occur over the next
4 several years.

5 The NERA Consultants and Manitoba Hydro do
6 not set any elasticity limits for all electric
7 residences. To me this implies that Manitoba Hydro views
8 the all-electric customer to be a cash cow.

9 Other than references to heat production
10 for a home, what do the NERA Economic Consultants and
11 their -- Manitoba Hydro have as a -- have as a list of
12 the elasticity options that can be utilized by all
13 electric customers that can not also be utilized by
14 standard electricity customers?

15 On page 104 of the MIPUG hearing
16 transcripts, Manitoba Hydro states:

17 " That the paramount consideration must
18 always be that the Board has all the
19 relevant information before it when
20 making its decisions. That is exactly
21 what has not occurred regarding the new
22 proposed residential inverted rate
23 structure and the criteria for
24 discretionary electric use especially
25 the all-electric customer with no

1 competitive fuels.

2 Relative information regarding the
3 inverted rate is not before the Board."

4 Also on page 102 of the MIPUG hearing
5 transcripts, Manitoba hydro states:

6 "The new expanded load rate is an
7 integral component of the GRA. One
8 cannot be heard without the other."

9 But Board Order 8/08 has done just that,
10 by providing a separate proceeding to examine, I
11 conclude, on the exemption criteria related to Manitoba
12 Hydro's proposal for a new reschedule for general service
13 large customers.

14 I believe that the new rate structure for
15 residential class deserves the same consideration to the
16 list on the previous pages, and for any other interested
17 parties must be addressed.

18 7. The interim rate increase of 2007.

19 Following are some quotes from different
20 sources that describe the water flow conditions of
21 '06/'07. And this is -- this is not in here for a joke.

22 1. Manitoba Hydro's quarterly report
23 ending June 30th, '06, states:

24 "With a return to more normal but still
25 positive conditions in the current

1 fiscal year, net income is projected to
2 exceed \$200 million by year end."

3 2. Manitoba Hydro's quarterly reporting
4 ending September 30th, '06 states:

5 "Consolidated net income was 97 million
6 lower than the same six (6) month
7 period last year, which reflects a
8 return to more normal conditions
9 compared to the exceptional water flows
10 and export prices experienced last
11 year."

12 3. Manitoba Hydro's quarterly report
13 ending December 31st, '06 states:

14 "The significant reduction and
15 consolidated net income reflects a
16 swing from exceptional water flow
17 conditions last year to low water flows
18 during most of fiscal '06/'07."

19 On page 13 of Manitoba Hydro's 2007 annual
20 report President Brennan states:

21 "Net income for the year was 122
22 million, down from the record earnings
23 of 416 million achieved last year.
24 Water conditions returned to more
25 normal levels this year resulting in

1 less production from the hydroelectric
2 generator facilities compared to last
3 year and therefore less export revenues
4 from sales of surplus power."

5 Before I go on to 5 and 6, maybe check --
6 so if the net income was \$122 million, if you check the
7 last seventeen (17) years going back to 1991, the \$122
8 million is higher than eleven (11) of those years.

9 5. From Mr. Brennan's letter dated
10 January 26, 2007, it is stated:

11 "Due to extremely poor water conditions
12 during most of fiscal 2006/'07
13 Manitoba..."

14 Number 6, on page 2 of Tab 1, Volume I and
15 page 1 of Tab 2, Volume I, the same statement is made as
16 number 5.

17 Now, I understand that Manitoba Hydro
18 makes its multi-year projections based on average water
19 flows. Therefore, any reasonable prudent person will
20 have to think that the adjective normal and average would
21 be synonymous.

22 A quick review of the above regard --
23 above the -- above regarding water flows is this:

- 24 1) says it's normal.
25 2) says it's normal.

- 1 3) is low for a third quarter.
- 2 4) It's normal for a fiscal year.
- 3 5) It's extremely poor for a fiscal year.
- 4 6) The flows were extremely poor for
- 5 fiscal year. For most of fiscal year.

6 There is a glaring contradiction in the
7 above water flows for fiscal year '06/'07. It is obvious
8 that they were not extremely poor for the most -- for
9 most of the fiscal year, as was given the excuse for the
10 application for a rate increase in January of 2007.

11 I find it unacceptable that Manitoba Hydro
12 based on a quarter, approved to have low water flows, is
13 enough data for Manitoba Hydro to apply for an immediate
14 rate increase. That type of reaction to one quarter of
15 low flows is extremely unreasonable and makes one --
16 makes one wonder why does Manitoba Hydro even bother with
17 ten (10) year projections.

18 Manitoba Hydro's response, COALITION-1-28,
19 uses a chart representing the percentage of average water
20 flows for the year 1912 to 2007. It's interesting to
21 note that the percentage of average water flow for the
22 years 2006 and 2007 -- and I'm not sure if that was
23 referring to calendar year or fiscal year -- but for
24 those years it was 95 percent and 111 percent
25 respectively.

1 This does not warrant the description of
2 wat -- of the water flows of '06/'07 as extremely poor
3 for most of the fiscal year.

4 On page 1 of Tab 2, Volume I, Manitoba
5 Hydro states:

6 "Manitoba Hydro, by a letter dated July
7 5th, 2005 informed the PUB that due to
8 a dramatic turnaround in water
9 conditions since the issuance of Order
10 101/04 and the favourable financial
11 forecast for 2004/'05, Manitoba Hydro
12 had resolved to forego the October 1st,
13 2000 rate increase approved
14 conditionally in that Order."

15 I find it disturbing that the dramatic
16 turnaround in water conditions referenced in Manitoba
17 Hydro's letter of July 5th, 2005 was enough of an
18 incentive at that time to forego the October 1st, 2005
19 rate increase.

20 The turnaround in water conditions that
21 continued for fiscal year '05/'06 proved to be a record
22 setting one for Manitoba Hydro, with respect to net
23 revenues of 450 million.

24 An increase in net revenue for that one
25 (1) year could be described as extremely positive.

1 However, why wasn't it enough of a positive surge in net
2 revenues to overcome one-quarter (1/4) of low flows in
3 '06/'07 without having to panic and apply for an
4 immediate rate increase in January 2007. Something is
5 amiss here.

6 Following are the increases in revenue for
7 two (2) scenarios: one, if the Public Utilities Board
8 granted Manitoba Hydro the rate increases requested in
9 their 2004 General Rate Application, and the other is the
10 increase in revenue that was ordered by the Board.

11 And I'm basing these numbers on numbers
12 that I just took out of the -- out of the things I've --
13 I've collected. So these sums are based on the
14 following: a rate increase of 3 percent is \$28 million.
15 A rate increase of two point five (2.5) is \$24 million.
16 A rate increase of two point two five (2.25) is \$23
17 million. If 3 percent is 28 million, then 5 percent
18 would be five-thirds (5/3) of that, \$47 million. 5
19 percent for a period of eight (8) months would equal two-
20 thirds (2/3) of 47 million, which is 31 million.

21 Okay. So I used those numbers just to
22 take two (2) years -- '05 -- '04/'05 and '05/'06 -- to
23 see how much money they got from the 2004 rate
24 application.

25 So Scenario 1, this is the amount granted

1 by the -- this revenue is the amount if the Board granted
2 Manitoba Hydro's GRA of 2004. So by the end of '04/'05
3 they would have gotten an extra 28 million. By the end
4 of '05/'06, they would have gotten another 28 million
5 plus the 24 million. If you add that up, bold print, it
6 says it's \$80 million.

7 Scenario 2 -- and not just to the end of
8 '06 by the way -- revenue is the amount ordered by the
9 Board. End of '04/'05, which was two-thirds (2/3s) of
10 the 5 percent, it would be 31 million. End of '05/'06
11 they would get the full 5 percent, which is 46 million,
12 and then they get another 23 million. The amount there
13 is \$101 million. So we're already 21 million ahead of
14 the game here of what they asked for in their application
15 of 2004.

16 And I never put it on here, but if you go
17 one (1) year further, go back up to Scenario 1 and throw
18 in to the end of '06/'07, they're going to get another 28
19 million and another 24 million. If you do that to
20 Scenario 2, they're going to get another 46 million and
21 another 23 million.

22 So there's a real big difference in what
23 they were given as an increase above what they asked for.

24 So at the bottom of the page there,
25 therefore by the end of '05/'06, Board Order 101/04

1 granted Manitoba Hydro \$21 million more than they asked
2 for without the October rate increase of \$32,500,000 --
3 I'm sorry, or more -- or thirty-two thousand dollars
4 (\$32,000) more than they asked for if they applied for
5 and received an October 2005 increase, which is what
6 happened in March 2007 based on a brief letter of
7 application dated January 26th, 2007

8 A very mind-boggling fact is the fact that
9 the year -- that for the year '05/'06 Manitoba Hydro was
10 in response -- this is going back a bit -- in response to
11 PUB-8(a) contained in material related to the April 2005
12 rate increase reference IFFO-4-1 indicated that for
13 '05/'06 they indicated an expected net income of a \$195
14 million with the August 2004 rate increase and the April
15 2005 increase, but not with the October increase.

16 But the net income for '05/'06 was \$416
17 million, and Manitoba still believed that they needed the
18 conditional approved rate of October 2005 to be granted
19 February 2006 -- 2007.

20 That is not acceptable. It makes one
21 wonder what happened to the surplus net income of four
22 hundred sixteen (416) minus one ninety-five (195), \$221
23 million, from the year '05/'06. I assume it becomes an
24 influence on the retain -- retained earnings. In fact
25 Manitoba Hydro's Annual Report 2004 stated that the

1 retained earnings after the recent drought were \$.707
2 billion.

3 Two (2) years later Manitoba Hydro's
4 Annual Report 2006 stated the retained earnings to be
5 1.265 billion, 179 percent of the 2004 retained earnings,
6 which is pretty good.

7 On page 3 of Tab 1, Manitoba Hydro's
8 application for a rate increase of 2.25 percent for April
9 1st 2005, it states -- this is repeated someplace else in
10 this presentation, too -- it states it will take several
11 years of good water conditions to recoup the losses of
12 2003/'04. In fact, even with the assumption of median
13 water flow conditions and general rate increases each and
14 every year throughout the ten (10) year forecast period,
15 Manitoba Hydro has not recovered to its pre-doubt --
16 drought debt-equity ratio of 80/20 until twenty (20) --
17 2012.

18 Mother Nature didn't agree, but two (2)
19 years later, December 2006 a debt-equity ratio of 80/20
20 was achieved, as stated on Page 3 of Mr. Brennan's letter
21 for a rate increase two (2) years after the drought.

22 The question begs to be asked, Why did
23 Manitoba Hydro apply for a rate increase in January 2007?
24 The rate increase was approved for March 1, 2007. And
25 based on the abovementioned material, there was no

1 justification for the rate increase of March 1, 2007.

2 Even in light of the fact that Manitoba
3 Hydro's prediction that it would take ten (10) years of
4 rate increases and median water flows in order to recover
5 to its pre-drought debt-equity ratio of 80/20, which was
6 extremely inaccurate, Manitoba Hydro is moving forward as
7 if the record breaking net income of '05/'06 didn't
8 exist, as evidenced by the fact that Manitoba Hydro
9 considered that one quarter (1/4) of '06/'07 of low flows
10 necessitated an immediate need for cond -- conditional --
11 for a conditional approved rate increase for October 1st,
12 2005.

13 But for some reason, if any, Manitoba
14 Hydro did not or does not see the possibility that the
15 record-breaking net income of '05/'06 would negate any
16 request to introduce the conventional or the
17 conditionally approved rate of -- for October 2005.

18 Therefore, why even bother with long-term
19 predictions if Manitoba Hydro can't appropriately adjust
20 when conditions are favourable as fast as they adjusted
21 to the low flows of one quarter (1/4) in '06/'07? In
22 fact, the record-breaking net income of '05/'06, and
23 using Manitoba Hydro's quick adjustment technique, should
24 have resulted in a rate decrease, not a rate increase.

25 I'm a bit perturbed by Mr. Brennan's

1 statement in the last paragraph of page 1 of his January
2 26, 2007, letter to Mr. Lane, that statement being:

3 "I am now proposing that the 2.25
4 percent increase conditionally approved
5 in Order 101/04 be approved for
6 implementation effective February 1st."

7 And I'm not trying to pick on anybody
8 here, so please don't -- don't take this as -- as a point
9 of disrespect or anything. But I just find it --
10 continuing on -- I find it disturb or interesting that
11 Mr. Brennan is of the opinion that a conditional rate
12 increase specified for the year 2005 can apply for the
13 year 2007.

14 The 2005 conditional rate increase of 2.25
15 percent was not needed, due to the fact that conditions
16 had improved with respect to water flows and finances,
17 water conditions that continue to improve for '05/'06.

18 It appears that Mr. Brennan believes that
19 Manitoba Hydro can bank conditional rate increases if
20 Manitoba Hydro deems the conditional rate increase
21 unnecessary for the specified time interval.

22 If Mr. Brennan truly believes, or if
23 Manitoba Hydro truly believes, that the conditional rate
24 increase of 2005 can apply to the year 2007, then using
25 the same reasoning, coupled with Manitoba Hydro, Mr.

1 Brennan's comments, past comments, and actions -- such as
2 A) in the past Manitoba Hydro did not consider a rate
3 decrease in order to allow the retained earnings to
4 accumulate for low flows; B) when low flows did occur Mr.
5 Brennan said we would not have a rate increase due to the
6 drought as the retained earnings were used to cover; C)
7 that Manitoba Hydro did apply for a rate increase in 2004
8 due to the consequences of the drought.

9 Therefore, any electricity ratepayer -- a
10 ratepayer should expect an immediate and retroactive rate
11 decrease based on the fact that apparently the ratepayers
12 had banked deferred rate decreases.

13 Reaction to such a statement is probably
14 and should be one of disbelief, but should also be the
15 reaction towards the foregoing application for a
16 conditional rate increase of October 25, 2005, that
17 somehow has become or became a deferred rate increase.

18 On Page 2, of Tab 2, Volume I, it states
19 that across the board increase of 2.9 percent is required
20 in order to assist the Corporation in making reasonable
21 progress towards the attainment of financial targets.

22 Any reasonable, prudent person must come
23 to the conclusion that the record-breaking net income of
24 '05/'06 should be playing -- be playing a significant
25 role in assisting the Corporation in making reasonable

1 progress towards the attainment of financial targets.

2 But Manitoba Hydro continues to use the
3 phrase "make reasonable progress towards the attainment
4 of financial targets," even when they should have already
5 produced reasonable progress towards its financial
6 targets, such pro -- such progress that definitely
7 negates the April 1st, 2007, rate increase and no need
8 for the April 1st, 2000, increase.

9 It is surprising to be informed by
10 Manitoba Hydro, in response MIPUG-1-1(c) that there's no
11 hard and firm definition for -- for "reasonable" in the
12 constec -- context of the statement "reasonable progress
13 towards the attainment of financial targets -- targets"
14 other than the progress towards the debt-equity ratio
15 target over the course of the forecast.

16 Unfortunately, the target date for the
17 debt-equity is always changing. Maybe it's more than
18 drought conditions that have such an adverse effect on
19 debt-equity. What is unfortunate about the situation of
20 rates -- whether it be the April 1st, '07, rate increase
21 or any past or future rate increases -- is or has been
22 the negative impact by such items as the provincial
23 withdrawal and the new office tower that has increased in
24 square footage and cost. Just those two (2) items have
25 cost close to a half a billion dollars.

1 Manitoba has -- Manitoba has this -- this
2 ho-hum, don't worry be happy attitude, because future
3 water flow conditions, as stated in the section on
4 drought water conditions and et cetera -- et cetera, will
5 provide a necessary export revenues to overcome any
6 negative effects of export contracts.

7 Therefore, what was the panic in January
8 of 2007 to rush a rate increase based on low water flows
9 for one quarter (1/4) of a year?

10 From page 4 of Tab 5, Volume I, states the
11 dram -- the dramatic swings in water flows over the past
12 few years have made it clear that regular stable rate
13 increases are necessary for Manitoba Hydro to make
14 measured progress toward its goal of meeting its
15 financial target while protecting -- protecting consumers
16 against future rate shock.

17 As evidenced by the table in Coalition-1-
18 2(a), the past few years -- let's say 1999 to 2007 --
19 there have not been dramatic swings in water flows, with
20 the exception of the drought period '03/'04. Every one
21 of those years, with the exception of '03/'04, produced a
22 positive net income without the need for a rate increase
23 until August 2004.

24 It is important to remember that the most
25 dramatic swing in the water flows -- that being '05/'06 -

1 - was an extremely positive event for Manitoba Hydro and
2 should have also have been the same for ratepayers.
3 Therefore, the term "dramatic" can be used to describe
4 positive events as well as negative.

5 And I -- I just put this last little
6 question in here, because I'm not quite sure if this is
7 what happened or not. But it's of interest to know that
8 during the '06/'07 period that Manitoba Hydro allowed too
9 much of a drain on their reservoirs to such -- to such an
10 extent that in order to support firm export contracts
11 they had to purchase power at high rates, as was the case
12 in '03/'04.

13 And I put that in there because if you
14 check their -- their fuel purchases and power purchases
15 in their annual -- their last annual report, fuel and
16 power purchases went really high compared to the previous
17 year, and other years too.

18 8. Getting near the end. Drought, water
19 -- I put a bunch of stuff in here -- drought, water
20 conditions, export contracts, and risk advisory report.

21 Appendix 12.5, the analysis of financial
22 loss due to extended periods of drought uses the period
23 of 1987 to 1992 to be representative of a severe five (5)
24 year drought in calculating the cost analysis for a five
25 (5) year drought. A future five (5) year drought --

1 excuse me -- with the same water conditions as 1987 to
2 1992 is a possibility and worthy of comparison.

3 However, the comparison with respect to
4 water conditions should stop there, for the future
5 designated period, whether it be '08/'09 to '12/'13 or
6 some other period makes, no difference. It could be for
7 any period of time.

8 The important factor to remember is not
9 the amount of water that flowed, but the amount of export
10 contracts that exist during the time period of that -- of
11 any drought. Whether it's a one (1) year, three (3)
12 year, five (5) year or seven (7) years, it doesn't
13 matter.

14 The risk advisory report on page 4 states:

15 "The major factors that can be
16 attributed to the substantial
17 differences in financial performances
18 for the '89 drought to the '03 drought
19 include significant increases in long
20 term fixed price export sales."

21 In 1989 the Company had four hundred
22 twenty-three (423) gigawatt hours of long term
23 commitments. In 2003 the Company had sixty-one hundred
24 (6,100) gigawatt hours of long term commitments. They
25 also mentioned a few others such as wholesale electricity

1 deregulation, shortest pricing transmission limitations,
2 fluctuating natural gas prices are also listed and very
3 likely the bookout agreements are also a factor.

4 However, if Manitoba Hydro attempts to
5 meet a long term commitment and Manitoba Hydro doesn't
6 have the required power to do so, then Manitoba Hydro
7 makes itself vulnerable to deregulation, the shortest
8 pricing, transmission limitations, bookout agreements,
9 and fluctuating gas prices.

10 Therefore it is not the severity of and/or
11 the length of an event such as a drought that has as much
12 of a negative impact on Manitoba Hydro's financial
13 performance as the type of and duration of export
14 contracts.

15 It is disturbing to read in Manitoba
16 Hydro's response. COALITION-1-89(e), states:

17 "The risk analysis section in IFF-07-1
18 shows that a repeat of the worst five
19 (5) year drought record commencing in
20 2009/10, would virtually deplete
21 Manitoba Hydro's retained earnings by
22 2013/'14. Such an event would have
23 adverse ramifications for electricity
24 customers."

25 Okay, that may be the case if Manitoba

1 Hydro follows the same path as they did regarding export
2 contracts, prior to the 2003/'04 drought. Unfortunately
3 Manitoba continually uses the drought scenarios as
4 conditions that must be addressed by rate increases. It
5 is a type of scare tactic and not acceptable.

6 As mentioned earlier, it is the export
7 contract that is more of a problem or a threat, not the
8 actual severity and length of any future drought. It is
9 difficult to understand Manitoba Hydro's reluctance to
10 study the effects of varying the types of conditions
11 within export contracts and/or permits.

12 Following is a part of my letter of
13 intervention to National Energy Board regarding an
14 application, April 2005, of Manitoba Hydro to Export
15 Surplus Energy. The rest of the page is -- is part of
16 what I sent in.

17 And all it does, it basically has two (2)
18 columns, it indicates that to figure out the revenues for
19 a five (5) year period for the application for the
20 following contracts at today's export prices and at
21 predicted export prices, and then there's different
22 categories. If it was just only interruptible sales
23 contracts, if it was firm and/or interruptible contracts,
24 as stated within applications, only firm contracts, firm
25 contracts with a clause as stated below. And the clause

1 below which I've modified since then:

2 "Manitoba Hydro is excused without
3 penalty from supply and export energy
4 that Manitoba Hydro cannot meet its own
5 domestic requirements."

6 Manitoba Hydro refused to respond to that.
7 My response to that was, included in my letter June 9th
8 of 2005, to the National Energy Board, which stated:

9 "Manitoba Hydro's response is not
10 acceptable. If my suggestions
11 regarding types of export contracts
12 related to the duration of such
13 contracts, the staggering of export
14 contracts, the inclusion of the
15 specific clauses does not merit
16 consideration by the National Energy
17 Board as stated by Manitoba Hydro, I
18 would expect the answer to Question H
19 (sic) would be the place for Manitoba
20 Hydro to prove it.

21 Manitoba Hydro, by conveniently
22 refusing to answer Question 8, by
23 stating export price forecasts are
24 highly confidential as they contain
25 information which could compromise

1 Manitoba Hydro's bargaining position in
2 future negotiations, only addresses
3 part of my question.
4 Half of my question requested of
5 Manitoba Hydro to calculate the
6 information requested based on today's
7 export prices. Therefore, Manitoba
8 Hydro's refusal to respond to both
9 parts is not acceptable, which should
10 make anyone question the validity of
11 the response."

12 Going on, it would have been very simple
13 for Manitoba Hydro to calculate that today's export
14 prices apart -- as they were and are readily available
15 under National Energy Board's website.

16 However, the above example is one (1) of
17 many of many of Hydro's -- Manitoba Hydro's inappropriate
18 responses regarding my letter of intervention:
19 inappropriate responses such as they made; generalities
20 that did not apply to my submission; attributing
21 statements to me as allegations when in fact the
22 statements were made by others; responses that include
23 information that appears to attempt to cloud the main
24 reasons within my submission; refuses to respond to
25 specific questions; not meeting the time line as set out

1 in the notice of application.

2 My submission to be -- and there's a
3 reason why I'm doing this thing with the National Energy
4 Board, which will be clear later.

5 My submission to reject Manitoba Hydro's
6 application was very simple and straightforward. We
7 recommended to the National Energy Board that it is
8 imperative that any export contract contain a very
9 specific clause that states Manitoba Hydro's excused
10 without penalty from supplying export energy if Manitoba
11 Hydro cannot meet its own domestic requirements, also
12 that a review of the types of contracts and the lengths -
13 - the lengths of time of export contracts was needed.

14 The National Energy Board in its wisdom
15 interpreted my simple recommendations by stating that the
16 Board's mandate does not include issuing operating
17 licences for Manitoba Hydros's facilities, nor is it
18 permitted to do a wholesale review of entire operational
19 plans and that my issues fall within the ambit of the
20 Province of Manitoba's jurisdiction.

21 It had nothing to do with my
22 recommendations but Manitoba Hydro's responses to request
23 as earlier stated were full of responses that included
24 information that appeared to attempt to cloud the main
25 reasons was in my submission.

1 Of interest is the National Energy Board -
2 - Energy Board's comment regarding jurisdiction. In my
3 letter dated November 14th, 2005 requesting that the
4 Board review their decision, I included as part of the
5 request to review Section 10, subsection (d) and (g) of
6 the National Energy Board Electricity Regulations.

7 And Section 10 states that the following
8 matters, in respect of which terms and conditions may be
9 included in any permit for the exportation of
10 electricity, 10(d) states:

11 "Requirements related to the maximum
12 duration of export contracts.
13 10(g) Conditions under which the
14 permit holder was curtailed, or
15 interrupt exportation."

16 Therefore it is -- was very much within
17 the jurisdiction of the National Energy Board of Canada
18 to include conditions within export contracts related to
19 export permits.

20 In a letter dated February 2nd, 2006 from
21 Minister Cherniack, the Minister Responsible for Manitoba
22 Hydro at the time, he stated and he agreed that they had
23 the jurisdiction.

24 The National Energy Board's response,
25 dated January 12th, 2006 to my request for a review

1 contained one (1) statement that could not -- I could not
2 believe. That statement was:

3 "If the Board -- in the Board's view it
4 is inappropriate to use Federal export
5 permit conditions as a mechanism to
6 influence or change Manitoba Hydro's
7 financial position and import
8 practices."

9 Any reasonable -- continuing on.

10 "Any reasonable person would have to
11 consider tra -- any export permit
12 issued to Manitoba Hydro will indeed
13 influence Manitoba Hydro's financial
14 position, whether it be a positive or a
15 negative influence and with or without
16 conditions."

17 Manitoba Hydro's response, COALITION-1-
18 94(k) where the Coalition asked Manitoba to identify any
19 other steps other than regular rate increases taken by
20 Manitoba Hydro to protect against the risks that is
21 identified in job conditions.

22 Manitoba Hydro's response was:

23 "Manitoba has -- Manitoba Hydro has not
24 undertaken any steps other than
25 retained earnings to protect itself

1 from the risks associated with
2 droughts."

3 That statement coupled with Mr. Brennan's
4 statement in Manitoba Hydro's 2004 annual report:

5 "The Corporation's long term financial
6 plans taken into account that drought
7 conditions typically occur every ten
8 (10) years or so and we plan to have
9 sufficient retained earnings to
10 accommodate the financial impact.

11 It is expected that the drought induced
12 losses in 2003/'04 will be recovered in
13 future years when water conditions
14 improve and exports return to recent
15 levels.'

16 The above statements coupled with another
17 one, Manitoba Hydro's statement and the response related
18 to their application to export energy now in 2005,
19 Manitoba Hydro states:

20 "Manitoba Hydro does not analyse the
21 negative impact of having specific
22 export contracts during individual
23 drought events. And similarly it does
24 not evaluate the benefit of having such
25 contracts during high flow conditions.

1 What is important is the overall impact
2 in the long term where the negative
3 effects during infrequent drought
4 periods are more than offset by
5 positive effects from the more frequent
6 average and high flow conditions."

7 So regarding the last few statements, it
8 appears that in one (1) statement regular rate increases
9 are needed to build up retained earnings and the other
10 two (2) statements there's this ho hum -- ho hum, don't
11 worry, be happy attitude because future water flow
12 conditions will provide the necessary export revenues to
13 overcome any negative effects of export contracts
14 associated with droughts.

15 If Manitoba Hydro truly believes that then
16 why are the ratepayers being subjected to this continual
17 mentioning of drought risks?

18 As I mentioned earlier in this -- as I
19 mentioned earlier it is a type and duration of export
20 contracts that will once again make Manitoba Hydro and
21 its customers vulnerable to the aforementioned conditions
22 that will negative -- negatively impact its financial
23 performance.

24 In all seriousness here are my next
25 statement that says, Oh, what is the point in building up

1 retained earnings for the sole purpose that we know they
2 will be depleted by a drought? Isn't it possible to
3 build up retained earnings at a slower, but steady rate,
4 not having depleted by a drought?

5 I think there is and Manitoba must --
6 Hydro must undertake steps to protect itself from the
7 risks associated with droughts by means other than rate
8 increases or waiting for the water conditions to reach a
9 certain flow.

10 The Public Utilities Board of Manitoba has
11 jurisdiction regarding conditions returning to export
12 contracts. Section 47 of Manitoba's Public Utilities
13 Board Act states:

14 "Board is subject to conditions 47.1.
15 The Board may direct in any order that
16 the order or any portion or provision
17 therein -- thereof shall come into
18 force at a future fixed time or upon
19 the happening of any contingency event
20 or condition specified in the order, or
21 upon the performance to the
22 satisfaction of the Board, or a person
23 named in the order for the purpose of
24 any terms that the Board may impose
25 upon any party interested. And the

1 Board may direct that the whole or any
2 portion of the order shall have a force
3 for a limited time or until the
4 happening of a specified event."

5 There must be a variety of conditions that
6 can be added to export contracts so that Manitoba Hydro
7 does not have to be confronted by excessive risks
8 associated with drought conditions.

9 I view firm export contracts, as they
10 exist, as leaving Manitoba Hydro facing risks -- risks
11 that the purchaser does not face. In fact I'm not aware
12 of any risks that the purchaser must face when purchasing
13 power from Manitoba Hydro.

14 Manitoba Hydro's exports to the United
15 States flow into areas -- areas that's most likely do not
16 make use of generation -- generation facilities that rely
17 on water flows. Therefore, special exemption conditions
18 must exist within export contracts to protect Manitoba
19 Hydro from circumstances that their purchasers do not
20 have to face.

21 My suggestions for special clauses,
22 conditions, within export contracts is not for -- for con
23 -- for curtailment, it's for cancellation. Examples of
24 conditions that could be applied -- and I listed some.
25 These are off the top of my head. I'm not trying to be

1 funny here again, but I think if -- if we had a
2 brainstorming session right in the middle of this room
3 right now with everybody contributing something to it,
4 you'd probably come up with some really good conditions
5 that could be put into an export contract.

6 But anyway, first one: A slight variation
7 from my original conditions within my 2004 presentation
8 would be -- would be that Manitoba Hydro's export
9 contracts contain the clause that excuses Manitoba Hydro
10 without penalty from supplying export energy, if Manitoba
11 Hydro cannot meet its own domestic requirements from its
12 own generation during drought periods.

13 2. That Manitoba Hydro's export contracts
14 contain a clause that excuses Manitoba Hydro without
15 penalty from supplying export energy, if Manitoba Hydro
16 cannot meet its export obligation from its own
17 generation, and/or the need to import excessive amounts
18 of high price energy during drought periods.

19 3. A combination of 1 and 2.

20 4. The conditions above can come into
21 effect based on a measurable amount, such as the point at
22 which Manitoba Hydro's hydraulic generation falls
23 significantly below the mean flow scenario and when large
24 quantities of import energy are required, which was
25 stated in PUB-2-70(d).

1 5. Maybe I'm going way out on a limb on
2 Number 5, I'm not sure.

3 Clauses -- clauses within export contracts
4 could be added that would make it more advantageous for
5 the buyer to purchase power from Manitoba Hydro. Such
6 clauses -- has an initial price close to or equal to the
7 prevailing -- prevailing prices with the stipulation that
8 the contract will be reviewed at specified intervals
9 throughout the contract period.

10 These reviews would determine the chance
11 of an -- an impending or existing drought if the review
12 concluded that the chance of drought conditions did not
13 exist and Manitoba Hydro was still capable of meeting its
14 obligations the purchaser would receive a rate discount.
15 If the review concluded that Manitoba Hydro was not
16 capable of meeting its obligations because of drought
17 conditions, and Manitoba Hydro's obligations would be
18 cancelled with no penalty.

19 If, after the drought, the purchaser
20 renewed their contract, then they would receive another
21 rate discount. In other words, if a five (5) year
22 contract was not affected by any drought conditions or
23 some other event, then the amount of discounts that the
24 purchaser would receive would be equal to the number of -
25 - of the review periods.

1 And, yes, I realize that type of contract
2 would decrease Manitoba Hydro's net export revenues by
3 what could be considered a considerable amount. However,
4 this type of contract will also negate importations at
5 excessively high prices and additional financial costs,
6 and most likely leave the return -- retained earnings in
7 a healthy state.

8 Obviously, the end result of such
9 conditions would be the review interval, the amount of
10 review discounts, et cetera. Many factors could be
11 incorporated in the scenario of export contract
12 conditions to protect Manitoba Hydro from drought risks.

13 If not, it is my contention that Manitoba
14 Hy -- Manitobans, in the future, will suffer greater and
15 greater negative consequences due to droughts, especially
16 if Manitoba Hydro increases more exports for an increased
17 net export revenue.

18 Manitoba Hydro's report on risk strategy
19 and quantification indicates that the likelihood that the
20 event -- drought -- will occur within the next ten (10)
21 years is high in terms of occurrence and consequence. My
22 sincere belief is that export contracts with clauses to
23 protect Manitoba Hydro would mean that even though a
24 drought may occur within the next ten (10) years, it does
25 not mean that we have to automatically suffer any

1 negative consequences -- consequences such as depleting
2 the retained earnings.

3 The incorporation of specific clauses --
4 conditions -- within export contracts will prevent such a
5 depletion.

6 It is disturbing to learn that Manitoba
7 Hydro in response, COALITION-2-9(b) states that all
8 sales, whether dependable or opportunity, are firm sales,
9 which means they may not be curtailed for economic
10 reasons.

11 Also, Manitoba Hydro's elect -- electrical
12 terminology sheet for firm power, it states:

13 "Firm power is power, electricity, that
14 must -- must be supplied as agreed
15 under contract, even under adverse
16 conditions."

17 That is very unacceptable for a
18 corporation that must face the risks of droughts. Also,
19 when the National Energy Board statistics are checked,
20 for all of Manitoba Hydro's export permits from 2003 to
21 2007, in each year there are only one (1) or two (2)
22 interruptible export permits per year, and the rest, ten
23 (10) to eleven (11) export permits per year, are firm.

24 Nothing has changed since the drought of
25 '03/'04. The Public Utilities Board of Manitoba has the

1 opportunity to change such an unfavourable set of
2 circumstances.

3 It is interesting to note that the North
4 American Electric Reliability Corporation, NERC, of which
5 Manitoba Hydro is a member, within their glossary of
6 terms used in reliability standards, contains a
7 definition for "firm demand." That definition is:

8 "That portion of the demand that a
9 power supplier is obligated to provide,
10 except when system reliability is
11 threatened or during emergency
12 conditions."

13 And I -- before I continue, I tried to get
14 someone from NERC to give me a detailed explanation on
15 what that means, and I'm still waiting for an answer.

16 The majority of the risk advisory report
17 seems to focus on natural gas matters. Manitoba Hydro's
18 gas-fired generating stations, with a total of -- of
19 approximately 360 megawatt capability, represent a very
20 small portion of Manitoba Hydro's total capabilities.

21 The discussion on page 6 of the Risk
22 Advisory Report within the comparison to '89 drought,
23 corr -- correctly stated that the gas-fired units did not
24 exist in 1989. That left me with the impression that the
25 risk advisory people thought that the gas-fired units

1 were, in fact, used extensively during the '03/'04
2 drought as they -- as they were only to be turned on in
3 emergency situations, drought conditions, or when
4 shortage pricing exists in the region where significant
5 premiums were being asked for in the marketplace.

6 Those conditions did exist during '03/'04,
7 but Brandon's coal-fired units operated at approximate --
8 approximately 6 percent capacity and the Selkirk gas-
9 fired unit operated at approximately 14 percent.

10 The Brandon coal-fired station operated at
11 63 percent of its capacity. You would think that it
12 would have operated at a higher generating rate. There's
13 no mention of Brandon's coal-fired generation within
14 Appendix 12.5.

15 The 2004 annual report indicates that fuel
16 and power purchased for '03/'04 year was \$569 million, an
17 increase of 418 million from the previous year. The
18 increase was comprised of \$386 million for power
19 purchases and 31 million for increased thermal
20 generation. If such a small portion of the total
21 increase, approximately 8 percent, was due to increased
22 thermal generation, why so -- why was so much of the Risk
23 Advisory Report dedicated to gas concerns?

24 Also, the increase in thermal generation
25 would also include the coal-fired Unit 5 at Brandon.

1 Therefore, less than 8 percent of the total increase in
2 fuel and pur -- power purchases was due to the gas-fired
3 units.

4 Information in the Risk Advisory Report
5 indicates that the gas requirements range from 8,623,000
6 to 10,351,000 decatherms of gas volumes. My concern
7 regarding those volumes is how much of it was actually
8 purchased and how much of the purchased amount was used
9 by the Brandon and Selkirk stations to address the
10 drought.

11 And regarding bookouts, I'm not sure you -
12 - I'm asking the question what was the cost, the
13 financial loss to Manitoba by entering into bookout or
14 entering agreements with their customers to bookout much
15 of the sales as possible.

16 Section 9, Recommendations and
17 Expectations. Based on the previous sections of this
18 presen -- presentation, my recommendations and
19 expectation -- expectations regarding Manitoba Hydro's
20 2008 General Rate Application are as follows:

21 That the -- that the Public Utilities
22 Board issue a directive to Manitoba Hydro requesting
23 information from Manitoba Hydro in which Manitoba Hydro
24 indicates or explains the Nisichawayasihic Cree Nation's
25 responsibilities regarding the added costs associated

1 with export contracts during drought conditions.

2 2. That the Public Utilities Board issue
3 a directive to Manitoba Hydro requesting information from
4 Manitoba Hydro, in which Manitoba Hydro indicates
5 regarding the 2003/'04 study period of the Risk Advisory
6 Report the actual volume in decatherms of natural gas
7 purchased and what portion of the gas was used by the
8 Brandon and Selkirk gas-fired units.

9 3. That the Public Utilities Board issue
10 a directive to Manitoba Hydro requesting information from
11 Manitoba Hydro in which Manitoba indicates during the
12 '03/'04 period how many gigawatt hours of the 6,100
13 gigawatt hours of long-term sales were settled by
14 bookouts and during the '03/'04 period what was the cost
15 of the bookouts, and how much of this contributed to the
16 financial loss for that period of time.

17 4. That Manitoba Hydro, by way of the
18 order pertaining to this 2008 General Rate Application,
19 be required to undertake a study regarding the inclusion
20 of conditions as part of export contracts that enable
21 Manitoba Hydro to cancel export contracts during specific
22 circumstances so that Manitoba Hydro's financial position
23 is not adversely affected by this specific circumstances,
24 such conditions to be accepted, rejected and/or modified
25 by the Public Utilities Board after a public hearing

1 regarding the matter.

2 5. The interim -- interim rate increase
3 of 2007 should be terminated with the possibility of a
4 rebate for the period March 1st, 2007, to April 1st,
5 2008.

6 6. This was along the proposed rate
7 increase based on a new rate structure should not be
8 considered, because the proposed new rate structure for -
9 - new rate schedule for residential customers is lacking
10 pertinent information needed not only for the Public
11 Utilities Board but for the public at large.

12 And because of the pertinent information
13 that is lacking I find it necessary for the Public
14 Utilities Board to consider the following: That today
15 March 3, 2008, and guided by Section 22(6) of the Rules
16 of Practice and Procedure, entitled, Motion, which is the
17 back side of this page, I bring before the Public
18 Utilities Board the following motion:

19 That the proposed residential rate
20 increase based on a new inverted rate structure as part
21 of Manitoba Hydro's 2000 rate application not be
22 considered during the General Rate Application Hearing,
23 as it lacks pertinent information that must be made
24 available not only to the Public Utilities Board and the
25 representative of the Coalition, but also to the public

1 at large.

2 Our reasons and grounds for this motion
3 are that Manitoba Hydro's General Rate Application notice
4 of February 23, 2008, Winnipeg Free Press, and in some
5 cases the General Rate Application, does not indicate to
6 the general public, and in some cases the Public
7 Utilities Board:

8 A) that Manitoba Hydro is introducing a
9 new inverted rate schedule which has not existed before.

10 That Manitoba -- B) that Manitoba Hydro
11 considers electric heat as a discretionary use.

12 C) that Manitoba Hydro makes no attempt to
13 explain to the general public the meaning of an inverted
14 rate schedule.

15 D) that Manitoba Hydro in subsequent rate
16 applications does not share its intention of sending a
17 price signal for uses which are discretionary.

18 E) those electric heat uses that are going
19 to be considered discretionary, therefore, a criteria
20 list of discretionary uses must be established before any
21 form of inverted rate is introduced.

22 F) that the price increase example and the
23 current application notice is only based on a nominal
24 block rate difference and therefore misleading.

25 G) that it will not be fair prices for

1 customers who are all-electric customers even if
2 competing fuels are not available.

3 H) that it is void of price examples of
4 what will be considered future reverted rate consequences
5 which will not be based on a nominal price distinction.

6 I) that it does not indicate that some
7 rate payers will have their payments determined in part
8 by the average use of the class.

9 J) that the increase of 2.9 percent does
10 not apply to all customers within a specific rate class
11 is misleading.

12 K) that if the different percent increases
13 are considered at 2.4 percent and at 2.2 percent within
14 the newspaper example and means that the all-electric
15 customer is paying 33 percent more for electricity than
16 its standard-use customer, and that is only based on a
17 nominal example.

18 The new rate structure is based on one (1)
19 study done by NERA Economic Consulting. It's my belief
20 that this, my motion, will be considered before Manitoba
21 Hydro's 2008 General Rate Application moves forward.

22 And I thank you for your attention, and I
23 thank Manitoba Hydro for making their binders available
24 to me so I could use them. And that's it, thank you.

25 THE CHAIRPERSON: Thank you, sir. You

1 have clearly done a great deal of work. You have
2 provided a considerable analysis. You asked a number of
3 questions, and you have suggested a number of steps.

4 And the material is available, of course,
5 to the Intervenors, Board counsel and the Corporation to
6 pick up as they may choose during the proceedings.

7 So with that, thank you very much, and we
8 will now adjourn for fifteen (15) minutes and return to
9 Board counsel. Thank you.

10

11 --- Upon recessing at 2:58 p.m.

12 --- Upon resuming at 3:13 p.m.

13

14 THE CHAIRPERSON: Okay, welcome back
15 everyone. Mr. Peters, we have no other presenters that
16 you are aware of?

17 MR. BOB PETERS: We don't, Mr. Chairman.
18 And I can indicate that earlier this afternoon the Board
19 received a message from Mr. Dyck, and he won't be able to
20 make the presentation times. And he has an intention of
21 submitting his presentation by email, and when it's done
22 we'll bring it to the attention of the Board and other
23 parties.

24 THE CHAIRPERSON: Okay, then. Well,
25 thank you very much, sir, for making your presentation.

1 We do not have any response at this time.

2 Mr. Peters, do you want to recommence your
3 cross-examination?

4 MR. BOB PETERS: Yes, sir, thank you.

5 MR. ALLAN CIEKIEWICZ: May I ask you
6 something before you continue?

7 THE CHAIRPERSON: Yes.

8 MR. ALLAN CIEKIEWICZ: So how do you deal
9 with this motion that I've put before you?

10 THE CHAIRPERSON: Well, I think what I
11 was suggesting before we broke was that the Intervenors
12 that are present and the Corporation and the Board
13 counsel has your material. You have obviously spent a
14 lot of time on it, it is a considerable analysis and they
15 have opportunity to pick up on it.

16 As a panel we do not have anything to say
17 on the matter at this time.

18 MR. ALLAN CIEKIEWICZ: So do you set a
19 date for people to get together to go over the motion,
20 for or against?

21 THE CHAIRPERSON: Mr. Williams...?

22 MR. BYRON WILLIAMS: Just to -- I can
23 just clarify. I think the -- the question being raised
24 is at the end of -- I'm going to mispronounce his name --
25 Mr. C's presentation he had raised some concerns about

1 disclosure and -- and brought a motion under Rule 22.

2 So I think he was looking for some
3 guidance in terms of that specific issue. And I said --
4 suggested he'd be wise to seek advice from the Board
5 counsel or from the Board on that point, if that helps.

6 THE CHAIRPERSON: Mr. Peters, do you have
7 any comment?

8 MR. BOB PETERS: It'd be best if I spoke
9 to Mr. Ciekiewicz then after the proceedings today. And
10 if there's any further develops, I'll report back to the
11 Board on the parties.

12 THE CHAIRPERSON: Fair enough. Mr.
13 Peters will speak to you.

14

15 MANITOBA HYDRO REVENUE REQUIREMENT AND DEMAND SIDE
16 MANAGEMENT PANEL RESUMED:

17 VINCE WARDEN, Resumed

18 WILLY DERKSEN, Resumed

19 IAN PAGE, Resumed

20 HAROLD SURMINSKI, Resumed

21 LLOYD KUCZEK, Resumed

22

23 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

24 MR. BOB PETERS: Yes, thank you. Mr.
25 Chairman, I'd like to continue with the revenue

1 requirement panel.

2 And Mr. Warden, back on page -- Tab 2 of
3 the book of documents that was circulated there is a
4 proof of revenue that I'd like to review further with the
5 Board and yourself.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: In the proof of revenue,
10 Mr. Warden, at Tab 2 -- have you located that?

11 MR. VINCE WARDEN: Yes, I have it here.

12 MR. BOB PETERS: And I'm not sure I was
13 entirely clear this morning.

14 If Manitoba Hydro is successful in their
15 application before the Board, the total amount of revenue
16 that the Corporation expects to receive is approximately
17 \$29 million, correct?

18 MR. VINCE WARDEN: \$29.6 million, yes.

19 MR. BOB PETERS: On an annualized basis?

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

21 MR. BOB PETERS: And that comes from your
22 residential customers as well as your general service
23 customers and a small amount from the area and roadway
24 lighting, correct?

25 MR. VINCE WARDEN: Correct.

1 MR. VINCE WARDEN: I do.

2 MR. BOB PETERS: That number is not going
3 to be charged starting in April of 2008, because there is
4 no new load or customer against which to charge that
5 amount, correct?

6 MR. VINCE WARDEN: Correct.

7 MR. BOB PETERS: Put another way,
8 Manitoba Hydro's not going to be short \$14 million if
9 there is no energy-intensive rate approved at the end of
10 this GRA?

11

12 (BRIEF PAUSE)

13

14 MR. VINCE WARDEN: That's correct, with
15 the proviso that no new load or expanded load comes to
16 Manitoba during that period, yes.

17 MR. BOB PETERS: And as best you know at
18 this time, you're not aware that it would be coming to
19 Manitoba, at least in the -- in the next year?

20 MR. VINCE WARDEN: That's the best
21 information we have at this time, yes.

22 MR. BOB PETERS: All right. So looking -
23 - looking one (1) year out you don't see this energy-
24 intensive industry load developing, but maybe after that
25 year it might?

1 MR. VINCE WARDEN: Correct. I don't -- I
2 don't have the precise timing of when that load might
3 develop, but it's fair to say that it won't be --
4 certainly not in the early part of the '08/'09 fiscal
5 year.

6 MR. BOB PETERS: All right. And because
7 there is no energy-intensive load coming to Manitoba in
8 the short term, I'll say, any electricity that would be
9 possibly used by such entities will be available to
10 Manitoba Hydro to export?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: And in fact the \$14
13 million number on the second line from the bottom, under
14 "GS Large Additional Revenue," that \$14 million is really
15 going to be a portion of the export revenues that Mr.
16 Surminski's group is going to generate for you.

17 Isn't that correct?

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: And it'll continue to be
20 monies that will be generated through export until an
21 energy-intensive customer does set up shop in Manitoba or
22 expand their load such that they don't qualify for the
23 exemption and are above the baseline.

24 MR. VINCE WARDEN: That's correct. The
25 energy-intensive rate is intended to be revenue neutral

1 for the Corporation.

2 MR. BOB PETERS: When I look at the
3 General Service Large additional revenue line and the \$14
4 million and maybe do some back-of-the-envelope math, Mr.
5 Warden, would that equate to approximately 500 gigawatt
6 hours of load that is estimated for that -- for that line
7 item?

8 MS. PATTI RAMAGE: Mr. Peters, can you
9 repeat the reference?

10 MR. BOB PETERS: I'm looking at the proof
11 of revenue and wanted to know the derivation of the \$14
12 million dollars in terms of gigawatt hours of load that
13 was -- that was assumed.

14

15 (BRIEF PAUSE)

16

17 MR. VINCE WARDEN: We'll accept that,
18 yes.

19 MR. BOB PETERS: And, again, that's not
20 going to come from any new customers that you know of or
21 no existing customers that you know of, at least in the
22 short term?

23 MR. VINCE WARDEN: Correct.

24 MR. BOB PETERS: While we're still on the
25 proof of revenue, Mr. Warden, at the top part of the page

1 there's the "FRWH."

2 Is that the "fixed-rate water heater"
3 accounts?

4 MR. VINCE WARDEN: Flat-rate water
5 heating, yes.

6 MR. BOB PETERS: And what's flat about the
7 rate if it changes? Is it the -- the electricity change
8 -- the electricity rate changes or is it there is a
9 rental charge that stays flat?

10 I don't recall this, sir.

11

12 (BRIEF PAUSE)

13

14 MR. VINCE WARDEN: Yeah, based on the
15 size of the water heater elements, there is a flat rate
16 charge per month. So there's -- based on the size of the
17 element, there's an assumption of consumption.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Mr. Warden, from that
22 answer, are flat-rate water heaters still subject to
23 price increases set by this Board? Is it the electricity
24 rate that changes, but they -- there's a rental fee for
25 them?

1 Maybe then I'll have to explore that
2 later. And my questions -- what I'm not understanding is
3 if it's a flat rate, why is it changing? And maybe
4 that's the best we can ask it.

5 MR. VINCE WARDEN: Well, the -- the flat
6 rate for various sizes of water tanks has an assumption
7 of consumption, which would change based on -- on the
8 rate change. So if we change the rate, then -- then the
9 -- that rate change is simply applied assumption of
10 consumption, and the revenue will change accordingly.

11 MR. BOB PETERS: All right. So while
12 it's a flat rate, it didn't mean that it was fixed
13 forever? It's subject to change?

14 MR. VINCE WARDEN: That's right.

15 MR. BOB PETERS: And these are unmetered
16 hot-water tanks that are in predominantly residential
17 premises?

18 MR. VINCE WARDEN: They are unmetered.
19 They're predominantly residential. I believe there's
20 some small commercial, but predominantly residential,
21 yes.

22 MR. BOB PETERS: Also on the proof of
23 revenue at Tab 2 of the book of documents, which we've
24 marked as PUB Exhibit 12, there's an indication of the
25 area and roadway lighting revenue.

1 And what, in essence, this is telling Mr.
2 Buhr is that Manitoba Hydro is seeking an additional two
3 hundred thousand dollars (\$200,000) on the area and
4 roadway lighting customer class?

5 MR. VINCE WARDEN: That's right.

6 MR. BOB PETERS: And this does not
7 reflect the value that Mr. Buhr claims the class is above
8 the zone of reasonableness, in terms of how much it
9 overpays, if any, from the Cost of Service study.

10 But that's simply the rate increase that's
11 being sought at this time?

12 MR. VINCE WARDEN: That's the rate
13 increase that's being sought at this time, yes. That's
14 the dollars that result from a 1 percent increase
15 supplied to -- to that class of service.

16 MR. BOB PETERS: All right. I think my
17 last question area on this proof of revenue is the DSM
18 reduction.

19 And you're showing the Board that as a
20 result of the Corporation's demand side management
21 activity, the Corporation is going to have reduced
22 revenues from consumers, correct?

23 MR. VINCE WARDEN: Correct.

24 MR. BOB PETERS: And while the DSM
25 reduction will show the Board that \$13 million of revenue

1 will be lost from the domestic customers, there's also
2 the flipside of that, meaning that that \$13 million will
3 be recovered on the export market?

4 MR. VINCE WARDEN: That's true.

5 MR. BOB PETERS: It's a revenue-neutral
6 number, much like the General Service Large additional
7 revenue number is?

8 MR. VINCE WARDEN: No. No, the -- the
9 revenue or the kilowatt hours that we can sell on the
10 export market would be at a higher rate than what you'd
11 get on the domestic market -- market, so there would be a
12 revenue advantage from -- from those sales.

13 MR. BOB PETERS: All right. Let me
14 understand that and make sure the Board does, is that
15 you're saying that if you can save -- this DSM reduction,
16 does that apply primarily to commercial customer accounts
17 then or industrial accounts?

18 Or are you including all accounts?

19 MR. VINCE WARDEN: That would be all
20 accounts, Mr. Peters.

21 MR. BOB PETERS: And some of those
22 accounts, if they're residential, you won't be getting
23 the six (6) cents from the residential customer, but you
24 may or may not be able to export it for more than six (6)
25 cent?

1 MR. VINCE WARDEN: Well, for the
2 residential customer, that's right. It would be
3 approximately, you know, in that same range, around six
4 (6) cents per kilowatt hour.

5 MR. BOB PETERS: Where the revenue gain
6 will be is if you save it from the commercial or
7 industrial customers, you can save through demand side
8 management some energy, and then have that available to
9 be exported at prices higher than what you would expect
10 from the domestic customers?

11 MR. VINCE WARDEN: Yes, I agree with
12 that.

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: Mr. Peters, maybe just
17 before we leave this -- this page or the -- the total
18 revenue, the 29.6 million that's indicated here, a
19 question was asked earlier what the impact would be if
20 the rate change was deferred to May 1st.

21 And the amount of revenue -- revenue
22 reduction would be \$2.5 million. If it was deferred to
23 June 1st, the revenue reduction would be a further \$2.2
24 million.

25 MR. BOB PETERS: For a total of 4.7

1 million?

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

3 MR. BOB PETERS: Thank you for that
4 information, Mr. Warden.

5 MR. BOB MAYER: Excuse me, Mr. -- Mr.
6 Peters. Mr. Warden, I'm now a little confused.

7 If we aren't making any money on the
8 electricity that we are conserving in the residential
9 sector, why are we spending so much time and effort
10 getting me to put in these CFL lights?

11 MR. VINCE WARDEN: Good question for Mr.
12 Kuczek.

13

14 (BRIEF PAUSE)

15

16 MR. LLOYD KUCZEK: When we do our
17 analysis for DSM, we look at the long-term benefits. And
18 we use the RIM -- RIM benefit cost ratio to assess
19 whether or not there's any benefits to rates from the
20 initiatives.

21 And the residential programs are -- are
22 marginal from that perspective, but they're around one
23 point zero (1.0). So it doesn't -- if it's at one point
24 zero (1.0), that means that the -- the value to Manitoba
25 Hydro is roughly the same as the -- as the cost would be.

1 And the value to Manitoba Hydro isn't just
2 the export rates; it's the avoided costs, which includes
3 deferred generation or deferred transmission and
4 distribution.

5 THE CHAIRPERSON: Don't you also end up
6 exporting it down there, and then they do not have to
7 produce it with coal or gas?

8 MR. LLOYD KUCZEK: That's true, but what
9 I'm saying is that, in answer to Mr. Mayer's question, is
10 we're economically better off if the RIM is greater than
11 one (1). But if it's around one (1), it's about the
12 same.

13 So our avoided cost is -- includes other
14 factors besides the export value.

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: From that answer, Mr.
18 Kuczek, it would seem that the Corporation's return on
19 DSM is least when you use the programs that would
20 conserve residential domestic customers' load?

21 MR. LLOYD KUCZEK: That -- that's
22 correct.

23 MR. BOB PETERS: And it is greatest when
24 it is the industrial sector's load?

25 MR. LLOYD KUCZEK: Correct.

1 MR. BOB PETERS: And I suppose in between
2 will be the commercial customers?

3 MR. LLOYD KUCZEK: Correct.

4 MR. BOB PETERS: And when you are looking
5 at exporting the energy, Mr. Kuczek, you are, on
6 occasion, exporting it not always at peak rates, correct?

7 MR. LLOYD KUCZEK: That's correct. Our
8 avoided cost is -- it looks at the -- well, it's a
9 simulated analysis that takes into account the energy
10 being available across all hours and what the value of
11 that would be to Manitoba Hydro.

12 MR. BOB PETERS: But the simple number
13 that you get in return when you export electricity in
14 off-peak times is less than what you would get from a
15 residential customer in Manitoba at any time of the day?

16 MR. LLOYD KUCZEK: Well, that used to be
17 true when I was in the export market. Harold, is that
18 still true?

19 MR. HAROLD SURMINSKI: Energy is not sold
20 in -- in exactly the same hours that it's saved. So we
21 have reservoirs in our system, so, in many cases, we just
22 use our reservoir storage to -- to transfer that energy
23 into times of -- of highest value.

24 So it -- just because you save it, you
25 know, overnight hours, does not mean it's actually being

1 sold in those hours.

2 MR. BOB PETERS: What you're telling the
3 Board --

4 MR. BOB MAYER: I don't think that was
5 ever the suggestion. I mean at six (6) cents -- we're
6 not getting six (6) cents a kilowatt hour on the revenue
7 -- on the export market, are we?

8 MR. HAROLD SURMINSKI: Yes, for on-peak
9 sales, we are getting at least that.

10 MR. BOB MAYER: At least?

11 MR. HAROLD SURMINSKI: Yes.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: When we talk about the
15 off-peak sales, though, Mr. Surminski, we're not getting
16 six (6) cents.

17 Isn't that also correct?

18 MR. HAROLD SURMINSKI: That is correct.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: Mr. Surminski, if you
23 can jump with myself and maybe the Vice Chairman to Tab
24 12 of the book of documents, maybe we can just -- just
25 close up on this discussion.

1 And having just been to the United States
2 recently, Mr. Surminski, pleasantly surprised -- are we
3 talking Canadian dollars, US dollars, or are we now not
4 differentiating between the two when we talk six (6)
5 cents a kilowatt hour or six point two (6.2) cents?

6 Is it close enough to be the same?

7 MR. LLOYD KUCZEK: It's close enough
8 now, yes.

9 MR. BOB PETERS: All right. What -- what
10 -- Mr. Surminski, I've drawn your attention to a Tab 12
11 of the book of documents, are some -- some data that's
12 been published on export sales.

13 And the bottom half of the page, as I
14 understand it, will reflect the pricing -- the unit
15 prices.

16 Is that your understanding?

17 MR. BOB MAYER: I was just pointing out
18 that I have two (2) pages on Tab 12.

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: And, thank you, Mr. Vice
22 Chair. On -- in Tab 12, the PUB Manitoba Hydro First
23 Round Question 57, let's start with that one and look at
24 the bottom half of the page, Mr. Surminski.

25 I'm looking there at unit prices that are

1 reported on Manitoba Hydro's export and import sales,
2 correct?

3 MR. HAROLD SURMINSKI: Yes.

4 MR. BOB PETERS: And these numbers, EPE-
5 33 all the way through to EPE-269, are coded for some of
6 the some of the contracts that Manitoba Hydro has in the
7 export market.

8 Is that correct?

9 MR. HAROLD SURMINSKI: Yes, correct.

10 MR. BOB PETERS: And if we start, for
11 example, with EPE-33, we see that in July of '07, August
12 of '07, and September of '07 the price was around three
13 point three (3.3) to three point six (3.6) cents a
14 kilowatt hour on the export market.

15 MR. HAROLD SURMINSKI: Yes.

16 MR. BOB PETERS: And we can go down
17 across the page, and we can see that the prices fluctuate
18 under different codes that the National Energy Board
19 uses.

20 And that's because of the contractual
21 relationship, correct?

22 MR. HAROLD SURMINSKI: That's correct.

23 MR. BOB PETERS: And some of those
24 contracts will be what the Board understands to be
25 opportunity sales, that is those available on relatively

1 short notice that can be made, and other ones are -- are
2 pursuant to fixed long-term agreements.

3 Would that also be correct?

4 MR. HAROLD SURMINSKI: Yes.

5 MR. BOB PETERS: Without disclosing any
6 particulars, would it also be correct that the ones with
7 the highest unit values are generally the long-term fixed
8 agreements?

9 MR. HAROLD SURMINSKI: Yes, we could
10 assume that.

11 MR. BOB PETERS: While we're on this
12 page, Mr. Surminski, if we go to -- generally, let's pick
13 EPE-155 in the middle of the page in the unit values, can
14 you explain to the Board why the unit values are
15 generally declining from April through to September of
16 '07?

17

18 (BRIEF PAUSE)

19

20 MR. HAROLD SURMINSKI: One factor could
21 be the declining currency exchange rate.

22 MR. BOB PETERS: Is that the same
23 explanation for -- for example, EPE-224 and EPE-269?

24

25 (BRIEF PAUSE)

1 MR. HAROLD SURMINSKI: I -- I cannot say,
2 especially the last one, with the seventy-three twenty
3 (7320) number there.

4 MR. LLOYD KUCZEK: Yeah, you -- you have
5 to be careful with these, because some of the contracts
6 have provisions for selling up to a greater capacity
7 factor than what -- what's the minimum amount would be.
8 And when you start moving into the higher capacity
9 factors, you might be moving into shoulder hours or off
10 peak hours. And so the agreed price might come down, and
11 so then the average price is lower then.

12 So I -- I would be a little cautious in
13 using those numbers and drawing specific conclusions
14 without knowing the details of the contracts.

15 MR. BOB PETERS: Well, Mr. Kuczek, just
16 in terms of general -- a general observation, then, in
17 terms of the Vice Chair's comment, it appears that a lot
18 of these energy sales that are -- that are indicated here
19 took place at prices lower than what would of been
20 received from domestic customers in Manitoba, residential
21 domestic customers, whether -- no matter what time of the
22 day they use them.

23 MR. LLOYD KUCZEK: Yeah, and again one
24 has to be careful without know the -- the terms of the
25 contracts, because, for example, if you have diversity

1 agreements, you might have agreed to not charge each
2 other a capacity price and just have a -- an energy
3 price. And it's an exchange agreement, per se, where you
4 get capacity and energy back in the wintertime or you --
5 yeah, we're -- we're buying it in the winter time they're
6 buying it in the summer time, so that would effectively
7 lower the energy price.

8 The other thing is that when you sign the
9 contracts is the date that the contracts are signed are
10 very important, because that's when the prices are
11 determined. And as we moved into the future prices have
12 been increasing.

13 So when you're looking at the value of
14 DSM, you have to look at what the value is going forward
15 today as opposed to what was -- what the prices were back
16 in whatever year it was some of these contracts were
17 signed. And some contracts are fairly long. The
18 diversity contracts that we had signed at one point were
19 signed ten (10) years prior to when they started, and
20 they might have -- I think they were twenty (20) year
21 agreements.

22 So, again, I caution the use of these
23 numbers without knowing the details.

24 MR. BOB PETERS: And has Manitoba Hydro
25 put the details of these contracts in the public record?

1 (BRIEF PAUSE)

2

3 MR. LLOYD KUCZEK: I believe our export
4 contracts are confidential.

5 MR. BOB PETERS: Can you indicate to the
6 Board whether any of these unit costs on the bottom half
7 (1/2) of PUB-MH-I-57 include capacity charges? Do you
8 know?

9 MR. LLOYD KUCZEK: They would be all in
10 prices.

11 MR. BOB PETERS: All in, including
12 capacity charges?

13 MR. LLOYD KUCZEK: Capacity and energy,
14 yes.

15 MR. BOB PETERS: Okay, then let's
16 understand your answer that if these relate to a
17 diversity agreement, a diversity agreement really means,
18 We'll ship it to you when we don't need ours if you ship
19 to us yours when you don't need yours?

20 MR. LLOYD KUCZEK: The -- the concept
21 behind the diversity agreement is that -- is you're
22 taking advantage of the diversity of the -- the peak
23 loads between two (2) different regions. In Minneapolis
24 the peak load is in the summertime; in Manitoba it's in
25 the wintertime.

1 And so instead of both of you building
2 generation to meet your peak demands, what you do is you
3 come -- you could come up with an arrangement such as we
4 have, where we basically have a diversity agreement and
5 we -- we exchange capacity for free to each other -- or
6 it's just an exchange, but there's no dollars exchanged
7 for it.

8 And we sell energy back and forth as per
9 the terms of the agreement.

10 MR. BOB PETERS: And how many agreements
11 with that diversity arrangement do you have? Are you
12 able to put that on the public record?

13 MR. LLOYD KUCZEK: There's three (3) in
14 place right now.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: And, as it was pointed
19 out to me at Tab 12 of the PUB book of documents, the
20 second page is PUB-Manitoba Hydro Second Round question
21 98. The bottom half (1/2) of that page also contains
22 some unit prices.

23 And, again, Mr. Surminski or Mr. Kuczek,
24 that those prices are reflective of whether it is
25 dependable or opportunity sales, correct?

1 MR. HAROLD SURMINSKI: Yes, that is
2 correct.

3 MR. BOB PETERS: And whether it's
4 dependable or opportunity, you can observe that the
5 dependable costs are generally more consistent, although
6 they still fall over the time horizon that's recorded?

7 MR. HAROLD SURMINSKI: Yes, I observe
8 that.

9 MR. BOB PETERS: And can you explain to
10 the Board why that would be the case?

11 MR. HAROLD SURMINSKI: That would be
12 probably for the same reason of the currency exchange
13 rate -- US dollars, so no, that would not be right.

14 MR. BOB PETERS: This answer took -- took
15 out the currency exchange, correct? And now it's dealing
16 only in US funds?

17 MR. LLOYD KUCZEK: Well -- well,
18 generally speaking, the -- the market prices tend to peak
19 in the -- the summer months, and so the shoulder months
20 should be lower. In -- in this case, that doesn't
21 necessarily show as being the case, but that's usually
22 what you would expect in the markets.

23 You would get -- if -- if the -- it's a
24 hot summer where you're seeing 90 degree weather in
25 Minneapolis or in the South, the prices in July and

1 August for opportunity sales would be higher.

2 If we have high water flow, sometimes that
3 will impact things as well, because we need to move more
4 -- more energy in the market. And so we're selling, not
5 just during the on-peak hours. We're selling in the
6 shoulder peaks and the off-peak hours. And that drives
7 the price down, so the average would be lower.

8 So, again, one would have to understand
9 what the details are behind these numbers to understand
10 why you're seeing those price differences. But part of
11 that could be because of the sales in off-peak and
12 shoulder hours bringing down the prices in the summer.

13 MR. BOB MAYER: Mr. Kuczek, there's only
14 one (1) number that's above or at six (6) cents. I'm
15 having a little trouble now, again, understanding how it
16 is that you can -- that anybody on that side of the room
17 can now tell me that we make more money by selling our
18 power than we charge our residential consumers, because
19 there's only one (1) number in all of these sheets that
20 show that.

21 I can't believe that the answer you gave
22 me before answers the questions.

23 MR. LLOYD KUCZEK: Okay, let me -- what I
24 gave you before wasn't just related to the export price.
25 What I talked about was the avoided cost --

1 MR. BOB MAYER: Right.

2 MR. LLOYD KUCZEK: Okay. So the avoided
3 cost -- one (1) component of that is just the export
4 price. What value we assign to that -- well, Harold can
5 speak to that -- but that value isn't necessarily based
6 on interruptible prices. This -- it's based on a
7 simulated analysis of what that energy would be -- would
8 be worth going forward into the future.

9 MR. BOB MAYER: I think it was Mr.
10 Surminski who told me we were getting consistently above
11 six (6) cents. That doesn't appear to be the case.

12 MR. HAROLD SURMINSKI: Yes, but I also
13 did say that it was in the on-peak hours. What you have
14 here is a -- is a meld of all hours and an averaging
15 that's taking place.

16 MR. BOB MAYER: I can see that, but I'm
17 still having difficulty understanding how, when your
18 average sales all -- everything you sell across the
19 border -- we're -- we're dealing with averages -- and I
20 understand the issue of capacity that I just heard about.

21 But I don't understand how you can sit
22 there and tell me that we, in fact, are consistently
23 getting more than six (6) cents a kilowatt hour for our
24 exports, because that isn't what this says.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Surminski, would it
3 help -- are you able to break out of this schedule peak
4 versus off-peak? Or is that disclosure of information
5 the Corporation doesn't want to put on the public record?

6 And perhaps you want to consider that and
7 discuss it with your counsel and come back to us with an
8 answer.

9 THE CHAIRPERSON: Well, the SEP
10 (phonetic) orders are public record and they break it
11 down between peak and shoulder and off-peak. And I think
12 they actually confirm what Mr. Surminski is saying, that
13 over on the peak power they are over six (6) cents, and
14 it's off-peak and shoulder where they are lower.

15 MR. HAROLD SURMINSKI: Also, I believe
16 elsewhere in our submissions and in responses to
17 Interrogatories, I don't remember exactly where, we do
18 have, I think, historical prices, and I believe they were
19 broken down between on-peak and off-peak.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: We will locate that and
23 we'll -- we'll review that, it will probably be tomorrow
24 at this point in time, with the Board.

25 But just before we leave Tab 12 and the

1 second document PUB Manitoba Hydro (2d)98, can you
2 indicate to the Board, why is it that the import prices
3 are -- appear so high relative to our export prices?

4 MR. HAROLD SURMINSKI: I cannot in -- in
5 any detail. These -- these were not numbers that I have
6 reviewed but I recall the situation in -- in that summer
7 where we were...

8 No, I'm -- I'm thinking of those '06. I
9 was going to say that we were concerned about our stream
10 flows and -- and we were paying some high prices to
11 replenish our reservoirs. But I don't think this is the
12 case here.

13 No, I cannot really explain right now what
14 these mean.

15 MR. BOB PETERS: Would -- in terms of
16 importing from the United States, Mr. Surminski, in the
17 month of July of '07, you've indicated that under these
18 exchange arrangements, July of -- July of any year would
19 -- would be a high season or a high demand or a high peak
20 for the Minneapolis Utilities, correct?

21 MR. HAROLD SURMINSKI: That would be
22 right.

23 MR. BOB PETERS: And therefore if you
24 wanted them to part with any of their electricity you're
25 going to have to pay some pretty significant prices?

1 MR. HAROLD SURMINSKI: Yes, that's right.
2 And the question is why are they being requested here?
3 Why are we importing at that time?

4 MR. BOB PETERS: That was my next
5 question was, and -- a nd you're not able to determine
6 that from looking at this answer?

7 MR. HAROLD SURMINSKI: No, I'm not.

8 MR. BOB PETERS: All right. If you can
9 make a note and maybe undertake to get back to me with a
10 -- get back to the Board with a response perhaps
11 explaining that situation on this PUB Manitoba Hydro
12 Second Round 98, that would be helpful.

13

14 --- UNDERTAKING NO. 2: Manitoba Hydro to indicate to
15 Board why the import prices
16 appear so high, relative to
17 the export prices in PUB
18 Manitoba Hydro (second round)
19 98

20

21 MR. BOB PETERS: Mr. Chairman, I wanted
22 to start a new area, predominantly with Mr. Warden, at
23 least, on -- on the big picture, but I wonder if that
24 should hold off until tomorrow morning. I am prepared to
25 continue but this might be an appropriate time if you

1 want to take a little bit early break today.

2 THE CHAIRPERSON: Well, we have had a
3 good start to the Hearing so we will call it to a halt
4 now.

5 MR. BOB PETERS: All right.

6

7 (WITNESSES RETIRE)

8

9 THE CHAIRPERSON: We will see you all
10 tomorrow morning at 9:00.

11 MR. BOB PETERS: Thank you.

12

13 --- Upon adjourning at 3:55 p.m.

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16 Certified Correct

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Cheryl Lavigne

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