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MANITOBA PUBLIC UTILITIES BOARD

Re: 2008/'09 GENERAL RATE APPLICATION  
MANITOBA HYDRO

Before Board Panel:

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

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue  
Winnipeg, Manitoba  
March 25th, 2008  
Pages 1280 to 1501

APPEARANCES

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7 Byron Williams )Coalition  
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9 Jennifer Scott )TransCanada Keystone  
10 Tamara Trull )Pipeline  
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12 Tamara McCaffrey )MIPUG  
13 John Landry )  
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17 Patti Ramage )Manitoba Hydro  
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20 Bill Gange )RCM/TREE  
21 Dan Rempel (np) )  
22 Peter Miller )  
23  
24  
25

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1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Okay, welcome back,  
4 everyone. Before we get underway, Mr. Peters has a few  
5 remarks to bring us up to date.

6 MR. BOB PETERS: Thank you. Good  
7 morning, Mr. Chairman, Board Members, Ladies and  
8 Gentlemen.

9 There are probably at least two (2)  
10 procedural matters to start with this morning. I'll  
11 tackle the first one and then ask the Chairman to turn it  
12 over to Ms. Ramage to tackle the second.

13 The first is to review the calendar for  
14 the proceedings to continue, and the second matter is to  
15 address some undertakings and file them as exhibits in  
16 these proceedings; some of the undertakings that have  
17 been circulated electronically.

18 If I can, Mr. Chairman, both to the Board  
19 and to the parties assembled, I have provided a revised  
20 calendar; it's printed on green paper just to identify  
21 it differently from the one that was previously  
22 circulated. I can indicate to those who are following  
23 the transcript, it is the exact same calendar that I  
24 emailed on March 20th to various parties last week.

25 And it has a bit more detail in it than



1 the previous ones including who's going to be on the  
2 microphone on that particular day, and to -- to that  
3 extent I want to thank the parties for helping me try to  
4 develop a schedule for the Board.

5           You will see, Mr. Chairman, and Board  
6 Members that starting today, the 25th of March, Tuesday,  
7 Manitoba Hydro's Revenue Requirement and DSM panel will  
8 continue and MIPUG will continue their cross-examination  
9 until concluded. That will be followed by a cross-  
10 examination by and on behalf of MKO.

11           If there's time permitting, Mr. Chairman,  
12 there have been a number of undertakings filed, and if  
13 counsel and parties have questions, it would be an  
14 opportunity to try to address all those undertakings with  
15 the view, I'm sure, that Ms. Ramage would like to have  
16 her revenue requirement panel dismissed.

17           Then, tomorrow, either first thing or  
18 perhaps second thing in the morning, it's envisioned that  
19 there would be the Cost of Service and Rate Design panel  
20 for Manitoba Hydro, and the cross-examination of that  
21 panel would continue after its direct examination. And I  
22 would start that cross-examination and expect to be most  
23 of the 26th and 27th. Time permitting on the 27th, I'll  
24 turn it over to my -- to My Friend, Mr. Buhr, from the  
25 City of Winnipeg.

1                   Then when we reconvene on April the 10th,  
2 that Cost of Service/Rate Design panel will continue to  
3 be cross-examined by the Coalition and by MIPUG. And  
4 also on the 11th, MIPUG will continue, if they haven't,  
5 and complete it -- complete their questions. Keystone  
6 may have some questions at that point in time. And we've  
7 reserved time in the schedule for them, followed by MKO.

8                   And to the extent that MKO doesn't finish  
9 on the 11th, then we have them finishing on Monday, the  
10 14th of April, followed by RCM/TREE.

11                   On the 15th of April, it's envisioned that  
12 RCM/TREE will bring forward its witness panel. I can  
13 indicate in this regard that Mr. Gange has sent out an  
14 email asking parties to provide him with advice as to  
15 whether they want to or need to cross-examine one of his  
16 witnesses. That decision is still not finalized, but Mr.  
17 Gange is encouraging those to speak to him so he can make  
18 that decision. And he will, of course, notify the Board  
19 when it comes time for his witness panel to attend.

20                   The 15th of April, then, is set aside for  
21 the RCM/TREE witness, and the Coalition witnesses are  
22 scheduled to come on the 16th of April. It's important,  
23 as parties know, that because some of these witnesses  
24 will be traveling from out of town, that we do want to  
25 have them completed as indicated so that they're not --

1 their testimony isn't left hanging or put over to a  
2 couple of days.

3           Mr. Chairman, the Board has giving the  
4 Hearing the 28th, 29th, and 30th. In that regard, the  
5 MIPUG witnesses are still to testify. And a final  
6 decision on it will be forthcoming shortly, but it's  
7 looking like the MIPUG witnesses would be prepared to  
8 testify starting on the 29th -- not on the 28th, but on  
9 the 29th. And then we would have an open day on the  
10 30th, either to complete the MIPUG witnesses or we may  
11 not need the sitting day at all.

12           That all leads up to closing submissions.  
13 And parties have requested an opportunity to assimilate  
14 the -- the volumes of material and prepare their closing  
15 comments. And I believe it's Manitoba Hydro's preference  
16 to have an opportunity to ensure they respond and join  
17 issue with all the matters raised, and so a day in  
18 between Intervenors' arguments and the Applicant's  
19 arguments is appreciated by the Utility. That does make  
20 it difficult to schedule, but the Board's availability on  
21 the 21st and the 23rd of May has been fixed to hear the  
22 closing submissions.

23           So, Mr. Chairman, subject to any questions  
24 you have of me at this time, or at any time during the  
25 Hearing, on the schedule, those are my morning comments.

1 MR. ROBERT MAYER: Mr. Peters, I'm  
2 confused. You had me up till the 16th of April. Now  
3 28th, 29th, and 30th -- are you telling me you don't want  
4 us here on the 30th? Because I have to make some  
5 decisions as to whether Hydro's going to pay the  
6 expensive airfare for a short reservation or the cheaper  
7 airfare for a longer reservation.

8 MR. BOB PETERS: Mr. Chairman and Mr.  
9 Vice-Chairman, in answer to that question, we -- it's  
10 probably a little premature to -- to indicate. It's our  
11 -- it's our every intention that the 30th will not be  
12 required and it may also be that the 28th is not  
13 required. We probably will need to see how this panel  
14 unfolds, and probably won't have a better -- a good  
15 handle on that until about the 11th of -- of April.

16 And I appreciate that's shorter notice for  
17 the Vice-Chair, but at this point in time, the calendar's  
18 our best estimate, but sometimes we slip and we need the  
19 extra time, and we'd like to reserve it if it's available  
20 from the Board members. Thank you.

21 THE CHAIRPERSON: Thank you, Mr. Peters.  
22 Ms. Ramage...?

23 MS. PATTI RAMAGE: Yes. Thank you and  
24 good morning. Last Thursday, Manitoba Hydro circulated  
25 electronically a number of responses to undertakings, and

1 in order to give them exhibit numbers and -- and to speed  
2 things along, I thought I would just recite into the  
3 record the undertaking number and the exhibit number.

4 I -- Mr. Gaudreau has -- I -- I believe  
5 I'm going to be working from the same page as he has, in  
6 terms of what he's entered, so hopefully he can put up  
7 his hand and indicate if I've -- if our records diverge  
8 at any point.

9 But Manitoba Hydro Undertaking Number 10  
10 we suggest be assigned Exhibit MH-23.

11

12 --- EXHIBIT NO. MH-23: Response to Undertaking 10

13

14 MS. PATTI RAMAGE: Undertaking 12 be  
15 Exhibit MH-24.

16

17 --- EXHIBIT NO. MH-24: Response to Undertaking 12

18

19 MS. PATTI RAMAGE: Undertaking 18 be  
20 Exhibit MH-25.

21

22 --- EXHIBIT NO. MH-25: Response to Undertaking 18

23

24 MS. PATTI RAMAGE: Undertaking 20 become  
25 MH-26.

1 --- EXHIBIT NO. MH-26: Response to Undertaking 20

2

3 MS. PATTI RAMAGE: Undertaking 22 be MH-  
4 27.

5

6 --- EXHIBIT NO. MH-27: Response to Undertaking 22

7

8 MS. PATTI RAMAGE: Undertaking 24 be  
9 assigned MH-28.

10 Undertake -- The hand went up and that is  
11 -- that's correct, it's Undertaking 24 and 25 were  
12 included in the same document so they'll be MH-28.

13

14 --- EXHIBIT NO. MH-28: Response to Undertakings 24  
15 and 25

16

17 MS. PATTI RAMAGE: Then Undertaking  
18 Number 31 be MH-29.

19

20 --- EXHIBIT NO. MH-29: Response to Undertaking 31

21

22 MS. PATTI RAMAGE: Undertaking Number 35  
23 be MH-30

24

25 --- EXHIBIT NO. MH-30: Response to Undertaking 35

1 MS. PATTI RAMAGE: Undertaking 36 be  
2 Exhibit MH-31

3

4 --- EXHIBIT NO. MH-31: Response to Undertaking 36

5

6 MS. PATTI RAMAGE: Undertaking Number 37  
7 become Exhibit MH-32.

8

9 --- EXHIBIT NO. MH-32: Response to Undertaking 37

10

11 MS. PATTI RAMAGE: Undertaking 38 be  
12 Exhibit MH-33

13

14 --- EXHIBIT NO. MH-33: Response to Undertaking 38

15

16 MS. PATTI RAMAGE: Undertaking 40 be  
17 assigned Exhibit MH-34

18

19 --- EXHIBIT NO. MH-34: Response to Undertaking 40

20

21 MS. PATTI RAMAGE: Undertaking 42, 43 and  
22 44 will be assigned Exhibit MH-35.

23

24 --- EXHIBIT NO. MH-35: Response to Undertakings 42,  
25 43 and 44

1 MS. PATTI RAMAGE: Undertaking 45 be  
2 assigned Exhibit MH-36

3

4 --- EXHIBIT NO. MH-36: Response to Undertaking 45

5

6 MS. PATTI RAMAGE: And finally,  
7 Undertaking 46 be assigned MH-37.

8

9 --- EXHIBIT NO. MH-37: Response to Undertaking 46

10

11 MS. PATTI RAMAGE: And I could advise  
12 Manitoba Hydro there's a few undertakings that remain to  
13 be filed from the previous days of -- of hearing. We  
14 hope to be in a position to respond to those very  
15 shortly.

16 THE CHAIRPERSON: Thank you, Ms. Ramage.  
17 I'm sure there's a lot of work went into that. Okay,  
18 we'll move on then.

19 Ms. McCaffrey, from MIPUG...?

20 MS. TAMARA MCCAFFREY: Thank you, Mr.  
21 Chair. And I just have a couple of opening comments. To  
22 assist in my cross-examination this morning, MIPUG would  
23 like to file two (2) exhibits. They're tables with  
24 information drawn from materials that are already on the  
25 record.



1                   And Ms. Pollitt-Smith has copies of the  
2 exhibits and there's two (2).

3                   The first is a table that can -- compares  
4 key financial indicators between IFF-02 and IFF-07 and we  
5 would like to have that marked as Exhibit Number 7.

6

7     --- EXHIBIT NO. MIPUG-7:     Table that compares key  
8                                     financial indicators between  
9                                     IFF-02 and IFF-07

10

11                   THE CHAIRPERSON:     Number 7?

12                   MS. TAMARA MCCAFFREY:     Yes. I believe  
13 that's -- that's where we're at.

14                   And then there's a second exhibit which is  
15 a two (2) page document and that's looking at  
16 calculations of the debt to equity ratios for Manitoba  
17 Hydro on the first page, and the second page it does the  
18 same thing for BC Hydro.

19                   And it's sort of a follow-up to the line  
20 of questions that Mr. Williams was conducting the other  
21 day looking at comparisons between how bond rating  
22 agencies versus the utility calculate debt equity ratios.

23                   THE CHAIRPERSON:     So it's MIPUG 8 and 9?

24                   MS. TAMARA MCCAFFREY:     If you prefer, I  
25 was going to have them both as one (1) exhibit, as

1 Exhibit 8.

2 THE CHAIRPERSON: Very good.

3

4 --- EXHIBIT NO. MIPUG-8: Two (2) page document that's  
5 looking at calculations of  
6 the debt to equity ratios for  
7 Manitoba Hydro, and the debt  
8 to equity ratios for BC Hydro

9

10 MS. TAMARA MCCAFFREY: And one (1) final  
11 housekeeping matter. MIPUG was asked to update the  
12 economic impact of the Manitoba Industrial Powers Users  
13 Group by the Public Utility Board. That was PUB/MIPUG-  
14 1(a).

15 The last study had been done in August  
16 2005, so we now have that updated with more current  
17 information on the MIPUG members, which we can circulate.

18 THE CHAIRPERSON: So that would be MIPUG-  
19 9 then.

20 MS. TAMARA MCCAFFREY: That's fine.

21 Thank you.

22

23 --- EXHIBIT NO. MIPUG-9: Update of the economic impact  
24 of the Manitoba Industrial  
25 Powers Users Group by the

1 Public Utility Board

2

3 MANITOBA HYDRO REVENUE REQUIREMENT AND DEMAND SIDE

4 MANAGEMENT PANEL RESUMED:

5 VINCE WARDEN, Resumed

6 WILLY DERKSEN, Resumed

7 IAN PAGE, Resumed

8 HAROLD SURMINSKI, Resumed

9 LLOYD KUCZEK, Resumed

10

11 CONTINUED CROSS-EXAMINATION BY MS. TAMARA MCCAFFREY:

12 MS. TAMARA MCCAFFREY: If everybody's  
13 ready, now we can resume where we left off.

14 Mr. Kuczek, just to recap, last week when  
15 we spoke, or two (2) weeks ago now, we looked at the  
16 Power Smart Plan. I have the 2006 Power Smart Plan which  
17 is found at third page of Tab 31 in the Public Utilities  
18 Board's book of documents. And Mr. Surminski, Mr. Kuczek  
19 and I walked through the table.

20 And just to sum up the conclusion, with  
21 respect to Table A3 at Tab 31, the total gigawatt hours  
22 of savings, then, at generation, with respect to DSM and  
23 the 2008/'09 is 1,530 gigawatt hours.

24 This is what we -- this is what we did the  
25 last time. I'm just sort of recapping so that we

1 remember where we were. But it would be the bottom line,  
2 the third column: total gigawatt hours at generation.

3 MR. LLOYD KUCZEK: And the number you --

4 MS. TAMARA MCCAFFREY: Is the 1,530 --

5 MR. LLOYD KUCZEK: That's --

6 MS. TAMARA MCCAFFREY: -- gigawatt hours.  
7 That's in your third column, sir, in the Annual Energy  
8 Savings.

9 MR. LLOYD KUCZEK: Confirmed.

10 MS. TAMARA MCCAFFREY: Thank you. Now,  
11 sir, if we just quickly flip back though to Tab 15 of Mr.  
12 Peters' book of documents, which was Table A1 from the  
13 2007/'08 Power Resource plan, that's where we noted that  
14 when I look at the demand side management line, which  
15 appears in that first block of power resources, but it's  
16 towards the -- it's about the middle of the page, I see  
17 under 2008/'09 a different number which is 339 gigawatt  
18 hours.

19 Yes, sir?

20 MR. LLOYD KUCZEK: Correct.

21 MS. TAMARA MCCAFFREY: Now, my  
22 understanding, sir, is that the reason that three thirty-  
23 nine (339) is it's quite a different number from the one  
24 thousand five hundred and thirty (1,530) is that most of  
25 that 1,530 gigawatt hours is already built into the base

1 load forecast.

2 Is -- is that right? And Mr. Surminski,  
3 you can -- you can jump right in.

4 MR. LLOYD KUCZEK: That's correct.

5 MS. TAMARA MCCAFFREY: And just for the  
6 sake of -- of the record, my understanding is that base  
7 load forecasts incorporate actual billing data that  
8 reflects the DSM savings that you've achieved to-date,  
9 and that's why it -- it shows up in that base load  
10 forecast.

11 Am I correct in that?

12 MR. LLOYD KUCZEK: It includes energy  
13 savings achieved through our DSM initiatives to-date and  
14 also what we refer to as Option 1 savings as well.

15 MS. TAMARA MCCAFFREY: And I'm going to  
16 be asking you to -- to explain to me a little bit more  
17 about Option 1 savings in just a moment, so I'm glad that  
18 you brought that up.

19 What then does the three hundred and  
20 thirty-nine (339) number represent, sir?

21 MR. LLOYD KUCZEK: The -- the three  
22 thirty-nine (339) would represent our -- our Option 2, if  
23 you want to refer to it as an Option 2. We don't always  
24 refer to an Option 2.

25 But it's the -- primarily the incentive

1 based programs that get assessed against alternative  
2 options for meeting their load through the Integrated  
3 Resource Plan.

4 MS. TAMARA MCCAFFREY: So I want to make  
5 sure that I have it. It -- it's the incentive based  
6 programs that...

7 MR. LLOYD KUCZEK: Correct.

8 MS. TAMARA MCCAFFREY: And those are --  
9 you -- you call those Option 2 programs?

10 MR. LLOYD KUCZEK: Sometimes we refer to  
11 an Option 2. But I had mentioned Option 1 earlier so it  
12 would be the next level of option, whatever we refer to  
13 it as. But generally we refer to it as Option 2  
14 internally.

15 MS. TAMARA MCCAFFREY: Okay. Well,  
16 you've provided me with the succinct sort of definition  
17 of an Option 2. It's probably a good time now for you to  
18 just describe what Option 1 is.

19 That's actual savings that you've already  
20 realized? Or how would you like to describe that --

21 MR. LLOYD KUCZEK: It's the savings that  
22 we achieve through what we refer to as our base level of  
23 DSM initiatives, I guess, or portfolio of initiatives,  
24 which includes all our customer service information  
25 provision, efforts to help customers and -- and the codes

1 and standards that we would -- or the energy savings we'd  
2 be achieving through the codes and standards that are  
3 provided in the table -- the lower part of the table.

4 MS. TAMARA MCCAFFREY: And then the  
5 Option 2 are more incentive-based programs you say.

6 And -- and would that be new savings? Are  
7 these savings realized yet? Or are these anticipated  
8 savings, or -- or how -- can you clarify that for me,  
9 sir?

10 MR. LLOYD KUCZEK: Yeah, they're not  
11 savings achieved to date. They're savings that we expect  
12 to -- anticipate to achieve through our incentive-based  
13 programs going forward.

14 MS. TAMARA MCCAFFREY: Okay, thank you  
15 very much, sir, for your clarity with respect to that.  
16 That's very helpful.

17 Just to finish up on this DSM subject,  
18 when I look at this 2006 Power Smart Plan -- now that was  
19 Appendix 9.1 with respect to the materials, and I believe  
20 we -- we would have touched on this last time as well.

21 But there is, on page 8 of that plan,  
22 there are some tables there. And the table that I'm  
23 interested in is the Table Number 4 which is entitled  
24 "Electric DSM Utility Budget," and the period is 2006/'07  
25 to 2017/'18. And the year that I'm discussing here is

1 the 2007/'08 year.

2 Are you following with me, sir?

3 MR. LLOYD KUCZEK: Yes.

4 MS. TAMARA MCCAFFREY: Okay. So what I  
5 want to do now is clarify again -- and, again, Mr. Warden  
6 spoke -- I think it was Mr. Warden -- we spoke a little  
7 bit about this last time as well. But it's been a while  
8 since we've been together.

9 So if I look at that table, sir, and I see  
10 the annual cost line, with respect to the electric  
11 utilities DSM budget for the 2007/'08 year, I see the  
12 number of \$47 million.

13 Am I right?

14 MR. LLOYD KUCZEK: Correct.

15 MS. TAMARA MCCAFFREY: Sir, if I were to  
16 look at the MIPUG -- a response to a MIPUG Interrogatory  
17 First Round 11 where you were asked to update the respon  
18 -- another response from 2004 General Rate Application  
19 showing DSM costs by customer class -- you've done that,  
20 but you've given me a total DSM number of twenty-four  
21 point six (24.6).

22 And I believe that we talked a little bit  
23 about this. This is an amortized number that also  
24 includes interest costs.

25 Do you under -- do you remember what I'm



1 talking about?

2 MR. LLOYD KUCZEK: Yes, I remember there  
3 being some confusion as we ended the day.

4 MS. TAMARA MCCAFFREY: Probably somewhat  
5 on my part.

6 But in any event, so that there's no  
7 confusion anymore, the \$24.6 million number is not the  
8 same as the \$46 million number.

9 And why don't you tell the Board, just  
10 succinctly, the difference between those numbers?

11 I see the 46 million being a cost item.  
12 This is the amount you budget for. And the twenty-four  
13 point six (24.6) is more of an amortized item.

14 MR. WILLY DERKSEN: Maybe I can take that  
15 one, Ms. McCaffrey. The cost of -- that's show in the  
16 table that you're referring to are the amount of  
17 expenditures that are proposed to be incurred in that  
18 particular year.

19 The amount shown in the response to MIPUG-  
20 1-11 represents the amount of amortization of previously  
21 incurred costs, and the costs are incurred over -- are --  
22 are amortized over a fifteen (15) year period.

23 MS. TAMARA MCCAFFREY: Thank you, Mr.  
24 Derksen.

25 And -- and just to -- to sum up, when you

1 spend money on a program, all those costs don't show up  
2 in -- in rates in a given year, right? They're amortized  
3 over a period of time.

4 MR. WILLY DERKSEN: That's correct.

5 MS. TAMARA MCCAFFREY: And that's what  
6 you do with your dams and your generation building and  
7 capital spending, correct?

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

9 MS. TAMARA MCCAFFREY: And that makes  
10 sense to do that, of course, because it's a resource.  
11 When you're -- when you're doing DSM, you're creating --  
12 you're freeing up power that -- that you can use. So  
13 it's a -- it provides a resource for Manitoba Hydro.

14 Correct, sir?

15 MR. WILLY DERKSEN: Yes, it does. And  
16 that is the expected period that those expenditures will  
17 provide benefits in -- in terms of extra-provincial  
18 revenues.

19 MS. TAMARA MCCAFFREY: And with respect  
20 to the number that shows up in rates, that's the \$24.6  
21 million number in a -- in a given year, not -- not the  
22 total budgeted cost amount, not the 46 million, correct?

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

24

25

(BRIEF PAUSE)

1 MS. TAMARA MCCAFFREY: Now, sir, if -- if  
2 I take that \$24.6 million number and I divide it -- which  
3 is your DSM -- the amount of DSM amortized cost and  
4 interest expense that's reflected in the rates in a given  
5 year -- and I divide that by your DSM, your -- the  
6 thirteen-fifty (1350) gigawatt hour figure, Mr. McLaren  
7 tells me I come to a number which is about one point  
8 eight (1.8) cents per kilowatt hour.

9 Would you agree with that?

10 MR. WILLY DERKSEN: Subject to check, it  
11 sounds reasonable, yes.

12 MS. TAMARA MCCAFFREY: And that's the  
13 number that shows up in rates? That's the number that's  
14 reflected in the Cost of Service study, I take it?

15 MR. WILLY DERKSEN: Yes.

16 MS. TAMARA MCCAFFREY: And so in -- in  
17 plain English, DSM energy for 2007/'08 is costing about  
18 one point eight (1.8) cents per kilowatt hour at  
19 generation, subject to the numbers being accurate?

20 MR. LLOYD KUCZEK: It's not -- what you  
21 have to look at -- I think you have to look at it  
22 slightly different.

23 And if you want to do the calculation, the  
24 proper way to do the calculation, in our mind, is to do a  
25 levelized cost calculation. And the reason you want to

1 do a levelized cost calculation is because what you want  
2 to do with a particular program, for example, is you want  
3 to look at the -- the energy savings that you're going to  
4 achieve through those measures, through the life of the  
5 measure, for example.

6 So even though you may achieve a certain  
7 quantity of gigawatt hours in one (1) year, your  
8 expenditures really realize savings over a lengthy,  
9 longer period of time. So the levelized cost calculation  
10 provides you with a more -- a figure that is more typical  
11 of representing what the true cost is per gigawatt hour  
12 across the life of that expenditure.

13 MS. TAMARA MCCAFFREY: Well, that makes a  
14 lot of sense because, of course, the benefits don't just  
15 show up in one (1) year.

16 MR. LLOYD KUCZEK: Right.

17 MS. TAMARA MCCAFFREY: They show up as  
18 long as the DSM measure is working and effective?

19 MR. LLOYD KUCZEK: That's correct.

20 MR. WILLY DERKSEN: Excuse me, Ms.  
21 McCaffrey, one -- one (1) amendment to that response that  
22 I gave.

23 In MIPUG-1-11, it's not only the  
24 amortization, it's the financing costs as well that are  
25 included in this response.

1 MS. TAMARA MCCAFFREY: Yes, that's right,  
2 and I appreciate that for the record's clarity. If I  
3 didn't -- if I didn't say that, my apologies. But that's  
4 my understanding as well. That's also taken into  
5 account, just as you do with any other generation -- any  
6 other resource that you have.

7 MR. WILLY DERKSEN: Yes, correct.

8 MS. TAMARA MCCAFFREY: Thank you.

9

10 (BRIEF PAUSE)

11

12 MS. TAMARA MCCAFFREY: When you do a  
13 levelized cost -- just to make sure I understand your --  
14 your answer, Mr. Kuczek, and -- and the Board -- how  
15 would that change that one point eight (1.8) cents per  
16 kilowatt hour number? Like that would be a one (1) year  
17 number, but you would levelize it -- you would do a  
18 similar calculation over a period of years?

19 Or how would you do that, sir?

20 MR. LLOYD KUCZEK: Yeah, ideally you  
21 would do it over the -- if you looked at it from a --  
22 just a single program perspective, you would look at all  
23 the energy savings in each year that you would realize  
24 through that program, and you'd look at all your costs,  
25 and you would do a calculation where it produces -- it

1 discounts the energy back and -- it's a discounted  
2 calculation, and it produces a levelized cost per unit of  
3 energy saved.

4                   And you would do a similar calculation if  
5 you were doing -- assessing your overall portfolio, but  
6 you'd include all costs in each year going forward as  
7 well as all energy savings. So...

8                   Yeah, Mr. Surminski's just adding a  
9 comment that it's the present value of costs as well as  
10 the present value of energy.

11                   MS. TAMARA MCCAFFREY: That's fair  
12 enough.

13                   So, sir, in terms of the costs, whether  
14 you're using a more simplistic calculation or a levelized  
15 -- which, as you say, I think probably makes sense -- I'm  
16 going to take you down to one of your other tables that  
17 Mr. Peters has provided in the Public Utility Board's  
18 book of documents, and that's at Tab 33.

19                   And just to refresh everyone's memory,  
20 this is where we're talking about electric levelized  
21 utility costs spent per kilowatt hours saved.

22                   And I'm just -- on behalf of MIPUG, the  
23 first thing that I'm going to look at here is the  
24 industrial number. And I see that number is very low.  
25 It's point three (.3) cents per kilowatt hour.

1                   What does that number mean, sir? What  
2 does that number represent?

3                   MR. LLOYD KUCZEK:    It represents that  
4 levelized cost for the industrial programs, which is the  
5 Performance Opterni -- Optimization Program.  So...

6

7                                   (BRIEF PAUSE)

8

9                   MS. TAMARA MCCAFFREY:   And I don't know  
10 whether this is on the record at this point or not.

11                   Can you describe what the Performance  
12 Optimization Program is?

13                   MR. LLOYD KUCZEK:    It's an all-  
14 encompassing program that we use for the industrial  
15 customers that we look at it from a process and a  
16 technology perspective.

17                   And the -- what I mean -- what I mean by  
18 "all-encompassing," it looks at all opportunities for  
19 saving energy as well as non-energy benefits, could be  
20 reduced labor hours, reduced waste costs.  And we work  
21 with our customers to achieve energy savings.

22                   Our calculation, of course, is based on  
23 just what the -- we -- in terms of the levelized cost  
24 meaning the calculation is just related to the cost  
25 associated with the achieving the energy -- or

1 electricity savings divided -- and the cost assoc --  
2 associated with that.

3 MS. TAMARA MCCAFFREY: So the -- so for  
4 the purposes of our discussion, we know that Manitoba  
5 Hydro strives to be cost efficient, obviously, correct?

6 MR. LLOYD KUCZEK: Yes, I think we're  
7 there.

8 MS. TAMARA MCCAFFREY: And of course,  
9 it's almost -- I think it's a Manitoba Hydro mantra to  
10 promote economy and efficiency and supply and use of  
11 electrical power.

12 You'd agree with me there?

13 MR. LLOYD KUCZEK: Correct.

14 MS. TAMARA MCCAFFREY: So I've also heard  
15 Mr. Surminski talk at length about marginal costs. And  
16 I've heard that number and it's around six (6), six point  
17 five (6.5), six point eight (6.8), somewhere around  
18 there, Mr. Surminski?

19 What -- what's the number that you prefer  
20 to use for the purpose of my discussion, marginal cost?

21 MR. HAROLD SURMINSKI: I think I -- I was  
22 not talking about marginal cost. I was talking -- if you  
23 were going to use the export market as an indicator, in  
24 that context I was using future years of -- of average  
25 prices from the export market were in that six \$6 to 6



1 1/2 dollar area.

2 MS. TAMARA MCCAFFREY: And if you're  
3 purchasing, say, wind, what price would you use for --  
4 for our discussions, the benchmark there?

5 MR. HAROLD SURMINSKI: It is an  
6 evaluation of marginal cost that's applied to wind, and  
7 it varies over time in the future. As our export prices  
8 increase, the -- the value of that wind energy increases.  
9 And that's -- we could pay more over time.

10 MS. TAMARA MCCAFFREY: So if you're  
11 importing energy and you're -- and -- and we're using  
12 sort of a marginal cost or the export price number as a  
13 guide, we're looking at cost of energy in the six (6)  
14 plus cent range, correct?

15 MR. HAROLD SURMINSKI: Yes.

16 MS. TAMARA MCCAFFREY: And we have to use  
17 simple terms, because I -- I have a simple mind here, but  
18 I want to make sure that I under -- understand this.

19 When I'm looking at this table at Tab 33  
20 and I'm seeing costs like point three (.3) cents DSM, I'm  
21 seeing costs up in the commercial one point one (1.1)  
22 cents, one point eight (1.8) cents, depending on which  
23 line you're looking at.

24 This seems to be the -- the DSM programs  
25 seem to be a lot cheaper than this six (6) cent number.

1                   You'd agree with me there?

2                   MR. LLOYD KUCZEK:    It does, but one has  
3 to be careful there.

4                   MS. TAMARA MCCAFFREY:   And be careful,  
5 like don't -- don't let me oversimplify so that it's not  
6 useful anymore.

7                   The purpose of my simplification is not to  
8 -- to confuse but rather just to clarify, to make sure I  
9 and mys -- and Board Members understand it. So by all  
10 means, if there's something you want to clarify, don't  
11 hesitate to do so.

12                   But it seems to me that -- that when I  
13 have a DSM program, sir, that's at a price that's one (1)  
14 cent -- one (1) cent per kilowatt hour, three (3) cents,  
15 four (4) cents, five (5) cents, really, as long as it's  
16 below the -- the marginal cost -- the six (6) cents  
17 benchmark -- it's seems to me it's looking like a cost-  
18 efficient deal.

19                   And -- and I'd like to hear your response  
20 to that. Don't -- don't -- feel constrained to -- to  
21 elaborate if you think I'm oversimplifying.

22                   But -- but at a basic principle, am I  
23 right?

24                   MR. LLOYD KUCZEK:    Well I'll -- this is  
25 always a confusing issue, and I -- I don't think I'm the

1 best person to explain it, because I don't ever seem to  
2 explain it very well.

3                   When you're looking at new generation as  
4 opposed to DSM, you also have to take into account the  
5 lost revenue associated with the -- with DSM as opposed  
6 to new generation.

7                   So if you're putting in new generation, I  
8 could start there, you have revenue associated with that  
9 generation. And so when you're -- so if you assume you  
10 just have a certain level and you have a load increase,  
11 to meet that load you go spend some money and you put  
12 generation in, while there's revenue associated with that  
13 because you sell the power from the new generation.

14                   If you're doing DSM what you're doing is  
15 now you're reducing your load, you're losing some revenue  
16 and, yes, you are selling it on the export -- market, but  
17 it's the differential between those rates that become  
18 important to the Utility in terms of economics.

19                   MS. TAMARA MCCAFFREY:    So it's not exact  
20 -- well, there's a differential at some point, but you  
21 did also indicate that you sell the energy that you save,  
22 or you'd like to.

23                   MR. LLOYD KUCZEK:    Right, but -- okay.  
24 So, if you're putting in new generation, assuming you're  
25 increasing your load and prior to that you were -- your

1 supply and demand were matched, as you put in a new  
2 generation there's a cost associated with that and there  
3 is revenue because you sell it. So, the -- assuming that  
4 you were recovering your costs they would match.

5 And if you do it in DSM you lose revenue  
6 from your domestic market but you gain it from the export  
7 market. So the expenditure that you make is only  
8 recaptured through the differential --

9 MS. TAMARA MCCAFFREY: But --

10 MR. LLOYD KUCZEK: -- whereas the new  
11 generation you're capturing the whole thing.

12 MS. TAMARA MCCAFFREY: But both -- both  
13 forms of generation do -- do have -- a tracked cost  
14 associated with it and they do -- they also create a  
15 power resource, correct?

16 MR. LLOYD KUCZEK: They are both ways of  
17 meeting your demand.

18 MS. TAMARA MCCAFFREY: And I have your  
19 point with respect to the price differential. That's  
20 fine. But are you disagreeing with me, sir, regarding  
21 this price differential level as however you calculate  
22 it, if you see -- and you're looking at it and evaluating  
23 a DSM program and you see one that the costs are somewhat  
24 below the marginal cost, is that something worth taking a  
25 good look at as being cost efficient?

1 MR. LLOYD KUCZEK: Yes.

2 MS. TAMARA MCCAFFREY: Thank you. And --  
3 and I -- just for this -- to make sure we're completely  
4 clear, when you talk about lost revenue from conserving  
5 the power, and we also talk about selling that revenue,  
6 you say there's not necessarily -- it's not going to  
7 necessarily be the same revenue as from straight  
8 generation, but it doesn't mean that it couldn't be.

9 Is that right, sir? Like, are you really  
10 telling me that there has got to always be a loss of  
11 revenue? I mean, in some cases there might be and there  
12 would be a differential, and in some cases that wouldn't  
13 necessarily be the case.

14 Am I correct in that?

15 MR. LLOYD KUCZEK: Yeah, you're asking me  
16 if it's not always the case. That would be if our -- if  
17 we do the rim calculation and the rim was less than one  
18 (1), you are correct, if you include our program costs as  
19 well.

20

21 (BRIEF PAUSE)

22

23 MS. TAMARA MCCAFFREY: I don't know if  
24 you have your 2007/'08 Power Resource Plan handy. That's  
25 Appendix 45.

1 (BRIEF PAUSE)

2

3 MS. TAMARA MCCAFFREY: You know, I'll  
4 tell you what page I'm looking at, it's page 8, and  
5 that's where I wanted to bring you back to these Option 2  
6 DSM costs. You've described Option 1, you've described  
7 Option 2, I'm now looking at a table, sir, that's Table 2  
8 on page 8 of that Appendix 45, "Levelized DSM Cost 2007,"  
9 and I'm looking at a comparison between Option 2 and  
10 Option 3 costs.

11 MR. LLOYD KUCZEK: I'm with you.

12 MS. TAMARA MCCAFFREY: Okay. Now, of  
13 course -- Mr. Kuczek, could you explain to us -- I see  
14 Option 2 we have a total resource cost of thirty-six  
15 point two (36.2), it looks like dollars and megawatt  
16 hours and -- versus a utility cost, twenty-two point four  
17 (22.4). And then I have a gigawatt hour DSM savings that  
18 appears to be at one thousand one hundred and twenty-  
19 eight (1,128) and two thousand and twenty-one (2,021) and  
20 that's -- that's what I see in that column.

21 And, why don't you -- you could tell us  
22 what that means, and then I'm going to have you go to  
23 Option 3 where I see a much, much lower gigawatt hour  
24 number, 90 gigawatt hours in fact, and much, much higher  
25 costs, almost four times higher costs.

1                   So I'd like you to take us through Option  
2 2 and 3 and explain to us the differences between those  
3 numbers.

4                   And I'll tell you where I'm going with  
5 that: I'm curious as to what exactly Option 3 is, where  
6 the costs could be so much higher and the energy savings  
7 so much lower. I'm wanting to understand that.

8                   MR. HAROLD SURMINSKI: We'll have to --  
9 the document I have is -- is not the -- the same document  
10 that was submitted. We'll have to get that document,  
11 because we do not have the energy numbers that you're  
12 quoting in our document.

13                   MR. LLOYD KUCZEK: But I guess I could  
14 help you out a little bit to at least explain Option 3.

15                   What we did in '06 is I asked my staff to  
16 develop a more aggressive option that we could assess to  
17 see if it made sense for us to pursue. And, so, staff  
18 were asked to come up with a -- a much more aggressive  
19 Power Smart Program design for each of the programs. And  
20 -- and that's -- was put together as Option 3.

21                   And so that's what that was, and we  
22 provided that to Mr. Surminski's group, and they  
23 evaluated that against alternative options.

24                   MS. TAMARA MCCAFFREY: Okay. You say  
25 this was a more -- I heard you use the term "more -- more

1 aggressive DSM." It's -- it's not cost -- I'm -- I'm not  
2 -- I'm not understanding this number.

3                   And, more importantly, the -- the folks at  
4 Intergroup who -- who helped me with this rate  
5 application aren't understanding this number. And that -  
6 - that could mean that the Board may also have some  
7 questions.

8                   Explain to me why is Option 3 -- can you  
9 give me some examples of what they might be or -- or  
10 share something with us that's going to shed some light  
11 on -- on why these are so woefully cost-inefficient.

12                   MR. LLOYD KUCZEK: Well, what it -- what  
13 it comes down to is Option 2 is a program design, and you  
14 achieve certain energy savings through that program  
15 design. And so when you do your analysis, you come up  
16 with an average cost.

17                   And then, generally, staff are fairly  
18 aggressive in terms of designing their programs, and so  
19 you have your lower-hanging fruit within that program  
20 design that you're capturing and some more expensive  
21 stuff.

22                   So, as you move down the continuum and you  
23 design another program -- and we refer to this as "Option  
24 3" -- we looked at what was the incremental energy  
25 savings achieved beyond that and the costs associated



1 with that.

2                   So you're -- you see a big jump because  
3 you're not looking at it strictly from an incremental  
4 perspective in terms of the real low-hanging fruit to the  
5 more costly stuff to where you jump at.

6                   So that's why it jumps up. It's not a  
7 continuum. It's more of a -- a portfolio approach to  
8 what you're achieving through one program design, moving  
9 to another more aggressive program design.

10                   And a more aggressive program design, as  
11 an example, might be that instead of just providing  
12 customers with, say, 50 percent incentives on their  
13 insulation costs, we might go into the house and actually  
14 pay for the entire installation of the studs and  
15 everything and insulate their basement.

16                   So, you know, we'd achieve more savings  
17 that way 'cause more customers would participate, but the  
18 -- the incremental savings relative to the incremental  
19 costs would be much higher than what we would achieve  
20 with the Option 2 program design which might simply be  
21 throw some ads in the paper, try to generate some  
22 interest in the -- from the consumers, and they're going  
23 to participate in the program and we only pay part of the  
24 costs. And nothing for the studs or the labour or  
25 anything like that.

1 MS. TAMARA MCCAFFREY: Okay, so Option 3  
2 is not economic and should not be pursued. That's what  
3 you have there in your evidence under that table, and I  
4 think that's what you're telling me as well.

5 MR. LLOYD KUCZEK: Correct.

6 MS. TAMARA MCCAFFREY: But Option 2  
7 programs -- one (1) thing you have also on this page 8 is  
8 that you say Option 2 programs were pushed to the limit  
9 to determine if any additional savings could be achieved.

10 You're not telling me that the DSM  
11 programs are maxed out, are you?

12 MR. LLOYD KUCZEK: It's not that they're  
13 maxed out. It's a question of -- the initiatives are  
14 economic to do. It's just a question of how much do we  
15 pay and how aggressive are we in pursuing those  
16 opportunities and -- and are they cost-effective in terms  
17 of the RIM calculation, per se.

18 MS. TAMARA MCCAFFREY: Okay. Are they  
19 cost-effective in terms of the RIM calculation, per se?  
20 But also you -- you'd really -- at the end of the day,  
21 you want to know whether they're cost-effective in terms  
22 of the energy they're providing and the -- and the cost.  
23 The resource that they're creating for Hydro; is it worth  
24 the cost and it has to be cost-effective.

25 That's basically what you're saying,

1 right?

2 MR. LLOYD KUCZEK: When we're determining  
3 what our levelized cost is, we're looking at it from our  
4 perspective, yes.

5 MS. TAMARA MCCAFFREY: And, again, based  
6 on the discussion we had earlier about the -- the  
7 marginal costs versus the cost of DSM, if a DSM program,  
8 based on the way you're calculations -- I mean, if a DSM  
9 program is looking like a good deal, it's something that,  
10 naturally, this Utility, with its -- with its aim at  
11 being cost-efficient, is -- is going to be looking at and  
12 pursuing.

13 And I'm -- I'm assuming that there's more  
14 -- there's more of that to be done in future. Am I  
15 correct?

16 MR. LLOYD KUCZEK: Yes, there's still  
17 more to be done.

18 MS. TAMARA MCCAFFREY: I want to thank  
19 you, Mr. Kuczek, for -- for your efforts to -- to clarify  
20 this in terms that I can understand and for the example  
21 you provided. That's very helpful.

22 I want to leave the DSM subject now, and  
23 I'd like to move on to sinking funds. And a lot's been  
24 done about sinking funds, so it won't take me long to go  
25 through this with you.



1 times change and -- and the environments changes, and  
2 sometimes something -- a tool that's worked well in the  
3 past may no longer be that useful and -- and the Utility  
4 has to adapt to that in changing circumstances, correct?

5 MR. IAN PAGE: The Utility also has to  
6 conform with legislation.

7 MS. TAMARA MCCAFFREY: Absolutely. But  
8 even leaving aside sinking funds, when times change and  
9 something that maybe doesn't work anymore that used to  
10 work before, you have to re-evaluate it. And if it's not  
11 working anymore, it's time to move on. Fair enough?

12 MR. IAN PAGE: As a general principle,  
13 I'd agree with that.

14 MS. TAMARA MCCAFFREY: And the converse  
15 is also true as a general principle. If something  
16 perhaps was tried a number of years ago, didn't work very  
17 well so it's shelved. Times change, circumstances  
18 changes. It might be time to bring a tool out again and  
19 see maybe it would be a better fit for -- for current  
20 times. That -- that's also true as a principle.

21 MR. IAN PAGE: You'd have to have reason  
22 to want to go back and test things that didn't work in  
23 the past.

24 MS. TAMARA MCCAFFREY: Absolutely.

25 Manitoba Hydro provided responses in -- in

1 MIPUG/MH-2-13(h), that it indicated -- you don't even  
2 need to turn to the interrogatory 'cause I don't think  
3 it's even in dispute, but it indicated that it did not  
4 see any negative impacts on borrowing interest rates or  
5 access to capital markets of removing the sinking fund  
6 requirements. Is that correct?

7 MR. IAN PAGE: Yes, I'd agree with that.

8 MS. TAMARA MCCAFFREY: And I think that  
9 Mr. Warden might have told Mr. Peters earlier that  
10 Manitoba Hydro was also looking at the potential for  
11 either eliminating or drawing down the sinking funds to  
12 an absolute minimum, which would be zero, as I  
13 understand. Is that right?

14 MR. IAN PAGE: Sorry, I didn't quite  
15 catch the question there.

16 MS. TAMARA MCCAFFREY: Manitoba Hydro is  
17 looking at drawing down sinking funds to a minimum, to  
18 zero, or to getting rid of them.

19 MR. IAN PAGE: Manitoba Hydro  
20 periodically has discussions with the government on the  
21 need for that, but right now we're not in any -- in any -  
22 - in any mode to eliminate the sinking funds.

23 MS. TAMARA MCCAFFREY: I believe -- and I  
24 can give you the transcript reference if you need it, but  
25 I don't think you're disagreeing with me, sir. There's

1 an IR, MIPUG/Manitoba Hydro 1-2(g), which states that  
2 Hydro has not sought relief from sinking fund  
3 requirements to-date, but this will be pursued at an  
4 opportune time.

5 Is that in line with -- with your  
6 evidence?

7 MR. IAN PAGE: Yes.

8 MS. TAMARA MCCAFFREY: An opportune time  
9 would mean what?

10 MR. VINCE WARDEN: A date in the future.

11 MS. TAMARA MCCAFFREY: How would you know  
12 if that date was an opportune time?

13 MR. VINCE WARDEN: Well, Ms. McCaffrey,  
14 our evidence is that the sinking fund has served a useful  
15 purpose in the past, and it continues to serve a useful  
16 purpose.

17 The -- effective April the 1st of 2007  
18 there were some accounting changes with respect to  
19 financial instruments that makes this sinking fund not as  
20 valuable to us as it was in the past. We are in a  
21 transitional phase in terms of implementing those new  
22 financial standards, and we will continue to utilize the  
23 sinking fund during that trans -- transitional phase  
24 which will probably be over the next two (2) or three (3)  
25 years.

1                   So, the opportune time in the future would  
2 be within that time frame. Within the next two (2) or  
3 three (3) years we would look at substantially reducing  
4 or possibly eliminating the sinking fund.

5                   MS. TAMARA MCCAFFREY: Has the sinking  
6 fund been drawn down at this point? Are they starting to  
7 be drawn down now while you're in transition?

8                   MR. VINCE WARDEN: The sinking fund has  
9 been drawn down from historical levels. We -- we are  
10 currently at a level which is considerably lower than it  
11 has been in the past.

12

13   (BRIEF PAUSE)

14

15                   MS. TAMARA MCCAFFREY: And you're aware  
16 that other utilities such as the -- BC Hydro, as a  
17 specific example, had their sinking fund requirement  
18 removed?

19                   MR. VINCE WARDEN: Yes, I'm aware of  
20 that.

21                   MS. TAMARA MCCAFFREY: And just to recap  
22 the cost of the sinking funds, MIPUG/Manitoba Hydro First  
23 Round 12(h) which estimates the cumulative impact through  
24 the IFF period of the sinking funds, and the calculation  
25 there is \$93 million.



1 Do you recall that evidence?

2 MR. IAN PAGE: Yes, I did that  
3 calculation.

4 MS. TAMARA MCCAFFREY: Can you describe  
5 for the Board how those costs are calculated and why they  
6 arise?

7 MR. IAN PAGE: It was -- it's done as --  
8 because we don't -- we're not -- we don't have the option  
9 right now of eliminating the sinking fund. What we did  
10 was essentially assume that the interest rate spread from  
11 the guarantee fee did -- did not occur.

12 So we essentially added back the interest  
13 rate spread of the guarantee fee back to the sinking fund  
14 earnings and assume that that -- the sinking fund balance  
15 that we have now we're able to earn that -- an amount  
16 equal to the cost of debt rather than earn generally a  
17 little bit less than -- than the cost of debt

18 And that -- that's what the 93 million  
19 represents. It didn't represent an actual elimination of  
20 the sinking fund.

21 MS. TAMARA MCCAFFREY: Thank you for  
22 that, Mr. Page. We're -- we're looking at -- Manitoba  
23 Hydro's looking at accumulating some more debt in order  
24 to builds -- Conawapa or Keeyask, and in the context of  
25 that, how would -- how would that affect the cost related

1 to maintaining sinking funds?

2 MR. IAN PAGE: The -- the 93 million  
3 calculation incorporated all the -- the debt throughout  
4 the -- throughout the IFF, so the -- Conawapa and  
5 Wuskwatim have been -- been incorporated to the extent  
6 that they're within the IFF period.

7 MS. TAMARA MCCAFFREY: Thank you. But  
8 Keeyask was not?

9 MR. IAN PAGE: No, Keeyask is not in --  
10 in our current IFF either.

11 MS. TAMARA MCCAFFREY: And I think that's  
12 something like 3.7 billion cost, or one (1) of the  
13 numbers that's been tossed around with respect to that.

14 Can you give us a rough idea of how that  
15 might impact the -- the sinking fund expense?

16 MR. IAN PAGE: If -- if there was a 1  
17 percent spread from the guarantee fee on -- on something  
18 like Keeyask then you could take essentially 1 percent of  
19 the -- of the Keeyask capital expenditures in any one (1)  
20 year and that would -- well on an cumulative basis and  
21 then that would be -- that would be the -- essentially  
22 the cost of maintaining the sinking fund.

23 MS. TAMARA MCCAFFREY: Thank you.

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(BRIEF PAUSE)

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MS. TAMARA MCCAFFREY: Let's speak a little bit about Wuskwatim. I want to ask a few questions that flow from some undertaking responses, specifically Manitoba Hydro's Undertaking 13 which was marked as Exhibit Number 19, and the response to Undertaking number 11 which was marked as Exhibit Manitoba Hydro-20.

(BRIEF PAUSE)

MS. TAMARA MCCAFFREY: Undertaking 13 and Undertaking 11. So I'm going to start with Undertaking Number 11, which is Manitoba Hydro Exhibit 20. I'll give a moment so you can find it.

MR. IAN PAGE: I have that.

MS. TAMARA MCCAFFREY: All right. This shows how the revenues for Wuskwatim in 2013 were forecast.

Is that correct, sir?

MR. IAN PAGE: Yes.

MS. TAMARA MCCAFFREY: And it shows on peak energy, I'm looking at the table here, at 650 gigawatt hours with an approximate price of seventy-seven dollars (\$77) per megawatt hour, which would be a about

1 seven point seven (7.7) cents per kilowatt hour, is that  
2 right, sir?

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

4 MS. TAMARA MCCAFFREY: How many hours in  
5 a year are considered on-peak?

6 Mr. Surminski...?

7 MR. HAROLD SURMINSKI: 47 percent of the  
8 hours.

9

10 (BRIEF PAUSE)

11

12 MS. TAMARA MCCAFFREY: What are the on-  
13 peak hours? Are they 7:00 a.m. till 11:00, or something?

14 MR. HAROLD SURMINSKI: Hour ending 7:00  
15 a.m. till 11:00, yes, Monday to Friday.

16 MS. TAMARA MCCAFFREY: 7:00 a.m. until  
17 11:00 a.m. And now the off-peak column shows 732  
18 gigawatt hours of energy at sixty-four dollars (\$64) per  
19 megawatt hour, correct?

20 MR. IAN PAGE: Yes.

21 MS. TAMARA MCCAFFREY: So, six point four  
22 (6.4) cents per kilowatt hour, just for the sake of  
23 clarity?

24 MR. IAN PAGE: Yeah, that would be the  
25 conversion.

1 MS. TAMARA MCCAFFREY: Now the bottom row  
2 of this table shows the total for on-peak and off-peak at  
3 about seventy dollars (\$70) per megawatt hour or seven  
4 (7) cents per kilowatt hour.

5 Is that correct, sir?

6 MR. IAN PAGE: That's correct.

7 MS. TAMARA MCCAFFREY: Now, if you can  
8 turn now to Exhibit 19, which was Manitoba Hydro  
9 Undertaking 13 -- this shows that the costs for Wuskwatim  
10 -- that -- we were talking about revenues before, so now  
11 we're moving to costs -- are broken out by function  
12 compared to Manitoba Hydro's current generation  
13 portfolio.

14 Am I right in that?

15 MR. IAN PAGE: Yes, it's functionalized  
16 in the same way.

17 MS. TAMARA MCCAFFREY: And the current  
18 generation portfolio for the fiscal year 2007/'08, that's  
19 in the peak cost of service, while the Wuskwatim costs  
20 are looking at the year 2013.

21 Is that right, sir?

22 MR. IAN PAGE: Yeah. So there's going to  
23 be a mismatch because of that -- the effects of inflation  
24 through that period.

25 MS. TAMARA MCCAFFREY: Yeah, that's

1 exactly where I'm -- where I'm going. The Wuskwatim  
2 costs are showing at seven point two (7.2) cents per  
3 kilowatt hour, and compared to the revenue shown in  
4 Exhibit 20, that's a slightly higher number then.

5 Is that right, sir? The costs are now  
6 exceeding the revenues in 2013?

7 MR. IAN PAGE: Yes. And that's why we  
8 see a slight loss when -- when we put together the  
9 statements for it in that year.

10 MS. TAMARA MCCAFFREY: And that's -- that  
11 was in fact my next question. So we're moving right  
12 along here. The -- but just to put it on the record,  
13 it's PUB/Manitoba Hydro-2-3(b), showing the operating  
14 statement for the Wuskwatim Limited Partnership showing a  
15 net loss of about 25 million in 2013, and losses every  
16 year through 2017.

17 That's what occurs, right?

18 MR. IAN PAGE: Yes. The first few years  
19 you expect a loss.

20

21 (BRIEF PAUSE)

22

23 MS. TAMARA MCCAFFREY: And with respect  
24 to the current generation portfolio in the PCOSS '08  
25 column, that includes all generation, correct, not just

1 Hydro generation?

2 Is that right, sir?

3 MR. IAN PAGE: Yes.

4 MS. TAMARA MCCAFFREY: Okay. Now,  
5 looking at the breakdown for that column, the total costs  
6 per kilowatt hour are -- four point six (4.6) cents.  
7 That's just the bottom -- the bottom column, the --

8 MR. IAN PAGE: Yes.

9 MS. TAMARA MCCAFFREY: And, sir, you'd  
10 agree with me that two point five (2.5) cents or more  
11 than half of that is operating expenses?

12 Is that correct? With respect to the  
13 PCOSS --

14 MR. IAN PAGE: Yes, I can see that.

15 MS. TAMARA MCCAFFREY: And, comparing that  
16 to Wuskwatim, the operating expenses there in that column  
17 are pretty small. Can you explain what those expenses  
18 would be.

19 MR. IAN PAGE: What those are, are the  
20 incremental operating expenses of the Wuskwatim  
21 generating station. The control centre doesn't have to  
22 have any new employees for that. This -- so this would  
23 just be the employees on-site and regular routine  
24 maintenance supplies and equipment that they would need  
25 on-site.

1 MS. TAMARA MCCAFFREY: Thank you, Mr.  
2 Page. So now if we take out the operating expenses, that  
3 leaves us with existing generation resources about one  
4 point nine (1.9) cents per kilowatt hour, while the  
5 Wuskwatim then would be six point six (6.6) cents per  
6 kilowatt hour.

7 Is that correct?

8 MR. IAN PAGE: I'll accept your  
9 calculation.

10 MS. TAMARA MCCAFFREY: And, those  
11 differences are -- are due to the fact that the  
12 Wuskwatim's looking at incremental costs? Is that --

13 MR. IAN PAGE: What --

14 MS. TAMARA MCCAFFREY: -- can you explain  
15 those differences for us?

16 MR. IAN PAGE: What -- what you'll see,  
17 well, with any new resource, you'd expect it to be higher  
18 than the average, because the average represents the  
19 historic weighting of all the -- of all the portfolio of  
20 assets that Manitoba Hydro has. So there's -- there's  
21 generating stations there that are now approaching a  
22 hundred (100) years old and Wuskwatim is -- hasn't even  
23 been built yet. So there's quite a range of ages then --  
24 when we're comparing there.

25 MS. TAMARA MCCAFFREY: Okay. Well -- and



1 that makes sense.

2 Sir, what risks are associated with these  
3 forecasts? Are the risks in terms of your forecasting  
4 financing costs? Exports?

5 MR. IAN PAGE: Whenever you're --  
6 obviously, whenever you're forecasting, you're dealing  
7 with some degree of uncertainty. When you've got -- as  
8 the -- say if you're looking at, say, the capital cost of  
9 the Wuskwatim generating station, we're at a stage now  
10 where we have a reasonably high assurance of what those  
11 numbers are going to be, so there's -- there's lower  
12 level of risk there.

13 Interest expense. Obviously we don't know  
14 what interest rates are going to be in the future, but  
15 interest rates would also tend to affect the carrying  
16 costs of all the existing facilities, too.

17 Export prices. Yes, we don't know what  
18 the export prices are going to be. And we also don't  
19 know what the exchange rate's going to be, so this --  
20 this is why we have things like our, you know, our risk  
21 management strategy, and part of that is things like, you  
22 know, the capital structure of the -- of the company in  
23 order to give us some flexibility in -- in -- in dealing  
24 with these risks.

25 MS. TAMARA MCCAFFREY: And I think

1 because of these risks and the difficulties of  
2 forecasting, I think it's with any type of forecasting,  
3 the further out you go, the more risks there are in terms  
4 of the accuracy of those forecasts.

5 Is that fair to say?

6 MR. IAN PAGE: I -- I think that's common  
7 with it -- forecasting anything, yes.

8 MS. TAMARA MCCAFFREY: And, as an example  
9 of that, how would you say these forecasts are comparing  
10 with those that were brought forward at the CEC hearing  
11 on Wuskwatim?

12 Do you -- do you know what -- or can you  
13 remember what the equivalent costs or revenues per  
14 kilowatt hour would have been, or can we get that  
15 information?

16 MR. IAN PAGE: I don't have it on a cost  
17 per kilowatt hour basis, but I think -- I think we filed  
18 something to show that the capital cost of Wuskwatim is  
19 higher than what it was at the time. I think one of the  
20 undertakings that we filed, I think the Undertaking 31  
21 showed the comparison of the capital costs. I believe  
22 it's 31.

23

24

(BRIEF PAUSE)

25

1                   MR. IAN PAGE:    Yes, Undertaking 31  
2 compared the Wuskwatim estimate from -- from a few years  
3 ago to the current one in -- in 2002 dollars.

4                   MS. TAMARA MCCAFFREY:   And what -- do you  
5 know roughly what percentage of increase there -- there  
6 was?

7

8                                   (BRIEF PAUSE)

9

10                   MS. TAMARA MCCAFFREY:   That's Exhibit  
11 Manitoba Hydro 29.

12                   MR. IAN PAGE:    The generating station, I  
13 think, is about doubled from what we had back then.

14                   MS. TAMARA MCCAFFREY:   Okay. Thank you.

15

16                                   (BRIEF PAUSE)

17

18                   MR. IAN PAGE:    Sorry -- sorry, I was  
19 comparing the wrong columns. It's a 50 percent increase.

20                   MS. TAMARA MCCAFFREY:   Fifty percent  
21 increase?

22                   MR. IAN PAGE:    Yes. I thought doubled  
23 sounded too high -- it sounded too high.

24                   MS. TAMARA MCCAFFREY:   Thank you for  
25 that, Mr. Page.

1                   Mr. Derksen, there's been some discussion  
2 about the budgeting process; I've heard about "top down",  
3 I've heard about "bottom up". There's different sort of  
4 discussions that are on the record. Just to follow-up  
5 and sum up, can you describe your budgeting process.

6                   Which one do you do first? Do you a top-  
7 down budget, or do you get the bottom-up budget coming up  
8 to head office? How does it work?

9                   MR. WILLY DERKSEN: We're talking about  
10 O&A budgeting at this point?

11                  MS. TAMARA MCCAFFREY: Yes.

12                  MR. WILLY DERKSEN: I -- I think that  
13 both of those processes work together, but let me  
14 describe it.

15                  The -- the IFF target, which is the top-  
16 down process, occurs around August of each year --  
17 August/September. The -- there are submissions made to  
18 the Executive Committee for their review in assessing the  
19 amount of operating costs that will be required in the  
20 future to operate the Utility.

21                  Executive Committee reviews these requests  
22 and -- and discusses any further information that they  
23 may require in order to ascertain what an appropriate  
24 budgeting level might be.

25                  And, ultimately, they provide a -- a

1 target for O&A which is subsequently presented to the  
2 Board of Directors for their approval.

3           Once the Board of Directors has approved a  
4 target, the target is then allocated into the business  
5 units and the business units, in the spring of the year  
6 prior to the commencement of the -- of the next fiscal  
7 year, prepare their detailed operating plans and budgets  
8 in accordance with the targets that have been set for  
9 them.

10           Now, part of that detailed budgeting  
11 process -- and this is where the circular aspect happens  
12 -- is they review the targets that are available, they  
13 review opportunities and -- and -- for both cost  
14 increases and decreases, and the information from that  
15 detailed budgeting process gets fed back into the  
16 Executive Committee for the next year's target-setting  
17 process.

18           So the detailed budgeting that -- that  
19 happens in the spring is -- conforms to the targets that  
20 have been set by the Executive Committee, and it is  
21 what's used for performance reporting each year.

22           MS. TAMARA MCCAFFREY: That was  
23 excellent, Mr. Derksen. Thank you.

24           The spring budget then, that would go into  
25 the next year's process.

1 Is that right?

2 MR. WILLY DERKSEN: The results of that  
3 spring budget or the January to March timeframe, I should  
4 say, are used for the performance reporting. That's the  
5 variance analysis that's performed monthly, and, as well,  
6 it would provide information that would go into the next  
7 year's budgeting process.

8 MS. TAMARA MCCAFFREY: And the -- so then  
9 the top-down budget that -- that begins in the summer in  
10 August/September, that's to inform the coming year or the  
11 following year?

12 MR. WILLY DERKSEN: That is generally for  
13 the coming year, although there may be updates to the  
14 current year, depending upon circumstances.

15 MS. TAMARA MCCAFFREY: We've often seen  
16 that in these hearings, too. Even as -- as the hearings  
17 are going on through the spring, there's sometimes  
18 updates.

19 MR. WILLY DERKSEN: Times change, yes.

20

21 (BRIEF PAUSE)

22

23 MS. TAMARA MCCAFFREY: Do you use a zero-  
24 based budget approach or something else? And you might  
25 just want to put on the record so everybody is familiar

1 what a zero-base budget approach is.

2 MR. WILLY DERKSEN: Zero-base budgets  
3 have various meanings, but I think the classic meaning of  
4 the zero-base budget would be to start a budget based  
5 upon the needs and -- of that particular operating  
6 division, assess the number of resources that you  
7 require, assess the -- the plans and opportunities that  
8 you have, and create a budget totally without reference  
9 to previous year's results or previous year's budgeting.

10 A -- the budgeting that's performed at  
11 Hydro considers those things for some aspects, but it is  
12 primarily based upon previous year's experience with  
13 pluses and minuses.

14 MS. TAMARA MCCAFFREY: Thank you, Mr.  
15 Derksen. Now, you've indicated that sometimes the -- the  
16 target -- the budgets have to be refined as things  
17 develop.

18 Is there a process for identifying the  
19 problems as they arise, or is it the units would report  
20 to the executive and say, Well, we've got this target but  
21 it's not realistic because certain things -- certain  
22 circumstances? Can you elaborate on that a little bit  
23 for us.

24 MR. WILLY DERKSEN: I -- I think,  
25 generally, revisions would occur once a year and that

1 would be based upon significant events or information  
2 that's passed to the executive for the annual targeting  
3 process.

4 MS. TAMARA MCCAFFREY: Are there --

5 MR. VINCE WARDEN: I might -- I might  
6 just add a little bit to that, Ms. McCaffrey. We do have  
7 what we call a monthly management report in which we  
8 review -- which includes the fundamental operating  
9 balance sheet, cash flow statements, as well as reports  
10 on expenditures by division by business unit on a monthly  
11 basis.

12 So the executive does review variances  
13 from forecast each and every month, and through that  
14 method -- method we do keep on top of any changes that  
15 might be occurring throughout the year.

16 MS. TAMARA MCCAFFREY: Thank you, Mr.  
17 Warden. What are the consequences if -- if the ONA --  
18 OM&A targets aren't achieved? Are there any  
19 consequences? Or how -- how is that addressed?

20 MR. VINCE WARDEN: We -- as I mentioned,  
21 we do review performance monthly and if there is a  
22 variance from forecast we totally understand the reason  
23 why there's a variance. And either that variance is  
24 acceptable or it's not. If it's not then action is taken  
25 to correct the -- the cause of that variance.



1 MS. TAMARA MCCAFFREY: And this is done  
2 on a -- basically on a monthly -- on a monthly basis?

3 MR. VINCE WARDEN: It is.

4

5 (BRIEF PAUSE)

6

7 MS. TAMARA MCCAFFREY: Just as a concrete  
8 example, in Tab 27 of the Public Utilities Board's book  
9 of -- book of documents where you have a cost element  
10 analysis for the Utility and OM&A, and just to look at a  
11 specific line, about in the middle of the page, I'm  
12 looking at the conser -- computer services.

13 And between the years 2005 where the table  
14 begins and 2006/2007, I see the numbers for that are  
15 moving around a little bit. They're -- they're going a  
16 little bit up, they start to go -- they go down, and then  
17 they start getting lower in 2008 and 2009.

18 Are -- are those -- would this be an  
19 expense that might be sort of infrequent or unusual at  
20 one time? Or can you explain why those numbers are  
21 moving around, how -- and how that would be addressed in  
22 your budgeting process.

23 MR. WILLY DERKSEN: Yes, the -- the  
24 computer services has been reduced because the company  
25 decided to move off of a mainframe system and have a -- a

1 common billing system, the Banner System. And so the  
2 year that it's gone down reflects that reduction of  
3 mainframe service costs.

4 Now, the second part of your question  
5 suggested that, is that a common occurrence or what do we  
6 do with respect to those sorts of things. Now, if you'll  
7 -- other things happen as well in that particular year in  
8 that particular timeframe. The introduction of -- of new  
9 software also requires increased computer maintenance and  
10 royalty costs to be paid to suppliers.

11 If you'll notice in the equipment  
12 maintenance row that's just above that there's almost a  
13 corresponding increase that goes on in that same  
14 timeframe, which is the offset, if you like.

15 MS. TAMARA MCCAFFREY: Thank you, sir.  
16 And I believe that you've already told Mr. Williams that  
17 your OM&A for the current fiscal years came in under  
18 target for the year.

19 It's looking good, is that right?

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

21 MS. TAMARA MCCAFFREY: And with respect  
22 to that, coming in under -- under target, can you say how  
23 much of that would be attributed to conscious decisions  
24 made by the corporation, Mr. Warden, or compared to  
25 things like circumstances being unable to fill vacated

1 positions, for example.

2 MR. VINCE WARDEN: Yes, Ms. McCaffrey, I  
3 think we did discuss this previously. We do have a -- a  
4 favourable or an under-expenditure in OM&A in the current  
5 fiscal year, quite a significant under-expenditure. The  
6 reasons for that are primarily related to not filling a  
7 number of staff positions.

8 And I think we mentioned the number of two  
9 hundred (200) -- approximately two hundred (200)  
10 positions that are unfilled at this point in time. We  
11 are having some difficulty filling those positions.  
12 Recruiting staff is -- is a bit of a problem for us,  
13 which we are addressing, but the under-expenditure is not  
14 entirely a good news story, as I -- as I spoke to you  
15 previously.

16 MS. TAMARA MCCAFFREY: Thank you very  
17 much, sir.

18 That sums up where I wanted to go with  
19 respect to OM&A. I'd like to move to a different area,  
20 but I note the time. Perhaps it's a good time for a  
21 break. The next area, I take, is going to be a little  
22 longer.

23 THE CHAIRPERSON: Very good, then. We'll  
24 have a break now.

25

1 --- Upon recessing at 10:16 a.m.

2 --- Upon resuming at 10:35 a.m.

3

4 THE CHAIRPERSON: Okay, Ms. McCaffrey.

5

6 CONTINUED BY MS. TAMARA MCCAFFREY:

7 MS. TAMARA MCCAFFREY: I'm ready. Now,  
8 remind me again, Mr. Warden, what was the driver for this  
9 rate application, the primary driver? To make it -- good  
10 progress towards your financial target?

11 MR. VINCE WARDEN: Well, Ms. McCaffrey, I  
12 think I listed a number of drivers for -- for this rate  
13 application. The primary driver was to continue to make  
14 progress towards the achievement of our financial  
15 targets.

16 MS. TAMARA MCCAFFREY: And in that  
17 regard, we've heard a lot about the 75 percent debt to  
18 equity target. It remains of -- in your IFF for 2011 --  
19 well, not in your IFF, but it remains your target to be  
20 reached by 2011 and 2012, right?

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

22 MS. TAMARA MCCAFFREY: And we know that  
23 that target was approved by Manitoba Hydro's Board, and  
24 the IFF that the Manitoba Hydro Board reviewed in setting  
25 that target was the IFF-02.

1                   Is that right, sir?

2                   MR. VINCE WARDEN:    I believe that's  
3 correct, yes.

4                   MS. TAMARA MCCAFFREY:   There is a  
5 reference if you -- if you need it.  It's Public Utility  
6 Board/Manitoba Hydro-1-23(a), I believe is where we found  
7 that response.

8                   Now, sir, that target was achieved in the  
9 IFF-02, is that right, sir?  By 2011/'12?

10                  MR. IAN PAGE:    It was projected to be  
11 achieved.

12                  MS. TAMARA MCCAFFREY:   That's a better  
13 way of putting it.

14                  Now, in the IFF-07-1, it is not predicted  
15 to be achieved, is that right?

16                  MR. IAN PAGE:    That's correct.

17                  MS. TAMARA MCCAFFREY:   And,  
18 notwithstanding that it's the IFF that's on the table,  
19 that this GRA doesn't get you there, that target is still  
20 the target.

21                  It hasn't been changed, correct?

22                  MR. VINCE WARDEN:    Correct.

23                  MS. TAMARA MCCAFFREY:   All right.  Now,  
24 the exhibit we distributed earlier that would -- I asked  
25 to be marked as MIPUG Exhibit Number 7, if you could turn

1 to that.

2

3

(BRIEF PAUSE)

4

5 MS. TAMARA MCCAFFREY: Now, just for  
6 context, this exhibit compares certain financial  
7 indicators in the IFF-02 and IFF-07. And the comparisons  
8 are for the 2007/'08 fiscal year and the 2011/'12 fiscal  
9 year.

10 Now, if you have a look at the debt  
11 percentage row, in the 2007/'08 fiscal year, the debt  
12 percentage was higher in the IFF-02 than in the IFF-07.

13 Fair enough?

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

15 MS. TAMARA MCCAFFREY: Now, by 2011/'12,  
16 this was changed. The IFF-02 has actually shown a 74  
17 percent debt -- debt ratio down from 79 percent, but the  
18 IFF-07 has it at seventy-seven (77).

19 In fact, it hasn't changed at all, is that  
20 fair?

21 MR. IAN PAGE: Yes.

22 MS. TAMARA MCCAFFREY: And when we look  
23 at the retained earnings, line 3, the dollar value of the  
24 retained earnings is higher for both the 2007/'08 and the  
25 2011/'12 years in the IFF-07 compared to the '02

1 forecast, correct?

2 MR. IAN PAGE: That's correct.

3 MS. TAMARA MCCAFFREY: And with respect  
4 to the capital assumptions that go into each of these  
5 IFFs, these have been summarized at the bottom of the  
6 table. I'm just confirming that in the IFF-02, Wuskwatim  
7 was assumed to be in service in 2020/'21, which was  
8 beyond the IFF-02 forecast period.

9 Is that right, sir?

10 MR. IAN PAGE: That's correct.

11 MS. TAMARA MCCAFFREY: And the IFF-07 has  
12 that project in service now in 2011/'12.

13 Correct, Mr. Page?

14 MR. IAN PAGE: Yes.

15 MS. TAMARA MCCAFFREY: Now, with major  
16 transmission, there is a difference in what projects were  
17 assumed between the IFF-02 and an IFF-07.

18 Can you tell me what those differences  
19 are, Mr. Page?

20 MR. IAN PAGE: There are a lot of  
21 differences in major transmission. I'm assuming the one  
22 you're -- you're referring to on this chart is the -- the  
23 Bipole 3 which, in the IFF-02, was the line only on the  
24 east side of Lake Winnipeg. And the IFF-07, it's the  
25 line on the west side of Lake Winnipeg plus northern and

1 southern AC/DC conversion.

2 MS. TAMARA MCCAFFREY: Right, there was  
3 also a project named "Radisson Real Dorsey"?

4 MR. IAN PAGE: Yes, that's -- that's the  
5 path of the Bipole 3 line.

6 MS. TAMARA MCCAFFREY: That's -- and  
7 that's referring to the east side.

8 Is that right, sir?

9 MR. IAN PAGE: That doesn't refer to the  
10 east side, but, yes, that was the east side assumption at  
11 that time.

12

13 (BRIEF PAUSE)

14

15 MS. TAMARA MCCAFFREY: And Conawapa was  
16 not on the table with respect to the IFF-02 forecast.

17 Is that right, Mr. Page?

18 MR. IAN PAGE: That -- that's correct.  
19 Actually, at that time, we had no commitment to any new  
20 generation, so Wuskwatim, Keeyask and Conawapa -- none of  
21 them were committed to it.

22 MS. TAMARA MCCAFFREY: So the capital  
23 landscape now is very different than it was in the '02  
24 forecast.

25 You'd agree with that, sir?



1 MR. IAN PAGE: By "the landscape," are  
2 you referring to the -- the market or what our plans are?

3 MS. TAMARA MCCAFFREY: I'm -- I'm talking  
4 about your generation plans -- capital development.

5 MR. IAN PAGE: Well, since '02, we've --  
6 we've committed to Wuskwatim and started construction on  
7 Wuskwatim. And we had -- back then, we had no new plant  
8 projected until 2020. Now, even with Wuskwatim, we're  
9 going to need something by '21, and we actually have some  
10 deficits before and after Wuskwatim with the change in  
11 the load forecast from -- from the '02 forecast.

12 MS. TAMARA MCCAFFREY: There's been a lot  
13 of changes in terms of the Utility's planned capital  
14 growth in hydro development, though, from 2002.

15 MR. IAN PAGE: We have -- as of right  
16 now, we don't have any commitments to any plant after  
17 Wuskwatim. So the only real difference in terms of what  
18 we've committed to since then is the Wuskwatim Generating  
19 Station.

20 MS. TAMARA MCCAFFREY: You've committed  
21 to Wuskwatim and -- and it's -- it's also possible,  
22 certainly, that Keeyask could also go ahead. I think Mr.  
23 Warden was saying that they both may well go ahead.

24 MR. IAN PAGE: It's certainly possible  
25 that either or both of Keeyask and Conawapa could go --

1 could proceed.

2 MS. TAMARA MCCAFFREY: And, again, my  
3 point simply is that those -- those things weren't really  
4 on the -- on the landscape in 2002.

5 MR. IAN PAGE: We had -- we were  
6 protecting early Keeyask back then. I -- I don't recall  
7 what our plans were in Conawapa. Conawapa had been sort  
8 of -- and Keeyask had been switching places with each  
9 other as the -- the next planned generating station over  
10 -- throughout a number of forecasts.

11 So Conawapa has always been in the plans.  
12 Back in 1990, we were -- we were under construction for  
13 Conawapa, so it's -- it's -- I -- I wouldn't say that  
14 Conawapa isn't in our -- wasn't in the plans in '02.

15 MS. TAMARA MCCAFFREY: Okay, well, maybe  
16 I spoke too broadly. I tend to talk, sometimes, in a  
17 more conversational way, and -- and I think for technical  
18 purposes, I -- I can see that you want to be absolutely  
19 clear.

20 But, you would agree with me, in any  
21 event, my point is simple. This is an area -- an age --  
22 of -- of capital expansion and development for the  
23 Utility, isn't it? It's a time of growth, isn't it?

24 MR. IAN PAGE: With the market changes in  
25 our load forecast in the last couple of years, things

1 that we were looking at a few years ago possibly for  
2 advancing for -- for export opportunities, now we're  
3 looking at building for domestic requirements.

4 So the circumstances have changed, and --  
5 and whereas before we were looking at things -- if there  
6 -- if there was profit to be made from them, we were --  
7 we are considering building them now.

8 In a lot of ways, we're being sort of --  
9 with the load, we're being sort of forced to deal with  
10 that load. And -- and, so, some of that flexibility is  
11 going away.

12 MS. TAMARA MCCAFFREY: I have your  
13 answer, Mr. Page, and -- and I -- and I can assure you  
14 that I'm not going in a direction where I'm challenging  
15 Manitoba Hydro's capital development plans in -- in any  
16 way at all.

17 My point was simply that there is a lot of  
18 development going on. This -- this is the age that we're  
19 talking and then that's the purpose for my discussion.

20 I -- I'd like to move to the -- the MIPUG  
21 Exhibit Number 8. And what we've attempted to do here so  
22 that the -- everyone in the room is aware is we've taken  
23 some calculations that appear at a couple of IRs, one of  
24 which is the Public Utility Board/Manitoba Hydro First  
25 Round 62, which provides a detailed calculation of the

1 debt to equity ratio for the years '04/'05, '05/'06,  
2 '06/'07, '07/'08 and to '08/'09.

3           And we've taken that calculation and tried  
4 to lay it out on the table in terms of how Manitoba Hydro  
5 calculate their debt equity and we've put beside it for  
6 comparison how Standard & Poor's calculates the  
7 debt/equity pursuant to the coalition on number seventeen  
8 (17).

9           So I -- I -- if everyone's on the same  
10 page, we've been through this calculation a little bit  
11 but it -- just to sort of recap, Mr. Page, perhaps, would  
12 you like to describe for me what goes into Manitoba  
13 Hydro's calculation of their debt/equity. And I'm  
14 looking here -- there's a formula at the bottom of the  
15 page that we've extracted from that IR, but you can take  
16 us through it if you would.

17           MR. IAN PAGE: Sure. The way we do our  
18 debt equity ratio -- well, actually we do the debt ratio  
19 and then we do the equity ratio as the reciprocal of  
20 that. The -- the debt ratio is the total -- total net  
21 debt divided by the total of net debt and equity.

22           And the equity is defined as retained  
23 earnings plus a non-refundable portion of customer  
24 contributions and the debt would be all of the long-term  
25 debt, including the current portion, the short-term debt,

1 any bank balances, and then from that we subtract off any  
2 -- the sinking fund balance and any short-term  
3 investments.

4 MS. TAMARA MCCAFFREY: Thank you. And --  
5 and again, if anyone needs to refer to it, the reference  
6 is PUB/Manitoba Hydro-1-62(d). And that lays out what  
7 the different components of that formula are.

8 MR. ROBERT MAYER: Can somebody tell me  
9 what you mean by "customer contribution" because I  
10 noticed Standard & Poors doesn't bother dealing with  
11 that.

12 MS. TAMARA MCCAFFREY: I -- I was  
13 actually just going to have you describe that for us.  
14 That is the difference between the two methods of  
15 calculating.

16 MR. IAN PAGE: That's -- that's the  
17 primary method. Sorry, primary difference in the  
18 methods. The customer contributions, if -- if a customer  
19 -- if there's a service extension done to connect the new  
20 customer and there's a contribution that is -- a  
21 calculation is made as determining what contribution has  
22 to be made in order to pay for the difference between  
23 what the rates would recover and what it costs to put  
24 that service in.

25 And if the -- if it looks like the --

1 what's -- what's the -- what will be recovered through  
2 future rates will never pay for that difference, then the  
3 contribution's determined to be non-refundable, and then  
4 that's -- that's what's in -- in this category.

5 MR. ROBERT MAYER: That -- that's like  
6 the Ski Club's fifty thousand dollar (\$50,000)  
7 contribution then to extend a hydro line from the  
8 Thompson Airport to the -- to the Ski Club. And it's  
9 that kind of contribution.

10 MR. IAN PAGE: That -- that's the type of  
11 thing we're looking at, so it'd just be a matter of  
12 whether --

13 MR. ROBERT MAYER: So it's a contribution  
14 to capital?

15 MR. IAN PAGE: Yes. So it'd be a matter,  
16 whether it was deemed to be something that would be  
17 refundable in the future or not, whether it goes into  
18 this category.

19 MR. ROBERT MAYER: Thank you, sir.

20

21 CONTINUED BY MS. TAMARA MCCAFFREY:

22 MS. TAMARA MCCAFFREY: So Manitoba Hydro  
23 owns the asset, so you put in a new line. You own the  
24 asset, but you require the customer to contribute to the  
25 cost of that to pay for a proportion of those costs.

1 Is that right, sir?

2 MR. IAN PAGE: Yes.

3

4 (BRIEF PAUSE)

5

6 MS. TAMARA MCCAFFREY: And just before we  
7 move a little bit further into this table; when Manitoba  
8 Hydro builds a new project, it doesn't get the equity or  
9 retained earnings right away.

10 Is that right sir? It shows up over time?

11 MR. IAN PAGE: Yes, the only source  
12 Manitoba Hydro has of retained earnings is -- is  
13 accumulated net income. So if we add a project, we incur  
14 the debt and then, over time, the revenues from that  
15 project will contribute to net income which -- that --  
16 that's when we receive the equity.

17 So there's -- there's a lag when --  
18 between when we incur the debt and when we get the  
19 equity.

20 MS. TAMARA MCCAFFREY: So when you build  
21 a big -- a new big project like Conawapa, it's the -- the  
22 long-term debt is the number that would change.

23 Is that right, sir?

24 MR. IAN PAGE: Initially, yes.

25 MS. TAMARA MCCAFFREY: And not arguing

1 with respect to the issue of good debt at all, but simply  
2 what happens is, all things being equal, the debt  
3 percentage goes up and gets higher, right? You have to  
4 pay for it, and you pay for it through -- through debt.

5 And, initially that's what happens when  
6 you build a new project.

7 MR. IAN PAGE: Yes.

8 MS. TAMARA MCCAFFREY: And, of course,  
9 when that happens, it naturally moves further away from  
10 that 75 percent ratio number.

11 MR. IAN PAGE: Yes, and -- and if you  
12 looked at a series of -- of projects, you'd see the debt  
13 ratio would improve, then it would slip back when you  
14 added a new project, then it would gradually improve,  
15 then slip back. So it would be a sort of a -- a zig-zag  
16 type of a curve on the debt/equity ratio over time.

17 MS. TAMARA MCCAFFREY: Not sure I caught  
18 that. You're going to have to -- you're going to have to  
19 repeat that then.

20 MR. IAN PAGE: If -- if you add a new  
21 project, yes, you're going to incur the debt. And then,  
22 over time, you're going to get the retained earnings --  
23 or you're going to get the -- the build-up of retained  
24 earnings through that project. Then -- then you'll have  
25 to -- then, assuming the load is continuing to grow, then



1 you'll have a new project which will do the same thing.  
2 So it'll -- it'll ratchet up and down a bit.

3 MS. TAMARA MCCAFFREY: Thank you very  
4 much for that, Mr. Page.

5 I want to talk now about what it would  
6 take to achieve -- we've talked about making good  
7 progress towards the Utility's financial targets, but  
8 what would it take to achieve the -- the financial  
9 targets by the target date -- by the Board-approved date  
10 of 2011/'12?

11 Now there's an IR that does that, and it's  
12 Public Utility Board/Manitoba Hydro-1-23(b).

13 Are you familiar with the table, Mr. Page?

14 MR. IAN PAGE: I'm just -- just opening  
15 it.

16

17 (BRIEF PAUSE)

18

19 MR. IAN PAGE: Yes, I have it.

20 MS. TAMARA MCCAFFREY: Now, when I --  
21 when I see this IR, and I turn to the sensitivity  
22 analysis that you've done here -- the Consolidated  
23 Projected Operating Statement IFF-07-01, adjustment to  
24 rates to achieve that seventy-five/twenty-five (75:25)  
25 debt/equity ratio by the targeted date.

1                   And what I see is you've assumed 2.9  
2 percent rate increase for 2009 for this -- for the  
3 purposes of this.

4                   Is that right, sir?

5                   MR. IAN PAGE:    Yes, the application had  
6 already been filed.

7                   MS. TAMARA MCCAFFREY:    Yes, and then --  
8 I'm looking here at the line towards the bottom, "General  
9 Electricity Rate Increases" for those that are following  
10 along.

11                   Then I see three years where there's a 6.6  
12 percent rate increase from the 2010 year to 2012.

13                   Are you with me there?

14                   MR. IAN PAGE:    Yes.

15                   MS. TAMARA MCCAFFREY:    Okay. And then I  
16 see from 2013 on to the end of the forecast, no rate  
17 increases.

18                   MR. IAN PAGE:    That's -- that's correct.  
19 By getting to the debt/equity ratios, the sooner the  
20 interest -- savings and interest expense would negate the  
21 need for future rate increases, all things being equal.

22                   MS. TAMARA MCCAFFREY:    I guess the  
23 obvious question is why wouldn't this plan be adopted  
24 instead of the one that you've done which doesn't get you  
25 to the debt/equity target.

1                   We -- we've heard so much about how  
2 important it is to -- to manage -- the Corporation  
3 manages its risks by building up the equity. That's the  
4 whole thesis of -- of what I've been hearing through this  
5 and other rate applications.

6                   And the confusion that I have here is that  
7 you have an IFF that doesn't get you there. You have a  
8 target, though, that -- that still says, Well, we'd like  
9 to get there by this date. We have a potential way to  
10 get there, a plan that -- but yet the Corporation isn't  
11 pursuing actually achieving. It's pursuing attaining and  
12 making good progress towards, but not achieving in the  
13 forecast.

14                   And I'm -- I'm just wondering can you ex -  
15 - explain that to us?

16                   MR. IAN PAGE: Manitoba Hydro has to --  
17 to balance the needs of an -- an awful lot of  
18 stakeholders. And one of -- one of -- we've got several  
19 of them in this room at this -- at this time. So we've -  
20 - we've got a number of -- number of people who prefer  
21 lower rate increases.

22                   Manitoba Hydro, obviously, would prefer to  
23 have a more rapid progress towards the debt/equity ratio,  
24 but we have to recognize the reality of the situation  
25 we're in.

1                   MR. VINCE WARDEN:    And just to add a  
2 little bit further to that, Ms. McCaffrey, when a rate  
3 application is being considered by the Board of Manitoba  
4 Hydro, customer sensitivity is -- is a very prime  
5 consideration.

6                   It was the view of the Board that a rate  
7 increase in the order of 2.9 percent was taking into  
8 account the -- the -- appropriate balance between  
9 customer sensitivity and the need to continue to make  
10 progress towards the achievement of financial targets.

11                  MS. TAMARA MCCAFFREY:   And was that  
12 really discussed, Mr. Warden, though?

13                  When compared to a situation where you do  
14 have an increase -- three (3) year increase, and -- and  
15 albeit certainly, you know, higher than 2.9 percent --  
16 six (6) percent is -- is a larger increase -- but then  
17 followed by a period of no increases, was that...

18                  This -- this notion of customer  
19 sensitivity, I understand it. But I'm wondering if you  
20 can shed some light on how that's determined. It may be  
21 that Manitobans may think this is a good deal.

22                  Let's have these increases for these three  
23 (3) rates, in terms of predictability, stability,  
24 managing the risks and so forth, and then we're there.  
25 We've got the equity there, and then -- we've managed the

1 risk. And then for a period of time at least we won't  
2 have to look at further rate increases, notwithstanding  
3 new generation and what have you.

4 MR. VINCE WARDEN: Well, as you reviewed  
5 earlier with Mr. Page, there are -- in putting together  
6 financial forecasts, there are a number of uncertainties  
7 about the future.

8 Even in the current fiscal year, as we're  
9 seeing, if you look at the same exhibit that we were just  
10 reviewing -- or the same chart we were just reviewing, in  
11 2007/'08, the forecasted net income is 266 million. I  
12 think I testified earlier that the actual net income will  
13 be some \$40 million higher than that.

14 In 2009 and 2010 the -- the forecast is  
15 based on -- on median flows in the first year and then --  
16 and then average flows thereafter. So water conditions  
17 can have a tremendous impact on our financial forecast.

18 So taking all that into consideration, 2.9  
19 percent was deemed by the Board of Manitoba Hydro to be  
20 reasonable. And because we do apply to this Board, we  
21 are only applying for a one (1) year rate increase, we  
22 can assess the situation again in the fall of 2008, and  
23 determine whether or not a rate increase higher or  
24 perhaps even lower than two point nine (2.9) will be  
25 applied for in -- in the year commencing 2009.

1 MR. ROBERT MAYER: Mr. Warden, I -- I  
2 can't let this one go by. Your 2.9 percent sounds an  
3 awful lot like the used car salesman who wants to sell me  
4 a car for nineteen thousand nine hundred and ninety-nine  
5 dollars and ninety nine (\$19,999.99) cents, because it's  
6 not twenty thousand (20,000).

7 Is -- is two (2) poi -- one point nine  
8 (1.9) or two point nine (2.9) simply because it's not  
9 three (3)?

10

11 (BRIEF PAUSE)

12

13 MR. VINCE WARDEN: It's not three (3),  
14 Mr. Mayer.

15 MR. ROBERT MAYER: I hope there's a  
16 little more rationale for the number than that, though.

17 MR. VINCE WARDEN: Again, I can only say  
18 that a number of scenarios are reviewed by the Board of  
19 Manitoba Hydro before a rate application is submitted to  
20 this Board for approval.

21

22 CONTINUED BY MS. TAMARA MCCAFFREY:

23 MS. TAMARA MCCAFFREY: Just as a flier,  
24 do you -- do you send out any -- do sort of polling or --  
25 or something to sort of find out what the customer

1 sensitivity would be? Do you extend the tentacles of the  
2 Utility out toward -- get -- put some -- not tentacles,  
3 not tentacles, feelers. I don't want to get the wrong  
4 image here.

5                   The -- the feelers of the Utility out to  
6 try and -- and -- get a sense of what that customer  
7 sensitivity would be?

8                   Do you ever do anything like --

9                   MR. VINCE WARDEN: Our -- our people in  
10 customer service and marketing are in constant contact  
11 with customers. So they a have good feeling, I would  
12 say, as to what -- what would be an acceptable level of  
13 rate increase.

14                   MS. TAMARA MCCAFFREY: And I guess  
15 they're telling you or they told you they don't think the  
16 customers would face a 6.6 percent rate increase for a  
17 period of three (3) years, followed by none?

18                   MR. VINCE WARDEN: Well, I don't -- I  
19 don't think we had to be told that, that 6.6 percent is a  
20 large rate increase. So that was not considered to be  
21 acceptable.

22                   MS. TAMARA MCCAFFREY: But -- I should  
23 perhaps stop here. It's -- it's an interesting area,  
24 anyway. And in terms of the issue of achieving your  
25 debt/equity targets versus the language of attaining them

1 and making progress towards them is -- is the -- the  
2 point of interest here. But I -- I have -- I appreciate  
3 it -- it's a complicated process, and I -- and I thank  
4 you for your answers, then, sir.

5           Going back to this Exhibit Number 8, this  
6 is the -- we -- we went through the calculation, the  
7 Manitoba calculation of the debt/equity targets. And Mr.  
8 Page did a wonderful job explaining to us how he  
9 calculates that.

10           And then we know from, of course, the line  
11 of questions from Mr. Williams that Standard & Poor's  
12 calculates it a little bit differently, uses, I guess, a  
13 more simplistic calculation, but uses a three (3) year  
14 average.

15           And the main difference is that the  
16 Standard & Poor -- the bond rating agency -- doesn't take  
17 into account the customer contributions.

18           Is -- is what I'm saying at this -- to  
19 this point, correct?

20           MR. IAN PAGE: Yes, yes that's the main  
21 difference, because they're -- they're serving different  
22 purposes. The -- the bond rating agency, they're --  
23 they're looking at -- assessing things from a  
24 bondholder's perspective and the likelihood the  
25 bondholder's going to get repaid. So they're looking at



1 a much more strict debt repayment position.

2 MS. TAMARA MCCAFFREY: Right. And of  
3 course one of the things that we always talk about when  
4 we look at the Hydro's financial targets is that the bond  
5 rating agencies are satisfied that Manitoba Hydro's doing  
6 fine and making good progress towards financial targets.

7 Right, Mr. Warden?

8 MR. VINCE WARDEN: We review our financial  
9 targets on a regular basis with the bond rating agencies.  
10 And yes, they are satisfied that we're making  
11 satisfactory progress.

12 MS. TAMARA MCCAFFREY: Now let's -- when  
13 I -- when I look at the three (3) year average, I see the  
14 Manitoba Hydro calculation, the debt/equity. I'm using  
15 the formula from the IR, and I'm looking at the line 8,  
16 debt/equity ratio.

17 I see a three (3) year average of 82  
18 percent, based on the Manitoba Hydro calculation, and a  
19 three (3) year average of 85 percent of the Standard &  
20 Poor's calculation.

21 Are you with me there, Mr. Page?

22 MR. IAN PAGE: So far.

23 MS. TAMARA MCCAFFREY: Now, we've heard a  
24 little bit about -- in Manitoba Hydro's rebuttal evidence  
25 there is a reference that BC Hydro operates at a

1 seventy/thirty (70:30) debt/equity ratio.

2                   You're familiar with -- with what I'm  
3 referring to, Mr. Page?

4                   MR. IAN PAGE:     Yes.

5                   MS. TAMARA MCCAFFREY:     Now, if I look at  
6 the BC Hydro calculation on the next page of Exhibit 8,  
7 folks, I see a three (3) year average using their  
8 calculation -- which I know it also has customer  
9 contributions -- as 70 percent, which is consistent with  
10 Manitoba Hydro's evidence, correct?

11                   MR. IAN PAGE:     That's correct.

12                   MS. TAMARA MCCAFFREY:     But when I look at  
13 the Standard Poor -- & Poor calculation, with the three  
14 (3) year average, I see an 84 percent ratio.

15                   Are you with me there?

16                   MR. IAN PAGE:     Yes.

17                   MS. TAMARA MCCAFFREY:     And I just note  
18 for the record -- and I think you'd agree with me, sir --  
19 that the difference between an 85 percent debt/equi --  
20 debt/equity ratio, which is the Standard & Poor  
21 calculation for Manitoba Hydro, and the 84 percent, which  
22 is the BC Hydro, is -- is a small difference.

23                   MR. IAN PAGE:     Yes, that's small on -- on  
24 -- looking on the Standard & Poor's definitions, yes.

25                   MS. TAMARA MCCAFFREY:     And -- and so from

1 the point of view of the bond rating agency, they use  
2 their -- their calculation -- as you indicated, they --  
3 they use it for different purposes than Manitoba Hydro.

4 But they -- from the point of view of the  
5 bond rating agency then, I suggest to you, sir, that  
6 there really isn't a significant difference between the  
7 debt/equity ratios between the two (2) utilities.

8 MR. IAN PAGE: I haven't read the bond  
9 rating agency reports for BC Hydro, but I have for  
10 Manitoba Hydro. And in those -- and for the -- well, for  
11 the Province of Manitoba and for Manitoba Hydro you will  
12 see concerns raised by the -- the level of debt that  
13 Manitoba Hydro has. And you will see that one of the  
14 things that they -- they put in Manitoba Hydro's favour  
15 is -- is the progress towards the national targets.

16 So it's -- it's the rate of change is an  
17 important thing for them as -- and not just the absolute  
18 ratio.

19 MS. TAMARA MCCAFFREY: Thank you for  
20 that, Mr. Page.

21 And -- and I -- I just put this on the  
22 record, just in terms of it -- it all depends on the  
23 perspective one's taking, whether one's looking at it  
24 from a bond agency perspective or one's looking at it  
25 from the Utility perspective.

1                   But the range, from the bond agency's  
2 perspective, between Manitoba Hydro's debt/equity ratio  
3 and BC Hydro's is -- is not very large. It's not a  
4 seventy/thirty (70:30) range versus an eighty/twenty  
5 (80:20) range.

6                   Fair enough?

7                   MR. IAN PAGE:     That's fair enough. When  
8 we're looking at it from the Utility perspective one (1)  
9 of the things we're looking at is -- is for -- in order  
10 to provide rate stability the bond rating agencies aren't  
11 concerned with that. They -- they look at and say, Well,  
12 Manitoba Hydro has lower rates so if the situation were  
13 to occur then they've got lots of room to just raise  
14 rates and that's not the path that we choose to go.

15                   MS. TAMARA MCCAFFREY:     Then I have your  
16 answer.

17                   The -- the bond rating agency looks at it  
18 from the point of view of predictability of rates?

19                   MR. IAN PAGE:     No, what they look at is  
20 they say Manitoba Hydro has very low rates compared to  
21 other utilities. So if a major event were to happen,  
22 then Manitoba Hydro has lots of upward room to raise  
23 rates so that we could -- we could do a -- we could do  
24 three (3) 6.6 percent rate increases in a row from their  
25 perspective and we'd be fine.

1                   Whereas Manitoba Hydro chooses not to have  
2 very large rate increases and we prefer to have a more  
3 modest level of rate increases and a more predictable  
4 pattern. I think our customers prefer that as well.

5

6                   (BRIEF PAUSE)

7

8                   MS. TAMARA MCCAFFREY: Okay. You've  
9 mentioned stability and predictability of rates; that's  
10 important for the Utility, correct?

11                  MR. IAN PAGE: Absolutely.

12                  MS. TAMARA MCCAFFREY: And of course it  
13 would be important for customers also.

14                  Is that right, sir?

15                  MR. IAN PAGE: Yes.

16                  MS. TAMARA MCCAFFREY: And in terms of  
17 stability and predictability not only is it important for  
18 customers, it's also important for -- from the point of  
19 view I think of the Public Utility Board.

20                  Would you agree with that?

21                  MR. IAN PAGE: I can't speak for the  
22 Public Utility Board but my understanding is that regular  
23 routine rate increases are -- are looked on more  
24 favourably than no rate increases for a while then sudden  
25 emergency rate increases.

1 MS. TAMARA MCCAFFREY: Sure, so you --  
2 again, stability and predictability. From the point of  
3 view of -- of MIPUG, the industry is of course --  
4 stability, predictability is important when they're doing  
5 their own budgeting process.

6 Is that fair?

7 MR. IAN PAGE: That's feedback we've  
8 heard before.

9 MS. TAMARA MCCAFFREY: Well, it's not so  
10 different from -- from any industry, I would imagine.  
11 It's not so different from Hydro's. It's important to  
12 have predictability in terms of the costs that you incur  
13 to -- to try and manage your costs and -- and so forth.  
14 It's a -- it's a common sense premise.

15 MR. IAN PAGE: Both stability and  
16 predictability, yes.

17 MS. TAMARA MCCAFFREY: Now, let's talk a  
18 little bit about marginal cost estimates and how Hydro  
19 uses them.

20 Can you -- can you highlight for us, what  
21 are the main purposes that -- that you use the marginal  
22 costs for. And it can be Mr. Page, Mr. Surminski,  
23 whoever's more comfortable answering the question.

24 MR. HAROLD SURMINSKI: Manitoba Hydro  
25 utilizes marginal costs for evaluation of maybe smaller

1 resources that we do not evaluate as an entity. For  
2 example, a hydro plant, we -- we value and evaluate the  
3 benefits of that as an incremental addition because it's  
4 a large addition. For smaller additions we just work out  
5 a number that's representative of an increment of energy  
6 and capacity that's added to the system, so it's utilized  
7 for rerunning (sic) exercises and we -- we utilize it  
8 for screening of DSM.

9 But in the end when we get DSM programs  
10 defined we actually use the -- the package of -- of DSM  
11 programs and evaluate the package. But in the initial  
12 phase we use marginal costs for screening of the value.

13 MS. TAMARA MCCAFFREY: And when you talk  
14 about additions, big or small, you use them in your  
15 evaluation of -- of your new generation projects.

16 Fair enough?

17 MR. HAROLD SURMINSKI: Yes.

18 MS. TAMARA MCCAFFREY: And of course we -  
19 - a subject dear to my heart -- is that the right word --  
20 it's also the basis for the new industrial rate as well.

21 Fair enough, sir?

22 MR. HAROLD SURMINSKI: Yes, it's -- it's  
23 an indication of the incremental value of -- of an  
24 incremental change.

25

1 (BRIEF PAUSE)

2

3 MS. TAMARA MCCAFFREY: So we're talking  
4 about marginal costs being used. It's -- it's an  
5 important number. It informs a lot of assessments from  
6 the Utility and affects -- it has of course an impact on  
7 -- on rates, given that.

8 So what I want to do is take you to an IR  
9 that's RCM/TREE/Manitoba Hydro 2-4(b).

10

11 (BRIEF PAUSE)

12

13 MS. TAMARA MCCAFFREY: And I -- I can't  
14 tell you how many times I've read this IR, and I hope  
15 that I understand it. But it's kind of a complicated  
16 system that's used, based on your answer.

17 You were asked how -- to explain how  
18 Manitoba Hydro combines export revenues and avoided cost  
19 of new generation to estimate the generation-related  
20 marginal benefits.

21 You were asked whether Manitoba Hydro  
22 assumes the marginal benefit is export revenues through  
23 some date and the avoided cost of new generation  
24 thereafter.

25 And then there was a third question as





1 me, in language that a lawyer could understand, what the  
2 difference between those -- and -- and I could also  
3 substitute the term, you know, "child" when it comes to  
4 this stuff -- what the -- what the difference is between  
5 those methodologies are?

6 MR. HAROLD SURMINSKI: Several years ago  
7 it was economic to defer the in-service dates of  
8 generation. So, at the time, we did include a generation  
9 deferral component in -- in the value, in a marginal cost  
10 determination.

11 So, if we had a saving of a quantity of  
12 energy and capacity, at that time, we could have deferred  
13 the in-service date of a generating plant. And -- and  
14 that was a benefit to the system. And so in addition --  
15 so there's two (2) components. There's the capital cost  
16 of building a plant and the production costing -- what we  
17 call "the production costing component," which is the  
18 operating cost of the system.

19 So if we have a new resource on, it could  
20 reduce requirement for thermal energy or import energy  
21 and produce export energy. So that's the production  
22 costing component. So there's the two (2) components --  
23 the production costing and -- and the capital cost.

24 So at the time, earlier years, deferral of  
25 new generation, like a hydro plant, was -- was economic,

1 was attractive. So it produced value to the Manitoba  
2 Hydro system.

3 What happened around the year 2000 was  
4 that export prices started rising significantly. And we  
5 found that it was economic to advance the in-service  
6 dates of our lower-cost hydro resources.

7 So that process -- that methodology -- no  
8 longer worked in deferring the capital cost of plant. So  
9 that is when we -- we changed our methodology.

10

11 (BRIEF PAUSE)

12

13 MS. TAMARA MCCAFFREY: Do all the lawyers  
14 in the room understand that answer?

15 MR. ROBERT MAYER: I do.

16

17 CONTINUED BY MS. TAMARA MCCAFFREY:

18 MS. TAMARA MCCAFFREY: Good. I do too,  
19 so that's definitely a good sign.

20

21 (BRIEF PAUSE)

22

23 MS. TAMARA MCCAFFREY: Which method was  
24 used for the marginal cost estimates provided during the  
25 Wuskwatim CEC review?

1                   MR. HAROLD SURMINSKI:    It was the  
2 production costing, not including deferral, because  
3 Wuskwatim -- it was economic to advance the in-service  
4 date of Wuskwatim.

5

6   (BRIEF PAUSE)

7

8                   MS. TAMARA MCCAFFREY:    The second  
9 paragraph of this TREE IR takes us through, a little bit,  
10 how the marginal benefit is calculated.

11    Could you walk us through that?  Better  
12 you than me.

13                   MR. HAROLD SURMINSKI:    Yes, the  
14 production cost and component is dependent on -- on our  
15 stream flow conditions, so we utilize our ninety-four  
16 (94) possible river flow conditions in our computer  
17 simulation model, called the "Splash Model."

18    So we simulate operation of the system and  
19 determine the -- the thermal costs, the import costs, and  
20 the export revenues for each of the possible flow  
21 conditions.

22    For example, in a low flow condition there  
23 is a higher quantity of thermal and impert -- import  
24 energy required, and that could be offset or displaced by  
25 a resource that's coming on the incremental resource

1 that's being evaluated. Whereas in a high flow condition  
2 the -- the value of that resource could be very little,  
3 because the Hydro system has a surplus of energy.

4 So the whole range of flow conditions is  
5 utilized from low to high in determining what the value  
6 of this incremental resource is.

7 So by -- by considering all possible flow  
8 conditions, we cover the whole range of possibilities  
9 that -- that could occur in the future. Our ninety-four  
10 (94) years are meant to be an indication of the entire  
11 range of flow conditions that could happen in the future.

12 MS. TAMARA MCCAFFREY: And it's for an  
13 extended period of time, right, twenty (20) years?

14 MR. HAROLD SURMINSKI: We repeat this  
15 ninety-four (94) possible flow conditions for each of the  
16 load years -- we call them the "load years" -- going out  
17 into the future. So simulation for 2012 goes through all  
18 the cycle of ninety-four (94) flow conditions; 2013 also  
19 goes through the whole range of flow conditions to  
20 determine the value in -- and over the load years, there  
21 are things changing in the system: the quantities of  
22 export sales, the load growth, new resource additions  
23 coming on or being retired.

24 So all those factors, as they change over  
25 time, are -- are simulated.

1 MS. TAMARA MCCAFFREY: What sequence of  
2 plants are assumed in this TREE response? Are they --  
3 when are they assuming that Keeyask would be in service,  
4 for example, do you know?

5 I'm just wondering about some of the  
6 assumptions, like when it would be assumed that Keeyask  
7 would be in service, what does it assume for Bipole 3,  
8 new expert tie lines.

9 If -- if you want to get back to me on  
10 that, that's fine.

11 MR. HAROLD SURMINSKI: No, well, it's --  
12 for example, Keeyask is not in our resource plan, in our  
13 -- it's an option. So it would not be in a typical  
14 evaluation, for example, of -- of wind energy. We would  
15 assume that it's Conawapa, being our next plant, as in  
16 the resource plan and the marginal costs would be derived  
17 from our expected expen -- expansion plan.

18 MS. TAMARA MCCAFFREY: Bipole 3, what  
19 would be the assumptions there?

20 MR. HAROLD SURMINSKI: Yes, Bipole 3  
21 would be 2017, I think, as specified in the resource  
22 plan.

23 MS. TAMARA MCCAFFREY: Any new export tie  
24 lines or interconnections assumed?

25 MR. HAROLD SURMINSKI: No, we -- we do

1 not have any firm plans for expansion of tie lines.  
2 Export -- committed export sales, export sales that we  
3 have confidence that could be negotiated in the future,  
4 are included.

5 But they're not a big factor, because we  
6 either have the export sales or we treat them as  
7 uncommitted firm sales. So we do assume that all  
8 dependable energy can be sold as a long-term dependable  
9 product in the future.

10 So whether it's a committed sale or  
11 whether it's uncommitted, we treat -- from the production  
12 costing point of view they are treated exactly the same  
13 way.

14 MS. TAMARA MCCAFFREY: It also says in  
15 this response, sir, that you model a small amount of  
16 energy.

17 How much energy would that be, like number  
18 of kilowatt hours or...

19 MR. HAROLD SURMINSKI: Yes, gigawatt  
20 hours, about 500 gigawatt hours a year.

21

22 (BRIEF PAUSE)

23

24 MS. TAMARA MCCAFFREY: Would you expect  
25 that the results of the modeling would hold up over a

1 larger amount of energy? How about a terawatt hour, for  
2 example?

3 Or have you considered that?

4 MR. HAROLD SURMINSKI: Yes, it -- it  
5 becomes less useful for larger quantities. But in  
6 general it's -- it's not greatly sensitive to quantities.  
7 But once we get into larger quantities of -- of energy --  
8 for example, Wuskwatim -- we just evaluate just the  
9 resource in total as opposed to using a generic marginal  
10 cost.

11 Marginal costs are meant to be -- they are  
12 just generic additions to the system. Specific resources  
13 can have specific characteristics. So it's -- it's more  
14 appropriate if -- if a resource has specific  
15 characteristics in terms of dependable energy versus  
16 average energy, whether it's dependent on stream flow  
17 conditions or independent, those are all factors in  
18 determining how we applied a marginal cost.

19

20 (BRIEF PAUSE)

21

22 MS. TAMARA MCCAFFREY: So to sum up,  
23 there's a range of outcomes, and they're averaged  
24 together in some fashion.

25 Is that right, sir?



1                   MR. HAROLD SURMINSKI:    Can you expand  
2 what you mean by that?

3                   MS. TAMARA MCCAFFREY:    There's a range of  
4 outcomes, and you do some calculation, you average them  
5 together, to come out with some marginal number, these  
6 numbers?

7                   MR. HAROLD SURMINSKI:    Yes, the range of  
8 outcomes corresponding to water flow conditions and  
9 combinations of system expansion, those kind of things.

10

11   (BRIEF PAUSE)

12

13                   MS. TAMARA MCCAFFREY:    So if I took my  
14 big purple crayon and I drew a line straight down the  
15 page and there would be ninety-four (94) rows, ninety-  
16 four (94) possible flow conditions, and I did a line with  
17 my purple crayon right across the bottom of the page over  
18 a period of twenty (20) years, that would leave me with  
19 about -- a lot of little boxes, about a thousand, eight  
20 hundred and eighty (1,880) little boxes, by my  
21 calculation.

22   But somewhere -- a lot of them, right?

23                   MR. HAROLD SURMINSKI:    Yes.

24                   MS. TAMARA MCCAFFREY:    You agree with  
25 that, okay.

1                   Now, you talked a little bit about --  
2     keeping that -- that sort of image in your mind, you  
3     talked a little bit about the value of the kilowatt hour  
4     depending on the different water conditions -- low flow,  
5     high flow.

6                   But it also says in that TREE response  
7     when the water conditions are so high and tie lines are  
8     saturated, then the value then would be -- well, what are  
9     your words?

10                   "Benefits may be very small or even  
11                   non-existent in extremely high flows  
12                   when tie lines may be saturated and  
13                   reservoirs filled to capacity."

14                   Is that fair enough, sir?

15                   MR. HAROLD SURMINSKI:    Yes.

16                   MS. TAMARA MCCAFFREY:    In how many,  
17     roughly, of those one thousand, eight hundred and eighty  
18     (1,880) little boxes do you think would the tie lines be  
19     constrained?    Do you do a summer and winter calculation  
20     as well?

21                   MR. HAROLD SURMINSKI:    Yes.    The  
22     calculation is actually on a monthly basis.    A simulation  
23     takes place on a monthly basis.

24                   Instead of, you know, combining into a  
25     thousand (1,000) whatever, I think you just have to

1 compare the ninety-four (94) for any one (1) year period,  
2 because the ninety-four (94) year period gets repeated  
3 over and over again.

4 So you could think of maybe five (5)  
5 percent of the flow conditions, the upper five (5)  
6 percent, would be conditions where tie lines are  
7 saturated.

8 MS. TAMARA MCCAFFREY: Thank you.

9

10 (BRIEF PAUSE)

11

12 MR. ROBERT MAYER: Mr. Surminski, I keep  
13 hearing ninety-four (94) as the number for flow  
14 conditions. I would have thought that each year that  
15 number would go up.

16 Why is it always ninety-four (94)?

17 MR. HAROLD SURMINSKI: It has -- I think  
18 at the CEC hearings it -- it was less. It was eighty-six  
19 (86), I think, at that, yes.

20 So we -- we wait several years before we  
21 update, and we update our -- our general plan is to  
22 update in five (5) year increments.

23 Otherwise -- one reason for not changing  
24 year to year is because your base keeps changing every  
25 year. So you'll -- you'll have like a different average

1 every year. So we do it in -- in a lump of years and  
2 say, Okay, here's our new flow record, and here's our new  
3 expected average. And at one time we explained that  
4 incremental change so we don't have to explain every  
5 change every year.

6 MR. ROBERT MAYER: Thank you. I  
7 appreciate that.

8

9 CONTINUED BY MS. TAMARA MCCAFFREY:

10 MS. TAMARA MCCAFFREY: There's a  
11 sensitivity based on ninety-four (94) different water  
12 flow conditions. What about the changes in loads? The  
13 loads are different every year. How does that go into  
14 the calculation or does it?

15 MR. HAROLD SURMINSKI: Yes, the load  
16 forecast contributes or it's a factor in determining the  
17 surplus energy on the system. So we do input the load  
18 forecast and -- and compare our supply relative to load  
19 forecast.

20 So as load is growing over time, it  
21 actually reduces the surplus energy that's available and  
22 makes the -- the smaller quantity of surplus energy more  
23 valuable. As you have larger quantities, you saturate  
24 your tie-lines. You have to export at -- on off-peak  
25 hours at lower prices.

1                   So over time, all factors being equal,  
2 like -- without new generation coming on, the value of --  
3 of the average exports goes up over time.

4                   MS. TAMARA MCCAFFREY:    Would it be fair  
5 to say that in medium flows, the marginal benefits, the -  
6 - say the value of 1 kilowatt hour is derived primarily  
7 from new export sales?  Is that an accurate conclusion?

8                   MR. HAROLD SURMINSKI:    Yes, you could  
9 think -- it's an -- that's what the analysis is, is an  
10 incremental change so -- and your base case, you have  
11 sold all your exports and your incremental case, you free  
12 up some energy and it's sold at the last increment.

13                   MS. TAMARA MCCAFFREY:    Would those export  
14 sales be primarily opportunity or firm?

15                   MR. HAROLD SURMINSKI:    In the longer --  
16 it depends on the characteristics of the resource and we  
17 assume that they are -- if the resource is available  
18 under dependable flow conditions, that it is a long term  
19 firm sale.

20                   MS. TAMARA MCCAFFREY:    And what time of  
21 the day would you be using?  Would it usually be at peak,  
22 off-peak or a shoulder somewhere in between?

23                   MR. HAROLD SURMINSKI:    We -- we have  
24 flexibility in our system to shift energy into different  
25 periods by using reservoirs so we assume that the -- a

1 firm product would sold in the on-peak hours.

2 MS. TAMARA MCCAFFREY: So essentially  
3 it's the export values that drive the marginal cost  
4 estimate. Is that fair enough?

5 MR. HAROLD SURMINSKI: Yes, they're the  
6 largest factor. I'd say maybe 85 percent of the marginal  
7 cost is derived from the export market.

8 MS. TAMARA MCCAFFREY: And -- and those  
9 export values would be based, in large part, on Manitoba  
10 Hydro's export price forecasts which are essentially  
11 confidential.

12 Is that fair to say, Mr. Surminski?

13 MR. HAROLD SURMINSKI: Yes, definitely.  
14 And that's why we have not provided the marginal cost on  
15 a year-by-year basis because they lead to indications of  
16 our forecast of export prices.

17 MS. TAMARA MCCAFFREY: So if I get back  
18 to my purple crayon in hand and I've got my table with  
19 the ninety-four (94) flow condition from the ten (10)  
20 years across and make one thousand eight hundred and  
21 eighty (1,880) little boxes of the information then I can  
22 get -- I get a little bit of information at one end, a  
23 little bit of information at the other but most of those  
24 boxes would be blacked out based on sensitivity.

25 Is that fair to say?

1                   MR. HAROLD SURMINSKI:    Yes, we have  
2 provided a value in the early years.  The first one (1)  
3 or two (2) years, we provide an indication of marginal  
4 cost because we think that's not an overly -- it's not  
5 overly sensitive -- commercially sensitive information.

6                   And in order to provide an indication over  
7 time, we provide a levelized value over a twenty (20)  
8 year period.  But we do not want to provide our year-by-  
9 year values because then the pattern of our marginal cost  
10 is given away.

11                   MS. TAMARA MCCAFFREY:    I totally  
12 appreciate Manitoba Hydro's position on this, but the  
13 difficulty is that from a point of view -- if you can see  
14 where I'm coming from -- from a point of view of a public  
15 process and transparency, one (1) of the shortfalls, I  
16 guess, of the marginal -- using the marginal cost to  
17 drive a new rate, such as the industrial rates is that,  
18 you know, there really isn't that transparency.

19                   I mean, we essentially -- and I'm not  
20 saying that we shouldn't trust you, but we have to trust  
21 you, and that may be perfectly fine, but it's not  
22 transparent.  That's the difficulty I'm having with it.

23                   Would you acknowledge that that -- that  
24 that's really the case -- one (1) of the difficulties  
25 with it?

1                   MR. HAROLD SURMINSKI:    Yes.  We -- we  
2  acknowledge that, and then we went -- we had difficulty  
3  with that in the CEC process also.  You know, people  
4  would prefer to -- to see year-by-year numbers and have  
5  an open book on our forecasts, but we developed a  
6  compromise approach where we provided a high and low  
7  range, for example, in that process.  And here we provide  
8  a levelized value of a period of years -- of, say, twenty  
9  (20) years.

10                  MR. VINCE WARDEN:    I think, too, Ms.  
11  McCaffrey, when you're looking at the -- the proposed new  
12  rate, there has to be some kind of a reasonableness test  
13  applied to it.

14                  And even though you may not have that  
15  information on marginal costs -- Manitoba Hydro's  
16  projection of marginal costs -- readily available to you,  
17  you can still look at the rate and make some conclusion  
18  based on the rates that have been derived from the export  
19  market in the past.

20                  MS. TAMARA MCCAFFREY:    You can.  You can  
21  look at historical numbers.  But a great deal of the  
22  numbers that go into Manitoba Hydro's marginal forecast  
23  are -- are not on the table to be tested in this  
24  proceeding though, as a result of this commercial  
25  sensitivity issue, Mr. Warden.  That's -- that's just a



1 reality.

2 MR. VINCE WARDEN: Yeah, and that's --  
3 and that's -- and that's why, I think, you -- you can  
4 apply some kind of a reasonableness test to the rate  
5 that's being proposed.

6

7 (BRIEF PAUSE)

8

9 MS. TAMARA MCCAFFREY: I think I'm just  
10 about done. If you just give me a moment to review my  
11 notes.

12

13 (BRIEF PAUSE)

14

15 MS. TAMARA MCCAFFREY: And just to  
16 conclude the point then, I guess there's other  
17 jurisdictions where marginal or market rates are used,  
18 but in this -- but if I'm in another jurisdiction, say,  
19 British Columbia, and there's a -- there's a marginal  
20 rate used, there is other power suppliers, whereas, in  
21 Manitoba, there's only one (1). It's a monopoly.

22 So you -- you don't have the option that  
23 if you don't -- if there's a problem with one (1) price,  
24 you don't necessarily need to test it to understand it  
25 completely, but if you don't like it, you can go

1 somewhere else. But because in Manitoba we're dealing  
2 with a monopoly situation -- and that, again, flows into  
3 the -- this issue of transparency, in terms of testing  
4 the numbers.

5 Do you understand -- do you appreciate my  
6 position there with respect to that?

7

8 (BRIEF PAUSE)

9

10 MR. VINCE WARDEN: Not really, Ms.  
11 McCaffrey. I can't appreciate your position. I -- you  
12 know, we -- we do sell into an export market that is  
13 fully competitive and so the prices that are derived from  
14 that export market are -- are commonly known.

15 So, no, I -- I can't agree with that  
16 statement.

17 MS. TAMARA MCCAFFREY: Okay. So if I'm  
18 down in your export market, there's other options, but in  
19 Manitoba it's a monopoly.

20 MR. VINCE WARDEN: There's -- there's no  
21 question that we're -- we're -- we are a monopoly in  
22 Manitoba, yes. And that's why we're -- probably that's  
23 why we're here before a regulator.

24 MS. TAMARA MCCAFFREY: Thank you very  
25 much for -- for your assistance this morning, folks.

1 That completes my questions.

2 THE CHAIRPERSON: Thank you, Ms.  
3 McCaffrey.

4 Mr. Anderson do you want to begin now, or  
5 do you want to come back earlier from lunch?

6 MR. MICHAEL ANDERSON: Probably if I  
7 might, Mr. Chair, the opportunity to come back earlier  
8 after lunch would be welcome. I have a couple of  
9 documents to organize. Thank you.

10 THE CHAIRPERSON: Okay. Then we'll come  
11 back at 1:00 rather than 1:15 and begin again. Thank  
12 you.

13 MR. MICHAEL ANDERSON: Thank you.

14

15 --- Upon recessing at 11:35 a.m.

16 --- Upon resuming at 1:06 p.m.

17

18 THE CHAIRPERSON: Okay, Mr. Anderson,  
19 whenever you're ready.

20 MR. MICHAEL ANDERSON: Thank you, Mr.  
21 Chair. To begin I have some documents that --

22 MS. PATTI RAMAGE: Mr. Anderson, just  
23 before you begin, if I could just interject, because  
24 Manitoba Hydro distributed three (3) undertakings at the  
25 break and if we could just, for housekeeping, have them--

1 MR. MICHAEL ANDERSON: Certainly, Ms.  
2 Ramage.

3 MS. PATTI RAMAGE: -- have them marked as  
4 exhibits before we begin. Again, just using the  
5 numbering system that's here, Manitoba -- we suggest  
6 Manitoba Hydro Undertaking Number 34 be entered as  
7 Exhibit Number 38.

8

9 --- EXHIBIT NO. MH-38: Response to Undertaking 34  
10

11 MS. PATTI RAMAGE: And then Undertaking  
12 33 be Exhibit MH-39.

13

14 --- EXHIBIT NO. MH-39: Response to Undertaking 33  
15

16 MS. PATTI RAMAGE: And Exhi --  
17 Undertaking 39 be Exhibit MH-40.

18

19 --- EXHIBIT NO. MH-40: Response to Undertaking 39  
20

21 THE CHAIRPERSON: Very good, thank you,  
22 Ms. Ramage.

23

24 (BRIEF PAUSE)

25

1 THE CHAIRPERSON: She's keeping us on our  
2 toes.

3

4 (BRIEF PAUSE)

5

6 MR. MICHAEL ANDERSON: Thank you, Mr.  
7 Chair. I have a set of documents that I wanted to refer  
8 to during my cross-examination. I'm -- with Mr.  
9 Gaudreau's kind assistance to distribute them, but also  
10 they could be given Exhibit numbers -- and then -- these  
11 are in the sequence that I propose to number them.

12

13 (BRIEF PAUSE)

14

15 THE CHAIRPERSON: Do you want to give  
16 exhibit numbers to them, Mr. Anderson?

17 MR. MICHAEL ANDERSON: Yes, Mr. Chair.  
18 Thank you. I would propose, based on my understanding of  
19 the current exhibit list and numbering, that the first  
20 document which is an extract from The Pas Indian Band  
21 settlement be given MKO-3, if I have that correctly.

22 THE CHAIRPERSON: Subject to check.

23 MR. MICHAEL ANDERSON: Thank you, Mr.  
24 Chair.

25

1 --- EXHIBIT NO. MKO-3: Extract from The Pas Indian  
2 Band settlement  
3

4 MR. MICHAEL ANDERSON: That the second  
5 letter which is a February 14th, 2008 Manitoba Hydro  
6 application for the Augmented Flow Program be given  
7 Exhibit MKO-4.  
8

9 --- EXHIBIT NO. MKO-4: February 14th, 2008 letter  
10 which is a Manitoba Hydro  
11 application for the Augmented  
12 Flow Program  
13

14 MR. MICHAEL ANDERSON: It has the  
15 Manitoba Hydro letterhead on it, Mr. Vice-Chair? Yes.

16 MR. ROBERT MAYER: February 14th, 2008.

17 MR. MICHAEL ANDERSON: Yes, Mr. Vice  
18 Chair, thank you.

19 MR. MICHAEL ANDERSON: I propose that a  
20 letter dated September 20th, 2007 from the Minister  
21 responsible to -- for Manitoba Hydro to the Chairman of  
22 the Manitoba Hydro Electric Board be given MKO-5.  
23

24 --- EXHIBIT NO. MKO-5: September 20th, 2007 letter  
25 from the Minister responsible

1 for Manitoba Hydro to the  
2 Chairman of the Manitoba  
3 Electric Board  
4

5 MR. MICHAEL ANDERSON: A hyper -- I  
6 suggest that --

7 MR. ROBERT MAYER: Mr. Chair, I haven't  
8 read this letter, but when we start receiving  
9 documentation from Minister to Chair, I'm wondering how  
10 this gets in front of us.

11 MR. MICHAEL ANDERSON: By way of  
12 background, Mr. Vice-Chair, the document was presented by  
13 Minister Brennan in his appearance in his appearance  
14 before the Crown Corporations Committee on December 19th.  
15 And I've intentionally used the version I've received  
16 from the Legislative Clerk's Office, so as it's  
17 provenance can be proven. Thank you.

18 THE CHAIRPERSON: That's five (5)?  
19 Exhibit number 5?

20 MR. MICHAEL ANDERSON: Yes, Mr. Chair.  
21

22 (BRIEF PAUSE)  
23

24 THE CHAIRPERSON: And do you have this  
25 updated spring flood outlook as number 6?

1 MR. MICHAEL ANDERSON: Sorry, Mr. Chair.  
2 There was some activity behind me. Yeah, the updated  
3 spring flood outlook, March 31, 2006, be given MKO-6.

4

5 --- EXHIBIT NO. MKO-A: For identification: Updated  
6 spring flood outlook dated  
7 March 31, 2006

8

9 MR. MICHAEL ANDERSON: And the June 25th,  
10 2005 -- also Manitoba Water Stewardship press release on  
11 precautionary dyking underway in The Pas be giving -- be  
12 given MKO-7.

13

14 --- EXHIBIT NO. MKO-B: For identification: June  
15 25th, 2005 water stewardship  
16 press release "Precautionary  
17 Dyking Underwater in The Pas"

18

19 THE CHAIRPERSON: We -- we haven't got  
20 that one yet.

21

22 (BRIEF PAUSE)

23

24 MR. MICHAEL ANDERSON: I had made fifteen  
25 (15) copies as my usual practice, Mr. Chair.



1 THE CHAIRPERSON: Perhaps we do have it.  
2 Is it just the map you're talking about?

3 MR. MICHAEL ANDERSON: That is actually -  
4 - I hadn't numbered that one. That would be MKO-8, Mr.  
5 Chair. Thank you.

6 And that is a March 20th, 2008 spring  
7 runoff potential map for Manitoba.

8  
9 --- EXHIBIT NO. MKO-C: For identification: March  
10 20th, 2008 spring runoff  
11 potential map for Manitoba

12  
13 THE CHAIRPERSON: Mr. Anderson, what was  
14 number 7? We don't seem to have it.

15 MR. MICHAEL ANDERSON: Thank you, Mr.  
16 Chair. Number 7 was a June 25th, 2005 water stewardship  
17 press release "Precautionary Dyking Underwater in The  
18 Pas".

19 THE CHAIRPERSON: We don't have that one  
20 yet.

21 MR. MICHAEL ANDERSON: There were copies  
22 provided to Mr. Gaudreau.

23 THE CHAIRPERSON: He's found it.

24 MR. MICHAEL ANDERSON: Thank you.

25

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Okay, Mr. Anderson, we  
4 have all eight (8).

5 MR. MICHAEL ANDERSON: Thank you, Mr.  
6 Chair.

7 MS. PATTI RAMAGE: Mr. Chair --

8 THE CHAIRPERSON: Ms. Ramage...?

9 MS. PATTI RAMAGE: -- just prior to going  
10 down this path, I thought I could advise the Board that  
11 Manitoba Hydro hasn't seen some of these documents.  
12 There may be panel members who are familiar or maybe not.  
13 Certainly not myself.

14 It's -- so I thought I should put that  
15 caveat on them and also perhaps suggest that given that  
16 these aren't documents that these witnesses have  
17 submitted -- or likely are familiar with them, I don't  
18 think Mr. Anderson is intending to -- to become a witness  
19 himself -- perhaps they be marked as exhibits for  
20 identification, as opposed to exhibits.

21 MR. MICHAEL ANDERSON: Mr. Chair, I would  
22 suggest that Exhibits 3, 4 and 5 certainly are within  
23 Manitoba Hydro's house and I take note of Ms. Ramage's  
24 comments on 7 -- 6, 7 and 8 which are being used for  
25 information purposes, but they are all related to IR's

1 that MK -- IR Number 2 that MKO had asked.

2 THE CHAIRPERSON: Give us a couple of  
3 minutes.

4 MR. MICHAEL ANDERSON: Thank you, Mr.  
5 Chair.

6

7 (BRIEF PAUSE)

8

9 THE CHAIRPERSON: Okay, folks. MKO-3, 4,  
10 and 5 we'll take in as exhibits. 6, 7, and 8 we'll take  
11 them as for information and for identification. And  
12 we'll take another look at it when you're through with  
13 your cross-examination, Mr. Anderson.

14 MR. MICHAEL ANDERSON: Thank you very  
15 much, Mr. Chair. I appreciate that.

16 THE CHAIRPERSON: Okay. We'll call 6, 7,  
17 8 A, B, and C, just for identification.

18 "A" being what was going to be 6, "B"  
19 being what would have been 7, and "C" being what would  
20 have been 8.

21 Though with that minor course correction,  
22 Mr. Anderson, if you want to start?

23 MR. MICHAEL ANDERSON: Thank you very  
24 much, Mr. Chair.

25

1 (BRIEF PAUSE)

2

3 CROSS-EXAMINATION BY MR. MICHAEL ANDERSON:

4 MR. MICHAEL ANDERSON: I have a few  
5 questions. Hopefully it won't take up too much of the  
6 afternoon. The -- I commend my colleagues for doing a  
7 very thorough job in reviewing the application on the  
8 financial and other matters, so I have some issues that  
9 are of interest to MKO that I'd like to concentrate on  
10 this afternoon.

11 The first is a question dealing with the -  
12 - the new and expanding industrial rate, which I realize  
13 that we are concentrating on in the cost of service  
14 proceeding, but I do have a revenue item that I -- in  
15 reviewing the materials, and particularly Mr. Peter's  
16 examination of Hydro, I had wanted to make reference just  
17 briefly to Tab 2, page 2 of Mr. Peter's book of  
18 documents, which is Manitoba Hydro's proof of revenue for  
19 the year ended March 31, 2009.

20 And further to the discussion on the GS  
21 Large Additions to Revenue, at the very last line, prior  
22 to the grand total, centre column, "Calculated Revenue  
23 April 2008 Rates." Do you have that? Thank you.

24 My question would be: As I understand the  
25 discussion, it was that -- it was assumed that in the

1 event that sales under the new rate to industrial  
2 customers did not occur, that the amount identified there  
3 of 14.6 million would be obtained through export sales.

4 Is that correct?

5 MR. VINCE WARDEN: That's the assumption,  
6 yes.

7 MR. MICHAEL ANDERSON: Thank you. The  
8 matter of interest is that in the event that a  
9 significant -- I'll back up. Is it -- has Manitoba Hydro  
10 considered that one (1) or several of the potential new  
11 and expanding industrial customers will qualify for the  
12 exemption and, thus, be served at the current lower rate  
13 as amended by the application, of course?

14 MR. VINCE WARDEN: For purposes of  
15 deriving the proof of revenue, we have assumed that there  
16 will be an offset between the additional revenue from the  
17 energy-intensive rate and export sales.

18 MR. MICHAEL ANDERSON: Has Manitoba Hydro  
19 prepared any scenarios or analyses to forecast what these  
20 revenue offsets might be in the event that industrial  
21 customers meet the exception criteria that's proposed?

22 MR. VINCE WARDEN: For the assumptions  
23 that we made in deriving the revenue, we -- we do not  
24 expect that to happen.

25 MR. MICHAEL ANDERSON: Just so that I --

1 that I'm clear, Mr. Warden; is it Manitoba Hydro's ex --  
2 expectation that no industrial customer would meet the  
3 criteria for the exemption that is being proposed?

4 MR. VINCE WARDEN: No. No, that's not  
5 really what I -- I said. The assumption that was made  
6 for purposes of deriving the proof of revenue is that we  
7 would have excluded those customers that do meet the  
8 exception criteria.

9 MR. MICHAEL ANDERSON: And then, if I  
10 understand correctly, Mr. Warden, then no scenario has  
11 been prepared assuming a certain number of potential  
12 customers that would otherwise consume the energy related  
13 to this 14.6 million would qualify for the lower rate?

14 MR. VINCE WARDEN: Well, Mr. Anderson, I  
15 think I've answered that to the best of the knowledge  
16 that we have available to us at this time.

17 We are assuming that the amount that's  
18 included in the proof of revenue will be realized from  
19 the new industrial rate, if it's approved.

20 MR. MICHAEL ANDERSON: And, again, asking  
21 it so that I understand. So the Hydro's assumption is  
22 that all industrial customers who have new or expanding  
23 loads are expected to be served at the proposed new rate.

24 Is that correct?

25 MR. VINCE WARDEN: No. No, not at all.

1 We -- we -- there are a number of customers that will  
2 meet the exemption criteria. Those customers have been  
3 excluded in deriving the revenue that you see before you  
4 on the proof of revenue.

5 MR. MICHAEL ANDERSON: I understand  
6 clearly. Has there been a -- an indication of who these  
7 customers might be or the size of their load in aggregate  
8 that's excluded from this analysis?

9 MR. VINCE WARDEN: Well, the new rate  
10 applies to all customers over 10 mega -- approximately 10  
11 megawatts in size, unless they qualify for an exemption.  
12 Those -- those below 10 -- 10 megawatts are still subject  
13 to -- to a -- a higher rate, but there -- there are  
14 certain qualifications, there's stipulations that are  
15 applied before that determination is made.

16 MR. MICHAEL ANDERSON: Mr. Warden, what I  
17 was -- thank you for that. You had indicated that those  
18 that would qualify for the exemption have been -- are --  
19 are not included in this analysis.

20 And what I'm interested in understanding  
21 better is the -- either the identifica -- identity of  
22 those potential new and expanded loads that would meet  
23 the exemption criteria and therefore have been excluded  
24 from this line item in the proof of revenue or their load  
25 in aggregate.

1                   MR. VINCE WARDEN:    I'm not sure your  
2 question is clear, Mr. Anderson, if you'd like to just  
3 restate that.

4                   MR. MICHAEL ANDERSON:    Sure, Mr. Warden.  
5 You had indicated that though there are -- Manitoba now --  
6 - Manitoba Hydro now expects that there are some new and  
7 expanding load customers that would meet the exemption  
8 criteria, is that correct?

9                   MR. VINCE WARDEN:    Yes.

10                  MR. MICHAEL ANDERSON:    And that the  
11 revenue from those customers is not included in the  
12 calculation of the 14.6 at the bottom of the Proof of  
13 Revenue centre column, is that correct?

14

15   (BRIEF PAUSE)

16

17                  MR. VINCE WARDEN:    So to answer your  
18 question, Mr. Anderson, to the extent that customers do  
19 qualify for the exemption, they would not be included in  
20 this amount.

21                  MR. MICHAEL ANDERSON:    So that's yes, Mr.  
22 Warden? Or is it qualified?

23                  MR. VINCE WARDEN:    You --

24                  MR. MICHAEL ANDERSON:    The line item, Mr.  
25 Warden, excuse me, it says "GS Large Additional Revenue"



1 and then fourteen (14) -- I'm just trying to understand  
2 the fourteen point six (14.6) number.

3 So those that do qualify for the -- those  
4 new and expanding industrial loads that do qualify for  
5 the exemption, their revenue is excluded from this line  
6 item?

7 MR. VINCE WARDEN: The revenue is  
8 excluded, yes.

9 MR. MICHAEL ANDERSON: Thank you, Mr.  
10 Warden. And -- and so the follow-up question was to  
11 identify the forecast load -- if not identify the  
12 customers who Manitoba Hydro anticipates would qualify  
13 for the exemption mainly so that we can better understand  
14 it's application -- at least, to identify the forecast  
15 load represented by those customers.

16 MR. VINCE WARDEN: Yeah, we can do that.  
17 But I would prefer we leave that to the next panel when  
18 we'll be discussing this in some -- some detail.

19 MR. MICHAEL ANDERSON: So do I have your  
20 undertaking to prepare that?

21 MR. VINCE WARDEN: Oh I don't think we  
22 need an undertaking at this point, Mr. Anderson. I think  
23 we'll come back to this question with the other panel.

24 MR. MICHAEL ANDERSON: All right. I'm  
25 content to do that, Mr. Chair, recognizing that it's a

1 revenue item and we'll be moving into rate design and  
2 cost of service.

3 If everyone's content with that, I'm happy  
4 to proceed.

5

6 (BRIEF PAUSE)

7

8 MR. MICHAEL ANDERSON: In respect of my  
9 request for an undertaking, Mr. Warden, do I anticipate  
10 then that when we convene the cost of service panel that  
11 the requested information would be provided at that time?

12 MR. VINCE WARDEN: Well, Mr. Anderson, I  
13 interpreted your question to be what is the load  
14 corresponding to the \$14.6 million as referenced in the  
15 proof of revenue document that you had earlier  
16 identified.

17 And, yes, we can identify the load that  
18 corresponds with that.

19 MR. MICHAEL ANDERSON: That would be  
20 helpful. But the question I was interested -- in order to  
21 provide a counterpoint to my first question, Mr. Warden,  
22 it was to identify the load of those customers that are  
23 forecast to meet the criteria -- exemption criteria for  
24 the new expanding load -- for which revenue has not been  
25 included in that line item.

1 (BRIEF PAUSE)

2

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

4

5 --- UNDERTAKING NO. 47: Manitoba Hydro to identify  
6 for MKO the load of those  
7 customers that are forecast  
8 to meet the exemption  
9 criteria for the new  
10 expanding load, using  
11 aggregate numbers not  
12 individual loads which could  
13 identify the customers

14

15 MR. MICHAEL ANDERSON: Thank you, Mr.  
16 Warden.

17 MS. PATTI RAMAGE: Just to clarify though  
18 that would be an aggregate number not individual loads  
19 which otherwise could be, you know, identify the  
20 customer.

21 MR. MICHAEL ANDERSON: Yes, Ms. Ramage.  
22 Although I would like to -- to understand who the  
23 customers are for the purposes of understanding the  
24 application of the exemption criteria proposed by Hydro.  
25 I recognize that it -- Hydro's practice is not to

1 identify customer loads especially for expanded  
2 industrial operations.

3 So the answer is, yes, I understand, Ms.  
4 Ramage. That would be fine. Thank you.

5

6 (BRIEF PAUSE)

7

8 CONTINUED BY MR. MICHAEL ANDERSON:

9 MR. MICHAEL ANDERSON: Mr. Warden,  
10 earlier in your opening comments you had re -- made  
11 reference to a Canadian Electrical Associa -- Electricity  
12 Association award that Manitoba Hydro had recently  
13 received. Could you provide some more detail about the  
14 scope of that award, and what Manitoba Hydro -- had  
15 received the award for.

16

17 (BRIEF PAUSE)

18

19 MR. MICHAEL ANDERSON: I have a  
20 transcript reference. It's on March 3rd, page 81, Mr.  
21 Warden.

22

23 (BRIEF PAUSE)

24

25 MR. VINCE WARDEN: Mr. Anderson, I think

1 I referred to a number of awards that Manitoba Hydro had  
2 received, but I believe you're referring to the customer  
3 satisfaction ranking number -- Manitoba Hydro rating  
4 number 1 in customer satisfaction both by, I think J.D.  
5 Power and also confirmed by the Canadian Electrical  
6 Association.

7 Is -- is that reference you're -- you  
8 have?

9

10 (BRIEF PAUSE)

11

12 MR. MICHAEL ANDERSON: My recollection is  
13 that the reference in the transcript was to an  
14 environmental award. And I'm just -- pardon me, Mr.  
15 Warden, I'm just bringing my transcript up.

16

17 (BRIEF PAUSE)

18

19 MR. VINCE WARDEN: Yes, Mr. Anderson. We  
20 have -- we have that here as well, and yes, you're right  
21 we did refer to an environmental commitment and  
22 responsibility award that Manitoba Hydro did win in 2007.

23

24 (BRIEF PAUSE)

25

1                   MR. MICHAEL ANDERSON:   And subsequently,  
2 Mr. Warden, has Manitoba Hydro obtain -- received a --  
3 another -- an award from the Canadian Electrical  
4 Association related to the Wuskwatim project?

5

6                                   (BRIEF PAUSE)

7

8                   MR. VINCE WARDEN:   I'm not specifically  
9 aware of that award, Mr. Anderson.

10                   MR. MICHAEL ANDERSON:   I had -- brought  
11 with me, Mr. Chair, a -- a set of copies of that initial  
12 document.  If we could that as Information Exhibit  
13 "Delta" D, if I have that correctly.

14                   THE CHAIRPERSON:   Mr. Gaudreau, could you  
15 see what Mr. Anderson's talking about?

16                   MR. MICHAEL ANDERSON:   I had provided a  
17 copy to Ms. Ramage a moment ago.

18

19                                   (BRIEF PAUSE)

20

21                   THE CHAIRPERSON:   Okay, following the  
22 same principle, D it is.

23                   MR. MICHAEL ANDERSON:   Thank you, Mr.  
24 Chair.

25

1 --- EXHIBIT NO. MKO-D: For identification: Award  
2 from the Canadian Electrical  
3 Association related to the  
4 Wuskwatim project  
5

6 CONTINUED BY MR. MICHAEL ANDERSON:

7 MR. MICHAEL ANDERSON: I had raised this  
8 because at first, Mr. Warden, I had thought that this was  
9 the award that you might of been referring to on March  
10 3rd. And I'm wondering if you wouldn't mind reading for  
11 me the very last sentence of paragraph 4 of the CEA press  
12 release?

13 After -- if you wouldn't mind -- excuse  
14 me, Mr. Warden -- just reading the opening paragraph so  
15 that it's on the record what Manitoba Hydro received this  
16 award for, subject to check, assuming that you're  
17 comfortable that you did, in fact, receive this award.

18 MR. VINCE WARDEN: It's difficult to keep  
19 up with all our awards, but...

20

21 (BRIEF PAUSE)

22

23 MR. VINCE WARDEN: Mr. Anderson, you'd  
24 like me to read in the first paragraph?

25 MR. MICHAEL ANDERSON: If you wouldn't

1 mind, Mr. Warden, thank you.

2 MR. VINCE WARDEN: Okay.

3 "Manitoba Hydro's ongoing commitment to  
4 environmental sustainability and First  
5 Nations engagement was recognized  
6 nationally today by the Canadian  
7 Electrical Association, CEA. CEA  
8 President and CEO, Hans Konow,  
9 presented Manitoba Hydro President and  
10 CEO, Bob Brennan, with the  
11 Association's Environmental Stewardship  
12 Award in recognition of the Utility's  
13 partnership with NCN to reduce  
14 environmental impacts on the Wuskwatim  
15 Project."

16 MR. MICHAEL ANDERSON: Thank you, Mr.  
17 Warden. And to identify the focus of the reason of the  
18 award, if you could also just please read the very last  
19 sentence of paragraph 4 of the press release, beginning  
20 with the word "Ethinesewin".

21 MR. VINCE WARDEN: Thank you, Mr.  
22 Anderson.

23 "Eth -- Ethinesewin [you say that much  
24 better than I] together with economic  
25 analyses and logistical implications



1                   were used by the partnership to  
2                   collectively determine the most  
3                   appropriate project configuration that  
4                   would provide both environmental  
5                   sustainability and economic benefits."

6                   MR. MICHAEL ANDERSON:   Thank you, Mr.  
7   Warden.   I note from the press release that there wasn't  
8   -- I was hoping to be able to ask about it, but it didn't  
9   identify that it was co-awarded to Mr. Brennan and to the  
10   Chief of the Nisichawayasihk Cree Nation.

11                   And, given our earlier brief discussion,  
12   would you please undertake to identify whether this was  
13   co-awarded to NCN and to Manitoba Hydro, in light of  
14   their partnership on the Wuskwatim Project?

15                   MR. VINCE WARDEN:   We can do that.

16                   MR. MICHAEL ANDERSON:   Thank you, Mr.  
17   Warden.

18

19   --- UNDERTAKING NO. 48:       Manitoba Hydro to indicate  
20                                   for MKO whether the Canadian  
21                                   Electrical Association award  
22                                   was co-awarded to NCN

23

24   CONTINUED BY MR. MICHAEL ANDERSON:

25                   MR. MICHAEL ANDERSON:   Now, the next area

1 that I'd like to move to is related to water regime  
2 operations, and forecast mitigation and environmental  
3 costs, regulatory costs, et cetera.

4 And if you could please refer to MKO  
5 Number 4 which is Manitoba Hydro's February 14th, 2008  
6 Application for the Augmented Flow Program.

7 MR. HAROLD SURMINSKI: Yes, I -- yes, I  
8 have that, Mr. Anderson.

9 MR. MICHAEL ANDERSON: Thank you very  
10 much. Would you please, just to illuminate myself and  
11 the Board, explain what this application is for, Mr.  
12 Surminski?

13 MR. HAROLD SURMINSKI: Manitoba Hydro  
14 currently has an interim licence for the operation of the  
15 Churchill River diversion, which has a narrower range of  
16 elevations on Southern Indian Lake and lower outflows.

17 On an annual -- on an annual basis,  
18 Manitoba Hydro applies for a deviation from the interim  
19 licence to have greater flows through the Churchill River  
20 diversion and larger operating range on Southern Indian  
21 Lake.

22 MR. MICHAEL ANDERSON: And is this  
23 additional authorization -- could you summarize what the  
24 additional authorization would be, in terms of water  
25 flows, please, Mr. Surminski?

1                   MR. HAROLD SURMINSKI:   As I recall,  
2   instead of 30,000 cubic feet per second out of Notigii,  
3   this has a similar outflow -- open water outflow of  
4   35,000 cubic feet per second and a winter outflow of  
5   34,000 cubic feet per second.

6                   MR. MICHAEL ANDERSON:   Thank you, Mr.  
7   Surminski.

8                   Does it also authorize certain increases  
9   in measured water levels at Southern Indian Lake -- or  
10  changes in the measured water levels of Southern Indian  
11  Lake and at the Thompson float plane base?

12                  MR. HAROLD SURMINSKI:   Yes, it allows an  
13  expanded range instead of the 3 foot range from eight  
14  forty-seven (847) to eight forty (840) -- eight forty-  
15  three (843) -- eight forty-four (844) -- pardon me, to  
16  eight forty-seven (847), the 3 foot range is the interim  
17  licence.

18                  Manitoba Hydro applies for 1 foot lower,  
19  eight forty-three (843) at the lower range and a half a  
20  foot higher to eight forty-seven and a half (847 1/2) on  
21  the upper range of Southern Indian Lake.  And flows --  
22  instead of -- instead of having a flow measurement at  
23  Thompson, it's an elevation measurement.

24                  So in open water it's the Thompson sea  
25  plane base, not exceeding 619 feet above sea level and in

1 the ice cover period it becomes the pump house -- having  
2 a constraint not higher than 623 feet.

3 MR. ROBERT MAYER: I wonder, Mr.  
4 Surminski, when Manitoba Hydro might get to the metric  
5 system?

6 MR. HAROLD SURMINSKI: In most cases we  
7 are. I won't answer that, but it's because the licence -  
8 - it's because the licence was written in the old English  
9 system, that's why it's used here.

10

11 CONTINUED BY MR. MICHAEL ANDERSON:

12 MR. MICHAEL ANDERSON: Thank you, Mr.  
13 Surminski. So that I -- just so that I am clear and I  
14 understand, this application for additional flows and  
15 flexibility in respect of water elevations is not part of  
16 the May 11th, 1973 interim licence for the Churchill  
17 River Diversion Project.

18 Is that correct?

19 MR. HAROLD SURMINSKI: This is an  
20 application to vary from that licence.

21 MR. MICHAEL ANDERSON: Thank you very  
22 much, Mr. Surminski. Is this application, to your  
23 knowledge, subject to an environmental assessment, under  
24 either Federal or provincial legislation?

25

1 (BRIEF PAUSE)

2

3 MS. PATTI RAMAGE: Mr. Chair, Manitoba  
4 Hydro wants to cooperate and answer questions, but it's  
5 not something that this panel -- certainly was expecting  
6 to have to deal with, and I am having trouble  
7 understanding how it relates to the rate application.

8 MR. ROBERT MAYER: Ms. Ramage, those of  
9 us who were at the Clean Environment Commission hearings  
10 have seen this letter for "X" number of years, apparently  
11 since 1986. This application has been -- as I understand  
12 it -- is virtually identical to -- to the Augmented Flow  
13 Program that appears to have been initiated in 1986 and  
14 still based on the interim licence because, for some  
15 reason or other, Manitoba Hydro hasn't applied for the  
16 permanent licence because some of us think you haven't  
17 got around to surveying the property yet in order to make  
18 the application for permanent licence.

19 But I -- I tend to agree with Ms. Ramage,  
20 this doesn't really seem to have a lot to do with rates.

21 CHAIRPERSON: Mr. Anderson, perhaps you  
22 could illuminate us on how it comes into balance with the  
23 concept of rates, revenue requirement.

24 MR. MICHAEL ANDERSON: Well, in respect  
25 of the revenue requirement and -- with -- hopefully now

1 without entering into giving evidence, Mr. Chair, it's my  
2 understanding that the -- Augmented Flow Program, as  
3 noted by the Vice-Chair, has been annually renewed for  
4 some considerable period of time.

5           One would notice at pages 2 and following,  
6 that there is a significant number of persons who are --  
7 circulated the copy of this, and myself is listed as the  
8 very first person due to the alphabetical organization of  
9 that list. You'll notice that it isn't actually  
10 alphabetical, it -- but I am noted as the first.

11           But in terms of the operations of the  
12 Utility, environmental standards can -- have continued to  
13 involve significantly since 1986. I would assume that we  
14 are comfortable with that. And the issue here are the  
15 costs of environmental review overall.

16           My next question was going...

17

18   (BRIEF PAUSE)

19

20           MR. ROBERT MAYER: While we're having this  
21 interlude, somebody should tell -- Mr. Miles (phonetic)  
22 that the -- that neither Jack Burden (phonetic) nor the  
23 local government district of Mystery Lake are located  
24 anywhere close to Norway House.

25

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: The ordinary  
4 operating cost of the Utility, of course, include  
5 mitigation costs and environmental costs and other  
6 matters, and my questions are really speaking to whether  
7 -- there are environmental costs and if so, whether they  
8 are incorporated into the costs being forecast by the  
9 Utility in the current application.

10 And I had a second area of review that  
11 perhaps would be the responsibility of the Crown that I  
12 wanted to touch on because though -- that -- those  
13 responsibilities and background have changed.

14 And I -- I'll -- and just proceeding with  
15 that, the question I was going to ask is whether Manitoba  
16 Hydro was aware that this application would now be  
17 subject to a Crown consultation as was the Wuskwatim  
18 project? And that would clearly have a cost and time  
19 factor associated with it.

20 THE CHAIRPERSON: Do you want to answer  
21 that or do you want to take it under consideration?

22 MS. PATTI RAMAGE: Perhaps I'd best take  
23 it under consideration because again, I'd have to think  
24 about it to even know if I -- are we providing our -- our  
25 legal opinions at that point, because this is completely

1 outside my area of practice. So I can't even begin to  
2 comment on it.

3 THE CHAIRPERSON: Why don't we hold that  
4 one (1) over, Mr. Anderson, and let them consider it.

5

6 CONTINUED BY MR. MICHAEL ANDERSON:

7 MR. MICHAEL ANDERSON: I do have one (1)  
8 round question that would not require a legal opinion,  
9 and that would be a factual question. And that is  
10 Manitoba Hydro aware whether the Department of Water  
11 Stewardship is intending to convene a Crown consultation  
12 in respect to the application for the augmented flow  
13 program?

14 MR. VINCE WARDEN: Mr. Anderson, no,  
15 we're not aware.

16 MR. MICHAEL ANDERSON: Thank you. And  
17 then I also look forward to Ms. Ramage's additional  
18 consideration of Manitoba Hydro's thoughts in respect to  
19 that.

20 THE CHAIRPERSON: Which she can provide  
21 when we come to the next panel for that matter is just  
22 carrying it forward.

23

24 CONTINUED BY MR. MICHAEL ANDERSON:

25 MR. MICHAEL ANDERSON: That would be



1 fine, Mr. Chair, thank you. And thank you, Ms. Ramage.

2

3

(BRIEF PAUSE)

4

5 MR. MICHAEL ANDERSON: Now my -- my next  
6 -- excuse me, my next line of questions deal with  
7 Manitoba Hydro's response in -- to MKO/MH-2-1 regarding  
8 Water Regime Review and Consultation Committees.

9 And if you would also take with you a copy  
10 of MKO 3. I assume Mr. Surminski's going be answering  
11 these questions?

12

13

(BRIEF PAUSE)

14

15 MR. MICHAEL ANDERSON: And -- and  
16 specifically, if you might turn to MKO/MH-2-1(b) which  
17 describes the functions, activities, and periodicities of  
18 the committees. Mr. Chair, the extract from The Pas  
19 Indian bound settlement relates to the agreement that's  
20 referred to in the answer to MKO/MH-2-1(a). I had asked  
21 that the committees be identified.

22

23 So I suppose my first question is there  
24 anyone on the panel that is familiar with the operation  
25 of these committees?

25

MR. VINCE WARDEN: No, Mr. Anderson, we

1 have no -- no one on the panel that can speak to these.

2 MR. MICHAEL ANDERSON: In terms of their  
3 specific operations?

4 MR. VINCE WARDEN: That's correct.

5 MR. MICHAEL ANDERSON: Mr. Surminski,  
6 you're involved in any communications with Sask Power  
7 though in respect of water operations during the year?

8 MR. HAROLD SURMINSKI: No, I'm -- I'm in  
9 a planning area so specifically, I am not involved in the  
10 operations end.

11 MR. MICHAEL ANDERSON: The -- if we look  
12 at Exhibit -- I'm just -- MKO-3 -- what works out to be  
13 page 3 of that Article 6.01 Water Regime Review and  
14 Consultation Committee, Sub C.

15 Do you have that, Mr. Surminski?

16 MR. HAROLD SURMINSKI: Yes, I found it.

17 MR. MICHAEL ANDERSON: Could you please  
18 read that provision for me, Mr. Surminski?

19 MR. HAROLD SURMINSKI: Part C of the  
20 Water Regime Review and Consultation Committee:

21 "Initiate discussions with Saskatchewan  
22 Power Corporation to obtain information  
23 with respect to activities of  
24 Saskatchewan Power Corporation which  
25 may impact on the water regime and to

1                   determine the effect of such activities  
2                   on the water regime."

3                   MR. MICHAEL ANDERSON:   Thank you, Mr.  
4 Surminski.  I'm thinking that if it's possible to have an  
5 individual produce that would be familiar with these  
6 operations.  I'm happy to go through the generalities of  
7 where I intended to go with my cross-examination to  
8 assist in doing that, if I might reserve.

9                   It relates to mitigation costs and -- the  
10 -- -- directly to the cost of the operation functions of  
11 this committee.

12                  THE CHAIRPERSON:   Okay, well carry on.  
13 We'll -- we'll return to the subject to whether you need  
14 someone else later on.

15                  MR. MICHAEL ANDERSON:   The -- Mr. Chair,  
16 I suppose not having someone familiar with the operation  
17 of it; having it be one of the very few questions that  
18 MKO raised in its interrogatories, I'm left with, I  
19 suppose, developing and presenting at this point a  
20 hypothesis of a series of questions which I'm content to  
21 do if you desire under the current circumstances so that  
22 we can receive responses to the questions that we had  
23 placed in our IRs.

24                  Are you content that I proceed?

25                  THE CHAIRPERSON:   Try, yeah.  We're used

1 to Mr. Williams going down some other lines.

2

3 CONTINUED BY MR. MICHAEL ANDERSON:

4 MR. MICHAEL ANDERSON: It's just the  
5 uncertainty of not having yes or no responses or  
6 confirmations, Mr. Chair, but in -- having that -- the  
7 rationale for the frame is that, would you agree, Mr.  
8 Surminski -- or any other member of the panel, that the  
9 water re -- the Water Regime Review and Consultation  
10 Committee established under the November 1st, 1991, The  
11 Pas Indian Band Settlement, contemplates discussions with  
12 the Saskatchewan Power Corporation explicitly to identify  
13 water regime operations?

14 MS. PATTI RAMAGE: Mr. Chair, I have a  
15 real concern with having our people, in essence, making  
16 admissions about what an agreement that they really have  
17 no knowledge of and that those type of admissions could  
18 be used in -- in attempting to adopt a particular  
19 interpretation in another form where this agreement might  
20 be relevant.

21 I -- I have a real concern about going  
22 down --

23 THE CHAIRPERSON: Okay. The hypothetical  
24 approach is -- apparently, Mr. Anderson, is not going to  
25 work.

1

2 CONTINUED BY MR. MICHAEL ANDERSON:

3 MR. MICHAEL ANDERSON: I can confirm that  
4 there is no purpose for the discussion in another forum  
5 beyond the question here. The document is posted on  
6 Manitoba Hydro's website.

7 It was identified in Manitoba Hydro's  
8 response to MKO/MH-2-1a. Those are self evident. It's  
9 really the operations of the -- the committee.

10 Perhaps for assistance I'll just speak to  
11 the two (2) items that I intended to use two (2) of the  
12 information exhibits for and that will help clarify.

13 And perhaps we could stand down or  
14 consider how best to have a person made available who can  
15 respond to these questions.

16 The first item: It's very interesting to  
17 lay out the hypothesis of your series of questions in  
18 this way but, on the updated spring flood outlook March  
19 31, 2006, page 2, Item 4, Saskatchewan River.

20 And that's MKO Information "A" if I  
21 understand the -- the number sequence correctly. Page 2,  
22 Item 4. It identifies -- and I'll read it this time:

23 "A high flood potential still exists in  
24 the area of The Pas including Ralls  
25 Island, Carrot River and Pasquia River

1 means of reducing the flood risk  
2 through dyking, ice breaking, and  
3 reservoir operations in Saskatchewan  
4 are being investigated."

5 My interest was as -- was in the  
6 relationship of the Water Rev -- Review Committee  
7 established under the agreement, and this notation by  
8 Manitoba Water Stewardship that water reservoir  
9 operations in Saskatchewan might mitigate flooding on the  
10 Saskatchewan River in The Pas.

11 And then the purpose for the interest of  
12 that by MKO and, certainly, the Opaskwayak Cree Nation is  
13 identified clearly in MKO Information B, which is the  
14 June 25th, 2005 Manitoba Water Stewardship press release  
15 regarding precautionary dyking.

16 So the end of the hypothesis is we have  
17 two (2) fisc -- two (2) off the water operating years in  
18 a row, with dyking at The Pas being significant, an  
19 agreement between Hydro and the Opaskwayak Cree Nation to  
20 discuss water regime operations, and acknowledgment by  
21 Manitoba Water Stewardship that reservoir operations in  
22 Saskatchewan can mitigate flooding at The Pas. And I had  
23 wanted to inquire about all of that.

24 So that's the essential hypothesis. The -  
25 - the effect of that would be taking it to its full end.

1                   Thank you very much for your patience.  
2                   It's a most interesting exercise.

3                   Of course, as Mr. Warden's comments today,  
4                   saying water conditions can have a tremendous impact on  
5                   our financial forecast, water is money. And my interest  
6                   is the relationship between Water regime operations at  
7                   Opaskwayak, the revenues generated by Manitoba Hydro in  
8                   respect with those operations, and the cost of the  
9                   effects of those operations at Opaskwayak, notably  
10                  dyking, and flooding, and so forth.

11                  THE CHAIRPERSON:   Ms. Ramage, can you  
12                  help Mr. Anderson? Can the panel help Mr. Anderson in  
13                  any way address the questions that he's headed for?

14                  MS. PATTI RAMAGE:    I don't think this  
15                  panel can, and I'm trying to --

16                  THE CHAIRPERSON:    Do you have a  
17                  suggestion as to how we work through this?

18                  MR. ROBERT MAYER:    Mr. Chair, I wonder --  
19                  I wonder if we shouldn't be asking Mr. Anderson if he can  
20                  somehow relate this to the revenue requirement portion of  
21                  this Hearing, or even to the rate design which will  
22                  follow. Because I'm having trouble understanding,  
23                  firstly, -- the operation of the Saskatchewan River  
24                  upstream of the Manitoba border, Manitoba has -- neither  
25                  Manitoba nor Hydro, as I understand it, has any real

1 control over it, although they can discuss it and there  
2 are some agreements between the parties as to riparian  
3 rights, if I recall correctly.

4 And the costs of dyking at The Pas is  
5 generally, as I understand it, looked after by emergency  
6 measures or the municipality in question and the only  
7 control, as I understand it, that Manitoba Hydro might  
8 have, is the regulation of its forbay at Grand Rapids.

9 Am I incorrect in any of that, so far as  
10 you know, Ms. Ramage?

11 MS. PATTI RAMAGE: No, I -- I would have  
12 nothing to add.

13 THE CHAIRPERSON: Okay, Ms. Ramage,  
14 returning to my original question, can you see some way  
15 through this?

16 MS. PATTI RAMAGE: Well, if I -- if I  
17 could understand, which I'm having trouble understanding,  
18 where this gets to revenue requirement, I could find  
19 someone perhaps who -- if I could get to that end  
20 question where it ties in, then perhaps if Mr. Anderson  
21 could give --

22 THE CHAIRPERSON: I thought --

23 MS. PATTI RAMAGE: -- us that, we could  
24 then at least by undertaking have somebody answer it.  
25 But I'm not getting to the point where I can identify



1 somebody on the revenue requirement side who can help Mr.  
2 Anderson with this.

3                   This appears to me to be an entirely  
4 different part of the Corporation that doesn't deal with  
5 rates or revenue requirements and I'm having trouble  
6 making the connection.

7                   THE CHAIRPERSON: I though I heard Mr.  
8 Anderson speak to that issue.

9                   But do you want to try and clarify it  
10 again for Ms. Ramage, the linkage back to revenue  
11 requirement? As you were saying, water is money.

12

13 CONTINUED BY MR. MICHAEL ANDERSON:

14                   MR. MICHAEL ANDERSON: Well, the  
15 discussions today and -- between Mr. Warden and Ms.  
16 McCaffrey, as I was absent having the transcript, my  
17 careful -- hopefully carefully recording notes are water  
18 conditions can have a tremendous impact on our financial  
19 forecast.

20                   The circumstances being described in the  
21 two (2) information sheets talk about high water levels.  
22 It's well recognized in -- before this panel that high  
23 water levels mean revenues, that the consequences of  
24 those high water levels at the Opaskwayak resulted in  
25 costs by the Opaskwayak Cree Nation.

1                   There are costs being borne by citizens of  
2 Northern Manitoba, and Manitoba Hydro customers for that  
3 matter, in respect to the operations of the Utility. And  
4 there is an explicit agreement arrived at between  
5 Manitoba Hydro and one (1) of MKO's First Nations, that  
6 is the one most directly affected, the Opaskwayak Cree  
7 Nation, explicitly to initiate discussions with  
8 Saskatchewan Power Corporation to minimize the effect of  
9 water operations at The Pas.

10                   So it ties to mitigation costs and the  
11 engagement and the implementation of the agreement  
12 between Hydro and the Opaskwayak Cree Nation.

13                   THE CHAIRPERSON: Okay. I think maybe  
14 the way to proceed with this, Ms. Ramage, is you've got  
15 down where Mr. Anderson was headed and his rationale for  
16 doing it, maybe offline, at the close of today's hearing,  
17 you can give some consideration with your panel and  
18 provide us with some form of suggestion how close this  
19 matter.

20                   MS. PATTI RAMAGE: Well, if this helps,  
21 I'm wondering if -- if the end question is: Do the water  
22 conditions described in, I think it's MKO Exhibit B, have  
23 any impact on Manitoba Hydro's forecasts that are being  
24 presented today? Or do they have any impact in terms of  
25 payments to the community in question or cost to the

1 Corporation? And --

2 THE CHAIRPERSON: Well, I hesitate to  
3 guess where --

4 MS. PATTI RAMAGE: -- we could do that by  
5 undertaking.

6 THE CHAIRPERSON: And you present it by  
7 way of undertaking?

8 MS. PATTI RAMAGE: Yes.

9 THE CHAIRPERSON: That sounds like a  
10 reasonable outcome. Perhaps you could consult with Mr.  
11 Anderson maybe with some help from Mr. Peters following  
12 today to make sure that all parties understand what is  
13 being asked of you.

14 Would that work for you, Mr. Anderson?

15 MR. MICHAEL ANDERSON: It -- it does --

16 THE CHAIRPERSON: Because it's kind of  
17 hard to sort of feel our way along.

18 MR. MICHAEL ANDERSON: It is and I -- I  
19 just raised that water regime operations are directly  
20 tied to the generation of revenue by the Utility.

21 THE CHAIRPERSON: I think Ms. Ramage has  
22 caught that part.

23 MR. MICHAEL ANDERSON: And therefore the  
24 consequences of those operations, whether a --  
25 coordinated operations are -- within Manitoba have --

1 generate costs and result in obligations to the  
2 Corporation.

3 THE CHAIRPERSON: Yeah. There was the  
4 two (2) sides of which you're going at. One (1) was the  
5 revenue side and the other one was the risk of mitigation  
6 costs being required.

7 MR. HAROLD SURMINSKI: Yes. And maybe I  
8 could clarify. The mitigation costs would not be  
9 Manitoba Hydro's responsibility and I think that's where  
10 we're having the difficulty. They could be provincial in  
11 nature.

12 THE CHAIRPERSON: But that could be --  
13 potentially we're not providing it to you but your  
14 response is your response. But you might be able to help  
15 Mr. Anderson by thinking it through.

16 MR. MICHAEL ANDERSON: And I raise again,  
17 not taking an objection to the general comments, Mr.  
18 Surminski, it remains that Manitoba Hydro has an  
19 agreement with the First Nation to explicitly discuss  
20 water operations with the neighbouring utility.

21 And there are circumstances that are  
22 documented, at least to the extent they're provided in  
23 the information exhibits, of consequences of those water  
24 operations, and that it's related to the generation of  
25 revenue and the addressing of costs associated with that.

1 I'm seeking clarification of all of that.

2 THE CHAIRPERSON: Okay. We'll leave it  
3 with you, Ms. Ramage, and the panel.

4 We're not arbitrators. We're not  
5 intervening in an agreement between Manitoba Hydro and  
6 other parties, but Mr. Anderson has related it to two (2)  
7 issues that are before the panel and if you could give it  
8 some thought, and maybe in some consultations with your  
9 co-counsels find some way to bring something forward at  
10 our next sitting.

11 MS. SUSAN PROVEN: I just would like to  
12 add at this point, although I don't want to give any  
13 evidence, but I mean this concerns me because when you  
14 mentioned that water is money, and the control of water  
15 is a very important thing agriculturally too, it isn't  
16 just the big rivers. For example, in my area we have  
17 some landowners that are holding back water, which  
18 eventually works its way into the Little Saskatchewan and  
19 then down into the Assiniboine and then hence into the  
20 Red River and up into the lake.

21 So the holding back of water by parties is  
22 what you're referring to. It's happening all over the  
23 province and I guess I'd be interested too in just how  
24 much power the -- the Corporation has in terms of  
25 agreements to hold back water. And, you know, whether --

1 because you had said, Well we suffer when the water's not  
2 flowing, but if there can be some way of -- or if there  
3 are some negotiations -- and it may be it's not this  
4 panel that does that -- but do -- do you have  
5 hydrologists in the Corporation that actively participate  
6 in planning of this type of water control, or is it all  
7 left up to water stewardship? That would be my question.

8 MR. HAROLD SURMINSKI: I can respond at  
9 least partially. We do have cooperation with Ontario and  
10 then Lake of the Woods control board. We have  
11 representatives on operation of Lake of the Woods and Lac  
12 Suel. I cannot say that we have a similar relationship  
13 with Saskatchewan reservoirs.

14 THE CHAIRPERSON: Okay, Mr. Anderson, if  
15 you wouldn't mind carrying on with what parts of your  
16 cross-examination have not been touched by this.

17  
18 CONTINUED BY MR. MICHAEL ANDERSON:

19 MR. MICHAEL ANDERSON: And -- and if I  
20 might, the additional interest to the dyking that I was  
21 going to refer to, it was raised by Board Member Proven  
22 in terms of the agriculture aspects. Of course, at  
23 Opaskwayak, there's also Carrot River, and some well  
24 known agricultural areas of which the Opaskwayak Cree  
25 Nation also has reserves and agricultural interests.

1                   So I -- I thank you for those comments  
2 because I was going there as well, in terms of your  
3 interests.

4

5                                   (BRIEF PAUSE)

6

7                   MR. MICHAEL ANDERSON:    The next questions  
8 dealt with MKO/MH Round 2-2, and this is respecting the  
9 rationale applied by Manitoba Hydro in establishing  
10 stated goals for Aboriginal employment.

11                   A couple questions just for clarification  
12 so that I understood the information also provided by Mr.  
13 Warden on March 3rd, also at page 81, and that was Mr.  
14 Warden's reference to 64 percent employment at the  
15 Wuskwatim generating station.

16                   Is that correct, Mr. Warden?

17                   MR. VINCE WARDEN:    Yes, it is.

18                   MR. MICHAEL ANDERSON:    Can you describe,  
19 in general terms, the -- what these 64 percent of  
20 Aboriginal employment is. Is it mainly in the  
21 Nisichawayasihk Cree Nation? Is it a -- a group of  
22 persons from across the north? Do you have any detail  
23 that you might be able to provide on that?

24                   MR. VINCE WARDEN:    I think the majority  
25 is from NCN, but I would have to confirm that. It's --

1 it's -- I know it's not exclusively NCN. But the ratio  
2 to other First Nations, I don't have that information  
3 readily available.

4 MR. MICHAEL ANDERSON: You had also  
5 indicated, at page 81, that the northern Aboriginal  
6 employment was at 39 percent. Is that correct?

7 MR. VINCE WARDEN: That was correct at  
8 that particular time that I was providing that  
9 information, yes.

10 MR. MICHAEL ANDERSON: Is there a  
11 different number that you can share at this time?

12 MR. VINCE WARDEN: Well, it does -- that  
13 number does fluctuate within a -- a certain range. The  
14 most recent information we have for northern Manitoba is  
15 41 percent. That would -- sorry, that would be at  
16 February 29th, of 2008.

17 MR. MICHAEL ANDERSON: And further to  
18 Manitoba Hydro's response to PUB/MH-1-22, is it possible  
19 to provide some detail or to disaggregate the -- how the  
20 41 percent of Aboriginal employed in the north fall into  
21 your employment classifications at the bottom of page 1  
22 and top of page 2?

23 What I'm trying to do, Mr. Warden, is you  
24 -- there are four (4) categories of employment: Total  
25 Aboriginal employment, Northern Aboriginal, Aboriginals



1 in Management and Aboriginals in Professional  
2 Occupations.

3 Is it possible to break them down in  
4 accord with the staffing categories that you've provided  
5 at the bottom of page 1 and the top of page 2 of the  
6 response in PUB/MH-1-22?

7 MS. PATTI RAMAGE: I think Mr. Warden's  
8 okay here, but I'm not -- Mr. Anderson, can you give me  
9 the sub-letter on that?

10 MR. MICHAEL ANDERSON: Yes, it's Manitoba  
11 Hydro's response to PUB/Manitoba Hydro Round 1 Number  
12 22(a).

13 MR. PATTI RAMAGE: Thank you.

14 MR. MICHAEL ANDERSON: You're welcome.

15 MR. VINCE WARDEN: Yes. In answer to  
16 your question, Mr. Anderson, we can undertake to provide  
17 that categorization.

18 MR. MICHAEL ANDERSON: Thank you, Mr.  
19 Warden.

20

21 --- UNDERTAKING NO. 49: Breakdown all four (4)  
22 categories of Aboriginal  
23 employment by full time,  
24 regular term, seasonal and  
25 part-time casual: Total

1                   Aboriginal employment,  
2                   Northern Aboriginal,  
3                   Aboriginals in Management and  
4                   Aboriginals in Professional  
5                   Occupations  
6

7 CONTINUED BY MR. MICHAEL ANDERSON:

8                   MR. MICHAEL ANDERSON:    And that is for  
9 all four (4) categories of Aboriginal employment  
10 identified, just to be clear, Mr. Warden?

11                  MR. VINCE WARDEN:    Just for further  
12 clarification, Mr. Anderson, you're -- you are referring  
13 to full time, regular term, seasonal, part-time casual;  
14 is that the categories you're referring to?

15                  MR. MICHAEL ANDERSON:    Yes, Mr. Warden.  
16 Those are the employment categories, and the -- the --  
17 they relate to the employment goals of four (4) other  
18 groups of Aboriginal employees, and those four (4) are  
19 Total Aboriginal Employment, Northern Aboriginal  
20 Employment, Aboriginals in Management Occupations and  
21 Aboriginals in Professional Occupations.

22                  And, so, I was interested in having those  
23 four (4) groupings of Aboriginal employees broken down by  
24 full time, regular term, seasonal and part-time casual.  
25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Yes, I suspect that  
4 the Aboriginal employees in management and professional  
5 occ -- occupations will be primarily in -- in Southern  
6 Manitoba rather than Northern Manitoba.

7 But we can -- we can confirm that. So,  
8 yes, we'll -- we'll provide that information.

9 MR. MICHAEL ANDERSON: Thank you, Mr.  
10 Warden. And I appreciate the clarification. That was  
11 going to be one (1) of my questions as to where -- where  
12 the loca -- locus of the employment was. And you've  
13 indicated that the management and professionals are  
14 expected to be the south so if those notations could be  
15 added, I'd be grateful.

16 MR. VINCE WARDEN: We'll do that.

17 MR. MICHAEL ANDERSON: Thank you, Mr.  
18 Warden. As a statistics question, just so I understand  
19 the numbers, in the 41 percent of Northern Aboriginal  
20 employment as of February 29th, 2008, does that include  
21 the 64 percent of Aboriginal employees at Wuskwatim?

22 MR. VINCE WARDEN: No. The -- the 41  
23 percent refers to Manitoba Hydro employees only. The 64  
24 percent would include contractor's employees as well.

25 MR. MICHAEL ANDERSON: Just so that I'm -

1 - I'm certain that I'm clear, does the 41 percent exclude  
2 the -- any of the persons that are part of the 64  
3 percent of the Wuskwatim Generating Station?

4 MR. VINCE WARDEN: Yes, the -- the 41  
5 percent does not include contractor's employees which  
6 make up the majority of the 64 percent of the Aboriginal  
7 employees on site at Wuskwatim.

8 MR. MICHAEL ANDERSON: Thank you, Mr.  
9 Warden.

10

11 (BRIEF PAUSE)

12

13 MR. MICHAEL ANDERSON: In your response  
14 to MKO/Manitoba Hydro Round 2 Number 2 -- and as we flow  
15 down the page to your response to A), under "Total  
16 Aboriginal Employment," at the first full sentence at  
17 page 2 of the response, MKO's question was regarding how  
18 you rationalize or develop the goals.

19 This -- the sentence there says:

20 "Past hiring trends are considered as  
21 well as an additional factor to  
22 increase the rate of change beyond what  
23 national -- natural progression would  
24 attain without any intervention or  
25 special measures".

1                   Could you please describe what this  
2 "additional factor" is and how it would be -- how it  
3 would function in identifying your -- your goal for total  
4 Aboriginal employment?

5                   MR. VINCE WARDEN:    Yes, well, the  
6 additional factor is -- is or does represent the  
7 intervention of Manitoba Hydro staff in influencing the  
8 hiring beyond what it would otherwise be if we just  
9 simply followed past trends.

10                  MR. MICHAEL ANDERSON:   Thank you, Mr.  
11 Warden.  Is there a stated Manitoba Hydro policy that  
12 describes how staff would exercise this intervention; an  
13 Aboriginal preference, policy, perhaps?

14                  MR. VINCE WARDEN:    There -- there's no  
15 policy, per se, but there -- there are regular reports --  
16 are prepared by our Employment Equity Department within  
17 Manitoba Hydro, and these reports are reviewed and  
18 guidance is provided as necessary by both the Executive  
19 Committee and the Board of Manitoba Hydro.

20                  MR. ROBERT MAYER:    Mr. Warden, I was of  
21 the impression -- you can let me know if I'm correct or  
22 not -- that there was a Northern and an Aboriginal  
23 employment preference program in place at both the  
24 existing projects and the upcoming projects.  Has that  
25 changed since the Clean Environment Commission Hearings?

1 MR. VINCE WARDEN: No, that's still in  
2 place.

3 MR. ROBERT MAYER: Thank you.  
4

5 CONTINUED BY MR. MICHAEL ANDERSON:

6 MR. MICHAEL ANDERSON: And the Vice Chair  
7 had -- has gone to where I was going to ask as a follow-  
8 up. In terms of providing that intervention for -- the  
9 first question was regarding current MK -- Manitoba Hydro  
10 personnel.

11 And -- and again, it's been asked and  
12 clearly answered, but I just want to be clear that there  
13 is not a stated policy for managers to use in guiding  
14 their intervention for Aboriginal employment, is that  
15 correct?

16 MR. VINCE WARDEN: Well, there -- I was  
17 interpreting your question to be as to whether or not  
18 there's a guiding policy that is specifically related to  
19 the MKO/MH Round 22 which you had drawn our attention to.

20 So that's something different than the  
21 northern preference -- Northern and Aboriginal  
22 Preferences Policy which was referred to by Mr. Mayer.

23 MR. MICHAEL ANDERSON: I do understand  
24 that. We've made the distinction between the projects  
25 and the preference policy that would apply to them and

1 Manitoba Hydro's internal policy guiding the intervention  
2 as you -- it's described of the additional factor by its  
3 managers to ensure achievement of the Aboriginal  
4 employment goals.

5 I just wanted to be clear whether or not  
6 there is a written Manitoba Hydro policy guiding managers  
7 on how to -- best to achieve the Aboriginal employment  
8 goals for the corporation internally.

9 MR. VINCE WARDEN: Yes, Mr. -- I think I  
10 answered that with my previous response.

11 MR. MICHAEL ANDERSON: That there is no  
12 pol -- written policy.

13 MR. VINCE WARDEN: There is no policy  
14 other than the guidance that is provided through the  
15 quarterly reporting process.

16

17 (BRIEF PAUSE)

18

19 MR. MICHAEL ANDERSON: And -- and for the  
20 second part, for the projects, the interest, of course,  
21 of MKO is that there is a significant capital plan. Do -  
22 - does the Northern Aboriginal Employment Preference  
23 Program apply to each of the capital projects that  
24 Manitoba Hydro's preparing to under -- proposing to  
25 undertake within Northern Manitoba?

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: I would expect so. I  
4 would have to confirm that but I would expect so, yes.

5 MR. ROBERT MAYER: Mr. Warden, aren't  
6 those pro -- aren't those preferences negotiated at the  
7 time you actually commit to the project? It was my  
8 understanding that there may not well -- may well not be  
9 a general policy but they are negotiated with the  
10 partners, with the stakeholders and quite frankly, with  
11 your Unions and the Allied Hydro Council.

12 MR. VINCE WARDEN: There are those  
13 agreements, Mr. Mayer. Whether they're project-specific  
14 is something I'm just not 100 percent certain of.

15

16 CONTINUED BY MR. MICHAEL ANDERSON:

17 MR. MICHAEL ANDERSON: Noting the  
18 difference between the current employment numbers at  
19 Wuskwatim and the corporate targets generally and the  
20 Vice-Chair's comments about specific negotiations, are  
21 there any guidelines that the Corporation has published  
22 for those that are considering discussions regarding  
23 Aboriginal employment in the specific projects?

24 MR. VINCE WARDEN: Well, we do set out  
25 the goals in -- in our Corporate Strategic Plan each and



1 every year, and guidelines are provided throughout the  
2 year where applicable.

3 For example, we would have specific  
4 guidelines that are issued with respect to student hiring  
5 -- hiring of students, and we would set targets for  
6 Aboriginal participation.

7 MR. MICHAEL ANDERSON: And then -- so in  
8 the end, Mr. Warden, who -- which group of persons within  
9 Manitoba Hydro is responsible for ensuring that the goals  
10 are met?

11 MR. VINCE WARDEN: Well, ultimately,  
12 management is responsible; management of the respective  
13 divisions and departments throughout the Corporation.

14 But those results are -- are monitored,  
15 and performance is evaluated based on the achievement of  
16 those -- of those targets.

17 MR. MICHAEL ANDERSON: Is it Manitoba  
18 Hydro's general policy that having a representation of  
19 Aboriginal persons in projects that is consistent with  
20 the population of Aboriginal persons nearby the project  
21 sites? Is that Manitoba Hydro's basic policy when  
22 addressing the northern projects?

23 MR. VINCE WARDEN: Well, the goals are --  
24 are based on the demographic of Manitoba and  
25 specifically, with respect to Northern Manitoba, the goal

1 is also based on -- on that demographic.

2 MR. MICHAEL ANDERSON: And so does  
3 Manitoba Hydro adjust its employment equity targets when  
4 it's engaging in discussions on a new capital project to  
5 reflect the local population of persons that are directly  
6 nearby the project?

7 MR. VINCE WARDEN: No, and I think that's  
8 where the project specific negotiations come in. So for  
9 Wuskwatim, I'm certain there would be an agreement that  
10 covers off the -- the amount of Aboriginal participation  
11 that is expected; not only of Manitoba Hydro but of the  
12 contracts that we award.

13 MR. MICHAEL ANDERSON: Thank you, Mr.  
14 Warden. Is this a good time to take a break, Mr. Chair?

15 THE CHAIRPERSON: That's fine, Mr.  
16 Anderson. Okay, we'll be back in fifteen (15) minutes.

17

18 --- Upon recessing at 2:29 p.m.

19 --- Upon resuming at 2:49 p.m.

20

21 THE CHAIRPERSON: Okay, Mr. Anderson.

22 MR. MICHAEL ANDERSON: Thank you, Mr.  
23 Chair. We had a discussion with Ms. Ramage and Mr.  
24 Peters, with Mr. Williams' involvement, over the break  
25 and I have a series of written questions I'll submit to

1 Ms. Ramage, regarding the revenues and mitigation costs  
2 in respect of the modified water operations. Included in  
3 that list will also be the revenue and mitigation cost  
4 changes, if any, that would be -- as a result of the  
5 approval of the Augmented Flow Program, as compared to  
6 the base case, assuming the 1973 interim licence.

7 So I'll ask them all in a series.

8 MS. PATTI RAMAGE: Yeah, Mr. Chair, and  
9 we would -- we'll take those questions under advisement  
10 from our conversations -- at the break. It appears we'll  
11 be able to do something for Mr. Anderson.

12 But before he begins, I thought I would  
13 note for the record, Manitoba Hydro has filed its  
14 response to Undertaking Number 30, and that was with  
15 respect to the information provided in the Smart Meter  
16 Impact Studies, and that we suggest be identified as  
17 Exhibit Manitoba Hydro 41.

18 THE CHAIRPERSON: And here be it. Very  
19 good.

20

21 --- EXHIBIT NO. MH-41: Response to Undertaking 30

22

23 MR. ROBERT MAYER: Ms. Ramage, I saw  
24 another -- item on that study that seemed to be an answer  
25 to an Undertaking we got this morning. I'm -- it appears

1 to be Exhibit 30, Undertaking Number 35.

2 Are these somehow related? I think they  
3 are, aren't they?

4

5 (BRIEF PAUSE)

6

7 MR. ROBERT MAYER: I'm trying to -- to  
8 relate Exhibit 30 and Exhibit 41 and Undertakings 30 and  
9 35. I'm assuming that they are related.

10 Are we talking about the same study?

11

12 (BRIEF PAUSE)

13

14 MR. LLOYD KUCZEK: Hopefully, I can  
15 clarify this. But, Undertaking 41 was the package that  
16 Mr. Williams asked us to submit. So that's what that is.

17 And then Undertaking 35 here was in  
18 response to...

19 MR. ROBERT MAYER: That was another one  
20 of Mr. Williams' questions found at page 969 of the  
21 transcript.

22 MR. LLOYD KUCZEK: Yeah, I was trying to  
23 recall who -- who pointed that out, but there was a gap  
24 in the information.

25 MR. ROBERT MAYER: Yes, Mr. Williams

1 pointed that out.

2 MR. LLOYD KUCZEK: Okay. And so -- but  
3 this was the response to that inquiry.

4 MR. ROBERT MAYER: But are we -- are we  
5 talking about the same study? That's all I need to know.

6 MR. BYRON WILLIAMS: They're both from  
7 the Smart Meter --

8 MR. ROBERT MAYER: Yes.

9 MR. BYRON WILLIAMS: -- Study, sir.

10

11 (BRIEF PAUSE)

12

13 THE CHAIRPERSON: Okay, Mr. Anderson, you  
14 can ask your questions now.

15

16 CONTINUED BY MR. MICHAEL ANDERSON:

17 MR. MICHAEL ANDERSON: Thank you, Mr.  
18 Chair.

19

20 (BRIEF PAUSE)

21

22 MR. MICHAEL ANDERSON: I wanted to turn  
23 next to MKO -- the response to MKO/Manitoba Hydro Round 2  
24 Question number 3(b), as in "Bravo", and it deals with  
25 energy and storage.

1 MR. HAROLD SURMINSKI: Yes, I have that.

2

3

(BRIEF PAUSE)

4

5 MR. MICHAEL ANDERSON: Is it possible --  
6 I note that the response for energy and storage at 17.9  
7 terrawatt hours is as of November 12, 2007.

8 Is that correct, Mr. Surminski?

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

11 MR. MICHAEL ANDERSON: Is it possible,  
12 and can you undertake to provide the present energy and  
13 storage, as of most current information available?

14 MR. HAROLD SURMINSKI: We'll -- actually  
15 we have submitted a graphic of energy and storage  
16 forecast to the end of the year earlier in the  
17 proceeding. That should contain an update that you're  
18 asking about.

19 MR. MICHAEL ANDERSON: Thanks, Mr.  
20 Surminski. And -- in order to provide a comparison, is  
21 it possible for the year in which Manitoba Hydro  
22 generated its record revenue of \$415 million, referred to  
23 by Mr. Warden in his opening comments, to also get the  
24 energy and storage for March 25th or -- and November  
25 12th, a comparable time period as the table that you've

1 just pointed me to? Which I -- Mr. Williams has kindly  
2 provided to me. It's Exhibit 17, page 2.

3 MR. VINCE WARDEN: You may find the  
4 numbers on that exhibit. Do they not go back in time?

5 MR. MICHAEL ANDERSON: I, excuse me Mr. -  
6 - I have '06/'07 as the farthest back it goes. Yeah,  
7 there's a range of experience but if this could be  
8 generated with the energy and storage in the year that  
9 Manitoba Hydro generated its record income, I'd be  
10 grateful.

11

12 (BRIEF PAUSE)

13

14 MR. HAROLD SURMINSKI: Yes, we'll have to  
15 undertake to provide that.

16 MR. MICHAEL ANDERSON: Thank you, Mr.  
17 Surminski.

18

19 --- UNDERTAKING NO. 50: Manitoba Hydro to provide MKO  
20 a comparison for March 25th  
21 and November 25th, for the  
22 year in which Manitoba Hydro  
23 generated its record revenue  
24 of \$415 million, of the  
25 energy and storage

1

2 CONTINUED BY MR. MICHAEL ANDERSON:

3 MR. MICHAEL ANDERSON: I'm grateful to  
4 My Friend, Mr. Williams, for providing another set of  
5 hands for documents and materials this afternoon. Thank  
6 you.

7

8 (BRIEF PAUSE)

9

10 MR. MICHAEL ANDERSON: Just two (2)  
11 housekeeping matters, Mr. Chair, that I had wanted to  
12 address just before I went too far past them, and that  
13 was our discussion on employ -- Aboriginal employment  
14 actuals and goals.

15 Mr. Warden, you had begun to indicate in  
16 the discussion regarding the 64 percent Aboriginal  
17 employment at Wuskwatim, that you would be able to  
18 provide a -- that you would undertake to provide a  
19 breakdown between NCN and non-NCN employees at the site.

20 Could you undertake to do that, please,  
21 Mr. Warden?

22

23 (BRIEF PAUSE)

24

25 MR. VINCE WARDEN: Yes.



1 MR. MICHAEL ANDERSON: Thank you.

2

3 --- UNDERTAKING NO. 51: Manitoba Hydro to provide MKO  
4 a breakdown between NCN and  
5 non-NCN employees at  
6 Wuskwatim

7

8 CONTINUED BY MR. MICHAEL ANDERSON:

9 MR. MICHAEL ANDERSON: We also were  
10 discussing northern Aboriginal employment within a  
11 certain range, using your term. We've discussed a range  
12 between 39 percent and 41 percent based on the numbers.

13 What is the certain range that Manitoba  
14 Hydro uses as a goal for northern Aboriginal employment?

15 MR. VINCE WARDEN: We don't have a goal -  
16 - or, I'm sorry, we don't have a range as the goal. We -  
17 - we do have a specific percentage.

18 It -- it does fluctuate though depending  
19 on the season. So there -- there will be some  
20 fluctuation between -- that is the actual employment will  
21 fluctuate between a -- between approximately 38 percent  
22 and I believe 41 percent though is the highest we've ever  
23 been, so.

24 MR. MICHAEL ANDERSON: Thank you, Mr.  
25 Warden.

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: I suppose the  
4 question is now for Mr. Surminski, that a response to  
5 MKO/Manitoba Hydro Round 2 Number 3(c), as in "Charlie,"  
6 I had asked about a forecast of energy and reservoir  
7 storage for the reservoirs referred to. And -- and those  
8 are the reservoirs that are identified at MKO/MH-2-3(a)  
9 and 2 -- Round 2 Question 3(b).

10 How does Manitoba Hydro identify the  
11 energy in storage for operational purposes, for the  
12 planning purposes during a fiscal year, if you do not  
13 prepare a forecast?

14 MR. HAROLD SURMINSKI: I believe the  
15 response intended to mean that some of the reservoirs  
16 outside the province, we do not have the -- the specific  
17 forecast for. The list includes the reservoirs within  
18 the province. We certainly have forecasts for those.

19

20 (BRIEF PAUSE)

21

22 MR. MICHAEL ANDERSON: So, Mr. Surminski,  
23 of the -- reservoirs in which are included in the  
24 calculation of energy in storage that's identified at  
25 MKO/MH-2-3(b), which of these reservoirs do you not have

1 operational forecast information?

2

3

(BRIEF PAUSE)

4

5 MR. MICHAEL ANDERSON: And perhaps I  
6 could ask these a bit differently.

7

8 For all of those that are on the Winnipeg  
9 River, are they not part of the operation of the Lake of  
10 the Woods Management Board?

11

12 MR. HAROLD SURMINSKI: Yes. Perhaps we  
13 should clarify what the intent of the question was. When  
14 you asked for "forecast of storage," how far out in time  
15 were you intending -- intending to go?

16

17 Maybe the response, you know, assumes that  
18 this was a long-term forecast, and we -- we just don't do  
19 that.

20

21 So if -- if the question were clearer, it  
22 probably would have had a clearer answer.

23

24 MR. MICHAEL ANDERSON: I accept that, Mr.  
25 Surminski. Thank you.

26

27 So what is the -- how does Manitoba Hydro  
28 forecast energy in storage within an operating year, for  
29 the reservoirs identified at MKO/MH Round 2 Number 3(a)  
30 and (b)?

31

32 MR. HAROLD SURMINSKI: I can only speak

1 generally about this. This is the operating area that's  
2 responsible.

3 My knowledge of that is it assumes best  
4 estimates of current conditions and current conditions  
5 prevailing with the median expectations of -- of inflows  
6 following.

7 So for the next year, it's energy in  
8 storage currently plus inflows in the next year that add  
9 or -- or subtract from that storage.

10 MR. MICHAEL ANDERSON: And if I go down  
11 this -- this list, as I had begun on MKO/MH-2-3(a), I  
12 just wanted to highlight the degree of certainty of the  
13 energy in storage and the inflow forecast information.

14 Is it correct that the five (5) reservoirs  
15 identified as being on the Winnipeg River -- there is  
16 information provided through the Lake of the Woods  
17 Management Board?

18 MR. HAROLD SURMINSKI: Yes, that would be  
19 for the short -- for looking out one (1) year in time, I  
20 would think that is correct.

21 MR. MICHAEL ANDERSON: And, of course,  
22 the Nelson River -- the Nelson River projects are under  
23 the control -- the information is provided by Manitoba  
24 Hydro?

25 MR. HAROLD SURMINSKI: Yes. Manitoba

1 Hydro has forecasting techniques based on antecedent  
2 water conditions meeting precipitation normal,  
3 precipitation on top of antecedent conditions.

4 So depending on how saturated the soil  
5 moisture is, the runoff will be different. So they use a  
6 technique of -- depending on where you are now in terms  
7 of status, whether you're saturated or not, the future  
8 inflows -- a correlation technique is used to predict the  
9 future run-off based on -- on the saturation of your --  
10 of your soil.

11 MR. MICHAEL ANDERSON: And would that  
12 type of analysis also include Manitoba Hydro's  
13 information for Southern Indian Lake, Churchill River and  
14 Cedar Lake Saskatchewan River?

15 MR. HAROLD SURMINSKI: Yes. It is a  
16 statistical approach given your starting point depending  
17 on whether you're high or low as a starting point and  
18 median conditions -- it's a short term forecast of up to  
19 three (3) months and median conditions following after  
20 that.

21 MR. MICHAEL ANDERSON: And then for the  
22 remaining reservoirs that are listed, Reindeer Lake,  
23 Brazeau Reservoir, Abraham Lake, and Lake Diefenbaker,  
24 these reservoirs are all in Saskatchewan.

25 Is that correct?

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

3 MR. MICHAEL ANDERSON: And the  
4 information is provided to Manitoba Hydro by the  
5 Saskatchewan Water Corporation, is that correct?

6 MR. HAROLD SURMINSKI: Yes, they were --  
7 they would have the information and they do forecasting  
8 for their Province.

9 MR. MICHAEL ANDERSON: And do they apply  
10 a similar forecast technique that you've just described  
11 for Manitoba Hydro's operations that employs a soil  
12 moisture content analysis?

13 MR. HAROLD SURMINSKI: I -- I cannot say  
14 that. I don't know.

15 MR. MICHAEL ANDERSON: But it remains  
16 that each of the reservoirs that are part of the systems  
17 of the energy in storage, information is available either  
18 directly from Manitoba Hydro or from a management board  
19 or a Crown corporation responsible for managing water, is  
20 that correct?

21 MR. HAROLD SURMINSKI: Yes, I believe if  
22 I heard you correct, that's right.

23 MR. MICHAEL ANDERSON: Are there any of  
24 these reservoirs for which Manitoba Hydro has a degree of  
25 uncertainty in terms of not being able to identify energy

1 in storage or make short term forecasts for operational  
2 purposes?

3 MR. HAROLD SURMINSKI: There's equal  
4 uncertainty, I believe, in the entire forecasting. I  
5 don't think there is a specific area that is weak and  
6 another that is stronger.

7 MR. MICHAEL ANDERSON: Thank you, Mr.  
8 Surminski. In terms of what we might be able to -- for  
9 my own illumination and hopefully for the Board and  
10 participants, if we go to MKO Information 8, I'm not  
11 suggesting that Manitoba Hydro adopt a document produced  
12 by Manitoba Water Stewardship with a date of -- effective  
13 March 20th, 2008.

14 But based on what Manitoba Hydro knows  
15 from the information it's getting from Management Board's  
16 Crown corporations and other provinces in itself, could  
17 you provide us a synopsis of the outlook for energy in  
18 storage for the reservoirs that are listed on MKO/MH  
19 Round 2 Number 3(a) based on the information you have  
20 available to you?

21 And I provide this information guide just  
22 as a handy visual reference as you described and what  
23 we're aware of those eighteen (18) reservoirs.

24

25

(BRIEF PAUSE)

1

2 MR. HAROLD SURMINSKI: No. I cannot  
3 provide a detailed information but perhaps, you can get  
4 the composite information based on the total of all  
5 reservoirs from the -- from the undertaking Mr. Williams  
6 has provided to you.

7 MR. MICHAEL ANDERSON: And we -- also  
8 from the undertaking of adding just the one (1) line for  
9 revenue that we discussed earlier.

10 MR. HAROLD SURMINSKI: Can you repeat  
11 that? Are you requesting an undertaking here or  
12 confirming the earlier one?

13 MR. MICHAEL ANDERSON: Yeah, I had just  
14 mentioned the earlier one. But in terms of a general  
15 outlook, that's really the degree that I'm looking for.  
16 What's Manitoba Hydro's general outlook right now for  
17 Winnipeg River? Energy in storage and expected inflows?

18 MR. HAROLD SURMINSKI: I do not have the  
19 specifics but in general, we know the Winnipeg River has  
20 been in spill all winter long. It -- there is -- the  
21 reservoirs are generally full in Ontario and with normal  
22 snow pack, you can expect good conditions to continue.

23 MR. ROBERT MAYER: That's interesting,  
24 Mr. Surminski, because the exhibit presented by MKO's  
25 letter to Exhibit -- I forget which letter -- is showing



1 near normal to below normal on the east side of Lake  
2 Winnipeg. And having heard you comment earlier in these  
3 hearings that we've been spilling water in the Winnipeg  
4 River, that strikes me as being something different than  
5 near normal.

6 MR. HAROLD SURMINSKI: Yes, but that's  
7 snow pack. That's in a frozen state. The water that's  
8 in -- in the lakes now came last fall, so it's -- it's a  
9 different entity that you're talking about here.

10 MR. ROBERT MAYER: But with -- when we're  
11 talking about run-off as I understand it, you're going to  
12 get -- if you're going to get a fair bit of snow running  
13 into an already overflowing river, that's going to strike  
14 me as a significant run-off potential and something would  
15 be certainly above normal, at least, by my way of  
16 thinking.

17

18 (BRIEF PAUSE)

19

20 MR. HAROLD SURMINSKI: Yeah, we're having  
21 difficulty interpreting the quantity of water that's in  
22 the stream and the new water that's running off. Is that  
23 what you're -- differentiating between the two?

24 MR. ROBERT MAYER: I guess -- I guess I  
25 am. I -- I'm trying to understand MKO's exhibit, and --

1 and I'm looking at this on the area that I know and above  
2 normal sounds reasonable to me because we've had a lot of  
3 snow up in -- up north, not -- a bunch of it in the last  
4 week.

5 I -- and I'm not sure what the conditions  
6 are like here. I -- I'm trying to make some sense out of  
7 this exhibit.

8 MR. HAROLD SURMINSKI: Yes, and it's  
9 difficult because this map does not extend well into  
10 Ontario. The Winnipeg River extends -- the river, you  
11 know, a lot further into Ontario. Lac Seul and Lake of  
12 the Woods are much further into Ontario, so there is no  
13 information here on -- on the situation there.

14

15 CONTINUED BY MR. MICHAEL ANDERSON:

16 MR. MICHAEL ANDERSON: And I thank Mr.  
17 Surminski for the clarification on that. If we just go  
18 to -- if we move down the list to Nelson River, what's  
19 the current view on energy and storage and inflows into  
20 the Nelson River system?

21 MR. HAROLD SURMINSKI: The Nelson River  
22 is the confluence of all flows upstream, so it's  
23 dependent on the Winnipeg River and Saskatchewan River,  
24 Red River, everything is coming into Lake Winnipeg that  
25 has -- eventually has to flow out of Lake Winnipeg down

1 to Nelson to Hudson Bay.

2 MR. MICHAEL ANDERSON: But the current  
3 outlook for the corporation, for water in the Nelson  
4 river system is?

5 MR. HAROLD SURMINSKI: I -- I do not have  
6 the long-term forecast or the forecast for the next year,  
7 for that.

8 MR. MICHAEL ANDERSON: Do we have the  
9 elevation of Lake Winnipeg at the current time?

10 MR. HAROLD SURMINSKI: My recollection  
11 it's 714 feet.

12 MR. MICHAEL ANDERSON: And the maximum  
13 licensed elevation is?

14 MR. HAROLD SURMINSKI: Is 715 feet. 714  
15 is a very good elevation, very healthy elevation to be at  
16 at the end of winter.

17 MR. MICHAEL ANDERSON: Thank you, Mr.  
18 Surminski. And the outlook for Churchill River?

19 MR. HAROLD SURMINSKI: Churchill River is  
20 flowing at maximum, and all indications are that it will  
21 -- the diversion will continue to go at maximum rate.

22 MR. MICHAEL ANDERSON: Thank you, Mr.  
23 Surminski, and Saskatchewan River?

24 MR. HAROLD SURMINSKI: I do not recall  
25 exactly the forecast for the Saskatchewan River.

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: I see some  
4 conferring -- is there a response?

5 MR. HAROLD SURMINSKI: No, there was some  
6 information but it's current information. It's not  
7 forecast several months out in time. A report we have is  
8 just a monthly report. The Saskatchewan is above average  
9 currently.

10 MR. MICHAEL ANDERSON: Thank you, Mr.  
11 Surminski. So the outlook for revenue based on energy  
12 and storage and expected inflows is strong at the present  
13 time, Mr. Warden?

14 MR. VINCE WARDEN: Based on the energy  
15 and storage at this point in time, the outlook is strong.  
16 However, as is pointed out in MKO-C and based on the  
17 precipitation that we've had over the last four (4) or  
18 five (5) months, there -- it's -- there's an indication  
19 that run -- the spring runoff will not be as strong as we  
20 would like.

21 MR. MICHAEL ANDERSON: And that would be  
22 in the southern system primarily?

23 MR. VINCE WARDEN: I was speaking on  
24 average, Mr. Anderson. So that would be throughout the  
25 entire Nelson-Churchill River drainage basin.

1                   MR. MICHAEL ANDERSON:    The answer is that  
2 water -- excuse me, could you repeat what your composite  
3 outlook would be?

4                   MR. VINCE WARDEN:    Well, the energy and  
5 storage right now is good.  It's near maximum levels.  
6 But the precipitation over the past four (4) months, on  
7 average, has been below normal.

8                   MR. HAROLD SURMINSKI:    Just --

9                   MR. ROBERT MAYER:    Well, it looks like we  
10 gave most of -- we gave most of that Alberta Clipper to  
11 Ontario, eh?  Maybe we'll get some of it back though --  
12 through that other system.

13                   MR. HAROLD SURMINSKI:    But another issue,  
14 the -- the snow pack is -- is one of the factors for  
15 runoff, but it's spring precipitation that is probably a  
16 larger factor in coincidence with the snow pack running  
17 off.

18                   So there's a big unknowns on -- on  
19 precipitation in the spring and -- and early summer.  So  
20 the winter snow pack is -- is only one indicator of -- of  
21 future flows.

22

23 CONTINUED BY MR. MICHAEL ANDERSON:

24                   MR. MICHAEL ANDERSON:    And with that  
25 qualification, the energy and storage is near maximum

1 throughout the eighteen (18) reservoirs.

2 Is that correct?

3 MR. HAROLD SURMINSKI: Yes, that was the  
4 indication, yes.

5 MR. MICHAEL ANDERSON: Thank you. If I  
6 might now turn to the response to PUB/Manitoba Hydro-1-  
7 4(f), which is in Mr. Peters' book at Tab 22, which is a  
8 cost -- risk analysis cost comparison of the two (2) root  
9 corridors for Bipole 3.

10

11 (BRIEF PAUSE)

12

13 MR. MICHAEL ANDERSON: Do you have that,  
14 Mr. Warden and panel?

15

16 (BRIEF PAUSE)

17

18 MR. VINCE WARDEN: Yes, yes, we have it.

19 MR. MICHAEL ANDERSON: Thank you, Mr.  
20 Warden. I had been looking in the -- in the record and  
21 had just wanted to clarify, Manitoba Hydro made its  
22 announcement of the route west of Lake Winnipegosis by  
23 announcement on September 25th, 2007.

24 Is that correct, Mr. Warden?

25

1 (BRIEF PAUSE)

2

3 MR. MICHAEL ANDERSON: Subject to check,  
4 that's my recollection that there was a press release  
5 issued by the Corporation on September 25th --

6 MR. VINCE WARDEN: That sounds about  
7 right --

8 MR. MICHAEL ANDERSON: -- 2007.

9 MR. VINCE WARDEN: -- Mr. Anderson, yes.  
10 Excuse me.

11 MR. MICHAEL ANDERSON: Thank you, Mr.  
12 Warden. And just also for my clarification, what was the  
13 specific rationale applied by the Board in deciding to  
14 construct Bipole 3 on a route west of Lake Winnipegosis?

15

16 (BRIEF PAUSE)

17

18 MR. VINCE WARDEN: On the basis that the  
19 route east of Lake Winnipeg was not available to us, we  
20 looked at other options and concluded that the western  
21 routing was the most advan -- advantageous.

22 MR. MICHAEL ANDERSON: And in respect of  
23 your comment that "it was not available to us," why was  
24 the -- the eastern route not available to Manitoba Hydro,  
25 based on your assessment?

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: I think, Mr. Anderson,  
4 it is fully described in MKO Exhibit 5, which was  
5 circulated earlier today.

6 MR. MICHAEL ANDERSON: Thank you, Mr.  
7 Warden. And particularly at page 4 of Exhibit 5, which  
8 is a letter from Greg Salinger, Minister Responsible for  
9 Hydro, to Mr. Schroeder, the Chairman of Manitoba Hydro,  
10 dated September 20th, 2007.

11 Is that correct, Mr. Warden?

12 MR. VINCE WARDEN: Yes.

13 MR. MICHAEL ANDERSON: And on the last  
14 page, page 4, is your comment about the lack of  
15 availability of an eastern route then that the Manitoba  
16 Hydro -- that Manitoba Hydro had been directed by the  
17 provincial government to consider other route  
18 alternatives?

19 Is that correct?

20 MR. VINCE WARDEN: Well, Manitoba Hydro  
21 receives it -- its direction from the Board of Manitoba  
22 Hydro -- Manitoba Hydro Executive, that is.

23 MR. MICHAEL ANDERSON: And then if you  
24 could please just read into the record the very last  
25 sentence of the paragraph on page 4, Mr. Warden,



1 beginning with, "We would encourage..."

2 MR. VINCE WARDEN: Yes, it reads as  
3 follows:

4 "We would encourage the Corporation to  
5 move ahead with required consultations  
6 and planning for an alternative Bipole  
7 3 route."

8 MR. MICHAEL ANDERSON: And just to  
9 confirm, by "alternative," the Minister means alternative  
10 to a route on the east side of Lake Winnipeg.

11 Is that correct?

12 MR. VINCE WARDEN: That would be correct,  
13 yes.

14

15 (BRIEF PAUSE)

16

17 MR. MICHAEL ANDERSON: And just similar  
18 to the discussion we'd had earlier, the costs -- are the  
19 costs related with provincial direction to construct  
20 Bipole 3 west of Lake Winnipegosis fully reflected in the  
21 IFF?

22 MR. VINCE WARDEN: Mr. Anderson, we -- we  
23 didn't -- as I indicated earlier, Manitoba Hydro  
24 direction came from the Board of Manitoba Hydro. We --  
25 we did not take direction from the province. So the

1 province did not, that is, direct us to go on the west  
2 side.

3                   And in fact, the sentence I just read into  
4 the record encouraged the Corporation to look at  
5 alternatives to the -- to the east side.

6                   MR. ROBERT MAYER:   Mr. Warden, if Mr. --  
7 if you had been directed to read a little more of that  
8 paragraph into the record, it would be patently obvious  
9 that the government has taken away the east side.

10                  MR. VINCE WARDEN:   Well, I think I said  
11 earlier --

12                  MR. ROBERT MAYER:   I think you did, too.

13                  MR. VINCE WARDEN:   -- Mr. Mayer, the east  
14 -- the east side was not available to us, so we looked at  
15 alternatives.

16                  MR. ROBERT MAYER:   And I believe that the  
17 -- the last paragraph makes it very clear that the  
18 province has taken away the east side.

19                  I guess there are only two (2) other  
20 alternatives. You can go down the middle, which nobody  
21 wants to go, or any more, because you already got two (2)  
22 there. Or you can go to the west side. Or as some of us  
23 think, you could go under the lake.

24

25   (BRIEF PAUSE)

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CONTINUED BY MR. MICHAEL ANDERSON:

MR. MICHAEL ANDERSON: Noting the Vice Chair's comments on that, I had meant to refer to that.

The second sentence that is set out in the last paragraph on page 4, if you could please read that, Mr. Warden, beginning, "The Manitoba Government..."

MR. VINCE WARDEN: Yes, that sentence reads as follows:

"The Manitoba Government does not regard an east side Bipole 3 as being consistent with these commitments and initiatives."

MR. MICHAEL ANDERSON: So then, asking again, did the Mani -- did the Board of Directors of Manitoba Hydro take this as direction from government to consider a route other than the east side route for Bipole 3?

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Anderson, the -- the direction was provided to the Chairman of the Manitoba Hydro Electric Board. The Board of Manitoba Hydro asked -- requested management to look at

1 alternatives to the east side, which we did do. And we  
2 came back with a recommendation to proceed on the west  
3 side.

4 MR. ROBERT MAYER: Mr. -- Mr. Warden, to  
5 get things in perspective, the signatory of the letter is  
6 the sole shareholder of Manitoba Hydro.

7 Am I not correct?

8 MR. VINCE WARDEN: Yes.

9

10 (BRIEF PAUSE)

11

12 CONTINUED BY MR. MICHAEL ANDERSON:

13 MR. MICHAEL ANDERSON: Again, thank you,  
14 Mr. Vice Chair.

15 The question that I had asked earlier was:  
16 Are all the costs associated now with the selection of  
17 the Manitoba Hydro's announcement to proceed with  
18 constructing Bipole 3 on a route west of Lake  
19 Winnipegosis fully incorporated into the IFF?

20 MR. VINCE WARDEN: Yes.

21

22 (BRIEF PAUSE)

23

24 MR. MICHAEL ANDERSON: One other question  
25 that follows that is the -- the IFF that we're now

1 discussing was prepared when, Mr. Warden?

2 MR. VINCE WARDEN: The IFF was approved  
3 by the Board of Manitoba Hydro on November of 2007.

4 MR. MICHAEL ANDERSON: Well then that the  
5 announcement of the decision to proceed with the route  
6 west of Lake Winnipegosis was announced on September  
7 25th, 2007, what is the degree of confidence that  
8 Manitoba Hydro has in the cost forecast for the western  
9 route for Bipole 3 as reflected in the IFF?

10

11 (BRIEF PAUSE)

12

13 MR. VINCE WARDEN: Actually, Mr.  
14 Anderson, the western routing was in the IFF in the  
15 previous year, so it was not a last minute anal -- cost  
16 analysis that was prepared.

17 MR. MICHAEL ANDERSON: So your confidence  
18 in the forecast is high?

19 MR. VINCE WARDEN: As high as it can be  
20 in the environment -- the cost environment that we're in,  
21 yes.

22 MR. MICHAEL ANDERSON: Thank you, Mr.  
23 Warden.

24 (BRIEF PAUSE)

25

1                   MR. MICHAEL ANDERSON:    I was very  
2 interested in the discussion, regarding determining the  
3 viability of projects, between Ms. McCaffrey and Mr.  
4 Surminski today.

5                   And I have a few questions regarding one  
6 of the examples that Mr. Surminski used, and that was the  
7 application of production cost analysis to rerunning  
8 projects.

9                   Is that specifically the Kelsey  
10 rerunning project, Mr. Surminski?

11                  MR. HAROLD SURMINSKI:    That's one of the  
12 projects.  Actually Kelsey is large enough we -- we  
13 analyze that as a specific project as opposed to using  
14 generic and marginal costs for it, because it does have  
15 specific characteristics.  For example, I think earlier  
16 we noted it had no dependable energy but had average  
17 energy, whereas a generic marginal cost assumes a  
18 resource has dependable energy.

19                  So anytime a resource is -- is related in  
20 that way to flow conditions, we generally evaluate that  
21 separately.

22                  MR. ROBERT MAYER:    By that, Mr.  
23 Surminski, I take it you're telling the Board that Kelsey  
24 has captured all the dependable energy on the Upper  
25 Nelson, and the -- what is available by the possible

1 extension is water you would get above dependable flows -  
2 - or power you would get from water flowing above  
3 dependable flows.

4 Is that correct?

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

7

8 (BRIEF PAUSE)

9

10 CONTINUED BY MR. MICHAEL ANDERSON:

11 MR. MICHAEL ANDERSON: Mr. Surminski, I  
12 had -- following that -- those comments by the Vice-  
13 Chair, I had wanted to try to place the Kelsey project in  
14 perspective so I understand.

15 If I recall the evidence filed by Manitoba  
16 Hydro on the Wuskwatim proceeding on the needs for an  
17 alternative to the Wuskwatim project, there was a project  
18 identified -- described as Kelsey extension with a value  
19 of an increase of 200 megawatts.

20 Is that correct, Mr. Surminski, subject to  
21 check?

22 MR. HAROLD SURMINSKI: No, that does not  
23 sound correct. Our addition at maximum is about 77  
24 megawatts. The total plant output is in the order of 200  
25 megawatts.

1                   MR. MICHAEL ANDERSON:    So the reference  
2 to Kelsey extension in the end fact (phonetic) was for  
3 its total capacity?

4                   MR. HAROLD SURMINSKI:    Yes, that would  
5 have been the case.

6                   MR. MICHAEL ANDERSON:    Is -- is the  
7 Kelsey extension project described as 200 megawatts in  
8 the Wuskwatim end fact (phonetic)?

9                   Do you recall?

10                  MR. HAROLD SURMINSKI:    No, I do not  
11 recall.

12                  MR. MICHAEL ANDERSON:    The current  
13 install capacity of Kelsey is what?

14                  MR. HAROLD SURMINSKI:    I think we use a  
15 rating of two hundred and twenty-four (224).

16                  MR. ROBERT MAYER:     Your little map on the  
17 wall shows Kelsey Generating Station, 215 megawatts,  
18 potential 240 megawatts, and I don't know if that's  
19 additional or if that's the total after the extension.

20                  MR. HAROLD SURMINSKI:    Our annual report  
21 states two twenty-three (223) was the accredited capacity  
22 during the -- the annual report. It actually changes  
23 every year or could change the accredited capacity. It's  
24 -- it's actually a measured output under certain  
25 conditions.



1                   And my recollection is from that two  
2 hundred twenty-four (224) we have a potential of up to  
3 77, 80 megawatts, in that order, increase. And that's  
4 assuming all -- all units get rerunnered. We may choose  
5 to -- to stop.

6                   We're -- we're doing the rerunning on  
7 the basis of performance on a unit-by-unit basis. We --  
8 we did one (1) unit. We have monitored it. The next  
9 unit, actually, we've learned from it, may require some  
10 further modifications to the water passages in order to -  
11 - to get more output. We actually didn't quite get the  
12 output we expected for the first unit.

13                   So further engineering works are required,  
14 and we could potentially get our expectations for the  
15 further units as they come on.

16

17                   (BRIEF PAUSE)

18

19 CONTINUED BY MR. MICHAEL ANDERSON:

20                   MR. MICHAEL ANDERSON: I had just wanted  
21 to try to clarify this is an understanding. I'm looking  
22 at Table 4.1 of the evidence filed, the end fact report  
23 filed -- with the Wuskwatim proceeding Chapter 4.

24                   And under the table, "Potential Hydro  
25 Electric Generation Sites," it identifies a project

1 described as Kelsey extension with a nominal capacity of  
2 200 megawatts.

3 In that the current capacity of the plant  
4 is greater than 200 megawatts, what would this reference  
5 refer to, Mr. Surminski?

6 MR. HAROLD SURMINSKI: I don't recall.  
7 That may have been a -- a potential redevelopment or --  
8 or adding -- adding to the units. We have seven (7)  
9 units. We actually had room for two (2) more units at  
10 that location, and -- but I -- I still don't see -- the  
11 200 megawatts would require some significant cycling,  
12 cycling of operation. There's just not enough water to  
13 get 200 megawatts on a continuous basis.

14 MR. MICHAEL ANDERSON: So the theoretical  
15 maximum developed capacity at Kelsey would be what, Mr.  
16 Surminski?

17 MR. HAROLD SURMINSKI: As -- as I've just  
18 stated, it depends on how much you intend to cycle the  
19 plant. You could install a large capacity there but  
20 operate it only for, you know, 5 percent of the flow  
21 conditions or 5 percent of the time.

22 So it is a -- it's a compromise of how  
23 often you would use that capacity in a cycling mode. And  
24 cycling is not a option at Kelsey. We have developed our  
25 plans for rerunning based on not increasing the cycling

1 at all from history.

2 MR. ROBERT MAYER: What do you mean by  
3 "cycling," Mr. Surminski? I don't understand that term.

4 MR. HAROLD SURMINSKI: Cycling means  
5 operating at greater discharge in the on-peak hours,  
6 lower discharge in the off peak. But that means that you  
7 would be fluctuating your forebay up and down. So --

8 MR. ROBERT MAYER: At -- at Split Lake?  
9 You would fluctuate Split Lake considerably if you were  
10 running water -- Split Lake's at the bottom end of  
11 Kelsey.

12 MR. HAROLD SURMINSKI: Split Lake is  
13 downstream, and it's -- it's much larger. It would not  
14 really react to -- to those kind of flows. It's the  
15 upstream forebay that would be affected more so, into  
16 Sipiwesk Lake.

17 MR. ROBERT MAYER: Okay.

18

19 (BRIEF PAUSE)

20

21 CONTINUED BY MR. MICHAEL ANDERSON:

22 MR. MICHAEL ANDERSON: Mr. Surminski, and  
23 -- and just subject to check -- we had discussed numbers  
24 of increasing the capacity at Kelsey -- would you accept  
25 that Mr. Wojczynski had identified a capacity increase at

1 86 megawatts in his presentation in Sept -- in October  
2 '05 to the Association of Professional Engineers and  
3 Geoscientists in Manitoba?

4 Do you recall?

5 MR. HAROLD SURMINSKI: No, but that  
6 sounds reasonable. We had estimates in that order at the  
7 time. And that's consistent with my estimate of 77  
8 megawatts now.

9 MR. MICHAEL ANDERSON: Is this increase  
10 in capacity due to utilization of all the water at the  
11 Kelsey site, or the current water that is not being  
12 utilized in the existing facility?

13 MR. HAROLD SURMINSKI: Again, it's --  
14 it's -- depends on your perspective on utilization of  
15 water. You can -- you'd have to install a very large  
16 capacity to utilize the very highest flow conditions, and  
17 -- and we do not do that, because it just becomes  
18 diminishing returns. You put in a unit, but you only use  
19 it for 5 percent of the time, and it's not economic to do  
20 that. So there is a -- an economic cutoff point as to  
21 how -- how much of the water you want to -- you plan to  
22 capture.

23 MR. MICHAEL ANDERSON: Well, using either  
24 the 2005 number from Mr. Wojczynski or the current number  
25 of 77 megawatts, is that increase in -- in capacity as a

1 result of using additional water at the Kelsey site?

2 MR. HAROLD SURMINSKI: Yes, as -- as we  
3 discussed with Mr. Mayer, yes. It's -- it's utilizing --  
4 currently Kelsey, I believe, fills for 40 percent of the  
5 flow condition. So it's under-designed for -- for the  
6 river, so with expanded turbines, it will utilize up to 70  
7 percent of the water, I think, in that order.

8

9 (BRIEF PAUSE)

10

11 MR. MICHAEL ANDERSON: And I was  
12 interested, Mr. Surminski, in your comment about Kelsey  
13 not being considered to provide a dependable energy  
14 supply.

15 Could you please explain that?

16 MR. HAROLD SURMINSKI: The current plant  
17 is capable of capturing all -- dependable energy, which is  
18 the lowest flow on record that we have. So the current  
19 design of 224 megawatts is able to capture all water in  
20 low flow conditions. So it is water in high flow  
21 conditions that rerunning is designed to capture.

22

23 (BRIEF PAUSE)

24

25 MR. MICHAEL ANDERSON: And just -- to put

1 that in context, the current Kelsey configuration is  
2 operating at a relatively high capa -- plant factor --  
3 capacity factor for the installed capacity because of the  
4 under-utilized flow available at the site?

5 Is that correct?

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

8 MR. MICHAEL ANDERSON: Do you know what  
9 the current plant factor is at Kelsey?

10 MR. HAROLD SURMINSKI: No, I don't  
11 offhand, but it would be in the order of 90 percent.

12 MR. MICHAEL ANDERSON: Thank you. Now as  
13 I understand the capital plan associated with the Kelsey  
14 rerunning project, the total cost of the project is 165  
15 million.

16 Is that correct, Mr. Surminski? According  
17 to the information in the Manitoba Hydro capital plan?

18 MR. HAROLD SURMINSKI: I'll take that  
19 subject to check, yes. It's -- I recall it to be in that  
20 order of up to 200 million, yes.

21 MR. MICHAEL ANDERSON: Thank you, Mr.  
22 Surminski. And associated with the rerunning of the  
23 facility, are there not a series of transmission changes  
24 or upgrades related to the Kelsey plant?

25

1 (BRIEF PAUSE)

2

3 MR. HAROLD SURMINSKI: Yes, -- well, there  
4 is -- I -- an option to improve -- to improve the  
5 transmission that would guarantee the output. I think  
6 that's -- largely still under discussion, whether we  
7 actually need to upgrade transmission.

8 But it's also integrated with the Wuskwatim  
9 and all the -- the AC generation between Grand Rapids,  
10 Kelsey, Wuskwatim, and -- Jenpeg. All -- all four (4) of  
11 those stations require or utilise transmission, the AC  
12 transmission from the north. So Wuskwatim upgrade,  
13 Wuskwatim plant, and transmission associated with that  
14 could -- could help with the Kelsey situation.

15 MR. ROBERT MAYER: Mr. Surminski, can the  
16 generation from Kelsey be sent back to Gillam and  
17 potentially run through your converter stations to get it  
18 onto the bipole line south?

19 Or is it only moving to Thompson in light  
20 of the fact its first purpose, as is pointed out by the  
21 study that Ms. McCaffrey's clients have given us, was  
22 built to -- to power INCO in Thompson?

23 So can it go back? Can we use it? Can we  
24 get that power south any other way? Or can -- or would  
25 you have to construct another transmission line to get it

1 back to your converter station?

2 MR. HAROLD SURMINSKI: No. Kelsey power  
3 is -- does not -- is not capable of going through the DC.  
4 We have capability for two (2) Kettle units to go down DC,  
5 but -- or two (2) to go down AC, but we do not have  
6 Kelsey going out the other way.

7

8 (BRIEF PAUSE)

9

10 CONTINUED BY MR. MICHAEL ANDERSON:

11 MR. MICHAEL ANDERSON: Thank you, Mr.  
12 Surminski. I was going to ask about the Kettle unit.

13 So that project has been completed? Or two  
14 (2) units from Kettle are able to be -- right now are  
15 connected to the AC system, connected to Kelsey?

16 Is that correct?

17 MR. HAROLD SURMINSKI: Two (2) units are  
18 capable of -- of flow through the AC system. We don't  
19 always use it that way.

20 MR. MICHAEL ANDERSON: Was this a recent  
21 adjustment, or is this part --

22 MR. HAROLD SURMINSKI: No, this has been  
23 there for a long time.

24 MR. MICHAEL ANDERSON: Okay. We had --  
25 you had discussed that it was under discussion. The



1 capital plan indicated that a transmission upgrade was  
2 necessary to take the output from a rerunered Kelsey  
3 station and to add it into the grid.

4 Is -- is that now being reconsidered or  
5 further considered with the different and alternative  
6 plan?

7 MR. HAROLD SURMINSKI: We are still  
8 analysing the incremental transmission that may be  
9 required. And I believe it's in -- in the Dauphin area --  
10 Dauphin-Neepawa is the bottleneck of -- of transmission  
11 along the -- the west side.

12 MR. MICHAEL ANDERSON: Was there not a  
13 transmission upgrade involved in the Kelsey area between  
14 Kelsey and Birch Tree to assist in moving its -- its  
15 output into the system?

16  
17 (BRIEF PAUSE)

18  
19 MR. HAROLD SURMINSKI: We are not in the  
20 position to really respond to that, but we don't believe  
21 that -- Mr. Page tells me he doesn't have any -- any  
22 identification of transmission for that area, for Kelsey.

23 MR. MICHAEL ANDERSON: Thank you, Mr.  
24 Surminski.

25 On the one question that I had intended to

1 ask, going down my checklist of the -- the project itself,  
2 is the increase in -- in gigawatt hours annually expected  
3 from the Kelsey rerunning project.

4 MR. HAROLD SURMINSKI: You probably have  
5 the information better than I do. 200 and some gigawatt  
6 hours, do you have a number like that?

7 MR. MICHAEL ANDERSON: Pardon me? Could  
8 you say that again? Repeat?

9 MR. HAROLD SURMINSKI: 200 and -- 200  
10 gigawatt hours in that area?

11 MR. MICHAEL ANDERSON: I'll accept that,  
12 thank you.

13 Are the revenue from Kelsey rerunning  
14 factored into the IFF?

15 MR. HAROLD SURMINSKI: Yes. We -- we do  
16 that -- we include a rerunners Kelsey in our simulation  
17 of output.

18 MR. MICHAEL ANDERSON: And when the Kelsey  
19 project was put through the analysis that you had  
20 discussed with Ms. McCaffrey earlier today as a project,  
21 was it also valued at marginal cost of export power?

22 MR. HAROLD SURMINSKI: I'm not sure your  
23 question here. I indicated earlier, we -- we did an  
24 analysis of the specific project to determine its  
25 economics. We did not use marginal costs because it has

1 unique characteristics.

2 MR. MICHAEL ANDERSON: How did you  
3 approach the economic analysis for the Kelsey rerunning  
4 project?

5 What value did you ascribe to the power  
6 that it would produce?

7 MR. HAROLD SURMINSKI: The value falls out  
8 from the analysis as being the last -- as being the  
9 incremental resource. So the value varies, as I  
10 described. Similar to the marginal costs, it's  
11 determined over all flow conditions, and it varies  
12 depending on -- on the flow conditions.

13 In low flow conditions it's got high value.  
14 In the very highest flow conditions, it's got minimal or  
15 no value. It's -- it's valued in exactly the same way as  
16 and determined in the same way as marginal cost -- overall  
17 flow conditions and all future expansion, tie line  
18 constraints, all -- all those factors.

19 MR. MICHAEL ANDERSON: Is it possible to  
20 produce a summary of the analysis that was done for Kelsey  
21 rerunning identifying its values and as compared to its  
22 costs?

23

24

(BRIEF PAUSE)

25

1                   MR. MICHAEL ANDERSON:   Partly so I could  
2 understand, as using an example, the discussion with Ms.  
3 McCaffrey earlier.

4                   But also, since Kelsey is a compact project  
5 that we've just described, to understand how this  
6 valuation results in a project being added to Manitoba  
7 Hydro's capital plan.

8                   MR. HAROLD SURMINSKI:   I really don't know  
9 how we could provide detail of that, because our export  
10 future forecast -- our forecast of future export prices  
11 come into play.

12                   And so you would not, you know, we would --  
13 we would hold back the information on -- on future export  
14 prices.

15

16   (BRIEF PAUSE)

17

18                   MR. MICHAEL ANDERSON:   Is there a way to  
19 approach this using a levelized value, as you described  
20 before, so that we have some concept of how Manitoba Hydro  
21 has approached valuing and committing to this project?

22                   MS. PATTI RAMAGE:   Mr. Surminski, if I can  
23 just jump in. Again, I -- I'm concerned in terms of the  
24 relevance. This is first going down the capital planning  
25 path. And -- and secondly I, again, don't see how this

1 particular item then plays into the requested rate  
2 increase.

3 MR. MICHAEL ANDERSON: Well there are  
4 capital costs associated with the projects that are in the  
5 capital plan and the IFF.

6 MS. PATTI RAMAGE: And you have those  
7 capital costs.

8 MR. MICHAEL ANDERSON: In aggregate. I'm  
9 -- we're trying to test the reasonableness of the capital  
10 costs, the IFF, and the decision by the Corporation to  
11 include projects within the capital plan and its -- their  
12 costs in the IFF.

13 MS. PATTI RAMAGE: But Kelsey doesn't come  
14 into service until 2011, so it doesn't impact the rate  
15 increase.

16

17 CONTINUED BY MR. MICHAEL ANDERSON:

18 MR. MICHAEL ANDERSON: My understanding is  
19 that one (1)-- we're having a debate, and I apologize for  
20 that.

21 But is -- is it not correct, Mr. Surminski,  
22 that one (1) unit of Kelsey rerunning has been installed  
23 and is currently operational?

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

1 MR. MICHAEL ANDERSON: And notwithstanding  
2 Ms. Ramage's comments about an in-service date, are other  
3 units currently scheduled in the current year for  
4 installation?

5 There are seven (7) units total at Kelsey.  
6 Is that correct, Mr. Surminski?

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

9 MR. MICHAEL ANDERSON: And so this  
10 installation schedule for Units 2 to 7 are -- is over what  
11 timeframe?

12 MR. HAROLD SURMINSKI: It is, I believe,  
13 to the 2011 timeframe.

14 MR. MICHAEL ANDERSON: Are there units  
15 scheduled to be installed in the current fiscal year? The  
16 fiscal year forecast in the rate application?

17 MS. PATTI RAMAGE: Mr. Chair, again, we're  
18 not here asking to have capital plans approved. Hence, I  
19 don't know the -- the level of detail being requested is -  
20 - is not relevant to these proceedings.

21 THE CHAIRPERSON: Are you finished with  
22 your line of questions on this, Mr. Anderson?

23 MR. MICHAEL ANDERSON: I had a couple more  
24 on -- on Kelsey in terms of other costs. I just repeat  
25 the point that we are attempting to use a fairly discreet

1 project to test the reasonableness of the forecasting  
2 process, the -- the analysis that was discussed earlier on  
3 how a project is -- goes through its economic analysis and  
4 is added to the capital plan and therefore to costs that  
5 are incorporated in the IFF.

6 THE CHAIRPERSON: I understand you, Mr.  
7 Anderson. We are going to have to think about this one.  
8 So you just want to carry on with your other questions on  
9 Kelsey?

10

11 CONTINUED BY MR. MICHAEL ANDERSON:

12 MR. MICHAEL ANDERSON: Yeah, okay. In  
13 terms of other costs associated with Kelsey that may be  
14 included in the IFF, I had wanted to confirm, Mr.  
15 Surminski, is the Kelsey rerunning project subject to  
16 any environmental assessment process?

17

18 (BRIEF PAUSE)

19

20 MR. ROBERT MAYER: Which of you wants to  
21 try to interpret the Clean Environment Act? My personal  
22 opinion is that this is a rerunning project. It will  
23 have virtually no environmental impact, but I could be  
24 wrong.

25

MR. HAROLD SURMINSKI: My information is

1 that we have gone through environmental analysis and --  
2 and got most of our approvals for -- for proceeding.

3 MR. MICHAEL ANDERSON: From the Province  
4 of Manitoba?

5 MR. ROBERT MAYER: And from Fisheries and  
6 Oceans?

7 MR. HAROLD SURMINSKI: That's why I was  
8 checking. It's also Fisheries and Oceans.

9  
10 CONTINUED BY MR. MICHAEL ANDERSON:

11 MR. MICHAEL ANDERSON: Okay, Mr.  
12 Surminski, is -- can you confirm that on Sept -- in  
13 September 2006 Fisheries and Oceans announced that it was  
14 conducting an environmental assessment of the Canadian  
15 Environmental Assessment Act and has assigned it a -- a  
16 number in the CEAA Registry, the Canadian Environmental  
17 Assessment Agency Registry, and that that assessment is  
18 ongoing at the present time?

19 MS. PATTI RAMAGE: And this is relevant,  
20 why? That's -- I'm going back to -- to help me, because  
21 we're -- we're slowing down here. And if I can get to why  
22 it's relevant, then we can maybe dig up the answer. But  
23 we're -- we're slowing down dramatically here.

24 THE CHAIRPERSON: We seemed to be coasting  
25 along pretty quickly there for a while, Ms. Ramage.



1 Mr. Anderson...?

2 I just want to understand. You had an  
3 exact question, do you want to ask it again?

4

5 CONTINUED BY MR. MICHAEL ANDERSON:

6 MR. MICHAEL ANDERSON: Can you confirm  
7 that the Kelsey rerunning project is currently subject  
8 to an environmental assessment under the Canadian  
9 Environment Assessment Act triggered by Fisheries and  
10 Oceans Canada in September 2006?

11 MR. HAROLD SURMINSKI: My best information  
12 is that's correct.

13 MR. MICHAEL ANDERSON: Are the costs  
14 associated with this environmental assessment included in  
15 the current IFF?

16

17 (BRIEF PAUSE)

18

19 MR. HAROLD SURMINSKI: We don't know, but  
20 the -- our guess is the costs were not very significant.  
21 It was not -- nothing similar to the Wuskwatim process or  
22 other licensing processes that we've gone through.

23 MR. MICHAEL ANDERSON: Are you aware  
24 whether Fisheries -- can you confirm that Fisheries and  
25 Oceans Canada has indicated that it intends to initiate a

1 Crown consultation related to the Kelsey rerunning  
2 project?

3 MR. HAROLD SURMINSKI: No, I don't know  
4 that.

5 MR. MICHAEL ANDERSON: Could you undertake  
6 to confirm whether Hydro is aware of that?

7 MR. HAROLD SURMINSKI: Can you repeat the  
8 question more specifically so we have it on the record?

9 MR. MICHAEL ANDERSON: Can Manitoba Hydro  
10 please confirm that Fisheries and Oceans Canada has  
11 determined that a Crown consult -- Crown consultation is  
12 necessary for the Kelsey rerunning project?

13 MS. PATTI RAMAGE: Mr. Chair, the problem  
14 here is that undertakings -- Manitoba Hydro doesn't have  
15 an issue with providing undertakings, but we'd like to  
16 keep them on track. And again, I -- I'm failing to  
17 understand where this -- how -- how this relates to the  
18 current application.

19 If Mr. Anderson would like to have an  
20 offline conversation with someone, I'm sure we could  
21 provide him with that information. But it -- I'm  
22 concerned we're clouding the record.

23 THE CHAIRPERSON: Mr. Anderson, can you  
24 help Ms. Ramage with the relationship to the Hearing that  
25 we are in, the application?

1                   MR. MICHAEL ANDERSON:    The application is  
2 that, as we've discussed in environmental considerations,  
3 the landscape in which Manitoba Hydro must operate  
4 includes, of course, the Crown exercising its duty to  
5 consult without giving evidence.  And I apologize for that  
6 if I am.

7                   The MKO is interested in determining the  
8 awareness that Manitoba Hydro has of the obligation of the  
9 Crown to engage in Crown consultations, the potential  
10 effect that may have on project schedules, the effect that  
11 it may have Manitoba Hydro's costs as a potential  
12 participant in the Crown Corporation in -- in Crown  
13 consultations, and whether these costs were incorporated  
14 in the IFF.  It has an aggressive capital plan.

15                   I'm choosing Kelsey as an example because  
16 it's a concrete discrete project for which a -- a review  
17 has been triggered by DFO.

18                   THE CHAIRPERSON:    Okay, we have got your--

19                   MR. MICHAEL ANDERSON:    It's intend --

20                   THE CHAIRPERSON:    -- question --

21                   MR. MICHAEL ANDERSON:    -- it's intended as  
22 an --

23                   THE CHAIRPERSON:    Yes.

24                   MR. MICHAEL ANDERSON:    -- example.

25                   THE CHAIRPERSON:    Yes, we understand what

1 you are saying, Mr. Anderson. We will take it under  
2 advisement, too, overnight unless Ms. Ramage has a change  
3 in view.

4

5 (BRIEF PAUSE)

6

7 MR. MICHAEL ANDERSON: Sorry, and I had  
8 meant to add that our intent is that by using Kelsey as an  
9 example, it speaks to the entire capital plan and other  
10 costs and so forth that might be associated with other  
11 elements of it.

12 MR. ROBERT MAYER: We at this table have  
13 your point, Mr. Anderson.

14 MR. MICHAEL ANDERSON: Thank you, Mr.  
15 Vice-Chair.

16 THE CHAIRPERSON: Ms. Ramage...?

17 MS. PATTI RAMAGE: We'll take that under  
18 advisement and -- and see what we can produce.

19 THE CHAIRPERSON: Very good, Ms. Ramage.  
20 Thank you. We'll think about this too.

21 Okay, Mr. Anderson?

22

23 CONTINUED BY MR. MICHAEL ANDERSON:

24 MR. MICHAEL ANDERSON: Thank you very  
25 much, Mr. Chair. Moving along to an area that is of keen

1 interest to Mr. Williams, the Coalition, and MKO commonly  
2 is set out in two (2) documents: one (1) is the response  
3 to PUB/Manitoba Hydro Round 2, 16(a). And this is the  
4 details in the province-wide Low Income Program for Power  
5 Smart.

6 And then also is in Mr. Peters' book of  
7 documents the response to PUB/Manitoba Hydro 1-34(a) which  
8 appears in Mr. Peters' book at Tab 40.

9 MS. PATTI RAMAGE: Mr. Anderson, could you  
10 repeat those references?

11

12 CONTINUED BY MR. MICHAEL ANDERSON:

13 MR. MICHAEL ANDERSON: Absolutely, Ms.  
14 Ramage. The first probably that I referred to is  
15 PUB/Manitoba Hydro Round 2 Number 16(A), details on the  
16 province wide Low Income Program: 2.5 million. The Board  
17 had expressed an interest in that. And there was a seven  
18 (7) page reply.

19 And then the second reference I used is in  
20 Mr. Peters' book of documents at Tab 40 which is  
21 PUB/Manitoba Hydro Round 1 Question 34(a).

22 And once again I thank Mr. Peters for  
23 assembling his book.

24 THE CHAIRPERSON: Okay. We're going to  
25 have to adjourn because we have another hearing tonight

1 with water and sewer. We have to hit the road, so to  
2 speak.

3 So it'll give the people a chance to think  
4 about this one, and then we'll come back to it first thing  
5 tomorrow morning, Mr. Anderson.

6 MR. MICHAEL ANDERSON: Thank you, Mr.  
7 Chair. Drive safely.

8

9 (WITNESSES RETIRE)

10

11 --- Upon adjourning at 3:58 P.M.

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15 Certified correct,

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21 Cheryl Lavigne, Ms.

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