MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO'S APPLICATION
FOR APPROVAL OF NEW ELECTRICITY RATES
FOR 2010/11 AND 2011/12

Before Board Panel:
Graham Lane - Board Chairman
Robert Mayer, Q.C. - Board Member
Len Evans - Board Member

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
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Pages 915 to 1123

APPEARANCES

Bob Peters	)Board Counsel
Patti Ramage	)Manitoba Hydro
Marla Boyd	)
Byron Williams (np)	)CAC/MSOS
Myfanwy Bowman	)
Antone Hacault (np)	)MIPUB
Michael Anderson (np)	)MKO
William Gange	)RCM/TREE
Delanie Coad (np)	)SCO
Denise Pambrum	)City of Winnipeg
Gavin Wood	)Independent Experts

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UNDERTAKINGS

--- Upon commencing at 9:33 a.m.

THE CHAIRPERSON: Good morning, everyone.

MS. MARLA BOYD: Good morning, Mr. Chair. Perhaps before Mr. Peters starts, I have a couple of housekeeping matters we could attend to. It's come to our attention this morning that the exhibit list did not contain Manitoba Hydro's questions posed to RCM/TREE and their responses.

So in my discussion with Mr. Singh this morning, I think we've established that we would propose that Manitoba Hydro's IRs to RCM/TREE be Exhibit number 13. They would be 13-1 through 13-15, with Mr. Colton's IRs being 1-9, Mr. Chernick's being 10-13, and Mr. Wallach's being 14 and 15, if that's acceptable.

MR. ROBERT MAYER: Is this an RCM/TREE exhibit, or Hydro?

MS. MARLA BOYD: It's a Hydro exhibit, but it is our questions to RCM/TREE and their responses.

--- EXHIBIT NO. MH-13-1 TO 13-15:

Information Requests and Responses from RCM/TREE

MS. MARLA BOYD: I might also indicate

that I've circulated this morning revised responses to PUB pre-ask 12, and PUB pre-ask 15. Those are already part of the exhibit list, so we'd propose just to have those updated within the exhibit list.

I note that Mr. Peters has, in his book of documents, at Tab 11 the responses to 15(a) and (b), so we'd ask that you replace those, and refer to the revised responses as we go through this morning.

THE CHAIRPERSON: Thank you.

MS. MARLA BOYD: And finally I can note for you that there's a new face on our front row this morning. A Mr. Manny Schulz is here. His CV has been distributed and I'd propose that it be marked as Manitoba Hydro Exhibit 15.

THE CHAIRPERSON: That's fine. Welcome.

MS. MARLA BOYD: Thank you.

--- EXHIBIT NO. MH-14: CV of Manny Schulz

MS. MARLA BOYD: And when Mr. Singh is ready, perhaps Mr. Schulz could be sworn in. Then we're ready to be underway.

THE CHAIRPERSON: He's running as fast as he can.

MANITOBA HYDRO PANEL:

VINCE WARDEN, Resumed

DARREN RAINKIE, Resumed

ROBIN WIENS, Resumed

MS. MARLA BOYD: I hope, Mr. Chair, that I proposed that be Exhibit number 14. I'm not sure if I misspoke, but it -- Mr. Schulz' resume would be Manitoba Hydro Exhibit number 14. Mr. Singh preferred for efficiency that it have a separate exhibit.

I should also note, I suppose, for the record that Mr. Surminski has been excused by Mr. Peters by email, so he's not here with us this morning, and Mr. Peters has indicated that he won't be exploring the export matters any further until Mr. Cormie returns.

THE CHAIRPERSON: Very good. Okay. Thank you. So, Mr. Peters.

MR. BOB PETERS: Thank you, Mr. Chair. If we could ask Mr. Singh to swear Mr. Schulz, that will help us out. All right. We'll get our best person on that.

MANFRED SCHULZ, Sworn

THE CHAIRPERSON: I'm sure the generation stations have more updated technology than PUB, so I think we're safe.

CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Thank you, Mr. Chairman. At Tab 4 of the book of documents, the Board will remember from yesterday that there's a copy of IFF Manitoba Hydro, the electric side of the business, zero nine (09), or o-nine-one (09-1). It presents as a twenty (20) pa -- twenty (20) year outlook. And this morning Mr. Warden, in terms of the IFF-09, the forecast OM&A for 2010 was $372 million.

Am I reading that correctly?

MR. VINCE WARDEN: Sorry, Mr. Peters. Could you just direct me to the page number you're referencing in the book of documents?

MR. BOB PETERS: Yes. The top right-hand corner, it's page 14. It's on IFF-09 and found at Tab 4 of the book of documents. And I was looking for the forecast OM&A for 2010.

MR. VINCE WARDEN: Yes, and I believe the number you -- you referenced was $372 million for ---

MR. BOB PETERS: Yes, sir.

MR. VINCE WARDEN: -- IF -- for MH '09? Yes. Yes, I agree.

MR. BOB PETERS: And then can you tell the Board that the actual OM&A expenses as recorded in the financial statements of the Corporation for the year ending 2010 were $378 million?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So they were $6 million over budget?

MR. VINCE WARDEN: That's correct.

MR. BOB PETERS: And in terms of being over budget, there was an explanation in pre-ask at number 12 with some data, but probably one (1) of the more notable expenses was there's about $3.7 million recorded for external consultants on risk matters. Have I got that right?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So $3.7 million. Who was that paid to?

MR. VINCE WARDEN: Well, there are a number of different consultants that are employed by Manitoba Hydro in the course of business, so there's no one (1) consultant that would have been paid to.

MR. BOB PETERS: Was this not an overbudget expense? Is this not an explanation of the overbudget?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Can you provide us with a breakdown, then, of to whom the expenditures were made that caused the -- the $3.7 million contribution to the overbudget?

MR. VINCE WARDEN: Certainly. We can do that.

--- UNDERTAKING NO. 7: Manitoba Hydro to provide a breakdown of to whom the expenditures of $3.7 million were made

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: When we look at Tab 4 of the book of documents and we look out to the first test year, 2011, Mr. Warden, the OM&A expenses are forecast at $380 million?

MR. VINCE WARDEN: Yes, in IFF-09.

MR. BOB PETERS: Right. And what you're warning us is that at Tab 10 of the book of documents, I think we have the IFF-010 (sic) OM&A expenditures, and I'm looking now at page 56 which is found in Tab 10 of the Board counsel book of documents, noted for the record as Exhibit PUB-15. The -- the 2011 OM&A expenses no longer forecast at $380 million, but they're now at $398 million. Have I got that right?

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

MR. BOB PETERS: $18 million higher?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And so we have $6 million in 2010 over the budget; we also have $18 million in 2011 over the budget. So that's $24 million by the first test year forecast to be above the previous forecast, would that be correct?

MR. VINCE WARDEN: That is correct, yes--

MR. BOB PETERS: And --

MR. VINCE WARDEN: -- and I think I'd -- we -- we'll probably get into the reasons for that later, but -- or I can do that now, if you like.

MR. BOB PETERS: I want to make sure you have every opportunity, Mr. Warden, to provide the Board with the best information, but yesterday you told the Board that a large reason for the overbudget was the accounting changes, right? Is that what you wanted to get to?

MR. VINCE WARDEN: Well, a large reason. The entire reason, as a matter of fact, for the change in budget between IFF-09 and IFF-10 was due to accounting changes for the year, fiscal year '10/'11.

MR. BOB PETERS: I'm sorry, which -- the

entire reason for 2010?

MR. VINCE WARDEN: '10 -- the fiscal year ending '11.

MR. BOB PETERS: Thank you. Mr. Warden, Manitoba Hydro still spent the money, isn't that correct?

MR. VINCE WARDEN: Well, accounting changes, if you consider that spending the money. The -- those costs will be recorded on the books of Manitoba Hydro, yes.

MR. BOB PETERS: But Manitoba Hydro spent the money that's being recorded on the books of Manitoba Hydro.

MR. VINCE WARDEN: Accounting changes aren't exactly cash out the door. But nevertheless, those -- those are the amounts that will be recorded against the OM&A expenses of Manitoba Hydro.

MR. BOB PETERS: We might come to this a little bit more in detail, but while we're on it, Mr. Warden, the changes in accounting had to do with Manitoba Hydro no longer being able to capitalize certain expenses and having to expense them in the current year; have I got that right?

MR. VINCE WARDEN: Essentially, yes.

MR. BOB PETERS: So if that's essentially correct, Manitoba Hydro still spent the money, and instead of capitalizing it, it now has to hit home in the -- in the current year as an expenditure.

MR. VINCE WARDEN: Yeah, we -- we wouldn't have spent the money in the current year necessarily, but...

(BRIEF PAUSE)

MR. VINCE WARDEN: Yeah. No, that's -- that's a fair character -- characterization. Yes, you're -- you're right. Where -- whereas before we would have charged them capital, we're now charging those costs to operating; I agree.

MR. BOB PETERS: Finally, we agree. Well, then would the Board be correct in saying that the, you know, $24 million, that's two thirds (2/3) of -- or three quarters (3/4) of the rate increase that you're seeking for the test year is due to being over budget on the OM&A?

MR. VINCE WARDEN: Well, that is -- arithmetically, that is the ratio, yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, would it be

correct to say that Manitoba Hydro -- this change in accounting, I don't want to get too far down this road, but is it related to IFRS?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. Manitoba Hydro has known for some time that IFRS is coming.

MR. VINCE WARDEN: We have.

MR. BOB PETERS: And so Manitoba Hydro knew that these $18 million that were previously capitalized were at some point going to have to come to the current income statement.

MR. VINCE WARDEN: No, I wouldn't say we knew that. It's we have a team of people looking at the implications of IFRS implementation, and as we proceed towards implementation, they're -- we're recognizing costs progressive -- progressively, so we wouldn't have known the $18 million when IFF-09 was put together specifically.

MR. DARREN RAINKIE: Mr. Peters, just to -- just I think we'll probably get into this more when we go to, I think, about Tab 15 or 16 of your book of documents and go through the IFRS Status Update Report, but I think, as we indicated in there, in terms of knowing, you know, what the cost changes are, that there's very little guidance in IFRS in terms of what you can capitalize for overhead costs. And it's one (1) of the things that the utility industry has been struggling with in the last couple years in terms of implementation of IFRS, is there's a couple lines in that standard; what does that mean?

It says, "General overhead can be excluded," period. Now, what's general and administrative overhead? It's -- it's like beauty; it's to the eye of the beholder. So, you know, I wouldn't want to leave the impression that we knew three (3) years ago and we didn't put that in our forecast. We have a team of people that are looking through that and working with our auditors right now, and it's a very complex, you know, set of -- of principles to look through in our business -- the size of it to try to figure out, you know, what -- how to be fulsome to the standards, but at the same time respect our business and intergenerational equity considerations.

MR. BOB PETERS: Mis -- Mr. Rainkie, thank you. But this didn't just spring on Manitoba Hydro, did it? I'm -- I'm not sure that your -- your characterization that, you know, you have a team of people. And then suddenly somebody comes up with an idea that this $18 million has to go over to the income statement and not be capitalized. Isn't that something that was studied and was -- was within the Corporation's knowledge prior to IFF-09?

MR. VINCE WARDEN: Not really. There's a whole decision process that we're going through in order to determine what we will capitali -- still a -- still a reasonable amount of judgment involved, and we have discussions with our consultant. We have co -- discussions with our external auditor, so it's a collabor -- collaborative process before we say, Okay, this is the amount we're going to charge off this year and this is what it looks like next year. We still don't know.

The big ticket item, as I mentioned earlier, was the rate regulated accounting, the extent that's going to be recognized. So yeah, it's -- it's very much a progressive process as we go through.

MR. BOB PETERS: Mr. Rainkie, when -- and I was going to get, you know, start off our next session with IFRS and some export matters, but to the extent that you're going to give me some leash here, sir, when did Manitoba Hydro first take the $15 million provision for IFRS in its income statement?

MR. DARREN RAINKIE: I believe we first included that in IFF-08, Mr. Peters, as a very high-level provision.

MR. BOB PETERS: When you say a "high-level provision", it's speculative, it's subjective, it's a -- it's a possible, or it's -- it's going to happen, we just don't know how big it's going to be, what do you mean by a "high-level provision"?

MR. DARREN RAINKIE: Well, it was very -- it was very high-level at that point. I'm not sure I would say speculative, but -- that's a dangerous word to use, but it -- at that point in -- in the fall of 2008 when we were preparing the Intervenor financial forecast, I don't think anybody was really prepared to know exactly the extent of IFRS, Mr. Peters. That was very early -- very early days in terms of IFRS implementation.

MR. BOB PETERS: And to fast forward to what Mr. Warden has told us, you've now got a consultant, you have an external auditor, you've got your own internal staff, all coming up with views on IFRS. Would that be fair?

MR. DARREN RAINKIE: Yes, there's very -- there's a lot of views, but very little guidance, Mr. Peters.

MR. BOB PETERS: Well, let's just talk about that. In terms of little guidance, who can provide that guidance, Mr. Rainkie? Is that something that this Board can provide to you?

MR. DARREN RAINKIE: No, Mr. Peters, I --

I think -- not to be disrespectful to anybody else in the room, the accounting policies are the, you know, the ownership of the -- of the management of the company. And accounting policies require a good understanding of the business. And it's our internal team that will decide ultimately, with the advice of, you know, our consultants, what our proposals are.

Of course, our auditors have something to say about that as well in terms of how they interpret the new standards. And quite frankly, the whole industry is, you know, moving and I don't think the auditors themselves know exactly how they're going to, you know, audit the -- the new standards. So the whole industry is in a bit of a flux in -- in -- in trying to figure out how to implement this. That's being brutally honest, but that's -- that's the reality of where we're at right now.

MR. BOB PETERS: So if you and I were having this discussion in another regulatory proceeding, and we were in Ontario, Alberta, British Columbia, you'd be saying the same thing, that they don't -- there's very little guidance for them on capitalization issues, it's a state of flux, there's a lot of subjective judgment?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Well, you know, I probably shouldn't use the word, "a state of flux," Mr. Peters, but people are still working through it. I mean it's -- it's not finalized yet. And -- and one (1) big part of this whole equation is until probably about September of 2010, we were unsure whether or not the exposure draft on rate regulated accounting was going to be -- that was released a, you know, a year earlier in 2 -- in the summer of 2009 was going to be approved.

And keep in mind, I -- I know we don't want to jump ahead too far, but -- because we can talk about this when we come to your later tab in your book of documents. In that exposure draft it indicated that capitalization policies, you would be allowed to capitalize overheads if your regulator endorsed it. So, you know, it's only in the last couple of months that that has slipped away from us, Mr. Peters, and that was a significant uncertainty up until, you know, September or October of 2010, just to complete the picture here.

MR. BOB PETERS: But another thing that developed since then, Mr. Rainkie, is that IFRS is now deferred by Manitoba Hydro for at least one year?

MR. DARREN RAINKIE: Yes, the -- the Accounting Standards Board of Canada allowed, because of all the uncertainty associated with rate regulated accounting for a one (1) year deferral of implementation. And for us, that would be 2012/'13.

MR. BOB PETERS: So if 2012/'13 is the year in which IFRS has to be on your financial statements, why are we putting this $18 million in earlier?

MR. DARREN RAINKIE: Well, as we explained in the material, Mr. Peters, you know, looking at where IFRS is going, looking at the industry, accounting practices, and -- tho -- tho -- those two (2) things are moving more away from the perspective of full cost accounting. So what we were trying to do is is take it in logical chunks, if you like, Mr. Peters, and -- and prepare for what's coming, rather than a great big large, you know, adjustment in one (1) particular year.

MR. BOB PETERS: So you want to recover the IFRS impacts in rates today, even though it's going to be down the road that it -- that it may hit?

MR. VINCE WARDEN: If I might just mention, too, Mr. Peters, there has been a convergence of Canadian GAAP and IFRS on certain matters, and so we have been recognizing Canadian GAAP as we proceed, not only IFRS. Certainly all IF -- IFRS related, but Canadian GAAP is moving in that same direction, so it's a progressive movement in that direction.

MR. BOB PETERS: So this $18 million that we've been talking about, I understood the answer to be that that relates to accounting changes from IFRS. Did the Board have that correct?

MR. VINCE WARDEN: I think we said IFRS related.

MR. BOB PETERS: So you're -- so does that change the answer, that it's not related to IF -- or, sorry, it's not IFRS changes but it's accounting standards changes from 2009?

MR. VINCE WARDEN: Well, as I mentioned, there is a convergence between IFRS and -- and Canadian GAAP, and we are adopting certain aspects of that as we pro -- as we proceed toward the '12/'13 implementation date.

MR. BOB PETERS: Early adoption, earlier than you're mandatorily required to, Mr. Warden, correct?

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes. There are -- there are certain costs that we previously capitalized that we knew were not IFRS compliant, and therefore it was just prudent on our part to -- to make those changes earlier rather than later.

(BRIEF PAUSE)

MR. BOB PETERS: Would the Board's understanding be correct that Manitoba Hydro had the option to retain its capitalized balances as an election under IFRS?

MR. VINCE WARDEN: Are you talking post-IFRS implementation or prior to implementation?

MR. BOB PETERS: We're talking -- the -- the elections you would make going into the IB (phonetic) and IFRS compliant.

MR. VINCE WARDEN: Oh. Oh, yes, the carry-forward provisions of IFRS, the property, plants and equipment, yes, we can make an election to carry forward the balance -- the existing balances.

MR. BOB PETERS: But you've just told the Board in -- two (2) answers ago that you decided to take some previously capitalized costs that -- and -- and not leave them capitalized but take them as an expense.

MR. DARREN RAINKIE: Sorry. Mr. Peters, maybe I can -- I can -- I can help out on this. While the implementation year is 2012/'13, it goes retro to the year before as well, so it's -- it's -- it's not -- I wouldn't want to leave the impression that it's all going to happen in 2012/'13. The transition date will be April

1st, 2011 that we have to really implement IF -- we're going to -- it's going to get complicated, because it gets into accounting, but we -- we will implement IFRS for reporting in 2012/'13, right?

And we will then have to make our 2011/'12 numbers comparable, which means the -- in the long run, those principles will have to come in place starting April 1st, 2011, which is not too far away.

MR. BOB PETERS: Mr. Rainkie, you're right, accounting is apparently confusing, but for 2011 and '12, that's the transition year, is -- would that be correct? Is that what we call it?

MR. DARREN RAINKIE: Well, you know, I don't know. Everybody has their different terms. I think sometimes people have referred to '12/'13 as the transition year. It's the first -- I think of it as the first year of adoption, but really the transition date is April 1st, 2011. When you -- when we come back in a couple of years that will be when IFRS is really first implemented because you have to make your -- your -- your numbers comparable for the year before your initial adoption, right?

MR. VINCE WARDEN: And, Mr. Peters, if I can, if I can just clarify the answer -- or the question, in response to the question you had a couple of moments ago with respect to the carry-forward provisions. We absolutely can carry forward the balance in our property, plant, and equipment, so we can make that election and we will.

However, there are also deferred costs that we would not have that -- that option. The deferred costs primarily were comprised of our planning studies, so we would keep -- keep that separate from our property, plant, and equipment, and we would not have the option to carry that forward.

So you'd have to write that off, and that's what we've done.

MR. BOB PETERS: Mr. -- Mr. Warden, haven't those planning studies already been written off to retained earnings?

MR. VINCE WARDEN: Yes, that was my point, that we --

MR. BOB PETERS: Okay. And --

MR. VINCE WARDEN: -- we've taken -- we've taken advantage of -- of doing some things early.

MR. BOB PETERS: All right. So those -- those things the Board has dealt with, and they're gone. Those -- those planning studies have been written off already.

MR. VINCE WARDEN: The Board has dealt

with?

MR. BOB PETERS: Oh, I'm sorry, it's been in the -- in the materials before this Board in --

MR. VINCE WARDEN: Well, it's definitely in the materials before the Board. And --

MR. BOB PETERS: In which year --

MR. VINCE WARDEN: -- I'm not sure they've dealt with it, though.

MR. BOB PETERS: I'm sorry. In which year did you write them off, sir?

MR. DARREN RAINKIE: Intangibles was implemented for 2009/'10 retro to 2008/0 -- sorry, two (2) -- 2009/'10 ret -- retro to 2008/'09, so it would be an -- an adjustment to the starting of 2008/'09, Mr. -- Mr. Peters.

MR. BOB PETERS: And so let's come back to the $18 million that's -- I'm -- I'm trying to get some particulars on.

Under Manitoba Hydro's ability to carry forward their property, plant, and equipment balances, isn't that where this $18 million would fit in?

MR. DARREN RAINKIE: I think as Mr. Warden indicated, yes, we -- we -- under the election, we can carry over our net book value of our plant as at April 1st, 2011. So yes, but, I mean, a few minutes ago we were talking about, Why didn't you do it earlier. Now, we're talking about, Why -- why don't you wait. So I'm -- I'm not quite sure where we're going here, Mr. Peters.

MR. BOB PETERS: Well, Mr. Rainkie, the $18 million doesn't have to be expensed in the first test year. It could have been part of the election to carry forward that capitalization balance, could it not?

MR. VINCE WARDEN: We -- we could have done that, Mr. Peters, you're -- you're right. We could have continued to capitalize primarily things like interest on -- on our corporate facilities and vehicles.

We were -- we recognized that we were aggressive on our capitalization policies, and I believe this Board, Public Utilities Board, has commented on that in the past.

I think our capitalization policies were fully justified. Of course, we wouldn't have done it if -- if we didn't think so, but having said that, we were aggressive compared to other utilities.

We knew these -- such costs as interest on -- on facilities would not be permitted under -- under IFRS, so we have taken the opportunity to -- to implement those changes early.

It does make the comparative year, as Mr.

Rainkie was explaining, it does make the transition for the comparative year to the first year of implementation of IFRS a lot smoother if we can get rid of some of these things earlier on, and that's what we're doing.

MR. BOB PETERS: Thank you for your answer, Mr. Warden, but to break it down into small pieces, at least for me, the -- the in -- the intangibles that you have written off against retained earnings, that's been done retro to 2008/'09, if I understood Mr. Rainkie's answer.

Is that correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. So now if we turn forward, the $18 million that is part of the rate increase you're -- you're before this Board seeking, Manitoba Hydro had -- had, and has, the option to carry that forward, but has chosen not to carry that forward.

That would be fair?

MR. VINCE WARDEN: That's -- that's absolutely right; however, having said that, I don't think our rate increase application would have been any different absent that $18 million.

So when we're sort of linking the $18 million to the rate increase, I think that's inappropriate. It's -- it wouldn't -- it had no, in the decision process reading -- leading up to the -- the quantum of the rate increase being requested that was not relevant.

MR. BOB PETERS: Your O -- your O&M budget is $18 million over forecast and that has no bearing to the rate increase that you're asking from this Board?

MR. VINCE WARDEN: It's not over forecast, Mr. Peters. The revision to the forecast in IFF-10 compared to IFF-09 is $18 million for that reason. So we're just -- IFF-10 reflects the fact that we now have more certainty around the direction of IFRS and we've incorporated that in our -- in our budget.

MR. BOB PETERS: Just so the Board is clear with us then, Mr. Warden, if we turn to page 62 of the book of documents at Tab 11, and we're looking now on page 2 of 2 of OM&A schedule by cost element, and I want the Board to make sure they're following the -- we're going to go to the bottom right-hand quadrant. Have you located that -- that page, sir?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And the Board will see under the 2011 column a forecast, a $7 million item that -- that has now been revised up to $9 million.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And then underneath that there's an $18 million provision for accounting changes which we've already talked about, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And so let's just talk about that $9 million that's shown as a accounting change item as well. What's the specific matter that relates to?

MR. DARREN RAINKIE: Mr. Peters, that's a function of two (2) things: the overhead reductions on stores, inventory that was done in 2007/'08, I believe, and that was an early -- that was in imitation of the Canadian Accounting Standards Board early, so that's $5 million. As well, we have removed executive cost and property taxes out of our overhead pool as well, and those are both $2 million, so -- so it was $5 million for the stores issue, $2 million for executive costs, and $2 million for property taxes, and that's all ha -- that's being expensed now and that's the quantum of the 9 million.

MR. BOB PETERS: Help me with the property tax aspect of that answer, Mr. Rainkie. What does that property tax relate to?

MR. DARREN RAINKIE: Those are property taxes on facilities that had been included previously in our overhead rate that we pulled out. So as Mr. Warden mentioned, that we -- you know, over time, we have adjusted our capitalization policies; we look at them every year, and that was just another decision we made that it was probably time to take those out of the overhead rate.

MR. BOB PETERS: Under IFRS, Mr. Rainkie, can property taxes be capitalized?

MR. DARREN RAINKIE: Our thinking, Mr. Peters, and one (1) of the reasons that we pulled them out is, no. That -- that was one (1) of the items that we -- we don't think would be included, so that was one (1) of our, you know, preparatory strikes, I guess.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, I'm not sure if you consider this a fair way to approach it. I don't think Mr. Warden does, so I'll -- I'll start with you. We've already talked about the $18 million, and Mr. Warden has begrudgingly acknowledged that that $18 million could have been carried forward but for reasons the Corporation has made it's not. I hear from your answer that $2 million on property taxes, that could also be carried forward, but you're -- you're making a preemptive strike here rather than wait for IFRS on that item.

MR. DARREN RAINKIE: yeah, I think the -- the collective measures that we've taken in the last couple years are all under the same banner, Mr. Peters. We're preparing for what's inevitable. We're responding to the PUB directive on this in the last GRA, 2008 GRA. We're looking at industry practices, so those things are converging. You know, to ignore that, I think, would be -- we'd be challenged on that if we were totally ignore -- ignoring what was happening in, you know, accounting standards.

(BRIEF PAUSE)

MR. BOB PETERS: When you say you've been reviewing or trying to be mindful of -- of one (1) of these Board -- one (1) of the Board's directives on IFRS, Mr. Rainkie, in looking at industry standards, you're looking at that, are you, for financial reporting, or are you looking at that directly for rate setting purposes, or are you drawing any distinction between the two (2)?

MR. DARREN RAINKIE: Well, I guess in the first instance we're looking at that for financial reporting. Under the cost of service methodology that we employ here, really the Board does look at our financial statements to -- to make rate decisions. So, you know, as a secondary consideration I think it does form part of the, you know, the rate setting process as well.

But primarily we're -- the first instance is to look at what our appropriate financial reporting practices are.

MR. BOB PETERS: And then a second step will be to figure out how, for rate setting purposes, this Board should examine the financial information of the Company?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: But on -- layered on top of that, you'd also agree with me that Manitoba Hydro has been including some probable adjustments, or some required adjustments as well, in the years prior to the test years in anticipation that there will be financial adjustments required?

MR. DARREN RAINKIE: That's right. I mean the -- one (1) of the -- one (1) of the goals if you talk about the second purpose, Mr. Peters, is rate stability and -- so recognizing things ahead of time and trying to build them into your rates, I think is a -- is a good thing to do as well. And I think that's where the Board was ultimately coming from when it made its comments on our capitalization policies in the 2008 GRA.

MR. BOB PETERS: So far, Mr. Warden, I haven't heard from the witness panel that there's any change in Manitoba Hydro's business practices, taking into account IFRS is coming. Has there been any evidence on the record that that's -- that that's in fact occurring?

(BRIEF PAUSE)

MR. VINCE WARDEN: There have not to date been any material changes in business practice. We thought early on that we -- we might be getting into a lot more use of timecards throughout the Corporation, that a lot of more people would be ha -- direct charging to capital than they are today. That is that those charges are still going to capital through overhead, to the extent that those costs will no longer be allowed to get into capital through overhead. We -- we contemplated putting more people on timecard.

That's still an option. We haven't really come to that conclusion yet. That would be a change in business practice, but structurally, no. The -- Mr. Rainkie mentioned the -- the executive costs have been pulled out of overhead, but -- but primarily it's -- it's not a change in practice it's more so a change in policy than practice.

MR. BOB PETERS: And the changes that have been implemented have been in your computer software to figure out where these expenses should be tracked or where they should be -- where they should flow. Would that be true?

MR. VINCE WARDEN: Well, there haven't been a lot of changes made yet. That's still something that we have before us as exactly how we're going to allocate costs in the post IFRS environment. There will be some changes required. The more though -- the more we can accomplish before IFRS implementation the less painful those changes will be later on.

MR. BOB PETERS: It will only be less painful, Mr. Warden, if going forward the Corporation has changed its business practices, so those same expenditures don't get transferred from the capitalization side of the equation over to the expense side of the equation in any given year. Wouldn't that be correct?

MR. VINCE WARDEN: We want to make sure that all costs that are appropriately capitalized are in fact capitalized, and those that are charged to operations, likewise.

MR. BOB PETERS: Understood. But moving forward, if IFRS is changing in the way you have to financially account for certain expenditures, doesn't that necessarily mean that maybe you should examine whether those expenditures should be made in the first place --

MR. VINCE WARDEN: No.

MR. BOB PETERS: -- under IFRS?

MR. VINCE WARDEN: No, no, not at all. It -- we -- we adamantly maintain that all of our expenditures are prudently incurred, and it's just a question of what -- the timing of recovery of those expenditures.

So there will be no change -- essentially no change in -- in the quantum of the expenditures incurred.

MR. BOB PETERS: What you're saying then -- what you're saying then is that Manitoba Hydro is not going to make any attempt to absorb these IFRS adjustments in its $400 million annual O&M budget, but it's going to come back to the -- this Board for rate increases to recover those.

MR. VINCE WARDEN: Mr. Peters, I -- I'll make the statement again. Every dollar that we incur is prudently incurred.

It's not to say -- not to say that we don't have cost constraint measures in place as a result of the current economic conditions, and those will offset, to some extent, the effects of implementing IFRS.

But those cost constraint measures are probably short-term in duration, and they probably will not be sustained over the long term.

MR. BOB PETERS: Which means over the long term those cost constraint measures will not absorb the additional costs that have to be expensed because of IFR -- IFRS.

MR. VINCE WARDEN: There will be other things that we -- we do: improving efficiency, IT programs that we're implementing, different ways of doing work that are unrelated to IFRS. So ongoing productivity improvements will offset to some extent the operating costs impact.

But you know, as -- it -- really IFRS is just a difference in the timing of when costs are recovered, and because we're capitalizing less that means, ultimately, depreciation and amortization costs will be less, so the amount that we're going to be recovering from the ratepayer over an extended period of time will be identical.

MR. DARREN RAINKIE: That's all that

accounting is, Mr. Peters, is taking economic flows and figuring out which period to put it in.

(BRIEF PAUSE)

MR. BOB PETERS: Can you explain to the Board, Mr. Rainkie, since it's so simple, how -- how the cost allocation process is going to change at Manitoba Hydro as a result of IFRS implementation?

MR. DARREN RAINKIE: Mr. Peters, as -- as Mr. Warden just indicated, in a general fashion we're -- we're still figuring that out when we're currently sitting down with our auditors.

What we're looking at is something that's, you know, a variation of what we have. The activity rate model with an overhead rate attached to it, rather than perhaps more extensive timecarding just for efficiency purposes.

The real question is what goes into those activity rates, and what goes into those overhead rates. That's what we're sitting down now and trying to puzzle through in a very large complex organization with many different costs.

MR. BOB PETERS: Mr. Rainkie, when the Board compares Tab 11 of the book of documents to the PUB

Manitoba Hydro pre-ask 15 revised that was handed out this morning, it'll note that the allocation to Centra has changed.

Is that correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: Can you explain to the Board why it has changed?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Sorry, Mr. Peters, are you saying why did we revise the -- the exhibit --

MR. BOB PETERS: No, I -- I --

MR. DARREN RAINKIE: -- or why did the number go up?

MR. BOB PETERS: -- I -- I want to know why the cost allocation to Centra changed. That's one (1) of the revisions to the exhibit.

MR. DARREN RAINKIE: What hap -- actually, the -- the answer to those two (2) questions I pose are exactly the same.

We ha -- when we prepared this, because you know, we've shifted over to '09/'10 actual information, and IFF-10 is what's in our mind right now, of course, the most current financial information, we neglected to update the Centra line for IFF-10.

We left it at IFF-09, and that was the reason for the revision. Just to make sure everything -- because it tied into a number of other Information Requests, and it was out of sync.

MR. BOB PETERS: All right, thank you for that, Mr. Rainkie. I want to turn historically to have a quick look at OM&A expenses, let's say since the '04/'05 fiscal year, and at -- in the book of documents at Tab 11, since we're talking historical numbers for the most part I don't think the revision is going to change anything, is it, Mr. Rainkie?

MR. DARREN RAINKIE: Probably not.

(BRIEF PAUSE)

MR. BOB PETERS: What the Board will see on page 62, at Tab 11 of the book of documents, and it's again PUB Manitoba Hydro Pre-ask 15A. You can use either the revised version handed out this morning, that'll be in with the Information Request binders, or you can use in book of documents, Tab 11.

The Board will see that the OM&A expenses in '04/'05 were around $299 million, that's correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And went up to 378 million by 2009/'10?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: So that's about $80 million in those six (6) years, Mr. Rainkie?

MR. DARREN RAINKIE: I never dispute your math, Mr. Peters.

MR. BOB PETERS: Well, you'll learn. The OM&A increases by approximately 26 percent in those six (6) years? You'd take that subject to check as well, Mr. Rainkie?

MR. DARREN RAINKIE: I'll go with my previous answer.

MR. BOB PETERS: All right. And so it's just slightly over 4 percent on average per year then, Mr. Rainkie, you'd again agree?

THE CHAIRPERSON: Mr. Peters, you said from two ninety-eight (298) to four oh one (401)? That's 35 percent.

MR. BOB PETERS: You've learned. No, Mr. Chairman, I was actually taking from two ninety-nine (299) up to three seventy-eight (378). I was taking it to the actual at the end of 2010. I hadn't -- I hadn't gone forward to the second test year like you just did.

THE CHAIRPERSON: I'm with you.

MR. BOB PETERS: All -- although we may be headed there quickly.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Rainkie, do you agree with my number, or --

MR. DARREN RAINKIE: I'm confused now, Mr. Peters, can you rephrase the question?

MR. BOB PETERS: All right. Well, I just want to take us from the 0 -- the fiscal '05 to fiscal '10. OM&A increased by about 26 percent in those six (6) years, which I've equated to an average of about 4 percent, just over four percent a year.

(BRIEF PAUSE)

MR. DARREN RAINKIE: I was just looking at the analysis that Mr. Warden went over on day 1 and the increase between '05/'06 and 2000 -- oh, sorry, that's -- that's to the actual second test year. Without doing the calculation, Mr. Peters, I'm not -- I'm not sure, but let's continue on. I -- I'm not sure anything is going to turn on the exact percentage, is it?

MR. BOB PETERS: You -- you can see, Mr. Rainkie, on page 62 of Tab 11 of the book of documents, that Manitoba Hydro calculated that the compounded annual growth was 4.8 percent, and I was suggesting to you that it's just mathematically, on a simple non-compounded basis, over 4 percent a year.

MR. DARREN RAINKIE: Okay. I think we're on the same plane now.

MR. BOB PETERS: And the inflation increases over that same time frame, Mr. Rainkie, have been on average approximately 2 percent a year since '04/'05?

MR. DARREN RAINKIE: I think that would be fair.

MR. BOB PETERS: You can -- if you want to check it, you can check it against the book of documents, Tab 3, where the Corporation gave us some inflation information on an actual basis. And the inflation over that period of time was just under 12 percent for those six (6) years.

MR. DARREN RAINKIE: Yeah, once again, I was looking at Mr. Warden's presentation on page 19. We've calculated about 1.7 percent from -- between 2005/'06 and 2011/'12. So it seems we're in the ballpark.

MR. BOB PETERS: All right. And it was you who told me yesterday, it depends on what you want to present, or what you want to give as a -- an image when you do your calculations, isn't it?

MR. DARREN RAINKIE: Yes, I said beauty is in the eye of the beholder and you're correct.

MR. BOB PETERS: All right. It appears then to the Board, that Manitoba Hydro's OM&A costs in the past six (6) years have increased by about at least twice inflation?

MR. DARREN RAINKIE: If you want to include accounting changes in that, yes.

MR. BOB PETERS: Yes. And does Manitoba Hydro still maintain a 1 percent productivity factor in its budgeting process, Mr. Rainkie?

MR. DARREN RAINKIE: Yes, that's our -- our general practice and it hasn't changed.

MR. BOB PETERS: And even if there's a 1 percent productivity factor expected or included, Manitoba Hydro still exceeds inflation --

MR. DARREN RAINKIE: Yes.

MR. BOB PETERS: -- of two (2) -- two (2) -- 2 1/2 percent a year.

MR. DARREN RAINKIE: Yes, Mr. Peters. I think -- and we filed a fairly extensive Appendix 4.4 to the original filing that seems many moons ago, but I think that elaborated on, in thirty (30) pages or so, on the cost drivers that -- and the things that have happened in our business, the reasons why that has occurred.

MR. BOB PETERS: Mr. Rainkie, when Mr. Warden gave us his cost constraint measures on page 21 of his presentation, marked as Hydro Exhibit 12, why doesn't the Corporation include a higher productivity factor increasing from the age-old 1 percent to something more current, something higher?

MR. DARREN RAINKIE: Well, Mr. Peters, if I can take you a couple of pages back in Mr. Warden's presentation to page 18, I think there's a -- we've got a lot of detail going on here, but I think there's a good representation for the Board on that. If you -- maybe I'll just wait for a second while everybody has that presentation, but it's a graph of our operating and administrative costs and it shows actuals versus IFF-09 versus IFF-10. Now, granted, this is the total corporate OM&A but I think the principle is the same.

If you look at 2010, you look at the -- the -- the yellow bar under 2010 and then you move over to the black bar IFF-10 -- oh, sorry -- if you move over to the black bar that's IFF-10 that -- you see that's increased over the green bar that's next to it which is IFF-09. Well, that -- that is as a result of the accounting changes.

So what we're essentially doing, Mr. Peters, what we've said to our business units in 2011 is that, despite all the cost drivers that we have -- wages and salaries and other escalating factors -- we're going to run the company at the same number as we did for 2009/'10. So you can do that from a productivity factor, I guess, or you can do that from, you know, direct -- a cost-saving directive, but that -- you know, we talked yesterday about -- you said to Mr. Surminski, Can you show me something, a visualization of -- to prove to me that, you know, we took more current, you know, export prices into consideration, or IFF.

I -- I guess this is the corollary on the OM&A side, that we are doing something about operating costs. We've said to our business units, Despite the cost drivers, this -- we're going to run this business at the same cost that we did last year.

MR. BOB PETERS: Just a couple of questions on that graph, Mr. Rainkie. And thank you for again bringing it to the Board's attention. The -- where the Board see in this graph the forecast for 2010 being 272 million and the actual being $6 million above that? Is that the -- the dark line in 2011?

MR. DARREN RAINKIE: Sorry, I think the

$6 million is 2009/'10, Mr. Peters, and this was a --

MR. BOB PETERS: Yes.

MR. DARREN RAINKIE: We didn't have the forecast on this chart; it was just actual versus IFF-09/10 on a go-forward basis.

MR. BOB PETERS: All right. So the actual two (2) -- 378 million for 2010 is built into that yellow bar on 2010?

MR. DARREN RAINKIE: That's correct. That's the actual figure, yeah.

MR. BOB PETERS: Oh, all right. And the -- the green bars, which are the depiction of IFF-09 OM&A expenses, would I be correct in saying that those were projected straight line forward on an inflation of 2 percent?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And you'll acknowledge that inflation has been at less than 2 percent, certainly in '10, and it's forecast to be less than that in 2011?

MR. DARREN RAINKIE: That's correct, but after that, Mr. Peters, I think we go back to historic levels of inflation expectations; at least in our economic outlook we do.

MR. BOB PETERS: Maybe we'll have to wait and see, then, on that one, Mr. Rainkie. Mr. Rainkie, when I look at the historical data that's presented, not only in your graph of Mr. Warden's presentation but also on page 62 at Tab 11 of Board counsel's book of documents, even from '07/'08 to '08/'09, those were the two prior GRA test years, isn't that correct?

MR. DARREN RAINKIE: Yes, Mr. Peters.

MR. BOB PETERS: And OM&A increased about 13 percent in those years, from 322 million to 364 million.

MR. DARREN RAINKIE: Sorry, Mr. Peters, I'm interpolating between documents. Is that --

MR. BOB PETERS: That -- that's on page 62 of Board counsel's book of documents. I'm looking at the '07/'08 and the '08/'09 test year results, the bottom line. And tho -- those were the two (2) test years that this Board last visited with Manitoba Hydro on, correct?

MR. DARREN RAINKIE: Correct.

MR. BOB PETERS: And I see it going from 322 million to $364 million; that's also correct?

MR. ROBERT MAYER: Mis -- Mr. Peters, now I'm confused --

MR. BOB PETERS: All right.

MR. ROBERT MAYER: -- because I'm now looking at Mr. Warden's material at page 18, and we've got OM&A for fiscal year ending '09 well over four hundred (400).

MR. VINCE WARDEN: Mr. Mayer, the explanation is that this graph on -- on page 18 was prepared on a consolidated basis, so this is -- includes Centra Gas and all subsidiaries. So sorry about that. That should have been clearer on the graph.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes, thank you, Mr. Vice Chair. If I could direct you, Mr. Vice Chair to page 62 at Tab 11 of Board counsel's book of documents and to the last line with numbers on the page, and -- and under -- and under the columns for '07/'08 and '08/'09. I was just pointing out and asking Mr. Rainkie, and I think he confirmed, that when Manitoba Hydro last came before the Board those were test years. And in those test years the OM&A increased approximately 13 percent, Mr. Rainkie.

MR. DARREN RAINKIE: I think I'm with you now, Mr. Peters.

MR. BOB PETERS: And you're agreeing with me now, Mr. Rainkie.

MR. DARREN RAINKIE: Yes, Mr. Peters, I am.

(BRIEF PAUSE)

MR. BOB PETERS: Now, Mr. Warden, in your graph -- sorry. In one (1) of the pages in your presentation you showed the Board that your largest OM&A expense was human resources, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And it's on page 20 of the book of documents. I'm not sure it matters, but is that -- is that graph again on a consolidated basis or is that the electric side of the business only?

MR. VINCE WARDEN: That would consolidated.

MR. BOB PETERS: All right. And in the book of documents then, when we look at human resources, we can look to page 62 at the top, and we look under "labour," and have wages and salaries, overtime, and employee benefits. Those are the components of the human resource costs, is that correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And you've depicted it as 75 percent a year or 74; the -- the numbers show 74. So we're on the same page on that, are we, Mr. Warden? That's the largest expense and it's the largest by a long, long measure.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And in 2009/'10 actual I see that the total is about $540.9 million on account of labour and benefits, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And we'll come to it, but these are, in Mr. Rainkie's simplistic terms, top line accounting numbers; they don't take into account anything capitalized yet.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: All right. So 509 million -- $540.9 million of wages and salaries.

(BRIEF PAUSE)

MR. BOB PETERS: And if we look at the total OM&A costs, probably two-thirds (2/3) of the page -- two-thirds (2/3) of the way down the page, it's $722.9 million.

Have you located that number, sir?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So what you're telling the Board is in '09 the wages, salaries, and benefits were $540 million out of a total of $723 million of O&M costs.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: As between us, Mr.

Warden, O&M costs, O&A costs, OM&A, we're all referring to the same thing, correct?

MR. VINCE WARDEN: Yes, we are.

MR. BOB PETERS: All right.

(BRIEF PAUSE)

MR. BOB PETERS: When we look at the number of EFTs that's also shown on a line item near the top of the page, EFTs are shown as, it calls it straight time and overtime, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Now, to calculate an EFT, that doesn't mean it's necessarily one (1) person, does it?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: I'm right that it doesn't mean one (1) person.

MR. VINCE WARDEN: You're right that it doesn't mean one (1) person, yes.

MR. BOB PETERS: So what you do is you take -- you take the number of hours expended by -- by people, as well as the amounts paid to them, and you divide that by a -- a typical EFT, if I will.

MR. VINCE WARDEN: Exactly.

MR. BOB PETERS: All right. And...

MR. VINCE WARDEN: Well, sorry, when you say, "typical," it's -- it's a -- a person, an employee working a regular day for the typical two hundred (200) days, or thereabouts, per year.

So it works out to nineteen hundred and seventeen (1,917) hours per employee per year.

MR. BOB PETERS: I hope it's more than two hundred (200) days a year, but...

MR. VINCE WARDEN: Okay.

MR. BOB PETERS: But -- but I've got your point, Mr. Warden. You were -- you were looking at nineteen hundred and seventy (1,970) hours and that -- and you divide all of your total hours by that and come up with what -- the number of EFTs.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: And the Board will see that the EFTs from '07 to '08, if you move over from '08 fiscal year to '09, went up an additional two hundred and twenty-two (222), if you'll take my math.

I think this was also confirmed in one (1) of the IRs that I have noted here, PUB Manitoba Hydro Second Round 23.

From '09 to '10, Mr. Warden, it was a hundred and fifty-three (153) EFTs, correct?

MR. VINCE WARDEN: It looks right, yes.

MR. BOB PETERS: And these are increases from the -- from the -- from year to year?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And then from nine (9) -- sorry, from fiscal '10 to fiscal '11, there's a forecast of two hundred and thirty-nine (239) EFTs.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And then when we look to -- from the first test year of 2011 to the second test year of 2012 we see zero EFT additions, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: Is that zero EFT additions as a result of the stern measures that Manitoba Hydro is incorporating in their cost constraint methods?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, I -- I think that when we prepared these forecasts, we did not have, you know, the detail for 2011/'12, so I think that's why it's the same number, but I think the cost constraint measures that you have alluded to will, in fact, hopefully bear that out.

MR. BOB PETERS: Mr. Warden, you've

already said that any hires -- any new hires to the Corporation have to be approved, at a minimum, at the VP level, and maybe even as high as the C -- CEO level.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: But there have been, and there continue to be, new hires, sir, in the current fiscal year?

MR. VINCE WARDEN: Yes, there are for essential-type services.

MR. BOB PETERS: When did these cost constraint measures get -- get announced and --

(BRIEF PAUSE)

MR. ROBERT MAYER: If there's a time reference around here, I remember lots of talk about them during the strike.

MR. VINCE WARDEN: There -- there's been -- I'm just trying to think of whether there's really one (1) specific date that we can say that they were implemented. There -- there have been various measures implemented from time to time, and I'm not sure we can -- we can pinpoint one (1) specific date as to when, okay, now we're in cost constraint, but -- so it's -- it's been taking place over -- over a -- at least the past eighteen

(18) months.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And this mandate came from whom?

MR. VINCE WARDEN: Initially it came right from our president and CEO.

MR. BOB PETERS: Was there a mandate that came from the provincial government?

MR. VINCE WARDEN: There was, but that was subsequent to measures that we had already taken, so we -- we had measures in place before that mandate from government was provided to us.

MR. BOB PETERS: Well, let's stay on page 62, Mr. Chairman and Board members, at tab 11 of the book of documents, and if we look, for example, Mr. Warden, at the travel line, in '09/'10 actual travel expenditures at Manitoba Hydro, to pick on one (1) -- what's that, $32 million?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And then, after cost constraints, it's $33 million. And then, the second test year, it's still -- it's close to $34 million.

MR. VINCE WARDEN: Yeah, and those -- that is one of the areas we are targeting. As I mentioned, all out-of-province travel has been severely curtailed; again, only very essential out-of-province travel. However, the vast majority of our travel is in-province, so a lot of travel to our northern sites with everything that's happening in -- in northern Manitoba these days, there -- that travel is very necessary. A lot of that will come out. As -- as you indicated previously, this is before capitalization, so travel that is incurred for our northern projects, northern development projects, will be charged to capital and -- and won't end up in the net operating line.

MR. BOB PETERS: But it's still going to be incurred as an expense by Hydro -- sorry, as a cost by Hydro, and it's going to have to be paid by a Hydro ratepayer some day.

MR. VINCE WARDEN: Yes, a necessary expense incurred by Hydro, but, yes, it is.

MR. BOB PETERS: All right, but, Mr. Warden, where's the cost constraint on the travel line? Have I -- is it there? Is it already embedded in there?

MR. VINCE WARDEN: It is. You know, the -- the amount of travel that is done out of province is in order of magnitude of -- previous to the cost constraints would have been in the order of $1 million per year that -- so that $1 million is, in -- in --

relative to the total, is not real significant, but nevertheless those -- those costs are not being incurred. And without that constraint, the -- that number would have been that much higher.

MR. DARREN RAINKIE: Mr. Peters, maybe I can help out here as well. I mean, these details -- the detailed budget was prepared probably in -- before the cost constraint memo was even issued, and, subject to check, I -- I believe, looking in our November management report, we're nine hundred thousand dollars ($900,000) favourable on travel to date in 2010/'11. So I just wanted to add that to the -- to the record.

MR. ROBERT MAYER: Just a side comment in here. I happen to know, because I'm looking at the travel bills that the PUB pays for me, and I think everybody ought to understand that the cost of north-south travel compared to east-west travel can sometimes be double.

I'm looking at numbers for my flights here: six hundred and sixty-one dollars ($661) return to Thompson. Pretty significant numbers. I -- it cost me less than that to fly to Parksville to visit my daughter. So I certainly understand some cost escalation because they -- Calm Air has -- prices have been going up and I recognize that.

MR. VINCE WARDEN: Yes, we certainly agree with that, Mr. Mayer. The cost of travel in Northern Manitoba -- or to get to Northern Manitoba and back is outrageous, really.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, I can do the same thing by looking at the overtime reductions, and when the Board looks at overtime reductions on page 62, at Tab 11 of the book of documents, overtime is shown second line from the top, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So the overtime in -- is $50 million a year in actual 2010 costs?

MR. VINCE WARDEN: It was $50 million in 2009/'10 yes.

MR. BOB PETERS: And after cost constraints it's going to be 48 million in '11 and then 49 million in 2012?

MR. VINCE WARDEN: That's -- that's the forecast, yes.

MR. BOB PETERS: So again, the cost constraint measures are embedded in the results on this pre-ask question, and I -- I wasn't referring to the most current version. I apologize if it makes any difference, but in -- in round numbers the numbers are included in terms of cost constraint measures?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So out of three (3) -- three quarters (3/4) of a billion dollars, approximately of OM&A costs, and I turn to page 21 of your presentation, how many millions of dollars are these cost constraints supposed to reduce off of that three quarters (3/4) of a billion dollar budget?

MR. VINCE WARDEN: Well, we did come up with a -- an estimate of approximately...

(BRIEF PAUSE)

THE CHAIRPERSON: Mr. Peters, why don't we take the break now and give them a chance.

MR. BOB PETERS: I think, Ms. Boyd, this would be a good time for the break if you want to review that and come back after the break on that number. Or did you want to deal with it now, Mr. Warden?

MR. VINCE WARDEN: Maybe we'll have a small --

MR. BOB PETERS: Yeah.

MR. VINCE WARDEN: -- discussion at the break. Thank you.

MR. BOB PETERS: All right. Thank you, Mr. Chairman.

--- Upon recessing at 10:44 a.m.
--- Upon resuming at 11:08 a.m.

THE CHAIRPERSON: Okay, folks, let's return to it.

Mr. Peters...?

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, you change counsel like some people change socks.

MR. VINCE WARDEN: I'm really -- I'm really hard on them.

MR. BOB PETERS: Well, not at the wages I see on page 62 of the book of documents but we'll leave that for a specific --

MR. VINCE WARDEN: I've been trying to make that case for...

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, before the morning recess the Board was made aware that on an annual basis, Manitoba Hydro's OM&A, it's about $772 million, or in that ballpark. You've told the Board there was cost constraint measures, and I'd like you to, on page 21 of the presentation you made to the Board, quantify these cost constraint measures as to what are they going to be and where's the Board going to find them in the materials.

So if you can give us the numbers, did you have a chance to do that over the break?

MR. VINCE WARDEN: Yes, Mr. Peters. The -- the cost constraint measures were forecast to save approximately -- between 11 and $13 million per year.

MR. BOB PETERS: Did you go down those six (6) points, and come up with quantification on each of them?

(BRIEF PAUSE)

MR. VINCE WARDEN: We didn't specifically, but I -- I can probably do that in -- in relatively round numbers.

The -- the travel restrictions, as I think I mentioned earlier, likely to be about a million dollars per year. The hiring freeze is probably the -- the largest savings that we will potentially realize, and that's in the range of $8 million per year.

Overtime reductions is really -- overtime is so much dependent on conditions, weather conditions, work that needs to be completed to serve a customer, emergency type conditions, so the amount we're -- we're likely to save through overtime costs is -- is minimal, but it's going to be in the 1 to $2 million per year.

Computer life extensions, we actually have had a -- a practice of -- of extending the life of computers for some time now, so we -- we're definitely using our computer equipment beyond the industry standard, and I can give you further details on that, if you'd like.

So the -- even though its listed here, the incremental savings are -- are probably less than a million dollars.

MR. ROBERT MAYER: Mr. Warden, are -- I would have thought your computer systems would have been capital.

MR. VINCE WARDEN: I'm sorry Mr. -- Mr. Mayers, I -- I -- Mr. Mayer, I didn't catch your --

MR. ROBERT MAYER: I thought your computer systems would have been capital, as opposed to--

MR. VINCE WARDEN: The --

MR. ROBERT MAYER: -- O&M.

MR. VINCE WARDEN: -- the development of computer systems are charged to capital, but once they're in service all the operating costs are charged to operating.

MR. ROBERT MAYER: Including replacement?

MR. VINCE WARDEN: No. The replacement -- depending on -- on the order of magnitude of -- of the replacement. We have a threshold be -- below which we capitalize, and -- and below which we charge to operations, but replacements of standard computers would be charged to capital initially and then amortized over the -- over the estimated life.

Fleet reductions, likewise, similar to computers, they are charged to capital initially, and -- and then amortized over the life of the -- of the unit, so the impact on operations really I don't have a -- a good number for that one (1) at this time but it will make it's -- to the extent that we're successful in reducing our fleet that will make its way into operations ultimately.

And then new IT systems, it really just refers to the fact that we are on the verge of implementing one (1) that's going to have a fairly significant impact on the way work is done.

And this is unrelated to IFRS, but we call it a workforce management system, that is being -- under development for the last couple of years, actually, and is be -- being implemented this coming year.

And it will, I think I referred to it earlier, it will greatly streamline how work is dispatched and how work is performed in the field, so the savings on this one (1) will be quite substantial ultimately after -- after implementation.

So it's not, perhaps, a cost constraint measure. It's different from the other -- the other items that -- that are listed on this page, but nevertheless it is something that's going to have a positive impact on operating costs going forward.

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: How will the Board measure the success you've had in your cost constraints next time you're before the Board?

MR. VINCE WARDEN: Well, I do think that the -- the information that was presented on page 19, which shows year over year change, net of accounting changes for the -- the two (2) test years of 0.6 and 0.9 percent. That's our -- our forecast and I -- I think we should be -- we should be held accountable to that.

MR. BOB PETERS: Just following up on the Vice Chair's question, when I look at page 62 at Tab 11 of the Boar -- Board's book of documents, the -- where will the Board find the computer life extension in those various items?

MR. VINCE WARDEN: Well, I think I mentioned that the computer life extension has been a way of doing business around Manitoba Hydro for some -- sometime, so the -- won't be able to look at page 62 and -- and point to any line item that shows a reduction in cost as a result of that. Part of what we did though in the -- in the process of looking at where costs could be constrained, that was one (1) of the items that we did look at, whether there was more we could do on that front. And we -- I think we pretty much concluded that we're doing pretty much everything we are doing -- that we can possibly do with respect to the life of computers.

You get to a point where there -- it becomes -- higher maintenance costs are incurred if -- if the life is extended beyond a certain reasonable point.

MR. BOB PETERS: Mr. Warden, does Manitoba Hydro look at their computers and calculate a total cost of ownership by the user?

MR. VINCE WARDEN: We do total -- calculate total cost of ownership. By the user, it doesn't -- wouldn't go down to the individual user level but we certainly have a total cost of ownership calculation that we perform.

MR. BOB PETERS: Well, does -- can you -- can you indicate to the Board how much lower the total cost of ownership is now that you've gone to computer life extensions than it would have been before? And I was taking it down to the -- to the individual computer level, whether it's a notebook or a desktop.

MR. VINCE WARDEN: Yes, we can certainly do that, and I'll -- I'll take that as an undertaking if that's okay.

MR. BOB PETERS: All right. If you can -- and is this going to be seen over the last few years that you could -- you could correlate it to, or is it done just in the -- in the test years?

MR. VINCE WARDEN: We can do it over whichever period of time you --

MR. BOB PETERS: Well, if you could show the trend, I guess, starting in the first year shown on book of documents Tab 11, 2004/'05, and then follow it through up to the test years.

MR. VINCE WARDEN: Certainly, we'll do that.

MR. BOB PETERS: All right. thank you, Sir. Yes, I have been requested and remiss in doing so before, but for purposes of the transcript, the undertaking, Ms. Boyd would be -- I'm sorry, Ms. Ramage -- Ms. Ramage now. There's been a branding change. The undertaking, Ms. Ramage, is for Manitoba Hydro to calculate the total cost of ownership on the computers over the period of 2004/'05 through to 2011/'12.

Is that acceptable?

MS. PATTI RAMAGE: Yes, it is.

MR. BOB PETERS: Thank you.

--- UNDERTAKING NO. 8: Manitoba Hydro to calculate the total cost of ownership on the computers over the period of 2004/'05 through to 2011/'12

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: If the data is -- can be presented corporate wide as well as on a per user basis, that would be I think most instructive for the -- for the Board. Thank you.

Mr. Warden, I want to turn to Manitoba Hydro's wage increases since 2008 and the last GRA. You would agree with me, sir, that since 2008 Manitoba Hydro's wage increases have on average exceeded inflation.

MR. VINCE WARDEN: Since 2008, the wa -- actual wage increases? Well, Mr. Peters, it depends on whether we're looking at contract settlements or the all-in costs of employing people. If it's the latter, then, yes, I would agree that -- I would agree that that does exceed inflation.

MR. BOB PETERS: The all-in for all employees of Manitoba Hydro, it exceeds inflation is what you're getting the Board?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. Let's turn to the -- you said by contract, you have two (2) major unions that have collective agreements?

MR. VINCE WARDEN: We have four (4) major unions.

MR. BOB PETERS: All right, and you have two (2) major unions with collective agreements which expire in the test years?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And IBEW, the

International Brotherhood of Electrical Workers, has currently a three (3) year collective agreement which expires in 2011?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And CUPE has a four (4) year collective agreement which expires in 2012?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: When the Board reviews the specifics of those two (2) collective agreements, and I believe, although I didn't put it in my book of documents -- I think it was Manitoba Hydro First Round Question 33A; I'm not sure you'll need to turn there, but you're welcome to -- on the IBEW, there was a 6.9 percent wage increase awarded to -- to that collective bargaining unit back in 2008. Does that sound right?

MR. VINCE WARDEN: No. Well --

MR. BOB PETERS: Well, I -- it -- it was a three (3) year contract, and the total was 6.9 percent --

MR. VINCE WARDEN: I'm sorry. I thought you were referring to one (1) specific year.

MR. BOB PETERS: That's my fault --

MR. VINCE WARDEN: Yeah.

MR. BOB PETERS: -- Mr. Warden. I'll take responsibility for confusing you on that one. But it was a three (3) year settlement, and if you add up the three (3) years it's about 6.9 percent of a wage and benefit increase?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And would you agree with me that the inflation over from 2008/'09, which would be your fiscal '09 year, and your fiscal '10 year and your fiscal '11 year, that inflation will now be less than 4 percent?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So IBEW received 6.9 percent wage increases when inflation was less than 4 percent, correct? Let -- let me help you on the inflation number if I could, Mr. Warden. I was using -- I think it was in Tab 3 of the book of documents, I was using -- for 2008/'09, I used 2.2 percent, because that's what you put in your schedule; for '09/'10, I used .6 percent; and then for 2011, relying on the latest information from the Manitoba government, approximately .8 percent, at least certainly through the first ten (10) months of the year.

MR. ROBERT MAYER: I need a little clarification on this. Do your contracts have COLA clauses, any of them?

MR. VINCE WARDEN: They do not.

MR. ROBERT MAYER: So any increase that happens at the end of a -- when you're -- when you go into a new contract, somebody's going to be looking to catch up for the money they didn't make over the last three (3) years if there's no COLA, and then they're going to be looking forward to attempt to gain some on anticipation of what they will lose in cost-of-living increases over the next three (3) years.

MR. VINCE WARDEN: Yes, absolutely. That's part of bargaining, and part of the reason why we had a strike in 2009.

MR. ROBERT MAYER: Just now -- so IBEW and CUPE both have COLA?

MR. VINCE WARDEN: No, they don't have COLA.

MR. ROBERT MAYER: There's no COLA. All right. And who are the other two (2) unions?

MR. VINCE WARDEN: CEPU, which is the Canadian Electric -- or Canadian Union of Paperworkers. That's the gas employees, essentially.

MR. ROBERT MAYER: Okay.

MR. VINCE WARDEN: And Association of Manitoba Hydro Staff and Supervisor Employees, which is -- we call AMHSSE.

MR. ROBERT MAYER: So those of us who are that are familiar with the union movement call it something else, but...

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And, Mr. Warden, when you were talking with the Vice Chair, COLA stands for Cost of Living Allowance?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: So we're back to the IBEW, the contract under which they presently operate, I've suggested to you, they've been awarded 6.9 percent wage increases and that will come up against inflation of approximately 4 percent?

MR. VINCE WARDEN: Mr. Peters, I would like to make sure, before I respond -- before I agree with you, that -- that those time frames perfectly align. I'm not quite prepared to agree that they do yet. I'd have to look at that.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, for the CUPE that was a four (4) year collective agreement entered into in 2000 and -- your fiscal 2009, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And it expires in the second test year fiscal 2012?

MR. VINCE WARDEN: That's right.

(BRIEF PAUSE)

MR. BOB PETERS: In those four (4) years, again, 8.9 percent would be the -- the sum total not compounded?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And in terms of the actual, as well as recently forecast inflation, that would be coming in at -- at approximately 6 percent?

MR. VINCE WARDEN: Well, using your previous number of four (4) and adding that one (1) additional year, approximately 6 percent, yes.

MR. BOB PETERS: And if you had something further to come back on that, you can through your counsel do that, but I'm not asking for any further undertaking. The numbers we've talked about, Mr. Warden, for IBEW and CUPE, those do not include the additional concession of three quarters (3/4) of a percentage point, do they?

MR. VINCE WARDEN: For benefit improvements, no, they don't.

MR. BOB PETERS: And those benefit improvements were starting in 2010, if I recall?

MR. VINCE WARDEN: January the 1st, 2010, yes.

MR. BOB PETERS: And they will expire concurrent with the collective agreements?

MR. VINCE WARDEN: Well, typically then -- like as new wages they carry on beyond the collective agreement, so the -- the benefits wouldn't expire. They're not taken away.

MR. BOB PETERS: But the benefit enhancement or whatever it was called, maybe you can explain to the Board what the enhancement was then as to why -- and what's carrying on.

MR. VINCE WARDEN: Well, the ben -- typically benefit improvements include such things as improvements to dental, eye care, or vision, health spending provisions. So I don't have the exact details of what makes up the point 75 (.75) but that's what would have occurred with that.

And once that's embedded in the agreements, they typically would not be taken away at the expiry of those agreements.

MR. BOB PETERS: From Manitoba Hydro's point of view, those would be factors to consider going forward in the next collective agreement?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. I heard you say when you were making your presentation on the first day of the hearing that there's a strategy or a possible inclination of Manitoba Hydro to benchmark the wages of its employees against other jurisdictions?

MR. VINCE WARDEN: Well, it was more than a strategy. It was an absolute commitment we made to IBEW to get them off the picket lines that we wouldn't -- we committed to do that.

MR. BOB PETERS: Well, what did -- what -- what did Manitoba Hydro commit to do specifically, Mr. Warden?

MR. VINCE WARDEN: We committed to conducting a review of salary levels of IBEW workers compared to other jurisdictions.

MR. BOB PETERS: And so you did a benchmarking study?

MR. VINCE WARDEN: Yes, specifically with SaskPower.

MR. BOB PETERS: Was that the only other utility that you benchmarked?

MR. VINCE WARDEN: Well, we -- we do have surveys from other organizations that provide such information. So at a high level we knew we were well below the median of the sal -- salaries of other jurisdictions, specifically in Western Canada.

However, those surveys are not typically detailed enough for us to compare job to job, so what we undertook to do was to make sure that the jobs perfectly aligned and we spent some time with SaskPower and they were very cooperative in -- in this study.

And we -- we aligned the jobs to make sure we were comparing exactly the same jobs. So it was a -- a fairly extensive review that -- that goes beyond just surveying as is typically done.

The results of that review, as I think I indicated earlier, was some jobs were as much as 20 percent lower at Manitoba Hydro, and on average, 10 percent -- 10 percent lower than they are -- were at SaskPower, which was really quite a turn around from what it was ten (10) years ago when Manitoba Hydro salaries were -- were higher than they were at SaskPower.

So the other utilities have definitely over -- overtaken Manitoba Hydro, and this is the point that IBEW was trying to make to us while they were out on strike.

THE CHAIRPERSON: Not to deny the difficulties these things can cause, is it not also true that the average weekly wage in Saskatchewan is considerably higher than Manitoba's now?

(BRIEF PAUSE)

THE CHAIRPERSON: As is Alberta's, BC's, Ontario's, Quebec's.

MR. VINCE WARDEN: Yes, I -- I think that's -- you know, I don't have the actual data on that, Mr. Chairman, but I can -- I can -- I know that's readily accessible. If -- if you're interested, I can get that.

MR. ROBERT MAYER: While we're doing that could we also --

THE CHAIRPERSON: Yes, please.

MR. ROBERT MAYER: -- could we also deal with the whole issue of cost of living in Saskatchewan, Alberta, BC, because I'm -- I have some idea what it is in BC, which is nothing short of outrageous, but...

MR. VINCE WARDEN: Yes. We'll -- we'll get that information.

--- UNDERTAKING NO. 9: Manitoba Hydro to indicate the average weekly wage in Manitoba compared to Saskatchewan; and cost of

living in Manitoba compared
to Saskatchewan, Alberta, and
BC

MR. VINCE WARDEN: I do have to say, though, that if there is much -- too much of a disparity, we do lose workers to other utilities, and we -- by the time we train a journey -- we have a very good training program at Manitoba Hydro. By the time they go through their training program be -- to become a journeyman, for us to lose that investment to -- to other utilities is a huge loss to Manitoba Hydro.

So we have to be sure that we're somewhat competitive so that we don't -- that we don't lose those workers, which we --

THE CHAIRPERSON: In fairness though --

MR. VINCE WARDEN: -- we definitely have that experience in the past.

THE CHAIRPERSON: In fairness, is it not true that moving involves a variety of different factors?

MR. VINCE WARDEN: No doubt, but the fact of the matter is, we -- with all those factors taken into consideration, people leave, so.

MR. ROBERT MAYER: Mr. Warden, just as -- as an example, Thompson Fire & Emergency Services, which have been amalgamated since day 1, and only recently as Winnipeg figured out that that might be a plan, as is the rest of western Canada, our fire -- firefighters and emergency response personnel, we've literally been raided by Al -- Calgary got a couple, Winnipeg got a couple, and we -- we don't have that large of a department, and it's been -- it's been ridiculous.

And our pri -- our wages probably are pretty competitive, but the other amenities apparently offered by the other places have been hurting us pretty bad.

MR. VINCE WARDEN: I think, too, because of the economic downturn we're not feeling the same pressures as we did two (2) or three (3) years ago, but you know, an economic recovery and we're right back into it, and if we're very far away from our wage rates than other utilities we're going to lose people in -- in a large scale.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, is the Board supposed to take from your answers that Manitoba Hydro has committed to any of its unions a certain percentage wage increases that they can now expect?

MR. VINCE WARDEN: Over and above the

contracts that we're negotiated, Mr. Peters? We have a commitment, as I've mentioned, to IBEW to review the salaries.

Where that review has com -- been completed, we're currently discussing with IBEW how any changes would be implemented. There will be a cost to it, though.

MR. BOB PETERS: And that's one (1) of the reasons for this rate increase is so that more money can be paid to the unions?

MR. VINCE WARDEN: For the -- the rate increase --

MR. ROBERT MAYER: Excuse me, to the workers, not to the unions.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Yes.

MR. VINCE WARDEN: Not specifically, Mr. Peters, no. It's all the -- the basket of costs that Manitoba Hydro incurs that we're looking for a rate increase, and, also, the outlook for the future that -- the direction we're going with all the ratios that we talked about, the financial ratio -- ratios we talked about earlier and how important they are to Manitoba Hydro to maintain those ratios.

MR. BOB PETERS: But in terms of the unionized employees, Mr. Warden, there's been -- is there a commitment to get to parity with another utility or another jurisdiction?

MR. VINCE WARDEN: No. No.

MR. BOB PETERS: When will this Board see the financial impact of any resulting discussions you have with the unions?

MR. VINCE WARDEN: Well, I -- I don't think we have a mechanism for advising the Board of such matters. Certainly if the Board was interested in -- in what the results of that -- those discussions with our unions are, then -- then we could certainly do that, but we can underta -- undertake to do that, but there -- there isn't, as I mentioned, that mechanism there today.

MR. BOB PETERS: And Hydro has been requested by this Board to provide a benchmarking study some two (2) years ago, is that correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that benchmarking study would show comparisons of Manitoba Hydro's OM&A with other electrical utilities.

MR. VINCE WARDEN: Well, I don't think we've really determined the structure of how that -- what that benchmarking study would look like. We did request, and I think the Board agreed, that we could defer the submission of that study until such time as IFRS was implemented because of the number of changes that are going to be occurring in our cost allocation methodologies.

MR. BOB PETERS: And just so the Board, if it's keeping track on its calendar in terms of these items, with Manitoba Hydro electing to defer its IFRS obligations for a year, does that also defer any benchmarking studies by another year?

MR. VINCE WARDEN: Well, I think our commitment, and I'd have to go back and look at the correspondence between Manitoba Hydro and -- and the Board, but I believe it was post IFRS implementation. So with a deferral of one (1) year, I think that would probably follow, although I'm not sure that we have concurrence of the Board on that matter.

MR. BOB PETERS: The terms of reference haven't been finalized on that, to your knowledge, have they?

MR. VINCE WARDEN: No, they haven't.

MR. BOB PETERS: And in that regard, would Manitoba Hydro be expecting to compare some pre-IFRS numbers to pre-IFRS numbers of other utilities?

MR. VINCE WARDEN: No. No. Are you

referring specifically to the benchmarking study itself?

MR. BOB PETERS: I am.

MR. VINCE WARDEN: Oh, I think any benchmarking -- benchmarking typically involves some very detailed comparisons that -- drilling down into some areas of operation that requires a considerable investment of time and resources, and, therefore -- to do it properly that is, so, no, we wouldn't do anything pre-IFRS or at least we would not recommend anything pre-IFRS. We do our high level cost per customer type reviews, and -- and I think that can show, over time, trends of cost per customer relative to other utilities, but that would not be considered benchmarking.

MR. ROBERT MAYER: Mr. Warden, last I heard, wages and benefits are an expense. How could wages and benefits possibly be affected by a change in accounting system that appears to affect which are -- which are expenses and which are capital? I -- I don't understand this. Could you tell me how that IFRS affects the issue of wages and benefits?

MR. VINCE WARDEN: Well, if we were looking at a benchmarking exercise we would want to know, for example, what the cost per invoice is and accounts payable compared to some other indices that -- that a service provider would give to us. So we would want --

want to make sure, first of all, that we are comparing to like industries.

And -- and once we determine what those like indus -- industries were then we would look at a number of measures. So if we were looking at things like accounts payable in -- in the example, but you can -- it could apply to any part of the organization. You would want to make sure -- or we would want to make sure that our costs were appropriately allocated, consistent with the allocation methodologies within -- within those other utilities because if you didn't that then -- then the comparison would be totally meaningless.

MR. ROBERT MAYER: But when you're benchmarking, I thought, when we're talking about that, you're basically defining your jobs, and -- and you set a price to it. Now, there's a number -- I know that there's a decision band method of job evaluation when it comes to executive level. There's a number of -- of different ways of doing it when you're dealing with unionized employees, but I don't -- I still don't understand, when -- if you're comparing job to job.

And I understand you've got to make -- you've got to be able to compare apples to apples, but once you have done that -- and that's a function of what these -- what the people do, what the job position requires somebody to do, and then you assign a -- a value to it based upon what you pay, either hourly, monthly or whatever, and what somebody else does, I don't understand, and I still don't understand, how that could possibly be affected by IFRS.

MR. VINCE WARDEN: Well, the example you've given, Mr. Mayer, would not be affected by IFRS. If you define that as benchmarking, just comparing like jobs for the purpose of the salary review, that's -- that's exactly what we did, but I wouldn't really -- that's the input to jobs that have to be performed, and what we would be measuring with benchmarking would be the outputs: What are the results?

How much does it cost to conduct your line -- lines between point A and point B on a per-unit basis, so that all the inputs would -- that would -- would be measured, not only the specific salaries of those individuals but all the costs of materials and other inputs that -- to come up with a unit cost which we could compare on a rational basis with whoever those comparator utilities are?

MR. ROBERT MAYER: Thank you very much, Mr. Warden.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, before I leave this topic, you've mentioned -- and I'm not sure if you were trying to paint a -- a vision of doom and gloom with a mass exodus out of the province to our neighbours to the west, but have you got any numbers of people that you suspect or can indicate have been migrating from Manitoba Hydro to SaskPower?

And before you answer that, PUB Manitoba Hydro First Round 44A is a question where you were asked, or Manitoba Hydro was asked, to identify the number of staff lost year by year to other utilities. And when I look at 2009, it looks like five (5) employees left the province or work locale, and that's the latest year in which you've provided numbers.

MR. VINCE WARDEN: That's right, Mr. Peters, and I think I indicated, with the economic downturn there hasn't been as much risk of that happening but as soon as the economy turns around -- and we all hope it will -- then those numbers will probably go up again. But you can see in that same IR response that there were seventeen (17) in 2007. So in -- so the numbers at one point got to the -- got to the stage where we were so concerned, we had a -- we had a -- to implement a temporary provision to -- premium to hold employees that were at the highest risk.

MR. BOB PETERS: So a dozen and a half employees leaving in 2007 out of six thousand (6,000) causes the Corporation to enact a retention inducement. Is that what you're saying?

MR. VINCE WARDEN: If they're in -- in those what -- what are called hot skills, absolutely, yes, and --

MR. BOB PETERS: Other than your position, Mr. Warden, what -- what are the hot skills positions?

MR. VINCE WARDEN: Mine isn't one of them, but the lines trades are where we are the most vulnerable. Those are the people that work every day to keep the lights on and the gas flowing and they're very marketable.

MR. BOB PETERS: What was the inducement that you were telling the Board that you had to -- had to implement back in -- in 2007? What was the cost of it?

MR. VINCE WARDEN: It was a -- a temporary allowance. I believe it was in the order of 10 percent that was -- that was awarded at that time. And then it was -- it was temporary though, so it was gradually removed when that immediate threat was eased, and -- and -- and we don't have that in place any longer.

It was a very crude way though of keeping employees. And -- and we're trying to be more proactive now by making sure that we're -- we do remain relatively competitive.

MR. BOB PETERS: Do you expect the 2010 numbers to be much different than the 2009 numbers presented on that Information Request, Mr. Warden?

MR. VINCE WARDEN: No.

MR. BOB PETERS: All right, then I won't ask you to undertake to file it. Let's turn, still in the book of documents, Tab 11, page 62, to the number of equivalent full-times or EFTs that we've talked about, and from 2000 and -- your fiscal 2005 year to your fiscal 2010 year, there was an extra seven hundred and sixty-three (763) EFTs. You'd accept that, subject to check?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And the average cost of the EFT increased from seventy-two thousand dollars ($72,000) a year to eighty-two thousand dollars ($82,000) a year in that same five (5) year period?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Do I take from the -- do I take from the answers that Manitoba Hydro is attempting to rein in the EFT growth, if I can put it in those words, sir?

MR. VINCE WARDEN: It is -- the growth in

EFTs is a concern and part of the reason for the hiring freeze. A lot of those though, I should emphasize that's before capital. So a large number of those would have been hired for capital projects.

MR. BOB PETERS: All right. We'll come to that, now it looks like it's going to be later rather than sooner, but in terms of vacant positions, Manitoba Hydro had budgeted for 2010 in January to have six thousand two hundred and twenty-nine (6,229) EFTs, and the information that we have indicates that on an actual basis you're a hundred and eighty-eight (188) positions short of that. Would you accept that, subject to check?

MR. DARREN RAINKIE: Do you have a reference on that, Mr. Peters?

MR. BOB PETERS: I -- I do, Mr. Rainkie, and I hope it's accurate. It's PUB Manitoba Hydro First Round 34C, and I didn't include that in the book of documents, but what I'm getting at Mr. Warden is you have a budget for EFTs of sixty-two twenty-nine (6,229), your actual January, I guess, of 2010 was six thousand and forty-one (6,041), leaving a hundred and eighty-eight (188), in my words, vacant positions.

MR. VINCE WARDEN: Okay. We'll accept those numbers, Mr. Peters, subject to check.

(BRIEF PAUSE)

MR. BOB PETERS: I'm waiting for concurrence, or are you waiting for me to --

MR. VINCE WARDEN: Oh, I thought I already -- sorry.

MR. BOB PETERS: All right. I -- I saw Mr. Derksen perhaps confirming my numbers, but that was a hundred and eighty-eight (188) vacant positions in January of 2010, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And Mr. Rainkie, are you moving forward are -- have you got a new number in terms of what the vacancies -- vacancies are?

MR. DARREN RAINKIE: That's why I had my back to you. It's about a hundred -- if I've got the number right, subject to check, Mr. Peters, it's about a hundred and forty-five (145) EFTs in December 2010, so that -- that information is hot off the presses.

MR. BOB PETERS: All right. Recognizing that there is -- that the -- there are these vacant positions, Mr. Warden, isn't that a golden opportunity for Manitoba Hydro to manage to keep its human resource costs in line, and be very careful as to which vacancies are filled, rather than filling them just because they were previously a -- a position in the Corporation?

MR. VINCE WARDEN: We don't fill just because they were previously a -- a vacancy. Every -- every job that is filled is appropriately justified.

We have a -- a fairly large retirement this year, larger than normal. In fact, our retirements over the next several years are escalating significantly, and that's part of the reason why we're bringing in the trainees that we talked about on day 1, I think.

So when you say keeping our human resource cost -- costs in line, we -- I do believe they are in line with their -- we have the EFTs we need to -- to do the work that needs to be done, so.

MR. BOB PETERS: Well, Mr. -- Mr. Warden, with -- if we want to prefer Mr. Rainkie's numbers of a hundred and forty-five (145) vacant positions today, Manitoba Hydro's work is getting done, is it not?

MR. VINCE WARDEN: Well, it depends on what work is out there pending that's not being done. So are we keeping the essential services provided? Yes, I'd say so, but does that mean we're -- we're doing the benchmarking studies we talked about earlier? No, those thing -- a lot of things like that are being deferred because we don't have the resources.

MR. BOB PETERS: I was -- I'll -- I'll

mind my tongue on that, Mr. Warden, but the benchmarking study, we're not expecting that for a couple years now in any event, correct?

MR. VINCE WARDEN: No, but if we were to do it, we probably could -- would have -- wouldn't have the resources to do that anyway, but --

MR. BOB PETERS: Well --

MR. VINCE WARDEN: -- it -- it was an example. I -- I just wanted to make the point I don't think that all work -- just because it appears the work is being done, there's a lot of things that may be be -- being deferred that will eventually cause us problems if we keep deferring.

And in fact, we get that -- that refrain every day from people that are maintaining services, about the aging infrastructure. If we don't start spending monies -- dedicating resources to aging infrastructure, we're going to have problems. And I think some of that is real.

MR. BOB PETERS: But when you talk like that, Mr. Warden, you've been spending a billion dollars a year on aging infrastructure, and -- and the normal routine capital expenditures that the Corporation would make.

Isn't that correct?

MR. VINCE WARDEN: No. No, the -- the billion dollars that you're referring to includes our major generation transmission.

The maintenance type capital is in the range of 350 to $400 million per year.

MR. BOB PETERS: And that's been spent for decades on a -- on a cost adjusted basis.

MR. VINCE WARDEN: No. No, it's -- it has been escalating. Certainly, the acquisition of Winnipeg Hydro added to that cost somewhat.

So, yeah, that's -- you know, the -- some of the -- the -- the facilities within the inner city have been here for a very long time, and -- and in some cases the -- the distribution system is at its absolute maximum.

Adding more customers will cause us significant problems and the engineers are on that case almost daily. So there are issues out there that have to be addressed.

MR. BOB PETERS: And they're being addressed; they're not being deferred.

MR. VINCE WARDEN: Well, a lot of them are being deferred because of -- of setting priorities. We -- we -- we're constantly judging -- juggling priorities. Hopefully, the essential work is getting done but there is risk involved with everything we do.

MR. BOB PETERS: Probably the same for other businesses, as well. They have to juggle their priorities as well.

MR. VINCE WARDEN: I agree.

MR. BOB PETERS: All right. You said to the Board that there's a number of employees that are eligible for retirement. And from the materials, I think the number is seven hundred and seventy-six (776) employees are eligible for retirement.

Is that number correct, in your mind?

MR. VINCE WARDEN: Yes, that sounds about right.

MR. BOB PETERS: And it was taken from PUB Manitoba Hydro First Round 44B if you need to source the document. That's approximately 13 percent of the workforce.

MR. VINCE WARDEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, the last information provided in the Information Request was a hundred and forty-one (141) people actually retired in your calendar year, 2009. In a previous answer just a few minutes ago you gave the impression that the retirement number could be significantly greater than what the Corporation maybe had thought. Did I read more into your answer than I should have?

MR. VINCE WARDEN: Well, I believe that is the ca -- well, in fact, it is the calendar year for a lot of reasons. There were -- a numbers of employees were waiting post January the 1st to retire, so a large number of retirements in January and February of this year. So that number will be up around two hundred (200) for the fiscal year.

MR. BOB PETERS: Well, the for -- the forecast was a hundred and fifty-five (155) for the calendar year 2010. You're saying that'll now be closer to two hundred (200).

(BRIEF PAUSE)

MR. VINCE WARDEN: Mr. Peters, in round numbers, that's my understanding for the fiscal year. We -- we will be very close to two hundred (200).

MR. BOB PETERS: And that's the fiscal year that's coming to an end on March 31 of 2011.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. And then the

forecasts going forward, they're still the Corporation's best forecasts.

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes, those numbers look about right.

MR. BOB PETERS: And the expectation of Manitoba Hydro is that of its employees eligible to retire, approximately 20 percent a year will take retirement.

(BRIEF PAUSE)

MR. VINCE WARDEN: That's the -- the number in our -- in our evidence, Mr. Peters.

MR. BOB PETERS: And again, you're telling the Board that for every person who retires the Corporation is examining whether there's different ways to do business and the same amount of work that's needed to be done but with fewer people before hiring new people.

MR. VINCE WARDEN: Yes, absolutely.

MR. BOB PETERS: And when they -- Manitoba Hydro testified about its new office building, there was going to be at one point discussion about internal synergy savings of about 10 percent a year. Do you recall those discussions, Mr. Warden?

MR. VINCE WARDEN: I do.

MR. BOB PETERS: And I think it evolved to the point where, well, there will be synergy savings but those savings won't be tracked and monitored on an ongoing basis by the utility. Is that also correct?

MR. VINCE WARDEN: Well, I think our response at the time was it's going to be very difficult to track on a specific basis. We were basing the 10 percent -- 10 to 15 percent productivity savings based on studies that had been conducted by various sources. We -- we do know -- we do know that our -- just looking at sick leave just as -- as an example, they're down considerably from -- from what they were previously.

So we don't know whether we've got a long enough time frame to come to a conclusion on that or not yet, but we'd like to think it's because of the healthier work environment that we have at 360 Portage, that the number of people off sick is -- is a lot lower than it was previously.

MR. BOB PETERS: But there's no 10 percent EFT reductions that the Boards are going to -- the Board is going to find as a result of any synergies from Manitoba Hydro moving to a new office?

MR. VINCE WARDEN: No, I don't think we ever suggested it would be a 10 percent EFT reduction.

MR. BOB PETERS: No, I -- I won't -- let me clarify. I'm not suggesting that that previously was suggested; but that synergy savings isn't reflected in the EFTs that the Corporation has going forward?

MR. VINCE WARDEN: Well, I'd say it is, yes. The forecast of EFTs are what is determined to be the number required to do the work, and so it would take into account the -- the more efficient way of working at three sixty (360), compared to the previous structure.

MR. BOB PETERS: Again, it's not documented or otherwise --

MR. VINCE WARDEN: Not specific, no.

MR. BOB PETERS: All right. Mr. Chairman, in light of the time, this would be an opportune time, I think, to adjourn for the morning, and I'll move on to a new topic after lunch.

THE CHAIRPERSON: Okay. We'll see everyone back at 1:15.

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

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

THE CHAIRPERSON: Okay. Welcome back, everyone. Whenever you're colleagues are ready, Mr. Peters, you can start up.

MR. BOB PETERS: Ms. Ramage and I are in need of tutorials on the computer, but --

THE CHAIRPERSON: As long as you're not the F35 that apparently has difficulties.

MR. BOB PETERS: No, we're not there.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Chairman, I want to not spend much time, but deal with OM&A per customer, and Mr. Rainkie, Mr. Warden, perhaps even Mr. Schulz, will want to wade in, but the target OM&A per customer was six hundred and thirty-seven dollars ($637) for the 2010 fiscal year.

Mr. Rainkie, would you agree with that? And if I told you I got that from your corporate strategic plan, Appendix 3.1, you'll take that, subject to check?

MR. DARREN RAINKIE: That's where it would be, Mr. Peters, and I will.

MR. BOB PETERS: And -- but six hundred and seventy-three (673) was a number that you're familiar with?

MR. DARREN RAINKIE: Sorry, Mr. Peters, can you repeat that?

MR. BOB PETERS: The target OM&A per customer for your fiscal '10 year, according to your corporate strategic plan was six hundred and seventy-three dollars ($673).

MR. DARREN RAINKIE: Yeah, I'll accept that, Mr. Peters.

MR. BOB PETERS: And, Mr. Rainkie, that was the edict of Manitoba Hydro's executive to the management that you were to manage -- you and all others were to manage within that framework.

MR. DARREN RAINKIE: That's right, that was our -- that was our target set.

MR. BOB PETERS: All right. When we -- and let's tell the Board how well you did relative to your target. Your actual OM&A per customer was six hundred and ninety-one dollars ($691) according to Tab 10 of the book of documents and I'm looking on page -- I was going to say 56, but let me check.

(BRIEF PAUSE)

MR. BOB PETERS: Sorry, Mr. Rainkie, I think I may have misspoke. What do you see as your actual OM&A per customer, sir?

MR. DARREN RAINKIE: I'm looking on page 57 of the book of documents under the column, "Actual of 2010," and I get seven-o-nine (709).

MR. BOB PETERS: And I was looking at a page earlier on your IFF forecast where you have actuals shown as well. And so it was seven hundred and nine dollars ($709), correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And so what -- on -- in Tab 10 of the book of documents on page 56 we see on the top half of the page the forecast for IFF-10 but it records 2010 as actual results, and that's the seven hundred and nine dollars ($709) that you referred to, Mr. Rainkie?

MR. DARREN RAINKIE: That's correct, Mr. Peters.

MR. BOB PETERS: What is that; thirty six dollars ($36) over the target?

MR. DARREN RAINKIE: That's correct.

(BRIEF PAUSE)

MR. BOB PETERS: And when we look forward to...

(BRIEF PAUSE)

MR. BOB PETERS: When we look forward to your forecasts, your most recent forecast is going to inflate the seven hundred and nine dollars ($709) up by another thirty dollars ($30) per customer per year, is that correct?

MR. DARREN RAINKIE: That's what the calculation is showing, yes, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, Manitoba Hydro in their rebuttal evidence, the appendix of which escapes me, at least I haven't written it down, you had so -- Manitoba Hydro had some comments in their rebuttal evidence, correct?

MR. DARREN RAINKIE: We did indeed.

MR. BOB PETERS: And the thrust of those comments was, Well, there's some accounting changes that's included in these numbers and you have to be mindful of that as well, correct?

MR. DARREN RAINKIE: Yes, Mr. Peters. By my calcu -- rough calculation, the seven thirty-nine (739) that we just talked about, if you remove the accounting changes, would be six eighty-two (682), which would compare favourably to the previous year, I guess, more favourably, anyway, to the previous year. In other words, Mr. Peters, those accounting changes are adding quite a bit to the cost per customer number.

MR. BOB PETERS: And -- and while that may be correct, there's no denying that those costs have been incurred and you're now going to be charging them back through on the income statement through O&M expenses, correct?

MR. DARREN RAINKIE: Yes, I think you went through that with Mr. Warden earlier.

MR. BOB PETERS: And on the rebuttal evidence, and I -- have you got the appendix number handy on that, the rebuttal evidence of...

(BRIEF PAUSE)

MR. BOB PETERS: I'm told it's Exhibit 8, Mr. Chairman, rather than an appendix, so I apologize for suggesting otherwise. Mr. Rainkie, I'm looking on page 14 of your rebuttal evidence, just for the record, and Manitoba Hydro goes to some lengths to back out the accounting changes.

Would that be what's attempted to be

depicted in the chart?

MR. DARREN RAINKIE: That's right. We're trying to provide a perspective on the increases that you've seen.

MR. BOB PETERS: And let's maybe start at 2008/'09. The year-over-year increase on OM&A expenses, Mr. Rainkie, without consideration or net of accounting changes was 8.9 percent. Is that what you've shown here in your -- your graph or your table?

MR. DARREN RAINKIE: I'd agree with that, yes.

MR. BOB PETERS: So it was 8.9 percent, and inflation was running at 1.2 percent that year, Mr. Rainkie?

MR. DARREN RAINKIE: That's what we have here, yes.

MR. BOB PETERS: And then, taking it forward to your fiscal 2010 year, your year-over-year changes, once you've backed out all of the accounting changes, is still 4.3 percent increase, correct?

MR. DARREN RAINKIE: That's correct, Mr. Peters.

MR. BOB PETERS: And we now know that the inflation index for that year is decimal six (.6) of 1 percent, correct? It'd be from Tab 3 in the Board counsel book of documents. I think I used your numbers on that, Mr. Rainkie.

MR. DARREN RAINKIE: That -- I'm not sure if what you're referring to was done before the year was finished, though, Mr. Peters, so that's what we were just checking quickly or trying to check quickly.

MR. BOB PETERS: That's a fair comment. You want to make sure we're using the same fiscal period or the same time period.

MR. DARREN RAINKIE: Given that this rebuttal was just done a few days ago, I -- I think the 1.4 percent is a better number for that year, subject to check.

MR. BOB PETERS: Well, I'm not going to give you that, so I'm going to make you check. So I'll wait for you to get back to me through -- and -- and provide me with your source.

(BRIEF PAUSE)

MR. VINCE WARDEN: While Mr. Rainkie's getting that information, I might just point out, the year before the year you started with, Mr. Peters, the year-over-year was a -- a decrease in Manitoba Hydro's operating -- operating OM&A of 0.2 percent compared to inflation of 1.4 percent in that year.

MR. BOB PETERS: Do you want to go back another year?

MR. VINCE WARDEN: No.

MR. BOB PETERS: Okay. Okay. Well, the Board can look at that chart on page 14 of the rebuttal evidence.

Mr. Rainkie, I have a secondary verification on that decimal six (.6) of 1 percent, but I'm not certain if it's a calendar year or your fiscal year. So, other than that, I think that we're still pretty close to decimal six (.6) percent, not 1.4 percent, as shown in the -- as shown in the table.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Looks like you're closer, Mr. Peters, I think. I -- I'm not sure if it's .6 percent, but I think we have something closer to .8 percent, but --

MR. BOB PETERS: Well, we'll agree then that it's less than 1 percent, and your number of 1.4 percent shown here is -- isn't -- probably isn't correct?

MR. DARREN RAINKIE: That's what the back row's telling me. We will verify that and make sure that

-- that it's -- that the record is correct.

MR. BOB PETERS: All right. And then going forward to the first test year of 2011, you're showing, once you back out the accounting changes, the OM -- the OM&A expenses increasing decimal six (.6) of a percent, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And while inflation on your chart shows 2 percent, I suggested earlier this morning that it's probably now closer to .8 percent? And maybe you can check on that as well and let me know if you disagree.

MR. DARREN RAINKIE: Where are you getting the .8 percent? For -- that's a forecast for 2011/'12. Has that been --

MR. BOB PETERS: You're -- you're ahead of me, Mr. Rainkie. I was looking at the first -- the first test year of 2011 and I was relying on some Manitoba economic highlights that have been published by the province.

(BRIEF PAUSE)

MR. DARREN RAINKIE: We'll have to check that, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, just so that the transcript is clear as to where we've left this, I'm going to suggest that you'll agree with my numbers, subject to Manitoba Hydro coming back with something different. Would you be amendable to that?

MR. DARREN RAINKIE: Let's see where this goes, Mr. Peters and let -- let's not bog down the Hearing, let's move forward and -- and --

MR. BOB PETERS: Of course, but I was just trying to help our tran -- so we'll --

MR. DARREN RAINKIE: Yeah.

MR. BOB PETERS: -- we'll proceed on that basis but I want to turn to -- in your evidence you also wanted to provide comparisons of other jurisdictions, in terms of their OM&A expenses, correct? I'm looking on page 16 of --

MR. DARREN RAINKIE: Yeah.

MR. BOB PETERS: -- 92.

MR. DARREN RAINKIE: Yeah, we'll find that at page 16, yeah.

MR. BOB PETERS: And when the Board looks at this, Mr. Rainkie, are you telling the Board that in each of those other jurisdictions they backed out the same accounting changes that you've had to make on their -- their calculations, or do you know that?

MR. DARREN RAINKIE: My understanding is this in -- includes accounting changes, this includes total O&A for all of the companies, so nothing is backed out of this calculation.

MR. BOB PETERS: And is Manitoba Hydro's calculation after removing the accounting change adjustments, or is it -- it doesn't -- it includes those accounting change reductions?

MR. DARREN RAINKIE: It includes those accounting change reductions so it should be on a consistent basis.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Excluding and including our -- that is gross O&A, as per our financial statements and forecasts. That's total -- total operating costs for our company versus what we see, versus the -- the other companies.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, when we talk about Manitoba Hydro's OM&A expenses in the IFF you, I think, told the Board earlier that that's not the whole picture of OM&A because there's additional OM&A expenses that aren't visible on that IFF statement. Would that be correct?

(BRIEF PAUSE)

MR. VINCE WARDEN: I don't recall quite the context of our discussion on that, Mr. Peters. Could you maybe --

MR. BOB PETERS: You know, now that I've asked it -- what I was suggesting is that when the Board looks at Tab 4 of Board Council's book of documents, marked as Exhibit PUB-15, they're going to see an O&M -- an O&A number on a line item in approximately the middle of the page, correct? Just on your IFF statement?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And I was suggesting to you that that's not the whole OM&A picture, because there's additional OM&A expenses that aren't visible on the IFF, and those would be the ones that are capitalized?

MR. VINCE WARDEN: No, these -- these are the total OM&A expenses for the electricity operations and -- so what -- what we're -- the way we derive that is to -- is to deduct the Centra Gas and -- and subsidiary -- subsidiary statements. Could you give me one (1) second, I'll --

(BRIEF PAUSE)

MR. VINCE WARDEN: Sorry, Mr. Peters, I think I'm with you now. Your point I think was that -- that isn't the gross OM&A expenditures, it's net of capitalization, and you're -- you're absolutely right, that's -- that's correct.

MR. BOB PETERS: Okay, and I'll thank you for helping me with perhaps a poorly worded question, but what we were trying to get at is you've told the Board before that some OM&A gets capitalized, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And when the Board looks on page 60, at Tab 11 of the book of documents, on page 60 the total costs are shown for forecast fiscal 2011 and fiscal 2012, two-thirds (2/3) of the way down the page on the right-hand side.

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: So the IFF-09 shows OM&A

of about $380 million for 2011, but we see that the actual OM&A is $738 million, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And for the second test year, $403 million makes it way to the IFF but behind the scenes the total OM&A is $754 million.

MR. VINCE WARDEN: Well --

MR. BOB PETERS: Also correct?

MR. VINCE WARDEN: -- I guess it -- it is a bit of terminology. It's -- it's the total cost of the Corporation. I wouldn't call it OM&A, though, because OM&A, by definition, is operating, maintenance, and administration, and this is the total cost before -- before capitalizations.

MR. BOB PETERS: Just so the Board is clear on the terminology, if it's capitalized it's not called OM&A?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: What is it called?

MR. VINCE WARDEN: Total costs, and -- and that's why this -- this line that you're -- that you're referring to, the seven hundred and thirty-eight (738), and the 754 million is -- is labelled total costs --

MR. BOB PETERS: Okay, and how do you

differentiate that from capital costs that you would capital -- capitalize as well?

MR. VINCE WARDEN: Well, these -- these would be the total of the costs that are identified on the schedule. So we have the total of wages and salaries and all the other components that make up that number. There are also direct charges to capital that, you know...

MR. BOB PETERS: All right. I -- I think you've corrected my terminology, and I'll -- I'll try to remember going forward.

But -- so when we say OM&A, we should only refer to the IFF. When we want to see the total costs incurred, we can refer to page 60 of the Board counsel book of documents and see the total costs which you've expended on the same items that comprise OM&A on the IFF.

MR. VINCE WARDEN: Yeah. We could refer to those as total operating costs of which there is a com -- component that is capitalized.

MR. BOB PETERS: All right. And so when you start with total -- total costs that are capitalized of $738 million, you -- you back out some capital order activities as well as the accounting changes we've talked about. There's an overhead amount and then I guess an allocation to Centra to get down to what becomes the OM&A

for the IFF.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Turning to tab 13 of the book of documents, Manitoba Hydro is telling the Board in this -- on page 67, which is PUB Manitoba Hydro First Round 19, Hydro capitalizes all project costs related to asset additions.

That's your policy?

MR. VINCE WARDEN: I guess that's the shorthand way of stating the policy, sure.

MR. BOB PETERS: And is it over a certain dollar limit? Is there a threshold test, or is it absolutely every project cost related to an asset addition that gets put into the capitalization side of the ledger?

MR. VINCE WARDEN: Generally speaking, any cost that has -- has a service life greater than one (1) year is subject to capitalization.

MR. BOB PETERS: And that includes direct labour, materials, contracted services, as well as a proportionate share of overheads.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: And those capital costs are accounted for in construction work in progress?

MR. VINCE WARDEN: Until the asset is

placed in service, yes.

MR. BOB PETERS: Or alternatively, until it's determined that the asset is not going to be proceeded with and then it needs to be written off.

MR. VINCE WARDEN: That rarely happens but it has happened. And -- but yes, that's, in effect, the policy.

MR. BOB PETERS: Can you give the Board an example of the last time that Manitoba Hydro actually wrote off to retained earnings previously capitalized project costs?

MR. VINCE WARDEN: Well, the last major asset, or -- or project that was in -- work in progress was Conawapa.

We did recover the majority -- vast majority of those costs from the counter party at the time. And there -- there would have been a residual that was charged against retained earnings, but, you know, that -- that goes back to 1989 or thereabouts.

MR. BOB PETERS: Can you put on the record what that residual was versus retained earning -- applied against retained earnings?

MR. VINCE WARDEN: We can get that, sure.

MR. BOB PETERS: It's not something you recall.

MR. VINCE WARDEN: You know, I don't recall it offhand, no. No, it wasn't -- relative to the total expenditures though, as I mentioned, we did recover the majority of those expenditures, so the residual amount I don't recall offhand.

MR. BOB PETERS: When you say you recovered those resi -- many of those expenses from the counter party, was that through litigation?

MR. VINCE WARDEN: Well, it -- I don't know whether it ever proceeded to litigation. We eventually agreed there was a process which involved lawyers, so -- it never got to court though.

MR. BOB PETERS: When projects -- Mr. Warden, will you undertake to provide the Board with the residual costs of Conawapa 1 that were written off against retained earnings in either the late 80s, or more likely, the early 90s?

MR. VINCE WARDEN: I think that's somewhere back at 820 Taylor but we'll -- we'll see if we can dig into our records on that, but...

--- UNDERTAKING NO. 10: Manitoba Hydro to provide the residual costs of Conawapa 1 that were written off against retained earnings in either

the late '80s, or the early
'90s

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: What you're telling the Board is it rarely happens. Is that -- is that part of the gist of it?

MR. VINCE WARDEN: Very, very rare occasion, yes.

MR. BOB PETERS: Well, we'll -- we'll -- di -- did you consider that a stranded asset at the time? Is that why it was written off?

MR. VINCE WARDEN: Well, it was a suspended asset. Stranded? Sure, we -- we can call it that, but I -- I'm not sure we used that terminology at the time, but...

MR. BOB PETERS: Now, you told the Board that when a project comes in service the costs would then be transferred over to the balance sheet, and then depreciation and finance expense would be charged through to operations.

MR. VINCE WARDEN: That's correct.

MR. BOB PETERS: Is that -- is that the mechanics of the simple accounting that Mr. Rainkie told me about?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: The time to recognize those costs comes to bear as soon as an electron starts flowing from a new generating station.

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: And likewise, with a transmission line, as soon as an electron can make its way over a new transmission line it's time to transfer all of the costs related to that asset to the balance sheet and then start depreciating them and charging finance expense through on the -- on the operation side.

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: Is it done in the first year in which that electron makes its way out of the generating station or down the -- down the gen -- down the transmission line or is it the following year of in-service that the charges hit the operating statement?

MR. VINCE WARDEN: Yeah, the mo -- the depreciation and the interest would commence the month following the asset being placed in service.

MR. BOB PETERS: You said, "month," and I take it you meant month.

MR. VINCE WARDEN: Yes. Yes, I meant month.

MR. BOB PETERS: Okay.

MR. VINCE WARDEN: Yeah.

MR. BOB PETERS: Thank you. Now, when I look at the document at Tab 13 of the book of documents on page 67 particularly, which is the number in the top right-hand corner, these are major new generation and transmission projects with the component of capitalized costs listed, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Now, when -- when we look at these costs, are these all the capitalized costs related to those projects or just the ones that I called related to OM&A expenses?

(BRIEF PAUSE)

MR. VINCE WARDEN: We're just looking at -- there might have been an update to this page. The numbers don't look quite --

MR. BOB PETERS: The -- there was an update, and I apologize. MIPUG Manitoba Hydro's Second Round number 1A was an update, but it really was a reclassification issue, and I'll -- I'll address that, but I don't think it materially -- as a matter of fact, I don't think it changes the numbers at all.

(BRIEF PAUSE)

MR. VINCE WARDEN: Okay. You know, these -- these numbers are at March 2009, I just realized, I believe. Yes. So that's why they don't look quite -- so the March 2010 numbers will be different but I'm not sure whether that makes any difference to your point, Mr. Peters.

(BRIEF PAUSE)

MR. BOB PETERS: The $600 million number is what strikes you as being low, Mr. Warden?

MR. VINCE WARDEN: Well, when I look at some of the individual components, I'm aware that they're higher than that -- just because of the initial year.

MR. BOB PETERS: All right. I've got some questions on -- on some of the capital expenses later on, and we can -- we can maybe double back on that. In terms of the -- in terms of the correction, and we should make it for the record, that under Keeyask generation there appears a contribution of 159 -- $399 million in the contributions column, correct?

MR. VINCE WARDEN: No. Oh, were you referring to the original table?

MR. BOB PETERS: I am.

MR. VINCE WARDEN: Yeah. What -- sorry.

MR. BOB PETERS: And -- and that's supposed to be reclassified.

MR. VINCE WARDEN: Okay.

MR. BOB PETERS: If you're agreeing with me --

MR. VINCE WARDEN: Yeah.

MR. BOB PETERS: -- that's reclassified, because that's not a Keeyask contribution, it's a Wuskwatim, I guess, transmission contribution. Wouldn't that be more accurate?

MR. VINCE WARDEN: Yes, yes, definitely.

MR. BOB PETERS: But it's the same dollar amount. It's $159 million.

MR. VINCE WARDEN: M-hm, yes, it is.

MR. BOB PETERS: And just to be clear, that $159 million contribution was from the Wuskwatim Power Limited partnership payment to Manitoba Hydro.

MR. VINCE WARDEN: Yes, that would be correct.

MR. BOB PETERS: And I get that from the MIPUG Manitoba Hydro Second Round Question 1A. And -- and to be even more precise for the Board, Mr. Warden, that $159 million was paid by the limited partner of the

WPLP over to Manitoba Hydro?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And the limited partner in WPLP is in fact Manitoba Hydro.

(BRIEF PAUSE)

MR. VINCE WARDEN: That -- well, Manitoba Hydro is certainly the major partner in that partnership in -- as well as NCN. So I'm not sure whether NCN's portion is included in that $159 million -- that's why I'm hesitating -- but the Cree Nation partner would also contribute their proportion to that amount.

MR. BOB PETERS: Well, according to the MIPUG Manitoba Hydro Second Round question, it was the general partner of WPLP that paid money to Manitoba Hydro, and I'd understood I think from Mr. Page when he educated the Board two (2) years ago, that the general partner was in fact Manitoba Hydro.

MR. VINCE WARDEN: The -- the general partner is Manitoba Hydro, yes, and --

MR. BOB PETERS: All right.

MR. VINCE WARDEN: -- actually, in reading the answer to this, it does say the general partner.

MR. BOB PETERS: All right. So you suspect that Manitoba Hydro paid itself is what -- is what that practically amounts to on -- on paper?

MR. VINCE WARDEN: Yeah. You know, for purposes of this table, I'm not sure why it's included there. It complicates things unnecessarily, but, in effect, that's the back-and-forth transaction that takes place, yes.

MR. BOB PETERS: All right. And on a -- on a consolidated financial statement basis, that number disappears.

MR. VINCE WARDEN: It does.

MR. BOB PETERS: All right, because it's just Manitoba Hydro funding the transmission aspects of the -- of the Wuskwatim transmission project?

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

MR. BOB PETERS: When you say, Mr. Warden, that you're not sure if the numbers should even be depicted, if the number is not depicted then the total $602 million will increase by another $159 million, correct?

MR. VINCE WARDEN: Yes.

(BRIEF PAUSE)

MR. BOB PETERS: When we deal with capitalization back on Tab 12 of the book of documents, in 2010 the total OM&A was about $723 million, of which two hundred and thirty-one (231) was capitalized.

Would that be correct?

(BRIEF PAUSE)

MR. VINCE WARDEN: Sorry, Mr. Peters, were you -- you were referring to the '09/'10 --

MR. BOB PETERS: I -- I was, sir.

MR. VINCE WARDEN: -- fiscal year?

MR. BOB PETERS: Yes, starting with '09 and '10.

MR. VINCE WARDEN: Yep, total cost seven twenty-two nine fifty-one (722,951) of which two twenty-four (224) were capitalized. Is that --

MR. BOB PETERS: I had it a bit higher and I had two thirty-one (231) capitalized, but we are maybe looking at forecast material at the bottom part of the page.

MR. VINCE WARDEN: Is that updated?

(BRIEF PAUSE)

MR. VINCE WARDEN: We seem to -- Mr. Peters, are you referring to page 62 in your book of documents?

MR. BOB PETERS: I -- I was actually on 64, Mr. Warden, at Tab 12, and I don't think the update material from Manitoba Hydro changes the point, but of the 723 million that you will see under the fiscal 2010 column, the total OM&A costs before capitalization are shown as 723 million, and we see at the bottom, second line from the bottom under the same column area, 231 million was capitalized. And then we take it one (1) line further and $173 million of labour costs were included in the capitalized OM&A. Will you agree with that, sir, the Board interprets your evidence in that fashion?

MR. VINCE WARDEN: I -- I definitely see that on page 64. I'm not quite connecting it with page 62. There's a slight different there which...

(BRIEF PAUSE)

MR. VINCE WARDEN: Oh, okay, yes. Sorry. One (1) -- one (1) is actual and the other is forecast, so that's the difference.

MR. BOB PETERS: Yes, and I was -- I was

working off the forecast information so --

MR. VINCE WARDEN: Okay. You're correct.

MR. BOB PETERS: And then the same math -- the same process can be looked at for 2011, where $738 million of forecast OM&A is incurred, 235 million will be capitalized, and of that capitalized amount 176 million relates to labour costs?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: If we turn the page to 65 in the book of documents at Tab -- Tab 12 of Board Council's book of documents, and this is PUB Manitoba Hydro Second Round 2B, it appears -- would it -- would the Board get the correct interpretation, Mr. Warden, that 32 percent of all of Manitoba Hydro's labour costs are capitalized?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: How is that tracked in general terms?

(BRIEF PAUSE)

MR. VINCE WARDEN: You mean, how does that actually make its way into the system?

MR. BOB PETERS: How do you keep track of whether an individual's labour costs are going to go into the current expenses or the capitalized expenses basket?

MR. VINCE WARDEN: Well, that's basically achieved through the timecarding system that is in place. So we -- we do know which -- essentially which employees will be -- are capital oriented employees versus those that charge to maintenance.

And estimates are -- are provided of that ratio and they track their time as they -- as they work on different projects, so.

MR. BOB PETERS: So one (1) out of every three (3) Manitoba Hydro EFTs has their wages being paid for through borrowed debt as opposed to current consumer rates?

MR. VINCE WARDEN: No. No. No. No, all of our base capital is funded through internally-generated funds. It's only the major generate -- generating and transmissions costs that are financed -- a portion of those are financed through debt.

Our capital target, if you recall, we talked about our capital target being one point two zero (1.20), so in -- in the years where we exactly meet our capital target, 20 percent of generation transmission costs will be funded through internally-generated funds with the balance financed externally.

MR. BOB PETERS: I appreciate the answer, but I didn't quite understand it, Mr. Warden. I suggested to you that one (1) out of every three (3) Manitoba Hydro employee salaries were capitalized, and are you now telling me that it's not quite that high? That there's --

MR. VINCE WARDEN: No, no. No, I think I answered your question that -- that -- in the affirmative, that one (1) out of three (3), approximately, are capitalized.

You went on to ask, though, whether that meant that all those costs would be funded through debt, and I -- I tried to explain, that isn't the case.

MR. BOB PETERS: Okay. Of -- of the one-third (1/3) of the employees whose -- whose labour costs are capitalized, 80 percent of those employees' salaries are refunded and paid through debt.

MR. VINCE WARDEN: No. No, not necessarily. Of the total generation and transmission expenditures in any given year, if we meet our capital target again, and -- and quite often we exceed the capital target for capital funding, but in any given year where we met the target 20 percent of those generation and transmission expenditures would be funded through internally-generated funds.

So only 80 percent would be funded by

debt, much of which is for the purchase of materials and outside costs that would not be internal labour to Manitoba Hydro.

So in the case of Wuskwatim generating station, for example, the vast majority of -- of the costs being incurred there are for outside contract. Very little Manitoba Hydro labour and benefits are incurred there.

So a very small percent -- percentage of our labour and benefits would be funded by -- by debt.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, of the one-third (1/3) of the EFTs whose labour costs are capitalized, what percentage of that 32/33 percent of the work force's labour costs are paid through debt?

MR. VINCE WARDEN: I would -- you know, we don't track that particular statistic but I would say virtually zero.

All -- all of our major -- major projects have a very high component of contract, and that's the portion that's being funded through debt.

MR. BOB PETERS: And when --

THE CHAIRPERSON: Are you saying that

non-cash expenses, like depreciation, along with your net earnings is covering it. Is that what you're saying?

MR. VINCE WARDEN: No, I think the question is of our internal labour that we do capitalize. How much of that is funded through debt, and I'm saying to the extent that our internal labour is -- is used to fund -- or to -- for mas -- mainly on base capital, all of our base capital is funded through internally-generated funds; therefore, a very small percentage would be funded through -- through debt internally.

THE CHAIRPERSON: But net internally-generated funds include depreciation, amortization, and net earnings, correct?

MR. VINCE WARDEN: Oh, for sure. That's part of how -- what generates funds internally, yes.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Rainkie, an IFRS question for you. Will there be a need for more sophisticated timesheets under IFRS to directly track what's going to capitalized?

MR. DARREN RAINKIE: As I think I started out this morning explaining, Mr. Peters, we're currently looking at and discussing with our auditors if we can use our current system, I mean, which involves a huge amount of timecarding already. Let's not leave that impression, that we don't do any of it. And we're hoping that we can still use a variation on that methodology as opposed to going to more extensive timecarding. It doesn't mean that we won't have to use that as a means in various places to make sure that the rate costs are getting to capital and operating but right now we're obviously trying to make as small a changes to our systems as we can in terms of implementing IFRS. But if we have to to get the right costs to the right bucket, we will.

THE CHAIRPERSON: If you were a private firm with taxable income and having to pay taxes would you treat these expenses as an expense in the period incurred?

MR. VINCE WARDEN: Just to be clear, Mr. Chairman, which expenses are you referring to specifically?

THE CHAIRPERSON: These ones that are being capitalized. I'm just saying if you were a taxable corporation and paying income taxes wouldn't you expense these expenses as against your taxable income in the year that was incurred?

MR. VINCE WARDEN: Well, we're -- we're accounting for a cost in accordance with Canadian GAAP. And if we were a tax paying entity we would be looking for every advantage, of course, and we would stretch GAAP as far as we could in that direction. But we don't have that motivation, so, you know, we -- we'd probably -- as I mentioned earlier, we -- we've been aggressive in -- in capitaliza -- capitalizing our costs in the past, but that doesn't mean it's not in accordance with GAAP; it certainly is, so.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, I think you've agreed with me that all of these capital costs end up in CWIP or construction work in progress.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: Is there anywhere else that they would end up?

MR. VINCE WARDEN: Well, we -- we do have -- previously we -- we had certain deferred provisions, so we would ha -- or accounts, so we would have such things as planning studies, which we don't -- we've greatly reduced, that is, from what we had previously, so that's one (1) of the areas that we now charge more so to -- to operations than we did in years gone by.

But there's also Power Smart demand side management programs that are set up in a deferred account that are separate from CWIP.

MR. BOB PETERS: Mr. Rainkie, maybe I'm a bit slow on the uptake, but I was just thinking back to an answer you -- you gave before Mr. Warden. In terms of the IFRS impact on capitalized OM&A, you said Manitoba Hydro was studying that, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And Manitoba Hydro has already taken a provision for that or has taken a hit in its retained earnings or net income for a year on account of capitalized OM&A, correct?

MR. DARREN RAINKIE: That's right, we were talking about the '10/'11 year, in particular, the year that we were in, in the $18 million this morning.

MR. BOB PETERS: And in total -- or before that there was a $15 million provision.

MR. DARREN RAINKIE: That's what was in our forecast, yes.

MR. BOB PETERS: Yeah. When we look in Tab 13 of the book of documents and we -- we go to page 68 -- I guess I should start off, and I hate to, with an apology, but page 68 had some shading.

This is a page from your annual report, Mr. Warden, Mr. Rainkie, Manitoba Hydro's annual report?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: I tried to provide a few people with a -- a better photocopied version of it, but what you're showing here is that in 2010, major capital generation and -- and transmission projects, they make up -- sorry. Of those projects, only 55 or 50 percent shows up out of the $1.5 billion from what we saw in the previous allocation of CWIP.

MR. VINCE WARDEN: I'm not totally clear on the question, Mr. Peters.

MR. BOB PETERS: I was trying to -- let me go back. If you found -- on page 67 of book of documents, Tab 13, you will have seen and we talked about $602 million, Mr. Warden, as the -- as the components capitalized for Manitoba Hydro's major new generation and you thought that might be a little low but we were using $600 million?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: You thought perhaps that contribution didn't need to be shown, so you could bump it up to $760 million.

MR. VINCE WARDEN: Okay.

MR. BOB PETERS: Then, if we turn the page and look at the annual report for 2009 numbers, we see a total of $1.4 billion, construction in progress.

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And of that $1.4

billion, the $760 million from the previous page relates to the major capital projects only, correct?

MR. VINCE WARDEN: It relates to those major capital projects. Yes, Mr. Peters.

MR. BOB PETERS: And between the 760 million and up to the $1.084 billion, those would be other capital projects that you're -- that Manitoba Hydro works on that you're not calling your major projects?

MR. VINCE WARDEN: Well, we -- we call these major new generation and transmission and there is a fairly -- that -- the word "new" is significant in this -- when we're looking at this list and comparing it to the total because there's a lot of generation and transmission projects that aren't new that are -- that form part of the -- the amount that makes its way into the annual report.

So a lot of the upgrades to the -- the Bipole, for example, our HVDC system, large capital expenditures -- they're still part of generation, but -- but aren't new generation. So that would be the major reason for that difference.

MR. BOB PETERS: All right. And if we move -- if the Board moves ahead to total CWIP for March 31 of 2010, it's about $2 billion, correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And would the Board be correct in concluding that, of annual capital of expenditures of around $1.2 billion, 700 million is eligible for capitalization and probably 500 million is not eligible?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, can you repeat that question and maybe give us a reference of where you're finding those -- those dollars? Are you saying if we took total spending in terms of both operating costs and capital costs, you know, is that where you get your total -- of 1.5 billion I think it was -- from, or are you talking -- are you talking what's involved in CWIP versus what was on that IR we were just looking at?

MR. BOB PETERS: I was going more the latter, Mr. Rainkie, but I was suggesting that, of annual capital expenditures, if -- if they're in the ballpark of 1.2 billion, just a bit more than half of that goes into capitalization and the other half is not eligible for capitalization?

MR. DARREN RAINKIE: Mr. Peters, sorry, maybe it's terminology. You're saying we have annual capital expenditures of 1.1 or 1.2 billion, while those are capital expenditures they're roughly broken down as Mr. Warden said, maybe about 400 million to base capital, sustaining capital if you like, and -- and 800 million to new generation and transmission. Is that what you're trying to get at, the breakdown between those two (2) subcategories of capital?

MR. BOB PETERS: What I was trying to get at was the -- every year there's going to be some of that base capital that -- that comes into service, and it's not longer capitalized, and I think that's what you were just telling the Board.

MR. DARREN RAINKIE: Well -- well, no, Mr. Peters, base cap -- base capital is capitalized. I mean, by definition, if something is capital, it's capitalized. So I guess I'm -- I'm not flying at the same altitude with you.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, I'll -- I'll check your question. I -- I think your answer, the second to the last answer might have clarified it but let me check that. I want to turn on Tab 13 of the book of documents to page 69. And this is supposed to indicate the total capitalized costs to March 31 of 2010, if I understand the response to PUB Manitoba Hydro First Round 204 revised?

MR. DARREN RAINKIE: The schedule -- the schedule is -- is both the capitalized O&A as at March 31st of each of those years and the finance expense that's allocated to construction.

(BRIEF PAUSE)

MR. BOB PETERS: Is all of this amount shown, Mr. Rainkie, in the CWIP account?

(BRIEF PAUSE)

MR. VINCE WARDEN: It would all make its way through CWIP.

MR. BOB PETERS: And what about the pre-2004 capitalized costs, Mr. Warden, where are they, or how --

MR. VINCE WARDEN: Well, the --

MR. BOB PETERS: -- are they factored in?

MR. VINCE WARDEN: -- capitalized costs remain in CWIP until the project is placed in service and then they -- they would be allocated to fixed assets or plan -- property plant and equipment in service.

(BRIEF PAUSE)

MR. BOB PETERS: When Manitoba Hydro looks forward, what's the order of magnitude of OM&A that will be capitalized, Mr. Warden?

MR. VINCE WARDEN: Well, I think the -- it depends a lot on the capital activity going forward but the ratio we talked about earlier would probably be maintained.

MR. BOB PETERS: Well, would it -- would it peak or parallel the escalation -- the escalation -- excuse me, in the finance costs that are shown on the same sheet?

(BRIEF PAUSE)

MR. VINCE WARDEN: Well, the finance expense allocated to construction is -- is a function of the capital program. So there -- there's definitely a relationship between the two (2) if -- if that's your question.

MR. BOB PETERS: Mr. Warden, under Manitoba Hydro's Preferred Development Plan by 2024, let's assume Conawapa and Keeyask will be in service. Have I got that approximately correct?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And from 2012 to 2024, there's about eleven (11) years for that to happen, correct?

MR. VINCE WARDEN: Well, to be clear, that's the -- the first unit, so, yeah, the Conawapa would not be fully in service by that point in time.

MR. BOB PETERS: You'd expect about 3 to $400 million of capitalized O&M expenses per year?

(BRIEF PAUSE)

MR. VINCE WARDEN: Based on -- on the -- the schedule we have before us at page 69 that looks like a reasonable -- reasonable assumption.

MR. BOB PETERS: And on top of that will be the capitalization of costs to construct the generating stations of many billions of dollars?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And just remind the Board as to how that money is going to be paid off.

MR. VINCE WARDEN: How the money that we're borrowing for the new generating stations, the capital development plan?

MR. BOB PETERS: Once these plants come in service, where will the funds come from to pay off the financing costs and the capital costs that are coming through the income statement at that time.

MR. VINCE WARDEN: Well, that's the reason that we -- we're endeavouring to have fixed export contracts in place. So those contracts will be funding -- paying the operating costs of the vast majority of -- of the costs incurred, the incremental costs incurred in the early years.

As time goes on, of course, that as low growth and Manitoba catches up to those plants then those costs will -- would be gradually transferred to rate base.

MR. BOB PETERS: We'll get into some more of that, I guess, it's going to be next week on Mr. Cormie's return, but will there be the expectation that there will be fewer EFTs at Manitoba Hydro once construction is finalized?

MR. VINCE WARDEN: Well, there's definitely been some ramping up of EFTs related to the capital construction program that -- the preferred development plan, and when -- when that plan is completed, yes, those EFTs will no longer be required.

MR. BOB PETERS: Any estimate on the number, Mr. Warden?

MR. VINCE WARDEN: Well, I -- I don't have those numbers readily available.

MR. BOB PETERS: But you've projected through as to what the EFT reduction would be once Conawapa and Keeyask are in service?

MR. VINCE WARDEN: Well, that -- that would be part of the whole scenar -- scenario planning that we do for those projects, yes.

There will, of course, be EFTs required for operating those facilities, as well, as we're seeing with Wuskwatim coming into service. There have -- have been increased costs associated with the operation of that plant.

MR. BOB PETERS: Have you also done planning studies and -- or the like in the event that your preferred development plan does not proceed and that there was no construction of Conawapa and Keeyask, as to how many fewer EFTs would be needed?

MR. VINCE WARDEN: Not really specific to EFTs, if Conawapa -- if the pre -- the preferred development plan didn't proceed and Keeyask and Conawapa were not required for that reason, there -- there's bigger issues than the few EFTs that we've got for that purpose.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Chairman and Board members, I'm going to turn to finance expenses, a new topic with the panel, and maybe I give -- that means Mr. Rainkie and Mr. Warden get a break and Mr. Schulz takes over, I'm not sure.

But Mr. Schulz, in -- welcome here, first of all.

MR. MANFRED SCHULZ: Delighted to be here.

MR. BOB PETERS: And in Tab 4 of the book of documents is the IFF which probably has some of your fingerprints on it, as well. The finance expense shown for 2010 is $417 million, correct?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And it's -- it's $6 million higher before corporate allocation, also correct?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: Is that an allocation of finance expense over to Centra Gas?

MR. DARREN RAINKIE: Mr. Peters, the -- that's the amount of the costs that are allocated to the electric operations. I think the -- the total quantum's about 18 million and six (6) -- sorry. The -- the 8 million is the amount that's -- that's allocated to electric operations. The corporate allocation, that's what you're referring to?

MR. BOB PETERS: No, I was actually referring to the finance expense before corporate allocation and then finance expense, I presumed, after corporate allocation, and there was a $6 million difference, and I'm wondering if that was the 6 million that would flow over to Centra.

MR. DARREN RAINKIE: A $6 million difference between what, Mr. Peters?

MR. BOB PETERS: Sorry, Mr. Rainkie, I almost regret bringing this up. Under the expenses, finance expense before corporate allocation is shown in 2010 as -- as $423 million, correct?

MR. DARREN RAINKIE: That's correct.

MR. BOB PETERS: And why does it go down to 417 million in the next line item?

MR. VINCE WARDEN: You're right, Mr. Peters, that is after the corporate allocations, so.

MR. BOB PETERS: And is that the corporate allocation then to the gas side of the business?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Mr. Peters, I think it's -- this is why it's good to have a back row for some of these fine details. Mr. Derksen tells me that in the corporate allocation line is not only finance expense but there's also some depreciation and amortization in that line, so -- of $2 million, so the difference between the four twenty-three (423) and the four seventeen (417) is indeed finance expense that is part of the corporate allocation line. Sorry for the confusion.

MR. BOB PETERS: That's okay. I knew Mr. Derksen would know. Mr. Schulz, the largest component of expenses incurred by Manitoba Hydro is the finance expense, correct?

MR. MANFRED SCHULZ: As per the information on this schedule, that is correct.

MR. BOB PETERS: And it's always increasing, it appears. It's -- if you assume a constant debt rate, it's going to always increase.

MR. MANFRED SCHULZ: The finance expense through this period of time is increasing, correct.

MR. BOB PETERS: And I don't know if you've heard or not, but Mr. Warden once gave a soliloquy about, you know, debt is good, and Manitoba Hydro -- pardon me?

MR. ROBERT MAYER: What do you mean once?

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Schulz, Manitoba Hydro notionally never pays off its debts, does it; it only refinances them?

MR. MANFRED SCHULZ: Some of the debt is retired through contributions and withdrawals out of the sinking fund but a large portion of it is refinanced.

MR. BOB PETERS: In essence, as the capital structure of the Corporation grows, the -- the debt or the mortgage has to keep growing to keep up to it; that would be an analogy that you'd accept?

MR. MANFRED SCHULZ: That as one makes investments in your plant, your debt would go up.

MR. BOB PETERS: And the Board will see, if it turns to the balance -- the balance sheet from IFF-09 -- that's also found in Tab 4 of the book of documents; I guess it's on page -- it's numbered 16 in the top right-hand corner and it's page 4 of 7 of the IFF. And the -- the long-term debt of Manitoba Hydro goes from I guess $7.8 billion in 2010?

MR. MANFRED SCHULZ: Right.

MR. BOB PETERS: And I'm looking -- and I'm looking on the long-term debt line. It -- it'll increase in the first test year to $8.6 billion, Mr. Schulz?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And then, in the second test year, it's already up to $9.1 billion, correct?

MR. MANFRED SCHULZ: Nine point oh five four (9.054), correct.

MR. BOB PETERS: Mr. Schulz, Manitoba Hydro's debt, their long-term debt, is -- it's notionally referred to as flow-through debt of the Province of Manitoba, and -- and maybe it's more than notional, I don't know, but it's -- is that your understanding?

MR. MANFRED SCHULZ: Our long-term debt is an advance from the Province of Manitoba. They do the execution of the long-term debt and flow it through to us.

MR. BOB PETERS: All right. So they're the ones signing the -- they're indenturing themselves and then they're just flowing it down to you pursuant to some other agreement that it'll get repaid?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: Manitoba Hydro actually -- I'm sorry. Manitoba Hydro doesn't actually go out and borrow the money; it's the Province of Manitoba that goes out to borrow the money?

MR. MANFRED SCHULZ: For our long-term debt, that is correct.

MR. BOB PETERS: And your answer was a bit qualified, Mr. Schulz, but you were therefore suggesting that your short-term debt is a facility arranged by Manitoba Hydro?

MR. MANFRED SCHULZ: As per the statute, we can borrow up to $500 million on short-term borrowings under our name.

MR. BOB PETERS: And you have a short-term facility of $500 million?

MR. MANFRED SCHULZ: That would be our maximum that we have for temporary borrowing, that's correct.

MR. BOB PETERS: Okay. And I'm asking, is -- is it -- does it in fact exist as a facility up to $500 million that you can use at any time?

MR. MANFRED SCHULZ: Well, this is part of our short-term borrowing program, and we've referred to it in the past and you have seen it in past representations, et cetera, and other places as our short-term debt. And our short-term debt is under our own name although still under creditworthiness as a flow-through credit for the Province of Manitoba.

MR. BOB PETERS: And the Province of Manitoba guarantees that short-term debt for Manitoba Hydro?

MR. MANFRED SCHULZ: In effect, yes.

MR. BOB PETERS: When you say "in effect," explain -- explain what you mean by that.

MR. MANFRED SCHULZ: I mean yes.

MR. BOB PETERS: Well, when Manitoba Hydro has to go out and borrow the money, the $500 million, it needs the Province of Manitoba to -- to sign the guarantee, is that how it works? I don't normally deal in numbers with this many zeroes, so.

MR. MANFRED SCHULZ: Just as a point of comparison, on our long-term debt, for instance, they would execute the financing, in effect almost act as our intermediary. They obtain the funds and they advance us the funds. So they're the ones who are doing the transaction and the execution on it.

On the short-term debt, we actually at Manitoba Hydro are the ones who are making the contacts into the financial institutions to obtain the short-term borrowing. The guarantee for all of those funds, both short and long, are provided through the Province of Manitoba.

MR. BOB PETERS: And it's a condition of your getting the short-term debt from your lenders that there be a provincial guarantee on it?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And that provincial debt guarantee fee is 1 percent on the -- I think it's on the outstanding balance at year end of the long-term and short-term debt?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: Mr. Warden gave us some -- some information earlier, and I -- do you understand that the Province of Manitoba's total debt for the first test year of 2011, on a summary net basis, excluding Manitoba Hydro, is about $14 billion?

MR. MANFRED SCHULZ: Subject to check, I'll accept that.

(BRIEF PAUSE)

MR. BOB PETERS: It's probably beyond me, Mr. Schulz, but when one looks at the 2010 budget of the province, their subtotal of their -- their budgeted debt is shown as $23.4 billion, and then there are some adjustments made to that, one (1) of which is the debt incurred for and repayable by Manitoba Hydro-Electric

Board, and it comes down to eventually a summary net debt of $13.995 billion.

Sounds familiar?

MR. MANFRED SCHULZ: It's familiar, but of course I don't have the paperwork immediately in front of me, so I will accept that subject to check.

MR. BOB PETERS: All right. And Mr. Warden suggested previously that Manitoba Hydro's debt was in about the 35 percent of the provincial debt range?

MR. MANFRED SCHULZ: Currently, it's certainly in that area.

MR. BOB PETERS: But it's going to become even larger than the provincial debt eventually?

MR. MANFRED SCHULZ: Well, Manitoba Hydro's debt is part of the provincial debt.

MR. BOB PETERS: On a summary net debt basis, where it's taken out of the provincial debt calculation, Manitoba Hydro's debt will surpass the provincial debt once Manitoba Hydro is into its construction program?

MR. MANFRED SCHULZ: I wouldn't want to hypothecate (sic) on what the percentages would be into the future. I don't know exactly what their plans would be for their financing, what their requirements would be.

MR. BOB PETERS: All right. Well, that's

a fair answer, Mr. Schulz. What you can tell the Board is that as Manitoba Hydro embarks on its major generating and transmitting asset development proj -- projects, you expect that Manitoba Hydro's portion of the provincial debt will increase from the 35 percent it is now to a greater number, perhaps a much greater number?

MR. MANFRED SCHULZ: All other things being equal, an expansion of Manitoba Hydro's capital program requiring further debt financing will increase the overall percentage.

MR. BOB PETERS: All right. Thank you. In -- in terms of a brief review of Manitoba Hydro's actual finance expenses versus their forecast finance expenses, when you -- when Manitoba Hydro was last before this Board in 2007/'08, it appears that the finance expense is about $6.9 million lower than what was forecast?

MR. MANFRED SCHULZ: Could you please show me where that reference would be?

MR. BOB PETERS: I think it's in book of documents, Tab 18, which is Manitoba Hyd -- PUB Manitoba Hydro First Round 36B.

(BRIEF PAUSE)

MR. BOB PETERS: It's -- it's the top right-hand corner, Mr. Schulz. It's page number 120 in the book of documents. It is found in Tab 18 and I think it's the last page that you'd have.

MR. MANFRED SCHULZ: I have that, sir.

MR. BOB PETERS: And in looking at the variance column, in approximately the middle of the page, when we compare the forecast to actual it appears that there was a $6.9 million variance?

(BRIEF PAUSE)

MR. MANFRED SCHULZ: Just so that we're on the same wavelength on this, so the six point nine one four (6.914) number, is that what you're looking for?

MR. BOB PETERS: It is, yes.

MR. MANFRED SCHULZ: And that would be the variance in '07/'08, and this is looking at the total interest in short and long-term debt as opposed to total finance expense, but I think we're -- we're on the same page now.

MR. BOB PETERS: Thank you for that clarifi -- for that clarification. The -- the -- the variance was due to Manitoba Hydro's changes in capitalizations. Is that your understanding, Mr. Schulz?

(BRIEF PAUSE)

MR. MANFRED SCHULZ: I wouldn't say it's a change in capitalizations. This would be the difference favourable between the total interest in short and long-term debt that was forecast of 546 million, less the actual that we had of 539 million.

And that is representative, largely, and you can see that on the variance column, 'D' minus 'C', largely due to a change in gross interest whereby the gross interest came in less than what we had forecast.

MR. BOB PETERS: But finance expense was actually 2.2 million higher than forecast in '07/'08 when we get to the bottom line, Mr. Schulz.

MR. MANFRED SCHULZ: The bottom line as part of total finance expense? Is that what you're referring to?

MR. BOB PETERS: Yes, sir.

MR. MANFRED SCHULZ: The total finance expense, looking at this schedule, became $2.25 million less than what we had in -- or more than we had anticipated through the forecast.

(BRIEF PAUSE)

MR. BOB PETERS: When we move ahead, Mr. Schulz, to fiscal '09, finance expense appears, or the -- certainly the -- I call it finance expense, was $54 million less than forecast, and we see that in the middle of the page at the far right-hand column under the '08/'09 variance?

MR. MANFRED SCHULZ: Yeah. Just so that we're clear, we wouldn't consider that to be total finance expense.

That's the -- the top category of finance expense and that's pertaining to the total of short and long-term interest expenses before the bottom component, which is all of the adjustments for capitalized interest and -- and those matters. And -- and yes, on those top line aspects of finance expense there's a $54 million favourable variance from forecast.

MR. BOB PETERS: And after the other finance expense adjustments, as you've called them, the changes in capitalization, that reduced the savings to the consumers to about $19 million.

Would that be correct?

MR. MANFRED SCHULZ: The total finance expense was slightly over $19 million favourable to forecast.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz, just as Mr. Warden and I talked about operating and maintenance expenses, the entire amount of finance expense, or -- will not be charged to today's ratepayers through rates at this time, will it?

MR. MANFRED SCHULZ: Perhaps you could just clarify that question for me?

MR. BOB PETERS: Well, from IFF-09, the $413 million of finance expense is out of a total of about $544 million of finance expense.

Is that correct?

MR. MANFRED SCHULZ: I'm just trying to find your references for your numbers, Mr. Peters.

MR. BOB PETERS: I would have got those, I suppose, back in Tab 4 of the book of documents and the gross finance expense down to the net finance expense was what I was focussing on the for the 2011 year.

MR. MANFRED SCHULZ: So if you could, please, rephrase the question, and...

(BRIEF PAUSE)

MR. BOB PETERS: Perhaps a better place,

Mr. Schulz, if you're turning to page 118 of the book of documents, Tab 18.

MR. MANFRED SCHULZ: I'm with you now.

MR. BOB PETERS: All right. Under the forecast 2011 fiscal year, the total finance expense is forecast at $412.5 million --

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: -- out of a total of $553 million dollars of finance expense in that same for -- fiscal year?

MR. MANFRED SCHULZ: Yes, so on page 118 for the 2010/'11 year the total finance expense that's forecast is 412 million, five thirty-nine (539) of which -- that's a component of the -- the total interest on short and long-term debt is 553 million.

(BRIEF PAUSE)

MR. BOB PETERS: Approximately $131 million of that is capitalized; would that be correct?

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And in 2012 of -- there would be $137 million capitalized in that test year as well.

MR. MANFRED SCHULZ: Correct.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz, when we look at the -- the 2011 test year, Manitoba Hydro will have to pay out interest on short and long-term debt of about $553 million, we've agreed on that.

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And then there's a question that Mr. Rainkie will remind us of of -- of the timing of that, and about $130 million or $131 million of that will end up being capitalized to be paid in future time periods.

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: If we turn to Tab 19 of the book of documents I think we'll find Manitoba Hydro's policy on capitalization. And is it correct --

THE CHAIRPERSON: Mr. Peters, if I could intervene, I think we'll take the break now.

MR. BOB PETERS: Oh, certainly, sir. Thank you.

THE CHAIRPERSON: Thanks.

--- Upon recessing at 2:42 p.m.

--- Upon resuming at 3:11 p.m.

THE CHAIRPERSON: Okay, folks. If we could resume with Mr. Peters.

(BRIEF PAUSE)

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Schulz, before the break we were looking at book of documents, Tab 18. I'd like to bring you back to that same tab. The page number in the top right-hand corner is 118, and it is page 2 of 2 of Manitoba Hydro's response to PUB Information Request First Round 36A. Have you located that, sir?

MR. MANFRED SCHULZ: I have, sir, thank you.

MR. BOB PETERS: We've -- you're welcome. We've talked about some of the line items, and there's one (1) line item that's adjusting the total interest on short and long-term debt, and there's an adjustment made on account of realized foreign exchange gains or losses on debt and cashflow hedges. Have you found that line?

MR. MANFRED SCHULZ: Yes indeed.

MR. BOB PETERS: And can you explain to the Board, what are the adjustments for foreign exchange?

MR. MANFRED SCHULZ: The adjustments for foreign exchange broadly pertain to the revaluation of our US-denominated debt. Every month based on our month-end noon rate from the previous month's end, we revalue our US debt such that the difference goes into the balance sheet, and so that is part of the revaluation that happens to adjust the Canadian equivalent debt on our balance sheet. And so that's, in broad terms, what the revaluation is for.

MR. BOB PETERS: I take from your answer that that revaluation occurs you said on a monthly basis?

MR. MANFRED SCHULZ: Our balance sheet is always calibrated on a monthly basis, so at the end of every month, as we're doing it right now, we redo all of the revaluations on all of our US-denominated debt, correct.

MR. BOB PETERS: And just so that I understand -- you know, you're talking to a guy who can barely figure out how to get to Fargo and exchange his money. So -- so when we -- when you talk about US-denominated debt, when the Canadian dollar gets close to parity with the American dollar that's not necessarily good news then for Canadians, is what you're telling us?

MR. MANFRED SCHULZ: Well, I think it depends if you're an importer or an exporter. It depends where you're sitting.

MR. BOB PETERS: All right, but what

happens in your debt is that, if -- if you figure out what your debt is costing, you calculate that in US dollars every month and then equate that to Canadian dollars by way of the exchange rate?

MR. MANFRED SCHULZ: Correct. So every month we take what the -- the US debt was in US dollars and we make the translation, the equivalent of it, into Canadian dollars.

MR. BOB PETERS: And so, in recent months, with the Canadian dollar climbing as against the US dollar, you have less US debt to pay, would that be correct?

MR. MANFRED SCHULZ: Well, our debt is our debt. It's the Canadian equivalent. As the Canadian dollar is appreciating or strengthening, the equivalent Canadian dollars to make our -- our -- our principal payment or our debt servicing costs go down as a function of Canadian dollars. It's no different than if you were to go to Fargo; you can now buy more or pay less for the same amount. Similarly so for our debt servicing costs now with the strengthening dollar. Our finance costs for the Canadian equivalent of that portion is lower.

MR. BOB PETERS: The Canadian equivalent is lower and we see under actual 2007/'08 that it was lower in that year by about $52.4 million, would that be correct?

MR. MANFRED SCHULZ: Well, it's interesting, because now we're going to have to get into the complexities of our accounting hedges in order to explain some of that because what I was speaking of before was sort of the natural hedging that we have in terms of -- and bear with me perhaps on this, but as part of our natural hedging we have export revenues in US dollars and then we have interest payments and other things in US dollars and so that they sort of calibrate and balance one another off.

The general principle there is that we want to create some measure of income statement indifference. Think of it as a rising tide raises all ships, or -- or lowering of that, so our export revenues may go down but so do our finance expense. And so that's the benefit of that. And that's why we have US denominated debt to sit opposite our export revenues.

The challenge for us, though, becomes when we have to revalue our -- our US denominated debt, and so every month the portfolio of our US debt would need to be revalued. So then we make the adjustment from an accounting perspective onto the balance sheet for our long-term debt but the other half of the debit and credit has to go somewhere.

And so without having accounting hedges, that would hit our income expense, and -- or our finance expense, more specifically, so we set up accounting hedges so that that difference therefore goes to what we might call a parking lot -- call it OCI, so that all of that translational risk doesn't hit immediately onto our -- our income statement.

So we set up accounting hedges for that and then what we do is we have a cashflow hedges between the export revenues that we have set up for that against our US denominated long-term debt such that when those export revenues are realized in accordance with our schedule, that -- then therefore we have a portion of that US debt that we bring into the -- the effects portion of that becomes realized in the period in which we have the export revenues that were realized.

MR. BOB PETERS: Did I understand from your answer that when you revalue US denominated debt, half of it only goes by way of accounting hedges into AOCI?

MR. MANFRED SCHULZ: No. The -- we have cashflow hedges struck between our export revenues and our -- a large portion of our US denominated debt.

And so it's not half, it's the largest component of our US debt portfolio is in the cashflow hedges.

(BRIEF PAUSE)

THE CHAIRPERSON: When you record a sale in US dollars, you got to convert into Canadian for your financial statements, correct?

MR. MANFRED SCHULZ: Export revenues as they're incurring, correct. We use the same new month end rate.

THE CHAIRPERSON: Exactly. But I mean the event of the month is the event of the month and you book it in that month.

MR. MANFRED SCHULZ: Correct.

THE CHAIRPERSON: So on the debt side, if you owed -- if you borrowed $300 million US, let's say, and at one (1) time that was worth $400 million Canadian, and all of a sudden it's now worth 400 million, it's now worth 300 million Canadian is the same as 300 million US, you're liability has fallen by $100 million, correct?

MR. MANFRED SCHULZ: In Canadian equivalency, correct.

THE CHAIRPERSON: So on mark to market in your balance sheet, your long-term debt is $100 million smaller, correct?

MR. MANFRED SCHULZ: In that instance, correct.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: And these are one (1) time adjustments that are made, Mr. Schulz?

MR. MANFRED SCHULZ: As the revenues that are pertaining to the cashflow hedges are realized then for that increment the difference of the associated long-term debt, the -- the -- so for instance we had it associated with a piece of long-term debt that had an in -- historical effects rate of say one point two (1.2).

So the difference between the one point two (1.2) and the effects rate of the day for the equivalent amount of our export revenues that came in during that month would become realized.

The summation of those bits and pieces are what you were referring to and get total -- totalled into the 52 million and those other pieces. And that's what we call the realization of our cashflow hedges.

MR. BOB PETERS: When one looks at the impact that these realized foreign exchange losses or gains have on net income, would this be then an increase in net income shown here in '08 of $52.4 million, Mr.

Schulz?

MR. DARREN RAINKIE: Yes, Mr. Peters, it's decreasing financing expense, so the corollary of that is it's increasing net income.

MR. BOB PETERS: And Mr. Rainkie, following that same mind set through the -- through the chart, in '09 finance expense was $11 million less than what it would otherwise have been just on account of the foreign exchange gains.

MR. DARREN RAINKIE: Yeah, that's the same number in the next year, Mr. Peters.

MR. BOB PETERS: Yes. So the answer applies there as well.

MR. DARREN RAINKIE: That's right.

MR. BOB PETERS: And then when we see the numbers reverse themselves in forecast of 2010, that forecast, is that forecasting the Canadian dollar will be above the American dollar by that point in time?

MR. DARREN RAINKIE: What's that -- Mr. Peters, what -- what that's looking at is is as we -- as we realize our -- let me try because this is a very complex accounting topic, and hopefully between me -- me and Mr. Schulz we can make it understandable, is that as we -- as we get in the sinking fund revenues we take a portion of those -- sorry, as we get in the US revenues we take a portion of those and put them in the US sinking fund.

Now we have a US asset and we have a US liability. And when we take a look at -- at -- what we do is we -- we take those revenues that are coming in and we designate them against certain debt issues, and those debt issues will have a certain FX rate, a historic FX rate that they were put on our books at; let's say they're one twenty (120) or something like that.

So as we receive those revenues now we can take a look at the dif -- the difference between the current FX rate and the rate that was built into those old debt issues. We take that differential, and that's what we recognize as either a gain or a loss on that particular transaction. I don't know if that's any simpler or not but that's how Mr. Ma -- Mr. Schulz was saying, is there's a cashflow hedge, and then there's a fair value hedge. There's two (2) hedges involved in this whole process.

But once we have that US -- those US dollars in designated against a certain US piece of debt, that's locked in, right. We -- we have an asset and we have a liability and the differential is either a gain or a loss. And any -- any change in the FX rate on a go forward basis, the loss on one will offset the gain on the other or vice versa.

So you know, in your Fargo example, let's say you wanted to buy a TV down in Fargo and it was going to cost you a thousand dollars. One (1) of your strategies if you're worried about the exchange rate was going to move on, you would be buy -- go to the -- the bank and buy a thousand US dollars. Once you have those dollars in place, a gain or loss on -- on, you know, the -- the dollars that you have in the bank versus the obligation you have to pay for the TV, as it goes up down, the gains and losses net out.

So that's why we can realize the gain or loss on that particular hedge, because we have received the US money and we now have it in our -- in our bank account, in our sinking fund. I'm not sure that -- if that simplified things but I'm hoping we're getting closer. This is very -- it's one (1) -- financial instruments are one (1) of the most complex areas of accounting to try to understand.

THE CHAIRPERSON: But isn't the most simplest explanation is is that in '07/'08 actual you deducted $52 million from your finance expense to arrive at 401 million and that deduction is attributed to your foreign exchange transactions and you've got net foreign exchange transactions the next year that have also managed to end up reducing your finance expenses? In '09, '10, '11 you forecast a slight drift the other way which actually has increased what otherwise would have been your finance expense.

MR. MANFRED SCHULZ: If I may, just as a point of clarification.

THE CHAIRPERSON: Like I'm trying to separate it from your top line export revenues, which I think we all understand you're taking the US dollars, you're putting them in your Canadian bank account and it's got a Canadian value to it. On the other hand, I'll give you an example. If the Canadian dollar was sixty-two (62) cents worth US and it went to a dollar, you'd have a massive foreign exchange gain. And if it stayed at a dollar and never changed again, that would be the end of the economic transaction, correct?

MR. DARREN RAINKIE: Mr. Chairman, can I -- can I try one (1) more time, particularly with the -- with the $52 million figure in 2007/'08. What we do from an accounting perspective is when we receive those US dollars we -- we indicate or designate which debt issue those dollars will be used to repay.

And in that particular year, I think it was, and Mr. Schulz can help me out here, Series DE, one (1) of our debt issues that was done at about a rate of about one fifty-nine (159), I think it was, US, was the -- what -- what we were designating those US revenues to cover off in the future.

Now, the FX rate was about par for that year, so I think we put about $100 million US into the sinking fund. And so what we did is we said, Okay, we now have $100 million of -- of a sinking fund asset that we can designate against $100 million of that debt. So we now know that we can recognize the difference between the current FX rate of one (1) and the -- and the rate that that debt was issued at, one fifty-nine (159).

I should -- this probably wasn't right at par, because there's fifty-two (52) points difference between -- in my example, not $100 million, but -- but this is -- this has got to do with the revenues that we're getting in and putting in the sinking fund and designating that against a piece of debt which we know what the historical FX rate is.

And at that point, we know that we can recognize the gain or loss on the difference between the current FX rate and the rate that that debt was issued at way back when, because we have an asset and an off -- an offsetting liability. And from that point on they will move in lockstep. There's no more gain or loss on that transaction.

I hope we're getting a little bit closer here.

THE CHAIRPERSON: Okay. I -- I think we'll move on, Mr. Peters. We'll just have a look at the -- the audited financial statements when we have more time. Thanks.

MR. BOB PETERS: Thank you, Sir.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, Mr. Schulz, Mr. Rainkie, we've talked about the capitalization policy, and...

(BRIEF PAUSE)

MR. BOB PETERS: If I might just have a further moment, I want to refer back to a document that I can't quite locate at this time.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Warden, I -- I'm not sure the numbers need to be precise, but we talked about different costs being capitalized to the major new generation and transmission projects.

Do you recall that discussion?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And at book of documents, Tab 13, we had a listing of some of the capitalized costs against the various projects.

(BRIEF PAUSE)

MR. BOB PETERS: If I also look at book of documents 19, I understand that the total Keeyask, as an example, capitalized finance expenses are sitting at about $400 million.

Would that be right?

MR. VINCE WARDEN: I think you said total capitalized finance expense. No, that's the total of capitalized costs; about $400 million, yes.

MR. BOB PETERS: $38.24 million of finance expense was capitalized to Keeyask and -- and forecast in 2012, is that also right?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: All right. And so the total Keeyask -- and maybe I did misspeak, but it's around $400 million?

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

MR. BOB PETERS: And we'll get into more

specifics on that. But you told the Board earlier that your capitalization policy was to bring those costs over to the balance sheet and start depreciating them and charging finance expense against them in the income statement once they come in service, correct?

MR. VINCE WARDEN: Correct.

MR. BOB PETERS: What happens if Keeyask is not built by Manitoba Hydro? What happens to that $400 million that you've told the Board is sitting in the CWIP account, or capitalized against Keeyask?

MR. VINCE WARDEN: It would really depend. Depend on the circumstances of Keeyask not getting built. I think ultimately all northern generation will get built; it's a question of timing. Unless there's some major technicological breakthrough, hydro electric development is still the most economical way to produce power overate long term. So -- and the most environmentally friend.

So I think it will get built. So if -- if it -- if for some reason the sales -- the major power sales didn't proceed, we would be looking for another buyer; and there may be some delay in building Keeyask, in which case we would hold those costs in suspension until such time as we restarted.

If -- in the unlikely event that Keeyask was never built, then we would have to look at how we were going to write those costs off against operations, or perhaps a direct charge against retained earnings. That would be a pretty extreme event though, and I don't anticipate that will ever happen.

MR. BOB PETERS: Well, just on that point, why was Conawapa 1 written off against retained earnings? Because it was a northern Manitoba development that was just essentially held in suspension, or postponed.

MR. VINCE WARDEN: Yeah. Well, like I mentioned, Conawapa will be the largest plant on our -- our system when it is eventually built: 1,485 megawatts. It's a huge plant, and the domestic load could not carry that on it's own, so when the power sale fell through on Conawapa back in the '80s, early '90s, there was no option. We -- we had no alternative at that point in time but to -- but to recover the costs that we could, and we recovered most of them from the counterparty, and then a small charge against retained earnings.

So not to -- too different from Keeyask perhaps, except that the likelihood of Keeyask proceeding, and the size of the plant, another counterparty, much more likely that that would proceed. So it's kind of a different situation than what was -- we had with Conawapa.

MR. BOB PETERS: Doesn't IFRS instruct Manitoba Hydro that if for some reason Keeyask is taken out of the preferred development plan and not proceeded with, that it then needs to be -- have all those costs either written off against income, or retained earnings?

MR. VINCE WARDEN: Again, it would depend. If it was only being suspended for a short time, then -- then based on our reading of IFRS there is a possibility of holding those costs in suspension until such time as we restarted.

MR. BOB PETERS: What's a short period of time?

MR. VINCE WARDEN: Well, that -- that is a matter of judgment, but five (5) to ten (10) years, perhaps.

MR. BOB PETERS: So even with no other purchaser in the wings -- although we don't know where Mr. Cormie is, but maybe he's out finding that person, or that party -- but you could, under IFRS, hold off five (5) to ten (10) years without having a definitive requirement?

MR. VINCE WARDEN: Well, as I mentioned it is a matter of judgment, and I don't know that we have an absolute definitive answer on that. That's something we have been talking to our financial advisors on, and our external auditors. If -- if the -- the scenario did unfold as you're describing, we want to make sure we're prepared to deal with that.

So we're looking at that event, but -- eventuality, but again, very unlikely.

MR. BOB PETERS: When will Manitoba Hydro have a definitive position on that event, as we've hypothesized it?

MR. VINCE WARDEN: Well, we're -- the sales with Minnesota Power, Wisconsin, are still subject to ratification, final approvals, regulatory and other, so we aren't going to know that definitively for a number of months.

MR. BOB PETERS: Well, rather than the actual event happening with the counter parties, I'm meaning when will Manitoba Hydro have an understanding of the IFRS position that would require action by Manitoba Hydro in relation to the Keeyask costs.

MR. VINCE WARDEN: We -- we've had some prelim -- preliminary discussions with our advisors on this and they really don't see a whole lot of difference between Canadian GAAP and IFRS. So the -- the possibility of holding this in suspension for a period of time seems to be possible from their perspective.

MR. ROBERT MAYER: Mr. Warden, did I hear you say Conawapa would be fourteen hundred (1,400) and what megawatts?

MR. VINCE WARDEN: Fourteen eighty-five (1,485).

MR. ROBERT MAYER: Everything I see on Conawapa tells me it's either thirteen eighty (1,380), or your most recent publication which come out of Wuskwatim, that was published and handed out to all of us, whoever went there, tells me that Conawapa will be twelve hundred and fifty (1,250) megawatts.

MR. VINCE WARDEN: I think our -- well, there -- you're right, there are different ways of measuring capacity, whether it's winter capacity, whether it's the net after the change from the -- the impact on -- on other plants. But fourteen eighty-five (1,485), I believe, if we look at our most recent IFF and -- and other documents that have been filed in this proceedings, I believe that we're referring to fourteen eighty-five (1,485) as being the gross capacity for -- for Conawapa. I can --

MR. ROBERT MAYER: The document I have shows:

"Total capacity [nominal], twelve hundred and fifty (1,250) megawatts."

You're showing -- they call it Gull in

here, but we know that to be Keeyask, at six hundred and twenty (620) megawatts, which is the number that seems to have been consistently, and Limestone at twelve thirty (1,230).

MR. VINCE WARDEN: Yes. And as I mentioned, the IFF that we have filed with these proceedings, the capital expenditure forecast we filed with these proceedings refer to fourteen eighty five (1,485), so there are different numbers depending on how that's measured but that's the one we've been using consistently for external publications with po -- possibly the exception of the one (1) you're -- you're referencing there. Yeah. It's -- but anyway, that's -- that's the number we've been using most recently.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Mr. Warden, that writing off of these capitalized costs on some of the future generating stations, then that still remains an outstanding risk of the Corporation because you're not sure how IFRS is going to treat that.

MR. VINCE WARDEN: Yes. As a matter of fact, in our most recent Corporate Risk Management Report we've identified that as -- as a risk.

(BRIEF PAUSE)

MR. BOB PETERS: In Tab 20 of the book of documents, and if we look beyond the test years, would it be a correct reading of Manitoba Hydro's evidence for the Board to conclude that Manitoba Hydro looks to essentially double its size in twenty (20) years?

MR. VINCE WARDEN: Yes. In term --

MR. BOB PETERS: And --

MR. VINCE WARDEN: In terms of total assets, yeah.

MR. BOB PETERS: And -- well, and in terms of net debt as well it'll go up from -- 2011 will be 8.3 billion and by 2029 it's up to $16.8 billion. I'm looking in the table on page 127, which is page 2 of 2 of PUB Manitoba Hydro First Round 69A found at Tab 20 of the book of documents.

MR. VINCE WARDEN: Yes, the -- the debt will move up, pretty much corresponding with the -- with the assets; not -- not as -- not as -- at the same pace, but it will move up.

MR. BOB PETERS: It doubles?

MR. VINCE WARDEN: Yeah. The number of employees stay the same.

MR. BOB PETERS: Thank you. And

capitalized interest from that same chart, on page 127, it goes from $1 billion up to $4.8 billion?

MR. VINCE WARDEN: Yes, that's what the chart shows.

MR. BOB PETERS: And then the total percent of interest capitalized, sir, increases from -- it looks like in '04/'05, where it was down around 7 percent, and in the test years that are before the Board, it goes up to 24 percent, and then by 2019 it's all the way up to 43 percent.

You'd agree with that?

MR. VINCE WARDEN: Yeah. Well, I -- I don't have those percentages in front of me, but...

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes, I see that, Mr. Peters.

MR. BOB PETERS: And that increase in total interest charges that are capitalized, that's just before these major generating stations come on in service when -- when that -- when those interest charges are going to come due and have to be flowed through the income statement?

MR. VINCE WARDEN: Yes, subject to, of

course, recognizing that there -- there will also be offsetting revenues.

MR. BOB PETERS: That's certainly the plan.

MR. VINCE WARDEN: That is the plan, yes.

MR. BOB PETERS: Yeah. Okay. And some of that revenue will come from export customers?

MR. VINCE WARDEN: Well, the vast majority of it will come from export customers in the early years of those generating stations going into service.

MR. BOB PETERS: And some will probably have to come from Manitoba consumers?

MR. VINCE WARDEN: Well, as the load grows in Manitoba, it's appropriate that some of the revenue should come from Manitoba consumers. But the rates would be lower than they would otherwise be absent those stations.

MR. BOB PETERS: We'll talk next week on some of those specifics, I think, Mr. Warden.

But the total interest expense, it appears, is increasing -- from 2010 to 2029, it's go -- it's increasing two and a half (2 1/2) times?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And that will go into

consumers' rates in approximately 2029?

MR. VINCE WARDEN: Well, again, to the extent that it's not recouped through export sales. In the -- in the cost of service study that we will have in place at that time, there'll be an allocation of export revenues to offset those -- those costs, so it -- the extent that it makes its way into rates will be depending on how those costs and revenues are allocated.

(BRIEF PAUSE)

MR. BOB PETERS: I'm not sure if we're into semantics or not, Mr. Warden, but the suggestion that a cost of service study is going to allocate export revenues to finance expense, that's now how it's -- it's done. There's no direct allocation to the expense items.

MR. VINCE WARDEN: Well, no, but the export revenues are allogated -- allocated to offset all costs incurred, not just the finance expense.

MR. BOB PETERS: When the Corporation built Limestone, what was the debt-equity ratio back in 1992? And I"m just flipping to it as we speak, and I have that as PUB Manitoba Hydro First Round 69B, page 129 of the book of documents, in Tab 20.

MR. VINCE WARDEN: Yeah, it was -- as the schedule indicates, it was ninety-four-o-six (9406).

MR. BOB PETERS: Can you tell the Board why the balance sheet is required to be so much stronger now for generation and transmission in the next fifteen (15) years than it was back in 1992?

MR. VINCE WARDEN: I think there's a whole different attitude towards debt and the financial -- financial strength of the Utility than there was back in 1992.

However, there -- there was an expectation through our financial forecast that with -- with the in service of -- placing limestone in service there would be sufficient revenues generated such that the debt-equity ratio at that time wasn't a huge concern.

Similar to where we are today, 75:25 is a much stronger debt-equity ratio, but we still, and the credit rating agency, still look to the future to see whether that will be going up or down, and the direction we -- whether we're going to be as strong as we are today in the future.

So -- and that's sort of the -- some of the logic that went into accepting a debt-equity ratio as -- as high as it was back in 1992.

There was -- there was a plan to improve it, recognizing that there wasn't an urgency, and it should be done over a number of years, and that's the plan that was put in place.

(BRIEF PAUSE)

MR. BOB PETERS: I want to turn to interest rate forecast methodology, and in PUB Order 128 of '09 that, Mr. Wiens will recall, was on the gas side of the business. And Centra's interest rate forecasting methodology was reviewed.

Do you recall that, Mr. Wiens?

MR. ROBIN WIENS: I do recall that, yes.

MR. BOB PETERS: And as a result of Board Order 128 of '09, extracts of which are found at Tab 21 of the book of documents, the Board's directives on that matter were provided, sir?

MR. ROBIN WIENS: That's correct.

MR. BOB PETERS: When we look at these directives, Mr. Schulz, and I'm specifically looking at directive number 9 found on page 136 of a total of 139 pages -- I'm sorry, it's on -- on the Board Order page 136, it's page 133 of the book of documents.

Can you tell the Board whether Manitoba Hydro's forecast of future interest rates incorporated all of the Board's directives?

MR. MANFRED SCHULZ: With respect to Directive 9A, are you pref -- are you referring to all of nine (9)?

MR. BOB PETERS: Well, let's -- let's run through them. Let's -- 9A, did Manitoba Hydro in preparing this case use the forecast based on a comparative average period data basis?

MR. MANFRED SCHULZ: So IFF-09 adjusted all of the forecaster information to be in accordance with 9A. So to the effect that we had end of period data, we made them equivalent to average period data by taking the average between the two (2) of them. For IFF-10, of course, it would be completely in compliance with that, as well.

MR. BOB PETERS: And then in terms of 9B, the use and alignment of current date forecasts excluding what they've called stale data and superceded forecasts?

MR. MANFRED SCHULZ: Manitoba Hydro uses current dated forecasts for all of its forecasts.

MR. BOB PETERS: Was that used in IFF-09 as well?

MR. MANFRED SCHULZ: In IFF-09, it's my understanding that the only ones that were not updated were the ones for the forecast for which we were no longer going to be using.

So for instance, BC Finance, Fed Finance, and those, but for all of the ones that were short-term that were in -- part of the Application all the way out to 2012/'13, I believe, we had the -- the entire IFF-09 refreshed for that.

I recall that the Board directive, I believe, came out in September of 2009, and so that in order to make the IFF, which came out shortly thereafter, make it current, we made those adjustments as quickly possible for the application years; for IFF-10, completely and totally using current dated information.

MR. BOB PETERS: I just wasn't quite clear on the reasons that some of the forecasts weren't aligned or had the stale dated or superceded data removed in IFF-09. I didn't understand your explanation.

MR. MANFRED SCHULZ: So for IFF-09 for the -- the years of the application, so my understanding is to the end of 2012/'13, all of the -- the years that -- all of the forecasters that were pertaining to the period of time; that would be the BMOs, the RBCs, all of those, all of those we took the current year data. We still had some residual pieces on the -- the forecasters that were annualized data for the longer dated periods of time.

Those we kept in place. They only provide annual updates in forecast, unlike some of the -- the financial institutions which provide more frequent updates. And so for those portions of it, considered to be a bit of pragmatics; for the longer dated piece of it, we -- we kept those in place. However, for IFF-09 we are now totally and completely in accordance with this.

MR. BOB PETERS: You meant IFF-10.

MR. MANFRED SCHULZ: IFF-10, sorry.

MR. BOB PETERS: Yeah. Your -- your last reference was to IFF -- meant to be to IFF-10.

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And then, in terms of the directive 9C, the utilization of forecasted long-term interest rates which align with the period in which Centra, in this case, Manitoba Hydro, intends on issuing new or refinancing existing long-term debt. Did you --

MR. MANFRED SCHULZ: Well, we understood this to be that in the context of, for instance, Manitoba Hydro, we issue debt on -- you know, within a fiscal year period, so all of the forecasts that we do are now aligned. So that -- so if we're anticipating to take out a piece of debt next year, we do forecast that or align to that period of time. So, yes, we are in alignment with that.

(BRIEF PAUSE)

MR. BOB PETERS: Just to be clear on that last point, Mr. Schulz, the forecast for the interest rate would correspond with the term of the debt.

MR. MANFRED SCHULZ: Our Canadian long-term debt forecasts are based on a term of ten (10) plus years, which is based on the average of tens and thirties. So that is what we do for the forecasting for our long-term debt.

The issuance of that debt -- so if we're planning on taking out debt this year or next year, the forecast that we gather for the period, so, for instance, next year, would be based on the forecaster forecast for that period, and so whatever the rate would be is what we already have forecasted and put in place for that year.

MR. BOB PETERS: All right. And turning to directive 9D, a process to retrospectively test the accuracy of forecasters to assess their inclusion in future forecasts. Is that something that Manitoba Hydro has done in IFF-09?

MR. MANFRED SCHULZ: Well, this is one that we have put a fair amount of significant thought to and have had a fair amount of internal debate on this, and as recently as just in the last number of weeks we were reflecting even more deeply on this in terms of how best to forecast and -- and how best to assess the accuracy of these forecasters.

For instance, when you take the perspective of virtually no one saw the economic downturn coming. So if I was to look at the forecasters and did an evaluation of what they had forecast in 2007 and look at it from the perspective of 2009 with the occurrence of the foreca -- the downturn happening in-between, since none of them would have forecasted it, what I should -- or should I prune them all by virtue of the fact that none of them had accurately seen that?

It's a difficult thing to undertake. For us, when we're looking at this, and we're still deliberating seriously on this issue, is to say since the recovery period that we're currently in we don't have enough data points, I don't think yet to make an ascertation to say that one (1) person or one (1) forecaster might be better than the others, such that we would eliminate one or the other.

So it's still something -- we're working with our economic analysis folks where we're still looking to see what would be the best path forward on this, so it's something that we're certainly taking seriously but at this point in time we haven't done the ascertation to determine which forecaster might specifically be better than the other.

MR. BOB PETERS: So I take your answer to say that you haven't complied with the Board's Order 128/09 in your IFF-09 or IFF-10, but you are still looking at that issue. Would that be fair?

MR. MANFRED SCHULZ: I think, just conceptually, it's of interest and importance for us to determine -- to see if there's one forecaster that might be better than another but how do you pragmatically assess that? For instance, if you have a bear forecaster in a bull market, or vice versa, it's helpful actually to have some of that because if you look over a short period of time, you may prune someone out by virtue of a short experience period when history may show them to be -- in the future to have been correct, although in the short period of time they may be an outlier.

So based on the short period of time since the apex of the economic downturn, it's our view that we would need a little bit more time to sort of sort some of this thing through.

MR. BOB PETERS: And how much more time do you think that would take to get an accurate data set?

MR. MANFRED SCHULZ: Again, I think that's a bit uncertain. I mean, I recall it was yesterday or two (2) days ago, at the end of Wednesday, I believe, when you asked the question about credit spreads on -- on the long-term debt, and I think we -- as part of our rebuttal, we filed the short-term credit spreads. You asked the question in terms of long-term credit spreads, but what's interesting, if you look at any of those charts for short-term or long-term credit spreads, is that you still see tremendous volatility in the credit spreads, you still see tremendous volatility in the benchmark rates.

How much more time do we need? I still see lots of volatility, and so I think you may need a bit more time. I wouldn't be able to quantify that by saying, We'll have this thing done in one (1) month's time or two (2) months' time. It's something that we're working towards certainly and taking very seriously.

MR. BOB PETERS: It strikes me, Mr. Schulz, that if a group of forecasters all miss the mark that doesn't by -- in and of itself, result in any of them getting pruned off because they've all missed the mark by a similar amount, so to speak. Wouldn't that be how the Corporation sees it?

MR. MANFRED SCHULZ: I guess it's still uncertain. I mean, in conversations, for instance, that I've had with economic forecasters I've posed that very same question to them: How do you provide your own ascertation of your own accuracy? A forecast is a forecast, and I think it's still very uncertain from our perspective.

When we're looking at it, we still see the consensus perspective as being extremely beneficial, particularly in a period of volatility, to know what is the range out there of professional, credible opinion. And right now we're, I think, seeing a pretty broad range of opinion. And so, for us, in that volatile period, as a business and risk mitigation matter, it's important for us to have that broad opinion so that we can better shape our -- our viewpoints in terms of mitigating the risk that still may out there -- may be out there.

MR. BOB PETERS: Mr. Schulz, did Manitoba Hydro use only statistically independent forecasts in the IFF-09?

MR. MANFRED SCHULZ: Again, with respect to the same answer, really, in terms of the information with respect to BC Hydro, Fed Finance, those kind of things, the -- the application of the Board -- or the Board Order came out in September, so for the years that we had for IFF to 2012/'13, all of those statistically independent. So we're in compliance with that for IFF-09 up to 2012/'13, and for IFF-10 we are completely in compliance with this.

(BRIEF PAUSE)

MR. BOB PETERS: At Tab 22 of the book of documents is a question posed to the Corporation that what would be the test year impacts if Hydro adopted the interest rate forecasting methodology from one-twenty-eight-o-nine (12809) and in response to a PUB First Round question 35B, Hydro provided some information, and -- you're familiar with that information, Mr. Schulz?

MR. MANFRED SCHULZ: Yes.

MR. BOB PETERS: And for the 2011 year, when I go down to the bottom of the page, does the answer suggest that the total interest on short-term and long-term debt would have been about $7 million lower if all of the directives from Board Order 120 -- 129 had been followed?

MR. MANFRED SCHULZ: Had the Board prescribed interest rates been placed into effect for Manitoba Hydro for those periods of time?

That would have had an impact because they were generally lower, they would have had a reduction in our total interest in short and long-term debt. In this case, in the 2010/'11 year, by approximately $7 million.

MR. BOB PETERS: And can you explain to the Board why though when the bottom line comes around, total finance expense would have actually gone up by $3.6 million?

MR. MANFRED SCHULZ: It seems counterintuitive. There's the normal counterbalancing impact associated with capitalized interest, and you see that's where the -- the line item that is pertaining to it.

A portion of this, subject to check, I believe, also has to do with the methodology used for Wuskwatim in terms of the timing of these impacts, and so the timing for Wuskwatim comes into play in the year in question whereas normally our capitalized interest for the rest of it balances for one (1) year forward.

And so in the one (1) year in question in 2010/'11, there you see it all coming to -- to head in one (1) immediate year, Wuskwatim shortly -- going into service shortly thereafter.

More typical might be the experience that you would be seeing reflected in the 2011/'12 year once the -- the anomalies, or the sort of the peculiarities of the Wuskwatim capitalization methodology is flowed through.

MR. BOB PETERS: Not to get too deep in

that, but was there anything done differently on Wuskwatim that's done on your other capitalization projects?

MR. MANFRED SCHULZ: Again subject to check, but it's my understanding that for Wuskwatim it's the interest incurred in the year -- it's capitalized in that year, whereas for interest capitalization there is a one (1) year time lag.

So the interest capitalization rate that we put into play for IFF -- the interest capitalization rates that are in one (1) year actually flow through -- through the system in the subsequent year.

MR. BOB PETERS: Would you expect then that the 2012 forecast year would be the typical results going forward in terms of interest rate forecast methodology?

MR. MANFRED SCHULZ: Yes, that's correct.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz -- oh, I'm sorry.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz, the answer you just gave on page 146 at Tab 22 of the book of documents related to IFF-09, and you're running through the -- the different interest rates -- finance rates, correct?

MR. MANFRED SCHULZ: Sorry, can you just rephrase the question?

MR. BOB PETERS: Sure. When IFF -- sorry, when PUB First Round 35B was answered, that was based on IFF-09 information.

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: Can you conceptually indicate to the Board how would your answers change if you utilized IFF-10 for the -- for the two (2) test years.

MR. MANFRED SCHULZ: And flowed through the Board-ordered rates through IFF-10?

MR. BOB PETERS: Yes, that's what I was trying to get at. Can you conceptually indicate whether the results would be comparable, greater, less?

MR. MANFRED SCHULZ: Subject to check because the interest rates would be slightly different but conceptually would be the same for the same period of time.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz, let's move with you and Mr. Rainkie into debt-management questions. At Tab 22 of the book of documents on page 148 is a chart in response to PUB Manitoba Hydro First Round 35D, and that provides the continuity of long-term debt, sir.

MR. MANFRED SCHULZ: Correct.

MR. BOB PETERS: And it also will show the reissuing of expiring debt, such as in 2014.

MR. MANFRED SCHULZ: I'm not exactly sure. The reissuing of retired debt? Is that -- I'm not clear what your reference is to.

(BRIEF PAUSE)

MR. BOB PETERS: What we see then in 2014 then, Mr. Schulz, is that long-term debt retired is about $849 million.

(BRIEF PAUSE)

MR. MANFRED SCHULZ: Perhaps my eyes are failing me. I see that as six forty-nine (649), but perhaps it's just my eyes; it's small print. It's eight forty-nine (849).

MR. BOB PETERS: Well, what's $200 million. Let's -- let's say it's eight (8) -- it is eight forty-nine (849), according to my reading of it, and we'll maybe make sure we use a larger font next time around. But what I was trying to get at is the $849 million is -- is retired but then the Corporation goes and issues new debt of 1.6 or $1.8 bil -- billion -- million -- sorry, billion.

(BRIEF PAUSE)

MR. MANFRED SCHULZ: $849 million is what's been retired. The new amount of borrowings is $1.6 billion. It's my understanding that that is not pertaining to a reissuance of debt that would have otherwise been retired.

MR. BOB PETERS: It's new debt.

MR. MANFRED SCHULZ: It would be new debt.

MR. BOB PETERS: All right. And post-2024, it appears on page 149 of the top right-hand page numbers in the book of documents, that by 2024 there is no longer long-term debt being issued.

Does that coincide with Mr. Warden's

retirement, or why -- why is there no debt --

MR. MANFRED SCHULZ: In 2024?

MR. BOB PETERS: Yes.

MR. MANFRED SCHULZ: I'll allow him to speak on his retirement plans. The technical issue pertaining to this is that -- I'll refer to Mr. Warden to perhaps answer. He's not biting.

On 2024, you're correct in saying that in that year no new long-term debt is planned to be issued, according to this IFF calculation.

MR. BOB PETERS: All right. And is that suggesting at that point in time that there will be no more long-term debt, or you just ran out of plans at that point in time?

MR. MANFRED SCHULZ: Well, I think that we would be an organization that always has lots of plans. I think what that is is a reflection of the decade of returns and cash flow that would be sufficient such that long-term debt may not be required for financing purposes.

MR. BOB PETERS: And -- and -- yes, I'm not sure if Mr. Warden and I agree, but Conawapa coming -- comes on about 2024? Have I got that right?

MR. VINCE WARDEN: Yes, 2023/'24 is the planned date for Conawa -- for the first unit of

Conawapa.

MR. BOB PETERS: All right. And even if it's the first unit, you'd stage them over a period of time, but no more debt after 2024 and I was just curious. The Board was wondering why there's shown as no long-term debt issued.

Do we assume that Conawapa is fully built at that point in time?

MR. VINCE WARDEN: Yes, all the capital costs would have been incurred --

MR. BOB PETERS: All right.

MR. VINCE WARDEN: -- by that time.

(BRIEF PAUSE)

MR. BOB PETERS: Mr. Schulz, we had a brief conversation about the $500 million short-term debt, and it appears that it's never greater than about $148 million on these sheets that we've reviewed.

Would you accept that subject to a specific check?

MR. MANFRED SCHULZ: Yes.

MR. BOB PETERS: And you'll acknowledge that short-term debt is cheaper than long-term debt?

MR. MANFRED SCHULZ: In almost all

circumstances in an upwardly sloped normal yield curve, correct.

MR. BOB PETERS: And so the question becomes, why doesn't Manitoba Hydro make greater use of the cheaper money that's available to it?

MR. MANFRED SCHULZ: I believe actually in this package of information on page 147 of the book of documents is described, perhaps, a conceptual answer to that, in that paragraph that says:

> "Short-term debt is defined as debt issued with maturities less than one (1) year. Manitoba Hydro's short-term debt por -- borrowing programs at credit facilities safeguard Manitoba Hydro from liquidity risk."

So first of all, we really can't take on more than $500 million as our total amount. Think of this almost as your chequing account on a personal basis.

And so our intention is is to use our long-term debt borrowing program to finance our houses, if you will. Our long-term debt. We have long-term debt with long-term assets, and we'd like to sort of line them up.

Our short-term program, the $500 million, the total amount, is primarily used for, as we might know, colloquially, as our chequing account, and that's why the amounts typically are fairly small.

You've suggested they are $148 million, or perhaps no greater in terms of the numbers that are here, and that's because generally what we -- we do is we get up to a certain level and then we convert the amounts that had been accumulating in that amount and convert it into a long-term debt issuance in alignment with the fact that we were building long-term assets, and moving forward with long-term debt.

So that is the appropriate manner in which that we want to utilize our financing capabilities for the construction of our long-term assets.

MR. BOB PETERS: So conceptually you would agree that there could be lower finance costs by using the short-term facility more but conceptually Manitoba Hydro doesn't think that's the proper use of that facility.

MR. MANFRED SCHULZ: By way of statute, the statute is clear in saying that it's for temporary borrowing purposes only. And so, in accordance with that, it's by statute that we can only use it for temporary purposes. And so, therefore, to utilize -- in a sustainable period utilize our short-term borrowing programs for long-term asset development would be considered inappropriate.

MR. BOB PETERS: But you also told the Board in your second-last answer that you do just that, you -- you use your short-term facility up until a certain point and then you convert that into long-term debt.

MR. MANFRED SCHULZ: For temporary purposes as we're doing bridge financing, that's correct. It's the --

MR. BOB PETERS: I'm sorry, the long-term debt is -- is for bridge financing.

MR. MANFRED SCHULZ: No, our short-term debt is used for a variety of reasons. Think of it as, in -- in the sense, like your chequing account, just to sort of handle the normal cash transactions, so that's part of what we use it for. But also, in terms of what we were talking about more specifically in terms of the buildup, as we are looking to or in constructing our projects, we utilize the short-term borrowing program periodically in order to provide funding until such time that we want to convert those short-term borrowings into a long-term piece of debt.

So the bridge financing, until such time as we get there, we're comfortable with, in effect, going into our chequing account for a certain amount of town --

time, in which point then we convert that into long-term debt.

MR. BOB PETERS: Is there a ceiling on that short-term facility at which time you feel you must convert it over to long-term or is that just a matter of timing throughout the calendar year as to when you will next issue long-term debt?

MR. MANFRED SCHULZ: The IFF is based -- calibrated on a $200 million ceiling, so that's the IFFs in the way -- in terms of the calibration of that, and that triggers off the timing of the -- the forecast issuance. From an actual perspective there are -- you know, there's more complexities to that than the simple metric of that, so we don't have a hard cap limit for that.

But historical precedence would suggest to you that our utilization of that short-term borrowing program tends to be less than the $200 million amount so that we can protect some of that amount for our liquidity protection.

Think of it again as your chequing account. We don't -- wouldn't want to run it up all the way to the end, or your credit card, so we choose to convert it appropriately into long-term debt.

MR. BOB PETERS: You could take the

ceiling higher without any expected difficulties. You're just using it as a buffer, is that what I hear?

MR. VINCE WARDEN: Mr. Peters, I -- I want to be clear though that -- or we want to be clear that we're working within our -- the short-term debt is a part of the calculation or a fixed-floating ratio, and we want to make sure we maintain the appropriate balance between our fixed and floating. That's where our -- our policy comes in that we maintain that ratio within that target range of 15 to 25 percent.

So whenever we look at the -- the balance that's in our short-term account up to that 500 million, we'll also consider how much other floating rate debt we would have outstanding at any given time, making sure that our -- it's within our risk tolerance level.

MR. BOB PETERS: Mr. Warden, how high have you pushed that percentage of your fixed and floating debt? Have you ever gotten it up to -- to 25 percent?

MR. VINCE WARDEN: Well, not in recent -- not in real recent times. Back in history, I believe we've been very close to the 25 percent.

MR. ROBERT MAYER: Mr. Warden, I want to go back to an answer you gave to Mr. Peters. You said that there will be no more long-term debt issued at -- in

-- at 2024. And Mr. Peters suggested to you that's because Limestone would be in service, and you were very clear that one (1) unit would be in service -- Conawapa, sorry. That one (1) -- there's ten (10) units, as I understand it, for Conawapa. You will have paid for all ten (10) and will only have one (1) in service, is that what you're telling us?

MR. VINCE WARDEN: Well, the major costs would be incurred by that point in time. There wou -- there would be some additional costs. But we're starting to generate revenue the very first year that -- that plant is being placed in service.

So, the schedule shows that it -- you know, it -- it drops off at that point in time. Whether there'll be a carryover, some borrowing required in the very next year, possible, but, you know, it depends how those expenditures are incurred and how the units are brought in.

MR. ROBERT MAYER: I thought the turbines were a relatively expensive piece of equipment.

MR. VINCE WARDEN: I -- I agree, they are.

MR. ROBERT MAYER: Then I -- I don't quite understand, that if you've got one of those turbines in service at a given year, I'm assuming the others are not even as yet installed at that date. And I'm wondering where you -- you -- you surely wouldn't be storing something that's as expensive of -- as that, or have pre-bought it, would you?

MR. VINCE WARDEN: Mr. Mayer -- and I have to go back to that schedule we were referring to. It might have been based on IFF-09 as well, which was a -- there has been a deferral of Conawapa and Keeyask by one (1) year in IFF-10. So with that deferral, there might very well be borrowing required in -- in the next year.

But, nevertheless, you're absolutely right, there will be costs incurred beyond the first unit.

MR. BOB PETERS: Mr. Chairman, in light of the hour, this might be an appropriate time to adjourn the proceedings, and I'll pick it up here and also deal with Mr. Cormie on his return. I have it as Janu -- Monday, January 17th.

(PANEL RETIRES)

MR. ROBERT MAYER: Not next week --

MR. BOB PETERS: Yeah, but not next week, correct.

THE CHAIRPERSON: Ten (10) days from now. Thank you very much. Best wishes.

MR. BOB PETERS: Oh, and in -- in terms of a start time, Mr. Chairman, 9:30 a.m. will be appropriate. Thank you.

--- Upon adjourning at 4:25 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.