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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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
March 23, 2011
Pages 4761 to 4955

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25

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EXHIBITS

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5		became aware of a possible change in the	
6		Bipole 3 estimate from 2.2 billion to	
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1 --- Upon commencing at 9:33 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. And today we have a new inquisitor, or cross-
5 examiner. I guess that's a nicer term. Mr. Williams, we
6 -- we left you last night, you had just distributed your
7 book of documents, and you were indicating you had one
8 (1) other document.

9 MR. BYRON WILLIAMS: Yes. First of all,
10 Mr. Chairman, the -- we had marked yesterday CAC-14, the
11 book of exhibits. They're -- they're not actually
12 documents. They're -- they're new exhibits generated for
13 the hearing which Hydro has been kind enough to -- to
14 consent to being introduced.

15 And the other bo -- document, with the
16 pink tabs, which we'll call the pink book, the -- is CAC
17 -- I would suggest it be marked as CAC-15 -- or fifteen
18 (15) -- CAC/MSOS-15.

19 THE CHAIRPERSON: Very good, sir.

20

21 --- EXHIBIT NO. CAC/MSOS-15: Book of documents

22

23 MR. BYRON WILLIAMS: And just by way of
24 introduction, I -- I don't want to -- I don't know if I
25 can live up to the high standards of Mr. Peters in terms

1 of estimating the time that he will take to -- to address
2 particular areas of cross-examination, but just to the
3 panel, if the day goes really well, we should get through
4 the pink book, and be at about Tab 12 of the book of
5 exhibits.

6 After that, I think you'll -- you'll have
7 had enough of tables and that, and -- and if there's a
8 bit of time at the end of the day, I'll leave it up to
9 the Board, and I'll either ask some short snappers, or --
10 or you -- you'll, if we get that far, you may want to
11 consider leaving a bit early, but we'll leave that to
12 you.

13 THE CHAIRPERSON: Before your planning,
14 Mr. Williams, you should know that we've got another
15 appointment, so we're going to be closing today at 4:00.

16 MR. BYRON WILLIAMS: At 4:00, okay. And
17 I did -- I should note, Ms. DeSorcy was here -- was here
18 for much of yesterday. She can't be here this morning.
19 She's hoping to be here this afternoon.

20 Ms. Wheiss extends her regrets. Ms.
21 DeSorcy did want to say that she actually really
22 preferred hearing Mr. Peter's cross-examine to -- to me,
23 and if he's ever looking for work he's to call her, so.

24

25 MANITOBA HYDRO PANEL:

1 VINCE WARDEN, Resumed

2 ROBIN WIENS, Resumed

3 HAROLD SURMINSKI, Resumed

4 DARREN RAINKIE, Resumed

5

6 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

7 MR. BYRON WILLIAMS: Thank you. Mr.

8 Warden, and obviously my questions will be directed --

9 I'll -- I'll name a person, hopefully I'll pronounce Mr.
10 Rainkie's name correctly, and -- and then obviously it'll
11 be up to your panel to -- to decide who shall respond.

12 But, Mr. Warden, I'm going to start with
13 you. There's no dispute that Manitoba Hydro enjoys a
14 monopoly in the retail sale of power within the province
15 of Manitoba?

16 MR. VINCE WARDEN: There is no dispute
17 about that, yes.

18 MR. BYRON WILLIAMS: So we're agreeing
19 about something. And if you're looking for ref -- I
20 don't think you need anything to refer to this, Mr.
21 Warden, but I -- I'm looking at Exhibit Manitoba Hydro
22 73, which is not in your book of documents. I don't
23 think you need it.

24 But you'd agree and it's fair to say that,
25 as portrayed in IFF-10, Manitoba Hydro expects electric

1 provided this number to your counsel, it's not in the
2 exhibits. But if I were to go back to page 100, and I'm
3 really sure you don't need to turn there, but of Hydro's
4 fifty-ninth annual report, and look at your revenues from
5 2001 through to 2009/'10, you'd agree with me that it
6 would be in the ballpark to say that revenues would be in
7 the range of \$15 billion.

8 Would that be fair, sir, in terms of
9 electric revenues?

10 MR. VINCE WARDEN: That seems a little
11 bit on the high side, but that -- that -- close, yes.

12 MR. BYRON WILLIAMS: I'm going to suggest
13 to you it's -- it's even a bit more than 15 billion, Mr.
14 Warden, but you'll -- you're -- you're thinking it's in
15 the range, in any event?

16 MR. VINCE WARDEN: I'll accept that, yes.

17 MR. BYRON WILLIAMS: And if I'm off,
18 you'll get back to me with a correction?

19 MR. VINCE WARDEN: Sure.

20 MR. BYRON WILLIAMS: That's not an
21 undertaking. Mr. Warden, if I -- if I could turn you, if
22 I might, to the pink book, the pink tabs, CAC-15. And
23 I'm directing you to the very first page of that
24 document. You'll agree this is an excerpt from the
25 Exhibit 12 which was filed to accompany your direct

1 evidence in early January of 2011 in this hearing?

2 MR. VINCE WARDEN: Yes.

3 MR. BYRON WILLIAMS: And in the -- in the
4 pink book on page 1, Tab 1, you set out and identify
5 seven (7) immediate and emerging risks for Manitoba
6 Hydro. Is that correct, sir?

7 MR. VINCE WARDEN: Yes, that is correct.

8 MR. BYRON WILLIAMS: And as we look at
9 them -- sorry, Mr. Vice-chair, have I -- I'm looking at
10 the very first page, sir. Mr. Vice-Chair, it's the very
11 first page of the -- the pink document. It should be
12 titled, "Immediate and emerging risk." Sorry, Mr.
13 Warden, for the...

14 You identify seven (7) immediate and
15 emerging risks, correct?

16 MR. VINCE WARDEN: Correct.

17 MR. BYRON WILLIAMS: My math was right.

18 MR. VINCE WARDEN: Don't know --

19 MR. BYRON WILLIAMS: You were double-
20 checking me, sir.

21 MR. VINCE WARDEN: Don't know about the
22 15 billion, but this one -- this one appears right.

23 MR. BYRON WILLIAMS: A little bit of
24 Hydro humour.

25 MR. VINCE WARDEN: Such as it is.

1 MR. BYRON WILLIAMS: And among the risks
2 you identify are the eco -- one (1) of them is the
3 economic downturn, correct?

4 MR. VINCE WARDEN: Yes.

5 MR. BYRON WILLIAMS: Another immediant --
6 immediate and emerging risk is the major capital ext --
7 expansion plan, correct?

8 MR. VINCE WARDEN: Correct.

9 MR. BYRON WILLIAMS: A third is the
10 export power contracts, correct?

11 MR. VINCE WARDEN: Yes.

12 MR. BYRON WILLIAMS: We see shale gas on
13 that list?

14 MR. VINCE WARDEN: Yes.

15 MR. BYRON WILLIAMS: And we also see the
16 regulatory burden on that list. Would that be fair, sir?

17 MR. VINCE WARDEN: Yes.

18 MR. BYRON WILLIAMS: And I -- I
19 understand that, Mr. Warden, that you did elaborate a
20 little bit on that regulatory burden in the context of
21 the current GRA at page 400 of the transcript. You don't
22 need to turn there, I'm not going to go there right now.

23 But before we get to the current GRA, I'd
24 like you to assist my clients and the panel by looking at
25 the regulatory burden over the past ten (10) years. And

1 I'd ask you if you could, to turn to Tab 2 of the pink
2 book and the responses to CAC/MSOS-1-27.

3 Do you have that, Mr. Warden?
4

5 (BRIEF PAUSE)
6

7 MR. BYRON WILLIAMS: Just the second book
8 -- tab of the pink book.

9 MR. VINCE WARDEN: Yes, Mr. Williams, we
10 have it here.

11 MR. BYRON WILLIAMS: Thank you. And just
12 to start with, Mr. Warden, in 127(a) we were basically
13 asking Manitoba Hydro to outline the costs in terms of
14 electric regulatory proceedings for each year since 2001,
15 correct?

16 MR. VINCE WARDEN: Yes.

17 MR. BYRON WILLIAMS: And this was an IR
18 response prepared in -- in March -- or filed in March of
19 2011, correct?

20 MR. VINCE WARDEN: Yes.

21 MR. BYRON WILLIAMS: And you'll see that
22 what you've been asked to do just on -- still looking at
23 the first (a) is to -- to look at the cost categorized in
24 a variety of ways, including intervenor cost awards,
25 Manitoba Hydro external consultant awa -- costs, external

1 legal fees, PUB costs in terms of fees, PUB costs in
2 terms of advisors and others, correct?

3 MR. VINCE WARDEN: Correct.

4 MR. BYRON WILLIAMS: And if we turn to
5 the next page of this tab, which would be the response to
6 127(a), you'll see as well, Mr. Warden, right at the top
7 under the heading, that this response -- so this is
8 127(a), page 2 of 2, you'll see that what you've got
9 covered here in this heading is April 1st, 2001, through
10 January 31st, 2 -- 2010. Do you see that, sir?

11 MR. VINCE WARDEN: I do.

12 MR. BYRON WILLIAMS: Okay. And in terms
13 of what the Corporation has set out in terms of the
14 regulatory costs associated over this period, you've
15 again broken it down into -- you've set out intervenor
16 costs first, correct?

17 MR. VINCE WARDEN: Correct.

18 MR. BYRON WILLIAMS: PUB adv -- advisor
19 costs second, correct?

20 MR. VINCE WARDEN: Yes.

21 MR. BYRON WILLIAMS: PUB fees?

22 MR. VINCE WARDEN: Yes.

23 MR. BYRON WILLIAMS: External costs?

24 MR. VINCE WARDEN: Right.

25 MR. BYRON WILLIAMS: And then internal

1 costs, correct?

2 MR. VINCE WARDEN: Correct.

3 MR. BYRON WILLIAMS: And by external
4 costs do you mean Manitoba Hydro external costs, sir?

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: We'll confirm it on
9 the next page, Mr. Warden, if you --

10 MR. VINCE WARDEN: Okay. Thank you.

11 MR. BYRON WILLIAMS: And by internal
12 costs, you mean Manitoba Hydro internal costs, correct?

13 MR. VINCE WARDEN: Correct.

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: Sorry to the court
18 reporter. And along the top of this table you've set
19 out, I'm going to suggest to you, the major hydro-
20 electric regulatory proceedings over -- over this period
21 of time that were under -- underway or have been
22 completed, correct, sir?

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

24 MR. BYRON WILLIAMS: And one (1) of the
25 ones we see there, kind of two thirds of the way down, is

1 the electric GRA 2010/'11. Do you see that, sir?

2 MR. VINCE WARDEN: I do.

3 MR. BYRON WILLIAMS: And we'll agree that
4 those would be only incomplete costs for that hearing and
5 that hearing is still ongoing. Would that be fair?

6 MR. VINCE WARDEN: Yes.

7 MR. BYRON WILLIAMS: Interminably, sir?

8 MR. VINCE WARDEN: I wouldn't use that
9 word.

10 MR. BYRON WILLIAMS: So what I'm going to
11 just do is you -- I'm going to ask you for the purposes
12 of this next calculation just to exclude that because
13 that's something that's still underway.

14 Would it be fair to say that if we exclude
15 that number, and we'll get to that at -- at a later time,
16 the total electric regulatory costs set out in this table
17 would amount to about fifteen million one hundred and
18 eighty-four thousand (15,184,000) being the difference
19 between fifteen million three hundred and ninety-two
20 thousand (15,392,000) minus two hundred and eight
21 thousand (208,000)?

22 Can we agree on that, sir?

23 MR. VINCE WARDEN: Yes.

24 MR. BYRON WILLIAMS: And I don't know if
25 you can help me with this or not right now, Mr. Warden,

1 and if -- if so that's not that -- that cha -- that much
2 of a problem. But on this table as well you see the
3 heading "Other Regulatory," you see that?

4 MR. VINCE WARDEN: Yes, I do.

5 MR. BYRON WILLIAMS: And that's towards
6 the right-hand side if one's -- one is looking there.
7 And are you able, at a high level, to identify what those
8 other regular -- what that "other regulatory" means sir?
9 I -- I -- and perhaps it means PUB operating fees and ex
10 parte costs, but I don't know if you have any more
11 information than that, sir.

12 MR. VINCE WARDEN: Actually, I think I'll
13 turn that question over to Mr. Wiens since I believe he
14 prepared this table.

15 MR. ROBIN WIENS: Mr. Williams, that
16 would consist -- as you can see the -- the large amount
17 of it consists of our regular fees that are paid to the
18 Public Utilities Board to maintain their operations. The
19 remaining items I would have to -- I would have to get
20 back to you to be precise, but they may relate to other
21 procedures or -- that -- that took place during that ten
22 (10) year period that haven't been identified with a
23 major heading. Or they may relate to -- as you can see
24 there are external costs and internal costs for Manitoba
25 Hydro and they may relate to various compliance

1 activities associated with orders that have been received
2 from the Public Utilities Board.

3 MR. BYRON WILLIAMS: Thank you, Mr.
4 Wiens. And I don't think I need any more detail although
5 it may be that Mr. Warden has been just -- just passed
6 some additional stuff so he's welcome to share it. But
7 that's helpful.

8 Mr. Warden, back to you, or to Mr. Wiens,
9 but if you turn to the next IR be -- in the same tab
10 being the response to 127(b) you can see that Manitoba
11 Hydro was asked to set out its internal regulatory costs.

12 Do you see that, sir?

13 MR. VINCE WARDEN: I do.

14 MR. BYRON WILLIAMS: And again, just in -
15 - in terms of the figure that's calculated by Manitoba
16 Hydro, that amounts to five million six hundred and
17 seventy-seven thousand (5,677,000) approximately --

18 MR. VINCE WARDEN: Yes.

19 MR. BYRON WILLIAMS: -- correct?

20 MR. VINCE WARDEN: Yes.

21 MR. BYRON WILLIAMS: And just one (1)
22 other note on this table while we -- we're here, Mr. --
23 Mr. Warden, you'll recall the first table 127(a) covered
24 the period from April 1st, 2001. You'll note that this
25 table covers the period from April 1st, 2000 through to

1 January 31st, 2000. Do you see that at the top, sir?

2 MR. VINCE WARDEN: Yes.

3 MR. BYRON WILLIAMS: And so roughly it
4 covered a bit less than ten (10) years? Nine (9) years
5 and three-quarters (3/4), would that be fair?

6 MR. VINCE WARDEN: Yes.

7 MR. BYRON WILLIAMS: Anything else, Mr.
8 Warden?

9 MR. VINCE WARDEN: Well, we were just
10 noting, Mr. Williams, that the total is identical for
11 internal costs. So the time period must be the same.
12 Could be that the labelling of the time period is...

13 MR. BYRON WILLIAMS: I -- I'm going to
14 suggest to you probably, Mr. Warden, that the first table
15 captured the major regulatory proceedings whereas wi --
16 with the first one (1) starting in 2001. And so I think
17 it's the same numbers, I think it's the same period, I
18 just think it's reported in a different way, but you'll
19 correct me if I'm...

20 MR. VINCE WARDEN: Okay, thank you.

21 MR. ROBERT MAYER: You might want to look
22 at the note at the bottom.

23

24 CONTINUED BY MR. BYRON WILLIAMS:

25 MR. BYRON WILLIAMS: Or we could refer to

1 the note at the bottom.

2 MR. VINCE WARDEN: Yeah. The -- that
3 would probably explain it, yes.

4 MR. BYRON WILLIAMS: And the note at the
5 bottom states:

6 "There were no internal fis -- costs in
7 fiscal year 2001."

8 Correct?

9 MR. VINCE WARDEN: Correct.

10 MR. BYRON WILLIAMS: Mr. -- Mr. Warden,
11 if you would, and I thank you for your patience, if you
12 could turn onto the response, still on the same tab, to
13 CAC/MSOS-127(c).

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: And -- and again,
18 this is a similar -- same information presented in a
19 different way. It's essentially a summary of electric --
20 electric regulatory costs by fiscal year. Would that be
21 fair, sir?

22 MR. VINCE WARDEN: Yes, I see that.

23 MR. BYRON WILLIAMS: And again, it's
24 covering that nine (9) -- just one (1) second, please.
25 I'm referring to 127(c), the -- got it? Okay.

1 And again, it's covering the nine and
2 three quarter (9 3/4), all -- the almost ten (10) year
3 period from April 1st, 2000, through January 31st, 2010,
4 would that be fair?

5 MR. VINCE WARDEN: Yes.

6 MR. BYRON WILLIAMS: Now, Mr. Warden, if
7 we -- and you weren't quite ready to concede 15 billion
8 in terms of revenues between 2001 and 2009/'10, but you'd
9 agree that it -- it was certainly in the ballpark of 15
10 billion for Manitoba Hydro from its electric operations?

11 MR. VINCE WARDEN: Yes, I would -- would
12 agree with that.

13 MR. BYRON WILLIAMS: And you'll recall
14 earlier that I took the liberty of excluding some modest
15 costs from the -- from the 2010 GRA, moving that number
16 of 15.392 million in the bottom end to fifteen one eight
17 four (15.184) -- 15,184,000. We performed that call --
18 calculation just a couple of seconds ago, Mr. Warden? Do
19 you remember that? We had excluded the two hundred (200)
20 -- two hundred and eight (208) associated with the
21 2010/'11 GRA. Do you recall that?

22 MR. VINCE WARDEN: Yes.

23 MR. BYRON WILLIAMS: And if I were to do
24 the math, recognizing that we're not address the costs of
25 this current proceeding, but if I were to compare

1 regulatory costs in the range of 15 million over that ten
2 (10) year period, versus overall revenues in the range of
3 15 billion, would you agree with me that we -- if we did
4 that 15 million divided by 15 billion, we'd get a number
5 that looks something like decimal zero zero one (.001)?

6 MR. VINCE WARDEN: It's small in relation
7 to the total, Mr. Williams. I -- I certainly agree with
8 that.

9 MR. BYRON WILLIAMS: Yeah. So it
10 wouldn't be 10 percent of the total revenues over that
11 period?

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: It wouldn't be 10
16 percent of the revenues over that period, not even close
17 to that?

18 MR. VINCE WARDEN: No. No. No. No, it
19 wouldn't.

20 MR. BYRON WILLIAMS: It wouldn't be even
21 1 percent of the revenues over that period, not even
22 close to that.

23 MR. VINCE WARDEN: No.

24 MR. BYRON WILLIAMS: It would be about
25 one tenth (1/10) of 1 percent, roughly, sir?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: So leaving aside the
3 cost for the current GRA, we can estimate that regulatory
4 costs over that nine and three quarter (9 3/4), ten (10)
5 year period, were about one tenth (1/10) of 1 percent of
6 total revenues on the electric side. Would that be fair?

7 MR. VINCE WARDEN: Yes, I think we just
8 agreed on that calculation, Mr. Williams.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: Mr. Warden, if you
13 would, I'd ask you to turn to Tab 3 of the -- of the --
14 the pink book, and that's a Dominion Bond Rating Service
15 report dated February 12th, 2009. Do you see that, sir?

16 MR. VINCE WARDEN: Yes, I do.

17 MR. BYRON WILLIAMS: And we're still on
18 the topic of regulatory burden, sir. And I -- I guess I
19 would direct your attention to page 2 of that report.
20 Towards the bottom of the page under, "Rating
21 considerations detail," you'll see the number "3".

22 Do you see that, Mr. Warden?

23 MR. VINCE WARDEN: Yes, I do.

24 MR. BYRON WILLIAMS: And you'll agree
25 with me that one (1) of your -- one (1) of the major bond

1 rating services portrays Manitoba's regulatory
2 environment is -- is constructive. Would that be fair,
3 sir?

4 MR. VINCE WARDEN: Yes.

5 MR. BYRON WILLIAMS: And they see the
6 Manitoba Public Utilities Board as generally supportive
7 of Hydro's rate applications, correct?

8 MR. VINCE WARDEN: Yes, and I think I've
9 referenced that in the past, how important that is.

10 MR. BYRON WILLIAMS: And, well, of course
11 you have. And -- and I just want to direct your
12 attention in particular. It would be fair to -- to the
13 last sentence of -- of that -- of that hi -- highlight
14 number 3, or number 3, and essentially one (1) of the
15 reasons, you'll agree with me -- me, that the Dominion
16 Bond Rating Services suggests that this is a constructive
17 regulatory environment is that while Manitoba Hydro does
18 not benefit from an automatic passthrough of costs, this
19 is mitigated by both its low cost hydro-electric based
20 generating capacity and the PUB's demonstrated track
21 record of approving rate increases during drought
22 conditions.

23 You'll agree with me that that's one (1)
24 of the key factors they cite, sir?

25 MR. VINCE WARDEN: Yes.

1 MR. BYRON WILLIAMS: And certainly you're
2 aware, are you not, that in the aftermath of the 2003/'04
3 drought the PUB actually gave Manitoba Hydro a 5 percent
4 rate increase effective August 1st, 2004 even though
5 Hydro was only seeking a 3 percent rate increase?

6 MR. VINCE WARDEN: Yes, I'm aware of
7 that.

8 MR. BYRON WILLIAMS: And I'm not sure
9 that you've been with the Corporation for sixty (60)
10 years, but you've been with them for a long time, Mr.
11 Warden?

12 MR. VINCE WARDEN: Yes, I have.

13 MR. BYRON WILLIAMS: And your memory,
14 sharp as ever, no doubt, that it is, dates back to the
15 late 1980s, early 1990s, at least at a high level, sir?

16 MR. VINCE WARDEN: All depending on the
17 issue, yes.

18 MR. BYRON WILLIAMS: That was a better
19 answer than the question. I apologize for that. And
20 you'll recall, in fact, and I -- I think I've provided
21 the citations to your -- your counsel, that there was --
22 but there was a serious drought faced by Manitoba Hydro
23 between 1987 and 1992. You'll recall that?

24 MR. VINCE WARDEN: Yes, I do.

25 MR. BYRON WILLIAMS: And you'll be aware

1 that in the middle of this drought the Manitoba Public
2 Utilities Board provided some significant rate increases
3 to Manitoba Hydro, correct, approved some significant
4 rate increases?

5 MR. VINCE WARDEN: Well, I'm not sure
6 what your definition of significant is, Mr. Williams.

7 MR. BYRON WILLIAMS: More than 3 percent?

8 MR. VINCE WARDEN: More than 3 percent,
9 as we just discussed, yes.

10 MR. BYRON WILLIAMS: And, in fact,
11 effective April 1st, 1989 it approved 5 percent for that
12 particular year, correct?

13 MR. VINCE WARDEN: Correct. Correct.

14 MR. BYRON WILLIAMS: And effective April
15 1st, 1990 it approved 4 percent, correct?

16 MR. VINCE WARDEN: Yes.

17 MR. BYRON WILLIAMS: And effective April
18 1st, 1991 it approved over 3 percent, slightly over 3
19 percent, correct?

20 MR. VINCE WARDEN: Yes.

21 MR. BYRON WILLIAMS: And clearly tha --
22 that's one (1) of the factors that the bond rating
23 service relies upon in terms of speaking of a
24 constructive regulatory environment, the support provided
25 by this regulator in times of drought, correct?

1 MR. VINCE WARDEN: Well, although this
2 bond rating agency referred to in times of drought,
3 generally speaking, I would say all credit rating
4 agencies that rate -- provide a rating to the province of
5 Manitoba and to Manitoba Hydro regard a favourable
6 regulatory environment as a strength of Manitoba Hydro,
7 and not only in -- in times of drought.

8 MR. BYRON WILLIAMS: Fair enough, sir.
9 And we're -- we're still on this subject of regulatory
10 burden. Would it also be fair to say that while the
11 2008/'09 year was not a major drought year, the Public
12 Utilities Board actually granted Manitoba Hydro a 5
13 percent rate increase when Hydro was only seeking about
14 two point nine (2.9)?

15 MR. VINCE WARDEN: Yes.

16 MR. BYRON WILLIAMS: And in that first
17 year alone, that 5 percent rate increase would have
18 amount to \$50 million, correct?

19 MR. VINCE WARDEN: That would be
20 approximately right, yes.

21 MR. BYRON WILLIAMS: Still on this same
22 theme, Mr. Warden, just for a -- a few more minutes, if
23 you could turn to the fourth tab of this book, the pink
24 book, which is a re -- report from RiskAdvisory, dated
25 January 17th, 2003. Do you have that, Mr. Warden, it's

1 Tab 4.

2 It's -- we'll just give you a couple
3 seconds to come there, sir.

4

5 (BRIEF PAUSE)

6

7 MR. VINCE WARDEN: Okay. We have it
8 here.

9 MR. BYRON WILLIAMS: And, Mr. Warden,
10 you're -- you're well familiar with the term -- the firm
11 RiskAdvisory, correct?

12 MR. VINCE WARDEN: Yes, we've done
13 business with them in the past.

14 MR. BYRON WILLIAMS: You've done a fair
15 bit of business with them over the past ten (10) years?

16 MR. VINCE WARDEN: A fair bit of business
17 both on the gas -- electricity and gas side of our
18 business, yes.

19 MR. BYRON WILLIAMS: On the specific page
20 of the RiskAdvisory report I first want to direct your
21 attention to is page 4.

22 MR. VINCE WARDEN: Okay.

23 MR. BYRON WILLIAMS: And in particular,
24 Mr. Warden, I'm referring you to the -- the last
25 paragraph of page 4, where indeed RiskAdvisory is disc -

1 - describing regulation of Manitoba Hydro on a cost-of-
2 service basis over the past several years, this report
3 being written in 2003, in a way that might be best
4 described as light-handed. Do you see that reference,
5 sir?

6 MR. VINCE WARDEN: I do.

7 MR. BYRON WILLIAMS: And I'm sure you
8 don't recall this paragraph in -- in any detail, but in
9 essence what RiskAdvisory was doing in this paragraph was
10 comp -- comparing it to what it considered to be at the
11 time the more heavy-handed regulation of Centra Gas.
12 Would that be fair, sir?

13 MR. VINCE WARDEN: Yes.

14 MR. BYRON WILLIAMS: Now, I just want to
15 turn you for a -- to page 10 of this same report. The
16 number 10 is -- is written in the bottom right-hand
17 corner.

18 MR. VINCE WARDEN: Yes, I see that.

19 MR. BYRON WILLIAMS: And, Mr. Warden, I'm
20 going to present a couple of excerpts to you and then
21 just see if -- if Hydro's recollection of the -- the
22 dialogue is the same. But what RiskAdvisory suggests
23 under regulatory and political risk is that their work in
24 other jurisdictions has caused them to recommend to many
25 clients that they approach their respective regulator to

1 present a proposed risk-management program and
2 effectively take a collaborative approach to gain
3 approval to -- to -- to proceedings.

4 Do you see that reference, sir? I've
5 paraphrased, not exactly quoted.

6 MR. VINCE WARDEN: Yes, I do.

7 MR. BYRON WILLIAMS: And if you can turn
8 to page 11 in the first full -- full paragraph, you'll --
9 you'll see a -- a suggestion by RiskAdvisory that in the
10 interviews held in -- in November it was clearly stated
11 that Hydro would not approach the PUB for pre-approval of
12 any risk-management program activity, as it believed that
13 PUB's limits -- jurisdiction was limited to rate setting,
14 but that Hydro had a in -- strong intention to carefully
15 document and monitor all risk-management activity and be
16 prepared to report on and defend its practices and
17 activities to the regulator.

18 Would that be fair, sir?

19 MR. VINCE WARDEN: Yes.

20 MR. BYRON WILLIAMS: And I don't know if
21 you were part, or had reviewed this report, but would
22 that be consist -- or that you were part of these
23 interviews, but would that be your consis -- consistent
24 with your understanding of the dialogue between
25 RiskAdvisory and Manitoba Hydro at this point in time?

1 MR. VINCE WARDEN: Yes, I think it's a
2 fair representation of the dialogue that took place at
3 that point in time. Manitoba Hydro had a relationship
4 with the regulator on the electricity side of the
5 business that was very efficient, it worked very well for
6 us. And we were, of course, very interested, as the
7 regulator was I think, in regulatory efficiency. We
8 wanted to see that continue.

9 We thought, at the time, having taking --
10 taken over the -- the gas business a few years prior to
11 that, that the regulation was much more intense and time
12 consuming on the gas side of the business than it was on
13 the electricity side for little added benefit.

14 So we were looking to streamline the
15 regulatory environment between Manitoba Hydro, the
16 regulator, such that it was more like what we had been
17 accustomed to on the electricity side of our operations.

18 MR. BYRON WILLIAMS: Thank you for that.
19 And you -- it was al -- it's also fair to say that the
20 advice of RiskAdvisory to you at that point in time was
21 to get on top of the risk-management issue in terms of
22 your relationship with the regulator. Would that be
23 fair?

24 MR. VINCE WARDEN: Yes, that's -- was the
25 reason in this instance why RiskAdvisory was engaged, is

1 to give us advice on our -- our risk-management
2 practices.

3 MR. BYRON WILLIAMS: And their advice was
4 to try and pre-empt some of the discussion by presenting
5 a -- a plan and strategy to the regulator consistent with
6 what it had advised in other jurisdictions. Would that
7 be fair?

8 MR. VINCE WARDEN: Yes.

9 MR. BYRON WILLIAMS: And I've -- I've --
10 I've had the pleasure or fortune to go back and read some
11 Board orders, Mr. Warden, over the -- the past day or two
12 (2). Would it be fair to say that since at least 2003
13 and the Board's ruling in the status update hearing that
14 the Public Utilities Board has been seeking enhanced
15 information from Manitoba Hydro in terms of both risk
16 miti -- mitigation and risk quantification? Would that
17 be fair?

18 MR. VINCE WARDEN: Well, I think the risk
19 quantification has always been actually quite well
20 documented and we've had other consultants look at the
21 risk management reporting of Manitoba Hydro and have
22 actually commended Manitoba Hydro for the job it was
23 doing on that front. So I think the quantification has
24 been good.

25 Where we, quite frankly, have had a

1 difference of opinion with the Public Utilities Board in
2 the past is with respect to our capital, and our capital
3 is a large part of our business, and there has been some
4 question about the jurisdiction of the PUB to review
5 capital items. So if there's been any differences with
6 the PUB in the past it has been mainly in that -- in that
7 area.

8 MR. BYRON WILLIAMS: Well, and let me --
9 I think and I appreciate you -- you probably have gone
10 three (3) or four (4) answers ahead of where the question
11 was. So my question to you, just to repeat it, not in
12 the exact same words, was that you're well aware that
13 since 2003 since the status update hearing at least, this
14 regulator has been seeking enhanced information from
15 Manitoba Hydro in terms of risk quantification and risk
16 mitigation.

17 Would that be fair?

18 MR. VINCE WARDEN: Yes, and I think we've
19 been responsive to that -- to those directives of the
20 PUB.

21 MR. BYRON WILLIAMS: And, Mr. -- Mr.
22 Warden, I -- I don't think I need to go through it but
23 you'll agree that there were directives in, for example,
24 in Board Order 7/'03, the status update about risk
25 quantification?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: And in Order 101/'04
3 there were directives in terms of providing more
4 information about risk-management strategy and also the
5 implications of self-insuring through reserves. Do you
6 recall that?

7 MR. VINCE WARDEN: Yes, and again I -- I
8 believe we've been responsive to those directives.

9 MR. BYRON WILLIAMS: And again -- and I'm
10 not trying -- I'm just trying to get your recollection of
11 your dialogue with the Public Utilities Board. You'll
12 recall as well in Board Order 116/'08 there was a request
13 for additional information on risk-mitigation strategies,
14 and risk quantification.

15 You'll recall that?

16 MR. VINCE WARDEN: Yes, I do.

17 MR. BYRON WILLIAMS: And again in Order
18 32/'09, that there was a request for information about a
19 consideration of all business and operational risk.

20 Would that be fair?

21 MR. VINCE WARDEN: Yes. Yes, that was in
22 32/'09.

23 MR. BYRON WILLIAMS: Thank you for that,
24 Mr. Warden. And I -- I just want to go back for a
25 couple minutes, back to 2003/'04.

1 I'm going to ask some questions about the
2 -- the inter -- the relationship of Manitoba Hydro with
3 the New York consultant. I -- I want to keep it at a
4 high level, and -- and I'm -- we're not going to mention
5 her name or anything like that.

6 But without asking you to elaborate too
7 much at this point in time, it's fair to say that back in
8 2003/2004 Manitoba Hydro was seeking to enhance its risk-
9 management toolkit, especially as it considered
10 experiences both from the '03/'04 drought, as well as it
11 considered the fact it was moving into an open MISO
12 market.

13 Would that be fair?

14 MR. VINCE WARDEN: Yes, that's fair.

15 MR. BYRON WILLIAMS: And without asking
16 you to elaborate, one (1) of the number of consultants
17 you retained on that to assist you, and -- and initially
18 on a very limited basis, was the person who we now refer
19 to in the confines of this room as the New York
20 consultant --

21 MR. VINCE WARDEN: Yes.

22 MR. BYRON WILLIAMS: -- would that be
23 fair?

24 MR. VINCE WARDEN: Yes.

25 MR. BYRON WILLIAMS: And without asking

1 you to -- to elaborate, it would be fair to say that over
2 the past number of years the New York consultant has made
3 a number of allegations about Manitoba Hydro.

4 MR. VINCE WARDEN: Yes.

5 MR. BYRON WILLIAMS: Some of those
6 allegations relate to hydrology risk. Would that be
7 fair?

8 MR. VINCE WARDEN: Yes.

9 MR. BYRON WILLIAMS: Did -- did you say,
10 Yes? I'm sorry I didn't --

11 MR. VINCE WARDEN: I -- I did say, Yes.

12 MR. BYRON WILLIAMS: Okay. Some of them
13 relate, without asking you to elaborate, to long-term
14 contracts. Would that be fair?

15 MR. VINCE WARDEN: Yes.

16 MR. BYRON WILLIAMS: And some of them
17 relate to alleged losses in the range -- I think the
18 figure has gone out a billion dollars, something like
19 that?

20 MR. VINCE WARDEN: Yes.

21 MR. BYRON WILLIAMS: And again without
22 asking you to elaborate or name names, it would be fair
23 to say that some of these allegations were made
24 internally to Manitoba Hydro management and the board.
25 That would be fair?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: And others were --
3 other allegations, or the same allegations were made
4 externally, as well, to members of the media, and to the
5 provincial ombudsman. Would that be accurate?

6 MR. VINCE WARDEN: I don't know what
7 allegations were made to the provincial om -- ombudsman.

8 MR. BYRON WILLIAMS: But to the media?

9 MR. VINCE WARDEN: Yes.

10 MR. BYRON WILLIAMS: And you're certainly
11 aware that there's -- there are media reports about
12 allegations being made to the ombudsman?

13 MR. VINCE WARDEN: Yes.

14 MR. BYRON WILLIAMS: And these
15 allegations have come to the public eye and been a source
16 of some considerable comment in -- in public dialogue.
17 Would that be fair, sir?

18 MR. VINCE WARDEN: Yep, I think that's a
19 matter of record.

20 MR. BYRON WILLIAMS: They engendered some
21 considerable controversy, correct?

22 MR. VINCE WARDEN: Yes, they did.

23 MR. BYRON WILLIAMS: And they attracted
24 considerable media attention. Fair enough?

25 MR. VINCE WARDEN: Yes.

1 MR. BYRON WILLIAMS: Would it be fair to
2 say that those allegations, and I'm not suggesting any of
3 them are proven, but that they left you with a bit of a
4 mess in terms of perception, whether in the media, the
5 marketplace, or with regulators. Would that be fair?

6 MR. VINCE WARDEN: Well, I'm not sure I
7 like the word, "mess." It created an environment that we
8 were very uncomfortable with, and had to be addressed,
9 and hence the engagement of KPMG and ICF.

10 MR. BYRON WILLIAMS: So if you're not
11 comfortable with a little bit of a mess, you won't be
12 comfortable with considerable m -- mess, but perhaps, Mr.
13 Warden, you would agree that you were considerably
14 uncomfortable.

15 MR. VINCE WARDEN: Well, it was not a
16 good situation for the Corporation to be in.

17 MR. BYRON WILLIAMS: And it -- it was not
18 a good situation, and I'm not criticizing the
19 Corporation, I just want to -- it was not a good si --
20 situation partly because of the perception in the public
21 and partly because of the perception of the market and --
22 and regulators, the potential per -- perception. Would
23 that be fair?

24 MR. VINCE WARDEN: Yes, all those
25 entities that have an interest in Manitoba Hydro have a

1 perception and have an influence on the operations of
2 Manitoba Hydro.

3 MR. BYRON WILLIAMS: And Manitoba Hydro
4 had to be aware of the perception problem with all those
5 entities, correct?

6 MR. VINCE WARDEN: Yes.

7 MR. BYRON WILLIAMS: Mr. Warden, just if
8 you can move along in the pink book to Tab 5, which sets
9 out a credit opinion of Moody's Investors Service, dated
10 February 8th, 2010.

11 Do you have that, sir?

12 MR. VINCE WARDEN: I do.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: And still on this
17 topic of regulatory burden, Mr. Warden, if you can turn
18 to the second page of this report under, "Recent
19 developments." Do you have that, Mr. Warden?

20 MR. VINCE WARDEN: I do.

21 MR. BYRON WILLIAMS: And so that's Tab 5,
22 the Moody's report, and it's the second -- the second
23 page of -- of that. Do you see in the third paragraph
24 under, "Recent de -- developments," reference to a
25 provincial ombudsman's complaint in terms of the whistle

1 -- in -- in terms of Manitoba Hydro and hydrology risks?

2 Do you see that, sir?

3 MR. VINCE WARDEN: Yes.

4 MR. BYRON WILLIAMS: And in the middle of
5 the paragraph there's a discess -- discussion of some of
6 the actions the audit committee of Manitoba Hydro's board
7 has taken to -- to respond to those allegations.

8 Do you see that, sir?

9 MR. VINCE WARDEN: I do.

10 MR. BYRON WILLIAMS: Okay. And again in
11 the paragraph there's a reference to the Public Utilities
12 Board considering these issues as well. Do you see that,
13 sir?

14 MR. VINCE WARDEN: Yes.

15 MR. BYRON WILLIAMS: I want to direct
16 your attention in particular to the last sentence. And
17 you see a comment by Moody's that it will:

18 "Monitor these developments to
19 determine what, if any, impact they may
20 -- might have on MHEB's credit
21 profile."

22 Do you see that, sir?

23 MR. VINCE WARDEN: I do.

24 MR. BYRON WILLIAMS: And, again, with --
25 without asking you to elaborate yet, we'll get to that in

1 a second, it's fair to say that given concerns with
2 perception in the public, in the media, in the regulatory
3 field, and in the marketplace, Manitoba Hydro saw fit to
4 take extensive actions to investigate the allegations of
5 the New York consultant.

6 Would that be fair?

7 MR. VINCE WARDEN: Yes.

8 MR. BYRON WILLIAMS: You had to take it
9 seriously because it had important ramifications both
10 from your public perception and your perception in the
11 marketplace potentially?

12 MR. VINCE WARDEN: That's right.

13 MR. BYRON WILLIAMS: And when Manitoba
14 Hydro first tried to address these allegations, Mr.
15 Warden, you'll agree with me that one (1) of the early
16 steps you took was with the New York consultant, paying
17 her -- and if you're looking for a source, it's from Mr.
18 Cormie's affidavit. I'm not going to -- but paying her
19 close to -- to seventy thousand dollars (\$70,000) in an
20 effort to get further clarification of a report dated
21 December of 2006.

22 Would that be fair?

23 MR. VINCE WARDEN: We did attempt to work
24 with the New York consultant in order to obtain details
25 with respect to the concerns -- concerns she was

1 expressing, yes.

2 MR. BYRON WILLIAMS: And you went on to
3 pay an additional, in excess of a hundred and eighty
4 thousand dollars (\$180,000), to get her to identify these
5 major issues?

6 MS. MARLA BOYD: Mr. Chairman, it's --
7 it's been made quite clear in the beginning of this
8 process that there are contractual disputes that are not
9 matters which the Board is prepared to entertain. And
10 this matter is still before the courts, and it's not
11 appropriate at this point to be examining what
12 allegations there may be and whether or not those
13 allegations ultimately are founded.

14 MR. ROBERT MAYER: Which matters are
15 still before the courts, Ms. Boyd, and which courts are
16 they before?

17 MS. MARLA BOYD: The -- the New York
18 consultant has -- continues to maintain that she has a
19 contractual issue with Manitoba Hydro, whether she
20 chooses to pursue that in Manitoba or in another
21 jurisdiction is -- is for her to decide, but those are
22 not matters that should be before this regulator. And I
23 understood that the direction of this Board when we began
24 this process was that the Board's intention was not to
25 attempt to dis -- to resolve any contractual disputes.

1 MR. ROBERT MAYER: Ms. Boyd, I -- I'm
2 looking for clarification. You said, Still before the
3 courts. Which courts are we before? We know of the
4 application to review the -- I -- that is in the Manitoba
5 Court of Appeal. I don't know where that's at at this
6 point.

7 Are there any other outstanding actions
8 before the courts?

9

10 (BRIEF PAUSE)

11

12 MS. MARLA BOYD: The only action filed is
13 the one (1) that you've referred to. There's certainly
14 the potential and the concern that there may be others
15 filed.

16 MR. ROBERT MAYER: I understand. Thank
17 you.

18 MR. BYRON WILLIAMS: And, Mr. Chairman,
19 as -- as I tend to be, I certainly expect to be
20 circumspect in my examination. I certainly don't feel
21 like I've crossed any lines as of -- as of yet. And I --
22 I certainly will take Ms. Boyd's -- which I take to be
23 not an objection, but some caution, and I'll be mindful
24 of her caution and -- and proceed carefully. I won't be
25 on this point long, but it -- it has some relevance to a

1 number of our arguments, Mr. Chairman.

2 THE CHAIRPERSON: Carry on. We'll see.

3

4 CONTINUED BY MR. BYRON WILLIAMS:

5 MR. BYRON WILLIAMS: Be -- before we
6 answered, you -- you paid this individual an additional
7 sum over and above that \$70,000 to try and further
8 understand her allegations, would that be fair?

9 MR. VINCE WARDEN: Yes, we did.

10 MR. BYRON WILLIAMS: And you've mentioned
11 previously that you retained ICF to assist in addressing
12 her allegations, in part?

13 MR. VINCE WARDEN: Well, not directly.
14 ICF was engaged to look specifically at the risks
15 associated with Manitoba Hydro's involvement in the
16 export market. But ICF was not requested to review her
17 allegations in any way. In fact, I don't believe ICF
18 even was aware of her allegations --

19 MR. BYRON WILLIAMS: I may have --

20 MR. VINCE WARDEN: -- other -- other than
21 through the media.

22 MR. BYRON WILLIAMS: -- I may have
23 misunderstood your -- your answer then previously, and
24 that -- that's fine. So it was merely a happy
25 coincidence that ICF engaged in this analysis around the

1 time that the dispute was -- was breaking in terms of the
2 New York consultant?

3 MR. VINCE WARDEN: No, it wasn't
4 coincidence, they were engaged for the specific purpose
5 to review certain aspects of our export business, but
6 they were not asked to review the allegations of the New
7 York consultant.

8 MR. BYRON WILLIAMS: And -- and I
9 probably misframed your answer before. What you're
10 telling me is, I'll suggest to you, is while ICF was not
11 engaged to respond to her allegations, the fact that they
12 were engaged, one (1) of the factors in -- in Manitoba
13 Hydro's consideration was the fact that these allegations
14 were out there?

15 MR. VINCE WARDEN: Yes, that's right.

16 MR. BYRON WILLIAMS: And while I -- ICF
17 was not directly retained to respond to her allegations,
18 KPMG was, correct?

19 MR. VINCE WARDEN: Correct.

20 MR. BYRON WILLIAMS: And in terms of
21 KPMG, you paid, it's fair to say, well in excess of \$2.5
22 million to explore her -- and -- and address and consider
23 her allegations. Would that be fair?

24 MR. VINCE WARDEN: Well, we paid in
25 excess of 2.5 million, well in excess? It was about 2.5

1 million, under 3 million.

2 MR. BYRON WILLIAMS: I probably didn't
3 need the adjective, over 2.5 million?

4 MR. VINCE WARDEN: Yes.

5 MR. BYRON WILLIAMS: And again, without
6 trying to get into any -- not wishing to raise Ms. Boyd's
7 legitimate ire, the -- you indeed had to resort to some
8 fairly extensive legal actions to make the KPMG report
9 public, correct?

10 MR. VINCE WARDEN: Ultimately --
11 ultimately, to make the report public, yes, there were --
12 there were legal actions that needed to be taken, yes.

13 MR. BYRON WILLIAMS: And when you kind of
14 tally the bill, and I'm referring to the PUB's Pre-Ask
15 17, and I'm -- I'm -- you can take this subject to check
16 if you would, that the costs incurred between KPMG and
17 the legal fir -- legal actions and others, would be in
18 excess of 3.5 million, sir?

19 MR. VINCE WARDEN: Yes.

20 MR. BYRON WILLIAMS: It would be fair to
21 say that the KPMG Report was undertaken within a pretty
22 tight time frame? Would that be fair, sir?

23 MR. VINCE WARDEN: It was -- it was
24 undertaken with very tight time constraints, yes.

25 MR. BYRON WILLIAMS: So -- so tight, in

1 fact, would it be fair to say that while KPMG had been
2 initially retained to respond to her allegations and also
3 respond to -- or help to develop a -- a risk study
4 requested by the Public Utilities Board, that retainer
5 had to -- had to be restricted, or was restricted in any
6 event to focus primarily on her allegations. Would that
7 -- that be fair?

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

10 MR. BYRON WILLIAMS: And I think you and
11 -- and Mr. -- Mr. Warden, I think you might have used the
12 word "extremely" tight but -- or maybe not "extremely"
13 but "very tight" I think were the words you used. It
14 would be fair to say that that very tight time frame put
15 significant pressures on the Corporation in -- in
16 assisting KPMG?

17 MR. VINCE WARDEN: Yes.

18 MR. BYRON WILLIAMS: And without asking
19 you to elaborate further it would be fair to say that is
20 part of the regulatory burden of -- of which you -- you
21 spoke?

22 MR. VINCE WARDEN: Absolutely it is, yes.

23 MR. BYRON WILLIAMS: You're a well --
24 aware as well and Ms. -- with Mr. Mc -- Mr. Wood sitting
25 behind me, that the PUB has engaged independent experts

1 to assess Manitoba Hydro's risk-management practices in
2 the context of a GRA, correct?

3 MR. VINCE WARDEN: Yes.

4 MR. BYRON WILLIAMS: And you may not be
5 able to answer this, Mr. Warden, and I'll appreciate that
6 but would it be your understanding as well that the
7 provincial ombudsman is awaiting the results of the PUB
8 hearing before proceeding in any further investigation?

9 MR. VINCE WARDEN: That is my
10 understanding, yes.

11 MR. BYRON WILLIAMS: I wonder, Mr.
12 Warden, if you could turn to Tab 6 of the -- of the PUB -
13 - oh, excuse me, of the pink book, which is a Moody's
14 Investors Service report dated the 7th of February, 2011.
15 Do you have that, sir?

16 MR. VINCE WARDEN: I have it.

17 MR. BYRON WILLIAMS: And in particular I
18 -- I would direct your attention to the -- the paragraph,
19 the second last paragraph just above "Detailed Rating
20 Considerations." Do you see that, sir?

21 MR. VINCE WARDEN: Yes, I do.

22 MR. BYRON WILLIAMS: And without going
23 into any great detail, you see this paragraph is having
24 some discussion of the review of Manitoba Hydro's risk-
25 management practices, correct?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: And this discussion
3 is in the context of the -- to a certain degree at least,
4 a complaint by the New York consultant under the
5 whistleblower protection laws. Is that fair, sir?

6 MR. VINCE WARDEN: Yes.

7 MR. BYRON WILLIAMS: And the -- the good
8 news, Mr. -- Mr. Warden, I'll suggest to you is the very
9 last sentence of that paragraph where -- where the --
10 Moody's suggests:

11 "We will continue to monitor the
12 progress of the PUB's risk review, but
13 do not expect this to have any material
14 impact on MHEB's credit profile."

15 Do you see that, sir?

16 MR. VINCE WARDEN: I do.

17 MR. BYRON WILLIAMS: And that's good
18 news?

19 MR. VINCE WARDEN: Yes, it's very good
20 news.

21 MR. BYRON WILLIAMS: You'll agree with
22 me, Mr. Warden, that in -- in drawing this conclusion
23 Moody's cites both the report solicited by the audit
24 committee of the board of directors of Hydro, i.e., the
25 KPMG report, as well as the independent experts --

1 professors who are assisting the panel, being Professors
2 Kubursi and Magee. Not by name, but that's who they cite
3 there?

4 MR. VINCE WARDEN: Yes.

5 MR. BYRON WILLIAMS: And you'll note that
6 the report -- they conclude from their review of these
7 reports that Manitoba Hydro is managing its risk profile
8 appropriately within established tolerances. Would that
9 be fair?

10 MR. VINCE WARDEN: Yes.

11 MR. BYRON WILLIAMS: And you do not
12 disagree that one of the factors they relied upon for
13 that conclusion were the independent professors who are
14 assisting this dis -- this discussion.

15 Would that be fair?

16

17 (BRIEF PAUSE)

18

19 MR. VINCE WARDEN: Well, Mr. Williams, I
20 -- I can't say precisely what they relied upon to come to
21 that conclusion. They certainly cite those reports in
22 this paragraph you reference, but what they relied upon
23 to come to that conclusion I -- I can't really say.

24 MR. BYRON WILLIAMS: They really, though,
25 Mr. -- Mr. Warden, and you're rarely shy about

1 interpreting bond rating reports, they -- they, citing
2 these reports, conclude that you're managing your risk
3 profile appropriately, do they not?

4 MR. VINCE WARDEN: Yes. Yes, they do.

5 MR. BYRON WILLIAMS: And one (1) of the
6 authorities they rely upon is the independent professors
7 retained by the Board.

8 MS. MARLA BOYD: I think, Mr. Williams,
9 Mr. Warden has already answered that to the best of his
10 ability. The document speaks for itself, and we don't --
11 we can't attribute any more behind that, that he doesn't
12 have any additional information to offer is what he's
13 already told you.

14 MR. BYRON WILLIAMS: Is -- is that -- is
15 that your answer, Mr. Warden?

16 MS. MARLA BOYD: I guess I'm -- I've --
17 I've raised an objection, so --

18 MR. BYRON WILLIAMS: That was an
19 objection. Okay, fair --

20 MS. MARLA BOYD: -- that was a legitimate
21 ire, yes.

22 MR. BYRON WILLIAMS: I will -- I will
23 respect that.

24

25

(BRIEF PAUSE)

1 CONTINUED BY MR. BYRON WILLIAMS:

2 MR. BYRON WILLIAMS: Mr. Warden, you may
3 not agree with my characterization of this as powerful,
4 but you'll -- you'll recall that you -- you made a fairly
5 powerful statement the first day of the hearing in terms
6 of the vulnerability of the Corporation. Do you -- do
7 you recall that at a -- at a high level? Transcript page
8 399, if you're looking for a reference.

9 MR. VINCE WARDEN: Would you just put
10 that in context, Mr. Williams?

11 MR. BYRON WILLIAMS: Absolutely, and I --
12 I want to, I just -- the statement I believe you -- you
13 made, and:

14 "I think it's a realization by Manitoba
15 Hydro that we are vulnerable, our
16 image, our reputation is vulnerable, to
17 any whistle blower that might come
18 forward."

19 Do you recall that, sir?

20 MR. VINCE WARDEN: Yes, I do.

21 MR. BYRON WILLIAMS: And you went onto
22 state, Mr. Warden, and Ms. -- I think Ms. Boyd has it
23 right there, so you can check me if you don't trust me,
24 that we think -- let the record show that there was an
25 evident sign of distrust displayed, which might have been

1 Hydro humour. Was that Hydro humour, Mr. Warden?

2 MR. VINCE WARDEN: That -- I'm sorry,
3 that was an attempt at humour again.

4 MR. BYRON WILLIAMS: You go on to say,
5 and I'm -- I'm not quoting you the entire phrase, but:

6 "We think by improving on that
7 communication plan, we'll be less
8 vulnerable to attack, so as to ste --
9 so as to speak, by those so inclined."

10 Would that be a fair reflection of your
11 statement, sir?

12 MR. VINCE WARDEN: Yes -- excuse me --
13 yes.

14 MR. BYRON WILLIAMS: While -- while there
15 may be those inclined -- who may be inclined to attack
16 Manitoba Hydro, without asking you to elaborate too much,
17 you'll agree that generally Manitoba Hydro has a good
18 reputation?

19 MR. VINCE WARDEN: Yes, Manitoba Hydro
20 has an excellent re -- reputation, as demonstrated each
21 and every year through the surveys that are conducted,
22 which we are very proud of, and we publish in our annual
23 report about the high customer satisfaction level. So,
24 yes, I think our -- our reputation is solid.

25 And perhaps because it is as solid as it

1 is, we were very surprised at how, as I referenced in my
2 remarks on the opening day, how vulnerable we were to
3 attack from others when they saw that opportunity.

4 MR. BYRON WILLIAMS: And I knew as -- I
5 was going to give you an opportunity to -- to speak a
6 bit, so that was an invitation by me.

7 Notwithstanding that good reputation, and
8 this is a very high level, and -- and we're just about
9 done here, Mr. Warden, but you'll agree that there may be
10 those who are less trusting of a Crown monopoly?

11 MR. VINCE WARDEN: Yes, I would be
12 certainly more willing to agree with that statement today
13 than I was three (3) or four (4) years ago.

14 MR. BYRON WILLIAMS: And for those less
15 inclined to trust a Crown monopoly, there is value to the
16 Corporation and to the process to have an independent
17 regulator there that we can -- we can trust to -- to
18 oversee the operations of the mo -- monopoly as they
19 relate to rates?

20 MR. VINCE WARDEN: No, no. To be
21 absolutely clear, Mr. Williams, Manitoba Hydro has -- has
22 never disputed the value of an independent regulator.
23 There's definitely a place for an independent regu --
24 independent regulation of Manitoba Hydro.

25 MR. BYRON WILLIAMS: And, Mr. Warden, in

1 the context of this hearing, would you agree that the --
2 that the heightened level of awareness and focus on risk
3 is a function both of the fallout from the assertions by
4 the New York consultant as well as the Board's
5 longstanding interest in putting more information on the
6 record in terms of risk? Would that be fair?

7 MR. VINCE WARDEN: Well, Mr. Williams,
8 through the documents that you've reviewed earlier in --
9 in this cross-examination, I certainly agree that the
10 Public Utilities Board has a longstanding interest in
11 reviewing the risks of Manitoba Hydro more closely than
12 they have in the past.

13 MR. BYRON WILLIAMS: Mr. Chairman, this
14 might not be a bad time for a break. I'm not quite done
15 this area, but I wanted to consult with my friend, Ms. --
16 Ms. Boyd, before I -- I ask my last few questions.

17 THE CHAIRPERSON: Very good, Mr.
18 Williams. We'll see you back in fifteen (15) minutes.

19
20 --- Upon recessing at 10:40 a.m.

21 --- Upon resuming at 11:02 a.m.

22

23 THE CHAIRPERSON: Okay. Welcome back.
24 Mr. Williams...?

25 MR. BYRON WILLIAMS: Yes. And, Mr.

1 Chairman, we have one (1) guest here this -- perhaps more
2 than one (1), but one (1) that I'm responsible for. By
3 the water cooler is -- and the fan showing her -- already
4 her keen litigation skills is Daniella Echeverria. I
5 cannot pro -- pronounce it properly, but that's the best
6 I can do. And she's the new independent residential
7 tenancies advocate, which our -- which our office
8 supervises. So we're happy to have her here.

9

10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: Mr. Warden, I'm
12 going to move to a different topic for a couple moments,
13 and that's the subject of some language you used on day 1
14 of the transcript in terms of red flags, which is at page
15 438 of the transcript. And I'll -- I'll put those words
16 to you in their proper context in just a minute, Mr.
17 Warden.

18 But just by way of context I'll suggest to
19 you that if you -- when you -- when humble farm boys,
20 like myself, hear the word, "red flags," we usually think
21 of it in the context of waving a red flag in front of a
22 bull. Are you familiar with that phrase?

23 MR. VINCE WARDEN: Sure.

24 MR. BYRON WILLIAMS: And I'm not going to
25 suggest that -- that that was the context in which you

1 used it, but that's the first thing that -- that came to
2 mind. And when you hear that phrase, "Waving a red flag
3 in front of a bull," it's almost like an invitation to
4 aggressive precipitant action.

5 Would you agree generally that's the
6 common vernacular for that word?

7 MR. VINCE WARDEN: Yeah, I think the
8 reference I made to red flag was with respect to the
9 credit rating agencies. And it's just a -- a warning
10 signal of perhaps danger or risk ahead.

11 MR. BYRON WILLIAMS: And I wanted to get
12 -- get -- get at that point, Mr. Warden. We'll come to
13 the quote in -- in just one (1) second. So what you're
14 telling me is -- is when you use the word "red flag," you
15 generally use it not as a sign of a -- an invitation to -
16 - to aggressive action, but more as a warning signal.

17 Is that -- is that what you see, sir?

18 MR. VINCE WARDEN: Well, fortunately, I -
19 - I don't use that phrase all that often, but when I did
20 use it in this instance, though, it was in -- in that
21 context.

22 MR. ROBERT MAYER: So don't get angry,
23 Mr. Williams.

24

25 CONTINUED BY MR. BYRON WILLIAM:

1 off memory?

2 MR. VINCE WARDEN: With respect to the
3 statement I made?

4 MR. BYRON WILLIAMS: Yes.

5 MR. VINCE WARDEN: No, that was my
6 understanding of -- of the environment at that time -- or
7 at this time.

8 MR. BYRON WILLIAMS: Okay. And -- and
9 just so you know, sir, I -- I did go through the --
10 certainly I tried to go through Appendix 36 and 39 and
11 elsewhere on the record, and I never came up with that
12 exact quote, so it's fair to say it's your perce --
13 that's your -- you're not quoting exactly? I think we've
14 --

15 MR. VINCE WARDEN: Well, as I just
16 mentioned, we have many discussions with the rating
17 agencies that go beyond what is published.

18 MR. BYRON WILLIAMS: And it would be fair
19 to say that the most express statement on the record of
20 this proceeding is really the one (1) I put to you
21 before, where DBRS is citing the Public Utility Board's
22 demonstrated track record of approving rate increases
23 during drought conditions. Would that be fair?

24 MR. VINCE WARDEN: In -- in terms of
25 published reports, I would agree with that, yes.

1 MR. BYRON WILLIAMS: This is just a touch
2 off topic, but -- and, Mr. Warden, if you don't feel
3 comfortable answering it that's fine, but would it be
4 fair to say that bond rating agencies such as DBRS
5 consider the relatively low business and industrial rates
6 of Manitoba Hydro to be a distinct advantage for the
7 province of Manitoba in terms of competing for new
8 business?

9 MR. VINCE WARDEN: I -- I don't think the
10 bond rating agencies, at least not to Manitoba Hydro --
11 have not expressed an opinion on that as to whether that
12 is an advantage to the province of Manitoba. They do see
13 it as an advantage to Manitoba Hydro in that even though
14 we are highly leveraged, our rates are so low that
15 there's a lot of room to increase rates and still be
16 competitive with our -- with other jurisdictions.

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: Give me just one (1)
21 second, Mr. Chairman. I'm -- there's a reference that
22 just came to mind.

23

24 (BRIEF PAUSE)

25

1 MR. BYRON WILLIAMS: Mr. -- Mr. Warden,
2 I'll probably point you to this at a later point in time
3 and I'll just set this page aside because there's a
4 follow-up on that I do wish to -- to have with you. And
5 I apologize for that delay, Mr. Chairman.

6 Going to your evidence at page 438 of the
7 transcript, Mr. Warden, lines 1 to 3 first of all. You
8 state that if -- if Hydro were denied a rate increase
9 altogether, that would send a signal that would not be
10 positive. You made that statement, sir?

11 MR. VINCE WARDEN: Yes, I did.

12 MR. BYRON WILLIAMS: And again, I have no
13 instructions from my clients whether they're going for
14 inflation, two point nine (2.9), or -- or zero. But down
15 a few lines later at -- you suggest:

16 "An absolute denial of a rate increase
17 would definitely raise a red flag and
18 we would get a lot of questions."

19 Correct?

20 MR. VINCE WARDEN: Yes.

21 MR. BYRON WILLIAMS: And again, just to
22 confirm. By raising a red flag you're -- you're --
23 you're making the statement that it -- it would -- it
24 would create a lot of questions. You're not suggesting
25 it would invite a hasty or precipitant action from bond

1 rating agencies?

2 MR. VINCE WARDEN: Well, if you're
3 suggesting that it might result in an immediate downgrade
4 no, I don't think they would go that far immediately. It
5 would though raise concerns as I've indicated here.

6 MR. BYRON WILLIAMS: You're saying if you
7 got zero they'd ask a lot of questions?

8 MR. VINCE WARDEN: Yes, especially in
9 view of the financial forecast that they've reviewed as
10 well. When they see the projected rate increases, they
11 see the capital construction program, they see the decade
12 of investment as we've labelled it. To not get a rate
13 increase now in view of the fact that we are projecting
14 rate increases that are much higher than what is being
15 requested in this proceeding would certainly raise a lot
16 of -- of question marks and concerns and red flags.

17 MR. BYRON WILLIAMS: In the way you use
18 the phrase not -- not in the farm boy way of using the
19 phrase.

20 MR. VINCE WARDEN: Yes, Mr. -- Mr.
21 Williams.

22 MR. BYRON WILLIAMS: If you'll turn to
23 Tab 7 of your -- of your evidence. Excuse me, of the
24 pink book, Mr. Warden. That is the Moody's Report of the
25 22nd of October, 2008. Do you have that, sir? The front

1 page of it should be the response of -- to CAC/Manitoba
2 Hydro 1-120. Do you have that, sir?

3 MR. VINCE WARDEN: Yes, Mr. Williams, I
4 have it here.

5 MR. BYRON WILLIAMS: And I apologize for
6 that confusion. And specifically first of all, I'm
7 directing you one (1) pa -- two (2) pages further in to
8 the Moody's report from October 22nd, 2008. To page 2 of
9 that report. Do you have that, Mr. Warden?

10 MR. VINCE WARDEN: Sorry, the date of
11 that again is? Of that report.

12 MR. BYRON WILLIAMS: The front -- so just
13 to clarify. The front page of this tab is the
14 information request. The second page is the Moody's
15 report dated 20 -- October 22nd, 2008.

16 MR. VINCE WARDEN: Yes.

17 MR. BYRON WILLIAMS: And I'm referring
18 you to one (1) page further in that --

19 MR. VINCE WARDEN: Oh.

20 MR. BYRON WILLIAMS: -- report.

21 MR. VINCE WARDEN: Okay. Thank you.

22 MR. BYRON WILLIAMS: Yes, and I apologize
23 for my imprecision.

24 Would it be fair to say that the
25 information provided to Manitoba Hydro and to Moo -- by

1 Manitoba Hydro to bond rating agencies such as Moody's,
2 and I'm referring you to the first paragraph on the top
3 of page 2, sir, at this point in time being 2008 was that
4 it had received a 5 percent rate increase effective July
5 1st, 2008, with a conditional 4 percent increase to
6 become effective April 1st, 2009, subject to a PUB re --
7 review.

8 Would that be fair?

9 MR. VINCE WARDEN: Yes.

10 MR. BYRON WILLIAMS: And I would be
11 correct in suggesting to you that for that April 1st,
12 2009, time frame, Manitoba Hydro actually sought a 3.9
13 percent rate increase. Would that be fair?

14

15 (BRIEF PAUSE)

16

17 MR. BYRON WILLIAMS: Ms. -- you could
18 accept it subject to check, or if you wanted to look in
19 the PUB book of documents, I think it's Tab 3. It's
20 there as well, Mr. Warden. You'll accept that subject to
21 --

22 MR. VINCE WARDEN: Yes.

23 MR. BYRON WILLIAMS: And Ms. -- Ms. Boyd,
24 while you're looking, it's PUB Exhibit 15, Tab 3, pages
25 11 and 12.

1 So Mr. Warden, Hydro sought a 3.9 percent,
2 correct?

3 MR. VINCE WARDEN: Yes, we've accepted
4 that.

5 MR. BYRON WILLIAMS: Thank you. And the
6 Board, in it's wisdom, chose not to give you 3.9 percent.
7 It gave you 2.9 percent. Is that right?

8 MR. VINCE WARDEN: Yes.

9 MR. BYRON WILLIAMS: And just directing
10 you on another two (2) pages in the document at Tab 7,
11 that should be the front page --

12 MR. ROBERT MAYER: Before we go away from
13 there, which Board order are we talking about now?

14 MS. MARLA BOYD: According to the
15 response to PUB Manitoba Hydro 1-2 Part B, the PUB
16 granted 2.9 percent on April 1st, 2009, in Board Order
17 32/'09. 32/'09.

18 MR. BYRON WILLIAMS: Mr. -- and Mr. Vice-
19 chair, I apologize for any confusion.

20

21 CONTINUED BY MR. BYRON WILLIAMS:

22 MR. BYRON WILLIAMS: Mr. Warden, you
23 should have the first page of the Moody's report dated
24 October 15th, 2009. Do you have that, sir?

25 MR. VINCE WARDEN: Yes, I do.

1 MR. BYRON WILLIAMS: And it would be
2 fair, and accurate, to say that the 1 percent reduction
3 approved by the Board in -- as compared to the rate
4 originally sought by Manitoba Hydro did not invite any
5 aggressive actions, such as a downgrading of Manitoba
6 Hydro's credit rating?

7 MR. VINCE WARDEN: Yes -- no, that's fair
8 to say.

9 MR. BYRON WILLIAMS: And if we look to,
10 recent developments, the first paragraph under that,
11 would it be fair to say that when the Board, in its
12 wisdom, chose to reduce the amount sought there really
13 were no expressed warnings of danger from Moody's either.
14 Would that be fair, sir?

15 MR. VINCE WARDEN: That is fair, Mr.
16 Williams. However, I -- I do have to reiterate my
17 previous statement that my comments that you reference in
18 the transcript were based not only on the published
19 reports but on -- in many discussions that I -- I have
20 with credit rating agencies.

21 MR. BYRON WILLIAMS: And -- and
22 certainly, though, if we look to the -- the language of
23 Moody's, there were no express warnings of danger flowing
24 because they understood that it was -- Hydro had better
25 fin -- financial results than expected. And, as well,

1 they understood that consumers were in a bit of a tough
2 time at that point in time. That flows from that
3 paragraph as well, does it not, sir?

4 MR. VINCE WARDEN: Yes.

5

6 (BRIEF PAUSE)

7

8 MR. BYRON WILLIAMS: Mr. Warden, you talk
9 about the -- the decade of investment. My clients have
10 another word for it, but we'll focus on -- on your
11 language.

12 It's fair to say, when we look at IFF-10,
13 and it's not before you but I don't think this is con --
14 controversial, that it portrays rate increases of 2.9
15 percent in 2011/'12, and 3.5 percent for each subsequent
16 fiscal year out to 2020 -- 2020/'21.

17 Would that be fair?

18 MR. VINCE WARDEN: Yes, Mr. Williams, you
19 have to be cautious with that though. It's a projection
20 based on average water conditions, and, as you know,
21 we've had better than average water conditions over the
22 past two (2) plus fiscal years which have contributed to
23 higher earnings than what was in that forecast that was
24 filed with this proceeding.

25 We have to always be aware of that when we

1 look at any projection, and it's based on an assumption
2 of water flows that are going to be different. So when
3 we do have the better than -- than forecast earnings, as
4 we've had last year and again this year compared to IFF-
5 09, you have to be aware that that could turn around, and
6 could turn around quite abruptly such that our earnings
7 next year could be very different from what is in that
8 financial forecast.

9 We are very much influenced -- our -- our
10 bottom line is very much influenced by water conditions,
11 and it's something to be al -- always cognizant of. And
12 when we bring a rate application before this Board it
13 takes into account the current water conditions. So with
14 that qualification, I'll agree with your statement.

15 MR. BYRON WILLIAMS: Mr. Warden -- and I
16 have to apologize because I did lose the answer in the
17 caveat. So it -- it would be fair to say that we've got
18 in the IFF two point nine (2.9) out through 2011/'12, and
19 then 3.5 percent out to '20/'21, correct, sir?

20 MR. VINCE WARDEN: That -- that's what in
21 the financial forecast, yes.

22 MR. BYRON WILLIAMS: And it's also fair
23 to say that in the IFF starting in 2013/'14 or so, you're
24 talking about inflation is reflected in Manitoba CPI in
25 the range of 2.1 percent. Would that be accurate, sir?

1 MR. VINCE WARDEN: Yes.

2 MR. BYRON WILLIAMS: And again,
3 recognizing all your caveats, which are -- my clients
4 fully understand, would it be fair to say that in IFF-10
5 Hydro projects that its relative equity ratio will
6 decline by eight (8) percentage points, from 26 percent
7 at the end of 2010/'11 to 18 percent at the end of
8 2020/'21?

9 MR. VINCE WARDEN: Yes. Not a surprise
10 though, Mr. Williams. That's part of what we expect
11 during the decade of investment. We're -- we're
12 investing a lot of dollars in new capital which will pay
13 substantial returns in the next decade.

14 MR. BYRON WILLIAMS: Just flipping back
15 within the same IR response, which is at Tab 7, to the --
16 the Moody's report, dated October 22nd, 2008. That would
17 be the second page of the document.

18

19 (BRIEF PAUSE)

20

21 MR. BYRON WILLIAMS: And, Mr. Warden, I -
22 - I appreciate your advice that it's not a surprise that
23 there'll be some deterioration. Would it be fair to say
24 that in 2008 Manitoba Hydro was of the view that the
25 target, 75:25 debt-*eq* -- equity target, would be

1 sustainable going forward assuming annual rate increases
2 approximately the rate of inflation and barring one (1)
3 or more poor hydrology years?

4

5 (BRIEF PAUSE)

6

7 MR. VINCE WARDEN: Yes, Mr. Williams.

8 And I think I made the statement earlier in these
9 proceedings that management will be doing everything
10 possible to maintain the 75:25 debt-equity ratio. We
11 worked very hard to get to that level, and we will do
12 everything we can to maintain it, and that's what's being
13 reflected in the statement that's in the -- in the
14 Moody's report.

15 MR. BYRON WILLIAMS: And just so I'm
16 clear, Mr. Warden, though, when you spoke with Moody's,
17 and -- and that's reflected in the report, your advice at
18 the time was that the target, 75:20, should be
19 sustainable going forward, assuming annual rate increases
20 approximately the rate of inflation and barring one (1)
21 or more poor hydrology years.

22 That's fair?

23 MR. VINCE WARDEN: Yes.

24 MR. BYRON WILLIAMS: Now, your advice to
25 Moody's today would be different in that you would

1 suggest that it cannot -- that debt -- debt-equity may
2 range based on IFF-10 is not likely to be maintained out
3 to '20 -- '20/'21. That would be fair?

4 MR. VINCE WARDEN: No. Well, as I just
5 mentioned, we'll do everything we can to maintain that
6 75:25 debt-equity ratio. Water conditions, again, are
7 going to play a large part of that. Rate changes also
8 play a part of that. Prudent cost control is another
9 part of that equation. So all those things together,
10 working together we -- we should have a good shot at
11 maintaining that ratio going forward.

12 MR. BYRON WILLIAMS: But, Mr. Warden --

13 MR. VINCE WARDEN: Barring -- barring
14 some kind of a -- a drought during that period.

15 MR. BYRON WILLIAMS: But, Mr. Warden,
16 it's fair to say there's been a change in the position in
17 that you were saying in 2008 75:25 sustainable with rate
18 increases at inflation. And when we look at the IFF-10
19 you're saying it's not -- when we look at our best
20 forecast, recognizing the water -- water levels and all
21 the caveats, it's not sustainable, there's going to be
22 deterioration. That advice has changed?

23 MR. VINCE WARDEN: No. No, Mr. Williams.
24 It -- it is a forecast and it is a forecast that's
25 variable depending on water conditions. We are having a

1 better -- we've had a better year last year as we've
2 talked about, and this current fiscal year because --
3 because of water conditions.

4 The reference in the Moody's report to
5 rate increases, I think it says approximately at the rate
6 of inflation, not at the rate of inflation. So two point
7 nine (2.9) versus inflation of approximately 2 percent,
8 it -- it's within that range. So no, that -- that
9 statement still holds.

10 MR. BYRON WILLIAMS: And your advice to
11 bond rating agencies today is that the 75:25 debt-equity
12 ratio is sustainable. That's your best estimate?

13 MR. VINCE WARDEN: No, I would say we --
14 and -- and they're fully aware of what our financial
15 forecast shows and they're -- they're fully understanding
16 of -- of the impact that water conditions can have on
17 that forecast. And I've made the statement to bond
18 rating agencies that we will work very hard to maintain
19 the 75:25 debt-equity ratio as I -- as I've made before
20 this Board.

21 MR. BYRON WILLIAMS: You're maintaining
22 your advice has not changed to them in terms of the
23 prospects of maintaining your 75:25 equity since 2008.
24 Is that your evidence?

25 MR. VINCE WARDEN: Barring unforeseen

1 circumstances and assuming rate increases that are -- are
2 before this Board, we will work very hard to maintain the
3 75:25 debt-equity ratio. That's what I've -- I've told
4 the bond rating agencies and that would still be what I'd
5 tell them today.

6 MR. BYRON WILLIAMS: And I won't belabour
7 the point, but in 2008 you said 75:25 is sustainable.
8 Your advice today is that 75:25 is sustainable as well.

9 Is that your advice?

10 MR. VINCE WARDEN: Well, I did say should
11 be sustainable. I didn't say it would be sustainable,
12 but there's a lot of moving parts that will affect that
13 ratio going forward. We're in a -- we're in a good
14 position right now. We have made the statement that
15 we're in the strongest financial position in the history
16 of the Corporation.

17 That's something that I think that we're
18 proud of. But on the other hand, there's a lot of
19 uncertainty going forward that needs to be addressed, and
20 part of -- of what will assist us in -- in maintaining
21 the ratios that we're striving to achieve will be regular
22 rate increases throughout that period.

23 MR. BYRON WILLIAMS: Mr. Warden -- and if
24 you're looking for reference you can flip back one (1)
25 tab to Tab 6, which would be the Moody's report of

1 February 7th, 2011.

2 Do you have that, Mr. Warden, the first
3 page?

4 MR. VINCE WARDEN: Yes, I do.

5 MR. BYRON WILLIAMS: And the Chairperson
6 might have covered over these comments yesterday and if
7 he did I -- I do apologize. But do you see a statement
8 at the bo -- under the heading "Provincial Guarantee"?
9 You see a statement by Moody's that:

10 "MHEB and a similar enti -- entity, BC
11 Hydro and Power are unique among
12 Moody's rated com -- companies and are
13 not readily comparable to other
14 regulated electric utilities."

15 Do you see that, sir?

16 MR. VINCE WARDEN: Yes.

17 MR. BYRON WILLIAMS: And whether or not
18 I've quoted exactly, that's an accurate expression of
19 that statement?

20 MR. VINCE WARDEN: Yes.

21 MR. BYRON WILLIAMS: Is that a statement
22 you agree with?

23 MR. VINCE WARDEN: Well, I would have no
24 reason to disagree with the statement at Moody's.

25 MR. BYRON WILLIAMS: Thank you. I -- I'm

1 moving on to a new subject matter and it's -- some of
2 these questions may be for Mr. Wiens, some of these
3 questions may be for -- for Mr. -- whoever on the Panel
4 wishes to -- to respond.

5 Mr. Wiens, are you familiar with the old
6 saying:

7 "Four (4) things come not back: the
8 spoken word, the sped arrow, the past
9 life, and the neglected opportunity."

10 Does that ring your -- set your Bonbright
11 bells ringing at all?

12 MR. ROBIN WIENS: I'm not sure that I
13 recall that specific aphorism but I've -- I do recall
14 similar aphorisms.

15 MR. BYRON WILLIAMS: And I don't want to
16 talk to you about sped arrows or past lives but I do want
17 to talk to you about neglected opportunities for -- for a
18 moment.

19 Mr. Wiens, you're -- you're an economist?

20 MR. ROBIN WIENS: By training, yes.

21 MR. BYRON WILLIAMS: As an economist
22 you're the ultimate in rational beings? With due respect
23 to any accountants on the Board, or lawyers.

24 MR. ROBIN WIENS: I do recall an
25 economist who's probably now -- now left us having

1 suggested that somebody who was trying to live his life
2 as a saint may be a more rational being than what he
3 referred to as a frock-coated banker, which was not
4 exactly an economist but it's going to stand in for one
5 in this situation. And he suggested that as -- provided
6 that the aspiring saint was weighing the benefits and
7 costs of the various spiritual goods and services that he
8 sought he was probably a better economist than the frock-
9 coated banker.

10 So while I'm not disagreeing that
11 economists can be highly rational, I am not going to
12 respond in the affirmative to your question.

13 MR. BYRON WILLIAMS: I have been
14 appropriately put in my place. Economists, rational --
15 relatively rational creatures that they are, hold that
16 the most rational use of resources is the one that
17 produces the highest return with due consideration to
18 lost opportunities.

19 Would that be fair?

20 MR. ROBIN WIENS: I think if you're talk
21 -- if you defined a limitation on whatever resources are
22 going into it that would be true, yeah.

23 MR. BYRON WILLIAMS: And thank you for
24 that segue. To a certain degree you'll agree with me
25 that the concept of marginal costs is important to you as

1 an economist and to economists as it relates to that
2 concept of opportunity costs?

3 MR. ROBIN WIENS: Absolutely.

4 MR. BYRON WILLIAMS: And going back to
5 your point from two (2) answers before, it's important
6 because the opportunity cost concept is crucial to
7 economics because resources are considered to be limited.
8 Would that be fair?

9 MR. ROBIN WIENS: Yes.

10 MR. BYRON WILLIAMS: And I think the
11 fancy word for it might be allocative efficiency, but
12 economists are foc -- focussed on allocative efficiency
13 and -- and getting the best bang for the buck.

14 MR. ROBIN WIENS: Yeah, micro-economists
15 generally are focussed on that.

16 MR. BYRON WILLIAMS: We're going to move
17 to the definition of marginal costs, both short run and
18 long run in a second, but can we agree, Mr. Wiens, at a
19 high level, that the marginal cost of a commodity, any
20 given commodity, refers to the increase in the total cost
21 of providing that product that are imposed on a company
22 by a marginal increase in its rate of output?

23 MR. ROBIN WIENS: That -- that would be
24 good.

25 MR. BYRON WILLIAMS: And usually this

1 increase is expressed in terms of an incremental cost per
2 unit of increased output.

3 Would that be fair?

4 MR. ROBIN WIENS: Yes.

5 MR. BYRON WILLIAMS: And we're going to
6 hold that thought for a second, and come back to it in
7 just a second, but you're familiar, as well, with the
8 concept of average costs?

9 MR. ROBIN WIENS: Yes.

10 MR. BYRON WILLIAMS: And it would be fair
11 to say that in -- average costs are often, or sometimes,
12 described as embedded costs or historic embedded costs?

13 Would that be okay?

14 MR. ROBIN WIENS: Depending on the
15 context, yeah.

16

17 (BRIEF PAUSE)

18

19 MR. BYRON WILLIAMS: Going back to that
20 definition, and -- of a marginal cost, it would be fair
21 to say that the amount of the marginal cost and its
22 relationship to average cost will depend on a number of
23 factors, with the key one (1) being the assumed duration
24 of the enhanced rate of output.

25 Would that be fair?

1 MR. ROBIN WIENS: Or the assumed time
2 frame in which the enhanced output occurs, or is expected
3 to occur.

4 MR. BYRON WILLIAMS: Thank you for -- for
5 helping out -- me out, Mr. Wiens. And -- and just to --
6 to help us introduce to short run versus long run, and
7 working with that concept, the additional unit cost of a
8 5 percent increase in output, maybe one (1) thing is the
9 -- if the enhancement is only going to last five (5)
10 minutes, and another thing if it's got to be maintained,
11 the enhancement, for five (5) years.

12 That would be fair?

13 MR. ROBIN WIENS: That's fair.

14 MR. BYRON WILLIAMS: And definitionally,
15 would it be accurate, or fair to say, that economists use
16 the term, short-run marginal costs, to describe costs en-
17 -- estimated under the assumption only of an increase in
18 the rate of utilization of existing plants and equipment.

19 Would that be fair?

20 MR. ROBIN WIENS: Yes.

21 MR. BYRON WILLIAMS: Whereas with long-
22 run marginal costs, we apply that concept to costs
23 estimated under the assumption that the enhancement in
24 the rate of output will continue indefinitely and be
25 accompanied by an appropriate increase in capacity --

1 plant capacity.

2 Fair enough?

3 MR. ROBIN WIENS: Yes, it -- it depends
4 on the factors of production entering into that being a
5 variable. Being able to be increased or decreased.

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Mr. Wiens, would it
10 be accurate to say that currently Manitoba Hydro
11 determines the marginal cost of an increment of power
12 supply by assessing its value in the export market?
13 Would that be fair?

14 MR. ROBIN WIENS: Yes, that would be
15 fair, because that's one (1) of the sources of a possible
16 increase in supply to the domestic market, is that it
17 will not be sold on the export market.

18 MR. BYRON WILLIAMS: And, Mr. Wiens, if I
19 -- if I've got this part wrong, you'll -- you'll correct
20 me, no -- no doubt, as you already have, but when -- when
21 we use that proxy of assessing what it -- it would -- the
22 increment would cost in the export market, is that what
23 we, in this context, we're referring to as long-run
24 marginal cost? That kind of proxy?

25 MR. ROBIN WIENS: Well, not necessarily,

1 Mr. Williams, because in the short run, if you're talking
2 about short-run marginal cost, the source of the
3 additional kilowatt hour may well be foregoing a short-
4 term or opportunity sale in the export market. So it can
5 be thought of in short-run or long-term context, as
6 appropriate.

7 MR. BYRON WILLIAMS: Thank you for that.
8 And that was a poorly worded question. Without asking
9 you to offer a legal interpretation of the meaning of
10 Section 2 of the Manitoba Hydro Act, we can agree that
11 one (1) of the purposes and objects of Manitoba Hydro is
12 to enga -- engage in and to promote economy and
13 efficiency in the end use of power in Manitoba.

14 That's fair?

15 MR. ROBIN WIENS: Yeah, I believe that's
16 in the Act.

17 MR. BYRON WILLIAMS: Would it be fair to
18 say that whether rates are promoting efficiency is often
19 measured by how closely they reflect marginal costs?

20 MR. ROBIN WIENS: It's typically assumed
21 under certain restricted conditions that efficiency is
22 maximized if resources are priced at their marginal cost.
23 Those conditions don't always exist, Mr. Williams.

24 MR. BYRON WILLIAMS: And -- and I -- I
25 accept that, and this is obviously where we're headed.

1 Would it also be fair to say though, and perhaps I'll --
2 I'll pull back my comment just a second, whether rates
3 are promoting efficiency is often measured by how closely
4 the last increment of that rate reflects marginal costs?

5 MR. ROBIN WIENS: I think we're heading a
6 little further away from purity now, Mr. Williams, rather
7 than close to purity. Really, under conditions of -- of
8 pure competition, that the marginal cost -- that price
9 equals marginal cost, that's -- that's the axiom that --
10 that you're wanting, not just the last increment but all
11 of the product is priced at marginal cost.

12 MR. BYRON WILLIAMS: I understand you
13 perfectly, Mr. Wiens. And I guess I was suggesting to
14 you that if we can't make those economists perfectly
15 happy, then we -- we look for a step back, which is
16 looking at that last incremental -- last increment and
17 seeing how that's priced related to marginal costs.

18 MR. ROBIN WIENS: Well, that -- that is
19 one (1) type of attempt at -- at approximating that
20 condition.

21 MR. BYRON WILLIAMS: And we've already
22 talked about your -- your use -- or the commonly agreed
23 use of average or embedded costs. Is it fair to say that
24 employing traditional regulatory cost of service
25 methodology and rate design, rates for a customer class

1 are designed to recover average or historical embedded
2 costs as allocated through a cost-allocation process?

3 MR. ROBIN WIENS: Well, I think it's
4 probably more appropriate, Mr. Williams, to say that in
5 the traditional methodology that revenues recovered from
6 specific classes or subclasses are based on average
7 costs. The rates may be as well, but they aren't
8 necessarily.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: Just so I have your
13 -- your --

14 MR. ROBIN WIENS: I take it we're still
15 speaking in the abstract here.

16 MR. BYRON WILLIAMS: Yes. Yes, we are.

17 MR. ROBIN WIENS: Okay.

18 MR. BYRON WILLIAMS: And just so I have
19 your point, where you're -- you're moving to, you said
20 more specifically instead of cla -- overall, you're
21 speaking of specific subclasses. Was that the caveat you
22 had in terms of my statement, Mr. Wiens?

23 MR. ROBIN WIENS: Well, I -- you know,
24 going back to your original question, which was that
25 rates in -- in the traditional regulatory model, rates

1 are based on average costs, I think it would more correct
2 to say that the revenue recovered from the various
3 classes of service or -- or subclasses would be based on
4 or close to average costs.

5 MR. BYRON WILLIAMS: I thank you for
6 that, and thank you for that precision. At a high level,
7 still speaking in -- in broad theory, is it fair to say
8 that the more divergence there is between the average
9 cost and revenue, and the marginal cost, the more
10 difficult it is to design rates for a class that send
11 efficient price signals?

12 MR. ROBIN WIENS: Yeah, as a general rule
13 I would accept that. It -- it means that you've got --
14 that you've got -- you probably have to look wider within
15 a rate structure or have more variances within a rate
16 structure in order to accommodate that, but it doesn't
17 mean to say it can't be done.

18 MR. BYRON WILLIAMS: Mr. Wiens, you had a
19 bit of a discussion with the -- the Chairman on this
20 yesterday, and I -- I just want to -- to go back to it
21 for a second. In Tab 8 of the pink book there is an --
22 Tab 8 there is -- or not tab, but in page 8 numbered
23 there is a -- excuse me, there's at eight (8) an excerpt
24 from Board Order 117/'06.

25 MR. ROBIN WIENS: As long as that's the

1 only excerpt from 117/'06 in the package, I -- I have it.

2 MR. BYRON WILLIAMS: Thank you for that,
3 Mr. Wiens. And as I said, you -- you had an interesting
4 discussion with the Chairman on this yesterday, but --
5 and I include this merely for your reference. I'm sure
6 your memory will serve you well.

7 The outcome of that -- that process at a
8 very high level, referring you to the first paragraph,
9 was that the Board, at a high level, accepted the basic
10 process of good old functionalization, classification,
11 and allocation in the cost-of-service model advanced by
12 Hydro's recommended approach, that's fair?

13 MR. ROBIN WIENS: Yes, I do recall that.

14 MR. BYRON WILLIAMS: The Board did state
15 though that the historical embedded cost model will be
16 amended as directed by providing parallel and additional
17 information on marginal costs and carbon emissions.
18 Would that be fair?

19 MR. ROBIN WIENS: That's what it states,
20 but I think there may be an inference in there or a -- a
21 suggestion that I'm not sure that was actually met by
22 yourself, Mr. Williams. It says:

23 "The historical embedded cost model
24 will however be amended as herein
25 directed."

1 And I take that to mean that there are
2 specific directions that come subsequently or earlier in
3 this document that relate to the approach to embedded
4 costs only. The next statement:

5 "Parallel and additional information on
6 marginal costs and carbon emissions was
7 intended to be in addition to, not to
8 modify, the first sentence."

9 MR. BYRON WILLIAMS: And I appreciate
10 that. And thank you for that rigour. What you're
11 indicating though is that while there -- while there's
12 certain directions we -- which we -- we need not concern
13 ourselves with, your interpretation of the Board order is
14 that it was also in -- in addition to historical embedded
15 costs, seeking parallel and additional information
16 relating to marginal costs and carbon emission pricing,
17 correct?

18 MR. ROBIN WIENS: Yes.

19 MR. BYRON WILLIAMS: And -- and certainly
20 your understanding is that the purpose was to provide the
21 Board with a broader and more comprehensive understanding
22 of matters important to rate sit -- setting inc -- and
23 fairness between customer classes and environmental
24 concerns?

25 MR. ROBIN WIENS: Yes.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: So turning you to
4 the second paragraph for just a second, the second
5 sentence, you see the Board's confirming that the primary
6 objective of the COSS, C-O-S-S, is to assist in the test
7 -- testing of the fairness of rates between domestic
8 classes, correct?

9 MR. ROBIN WIENS: Yes, I see that.

10 MR. BYRON WILLIAMS: Directing you to the
11 bottom paragraph on this page, the second to the last
12 sentence, the Board also states though that in assessing
13 rate fairness it will be considering parallel and marg --
14 parallel, marginal, and environmental cost information.
15 Would that be fair?

16 MR. ROBIN WIENS: Yes, it states that.

17 MR. BYRON WILLIAMS: And that's in -- at
18 a high level what we discussed before, a prima -- or
19 primary focus on costs as reflected in historical
20 embedded costs, but guidance in terms of rate setting
21 also flowing from this parallel information including
22 marginal costs, correct?

23 MR. ROBIN WIENS: Yes, that's clearly
24 stated here.

25 MR. BYRON WILLIAMS: I will come to that

1 -- back to that in -- in just a second. I -- I do want
2 to make a minor question of clarification which relates
3 to the next tab in the document, which is C -- Tab 9,
4 CAC/MSOS, the Corporation's response to 2-75.

5 Do you have that, Mr. Wiens?

6 MR. ROBIN WIENS: Yes, I have that.

7 MR. BYRON WILLIAMS: I don't want to get
8 into a high level of -- of detail in terms of this, I'm
9 really focussed on the first paragraph. But Hydro was
10 asked to recognize the marginal cost provided in two (2)
11 previous information requests, correct?

12 MR. ROBIN WIENS: Yes.

13 MR. BYRON WILLIAMS: And in -- in doing
14 so, it noted that:

15 "The response to CAC/MSOS First Round
16 66(c) was not correct and should be
17 revised as set out below."

18 Correct?

19 MR. ROBIN WIENS: Yes.

20 MR. BYRON WILLIAMS: And a simple
21 question of clarification, Mr. -- Mr. Wiens, is I'm going
22 to suggest to you that if one sums generation
23 transmission and distribution from this -- this column it
24 would equal seven point three-five (7.35) as compared to
25 the seven point two-three (7.23) presented?

1 MR. ROBIN WIENS: Yes, I've done the
2 arithmetic myself and that's what it comes to.

3 MR. BYRON WILLIAMS: And for my clients'
4 purposes, Mr. Wiens, is it the seven point three-five
5 (7.35) cents they should rely upon?

6 MR. ROBIN WIENS: I'm not sure that much
7 hinges on it, Mr. Williams, but I -- I believe so. You
8 know, I've -- I've made inquiries as to which is correct
9 and I'm advised that the seven point two-three (7.23)
10 cents represents simple -- a simple addition error. It -
11 - I'm curious as to why that might have happened and I'm
12 not sure exactly why at this point. But as -- as not a
13 whole lot hinges on it. We're prepared to accept the
14 seven point three-five (7.35).

15 MR. BYRON WILLIAMS: And the reason, of
16 course, I ask Mr. Wiens is we use that figure in
17 subsequent calculations. You're aware of that?

18 MR. ROBIN WIENS: Yeah, I thought we
19 might be coming to that.

20 MR. BYRON WILLIAMS: Mr. Chairman, I have
21 a -- and Mr. Vice-chair, I -- I have a table that's
22 somewhat lengthy, it won't take forever, but it will take
23 some -- some time. And I wonder if this might be an
24 appropriate time for a -- for a break?

25 THE CHAIRPERSON: Okay. We'll come back

1 at 1:00 then. Thank you.

2

3 --- Upon recessing at 11:52 a.m.

4 --- Upon resuming at 1:10 p.m.

5

6 THE CHAIRPERSON: Okay, Mr. Williams.

7 MR. BYRON WILLIAMS: Yes, thank you, Mr.
8 Chairman, and Mr. Vice-Chair, good afternoon.

9 The -- I have a rare continuing fan club
10 this afternoon. Over by the water cooler, again, is Gail
11 Colomy, who's -- who you've probably seen her name on our
12 emails from time to time, from our office. I just hope
13 Mr. Gange is not trying to -- trying to steal her back
14 from us, but we're glad to have her here.

15 And -- and just a -- a bookkeeping matter,
16 Mr. Chairman, and there -- in terms of the exhibits that
17 are going to be presented this afternoon, I understand
18 that from time to time Manitoba Hydro may have some very
19 modest numerical corrections.

20 So I'll invite Manitoba Hydro, when we
21 flip to each new panel -- or to -- to each new table, if
22 they have any comments in terms of the calculations, that
23 they'll -- they'll share them with us, if that's
24 satisfactory to you, Ms. Boyd.

25 MS. MARLA BOYD: It is, and I'm sorry to

1 interrupt having just said that we could begin, that I --
2 I had forgotten that Mr. Warden intended to speak to an
3 undertaking that was available, and it's Undertaking
4 number 86, that was from page 4,353 of the transcript.

5

6 (BRIEF PAUSE)

7

8 MR. VINCE WARDEN: Thank you. Mr.
9 Chairman, I do -- I thought it was important to put this
10 on the record as soon as possible.

11 Under -- the Undertaking -- sorry, what
12 number was it -- Undertaking -- Undertaking number 86
13 related to Bipole 3, and the question was when and if the
14 vice-president of transmission saw the documents that
15 were referenced at PUB Exhibit number 19, dated August of
16 2009 -- August 18th, 2009.

17 So on the record I stated that I didn't
18 know the date or -- or if the vice-president of
19 transmission had, in fact, reviewed that document, and
20 this is -- to refresh your memory, this is a document
21 that increased the capital cost estimate for Bipole 3
22 from 2.2 billion to 3.94 billion.

23 So we -- we have, in the process of
24 researching whether or not the vice-president of
25 transmission has -- had signed off on this document, we

1 started tracing back on the steps that that document did
2 follow, and maybe just a step -- take a step back.

3 The process for -- for capital project
4 justifications are -- or is that the -- all CPJs from
5 anywhere in the Corporation comes to finance and
6 administration for putting together an executive
7 committee recommendation. So all CPJs would have an exec
8 -- executive committee recommendation that accompanies
9 them in recommending the approval.

10 So those executive committee
11 recommendations summarize all CPJs, and CPJs may be as
12 few as one (1), or as many as six (6) or seven (7) or
13 eight (8), depending on the -- on the number of CPJs that
14 are coming forward for EC approval.

15 So with respect to this CPJ, I have
16 determined that Mr. Tymofichuk, the va -- vice-president
17 of transmission, did in fact sign this document on
18 September the 10th of 2009. The vice-president of power
19 supply signed the document on the very same day,
20 September the 9th of 2000 -- or September the 10th of
21 2009.

22 So the pro -- following the process then,
23 the -- the document -- the CPJ would have been forwarded
24 to finance and administration for the preparation of an
25 EC recommendation, which was done and was, in fact,

1 forwarded to my office. So it -- it arrived in my
2 office. I did not recall having seen the document,
3 however, I would have seen -- I would have been aware of
4 the amount at that point in time. I would have been
5 aware of the amount of the -- of the increase, at which
6 time I would have consulted with Mr. Brennan as to how we
7 would deal with this.

8 We were both -- at the time, I do recall
9 having the discussion with Mr. Brennan, as does he. We
10 weren't both aware when I last testified of the exact
11 date of that discussion, but, again, following this paper
12 trail it would have been around September the 11th of
13 2009, which is the date the EC recommendation was
14 prepared.

15 Of course, we were both concerned about
16 the increase. Anytime a capital project, and it's not
17 just this capital project, although this is unique in
18 terms of the increase, we were both concer -- very
19 concerned about the amount of the increase and,
20 therefore, did not move it forward.

21 There was -- following that -- that period
22 of time, and I consulted again with Mr. Brennan just to
23 make sure my memory and his memory were somewhat aligned,
24 and following September of 2009, there would have been a
25 lot of internal discussion about the amount of the

1 capital cost estimate, or the revision to that estimate.

2 And it took approximately twelve (12)
3 months before we referred that to an outside consulting
4 firm to resolve this issue for us, or at least to come up
5 with an estimate that we -- we would have more comfort
6 with.

7 So that isn't exactly as I had relayed it
8 on the record. I wanted to make sure -- I thought
9 because of the importance of this issue, I -- I should
10 make sure that the -- the record was absolutely clear. I
11 want to, at the same time, make it clear that it was not
12 my intention in any way to mislead the Board. I -- I was
13 -- I was basing it on my recollection at the time.

14 But the paper trail that we have here does
15 indicate that it actually did make its way to my office,
16 and -- and it was not moved forward after that date.
17 Thank you.

18 THE CHAIRPERSON: Thank you, Mr. Warden.
19 Mr. Warden, was it brought to the attention of the audit
20 committee?

21 MR. VINCE WARDEN: It was definitely
22 brought to the adden -- attention of the audit committee,
23 Mr. Chairman, but rather than rely on my memory for that,
24 I -- I would prefer to again look at the paper trail and
25 find out the date at which it was brought to the

1 attention of the audit committee.

2

3 --- UNDERTAKING NO. 104: Manitoba Hydro to indicate
4 when the audit committee of
5 Manitoba Hydro first became
6 aware of a possible change in
7 the Bipole 3 estimate from
8 2.2 billion to a higher
9 number

10

11 THE CHAIRPERSON: Very good. Thank you.
12 Mr. Williams...?

13 MR. BYRON WILLIAMS: Mr. Chairman, I
14 would probably have just a couple of questions for Mr.
15 Warden of follow-up. But if -- just on -- just because
16 it's timely, but if Board counsel had -- just if you
17 wanted to ask any questions now I would certainly defer
18 to him. Just -- I may have three (3) of four (4), but if
19 Board counsel has any, I would certainly -- it's -- he's
20 been following this issue more closely than I.

21 THE CHAIRPERSON: I think you could
22 proceed, Mr. Williams. And if Mr. Peters has any follow-
23 up questions, he can -- there's lots of opportunity.

24

25 CONTINUED BY MR. BYRON WILLIAMS:

1 MR. BYRON WILLIAMS: And, Mr. Warden, I
2 didn't anticipate asking many questions. But just in
3 terms -- I believe you used the -- the description in
4 terms of the -- the estimate -- the revised addendum for
5 the cap -- is unique in terms of the increase. Just now,
6 did you use that language?

7 MR. VINCE WARDEN: Well, the order of
8 magnitude was unprecedented, yes.

9

10 (BRIEF PAUSE)

11

12 MR. BYRON WILLIAMS: And my understanding
13 is following your discussion with Mr. Brennan, and I'm
14 not sure about the dates and -- and that's -- that's
15 fine, Mr. Peters may want to follow this up, you
16 indicated that it did not -- you did not move it forward,
17 that's correct?

18 MR. VINCE WARDEN: Did not move it
19 forward to executive committee for approval.

20 MR. BYRON WILLIAMS: And again, without
21 trying to put words in your mouth, you had -- given the
22 unique or unprecedented nature of the increase you -- you
23 were uncomfortable at that point in time in forwarding
24 it. Would that be fair?

25 MR. VINCE WARDEN: Yes, it's not out of

1 the ordinary to discuss capital items with the president
2 before they're advanced to executive committee. This one
3 was for sure discussed, and between the two (2) of us,
4 Mr. Brennan and myself, neither of us were comfor --
5 comfortable with the amount of the increase and therefore
6 did not advance it forward for approval.

7 MR. BYRON WILLIAMS: And --

8 MR. VINCE WARDEN: It would -- it
9 wouldn't have been approved at executive committee so
10 there was no point in advancing it forward.

11 MR. BYRON WILLIAMS: Given -- I'll come
12 back to that point in a second. Given that you did not
13 move it forward, did you send it back for -- and let me
14 back up. Given that you did not move it forward and
15 given your lack of comfort with the estimate, did you
16 send it back down the line to be reviewed again?

17 MR. VINCE WARDEN: Well, as I mentioned,
18 after that date in September there was a lot of internal
19 discussion as to the reasons for the increase and the
20 validity of the increase in order to -- in an attempt to
21 get some kind of a comfort level with the revised
22 estimate or what the right number would be. We never,
23 through that discussion, were able to arrive at that
24 comfort level, hence, we referred it to an outside --
25 outside consultant to assist us with that.

1 MR. BYRON WILLIAMS: And again, I don't
2 mean to belabour this, but you had been provided with a
3 capital project justification addendum with an
4 unprecedented level of increase, correct?

5 MR. VINCE WARDEN: Yes.

6 MR. BYRON WILLIAMS: And you weren't
7 comfortable with it?

8 MR. VINCE WARDEN: Correct.

9 MR. BYRON WILLIAMS: And I'll suggest to
10 you that the natural thing to -- to do in that case if
11 you're not comfortable with it is go back to the people
12 who were comfortable with it, who signed off on it, and
13 say will you revisit this calculation?

14 MR. VINCE WARDEN: Well, in effect that's
15 what happened. There was a -- there was a lot of back
16 and forth in terms of the -- the estimate and -- and to
17 what -- how it was derived and what the right number --
18 if -- if we could arrive at a right number, should be.
19 So that's in effect what happened.

20 MR. BYRON WILLIAMS: Okay. And
21 subsequent to that back and forth, Mr. Warden, was there
22 a revised estimate provided up the line to -- to
23 yourself?

24 MR. VINCE WARDEN: No, there was not.

25 MR. BYRON WILLIAMS: And were you at all

1 uncomfortable, Mr. Warden, with the time lag of a one (1)
2 -- one (1) year in terms of having an unprecedented
3 estimate that you weren't comfortable with and then a
4 time lag of a year in terms of seeking external
5 assistance?

6 MR. VINCE WARDEN: Well, it -- it was a
7 considerable length of time, no doubt about that, but
8 there -- there -- this is a -- was a very big issue so
9 there's a lot of discussion going on internally. Unable
10 to resolve it internally and, as I mentioned, it was then
11 referred to an outside consultant for assistance.

12 MR. BYRON WILLIAMS: Perhaps four (4) or
13 five (5) answers ago, Mr. Warden, you said you didn't
14 expect it would have been approved by executive
15 committee. Do you recall that?

16 MR. VINCE WARDEN: Yes. Well, in as much
17 as both Mr. Brennan and myself sit on executive committee
18 it's unlikely we would approve an item like this if we
19 weren't comfortable with it. So -- so yes, it wouldn't
20 have been approved.

21 MR. BYRON WILLIAMS: Mr. Chairman, I see
22 you looking at me, so I don't know if you have some
23 additional...

24 THE CHAIRPERSON: We're just going to
25 stand down for five (5) minutes. We'll be right back.

1 Thanks.

2

3 --- Upon recessing at 1:24 p.m.

4 --- Upon resuming at 1:29 p.m.

5

6 THE CHAIRPERSON: Okay. Thanks for your
7 patience. For now, Mr. Peters just has a couple of
8 questions on this. Mr. Peters...?

9 MR. BOB PETERS: Yes, thank you, sir.

10

11 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

12 MR. BOB PETERS: Mr. Warden, PUB Exhibit
13 19 is the capital project justification addendum for
14 Bipole 3 that you and I were discussing on the record
15 Monday of this week, sir?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: And that's the -- PUB
18 Exhibit 19 is the same document that you've now advised
19 the Board was, in fact, signed by the vice-president of
20 transmission, and the vice-president of power supply?

21 MR. VINCE WARDEN: Yes, Mr. Peters,
22 that's right.

23 MR. BOB PETERS: Will Manitoba Hydro
24 undertake to file a copy of the signed version of PUB
25 Exhibit 19?

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

2

3 --- UNDERTAKING NO. 105: Manitoba Hydro to file a copy
4 of the signed version of PUB
5 Exhibit 19

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: And to your knowledge,
9 Mr. Warden, are there any other changes in the signed
10 copy that do not appear on PUB Exhibit 19?

11 MR. VINCE WARDEN: Well, PUB Exhibit 19
12 is for 3 million -- or three billion nine hundred and
13 fifty-four million (3,954,000,000). Now, the -- the
14 reference, I believe, is to -- and I don't have -- I
15 don't have the reference number, but it's also to another
16 number, \$4.1 billion rounded. That's a different exhibit
17 number, which I don't have the number of immediately
18 handy. But that's the only change, Mr. Peters, that --
19 that occurred, or may have occurred since the date of the
20 signing of that document.

21 MR. BOB PETERS: No, sir, my question was
22 a little different than that, and I'll ask your counsel
23 to turn up Tab 70 of Board counsel book of documents, the
24 last document in PUB Exhibit 18, Tab 70, and it's the
25 last page, page 182.

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(BRIEF PAUSE)

MR. BOB PETERS: And while you're looking at that, Mr. Warden, that is the document that you and I discussed, not this week but the previous week we were together, correct?

MR. VINCE WARDEN: Yes, Mr. Peters, and that's the -- the document that I was referring to that I didn't have the reference to. So that's the four point (4.) -- the one that totals 4.1 billion.

MR. BOB PETERS: Okay. I -- I'm a little bit confused by those answers, so I'm going to try to clarify it for the record, and the Board, Mr. Warden.

The PUB Exhibit 19 is the capital project justification addendum for Bipole 3, which raises bipole's forecast from 2.2 billion to 3.94 billion, correct?

MR. VINCE WARDEN: That's right.

MR. BOB PETERS: And that is dated August 18th, 2009.

MR. VINCE WARDEN: Yes, that's the date prepared.

MR. BOB PETERS: And you've now told the Board that, in fact, this document was signed on

1 September 10th by both the vice-president of transmission
2 and the vice-president of power supply.

3 MR. VINCE WARDEN: Correct.

4 MR. BOB PETERS: And the vice-president
5 of transmission was Mr. Tymofichuk.

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And the vice-president
8 of power supply was Mr. Adams?

9 MR. VINCE WARDEN: Correct.

10 MR. BOB PETERS: Are there other
11 signatures on the signed version by those two (2)
12 gentlemen?

13 MR. VINCE WARDEN: No, there are not.

14 MR. BOB PETERS: So there was no -- there
15 was no signing off by the division manager from
16 transmission or the division manager from power supply?

17 MR. VINCE WARDEN: Not on the document I
18 have before me, no.

19 MR. BOB PETERS: Is that unusual?

20 MR. VINCE WARDEN: It is, yes. Typically
21 the -- the division manager would sign prior to the -- to
22 the vice-president.

23 MR. BOB PETERS: And do you know why that
24 didn't happen in this instance?

25 MR. VINCE WARDEN: I don't. I don't

1 actually have that information. We could probably --
2 well, in fact, we could find that out, but --

3 MR. BOB PETERS: I think it would be
4 helpful to the Board if --

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: -- if you were able to
7 do that. Now, sir -- yes, thank you. Mr. Warden, would
8 you undertake then to inquire and advise the Board as to
9 whether the division manager of transmission and division
10 -- division manager of power supply signed off on the
11 same capital project justification that we've been
12 talking about?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: And if they did not,
15 find out if there was -- what the reason is that they did
16 not?

17 MR. VINCE WARDEN: I will do that.

18 MR. BOB PETERS: Thank you, sir.

19

20 --- UNDERTAKING NO. 106: Manitoba Hydro to indicate
21 whether the division manager
22 of transmission and division
23 manager of power supply
24 signed off on the same
25 capital project justification

1 that the vice-presidents did,
2 and if they did not, indicate
3 why
4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: The -- the document that
7 we've marked as PUB Exhibit 19, of which you now have a
8 signed copy that you have undertaken to file, you
9 indicate was signed on September 11th of 2009?

10 MR. VINCE WARDEN: September the 10th of
11 2009.

12 MR. BOB PETERS: I'm sorry. And, yes,
13 signed by both -- both vice-presidents on September 10th
14 of 2009?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: Is it unusual that they
17 would both sign on the same date?

18 MR. VINCE WARDEN: I -- I don't think
19 there's a custom or -- or anything significant, the --
20 the fact that they both signed on the same day. They --
21 it -- it probably indicates that they both perhaps met on
22 this and signed at the same time.

23 MR. BOB PETERS: Okay. And --

24 MR. VINCE WARDEN: But -- but, again, I -
25 - I don't know that for sure.

1 MR. BOB PETERS: Your recollection now is
2 that you and the president of Manitoba Hydro did discuss
3 the capital project justification addendum for Bipole 3
4 on September 11th, 2009?

5 MR. VINCE WARDEN: No, Mr. Peters. To be
6 clear, in -- in my earlier testimony I never indicated
7 that the president and I didn't discuss it at some point.
8 Of course, we were aware of the higher number that was
9 out there. I -- what I was missing from my testimony
10 earlier is I did not recall having seen a copy of the
11 capital project justification form, the signed form. In
12 following the paper trail, it made its way to my office.
13 That doesn't necessarily mean that I saw the document.
14 It does mean that it made way -- its way to my office.
15 And I was aware -- would have been aware of the number in
16 and around that same time frame.

17 So September the 11th it was forwarded to
18 my office and -- so I would have been aware of the number
19 at that point in time. I -- I don't specifically
20 remember reviewing the -- the actual document, as I
21 testified earlier. However, I would have been aware of
22 the number, and that isn't inconsistent with what I had
23 said earlier.

24 MR. BOB PETERS: And not only were you
25 aware of the number of \$3.94 billion for Bipole 3 as a

1 capital cost, you had the discussion with the president
2 of Manitoba Hydro about that number?

3 MR. VINCE WARDEN: Yeah. Now, the number
4 we talked about was approximately \$4 billion. The three
5 point nine five four (3.954) was never really -- you
6 know, it was -- it wa -- our discussion was the co -- the
7 capital cost estimate for Bipole 3 has gone from 2.2
8 billion to 4 billion, is this something we can accept to
9 the point of putting it on the EC agenda for approval.
10 And at that point, it was not accepted, and, hence, sent
11 back to the divisions -- or to the responsible business
12 units.

13 MR. BOB PETERS: The -- the decision not
14 to accept the capital project justification to -- to be
15 brought forward to the executive committee was made in or
16 about September of 2009?

17 MR. VINCE WARDEN: Yes, that's what the -
18 - the paper trail indicates. Although the exact date of
19 my discussion with Mr. Brennan I don't know for sure, but
20 I would have expected it would have been around -- in and
21 around that time.

22 MR. BOB PETERS: When you provided your
23 undertaking after the lunch recess, Mr. Warden, I noted
24 that the date -- I -- I noted an attributed statement to
25 you that I want to check and see if it's actu -- actual -

1 - actual.

2 Did you -- do you have an executive
3 committee recommendation dated September 11th, 2009
4 related to this project?

5 MR. VINCE WARDEN: Yes, that's the date
6 the executive committee recommendation was prepared, and
7 that's the date I'm rely -- relying on for when it would
8 have been sent to -- to my office.

9 MR. BOB PETERS: All right, then I am a
10 little bit more confused because I had understood you to
11 say that once the VPs of transmission and power supply
12 had endorsed the document, which they did on September
13 10th, 2009, it then went to finance and administration
14 for an executive committee recommendation.

15 Is that correct?

16 MR. VINCE WARDEN: Oh, for the
17 preparation of a cover form that we use for purposes of
18 advancing recommendations to -- to executive committee
19 for approval.

20 MR. BOB PETERS: All right, so a pro
21 forma or a standard page form was attached to this
22 capital project justification for it to go forward to
23 executive committee?

24 MR. VINCE WARDEN: On September the 11th,
25 yes.

1 MR. BOB PETERS: All right. And it --
2 were -- were you supposed to sign that form?

3 MR. VINCE WARDEN: No. No, I don't -- I
4 don't sign off. I -- my office is responsible though,
5 for -- for getting such items on the EC agenda and -- and
6 following them through for approval.

7 MR. BOB PETERS: All right. So this
8 capital project justification addendum for Bipole 3 had
9 the executive committee recommendation dated September
10 11th, '09 attached to it and that'll form part of the
11 document you bring forward for the undertaking?

12 MR. VINCE WARDEN: I can do that, yes.

13 MR. BOB PETERS: How many people are on
14 the executive committee again? Approximately.

15 MR. VINCE WARDEN: Six (6).

16 MR. BOB PETERS: Six (6)?

17 MR. VINCE WARDEN: Seven (7). Seven (7),
18 sorry, seven (7).

19 MR. BOB PETERS: Seven (7), including the
20 president?

21 MR. VINCE WARDEN: Including the
22 president and the corporate secretary.

23 MR. BOB PETERS: Does any one (1) of the
24 seven (7) have a veto power?

25 MR. VINCE WARDEN: Well, the president

1 has eight votes, which he often reminds us of.

2 MR. BOB PETERS: All right. I -- I take
3 from that answer, Mr. Warden, that in your discussions
4 with Mr. -- with the president of Manitoba Hydro, as soon
5 as it was determined by you that the president was not
6 prepared to have this capital project justification
7 addendum for Bipole 3 go forward to the executive
8 committee, your office determined that there was no need
9 to put it even on the agenda?

10 MR. VINCE WARDEN: That's right. And --
11 and ag -- again, this isn't unique. There are other
12 capital projects that come forward that we have the same
13 discussion and they're either sent back for rework or re-
14 estimate or for whatever reason, more information
15 sometimes, more -- more justification required. So it's
16 not unusual for EC -- or CPJs to be sent back at -- at
17 that point.

18 MR. BOB PETERS: But what is unusual is
19 you didn't send it back down the line as Mr. Williams had
20 asked you, for someone to sharpen their pencil. It
21 wasn't sent back to the authors to determine whether or
22 not there were errors or revisions that could be made.

23 MR. VINCE WARDEN: Well, no, there isn't
24 a physical sending back, it's just that it didn't -- it
25 didn't make the executive committee agenda and it was

1 made clear it wasn't going on the agenda. And from there
2 it would have been referred back to the originating
3 business units for -- for rework.

4 At that point, by the way, I personally
5 would not get much more involved. Highly technical
6 issues, so I would not typically see this again until it
7 was re-presented for approval, again, in -- either in the
8 same or a different form. So a lot of the -- the
9 discussions that I referred to earlier would have gone on
10 not including myself personally, just to be clear on that
11 point.

12 I -- I should also make clear that really
13 -- I want to make -- I want to make sure the record was
14 clear because this is -- isn't exactly as I had relayed
15 it the last time we discussed, Mr. Peters, but the end
16 result is still the very same. That is, it never made
17 its way to executive committee for approval and it was
18 ultimately sent out for -- for a study by an outside
19 consultant who is now in the process of bringing that
20 back and being referred to the audit committee. As a
21 matter of fact, it was reviewed by the audit committee on
22 March the 14th and will be going to the Board tomorrow,
23 March the 24th.

24 MR. BOB PETERS: Mr. Warden, when
25 yourself and the president determined that the signed

1 copy of PUB Exhibit 19 would not go forward to the
2 executive committee, what was the reason it didn't go
3 forward?

4 MR. VINCE WARDEN: Well, the amount was
5 astounding. I -- I was shocked, personally, when I heard
6 the amount, and I -- I'm not even sure to this day where
7 I -- whether I actually got to the point of reviewing the
8 document. The amount was brought to my attention and --
9 and -- and this discussion I had -- as I indicated, with
10 the president and then it got sent back, so --

11 MR. BOB PETERS: No -- no disrespect to
12 the accounting profession, Mr. Warden, for yourself and
13 the president, but what makes the accountants think they
14 know better the price for Bipole 3 than the engineers who
15 compile the numbers?

16 MR. VINCE WARDEN: Well, you know -- and
17 I don't take it as disrespect, but we do -- as part of
18 our job we don't rubberstamp things that Manitoba Hydro
19 executive committee does. Our job is to challenge items
20 that come forward. This one didn't even make it to the
21 point of being challenged because of the magnitude of the
22 increase.

23 MR. BOB PETERS: Or more accurately, it
24 was challenged in its -- stopped in its spot and
25 challenged summarily by the president and one of the

1 vice-presidents of finance.

2 MR. VINCE WARDEN: That -- that's a fair
3 way of describing it, yes.

4 MR. BOB PETERS: And you stopped it in
5 its tracks, the president and the CFO stopped it in its
6 tracks, essentially because you didn't believe the number
7 was accurate?

8 MR. VINCE WARDEN: Well, we were shocked
9 at the number and really had no reason to disbelieve the
10 number necessarily but then we just didn't have enough
11 information at that point to be able to sign off on it
12 neither.

13 MR. BOB PETERS: Even though it didn't go
14 to the executive committee shortly after September 11th
15 of 2009, I understood one (1) of your answers to the
16 Chairman is that it did go to the audit committee after
17 September 11th of 2009.

18 MR. VINCE WARDEN: No, I think the
19 Chairman asked me whether the audit committee was aware
20 of the issue and -- and the -- and the magnitude of the -
21 - of the amount discrepancy or difference between the
22 original estimate and -- and the -- and the updated
23 estimate. And I did undertake to confirm that by way of
24 a -- of an appropriate paper trail rather than rely on
25 memory.

1 MR. BOB PETERS: When did the audit
2 committee of Manitoba Hydro's board of directors become
3 aware that the capital project costs for Bipole 3 had
4 under one (1) capital project justification addendum
5 increased from 2.2 billion to \$3.94 billion?

6 MR. VINCE WARDEN: Well, that's the point
7 I'm not a hundred percent sure of, Mr. Peters. I will do
8 a little more research on that. I think the Chairman's
9 question, though, as I understood it was did this come to
10 the attention of the audit committee and I believe it
11 did. I just wasn't sure at what point. They wouldn't
12 necessarily be aware that there was an internal
13 discussion going on with respect to the amount, other
14 than, of course, what -- what was very much in the media
15 at the time.

16 MR. BOB PETERS: Well, we -- would
17 Manitoba Hydro undertake then to file with this Board the
18 updated information that went to the audit committee to
19 reflect the increase in the capital costs of Bipole 3
20 from 2.2 billion to 3.94 billion according to --

21 MR. VINCE WARDEN: Well, Mr. Peters,
22 remem --

23 MR. BOB PETERS: -- this document?

24 MR. VINCE WARDEN: Sorry, to interrupt.
25 But remember, the capital cost increase did not go from

1 two point two (2.2) to three point nine (3.9) or four
2 point one (4.1), it still remains at two point two (2.2).
3 That is it's still the approved number today. There is
4 no number that went to the audit committee at the higher
5 number. Were they aware of the issue I think is the
6 question, and my answer to that is yes, but at what date
7 or what -- when that -- they became aware I would like to
8 confirm that.

9 MR. BOB PETERS: And perhaps you did cut
10 me off in mid-question because the -- the Addendum number
11 6 that's been marked as PUB-19, shows an increase of two
12 point two (2.2) to three point nine-four (3.94). And my
13 question was when did the audit committee become aware of
14 that increase as purported by Addendum number 06 to the
15 capital prost -- capital project justification for
16 Bipole?

17 MR. VINCE WARDEN: Yeah, and I think, Mr.
18 Peters, that was just the question that I answered
19 previous. The audit committee would have been aware of
20 the issue. There would be no CPJ audit committee. The
21 audit committee does not received CPJs, that's a vehicle
22 that's used for executive committee. So the audit
23 committee would never have received a document such as
24 the CPJ.

25 When did they become aware of the issue is

1 what I'm going to research and come back with an answer
2 on.

3 MR. BOB PETERS: And include in that
4 answer the -- the information that was provided to the
5 audit committee by yourself, then, to -- to advise them
6 of this issue?

7 MR. VINCE WARDEN: Well, it wouldn't be
8 in the form of a -- of a document. I would have to -- it
9 would be probably, and again I hate to spec -- speculate
10 on such things, but it probably would have been at the
11 time of presenting the financial forecast to the -- to
12 the audit committee. There -- there would have been some
13 reference to a revised estimate that's in -- in progress.

14 THE CHAIRPERSON: That was March 14th?

15 MR. VINCE WARDEN: Well, for sure there
16 was a presentation to the audit committee on March 14th.
17 It's -- whether there was any update to the audit
18 committee between the first approval for the bipole
19 estimate of two point two (2.2) and the March 14th date,
20 I think, is, as I understand it, the question.

21 They were -- they were definitely -- the
22 audit committee was definitely informed on March 14th of
23 the consultant's report. That was presented to the audit
24 committee on that date, and will be presented to the
25 board of Manitoba Hydro tomorrow, after which there will

1 be a firm estimate for Bipole 3, which I'm expecting will
2 be formalized and announced at that -- at that point in
3 time.

4 I think I did take an undertaking earlier
5 to advise the chair -- in response to the Chairman's
6 question, to advise the Chairman as to when the audit
7 committee first became aware of a possible change in the
8 estimate from 2.2 billion to a higher number.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Thank you, Mr. Warden.
12 And then when you talked of March 14th with the Chairman,
13 that's March 14th of 2011, correct?

14 MR. VINCE WARDEN: Yes. Yes, correct.

15 MR. BOB PETERS: My questions, sir, go
16 back a couple of years to -- or a year and a half down to
17 September of 2009.

18 Is it your recollection that the audit
19 committee of the Board of Directors of Manitoba Hydro
20 would have been made aware of, as you called it, the
21 possible increase in the capital cost of Bipole 2 (sic)
22 from 2.2 billion to 3.954 billion in or about September
23 of 2009?

24 MR. VINCE WARDEN: No. No. The aud --
25 the audit committee was never made aware of the specific

1 number, to my knowledge, as to what this preliminary, as
2 -- if we can refer to it as that because it was never
3 approved, the preliminary estimate of three point nine
4 five four (3.954).

5 The audit committee was never specifically
6 advised that that was a number. They were aware that the
7 number -- there -- there is -- there was the potential
8 for the number to increase by a significant amount, but
9 probably no more specific than that.

10 MR. BOB PETERS: The number 4 billion was
11 not used as a rounded number?

12 MR. VINCE WARDEN: It could have -- it
13 could have been. Four (4) billion was -- was the number
14 that was being used elsewhere, so we could have very well
15 referenced that number, but there was never a formal
16 presentation to the audit committee saying this is the
17 cost increase that is being contemplated for the Bipole
18 3. That was never -- never presented to the audit
19 committee in that way, but certainly the audit committee
20 would have been aware that there was some discussion as
21 to the -- what the appropriate number should be or -- or
22 could be for the -- for the bipole.

23 MR. BOB PETERS: And there was nothing
24 given to the audit committee on paper as to the possible
25 price escalation for Bipole 3?

1 MR. VINCE WARDEN: No, there was not.

2 MR. BOB PETERS: And so from 2007 when
3 the capital expenditure forecast of '07 was prepared, up
4 until March 14th of 2011, the audit committee of Manitoba
5 Hydro had never seen any paper, any document, that
6 contained a possible escalation of the cost of Bipole 3?

7 MR. VINCE WARDEN: That's correct.

8 MR. BOB PETERS: And when Manitoba
9 Hydro's capital expenditure forecast for 2010 was being
10 prepared, it would have been approved by the executive,
11 as well as I suppose, the audit committee, and the entire
12 board of Manitoba Hydro?

13 MR. VINCE WARDEN: I'm sorry, Mr. Peters,
14 the -- would you just repeat that?

15 MR. BOB PETERS: The capital expenditure
16 forecast 2010 for Manitoba Hydro, that would have been
17 prepared and approved by the executive, as well as
18 Manitoba Hydro's board?

19 MR. VINCE WARDEN: Yes, the -- the audit
20 committee approves the capital expenditure forecast as an
21 integral part of the integrated financial forecast, and,
22 likewise, the -- the board.

23 MR. BOB PETERS: Do you recall in what
24 month capital expenditure forecast 2010 would have been
25 approved by the Manitoba hydro-electric board?

1 MR. VINCE WARDEN: Yes, it would have
2 been in -- yes, it would have been in November of 2010.

3 MR. BOB PETERS: A full year and two (2)
4 months after PUB Exhibit 19 was signed by the vice-
5 president?

6 MR. VINCE WARDEN: Well, the audit
7 committee and board typically approve the integrated
8 financial forecast in November of each year, so they
9 would have approved an integrated financial forecast in
10 November of 2009, and another one in November 2010.

11 MR. BOB PETERS: And in neither of those
12 IFFs or capital expenditure forecasts was there any
13 suggestion that the cost of Bipole 3 would need to be
14 revised?

15 MR. VINCE WARDEN: Not in those
16 documents. The documents are before this Board and
17 there's no discussion other than, as I think I indicated
18 on the record earlier, that the -- there -- there was
19 certainly brought to the attention of the -- of the audit
20 committee that there was a potential for that number to
21 increase and could increase significantly. So,
22 definitely, we -- as we're doing here, we're trying to be
23 as open as possible about the sequence of events.

24 And -- and, again, I do have to reiterate,
25 there's really -- the only, I think, revelation from what

1 I'm putting on the record now is the fact that these
2 documents were forwarded to my office, which I -- was a
3 bit of a surprise to me, actually, when I started looking
4 at the paper trail. I didn't realize that they actually
5 made it that far. But it didn't -- doesn't really change
6 the outcome. It just makes clearer the timing of when
7 this -- the events unfolded and the discussion that we
8 would have had internally.

9 MR. BOB PETERS: And I think my last area
10 then, Mr. Warden, is that the -- bringing this to the
11 attention of Manitoba Hydro's audit committee, the date
12 for which you've undertaken to the Chairman to find out,
13 was done orally and only orally by you?

14 MR. VINCE WARDEN: Well, no, I wouldn't
15 say specifically. It wasn't brought to the attention of
16 the audit committee as a specific item. It would have
17 been brought to the attention of the audit committee in
18 conjunction with the annual update to the integrated
19 financial forecast.

20 MR. BOB PETERS: Which would have been in
21 November?

22 MR. VINCE WARDEN: Would have been in
23 November of 2010. The question that I did undertake to
24 research more fully as -- is to whether or not it was
25 brought to the audit committee any earlier than that.

1 MR. BOB PETERS: Thank you, Mr. Warden.
2 Thank you, Mr. Chairman.

3 THE CHAIRPERSON: Thank you. Mr.
4 Williams...?

5

6 CONTINUED CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

7 MR. BYRON WILLIAMS: Yes. And with some
8 apologies to Wiens, we're -- we're going to get to your
9 table. I see you've been checking the math. I do have,
10 in terms of PUB 19, Mr. Warden, some additional
11 questions.

12 MR. VINCE WARDEN: Sure.

13 MR. BYRON WILLIAMS: Okay. Just if you
14 look to that document, the capital project justification
15 addendum. And if I look to the right-hand side I see
16 it's prepared by -- and I don't need their names, but
17 you'll agree that it was prepared by persons of the
18 position of complex owner, complex manager, and project
19 manager converters. Do you see that, sir?

20 MR. VINCE WARDEN: Yes, I do.

21 MR. BYRON WILLIAMS: And I have to
22 confess that I'm not familiar with the job descriptions
23 of -- of persons within the Manitoba Hydro system.

24 How senior is a complex owner?

25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Yeah, I personally
4 don't deal with these people directly, but I'm informed
5 that the complex owner would be at the level of a section
6 head, which would report to a -- a department manager.

7 MR. BYRON WILLIAMS: And to be at that
8 level they would be -- to be at that level and to be in
9 charge, or at least a complex owner for a -- a project as
10 complex as Bipole 3, they would be relatively senior
11 persons within your organization with considerable
12 experience?

13 MR. VINCE WARDEN: Mr. Williams, I -- I
14 don't know how the -- how long these individuals -- I'm
15 not familiar with them personally. I don't know how long
16 they've worked at Manitoba Hydro, their level of
17 seniority, who they report to specifically, so I'd prefer
18 not to speculate on that.

19 MR. BYRON WILLIAMS: Mr. Warden, I guess
20 just my interest and the interest of my clients at this
21 point in time is in terms of the capital budgeting
22 process. And -- and -- and I don't want to trespass on
23 an area that Mr. Peters may have covered on Monday to any
24 great degree, but as I understand it, Addendum number 4,
25 which is on the -- first of all, identified in a terse

1 way on the front of this page, put into place a western
2 route budget placeholder and also deferred the in-service
3 date for about five (5) years.

4 Is -- is that your understanding as well,
5 sir?

6 MR. VINCE WARDEN: Yes.

7 MR. BYRON WILLIAMS: And we'll come to
8 that in just one (1) second in greater detail. And then
9 two (2) years later there is a revised western route
10 placeholder with some increased costs due to construction
11 and material cost increases, that's right?

12 MR. VINCE WARDEN: Yes, Mr. Williams, I -
13 - I'm seeing the same references you are.

14 MR. BYRON WILLIAMS: And that's Addendum
15 5?

16 MR. VINCE WARDEN: Yes.

17 MR. BYRON WILLIAMS: Yeah, and I
18 apologize for the imprecision. Now, flipping to the next
19 page, under the section, "Background," we can see
20 reference to Addendum 5, and we see that indeed that that
21 was the first introduction to the CEP or capital
22 expenditure forecast of the -- the western route. Would
23 that be fair?

24 MR. VINCE WARDEN: Yes, I see that.

25 MR. BYRON WILLIAMS: And there's an

1 adjective -- or there's a description of the budget
2 suggesting that it was a placeholder only. Do you see
3 that?

4

5 (BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: I'm still referring
8 to Addendum 4, sir.

9 MR. VINCE WARDEN: Yes. Yes, I see that.

10 MR. BYRON WILLIAMS: And -- and that was
11 pending completions of studies by system planning and
12 indeed was based on a 2001 estimate prepared by Teshmont
13 Consultants, correct?

14 MR. VINCE WARDEN: Correct.

15 MR. BYRON WILLIAMS: In this context,
16 sir, what do you understand by the meaning of the word
17 place -- the words "placeholder only"?

18 MR. VINCE WARDEN: Well, at that time
19 there would have been -- Manitoba Hydro, as you know, was
20 intending to go a different route for Bipole 3. And when
21 the -- that routing was changed the amount -- or at least
22 this addendum was put forward as a placeholder until such
23 time as a detailed -- more detailed estimate could be
24 prepared.

25 MR. BYRON WILLIAMS: So it would be --

1 using -- in terms of placeholder it -- it was less
2 detailed -- it was a less detailed analysis. Would that
3 be fair?

4 MR. VINCE WARDEN: That's the way I would
5 interpret that, Mr. Williams. We don't -- placeholder
6 isn't an official term that we would use consistently for
7 capital projects, but as it's used here I would agree
8 with your interpretation.

9 MR. BYRON WILLIAMS: You say it's not a
10 term used consistently. Would that suggest, sir, that
11 usually by the time it gets up to your desk there's a
12 more refined number before you?

13 MR. VINCE WARDEN: Well, by the time it -
14 - it reaches the CPJ, capital project justification,
15 level and is signed off by the owning vice-presidents,
16 yes, then it's forwarded to my office for advancing with
17 any other CPJs that may -- might be outstanding for
18 executive committee review and approval.

19 MR. BYRON WILLIAMS: And I may have lost
20 your yes in the -- in the -- the -- the answer, but
21 you're accustomed to a more refined complete analysis by
22 the time it gets to your desk rather than a placeholder,
23 sir?

24 MR. VINCE WARDEN: Well, we don't -- I
25 wouldn't typically take placeholder amounts forward,

1 although, having said that, it's not unprecedented. We -
2 - we did that -- the one (1) that comes to mind is the --
3 the new head office building. We -- I think we used that
4 term in conjunction with that project as well.

5 MR. BYRON WILLIAMS: But it would not be
6 typical, using your words?

7 MR. VINCE WARDEN: That's right.

8 MR. BYRON WILLIAMS: So we move to CPJ
9 Addendum 5, and you'll see that in terms of the
10 placeholder budget in place from CP ajendum -- Addendum
11 4, I'll refer you to the last line of -- of the notes
12 here. This says that:

13 "The costs of licensing property and
14 converters were not updated at that
15 time, nor was contingency identified in
16 that estimate."

17 Do you see that?

18 MR. VINCE WARDEN: I do.

19 MR. BYRON WILLIAMS: And am I correct in
20 suggesting to you that when CPJ addendum was submitted in
21 May of 2007, that the costs of licensing property and
22 converters were not updated and that there was no
23 contingency identified in that estimate? Is that a
24 correct inter -- or your interpretation of this
25 statement?

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: I -- I really don't
4 have anymore background than what's -- what's identified
5 on this document, Mr. Williams. So --

6 MR. BYRON WILLIAMS: Let me put --

7 MR. VINCE WARDEN: -- my -- my
8 interpretation probably wouldn't be all that -- all that
9 different than yours at this stage.

10 MR. BYRON WILLIAMS: Let me put it this
11 way and I... My clients would expect, and you'll correct
12 me if I'm wrong, that when you're dealing with capital
13 projects of this magnitude you would expect a
14 contingency, would that be fair?

15 MR. VINCE WARDEN: Yes, most projects do
16 contain contingencies, and that is, I believe, one (1) of
17 the issues with this revised estimate, is the amount of
18 the contingency. As to whether the amount of that
19 contingency is appropriate.

20 MR. BYRON WILLIAMS: So normally the
21 documents that get up to your level would have a
22 significant contingency for projects of a comparable
23 size?

24 MR. VINCE WARDEN: Well, it depends a lot
25 on the project, the nature of the project. How close it

1 is to in-service date or how far out that in-service date
2 might be would affect the amount of the contingency. The
3 closer the project comes to being constructed the less
4 that contingency amount would be.

5 MR. BYRON WILLIAMS: So if you're looking
6 at a project nine (9) years out you would expect a
7 significant contingency?

8 MR. VINCE WARDEN: Again, it depends a
9 lot on the -- on the nature of the project, but a project
10 going out nine (9) years is going to have a -- a
11 relatively significant contingency, yes.

12 MR. BYRON WILLIAMS: And just going back
13 to page -- page 1 of this document for one (1) second,
14 and referring you to the little table at the bottom of
15 the page. The Addendum number 5 is also described as a
16 placeholder on this document.

17 Is that right, sir?

18 MR. VINCE WARDEN: It is.

19 MR. BYRON WILLIAMS: Now, I believe Mr.
20 Peters got some information from you in terms of the
21 external consultants, and, Mr. Warden, could -- could you
22 remind me and my clients whether the terms and conditions
23 of the retainer have been sought or if -- if -- have --
24 have they been asked for?

25 MR. VINCE WARDEN: No, I don't believe

1 so. I think we do have an undertaking to provide the
2 names of the consultants and the amount -- amount paid
3 for this review.

4 MR. BYRON WILLIAMS: And would you --
5 would you -- you can consult with your -- your lawyer, if
6 you want, whether you're prepared to share those terms
7 and conditions.

8

9 (BRIEF PAUSE)

10

11 MR. VINCE WARDEN: Mr. Williams, I don't
12 see any reason -- this is a -- a review that we had
13 undertaken to -- to firm up, as best we can, the estimate
14 for the bipole, and obviously a matter that's been
15 dragging on for some time, so there is a -- certainly a
16 want on behalf of the Corporation to get this matter
17 resolved as soon as possible. The terms and conditions
18 of the -- of the review, I can certainly look into
19 putting that forward.

20

21 (BRIEF PAUSE)

22

23 MR. VINCE WARDEN: So we'll take that as
24 an undertaking.

25 MR. BYRON WILLIAMS: Okay. And you'll --

1 you'll examine the possibility of -- of putting them
2 forward. That's what you're undertaking to do, sir?

3 MR. VINCE WARDEN: Yes.

4

5 --- UNDERTAKING NO. 107: Manitoba Hydro to examine the
6 possibility of providing the
7 terms and conditions of the
8 Bipole 3 estimate review

9

10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: And, Mr. Warden,
12 thank you for that. Mr. Wiens, I -- I would refer you
13 back to CAC/MSOS Exhibit number 14, and the book of
14 exhibits, and specifically marginal cost with the table
15 which can be found at Tab 1 of that book of exhibits. Do
16 you have that, sir?

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: Mr. Wiens, if you
21 have your notes on another page, just take your time and
22 find them, that's fine.

23 MR. ROBIN WIENS: Okay, Mr. Williams,
24 we're there.

25 MR. BYRON WILLIAMS: And -- and I saw

1 your calculator was busy at work, Mr. Wiens. Are there
2 any material revisions to -- to this table?

3 MR. ROBIN WIENS: Sorry, I don't have any
4 revisions to this table.

5 MR. BYRON WILLIAMS: And before we go
6 into the detail, it's Tab 1 of Exhibit CAC/MSOS-14.
7 Before we go into any great detail about this picture --
8 about this table, at a high level would it be fair to say
9 that this is a rough approximation of the ratio of
10 revenue to marginal costs, and marginal costs as
11 estimated by Manitoba Hydro. Would that be fair, sir?

12 MR. ROBIN WIENS: Well, Mr. -- Mr.
13 Surminski may want to jump in here, but I'll go as far as
14 to say it -- it appears to be based on one (1) of our
15 responses, and it -- it appears to have made -- simply
16 taken those numbers and applied them to the applicable
17 classes in order to derive an estimate of marginal costs
18 in cents per kilowatt hour to the domestic classes for
19 the year 2010/2011.

20 MR. BYRON WILLIAMS: Thank you for that,
21 Mr. Wiens, and Mr. Surminski, I was wondering why you
22 were sitting up there, and certainly if you have anything
23 to add, you'll -- you'll feel -- feel free.

24 And, Mr. Wiens, we had this discussion
25 before lunch. You'll see that we, on behalf of our

1 clients, have used the -- the total for at least the
2 first four (4) classes of seven point three five (7.35)
3 cents per kilowatt hour, and that's based upon the
4 revision to your information response that you provided
5 this morning.

6 MR. ROBIN WIENS: Yes I see that.

7 MR. BYRON WILLIAMS: And that's a number
8 that we're okay with?

9 MR. ROBIN WIENS: I -- I think we can
10 proceed to have our discussion on this basis.

11 MR. BYRON WILLIAMS: And before we walk
12 you through that table, Mr. Wiens, I -- perhaps out of --
13 it might be helpful to take a very quick look at a couple
14 of the -- the notes. And the -- you'll see a column
15 called the average -- average revenue, which is about six
16 (6) columns over. And that, to your understanding, is
17 based on Hydro's April 1st, 2010 interim rates.

18 Fair enough?

19 MR. ROBIN WIENS: Sure.

20 MR. BYRON WILLIAMS: There's a
21 limitation, and perhaps more than one (1), but there's a
22 limitation on this table inter -- which is noted at
23 number 3 in that in terms of the GSM and GSL class --
24 clau -- classes the marginal costs have not been adjusted
25 to account for the fact that they're served at higher

1 voltages and that they will have lower or no distribution
2 losses. Do you see that, sir?

3 MR. ROBIN WIENS: Well, yes, I do see
4 that, but, you know, I think we've taken the distribution
5 cost out of the classes that are served above 30 kV,
6 which is probably a good approximation, and we've
7 included them for classes below 30 kV, it may not be
8 absolutely precise but I'll -- I'll work with you on
9 this, Mr. Williams.

10 MR. BYRON WILLIAMS: To -- to the extent
11 that there are lower or no distribution losses, let's say
12 for the GSM, it -- it's -- there would -- there is
13 perhaps a risk that the table would somewhat over --
14 overstate their marginal costs.

15 Would that be fair?

16 MR. ROBIN WIENS: Well, you -- you know,
17 it is possible that the -- for GSM that the distribution
18 costs -- there would be distribution costs, marginal
19 distribution costs, possibly maybe lower than for GS
20 small, but as to quantifying that, I'm -- I'm not able to
21 do that right now.

22 MR. BYRON WILLIAMS: And you don't see it
23 as particularly material?

24 MR. ROBIN WIENS: As I say, I think -- I
25 think we can carry on this discussion without having to -

1 - having to get to that refinement.

2 MR. BYRON WILLIAMS: Yeah. And I
3 certainly have no in -- intention of doing so. And
4 you'll also note, and it's -- you've noted it already,
5 but in terms of GSL large, 30 to 100 kV as well as larger
6 than 100 kV, that this -- there are no distribution costs
7 included for them, correct?

8 MR. ROBIN WIENS: Yes, that's correct.

9 MR. BYRON WILLIAMS: And that's the
10 explanation for the slightly smaller total in terms of
11 total marginal costs, correct?

12 MR. ROBIN WIENS: Yes. I -- I might add,
13 Mr. Williams, similar to the distinction between small
14 and the medium cla -- general service small and medium
15 classes, there probably are some distribution -- marginal
16 distribution costs that could be attributed to the 30 to
17 100 kV. We call it sub-transmission, but when we do
18 these calculations of marginal costs I believe that the
19 sub-transmission is included as part of the distribution.
20 So again, it's a refinement that we -- that hopefully we
21 don't have to get into.

22 MR. BYRON WILLIAMS: And I appreciate
23 that, Mr. Wiens. So, essentially, what -- what this
24 table does, if you'll refer to the left-hand side, is it
25 -- it looks at six (6) different classes of consumers

1 ranging from residential to GSL greater than 100 kV.

2 That's right?

3 MR. ROBIN WIENS: Yes.

4 MR. BYRON WILLIAMS: And we've avoided
5 roadway -- area and roadway light -- lighting in -- in --
6 for fear of my neighbour to my immediate -- immediate
7 right.

8 And you can see across the top that the
9 total in terms of marginal cost is achieved by adding
10 generation, transmission, and distribution for four (4)
11 of the classes, correct?

12 MR. ROBIN WIENS: Yes.

13 MR. BYRON WILLIAMS: And for the bottom
14 two (2), being GLS 30 to a hundred kV and GSL greater
15 than a hundred kV, distribution is not added in, which
16 explains the six point eight four (6.84), as we've gone
17 through previously, correct?

18 MR. ROBIN WIENS: Yes.

19 MR. BYRON WILLIAMS: And the sixth column
20 over sets out the average revenue portrayed as cents per
21 kilowatt hour, and that's in 2010 dollars for the year
22 2010/'11.

23 Would that be fair, sir?

24 MR. ROBIN WIENS: Yes.

25 MR. BYRON WILLIAMS: And essentially what

1 we've done in this table is taken -- let's use the
2 example of residential for that calculation. We've taken
3 the seven point zero three (7.03) cents per kilowatt hour
4 in the sixth column and divided that by the seven point
5 three five (7.35) cents per kilowatt hour from the
6 marginal cost total and achieved in this rough
7 approximation a ratio of revenue to marginal costs of
8 around 95/96 percent.

9 MR. ROBIN WIENS: Yes, I -- I can see
10 that.

11 MR. BYRON WILLIAMS: And we've --
12 essentially the table performs a similar calculation for
13 all the other classes. For example, GSL large being
14 greater than 100 kV, essentially what has been done is --
15 for the last column is to take the three point five three
16 (3.53) cents per kilowatt hour, divide it by the six
17 point eight four (6.84) estimated marginal cost to come
18 up for a ratio of revenue to marginal costs around 52
19 percent.

20 MR. ROBIN WIENS: Yes, I see that. I
21 don't know, Mr. Williams, how far you want to continue on
22 with this, but I would probably be remiss if not getting
23 this comment in. We have, in the past, I believe,
24 provided for hearings before this Board tables, not
25 exactly identical to this, but similar to this.

1 And you may recall, because I -- I didn't
2 want to get too far into this discussion, you may recall
3 that we have in the past when we've provided this
4 specific information, advised the Board and all parties
5 that this does not incorporate the ongoing operating and
6 maintenance costs associated with transmission and
7 distribution. It reflects capital costs in the case of
8 those functions. And further, it does not include the
9 ongoing cost associated with customer service.

10 So just so that that's clear going ahead
11 if we were going to make any comparisons. I -- I didn't
12 want to leave that out of the record.

13 MR. BYRON WILLIAMS: Excuse me. Mr.
14 Wiens, just in terms of the -- and I appreciate your --
15 your assistance, OM&A for customer service was one (1)
16 factor that's not included in this comparison?

17 MR. ROBIN WIENS: That's correct.

18 MR. BYRON WILLIAMS: And the other one
19 (1) was?

20 MR. ROBIN WIENS: Well, operating and
21 maintenance and administration for transmission and
22 distribution.

23 MR. BYRON WILLIAMS: Okay. Mr. Wiens,
24 and you have performed similar analysis in the past.
25 Directionally, recognizing that there certainly would be

1 an im -- impact, would the same relative ratio between
2 classes be evident in the analysis that you performed in
3 the past?

4 MR. ROBIN WIENS: No, because the -- the
5 missing parts, if you will, affect primarily the classes
6 that are served the distribution voltage. The -- the --
7 the transmission operating will affect all classes, now
8 whether it's proportionate or not, I -- I can't -- I
9 can't recall. But the other two (2) will reflect more of
10 the classes that are served to distribution voltages.

11 MR. BYRON WILLIAMS: And I appreciate
12 that, Mr. Wiens. In terms of the number that would flow,
13 I guess what I'm asking you is would it be your
14 expectation, let's say if we did the same calculation
15 adding the two (2) amendments you've suggested, that for
16 residential that the ratio of rev -- revenue to marginal
17 costs would still be relatively higher than for GSL
18 large, for example?

19 MR. ROBIN WIENS: I -- I expect that it
20 would be.

21 MR. BYRON WILLIAMS: Materially larger?
22 Going from your recollection of past analysis, Mr. Wiens.

23 MR. ROBIN WIENS: Well, you know, I
24 probably should go and refresh myself on what we -- what
25 we had done in the past, which -- which we can do. I --

1 my -- my recollection would be that yes it's still a
2 material difference, but it's not as material as shown
3 here.

4 MR. BYRON WILLIAMS: Fair enough. And,
5 Mr. Wiens, I understand your evidence to say that in the
6 past the similar analyses revealed still a material
7 difference, but not the difference depicted here.

8 If you're -- if -- if upon reflection or
9 refreshing your memory you have a different answer,
10 you'll -- you'll come back with that, sir?

11 MR. ROBIN WIENS: For sure.

12 MR. BYRON WILLIAMS: Mr. Wiens, in --
13 this morning we had a discussion of efficient price
14 signals and you were being very pure with me. But you're
15 familiar with the theory of inverted rates or an
16 inclining block structure?

17 MR. ROBIN WIENS: Yes.

18 MR. BYRON WILLIAMS: Under that theory
19 the efficient price signal is achieved by having the
20 inclining block structure with the second block price
21 being higher in that it's moving towards marginal costs.

22 Would that be fair?

23 MR. ROBIN WIENS: In a situation where
24 marginal cost is higher than average cost, yes.

25 MR. BYRON WILLIAMS: And moving from the

1 specific to the theoretical. To the degree - let's say
2 that the overall average revenue is relatively close to
3 marginal costs, does that mean that efficient price
4 signals can be sent with a smaller difference between the
5 price for the first block and the second block?

6

7 (BRIEF PAUSE)

8

9 MR. ROBIN WIENS: Well, let -- let's say
10 that it's probably easier to reflect an efficient price
11 signal within the -- within the constraint of recovery of
12 average costs, yes.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: It's within the
17 constraint of the overall mandate of recovering average
18 costs, you're -- you're -- you've indicated that it's --
19 it's easier to the degree that the overall average
20 revenue is close to marginal costs?

21 MR. ROBIN WIENS: Yes.

22 MR. BYRON WILLIAMS: And I -- I'll see if
23 you'll go one (1) step further with me. Take two (2) clo
24 -- two (2) classes, one (1) with a materially different -
25 - materially larger gap between overall average revenue

1 and marginal costs as compared to the other. For the
2 class where there -- that is, where average revenue is
3 closer to marginal costs, it would be possible to send
4 efficient price signals with a relatively smaller
5 difference between the first and second block?

6 MR. ROBIN WIENS: Sure, there may be
7 other factors that come into play but sure, we'll go with
8 that.

9 MR. BYRON WILLIAMS: And again, using
10 that same analogy and -- and -- or example, in terms of
11 the class with -- whose average costs are relatively
12 closer to their marginal costs, would it be also easier
13 in terms of design to use a higher consumption level, or
14 is that a factor you'd consider?

15 MR. ROBIN WIENS: Well, you probably have
16 more flexibility the less gap you have to cover. As I
17 say, there are other factors that come into play. One
18 (1) that I can think of that may be relevant to this
19 discussion is that there is -- with some classes you have
20 a -- a more homogeneous grouping of customers than you do
21 with others, so that may be an issue that you have to
22 consider.

23 If -- if you're not homogeneous you may
24 have -- there may be some concerns about where you set
25 the limit in terms of the size of the first block or the

1 -- whatever the penultimate block is.

2 MR. BYRON WILLIAMS: Mr. Wiens, thank
3 you, that's a helpful answer. I'm going to divide it
4 into two (2) spots -- two (2) parts just to make sure I
5 can -- make sure I grasp it.

6 Leaving aside kind of other complicating
7 factors like the homogeneity -- or you'll pronounce it
8 better than I do -- of a particular class. When -- when
9 a particular class is closer -- their average costs are
10 closer to their marginal costs, there may be more
11 flexibility, and that increased flexibility may re -- may
12 -- may be reflected in a smaller gap between the first
13 block and the second -- second block, or it may be
14 reflected perhaps in a higher level of consumption in
15 which the inclining rate structure comes into play.

16 Is that accurate? Besides being compound.

17 MR. ROBIN WIENS: Well -- well, yes, it
18 does. I mean, that -- you do -- in theory,
19 mathematically, you have that flexibility. You may have
20 some concerns of -- in terms of making sure that the
21 price signal is effective over the range that you want it
22 to be effective or the particular expected uses that you
23 expect to be effective. Those are factors to consider as
24 well, but mathematically you have that flexibility.

25 MR. BYRON WILLIAMS: Okay. And I'll

1 think about that, and I appreciate that. The second
2 point you were making in that -- in that helpful answer a
3 couple before, was that it -- it just is more cumbersome,
4 or may be more cumbersome designing an inclining rate
5 structure when you're dealing with a class that is more
6 heterogenous.

7 MR. ROBIN WIENS: It -- it can be. It
8 can be. You have to -- you may have to -- you may have
9 to specialize it more or customize it more. It may
10 involve more administration.

11

12 (BRIEF PAUSE)

13

14 MR. BYRON WILLIAMS: And Mr. Wiens, we --
15 we will get to your -- to your discussion of -- or your
16 retainer of a new consultant on cost of service, but when
17 we reflect at the challenges Manitoba Hydro has
18 experienced in -- in designing an energy intensive
19 industrial rate -- and you'll agree, there's been some
20 challenges?

21 MR. ROBIN WIENS: Yes.

22 MR. BYRON WILLIAMS: From our previous
23 discussion, you'll -- I take it you would agree that one
24 (1) factor that presents challenges with that particular
25 class is the heterogonic -- the lack of homogeneity of

1 that class?

2 MR. ROBIN WIENS: One (1) size definitely
3 does not fit all.

4 MR. BYRON WILLIAMS: A -- another
5 challenge that you've experienced in terms of that
6 particular class, historically, is the relative gap
7 between average costs and marginal costs, which I'm going
8 to suggest to you presents mat -- material challenges in
9 reconciling fairness and efficiency. Would that be fair?

10 MR. ROBIN WIENS: Yes, I think that would
11 be fair.

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: Mr. Wiens, my friend
16 Mr. Peters had a bit of discussion with you of the -- in
17 terms of the history of cost of -- cost of service
18 between Manitoba Hydro and the Public Utilities Board
19 yesterday. You recall that discussion?

20 MR. ROBIN WIENS: Yes.

21 MR. BYRON WILLIAMS: And I am going to --
22 to travel a little bit over the same territory. I'm --
23 I'm hopefully going to highlight a couple of different
24 points though, if I -- if I might. So I'm apologizing in
25 advance to the extent that there's some duplication,

1 okay.

2 MR. ROBIN WIENS: Let's go.

3 MR. BYRON WILLIAMS: Back to the 2005/'06
4 cost of service methodology review, at a high level,
5 would -- would you -- would you characterize the Board's
6 decision in 117/'06 as accepting your proposed
7 methodology with some material exceptions?

8 MR. ROBIN WIENS: I think that's how it
9 was characterized in the order. The proposed methodology
10 was generally accepted but there were some material
11 exceptions to precisely what we had proposed.

12 MR. BYRON WILLIAMS: And I'm just going
13 to try and identify three (3), and we don't need a lot of
14 discussion, I just want to carry the conversation forward
15 from there if -- if we're in agreement.

16 There was a -- a difference in the
17 approach used to allocate generation costs between what
18 the Corporation presented and what the Board accepted.

19 MR. ROBIN WIENS: Well, I think you may
20 want to refine that question, Mr. Williams. I believe
21 they did accept the overall methodology for allocating
22 generation costs. We had some differences in terms of
23 how that would specifically apply, and to which costs and
24 utilization it would specifically apply to, regarding the
25 export class. Is it --

1 MR. BYRON WILLIAMS: Okay --

2 MR. ROBIN WIENS: -- is that where you're
3 going with this?

4 MR. BYRON WILLIAMS: -- well, we'll -- we
5 will get to that in a second. I guess what I was
6 thinking of and suggesting to you is, even in -- in the
7 use of the twelve (12) SEP periods versus the four (4).

8 You recall that?

9 MR. ROBIN WIENS: Right, I -- I do recall
10 that, and -- and pardon me for not -- for not getting
11 that right away. We didn't see that as a material
12 difference.

13 MR. BYRON WILLIAMS: What you did see as
14 one (1) material difference is Hydro was proposing two
15 (2) export classes, the Board was proposing one (1)?

16 MR. ROBIN WIENS: Yes, we saw that as a
17 material difference.

18 MR. BYRON WILLIAMS: And it would also be
19 fair to say that there were some differences in terms of
20 the -- what Hydro was proposing and the Board was
21 accepting in terms of the cost directly and indirectly
22 assigned to the export class. Would that be fair?

23 MR. ROBIN WIENS: Well, ultimately the
24 decision that came affected both, but I think the
25 differences were more on the direct assignment side.

1 MR. BYRON WILLIAMS: And one (1) other
2 matter which you I don't think discussed with my friend,
3 Mr. Peters, yesterday, but -- and pro -- you'll agree
4 with me that the Board at page 66 of its order -- you
5 don't need to agree with the page number, but it did
6 express some concern about the allocation of export
7 revenues to the diesel communities.

8 Do you recall that, at a high level, Mr.
9 Wiens?

10 MR. ROBIN WIENS: Well, I recall that
11 there was some concern expressed, but -- but right now I
12 cannot recall the specific details.

13 MR. BYRON WILLIAMS: And I'm not asking
14 you for any more -- any more footsteps upon that path
15 except for perhaps you -- I -- I'll suggest to you that
16 perhaps you would recall that the Board indicated it
17 would be subject to review once the agreement was
18 finalized?

19 MR. ROBIN WIENS: I do recall that.

20 MR. BYRON WILLIAMS: And again, Hydro
21 made a compliance filing in 2007 with the modifications
22 as directed by the Board. Do you recall that, Mr. Wiens?
23 If not, that's -- will you accept it, subject to check?

24 MR. ROBIN WIENS: I can certainly accept
25 it, subject to check.

1 MR. BYRON WILLIAMS: When you did make
2 the compi -- compliance filing, I'll suggest to you that
3 you did indicate a concern with the Board's approach,
4 that it was overly aggressive in terms of some of its
5 approaches to exports?

6 MR. ROBIN WIENS: Yes, that's correct.

7 MR. BYRON WILLIAMS: And, Mr. Wiens,
8 again, if you -- if you don't recall -- if you're
9 prepared to accept it, subject to check, that will be
10 fine. If not, that's fair enough as well. In -- in
11 conjunction with the 2008 GRA, Hydro filed a co -- a cost
12 of service study as well, correct?

13 MR. ROBIN WIENS: Yes.

14 MR. BYRON WILLIAMS: And I'll suggest to
15 you that it was prepared in accordance with the Board's
16 directives but did express concerns about the allocations
17 of cost exports?

18 MR. ROBIN WIENS: My recollection is that
19 that -- that that's broadly correct. I think we did
20 express some concerns. I think we also had some
21 uncertainty as to the meaning of some of the directives,
22 and we may have expressed that as well, while at the same
23 time attempting to operationalize that in the study as
24 best we could.

25 MR. BYRON WILLIAMS: And your application

1 in this proceeding, it would be fair to say, and with no
2 judgment intended whatsoever, that it did not incorporate
3 all of the Board's directions from 117/'06 or 116/'08.

4 Would that be fair, sir?

5 MR. ROBIN WIENS: Well, certainly the
6 directions received in the Board order -- I -- I don't
7 remember the number following the -- 116/'08, 116/'08.
8 Certainly we recognize and set forth that we did not --
9 we did not incorporate all of that direction into the
10 study. I'm a little more -- a little less sure in terms
11 of 117/'06.

12 MR. BYRON WILLIAMS: Tha -- that answer
13 suffices, sir. And, of course, when you discussed this
14 with Mr. Peters you did, and we'll get to this in just a
15 second, express a desire and a plan to engage an external
16 consultant to update your methodology and make sure it's
17 consistent with best North American practices?

18 MR. ROBIN WIENS: That's correct.

19 MR. BYRON WILLIAMS: Now, Mr. Wiens --
20 and -- and I hope -- and I -- I'm not stretching your
21 memory too far. Di -- di -- you did assist in preparing
22 the rebuttal evidence of Manitoba Hydro in this
23 proceeding?

24 MR. ROBIN WIENS: In this current
25 proceeding?

1 MR. BYRON WILLIAMS: Yes, sir.

2 MR. ROBIN WIENS: Yes, I did.

3 MR. BYRON WILLIAMS: So at a high level,
4 you'll be familiar with some of the comments of the
5 Manito -- the experts retained by the Manitoba Industrial
6 Power Users Group?

7 MR. ROBIN WIENS: Yes.

8 MR. BYRON WILLIAMS: Yes. And I -- I'm
9 not going to do justice to all their comments wh -- but
10 would it be fair to say that MIPUG, their experts, at
11 least to your understanding, agreed with Manitoba Hydro's
12 treatment of DSM costs, would that be fair, or is that
13 your understanding?

14 MR. ROBIN WIENS: That's my recollection.

15 MR. BYRON WILLIAMS: And would it also be
16 fair to say that they agreed with your use of export
17 prices consistent with the IFF as opposed to historical
18 prices. Is that your understanding?

19 MR. ROBIN WIENS: Again, that is my
20 recollection.

21 MR. BYRON WILLIAMS: Okay. And you're
22 aware at a very high level that Mr. Chernick has provided
23 some evidence on cost of service as well?

24 MR. ROBIN WIENS: Yes, I've read that
25 evidence.

1 MR. BYRON WILLIAMS: And you'll agree
2 with me that he has some interesting recommendations, for
3 example, on sub-transmission costs.

4 Would that be fair?

5 MR. ROBIN WIENS: Yes.

6 MR. BYRON WILLIAMS: And substation costs
7 as well?

8 MR. ROBIN WIENS: I believe so, yes.

9 MR. BYRON WILLIAMS: And also some
10 recommendations on using energy use as an allocator on
11 distribution costs, correct?

12 MR. ROBIN WIENS: I recall that as well.

13 MR. BYRON WILLIAMS: Just at a high
14 level, Mr. Wiens, in terms of the differences between
15 Manitoba Hydro and prior Board directives on -- on ex --
16 exports -- sp -- speaking of exports, would it be fair to
17 suggest that the two (2) major dis -- differences are
18 what cau -- well, first of all that one (1) of the major
19 differences is what cost to directly assign to exports.

20 That's one (1)?

21 MR. ROBIN WIENS: Yes.

22 MR. BYRON WILLIAMS: And the other -- one
23 (1) other significant one (1) would relate to what price
24 of exports should be used. Would that be fair?

25 MR. ROBIN WIENS: In -- in terms of the

1 differences that were specifically noted in 2010 and 2011
2 cost of service, those are highlighted, and it is
3 highlighted that we -- we did not go in accordance with
4 those directives in that study. There was one (1) other
5 that was highlighted in the study, but we indicated that
6 we had followed the Board's direction on it.

7

8

(BRIEF PAUSE)

9

10 MR. BYRON WILLIAMS: And in seeking the
11 advice of the external consultant, one (1) of the key
12 issues that I understand from -- from your evidence
13 yesterday with your discussion with Mr. Peters is that
14 issues related to exports is one (1) of the major two (2)
15 areas where you're seeking advice from them?

16 MR. ROBIN WIENS: Just -- just to be
17 clear, we are seeking advice from the consultants that we
18 have engaged on this topic on all material matters
19 regarding the cost of service study. We have highlighted
20 that as -- as one (1) that is of particular interest.

21 MR. BYRON WILLIAMS: And I -- I
22 appreciate that. And -- and I apologize for the
23 imprecision. And the other major area, as I understand
24 it, recognizing that you're looking at all -- all areas,
25 relates to the -- the use of marginal, if -- if at all,

1 marginal cost adjustments within the limitations of an
2 embedded cost analysis.

3 Would that be fair?

4 MR. ROBIN WIENS: That is correct.

5 MR. BYRON WILLIAMS: And in your terms of
6 retainer, you do not need to turn there, I do not
7 believe, but you've highlighted the concern, or the
8 historic concern with new large loads that might have to
9 be served at marginal costs, but would only be obliged to
10 pay rates based on em -- embedded costs.

11 That's a -- a significant historic and
12 existing concern?

13 MR. ROBIN WIENS: Yes.

14 MR. BYRON WILLIAMS: And that --
15 recognizing you intend to use it -- do an overarching
16 study is another major element for consideration of this
17 external review, correct?

18 MR. ROBIN WIENS: Yes, it is.

19 MR. BYRON WILLIAMS: Mr. Chairman, I'm
20 moving on to a -- a new area.

21 THE CHAIRPERSON: Okay. We'll take the
22 mid-afternoon break now. Thank you, Mr. Williams.

23

24 --- Upon recessing at 2:42 p.m.

25 --- Upon resuming at 3:01 p.m.

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THE CHAIRPERSON: Okay, Mr. Williams,
bring us home.

MR. BYRON WILLIAMS: Thank you, Mr.
Chairman and Mr. Vice-Chair.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: This quest -- I'm
going to be moving into a -- a new area which might
either be directed to Mr. Rainkie or to -- to Mr. Warden,
and I'll let them -- them answer. But at a -- a very
high level when we use the term "CPI" it -- it's fair to
say that, at a high level, that's an indicator of changes
in consumer prices experienced by Canadians.

Would that be fair?

MR. DARREN RAINKIE: It could be
Canadians or Manitobans, depending on what the measure
is, Canadian CPI or Manitoba CPI, but that's fair.

MR. BYRON WILLIAMS: We'll get to
Manitoba CPI in just one (1) second. It's obtained by
comparing through time the cost of a fixed basket of
commodities purchased by consumers, fair enough?

MR. DARREN RAINKIE: That's correct.

MR. BYRON WILLIAMS: And the intent is
that since the basket contains commodities of unchanging

1 or equivalent qua -- quantity and quality goods, the
2 index reflects only pure price changes.

3 That's the intent?

4 MR. DARREN RAINKIE: That's my
5 understanding of the intent, yes.

6 MR. BYRON WILLIAMS: And it's often used
7 as a shorthand for -- or measure of inflation?

8 MR. DARREN RAINKIE: That's correct.
9 There are other measures like core inflation that are
10 more sophisticated perhaps or used for other purposes but
11 I would agree with your statement in general.

12 MR. BYRON WILLIAMS: And indeed it's --
13 and thank you for that, and often when Manitoba Hydro
14 uses the term "inflation" it's referring to Manitoba CPI
15 or Canadian CPI, fair enough?

16 MR. DARREN RAINKIE: Certainly in the
17 material that we put in this filing that's how we refer
18 to it, yes, Mr. Williams.

19 MR. BYRON WILLIAMS: And so the material
20 that you've employed in this filing doesn't use core
21 inflation, it uses the broader family of CPI, correct?

22 MR. DARREN RAINKIE: That's correct.

23 MR. BYRON WILLIAMS: And you very
24 helpfully pointed out to me, Mr. Rainkie, that CPI is
25 calculated on a provincial as well as a national basis,

1 correct?

2 MR. DARREN RAINKIE: That's correct.

3 MR. BYRON WILLIAMS: And that's what we
4 mean by Manitoba CPI?

5 MR. DARREN RAINKIE: That's right.

6

7 (BRIEF PAUSE)

8

9 MR. BYRON WILLIAMS: Mr. -- Mr. Rainkie,
10 I'm just going to direct your attention to CAC Exhibit
11 14, and Table 2, or the second tab.

12 Do you have that, sir?

13 MR. DARREN RAINKIE: I do.

14 MR. BYRON WILLIAMS: And that's a table -
15 - Tab 2 titled "Inflation versus Manitoba Hydro
16 Residential Rate Increases." Is that right, sir?

17 MR. DARREN RAINKIE: That's right.

18 MR. BYRON WILLIAMS: And to -- does
19 Manitoba Hydro have any issues or take issue with any of
20 the numbers calculated or presented on this table, sir?

21 MR. DARREN RAINKIE: There's just one (1)
22 small observation, Mr. Williams. That a rate increase
23 for 2010/'11 I think is 2.8 percent but it doesn't
24 particularly change that rate index that much. It goes
25 from one two two oh-five (122.05) to one two one point

1 nine-four (121.94), so it's pretty small.

2 I guess the other observation that I have
3 is that, in just looking at it, is that the response to
4 PUB MH-12(b) actually went back to the year 1999/2000, so
5 this is a subset of that. This is seven (7) years out of
6 the eleven (11) that were in that -- that was in that
7 table. And, of course, as I had the discussion with Mr.
8 Peters some time ago where you end up in this type of a
9 calculation depends on where you start.

10 MR. BYRON WILLIAMS: And -- and we'll go
11 to that, but I do want to deal with your first small
12 point which is -- and -- and -- because -- and this is
13 again a small point but I -- I don't want to... You'll
14 see that the heading is "Residential Rate Increases," Mr.
15 Rankie, as opposed to general rate increases.

16 Do you see that at the top?

17

18 (BRIEF PAUSE)

19

20 MR. BYRON WILLIAMS: And, Mr. Rankie,
21 just where I'm going to go with that is -- is to suggest
22 that -- and again it's a small point but we -- we just
23 want to be clear. When we're looking at residential rate
24 increases the number in 2010/'11 is properly
25 characterized as two point nine (2.9) as opposed to two

1 point eight (2.8).

2 MR. DARREN RAINKIE: You know, Mr.
3 Williams, I'm not positive on that but, like I said, I
4 think it changes --

5 MR. BYRON WILLIAMS: Okay.

6 MR. DARREN RAINKIE: -- the fourth dec --
7 or the second decimal --

8 MR. BYRON WILLIAMS: Yeah.

9 MR. DARREN RAINKIE: -- place on the
10 calculation and it won't change the presentation here so
11 let's -- let's move on.

12 MR. BYRON WILLIAMS: Okay. I'll seek to
13 persuade you of that outside the -- outside the hearing
14 room.

15 And, Mr. Rainkie, and I thank you for that
16 other caveat, but you will recall previously that we
17 certainly had a discussion with Mr. Warden earlier about
18 Hydro having, or the PUB having, a demonstrated track
19 record of -- in responding to drought concerns? Do you
20 recall that conversation from this morning?

21 MR. DARREN RAINKIE: I recall it, yes.

22 MR. BYRON WILLIAMS: And so you -- what
23 we're -- I'll suggest to you that what we're attempting
24 to do in this table is to look at the post drought
25 '03/'04 record of the Public Utilities Board.

1 Is that fair enough, sir?

2 MR. DARREN RAINKIE: I guess that
3 clarifies why we started at that point in time. Whether
4 the conclusions we draw from this table, I'll agree with
5 that, so I guess I'll wait for your next three (3) to
6 five (5) questions.

7 Is that fair?

8 MR. BYRON WILLIAMS: Fair enough. That's
9 more than fair. And -- and Mr. -- Mr. Rainkie, I'll
10 suggest to you that what we have on the left-hand side of
11 the table, essentially -- first of all, in the first
12 column we just set out the fiscal year. You'll see that,
13 sir.

14 MR. DARREN RAINKIE: Yes.

15 MR. BYRON WILLIAMS: And in the second
16 column, we -- we set out Manif -- Manitoba inflation as
17 measured by changes in the provincial CPI for the --
18 roughly the corresponding period, given the limitations
19 and the difference between the -- the CPI year and the
20 fiscal year. Would that be fair?

21 MR. DARREN RAINKIE: Yeah, I think tho --
22 that data source comes from our own material, if I'm not
23 mistaken, Mr. Williams, so --

24 MR. BYRON WILLIAMS: So we've got it
25 right.

1 MR. DARREN RAINKIE: You have it right.

2 MR. BYRON WILLIAMS: And what the third
3 column attempts to do, using the '03/'04 drought period
4 as an -- as a base year, is set out an inflation index
5 which measures the relative growth, or the compound
6 increase over time, as compared to that '03/'04 drought
7 base year.

8 Fair enough?

9 MR. DARREN RAINKIE: That's fair.

10

11 (BRIEF PAUSE)

12

13 MR. BYRON WILLIAMS: And as we just
14 follow through the inflation side of the table to its --
15 to its end, the -- the compound increase figures that
16 appear kind of halfway down the table, we suggest to you,
17 and you will agree, that the calculation that flows in
18 terms of the -- how inflation has changed between '03/'04
19 and 2010/'11, over that seven (7) year period, is 14 2. -
20 - .29 percent (sic)?

21 Would that be fair, sir?

22 MR. DARREN RAINKIE: That's fair,
23 realizing that 2010/'11 is still a forecast figure. More
24 current information from Stats Canada would suggest that
25 1.6 percent is about 2.1 percent, but -- but given the

1 data set that you've used here was a forecast, you've
2 corrected -- you've calculated it correctly, Mr.
3 Williams.

4 MR. BYRON WILLIAMS: And you're saying
5 that one (1) -- Manitoba CPI is at one point six (1.6)?

6 MR. DARREN RAINKIE: I didn't --

7 MR. BYRON WILLIAMS: No, sorry, I -- I
8 misspoke. You're -- you're suggesting that Manitoba CPI
9 is now at two point one (2.1), sir?

10 MR. DARREN RAINKIE: I did print off
11 something from Stats Canada, I think yesterday, Mr.
12 Williams, that indicated that February 2011 over February
13 2010 was 2.1 percent.

14 MR. BYRON WILLIAMS: For Manitoba?

15 MR. DARREN RAINKIE: For Manitoba --

16 MR. BYRON WILLIAMS: Okay.

17 MR. DARREN RAINKIE: -- yes.

18 MR. BYRON WILLIAMS: So this is -- this
19 is the most recent information that -- that was on the
20 record provided by Manitoba Hydro. You'll -- you'll
21 agree with that?

22 MR. DARREN RAINKIE: That's correct.

23 MR. BYRON WILLIAMS: And so we -- while
24 we may quibble, not quibble, and I don't mean that in a
25 pejorative sense, these are the -- you'll agree that

1 they're reflective of the evidence put on the table by
2 Manitoba Hydro and generally reflective of the situation.

3 MR. DARREN RAINKIE: That's correct.

4 MR. BYRON WILLIAMS: Looking at the six
5 (6) year period from '04/'05 through 2010/'11, again
6 we're looking at compound increases in the range of 11.3
7 percent? Would that be fair?

8 MR. DARREN RAINKIE: That's fair.

9 MR. BYRON WILLIAMS: And if we look at
10 the '03/'04 through 2009/'10 years, those are actuals on
11 the inflation side, sir?

12 MR. DARREN RAINKIE: Yes, that -- that's
13 correct.

14 MR. BYRON WILLIAMS: Okay. So that's an
15 actual. And the compound increase over that period is
16 12.49 percent, based upon those actuals, correct?

17 MR. DARREN RAINKIE: That's correct.

18 MR. BYRON WILLIAMS: And if we turn our
19 attention to the -- the middle part of the -- of the
20 table, you'll see the headings "Residential Rate
21 Increase" and "Residential Increase Index." Do you see
22 those, sir?

23 MR. DARREN RAINKIE: I do.

24 MR. BYRON WILLIAMS: And because I'm
25 feeling generous, we're going to change -- although I --

1 I'm not prepared to concede it off the record, we'll
2 change the two point nine (2.9) to two point eight (2.8),
3 but we agree that that's not a significant difference for
4 2010/'11.

5 MR. DARREN RAINKIE: Yes, we're in
6 agreement, Mr. Williams.

7 MR. BYRON WILLIAMS: And what the
8 residential rate increase column tracks is the increases
9 granted at a certain point in time in a particular fiscal
10 year, correct, sir?

11 MR. DARREN RAINKIE: That's correct.

12 MR. BYRON WILLIAMS: And wha -- and what
13 we've done with the rate increase index is used the
14 drought year of '03/'04 as the base and then tracked how
15 -- calculated compound increase from that -- from that
16 drought year, correct, sir?

17 MR. DARREN RAINKIE: That's correct.

18 MR. BYRON WILLIAMS: And what we show --
19 what the table shows, I suggest to you, is that if we
20 look at the increase between '03/'04 and 2010/'11 in
21 terms of rate increases, it's around 22 percent.

22 Would you agree with that, sir?

23 MR. DARREN RAINKIE: Yes, that's what the
24 calculation shows.

25 MR. BYRON WILLIAMS: And if we look at

1 the six (6) year period, being '04/'05 through 2010/'11,
2 over that six (6) year period, the calculation suggests,
3 and you'll confirm, that it's 16.24 percent, sir?

4 MR. DARREN RAINKIE: Correct.

5 MR. BYRON WILLIAMS: And again, the
6 increase over the '03 -- from '03/'04 through 2009/'10 is
7 about 18.61 percent. You'll agree?

8 MR. DARREN RAINKIE: That's also correct,
9 yes.

10 MR. BYRON WILLIAMS: And if we go to the
11 extreme right of that column you'll agree with me that
12 what is por -- portrayed there is a -- the -- the
13 relative percentage of increase that the residential rate
14 increased over -- as compared to inflation over a
15 particular time period. Would that be fair, sir?

16 MR. DARREN RAINKIE: That's my
17 understanding of the intent of that calculation, yes.

18 MR. BYRON WILLIAMS: And let's go to the
19 actuals first, which is on the -- the bottom -- the
20 bottom calculation, looking at that six (6) years between
21 '03/'04 and '09/'10. You'll agree with me that that
22 calculation suggests that rate increases increased, as
23 compared to inflation, about 48/49 percent faster over
24 that period?

25 MR. DARREN RAINKIE: Sorry, Mr. Williams,

1 could you just repeat which line you're on again?

2 MR. BYRON WILLIAMS: Yes, Mr. Rainkie.
3 I'm -- I'm taking you down to the six (6) year period,
4 '03/'04 versus '09/'10. And when we compare the
5 inflation index of twelve point five (12.5) versus the
6 rate increasing index of eighteen point six (18.6), I'll
7 suggest to you that the rate increase in -- rate in --
8 rates -- the rate increase over that period wa -- was
9 48.96 percent higher than the inflation increase over
10 that period for residential customers?

11 MR. DARREN RAINKIE: Now, I'm with you,
12 Mr. Williams. Yeah, that's -- that's how that
13 calculation works.

14 MR. BYRON WILLIAMS: And recognizing your
15 --

16 MR. VINCE WARDEN: I do have to say
17 though, Mr. Williams, I think that's -- I -- I don't know
18 the value of that calculation, and it could be
19 misinterpreted depending on how it's used. You know, the
20 fact of the matter is, over that period of time, if you
21 look at the period -- for the six (6) year period
22 inflation was twelve point four nine (12.49). The rate
23 increases was eight point six one (8.61).

24 So the difference between the two (2) is -
25 - is 6.2 percent higher rate increases over that selected

1 number of years. But to say that that's a 48.96 percent
2 higher compounded rate of increase over inflation -- and
3 -- and I -- I believe it's been communi -- communicated
4 in some ways to customers in that way by perhaps your
5 clients.

6 But the person -- the average person
7 cannot relate to that, and I -- I believe it's a very,
8 very misleading way to express those -- those two (2)
9 relative ratios.

10 MR. BYRON WILLIAMS: You're not calling
11 the calculation inaccurate, sir?

12 MR. VINCE WARDEN: Well, the arithmetic
13 is -- appears to be correct. I haven't checked it, but
14 it looks to be correct.

15 MR. BYRON WILLIAMS: Your --

16 MR. VINCE WARDEN: But it's -- but I --
17 I'm just saying for purposes of communication it -- it
18 can be very misleading. And I think -- or the purpose
19 here is to -- is to bring clarity to the issues and that
20 -- that doesn't do it.

21 MR. BYRON WILLIAMS: Well, Mr. Warden, I
22 do thank you for your advice. You -- you would agree
23 with me that when one is seeking to communicate with
24 consumers, one will tend to use a variety of approaches,
25 that would not be unsound?

1 MR. VINCE WARDEN: Well, we don't -- a
2 variety of approaches, but not intended to mislead.

3 MR. BYRON WILLIAMS: And so -- just so I
4 have you on the record, Mr. Warden, you're suggesting my
5 clients are attempting to mislead persons?

6 MR. VINCE WARDEN: No, I'm -- I'm just
7 saying that this is your document, you prepared it, and I
8 think that ratio that you've -- you've displayed here is
9 -- is misleading.

10 MR. BYRON WILLIAMS: The number that you
11 confirm is accurate is misleading. That's your evidence,
12 sir?

13 MR. VINCE WARDEN: Well, you're comparing
14 two (2) percentage increases over time and expressing one
15 (1) to the other as a percent difference. And I don't
16 know -- I -- I can't imagine how that would be
17 interpreted, but however it would be interpreted, it --
18 it's -- it's -- yeah, I can only use the term misleading.

19 And I'm -- and I'm not saying you're
20 intentionally trying to mislead anybody, that is the
21 arithmetic, but it's -- for purposes of communication
22 it's -- it's not a good number.

23 MR. BYRON WILLIAMS: You -- you feel
24 mislead, Mr. Warden?

25 MR. VINCE WARDEN: I'm concerned. I -- I

1 -- you know, I think everybody in this room who -- who
2 has followed you through the calculation probably
3 understands what you're attempting to do, Mr. Williams,
4 but when it tums -- comes times to communicating with
5 consumers, I think there is a high risk that this could
6 be a misleading representation.

7 MR. BYRON WILLIAMS: May I --

8 MR. ROBERT MAYER: Mr. Williams, I have a
9 question. I'm not particularly misled. I have a
10 question though. It's about the two (2) 2.25 percent
11 rate increases, and I'm wondering about the accuracy of
12 those when you built them in because, although I recall
13 that we gave a 5 percent rate increase and then two point
14 two five (2.25) at two (2) periods down the road, I also
15 remember that Hydro didn't accept the second one (1)
16 immediately and they came back and applied to get it, and
17 I'm not sure what year they -- because -- and I don't
18 think we gave it to them retroactively, so I'm not sure
19 that that particular two point two five (2.25) number is
20 correct, that's all.

21 MR. BYRON WILLIAMS: Mr. -- Mr. Vice-
22 chair, I -- I thank you for that, and the numbers are,
23 I'm quite confident, accurate. One (1) way to look at
24 this table wit -- and -- and I hesitate to provide
25 argument, but you're inviting it, so one (1) way to look

1 at the table is to ask yourself what would a -- a
2 customer on March 31st, 2004 be looking at paying for an
3 ordinary basket of goods, and then taking a look at that
4 on March 31st, 2011.

5 And then on the other side of the table
6 looking at what the customer on March 31st, 2004 was
7 paying for hydro, and then on average, the great
8 residential average, what were they paying six (6) -- six
9 (6) years later. And that's exactly what this -- this
10 table portrays.

11 So eve -- I -- I fully accept the timing
12 issues, sir, but that's -- that's -- that's what this
13 attempts to portray.

14 MR. ROBERT MAYER: Mr. Williams, I said I
15 understood what you were trying to portray. I was just--

16 MR. BYRON WILLIAMS: Yeah.

17 MR. ROBERT MAYER: -- wondered when --
18 whether that two point two five (2.25) came in in that
19 particular year or whether or not. I'm just -- I don't
20 remember.

21 MR. BYRON WILLIAMS: Okay. And, Mr.
22 Vice-chair, if you're looking for reference I think it's
23 the PUB exhibit book Tab 3. I think it will be there.
24 That's where we derived it from.

25

1 (BRIEF PAUSE)

2

3 CONTINUED BY MR. BYRON WILLIAMS:

4 MR. BYRON WILLIAMS: Mr. Warden, I'll --
5 I'll reflect upon your comments. You're certainly though
6 in no position to advise my clients with their -- in
7 terms of how they should communicate with consumers, are
8 you?

9 MR. VINCE WARDEN: Absolutely not. And
10 don't misunderstand me. I'm sure that your clients have
11 the best interest of consumers in mind, just as we do. I
12 just have great concern when I see a ratio expressed in
13 this way.

14 You know, you could have a -- a year in
15 which we had a 1 percent rate increase and inflation was
16 zero. Then how would you express -- you know, the
17 relative -- relativeness of -- of -- of those two (2)
18 numbers, one (1) to the other becomes meaningless. And I
19 think --

20 MR. BYRON WILLIAMS: Okay.

21 MR. VINCE WARDEN: -- that's what -- what
22 this is.

23 MR. BYRON WILLIAMS: Okay.

24 MR. VINCE WARDEN: I -- I just think it's
25 a -- a wrong way to --

1 MR. BYRON WILLIAMS: And -- and I don't
2 want to belabour --

3 MR. VINCE WARDEN: -- represent those two
4 (2) streams.

5 MR. BYRON WILLIAMS: -- I don't want to
6 belabour this issue except for, Mr. Warden, you're --
7 you're certainly, in my mind, raising some concerns about
8 my clients.

9 And I wonder if you would accept that a
10 sophisticated consumer organization which has dealt with
11 Canadian and Manitoba consumers for over sixty (60) years
12 would, in seeking to communicate with consumers, would
13 prev -- present that information in a variety of measures
14 and would also test it through focus group testing in
15 order to try and effectively communicate to the broadest
16 range possible. Is that conceivable to you, sir?

17 MR. VINCE WARDEN: Again, Mr. Williams,
18 I'm not trying to in any way advise you or your clients,
19 I just feel -- earlier today I -- I put something on the
20 record that was difficult but it was -- I wanted to make
21 sure this Board wasn't misled in any way. I think
22 something like this is misleading and I think I have a
23 responsibility to bring it to the attention of the Board.
24 That's as simple as that.

25 MR. BYRON WILLIAMS: Fair enough. Mr. --

1 Mr. Rainkie, I think the only other number that I want to
2 draw to your attention is if -- if we look at the figure
3 for the six (6) years, '04/'05 versus 2010/'11, and we
4 compare the relative growth of the inflation index to the
5 relative growth of the rate index we see that the
6 compound residential rate increase over inflation is
7 43.85 percent higher. Would that be fair, sir?

8 MR. DARREN RAINKIE: Well, subject to the
9 same caveats I think you were just chatting about with
10 Mr. Warden. Whether we accept this calculation or not is
11 -- is one (1) thing or whether we -- we look at the math
12 and we can verify it as one (1) thing but whether we
13 accept it as a proper perspective is another. If I
14 wanted to take this table back to 2000 -- to 1999/2000 as
15 the underlying IR had, I could say that our rate
16 increases during that period were 30 percent less than
17 inflation. So, you know, if we're looking for a
18 sensational headline we can find it in these calculations
19 but --

20 THE CHAIRPERSON: I think folks we're
21 into basically arguing two (2) different positions.

22 MR. ROBERT MAYER: And we have your
23 positions.

24

25 CONTINUED BY MR. BYRON WILLIAMS:

1 MR. BYRON WILLIAMS: Mr. Rainkie, I
2 suggest we move on. Are you okay with moving on, Mr.
3 Rainkie?

4 MR. DARREN RAINKIE: I'm more than fine.

5 MR. BYRON WILLIAMS: I think -- I think
6 we've got some guidance in that regard.

7 Turn, if you would, to Tab 3, and you'll
8 see a document titled "Historic Changes in Residential
9 Bills." And, Mr. Wiens, you're -- you look -- you look
10 like you have a comment about the calculation.

11 MR. ROBIN WIENS: Well, it's -- it's a --
12 it's a very minor comment, Mr. Williams. What seems to
13 have happened in the second row of this -- or I guess
14 it's the third -- the third row, the March 31, 2011, is
15 that somebody used a figure for the mon -- monthly basic
16 charge which was a dollar less than it actually is. So,
17 you know, it's -- your numbers are actually higher than
18 what you're showing here, a dollar higher.

19 MR. BYRON WILLIAMS: Mr. -- Mr. Wiens,
20 just -- and thank you for -- for this. Just so I
21 understand, when we look at the March 31st, 2011 column
22 the -- you're saying that the -- for the 500 kilowatt
23 hours the monthly bill as of March 31st, 2011 should be
24 thirty-eight seventy-five (38.75) is that what you're...

25 MR. ROBIN WIENS: That's correct.

1 MR. BYRON WILLIAMS: Okay. And for the
2 March 31st, 2011 column for 1,000 kilowatt hours the
3 numbers should be seventy point eight-four (70.84), sir;
4 is that right?

5 MR. ROBIN WIENS: Yes.

6 MR. BYRON WILLIAMS: And if -- for the
7 remaining three (3) figures in that calculation, if I
8 added for the 1500 kilowatt hours, 2,000 kilowatt hours
9 and 2500 kilowatt hours, if I added one dollar (\$1) then
10 the calculation would be correct. Is that what you're
11 suggesting, Mr. Wiens?

12 MR. ROBIN WIENS: Yes.

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: Mr. Harper will be
17 traumatized that he's -- he's missed a dollar.

18 Mr. Wiens, and -- and again, if this is
19 supposed to go to Mr. Rainkie, whoever over there, what
20 that suggests is that the percentage change will be
21 somewhat -- somewhat higher. Is that correct, sir, if
22 we're comparing March 34th -- March 31st, 2004, bills to
23 March 31st, 2011, bills?

24 MR. ROBIN WIENS: Yes. And it will be
25 somewhat higher, and probably more meaningful at lower

1 levels of consumption.

2

3

(BRIEF PAUSE)

4

5

MR. BYRON WILLIAMS: Mr. -- Mr. Chairman,
6 and -- and in terms of this particular...

7

8

(BRIEF PAUSE)

9

10

MR. BYRON WILLIAMS: Mr. Wiens, you
11 haven't done me the great favour of working through the
12 percentage change by any chance, have you, sir?

13

MR. ROBIN WIENS: Are you going to
14 subpoena my notes, Mr. Williams? Yes, I have.

15

MR. BYRON WILLIAMS: Mr. Wiens, I -- I
16 would appreciate it if you would be so kind as to share
17 that with us.

18

MR. ROBIN WIENS: In the case of the five
19 hundred (500) it's sixteen point nine (16.9); a thousand
20 is twenty point two (20.2); fifteen hundred (1,500) is
21 twenty-two point four (22.4); two thousand (2,000) is
22 twenty-three point five (23.5); and the twenty-five
23 hundred (2,500) it's 24.2 percent.

24

MR. BYRON WILLIAMS: And, Mr. Wiens, if I
25 could just repeat those to you. For the five hundred

1 (500), that's 16.9 percent?

2 MR. ROBIN WIENS: Yes.

3 MR. BYRON WILLIAMS: A thousand, twenty
4 point two (20.2)?

5 MR. ROBIN WIENS: Yes.

6 MR. BYRON WILLIAMS: Twenty-two point
7 four (22.4) for fifteen hundred (1,500)?

8 MR. ROBIN WIENS: Yes.

9 MR. BYRON WILLIAMS: Twenty-three point
10 five (23.5) percent --

11 MR. ROBIN WIENS: Yes.

12 MR. BYRON WILLIAMS: -- for two thousand
13 (2,000), and twenty-four point two (24.2)?

14 MR. ROBIN WIENS: Yes.

15 MR. BYRON WILLIAMS: Thank you for that
16 very much. Now, Mr. Wiens, since you're being so
17 helpful, just essentially what this table does is, in
18 column 1 we're looking at residential monthly usage at
19 different levels between 500 and 2,500 kilowatt hours,
20 correct?

21 MR. ROBIN WIENS: Sorry, repeat again,
22 please.

23 MR. BYRON WILLIAMS: The first column,
24 we're looking at residential monthly use, and we've --
25 we're looking at five (5) different usage levels ranging

1 from 500 kilowatt hours to 2,500. Would that be fair?

2 MR. ROBIN WIENS: Yes.

3 MR. BYRON WILLIAMS: And in the second
4 column, which is headed, Monthly Bill as of March 31st,
5 2004, we're taking what a respective customer would have
6 paid at March 31st, 2004, taking into account the monthly
7 charge of -- is it six twenty five (625), sir, the first
8 175 kilowatt hours at five point seven eight (5.78) cents
9 per kilowatt hour, and the balance at five point one six
10 (5.16) cents per -- per kilowatt hour? Would that be
11 right, sir?

12 MR. ROBIN WIENS: That's right.

13 MR. BYRON WILLIAMS: And what -- not what
14 we're doing in our table, but what you're doing with your
15 revisions to this table in column 3 is setting out what a
16 particular customer at a particular usage would be paying
17 as of March 31st, 2011, correct?

18 MR. ROBIN WIENS: Yes. And you say March
19 31st, 2011, so I am assuming that's referring to the
20 interim rates that are in effect today.

21 MR. BYRON WILLIAMS: Absolutely, Mr.
22 Wiens, and you're starting to ask me questions, which is
23 not always the best sign, and -- but, yes, that's right.

24 In terms of the monthly charge, we're
25 talking six eighty-five (685), and the first 900 kilowatt

1 hours at six thirty-eight (638) -- six (6) cent -- six
2 (6) cent -- six point three eight (6.38) cents, and the
3 balance at six point five seven (6.57) cents.

4 Is that correct, sir?

5 MR. ROBIN WIENS: That's correct.

6 MR. BYRON WILLIAMS: And what we're doing
7 is tracking that percentage change over that period of
8 time. That's the percentage change column on the extreme
9 right-hand side, sir. Is that fair?

10 MR. ROBIN WIENS: Yes.

11 MR. BYRON WILLIAMS: And so what we -- we
12 have, and -- well, let me back up. We -- we'll -- we'll
13 keep in mind that the cumulative increase in inflation
14 over this period has been calculated, taking into
15 forecasts, as 14.29 percent, correct?

16 MR. ROBIN WIENS: I guess you're
17 referring us back to --

18 MR. BYRON WILLIAMS: To the previous
19 table, Mr. Wiens.

20 MR. ROBIN WIENS: -- the previous
21 exhibit.

22 MR. BYRON WILLIAMS: Recognizing that's
23 got forecasts for 2010/'11, as opposed to actual.

24

25 (BRIEF PAUSE)

1 MR. ROBIN WIENS: Well, Mr. Williams,
2 technically, your exhibit, the previous one in Tab 2, is
3 looking at the base year as being 2003/2004, and this one
4 definitely appears to be showing your starting point is
5 at the end of 2003/2004. So, you know, I -- I'm -- I'm
6 not going to make this comment definitively, I -- I
7 probably need to take it away and think about it, but we
8 may have -- we may have an issue with respect to the
9 comparability of the comparisons.

10 MR. BYRON WILLIAMS: Well, Mr. -- Mr.
11 Wiens, what you're suggesting is that the compound
12 increase of inflation might better be stated as 11.29
13 percent as compared to 14.29?

14 MR. ROBIN WIENS: As I said, I -- I'd
15 want to -- I want to think about that.

16 MR. BYRON WILLIAMS: I'll let you think
17 about that, but we are in the ballpark somewhere be --
18 with inflation compounded cumulatively being between 11
19 and 14.29 percent, in that range?

20 MR. ROBIN WIENS: Sure.

21 MR. BYRON WILLIAMS: And you'll get back
22 to me whether you fe -- feel, from Manitoba Hydro's
23 perspective, that we should be loo -- our client should
24 be employing the lower inflation number of 11.29 percent?

25 MR. ROBIN WIENS: Sure, we can -- we will

1 get back to you.

2 MR. BYRON WILLIAMS: That will be an
3 undertaking, Mr. Wiens.

4 MR. ROBIN WIENS: Well, it's an
5 undertaking if --

6 MR. BYRON WILLIAMS: Yeah.

7 MR. ROBIN WIENS: -- subject to.

8

9 --- UNDERTAKING NO. 108: Manitoba Hydro to indicate if
10 CAC/MSOS should be employing
11 the lower inflation number of
12 11.29 percent in the table at
13 Tab 3 of Exhibit CAC/MSOS-14

14

15 CONTINUED BY MR. BYRON WILLIAMS:

16 MR. BYRON WILLIAMS: And, Mr. Wiens,
17 recognizing that inflation, the cumulative increases, is
18 as -- as portrayed in this table is no higher than 14.29
19 percent, what we can see in terms of the relative change
20 in the various usages is that the lowest percentage
21 change is for those at 500 kilowatt hours at 16.9
22 percent, correct?

23 MR. ROBIN WIENS: That's correct.

24 MR. BYRON WILLIAMS: And the highest
25 percentage change is for those at 2,500 kilowatt hours at

1 24.2 percent, correct?

2 MR. ROBIN WIENS: Yes.

3 MR. BYRON WILLIAMS: And the -- all the
4 increases though would be above inflation, would that
5 also be fair, sir, over that corresponding period in
6 time?

7 MR. ROBIN WIENS: Mr. Williams, I'm going
8 to agree that all the increases are above the 14.3
9 percent that you've put here.

10 MR. BYRON WILLIAMS: Thank you. In --
11 and in terms of understanding the difference between the
12 percentage change, let's say, for example, the 500
13 kilowatt hour versus the 2,500 kilowatt hour, am I
14 correct in presuming that will be the -- the relatively
15 higher change felt by the 2,500 kilowatt hour is a
16 function of using an inclining rate structure, sir?

17 MR. ROBERT MAYER: That would be those of
18 us who heat with electricity.

19

20 CONTINUED BY MR. BYRON WILLIAMS:

21 MR. BYRON WILLIAMS: I'm not sure if
22 we're swearing in the Vice-chair or not, Mr. Wiens. Mr.
23 Wiens -- and -- and if you have more elaboration, I'm
24 certainly glad to hear it.

25 MR. ROBIN WIENS: You know, Mr. Williams,

1 that would certainly be part of it. It -- it may also
2 reflect over the longer term, even prior to the
3 introduction of the inverted rate blocks, that Manitoba
4 Hydro recognized that it was the -- it was the tail block
5 that would -- would have the biggest emphasis in rate
6 increases, and that -- that's been going on prior to the
7 fact that we introduced an inverted rate structure.

8 MR. ROBERT MAYER: I think I understood
9 what you said but when the -- before you introduced the
10 inverted rate structure and you add -- if you added
11 everything to the tail block, we'd have saved money
12 because your tail block used to be lower than your
13 initial block.

14 MR. ROBIN WIENS: That's correct. And
15 the longstanding objective prior to the discussion on
16 inverted rates was that we were going to equalize those
17 blocks.

18 MR. ROBERT MAYER: Right. And then we --
19 we equalized the blocks and then we'd have all been
20 paying roughly the same bill increases. And then we
21 inverted it and that's where the difference started to
22 come about between the -- well, quite frankly, the higher
23 users and most of the higher users, as I understand it in
24 the residential area -- I don't have a pool that I heat -
25 - would come in as a result of the use of electricity for

1 heating purposes.

2 MR. ROBIN WIENS: Well, for whatever
3 purposes were in excess of the first block, Mr. Mayer.

4

5 CONTINUED BY MR. BYRON WILLIAMS:

6 MR. BYRON WILLIAMS: Mr. Wiens, I was
7 initially puzzled, but -- it's late in the day, but I
8 think I understand your answer and I'm going to try and
9 play it back to you and you'll confirm if I've -- if I've
10 understood you correctly. You're saying as my clients
11 seek to look at the relatively higher change for higher
12 usage, there are two (2) factors in play when we compare
13 it to March 31st, 2004.

14 I'll stop you there and not ask you to
15 elaborate. You'll agree with -- you've identified two
16 (2)?

17 MR. ROBIN WIENS: Sorry, I'm going to
18 have to hear that again, Mr. Williams. It's late in the
19 date for me too.

20 MR. BYRON WILLIAMS: Yeah, it is. When
21 we look at the factors driving the relatively higher
22 change in usage, I'm going to ask you to confirm without
23 going any further yet that you've identified two (2)
24 factors?

25 MR. ROBIN WIENS: Well, you know, Mr.

1 Williams, they're really just one (1) factor. And it's
2 just that there was a watershed moment when one (1)
3 crossed over the other.

4 MR. BYRON WILLIAMS: Yeah. One (1) --
5 one (1) of the factors, whether it's one (1) or whatever
6 it was, has been -- was the move you indicated from
7 declining rate structure to a -- a neutral rate
8 structure. The second part of that was the move to an
9 inclining rate structure.

10 That's what you were suggesting before?

11 MR. ROBIN WIENS: Yes, that's correct.
12 If -- if -- if I'm recalling correctly, the first
13 application that included an inverted residential rate
14 structure was filed on the 1st of August of 2007, and
15 your time period goes back before that.

16 THE CHAIRPERSON: Mr. Wiens, correct me
17 if I'm wrong, but there were a couple of things going on
18 at that time, were there not? Wasn't that basically the
19 time in which the -- the general view was that with the
20 inverted rates it would in a sense compensate for the
21 fact that the power could be sold to the Americans,
22 because at that point in time natural gas prices were --
23 were higher, and too, of course, selling the power to the
24 Americans would reduce their reliance on coal and,
25 therefore, review -- reduce worldwide carbon?

1 Those were some of the issues that were
2 floating about. Was it not the case?

3 MR. ROBIN WIENS: Well, they may have
4 been there in the background, Mr. Chairman. Our -- our
5 discussions, I think, focussed on Manitoba Hydro's long
6 run marginal cost and issues related to conservation.

7 THE CHAIRPERSON: Thank you. That helps
8 too.

9

10 (BRIEF PAUSE)

11

12 CONTINUED BY MR. BYRON WILLIAM:

13 MR. BYRON WILLIAMS: It is indeed getting
14 late in the -- the day, Mr. Chairman. I'm -- I'm going
15 to ask Mr. Wiens to turn -- or Mr. Wiens or Mr. Rainkie,
16 turn to the next tab, which is Tab 4. And you'll see a
17 heading, "Manitoba Inflation versus Forecast Manitoba
18 Hydro Rate Increases." Do you see that heading?

19 MR. DARREN RAINKIE: I do, Mr. Williams.

20 MR. BYRON WILLIAMS: And essentially what
21 this table does at a high level, Mr. Rainkie, is look at
22 the rates as presented in -- the -- excuse me, the rate --
23 - potential rate increases as portrayed in IFF-09 and --
24 on the right-hand side of the table, and compare it to
25 the forecast for Manitoba CPI or inflation over the same

1 time period. Would that be fair?

2 MR. DARREN RAINKIE: Yeah, just a simple
3 compound calculation of both of those factors.

4 MR. BYRON WILLIAMS: We have a simple
5 calculation, Mr. Rainkie?

6 MR. DARREN RAINKIE: I think it's pretty
7 simple, the calculation.

8 MR. BYRON WILLIAMS: And so essentially
9 the time frame that is covered here is from the 2009/'10
10 year out to 2019/'20.

11 Would that be fair, sir?

12 MR. DARREN RAINKIE: That's fair.

13 MR. BYRON WILLIAMS: And in the second
14 column under "Manitoba Inflation," we see the
15 Corporation's forecast in terms of inflation as refec --
16 reflected in Appendix 51 of its submissions in this
17 proceeding, correct?

18 MR. DARREN RAINKIE: That's right, that's
19 from our economic outlook.

20 MR. BYRON WILLIAMS: And if we go to the
21 third column we look at the com -- you can see there's an
22 attempt to calculate the compound value moving from
23 2009/'10 out to 2019/'20. Would that be fair, sir?

24 MR. DARREN RAINKIE: That's fair. I --
25 I'm not sure why it doesn't go the whole twenty (20) year

1 IFF period but I suppose that's another issue of
2 perspective, where you cut it off and where you start.

3 MR. BYRON WILLIAMS: When does the decade
4 of investment end, sir?

5 MR. DARREN RAINKIE: Well, I think we've
6 used the term "decade of investment" to mean the --
7 usually mean the first decade, but under our latest IFF,
8 Conawapa isn't in place till I think to 2024, so it's --
9 it's later than this table would cut it off.

10 I guess my observation is, once again in
11 terms of a matter of perspective, is that what you've
12 done here is you -- you've put the -- the ten (10) years
13 where we have the 3.5 percent indicative rate increases
14 but we don't have the 2 percent rate increases thereafter
15 to see what the effect of that would do versus inflation
16 over twenty (20) years versus ten (10) years. So I guess
17 my main point in the last half hour has been where you --
18 where you start and where you end, your perspective is
19 different.

20 So we can agree on the compounding
21 calculations are pretty easy, they're pretty simple
22 mathematic calculations but it's more interesting what
23 are you trying to prove what -- what the right
24 perspective of these calculations are. I think that was
25 what Mr. Warden was trying to get at earlier.

1 MR. BYRON WILLIAMS: And thank you for
2 that, Mr. Rainkie. And in terms of the -- let's take a
3 perspective of a Manitoba consumer in the context of the
4 current state of our economy, let's assume they're
5 struggling to meet their bills.

6 In your view, is the matter of greatest
7 concern what they're going to pay today or tomorrow or
8 twenty (20) years out?

9 MR. DARREN RAINKIE: In that situation I
10 think they would probably think what their biggest
11 concern was what they're going to do in the next month or
12 two (2) not -- neither ten (10) or twenty (20) years out,
13 Mr. Williams.

14 MR. BYRON WILLIAMS: They would tend to
15 focus more on shorter term outlooks, though, sir?

16 MR. DARREN RAINKIE: From their
17 individual perspective, yes.

18 MR. BYRON WILLIAMS: Okay. On the right-
19 hand side of the table we see the general rate increases
20 portrayed or forecast in IFF-09 out to 2019/'20. Do you
21 see -- would you agree with that, sir?

22 MR. DARREN RAINKIE: Yeah, that's what
23 this is trying to do, yeah.

24 MR. BYRON WILLIAMS: And we -- on the
25 extreme right side of the table we look at their compound

1 effects over this ten (10) year period using the '09/'10
2 year as the base. Would that be fair?

3 MR. DARREN RAINKIE: Yes, that
4 calculation is using 2009/'10 as the base.

5 MR. BYRON WILLIAMS: And if we look out
6 over this time period, disagree as we might about what's
7 the most appropriate time period, you'll agree with me
8 that the in -- the change in inflation over this time
9 period is about 22.38 percent, sir, correct?

10 MR. DARREN RAINKIE: Yes, that's the
11 calculation, yes.

12 MR. BYRON WILLIAMS: And the change in
13 rates over this time period is a bit over 39 percent.
14 Would that be fair?

15 MR. DARREN RAINKIE: Yes, that's the
16 calculation.

17 MR. BYRON WILLIAMS: Mr. Chairman, I can
18 -- I -- I've got a few more tables to grind through. I'm
19 happy to keep going or I don't mind calling this a day.

20 THE CHAIRPERSON: Well, we're going to
21 have to conclude at 4:00, so if you can do another table
22 --

23 MR. BYRON WILLIAMS: Yeah.

24 THE CHAIRPERSON: -- in the next twelve
25 (12) minutes, might as well.

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CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Mr. Rainkie, I'm going to ask you to turn to Tab 5, Mr. Rainkie or anyone else from the MPI Panel. And -- and you'll see the title, first of all, Mr. Rainkie, Manitoba Financial -- Manitoba Hydro Financial Forecast Incremental Revenues Sought. Do you see that, sir?

MR. DARREN RAINKIE: I see that.

MR. BYRON WILLIAMS: And from our offline discussions, my understanding is that you don't take any issue with the total incremental revenue portrayed from IFF-09, but that you might have a -- a comment or two (2) about IFF-10 on the right-hand side. Is that right, sir?

MR. DARREN RAINKIE: That's correct. I think when we cracked the math on the IFF-10 column, we weren't quite sure if that was the proper perspective, and I think that also has the industrial rate revenue and some diesel revenue in it, as well.

So it -- I think -- I think that the IFF-09 column comes right out of the IFF, so I can see it and verify it very quickly, but I'm -- I'm not quite sure yet about the IFF-10 column. But I -- I note on your next table you use the IFF-09 -- in your next tab you use the IFF-09 amount anyway, so I'm not sure, once again, if

1 there's any -- any real point in worrying about that
2 column but --

3 MR. BYRON WILLIAMS: I don't intend to
4 worry about it much, sir, but just for guidance, are you
5 telling me that your -- that you see a material
6 difference in -- in the figures? And if you do, that --
7 that's fair, or that you -- you have some discomfort in
8 talking about those figures because there may be a
9 material difference.

10 MR. DARREN RAINKIE: I -- I have much
11 more comfort in the -- in the IFF-09 line, and there's a,
12 you know, fairly significant difference by the time you
13 get out to 2019/'20, and I think the IFF-09 line is just
14 more indicative of what you're trying to show here than
15 the IFF-10 calculation that -- I'm not trying to be
16 critical of Mr. Harper. I think it's -- this data set
17 was not on the record and so he was just trying to back
18 calculate it, so --

19 MR. BYRON WILLIAMS: Yeah.

20 MR. DARREN RAINKIE: -- I hope he can
21 sleep at night.

22 MR. BYRON WILLIAMS: And I'm sure he
23 will. And in fairness to Hydro, we'll, for our purposes,
24 stroke out that -- that right-hand column, and focus on -
25 - on the left-hand one, and I don't think it will -- and

1 won't rely on it, unless we are -- we seek to clarify it
2 further in the future.

3 What -- what this table, Mr. Rainkie,
4 attempts to portray is flowing from IFF-09 and indeed
5 drawn straight from IFF-09, is if essentially the -- the
6 rate increases set out in that IFF -- IFF out to 2019/'20
7 are granted, this would be the incremental revenue in any
8 particular year flowing from those rate increases as
9 multiplied against Hydro's load forecast for that
10 particular year. Is that right?

11 MR. DARREN RAINKIE: It's -- it's -- you
12 -- where you see that is in the additional line in the --
13 in the IFF, so it's the additional revenue, and once
14 again the compounding effect of the rate increases over
15 that period.

16 MR. BYRON WILLIAMS: So sess --
17 essentially what the additional revenue captures is the
18 function of the portrayed rate increases times the
19 forecasted load for that particular year. That's what it
20 does?

21 MR. DARREN RAINKIE: Yes, the additional
22 revenue from the rate increases, yes.

23 MR. BYRON WILLIAMS: Well, that was
24 relatively painless. Mr. Chairman, that table feeds into
25 the -- the next one. I'm -- I -- I think the next one

1 will take a bit more time though, so --

2 THE CHAIRPERSON: Okay. Then we'll call
3 it a day. Mr. Peters, if you could remind us when our
4 happy throng once more comes together?

5 MR. BOB PETERS: Yes, thank you, and
6 while I'm scrambling for my calendar, Mr. Chairman, I
7 just wanted to put on the record a matter that I was able
8 to confirm with Mr. Gange today with respect to his
9 written submission on behalf of RCM/TREE for the 2011
10 Interim Rate Consideration Hearing.

11 The Board and the parties will recall that
12 Mr. Gange was unavailable and had dispensation to provide
13 written comments. His client did provide oral
14 submissions and -- on March the 17th. Mr. Gange also
15 provided written submissions that I suggest be marked as
16 RCM/TREE Exhibit number 9, and --

17 THE CHAIRPERSON: Very good.

18 MR. BOB PETERS: -- that will keep us on
19 track.

20

21 --- EXHIBIT NO. RCM/TREE-9: Written Submissions of
22 RCM/TREE for the 2011
23 Interim Rate
24 Consideration Hearing

25

1 MR. BOB PETERS: In terms of our next
2 attendance, the Board has provided, at I guess counsel's
3 request and witness requests, the spring break off, and
4 we meet next on Tuesday, the 5th of April, and presently
5 planning to sit on the 5th, the 6th, and the 7th of that
6 week. We'll continue with -- with Mr. Williams on behalf
7 of CAC/MSOS. And in the intervening days we have an
8 opportunity to explore some additional dates to be added
9 to the calender if necessary, and we'll do that and have
10 something for the Board on our return on that date.

11 THE CHAIRPERSON: Very good. So stay
12 well, everyone. We'll see you then.

13

14 (PANEL RETIRES)

15

16 --- Upon adjourning at 3:53 p.m.

17

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19 Certified Correct

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23 _____
Cheryl Lavigne, Ms.

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