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 4th, 2008
Pages 241 to 470

APPEARANCES

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

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UNDERTAKINGS

UNDERTAKINGS (Con't)

--- Upon commencing at 9:10 a.m.

THE CHAIRPERSON: Good morning, everyone. Snow probably slowed us all down a bit today.

Before we start this morning -- and I'll be going back to Mr. Peters in a second -- Mr. Ciekiewicz, a presenter yesterday provided a two (2) hour brief yesterday afternoon, a brief that concluded with a motion. He was a presenter having not been accorded Intervenor status at the pre-hearing conference. As well he did not provide the motion, the Board or any other party with advance notice of his motion as provided for in the rules.

The Board's inclination is simply to ask Intervenors and Board counsel to consider his brief in the context of their own cross-examination of Manitoba Hydro's panels and where deemed appropriate incorporate into their cross-examination lines of thought and concerns as expressed by him. The Board may also have further response or comment in the Order when we come to it.

Do any of the Intervenors have an objection to this course of action?

Hearing none, Ms. Ramage, do you have any problems with this?

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

THE CHAIRPERSON: Very good then.

Mr. Peters...?

MR. BOB PETERS: Thank you and good morning. And I think probably the snow might be one of the reasons that Ms. McCaffrey may be delayed, and I'll continue and I'm sure she will follow on the transcript.

I do also want to indicate that thanks to the efforts of the Board's Executive Director there is a new exhibit list that's been circulated this morning.

It is current. It will replace the one that was circulated yesterday and it will assist parties and counsel that if they are putting new exhibits to the witnesses they will be able to add theirs numerically and advise the Board as to the proposed exhibit number for their document.

Mr. Chairman, with that bit of housekeeping out of the way, I would like to come back to the revenue requirement panel and begin with Mr. Warden.

MANITOBA HYDRO REVENUE REQUIREMENT AND DEMAND SIDE MANAGEMENT PANEL RESUMED:

VINCE WARDEN, Resumed

WILLY DERKSEN, Resumed

IAN PAGE, Resumed

HAROLD SURMINSKI, Resumed
LLOYD KUCZEK, Resumed

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, I gathered yesterday you told the Board that the current application for an across-the-board increase of 2.9 percent is required in order to assist the Corporation in making reasonable progress towards the attainment of financial targets.

MR. VINCE WARDEN: Yes, Mr. Peters, I did say that.

MR. BOB PETERS: And you also in fairness, gave the Board perhaps three (3) or four (4) other reasons as to why Manitoba Hydro is coming forth. But would the Board be correct in understanding your main reason of Manitoba Hydro in seeking at this time a further rate increase is to assist the Corporation in making progress towards their financial targets?

MR. VINCE WARDEN: Well, that is certainly one (1) of the main reasons. I wouldn't want to diminish the other reasons that I put forward as well though, because they are important. But our application is based on making -- continuing to make progress towards those financial targets, yes.

MR. BOB PETERS: You're not here before the Board telling the Board that there's an emergency need for additional influx of funds is there?

MR. VINCE WARDEN: Not an emergency, no.

MR. BOB PETERS: And would you even go so far as to say that it's not urgent?

MR. VINCE WARDEN: I Might not go quite that far. It's -- there is some urgency to keep -- keep -- making good progress towards those targets.

Our level of retained earnings is still below the level that is necessary, should we encounter a drought situation equivalent to the worst on record we could deplete our retained earnings. Not a good situation to be in so there is some urgency, yes.

MR. BOB PETERS: And I suppose that it becomes how you define urgency because you've told the Board yesterday that instead of a projected $264 million of net income for this year, you're going to be at least $36 million better off.

MR. VINCE WARDEN: Yes, we're doing better than -- than the forecast -- earlier forecast indicated.

MR. BOB PETERS: And that 36 million is even greater than the rate increase that you're seeking in these proceedings.

MR. VINCE WARDEN: True. It's -- the difference, of course, is the rate increase becomes embedded in rates and is there each year thereafter, whereas the 36 million that -- that we may achieve this year is -- it could be a one (1) time thing.

MR. BOB PETERS: If you could turn with me, Mr. Warden, to the book of documents and Tab 7, there's a response to COALITION/Manitoba Hydro First Round Question 1.

Have you located that?

MR. VINCE WARDEN: Yes, I do. Thank you.

MR. BOB PETERS: And this -- this answer provides the Board with a snapshot of the Corporation's financial position since the drought in 2004.

MR. VINCE WARDEN: Yes. Mr. Peters, I might just indicate that I was looking at this in reviewing the -- yeah, your books of documents, and there appears to be an error in the consolidated retained earnings line; that is, the retained earnings -- the pur -- the fore -- under the heading -- under the heading of "Forecast" for 2008/2009. Retained Earnings Consolidated does not appear to correctly reflect the -- the gas -- both electric and gas retained earnings, for some reason, was misstated there and -- do we have the correct number?

If I can just read those corrected numbers into the -- into the record? It appears that the retained earnings electric should be seventeen fifteen (1715), retained earnings consolidated should be seventeen thirty-eight(1738), retained earning -- I'm sorry, that was under the 2008 fiscal year.

Maybe I'll just do that again. Under the 2008 forecast year, the seventeen thirty-five (1735) should be seventeen fifteen (1715), the seventeen-o-eight (1708) should be seventeen thirty-eight (1738).

Under 2009 forecast, the eighteen ninety-one (1891) should be one-eight-seven-one (1871) and the one-eight-six-nine (1869) should be one-eight-nine-eight (1898).

MR. BOB PETERS: While we're correcting those numbers, is the number for 2007 accurate?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And the number you put forward for the forecast for 2008, that didn't include the $36 million that you told the Board is over and above your IFF projections in 07-1?

MR. VINCE WARDEN: That's correct. I -- Mr. Peters, just to be clear, I don't think I referenced 36 million. I indicated that our net income for the year could reach 300 million, and that works out to 36 million over the forecast. But I never specified 36 million as being the number.

MR. BOB PETERS: I believe you're correct on that, sir, and I didn't mean to suggest, if I did, that you said that number. It was my quick math.

You also didn't tell the Board if it was going to be more than 300 million, Mr. Warden, or -- or less than 300 million by any amount, and I -- I will discuss that with you. But maybe right now, since you raised it, you have a legislated requirement of reporting your annual financial position to the Lieutenant Governor in Council.

Is that correct?

MR. VINCE WARDEN: Yes, it is. As a matter of fact, we do provide updates quarterly. But -- but, yes, we have that annual requirement, we do.

MR. BOB PETERS: And in terms of procedure, it is the Corporation's preference to report through to the Lieutenant Governor in Council before it makes public any financial position at the year-end of the Corporation.

MR. VINCE WARDEN: That's in accordance with the Act, yes.

MR. BOB PETERS: And you will agree with me that the final position at year-end of the Corporation may be a relevant factor that this Board would like to consider when considering your rate increase request.

MR. VINCE WARDEN: Yes, I would think so. Although having said that while it's positive the fact that we will be higher than the forecast still well below our retained earnings target.

So to the extent that we're striving to attain that target as quickly as possible, I would think the consideration then would be whether or not the rate increase we've asked for is -- is appropriate, given cust -- customer sensitivities and other considerations.

MR. BOB PETERS: And --

MR. VINCE WARDEN: We still haven't got the revenue we need in order to be where we should be financially.

MR. BOB PETERS: And just so that we can put a bookend around that -- that target, as we sit here today, Mr. Warden, would you agree that the 25 percent equity target translates into a dollar amount of approximately $2 billion?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And you've just updated the Board that the forecast now for 2008 is -- you will have 1.7 million -- I'm sorry, $1.7 billion of that $2 billion target achieved.

MR. VINCE WARDEN: Assuming the -- the

forecast number and we'll be slightly better than that with the actual that comes in this -- this year, yes, that's correct.

(BRIEF PAUSE)

MR. BOB PETERS: A point that you made in an earlier answer to me, Mr. Warden, is that the benefit of any rate increases as approved by this Board, they become embedded and are -- are realized on an annual basis going forward.

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: They compound themselves?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And whereas what you achieve in your net income through exports doesn't necessarily compound itself?

MR. VINCE WARDEN: Not necessarily, no.

MR. BOB PETERS: And if we look at this answer to Coalition Manitoba Hydro First Round first question, found at Tab 7 of the PUB book of documents, back in 2005 the Board provided a 5 percent rate increase which translated to approximately $50 million on an annualized basis, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And that $50 million has been achieved throughout not only '05 but '06, '07 and into '08.

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And likewise the 2.25 percent that was awarded in April 1st of 2005 carried through to your '06 fiscal numbers by about $22 or $23 million each every year since.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: And last year on I think it was March 1st, 2007, the 2.25 percent interim basis has already benefited to the Corporation by again approximately $22 or $23 million and will continue to do so going forward?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Subject to check, the cumulative additional revenue from the PUB increases since 2005 is approximately $288 million to date?

MR. VINCE WARDEN: Subject to check I'll accept that, Mr. Peters, of course realizing that not -- our costs are also going up and therefore it's not like that that -- like that's money in the bank.

MR. BOB PETERS: Well, point taken, Mr. Warden. And in fact maybe you could tell the Board what equity looks like to Manitoba Hydro, because I suspect you don't have a -- a vault where you go once a year and start counting up to $1.7 billion of -- of cash and coin.

Equity to Manitoba Hydro looks a lot the same as it might to a homeowner in that you own a share of some of the physical capital assets of the Corporation that have been paid for, rather than having cash sitting around.

MR. VINCE WARDEN: We never have cash sitting around, Mr. Peters. We -- we're usually in an overdraft situation at the bank. We put every dollar we receive into good use by reinvesting that immediately.

MR. BOB PETERS: So the equity that Manitoba Hydro has, the $1.715 billion, is really then just ownership of -- of an asset that is not totally financed by debt?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: And this 75/25 target that you've told the Board about, it is to provide a cushion against the risks that are inherent in Manitoba Hydro's business?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And one of the risks that you mentioned was drought, and that's certainly a significant risk to the Corporation?

MR. VINCE WARDEN: Yeah, in fact, drought has been described not so much as a risk, but a -- but a certainty. It will occur. We know it will occur. We just don't know when.

MR. BOB PETERS: We do know that the last time it occurred, looking at PUB book of document Number 7, was in 2004, because your net income was $428 million negative?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that was the worst drought, financially, that the Corporation has ever incurred?

MR. VINCE WARDEN: That's right.

(BRIEF PAUSE)

MR. BOB PETERS: And if that same drought was to reoccur in 2009, the Corporation has the comfort of that cushion of at least $1.7 billion of equity?

MR. VINCE WARDEN: That's right.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, am I correct that the debt/equity ratio of which you speak to this

Board was set by the Manitoba Hydro Electric Board?

MR. VINCE WARDEN: Yes, the Manitoba Hydro Electric Board approves all financial targets and financial forecasts.

MR. BOB PETERS: All right. From that answer then was it -- was it an executive target that was approved by the Board?

Or was it a target that was approved by the Board and now used by management to -- to see if you can meet that target?

MR. VINCE WARDEN: Well, typically, management provides recommendations to the Board. The Board may or may not accept those recommendations. But the process would be a recommendation would be provided to the Board. And I believe in this case the Board accepted management's recommendation of the 75/25 debt/equity target.

MR. BOB PETERS: And that Board, the Manitoba Hydro Board, accepting that target was back in 2001/2002?

MR. VINCE WARDEN: Subject to check, that sounds about right, Mr. Peters. I would have to confirm that, but it would be in that time frame that the Board approved that target.

MR. BOB PETERS: All right. Well,

regardless of when -- when the Manitoba Hydro Board approved that target, the achievement date is now supposed to -- is now, according to the Manitoba Hydro Board, to be achieved by 2011 and 2012?

MR. VINCE WARDEN: 2011/'12, yes.

MR. BOB PETERS: And that's the target still?

MR. VINCE WARDEN: It is, yes.

MR. BOB PETERS: And the Board hasn't changed the target or the achievement date, have they?

MR. VINCE WARDEN: They haven't.

MR. BOB PETERS: That is, the Manitoba Hydro Board hasn't changed that?

MR. VINCE WARDEN: That's correct.

THE CHAIRPERSON: Mr. Warden, when you are checking the memory banks on that debt/equity ratio, the Panel's recollection is the originating date of the 75/25 might go some distance back from 2001.

MR. VINCE WARDEN: Yes, it's the -- the date at which it was to be achieved, I believe, maybe in that 2001 timeframe that it was -- 2011/'12 was set as the date to be achieved. But again, I can -- I can double-check that.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Perhaps to assist the Board and -- and Mr. Warden, COALITION/MH First Round 86(c) is -- is a note that I have here that, it indicates the Corporation's financial targets.

And while the target may have been set in the mid-'90s, the achievement date of 2011/'12 was set in approximately 2001/2002.

(BRIEF PAUSE)

MR. VINCE WARDEN: Maybe subject to check, Mr. Peters, we will accept that, yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman, in an effort to assist the witnesses and Board, I hope I haven't confused the issue. But I do have in the -- the COALITION/MH First Round 86 question, that if Mr. Derksen has pulled it up on the screen, COALITION/MH First Round 86(c).

Mr. Warden, my -- my point in going back to it is that as far back as 1995, the 75/25 target surfaced but the attainment date was some ten (10) years hence in about 2005/'06.

Do you recall that being accurate?

MR. VINCE WARDEN: Yes, we have that IR response in front of us now, Mr. Peters, and yes, I agree with your statement.

MR. BOB PETERS: And it was in 2002 where the 75/25 debt/equity ratio was to be attained but by a new date. This time it was moved out five (5) years to 20112/2012 of which you spoke to the Board a few minutes ago.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that's the target as we sit here today?

MR. VINCE WARDEN: It is.

MR. BOB PETERS: According to the IFF that Mr. Page has prepared, does Manitoba Hydro achieve that 75/25 debt/equity before -- before 2011 or '12?

MR. VINCE WARDEN: No, we don't. In fact we don't -- according to that IFF we don't achieve it during the timeframe of the IFF. However, we recognize that is a forecast based on medium water flows for the first two (2) years, average water flows thereafter. Anything better than median or average will have a significant effect, as we're seeing this very year where the debt/equity ratio has improved, even beyond what we expected over the term of that forecast.

So water conditions, as history has proven, can make a tremendous impact on the financial position of the Corporation.

MR. BOB PETERS: Do I take from your last answer, Mr. Warden, that you're telling the Board if the water flows stay positive, as they are this year, for the next three (3) years you will attain the debt/equity target ratio without additional rate increases over and above what's included in the IFF?

MR. VINCE WARDEN: Mr. Peters, I would have to just double-check that to make sure that, you know, we have made progress this year. Although we have to recognize that over the next several years there's a very high capital program which has a -- also has a big impact on the debt/equity ratio.

If we were to maintain the level of $300 million per year of net income, per year, over the next three (3) years, would the 75/25 be achieved?

My sense is probably, yes, but I would have to run that through the model just to be -- confirm that.

MR. BOB PETERS: All right. I -- I won't ask you to do that, Mr. Warden. Before I turn away from the book of documents Tab 7, is it correct in the way it's presented, Mr. Warden and Mr. Derksen, that the debt ratio on the consolidated Corporation indicates a higher debt than the debt in the electric operations?

MR. WILLY DERKSEN: Yes, that's correct.

MR. BOB PETERS: And, Mr. Derksen, does that tell the Board that the consolidated really includes, of any note, is Centra Gas?

MR. WILLY DERKSEN: Yes, that's correct.

MR. BOB PETERS: The other subsidiaries and affiliates really are, with no disrespect, they're the rounding errors on this information?

MR. WILLY DERKSEN: In terms of their materiality, they're very low, that's correct.

MR. BOB PETERS: Okay. And help me with this, Mr. Derksen: When the Board looks at the debt/equity ratio on a consolidated basis, it sees that the debt is higher on a consolidated basis than it is in the electric side of the business?

MR. WILLY DERKSEN: Yes, that's correct.

MR. BOB PETERS: And how can that be, Mr. Derksen, when the debt/equity ratio for Centra Gas is 70 percent debt and 30 percent equity?

MR. WILLY DERKSEN: On a consolidated basis Centra's debt/equity ratio is something different than that. It only -- since the acquisition of Centra was 100 percent through debt and it has approximately --

was it -- about $30 million of retained earnings, twenty (20) -- it would have a very high debt level.

MR. VINCE WARDEN: And, Mr. Peters, not to get into that discussion again at this proceeding, but the debt/equity ratio of Centra at 70/30 was subject of some debate at a previous gas proceeding. And the -- I think that what this does is illustrate that on a consolidation, the -- the shared capital that's in -- on Centra's standalone statements disappears when it's consolidated with Manitoba Hydro. And therefore the 70/30 has no relevance on the consolidated basis.

MR. BOB PETERS: All right. That -- that may be correct, Mr. Warden, but the -- the way it's presented here seems to suggest that Centra is carrying a higher percentage of debt than the electric side by that's only for financial statement presentation and not for the gas regulatory presentation.

Would that be fair?

MR. VINCE WARDEN: Well, it's real in terms of the impact of -- of Centra having very low retained earnings and higher level of debt. So it's going to have this kind of an impact on a consolidated basis.

MR. BOB PETERS: Okay. But it's consolidated using the Manitoba Hydro reporting method, not the methodology approved by the PUB in its gas orders?

MR. VINCE WARDEN: Well, the PU -- the PUB did not approve any kind of a consolidation -- a consolidation methodology. What was being debated at the gas proceeding is how the debt ratio on standalone statements for Centra should be calculated.

MR. BOB PETERS: And whether it's on a standalone or on a consolidated basis it's going to hit -- hit these numbers, because it's going to either be under Manitoba Hydro's electric side or on the gas side, so in any event it will show up.

Is that the bottom line?

MR. WILLY DERKSEN: Could you repeat that question?

MR. BOB PETERS: Well, whether -- whether you use the PUB approved methodology for reporting the gas debt/equity ratio or use the methodology Manitoba Hydro is using here when they consolidate them, it's going to show up either as Centra or -- or Manitoba Hydro electric's debt. So it's going to be here as a debt ratio for somebody.

MR. WILLY DERKSEN: Yes, that's correct. No matter how you -- no matter how you look at it the -- the shares of -- of Centra Gas were purchased by Manitoba

Hydro by debts. On a consolidated perspective it will show up as debt and the debt/equity ratio will be higher on a consolidated basis because of when Centra's included.

MR. BOB PETERS: Thank you, Mr. Derksen. Mr. Warden, could you turn, please, with the Board to Tab 8 of the book of documents, and I believe it's the second page in. We're looking at Information Request PUB/Manitoba Hydro Second Round 77, and there's an answer page 2 of 5 that I'd like to start with.

MR. VINCE WARDEN: Yes, I have it here, Mr. Peters.

MR. BOB PETERS: And this depicts on page 2 of 5 of Tab 8 of the book of documents what you told the Board is that even by 2018 Manitoba Hydro's electric operations don't achieve a 75/25 debt/equity target?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that again is subject to favourable water flows changing that for the better?

MR. VINCE WARDEN: Right. The -- the forecast is based on an assumption of water flows which could be better or -- or worse than what's indicated here.

MR. BOB PETERS: All right. And if

they're worse than what's indicated then these numbers would -- would contain a higher percentage of debt, not a lower percentage of debt?

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

MR. BOB PETERS: Can this Board assume, Mr. Warden that the Manitoba Hydro electric board is fully aware that the Corporation's IFF does not achieve the 75/25 debt/equity target by 2011/'12?

MR. VINCE WARDEN: Yes, the Board is aware of that.

MR. BOB PETERS: And they're also aware that it -- according to the current forecast the electric operations doesn't achieve a 75/25 debt/equity target even before 2018?

MR. VINCE WARDEN: The Board is aware of that, yes.

THE CHAIRPERSON: Just a point of clarification, when you're going back to the treatment of the debt that was incurred to buy Centra that debt which is on Manitoba Hydro's books from a legal perspective, is not reflected in any of the electric operations debt ratio, interest cover ratio, or capital coverage ratio.

Is that correct?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Chairman, you're speaking from a forecast perspective in the IFF?

Is that what you're referring to?

THE CHAIRPERSON: Right now I'm just looking at Tab 8 second page in "Electric Operations," comparison between the actual forecast and the target for their free financial indicators.

And I was just confirming, just to solidify it in our own minds, the conversation that you were having with Mr. Peters separated the, if you like, electric operations, gas operations, and the consolidated statements.

And all I was saying was that for electric operations my understanding is electric operations are the electric operations of Manitoba Hydro. But Manitoba Hydro in a legal audited perspective actually has a couple of components. It has the electric operations but also it carries the debt involved in the acquisition of Centra.

And all I was saying was that that debt was not reflected in electric operations debt ratio, interest covered ratio, or capital coverage ratio.

I think it is just a statement of fact,

but I am just seeking confirmation.

MR. IAN PAGE: Mr. Chairman, could I just clarify? The acquisition debt for Centra is on the -- on the electric books. So in these electric -- electric debt/equity ratio does include the acquisition debt for Centra. The -- the debt that's on Centra's books is the debt that existed prior to acquisition. That's subsequently been refinanced.

MR. VINCE WARDEN: So the --

THE CHAIRPERSON: I understand what was said, I am just going to reflect on it a while. You can go on, Mr. Peters.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I'll reflect while the microphone's on, I guess.

But, Mr. Page, if you were to re-file the electric operations debt with -- with the debt to acquire Centra not on the electric side, what would be the outcome?

MR. IAN PAGE: It would be difficult to do that because there's no place else to put it. If we -- if there was a holding company that held both Manitoba Hydro electric and gas then -- then the acquisition debt could reside there. But without that it has to be either on the gas side or the electric side.

MR. BOB PETERS: And on the consolidated basis it won't make any difference where it's held.

Would that -- did I understand that correctly from a --

MR. IAN PAGE: That -- that's correct.

MR. BOB PETERS: -- previous question? All right.

But for electric operations presentation the question is: Should that debt appear on the electric side or on the gas side? And why is it that you've put it on the electric side?

MR. IAN PAGE: It -- it's on the electric side because the electric utility is the -- was the entity that acquired Centra Gas.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Page, what's the approximate amount of -- of that debt that we were talking about, in terms of the acquisition of -- by Manitoba Hydro electric side of the gas side of the business?

(BRIEF PAUSE)

MR. IAN PAGE: I -- I think it's approximately 265 million.

MR. BOB PETERS: And when I go back to the book of documents, Tab 7, Coalition Manitoba Hydro First Round First Question, and I look down to the debt ratio on a consolidated basis compared to electric operations, where is that $265 million of debt? On which line...?

MR. IAN PAGE: It's -- well it won't be on any on an operating statement, but it would be inherent in the -- in the debt/equity ratio, for the -- sorry, for the electric side, and -- and the consolidated as well, because it's in both.

MR. BOB PETERS: No. And a -- and a good answer, I appreciate -- I appreciate that. If I have something further on that, Mr. Chairman, I'll -- I'll perhaps come back to that.

THE CHAIRPERSON: I just have one (1) question: If you have the debt in presumably you have the investment as an asset as well?

MR. IAN PAGE: Yes. The investment's in there and that's what eliminated against the -- the share capital, which is why the -- the equity that's -- that's on the Centra Gas side that's represented by that share capital doesn't appear on a consolidated basis.

THE CHAIRPERSON: So the real impact, then, is on the interest coverage ratio in a sense because you do not have Centra's income, given there is not much on the other side.

Is that correct?

MR. IAN PAGE: Well, it has an impact on both because there's -- there's -- the debt is there. So the -- the debt's been boosted by $265 million -- sorry, and the interest coverage would be affected because net -- because the net income for Centra is as low as it is.

THE CHAIRPERSON: Yes.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Thank you. If I can stay with Tab 8 of the book of documents, and looking at the page 2 of 2, Mr. Warden, is there a new date by which Manitoba Hydro's Board is expecting the debt/equity target of 75/25 to be met?

MR. VINCE WARDEN: No. 2011/'12 is still the -- the date. We certainly had some discussion at the Board level of moving that date, but recognizing the impact of water conditions that we talked about earlier, it's not out of the question that we could still achieve the '11/'12 -- the 75 debt/equity by '11/'12.

MR. BOB PETERS: So --

MR. VINCE WARDEN: But we decided after -- or sorry, not we. The Board decided, after some discussion, that we would leave the debt/equity target at 75/25 for at least another year.

MR. BOB PETERS: But your Board is also not asking you to file an IFF, that contains assumed higher rate increases than what's presently filed in IFF-07-1 to get there?

MR. VINCE WARDEN: No. Well, the Board, though, in their deliberations looks at a number of different scenarios of rate increases in coming to a determination as to what would be recommended to this Board for -- for approval.

MR. BOB PETERS: Can you tell the Board what steps Manitoba Hydro's Board is proposing to assist the Utility in meeting its target by 2011/'12, other than through rate increases.

MR. VINCE WARDEN: Well, the Board exercises constant vigilance over operating and capital expenditures. They receive reports at every Board meeting as to how we're performing, and makes suggestions, recommendations, directives, on an ongoing basis.

MR. BOB PETERS: Are there any specific directives that you can share with this Board as to how the Corporation is going to achieve 75/25 by 2011/'12, other than through the rate increases contained in the current IFF?

MR. VINCE WARDEN: No. We're doing everything possible on the cost side of the business, so it is dependent virtually 100 percent on water conditions.

MR. BOB PETERS: So then it would be dependent on matters that are out of the control of the management of Manitoba Hydro?

MR. VINCE WARDEN: Well, the water conditions are out of control. There -- there's control over, of course, the export sale -- sales that we are able to achieve through negotiation with counterparties, but the water condition -- water conditions is -- is the big unknown for the future.

MR. BOB PETERS: Mr. Warden, is it Hydro's belief that many or some of the Intervenors to these regulatory proceedings have also supported Manitoba Hydro's attainment of a 75/25 debt/equity ratio?

MR. VINCE WARDEN: Sorry, would you mind just repeating that question, Mr. Peters?

MR. BOB PETERS: Is it Manitoba Hydro's understanding that some of the Intervenors to these proceedings also support the Corporation attaining a

75/25 debt/equity ratio?

MR. VINCE WARDEN: I think it's fair to say that all parties to these proceedings believe it's important for Manitoba -- Manitoba Hydro to be financially strong. I don't know whether anybody's really endorsed -- on the Intervenor side has really endorsed 75/25 as being the appropriate number.

MR. BOB PETERS: Would you agree with me that the major disagreement then appears to be how quickly Manitoba Hydro achieves a target of financial stability, whatever that target is set?

MR. VINCE WARDEN: I would agree with you, that -- that is the issue as to how -- how quickly we -- we move towards that target. Yes, I would agree with that.

MR. BOB PETERS: And would you also agree that the pace at which Manitoba Hydro reaches its target it's a subjective decision?

MR. VINCE WARDEN: Well, it's based on some judgment -- judgment, so somewhat subjective as to the pace at which we should move towards that target, recognizing all the risks that we face in the meantime.

MR. BOB PETERS: And it may also be subjective from the perspective of others as to how you calculate that debt/equity target, because I believe --

and I won't quote Mr. Harper verbatim, but basically, if you -- according to my understanding of his position -- if you don't consider the extraordinary capital construction costs, the target would have been reached already by today?

(BRIEF PAUSE)

MR. VINCE WARDEN: Well, I have a real difficulty with that, Mr. Peters. Extraordinary capital construction costs is -- I -- I cannot relate to that.

MR. BOB PETERS: And you can't relate to that, because that's, according to Manitoba Hydro, part of your business plan.

And that's something that you're going to incur in the normal course of business and has to be included in the risk and the -- the cushion that you build?

MR. VINCE WARDEN: We don't incur capital construction costs before we have to so there are no extraordinary capital construction costs included in our -- in the costs that we've incurred in the past or that we will be incur -- incurring in the future.

MR. BOB PETERS: Mr. Warden, if we turn to page 3 of 5 of Tab 8 of the book of documents, you'll hopefully find a chart there of electric operations and the debt ratio, perhaps even in colour. Or maybe you didn't get the colour one.

(BRIEF PAUSE)

MR. BOB PETERS: Sorry, I'll take that back. It's not in colour; it's in black and white, which I guess are two (2) colours. But the -- the electric operation debt ratio, this is just a graphical depiction.

Everything before 2008 is actual, and everything from 2008 onward is a forecast, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And the Board will see that starting in 1997 there appeared to be some -- some pronounced trend of getting down to achieve that.

And then something happened in 2002/'03 that caused it to go the other way, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And what was it in 2002/'03 that caused the -- the debt ratio to rise?

MR. VINCE WARDEN: Well, that was the onset of -- of the -- the drought that hit us most extremely in the 2003/'04 fiscal year.

MR. BOB PETERS: And it was also the year in which the equity was reduced by approximately $203 million as a result of provincial legislation?

MR. VINCE WARDEN: That's true.

MR. BOB PETERS: And that also had an impact? That -- that, in essence, was half of a drought then?

MR. IAN PAGE: Actually, no, it was one-third (1/3) of a drought. The drought -- drought cost was about 600 million. Our net inco -- our net loss was -- was over 400 million, but we had projected a $200 million income prior to that.

So if you look at that the drought was 600 million, the payment was another 200 million, so a total of eight hundred (800).

MR. BOB PETERS: Thank you for that clarification, Mr. Page, accepted.

And so starting in '04, that's when the drought was at its worst, and we saw that there was a -- a hit to the financial statements of over five hundred (500) -- over $425 million?

MR. IAN PAGE: There -- there was a loss there, but the -- the hit was the difference between what we would have got in the absence of the drought.

MR. BOB PETERS: Was the six hundred?

MR. IAN PAGE: Yes.

MR. BOB PETERS: Yes. And since 2004, moving forward again, you're on a trend to get down to your debt/equity ratio. But it stalls out, it appears, in this -- in this depiction.

Would you agree with that?

MR. IAN PAGE: Yes. Yes, I would.

MR. BOB PETERS: And while you get close, you don't quite achieve it because of the expenses that will be incurred going forward?

MR. IAN PAGE: Going forward is -- is when we're -- we're starting -- getting to a period where we're -- the capital spending has -- is -- is growing compared to what historically we've been at. It's been -- it'll be -- by the time the Wuskwatim's, in it'll be over twenty (20) years since we last put a generating station in.

So there was quite a period of time where we were in sort of a maintenance mode. And now we've got the -- the Bipole 3 and Wuskwatim. And -- and towards the end of this forecast we're starting on Conawapa.

So there is a sort of -- we're sort of reverting back to what we were back twenty (20) years ago. And that's -- so we are seeing a difference in what we have in -- in that intervening period.

MR. BOB MAYER: Excuse me, sir, Mr. Page.

You -- you mention you're into Wuskwatim. At the back end of the forecast period you're into Conawapa.

Can I assume from that comment that Keeyask is basically on hold?

MR. IAN PAGE: Mr. Surminski is going to speak to that more, but it's -- Keeyask is not in the current sequence right now. The sequence looks at what's the most economic resource to put in. And Conawapa currently is determined to be that resource, although we're not committed to either at this point.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And following up, Mr. Page, what the Board sees in this graphical depiction of your debt/equity ratio is approximately 2 billion of the $5 billion of debt that Conawapa's going to cost the Corporation?

MR. IAN PAGE: That -- that sounds about right.

MR. BOB PETERS: So what the Board doesn't see is that after 2018 and going forward for a number of years, there's another $3 billion of debt related to Conawapa?

MR. IAN PAGE: Yes, and you'll also see after that, then the debt stops, and the plant starts producing revenue so that not only do you stop incurring debt. Then you -- you start producing net income and -- and then increasing the equity.

MR. BOB PETERS: Can you indicate to the Board the -- the date in which you expect the incur -- incursion of debt related to Conawapa to stop, at least new debt for Conawapa to stop, and revenues to -- to be realized?

MR. IAN PAGE: Our approved forecast only goes out to 2018, so any extrapolation to do that is based on sort of my own supposition. So I -- I wouldn't want to put those forward here.

MR. BOB PETERS: My supposition was 2020 or somewhere about there, but maybe that's too close to the planning horizon.

Is that -- that's not the in-service target date?

MR. IAN PAGE: The in-service date is 2021, I think, 2021. So it would be around there.

(BRIEF PAUSE)

MR. BOB PETERS: And I suppose if we are going to look in the rearview veer -- rearview mirror, Mr. Page, but for the drought in 2003/'04, the debt/equity target would have been achieved by today?

MR. IAN PAGE: That's correct.

MR. BOB PETERS: And I suppose we could also say but for the special payment to the province, the debt/equity target would also have been achieved by today?

MR. IAN PAGE: It's -- it's difficult when you start getting into -- the drought was -- was extremely large, and it obviously had an adverse effect.

The special payment was a smaller magnitude. As you can see, there is -- we have also had just two (2) years after the drought, we had an extraordinarily good year. We -- we -- you know, we could -- we could have had a drought. Instead of that extremely good year, we could have had a drought. So it's -- it's hard to -- to say any one (1) thing could have caused it.

But yeah, I mean, if we just look back mathematically and we -- we knock off -- take $200 million off the debt and add it to our retained earnings, possibly.

But it -- it's -- it's an awful lot easier to manage in hindsight than looking forward, too.

MR. BOB PETERS: I -- I accept that answer, Mr. Page. Let's -- let's perhaps look -- let's keep forward looking, but put ourselves in the position of the Manitoba Hydro Electric Board when they approved Manitoba Hydro coming in for a rate increase of 2.9 percent today.

The Board was looking at the IFF-06-4 that you prepared. Would that be correct?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And the Board will find that as the last document in Tab 9 of the book of documents. Tab 9 contains a series of runs of the income statement or the operating statement of various IFFs, from 02-1 through to 06-4. And they contain sometimes similar, sometimes different information.

MR. IAN PAGE: Mr. Peters, you asked which IFF was being used for what -- sorry, at what point in time? I think I may have misspoke.

MR. BOB PETERS: Okay, let me try it this way.

When the Manitoba Hydro Board approved the Corporation's plans to come before the Public Utilities Board for a rate increase, they didn't have IFF-07-1 in front of them, did they?

MR. IAN PAGE: No, they didn't, because that wasn't prepared until October of this --

MR. BOB PETERS: Correct.

MR. IAN PAGE: -- this past year.

MR. BOB PETERS: They would have had IFF-06-4?

MR. IAN PAGE: Well, they -- they would have originally had IFF-06-3. And then there was a revision in the spring of -- of 6-4. And that -- that would have been the last forecast that was made before the August application.

MR. BOB PETERS: All right. You're answering yes, then, to my question that they had IFF-06-4?

MR. IAN PAGE: Yes.

MR. BOB PETERS: All right. And if I look -- take the Board to the last page of Tab 9 of my book of documents and look at IFF-06-4 from the operating statement, it shows a forecast of 2007 net income of 118 million.

Correct?

MR. IAN PAGE: Yes.

MR. BOB PETERS: But that number wasn't correct in actual terms?

MR. IAN PAGE: The actual did turn out to be different, but that was -- that was the estimate at the time.

MR. BOB PETERS: And the actual turned

out to be more like 122 million?

MR. IAN PAGE: I -- I -- that sounds correct.

MR. BOB PETERS: And looking, then, at 2008 year, which is the year in which the decision was being made by the Manitoba Hydro Electric Board, there was a forecast of $244 million of net income that would be received by March 31st, 2008?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And we now know that that 244 million dollar number, it was subsequently revised to, I believe, 264 million in IFF-07-1, found at Tab 10, the book of documents, on page thirty-eight (38).

It's a fair ways back, Vice-Chair. I extracted, perhaps, too much from IFF-07-1, but I put it all in Tab 10. And if you want to put a marker on the page numbered thirty-eight (38) in that tab, approximately fourth from the back, that contains the operating statement of IFF- 07-1, Mr. Page, correct?

MR. IAN PAGE: For the electric operations, yes.

MR. BOB PETERS: Yes. And -- and when the Manitoba Hydro Board of Directors was making a decision on any rate increases, it was only considering the electric rate increases, correct?

MR. IAN PAGE: The -- the electric and the gas rate increases are made separately, but they both recognize that there's a consolidated finan -- set of financial targets.

MR. BOB PETERS: All right. Point taken.

And when looking at IFF-07-1, under the 2008 column, down to the net income line, the 06-4 IFF was updated from $244 million of net income to $264 million of net income?

MR. IAN PAGE: That's -- that's correct.

MR. BOB PETERS: A $20 million positive gain?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And Mr. Warden has told us, so far voluntarily, that -- that more likely we could pencil in $300 million in pencil on that line?

MR. IAN PAGE: I think 300 million on a consolidated basis, but the bulk of that obviously would be electric.

MR. BOB PETERS: Now I'm a little confused. Was it -- was the 300 million consolidated? Was 300 million on the electric side?

MR. VINCE WARDEN: Well, we're getting to a degree of precision, Mr. Peters. I said approximately 300 million. So whether it's consolidated or standalone, given that the net income of Centra is limited to 3 million, it's not going to, you know, influence it much way -- much one way or the other.

MR. BOB PETERS: All right. Thank you for that answer.

And in fairness, Mr. Warden, you haven't -- you said approximately 300 million. You haven't told the Board how much more, how much less than 300 million?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: And I don't want to put you in an awkward position, but I will anyway.

Is it fair to say that as you sit here, you may have a personal view of how refined that forecast could be, but you're not in a position to put that on the public record?

MR. VINCE WARDEN: That's fair.

MR. BOB PETERS: And would it take -- would it take, Mr. Derksen, approximately a month after year-end to count up the -- the profits for the year or net income for the year?

MR. WILLY DERKSEN: It would be a little bit longer than that, Mr. Peters.

MR. BOB PETERS: It's that much?

(BRIEF PAUSE)

MR. WILLY DERKSEN: No. We take as long to count big numbers as small numbers.

MR. BOB PETERS: I suppose where I'm going with this, Mr. Warden -- and maybe you can consider this with your counsel and come back to the Board.

The Board Hearing for this Hearing is going to go beyond March, and it's going to go into the month of April. And at some point I expect Manitoba Hydro will have a more refined estimate. It may -- it may not even be a forecast at that point. It'll be an estimate of what their net income is going to be for year ending 2008.

Would that be -- would that be fair to say?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: At what point in time would the Corporation be able to share any future revised estimates with this Board, either on a public or on a confidential basis?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, as we discussed very briefly earlier, there is a statutory requirement as to when those statements must be released to the Legislative Assembly. And we would have to obtain the authority of the Minis -- of the Minister responsible for Manitoba Hydro to release anything on a confidential basis prior to that date.

MR. BOB PETERS: I'll leave it at that at this point, Mr. Warden, and I'll -- I'll pursue that if -- if further required.

MR. BOB MAYER: Mr. Peters, not quite so fast. I think you have to understand the Board's concern. We're in -- we're in the middle of a GRA. We've already had somebody refer to a statement from Hydro's CEO that everything's rosy and why -- and the question becomes: Why do they need the money?

The Board also has to be concerned. We make a decision based on numbers that are within a month or two (2) of being released to the public, but we don't get an opportunity to look at what those numbers are. We're not really excited about looking like fools at the end of the day.

Can we get an undertaking that somebody will at least ask the Minister if we can have that information before we draft the order?

Or would you prefer that we wait until we have those numbers before we draft the order?

MR. VINCE WARDEN: Mr. Mayer, as -- I

think, you know, it's -- this is always an issue at these proceedings because of the timing. The -- as we did discuss previously, whatever that number is, we aren't going to be at our financial target. So it's a question of how quickly we get there.

And it may be more difficult to have a rate increase in a year when we're having a good year, but nevertheless next year could be exactly the opposite. And as long as we're in that situation where we don't have an adequate level of retained earnings, then it becomes somewhat academic.

But, sorry, in response to your -- your specific point, I -- I will take that back and determine and -- and, as Mr. Peters suggested, perhaps have some discussion with legal counsel after -- after this.

MR. BOB MAYER: Thank you.

--- UNDERTAKING NO. 3: Manitoba Hydro to when the Corporation will be able to share any future revised estimates with the Board, either on a public or on a confidential basis

CONTINUED BY MR. BOB PETERS:

MR. IAN PAGE: Mr. Peters, if it helps at all, if -- if one were to look at, say -- say we were to make 300 million net -- net income this year. The effect on the debt/equity ratio, if you look at, say, $36 million and the -- and this -- a little bit of interest that compounds over that, it wouldn't make a difference on -- on the, if we look at, say, the debt/equity ratio in 2011/'12. It's seventy-eight (78) in this forecast.

If we add the 36 million plus compound some interest, it'll still be seventy-eight (78). It's not enough to change the debt/equity ratio.

It -- in, I think, this -- in this current year it might be enough just to push the rounding from seventy-eight (78) to seventy-seven (77). But in subsequent years it makes -- essentially it's no difference at all throughout the forecast.

MR. BOB PETERS: All right. Thank you for that.

Mr. Page, would -- would you be planning to prepare an IFF-06- -- I'm sorry, 07-2?

MR. IAN PAGE: We generally only do an IFF if -- a revision to an IFF if something very significant happens. If a drought were to occur in this year or some major catastrophe were to happen or something that -- for -- for a slightly above average water flows we wouldn't normally do a revision.

MR. BOB PETERS: I take from your answer, Mr. Page, that you're not planning to do another IFF with '07 numbers?

MR. IAN PAGE: That's correct.

MR. BOB PETERS: And in any event it would now end up being an '08-1, or something like that?

MR. IAN PAGE: That would be the next one we would be planning for the Fall of '08.

MR. BOB PETERS: All right. And the -- and the -- the words, if I've got them right from Mr. Warden yesterday, was that based on where he's forecasting right now -- and I appreciate he has a -- a different view of -- of the scenery than perhaps in other offices -- but the $300 million represents the second largest net income total on record for the Corporation, if I heard him correctly.

MR. IAN PAGE: Yes, that would be correct.

MR. BOB PETERS: Is that sufficient of an -- of an event to cause you to want to prepare a further IFF?

MR. IAN PAGE: If we'd been projecting something hundreds of millions of dollars different than that, possibly, but in terms of where -- relative to the two sixty-four (264) it's not that -- not that significant an event that we would -- cause us to change our forecast outlook.

MR. BOB PETERS: Let me ask it this way, Mr. Warden, and I'll start with you: If the Public Utilities Board concluded that your rate request increase should be put off for a year that likewise wouldn't affect the attainment of the debt/equity target by 2011/2012, would it?

MR. IAN PAGE: Actually it would, because as -- as Mr. Warden mentioned that so -- so the rate increase that we've got in there, of say $30 million, that's $30 million each and every subsequent year. So there'd be a $30 million addition in 2008, 2009 and 2010.

So there is a compounding there on -- on there which you don't get on a one (1) time drought, or a waterflow --

MR. BOB PETERS: But is that sufficient, Mr. Page, to cause the -- the debt/equity target to be achieved by 2011/'12?

MR. IAN PAGE: Sorry, I didn't quite catch your question?

(BRIEF PAUSE)

MR. BOB PETERS: Anything further on that, Mr. Page? You --

MR. IAN PAGE: I didn't quite catch your question, sorry.

MR. BOB PETERS: All right. Let me -- let me ask it again. In -- in -- let me pose the hypothetical that this Board concludes that the pace at which Manitoba Hydro proceeds to its financial target should be adjusted such that recognizing the rate increase asked for, the 2.9 percent, should be postponed only one (1) year, not done away with totally but postponed only one (1) year.

And I suggested then, Mr. Page, that if that eventuality or hypothetical ev -- happened that would not impact on the Corporation getting to the financial target of 75/25 by 2011/'12?

MR. VINCE WARDEN: Maybe I'll just give a preliminary answer on that. Mr. Page can refine it, if he so chooses.

I did indicate earlier, Mr. Peters, that the Board of Manitoba Hydro did not revise the target day of '11/'12 because there was still the possibility, with excellent waterflow conditions continuing, that that date -- that target date could be achieved.

Now if we strip $30 million out of that

then the likelihood of achieving the target by '11/'12 is -- is diminished.

MR. IAN PAGE: Mr. Peters, if we eliminated the two point nine (2.9) for this year, it has an affect on subsequent years, if you see the -- like, if you look at -- on page 38, the additional revenue: thirty-one (31), sixty-five (65), one hundred (100), one thirty-six (136); you would take 31 million out of that -- each of those columns if -- unless -- unless the plan was -- if you're looking at a simple deferral then that would imply a 5.8 percent next year, and I don't think that's what you're suggesting.

MR. BOB PETERS: No, my suggestion was dealing with your -- your attainment of the target, but only putting it off one (1) year --

MR. IAN PAGE: If you put it off --

MR. BOB PETERS: Yeah.

MR. IAN PAGE: -- one (1) year by -- by excluding it from this year but doubling it up next year in order to bring back all the subsequent years along the line, and then it would roughly equate to what's -- what's happening in terms of this year's variation in the water flows.

If you're looking at eliminating it this year and not recouping it in sub -- subsequent years, not having a 5.8 next year, which I -- I don't think you're suggesting, then it would have a -- then it would have a detrimental effect to the achievement of the debt/equity target.

MR. BOB PETERS: That would be the $30 million that Mr. Warden spoke of.

MR. IAN PAGE: Yeah. It would be a $30 million loss to each and every year. Whereas what we're talking now is approximately $36 million one (1) time.

MR. BOB PETERS: The decision on whether or not Manitoba Hydro comes in for a 2.9 percent rate increase for next year is not going to be made by the Hydro Board until the Fall of '08.

Would that be correct?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: And likewise, just because 2.9 percent may be recorded as additional revenue percentage increase on the operating statement of the IFF, that by no means is a guarantee that that's going to happen.

MR. VINCE WARDEN: Yes, I agree with that.

MR. BOB PETERS: And in fact, Mr. -- Mr. Warden, history tells us that the Corporation hasn't come in for the rate increases that it can -- that it has listed in its IFF each and every year.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Let's get back to again the 2.9 percent that's before the Board presently. And, Mr. Page, you've told the Board what information the Manitoba Hydro Board had available and that was the IFF 06-4.

And then it would have seen the update of IFF-07-1, correct?

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

MR. BOB PETERS: And that would have been at a subsequent board meeting, I presume?

MR. IAN PAGE: Yes, that would have been -- was it November -- I think November of this year -- of this last year.

MR. BOB PETERS: And even though they saw that, they still kept -- there was a $20 million improvement in the net income for 2008, they didn't -- that didn't change the instructions through the management in terms of seeking a 2.9 percent increase.

MR. IAN PAGE: No, it did not, because there was -- again they -- was concerned with -- with not the current year but the achievement of the debt/equity ratio in subsequent years and the pace that we were still moving towards that target so.

MR. BOB PETERS: Mr. Warden, can I assume that your Board of Directors has also been made aware that right now $300 million isn't unexpected as a net income for '08?

MR. VINCE WARDEN: Yes, the Board receives an update on our financial position at each of their regularly scheduled meetings.

MR. BOB PETERS: And even though they've received that update, that hasn't changed their instructions to management in terms of seeking this 2.9 percent increase?

MR. VINCE WARDEN: It has not, no.

MR. BOB PETERS: And am I correct that in terms of the factors that management would consider before recommending rate increase, Mr. Warden, not only fiscal responsibility which we've talked about, but competitiveness is a factor?

MR. VINCE WARDEN: To a lesser degree it is. We certainly keep a close eye on what's happening in other jurisdictions. Up until very recently we -- we've been able to say that we -- we're the lowest cost jurisdiction -- or the lowest rates I should say -- the lowest rates in North America.

The strengthening of the Canadian dollar has -- has moved that slightly, in terms of our comparisons to other US utilities. We're still well below the rates of other Canadian utilities. And as we speak there -- other jurisdictions are seeking rate increases considerably higher than we are.

MR. BOB PETERS: Those other jurisdictions that are now perhaps comparable, in terms of lowest rates, are predominantly coal based generating utilities?

MR. VINCE WARDEN: You're talking other utilities in the US?

MR. BOB PETERS: Yes, sir.

MR. VINCE WARDEN: No, I believe the -- the ones that we are closest to are hydraulic utilities as well.

MR. BOB PETERS: Is the customer sensitivity also a factor that is considered by management and relayed to the Board, in terms of recommending rate increases?

MR. VINCE WARDEN: Very much so, yes.

MR. BOB PETERS: And as a result of customer sensitivity being a factor, is there any sampling or surveying done by the Corporation to find out what their customers would expect or find acceptable for a rate increase if any?

MR. VINCE WARDEN: Well, our -- our

people in customer service and marketing are in contact with our customers on a regular basis. There's a variety of means of communicating with customers: regular publications, regular customer contact.

So the -- certainly, the larger customers would be aware of what our intentions are with respect to rate changes, yes.

MR. BOB PETERS: You don't have any customers who are asking for rate increases, do you?

MR. VINCE WARDEN: Not -- not that I'm aware of, no.

MR. BOB PETERS: Nor would you --

MR. BOB MAYER: Mr. Miller is.

MR. BOB PETERS: The Dr. Miller household will have a little circle around their account.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: In terms of benefits to ratepayers, Mr. Warden and other panel members, can you tell the Board what is the benefit tangibly to your ratepayers if Manitoba Hydro gets to a 75/25 capital structure?

MR. VINCE WARDEN: Well, it's primarily the avoidance of rate shock in the future. We don't like to use that term. We've never had to -- I don't think we've ever had rate shock in Manitoba.

But given how vulnerable we are to water conditions and other events that could affect the operation of the Utility, it's prudent for us to have rate changes that are gradual over time.

MR. BOB PETERS: Is there going to be a tangible drop in the financing costs incurred by the Corporation that'll translate to savings to residential customers if you achieve your 75/25 debt/equity target?

MR. VINCE WARDEN: Yeah.

MR. IAN PAGE: Yes, there would be. Like any -- any -- any debt that's not incurred is finance expense that won't be incurred.

MR. VINCE WARDEN: I think I referred to that a little bit in my opening comments, Mr. Peters, that the -- the less we have to borrow, of course, the lower the financing costs and the less we'll have to pass those financing costs on to -- to customers. So yes, there is definitely a benefit to customers over the -- over the short and long term.

MR. BOB PETERS: How do you --

MR. BOB MAYER: I have a long memory. I still remember the "debt is good" comment, Mr. Warden.

MR. VINCE WARDEN: I still stand by that, Mr. Mayer.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Well, what you're telling the Board is that while the Corporation's actual amount of debt may not decrease, it won't increase as much as it otherwise would have to increase.

MR. VINCE WARDEN: That's true. And the -- you know, that debt is how we finance our capital expansion programs. Debt is where -- got us to where we are today. If we hadn't incurred debt, we wouldn't have the Utility we have in Manitoba today. We wouldn't have the low rates we have today.

So debt is definitely good. It's just a question of how much should we maintain at any given time.

MR. BOB PETERS: The cost of Manitoba Hydro's debt is not going to change when Manitoba Hydro has a capital structure of 75/25.

MR. VINCE WARDEN: No. We are able, through the government guarantee now, to obtain very attractive borrowing rates, and the 75/25 will not have an impact.

If we were to move far away from that, though, the impact would be in the other direction. The credit rating agencies do monitor our debt/equity ratio very closely and they are satisfied at this point that we are making good progress towards the attainment of our financial targets.

MR. BOB PETERS: And I suppose -- I was thinking it goes without saying, but let's say it then, Mr. Warden: If you achieve 75/25, you wouldn't be coming back to the Public Utilities Board for rate increases just to meet a financial target.

MR. VINCE WARDEN: The 75/25 target, once achieved, would have to be maintained, so there would be rate increases to accomplish that.

MR. BOB PETERS: Unless that was accomplished through improved water flows or positive water flows?

MR. VINCE WARDEN: That's correct, yes. And I shouldn't -- we shouldn't lose sight of -- you know, there's the other targets -- the other targets we have. Debt equity is the one (1) we've been talking about most, but there's also the interest coverage and capital coverage targets that are important as well.

THE CHAIRPERSON: Mr. Warden, the rating agencies then are basically satisfied with the 75/25 and the other financial indicators that the Corporation's been adhering to?

MR. VINCE WARDEN: Rating agen --

agencies have never really come out and said they're satisfied that that's the right number. They are satisfied that we're making sufficient progress towards the achievement of our financial targets. But they never really endorse those targets.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I just want to clarify a point, Mr. Warden, where I want to make sure you and Mr. Page are on the same page. I didn't mean it that way.

Just, sorry, Mr. Page, did you indicate that once Conawapa is in service, the total debt will start to decline?

MR. IAN PAGE: Once the pro -- once a project starts making net income, then that net income is -- well you're -- the -- you're going to see the capital cost is going to be depreciated, the retained earnings are going to increase.

You're not going to be incurring new debt, but you will be incurring -- as you accumulate retained earnings, then that retained earnings -- or that net income, sorry, is available to reduce finance expense. And -- and you can use it to reduce short-term debt. And as that accumulates enough, then you can use it to reduce long-term debt.

But it would be -- it would be a very slow and long process, because the plant has a very long life.

MR. BOB PETERS: But I'm still not clear that the -- the total amount of debt will not necessarily decrease.

It just won't increase at the rate it had prior to the in-service date?

MR. IAN PAGE: Assuming that we don't have to build another generating station to meet higher load as well. It -- it would decrease, but very slowly.

MR. BOB PETERS: Could you indicate how many years it would take?

MR. IAN PAGE: Well it would take about sixty-seven (67) years to eliminate it entirely.

MR. BOB PETERS: Because that's the life of the plant?

MR. IAN PAGE: Yes.

MR. BOB PETERS: All right.

MR. BOB PETERS: Do you have forecasts that extend beyond 2018, Mr. Page?

MR. IAN PAGE: No we -- well we've -- we've got some that we've worked on our own shop but none that we've shared with our own executive.

MR. BOB PETERS: Mr. Warden, you -- you mentioned to the Board that there were other financial targets, and maybe we should just turn to them.

But before we do, you will agree that the debt/equity target is what's really driving -- driving the ship here?

MR. VINCE WARDEN: Over the long term, yes. The other targets I referred to are short-term targets.

MR. BOB PETERS: All right. If we turn in Tab 8 of the book of documents to the graphs, and maybe we'd go over to -- I guess actually we can look at the second page in.

We can deal with interest coverage ratio, and then we can also look at the capital coverage ratio.

THE CHAIRPERSON: Mr. Peters, before you do that, I just sound like a dog with a bone. But I just want to get it absolutely clear.

On Tab 10, page 38, Mr. Page and Mr. Derksen, very specific question that will satisfy my understanding, anyway.

When you just pick 2008 -- it does not matter what year -- based on what Mr. Page was saying, my assumption would be under Finance Expenses would be the interest Manitoba Hydro was paying on the Centra-related debt, less any interest received from Centra itself.

Is that true?

MR. WILLY DERKSEN: Yes, that's correct.

THE CHAIRPERSON: Then if I looked up at the top line there, under Other Income, where it says "$21 million," that would presumably include the $12 million payment that comes from Centra every year for the expense offset. It will also include any minor net income that Centra produced.

Is that correct?

MR. WILY DERKSEN: The -- the $12 million is netted against the finance expense. The $21 million of Other Income are electric operation income items and -- and other subsidiary income items.

THE CHAIRPERSON: Which would include income that Centra would realize if it was its two (2) or $3 million or whatever it was?

MR. WILLY DERKSEN: No, Centra's income is not included on this particular statement. On the consolidated version of this statement, it would be there. But it would not be on this electric operation statement.

THE CHAIRPERSON: Well the only thing on this schedule is money that you -- basically transfers that Manitoba Hydro has received. Like the $12 million or the credits coming on the interest...

MR. WILLY DERKSEN: That -- that's right.

The cost to acquire Centra is embedded in the corporate allocation. And the total cost, including finance expense and the amortization of the fair market value adjustments, is in the order of $19 million. And twelve (12) of that is allocated to Centra Gas and the other seven (7) stays within Manitoba Hydro.

And, of course, Manitoba Hydro has achieved some synergies and cost reductions as a result of the acquisition that offset that $7 million that stays there.

THE CHAIRPERSON: I understand that. So, but the $12 million is actually the offset payment. It is actually paid over to Manitoba Hydro. There is no dividends out of Centra. There is just the twelve (12)?

MR. WILLY DERKSEN: There is just the twelve (12), that's correct.

THE CHAIRPERSON: So then when I look at the electric operations on this page then, for example, the operating costs and depreciation of Centra are not reflected here?

MR. WILLY DERKSEN: That's correct.

THE CHAIRPERSON: Okay, thank you. I have it.

Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Page, Mr. Derksen, and Mr. Warden, would the Corporation be able to re-file the information that we've just been looking at in the IFF and the -- with the ratios -- that would be including the debt/equity ratio, the interest coverage ratio, and the capital coverage ratio for the electric operations -- if everything related to Centra Gas was taken out?

MR. IAN PAGE: As I said before, I think it would be very difficult to do that, because there's -- there's no other place to put it.

MR. BOB PETERS: Well, have you not already put it -- I'm -- I'm not talking consolidated. I'm just talking electric operations.

And on the consoli -- on the gas side, you're telling the Board that the debt/equity ratio is approximately 86/14 on the gas side, according to Manitoba Hydro's calculations.

So you've already put the debt on that side of the ledger.

MR. IAN PAGE: The --

THE CHAIRPERSON: Mr. Peters, just to help out. We understand there is no other place to put it. But the question still remains.

MR. IAN PAGE: The -- the debt that's on

the Centra side is not -- is not pertaining to the acquisition. That's the -- that's the debt that it had at the -- prior to its being acquired. And the -- and the -- and those debt issues have subsequently been refinanced. So that's -- that's the debt that's there, plus any other cash requirements it had for capital expenditures and so forth, and operating losses.

The -- the debt that's on the electric side is -- is for the acquisition. There was a debt issue of $250 million that we issued, then a long-term debt issue, and then there were some other short-term expenses for -- for the acquisition costs. So that's -- that's what's left on the electric side.

And then -- and then we're also back to the issue of synergies and -- and all those -- and corporate allocations. Some of those are embedded in here as well.

So it's -- because the way we operate the two (2) is sort of now, versus the way -- the way they were. Yeah, they were -- there used to be two (2) separate utilities, but there's -- they're -- they are operated differently now.

So it would be very difficult to go back and say, what would the electric look like if we'd never acquired Centra, if that's what you're trying to get to.

If you just want to extract the acquisition debt, we could probably do a -- do a run at that, but I'm not sure that would give you the -- the full picture of what you're trying to achieve. Or maybe I'm not sure what you're trying to achieve.

THE CHAIRPERSON: Why don't we have our break, Mr. Peters?

MR. BOB PETERS: All right. Good idea. Thank you.

--- Upon recessing at 10:31 a.m.
--- Upon resuming at 10:58 a.m.

THE CHAIRPERSON: Okay, welcome back, everyone.

Mr. Peters...?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes, thank you, Mr. Chairman. Before the morning recess, there were questions being asked of the Panel about providing, perhaps, an alternate IFF. And there was some discussion on the record about it.

I would like to ask for an undertaking of this witness Panel to provide the Board with an integrated financial forecast recalculation that updates the debt/equity ratio, the interest coverage ratio, as well as the capital coverage ratio by eliminating the debt to acquire Centra.

And I would also ask that if there are any assumptions made in doing that IFF that the Corporation certainly feel at liberty to include those assumptions in their answer in written form.

--- UNDERTAKING NO. 4: Manitoba Hydro to provide the Board a written integrated financial forecast recalculation that updates the debt/equity ratio, the interest coverage ratio, as well as the capital coverage ratio, by eliminating the debt to acquire Centra

MR. IAN PAGE: Yes, we -- we can do that with the provisos I had mentioned earlier that the -- the debt still does exist on a consolidated basis.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes. And let me -- let

me try to put comfort to you on that, Mr. Page.

What you're telling the Board is that if you strip out the debt that was incurred to have Manitoba Hydro acquire the shares of Centra, for rate-setting purposes it has to be recorded somewhere, correct?

MR. IAN PAGE: That's correct. We can't just wish it away.

MR. BOB PETERS: Right. And -- and right now, the way the Board has -- in the Centra Gas cases your understanding is the Board doesn't want that showing up on the Centra Gas financial statements, but rather on the electric statements in accordance with their order?

MR. IAN PAGE: That's my -- my understanding.

MR. BOB PETERS: Yes. And -- and so for rate-setting purposes what you want the Board to be aware of -- and your point, I think -- is that it has to be recorded somewhere to be included in the calculations. Otherwise it's not being paid for?

MR. IAN PAGE: That -- that's right. The -- like, there would be interest expense on that, say, of approximately 15 million a year. And someone has to pay that, whether it be the gas or the electric customer.

MR. BOB PETERS: All right. And -- and your point, I think, is now made and -- and understood.

You've also indicated before that some of the other transactions, as between the parent and the gas subsidiary, are embedded in such a way that they're not capable of being extracted discretely?

MR. IAN PAGE: It could be done, but it would be quite a major undertaking --

MR. BOB PETERS: All right.

MR. IAN PAGE: -- and not something that we could get, probably, an answer back during the course of this Hearing.

MR. BOB PETERS: All right. Well then I'm not going to go there and ask for it.

But -- but my explanation to you was that it is so inextricably wound up in the numbers that you have on file on the electric operations that it wouldn't be an easy task to just extract those numbers related to the gas utility?

MR. IAN PAGE: That's correct.

MR. BOB PETERS: Okay. Thank you. And with that, I'd appreciate your best efforts, then, on that undertaking.

I'd like to turn, Mr. Chairman, with the Panel, to the other financial targets that Mr. Warden mentioned just before the break.

And one of them, Mr. Warden, looking at

Tab 8 of the book of documents and looking at page 2 of 5, is the interest coverage ratio, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And on page 2 of 5 there's a -- a numerical depiction of the interest coverage ratio.

And then if you turn a bit further to page 4 of 5, there's a graph that also depicts the interest coverage ratio, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And ostensibly, Manitoba Hydro uses the net income to pay interest. Would that be correct?

(BRIEF PAUSE)

MR. VINCE WARDEN: Well, Mr. Peters, interest is one of the expenses of the Corporation. So we use a -- we use revenue to pay -- to pay -- the revenues we derive from all sources, we use to pay our expenses, interest expense being one of those.

MR. BOB PETERS: All right. You worded it better than I did, again.

And what you're telling the Board is that if your interest coverage ratio drops below one (1), you can't make interest payments on existing debt?

MR. VINCE WARDEN: Yeah. The interest coverage ratio just provides a level of comfort to bondholders that we are generating sufficient income to -- to pay the -- the interest on -- on that debt.

MR. BOB PETERS: And below a ratio of one point zero (1.0) you wouldn't be able to make all of the interest payments on the debt?

MR. VINCE WARDEN: That's right. If -- if the interest coverage ratio was below one (1) on a sustained, basis we would not be able to make those payments, that's correct.

MR. BOB PETERS: The target that the Corporation has set for interest coverage ratio is one point two (1.2), correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that's because there's an extra twenty (20) basis points there for a cushion.

MR. VINCE WARDEN: So to speak, yes.

MR. BOB PETERS: All right. And if we see on the graph, on page 4 of 5 of Tab 8, we see that the Corporation in past has been above the one point two (1.2) target, certainly above one point zero (1.0) except for the 2004 drought year, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And can you explain to the Board what Manitoba Hydro had to do in 2004 to make payments on its debt, when it wasn't able to do it out of the revenues of the Corporation?

MR. VINCE WARDEN: Well, like any other expenditure we have, we -- we look at the revenues we would generate internally, look at the total basket of expenses we would have, both operating and capital in any given year, and borrow the difference.

So in effect, what we would have done in that year would be to borrow the difference.

MR. BOB PETERS: Looking forward from 2008 onward, Mr. Warden, the Corporation hovers around the one point two (1.2) target, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And the fact that the Corporation falls below it in a number of years, or just below it, doesn't cause the Corporation concern, in -- in the extent -- to the extent that there is already a bit of a cushion built into that target.

MR. VINCE WARDEN: We do think that is manageable, yes.

MR. BOB PETERS: And you don't think there's any adverse repercussions from the -- from the bond rating agencies as a result of that.

MR. VINCE WARDEN: No.

MR. BOB PETERS: Another -- and I think maybe the final financial target that the Corporation has is the capital coverage ratio.

Is that correct?

MR. VINCE WARDEN: That is correct, yes.

MR. BOB PETERS: And the capital coverage ratio is to be maintained at greater than one point zero (1.0) to allow the Corporation to use funds from operations to cover the capital expenditures that are not major capital, new generation, or transmission costs.

MR. VINCE WARDEN: Yes. For purposes of this calculation, we've also excluded Manitoba Hydro's new head office.

MR. BOB PETERS: That's a new addition to the definition of capital coverage ratio?

MR. VINCE WARDEN: Well, it's a short-term modification to the definition that'll, of course, disappear soon.

MR. BOB PETERS: And it's added because to achieve the capital coverage ratio, that would be violated if you didn't include the expenses for the new headquarters.

MR. VINCE WARDEN: Well, the -- the

purpose of this ratio -- or this target is to measure the extent to which we're -- we are financing our -- our base capital, what we call our base capital, from internally generated funds. And the base capital does not include abnormal type expenditures like new generation, new trans -- major new transmission, or, in this case, the new head office.

MR. BOB PETERS: You'd expect to borrow to cover the costs of that capital that's above the base capital?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Can you indicate what base capital does include, by way of example?

MR. VINCE WARDEN: Well, base capital -- and we have provided in our filing a schedule of what all is included in our -- in our capital.

But base capital basically would essentially be the ongoing requirements to maintain the existing system -- I don't like to use the word "maintain" because maintenance expenditures are -- are charged to operations -- but essentially to keep the -- to serve the existing and -- existing customer base with the capital expenditures that are necessary to renew a plant that is reaching the end of its useful life, and to provide the normal -- what would be called normal capital expenditures to serve a static customer base.

MR. BOB MAYER: Mr. Warden -- Mr. Warden, where does the Pointe du Bois proposed upgrade go?

MR. VINCE WARDEN: That would go into the new generation -- major new generation.

MR. BOB PETERS: Mr. Warden, the consequences of not achieving the one point zero (1.0) capital coverage ratio would mean Manitoba Hydro would again have to borrow money to pay for the usual capital expenditures.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And is that what's happening on the graph on page 5 of 5 of Tab 8 of the book of documents, the last page, where the capital coverage ratio falls below the target line in years 2010, 2011 and 2012?

MR. VINCE WARDEN: Yes. And this is actually a -- of some significant concern, really. This is not a good situation that we have, and we are actively taking steps or attempting to take steps to address this issue. There -- there is limited flexibility, but it is an issue that we have a lot of concern about, is that we don't have the funds in those years in accordance with the capital expenditure forecast to -- to fund our capital internally.

Now, to the extent that water flows are greater than average in those years, then there will -- will be additional funding, but that -- we can't rely on that as being the solution.

MR. BOB PETERS: In my words, Mr. Warden, in those years, you're living beyond your means because you can't pay for the usual capital debt that you're going to incur. That's what you're depicting.

MR. VINCE WARDEN: That is -- is one (1) way of looking at it. Unfortunately, when it comes to looking at the list of capital expenditures that are -- that are projected for those years, it's not as easy as just crossing a few items off the list because they're all required for -- for the maintenance of -- of the reliability that we have today at Manitoba Hydro -- system reliability.

MR. BOB PETERS: All right. So you indicated to the Board that forward looking, you are trying to find methods to make sure the capital coverage ratio stays above one (1), but at this point all I heard you say was you're really just hoping for above average water flows.

MR. VINCE WARDEN: Well, no, I -- you know, I -- I indicated that would be a nice circumstance if we got above-average water flows, but we don't manage by hope. We -- we will have to address that issue before we -- we reach the year 2010.

The -- you know, if you look around those three (3) years, there's -- there's above -- there -- there are revenues above the requirements needed to fund internally, so it's not -- it's not something that is a disaster scenario, by any means. Like, the funds will be there, it's just our -- we will not be meeting our target, and that's just not a good situation.

MR. BOB PETERS: Does that -- does that answer also include that some of the capital projects that are on the books will have to be deferred or cancelled?

MR. VINCE WARDEN: Possibly. But again, it's difficult to do that when we have in our capital forecast only those items that we think are essential to provide reliable and good customer service.

(BRIEF PAUSE)

MR. BOB PETERS: Was it ever contemplated by Manitoba Hydro that the construction of the new headquarters would be done through -- through the funds that were received from operations?

MR. VINCE WARDEN: Not really, no.

MR. BOB PETERS: There's always the expectation you would borrow that?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: In turning, perhaps, through to Tab 10 of the book of documents, and getting to the IFF that Mr. Page has told us is the most current one from the Corporation; Mr. Surminski, can you tell the Board whether export revenues are tracking as forecast through the fourth quarter of 2008?

(BRIEF PAUSE)

MR. VINCE WARDEN: Maybe I'll just respond while Mr. Surminski is gathering some information. The ex -- one of the reasons that we are favourable to forecast is because export revenues are somewhat higher than we had in the forecast.

MR. BOB PETERS: Am I correct, Mr. Surminski, that the fourth quarter of last year was a relatively poor quarter from the hydraulic generation point of view?

MR. HAROLD SURMINSKI: I believe that's correct. We had some downturn in flows in the fall of '06.

MR. BOB PETERS: Can you indicate to the

Board what the hydraulic generation in gigawatt hours might be expected to be for the fourth quarter in '08?

MR. HAROLD SURMINSKI: No, I do not have the breakdown by quarter.

MR. BOB PETERS: Can you do some subtraction, and based on what's occurred to date and what the forecast is as to what you're expecting the fourth quarter to be?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: My recollection is that we are still on track for about thirty-four thousand (34,000) gigawatt hours for the year, given that it's in the order of twenty-six (26) -- twenty-six (26) too for the three (3) quarters remaining -- about eight thousand (8,000) gigawatt hours.

MR. BOB PETERS: Would that be approximately seven hundred (700) gigawatt hours more than in the fourth quarter of 2007?

MR. HAROLD SURMINSKI: I do not know what the fourth quarter of '07 was.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Surminski, the difficulty I'm having in doing quick math, and I'll give you a moment in a minute, is that if -- if you're expecting another eight thousand (8,000) gigawatt hours for the fourth quarter, that's essentially what your forecast was.

Would that be correct?

MR. HAROLD SURMINSKI: Yes. I -- I'm using the forecast as -- as the basis.

MR. BOB PETERS: All right. And from what I've heard from Mr. Warden's optimism is that there probably is going to be an extra at least seven hundred (700) gigawatt hours to export in the fourth quarter.

Are you in any position to indicate whether that's going to come to fruition? You can...

MR. HAROLD SURMINSKI: I have -- we're not aware of where the seven hundred (700) gigawatt hours is coming from.

MR. BOB PETERS: I -- I put that in my question. I asked you if that's what I can interpret from Mr. -- Mr. Warden's optimism whether there's going to be an additional at least seven hundred (700) gigawatt hours of generation.

MR. HAROLD SURMINSKI: If you would like us to review this, we could take this away and come back with more specific numbers.

MR. BOB PETERS: Perhaps that will be -- that'll be -- that'll probably the easiest way to do it, Mr. Surminski if you could undertake to do that, we'll await to see what your response is.

MR. HAROLD SURMINSKI: And your question is what is the estimated or forecast generation for the last quarter of this fiscal year?

MR. BOB PETERS: Yes. And I'm looking for an updated forecast in light of the apparently favourable water conditions.

MR. HAROLD SURMINSKI: Yes.

--- UNDERTAKING NO. 5: Manitoba Hydro to supply Board with updated forecast generation for the last quarter of this fiscal year, in light of the apparently favourable water conditions

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Before I leave this page in my notes, I believe Mr. Warden and the Vice-Chair had an exchange on it, but I'll -- I'll ask through Ms. Ramage just an undertaking of the Corporation to advise the Board whether Manitoba Hydro will put its updated net income expectation on the record of this proceedings or in confidence with the Board before the close of the evidence.

And I'll leave that for the Utility to respond to when it considers the matter further, if it hasn't already been duplicated by the previous discussion between the Vice-Chair and Mr. Warden.

--- UNDERTAKING NO. 6: Manitoba Hydro to advise the Board whether Manitoba Hydro will put its updated net income expectation on the record of this proceedings or in confidence with the Board before the close of the evidence

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Surminski, in terms of the energy in reservoir storage, would the Board be correct in assuming that the reservoirs are near the high end and near the full end of the spectrum?

MR. HAROLD SURMINSKI: Yes, that is correct.

MR. BOB PETERS: And probably right at the full end of the spectrum?

MR. HAROLD SURMINSKI: Yes, within 10 percent, I think, yes.

MR. BOB PETERS: I'm sorry, I missed that last --

MR. HAROLD SURMINSKI: Within 10 percent. I think the ninetieth percentile or so.

MR. BOB MAYER: Are we spilling water?

MR. HAROLD SURMINSKI: Not on the Lower Nelson. We are at -- on the Winnipeg River, Pine Falls specifically.

MR. BOB MAYER: I guess what I really want to know is, are we spilling water at Notigi? Are -- are we full at South Indian Lake?

MR. HAROLD SURMINSKI: We're not full, but we're going at the allowable licenced limit on the Churchill River Diversion, and we have been at limits for at least two (2) years now. We have spilled two (2) years ago at Missi. If we spill anywhere it's out Missi.

MR. BOB MAYER: I understand that.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Surminski, perhaps another undertaking. In the materials at MIPUG question of Manitoba Hydro in the First Round Number 18, you provided a chart with the Nelson-Churchill drainage basin's energy and reservoir storage. It was a colour depiction showing your range of experience, together with historic average, and you plotted last year and this year's water levels.

Do you recall that?

MR. HAROLD SURMINSKI: It was submitted. It wasn't under my supervision.

MR. BOB PETERS: All right. Ms. Ramage is assisting me by -- by passing the page down. I'm wondering if you could update that for the Board by way of an undertaking and bring it more current, to March of '08, in terms of where that red line will sit in the energy and storage range of experience?

MR. HAROLD SURMINSKI: Yes, we could undertake to do that.

MR. BOB PETERS: Thank you. I appreciate that.

--- UNDERTAKING NO. 7: Manitoba Hydro to update for Board the chart with the Nelson-Churchill drainage basin's energy and reservoir storage, showing MH's range of experience, together with

historic average, plotted to
March of '08; in terms of
where that red line will sit
in the energy and storage
range of experience

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I'd like to spend a few minutes reviewing the IFF for the benefit of the Board, and have an understanding of it. So it's on page 38, the operating statement, that I'll focus on, and this is found at Tab 10 of the PUB book of documents filed as Exhibit 12 yesterday. It's page 38 of the IFF. That page is included in Tab 10.

In this IFF, the revenues from consumers in the top line, the general consumer revenues at approved rates, appears to grow by about $97 million in the next three (3) years.

Would that be correct, just by some simple math?

(BRIEF PAUSE)

MR. IAN PAGE: Yes, that's correct. I just had to check which years you were looking at.

MR. BOB PETERS: All right. Just looking from 2008 to 2011, Mr. Page.

Is that due primarily to industrial load growth? Is that your expectation?

(BRIEF PAUSE)

MR. IAN PAGE: I understand it's mainly industrial.

MR. BOB PETERS: And then in the forecast, going out the -- the next ten (10) years, there may be about $89 million of revenue growth.

That'd be considered relatively flat from the Corporation's point of view?

(BRIEF PAUSE)

MR. IAN PAGE: That -- that period is flatter than what we see in the -- in the earlier part of the forecast. I -- I wouldn't want to characterize this one as -- as flat, since if you look at this -- revenue from this forecast compared to the previous forecast, it's probably one (1) of the largest changes in the forecast, is load growth.

So -- so I wouldn't want to characterize a jump in load forecast like that as flat. But that time period is relatively flat.

MR. BOB PETERS: All right. Fair enough.

Can you explain to the Corporation -- can you explain the Corporation's view as to why it is relatively flat on the last ten (10) years of the forecast as compared to the first three (3) or four (4) years?

(BRIEF PAUSE)

MR. LLOYD KUCZEK: They're looking to me to come up with an answer for that, but it -- it really comes down to looking at the load forecast and -- and seeing what the changes are there. So I'll just quickly do that for you.

(BRIEF PAUSE)

MR. LLOYD KUCZEK: So, if you -- the -- the -- as far as the load forecast impacts the revenues there, we -- we are forecasting greater load growth in the -- the near term; '07/'08, we're forecasting 1.9 percent increase in load. The following year, three point four (3.4), and then three point eight (3.8), then two point two (2.2), and then it goes down from thereafter. So there is an increase during the interim, and then it flattens out later on.

Over the next ten (10) years, we're forecasting 2 percent. And over twenty (20) years, we're forecasting an average of one point five (1.5). So it does flatten out over time.

MR. BOB PETERS: And that first bump, Mr. Kuczek, is related to expected increase in industrial load growth?

MR. LLOYD KUCZEK: Primarily, yes.

MR. BOB PETERS: And then over the last part of the schedule, it's back to residential growth assumptions? MR. LLOYD KUCZEK: Combination.

MR. BOB PETERS: But not nearly as much industrial load growth as seen at the front end of the forecast?

MR. LLOYD KUCZEK: That's correct. I -- I believe the -- throughout the forecast period, the -- the major load growth is due to the -- the general service category as opposed to residential. In fact, residential has, from previous years, has gone down somewhat, but we are seeing some load growth there.

MR. BOB PETERS: And the general service category increase is attributed to expected growth in the electrochemical and also the pipeline transmission sector?

MR. LLOYD KUCZEK: Combination of many things, but the three (3) areas that we're seeing more significant growth is primary metals and the chemical sector and also the petroleum sector, I believe.

MR. BOB PETERS: And when you say "primary metals," you mean the mining industry in Northern Manitoba?

MR. LLOYD KUCZEK: Correct.

MR. BOB PETERS: And without getting into specifics, it would probably be at these latter three (3) industries where the Corporation is proposing its energy-intensive industry rate to attempt to keep itself whole?

MR. LLOYD KUCZEK: I believe that's correct.

(BRIEF PAUSE)

MR. VINCE WARDEN: Well, not so much in the mining sector, Mr. Peters, but, certainly, the pipelines and -- and chemical -- chemical sec -- sections.

MR. BOB PETERS: Okay. Thank you for that. In looking at the extraprovincial revenue line item on the IFF-07-1 at page 38 of Tab 10 of the book of documents, the extraprovincial revenue that's depicted here includes Wuskwatim coming online in approximately 2012.

Is that correct?

MR. IAN PAGE: In this forecast we've assumed 2011 calendar year, so 2011/'12 fiscal year.

MR. BOB PETERS: But this is the fiscal year depicted on your IFF?

MR. IAN PAGE: Yes. I'm --

MR. BOB PETERS: I'm sorry, did I miss -- you're saying, is it -- is it 2012 fiscal year?

MR. IAN PAGE: In the 2011/'12 fiscal year is when Wuskwatim is assumed to be in service.

MR. BOB PETERS: And just help that Board, that in -- in the 2012 -- on March 31st, the year ending March 31st, 2012, in that fiscal year, Wuskwatim will come on in staged increments?

MR. IAN PAGE: Yeah. It comes in stages, which is why you don't see a huge jump in -- in export revenues that year. It -- it's a gradual increase. The -- the following year is the first full year that Wuskwatim is in.

MR. BOB MAYER: Do you have a contractor yet? We've been reading all over the papers in Northern

Manitoba you can't find a contractor to build Wuskwatim. I mean, where are we going with this?

Is -- are we talking realistically 2011/'12, or -- or is that out of the picture now?

MR. VINCE WARDEN: The most recent best estimate we have for the first unit in service is May 2012. We are negotiating, still negotiating, or at least we're still carrying on the work that needs to be done with the existing contractor.

There will be a -- a further phase that will be sent out for -- for tender soon. And we do expect there will be -- a number of contractors have expressed in -- in bidding, so we think the -- it will be more of a competitive market for the next phase.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, Mr. Page, I sometimes have trouble with these off-calendar year ends.

But I thought in Mr. Warden's answer to the Vice-Chair, the first unit in service was going to be May of 2012?

MR. IAN PAGE: The IFF assumed that it was going to be an earlier date than -- than what it's now looking to be.

MR. BOB PETERS: All right. So to the

extent that there's an impact in the IFF of Wuskwatim coming in service, it could be bumped back a year?

MR. IAN PAGE: Yes.

MR. BOB PETERS: All right. And what's bumped back a year are the revenues, but the costs will continue as projected?

MR. IAN PAGE: The -- the capital costs would be over a longer period of time, but they would be -- the bulk of them would -- would occur later than what was incurred in this forecast.

So you'd see -- you'd see a shift in the -- in the timing and the magnitude of the capital spending. There would be some effects on interest as well from that. And then there'd -- and then the revenues would come in service -- revenues would start later, and then the interest and appreciation on the operating statement would also be deferred.

MR. BOB PETERS: All right. And even with that change, Mr. Page, you haven't been asked to update IFF-07-1?

MR. IAN PAGE: No, because as of right now, we don't have a firm date as to what -- what I would be changing it to.

MR. BOB PETERS: Thank you. And that's because Mr. Warden's date of first unit in service is still forecast, and there's no -- there's no assurance that will be met?

MR. IAN PAGE: I -- until -- until we actually have a contractor in place, I think that would be the case.

MR. BOB PETERS: This also, IFF-07-1, assumes, Mr. Page, that there's additional wind component also in 2012 as drafted?

MR. IAN PAGE: I'll just check.

(BRIEF PAUSE)

MR. IAN PAGE: There's three hundred (300) megawatts of additional wind over what's currently in place, and it's -- it's to be entirely in service by 2012/'13, is what's in the forecast. But it doesn't all come in service in that one (1) year.

MR. BOB PETERS: It does not all come into service?

MR. IAN PAGE: No, it -- it's -- I think it's spread out over two (2) or three (3) years.

MR. HAROLD SURMINSKI: Yes, in fact, it's a hundred (100) megawatts in each '10, '11 and '12.

MR. BOB PETERS: And Pointe Du Bois is coming back in service in 2015?

MR. IAN PAGE: The modern plant -- the modernized plant by 2015/'16. The existing plant still is in service, so I wouldn't say "back in service."

MR. BOB PETERS: Fair -- fair comment. But the -- but the modernized plant will be up and running in 2015?

MR. IAN PAGE: That's what's in -- in this forecast, yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Page, on a high level, looking at the expenses, would it be correct for the Board to conclude that probably from 2012 to 2013, there's $134 million of increase in expenses due to Wuskwatim?

MR. IAN PAGE: Can you direct me where you got that number?

(BRIEF PAUSE)

MR. BOB PETERS: I was looking primarily at the financing expenses as well as the capital costs and wondered if you had broken it down as to what the impact of Wuskwatim was in those -- in those years just before in-service.

MR. IAN PAGE: We did provide an answer to an interrogatory which had essentially an operating statement for the Wuskwatim Generating Station. So that would isolate the interest, depreciation, revenue, and operating costs and any taxes and so forth associated with Wuskwatim.

I think that would be a more accurate place to look rather than trying to extract it from this, because there's an awful lot of other things happening besides Wuskwatim.

MR. BOB PETERS: All right. Can you explain to the Board on the -- on the financing expense, when we go back to IFF-06-4 -- which you can turn to if you wish; it's the last document in Tab 9 of the book of documents.

For the '07 year there was an expectation that the finance expense was going to be $473 million, Mr. Page...?

MR. IAN PAGE: Yes, I have that.

MR. BOB PETERS: And then -- sorry, for '08 year it was -- it was forecast to be $469 million.

And when we look at it again in IFF-07-1, it's down to $404 million, a fairly significant reduction?

MR. IAN PAGE: Yes, I see that.
MR. BOB PETERS: Is -- is that attributed only to the exchange rate difference?
MR. IAN PAGE: No. There's exchange rate, interest rate, and also the new financial reporting standards.
MR. BOB PETERS: And the new financial reporting standards had a once-only effect, in terms of how you report the foreign exchange on some of your liabilities?
MR. IAN PAGE: It's not a once-only. It's each year representing the -- the current state.
MR. BOB PETERS: So while it's not necessarily reoccurring, it may or it may not, depending on what the foreign exchange level is in the subsequent years?
MR. IAN PAGE: That's true, depending on what the foreign exchange rate is relative to the -- to the current carrying cost of our debt portfolio.
MR. BOB PETERS: In the Fuel and other -- and Power Purchases line there appears to be a significant increase over the planning horizon, in terms of what's going to be used. Perhaps it doubles over that period of time.
Does that reflect, and should the Board

interpret that to mean, that the Corporation will be -- will be relying more on imports over that horizon?

MR. IAN PAGE: I'll let Mr. Surminski speak to that portion. But also included in that line would be the -- the purchases from the wind generation and also the purchases of energy from the Wuskwatim generation.

So Wuskwatim will show up under power purchase, and then it'll also show up under the revenue line, because we're purchasing from the partnership and then -- and then reselling it.

(BRIEF PAUSE)

MR. IAN PAGE: I need to make a correction. The Wuskwatim purchases are actually eliminated when we do the -- when we do the consolidation of the Wuskwatim.

The wind -- the wind purchases are in that line, but also in that line there is an increased reliance on thermal as you go forward, because the -- as the domestic load is growing and the -- and until the resources -- hydraulic resources change, then there's additional thermals required to firm that up.

MR. BOB PETERS: And when you say

"additional thermals," you're talking gas?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: Our estimate of thermal is a combination of our coal-fired and -- and gas operation.

MR. BOB PETERS: But the increase is attributed mostly to gas as opposed to coal, Mr. Surminski?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: It likely is, although it's not obvious that it would be that.

MR. BOB PETERS: On the capital and other taxes line, it, in essence, doubles over the planning horizon, Mr. Page.

Is that strictly due to the value of the assets that the Utility employs?

MR. IAN PAGE: Capital tax is essentially a function of the -- of the debt of the company, so that's essentially why -- why that's going up.

MR. BOB PETERS: And that can be traced back to Wuskwatim, Pointe du Bois, and Bipole 3?

MR. IAN PAGE: At those, and -- and our base -- our base capital. Essentially, everything that's in the capital forecast will find its way into -- into plant and service, so...

(BRIEF PAUSE)

MR. IAN PAGE: Now, as to the extent that, you know, we -- a portion of that is financed with internally-generated funds. So if -- if the base capital, if that -- that portion of that that's funded by internally generated funds would prevent this number from going up in those years that we saw that there -- on that previous graph, you saw there was a few years of deficit. So that would be driving up the capital tax in those years.

MR. BOB PETERS: And capital tax is being phased out for other business enterprises, except for Crown Corporations?

MR. IAN PAGE: That's -- that's correct.

MR. BOB PETERS: All right. And so as far as Manitoba Hydro knows, there's no change coming for -- for it?

MR. IAN PAGE: Not that I'm aware of. There was -- I think two (2) years ago, there was a change in the budget to the exemption. So there was a slight reduction in that year to the capital tax.

But the last year's budget stated that there was no -- that the phase-out was -- was for everybody but Crowns.

MR. BOB PETERS: Can you explain to the Board, Mr. Page, the Non-controlling Interest line on the IFF?

MR. IAN PAGE: What -- what that is, is the portion of net income from Wuskwatim that's -- that would be attributable to our partners, assuming that -- here, I'll give a shot at this pronunciation -- Nisichawayasihk Cree Nation were to purchase 33 percent of the Wuskwatim Generation Station, then 33 percent of the -- of the net income or net loss would be attributable to them and that -- and then it's -- it's removed from our operating statement.

So you can see that there's -- it's a positive number in the first few years, so that's -- for a number of years. And so that's suggesting there's a -- an operating loss of approximately three (3) times that for Wuskwatim.

And then, by the -- by the last year, there's a -- there's a negative number. So there's a -- that's when the -- the plant begins to produce a net positive income.

MR. BOB PETERS: Okay. I did have some trouble with that, quite frankly.

And you're showing the Board that in 2012 you're expecting a payment from NCN or its holding company, TCP?

MR. IAN PAGE: Not a payment. What -- what there is, is if there was an awful lot -- an operating loss of $21 million in that year, then 33 percent of that would be attributed to NCN and -- and Manitoba Hydro, because the way -- the way that the -- the accounting for Wuskwatim is done, all of the operating line -- all -- all the operating expense lines are shown on Manitoba Hydro's books.

But Manitoba Hydro is not -- not 100 percent owner. So 33 percent of that operating loss that aro -- arose from Wuskwatim would be attributed to NCN. So it's not Manitoba Hydro's.

MR. BOB PETERS: Could the operating losses give rise to a cash call on the partners?

MR. IAN PAGE: Operating losses may or may not give rise to cash call. There is a provision in -- in the NCN arra -- arrangement to allow to the debt/equity ratio to go up in the early years if there's -- in case of losses so -- so to prevent the need for cash calls.

So whether there's a -- a loss or -- doesn't necessarily translate to a cash call.

MR. BOB PETERS: Probably have it later on in my notes, Mr. Page, but while I think of it, so long as the 75/25 debt/equity target is not reached by the Corporation -- the Wuskwatim Power Corporation -- there will be no dividends paid out?

MR. IAN PAGE: That's correct.

MR. BOB PETERS: So the debt/equity ratio may change, but while it's changing, there'll be no dividends paid out to NCN or its holding company or to Manitoba Hydro until it gets back to a 75/25?

MR. IAN PAGE: That's right. No dividends can be -- can be paid unless the debt ratio was better than 75.

MR. BOB PETERS: And the -- the fluctuating debt ratio that you referenced a couple of answers ago, was that in the first ten (10) years the debt/equity ratio could go as high as 85 percent debt, 15 percent equity while the -- while the generating station's coming on stream?

MR. IAN PAGE: That -- that's correct. But if there was a profit in one (1) of those years, there still wouldn't be a distribution made until the --

until the debt/equity ratio returned to the 75 level.

MR. BOB PETERS: And what you're depicting on the IFF under the 2018 column for the non-controlling, does that depict a cash outflow then to the partner?

MR. IAN PAGE: No. No, what that shows is that there would be approximately a $6 million net income from Wuskwatim, 2 million of which would be attributed to -- to NCN. Whether there was -- the -- whether there was a distribution would be dependent on the actual debt ratio.

So there may -- may or may not be a distribution payable then.

MR. BOB PETERS: It may just simply be used to strengthen the balance sheet?

MR. IAN PAGE: That's correct.

MR. BOB PETERS: Thank you.

(BRIEF PAUSE)

MR. BOB PETERS: My understanding, Mr. Page, of the arrangement for the Wuskwatim Power Limited Partnership is that one (1) of the limited partners is TPC which is beneficially owned by NCN.

That's your understanding?

MR. IAN PAGE: That's my understanding of the vehicle they're using to invest in -- in the project.

MR. BOB PETERS: And the limited partner, TPC, is suppose to provide 33 percent of the total 25 percent equity that is needed by Wuskwatim Power Limited Partnership.

MR. IAN PAGE: Yes. Although we realized that financially that may be difficult, so there's a -- there are loan arrangements available between Manitoba Hydro and TPC and NCN.

MR. BOB PETERS: The other limited partner putting up 67 percent is -- is Manitoba Hydro?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And getting back to the limited partner TPC, who's to come up with one-third (1/3) of the equity, some of that will come from NCN funds and some of that will then be monies loaned to them by Manitoba Hydro?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And the monies loaned by Manitoba Hydro will be at commercial interest rates?

MR. IAN PAGE: They're at -- based on Manitoba Hydro's cost, but there are -- there's premiums attached to that, essentially, to reimburse Manitoba Hydro for the risk that it's taking by loaning this money.

MR. BOB PETERS: Is it -- is Manitoba Hydro keeping itself whole in the sense that it's loaning money and then recovering interest on that money?

MR. IAN PAGE: Over the course of the -- of the project's life, we -- we do better than whole because -- because of the premium that's attached to that.

The -- the alternative that we had looked at was to allow NCN or TPC to -- to finance externally, and then -- then all the profits on -- on the -- on the financing would go -- would go to -- would be going to somebody on -- in -- on Bay Street or Toronto rather than going to Manitoba Hydro.

So it was seen as more beneficial to everybody to keep -- keep the profits within the province.

MR. BOB PETERS: Do you know, Mr. Page, what rate is being used as the financing rate?

MR. IAN PAGE: There are different premiums and different periods of time. I think it's a 1 percent markup on the -- during the construction period, then it goes to -- I'll just check here.

MR. BOB MAYER: While we're waiting, Mr. Peters, where -- where are we finding these references to

TPC? I -- I haven't found any reference to that.

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Mayer, if -- Mr. Mayer, I could perhaps point you to the published annual report of Manitoba Hydro for the year ending March 31st, 2007. There's a Note 18 to that -- that report -- to the financial statements, describes the relationship with TPC.

MR. MAYER: Thank you, sir.

(BRIEF PAUSE)

MR. BOB PETERS: I'll come back to that as well, Mr. Vice-Chairman, when I get to Tab 47 of the book of documents. But the reference specifically to TPC, I'll -- I'll locate that.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Page, is the agreement between Hydro and NCN and TPC, is that a -- is that a publicly available agreement?

MR. IAN PAGE: That I don't know.

MR. BOB PETERS: All right. What you're

telling the Board, though, is there are different interest rates that are being charged by Manitoba Hydro to its fellow limited partner in this -- in this venture?

MR. IAN PAGE: Yes. And just to finish on that further thought, what you'd asked earlier, the premium after the project is -- is in service is -- is higher. It's 3 percent.

MR. BOB PETERS: And so in answer to the question of whether Manitoba Hydro is being kept whole in this project, you answered that to say over the long run of the project, it will be kept whole, and then some, because of the premium that's due after the project comes in service.

MR. IAN PAGE: There's the -- there's the -- there would be the premium that we'd be receiving. However, I mean, you have to recognize that 33 percent of the net income for the project would be going to someone else, so there's -- there's a tradeoff there. On the financing, though, Manitoba Hydro would be more -- more than made whole.

MR. BOB PETERS: In terms of the equity that's to come from TPC, Mr. Page, my notes reflect that it was going to be approximately $102 million. And that may have changed recently, but that was -- that was the target equity to come from the one (1) limited partner?

MR. IAN PAGE: It would be a function of the capital costs of the capital costs, so if the capital I mean, you can just work it out mathematically. If -- if NCN were -- they have the option of going to 33 percent. It's not -- it's not fixed in stone.

So if they were to take 33 percent of the equity and the equity is 25 percent, then whatever that capital cost would be -- I think we're using about 1.3 billion now, although I guess some of that includes transmission. So if you take that -- that dollar amount times 25 percent, times 33, that would be the amount that would have to come from NCN or TPC.

MR. BOB PETERS: And of that amount, if it was $102 million, in my example, $68 million is coming by way of loan from Manitoba Hydro and 34 million is being raised by the First Nation?

MR. IAN PAGE: The -- I think it sounds like it -- about that -- about that range.

MR. BOB PETERS: Mr. Warden, if I could quickly turn with you to some of the alternatives that Manitoba Hydro's executives and Board considered in terms of rate increase options, there were a number of them put forward and considered, I think you told the Board, before the Board -- before Manitoba Hydro settled on a 2.9 percent rate increase.

Do I have that right?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And in Tab 10 of the book of documents, on pages 30 and 31, there are three (3) sensitivities or alternative scenarios put forward to the Board. Looking at the first scenario, it appears to be really a continuation of the plan in IFF-06-4, where there's two (2) years of rate increases at 2.9 percent and then eight (8) years at 2.5 percent.

And whether that's the case, Mr. Warden, again, the Corporation doesn't reach the 75/25 debt/equity target, correct?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: So to that extent it certainly is similar to IFF-07-1?

MR. VINCE WARDEN: Yes. What this first rate sensitivity was intended to do was to include the -- the rate increases that were in IFF-06-4 and apply them to the new conditions in at that same -- or that point in time, updated point in time, and that's the -- the effect.

MR. BOB PETERS: The second rate scenario that you've put forward is a 2.9 percent increase for '08/'09 but then going to annual rate increases of 3.5 percent until 2018, in which year you will then achieve the 75/25 debt/equity target?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: That's been rejected by Manitoba Hydro and its Board?

MR. VINCE WARDEN: That wasn't accepted by Manitoba Hydro's Board as the rate application to put forward for this proceeding.

MR. BOB PETERS: Can you explain the reasons why that wasn't -- some of the assumptions embedded in the IFF?

MR. VINCE WARDEN: Well, recognizing that we're -- we're only applying for a one (1) year rate increase, the two point nine (2.9) was in fact accepted by the Board, not to say that they won't come back next year and think that three point five (3.5) is -- is the appropriate number for that year.

MR. BOB PETERS: But Manitoba Hydro didn't want to put out future rate increase forecasts of 3.5 percent at this time?

MR. VINCE WARDEN: Well, the IFF that was ultimately approved by the Board did not include the 3.5 percent rate increases but the Board -- the Manitoba Hydro Board certainly reserves the right to include a different rate -- scenario in a future application than what is depicted in the approved IFF.

MR. BOB PETERS: All right. Moving to the rate sensitivity number 3, Mr. Warden, if the Manitoba Hydro Board wanted to ensure itself, as best it could, to get to the 75/25 debt/equity target by 2012, then rate sensitivity number 3 was the one that would have accomplished that, correct?

MR. VINCE WARDEN: Yes, that was -- that was the purpose of putting together this scenario as to show what kinds of rate increases were required under the assumptions included in the forecast to get of 75/25 by 2011/'12, yes.

MR. BOB PETERS: And again, rate sensitivity number 3 was rejected by Manitoba Hydro?

MR. VINCE WARDEN: For purposes of incorporating in the approved IFF, yes.

MR. ROBERT MAYER: Mr. Warden, I'm now looking at -- I'm listening to the last couple of your answers.

Do you now understand why the Board really asked Manitoba Hydro to make a two (2) year rate application rather than just a one (1) year rate application? Because you're really not telling us where you're really going, are you?

MR. VINCE WARDEN: Well, the only answer I can give to that, Mr. Mayer, is that the IFF, the approved IFF, is -- is the best information we have available at this time.

CONTINUED BY MR. BOB PETERS

MR. BOB PETERS: Indicating, Mr. Warden, that there's many things changing at the Corporation at this point in time and rather than looking out further you've concentrated in the -- in the application that you put forward?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Another alternative scenario, Mr. Warden, was included in the IFF, and I see that I didn't include it in the book of documents. I think you'd find it on pages 27, 28 and 29 of the full copy of the IFF, which is found more in the materials.

But rather than look -- look for it, it was another one where there was a 5 percent rate increase for three (3) years followed by two point nine (2.9) for eight (8) years. It included a one (1) year drought and a $100 million more per year in capital expenditures.

And that scenario that was run still didn't hit 75/25 by 2018 either, did it?

(BRIEF PAUSE)

MR. VINCE WARDEN: No, Mr. Peters, it did not.

MR. BOB PETERS: And the one (1) year drought impact was a $145 million negative net income, correct?

MR. VINCE WARDEN: In that one (1) year, yes.

MR. BOB PETERS: Mr. Warden, when we look at the 75/25 debt/equity target, would you agree that it is, by Manitoba Hydro's definition, a moving target?

MR. VINCE WARDEN: Well, it certainly has been, yes.

MR. BOB PETERS: And while --

MR. VINCE WARDEN: Well, the target has stayed fairly static, but getting there has been --

MR. BOB PETERS: And that's my -- that's my point, and -- and you've got it exactly; that while 75/25 appears fixed, when you apply it to the capital structure of the Corporation, which is always changing, that means, in essence, the dollar amount is always changing, correct?

MR. VINCE WARDEN: Yes. The -- the relative factors that make up that calculation of the debt/equity ratio are changing, yes.

MR. BOB PETERS: And in addition to those factors changing, the pace with which Manitoba Hydro comes forward to this Board to achieve that target, also changes based on the annual factors that confront the Corporation.

MR. VINCE WARDEN: Right.

MR. BOB PETERS: Not put -- not meant to be impolite about it, but the only thing constant is the failure to achieve the 75/25 debt/equity target, because there are a number of mitigating reasons that the Corporation has for not being there at this point in time.

MR. VINCE WARDEN: And that's why, Mr. Peters, I've emphasized in the past that it's important that we continue to make progress towards that target. The progress towards the target is probably more important than the absolute attainment. So as long as we continue to -- to move in that direction, we've been able to satisfy bond rating agencies and others that we're doing the right things.

MR. BOB PETERS: All right. And -- and in terms of moving forward, is it maybe time, Mr. Warden, to approach the concern from a different perspective and, perhaps, consider a -- a fixed-dollar amount rather than a percentage amount?

MR. VINCE WARDEN: I don't think so. I think the fixed-dollar amount pretty much falls out of --

of the target, in any event. So a fixed-dollar -- setting a target based on a fixed-dollar amount wouldn't really accomplish the objectives that -- that we have, with respect to demonstrating to others, such as the credit rating agency that -- agencies I've mentioned who -- who very commonly use that as comparison to other utilities in the industry.

So -- so, no, a fixed-dollar amount would be somewhat meaningless for -- for the numbers -- purposes that we use the target for.

MR. BOB PETERS: I could perhaps adjourn here, Mr. Chairman, and pick up right after the lunch recess, if that suits the Board?

THE CHAIRPERSON: Very good, Mr. Peters. Be back at 1:15.

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

--- Upon resuming at 1:19 p.m.

THE CHAIRPERSON: Okay, Mr. Peters, anytime you're ready.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I am. And one (1) of the questions I had earlier on was on IFF-07-1, Mr.

Chairman, and Mr. Surminski had given a response on a question related to the cost of -- to support thermal generation and I understand he may have some additional information for the Board on that.

MR. HAROLD SURMINSKI: Yes, Mr. Peters. I'd like to clarify we -- we got on the track that the thermal and import and purchases were increasing over time. And in fact the only reason that they are increasing over time is the wind energy purchases are included in that total.

In fact the actual thermal on import exclusive of the wind is decreasing over time. And one (1) of the reasons is Wuskwatim coming on and the extra wind energy coming on, so...

MR. BOB PETERS: And the wind energy coming on, Mr. Surminski, is the hundred (100) megawatts per year from '09 through to '011?

MR. HAROLD SURMINSKI: Yes, that's right. And Wuskwatim coming in in '11/'12.

MR. BOB PETERS: Thank you for that, sir. Mr. Warden, before the lunch recess we were talking about the dollar amount of the debt to equity target. And I believe Mr. Page agreed with me yesterday that the dollar amount today is approximately $2 billion.

Maybe it's two point zero three (2.03),

but approximately $2 billion?

MR. VINCE WARDEN: No, I don't believe that's the right amount for today. I think you were looking at a forecast number when you were talking with Mr. Page.

The dollar amount of equity today is closer to $1.7 billion.

MR. BOB PETERS: Sorry, Mr. Warden, I may have misspoken and if I did I apologize. The 25 percent equity target translates to how many -- to how much money?

MR. VINCE WARDEN: That I -- I will agree is approximately $2 billion, yes.

MR. BOB PETERS: All right. And -- and just before the lunch recess I think you had told the Board earlier today that certainly a primary reason for the 25 percent equity is to have a cushion against unexpected risks.

That would be true?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And right now the cushion is updated by you this morning to be 1.715 billion forecast to the end of 2008.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that 1.15 billion

did not include the $36 million which I'm assuming, and I'll take it as my assumption, that the projections will be better than what are forecast.

MR. VINCE WARDEN: Agreed.

MR. BOB PETERS: And so following up from before lunch, Mr. Warden, instead of chasing a 25 percent number that remains very allusive, why doesn't Manitoba Hydro put the stake in the sand and say we want $2 billion as a reserve until further notice, or until further discussions with our Board, or the regulator, and fix the number as a sum certain?

MR. VINCE WARDEN: I -- I just see no value to that, Mr. Peters. The 75/25 debt/equity target is well understood by all participants -- participants in -- in this proceeding I think. And as well as by outsiders it's used for comparative purposes to other utilities. It's a -- it's a good indicator of -- of the financial well-being of the corporation. It would serve no real useful purpose to fix that number at a dollar amount.

MR. IAN PAGE: Mr. Peters, from a purely practical perspective the -- the cost -- dollar cost impact of a drought increases in -- in over the course of the IFF if we were to do the analysis in the beginning of the IFF or we do the tail end of the IFF, you'd see that the dollar cost impact of the drought is much higher as we go through the forecast, as the -- as the domestic load is growing. So there's more load that has to be met during a drought. And -- and the cost of imports, and the cost of foregone returns go up as well just due to -- due to inflation.

So that $2 billion today might -- it might be the correct number. Three (3) years out it'll be higher than that, five (5) years out it'll be bigger. So you'll have to be continually recalculating it.

The 75/25 just by its definition automatically keeps that -- that number growing as the Company grows so that it -- so if you do 75/25, 25 percent works today, 25 percent will work ten (10) years from now. It's just a lot -- it's a lot easier to -- to comprehend and -- and to keep on top of.

MR. BOB PETERS: All right. Thank you both for your answers.

MR. VINCE WARDEN: Mr. Peters, sorry, just -- I may have misspoke earlier. I think we stated or we agreed that the $2 billion was equivalent to 75/25. Actually, if you look at the IFF we don't achieve, according to the IFF-07, we don't achieve the 75/25 during that period of the IFF, and yet retained earnings grow to $3 billion over that period of time.

MR. BOB PETERS: In your last answer to me, Mr. Warden, you've taken the retained earnings at 2018, as opposed to 2008.

MR. VINCE WARDEN: Yes, over the entire forecast period.

MR. BOB PETERS: All right. And -- and that perhaps is illustrative of Mr. Page's point that while -- while it may be transferrable to a $2 billion number in '08 that number could be greater than $3 billion ten (10) years hence.

MR. VINCE WARDEN: That -- that yes, it makes that point very well.

MR. BOB PETERS: All right. Let's then talk about whether or not a -- a rate stabilization reserve would be of merit when considering what to do or where -- how to consider some of that equity that the Corporation has.

And would I be correct to say that back in July of 2004 when the Board directed the Corporation to look at an internal restricting of retained earnings the Corporation didn't view that favourably and felt there would be no benefit to doing that?

MR. VINCE WARDEN: In brief, yes that's -- that was our conclusion.

MR. BOB PETERS: And that conclusion

hasn't changed, has it till -- at least till today?

MR. VINCE WARDEN: No, it has not.

MR. BOB PETERS: You do acknowledge that a rate-stabilization reserve is used by other Crown corporations?

MR. VINCE WARDEN: Well, no -- no other large Crown utilities in Canada that I'm aware of. There -- there may be some smaller utilities that use such a mechanism or it may be used in the insurance industry, but there are no electrical utilities of any size that use such mechanism.

MR. BOB PETERS: When you want to use a rate stabilization reserve, you would agree that the purpose of having it would be much the same as you told the Board is your purpose of having a 25 percent equity amount?

MR. VINCE WARDEN: Yes, the -- the major difference is, though, as I think we've indicated in our rebuttal evidence and I covered to some extent in my opening remarks, is that retained earnings can be used as they're currently structured to provide for a wide range of risk faced by the Corporation.

Drought is just one (1) of those risks, and it would -- it would serve no purpose to segregate off drought when we may, in fact, incur an event that requires the use of those retained earnings for another purpose. And if we've already restricted those retained earnings for drought, it would not make sense for us to have to look elsewhere for -- for providing for what would otherwise be -- be provided for retained for retained earnings if they weren't so restricted.

MR. BOB PETERS: And what if the rate stabilization reserve wasn't restricted to one (1) risk, but was available to be utilized in the event that there were other risks that surfaced?

MR. VINCE WARDEN: Exactly what we have today.

MR. BOB PETERS: So you'd have no trouble with it?

MR. VINCE WARDEN: Well, it's what we have today, and I don't have any trouble with what we have today, yes.

MR. BOB PETERS: Well, I appreciate we're -- we're parsing words now, Mr. Warden, but -- but today you have -- is that your concern, that if you had a -- a dollar and some certain -- that was going to go into a rate stabilization reserve, that you might not be able to use it for all risks?

MR. VINCE WARDEN: Well, typically, that's what restricted reserves do, is they -- they are special purpose type reserves. And as I indicated, I don't think that's appropriate to our circumstances in the wide range of risks that we -- we face.

MR. BOB PETERS: What if the -- what if the rate stabilization reserve was exempt from the risk of growth through capital expenditures, and you could continue to add to it based on capital expenditures?

MR. VINCE WARDEN: At the end of the day, though, regardless of how you split the reserve, at the end of the day it would all form part of equity. And you would still perform that debt/equity calculation. You'd have to take that into consideration and the debt/equity ratio, if it hasn't reached 75/25, would still be a target for all those other stakeholders that have an interest in that ratio.

So, again, having a separate reserve -- and I think we -- we also indicated in our rebuttal evidence that we did at one time -- Manitoba Hydro did, at one time -- but going back to 1992, we had a rate stabilization reserve and we did away with it. It just didn't -- didn't work for us. So I wouldn't want to take a step backward.

MR. BOB PETERS: Manitoba Hydro hasn't done a comprehensive risk study of all of the risks that it faces, have they?

MR. VINCE WARDEN: Oh, very much. We have a comprehensive -- I think our -- our risk analysis that we do each and every year, on an ongoing basis, is state of the art.

MR. BOB PETERS: Can you quantify for the Board what the total risk profile is of the Corporation as it goes forward?

MR. VINCE WARDEN: Well, we -- we have a -- a number of risks, and -- and for the very reason that I -- I just mentioned, that -- that some of those risks can be covered with one (1) retained earnings or equity account, rather than trying -- if we -- if we totaled up the sum of all our -- our risks, it would be enormous.

And, you know, if we started putting them in little pockets for certain contingencies that might arise, the cumulative -- I -- I haven't even done that because, again, it would serve no useful value to add them all together.

MR. BOB PETERS: All right, well --

MR. VINCE WARDEN: That's the -- that's the whole -- that's the whole premise of enterprise risk management, is that -- you look at the -- some -- or the risks that are faced by the Corporation, look at what may occur at any one (1) point in time, and provide sufficient retained earnings to cover that -- that risk.

MR. BOB PETERS: You have to then factor in the probabilities of those risks occurring in any time frame?

MR. VINCE WARDEN: We do.

MR. BOB PETERS: And then a dollar amount has to be set or established to compensate for that risk?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And that dollar amount may fluctuate based on many other factors, including, as Mr. Page told us, the timing of when that risk occurrence arises?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: The Corporation, Manitoba Hydro, and its successors are -- are over a hundred (100) years old, correct?

MR. VINCE WARDEN: Its predecessors, you mean?

MR. BOB PETERS: Well -- sorry, did I say successors? I meant predecessors. You didn't sell the company over lunchtime did you? I'm sorry.

The company goes back to 1873 or thereabouts?

MR. VINCE WARDEN: Yes. I agree. The predecessor companies you could trace back that far, yes.

MR. BOB PETERS: And would you agree with me that the largest realized loss that the Corporation has sustained in that timeframe has been from the 2003/'04 flood -- or drought?

MR. VINCE WARDEN: Yes. But, you know, you can't -- you can't compare a company of today and Manitoba Hydro of today to the company of a hundred (100) years ago or even twenty (20) years ago. It's vastly different.

MR. BOB PETERS: Well, while we can accept that it's different, Mr. Warden, the largest realized loss still is the drought from 2003/'04?

MR. VINCE WARDEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: And that resulted in a net income loss of -- I'll be careful of my words with Mr. Page -- but $248 million loss, when coupled with the foregone forecast export revenue, was more in the neighbourhood of $600 million?

MR. VINCE WARDEN: The loss in that year, Mr. Peters, was four hundred and twenty (420) --

MR. BOB PETERS: $428 million?

MR. VINCE WARDEN: Okay -- I didn't -- I didn't hear it that way but if that's what you said, yes, it's four hundred twenty-eight (428), yeah.

MR. BOB PETERS: All right. And -- and one of the points I think, Mr. Page, you were making before the lunch break -- where I did not imbibe in anything everybody else didn't have -- but there was also net income that was forecast that never materialized.

And that added to what you say the loss was of the Corporation?

MR. IAN PAGE: That's correct.

MR. BOB PETERS: And at today's retained earnings of $1.715 billion, Mr. Warden, there certainly is sufficient cushion there for a reoccurrence of that drought?

MR. VINCE WARDEN: That drought, though, was relatively short term, in terms of a drought that could occur if we were to go back those hundred (100) years and look at what the water conditions or over that period of time.

And Mr. Surminski can certainly speak more precisely to that number, what that number would be.

MR. BOB PETERS: Well let me take Mr. Surminski and others then to maybe just a review of some of the risks quickly, if we can, and probably have to flip ahead to Tab 46 of the book of documents, where a number scenarios were run by the Corporation.

One of the scenarios that was -- was run, Mr. Page and Mr. Surminski, was a one (1) year drought. And that was actually contained in the IFF.

Although I didn't include copies of the specific pages of IFF-07, you remember running a one (1) year drought scenario?

MR. IAN PAGE: If you're referring to the first page in that tab, that's -- what that is is the worst drought on record simply divided in two (2).

So it's -- it's -- it was a proxy for a -- a drought of a reasonable likelihood of -- of occurring and well within the dollar value of one that has occurred. But there was no one specific one (1) year drought that actually corresponded to that -- that run.

MR. BOB PETERS: But you also did another sensitivity analysis in the IFF proper, the full copy of IFF-07-1, which was a one (1) year drought?

MR. IAN PAGE: Yes. We -- what we typically do is look at one (1) -- each year what the variation could be and the maximum fluctuation if we had a repeat of the single-worst year on drought.

And we also do longer-term droughts. I believe the IFF also had a five (5) year drought in it as well.

MR. BOB MAYER: I don't understand, Mr.

Page, something that says "half the lowest flows on record."

What does that mean?

MR. IAN PAGE: It's a little cryptic. What it's meant to be is half of the dollar impact of the single-lowest flow on record.

MR. BOB MAYER: So you take the '04 drought, which was a low -- which was the lowest -- the highest impact loss on record.

You cut that in half and find out what has to happen to do that again?

MR. IAN PAGE: We didn't -- I don't...

(BRIEF PAUSE)

MR. IAN PAGE: Yeah. We didn't use the exact here, because that was the largest single dollar impact. But there have been worse -- worse flow years. So we took the -- if we had a repeat of the worst flow year, which wasn't far off the 2003/'04 number, what the dollar impact was of that, and then cut that in half.

MR. BOB MAYER: And then recreate a situation or suggest a situation where you lose half of what you lost in the worst-case scenar -- worst previous point -- point in history?

MR. IAN PAGE: Yes.

MR. BOB MAYER: Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And looking at the first page of -- or page 1 of Tab 46, Mr. Page, you've assumed for that example that in 2011 this hypothetical one (1) year drought occurred, correct?

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

MR. BOB PETERS: To the severity that you've just spoken with Vice-Chair about?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And if you can accept, subject to check, the math that I've done, your export revenue is down $102 million from $415 million that it would otherwise be?

MR. IAN PAGE: What we look -- we did was we took the -- if we take the lowest flow on record, there'll be a reduction in export revenue. There'll be an increase in -- in imports and thermal. There'll be a decrease in water rental. So we took all those numbers and, again, just simply have them.

So it's probably not good to look at -- useful to look at it individually on a line-by-line basis, but look at it just on a total basis of those --

of the sum of those numbers.

MR. BOB PETERS: Okay, then on a total basis, the impact on retained earnings out through the planning horizon of 2018 is about $490 million.

Do you accept that subject to check?

MR. IAN PAGE: Subject to check, that sounds about right.

MR. BOB PETERS: And in terms of the Corporation's comment, by having that -- that drought occur in a future year, maybe not to the severity of the past, but the impact is certainly as great as it was in the past?

MR. IAN PAGE: Can you say that one more time?

MR. BOB PETERS: I'll -- I'll try it this way: What you're trying to demonstrate here is by picking the year 2011 for this hypothetical drought to occur, only to half the severity of the lowest flows on record, the impact is still -- while it's a loss of $187 million dollars of net income in 2011, when you factor the other costs out over the balance of the planning horizon, the impact is $490 million on retained earnings?

(BRIEF PAUSE)

MR. IAN PAGE: I'll accept your retained earnings impact, but the hundred and eighty-seven (187) is -- is the -- is the dollar value of the loss. That's not the dollar value of the impact in that year, because the impact is about two hundred -- 294 million is the actual impact on a -- on a nor -- on that -- if you compare that year to a normal year.

MR. BOB PETERS: All right. And what you've done is you've corrected my -- corrected me by indicating that you would have expected positive net income that year, and you didn't have it.

So that's also foregone and added to the--

MR. IAN PAGE: Yes.

MR. BOB PETERS: -- impact of the loss? All right.

And that would be added into the impact of the calculation of retained earnings that I gave you?

MR. IAN PAGE: Yes, automatically that would get --

MR. BOB PETERS: All right. Well, let's take another risk scenario. And if there was a repeat of the '03/'04 drought, and we'll find that, I think, on Tab 46, page 4. If we look at page 4 on the top right-hand corner, you've run another scenario here where there was a repeat of the '03/'04 drought, but it happens in

2010/'11.

Have I got that correct?

(BRIEF PAUSE)

MR. BOB PETERS: It appears that there may have been a production glitch, Mr. Page, and for which I apologize. I'm looking in the top right-hand corner of the documents contained in Tab 46, and I'm looking --

MR. IAN PAGE: Yes, I -- have the page, yeah.

MR. BOB PETERS: All right. And it's Tab 46, page 4? It says in the top right-hand box?

MR. IAN PAGE: Yes.

MR. BYRON WILLIAMS: Mr. Peters, just, if -- if I could -- so I'm following along, it's --

THE CHAIRPERSON: You do not have that.

MR. BYRON WILLIAMS: I think you do, Mr. Chairman. But is it PUB/MH-2-30, which is found in Tab 46 and -- and in the top right-hand corner it's page -- no, no, it's PUB/MH-1-48 and then top right-hand corner, page 4. I don't know.

(BRIEF PAUSE)

MS. PATTI RAMAGE: It's the seventh page in.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And -- and certainly, I'll accept full responsibility for the ordering and the pages included. I -- I attempted to put a reference box in the top right-hand corner, because otherwise these pages had very little chance of being located. And I also understand that there may be some surplus documents that made their way into this tab that I didn't intend for them to be in.

But I'm looking for the one with -- that is labelled in the top right-hand corner, Tab 46, page 4.

Mr. Page, after that flurry of activity, that's the scenario where you're trying to show the Board what would happen if there was a repeat of the '03/'04 drought, but in the year 2010/'11?

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

MR. BOB PETERS: And while the net income drops from 584 million in IFF-07-1, it goes down to a negative $488 million, correct?

MR. IAN PAGE: I'll accept the negative four eighty-eight (488), but I don't think the pre-drought number was correct.

MR. BOB PETERS: I'm sorry, it drops a total of 584 million, not -- not an additional 584 million.

MR. IAN PAGE: Yes.

MR. BOB PETERS: All right. The total impact on ratai -- retained earnings out 2017/'18 would be approximately $981 million, subject to check?

MR. IAN PAGE: That sounds about right.

MR. BOB PETERS: All right, so that -- that is your point to the Board, that if there was a repeat of what's happened not too long ago, the financial consequences under this scenario are greater simply because of additional costs and the value of the expenses that would have to be incurred to recover from that drought in later years?

MR. IAN PAGE: Yes, and -- and just a reminder, that's a one (1) year drought only. So that's a repeat of the 2003/'04 drought just in that one (1) year.

We -- we have -- is deferred lots of time, I'm sure, had a lot of lower water flow periods than that one (1) -- than what the effect of that one (1) single year was.

MR. BOB PETERS: All right, the statistical frequency of that -- that '03/'04 drought reoccurring, would it be approximately one (1) in fifteen (15) years?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: Can you give me a clue as to where you're getting that?

MR. BOB PETERS: From the answers that were given, Mr. Surminski. I -- I thought this -- this scenario happened maybe only seven (7) previous times in the horizon of data that you presented and -- and just did a simple division to say well, it's roughly one (1) in fifteen (15) years.

(BRIEF PAUSE)

MR. BOB PETERS: If it happened seven (7) times in a hundred (100) years, once in fifteen (15) years was --

MR. HAROLD SURMINSKI: Yes, okay, I'll accept that.

MR. BOB PETERS: All right. Do you -- do you do any statistical probabilities different than that?

MR. HAROLD SURMINSKI: No, we had some interrogatories on the frequency of the five (5) year and the seven (7) year droughts. And -- and we did something similar to that, except those were groupings of years now.

This is -- this is a single event which could be part of a series. So this is where the difficulty comes in, you know. A single-year event, when it's followed and preceded by -- by low flows, is that really a separate event or is it -- are they separate events or are they really more like one (1) event? That's -- that's why I sort of hesitated when you said seven (7) out of -- out of a hundred (100).

MR. BOB PETERS: Okay, fair comment.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Surminski, at -- at what point do you go running to Mr. Warden and say, We're in a drought? I mean, how do you know you're in a drought?

Just because the water flow is less than last year, before -- if it's less than median flows, if it's -- how do you know you're in a drought?

And how long does it take in the year for you to figure that out?

MR. HAROLD SURMINSKI: It's a combination of -- of water and storage and inflows coming into reservoirs. So the degree or the severity of the consequences depends on -- on both your preceding conditions and -- and what is currently occurring in terms of low flows and projected low flows for the next short while.

But the -- the first sign is below normal and maybe, you know, 10 or 20 percent below normal stream flows.

MR. BOB PETERS: You've talked about, in your previous answer to me, the impact of a longer drought. So let's turn to Tab 46, pages 5 and 6, noted in the top right-hand corner. Tab 46, pages 5 and 6.

And in looking at a five (5) year drought, I think this analysis, Mr. Surminski, came out of your Appendix 12.5 and a directive Number 4 from the Board Order 117/06.

But this five (5) year drought, would the statistical frequency be once in fifty (50) years?

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

MR. BOB PETERS: And the net -- the loss in net income was $1.7 billion over that five (5) year period?

MR. HAROLD SURMINSKI: Yes, this is a

simulated value of the drought starting in 2009, '08/'09.

MR. BOB PETERS: And if you compounded that loss of net income with the additional financing charges, you'd find yourself with a reduction in retained earnings of about $2.8 billion over the planning horizon to 2018.

Do you accept that, subject to check?

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

(BRIEF PAUSE)

MR. BOB PETERS: But let's bear in mind what Mr. Warden told us earlier, is that by 2018 you expect to have the better part of $3 billion in your retained earnings, correct?

MR. HAROLD SURMINSKI: Yes, I recall Mr. Warden acknowledging that.

MR. BOB PETERS: And would you also agree that these numbers that you're showing the Board in terms of the risks that -- that may exist, those exist without any, shall we say, extraordinary remedial actions by management?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: Yes, this is -- this does not include in any other actions.

MR. BOB PETERS: And those other actions could include some pretty drastic things, like reductions in certain costs, including capital costs, deferring capital if pos -- expenditures if possible.

MR. HAROLD SURMINSKI: I'd leave it to Mr. Warden to comment on that.

MR. VINCE WARDEN: Well, Mr. Peters, there were some short-term measures we did take during the '03/'04 drought. But no -- those -- those costs are eventually recouped, or at least it's necessary at some point to incur those expenditures.

So it's -- it's more of a deferral of costs than -- than cost disappearing. So it's a short-term -- short-term measure and --

MR. BOB PETERS: One of the of the other short-term measures, Mr. Warden, Mr. Surminski, would be that you might go to your regulator and seek a 3.26 percent additional rate increase on top of the 2.9 percent that's already in the IFF?

MR. IAN PAGE: The -- the difficulty in doing that, Mr. Peters, is that at the beginning of the drought you don't know it's going to last five (5) years.

You won't know it's a five (5) year drought until after the full five (5) years is lapsed.

And just another point you made, that the $2.8 billion cost on retained earnings would compare -- is less than the $3 billion projected by the end of the IFF. The -- again, the issue there is that the $3 billion is not expected to accumulate until 2018. And this drought starts, and the cost of this drought is one we estimated starting in -- in 2009. So you don't have that $3 billion at that point.

MR. BOB PETERS: So because you don't know you're in a five (5) year drought, you have to assume you're in a one (1) year drought at least for the first year.

Would that be correct?

MR. IAN PAGE: Yes, and as we've seen in the last few years, there -- there could be very high flows afterwards. So you may not -- you may hold off and say, Well, I'll wait til next year to see if maybe there's a bit of a turnaround before we start taking any extraordinary rate measures.

And then you've already lost a year. So you're always lagging behind.

(BRIEF PAUSE)

MR. BOB PETERS: Maybe Mr. Ciekiewicz would appreciate my point and saying or you could find your water flows down for a quarter and come to the PUB for a 2.25 percent rate increase just based on low flows for one (1) quarter?

MR. IAN PAGE: I think our intent of -- the way we use our financial targets is to avoid having rates bouncing all over the place and -- and that by having a strong equity position does allow us the luxury of -- of letting things smooth out over time and -- and not have to keep coming running back to the regulator every few months.

MR. BOB PETERS: Well, Mr. Warden and Mr. Page, if you did find -- excuse me -- if you did find yourself in a drought and you may not know how -- how long it's going to be, but you would seek rate relief, most likely, as one (1) of your remedial actions, would you not?

MR. VINCE WARDEN: If you found yourself in that circumstance, Mr. Peters, rate relief would be an option. We would hope we can avoid that, though. That would be -- you know, I think we -- we indicated earlier there are a number of considerations when we apply for a rate increase, and the time -- could be the worst possible time in terms of circumstances that consumers are facing for other reasons at that time.

So we wouldn't want to, I think, back ourselves into a corner such that we would only apply for a rate increase when we were in the midst of a drought.

MR. BOB PETERS: Well, not to stay that's the only time you'd apply, Mr. Warden, but, in fact, that is the time you did apply after 2003/'04, is it not?

MR. VINCE WARDEN: Well, we did, and it would have been -- in hindsight, it would have been probably better if we'd -- some of those years in the 90s where we had no rate increases, it would have been preferable to have built up some kind of a retained earnings that we didn't have to do that.

So, I think we've learned a little bit from history.

MR. BOB PETERS: Okay, but even if -- you know, Mr. Warden, if you do find yourself in another drought situation, how long would you be prepared to wait until you sought rate relief?

MR. VINCE WARDEN: Well, as indicated in our financial forecast -- the IFF-07 -- we are, in fact, projecting rate increases each and every year. So -- and that's just to maintain a level of retained earnings that moves us towards the debt/equity ratio. So, I wouldn't want to be in a situation we're -- we're on top of those rate increases that we're projecting. We're also applying for some kind of a drought-related rate increase.

MR. BOB PETERS: From that answer, can the Board interpret the Corporation to say that if they were at their financial target and suffered a drought, they wouldn't come in looking for a rate increase unless their equity was going to drop below the financial target?

MR. VINCE WARDEN: Yes, well, that -- that's right. It would -- we would have much more flexibility at that point in time. We know we are going to encounter low water conditions -- a drought -- at some point. And, if we're prepared for that, then there would be no reason to have an emergency-type rate increase.

MR. BOB PETERS: You had that option, Mr. Warden, back in 2003/'04 when the Corporation had a net income -- well, actually a net loss of $428 million. You had retained earnings that could absorb that, but yet the Corporation saw fit to come in and apply for a rate increase.

Isn't that correct?

MR. VINCE WARDEN: Yes, but again, we weren't at the 75/25 at that point in time. We were -- you know, we were getting -- making good progress again, but we were not in the position where we could absorb that kind of a loss without coming forward with -- with some kind of a remedial rate request.

MR. BOB PETERS: So, again, the corporate position is once you're above the target -- one -- once you're above your financial target, you'll see no need to come in for a rate increase even if these risks surface, only unless your equity drops below the 25 percent.

MR. VINCE WARDEN: Yes. I think once we get to the 75/25, we -- we will, as we do today, put together our financial forecast and -- and recommend rate changes that will keep us within that 75/25 range.

MR. BOB PETERS: All right. Maybe another risk to look at is the seven (7) year drought. I think that's the last drought scenario. That's on page 9 of Tab 46, top right-hand corner. Looking for Tab 46, page 9.

Mr. Page, through this scenario, net income is reduced by $2.46 billion over the planning horizon if there is a seven (7) year drought, which you've assumed to occur from 2009 through 2015?

MR. IAN PAGE: That's the impact on the -- on the flow-related costs. That's not the full impact on net income because it excludes interest.

MR. BOB PETERS: The retained earnings

would drop by about $3.5 billion?

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

MR. BOB PETERS: And to recover from that, the Corporation forecasts it would need approximately a 4 percent increase on top of a 2.9 percent increase.

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

MR. BOB PETERS: Would the frequency of that seven (7) year drought be one (1) in a hundred (100) years, Mr. Surminski?

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

MR. BOB PETERS: In the IFF that you prepared, Mr. Page, the retained earnings are calculated on the basis of mean hydraulic flow generation? After the --

MR. IAN PAGE: They -- they --

MR. BOB PETERS: -- first year?

MR. IAN PAGE: -- they're -- they're done on -- on mean for the -- the first two (2) years and beyond that it's based on -- on the expected value. So the full '90 -- '94 flows, I believe, calculate net income for -- or the flow -- flow-related revenue is calculated for all '94 and then -- and then that's -- then they -- then that's averaged and that number is put in there.

So there's a little bit of -- essentially because the -- the costs of the drought are higher than the -- than the benefits of the high flows, that -- that number will give you slightly lower -- will give you a somewhat lower number than what the -- using median or -- flows would give you. And so when we do that, essentially a little bit of drought is built in to every year of the forecast.

So on an expected basis we will need to do better than the IFF in a -- on a -- on every year so that when we do have a drought we actually will achieve the IFF results in the long run.

MR. BOB PETERS: Let me see if I can break that down to understand that answer, Mr. Page. You're telling the Board that included in every IFF you do is implicitly a drought, correct?

MR. IAN PAGE: It's -- well, if -- if you assume a drought, say, happens one (1) in every ten (10) years then essentially tenth of a drought is built into every year. So you -- so you should have to -- you should expect to do better than your IFF just in order to -- so that -- so that you've got if a -- you've got a provision for when the drought actually does occur you -- you've averaged -- averaged it out.

MR. BOB PETERS: And what's the financial impact of the drought that you're assuming in the IFF?

MR. IAN PAGE: Well, it's -- it's based on the whole '94 flow, so it's the whole range there. And if you look at the back of the IFF document there's a graph there showing the -- the fluctuation between the high and the lows so there'll be some distribution of those dollars through there.

But if you assume that, say, the drought may be a one (1) in ten (10) year drought, maybe average 5/600 million a year so that you -- you're going to need to do 50/60 million better than your forecast in every year.

MR. BOB PETERS: And when I asked you if you used mean hydraulic generation, I think you said yes but you qualified it to say that you calculate the mean differently after the second year?

MR. IAN PAGE: The mean is -- well, the median is used for the first two (2) years, the -- it's not the mean generation that's used, it's the mean net revenue from all of the -- all of the different energy -- energies related to each of the flow years.

MR. BOB PETERS: So you take the '94 flow years and multiply them by current day potential revenue?

MR. IAN PAGE: Well, 2000 -- say if we're looking at 2011, 2011 we -- we projected ninety-four (94) times at the revenues -- or at the export prices that were projected at that point, calculate what the net revenue would be for each of those ninety-four (94), add it up and divide by ninety-four (94).

MR. BOB PETERS: Okay, thank you for that. In the -- if the water flows were such that there was a reduction of, say, eight hundred (800) gigawatt hours a year, that could drop the retained earnings by about $500 million over the planning horizon as shown on Tab 46, page 12?

Would you take that, subject to check?

MR. IAN PAGE: It looks reasonable.

MR. BOB PETERS: And the average hydraulic generation over the past thirty (30) years was about twenty-eight thousand one hundred (28,100) gigawatt hours, Mr. Surminski?

MR. HAROLD SURMINSKI: That's over which period, sorry?

MR. BOB PETERS: The past thirty (30) years?

MR. HAROLD SURMINSKI: Yes, probably. It's been lower than the long-term average.

MR. BOB PETERS: And the long term average is...?

MR. HAROLD SURMINSKI: Twenty-nine thousand one hundred (29,100).

MR. BOB PETERS: If -- one (1) of the risks you face, Mr. Warden, would be export prices, would it not?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: From the materials provided can the Board conclude that Manitoba Hydro's IFF assumes average export revenue of five (5) cents a kilowatt hour in '08/'09 and it increases up to nine (9) cents by the time you get to 2017/'18?

MR. HAROLD SURMINSKI: Yes, I can confirm that.

MR. BOB PETERS: How did you arrive at those numbers, Mr. Surminski, for average export revenues?

MR. HAROLD SURMINSKI: We -- we forecast in the -- we developed an export price forecast into the future, based on fundamentals of industry developments. So fundamentals like prices of natural gas, the mix of generation in -- in the export market. Those are some of the -- the factors that -- that come into play for future export prices.

MR. BOB PETERS: And on page 13 of Tab 46 of the book of documents, you've answered PUB/Manitoba

Hydro Second Round Question 38 and provided a graph where you're telling the Board that you forecast high export prices as well as low export prices, depending on what the fundamentals of the market are, what range it's giving you.

MR. HAROLD SURMINSKI: Yes, I'd like to clarify a little. I think you -- you talked about this yesterday a little bit, about the high and the low. The only reason we provide a high and a low is to protect our confidentiality of the expected or best estimate.

So it's not that we -- we start with this and -- and somehow get our best estimate. We -- we have a best estimate we use, but we don't want to publicly release it. So due to this -- this started in the CEC Wuskwatim hearing. For confidentiality purposes we decided we could provide the Band a high and the low abound almost but without giving away our exact expected numbers.

MR. BOB MAYER: I think Mr. Williams negotiated that deal at that point.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: I don't want to undo what you did there, Mr. Surminski, but when I look at the range that you've put in this answer to the Information

Request and look back to your IFF, could one assume that the export pricing in IFF-07-1 is done at the high end of the pricing profile used before the CEC?

MR. HAROLD SURMINSKI: Sorry, why would you assume it's the high?

MR. BOB PETERS: Just based on the values that come divided out of the IFF information.

MR. HAROLD SURMINSKI: No, we use expected. And if you -- 2018 and nine (9) is -- is generally in the middle of nineteen (19) in that case -- is generally in the middle of that high and low. You only have to go to 2018 or so.

MR. BOB PETERS: If the realized value was maybe not at the nine (9) cent per kilowatt hour by 2017/18, but closer to the six (6) cent a kilowatt hour for the average export price, that would result in a drop of retained earnings, would it not?

MR. HAROLD SURMINSKI: Yes, a 30 percent reduction would have a 30 percent reduction.

MR. BOB PETERS: About $.8 billion worth?

MR. HAROLD SURMINSKI: Is that based on that ratio?

MR. BOB PETERS: Yes.

MR. HAROLD SURMINSKI: Yes, I accept that.

MR. IAN PAGE: Mr. Peters, that would depend -- that would assume that the volume hadn't changed and not that there was a huge volume which was giving rise to the lower average price, in which case you could have a positive impact.

MR. BOB PETERS: Your answer, Mr. Page, I'm not -- not certain -- you were trying to suggest to the Board that if the volumes changed then, of course, that would change the reduction in retained earnings.

MR. IAN PAGE: What I was suggesting, if the average price changed because of a volume change, then you have to look at the product of them not just look at the price in -- in isolation.

MR. BOB PETERS: All right, fair enough. Let's turn to foreign exchange rate. In I -- back in IFF-07-1, Mr. Page, if you can just keep your pen at Tab 46, page 14, and then flip back to Tab 10 to look at the IFF, can you tell the Board what foreign exchange rate assumptions were you building into IFF-07-1?

(BRIEF PAUSE)

MR. IAN PAGE: If you go to page 4 of the IFF, you'll see that the exchange rate forecast there was -- ranged from about a dollar thirteen ($1.13) to a dollar sixteen ($1.16).

(BRIEF PAUSE)

MR. BOB PETERS: You indicate in the IFF that the value of the US dollar will gradually increase from current levels to long-term exchange rate in the dollar thirteen ($1.13) to dollar sixteen ($1.16) range.

That's what you're indicating?

MR. IAN PAGE: Yes. And actually I should clarify that. In the early years I think -- I believe we were using about a dollar seven ($1.07) in the -- and to start --

MR. BOB PETERS: All right.

MR. IAN PAGE: -- and then gradually increasing to that level.

MR. BOB PETERS: All right, if I -- if I go back to the IFF on page 38, for which years are you using a dollar seven ($1.07)?

And -- and does it jump then immediately to a dollar thirteen ($1.13) after a number of years?

MR. IAN PAGE: If you want to go year by year, 2007/'08, we used a dollar seven ($1.07); the next year a dollar eight ($1.08); then a dollar eleven ($1.11) for 2009/'10 and '10/'11. And a dollar sixteen ($1.16) was -- by -- by the time we got up to 2017/'18, we were up to a dollar sixteen ($1.16). So it was a -- it was a gradual change throughout.

MR. BOB PETERS: Okay, you lost me very quickly. I'm looking back at 2008.

You were back at a -- a dollar eight ($1.08)?

MR. IAN PAGE: If I start with 2007/'08, a dollar seven ($1.07); 2008/'09, a dollar eight ($1.08); 2009/'10, a dollar eleven ($1.11); 2010/'11, a dollar eleven ($1.11). And then if I -- and then it gradually chan -- continues to go up. And by 2017/'18, we're up to a dollar sixteen ($1.16).

(BRIEF PAUSE)

MR. BOB PETERS: Were you referring, Mr. Page, to your forecast methodology that's in Tab 45 of the book of documents on approximately the fourth page in, when it's page 3 of 3?

(BRIEF PAUSE)

MR. IAN PAGE: I wasn't referring to that, but, yes, that's -- those are the numbers.

MR. BOB PETERS: And -- and while we -- while we have that, let's stay with Tab --

MR. IAN PAGE: Actu -- Actually, sorry, no, those aren't quite the numbers I was -- I was using.

(BRIEF PAUSE)

MR. IAN PAGE: What -- what that table on page 3 of 3 represents is the average of the -- of all the forecasts that we had. Now, Manitoba Hydro doesn't just simply average those -- those external forecasts. We use a bit of a judgment and -- and sort of smoo -- and -- and smooth them out, recognizing that some of the forecasts are for different durations than others.

So we've got -- we'll tend to have forecasts in the shorter term. If you see the -- if you look for 2007/'08, there's about twice as many forecasts for that year. So you -- you give different weight to different forecasting agencies as well.

So that's -- that's the numbers I was using, have a -- a little smoother progression from year to year.

MR. BOB PETERS: And that's because you've applied some, we'll call it, "judgment"?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And that judgment is vetted through the executive of the Corporation, including Mr. Warden's office?

MR. IAN PAGE: Yes.

MR. BOB PETERS: Recently, the exchange rate has been very favourable to Canadians who want to travel to the United States, correct?

MR. IAN PAGE: Yes.

MR. BOB PETERS: Does your use of the numbers in the IFF suggest that it is Manitoba Hydro's view that that will be a short-lived benefit to Canadians, travel?

MR. IAN PAGE: The -- the view of all of the forecasting agencies one (1) year ago was that the Canadian dollar would -- would gradually weaken relative to the US dollar in the -- in the longer term.

I don't know where those forecasts stand today. They're currently in the process of being assembled.

MR. BOB PETERS: When you say "they're being assembled," are they being assembled by the different financial institutions or being assembled by Manitoba Hydro?

MR. IAN PAGE: Well, the different financial institutions, a lot -- a lot of them will do quarterly updates. But Manitoba Hydro is in the process of -- of getting those longer-term forecasts.

Longer-term forecasts are done a lot less -- a lot less frequently than the -- than, say, the first year or two (2).

MR. BOB PETERS: When was the last time Manitoba Hydro updated its foreign exchange forecast?

(BRIEF PAUSE)

MR. IAN PAGE: We would have done an update in July.

MR. BOB PETERS: And that update isn't reflected in -- in the materials filed, is it?

MR. IAN PAGE: The -- the update is -- is incorporated in the IFF.

MR. BOB PETERS: If you've incorporated the update in the IFF, you still are of the view then that the Canadian dollar will weaken as compared to the US dollar, correct?

MR. IAN PAGE: In the longer term, yes.

MR. BOB PETERS: Well not even the longer term, in '08/'09?

MR. IAN PAGE: The -- yeah, that -- that's true.

THE CHAIRPERSON: Mr. Page, are you aware of the future prices of currency that they trade on the markets all the time?

MR. IAN PAGE: Yes, I am.

THE CHAIRPERSON: So you know that they are considerably more favourable for the Canadian dollar going out than these ones are?

MR. IAN PAGE: I am. I'm also aware that the -- the volumes of those trades drops off rapidly as you go further out. The same as -- as with the natural gas futures. There's an awful lot of activity in the shorter term and less activity in the longer term.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: At what point in time, Mr. Page, will the Corporation revise its long-term forecast for foreign exchange for IFF purposes?

(BRIEF PAUSE)

MR. IAN PAGE: I -- I believe that forecast is -- is scheduled to be taken for approval next month.

(BRIEF PAUSE)

MR. BOB PETERS: And you indicated to the Board that you update the foreign exchange for IFF purposes, and you did so for IFF-07-1.

And you've subsequently done a further update, did I gather, from -- from that?

MR. IAN PAGE: The -- the numbers I gave that were used in the forecast, that was the July update. The -- the numbers that were in that -- in that Tab 45 would be the raw numbers that would have gone into -- into the outlook that was done in -- in the spring.

So those would be -- those would be, essentially, what would be -- we'd be seeing again next -- next month, a newer version of those.

MR. BOB PETERS: And you're in the process of compiling that?

MR. IAN PAGE: Yes.

MR. BOB PETERS: In terms of the overall effect on retained earnings in your IFF-07-1, am I correct in understanding that those retained earnings would decrease by only $170 million if the exchange rate was at unity for the entire period?

MR. IAN PAGE: That -- that's what we projected. We've got an extensive exposure management, program so the impact is limited to the portion of -- of the dollar flows that aren't -- aren't matched one (1) for one (1).

MR. BOB PETERS: All right, well that's interesting. What you're telling the Board is that your US sales are denominated in US dollars --

MR. IAN PAGE: Yes.

MR. BOB PETERS: -- and your -- a lot of your long-term debt is also denominated in US dollars?

MR. IAN PAGE: Yes, that's correct. And we also use US dollar sinking funds as well to -- for the debt retirement, which would earn interest in US dollars.

MR. BOB PETERS: And so while that may not be a perfect hedge, it only exposes the financial planning over this IFF horizon to a $170 million of variance if unity was achieved?

MR. IAN PAGE: Yes, and that -- and that's quite a large swing from what we have in the -- in the IFF in terms of exchange rate.

MR. BOB PETERS: Sorry, you're -- you're -- what you're telling the Board is in the exchange -- in the IFF you're using exchange rates as high as a dollar sixteen ($1.16) US relative to Canadian.

MR. IAN PAGE: Yes. Using from a dollar seven ($1.07) to a dollar sixteen ($1.16), so it's quite a swing to take that all the way to -- to one dollar ($1.00).

And so that extreme of a swing, it -- it's still -- while it's -- it's not immeasurable and it's not insignificant, it's not unmanageable, the effect.

MR. BOB PETERS: I'd never call $170 million insignificant.

But -- but in terms of the big picture of the numbers we're looking at on this IFF and the billions of dollars to which it relates, it's a relatively nominal swing as a result of a major swing in the foreign exchange rate?

MR. IAN PAGE: Over the longer -- like -- yes, a swing of that magnitude has a fairly modest effect on our ability to achieve our targets.

(BRIEF PAUSE)

MR. IAN PAGE: I -- I should mention, you know, as we were talking about with a drought, you wouldn't just sit and watch it happen. If it looked like the dollar was going to be at a -- at -- move to -- move to a parity and stay there, then -- then you would, again, you'd -- you'd look at that and say, Well, maybe we need to do something different on the rates or -- or other things in order to -- to offset that effect. So you -- you wouldn't just sit and watch it happen.

MR. BOB PETERS: All right. And maybe just expand on that answer, Mr. Page, in terms of what actions you could take if you saw yourself in a situation like that.

MR. IAN PAGE: Well, I mean, an obvious -- an obvious thing that we could do is -- is look at, you know, currency swaps and so forth. Or -- or there could be -- or -- or if it looks like it was going to be a permanent thing and -- and the market didn't permit us to -- to economically do such -- something like, then -- then we would be looking at a -- a rate increase as a different -- changing the rate increase projections that we had in the IFF as a way to offset that.

MR. BOB PETERS: Seeking higher rate increases?

MR. IAN PAGE: Depending on which way the currency was going.

MR. BOB PETERS: Looking at another risk with you in the book of documents, I think Pages 15 and 16, at Tab 46, talk about changes in -- in escalation rate.

Is the Board correct in understanding that the assumed escalation rate for capital costs over the IFF period, Mr. Page, is 2 percent per year?

MR. IAN PAGE: Yes, that's what we've

projected.

MR. BOB PETERS: And that, again, is based on a forecast?

MR. IAN PAGE: Yes.

MR. BOB PETERS: A forecast that you develop on advice from other institutions?

MR. IAN PAGE: Yes, it's done at the same time as the exchange rate forecast.

MR. BOB PETERS: So it's also being updated?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And it was last done in -- was it last summer, the summer of '07?

MR. IAN PAGE: Exchange -- well, it would have been last done in March that it was -- or April. And there would -- there wasn't -- seem to be a need to update it in July like there was the exchange rate.

MR. BOB PETERS: And this escalation rate is the Corporation's forecast of what increases are going to come to some of the capital expenditures it's going to make?

MR. IAN PAGE: It's a forecast of CPI. And we -- we looked at whether we needed to develop a separate capital forecast.

And at the time it wasn't clear that all of the cost pressures that we'd seen in the last few years, it -- it wasn't clear whether those were going to continue or not. So for the time being, if -- if the forecast for capital like escalation was -- was -- or if the CPI was used as -- for the -- also for the capital escalation.

MR. BOB PETERS: And the CPI 2 percent increase is what's contained in the materials before the Board?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And Mr. Warden told us in his opening comments and a couple of other occasions that there are increased cost pressures, meaning the escalation is greater than 2 percent?

MR. IAN PAGE: We've certainly seen more than 2 percent on -- particularly on capital items in the last few years.

MR. BOB PETERS: And has that caused the Corporation to view it now being appropriate to do a new escalation forecast, at least for capital expenditures as well as the regular costs?

MR. IAN PAGE: It -- it gave us the -- the need -- the reason to have a look at whether that escalation was going to continue. And -- and the indicate -- indicators as of last summer were -- it wasn't likely to continue. Tha -- I don't know if we'd draw that same conclusion if we were to look at that today.

MR. BOB PETERS: But you are looking at it next month?

MR. IAN PAGE: They're look -- they're looking at it right now.

MR. BOB PETERS: And so in this scenario that you ran you assumed an escalation factor of 7 1/2 percent, a pretty significant increase over and above the 2 percent you'd been using?

MR. IAN PAGE: Yes.

MR. BOB PETERS: And even though the escalation rate went up 7 1/2 percent, the retained earnings over the planning horizon would drop down by, I guess, $850 million?

MR. IAN PAGE: Yes, that's what that projection shows.

MR. BOB PETERS: How likely is that scenario, Mr. Page or Mr. Warden?

(BRIEF PAUSE)

MR. VINCE WARDEN: Well, Mr. Peters, I think what we're finding is that for those that have the responsibility of putting capital project estimates together, when they're doing their estimates they know that the 2 percent is just not reality as -- in -- in terms of some the cost pressures we're -- we're seeing.

We're -- we're seeing transformer and other commodity costs going up 60/70 percent. So the 2 percent CPI is just not representative of our business anymore.

So what we are seeing is people who are responsible for putting estimates together, put -- building in large contingencies to offset the -- what they know to be too -- too low of inflationary estimates that -- that have been provided.

So we -- we do need a better method of providing forecasts for the future of -- of costs that are not being captured by a simple CPI app -- application.

MR. BOB PETERS: Those contingency amounts, Mr. Warden, are they reflected in the IFF?

MR. VINCE WARDEN: They are, to a certain extent. I wouldn't say they're 100 percent in there, but they are -- on each individual project, there are contingencies build in, to varying degrees.

MR. BOB PETERS: And those are contingencies over and above a 2 percent escalation fee?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Can you help the Board, by way of an example, Mr. Warden, and recount for us the historical public announced costs for the construction of the Wuskwatim Generating Station?

When this matter was back before the Clean Environment Commission -- and I guess it sounds like Mr. Williams was there -- what did you tell him was going to be the capital cost of Wuskwatim?

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, before I totally let you get to the microphone, I'm advised that PUB/Manitoba Hydro First Round Question 72(a) may be of assistance to you, and perhaps Mr. Derksen or Ms. Ramage can locate that and give you an opportunity to review that before you -- before you answer.

MR. VINCE WARDEN: Yes, Mr. -- Mr. Derksen has located -- yeah, 72(a). We have it here, Mr. Peters.

MR. BOB PETERS: All right. Then while you've got PUB/Manitoba Hydro First Round 72(a) in front of you, it did start off as if this project was looking at about $900 million in capital costs?

MR. VINCE WARDEN: That would be including the transmission, yes.

MR. BOB PETERS: Interesting that you would add that comment, Mr. Warden, because laterally you have excluded the Wuskwatim transmission costs in your -- in your forecast.

Would that be correct?

MR. VINCE WARDEN: No. Well, we've separated out the transmission costs, whereas initially, in -- in some of our early forecasts, we included it as part of the station costs. But for clarity -- for greater clarity -- we -- we now separate it out as a separate item.

MR. BOB PETERS: Okay, so for clarity, you started off at $756 million for an in-service cost, when you were before the Clean Environment Commission. That increased to $935 million in IFF-05-1. It increased further to $1.052 billion in IFF-06-4.

And in the IFF before the Board today, it's $1.236 billion, correct?

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

MR. BOB PETERS: All right. And then the transmission component -- why, first of all, did you pull the transmission out of -- out of the overall capital cost of the project?

MR. VINCE WARDEN: We simply did that so it was clear that the transmission was -- was a separate -- separate cost. And the -- the partnership -- the NCN does not -- does not participate in that transmission line, in terms of equity ownership.

MR. BOB PETERS: All right. But it's clear that the Wuskwatim Generating Station needs additional transmission, which started off at 145 million, escalated to 200 million in and IFF-05-1, a further escalation of 200 -- to 257 million in IFF-06-4 and, today, sitting in IFF-07, before this Board, is an estimate of $320 million.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And you -- you said that TCP or NCN's holding company will -- they will not have any ownership interest in the transmission, is what I understood your second-last answer.

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

MR. BOB PETERS: And that's because Manitoba Hydro is not prepared to negotiate ownership of transmission, other than with -- leaving it within the Corporation?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: But transmission is needed to move the electrons from Wuskwatim to market, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And will NCN or its holding company have any financial responsibility for transmission costs?

MR. VINCE WARDEN: Yes, there is a separate transmission agreement whereby NCN, the partnership, will pay a tariff for the -- for the cost of the transmission.

MR. BOB PETERS: And is that tariff a public document that's available to this Board?

MR. VINCE WARDEN: The tariff itself has not been calculated -- determined yet. It will depend on -- ultimately on the final capital cost of the transmission line.

MR. BOB PETERS: All right. And while I had some questions later on, let's -- let's maybe I'll go by memory right now, sir.

Part of the proceeds from the sale -- well first of all, the -- the sale of the electricity from Wuskwatim has to be priced at some value for purposes of allocating the revenues between the two (2) limited partners, correct?

MR. VINCE WARDEN: Sorry, Mr. Peters, would you repeat that question?

MR. BOB PETERS: In terms of your arrangement with NCN and/or its holding company, revenues have to be credited to the NCN limited partner from the Wuskwatim generating station, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And to attribute revenues, you have to know the volumes of production as well as the unit cost that will ascribe to the -- the outflows?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And Mr. Surminski can probably, with some precision, calculate the output of the generating station and you'd have that information?

MR. HAROLD SURMINSKI: Yes, the -- the generation will be -- will be metered and the payments will be made on the metered energy output of the plant.

MR. BOB PETERS: And do the payments, Mr. Surminski -- do the payments to TCP they have to assume a value, correct?

MR. HAROLD SURMINSKI: Yes, the power purchase agreement sets out the methodology that will be used in deriving the unit value for the energy. It will be payments on -- for energy only, not capacity. And the entire legal document has the methodology laid out exactly on -- on how the value will be determined, and it is determined on export sales.

MR. BOB PETERS: And while I'm maybe waiting to hear whether or not that document is available publicly to this Board, you're telling the Board that the value that's used on the output of Wuskwatim will be an expected export value, correct?

MR. HAROLD SURMINSKI: It will be based on the actual values achieved in the year and in the month that payments are being made.

And it's -- it's a formula, it's a ratio of -- subject to, you know, a particular relationship between the on-peak energy, the off-peak energy, the long term firm energy; all these quantities are ratioed in a particular way.

MR. BOB PETERS: All right. Maybe you've -- you've answered my next question in that last phrase, Mr. Surminski, but electrons are fungible, you can't trace their origin once they get on your grid.

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: And once they're on your grid whether they're used in a residential consumer's cooking range or whether they're shipped to Minneapolis, you're not going to be able to track each one of them.

MR. HAROLD SURMINSKI: Yes. The -- the intent of the power purchase agreement was to -- was to approximate the value to the Manitoba Hydro system of this energy flowing through the Manitoba Hydro system. So the methodology was based on an evaluation, on the long term evaluation of expected value of the plant to the system.

So it's -- it's not only the value to the hydro system, is not solely related to export because it will be used in time -- in low-flow times, for example, to offset thermal energy and import energy.

So when we do the evaluation, we consider all that. The value to the system in all flow conditions and the entire range of -- of flow conditions; when we talked about the '94 possible flow conditions. We value the plant under each of those flow conditions, and in the end the power purchase agreement is intended to approximate that value on an annual and a monthly basis.

MR. BOB PETERS: So I'd be wrong to call that an average export price that you'd be getting?

It would be unexpected value to Manitoba Hydro?

MR. HAROLD SURMINSKI: That -- the basis of the PPA was that, yes. But once you -- you fix that methodology out in time, it is possible that -- that it goes out of sync. It -- it may not represent that in the longer term. But when the methodology was derived, that certainly was the intent. It was the value to the Hydro system.

MR. BOB PETERS: And how often is the value of the output pri -- priced and adjusted in terms of the agreement?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: It's -- there is no -- no, correction, it's...

MR. BOB PETERS: So you've got to take your best shot at the outset, and then that's the number that you're having to live with over the balance of the agreement?

MR. HAROLD SURMINSKI: Yes. But it -- it's self-correcting in terms that it is related to the export market. The export market is a good indicator of value of energy. So you will not go too far off, because it is based on -- on something that is changing over time in the marketplace.

MR. BOB PETERS: In terms of output, Mr. Surminski, in the materials it appears that there could be as much as one thousand five hundred and fifteen (1,515) gigawatt hours a year from this plant.

Is that -- is that close?

MR. HAROLD SURMINSKI: My recollecti -- yes, one -- can you -- one thousand two hundred and twenty-five (1,225), something like that.

MR. BOB PETERS: All right. I might be just a bit lower than that at fifteen fifteen (1,515) but --

MR. HAROLD SURMINSKI: Oh, fifteen fifteen (1,515) is the average, yes. I was quoting the dependable quantity is -- is at twelve twenty-five (1,225) or so.

MR. BOB PETERS: And once electrons are generated, you've taught the Board, Mr. Surminski, over the years that once you put them on the -- on the transmission facilities, even though you can put a hundred (100) electrons on, not all a hundred (100) get off at the other end.

There's some losses en route?

MR. HAROLD SURMINSKI: Yes, transmission losses are a factor.

MR. BOB PETERS: All right. And how are the transmission losses factored into your agreement with NCN or TCP?

MR. BOB MAYER: Can I clarify something here? We're using the term TCP. I thought it was Taskinigahp Power Corporation.

MR. IAN PAGE: Actually, to be correct for this it's -- it's actually the Wuskwatim Power Limited Partnership is the owner of -- of the generating station.

MR. BOB MAYER: The holding company.

MR. IAN PAGE: That's -- that's the -- the partner between Manitoba Hydro and NCN. And that -- that's the entity we should be referring to in this case.

MR. BOB MAYER: And what's its name?

MR. IAN PAGE: Wuskwatim Power Limited Partnership.

MR. ROBERT MAYER: Okay. Where are we coming up with the term TPC or TCP, which we came up with this morning and I had never heard of before?

MR. IAN PAGE: Taskinigahp Power is the investment entity that NCN will be using to further the trust that they will using to invest their money in the Wuskwatim Power Limited Partnership.

MR. BOB MAYER: And the initials for that are TPC, right?

MR. IAN PAGE: Yes.

MR. BOB MAYER: Thank you.

CONTINUED BY MR. BOB PETERS

MR. BOB PETERS: And -- and I apologize

for using the wrong acronym, at least this afternoon. TPC is the -- is the limited partner of the holding company of NCN, as I understand it.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Page, can I try that again with you?

And -- and TPC is the holding company, I'm sorry, is the limited partnership that is used by NCN for investment in this project?

MR. IAN PAGE: Yes, it's their investment in the Wuskwa -- in the WPLP.

MR. BOB PETERS: Yes. All right.

And let's get back to my question now about line losses and transmission losses.

And what percentage or what amount of line losses does the Wuskwatim Power Corporation have to account for?

And then, in turn, how are the limited partners accounting for their share or those line losses?

MR. HAROLD SURMINSKI: The losses for the -- for the NCN end of it, it's the metered energy. And we just have a average system factor for the losses that are applied for -- for the net energy that they will be paid for.

MR. BOB PETERS: All right. So you'll -- you'll know how much is generated from the -- from the generating station, and you will reduce that by the amount of average system losses, Mr. Surminski?

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

MR. BOB PETERS: And can you tell the Board what are average system losses as a percentage on generation?

MR. HAROLD SURMINSKI: In the order of 9 1/2 to 10 percent.

MR. BOB PETERS: And why is it that you use average system losses and not a more, perhaps, more accurate measurement just from that generating station, sir?

MR. HAROLD SURMINSKI: Just for that reason. It's very difficult to trace electrons and -- and power flows.

MR. BOB MAYER: Mr. Surminski, I remember back at the CEC hearings and you gave me exact numbers on what it would cost to route the power -- the transmission line the way I had thought I might want to suggest. And you gave me real numbers, or at least you told me they were real numbers.

The -- by route, you gave me the difference in cost from going from Wuskwatim Generating Station directly to your already existing right-of-way on Highway 6. You took it down Highway 6 to the -- to the station at Ponton, I believe, and ran it up to Herblet Lake on the existing AC line that comes out of Grand Rapids.

Do you recall doing that?

MR. HAROLD SURMINSKI: It wasn't me specifically. It was probably a transmission planning person for Manitoba Hydro.

MR. BOB MAYER: But we were pretty specific, so obviously you appeared to have the ability to do that so why are we -- are we going -- averaging now when it looked like what we did at Clean Environment Commission Hearings was pretty specific?

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Peters, we'll just take our break now, okay?

MR. BOB PETERS: Thank you, sir.

THE CHAIRPERSON: We'll be back in 15 minutes.

--- Upon recessing at 2:40 p.m.

--- Upon resuming at 3:04 p.m.

THE CHAIRPERSON: Okay, welcome back everyone.

Mr. Peters...?

MR. BOB PETERS: Thank you, Mr. Chairman. I had asked Mr. Surminski a question about export price assumptions and believe he may want to reflect further on that, on the record.

MR. HAROLD SURMINSKI: Yes, thank you, Mr. Peters. Just in answer to the question of average export prices going from the average of five (5) in the early years to nine (9) by the end of the IFF period, and you asked what -- what's the reason or how we determine some of that, what I mentioned was the fundamentals in the market, like natural gas prices.

What I had failed to mention was the other significant factor that we incorporate in our forecast is consideration of environmental emissions, greenhouse gases, and consideration of how greenhouse gases legislation in the US. We anticipate and we get forecasters -- we buy forecasts from several experts on their view of -- of how greenhouse gas legislation, how quickly it will come, to what degree, and what the impact could be on -- on prices.

So a significant -- a significant factor in the period after 2012 is the greenhouse gas consideration.

MR. BOB PETERS: Mr. Surminski, maybe you could now give me a primer on the current state of North America in terms of its greenhouse gas considerations.

Are there any greenhouse gas taxes or carbon taxes, if you will, in Canada?

MR. HAROLD SURMINSKI: Yes, I'm aware of a tax in BC recently.

MR. BOB PETERS: Any other jurisdiction?

MR. HAROLD SURMINSKI: Yeah, we believe that Quebec also...

MR. BOB PETERS: And those are the only two (2)?

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: And in terms of those markets, it would be fair to say those -- those taxes are imposed by the Provincial Government and not a Federal Government tax?

MR. HAROLD SURMINSKI: Yes, certainly.

MR. BOB PETERS: And can you explain briefly to this Board and recognizing they're different in each jurisdiction, how those jurisdictions treat the carbon tax issue, that is BC and Quebec?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: We cannot respond with specifics but an example is on -- on gasoline they will have a tax of something like two and a half (2 1/2) cents a litre so it's -- it's a fixed -- and increasing over time.

MR. BOB PETERS: The purpose of your -- inflating your assumed export values by an amount attributed to a greenhouse gas consideration, is the expectation that somewhere along the way there will be a carbon tax which will make Manitoba Hydro's production more valuable than it presently is?

MR. HAROLD SURMINSKI: Yes. It could be a carbon tax, or could be consideration of -- of the emissions in -- in some way, yes.

MR. BOB PETERS: Can you indicate what amount you build into your assumed future export prices on account of greenhouse gas emission credits?

MR. HAROLD SURMINSKI: No. That is confidential information. It's very -- very much of interest to our counterparties in negotiations. That's one (1) of the advantages we have in the US and if we gave away that we would compromise our negotiating position.

MR. BOB PETERS: You came up with your number, in terms of the value of your exports, based on the reports you've received from various consultants.

Would that be fair?

MR. HAROLD SURMINSKI: Yes, we -- we have about five (5) consultants and -- and we also apply judge -- some judgment on how we weight the various consultants depending on -- we have conference calls, we have visits with these consultants, and we weight the forecast according to how credible they appear to us.

MR. BOB PETERS: Are those forecasts publicly available forecasts from the consultants or are those proprietary to Manitoba Hydro?

MR. HAROLD SURMINSKI: They are proprietary. In some cases some portions are releases but generally they're proprietary.

MR. BOB PETERS: And in your export pricing you're then assuming that there will be added value to your electrons because they're generated from water as opposed to a thermal generation source, correct?

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

MR. BOB PETERS: And that assumes that

the purchaser is prepared to pay a premium because of that benefit.

MR. HAROLD SURMINSKI: Yes. The purchaser sees the -- the future legislation -- the possibility of the legislation unfolding, so they're trying to anticipate also. So in a long term contract they try to lock down or guarantee, you know, a price that -- that maybe would cap the risk to them of future legislation.

MR. BOB PETERS: Then can you tell the Board what is the -- existing in Manitoba there is no legislation of a carbon tax or any greenhouse gas emissions tax?

MR. HAROLD SURMINSKI: That's correct.

MR. BOB PETERS: And is it Manitoba Hydro's expectation that that will change in the near term?

MR. HAROLD SURMINSKI: That -- there will be some kind of a provincial tax, are you asking?

MR. BOB PETERS: Yes, I'm asking.

MR. HAROLD SURMINSKI: No, we don't know.

MR. BOB PETERS: So you're operating on the assumption that there will be no provincial tax?

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

MR. BOB PETERS: And in terms of your

exports, let's say to the State of Minnesota, what is the assumption on which you're operating in -- in there? That there will be a tax at a certain level? Or there will be a different way to deal with greenhouse emissions?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: It's difficult to -- to answer that, because there are general considerations for the entire US from the federal level, and states act on their own in many case. But -- so we are responding more generally to -- to a federal US legislation.

MR. BOB PETERS: And just help me out. What stage is that legislation in?

MR. HAROLD SURMINSKI: It's -- it's very unknown. There are many senators that have bills and various combinations. So that's what part of our -- that's what our consultants look at.

For example, there is the Lieberman combination. There's different senators that have different bills that they are proposing for future legislation. So it's a question of which of those -- it could be up about five (5) of those are most likely in --

in the future. And it could be years before that's finalized.

MR. BOB PETERS: And in the materials that I reviewed, there was some -- some indication that the value of the fact that the electron was generated from hydro source is a matter of negotiation as to who takes credit for that or who gets the benefit of that, both financially and in -- and in terms of greenhouse gas reduction levels.

Would that be fair?

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: So that's another negotiating issue, that when you're looking at a long-term contract, the benefits of generating electricity from water can be sold along with the electron?

MR. HAROLD SURMINSKI: Yes, certainly.

MR. BOB PETERS: Or else you can hold back on the benefit and keep it for Manitoba Hydro's purposes and claim that credit in some other forum?

MR. HAROLD SURMINSKI: Yes, if -- if you expect that there could be some other forum.

MR. BOB PETERS: Well -- and -- and presently does Manitoba Hydro expect there will be some other forum to -- to claim that benefit?

MR. LLOYD KUCZEK: I -- I guess what --

and just to add a little clarification to what you said earlier. We -- we do believe there's going to be value to CO_2 emissions, or the reduction of, both in Manitoba and elsewhere.

You made the comment that we're moving forward, assuming that's not the case in Manitoba. But we are assuming that in Manitoba as well.

What we don't know is what the provincial government is going to do, and we don't know in what form or how this value is going to be extracted. But we do believe that there will be a value associated with the reduction of CO_2 emissions going forward.

MR. BOB PETERS: And, presently, Manitoba Hydro is trading those credits on the -- on a Chicago exchange, correct?

MR. HAROLD SURMINSKI: It's -- it's a very limited, almost a voluntary basis that we are doing that on.

MR. BOB PETERS: You're doing it for the practice, if I can put it in the vernacular.

MR. HAROLD SURMINSKI: That's a better -- that's a good way of -- of describing it, yes.

MR. BOB PETERS: And -- and by doing it for practice, you're not intending to put the Corporation in any great financial risk?

MR. HAROLD SURMINSKI: Yes.

MR. BOB PETERS: And nor would Mr. Warden let you?

MR. HAROLD SURMINSKI: That's probably right.

MR. BOB PETERS: All right. You -- you had said in a previous answer, Mr. Surminski, that -- that it may be years before the US legislation comes to pass.

But why is it that you build those assumptions into your IFF so early?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: We develop our -- our export price forecast for several reasons, and the IFF is -- is one (1) of those. But the export price forecast -- the forecast is also used as a -- as a benchmark for negotiating long-term sales.

So our expert power marketing group utilizes our forecast to a great degree in guidance as to what they should be asking for and what kind of contracts they should be signing.

MR. BOB PETERS: Thank you, Mr. Surminski. You probably didn't expect all those questions after you came on the microphone after the recess, but I want to get back, if I could, to the Wuskwatim Power Limited Partnership and related matters.

I had understood from a previous answer that the Wuskwatim Power Limited Partnership was being charged for energy costs but not for capacity costs.

Did I understand that right?

MR. HAROLD SURMINSKI: Yes, in terms of the -- the Power Purchase Agreement are -- in terms of energy only, metered energy.

MR. BOB PETERS: And when you're talking capacity costs that have been incurred, some of those would include the -- the capital cost of the transmission facilities to move that capacity?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: We're uncertain as to how you're bringing the -- the transmission and -- and -- into the capacity question for output at the plant.

MR. BOB PETERS: All right. Then I misunderstood. In terms of output at the plant instead of charging on a -- on a per-megawatt basis, leave that on a gigawatt hour basis?

MR. HAROLD SURMINSKI: That's right.

MR. BOB PETERS: All right.

MR. HAROLD SURMINSKI: It's possible to -- to have payment based on megawatts but we have rolled it in into an all-in price and -- and just have the pricing based on the energy.

MR. BOB PETERS: And this is as a result of this agreement that you have with the Wuskwatim Power Limited Partnership?

MR. HAROLD SURMINSKI: It was -- yes, it was specifically the terms of that partnership. We -- we got -- talked about possibly having energy in capacity, but that was the -- at end of the negotiations was -- was that energy was -- was a clean way of -- of measuring the output and paying for it.

MR. BOB PETERS: And is this agreement, Mr. Warden, a one-off arrangement? Or is this seen as a template for future agreements in northern Manitoba?

MR. VINCE WARDEN: I believe we view this as a template.

MR. BOB PETERS: So what you're saying is what you've done with respect to Wuskwatim, you're also prepared to do with other generating stations?

MR. VINCE WARDEN: No. Some variations there, but that doesn't necessarily mean that we'll -- we'll use the identical model that we have with the

Wuskwatim Partnership.

MR. BOB PETERS: Is there a desire on Manitoba Hydro's part or any other party's part to have a similar agreement for your next generating station after Wuskwatim which, I understand, is Conawapa?

MR. VINCE WARDEN: There will be an agreement of some form. Whether it will be -- will follow the form of the Wuskwatim Partnership is yet to be determined.

MR. SURMINSKI: In addition, the Keeyask is -- the Keeyask Plant is another alternative and we currently are in the process of -- of an agreement that's generally following the Wuskwatim model for Keeyask. But for Conawapa, I think, the -- the thinking has been that we would not follow that model.

MR. BOB PETERS: All right. And maybe in misunderstood an exchange with the Vice-Chair, but I thought Keeyask was on the relative backburners compared to Conawapa, which would have been the next assumed generating station built by Manitoba Hydro after Wuskwatim?

MR. HAROLD SURMINSKI: In -- we are protecting Keeyask as -- as the next alternative so we -- actually our negotiations on partnership are more advanced than they would be for Conawapa. This was --

this was a plan or -- that was undertaken several years ago to -- to protect the -- the Keeyask as an option.

And Conawapa is in our IFF as the most economic but it's by no means committed to at this time. So either one of those two (2) could be the -- the next alternative or I tell -- the combination of the two (2).

We are very much looking in close succession, Keeyask in 2018 and Conawapa in '21 or '22. If we have export contracts, significant export contracts, we are very much interested in the two (2) plants, in close succession.

MR. BOB PETERS: All right. Thank you for that clarification, or at least further information.

And in respect of Keeyask, Mr. Surminski, you're indicating that the Wuskwatim Power Limited Partnership might be a template for that generating station.

But you don't see the need for such a comprehensive agreement relative to Conawapa?

MR. HAROLD SURMINSKI: Yes, that's my understanding from -- from the -- from where things are at in terms of plans. Mr. Warden might be able to add to that.

MR. VINCE WARDEN: Well, the only thing I would add is it -- it really is quite premature. We're -

- we're still in negotiations. So, yeah, I wouldn't want to comment too much more than that at this time.

MR. BOB MAYER: Mr. -- Mr. Warden, the fact that you're in negotiations is hardly a secret. I mean, it's certainly not a secret where I live. And who you're negotiating with doesn't appear to be a secret either.

I mean, Tataskweyak Cree Nation and the York Factory Band have direct int -- interest right on Split Lake and would certainly expect to have some kind of similar deal to what Nisichawayasihk got out of Wuskwatim because of the direct effect upon their -- their traditional lands.

I'm not sure what effect Conawapa would have on Fox Lake, since my understanding is is that if it were built, it would back the water up to the base of limestone, for which Fox Lake has already been somewhat compensated.

But so am -- am I missing something here? The fact that -- that something's happening at Split Lake is well known. And I'm assuming that that kind of -- at least the word on the street is that -- that they're looking for something similar, if not a little better, than Nisichawayasihk got, but that kind of a template agreement respecting Keeyask.

Am I wrong? Is -- is my -- are my assumptions wrong, or what I heard wrong?

MR. VINCE WARDEN: Mr. Mayer, the only point is, and I think Mr. Surminski made it earlier, is that no commitment has been made at this point in time. It could be Conawapa that it's in our -- our sequence at this point in time for 2021. It could be Keeyask for 2018.

No -- no commitment has been made to either plant at this time. We're still under negotiations and one (1) or both may go forward.

MR. BOB MAYER: I understand that. And -- and I heard that said before. My -- I had been led to believe that negotiations on whatever deal would be made, were Keeyask to be built, were a lot farther along than I seem to be hearing now.

In fact I've heard talk of votes and referenda if the band level to deal with -- with memorandums of understanding.

Am I right or are -- am -- am I misinformed?

MR. VINCE WARDEN: You -- I'm sure you're well informed, Mr. Mayer. I -- you're probably better informed than I am. I'm not aware of any eminent vote that would take place on Keeyask.

MR. HAROLD SURMINSKI: Yes, I can confirm that. There is target dates, very aggressive target dates, to have an agreement in place and a vote. But it is taking a lot longer, and it's not going to be very quick here.

MR. BOB MAYER: Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Page, when you told me about IFF-07-1, I had understood from previous answers that approximately 2 billion of the 5 billion costs of Conawapa were already reflected in the IFF that's before the Board today, that's IFF-07-1.

Is that approximately correct?

MR. IAN PAGE: Yeah, the -- in the IFF about a little over $2 billion of capital is projected to be spent during the IFF period.

MR. BOB PETERS: All right, so you're -- good answer, because in light of what I heard from Mr. Surminski and Mr. Warden, of that $2 billion that's forecast to be spent, I'm hearing it now you're not sure whether it's going be earmarked for Conawapa or for Keeyask.

Would that be fair?

MR. IAN PAGE: Well, there -- there's no

commitment to eith -- to either plant. This is the working assumption and -- and is -- is that Conawapa will be the next plant. In order to make the forecast meaningful we have to put something in there.

And we realize there's going to be spending on something, so Conawapa's currently seen as the most economic plant. So there's the capital expenditures related to putting Conawapa in service in '20/'21 is in the -- is the net forecast.

But there's certainly no commitment to build Conawapa at this point.

MR. BOB PETERS: And there's also a protection of Keeyask for 2018 built into your assumptions?

MR. IAN PAGE: Yes. There's -- there's expenditures to protect an early in-service date for Keeyask as well.

MR. BOB PETERS: And the total capital cost, you'll have to refresh my memory, on Keeyask would be approximately how much?

(BRIEF PAUSE)

MR. IAN PAGE: It's -- they're very dependent on the in-service date. As -- as the in-service date goes out longer, then the protection activities go up, and then obviously escalation's higher.

The last number that I think we've had in an IFF was around $3 billion, I think. That was the last time it was in an IFF. But that was -- I think that was for about a 2013 or '14 in-service, which obviously is not going to be achieved now.

MR. BOB PETERS: Okay, so what I'm trying to understand is if you have $2 billion in the current IFF before the Board for future generating stations in Northern Manitoba, and accepting you don't know for sure which one will -- will be the -- the next -- the next plant, but you've already got 2 billion committed.

How much of that will be --

MR. IAN PAGE: Sorry, 2 billion's not committed.

MR. BOB PETERS: Well, it's in the IFF.

MR. IAN PAGE: Yeah. There's no commitments made to spend that.

MR. BOB PETERS: All right. All right. And are you telling the Board, then, that -- that $2 billion will be transferrable whether it's Conawapa or Keeyask? It could be transferred from one to the other?

Or will there be -- will there be monies needing to be capitalized for planning studies if the one

(1) didn't get put in service?

MR. IAN PAGE: It's not just a $2 billion placeholder that's put in there. I mean, if -- if Keeyask was built and its costs were lower than Keeya -- for Conawapa, then the -- then the costs will be adjusted to reflect the capital costs for -- for Keeyask.

If we decide to abandon one (1) plant for some reason, and then we'd have to decide what to do with the planning studies at that time. But right now, there's no decision to do that.

(BRIEF PAUSE)

MR. BOB PETERS: Not dealing with the likelihood of it happening, Mr. Page, but what you're telling the Board is that that $2 billion that's in the IFF-07-1 could -- could be removed from the forecast if the Corporation had a -- a change of plans?

MR. IAN PAGE: Well if -- if we were to build Keeyask for 2018 instead of Conawapa for 2021, there would be less dollars spent than for Conawapa, but it would be spent earlier than what we're saying in this forecast.

MR. BOB PETERS: When we talked about the Wuskwatim costs -- and Mr. Warden agreed with me when I reviewed PUB/Manitoba Hydro First Round 72 Question A -- when we look at the increase in costs from the CEC to IFF-05-1 to IFF-06-1 to IFF-07-1, that's escalating at almost a 17 percent rate over those -- those years, over those different assessment periods, Mr. Page.

Is there -- is there an expectation that there will be a continuation of the escalation in that -- in that magnitude?

MR. IAN PAGE: First you have to recognize there's different in-service dates in there. So as the -- if the in-service date gets -- gets drawn out, then the planning -- because of, say, extended planning and licensing activities, well those -- there's costs associated with those, which will drive the cost up as well. So it's not just a simple escalation.

To the best of my knowledge the -- the Wuskwatim estimate is there's -- there's a high degree of confidence in that number that we're using now.

The -- the -- obviously the certainty gets -- the closer you get to the project, the higher the certainty gets.

(BRIEF PAUSE)

MR. BOB PETERS: I'm not sure from that

answer, Mr. Page, if you're agreeing or disagreeing with me.

But if the -- but if the in-service date remains at 2011/'12, is the Board going to see next year the cost of the Wuskwatim Generating Station being up another 17 1/2 percent, closer to $1.5 billion?

MR. IAN PAGE: My understanding now is that's it's probably likely to be 2012/'13. But I -- from what I understand, there's a lot less scope for cost increases than we'd seen in the past, simply because a lot -- a lot of the excavation work has been done.

So the -- the risk of those cost increases are now gone, because the work has already been done. So -- so as -- as more work is done, there's less -- there's less scope for cost increases.

MR. BOB PETERS: All right. But there'd be additional planning study costs then if it was pushed out a further year?

MR. IAN PAGE: It'll -- yeah, and it'll -- and -- and it's going to depend on the nature of what happens during that time.

MR. BOB PETERS: Can you explain to the Board why the transmission cost escalation appears to be significantly higher than the cost of the generating station?

MR. IAN PAGE: My understanding is that the -- the nature of the -- of the expenditures is different. Like, steel and -- copper have -- have seen -- and transformers have seen a higher degree of escalation than has concrete or general civil works.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Page or Mr. Surminski, one (1) of the questions that was asked of Manitoba Hydro in the first round -- it was PUB Question 35(d) -- asked for a detailed breakdown of the components of net revenue, finance expense, and operating expenses for the Wuskwatim Power Limited Partnership.

And the answer, to paraphrase, was to the effect that that updated information was going to be reviewed by the general partner board of directors in December and then made available once the review is complete.

Do you recall that question and that answer?

MR. IAN PAGE: Yes, I do.

MR. BOB PETERS: And is that document now available for public disclosure? And if it has been disclosed, where -- where is it?

(BRIEF PAUSE)

MR. IAN PAGE: On a summary basis, there was -- there was some information provided in PUB Round Two Question 3(b), and that's -- that's in your -- that's in your Tab 47.

As far as further details, actually, the request ended up going to the Board in -- in January. So we're -- we're in -- currently in the process of putting together the more detailed information.

MR. BOB PETERS: So it's still not available?

MR. IAN PAGE: Not as of yet.

MR. BOB PETERS: And if it is available and when it is available, it'll be provided to this Board?

MR. IAN PAGE: Yes.

MR. BOB PETERS: All right. Well, thank you for that undertaking.

--- UNDERTAKING NO. 8: Manitoba Hydro to provide Board a detailed breakdown of the components of net revenue, finance expense, and operating expenses for the

Wuskwatim Power Limited Partnership

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: While you're at Tab Number 47, and hopefully the Board is with us as well, looking at page 1 of Tab 47, there's an indication that a transmission charge was going to be levied against the -- the partnership, and that would then flow down to the various limited partners.

Would that be a correct assumption from PUB First Round Number 4(c)?

MR. IAN PAGE: Yes. Under the interconnection operating -- well, there's an interconnection and operating agreement has to be signed to connect any new generating station to the Manitoba Hydro system. And that -- that's sort of in the for -- in the form of an open-access tariff that any -- any utility -- actually, anyone in the MISO area would have to follow in -- in general form.

And that's -- under that tariff, the -- any -- a new generating station that connects is responsible for all the incremental costs of -- of connecting to the system.

MR. BOB PETERS: But the answer given,

Mr. Page, at -- in PUB First Round Number 4(c), appears different than the answer that came back in the Second Round Question Number 3 found at page 4 in the top right-hand corner of Tab 47.

And my understanding is initially there was going to be a transmission charge levied to recover such things as depreciation and interest, and then subsequently, there was going to be no transmission charge levied?

MR. IAN PAGE: What we had originally envisioned at the time of the -- of the Hearing was that we would calculate the cost to the facilities and work out some sort of annual annuity based on the interest depreciation operating and charge that to the -- charge that to the partnership.

Subsequently, when we got further along with the transmission people, we found we had to sign this interconnection operation agreement.

The way the transmission costs are being recovered now is that all of the incremental costs -- all the -- the costs associated with all the incremental facilities, which are the -- what you saw on that list of transmission costs of that three hundred (300) and some odd million dollars. All of those costs are the responsibility of the partnership.

And then there's a financing arrangement where -- where Manitoba Hydro will loan the money to the partnership, will up -- essentially upfront those costs. And then -- and then there's -- and then they're recovered on a -- on a blended interest -- principal and interest basis on -- on -- as on an ongoing basis. And operating costs are charged separately.

So in effect, it gives the same result as if we'd charged interest and depreciation.

THE CHAIRPERSON: Is there a charge for existing --

MR. IAN PAGE: No.

THE CHAIRPERSON: Though it is not on a full cost basis?

MR. IAN PAGE: It's -- it's the interconnection operating agreement is -- is -- charges on a purely incremental basis. So if -- if they drive the -- the advancement of -- of a facility that's -- that may be otherwise be used by Hydro, they will pay the full cost of that. And then when Manitoba Hydro determines that it -- now they need it for network use, they would get -- get some credit for it.

But if they're -- if they're using some existing facility, that's not deemed to be an incremental cost that they're driving, so there is no cost for that.

MR. BOB PETERS: And you've also determined in your answer, I think, Mr. Page, that there are new incremental facilities that are being advanced earlier than what Manitoba Hydro would need them in any event?

MR. IAN PAGE: There was the -- at -- at one (1) point early on in the discussions there was a -- it was thought that the Herblet Lake/The Pas line was going to be advanced a couple years to meet the Wuskwatim in Service 8 (phonetic). And then Wuskwatim in Service 8 moved backwards from what was in the -- it slipped back from what was -- it -- it what was assumed at the time of the CEC hearing, so there was no longer an advancement of anything at that point.

So that's -- that's why those facilities are shown separately often from the Wuskwatim facilities, because they're -- they're being utilized by Wuskwatim, but they're not on an incremental basis being driven by Wuskwatim.

MR. BOB PETERS: So in answer to my question, there are no incremental facilities being advanced earlier than what Manitoba Hydro would ordinary plan for them, but for Wuskwatim?

MR. IAN PAGE: All the facilities that are assigned to Wuskwatim now are -- are those that would be incrementally required for Wuskwatim, but otherwise would not have been -- or not -- were not foreseen for -- for the -- or the use for Manitoba Hydro.

MR. BOB PETERS: All right, thank you. And then on answer to PUB/Manitoba Hydro Second Round 3(d), found at page 4, of Tab 47, the last sentence says:

"The Wuskwatim Power Limited Partnership will be charged the actual cost incurred for operating and maintaining the incremental facilities."

And that actual cost, you've told me in a previous answer, is -- comes to the same result as if there were depreciation and interest charged separately?

MR. IAN PAGE: What I'd said before is if we take the -- the total dollar value of the capital cost, essentially loan it to the partnership, and then turn that out and have a -- a blended principal and interest payment, that'll be the equivalent to charging the interest and depreciation. The operating costs would be above and beyond that in either method.

THE CHAIRPERSON: Mr. Page, just so I understand you correctly, you are saying then that other than for picking up incremental costs, there is no charge to the partnership for carrying the power down South?

MR. IAN PAGE: Yes, that's -- that's the way the open access tariffs operate, because my understanding is that the -- is there's no cost for within a jurisdiction. If -- if we were charging them to take the power across into another jurisdiction, then there would be a tariff applied for that.

But Manitoba Hydro is -- is taking -- is taking the possession of the power at -- at the tail rates essentially of the generating station. So it's Manitoba Hydro taking the power across the transmission -- across the border, if it goes that way. So that's why --

THE CHAIRPERSON: But you are --

MR. IAN PAGE: -- no tariff applies.

THE CHAIRPERSON: -- but you are paying the partnership on the basis that the power is delivered?

MR. IAN PAGE: We're paying the partnership on the basis of what the power is worth to the Manitoba Hydro system. Ultimately, none of it may end up going to the export market. We just don't know. I mean, it may -- by putting this in the system, more Pointe de Bois power may go to the export market. It's very difficult to trace the Wuskwatim power.

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: On the transmission losses, Mr. Page, I think you had told me before the afternoon break -- or maybe it was Mr. Surminski -- that the -- the system average losses being assigned to the output from Wuskwatim was approximately nine and a 9 1/2 to 10 percent?

MR. HAROLD SURMINSKI: Yes, I did acknowledge that, yes.

MR. BOB PETERS: And is that the same number that would apply, Mr. Surminski, if you were exporting power down to, say, Minnesota? Would that be the expected line loss?

MR. HAROLD SURMINSKI: That is the line loss to the -- basically to the Manitoba border. No, it would be at a loss in the US to -- to a market as far as Minneapolis, say.

MR. BOB PETERS: And if you were exporting -- if you could stream the output from Wuskwatim specifically to Minnesota, you would also then have to negotiate and deal with the line losses once it got south of the 49th parallel?

MR. HAROLD SURMINSKI: Our transactions are at the border. The counter party is responsible for -- for loses and transmission in the US.

(BRIEF PAUSE)

MR. BOB PETERS: Just because I wanted to move to a new area, Mr. Page and Mr. Warden, in the financial statements, that's included in the annual report of the Corporation which was filed in support of this application, Note 18 is telling parties that TPC has already been loaned money to the extent of approximately $14 million from Manitoba Hydro.

Is that correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that money that was loaned was to support their contribution towards the equity in the Wuskwatim Power Limited Partnership?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And there was a request made to provide the financial statements from...

That was in PUB/Manitoba Hydro Second Round Number 4, the financial statements for the Wuskwatim Power Limited Partnership, as well as a numbered Manitoba company. And it was our understanding that those would be provided after a -- a Board meeting had taken place.

Are those going to be provided?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. I'm not sure if they have been to date, I --

MR. VINCE WARDEN: I think they -- they have been provided, I believe.

MR. BOB PETERS: Is that the general partnership or the limited partnership, Mr. Warden?

MR. VINCE WARDEN: That's the limited partnership.

THE CHAIRPERSON: Just while people are looking, I am just wondering: Why would an advance be placed on the balance sheet under deferred charges?

(BRIEF PAUSE)

THE CHAIRPERSON: If it is a loan, presumably it would be accounts receivable, not a deferred charge?

(BRIEF PAUSE)

MR. VINCE WARDEN: Your point, Mr. Chairman, that -- that why would that be in deferred charges as opposed to accounts receivable, well, accounts receivable would be typically something that's collectible within a short period of time. And this is going to be over extended period of time.

THE CHAIRPERSON: Isn't a deferred charge something that eventually ends up in the expense, like, it is a...?

MR. VINCE WARDEN: Not always.

THE CHAIRPERSON: Okay. I am just not familiar with that approach. Thank you.

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Just on, sorry -- sorry, go ahead.

MR. VINCE WARDEN: I'll leave it at that after all. Thanks.

(BRIEF PAUSE)

MR. BOB PETERS: Just for the ease of Manitoba Hydro, I was checking to see if those financial statements are on the record of these proceedings. Appendix 14 has the general partners' financial statements.

MR. BOB PETERS: But we were wondering -- the general partners' financial statements are Appendix

14.

But I'm just wondering if the limited partners' financial statements have made it to the record of this proceeding?

MR. VINCE WARDEN: Mr. Peters, I can confirm that they were approved for release to the Public Utilities Board. We're just not sure whether they've actually been transmitted yet. But if not, we'll make sure they -- they are immediately.

MR. BOB PETERS: Many thanks for that undertaking.

--- UNDERTAKING NO. 9: Manitoba Hydro to indicate to Board whether limited partners' financial statements have been released to the Board yet, and if not, to make sure that they are

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Just help the Board before I conclude on this areas of Wuskwatim Generating Station.

Mr. Page, you -- you told us that if -- if the Corporation is not in a positive financial position, and it appears from your forecast that it won't be for the first many years, is that correct?

MR. IAN PAGE: Like all hydraulic generating stations, you typically experience operating losses initially because the -- the high degree of fixed costs. And then it takes a while for the revenues to catch up with inflation.

MR. BOB PETERS: And during that time where it's losing money, if I can, there won't necessarily be a cash call as long as the equity doesn't drop below 15 percent?

MR. IAN PAGE: That's right. The distributions are -- are based on -- on the debt/equity ratio, and -- and they're triggered on by the 75/25.

If the -- if that seventy-five (75) is exceeded and it's allowed to be exceeded for the first ten (10) years of operations, there's no distributions and no cash calls, so that even if there was -- if it went up to 84 percent, made some -- made some money, there wouldn't be a distribution.

And there wouldn't -- and neither would there be a cash call necessarily if there's a loss as long as it stayed within that seventy-five (75) to eighty-five (85) band.

MR. BOB PETERS: All right and let's

assume that the losses take the capital structure outside of the 85/15 and the debt gets higher than 85 percent.

At that point will there be a cash call?

MR. IAN PAGE: Yes, there would be.

MR. BOB PETERS: Is it proportionate two-thirds (2/3s), one-third (1/3) on each of the limited partners?

MR. IAN PAGE: 33/67 actually, but yes, proportionately.

MR. BOB PETERS: Sorry I'm not sure what I asked, but...

MR. IAN PAGE: I -- I was getting tripped up often with the one-third (1/3), two-thirds (2/3s). And it's 33 percent --

MR. BOB PETERS: Oh I see.

MR. IAN PAGE: -- to 67 percent.

MR. BOB PETERS: Okay. Other than the fourteen (14) dol -- other than the $14 million loaned to date, has there been an indication of whether additional funds will be loaned?

MR. VINCE WARDEN: That's just until March 31st of 2007. There have been additional funds loaned during the '07/'08 fiscal year.

MR. BOB PETERS: So when earlier you said they could take up to -- they being TPC -- could take up to a one-third (1/3), 33 percent interest, you haven't received clarification as to what extent they're going to subscribe for?

MR. VINCE WARDEN: No, they have until the in-service day of the first unit to make that decision.

MR. BOB PETERS: And if they decide to subscribe for none, then they'll have to pay you back the money that you advanced?

MR. VINCE WARDEN: Well the money advanced is to secure their 33 percent ownership. If they decide not to exercise that right, then that -- that advance or that ownership will simply be maintained by Manitoba Hydro. And there'll be no monies pay and -- due and payable at that point.

MR. BOB PETERS: I see, so in essence, the money that you're advancing now will be used for, in essence, Manitoba Hydro purchasing the TPC one-third (1/3) interest.

MR. VINCE WARDEN: In effect, if they decide not to exercise that, that's correct.

(BRIEF PAUSE)

MR. BOB PETERS: Perhaps because I'm not

familiar with the financial statements, Mr. Warden, this question might not make a lot of sense.

But it -- it appears from the financial statements that you've -- that $1 million has made it into the limited partnership already as of March of '07.

And I'm wondering whether or not the $14 million has likewise made it into the -- into the limited partnership?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right.

(BRIEF PAUSE)

MR. BOB PETERS: Can I assume then that that makes it $15 million that's already invested?

MR. VINCE WARDEN: 15 million on behalf of TPC, yes.

MR. BOB PETERS: And then has Manitoba Hydro paid its proportionate share in yet?

MR. VINCE WARDEN: Yes. The -- the $15 million -- again, we're talking at March of 2007 -- would represent 33 percent, and -- and Manitoba Hydro would have put in the other 67 percent.

MR. BOB PETERS: Or approximately $30 million to match their -- to -- to double up on their 15 million?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Yeah. When the profits -- and let's assume there are going to be profits, Mr. Page -- are to be distributed, you've told the Board that'll only happen after the 25 percent equity figure is achieved, correct?

MR. IAN PAGE: Yes. No distributions will happen until we get down to -- or get the equity up to 25 percent.

MR. BOB PETERS: And if a dividend is declared, do both limited partners have to take it?

MR. IAN PAGE: Our assumption is that if a dividend is declared that NCN or TPC will certainly want to take it. For Manitoba Hydro's purpose, because of the consolidation, it actually makes no difference whether we take a distribution or not.

THE CHAIRPERSON: Wouldn't it make a difference? If you did not take it and left it in, partnership would earn a revenue with no cost associated with it. Then that net would be distributed between the two (2) partners, would it not?

MR. IAN PAGE: It -- sorry, I should correct myself. On a -- is -- what's attributed to the partnership, yes, we would. But since -- like if --

maybe I'll just leave it as yes, both partners would.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: All right. The money would come out of the Wuskwatim Power Limited Partnership and would go back to the limited partners?

MR. IAN PAGE: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: Maybe I can finish up a couple of quick areas here in terms of finishing up some risk questions.

Looking a risk of the loss of Bipole 1 and 2, that would, in essence, be a repeat of the -- the wind incident back in September of 1996, correct?

MR. VINCE WARDEN: Well, actually, there -- there was no loss, no -- excuse me. I should say there was no interruption in -- in delivery of power with the incident that we had in 2006. So, no, a loss of the Bipole that we've referenced in the risk report is an actual loss that does result in interruption of delivery of power.

MR. BOB PETERS: If the wind incident in 1996, Mr. Warden, had occurred in, let's say, June and not September, would there then have been a loss of -- a loss of export of electricity?

MR. HAROLD SURMINSKI: January would have been a more critical time.

MR. BOB PETERS: But what about June, when there's a lot of export to the United States, from what I've understood your previous answers to be?

(BRIEF PAUSE)

MR. HAROLD SURMINSKI: Yes, it -- it would affect our -- our exports. We were thinking in terms of domestic customers.

(BRIEF PAUSE)

MR. BOB PETERS: Am I correct in understanding that Bipole 3 is not needed if Wuskwatim was the only additional generating station to be built by Manitoba Hydro?

MR. VINCE WARDEN: Other than for reliability purposes, that's correct.

MR. BOB PETERS: And Bipole 3 would be needed if either or both of Conawapa and Keeyask are being constructed?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So if Bipole 3 is not required for moving of the electricity and it's -- it's value is then only for reliability purposes, the retained earnings would improve by not expending monies on the Bipole.

Would that be correct?

THE CHAIRPERSON: I think you misspoke, Mr. Peters. I think you meant would decline if it was only used for reliability.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: If there's no -- let me -- let me rephrase the question. Thank you, Mr. Chairman.

If -- if there is not electricity needed to be exported on the Bipole 3, but it was built anyway for the reliability purposes that Mr. Warden referenced, it would result in a reduction in rationed earnings.

MR. VINCE WARDEN: Well, Mr. Peters, the -- the original configuration -- or the early configuration we had for Bipole 3 with a different routing than what is now on the IFF, resulted in -- in reduction of system losses, such that there was a -- a beneficial impact on net income.

I'm -- I'm not a 100 percent sure with -- with the current line routing whether that still occurs. I would have to double-check that.

MR. BOB PETERS: Okay, let's turn to that ite -- my understanding is if we -- let's assume Bipole 1 and 2 are out of service, but there is a Bipole 3, it's my understanding from your materials that there is a difference in load capabilities between an east side and a west side Bipole 3, and that may be what you're referring to, Mr. Warden.

MR. VINCE WARDEN: No, I was referring more to the reduction in line losses that would occur with a third Bipole.

MR. BOB PETERS: All right. I think that was reflected in some of the financial information in terms of what the -- the gain was from having the Bipole 3. There would be lower line losses and that's where the -- the benefit was made up.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: But there's also, by routing the Bipole on the west side the load capability is a thousand (1,000) megawatts less down the west side than it would be if it was the east side.

Is that correct?

MR. VINCE WARDEN: Did you say a thousand

(1,000) megawatts less?

MR. BOB PETERS: Yes. And that assumes that Bipole 1 and 2 are down and not in service.

MR. VINCE WARDEN: Do you have a reference for that, Mr. Peters? There -- there is a lesser capability of being able to parallel the system apparently, and -- but I -- I would have to review that reference.

MR. BOB PETERS: It's included in Tab 46. And it's page 18 which I think is the last page in -- in my version of the book of documents. From -- taken from MIPUG Manitoba Hydro First Round 10(c).

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, I -- I see your reference to a thousand (1,000) megawatts less power in response to this Interrogatory. I'm not sure whether -- whether we have anybody on the panel though that can speak to the technicalities of -- of this. Depending on what your questions are we may have to take an undertaking here.

THE CHAIRPERSON: I think we'll have to hold it overnight anyway, because one (1) of our members have got a water and sewer hearing out of town. So we're gonna have to adjourn for the night.

So we'll see everyone back tomorrow at 9:00. Thank you.

(WITNESSES RETIRE)

MR. BOB PETERS: Thank you.

--- Upon adjourning at 4:00 p.m.

Certified Correct

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Cheryl Lavigne