MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO

GENERAL RATE APPLICATION

2012/13 AND 2013/14

Before Board Panel:

Regis Gosselin   - Board Chairman

Raymond Lafond   - Board Member

Larry Soldier   - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

December 17, 2012

Pages 1242 to 1512

1   APPEARANCES

2 Bob Peters   )Board Counsel

3

4 Patti Ramage   )Manitoba Hydro

5 Odette Fernandes   )

6

7 Byron Williams   )CAC (Manitoba)

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9 William Gange   )GAC

10 Peter Miller   )

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12 Antoine Hacault   )MIPUG

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14 Michael Anderson (np)   )MKO

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2   No.   Description   Page No.

3   23   Manitoba Hydro to update PUB/Manitoba

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10 24   Manitoba Hydro to quantify the impact

11   of the expected Jenpeg outage on the

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14   advise the Board as to whether the

15   hydraulic output forecast for the

16   current test year and the next test

17   year are going to be impacted; as

18   well, Manitoba Hydro to include the

19   exports that it has achieved up to

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21 25   Manitoba Hydro to advise the Board

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 1   LIST OF UNDERTAKINGS (Con't)

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 3 26   Manitoba Hydro to advise the Board on

 4   the approximate capital costs of a

 5   250 megawatt combined-cycle

 6   combustion turbine combined to the

 7   capital costs of a 250 megawatt

 8   simple-cycle combustion turbine, as

 9   well as advise the Board as to how

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11   of up-sizing the turbine in terms

12   of relative costs   1335

13 27   Manitoba Hydro to provide a link to

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20   new office building   1396

21 29   Manitoba Hydro to provide the Board

22   the information request which

23   addresses the list of forecasters

24   used for estimated future rates   1436

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1 --- Upon commencing at 9:00 a.m.

2

3   THE CHAIRPERSON: I believe we're ready

4 to start today's proceedings. Good morning, everyone.

5 I hope everyone had a good weekend. I wonder if we

6 have any matters to attend to before we commence the --

7 the -- continue the cross-examination?

8   MS. ODETTE FERNANDES: Yes, we do.

9 Thank you, Mr. Chairman. Odette Fernandes, for the

10 record. Manitoba Hydro, this weekend, emailed a few

11 documents to Board counsel and Intervenors. The first

12 two (2) documents were responses to PUB Pre-ask 2 and

13 3, which I spoke with Mr. Peters, and I think the best

14 way to handle that would be to include them in Tabs 2

15 and 3 of Manitoba Hydro Exhibit 18 instead of giving

16 them a different exhibit number. So if we just put

17 Tabs 2 and 3, those documents, into those tabs.

18

19 --- EXHIBIT NO. MH-18(ADDITION):

20   Responses to PUB Pre-ask 2

21   and 3

22

23   MS. ODETTE FERNANDES: And then

24 Manitoba Hydro also filed responses to MIPUG Pre-asks 1

25 through 6. And the first Pre-ask is quite a large

1 document. It's about three hundred (300) pages. So we

2 did email that around to everyone. But we suggest that

3 that be Manitoba Hydro Exhibit number 22. And if

4 parties would like paper copies of those, we can have

5 those made as well.

6

7 --- EXHIBIT NO. MH-22:   Responses to MIPUG Pre-asks

8   1 through 6

9

10   MR. BOB PETERS: Yes. Thank you, Mr.

11 Chairman. You'll recall, I believe it may have been

12 Friday or Thursday, that Manitoba Hydro provided a

13 binder that was marked as Manitoba Hydro Exhibit 18.

14 It predominantly contained information relating to

15 Pointe du Bois. But at the front end of that file

16 there are a number of tabs, and Manitoba Hydro has been

17 using those tabs in which to insert questions that have

18 been asked on behalf of the Board after the information

19 request process has concluded.

20   So Ms. Fernandes's suggestion is -- is a

21 good one, that we insert the pre-ask questions that she

22 filed this weekend into the appropriate tab in Manitoba

23 Hydro Exhibit 18. And then the pre-ask questions of

24 MIPUG, which related to depreciation matters, should be

25 taken then as Manitoba Hydro Exhibit 22. Thank you.

1250

1   (BRIEF PAUSE)

2

3   MR. BOB PETERS: If I could, Mr.

4 Chairman, I'd like to continue with a couple of points

5 that Mr. Cormie can assist the Board with.

6

7 MANITOBA HYDRO PANEL 2 - REVENUE REQUIREMENT, RESUMED:

8   VINCE WARDEN, Resumed

9   DARREN RAINKIE, Resumed

10   DAVID CORMIE, Resumed

11

12 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

13   MR. BOB PETERS: And, Mr. Cormie, when

14 we concluded our questioning on Friday, the Board was

15 reviewing the export prices obtained on sale aspects.

16 And we're looking at page 91 of Board counsel's Exhibit

17 14 found at Tab 9 of the book of documents.

18   And we were looking at the top half of

19 the chart dealing with sales, and the bottom half

20 related to purchases. Do you recall that, sir?

21   MR. DAVID CORMIE: Yes.

22   MR. BOB PETERS: And when the Board

23 looks at opportunity sales, those would include the

24 day-ahead sales, correct?

25   MR. DAVID CORMIE: Yes.

 1   MR. BOB PETERS: And then opportunity

 2 purchases, Manitoba Hydro also purchases day-ahead and

 3 real-time energy as well?

 4   MR. DAVID CORMIE: Yes.

 5   MR. BOB PETERS: When the Board looks

 6 at -- let's just pick 2008/'09 for historical

 7 information, the real-time day-ahead sales are

 8 averaging approximately four point one (4.1) cents a

 9 kilowatt hour. Do you accept that?

10   MR. DAVID CORMIE: Subject to check,

11 yes.

12   MR. BOB PETERS: And at the bottom part

13 of the chart the Board will see that when Manitoba

14 Hydro purchases, they're purchasing in the day-ahead

15 and the real-time market for -- again, subject to check

16 -- an average of five (5) cents a kilowatt hour.

17   MR. DAVID CORMIE: Yes.

18   MR. BOB PETERS: And we can look at the

19 same data for 2011 and '12 at the far right-hand side

20 of the chart. Manitoba Hydro is selling at about two

21 point one (2.1) cents on the opportunity sa -- market

22 and they're buying for approximately two point zero

23 (2.0) cents a kilowatt hour.

24   MR. DAVID CORMIE: Yes.

25   MR. BOB PETERS: Mr. Cormie, would it

1 be correct to say that -- does Manitoba Hydro make

2 those purchase and sales in an effort to gain revenues?

3

4   MR. DAVID CORMIE: The transactions are

5 to gain revenues, but also to reduce the costs of

6 operating the power system, Mr. Peters. For example,

7 if it's less expensive for us at the time of peak to

8 purchase power than it is to run our combustion

9 turbine, we'll enter into a power purchase agreement

10 over the -- over the peak period.

11   So, although we may be energy long and

12 we're -- we're -- we're selling energy, there may be

13 hours when -- where we -- we don't have a surplus and

14 it's necessary to -- to buy energy to serve a sale. So

15 it's not -- the -- the purchases may not be made to --

16 to increase revenues, but to reduce the cost of serving

17 our sale obligations.

18   MR. BOB PETERS: These opportunity

19 sales, Mr. Cormie, are made once Manitoba Hydro's

20 domestic customers and your firm export customers are

21 already looked after?

22   MR. DAVID CORMIE: The sales would be,

23 yes.

24   MR. BOB PETERS: All right. And the

25 purchases -- you're indicating that in some

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1 circumstances you may have to purchase or you may

2 choose to purchase even though you have hydraulic

3 energy available.

4   MR. DAVID CORMIE: I don't -- I -- I

5 wouldn't go that far, Mr. Peters, saying when we have

6 hydraulic energy available we may -- we may have

7 exhausted the hydraulic capability of the power system

8 at the time of peak. And, as we indicated the other

9 day when it was 4,400 megawatts of load on -- I think

10 it was last Tuesday, rather than starting our

11 combustion turbines that might cost ten (10) cents a --

12 a kilowatt hour to run, we'll go to the market and --

13 and buy during the peak hours to -- to serve our -- our

14 obligations. And so, at the time of peak, all the

15 hydraulic units may be already operating and the least

16 expensive way to serve load may be through a power

17 purchase.

18   In addition to that, we do have

19 emergencies, and -- and emergency power needs to be

20 purchased at times. And you'll notice in those

21 volumes, for example in 2008 and '09, sale volumes

22 were, you know, 5,000 gigawatt hours -- forty-nine

23 seventy-eight (4,978) it shows on your table -- and the

24 purchase volumes are two hundred and seventy-six (276).

25 So they're a fraction, and that tells me that these are

1 -- these are transactions that either were done during

2 emergencies or during periods when we're capacity short

3 in the hydro system and we're purchasing to minimize

4 costs.

5   MR. BOB PETERS: Could you explain to

6 the Board what you mean by "emergencies"?

7   MR. DAVID CORMIE: Fires at generating

8 stations, problems on the DC system, pole outages,

9 valve group outages. During emergencies we purchase

10 power in order to continue to serve our load

11 obligations.

12   MR. BOB PETERS: From the volumes that

13 you've identified for the Board, Mr. Cormie, does that

14 suggest that it wasn't arbitrage opportunities that was

15 motivating those transactions?

16

17   (BRIEF PAUSE)

18

19   MR. DAVID CORMIE: Well, I -- I can't

20 say that there weren't arbitrage transactions in here,

21 but remember, Mr. Peters, the price of electricity

22 isn't a constant two point four (2.4) cents a kilowatt

23 hour year around. That is an average price, so there

24 are periods when prices are higher than that. They

25 could be five (5) cents a kilowatt hour and we could be

1 buying at two (2) cents. And so there could be an

2 arbitrage transaction in there -- buy at two (2) and

3 sell at five (5), and it would show up -- they -- it

4 would all get averaged out.

5   So the average may not reflect a -- a

6 positive -- or a favourable number, but that's because

7 it's -- it's an average of many transactions for

8 different purposes and at different times of year.

9   MR. BOB PETERS: All right. To ensure

10 we have your point then, Mr. Cormie, at the top half of

11 the chart if we look to see what the average export

12 sales prices were in '08/'09, we see that there was

13 contracts at six point one (6.1) and the opportunity at

14 four point one (4.1), correct?

15   MR. DAVID CORMIE: Yes, subject to

16 check.

17   MR. BOB PETERS: And then the -- the

18 bottom part of the chart at the very last line

19 indicates average purchase prices would have been about

20 five point one (5.1) cents by contrasting that to the -

21 - to the sales prices?

22   MR. DAVID CORMIE: Yes.

23   MR. BOB PETERS: And likewise if we go

24 over to '11 and '12 -- 2011/'12, the sales were on

25 average four (4) cents for contracts and two (2) -- two

1 point one (2.1) cents for opportunity. And that

2 contrasts with the purchase price of five point five

3 (5.5) cents, correct?

4

5   (BRIEF PAUSE)

6

7   MR. DAVID CORMIE: Yes, but now you're

8 mixing in -- the five point five (5.5) includes the

9 dependable purchases, Mr. Peters, that don't reflect

10 spot market prices, they reflect the all-in resource

11 cost.

12   MR. BOB PETERS: Much like the contract

13 sales prices would have on the top part of the chart?

14   MR. DAVID CORMIE: Yes, in the contract

15 sales price there would be the dependable sales as well

16 as the short-term contract sales prices. The -- the

17 dependable sales are not expected to -- we -- we don't

18 enter into those in order to compete with the real-time

19 sales, Mr. Peters, but we do -- we do enter into short-

20 term contract sales with the expectation that in the

21 vast majority of cases they will -- those prices will

22 be better than what we would get in day-ahead or real-

23 time.

24   We have the choice of selling forward at

25 a fixed price or we have the choice of just leaving the

1 energy, and if it's surplus on the day then we sell it

2 and we enter into the short-term contract prices with

3 the expectation that this is a much better price than

4 we could by just leaving the energy for real-time.

5   MR. BOB PETERS: Mr. Cormie, would it

6 be a fair conclusion that the selling of purchased

7 power is not a profitable aspect of the export

8 business?

9

10   (BRIEF PAUSE)

11

12   MR. DAVID CORMIE: Could you define

13 what you mean by "purchased power", Mr. Peters?

14   MR. BOB PETERS: Well, I was -- if

15 we're comparing the averages, and I appreciate we are

16 looking at average information here, Mr. Cormie --

17   MR. DAVID CORMIE: M-hm.

18   MR. BOB PETERS: -- but when the -- the

19 average purchase price is almost the same as the

20 average sale price, then on average there isn't a large

21 amount of revenues that are being generated as a result

22 of those transactions?

23

24   (BRIEF PAUSE)

25

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 1   MR. DAVID CORMIE: The -- the purchase

 2 price for the dependable purchases is -- is -- in -- in

 3 your numbers here shows that they are more expensive

 4 than the value of the energy. And it's not a

 5 profitable transaction, no.

 6   MR. BOB PETERS: So --

 7   MR. DAVID CORMIE: But it was not --

 8 not intended to be.

 9   MR. BOB PETERS: -- so Manitoba Hydro's

10 motivation for doing that is -- is something other than

11 profit at that point?

12   MR. DAVID CORMIE: Our motivation is we

13 have that resource on the system, it's generating

14 electricity and -- and it's adding to the surplus on

15 the system. And as -- I think as we had a discussion

16 Friday afternoon, Mr. Peters, and I was going off and

17 telling you about whether it's fair to put any

18 particular resource at the margin and then judge its

19 liability based on whether the -- it -- the cost of --

20 of that energy was -- could be measured against the

21 opportunity export market.

22   And -- and this is another example where

23 we're saying dependable purchases are going to the

24 opportunity market. And I would say, well, is it

25 dependable or is it another resource that -- surplus

1 that's coming off the existing hydro system because we

2 have high water, or is it coming off the last generator

3 that was just built so that this -- you know, we can

4 always argue whether -- for any particular resource,

5 whether it's at the margin or not.

6   And I think that's an unfair discussion.

7 I think we should be averaging all the costs -- all the

8 costs in saying, This is the supply, and each resource

9 will pick up a fair share of dependable opportunity and

10 of opportunity revenue.

11   MR. BOB PETERS: So to get Manitoba

12 Hydro's marginal cost, you would do that? You would

13 average the cost of all generators and all supply

14 sources?

15   MR. DAVID CORMIE: In proportion to the

16 amount of dependable energy they have in there. In --

17 yes, I would -- I would weight it.

18   MR. BOB PETERS: Is that what Manitoba

19 Hydro does?

20   MR. DAVID CORMIE: We don't do it that

21 way, Mr. Peters. I -- I -- we only do it because you

22 ask us to do it, to do that calculation. It's not

23 something that we do. We don't go to a generating

24 station and -- and when we speak to the staff, they're

25 going to say, well, how much was -- was -- what was the

1 value of this generating station, and then relate that

2 back to the export market. Because if you -- if you

3 evaluated the value of every generating station at the

4 margin, nobody's left, then, meeting the firm

5 requirements of the power system.

6   MR. BOB PETERS: Then, Mr. Cormie, how

7 does Manitoba Hydro decide whether or not it will make

8 the -- make an export sale out of the opportunity rev -

9 - opportunity energy that it has available?

10   MR. DAVID CORMIE: We look at the total

11 system surplus that's available and we -- regardless of

12 where it's coming from. And then we take that surplus

13 and we take it to market and try and maximize its

14 value. But we don't assign the surplus on any

15 particular day to a specific unit or a generating

16 station.

17   MR. BOB PETERS: You don't put a value

18 on that surplus?

19   MR. DAVID CORMIE: Oh, the surplus is

20 valued at the market. But the question is: Do you

21 assign it back to a particular supply source in -- in

22 the system.

23   MR. BOB PETERS: And to determine

24 whether Manitoba Hydro is covering its costs, what

25 calculation do you do to determine that?

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1   (BRIEF PAUSE)

2

3   MR. DAVID CORMIE: Well, you still look

4 at the value of the surplus, but I'm -- only -- my only

5 -- my only caveat is that you just can't assign that

6 cost back to a specific supply source. The system as a

7 whole is producing the surplus and not of a specific

8 generator.

9   MR. BOB PETERS: And the question that

10 I am trying to get to, Mr. Cormie, is: What's the

11 value of that surplus to Manitoba Hydro, and how is it

12 calculated?

13   MR. DAVID CORMIE: Well, then -- then

14 it's done at -- at the margin, based on market prices

15 for the value of the surplus energy.

16   MR. BOB PETERS: And if Manitoba Hydro

17 knows what the market price is, it has to make a

18 determination whether it's going to sell into that

19 market, correct?

20   MR. DAVID CORMIE: Yes.

21   MR. BOB PETERS: And at that time, to

22 determine whether it wants to sell into that market, it

23 has to understand what it -- its -- the value of its

24 product is before it goes into that market.

25   MR. DAVID CORMIE: Yes. But I could

 1 suggest that 2011/'12 might have been one (1) of the

 2 lowest lows on record, and we would not have had a

 3 surplus, and Manitoba Hydro could be out in the market

 4 purchasing energy. And then we would -- might have

 5 been able to say, Hm, that -- the price for that

 6 purchase power might have been very attractive, and

 7 this would be a non-issue.

 8   So the water supply goes up and down

 9 with the weather, and the -- and to judge whether

10 having a particular resource in the system is a good

11 thing or not shouldn't be done based on spot market

12 prices and spot market costs, because they're highly

13 volatile. When Manitoba Hydro makes a resource

14 decision, it does it assuming all possible flow

15 conditions and looking at the average condition. And

16 we enter into transactions on -- on that basis.

17   THE CHAIRPERSON: I just want to

18 understand the dynamics here, because you -- you know

19 what the marginal costs are. And are you suggesting

20 that you never sell below your marginal costs into the

21 export market?

22   MR. DAVID CORMIE: We never sell below

23 our short-run marginal costs. So if we are to enter

24 into a transaction, we know precisely what are the

25 costs of generating that incremental, or marginal,

1 megawatt hour is, and we know what the revenue is. And

2 -- and we wouldn't enter intrans -- into a transaction

3 if we didn't have an expectation of profit. And -- and

4 I'm speaking about the day-ahead -- the real-time

5 market.

6   THE CHAIRPERSON: Now the constituents

7 of that short-term marginal cost would be -- could you

8 just describe that very briefly for me?

9   MR. DAVID CORMIE: For a hydro unit

10 there -- to the -- the water rental costs, the

11 incremental operating and maintenance cost of the unit

12 adjusted to -- for losses to the border, and that

13 becomes the -- the incremental cost of the -- of the

14 hydro. And to that we add a profit and we will not

15 trade -- we will not sell that unless we're able to

16 achieve a price greater than that.

17   MR. RAYMOND LAFOND: Theoretically, if

18 there's -- are huge water flows and you're spilling,

19 your cost is zero, right?

20   MR. DAVID CORMIE: The -- there is

21 water rental cost if we generate.

22   MR. RAYMOND LAFOND: Fair enough.

23   MR. DAVID CORMIE: And you could argue

24 that it's -- it -- it's a tax to the province, and it's

25 going from one pocket to the other but -- but the

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 1 Utility has a utility cost of the water rentals.

 2   THE CHAIRPERSON: So I'm a supplier in

 3 US and I know what your costs are, I -- I would

 4 probably know pretty quickly what Manitoba Hydro's

 5 costs are based on your bid performance. So all I have

 6 to do is come in a little bit lower and I would capture

 7 what's available there, right?

 8   MR. DAVID CORMIE: Our offer prices are

 9 confidential so no -- no market participant knows what

10 the other prices are. But I -- I don't believe that

11 there's a market participant out there who could not

12 guess what Manitoba Hydro's production costs because

13 our hydro is like all hydro. It's -- it has a very,

14 very low cost.

15   But it's not the low-cost suppliers that

16 is setting the market clearing price; it's the high-

17 cost suppliers. It's the gas turbines and the coal

18 units, the -- the oil-fire generators is -- is --

19 that's creating the -- the market clearing price.

20   And so Manitoba Hydro is well down. And

21 whether we were to charge five dollars ($5) or six

22 dollars ($6) or seven dollars ($7) a megawatt hour as

23 our -- as our offer price probably has no effect on the

24 market clearing price, except that we're -- as long as

25 we're participating we lower the -- the price curve

 1 because we know have our 1,000 or 2,000 megawatts in at

 2 a -- at a price that in all likelihood is well below

 3 the -- the market clearing price.

 4   THE CHAIRPERSON: I guess the notable

 5 exception being the -- the real-time pricing when

 6 you're competing against wind, I guess.

 7   MR. DAVID CORMIE: Yes, and on -- on

 8 those days when -- when we're forecasting that wind

 9 will be setting that price, and it very well could be a

10 negative price, we won't par -- we won't participate in

11 the day-ahead. Why would we pay to sell our energy?

12 We would leave our water in the reservoir storage and

13 use it the next day.

14

15   (BRIEF PAUSE)

16

17 CONTINUED BY MR. BOB PETERS:

18   MR. BOB PETERS: Mr. Cormie, would it

19 be a correct summary of our discussion for the last few

20 minutes that Manitoba Hydro's sales from purchased

21 power in some circumstances will be profitable, and in

22 other circumstances may be unprofitable, but on balance

23 they're either break-even or profitable? Would that be

24 your experience?

25

 1   (BRIEF PAUSE)

 2

 3   MR. DAVID CORMIE: The -- the reason

 4 I'm taking a bit of time, Mr. Peters, is I'm still

 5 dealing with the dependable purchase category of

 6 purchases. If -- if you -- if you were to set those

 7 aside as being the total resource cost in -- in the

 8 vast majority of transactions when we purchase power

 9 for resale it does -- it does take place at a profit,

10 by design.

11   And every day the power traders make

12 thousands of transactions, all following that same

13 process of calculating the cost, adjusting for margin,

14 offering that in, and only if that transaction is --

15 clears the market and comes in at or below the market

16 clearing price. Because we have a defined profit

17 margin, it will be at a profit.

18   THE CHAIRPERSON: Mr. Cormie, you had

19 mentioned on Friday that the figures that we see on

20 contract prices does not include demand charges.

21   Could you give us an idea of the -- of

22 the size of those demand charges? Are they significant

23 or...

24   MR. DAVID CORMIE: It -- it's -- it was

25 only with respect to how the National Energy reports

1 energy prices. Just in the -- when you go to the

2 National Energy Board website and you -- and you look

3 at the revenues associated with the exports, the NEB

4 doesn't consider the demand charge to be part of the --

5 a revenue associated with energy. They recognize

6 that's a capacity cost, and -- and -- and they don't

7 roll that in to the -- to the -- into their price

8 calculation.

9   But for all the reporting that Manitoba

10 Hydro has done in -- in this proceeding and in -- in --

11 in all places, Manitoba Hydro rolls the demand charge

12 into -- for the long-term contracts.

13   THE CHAIRPERSON: So when we're looking

14 at page 91, when we're seeing contract revenues --

15 seeing contract prices of, for example, the '11/'12 of

16 four (4) cents, that encompasses the -- the demand

17 charges that are available under the contract?

18   MR. DAVID CORMIE: These -- these --

19 these are numbers that Mr. Peters has put together.

20   THE CHAIRPERSON: Oh, I see, okay.

21   MR. DAVID CORMIE: These aren't

22 Manitoba Hydro's numbers. So that's why I was saying,

23 "Subject to check." I don't -- I'm not sure where Mr.

24 Peters would get his numbers if they didn't include the

25 demand charge. If they came from Manitoba Hydro data,

1 they would include the demand charges where -- where

2 applicable.

3   MR. RAYMOND LAFOND: The water rental

4 rates, they're based on volume of -- of flows, whether

5 you use it or whether or not you spill or use it?

6   MR. DAVID CORMIE: The water rental

7 rate is based on an arcane formula based on horsepower

8 years. But you can work that through to come up with a

9 cost per megawatt hour of electricity produced at the

10 generating station. So it's not a -- it's not a charge

11 applied to the water; it's a charge that's applied to

12 the -- how much electricity each generating station

13 produces, subject to annual minimum amounts.

14   MR. RAYMOND LAFOND: How much is this

15 per megawatt hour or kilowatt hour?

16   MR. DAVID CORMIE: The current water

17 rental rate, I think, is three dollars and forty-three

18 cents ($3.43) a -- a megawatt hour, approximately.

19

20 CONTINUED BY MR. BOB PETERS:

21   MR. BOB PETERS: One-third (1/3) of one

22 (1) penny per kilowatt hour?

23   MR. DAVID CORMIE: Yes.

24

25   (BRIEF PAUSE)

 1   MR. BOB PETERS: Mr. Cormie --

 2   MR. DAVID CORMIE: Mr. Peters, I just

 3 wanted to correct, it's three dollars and thirty-four

 4 cents ($3.34) rather than three dollars and forty-three

 5 cents ($3.43), so just for the record.

 6   MR. BOB PETERS: So I was very close.

 7 A third of a penny per kilowatt hour.

 8   Mr. Cormie, the one (1) caveat that you

 9 -- you gave me about -- on the table on page 91 was the

10 dependable purchases. I think we established last week

11 that those are heavily weighted towards the wind

12 purchases Manitoba Hydro makes?

13   MR. DAVID CORMIE: Yes.

14   MR. BOB PETERS: And they -- it does

15 not include any purchased energy out of the Wuskwatim

16 Limited -- Wuskwatim Power Limited partnership?

17   MR. DAVID CORMIE: No.

18   MR. BOB PETERS: And Manitoba Hydro has

19 purchase contracts with the wind farms as to the -- to

20 the pricing of the energy it purchases?

21   MR. DAVID CORMIE: That's correct.

22   MR. BOB PETERS: Mr. Cormie, if we

23 could turn to the forecasting of export prices. On

24 page 103 of the book of documents, the last page at Tab

25 10, Manitoba Hydro has indicated to the Board that --

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1 and I think Mr. Warden might have said it this Hearing

2 -- that Manitoba Hydro does not forecast export prices.

3

4   Is that correct?

5   MR. DAVID CORMIE: That -- that -- that

6 was what I had said, Mr. Peters, not Mr. Warden.

7   MR. BOB PETERS: I apologize.

8   MR. DAVID CORMIE: Manitoba Hydro uses

9 expert consultants to provide us with our long-range

10 electricity price forecast. And we hire several of

11 these consulting companies, usually annually, and --

12 and they provide Manitoba Hydro with -- with their

13 advice. And Manitoba Hydro takes those forecasts and -

14 - and determine -- averages them and determines a -- a

15 forecast price that it uses in its -- in its work.

16   In the -- in the short run, in the -- in

17 the first year Manitoba Hydro does put its -- some of

18 its own analysis into that price forecast for the

19 purposes of -- of preparing the IFF.

20   MR. BOB PETERS: How many -- how many

21 forecasts does Manitoba Hydro subscribe to on an annual

22 basis, Mr. Cormie or Mr. Miles?

23   MR. TERRY MILES: That can vary year to

24 year.

25   MR. BOB PETERS: Why does it vary?

1271

1   MR. TERRY MILES: The number of

2 forecasters that -- that we use can depend on just past

3 performance. Or if we are interested in getting

4 additional perspectives than they've had in the past,

5 they might vary. I think we've indicated in the order

6 of five (5) or so is -- is typical.

7   MR. BOB PETERS: Five (5) out of how

8 many possible?

9   MR. TERRY MILES: I don't know how many

10 are possible. I'm assuming that there's many companies

11 that produce forecasts for electricity prices.

12   MR. BOB PETERS: And so Manitoba Hydro

13 tracks the performance of these companies now to

14 determine whether or not they should be invited back to

15 the table for a forecast?

16   MR. TERRY MILES: I don't know if

17 tracking performance is the appropriate way. I think

18 we have spent a lot of time talking to the consultants,

19 understanding how they prepare their projections, the

20 kind of information they use, their understanding of

21 markets or their explanation of those types of things

22 to us. And based on those discussions and, you know,

23 what's happened from -- from year to year, we will

24 decide to include more or less or -- or vary

25 consultants.

 1   We tend to get, I'll say, comfort will

 2 certain consultants. But there is a benefit in

 3 maintaining some consistency from year to year with

 4 consultants instead of varying significantly from year

 5 to year, so you can get an idea of how the consultants

 6 do perform or -- or what type of information they

 7 provide us.

 8   MR. BOB PETERS: And as I understood,

 9 Mr. Cormie, a straight averaging is done based on the

10 number of forecasts that Manitoba Hydro purchases in a

11 given year?

12   MR. TERRY MILES: Currently, we use

13 equal weightings, but it can depend on, again, our

14 discussions with the consultants and the information

15 that the consultants provide to us and whether or not

16 we -- we feel that one consultant should be weighted

17 differently than another. But right now it's equal

18 weighting for the consultants.

19   MR. BOB PETERS: And that's the equal

20 weighting of five (5) consultants now, Mr. Miles, for

21 the materials that are before the Board in this GRA?

22   MR. TERRY MILES: That's correct.

23   MR. BOB PETERS: And Manitoba Hydro

24 uses its judgment, as I understood, Mr. Cormie, in at

25 least the early years of the forecast?

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1   MR. DAVID CORMIE: Yes, Mr. Peters,

2 because the price forecast comes out once a year. And

3 between the time that the forecast is available and the

4 time that the IFF may be used, there can be a lag. And

5 we need to accommodate the differences that occur

6 between what's happening in the market and what the

7 consultant was assuming at the time he made the

8 forecast and in order to bridge the -- the changes that

9 occur in the -- in the short term.

10   So if there's been a -- a -- you know,

11 if the -- if the consultant in November was doing his

12 analysis and then we're preparing the IFF in the -- in

13 the following spring, in the six (6) month period it

14 may not align with the market in the -- in the first --

15 first year anymore. So we have to make that adjustment

16 to have the transition.

17   MR. BOB PETERS: So Manitoba Hydro's

18 adjustment is only for the year 1 of the forecast, or

19 does it slip into year 2?

20   MR. DAVID CORMIE: It can slip into

21 year 2, yeah.

22   MR. BOB PETERS: And these forecasts,

23 Mr. Miles, Mr. Cormie, are -- are kept confidential by

24 Manitoba Hydro?

25   MR. TERRY MILES: They are, yes.

1274

 1   MR. BOB PETERS: That's at the request

 2 of the consultant?

 3   MR. TERRY MILES: There's information

 4 that we use in the forecasts under which we have

 5 agreements with consultants that we are not to share

 6 that information. So there are levels of

 7 confidentiality associated there.

 8   Manitoba Hydro has indicated in -- in

 9 the evidence as also -- keeps these forecasts

10 confidential because they are commercially sensitive

11 and they do provide information related to our economic

12 position or our economic analysis internally, yes.

13   MR. BOB PETERS: Mr. Miles, does

14 Manitoba Hydro see large variations as between the

15 forecasters?

16   MR. TERRY MILES: There can be, yes.

17   MR. BOB PETERS: In those

18 circumstances, again, Manitoba Hydro simply takes the

19 average as opposed to truncating them?

20   MR. TERRY MILES: I think we -- we use

21 a number of consultants and we rely on different

22 consultants, because as we go out in the future,

23 various consultants have their own perspectives on

24 what's happening out in the time with respect to the

25 economy, with respect to low growth, with respect to

1275

1 build out, with respect to what tech -- technologies

2 might be developed. And we don't pass judgement on

3 their perspectives. I think we think it's valuable to

4 get the different perspectives as we all have different

5 perspectives going forward. So we use that range in

6 order -- in order to do that.

7   So going forward, we -- we -- to deal

8 with that, we use a consensus approach. So it's using

9 the average of the consultants' forecasts, yes.

10   MR. BOB PETERS: Mr. Miles, are the

11 names of the consultants used by Manitoba Hydro to be

12 kept confidential?

13

14   (BRIEF PAUSE)

15

16   MR. DAVID CORMIE: Mr. Peters, if we --

17 we're -- we're in the utility business. Many

18 utilities, like Manitoba Hydro, use these same

19 consultants. And if Manitoba Hydro were to make it

20 public which consultants, then it would be easy for a

21 counterparty to then say, Oh, we know what Manitoba

22 Hydro is using. We -- we hire them, too. We can

23 calculate Manitoba Hydro's long-term price forecast

24 based on that information. So we do keep that list of

25 consultant names confidential.

 1   MR. BOB PETERS: Thank you. On page

 2 103 of the book of documents, Mr. Chairman and Board

 3 members, is a -- is a graph. And, Mr. Chairman and

 4 Board members, page 103 of the book of documents makes

 5 it difficult to see the shaded area. And to that end,

 6 I provided a copy this morning in an envelope to each

 7 of the Board members. If they've obtained it, it

 8 contained a shaded copy of page 103. And I thought

 9 that it -- it might just demonstrate a little bit more

10 readily the point.

11   And, Mr. Cormie, through your counsel, I

12 have tried to provide one (1) of those to you this

13 morning. Have you -- have you got that, sir?

14   MR. DAVID CORMIE: Yes, I do. And I

15 can barely see the shade, but it's there.

16   MR. BOB PETERS: Even on the one I

17 handed you this morning?

18   MR. DAVID CORMIE: Yeah. It's -- my --

19 my special glasses on, I can see it.

20   MR. BOB PETERS: All right. Well,

21 thank you for that, sir.

22   What -- that shaded area that is on the

23 -- on the one that's filed in the original filing as

24 well as the one I've attempted to print in colour, it

25 contains Manitoba Hydro's forecast of average unit

1 export rev -- prices. That was -- that was made public

2 by Manitoba Hydro in approximately 2005 at the Clean

3 Environment Commission hearing, is that right?

4   MR. DAVID CORMIE: Yes.

5   MR. BOB PETERS: And at that hearing,

6 Manitoba Hydro established a high forecast, a low

7 forecast, and shaded the area in-between?

8   MR. DAVID CORMIE: Yes.

9   MR. BOB PETERS: Was the high line on

10 the shaded area considered the best-case scenario?

11

12   (BRIEF PAUSE)

13

14   MR. DAVID CORMIE: The -- the range

15 that was shown was the range that the consultants

16 provided us. The best-case scenario would be even

17 higher, Mr. Peters. But that's -- the range that we

18 show isn't -- is -- is the range that the consultants

19 indicated to us. And we -- we do our analysis,

20 checking the sensitivity on the high and the low.

21 Could -- could it be higher than that? I'm sure we

22 could have found other consultants who would have said

23 it was higher than that.

24   MR. BOB PETERS: Did you find any --

25 or, could you find any consultants that say it'd be

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1 lower than that?

2   MR. DAVID CORMIE: Well, I -- I think

3 that's absolutely right. We believe that getting five

4 (5) is -- gives us enough of a range that we can

5 calculate sensitivities, and also to get a reasonable

6 middle-of-the-road forecast.

7   MR. BOB PETERS: The objective is to

8 get a middle-of-the-road forecast, Mr. Cormie?

9   MR. DAVID CORMIE: Well, we -- yeah, we

10 want to know the -- the prices that it's -- it's most

11 likely to be at. Knowing that no forecast is -- is

12 perfect, Mr. Peters, and every day the world changes;

13 and if we actually knew what was going to happen

14 tomorrow, we wouldn't be working here.

15   MR. BOB PETERS: Mr. Cormie, would it

16 be correct to say that on the shaded area on page 103

17 of Board counsel's Exhibit 14, Manitoba Hydro's

18 expected average unit export price would have been

19 somewhere between the high and the low provided by the

20 consultants?

21   MR. DAVID CORMIE: Yes.

22   MR. BOB PETERS: And was that expected

23 value also provided by the -- by the consultants, or

24 was it Manitoba Hydro's judgment that provided that?

25   MR. DAVID CORMIE: We would have

1279

1 calculated the -- the forecast that actually went into

2 the IFF.

3   MR. BOB PETERS: For the purposes of

4 this hearing, are you able to provide the Board with a

5 similar range based on Mr. Miles's last information

6 from consultants?

7

8   (BRIEF PAUSE)

9

10   MR. DAVID CORMIE: Mr. Peters, we will

11 be providing that at the NFAAT.

12   MR. BOB PETERS: Would it be correct,

13 Mr. Cormie, that the export forecast prices at the high

14 end included a carbon tax in the export market?

15   MR. TERRY MILES: I believe that would

16 be the case, yes, that there would be some inclusion of

17 a carbon premium at that time, yes.

18   MR. BOB PETERS: And currently there is

19 no carbon tax in 2012 and '13 envisioned, is there, Mr.

20 Miles?

21   MR. TERRY MILES: I believe that's

22 correct, yes.

23   MR. BOB PETERS: There's noting

24 imminent under US legislation to which Manitoba Hydro's

25 been made aware?

1280

1   MR. TERRY MILES: That's correct.

2   MR. BOB PETERS: And what is Manitoba

3 Hydro's understanding of a carbon tax in the Province

4 of Manitoba?

5

6   (BRIEF PAUSE)

7

8   MR. TERRY MILES: There is currently a

9 tax on coal in the Province of Manitoba.

10   MR. BOB PETERS: When the Board looks

11 at page 103 of the book of documents and sees the

12 forecasts of Manitoba Hydro's IFF09, IFF10-2, and

13 IFF11-2 overlaid on that forecast, would it be correct

14 that Manitoba Hydro's forecasts tend to the higher

15 range of the average forecasts provided?

16

17   (BRIEF PAUSE)

18

19   MR. TERRY MILES: I think the -- just

20 based on the chart, that's what it would appear. I

21 think as the years go by and we go from year to year,

22 the forecasts vary based on the conditions at the -- at

23 the time that's there. But looking at the chart and

24 based on the information from Wuskwatim, comparing it

25 back to that, that could be drawn from this. Yeah.

1   MR. BOB PETERS: And -- go ahead, Mr.

2 Cormie.

3   MR. DAVID CORMIE: Mr. Peters, the --

4 the shaded area was the range that existed at the time

5 of the 2002 hearing. Since that time, Manitoba Hydro's

6 gone through this exercise several times, and there's

7 been -- each time, there's a range. And the range

8 moved up, and now it's -- it -- and -- and -- and it --

9 and prices in the last few years indicated -- would

10 have been around those dotted lines.

11   So the range went up and now it's -- and

12 now the -- the price forecast is coming back down. So

13 you -- it's not that the -- you can't think of the

14 range as being a stagnant number. It changes over time

15 as the -- ss the forecast.

16   So when you look at the price forecast

17 that we have now, you're comparing them to a range that

18 was established seven (7) or eight (8) years ago. But

19 there's a range a -- around each of tho -- those lines,

20 so the -- the red line has a range, the blue line and

21 the green line have a range. And that range is -- is

22 moving. So it's not a constant as you're indicating.

23   So it's -- it -- it's -- the -- the

24 forecast that we've had that you've shown here for the

25 last three IFFs are -- are bumping along the top of the

1 range that existed at Wuskwatim. But that may not be

2 the case associated with the range associated with the

3 red line, for example.

4   MR. BOB PETERS: Where would the -- the

5 dotted line be if -- if IFF12 was plotted on here, Mr.

6 Cormie?

7   MR. TERRY MILES: It would be to the

8 right of the -- the red line, I believe, that's there.

9   MR. BOB PETERS: And, on average, how

10 many cents lower or are you able to -- would it be

11 easier just to -- to sketch it on here and file it as

12 an undertaking.

13   MR. TERRY MILES: That would probably

14 be easier to do, yes.

15   MR. BOB PETERS: All right, then. As

16 an undertaking, we'd ask Manitoba Hydro to update

17 PUB/Manitoba Hydro Second Round Question 14A to include

18 the IFF12 information and, subject to the Corporation's

19 determination, advise as to whether there will also be

20 a -- a new high-low range provided at this time.

21   MR. TERRY MILES: Okay.

22

23 --- UNDERTAKING NO. 23:   Manitoba Hydro to update

24   PUB/Manitoba Hydro Second

25   Round Question 14A to

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 1   include the IFF12

 2   information and, subject to

 3   the Corporation's

 4   determination, advise as to

 5   whether there will also be

 6   a new high-low range

 7   provided at this time

 8

 9   MR. RAYMOND LAFOND: For clarification

10   purposes, I think you just mentioned that -- did I hear

11   correctly that this range was established in 2002?

12   MR. TERRY MILES: At the time of the

13   Wuskwatim hearings, correct.

14   MR. DAVID CORMIE: But there is a

15   range, Mr. Lafond, each year associated with each

16   forecast. And in Manitoba Hydro -- in doing its power

17   resource planning, tests the development sequence under

18   both the low -- the -- the lowest possible prices and

19   the highest possible, as well as the average.

20   MR. RAYMOND LAFOND: But the shaded

21   area indicated there is a shaded area as established in

22   2002?

23   MR. TERRY MILES: That's correct, yes.

24   So, and in -- and in the IFF, when we produce numbers,

25   there is a range of price forecast, low and high. And

1 it's not the same -- exact same type of range as this,

2 but that's the variability that we see in terms of

3 range of numbers in our forecast.

4   THE CHAIRPERSON: I have to confess

5 this is a very discouraging graph. But trending

6 related to the test years, really, it's that orange

7 line that we have to be concerned about.

8   And I guess the behaviour of that line

9 for the test years is what? What's happening with the

10 annual export revenue figures is really what we need to

11 be concerned about here with respect to the test years

12 and probably the next year after that, as well.

13   Could somebody point me to the numbers

14 that would reflect what's happening with '12/'13 and

15 '13/'14?

16   MR. DAVID CORMIE: Mr. Gosselin, we

17 will -- we will put those numbers on this chart as

18 well.

19   THE CHAIRPERSON: I realize that, you

20 know, this is really clear. You're looking back in the

21 rearview mirror at forecasts that relate to a different

22 world before gas became so prevalent in the -- in the

23 electricity-generation picture.

24   So it just, I guess, demonstrates, in my

25 opinion, that Mark Twain didn't quite have it right.

1285

1 He should have said, Lies, damn lies, statistics and

2 forecasts, is probably the last one because -- well,

3 enough said.

4   MR. TERRY MILES: Yes, Mr. Chairman, I

5 would -- Manitoba Hydro's Exhibit number 17, which is

6 an update of a -- of Attachment 5, which shows the

7 averaging of revenues does have -- if you look at the

8 test years '12/'13, '13/'14, I believe, we see that the

9 -- for total export sales -- which is what these

10 numbers are based on, I believe -- show in '12/'13 a

11 price of thirty-one dollars and thirty-six cents

12 ($31.36). In '12/'13/'14, I see thirty-two dollars and

13 sixty-one cents ($32.61). So that was the updated

14 information that we will use to update this chart with.

15   THE CHAIRPERSON: Could you -- could

16 you repeat that again, please.

17   MR. TERRY MILES: Certainly. In

18 '12/'13, thirty-one dollars and thirty-six cents

19 ($31.36); and in '12/'13/'14, it's thirty-two dollars

20 and sixty-one cents ($32.61).

21   THE CHAIRPERSON: And do you have an

22 idea what the -- any -- something to forecast the next

23 year?

24   MR. TERRY MILES: '14/'15 has forty-one

25 dollars and thirty-six cents ($41.36). The following

1 year, 2015/'16, has forty-eight dollars and fourteen

2 cents ($48.14) -- forty-eight dollars and fourteen

3 cents ($48.14).

4   THE CHAIRPERSON: Now, the -- the --

5 the -- the -- the '15/'16 and the '14/'15 numbers, are

6 those from a forecasting service, or are those your own

7 numbers?

8   MR. TERRY MILES: Well, that's the

9 averaging of revenue that is calculated, and the --

10 part of the basis for that will be the consensus

11 electricity price forecast that fits into the -- the

12 modelling, and what comes out are the revenues. So

13 these are our revenue projections, and the averaging of

14 revenues are based on those projections. So the

15 Manitoba Hydro forecast does end up in there, yes.

16

17 CONTINUED BY MR. BOB PETERS:

18   MR. BOB PETERS: And, Mr. Miles, just

19 to clear -- make sure the record is clear, you were

20 looking at Manitoba Hydro Exhibit 17 that the

21 Corporation filed last, week which contained the

22 average revenue assumptions for IFF12?

23   MR. TERRY MILES: That's correct.

24   MR. BOB PETERS: And you were reading

25 to the Board off the total export sales line for the

1 various calendar -- or, fiscal years that you've

2 quoted?

3   MR. TERRY MILES: That's correct.

4

5   (BRIEF PAUSE)

6

7   MR. BOB PETERS: To perhaps make Mr.

8 Rainkie's point yet again, these are output numbers,

9 the average based on what's in the IFF. It wasn't used

10 as an input number?

11   MR. TERRY MILES: That's correct. I

12 was just corrected by the back row, just to make that

13 point clear. But thank you, Mr. Peters.

14   MR. BOB PETERS: Yes. Ms. Flynn would

15 -- would be happy if you did. Thank you.

16   Speaking of IFFs, IFF09 was the IFF used

17 for the basis of the last GRA. Have I got that right?

18   MR. VINCE WARDEN: Yes, Mr. Peters.

19   MR. BOB PETERS: And then IFF10-1 was

20 prepared to reflect the increase in the capital costs

21 back then of Keeyask and Conawapa?

22

23   (BRIEF PAUSE)

24

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

1288

1 estimates for Keeyask and Conawapa changed between

2 IFF09 and IFF10, subject to check, Mr. Peters. But I

3 believe that to be the case.

4   MR. BOB PETERS: Do you recall that

5 IFF10-2 was prepared to update the IFF for the increase

6 in costs -- the capital costs of Bipole 3?

7   MR. VINCE WARDEN: Yes.

8   MR. BOB PETERS: And then IFF11 was

9 prepared in February of 2012 to reflect reduced

10 extraprovincial revenues due to lower export prices?

11   MR. VINCE WARDEN: That is correct.

12 Actually, IFF11-2 that was prepared in February/April

13 time frame reflected the increase in -- in cost for

14 Bipole 3.

15

16   (BRIEF PAUSE)

17

18   MR. BOB PETERS: I'm still on ele --

19 IFF11, Mr. Warden. But I was looking at, as a

20 reference, if it -- if it needs to be checked -- I

21 don't know if it does -- on the Manitoba Hydro

22 application for April 1 of 2012 interim rates, in

23 Appendix 2 in that filing, there was an indication that

24 IFF11 was prepared because of the reduced

25 extraprovincial revenues due to lower export prices.

1 You'd accept that, subject to check, Mr. Warden?

2

3   (BRIEF PAUSE)

4

5   MR. VINCE WARDEN: Mr. Peters, there

6 were -- there were a number of things happening at that

7 particular time. IFF11 would have been our normal

8 update to IFF10, as we do every year. We update the

9 forecast with the -- with the year embedded in the --

10 the labelling.

11   So IF -- there -- there was a timing

12 difference with respect to the presentation of IFF11

13 because of a number of different things that were going

14 on at that time, including IFRS implications and, as

15 you indicated, some change in the forecast for export

16 sales.

17   So the timing was somewhat different

18 than our normal process. And -- and we don't typically

19 take an IFF to -- to our board in -- in the spring of

20 the year, but that was the case of IFF11-2. And that

21 was for purposes of updating the Bipole.

22

23   (BRIEF PAUSE)

24

25   THE CHAIRPERSON: Can I go back to --

1290

1 to the figures that we've discussed for '12/'13 and

2 '13/'14, in terms of average annual unit export

3 revenue? So the -- I'm looking, for example, at

4 Exhibit 17, page 1 of 2, and the -- the average unit

5 for '12/'13 and '14.

6   So given where we are in the current

7 year, is that number close to -- is the actual number

8 for -- for current results close to thirty-one thirty-

9 six (31.36)?

10

11   (BRIEF PAUSE)

12

13   MR. VINCE WARDEN: Yes, Mr. Chairman,

14 the average would be close to what is indicated there.

15   THE CHAIRPERSON: And the thirty-two

16 sixty-one (32.61) number for '13/'14, that is not --

17 that is your own internal number, generated from your

18 approximation of -- your -- your sense of what -- where

19 the market's going to be in the next test year?

20   MR. VINCE WARDEN: Yes. As indicated

21 by Mr. Cormie, we would use the consensus forecast for

22 the long-term prices and make some adjustments for

23 current conditions, yes.

24   THE CHAIRPERSON: Because there's --

25 you know, obviously, a huge difference between '13/'14

1 and '14/'15. So that just reflects the weighting

2 that's given to external forecasts there?

3   MR. VINCE WARDEN: And the impact of

4 long-term firm -- firm contracts at -- at that -- at

5 that stage.

6   THE CHAIRPERSON: Okay.

7

8   (BRIEF PAUSE)

9

10   MR. VINCE WARDEN: Mr. Peters, I may

11 have to correct the record with respect to the -- what

12 was reflected in each of those updates. It might be --

13 might be well for us to just summarize that.

14   It was just pointed out to me that

15 actually ten (10) outlook -- what we referred to as

16 "Outlook 10-2," which was prepared in May of 2011, did

17 include the -- was updated to reflect the revised

18 capital cost estimate for Bipole 3. That went to the

19 Manitoba Hydro Board in June of 2011.

20

21   (BRIEF PAUSE)

22

23   MR. VINCE WARDEN: I'm not sure whether

24 that helps or hinders the discussion, but...

25

 1 CONTINUED BY MR. BOB PETERS:

 2   MR. BOB PETERS: No, it -- it's fine,

 3 it corrects the record. But I -- I now want to, at the

 4 risk of complicating it worse, go back to your last

 5 answer to the Chairman, where the Chairman was looking

 6 at Manitoba Hydro Exhibit 17 and looked at the test

 7 year average total export sales prices and then also

 8 asked you about your fiscal 2014/'15 forecast, which is

 9 showing up as four point one (4.1) cents a kilowatt

10 hour on average.

11   Have you found that, sir?

12   MR. VINCE WARDEN: Yes, I have.

13   MR. BOB PETERS: And in terms of the

14 jump between the previous year and the '14/'15 fiscal

15 year, you had indicated that it would reflect pricing

16 in respect of long-term contracts as one of the factors

17 that may cause it to jump.

18   Is the NSP contract -- it's still in

19 effect then, and the new one comes in the following

20 test year, if I recall. Do I have that right?

21   MR. VINCE WARDEN: Yes, that is

22 correct.

23   MR. BOB PETERS: So the -- the new

24 pricing arrangement with NSP, whatever it is, will be

25 reflected in the 2015/'16 fiscal year?

 1   MR. VINCE WARDEN: Yes.

 2

 3   (BRIEF PAUSE)

 4

 5   MR. VINCE WARDEN: Yes, Mr. Peters, you

 6   are correct that the NSP contract, the extension, would

 7   affect the '15/'16 fiscal year. In '14/'15 though, we

 8   are driven -- the price is driven primarily by the

 9   consensus forecast. We -- we would not have adjusted

10   that price in that fiscal year.

11

12   (BRIEF PAUSE)

13

14   MR. BOB PETERS: Mr. Warden, can we

15   agree that IFF11 was the basis of the April 1, 2012,

16   interim rate increase request to this Board?

17   MR. DARREN RAINKIE: Mr. Peters, yes,

18   that's what we had at the time of filing of that -- of

19   that application.

20   MR. BOB PETERS: And, Mr. Rainkie, that

21   was prepared in February of 2012?

22   MR. DARREN RAINKIE: Yes, the forecast

23   was final -- 11-1 was finalized in February of 2012.

24   MR. BOB PETERS: No, you're ahea -- oh,

25   11-1, yes, IFF11 --

1294

 1   MR. DARREN RAINKIE: Yeah, I -- sorry,

 2 I -- I'll stick with your nomenclature. IFF11 was

 3 finished in -- finalized, I think, and went before our

 4 Board in February of 2012.

 5   MR. BOB PETERS: And that was the

 6 underpinning document to the rate increase request

 7 where Manitoba Hydro was seeking a 3 1/2 percent rate

 8 increase across all -- all classes, Mr. Rainkie?

 9   MR. DARREN RAINKIE: Yes, that was the

10 basis of that interim application, Mr. Peters.

11   MR. BOB PETERS: And to which the Board

12 responded with a -- a 2.0 percent rate increase on an

13 interim basis?

14   MR. DARREN RAINKIE: That's my memory,

15 Mr. Peters.

16   MR. BOB PETERS: And that's your

17 memory, Mr. Rainkie, because it's included in one of

18 the list of items that Manitoba Hydro was asking this

19 Board to finalize in this application, correct?

20   MR. DARREN RAINKIE: That's correct.

21   MR. DAVID CORMIE: Mr. Peters, I just

22 wanted to point out that when you get out to 2014,

23 we're using now average hydraulic generation. If you

24 look in Exhibit 17, you'll notice that hydraulic

25 generation is shown for '14/'15 as 30,838 gigawatt

 1 hours, compared to thirty-two thousand, nine hundred

 2 and four (32,904). Do you see the supply line that

 3 says, "Manitoba Hydro Hydraulic Generation"? It's

 4 about the seventh line down.

 5   So the eff -- the effect -- one of the

 6 effects of having reduced hydraulic generation is that

 7 the average price goes up because the increment -- what

 8 we're seeing now is -- is -- is an averaging down of

 9 prices because additional generation ends up being sold

10 in the off peak, which depresses the market.

11   It depresses the average price, and so

12 when you -- when you go forward and you're now starting

13 to compare -- year-to-year, you're comparing average

14 year to average year. And the -- the -- the first two

15 (2) years are -- are depressed because of the effect of

16 having that extra 2000 gigawatt hours going to market

17 at off-peak prices. And that is one of the factors

18 that leads to that step in the prices shown on that

19 table.

20   MR. BOB PETERS: All right. I have

21 some more questions that I think will -- will assist

22 the Board in understanding that relationship, Mr.

23 Cormie, but I'll summarize my understanding of your

24 answer to the Board is that when you get further out in

25 the forecast, Manitoba Hydro has made an assumption

1296

1 that the hydraulic generation by the Utility will be

2 based on average flows at that point in time and not on

3 what's actually foreseen by the Utility.

4   MR. DAVID CORMIE: Yeah, and we had

5 that discussion last week about the median and the

6 average and the -- and the -- as a -- and then, that

7 show -- that's the -- that's the transition we have

8 here because of the changing water supply assumptions

9 for the first three (3), four (4) years of the

10 forecast.

11   MR. BOB PETERS: And --

12   MR. DAVID CORMIE: It affects the

13 average price calculation.

14   MR. BOB PETERS: -- right. And it's

15 simply a mathematical calculation that you've now

16 reduced the -- the volume of hydraulic generation

17 that's in the forecast to average, and then use that

18 number to get Mr. Rainkie's average at the bottom of

19 the page.

20   MR. DAVID CORMIE: Yeah, and so the

21 extra 2000 gigawatt hours shows up at off-peak export

22 rates which drives down the average unit price for

23 export sales in the first couple of years. Or, if you

24 take it out, the price goes up because of -- of you're

25 going to a standard calculation thereafter.

 1   MR. BOB PETERS: And as we sit here,

 2 you're not sure what the water flow is going to be for

 3 that year.

 4   MR. DAVID CORMIE: No, I -- I don't

 5 know yet.   MR. BOB PETERS: All right. IFF11 was

 6 premised on a median flow for the fiscal year 2013.

 7 Have I that right, Mr. Miles or Mr. Rainkie?

 8   MR. DARREN RAINKIE: That's correct,

 9 Mr. Peters.

10   MR. BOB PETERS: At approximately a

11 month or so after IFF11 was prepared in February of

12 2012, a new IFF is published in April of '12, Mr.

13 Rainkie, and it's called "IFF11-2." Is that

14 nomenclature correct?

15   MR. DARREN RAINKIE: That's correct,

16 Mr. Peters.

17   MR. BOB PETERS: And IFF11-2 was the

18 basis of the June 2012 GRA filing that brings us here

19 today, correct?

20   MR. DARREN RAINKIE: That's also

21 correct, Mr. Peters.

22   MR. BOB PETERS: And IFF11-2, Mr.

23 Rainkie, assumed lower water conditions than in IFF11,

24 or IFF11-1 as we've called it this morning.

25   MR. DARREN RAINKIE: Yes, we shifted

1 from median flows to expected flows at that -- at that

2 point, Mr. Peters.

3   MR. BOB PETERS: IFF11-2 has

4 approximately 3000 gigawatt hours lower hydraulic

5 generation forecast in it than IFF11, Mr. Rainkie and

6 Mr. Miles?

7   MR. TERRY MILES: That's correct.

8   MR. BOB PETERS: And to Mr. Cormie's

9 point, the 3000 gigawatt hours of annual energy, if

10 it's priced at three and a half (3 1/2) cents a

11 kilowatt hour on the export market, it would be

12 expected to raise another $105 million of revenue.

13   MR. TERRY MILES: Given your numbers

14 and calculation, yes.

15   MR. BOB PETERS: Well, and -- and let's

16 be careful. I picked the number three and a half (3

17 1/2) cents a kilowatt hour, but I think Mr. Cormie has

18 told us that on the opportunity market, that 3000

19 gigawatt hours would be closer to three (3) cents than

20 three and a half (3 1/2) cents, in terms of pricing.

21   MR. TERRY MILES: That's correct.

22   MR. BOB PETERS: And if that's the case

23 then there'd be nine (9) -- $90 million of less revenue

24 in IFF11-2 because of the hydraulic generation numbers?

25

1299

1   (BRIEF PAUSE)

2

3   MR. TERRY MILES: I'd suggest based on

4   the math, yes.

5   MR. BOB PETERS: Well, then let's look

6   at the actual water flows for 2012/'13, Mr. Miles. I

7   think at the book of documents, page 108, might be a

8   way to start.

9

10   (BRIEF PAUSE)

11

12   MR. BOB PETERS: On page 108, Mr.

13 Miles, we have the Corporation's second quarter report

14 for the six (6) months that ended on September 30th of

15 2012, sir, or next track from that report?

16   MR. TERRY MILES: I'll take your word

17 for that.

18   MR. DARREN RAINKIE: Mr. Peters, I --

19 this -- this looks familiar. It's -- this is what

20 would be on our website.

21   MR. BOB PETERS: It's got your

22 fingerprints on it, Mr. Rainkie?

23   MR. DARREN RAINKIE: Somewhere in

24 there, yes, Mr. Peters.

25   MR. BOB PETERS: All right. And, Mr.

1300

1 Miles, I'm with you, we'll take it at that, and

2 appreciate from Mr. Rainkie his answer.

3   If we look to the bottom of the page the

4 total system supply statistics show that there's 16,846

5 gigawatt hours have been generated by Manitoba Hydro

6 after six (6) months?

7   MR. DAVID CORMIE: That's correct.

8   MR. BOB PETERS: And this morning, Mr.

9 Cormie, you brought to the Board's attention Manitoba

10 Hydro Exhibit 17, and you and the Chairman were

11 discussing that document specifically. But if we look

12 to that document would it be correct to conclude on the

13 same line item you brought the Board's attention to

14 that for 2012/'13 Manitoba Hydro is expecting 32,904

15 gigawatt hours of hydraulic generation?

16   MR. DAVID CORMIE: That's correct.

17

18   (BRIEF PAUSE)

19

20   MR. BOB PETERS: So the additional

21 revenues that would come from that approximate 3,000

22 gigawatt hours of energy will come as a result of

23 better water flows than had been included in IFF11?

24   MR. DAVID CORMIE: That's correct, yes.

25 Yes, 11-2.

1301

```
 1                    (BRIEF PAUSE)

 2

 3               MR. BOB PETERS:   So, Mr. Rainkie and

 4  Mr. Warden, if Manitoba Hydro had known its water flows

 5  when it prepared IFF11 which underpinned the interim

 6  order from this Board, that IFF would have had at least

 7  $90 million of additional revenues as a result of

 8  additional hydraulic flows, would it not?

 9

10                    (BRIEF PAUSE)

11

12               MR. DAVID CORMIE:   Mr. Peters, you're -

13  - you're referring back to the ninety (90) -- to your

14  calculation of $90 million.  Manitoba Hydro did adjust

15  revenues and costs by having two (2) management

16  adjustments in IFF11-2.

17                    It wasn't $90 million.  It was $60

18  million that we adjusted it.  And it wasn't done by

19  going back and re -- and -- and re-estimating hydraulic

20  generation.  It was done as -- as two (2) line items.

21  And so we did recognize that the -- that conditions

22  were quickly changing and we adjusted IFF2 (sic) on

23  that basis.  But it wasn't 90 million.

24

25                    (BRIEF PAUSE)
```

 1   MR. BOB PETERS: A couple of thoughts,

 2 Mr. Cormie and Mr. Rainkie and Mr. Warden. The

 3 management adjustment of 60 million, was that just on

 4 two (2) line items on IFF11-2?

 5   MR. DAVID CORMIE: Yes, that's right.

 6   MR. BOB PETERS: And which two (2) line

 7 items?

 8   MR. DAVID CORMIE: It would have been

 9 export revenue and power purchase costs.

10   MR. BOB PETERS: Export revenue went up

11 30 million and power purchase went down 30 million?

12

13   (BRIEF PAUSE)

14

15   MR. VINCE WARDEN: Export revenues

16 would have gone up 20 million, power purchases would

17 have gone down 10 million in two (2) successive years.

18

19   (BRIEF PAUSE)

20

21   MR. DAVID CORMIE: Mr. Peters, we want

22 to correct that. It wasn't sixty (60). It was a $50

23 million adjustment. It was an addition of 10 million

24 to revenues in the first year and 20 million in the

25 second year, 2013/'14. And costs were reduced by 10

1303

1 million in both years. Then some of that is a net

2 increase of $50 million in our bottom line.

3   MR. BOB PETERS: And the adjustments

4 you've told us, Mr. Cormie, were for the two (2) test

5 years that are before the Board in this hearing?

6   MR. DAVID CORMIE: That was for eleven

7 (11) -- for '12/'13 and '13/'14.

8   MR. BOB PETERS: Yes, the two (2) test

9 years. Now, you'd agree with me, Mr. Cormie, that those

10 adjustments don't add up to the three thousand (3,000)

11 extra gigawatt hours of energy that you had available,

12 though, do they?

13   MR. DAVID CORMIE: The 3,000 gigawatt

14 hours is only apparent once we got in to preparing

15 IFF12, Mr. Peters, so it was well into the -- into the

16 year when we -- when it -- it's now much clearer that

17 we'll be at thirty-two nine (32.9). And remember, the

18 thirty-two nine (32.9) is still an estimate for the

19 year. It's not a done deal. That number can still

20 vary plus or minus 5 percent. So we won't know that

21 number until we actually get to the end of March.

22   MR. BOB PETERS: Mr. Cormie, I

23 appreciate that response, but the time lapse between

24 IFF11 and IFF11-2 was -- one (1) was done in February,

25 one (1) was done in April of 2012, if I recall the

1304

1 dates.

2   MR. DAVID CORMIE: Yes.

3   MR. BOB PETERS: So there might have

4 been a month or six (6) weeks between the two (2) IFFs?

5   MR. DAVID CORMIE: Correct.

6   MR. BOB PETERS: And the Corporation

7 determined in that interval that there could be as much

8 as three thousand (3,000) additional gigawatt hours of

9 energy?

10

11   (BRIEF PAUSE)

12

13   MR. DAVID CORMIE: Exhibit 17 refers to

14 IFF12, Mr. Peters, which was prepared in the -- which

15 was prepared in the -- in -- in the late summer of

16 2012. So --

17   MR. BOB PETERS: My apologies, sir.

18 Yes, I was -- I was... Just to be clear for the Board,

19 I was back on Tab 8 in the book of documents at page

20 72. The average statistics for the IFF11-2 are

21 provided. And in...

22

23   (BRIEF PAUSE)

24

25   MR. BOB PETERS: And this information,

1 Mr. Cormie, was that for the first test year of your --

2 your fiscal 2013 there'd be 29,300 gigawatt hours of

3 hydraulic energy, correct?

4   MR. DAVID CORMIE: That's correct.

5   MR. BOB PETERS: And then your point is

6 that when it came time to IFF12 those statistics

7 changed, and that's where an approximate additional

8 3,000 gigawatt hours of hydraulic generation became --

9 became evident?

10   MR. DAVID CORMIE: That's correct. And

11 we only updated the generation forecast for the -- for

12 the IFF12 forecast. We -- in 11-2 we just added the

13 incremental revenue and incremental cost reductions

14 that -- it -- it seems like we were moving in the

15 direction of having higher, and we wanted to reflect

16 that in the IFF

17   MR. BOB PETERS: And that's -- yes, and

18 that's the management adjustments in IFF11-2 were --

19 were to reflect that.

20   MR. DAVID CORMIE: That's correct.

21   MR. BOB PETERS: Would you agree that

22 the management adjustments only partially reflected the

23 increased water that is now forecast to be available to

24 the Corporation in the first test year?

25   MR. DAVID CORMIE: Yes. And I --

1 during my direct evidence I went over that chart that

2 showed inflows to the hydro system for the year and

3 last year. And you saw that there were three (3)

4 significant rainfall events during the summer and we --

5 we only see those coming in advance by maybe a week at

6 the most.

7   And so, you know, we weren't aware when

8 we made the initial management adjustment that there

9 was more -- that we ultimately could become -- move --

10 moving into a higher flow year. The initial estimates

11 we were -- we were going to be dry. Then we thought,

12 well, we're probably just going to be near average.

13 And ultimately we became above average. And IFF12

14 shows that ultimately we're going to have about 3,000

15 gigawatt hours above what we would normally expect.

16   MR. BOB PETERS: And that 3,000

17 gigawatt hours, Mr. Cormie, could translate into, you'd

18 expect, $90 million?

19

20   (BRIEF PAUSE)

21

22   MR. DAVID CORMIE: Yeah, we have other

23 -- we have other issues now with our hydraulic

24 generation at Jenpeg biting into that amount, Mr.

25 Peters, so we may not actually get to the thirty-two

1 nine (32.9). Is that the number?

2   We -- we -- you know, we assumed in the

3 fall that our generating fleet would remain intact, and

4 we've now had a subsequent event.

5

6   (BRIEF PAUSE)

7

8   MR. DAVID CORMIE: As of -- I believe

9 as of December the 1st we were on target with the IFF

10 and -- but the IFF assumed the Jenpeg would operate

11 through the winter. We don't have Jenpeg available as

12 planned and so unless we have some other favourable

13 change on the water supply I would expect that we will

14 be below thirty-two nine hundred (32,900) as our

15 hydraulic generation.

16   MR. BOB PETERS: Can you quantify for

17 the Board, Mr. Cormie, the Jenpeg outage impact?

18   MR. DAVID CORMIE: We will -- we will

19 calculate that for you, Mr. Peters.

20   MR. BOB PETERS: So as an undertaking,

21 Manitoba Hydro will quantify the impact of the expected

22 Jenpeg outage on the hydraulic flows for the current

23 test year?

24   MR. DAVID CORMIE: That's correct.

25

1308

1   --- UNDERTAKING NO. 24:   Manitoba Hydro to quantify

2   the impact of the expected

3   Jenpeg outage on the

4   hydraulic flows for the

5   current test year;

6   additionally, Manitoba

7   Hydro to advise the Board

8   as to whether the hydraulic

9   output forecast for the

10   current test year and the

11   next test year are going to

12   be impacted; as well,

13   Manitoba Hydro to include

14   the exports that it has

15   achieved up to December 1,

16   2012

17

18 CONTINUED BY MR. BOB PETERS:

19   MR. BOB PETERS: And can you remind the

20 Board as to what the annual output is from Jenpeg?

21   MR. DAVID CORMIE: I think I indicated

22 it was 900,000 megawatt hours, sir. Just -- just under

23 -- just under a billion kilowatt hours.

24

25   (BRIEF PAUSE)

1309

1   THE CHAIRPERSON: The answer to the

2 question related to Jenpeg again, now will -- will the

3 impact of Jenpeg be reflected in the net income figure,

4 the figures that we using for the test years,

5 particularly this year and next?

6   MR. DAVID CORMIE: We had assumed that

7 Jenpeg would operate normally in the IFF, and so

8 neither the hydraulic generation statistics or the IFF

9 results reflect the cost of the fire.

10   THE CHAIRPERSON: So, in other words,

11 we are looking at lower net income figures for the two

12 (2) test years than what we have seen to date.

13   MR. DAVID CORMIE: Well, Jenpeg is --

14 is going to be one of the factors that would put

15 downward pressure on the results. But in -- as I

16 indicated to Mr. Peters, the water supply is still

17 uncertain.

18   A warm winter could result in more

19 favourable flow conditions, and that could be offset by

20 increases of -- of generation at other stations. So,

21 you know, we're -- it's -- it's very difficult to

22 precisely calculate what the end result will be.

23 Thirty-two nine (32.9), it will be around that, but I -

24 - I -- I can't guarantee that -- that the only change

25 will be the Jenpeg fire.

 1

 2   CONTINUED BY MR. BOB PETERS:

 3   MR. BOB PETERS: I take, Mr. Cormie,

 4   included in your undertaking that we've already put on

 5   the record, you will -- you will advise the Board as to

 6   whether the hydraulic output forecast for the current

 7   test year and, I guess, the next test year are -- are

 8   going to be impacted.

 9   MR. DAVID CORMIE: We'll -- we'll do

10   both. We'll -- we'll calculate the net effect on the

11   IFF12 as a result of the fire. We may not be able to

12   estimate the cost of the damages, but from a -- from a

13   generation and an import/export market activity

14   perspective, we can calculate that.

15   MR. BOB PETERS: What you meant in that

16   answer, Mr. Cormie, is you may not, at this time, know

17   the capital cost to repair the physical damage, but you

18   can do the revenue and hydraulic flow calculations

19   based on what the Corporation is now projecting for

20   Jenpeg?

21   MR. DAVID CORMIE: That's correct.

22   MR. RAYMOND LAFOND: Excuse me. When

23   we refer to capital cost, these will not be

24   capitalized; these would be directly to the expense

25   category?

 1   MR. VINCE WARDEN: Yes, I expect that

 2 will be the case, Mr. Lafond.

 3   MR. RAYMOND LAFOND: Though you tell us

 4 at this time you cannot estimate it, are we talking of

 5 range of 1 to 10 million or 10 to 50 million?

 6   MR. VINCE WARDEN: The initial estimate

 7 was 10 million, of which 5 million would be recoverable

 8 through insurance.

 9   MR. RAYMOND LAFOND: Thank you.

10

11 CONTINUED BY MR. BOB PETERS:

12   MR. BOB PETERS: Mr. Cormie, I hope I'm

13 not pushing too hard on this or too far, but would that

14 undertaking also be able -- would you also be able to

15 include the exports that Manitoba Hydro has achieved to

16 date, in terms of hydraulic generation? Make it to

17 December 1st.

18   MR. DAVID CORMIE: We will re -- we

19 will reflect the actuals up to the 1st of December, Mr.

20 Peters.

21   MR. BOB PETERS: Thank you for that.

22 And Mr. Warden, maybe last question to you in this

23 area.

24   Had IFF11 -- had IFF11 that underpinned

25 the April 1st, 2012, interim rate request by Manitoba

1312

1 Hydro shown an additional $90 million of net income,

2 would Hydro have asked for an April 1st, 2012, interim

3 rate increase?

4

5   (BRIEF PAUSE)

6

7   MR. VINCE WARDEN: The answer would be

8 yes, Mr. Peters. We would have still applied, based on

9 our forecast at that time.

10   MR. BOB PETERS: Even with $90 million

11 of additional net -- net income?

12   MR. VINCE WARDEN: Well, I -- I don't -

13 -

14   MR. BOB PETERS: And that's my number,

15 I appreciate.

16   MR. VINCE WARDEN: -- yes, I don't

17 think the incremental revenue or -- or bottom-line net

18 income would have been $90 million. As Mr. Cormie had

19 explained, we were -- there was already some provision

20 for current water conditions in that -- in that

21 forecast.

22   MR. BOB PETERS: But not in IFF11;

23 there was no provision for -- that -- that provision

24 came in IFF11-2?

25   MR. VINCE WARDEN: There -- there was a

1 similar provision in IFF11, Mr. Peters.

2   MR. BOB PETERS: Can you specifically

3 advise the Board as to what provisions were in IFF11?

4

5   (BRIEF PAUSE)

6

7   MR. VINCE WARDEN: We can do that.

8 Perhaps I'll do that by way of an undertaking. They're

9 -- I just want to make sure we have our years aligned

10 appropriately to -- to answer that question accurately.

11   MR. BOB PETERS: All right. That will

12 be appreciated, Mr. Warden, if you could undertake to

13 advise the Board of what management provisions had been

14 included in IFF11.

15   MR. VINCE WARDEN: Yes, we'll do that.

16   MR. BOB PETERS: Thank you, sir.

17

18 --- UNDERTAKING NO. 25:   Manitoba Hydro to advise

19   the Board of what

20   management provisions had

21   been included in IFF11

22

23 CONTINUED BY MR. BOB PETERS:

24   MR. BOB PETERS: Mr. Cormie, Manitoba

25 Hydro's been exporting into the MISO market since April

1314

1 1st of 2005?

2   MR. DAVID CORMIE: Correct.

3   MR. BOB PETERS: And before that, did

4 Manitoba Hydro export into the predecessor of the --

5 the MISO market?

6   MR. DAVID CORMIE: In 2005 MISO

7 established a centrally operated market. Prior to that

8 I believe it was -- MISO established itself as the

9 independent transmission system operator in 2002. And

10 -- but in 2005 they began the central dispatch of all

11 the generators. So prior to 2005 it was a bilateral

12 market, and participants could take transmission

13 service under the tariff.

14   MR. BOB PETERS: And what you're

15 telling the Board is that prior to the onset of the

16 MISO market central trading opportunities, any sales

17 Manitoba Hydro made had to be bilateral arrangements?

18   MR. DAVID CORMIE: In the US, yes.

19

20   (BRIEF PAUSE)

21

22   MR. BOB PETERS: Mr. Cormie, on page

23 111 of PUB Exhibit 14 is a -- is a map. I'm not sure

24 how visible yours is, sir, but it attempts to depict

25 for the Board the MISO market. And it would be -- the

1315

1 MISO market would be defined by the areas that are

2 shaded in green, sir.

3   Would you agree with that?

4   MR. DAVID CORMIE: I'm assuming what --

5 that's what the diagram indicates. I don't see a date

6 on the chart, so I'm trusting this is accurate, yes.

7   MR. BOB PETERS: And on that point, the

8 Province of Manitoba is not shown in green?

9   MR. DAVID CORMIE: That's correct.

10   MR. BOB PETERS: And is that because

11 Manitoba is not a -- a full member of MISO?

12   MR. DAVID CORMIE: Yes, our

13 relationship with MISO is defined under a coordination

14 agreement, and the coordination has to do with

15 transmission tariffs. And all the entities who are --

16 are in -- in the area shown in green have a -- have a -

17 - have -- are relying on MISO to serve their load and

18 are relying on MISO to dispatch the generation, telling

19 which generators should be operated in the manner that

20 the cost of serving all the load in the MISO footprint

21 is met at least cost.

22   Manitoba Hydro chooses to dispatch and -

23 - its own generation and take responsibility for

24 serving its customers in the most effective and

25 efficient way possible. We don't transfer that

1 responsibility to MISO. However, we do coordinate

2 tariffs, and Manitoba Hydro is a market participant in

3 MISO so -- which means that we can buy and sell in a --

4 in the market as a -- as a market participant.

5   MR. BOB PETERS: Thank you, Mr. Cormie,

6 for that explanation. Does that suggest that if

7 Manitoba Hydro deemed it advisable, Manitoba Hydro

8 could ask the MISO market to also dispatch Manitoba

9 Hydro's generation and serve Manitoba Hydro's load in

10 the way that MISO determined was at least cost.

11   MR. DAVID CORMIE: There are

12 sovereignty issues, Mr. Peters, that prevent Manitoba

13 Hydro from turning the control of its generation --

14 these responsibilities are outlined in our legislation.

15 And for those sovereignty reasons, we are not allowed

16 to do that, what you've suggested.

17   MR. BOB PETERS: And so your

18 relationship with MISO is that of an associate member.

19 Would that be the right description?

20   MR. DAVID CORMIE: Our relationship is

21 defined under contract.

22   MR. BOB PETERS: And that's the

23 coordination agreement?

24   MR. DAVID CORMIE: Yes.

25   MR. BOB PETERS: And that coordination

1 agreement, sir, extends till -- till when?

2   MR. DAVID CORMIE: There's no end date

3 to that, Mr. Peters.

4

5   (BRIEF PAUSE)

6

7   THE CHAIRPERSON: I have just a

8 question in relation to Hydro-Quebec. Is their

9 relationship -- is the nature of the relationship that

10 they have with their buyers in US similar to Manitoba

11 Hydro's?

12   MR. DAVID CORMIE: I believe that

13 Quebec is -- is -- is an independent -- like Manitoba

14 Hydro, is independent from the market. However, they

15 do have a US power marketing subsidiary that operates

16 in -- in the Northeast. Manitoba Hydro doesn't have a

17 subsidiary that transact on its behalf. Our

18 transactions take place at the border, whereas Quebec

19 Hydro sells to their subsidiary and then the subsidiary

20 acts within the -- within the United States.

21

22 CONTINUED BY MR. BOB PETERS:

23   MR. BOB PETERS: Mr. Cormie, from the

24 information found on page 112 of PUB Exhibit 14, would

25 it be correct for the Board to conclude that the MISO

1318

1 market has grown by approximately 35 terawatt hours

2 between 1988 and 2011?

3

4   (BRIEF PAUSE)

5

6   MR. DAVID CORMIE: At which page are

7 you referring to, Mr. Peters?

8   MR. BOB PETERS: I'm on page 112, which

9 is PUB/Manitoba Hydro's Second Round Question 12A. And

10 I -- I just summed up the growth by the various line

11 items that are by year.

12   MR. DAVID CORMIE: You've summed the

13 sources of electricity and -- and you're comparing the

14 total -- the change in the total over time?

15   MR. BOB PETERS: Yes, sir.

16

17   (BRIEF PAUSE)

18

19   MR. DAVID CORMIE: Mr. Peters, you may

20 have calculated correctly, but I -- I can't say that

21 that reflects growth. Utilities -- the footprint size

22 is changing because of different companies becoming

23 members of MISO and then withdrawing. If you look back

24 at your chart, the green chart on the previous page,

25 you see there's quite a few holes in the chart, and

 1 border entities are -- are coming and going.

 2   And the footprint is -- is constantly

 3 being adjusted, so it's hard for me to say yes to your

 4 answer. I think it's -- all I can say is it's changing

 5 over time, and the tendency is it -- for it to grow.

 6 And I think that chart on the previous page where the

 7 blue area shows the next big change that we can expect

 8 is the Entergy states join the MISO footprint.

 9   MR. BOB PETERS: Okay. I'll -- I'll

10 try to remember to come back to that Entergy issue.

11 But when we look at page 112, Mr. Cormie, would the

12 Board be correct in -- when it looks at the -- let's

13 pick natural gas, for example, increasing from 22

14 terawatt hours in 2008 up to 32 terawatt hours in 2011

15 that there be a grown or -- I'm not sure you agreed

16 with the word "growth", but there would be a increase

17 in about 10 terawatt hours of natural gas generation?

18   MR. DAVID CORMIE: Yes, I agree with

19 that.

20   MR. BOB PETERS: And that's -- and that

21 -- and that -- you've seen that in other -- in other

22 reports, or in other understandings? That's not just a

23 matter of the Company's retooling. It's...

24   MR. DAVID CORMIE: No, I think that's a

25 general trend. As the price of natural gas has -- has

1 come down gas is more -- a more economical supply

2 source more often. And you can see the increase in

3 this table of statistics. And that -- that's mainly a

4 price -- a price effect.

5   MR. BOB PETERS: And the Board will

6 also see that when they look at the wind column where

7 it's gone from about 4 terawatt in 2008 up to 29

8 terawatts in 2011?

9   MR. DAVID CORMIE: Yes, that's a much

10 greater change in a percentage basis than we saw in

11 gas.

12   MR. BOB PETERS: And that's just an

13 indication of the renewable resources to which many of

14 the members of MISO are -- are adding to their

15 generation capabilities?

16   MR. DAVID CORMIE: Yes, in response to

17 the renewable portfolio standards that have been

18 established and the subsidies that are available for

19 wind generation in the US there has been a tremendous

20 growth in wind.

21   MR. BOB PETERS: In terms of export --

22 I'm sorry, in terms of imports into the MISO region,

23 Mr. Cormie, from 2008 up to 2011 it appears that there

24 has been -- imports have increased by about 13 terawatt

25 hours, or -- or perhaps 50 percent?

 1   MR. DAVID CORMIE: I see that, yes, Mr.

 2 Peters.

 3   MR. BOB PETERS: That's consistent with

 4 -- is that consistent with your understanding of the

 5 imports into the MISO market, Mr. Cormie?

 6   MR. DAVID CORMIE: I -- I can't speak

 7 to the -- the reason why that's happened, Mr. Peters,

 8 except that there are more companies than Manitoba

 9 Hydro who are selling into the market. Companies like

10 the -- the hydro utilities in -- like in Ontario, and

11 other companies would be exporting into -- into MISO.

12   If my memory serves me correctly there

13 has been quite a bit of additional activity lately from

14 PJM selling into MISO. As the cost of gas has come

15 down that market has become long and MISO is an

16 attractive destination for surpluses from that market.

17 So I take -- I explain that as just other economic

18 power supplies being available to MISO relative to

19 their own fleet.

20   MR. BOB PETERS: And the PJM, that's --

21 that's a supplier that's east of MISO?

22   MR. DAVID CORMIE: Yes.

23   MR. BOB PETERS: And it's selling at --

24 it's selling into the MISO market?

25   MR. DAVID CORMIE: Yeah, it's a cent --

1322

1 centrally dispatched market in the States east of --

2 east of the MISO market.

3   MR. BOB PETERS: When we look on page

4 112, Mr. Cormie, from Manitoba Hydro's involvement with

5 MISO, Manitoba Hydro's physical exports have -- have

6 remained essentially -- essentially flat over the three

7 (3) or four (4) years?

8   MR. DAVID CORMIE: Yes, and that just

9 reflects the continued favourable hydraulic generation

10 conditions we've experienced.

11   MR. BOB PETERS: And it may also

12 reflect Manitoba Hydro being transmission constrained

13 in the years where there's even further available

14 water?

15   MR. DAVID CORMIE: Definitely, I -- I

16 remember back to the summer of 2011 in August. And we

17 had con -- quite a bit of congestion on our interface

18 that resulted in spillage on our system because we

19 could not get all the energy that we had to market.

20   MR. BOB PETERS: Is that a relatively

21 rare occurrence, sir?

22   MR. DAVID CORMIE: Well, we've had nine

23 (9) years in a row, Mr. Peters, where we've had high

24 water. And so in those high-water years, the off-peak

25 market is the place where Manitoba Hydro has to sell

1323

1 that energy.

2   And -- and we -- we -- we will load the

3 tie-lines up to their maximum before we will spill.

4 And if we cannot use firm transmission service and

5 we're using non-firm transmission service, that puts

6 Manitoba Hydro at risk. And -- and we spill because we

7 are using non-firm, and non-firm gets curtailed when it

8 causes congestion in the United States.

9   And for that reason, we've been

10 acquiring as much firm transmission in the United

11 States as possible so that we don't -- when we do have

12 high-water years like this, that we can load the

13 transmission line up to its -- its transfer capability

14 without having to worry about creating congestion in

15 the United States.

16   Transmission capacity for the existing

17 system is -- under high-water conditions is insuff --

18 insufficient. We would like to have more and --

19 because it's very expensive if we have to open the

20 spillways and lose tens of millions of dollars of

21 electricity that could otherwise have been sold.

22   MR. BOB PETERS: Can you briefly

23 explain, then, your transmission rights on peak to the

24 Board, as to how can you -- how do you quantify that?

25   MR. DAVID CORMIE: Well, the rights on

1 peak are the same as the rights off peak, except that

2 during the on-peak hours those rights are being used to

3 deliver power that's been sold under contract.

4   For example, if the contract is for the

5 five (5) by sixteen (16) hours, sixteen (16) hours a

6 day we're delivering energy to our customer as

7 contracted. Then at nighttime, for tho -- for the

8 balance of the eight (8) hours, we're not necessarily

9 entitled to use that same transmission service, which

10 is firm, to sell Manitoba Hydro's surplus energy.

11   And if the contract -- if the -- if the

12 counterparty on the US side doesn't allow Manitoba

13 Hydro to use its tran -- a firm transmission service,

14 Manitoba Hydro then has to use non-firm transmission

15 service. And that's when we're exposed to the risk of

16 curtailments.

17   MR. BOB PETERS: How many megawatts of

18 transmission are you talking, Mr. Cormie?

19

20   (BRIEF PAUSE)

21

22   MR. DAVID CORMIE: I believe that, in

23 ballpark numbers, there's about 1,300 megawatts of

24 network service that is subject to non-use if the -- if

25 the US counterparty deems that we cannot use it because

1325

1 it would be an abuse of network service. That -- that

2 puts 1,300 megawatts of our exports in the off peak at

3 risk.

4   MR. BOB PETERS: Out of a total of how

5 many?

6   MR. DAVID CORMIE: 1,900 megawatts. We

7 own -- we control about six (6) -- just over 600

8 hundred megawatts of -- of -- of transmission rights on

9 US, so --

10   MR. BOB PETERS: I'm not --

11   MR. DAVID CORMIE: -- those 600

12 megawatts are available to us to use on peak and off

13 peak.

14   MR. BOB PETERS: I'm not sure the

15 record's clear, Mr. Cormie, as to -- if we're talking

16 1,900 megawatts of -- of transmission, why a US

17 counterparty would suggest Manitoba Hydro cannot use

18 it.

19   MR. DAVID CORMIE: The transmission

20 service is paid for by the -- it's rate based. It's

21 paid for by the customers. It's -- it's -- intended to

22 provide service to the load.

23   Manitoba Hydro would like to be able to

24 use that same transmission service for merchant trans -

25 - or, for -- for -- for trading activities, to sell

1 spot mark -- into the spot market. And so the benefits

2 from that transaction doesn't necessarily go to load.

3 And so those benefits would go to the sha -- maybe --

4 maybe they would go to the shareholder of the Utility

5 rather than going to the load.

6   So the transmission is being paid for by

7 the customers, but the Utility is -- is purchasing

8 energy from Manitoba Hydro at night. And it -- and

9 it's prohibited from using network service, which is

10 intended for load, for its -- for its trading

11 activities. And so com -- some companies deem that as

12 inappropriate use of network transmission service.

13 Really, it's point-to-point service, and it should be

14 paid for. And -- and the FERC is very conscious of

15 transmission abuse. And so Manitoba Hydro is not

16 entitled to use that unless it's -- it's justified and

17 appropriate.

18   So the customers -- the US costumers

19 allow the firm transmission, the network service, to be

20 used to serve the contract, because that's the resource

21 that the customers have bought and paid for. But

22 they're not allowed to use that network service at

23 night. So we then have to go to the non-firm market

24 and -- and purchase non-firm transmission. And that's

25 subject to cur -- to curtailment.

1327

1   (BRIEF PAUSE)

2

3   MR. BOB PETERS: Mr. Cormie, Manitoba

4 Hydro, though, pays open-access transmission tariffs in

5 the United States of approximately $30 million a year?

6   MR. DAVID CORMIE: Yes, Mr. Peters.

7 That is for the firm point-to-point. But if we only

8 have 600 megawatts of point-to-point and we need two

9 thousand (2,000), that means we're short thirteen

10 hundred (1,300). We need to then use non-firm

11 transmission service. And if our transactions are

12 creating congestion in the MISO footprint, those

13 transactions will be curtailed and we won't be allowed

14 to export. So it's -- it's of paramount importance

15 that we hold firm transmission rights twenty-four (24)

16 hours a day to be able to deal with the surpluses that

17 we have.

18   MR. BOB PETERS: Mr. Chairman, in light

19 of the time, perhaps a morning recess would be

20 appropriate at this time.

21   THE CHAIRPERSON: Let's take ten (10)

22 minutes.

23

24 --- Upon recessing at 10:51 a.m.

25 --- Upon resuming at 11:06 a.m.

1328

1   THE CHAIRPERSON: Board member Lafond

2   has a few questions.

3   MR. RAYMOND LAFOND: Just one (1)

4   question, actually. On page 112 of Tab 11 of the book

5   of documents, on the table at the bottom, we indicate

6   with an asterisk, "Year to July 2012."

7   Is this the calendar year or the fiscal

8   year as used by Manitoba Hydro?

9   MR. TERRY MILES: I believe this is

10 calendar.

11   MR. RAYMOND LAFOND: Thank you.

12

13 CONTINUED BY MR. BOB PETERS:

14   MR. BOB PETERS: Mr. Cormie, from

15 Manitoba Hydro's research, natural gas generation is

16 growing in the MISO market and is forecast to grow by

17 about 5,000 megawatts of capacity between 2007 and

18 2017. Does that...

19   MR. DAVID CORMIE: I'm not familiar

20 with the five thousand (5,000) amount, Mr. Peters, but

21 I would agree -- agree with you that it is -- it is

22 growing, yes.

23   MR. BOB PETERS: And I'm not needing

24 any specific number, but way back on page 97 of the

25 book of documents is some data from Manitoba Hydro's

1329

1 information responses, in terms of forecasted MISO new

2 natural gas as a resource.

3   MR. DAVID CORMIE: Yes.

4   MR. BOB PETERS: And that's where I

5 came up with the five thousand (5,000). It's actually

6 5,318 megawatts of forecast and actual capacity, from

7 '07 to '17.

8   MR. DAVID CORMIE: Yes.

9   MR. BOB PETERS: You'd accept that as -

10 - as correct?

11   MR. DAVID CORMIE: I do.

12   MR. BOB PETERS: And that's reflecting

13 what you told the Board before the morning recess of

14 additional resources being put in as a result of

15 natural gas prices?

16   MR. DAVID CORMIE: Well, it -- and that

17 is one factor. Probably the other factor is that

18 environmental restrictions and -- are -- are causing

19 utilities and -- and aging coal generating stations are

20 -- are causing utilities to choose to shut those

21 facilities down when -- because when they look at the

22 long-term risks to coal and the -- and the risk of

23 having to make further investments in old coal

24 technology, they're choosing natural gas, new natural

25 gas generation, as the alternative.

 1   MR. BOB PETERS: And the natural gas

 2 alternative, Mr. Cormie, is mostly through the

 3 combined-cycle combustion turbines?

 4

 5   (BRIEF PAUSE)

 6

 7   MR. DAVID CORMIE: I think it's both,

 8 Mr. Peters. I don't have the split.

 9   MR. BOB PETERS: For the purposes of

10 approximation, Mr. Cormie, is the combined-cycle

11 combustion turbine about twice as efficient as a

12 single-cycle combustion turbine?

13   MR. DAVID CORMIE: Not twice. I

14 understand that the combined-cycle combustion turbine

15 has a heat rate around seven thousand (7,000), whereas

16 the simple cycle would be at ten thousand (10,000), so

17 a third (1/3) more efficient.

18   MR. BOB PETERS: Maybe you can explain

19 to the Board the -- the calculation of the relationship

20 between the gas price to the electricity generated from

21 -- from each of single cycle and a combined cycle?

22   MR. DAVID CORMIE: Yes, and it's --

23 it's actually quite simple. For -- you know, for

24 example, our combustion turbines at Brandon have a heat

25 rate of -- just the -- the number of thirteen (13). So

1331

1 you take thirteen (13) as the heat rate on the unit,

2 multiply it by the price of gas; if the price of gas

3 was five dollars ($5), then thirteen (13) times five

4 (5) is sixty-five dollars ($65) a megawatt hour for the

5 energy.

6   And if we had combustion turbines that

7 had a heat rate of seven (7) instead of thirteen (13),

8 then it would be five (5) times seven (7), or thirty-

9 five dollars ($35). So you're talking about the cost

10 of fuel to produce a megawatt hour of thirty-five (35)

11 versus sixty-five dollars ($65).

12   MR. BOB PETERS: And how is the heat

13 rate determined on these turbines?

14   MR. DAVID CORMIE: Well, the -- the

15 heat rate is determined through the design of the

16 turbine. But in a combined-cycle combustion turbine,

17 the heat is used twice. So they use -- there's

18 actually two (2) turbines, so the -- the gas is burnt.

19 It generates power in one (1) -- in one (1) -- through

20 one (1) turbine, and then the waste heat from that

21 turbine is then recycled. It -- it -- there's more gas

22 added, and it's recycled again. So there's a -- you --

23 you have more -- there's more equipment there to

24 capture the energy that's available from burning the

25 gas.

 1   So they are significantly more

 2 efficient, but they are significantly more expensive.

 3 So although you save a little bit on the cost of fuel

 4 you spend a lot more on interest and depreciation and

 5 facilities to have a combined-cycle turbine installed.

 6   MR. BOB PETERS: Manitoba Hydro's two

 7 (2) gas turbines in Brandon are the -- the single

 8 cycle?

 9   MR. DAVID CORMIE: Simple cycle, yes.

10   MR. BOB PETERS: I'm sorry, simple

11 cycle is the correct nomenclature. At the time

12 Manitoba Hydro procured those, was the decision made to

13 obtain the simple cycle as opposed to the combined

14 cycle for economic reasons?

15   MR. DAVID CORMIE: Yes, the role of

16 combustion turbines at Brandon is a backup role. They

17 -- they are used rarely. And it's only when a

18 generating unit runs long enough that the efficiency

19 savings justify the expenditure of the additional

20 capital necessary to -- for a combined cycle.

21   So we -- we determined the -- that we

22 wanted a backup unit, one (1) that would run rarely,

23 only in emergencies. And therefore, the benefits of

24 having the efficiencies didn't justify the additional

25 carrying costs of having -- having a more complex

1333

1 machine and expensive machine there.

2   MR. BOB PETERS: Is the heat rating for

3 the Brandon simple-cycle combustion turbines a matter

4 you can put on the public record?

5   MR. DAVID CORMIE: It -- yes, it is.

6 It's about twelve (12). But it -- it varies, depending

7 on what the loading is, and it can be as high as a

8 hundred (100). So the multiplier is a hundred (100) at

9 very low loadings. So if we're running at -- at -- at

10 4 megawatts out of the hundred and sixty (160), we're

11 using a huge amount of gas on a relative basis. So

12 very inefficient at low loadings and about twelve (12),

13 twelve and a half (12 1/2), at -- at most-efficient

14 loading.

15   And then on top of that, you have the

16 cost of starting and stopping the units. And you have

17 the cost of buying transmission service to bring the

18 gas to the generating station. And there's a -- a few

19 other costs that get included when you determine what

20 the margin or the incremental costs of producing power

21 there is.

22   MR. BOB PETERS: When you talk about

23 the costs of startup, is that just labour cost?

24   MR. DAVID CORMIE: No, every hour that

25 you run -- every time that you start it, there's a --

 1 an equivalent cost calculated, and that means there's

 2 more maintenance required. So if you run it, you're

 3 then committing yourself to doing -- getting a tune-up

 4 sooner.

 5   So, it -- it's about ten thousand

 6 dollars ($10,000) to start the combustion turbines, and

 7 that's a fixed cost. Every time you choose to start

 8 it, you're committing to spending ten thousand dollars

 9 ($10,000), plus whatever the fuel costs are.

10   So that's why rarely do our combustion

11 turbines get dispatched into the MISO market, because

12 when we price it, we assume that they're going to start

13 it and an hour later they're going to stop it. And we

14 have to recover that ten thousand dollars ($10,000)

15 over that hour of sales. So rarely do they become a --

16 a unit that's economic.

17   MR. BOB PETERS: You mentioned capital

18 costs to the Board, Mr. Cormie. And what is the

19 approximate capital cost of a -- a, say, 250 megawatt

20 single -- simple cycle compared to a 250 megawatt

21 combined-cycle gas turbine?

22   MR. DAVID CORMIE: Can we get that

23 number for you, Mr. Peters? I don't have the number at

24 hand.

25   MR. BOB PETERS: Certainly. Manitoba

1335

1 Hydro will undertake to advise the Board on the

2 approximate capital costs of a 250 megawatt combined-

3 cycle combustion turbine combined to the capital costs

4 of a 250 megawatt simple-cycle combustion turbine.

5   That's acceptable, Mr. Cormie?

6   MR. DAVID CORMIE: Yes.

7   MR. BOB PETERS: Thank you.

8

9 --- UNDERTAKING NO. 26:   Manitoba Hydro to advise

10   the Board on the

11   approximate capital costs

12   of a 250 megawatt combined-

13   cycle combustion turbine

14   combined to the capital

15   costs of a 250 megawatt

16   simple-cycle combustion

17   turbine, as well as advise

18   the Board as to how

19   scalable those prices are,

20   in terms of up-sizing the

21   turbine in terms of

22   relative costs

23

24 CONTINUED BY MR. BOB PETERS:

25   MR. BOB PETERS: Mr. Cormie, a follow-

1336

1 up on that undertaking. If -- if -- see if you can

2 accept this as part of that same undertaking, is to

3 advise the Board as to how scalable those prices are,

4 in terms of up-sizing the turbine in terms of relative

5 costs.

6   MR. DAVID CORMIE: Yes, we'll do that,

7 Mr. Peters.

8   MR. BOB PETERS: Thank you, Mr. Cormie.

9 I'll just give you a minute.

10

11   (BRIEF PAUSE)

12

13   THE CHAIRPERSON: I have a question in

14 relation to the use of the Brandon unit. So, for

15 example, when we were -- when you gave as an example

16 the cold night that we had where you were generating

17 forty-four hundred (4,400) units of power, the -- those

18 Brandon plants were in use at that time, were they?

19   MR. DAVID CORMIE: I don't believe

20 Brandon was on at the time, because we could avoid

21 spending the ten thousand dollars ($10,000) to start

22 the unit by buying electricity in the -- in the United

23 States rather than running them.

24   They would be run though if there was a

25 -- an electrical problem in the area. We would spend

1337

 1 the money necessary to keep reliable supply to Brandon.

 2 But if it was just for energy, we would go to the

 3 market to buy the energy to avoid those startup costs.

 4

 5 CONTINUED BY MR. BOB PETERS:

 6   MR. BOB PETERS: Mr. Cormie, do you

 7 need a minute -- a minute further?

 8   MR. DAVID CORMIE: No, go ahead.

 9   MR. BOB PETERS: Mr. Cormie, I wanted

10 you to explain to the Board back in Tab 8, page 72 of

11 the book of documents where we have the average price

12 calculations for IFF11-2, that if the Board turns to

13 page 72 of PUB Exhibit 14, and one (1) line below the

14 Manitoba hydraulic generation, Manitoba Hydro also

15 provides some thermal generation volumes, correct?

16   MR. DAVID CORMIE: Yes.

17   MR. BOB PETERS: But when the Board

18 goes to the bottom of the page, the second line from

19 the very bottom of Tab 8, page 72, it appears that the

20 thermal generation costs in -- let's pick 2011/'12

21 actual, were a hundred and twenty-one dollars ($121) a

22 megawatt hour?

23   MR. DAVID CORMIE: Yes.

24   MR. BOB PETERS: Or twelve (12) cents a

25 kilowatt hour?

1338

 1   MR. DAVID CORMIE: Yes.

 2   MR. BOB PETERS: That appears to be

 3 considerably higher than at other times. Is there an

 4 explanation for that?

 5

 6   (BRIEF PAUSE)

 7

 8   MR. DAVID CORMIE: So that -- that

 9 reflects that the thermal generation is -- is very low.

10 And you can see since that table began in 2007, thermal

11 generation was up 457 gigawatt hours in -- now for --

12 the actual in 2011/'12, down to 77 gigawatt hours.

13   Over that period of time the average

14 cost of the thermal has gone from thirty-three dollars

15 ($33) up to a hundred and twenty-one dollars ($121).

16 And we're just -- and where do the -- where's the costs

17 here? We're amortizing the cost of $15 million in 2007

18 and '08. And by the time we get to '11/'12, we're --

19 it's down to 9 million.

20   So we're spending approximately $6

21 million less in order to meet the thermal requirements.

22 And that's resulting in unit prices going up to the

23 hundred and twenty-one dollar ($121) amount.

24

25   (BRIEF PAUSE)

1339

 1   MR. BOB PETERS: Does that reflect the

 2 startup for the low generating capacity needed, low

 3 load factor, or low load on the -- on the unit?

 4   MR. DAVID CORMIE: The startup costs, I

 5 don't believe, show up in this calculation, because

 6 they end up being a deferred maintenance cost. So

 7 they'll show up in -- in the -- in another area of the

 8 -- of the accounts here. And I'm not sure where those

 9 startup costs are actually shown.

10   MR. BOB PETERS: So this is simply the

11 fuel costs divided by the output?

12   MR. DAVID CORMIE: Yes.

13   MR. BOB PETERS: Doesn't that strike

14 you as -- as high?

15   MR. DAVID CORMIE: Oh, absolutely.

16 That's why we don't run them very often.

17   MR. BOB PETERS: But it's not as high

18 as it is in the other years, even going forward, it's

19 forecast?

20   MR. DAVID CORMIE: Well, as -- as we go

21 forward, what -- what Mr. Miles does in his estimate,

22 he does -- when -- when he's running the -- when he's

23 operating the coal he's running at a base load, so

24 there's lots of -- there's lots of megawatt hours to

25 amortize the fixed costs over and the efficiencies are

1340

1 -- are quite good.

2   But when you're operating very

3 infrequently for training, and you're starting and

4 stopping, efficiencies aren't very high, and it results

5 in a very high unit price for the electricity.

6   But remember, we're not dispatching

7 these units for economics; we're starting and stopping

8 them to meet reliability or training requirements. And

9 in the actual amounts of -- amounts -- the actual cost,

10 in dollar terms, are going down. So instead of

11 spending 15 million in the -- in the first year of that

12 table, we're down to 9 million.

13   So on a unit basis it's got a -- it's

14 become expensive, but we're actually meeting our

15 requirements at less overall cost to -- to the Company.

16   MR. BOB PETERS: Mr. Cormie, would it

17 be correct for the Board to understand that, from what

18 they see here and you've explained, that natural gas

19 will be a competitive fuel source for electricity and a

20 competitive source as against Manitoba Hydro's water

21 source?

22   MR. DAVID CORMIE: Could you ask that

23 again, Mr. Peters?

24   MR. BOB PETERS: Yes. Gas-generated

25 electricity will be a competitor for Manitoba Hydro on

1 the export market for many years to come?

2

3   (BRIEF PAUSE)

4

5   MR. DAVID CORMIE: I think, Mr. Peters,

6 it's fair to say that natural gas will be the preferred

7 source of new supply in the United States. And it will

8 set, in most cases, the marginal cost or the -- the

9 market prices. And that -- and that will be the price

10 that will establish the value that Manitoba Hydro has

11 for prime -- primarily it's on-peak generation. Off-

12 peak generation will be valued at -- generally at -- at

13 -- either at wind or at -- at coal, depending on how

14 much coal remains in the future.

15   And -- and it's all dependent on -- on

16 what the price of natural gas does out into the future.

17 We know it's very low right now. What is the price of

18 natural gas going to be in ten (10), fifteen (15),

19 twenty (20) years? It's un -- we just don't know what

20 that is going to be. We have the estimates of five (5)

21 forecasters, and we're using the average of those

22 estimates to determine the value.

23   MR. BOB PETERS: What Manitoba Hydro

24 does know is that in MISO gas competition is increasing

25 because of the additional resources being brought on?

 1   MR. DAVID CORMIE: There's more gas

 2 being built because they really don't have a lot of

 3 alternatives, Mr. Peter.

 4   MR. BOB PETERS: Would it also be fair

 5 to conclude, Mr. Cormie, that Manitoba Hydro's

 6 opportunity prices will have to be lower than gas-

 7 generated electricity?

 8

 9   (BRIEF PAUSE)

10

11   MR. DAVID CORMIE: No, that's -- that's

12 not clear to me. There is a huge risk in the future

13 that there will be carbon regulation, and gas will --

14 the cost of the actual gas will -- could only be --

15 might only be a minor part of the cost of producing

16 electricity from natural gas.

17   And for that reason our long-term export

18 customers continue to see Manitoba Hydro as an

19 attractive alternative to building natural gas

20 generating stations. And when they price in the risk

21 of natural gas and the -- and the risk of carbon

22 pricing in the future they find that Manitoba Hydro's

23 prices are attractive.

24   But when we actually get to producing

25 surplus electricity off our system, as we do now, we're

1343

1 exposed to the cost of -- of competing sources,

2 whatever they are at that time. But there's no guaran

3 -- there's no certainty that natural gas is going to

4 stay low like it is today.

5   Our experts who provide us long-term

6 advice -- direction they say there will be real cost

7 increase. And -- and it's a matter of time.

8   MR. BOB PETERS: Can you provide the

9 correlation to the Board, Mr. Cormie, of what a carbon

10 tax of say thirty dollars ($30) a tonne on natural --

11 on natural-gas-generated electricity, what that would

12 do to the -- the cost of generation?

13

14   (BRIEF PAUSE)

15

16   MR. DAVID CORMIE: It's about twenty

17 dollars ($20) a megawatt hour for a thirty dollar ($30)

18 a tonne carbon adder.

19   MR. BOB PETERS: That's for gas? Well,

20 I suppose it'll be for -- for any source.

21   MR. DAVID CORMIE: That's for a

22 combined-cycle combustion turbine.

23   MR. BOB PETERS: And what if it was one

24 of the coal plants, Mr. Cormie?

25   MR. DAVID CORMIE: I'm sorry, Mr.

1 Peters, that was on average. For a coal plant there's

2 1 tonne of carbon for every tonne of -- of coal, so

3 it's a 1:1 ratio.

4   MR. BOB PETERS: But in terms of

5 driving up the megawatt -- the -- the price per

6 kilowatt hour?

7   MR. DAVID CORMIE: Well, a thirty

8 dollar ($30) a tonne would result in a thirty dollar

9 ($30) megawatt hour.

10   MR. BOB PETERS: All right. Sorry, I -

11 - I got your point, three (3) --

12   MR. DAVID CORMIE: Right.

13   MR. BOB PETERS: -- three (3) cents a

14 kilowatt hour --

15   MR. DAVID CORMIE: Yeah.

16   MR. BOB PETERS: -- increase on that,

17 yeah.

18   MR. DAVID CORMIE: So in the -- in the

19 -- in the long run, the cost of producing electricity

20 from combustion turbines is the cost of the gas and the

21 cost of the transport and the cost of the carbon and --

22 and all the fixed costs associated with the facility.

23   And th -- those are unknown what they're

24 -- what they're going to be twenty (20) years from now.

25

1345

 1   MR. BOB PETERS: All right, the -- the

 2 carbon cost of thirty dollars ($30) -- a -- a tax of

 3 thirty dollars ($30) a tonne, what does that do for the

 4 -- for the natural-gas-generated electricity? I didn't

 5 -- I think you gave me an average price.

 6   MR. DAVID CORMIE: Well, it's about a

 7 multiplier of point six (.6) to point seven (.7), Mr.

 8 Peters, so -- on average. So thirty dollars ($30)

 9 times point seven (.7) is around a twenty dollar ($20)

10 megawatt hour adder for the cost of carbon.

11   MR. BOB PETERS: On a gas plant?

12   MR. DAVID CORMIE: For an average gas

13 plant, yeah.

14   MR. BOB PETERS: Oh, okay. Thank you,

15 sir. Perhaps, Mr. Cormie, we can review page 118 and

16 119 with the Board in the book of documents.

17   You've -- you've already indicated to

18 the Board that in terms of the MISO market prices,

19 Manitoba Hydro has to either bid into the day-ahead

20 market or sell real-time when a certain fuel is setting

21 the price.

22   Would that be correct?

23   MR. DAVID CORMIE: That's correct. We

24 always bidding -- we're always offering our energy into

25 the market at our -- at our cost, and -- and we're

 1 competing with all the other generators to see who is

 2 in merit at that time.

 3   MR. BOB PETERS: All right. And on

 4 page 119 of the book of documents, to determine who is

 5 in merit, that means whose -- whose energy is being

 6 directed to the market that the market will buy. And

 7 it will -- it will either be from -- from coal or

 8 natural gas or some other source that would be the --

 9 at the margin on those days.

10   MR. DAVID CORMIE: Yes.

11   MR. BOB PETERS: Can the Board conclude

12 from the chart on page 119 that coal predominantly sets

13 the price most of the time, coal being the -- the

14 burgundy colour on the bottom bar chart.

15   MR. DAVID CORMIE: Yes, that's what

16 that chart indicates for the years 2010 and 2011.

17   MR. BOB PETERS: And if the -- if we go

18 to the top part of the chart to connect the dots, so to

19 speak, Mr. Cormie, it appears that the coal price that

20 is setting the price is around the two (2) cents a

21 kilowatt hour, twenty dollars ($20) per megawatt hour?

22   MR. DAVID CORMIE: Yes.

23   MR. BOB PETERS: And that would be

24 predominantly the off peak, would it, sir?

25

 1   (BRIEF PAUSE)

 2

 3   MR. DAVID CORMIE: I'm not sure that's

 4 clear from this chart, Mr. Peters.

 5   MR. BOB PETERS: Would that be Manitoba

 6 Hydro's understanding or expectation?

 7   MR. DAVID CORMIE: Yes.

 8   MR. BOB PETERS: And Mr. Cormie, the

 9 Board will note in the bottom right-hand corner, I

10 guess in the latter months of 2011, that wind is coming

11 onto the scene to start to set the -- set the market

12 price.

13   MR. DAVID CORMIE: Yes.

14   MR. BOB PETERS: And that -- that,

15 again, is likely to be off peak, would it, sir?

16

17   (BRIEF PAUSE)

18

19   MR. DAVID CORMIE: I'm not sure this

20 report says that, but I -- that wouldn't surprise me,

21 Mr. Peters.

22   MR. BOB PETERS: And does that include

23 wind coming in at negative prices, sir?

24   MR. DAVID CORMIE: Oh, yes.

25   MR. BOB PETERS: Your answer suggests

1348

1 that's a -- that's common?

2   MR. DAVID CORMIE: Yes. Wind -- wind

3 generally blows stronger at nighttime. There's not a

4 lot of electrical demand at night. And so the wind

5 regions are -- are long electricity. They have no

6 load, and they're trying to export it into -- into

7 areas that could -- could use it. That overloads the

8 transmission system, causes congestion, drives the

9 price of electricity down, sending to the -- sending a

10 price signal to the other generators in the region, We

11 have an oversupply. And if you actually want to

12 generate, you're going to pay to generate. So negative

13 pricing is a signal that there's an oversupply.

14   And Manitoba Hydro takes advantage of

15 those situations by stopping its exports and getting

16 paid to buy power. And so this is something we're

17 quite familiar with that's a way of using the storage

18 in our hydro system to make more money for Manitoba

19 customers.

20   MR. BOB PETERS: Mr. Cormie, you've

21 indicated that -- on a couple of occasions that gas

22 also sets the market price. Would that be -- would you

23 go so far as to say about a -- a third (1/3) of the

24 time, predominantly in the peak times?

25

1349

1   (BRIEF PAUSE)

2

3   MR. DAVID CORMIE: Again, I -- I don't

4   know where you're getting the third (1/3) number from,

5   Mr. Peters, but I -- that -- that doesn't surprise me,

6   and I'll agree to proceed on that basis.

7

8   (BRIEF PAUSE)

9

10   MR. BOB PETERS: Mr. Cormie, at the

11 last general rate application from Manitoba Hydro, ICF

12 provided a forecast of its natural gas prices to the

13 Board?

14   MR. DAVID CORMIE: Yes, I remember

15 that.

16   MR. BOB PETERS: And I believe it's on

17 page 128 of the book of documents.

18   MR. DAVID CORMIE: Yes, I see that.

19   MR. BOB PETERS: And at that point in

20 time, what ICF did is it -- it provided its forecast in

21 the middle column on page 128 at Tab 11, and then it

22 also provided an update in the right-hand column,

23 correct?

24   MR. DAVID CORMIE: No. The -- the two

25 (2) columns are the same. One (1) is nominal dollars,

1350

1 which are in dollars of the years shown, and one (1) is

2 in -- in constant dollars to 2010 dollars. So what

3 that forecast shows, 2011, of four dollars ($4) per

4 MMBTU, showing real escalation up to six dollars and

5 ninety cents ($6.90) by the time you get out to 2035.

6   In nominal dollars, which are the

7 numbers that Manitoba Hydro uses in its forecast, it's

8 going from four dollars ($4) in 2011 to twelve point

9 nine (12.9). So that's the difference between nominal

10 and constant dollars.

11   So in 2035, you could take that -- make

12 it thirteen dollars ($13), and you can multiply it by

13 your heat rate of, let's say, seven (7). So that

14 becomes seven (7) times thirteen (31) is ninety-one

15 dollars ($91) a megawatt hour in nominal 2035 dollars.

16   MR. BOB PETERS: Thank you, Mr. Cormie.

17 On the next page, on page 129, ICF also provided a

18 forecast to the Board, but related to the Centra side

19 of Hydro's business. And you're aware of that, sir?

20   MR. DAVID CORMIE: I see the -- the

21 attachment, yes.

22   MR. BOB PETERS: And have you -- and

23 this is an updated forecast from what was provided

24 previously?

25   MR. DAVID CORMIE: Yes. But again,

 1 this is in real 2010 or 2011 dollars, Mr. Peters. This

 2 is not in nominal dollars.

 3

 4   (BRIEF PAUSE)

 5

 6   MR. BOB PETERS: Is this the latest

 7 information that Manitoba Hydro has been able to put on

 8 the public record in respect of its forecasts of

 9 natural gas prices, sir?

10   MR. DAVID CORMIE: I -- I believe this

11 is the latest, yes.

12   MR. BOB PETERS: And likewise, in terms

13 of the carbon forecasting -- carbon consequences, on

14 page 130 of the book of documents there's a forecast

15 also provided by ICF International.

16   And this was -- this was also provided,

17 I believe, at the last general rate application, sir?

18   MR. DAVID CORMIE: Yes, I agree.

19

20   (BRIEF PAUSE)

21

22   MR. BOB PETERS: The ICF forecast maybe

23 just exemplifies the point I think you've made to the

24 Board, Mr. Cormie, that what forecast used to be for --

25 for a carbon emission penalty was thought to perhaps be

1352

1 coming into existence as early as 2015, but now that's

2 been pushed off, perhaps as late as 2018.

3   Would that be correct?

4   MR. DAVID CORMIE: Yes, that's ICF's

5 view. There are others who think it might be earlier,

6 others who think it's later. But I think the general

7 consensus is that it's -- it will be -- it will be

8 later now; not if, just when.

9   MR. BOB PETERS: And how much later?

10   MR. DAVID CORMIE: I'm -- I don't know

11 the answer to that, Mr. Peters.

12   MR. BOB PETERS: And in addition to the

13 forecast indicating that a carbon tax regime will come

14 later, it's also forecast, at least by ICF, that the

15 tax will not be as high as -- as previously perhaps

16 thought?

17   MR. DAVID CORMIE: Yes. In ICF's view,

18 yes.

19   MR. BOB PETERS: Does Manitoba Hydro

20 get more than one (1) forecast of CO2 emissions

21 pricing?

22   MR. DAVID CORMIE: Yes. Each of our

23 consultants has a view of how regulatory and political

24 developments will unfold over time and they embed those

25 views into their forecasts, and ICF having -- having

1 one (1) of five (5) views.

2   MR. BOB PETERS: Are you at liberty,

3 Mr. Cormie, to indicate if Manitoba Hydro shares the

4 views put forward publicly by ICF?

5

6   (BRIEF PAUSE)

7

8   MR. DAVID CORMIE: You know, Mr.

9 Peters, we -- we -- we're -- we're not advocating any

10 of the results -- any of the opinions of our

11 consultants. We give them equal weight and -- and let

12 the outcome fall where it may. We -- we're not having

13 a bias. We think that by going to these independent

14 consultants, they have -- they have no -- you know,

15 we're -- they're being paid for their advice, and

16 Manitoba Hydro takes it. They have no -- there's no

17 stakes in the game for them.

18   MR. BOB PETERS: I -- I appreciate the

19 answer. Would it be -- would -- would you be able to

20 indicate whether ICF is middle of the pack, or are they

21 at the at the high end, the low end, or some other

22 general description, without providing specifics?

23   MR. DAVID CORMIE: I'm not aware of

24 where ICF lands and I'm -- no, I -- I don't know where

25 they -- where they are within the -- the set of

 1 forecasts that we have.

 2   THE CHAIRPERSON: To what extent would

 3 I -- would a spike in gas prices influence your

 4 financial results over the next couple of years? You

 5 know, for example, we had a spike -- you know, it was a

 6 cold winter and there was a spike in gas prices.

 7   Would that have a measurable impact on

 8 your financial results over those -- during that

 9 period?

10   MR. DAVID CORMIE: Price -- price

11 spikes have an effect on -- on how much hedging our

12 customers do in the forward markets, which tends to

13 drive up -- drive up prices. And since the natural gas

14 price came off, we haven't nearly seen the amount of

15 forward contracting, because they want to -- they want

16 to lock in fixed price power. And to the extent that

17 there -- volatility reappears, they see that as

18 creating instability for their own customers, and

19 they'll want to hedge that away.

20   And so during the periods of very high

21 natural gas prices six (6), seven (7) years ago -- and

22 I think we looked at some of those contract prices

23 relative to where spot prices actually landed -- we

24 were averaging, let's say, seventy dollars ($70) a

25 megawatt hour for where the product actually sold for

1355

1 thirty (30) -- in the thirty dollar ($30) range. So

2 that can form a significant source of additional income

3 for Manitoba Hydro, I think, in those years of service,

4 you know, in the order of $100 million.

5   So volatility from -- from the electric

6 side of the company is -- is a good thing. From our

7 natural gas customers' perspective, volatility is

8 obviously not desirable. But I would think that -- it

9 would also reinforce the -- the message that -- that

10 our customers are sending us is that they are concerned

11 about where future natural gas prices are going to be

12 and the volatility associated with that.

13   And if -- if we had short-term

14 volatility, there would be much new -- renewed interest

15 in Manitoba Hydro's product, which is a long-term

16 stable-priced product. And I think volatility or

17 higher prices would have a significant impact on -- on

18 Manitoba Hydro's export revenues.

19   THE CHAIRPERSON: I was more trying to

20 -- more trying to understand the short-term impacts.

21 You know, in -- in other words, I think I understand

22 you to say that the -- the buyers of natural gas in the

23 US that use for -- that use it for electricity

24 generation would be hedging their purchases, right.

25

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 1   And so even though there might be a

 2 nearby spike, they -- it wouldn't impact the prices

 3 that they would be able to -- at which they offer

 4 electricity prices -- electricity on the market, right?

 5   MR. DAVID CORMIE: Well, those -- those

 6 fuel cost spikes flow right through to the market

 7 clearing price. Like Manitoba Hydro, the owner of a

 8 natural gas turbine offers in his power in the day-

 9 ahead market based on what his gas costs are on that

10 day. And -- and so to the extent that there's

11 volatility, it will result in immediate changes to the

12 electricity price.

13   MR. RAYMOND LAFOND: I -- I can

14 understand that consumers are very worried about

15 increases in prices, having seen what happened five (5)

16 to eight (8) years ago. On the other hand, for

17 Manitoba Hydro and forecasters who have a better

18 understanding of the current situation, the technology

19 that's changed totally in the last five (5), six (6)

20 years, et cetera, I heard a bit earlier that

21 forecasters and, I think, yourselves do expect some

22 real price increases over and above inflation in the

23 next years.

24   Why would that be, with this new

25 technology that is evolving very, very quickly and the

1357

1 new sources they're finding, and to the extent where we

2 keep reading that the US expects to be self-sufficient,

3 in terms of energy, in the next twenty (20) years or

4 so?

5

6   (BRIEF PAUSE)

7

8   MR. DAVID CORMIE: Because of aging

9 infrastructure, Mr. Lafond, the -- more electricity

10 will be generation from natural gas, increasing the

11 demand for natural gas, which drives up the -- the

12 price of natural gas. And -- and there are renewable

13 portfolio standards that's resulting in higher

14 electricity costs from natural gas.

15   MR. RAYMOND LAFOND: So that would be

16 the aging infrastructure having to do with energy being

17 produced by coal?

18   MR. DAVID CORMIE: Yes.

19   MR. RAYMOND LAFOND: Thank you.

20   MR. DAVID CORMIE: And as we mentioned

21 the other day, the nuclear generating stations, will --

22 will they be re-licensed, and that whole issue.

23   MR. RAYMOND LAFOND: Well, that's a

24 different subject, nuclear energy. But again, not to

25 get into this too deeply at this time, that seems to be

1358

1 evolving very quickly, again reading that in the US

2 they're now looking at producing some mobile nuclear

3 energy plants, like small nuclear energy plants which

4 they can move to different cities or different towns.

5   MR. DAVID CORMIE: Yes. I'm not aware

6 of those, but I -- I just think that over the last

7 couple of years after the incident in Japan, I don't

8 think there was a forecaster who ever anticipated the

9 results around the world for the nuclear industry that

10 that earthquake caused. And just -- we're in a very

11 volatile world. And nuclear energy is one of -- it

12 appears to be one of the casualties of -- of -- of --

13 of that.

14

15 CONTINUED BY MR. BOB PETERS:

16   MR. BOB PETERS: Mr. Rainkie, in my

17 eight (8) minutes left before lunch, I want to finish

18 the last tab in the book of documents with you, sir,

19 and get you ready for OM&A this afternoon.

20   But one of the line items, sir, on your

21 IFF -- Manitoba Hydro's IFF -- found at Tab 3, page 21

22 of Board counsel's book of document is -- is a line

23 item called "Other Revenues."

24   You're familiar with that, sir?

25   MR. DARREN RAINKIE: Yes, I am.

 1   MR. BOB PETERS: And what we've shown

 2 here on page 131 of the book of documents is that the

 3 other revenues appears to be, in my words, a bit of a

 4 catchall for -- for revenues that aren't of a

 5 sufficient nature but still need to be recorded

 6 somewhere on your -- on your forecast.

 7   MR. DARREN RAINKIE: Yeah, the -- these

 8 are revenues that aren't our general consumers

 9 revenues. That's why they're termed "other revenues" -

10 - so they have to have -- fit somewhere into the

11 financial statements, Mr. Peters, and so they're termed

12 "other revenue."

13   MR. BOB PETERS: And -- and just maybe

14 to that point -- Mr. Warden raised it earlier and I --

15 I don't know that I have an answer for it yet for the

16 Board, but where would Manitoba Hydro record late

17 payment fees?

18   MR. DARREN RAINKIE: Mr. Peters, in the

19 presentation that we have in this material, late

20 payment free -- fees are grouped with general consumers

21 revenue. I think that's what Mr. Warden indicated,

22 subject to check, a few days ago; but that's where they

23 are. So they're not in this other revenue.

24   MR. BOB PETERS: And late payment fees,

25 Mr. Rainkie, what -- what's an order of magnitude for

1 an average year?

2   MR. DARREN RAINKIE: Mr. Peters, I

3 think, in the order of 4 to $5 million, just looking at

4 our last two (2) years' actual.

5   MR. BOB PETERS: Thank you, Mr.

6 Rainkie. When the Board looks at the line items on

7 other revenue and sees operating expense recoveries,

8 that's a new addition to Manitoba Hydro's reporting

9 presentation, Mr. Rainkie?

10   MR. DARREN RAINKIE: Yes, Mr. Peters.

11 That's a reclassification. So tho -- those revenues

12 used to be netted against operating, maintenance, and -

13 - and administrative costs. Now we've moved them up to

14 the other revenue line, but it doesn't affect our

15 bottom line. It's simply a reclassification.

16   MR. BOB PETERS: So the revenues are

17 going to show up in other revenues and the expenses

18 will show up in the OM&A lines?

19   MR. DARREN RAINKIE: So, the -- the

20 effect, Mr. Peters, just to be clear, of moving $8

21 million or so, these costs used to be netted against

22 operating costs. So they would -- so moving this up to

23 other revenue is going to increase other revenue by 8

24 million. It's also going to increase operating costs

25 by 8 million, for a net effect on our bottom line of

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1 zero. It's simply a reclassification, as we call it,

2 in the accounting biz.

3   MR. BOB PETERS: These operating

4 expense recoveries occur when Manitoba Hydro provides

5 services to third parties?

6   MR. DARREN RAINKIE: That's correct,

7 and I think you're on to the next page, Mr. Peters.

8 We've kind of listed some of the sources of those, but

9 it's also some miscellaneous third-party fees like

10 electrical wiring, inspection fees and other

11 miscellaneous fees, Mr. Peters, makes up that amount.

12 So it's things that we do for -- for third parties to

13 the Corporation, if you like.

14   MR. BOB PETERS: And this would be

15 Manitoba Hydro using its assets to provide services to

16 third parties?

17   MR. DARREN RAINKIE: I think using its

18 people to provide services to third parties for a fee.

19   MR. BOB PETERS: And this would then be

20 prim -- primarily then a recovery of the labour costs?

21   MR. DARREN RAINKIE: I think that's --

22 that's fair. Probably primarily labour, Mr. Peters.

23   MR. BOB PETERS: The joint-use line

24 item, Mr. Rainkie, is a reflection of the -- the

25 sharing of poles with telecommunications companies?

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 1   MR. DARREN RAINKIE: Yes. It's the net

 2 of all charges back and forth between the various

 3 utilities for using each other's assets, as you say,

 4 Mr. Peters.

 5   MR. BOB PETERS: All right. And that's

 6 -- that was my point is that this reflects others

 7 attaching to Manitoba Hydro's poles. It also reflects

 8 Manitoba Hydro attaching to other utilities or service

 9 providers' poles at a -- at a fee.

10   MR. DARREN RAINKIE: It's the net, Mr.

11 Peters. Yeah, you're right.

12   MR. BOB PETERS: And there's a --

13 there's -- an agreement is amongst the parties as to

14 what those fees are, sir?

15   MR. DARREN RAINKIE: Yes, that's my

16 understanding, Mr. Peters.

17   MR. BOB PETERS: Can you explain

18 briefly to the Board the Island Falls Energy Transfer

19 Agreement? And what's the nature of that, sir?

20   MR. DAVID CORMIE: Mr. Peters, that's

21 an agreement we have with SaskPower, who has -- who

22 owns a generating station on the Churchill River in

23 Northern Saskatchewan, which isn't connected to

24 Southern Saskatchewan directly. So we have an

25 agreement where surplus energy in Northern Saskatchewan

1363

1 is shipped through Manitoba and injected back into

2 Southern Saskatchewan over our transmission facilities.

3 And this agreement shows the rents paid by SaskPower

4 for the use of our transmission system.

5   MR. BOB PETERS: Is the hot-water tank

6 rental business a legacy business that's on the

7 decline?

8   MR. DARREN RAINKIE: Yes, Mr. Peters.

9 I think that's generally reducing, as we see in the

10 numbers.

11   MR. BOB PETERS: That's not a -- I'm

12 not even aware, Mr. Rainkie. Is that still an offering

13 that the Utility makes, or is that outsourced to HVAC

14 companies?

15   MR. DARREN RAINKIE: There's no -- no

16 new rentals, Mr. Peters.

17

18   (BRIEF PAUSE)

19

20   MR. BOB PETERS: There's also an

21 indication of -- of an increase in the other line that

22 relates to a settlement of an outstanding commitment to

23 Ontario Power Generation. Can you briefly describe

24 that to the Board?

25

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 1   (BRIEF PAUSE)

 2

 3   MR. DAVID CORMIE: The -- we have an

 4   agreement with Ontario Power Generation with regard to

 5   the Lake St. Joseph diversion. And I wasn't aware that

 6   that was being classified here. But, in effect, we pay

 7   Ontario for a portion of the -- to compensate them for

 8   the cost of operating the diversion in northwest

 9   Ontario. And it's done through a -- where we sell them

10   about 88,000 megawatt hours a year. And it's -- it's

11   sold at a dollar forty ($1.40) a megawatt hour, Mr.

12   Peters.

13   And it doesn't -- it's not really an --

14   an export revenue arrangement. It's -- it's an

15   arrangement where we're paying them a fee to operate a

16   diversion for us for our benefit. And that fee varies

17   annually depending on how much water is actually

18   diverted. So I believe that's where this -- this --

19   this shows up.

20   MR. BOB PETERS: And you pay in this --

21   in the form of --

22   MR. DAVID CORMIE: No, they pay us.

23   MR. BOB PETERS: Sorry.

24   MR. DAVID CORMIE: They pay us a dollar

25   forty ($1.40) for the electricity that we deliver.

 1   MR. BOB PETERS: All right. Thank you.

 2   MR. DAVID CORMIE: It's their

 3 compensation -- it's a compensation we pay them -- or

 4 they get the electricity, but they pay a dollar forty

 5 ($1.40) to cover our incremental operating costs of --

 6 of producing that electricity. But then they get the

 7 value of the electricity in the mar -- at the market

 8 price.

 9   MR. BOB PETERS: Maybe this is too much

10 in the vernacular, but they get cheap electricity as --

11 as an offset to the arrangement?

12   MR. DAVID CORMIE: Yep.

13   MR. BOB PETERS: All right. Mr.

14 Chairman, in light --

15   MR. DAVID CORMIE: Yeah. Yes, that's

16 correct.

17   MR. BOB PETERS: What was the volume

18 involved?

19   MR. DAVID CORMIE: Eight -- eighty-

20 eight (88) -- on an average year it's around 88

21 gigawatt hours.

22   MR. BOB PETERS: All right. Thank you.

23 Mr. Chairman, in light of the hour this might be an

24 appropriate time for the Board to take a lunch recess.

25   THE CHAIRPERSON: I have a question, a

1 few questions before we adjourn the -- I'm wondering

2 about the consulting work you do, for example, the

3 Newfoundland -- the work you do for the Newfoundland

4 government.

5   I know you have a consulting operation.

6 Now, staff -- regular line staff working in support of

7 the consulting operation, they bill out their hours to

8 the consulting operation?

9   MR. DARREN RAINKIE: That's right.

10 Those costs will be billed to Manitoba Hydro

11 International.

12   THE CHAIRPERSON: So the -- so you

13 would just be reducing your -- the cost line in the

14 rates -- in the rate application we're seeing here,

15 right?

16   MR. DARREN RAINKIE: All the figures

17 that are produced in the Rate Application are net of

18 any subsidiary amounts, so there's no -- no amounts for

19 -- for subsidiaries in here. So all -- all

20 transactions have been eliminated through the -- in the

21 Application material.

22   MR. RAYMOND LAFOND: Yes, that brings a

23 question, that ha -- that has all been eliminated.

24 However, it does impact on rates to consumers, whether

25 you generate much revenues from it or losses.

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 1   MR. DAVID CORMIE: Well, it's -- the

 2   net bottom line for those subsidiaries is between 4 or

 3   $5 million. So in the -- in the grand scheme of things

 4   I don't -- it -- first of all it's eliminated from the

 5   information so that we're not, you know, looking at

 6   setting rates -- we're not including those numbers in

 7   the rate setting.

 8   Secondly, it's a very small part of our

 9   -- while it's very important to the people that work on

10   it, it's a very small part of our net revenue. So a --

11   an increase or decrease in their net income of a

12   million or two (2) dollars would not affect the rate

13   increases that we would request from this Board.

14   THE CHAIRPERSON: I think that's all

15   the questions from the panel. I would suggest we -- we

16   adjourn now and -- recess now and back in this room at

17   one o'clock. Thanks very much.

18

19   --- Upon recessing at 12:01 p.m.

20   --- Upon resuming at 1:03 p.m.

21

22   THE CHAIRPERSON: I believe we're ready

23   to resume proceedings.

24   MS. PATTI RAMAGE: Before we resume,

25   Mr. Warden wanted to speak to one of the undertakings.

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1   MR. VINCE WARDEN: Yes, Mr. Peters,

2 it's -- it's a fairly minor one but one we discussed

3 this morning was -- I just wanted to confirm that the

4 same management adjustment was applied in IFF11 as was

5 in IFF11-2. And, yes, I have confirmed that, the same

6 $50 million that we discussed this morning was applied

7 to both of those forecasts.

8

9 CONTINUED BY MR. BOB PETERS:

10   MR. BOB PETERS: For the same test

11 years?

12   MR. VINCE WARDEN: For the same test

13 years. For the -- both test years, yes.

14   MR. BOB PETERS: Yeah. Okay. Thank

15 you, Mr. Warden.

16   MR. VINCE WARDEN: I might just also

17 take this opportunity while I'm on the microphone to

18 maybe respond to a question that the Chairman had with

19 respect to our -- any updates or results that we have

20 since the quarterly was released. And I can say,

21 without divulging the numbers at this point in time,

22 but I can say we're almost bang on the forecast for the

23 -- up to the end of November. So we're tracking the

24 forecast that we have currently.

25   THE CHAIRPERSON: Thank you.

 1   MR. VINCE WARDEN: On a bottom-line

 2 basis. I should just clarify that. There are some --

 3 there are some offsets that do occur nat -- naturally.

 4 But on a bottom-line basis we're pretty much identical

 5 to the forecast.

 6

 7 CONTINUED BY MR. BOB PETERS:

 8   MR. BOB PETERS: What I'm understanding

 9 you to be saying, Mr. Warden, is the net income line is

10 tracking even though there's some pluses and minuses on

11 the -- on the items above the net income line.

12   MR. VINCE WARDEN: Yes. That's right,

13 Mr. Peters.

14   MR. BOB PETERS: Okay. I have your

15 point. And I should also indicate by way of

16 housekeeping, Mr. Chairman, that over the lunch hour,

17 Manitoba Hydro provided a copy -- paper copies of

18 Exhibit Manitoba Hydro 22, which was -- is the small

19 binder with information related to the MIPUG pre-ask

20 questions that related to depreciation. And that's

21 been circulated in paper form at this point in time.

22 It's already been marked, so it need not be further.

23   And included in that binder -- which if

24 Mr. Hacault hasn't got his yet he'll be getting one.

25 Included in that binder were paper copies of the infor

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1 -- of the pre-ask questions that the Public Utilities

2 Board posed also related to depreciation matters, which

3 were responded to over the weekend by email. And --

4 but we've got paper copies now, and the parties are

5 being provided with them.

6   I'd like to begin this afternoon, Mr.

7 Warden and Mr. Rainkie, as well as Mr. Cormie, if -- if

8 you're along for the ride, to -- to talk about

9 operating, maintenance, and administration matters.

10   And as a starting point, Mr. Warden,

11 OM&A is the largest expense item listed on Manitoba

12 Hydro's IFF?

13   MR. VINCE WARDEN: Yes, Mr. Peters,

14 very -- actually it -- the -- very closely followed by

15 finance expense.

16

17   (BRIEF PAUSE)

18

19   MR. BOB PETERS: Perhaps Mr. Warden --

20 oh, I'm sorry, did you have something further to

21 provide to the Board?

22

23   (BRIEF PAUSE)

24

25   MR. RAYMOND LAFOND: Mr. Warden, you

 1 said closely followed by what expense?

 2   MR. VINCE WARDEN: By finance expense.

 3

 4 CONTINUED BY MR. BOB PETERS:

 5   MR. BOB PETERS: And I -- I think we're

 6 pausing at your point, Mr. Warden, only to note on the

 7 IFFs that in the latest IFF, Manitoba Hydro '12, by

 8 approximately 2018, finance expense becomes perhaps the

 9 largest expense item of the Corporation.

10   MR. VINCE WARDEN: That's right.

11   MR. BOB PETERS: All right. So I think

12 I have your point. But, Mr. Warden, would you agree

13 that OM&A is also the expense over which Manitoba

14 Hydro's management has the most direct control?

15   MR. VINCE WARDEN: Yes.

16   MR. BOB PETERS: And would it also be

17 correct to your understanding, Mr. Warden, that

18 Manitoba Hydro's OM&A cost containment is an issue

19 that's been before this Board for, oh, eight (8) to ten

20 (10) years?

21   MR. VINCE WARDEN: Yes, we speak of it

22 frequently.

23   MR. BOB PETERS: And I just, for the

24 benefit of the panel, maybe we can -- with your

25 assistance and Mr. Rainkie's, we can try to be brief on

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1 this. But back in 2004, when the Board issued Order

2 101/04, which is found -- I'm going to page 135 of the

3 book of documents -- there was information provided to

4 the Board back in those days, Mr. Warden, respecting

5 Manitoba Hydro's OM&A costs per customer, as well as

6 that of BC Hydro.

7   I'm not sure if you have a specific

8 recollection of that, but it is noted in the Board

9 order?

10   MR. VINCE WARDEN: Yes.

11   MR. BOB PETERS: And do you recall at -

12 - at that time the OM&A per customer metric perhaps

13 showed BC Hydro in a more favourable position?

14   MR. VINCE WARDEN: Well, I -- I

15 believe, Mr. Peters, BC Hydro and Manitoba Hydro were

16 very closely -- very close at the time. Do you have

17 the reference on that?

18   MR. BOB PETERS: I was looking on page

19 135 in the middle of the page. And it's underlined in

20 the copy I inserted in the book of documents.

21

22   (BRIEF PAUSE)

23

24   MR. VINCE WARDEN: Yes, Mr. Peters, I

25 think there's probably a better reference elsewhere

 1 that shows the actual tracking of Manitoba Hydro versus

 2 -- versus other utilities, including BC Hydro.

 3   MR. BOB PETERS: And if it's in the

 4 book of documents, we'll hopefully come to it quickly.

 5   MR. VINCE WARDEN: Okay.

 6   MR. BOB PETERS: But if it's a

 7 different document you're certainly welcome to provide

 8 it to the Board. And this isn't meant to be a closed-

 9 book exam.

10   MR. VINCE WARDEN: Yeah, sure.

11   MR. BOB PETERS: If there's more

12 information, please -- please provide it, sir.

13   MR. VINCE WARDEN: Sure. Thank you.

14   MR. BOB PETERS: The upshot of back in

15 2004, in terms of the Board's orders, was that a -- a

16 more detailed review of Manitoba Hydro's OM -- OM&A was

17 -- was going to be reviewed at subsequent hearings?

18   MR. VINCE WARDEN: Yes.

19   MR. DARREN RAINKIE: Mr. Peters, just

20 to jump in here on the BC Hydro situation, this is a --

21 a Board order going back to 2004. My recollection is

22 that rebuttal evidence that we filed at the 2008

23 hearing was that when you indexed it, that BC Hydro's

24 cost per customer was -- was going up at a much higher

25 rate than what Manitoba Hydro's was.

 1   I can't -- I don't have the -- the

 2 absolute numbers, but we just have to remember this was

 3 in 2004, this quote. And I think the evidence that we

 4 produced in the 2008 material in the GRA said something

 5 different. So, you know, times change depending on

 6 decisions and -- and cost pressures, et cetera. And I

 7 just have that in my mind, that it was a fairly

 8 favourable comparison to Manitoba Hydro back in 2008.

 9   MR. BOB PETERS: Thank you, Mr.

10 Rainkie. If that's something you want to research

11 further and provide to the Board, please do. My point

12 of raising it is that, as a starting point in any

13 event, the Board had an interest in a more detailed

14 review of Hydro's OM&A going back to perhaps 2004.

15   MR. VINCE WARDEN: Agreed.

16   MR. BOB PETERS: And then the Board's

17 next review in Order 116/08, perhaps on page 137 of the

18 book of documents, the Board still had concerns about

19 cost control exercised by Manitoba Hydro in meeting the

20 financial targets.

21   MR. VINCE WARDEN: Yes, that concern

22 was expressed in the order.

23   MR. BOB PETERS: And also expressed in

24 the order on page 138 of the book of documents, second-

25 last paragraph, last sentence, was to the effect that

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1 an adequate peer review could assist Hydro in perhaps

2 finding some efficiencies and making sure that its

3 practices were best practices that would benefit its

4 consumers?

5

6   (BRIEF PAUSE)

7

8   MR. VINCE WARDEN: Yes, Mr. Peters. I

9 -- I see that, not necessarily accepting the Board's

10 view on this; but I certainly accept their position.

11

12   (BRIEF PAUSE)

13

14   MR. BOB PETERS: And if we flip ahead

15 to the Order 90/08, specifically on pages 142 and 143

16 of the book of documents, by the time that order was

17 issued, there had been no in-depth benchmarking

18 undertaken at that point in time, Mr. Warden?

19   MR. VINCE WARDEN: That's right.

20   MR. BOB PETERS: And at that point the

21 Board indicates that they weren't prepared to -- to

22 provide any directives relative to OM&A. But

23 certainly, the -- the independent benchmarking was --

24 was a concern for the Board?

25   MR. VINCE WARDEN: Yes, Mr. Peters.

1 The -- the Board was of the view that benchmarking

2 would be of some assistance. And Manitoba Hydro does

3 do periodic benchmarking with its peers on specific

4 areas. And what we do find, though, other utilities

5 are very reluctant to share information in a public

6 forum with respect to the results of those reviews. So

7 the benchmarking has severe limitations.

8   First of all, benchmarking is very

9 costly to perform. And to be able to compare between

10 utilities, there has to be a great deal of effort in

11 going -- goes into looking at such things as

12 organizational structure; Geography, for example, is --

13 affects -- certainly affects the comparisons between

14 utilities.

15   So we -- Manitoba Hydro has consistently

16 expressed the view that benchmarking may have a place

17 and is -- in fact, we did agree that we would look at

18 it more closely after IFRS implementation. But we've -

19 - we've all -- always said that we're -- we're

20 concerned about the cost of conducting a bench --

21 benchmarking exercise that would be meaningful.

22   MR. BOB PETERS: You mention in your

23 answer, Mr. Warden, that Manitoba Hydro has conducted

24 benchmarking on some specific issues related to OM&A?

25   MR. VINCE WARDEN: Yes. For example,

 1 if we want -- we've looked fairly recently at our IT

 2 costs and wanted to make sure that we were comparing

 3 favourably at a high level compared to other utilities

 4 in Canada. And we satisfied ourselves that, in fact,

 5 within the very broad definitions that were assigned

 6 for purposes of that study, we were, in fact, compared

 7 quite favourably to other utilities.

 8   But even with this study, there's

 9 reluctance -- in fact, flat -- outlight -- outright

10 refusal -- by the other utilities to share this study

11 in -- in a public forum for the reasons that they could

12 be very -- very well be identified, and they don't want

13 to com -- that comparison to be something that could

14 cause them issues with their regulators.

15   So -- so there's -- there's all kinds of

16 problems with benchmarking that -- that we've -- have

17 led us to believe that -- and -- and it -- as a matter

18 of fact, Mr. Scott referred to this in his opening

19 remarks, and something that I 100 percent endorse, and

20 that is that internal benchmarking is -- is the best

21 way to go - that is, compare yourself to yourself over

22 time.

23   MR. RAYMOND LAFOND: Can I interject

24 here? I -- I hear you, in terms of utilities being

25 reluctant to provide the information. But in a lot of

 1 other sectors -- I'll use one, for example, healthcare

 2 -- every major hospital across Canada knows what a cost

 3 per weighted case is in each one (1) of these

 4 hospitals. And it is -- I have to tell you this is

 5 also very complex but it happens, and it is done, and

 6 that information is shared with an interna -- with a

 7 national institute.

 8   So I'm wondering, why the reluctance in

 9 -- with utilities while it's not with major hospitals

10 or, I would say, any -- or, just about any other --

11 other sector?

12   MR. VINCE WARDEN: Well, in the health

13 -- healthcare sector, and I -- and I don't know

14 anything about that, but there -- there may very well

15 be functions that are uniform between locations no

16 matter where they are and -- and it can be measurable.

17   But I know in the utility business, you

18 know, we talked a lot about water conditions and how

19 much that can affect our operations. So if we're

20 looking at a cost per customer, we have to factor out -

21 - out water conditions; we have to -- we have to look

22 at whether or not we're purchasing power in any given

23 year. The density of the customer population that we

24 serve versus another -- another utility can have a very

25 significant impact on -- on those costs.

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1   So we've never really been able to come

2   up with meaningful -- meaningful comparisons between

3   utilities. We -- actually we -- going back a number of

4   years, we participated with the Canadian Electrical

5   Association in a performance evaluation exercise that

6   we maintained for over a decade. And eventually we all

7   abandoned the exercise because we just were not getting

8   any value out of that -- that comparison.

9   One of the -- you know, as -- as a

10 result of the last round of negotiations with our

11 bargaining unit, we have agreed -- and this is -- this

12 is a part of our -- our contract with IBEW, is that we

13 will be doing a benchmarking exercise with other

14 utilities in Canada as to wage rates for specific

15 classifications within IBEW.

16   And we agreed on that going on a year

17 now, and we're still -- we're still not agreed with --

18 with the bargaining unit on the terms of reference for

19 -- for this study. That's just how difficult it is to

20 get agreement on how -- how a benchmarking study can be

21 conducted. And beyond that, getting other utilities to

22 participate in that is -- is going to be very

23 difficult.

24   And unless -- unless you have a

25 representation across Canada on such a -- such an

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 1 exercise, you know, the results can be very -- very

 2 misleading because there's no doubt that Western utili

 3 -- utilities pay their workers much higher than they do

 4 in -- in Manitoba and -- and Eastern Canada.

 5   MR. RAYMOND LAFOND: And I did not want

 6 to change the line of thought in terms of O&M, but in

 7 terms -- would that reasoning apply to cap -- major

 8 capital costs where -- where -- generation power plant,

 9 for instance, based on circumstances? For instance,

10 you -- I mean, you could tell whether it would be about

11 the same price or what the benchmark would be, in terms

12 of construction costs?

13   MR. VINCE WARDEN: Well, you can get

14 kind of a rule of thumb comparison between a hydraulic

15 generating station installed in BC versus -- versus

16 Manitoba, in terms of cost per megawatt. But even

17 there, you know, the conditions can -- can greatly

18 influence that cost.

19   MR. RAYMOND LAFOND: I understand that

20 but it seems to me you need that kind of rationale or

21 basis in order to evaluate your contracts and your

22 estimated fees by your engineers, et cetera.

23   MR. VINCE WARDEN: And -- and we do.

24 We definitely do, do that, making provisions for local

25 circumstances.

 1 CONTINUED BY MR. BOB PETERS:

 2   MR. BOB PETERS: Is Manitoba Hydro

 3 amenable to sharing its information with other

 4 utilities on benchmarking issues, Mr. Warden?

 5   MR. VINCE WARDEN: Well, we -- we

 6 certainly share among -- amongst each other so we know

 7 where -- where our peers stack up and we know where we

 8 are. And if there's indications where there -- there

 9 may be areas we can improve on, then that will be our

10 focus to try and imp -- implement those -- those

11 improvements. So, yes, we share amongst ourselves.

12   MR. BOB PETERS: And you share on a

13 confidential basis only?

14   MR. VINCE WARDEN: That's right.

15   MR. BOB PETERS: And so Manitoba Hydro

16 is no more willing to put its information public than -

17 - than any of the others?

18   MR. VINCE WARDEN: Well, there'd be no

19 point in -- in putting our information public without -

20 - without others to compare it to, because you wouldn't

21 be able to -- you know, unless you were just comparing

22 internally. So if you compared our -- our internal

23 statistics over time, that would be where the value

24 would be.

25   MR. BOB PETERS: Can that information

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 1 be disclosed by, instead of naming the other utilities,

 2 just assigning a letter or a number to them?

 3   MR. VINCE WARDEN: No, the utilities

 4 would not agree to that.

 5   MR. BOB PETERS: One of the points you

 6 made was internal benchmarking. You compare yourself

 7 to yourself. What does that exercise?

 8   MR. VINCE WARDEN: Well, I think it --

 9 it -- what it does is show the year -- if you're

10 satisfied with a starting point or at least you re --

11 know what the starting point is, then you'll be able to

12 -- to determine what the -- whether the year-to-year

13 increases or decreases are reasonable relative to an

14 internal benchmark.

15   And I -- and even with the comparisons

16 we've done with other utilities in the past, the cost

17 per customer with BC Hydro, SaskPower, Hydro-Quebec, I

18 believe was in that comparison, we've always maintained

19 it's the slope of the line -- it's the slope of the

20 line that's important.

21   So if you look an increase year over

22 year for Manitoba Hydro for a period of 'X' number of

23 years, look at the slope of the line versus the slope

24 of the line for the other utilities and -- and look at

25 how we're trending versus ourselves ver -- versus other

1 utilities, in terms of a trend line.

2   But the absolute dollar -- dollar

3 comparisons are really quite meaningless because of the

4 factors I mentioned earlier.

5   MR. DARREN RAINKIE: Mr. Peters, I

6 would also add that divergence that we've seen in

7 financial reporting, some utilities go into US GAAP,

8 modified IFRS. IFRS has also been another difficult

9 issue, because it's even hard to -- to understand

10 others' financial results and what accounting policies

11 they've applied, because people are using different

12 frame -- accounting framework. So it's something that

13 was originally touted as improving comparability

14 amongst the utilities has actually led to the -- the

15 opposite result.

16   MR. BOB PETERS: So now you need a

17 forensic accountant to help sort out what the

18 comparisons are, Mr. -- Mr. Rainkie?

19   MR. DARREN RAINKIE: Well, I think it

20 goes to what Mr. Warden talked about a bit earlier, is

21 that to get any meaningful results you would have to go

22 to a huge amount of rigour and understand their --

23 their practices to a -- to the very detailed level.

24 It's very difficult and -- and very costly to do that -

25 - that exercise, Mr. Peters.

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 1   MR. RAYMOND LAFOND: Can I -- I can

 2 understand the -- the -- I guess, a reluctance by some

 3 utilities to share the information and especially so

 4 publicly, if I think of organizations like Fortis,

 5 TransAlta, Anterra, whatever. But when it comes to

 6 essentially monopolies like Manitoba Hydro and Quebec

 7 Hydro, I have difficulty in understanding the

 8 reluctance.

 9   And I'll -- I'll give you an analogy. I

10 was CEO of an organization, a credit union. And the --

11 because the credit unions don't compete in one province

12 versus the other province, I could go, for instance, to

13 Quebec and get -- sit down for two (2) days and get

14 absolutely everything, all the information I wanted, to

15 start looking at what it would be to -- to be in such a

16 such a situation and why they could do this there and I

17 could not do it, et cetera.

18   MR. VINCE WARDEN: And I think if we

19 went to BC Hydro or Hydro Quebec and sat down with

20 them, they'd be willing to share information, as they

21 do. And we do get together with our peers occasionally

22 -- or, often, I should say. It's just when it comes to

23 sharing that information in a public forum, that's

24 where the difficulty arises.

25

1 CONTINUED BY MR. BOB PETERS:

2   MR. BOB PETERS: In Board Order 99/11,

3 found on page 145 of the book of documents, the Board

4 noted that Manitoba Hydro uses a productivity factor

5 between a 1/2 and 1 percent.

6   Can you explain that, Mr. Rainkie or Mr.

7 Warden?

8   MR. DARREN RAINKIE: Yes, Mr. Peters.

9 In our budgeting we recognize that costs, such as

10 labour and benefit costs, are -- are going up beyond

11 the -- the rate of inflation. But we build right into

12 our budgets a productivity factor so that the business

13 units are constantly looking for ways to deliver on

14 that productivity factor. And we expect them to find

15 innovative ways in the business to be able to meet

16 their budgets.

17   So while Mr. Thomson talked about, you

18 know, removing, you know, costs out of -- of -- based

19 on major initiatives out of the budgets, we tend to do

20 it every year by removing a certain productivity factor

21 and not allowing for any increases other than a 2

22 percent inflation.

23   MR. RAYMOND LAFOND: I -- I want to

24 continue on this line of thought. When the Canadian

25 dollar went up from sixty-three (63), sixty-five (65),

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1 and sixty-seven (67) cents to par, or even a bit over

2 par, most companies had to -- and -- and who --

3 especially companies that were doing a substantial

4 portion of their volume in exports, had to radically

5 restructure, by different equipment, do all kinds of

6 things.

7   I wonder what Hydro does in that

8 respect, because increasing rates is -- is one way.

9 But how do you really adjust your costs to -- to be

10 able to compete in the export markets like other

11 private companies have had to do?

12   MR. VINCE WARDEN: The fact of the

13 matter is we have to keep the lights on. And that's

14 our -- our primary obligation to the consumers of

15 Manitoba. While there are some things we can do, like

16 restrict travel for example, that we talked about

17 earlier, in the overall scheme of things our -- our

18 major operating and administrative costs represent 77

19 percent of our total -- total costs.

20   And that's the people that are out there

21 working every day. When we get days like this, where

22 the -- get some icing on the lines, they're -- they're

23 out there rolling ice to make sure that the lights stay

24 on. And they quite often have to work around the clock

25 to do so.

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1   So our costs -- even though we say we

2   have con -- control, some -- some control over our

3   operating and administrative expense, a lot of those

4   costs are fixed -- fixed in -- in order to do the

5   fundamental things that we do every day.

6   MR. RAYMOND LAFOND: I understand this.

7   On the other hand, some other corporations, as an

8   example, would get -- I mean Toyota Corporation -- to

9   come in and redo all their processes to see how they

10   could re-engineer -- not just cutting travel and that,

11   but really re-engineer -- the way you do things in

12   order to be more efficient.

13   Is this considered at some times?

14   MR. VINCE WARDEN: Well, we did tag --

15   tag on to the review the comprehensive review that was

16   done at BC Hydro. So when BC Hydro conducted their

17   review, we, of course, obtained a copy of their report

18   and went through that in great detail and looked at

19   things that they were doing where we could improve our

20   -- our operation. We presented a report to our audit

21   committee and our Board as to certain things that we

22   should investigate doing.

23   And we found out, in pursuing a lot of

24   those initiatives that BC Hydro has undertaken, that we

25   were, for the most part, already there. So there were

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1 not a lot of efficiencies that we -- based on that

2 report, able to drive out of our system.

3   Now, have we done the same thing that

4 they did with our operation? No, we -- no, we have

5 not. But we're -- based on that review, we are

6 confident that we are do -- operating in an efficient

7 way.

8

9 CONTINUED BY MR. PETERS:

10   MR. BOB PETERS: That report that you

11 mentioned, Mr. Warden, is available on the internet?

12   MR. VINCE WARDEN: Yes. Yes, it is.

13   MR. BOB PETERS: Could Manitoba Hydro

14 undertake to provide the Board with the link to the BC

15 Hydro review that was done by -- done by some deputy

16 ministers, or former deputy ministers? Is that the one

17 you're referring to?

18   MR. VINCE WARDEN: Yes, it is. And as

19 a matter of fact we might even take it a step further

20 in that and provide a copy of the report that we --

21 Manitoba Hydro prepared as a result of that report, and

22 with an indication of the initiatives that we

23 undertook.

24   MR. BOB PETERS: And that's

25 appreciated. So in addition to the BC Hydro report, at

 1 least a link to it at least, you'll provide copies of

 2 the Manitoba Hydro initiative taken in response to what

 3 happened in the BC Hydro review?

 4   MR. VINCE WARDEN: Yes.

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

 6

 7 --- UNDERTAKING NO. 27:   Manitoba Hydro to provide a

 8   link to the BC Hydro report

 9   and copies of the Manitoba

10   Hydro initiative taken in

11   response to what happened

12   in the BC Hydro review

13

14   THE CHAIRPERSON: That isn't -- I've

15 read that report. At least I've read the summary of

16 the report, and it's not quite the same thing, I think,

17 as what Monsieur Lafond was talking about. And I'll

18 cite a local example. St. Boniface Hospital has a lean

19 processing -- lean manufacturing process in place,

20 where basically they are taking steps to re-

21 manufacture, if you wish, the -- the service delivery

22 in the hospital with -- with a fair amount of success.

23 And Raymond can testify to that, because he was closely

24 involved with working with St. Boniface Hospital.

25   But in any case, the -- the point -- the

 1 point here is that -- I -- I guess the question is:

 2 Have you ever contemplated sort of addressing the re-

 3 engineering of your processes as a means of -- as a

 4 means of effecting significant change to -- to the way

 5 in which you deliver services. And it's -- if properly

 6 done, it has the impact of improving service delivery

 7 but also reducing costs and making life easier for

 8 employees who are doing the work.

 9   So I guess the question is more

10 generally: Have you ever thought of that? Have you

11 ever considered that as part of your internal strategic

12 plans?

13   MR. VINCE WARDEN: We have definitely

14 thought of that. And, as a matter of fact, I think Mr.

15 Thomson also referred to that in his opening remarks

16 and that if we are going to make any drastic changes in

17 our cost structure, it will affect service.

18   So, for example, we currently have

19 seventy (70) district offices located throughout the

20 Province of Manitoba, and they're costly. They're

21 costly to maintain. But they're such an integral part

22 of every community that they're in. Any time we -- we

23 even hint at closing a district office, we get

24 tremendous backlash not only from the local municipal

25 government, but also from the residents in those

 1 communities.

 2   So are there more efficient ways to

 3 deliver costs throughout the province? I -- I -- yes,

 4 absolutely, there are. But it would have a dramatic

 5 impact on the services that we provide to our

 6 customers.

 7   MR. DARREN RAINKIE: Just one (1) other

 8 thought. I wouldn't want to leave the impression that

 9 we're not constantly looking for improvements in our

10 processes, because it's just the opposite.

11   I mean, the way that the business units

12 are able to deliver on our targets net of a

13 productivity factor is by looking at more efficient

14 ways of operating. And throughout the material, we

15 provided examples like the mobile workforce management

16 project. And there was one question that asked, Could

17 you list all of our IT, you know, expenditures over the

18 last three (3) to five (5) years I think it was. And

19 it went on for pages.

20   So -- so, you know, there -- we -- it's

21 not that we're doing nothing. I think Mr. Thomson

22 talked about taking it to another level and looking at,

23 you know, our core business and -- and what cut -- what

24 stakeholders, as he said, wanted, but recognizing, as

25 Mr. Warden said, that if he started to cut those then

 1 the stakeholders might not appreciate that, so.

 2   But we shouldn't leave the impression

 3 that -- that we're not constantly, at Manitoba Hydro,

 4 looking at better ways of doing things, because we are.

 5 And I think the record shows that.

 6   MR. RAYMOND LAFOND: But I -- I think

 7 in -- in my line of questioning, and certainly in the

 8 Chair's question, because he did say -- indicate that

 9 it's not an issue of reducing the service to the

10 customers. Very often, by re-engineering, you even

11 increase the service the customer, a better service at

12 less cost. And sometimes that involves capital

13 equipment like, you know, electronic digital metres or

14 things like that. But it is possible, when you really

15 start looking at it and, therefore, reduce over the

16 long term.

17   Now, for instance, I'm sure you had some

18 benchmarks within. And I'll give you an example.

19 Recently, someone tells me that in Winnipeg to buy --

20 to build an office tower of, let's say, forty (40)

21 stories or fifty (50) stories, whatever the number, it

22 would cost at least 15 percent more than in Toronto,

23 including the purchase of the land. So why is this?

24 Because there are no -- there's not a series of major

25 contractors to do these projects, and we don't have

 1 five (5) of these towers going on all the time and when

 2 one is over, there's a crew available for the next one.

 3   And I'm wondering if you have these

 4 types of benchmarks, for instance, for your capital

 5 project, for -- they're major. And I doubt that any

 6 one (1) contractor can assume it all. And -- and I

 7 don't know if you're in the type of market to be able

 8 to attract them.

 9   But would you know, for instance,

10 internally, Well, in our case, it costs 20 percent more

11 to do such because of their circumstances, or not?

12   MR. VINCE WARDEN: We have a very

13 competitive bid processes on -- on contracts or lit --

14 let, for -- for example, for trenching -- trenching to

15 -- for underground cable installations. We found

16 ourselves in this situation a number of years ago where

17 -- where we didn't feel it was competitive enough, so

18 we broke our contracts down into a number of small

19 parcels such that it encouraged more small contractors

20 to get into the business. So now, today, there's a

21 very active, competitive market out there for our

22 trenching contracts. And I think when we recognize

23 such things, we take action to make sure that we are

24 keeping that market as competitive as -- as possible.

25   I'm glad you raised the office tower,

1394

1 though, because I think Manitoba Hydro's new head

2 office is probably the -- the perfect example of

3 innovation across North America. We are -- that office

4 tower was built with a premium -- with a premium of

5 about 15 percent to make it as energy efficient as it

6 is. But we anticipated reducing our -- our costs of

7 operations, our -- our energy costs, by about 65

8 percent. In fact, we're tracking better than that.

9   So I think it is a model that others

10 aspire to in -- in terms of office towers for the

11 future. But that's just one (1) example. I think

12 there's other -- other things where people come to

13 Manitoba Hydro to -- to look at best practices, and we

14 do consider ourselves to be in that -- in that league

15 of best -- best practices.

16   MR. RAYMOND LAFOND: But very

17 specifically, in terms of the example of trenching, you

18 looked another -- at another method of proceeding. I -

19 - I guess the reason for this is because you had some -

20 - you could talk to, for instance, BC Hydro or Quebec

21 Hydro and -- and know that trenching generally is such-

22 and-such a price, and our prices are coming in way to

23 high, so we have to find another ways of doing it.

24   There's -- like in other words, what --

25 what created that instance where all of a sudden you

1395

1 talked -- you -- you thought it was too expensive?

2   MR. BYRON WILLIAMS: Well, in that

3 particular instance we knew what could -- what our own

4 costs are. So we're not -- for the most part we do

5 contract out our trenching, but we do some of it

6 ourselves. So we compare it to our own costs, and

7 we're recognizing that we could do it at a price less

8 expensive than contracts. So that's what instigated

9 the review that we undertook to encourage -- encourage

10 more competition in that marketplace.

11

12   (BRIEF PAUSE)

13

14 CONTINUED BY MR. BOB PETERS:

15   MR. BOB PETERS: Mr. Warden, in your

16 last answer to Board member Lafond, you indicated that

17 the operating costs of your new tower were 65 percent

18 lower than what they were on your Taylor Avenue

19 property?

20   MR. VINCE WARDEN: The energy cost

21 compare -- compared to a new office tower being built

22 today. So compared to a -- to a standard, the --

23 Manitoba Hydro's costs of energy are 65 percent lower

24 than the standard. They'd be probably many times more

25 than that compared to 820 Taylor; 820 Taylor,

1396

1 unfortunately, is at the other extreme.

2   MR. BOB PETERS: Maybe you could --

3 would you agree to undertake to file the -- the energy

4 or the operating costs reductions that you referred the

5 Board member to?

6   MR. VINCE WARDEN: Yes. Yes, I can do

7 that.

8

9 --- UNDERTAKING NO. 28:   Manitoba Hydro to file the

10   operating costs reductions

11   with regard to the new

12   office building

13

14 CONTINUED BY MR. BOB PETERS:

15   MR. BOB PETERS: Thank you, sir. Back

16 with the Board's previous orders, and I'm up to page

17 147 in the book of documents, just below halfway in the

18 -- on the page.

19   Here's an indication that Manitoba Hydro

20 has asked the Board to defer the benchmarking studies

21 until after IFRS is -- is implemented, correct?

22   MR. VINCE WARDEN: Yes.

23   MR. BOB PETERS: And because IFRS has

24 been adjourned or postponed at least three (3) times,

25 this study and the terms of reference for this study

1397

1 have likewise been -- been pushed back a few times?

2   MR. VINCE WARDEN: That's right, Mr.

3 Peters. But as you can probably conclude from previous

4 remarks, we're not optimistic what we're going to --

5 what we're going to achieve out of the benchmarking

6 study.

7   MR. BOB PETERS: And that's probably

8 where I was going to head in light of Mr. Rainkie's

9 answer, as well, that -- I take from your answer, yes,

10 you can do it because you've got to try to get it

11 apples to apples, in my words. But it's going to take

12 some time and some money to do that.

13   MR. VINCE WARDEN: Significant --

14 significant investment of time, resources, money, yes.

15   MR. BOB PETERS: And what's the dollar

16 value? Have you put a dollar value on that, or have

17 you given -- given your thought to that?

18   MR. VINCE WARDEN: Not at this time,

19 no.

20   MR. BOB PETERS: Okay.

21

22   (BRIEF PAUSE)

23

24   MR. BOB PETERS: Moving ahead to Order

25 5/12, and moving up to page 151 of the book of

1398

1 documents. Near the bottom of the page on 151, PUB

2 Exhibit 14, the Board comments that it was convin -- it

3 is convinced that the:

4   "Both the province and the ratepayers

5   will benefit from the development of

6   an appropriate metrics to assess the

7   reasonableness of the level of

8   current and future OM&M (sic)

9   expenditures in advance and

10   particularly because of the proposed

11   major capital expansion projects."

12   Does Manitoba Hydro share that view?

13   MR. VINCE WARDEN: Yes, Mr. Peters.

14 And I -- I don't want to give the impression that we

15 don't believe in measurements and metrics. We -- we

16 absolutely do. We have to have the -- the metrics in

17 order to make sure that we're putting our resources

18 where they most importantly belong.

19   And one of the priorities of our new

20 president is to go through a strategic planning

21 exercise to make sure that we are focussing on the

22 right things. So I think that probably comes first, to

23 make sure we go through a -- a planning exercise to

24 identify those issues of highest priority to the

25 Corporation and then measure it to make sure we're

1399

 1 getting there. So set up some appropriate measures to

 2 make sure we track towards achievement of those goals.

 3 But that exercise that Mr. Thomson referred to has to

 4 come first, in my view.

 5   MR. BOB PETERS: Has Manitoba Hydro

 6 determined the timeline it's going to need for that

 7 strategic internal review, Mr. Warden?

 8   MR. VINCE WARDEN: Well, it is a

 9 priority, I know, a priority of Mr. Thomson. And he is

10 initiating that pretty much as we speak. So, yes, it

11 is -- it will be conducted over the next several

12 months.

13   MR. BOB PETERS: And what metrics are

14 going to be measured or tested in that review?

15   MR. VINCE WARDEN: Well, I think the

16 metrics will come out of that review. So determine

17 what the priorities are, set up the appropriate

18 measures to make sure we're tracking towards the

19 achievement of those priorities.

20   MR. BOB PETERS: Is that something that

21 you expect you'll be able to file with the Board when

22 complete?

23   MR. VINCE WARDEN: Oh, absolutely.

24 Yes, I do.

25   MR. BOB PETERS: Not only the Manitoba

1 Hydro Board, but this Board?

2   MR. VINCE WARDEN: Yes.

3   MR. BOB PETERS: Is the internal review

4 and strategic planning going to be done through the

5 services of an independent consultant?

6   MR. VINCE WARDEN: I'm not totally sure

7 of that, whether Mr. Thomson plans on engaging external

8 assistance with this or not. He hasn't really confided

9 that yet.

10   MR. BOB PETERS: Mr. Warden, in light

11 of the comments from yourself and Mr. Rainkie in the

12 last few minutes to the Board, you explain all of those

13 steps that Manitoba Hydro is taking and their concerns.

14 And yet the Board will see on page 156 of the book of

15 documents that even in light of that mind-set, your now

16 former president, Mr. Brennan, issued a memo on March

17 19th of 2009, where he raised concerns about OM&A

18 expense increasing at approximately -- or over the 8

19 percent level -- over 8 percent of the corporate level.

20

21   Do you recall that?

22   MR. VINCE WARDEN: Yes, I -- I do, Mr.

23 Peters. And Mr. Brennan, though, did go on to say that

24 he was aware of the increasing cost pressures in the

25 second paragraph. And I -- I won't read it, but I --

1 he -- he listed all of the things that Manitoba Hydro

2 was encountering, in terms of the increasing cost

3 pressures. And those -- those are real.

4   And what his main message here was he

5 expects the business units to be on budget. So that's

6 not to say those budgets won't be higher, but he -- he

7 wanted to make sure that the senior management was

8 aware that they had to meet budgets.

9   MR. BOB PETERS: Has the current

10 president issues similar memos related to OM&A expense?

11   MR. VINCE WARDEN: No, but that doesn't

12 mean that the message hasn't been delivered. We

13 certainly talk about this a lot at our executive

14 meetings and -- and elsewhere. We're -- every level of

15 management is trying to wring as much cost savings as

16 possible out of the operation.

17

18   (BRIEF PAUSE)

19

20   MR. BOB PETERS: Mr. Brennan's memo was

21 two (2) weeks before the fiscal year end?

22   MR. VINCE WARDEN: Yes, March 19th, I

23 see that.

24   MR. BOB PETERS: And so the eleven (11)

25 month numbers presumably showed OM&A increases of over

1 8 percent. Is that what one concludes?

2   MR. VINCE WARDEN: Yes, but again, it

3 wasn't -- his focus was not intended to be so much at -

4 - on the year-over-year increase, but more so to -- to

5 be vigilant in -- in terms of meeting budgets.

6   MR. BOB PETERS: Two (2) weeks left to

7 meet the budget; is there much that can be done in that

8 time period?

9   MR. VINCE WARDEN: Well, I -- I think

10 he was not only referring to the -- the current fiscal

11 year, but the upcoming fiscal year. And -- and as a

12 matter of fact, in the third paragraph he -- he does

13 reference that.

14

15   (BRIEF PAUSE)

16

17   MR. BOB PETERS: If we take the next

18 document, on page 157, it's a -- it's six (6) weeks

19 later the president sends out a further reminder memo,

20 if I may, for fiscal 2010?

21   MR. VINCE WARDEN: Yes.

22   MR. BOB PETERS: And in this case the

23 president goes a bit further and enacts travel

24 restrictions as well as promotion expense restrictions?

25   MR. VINCE WARDEN: That's right.

1403

 1   MR. BOB PETERS: But when the Board

 2 looks at the 2010 budget for OM&A, it was set at

 3 approximately 3 1/2 percent higher than the actual

 4 results for 2009, Mr. Warden.

 5   Do you recall that being the case?

 6   MR. VINCE WARDEN: Yes.

 7   MR. BOB PETERS: And so if we turn to

 8 page 158, the president is saying for 2009 the

 9 preliminary indication is a 7.2 percent increase in

10 OM&A, correct?

11   MR. VINCE WARDEN: Yes. Sorry, just to

12 be clear, that's at the business unit level and that

13 doesn't necessarily translate into the net OM&A after

14 allocations to capital.

15   MR. BOB PETERS: Right. We'll -- we'll

16 come to that, Mr. Warden. And then in addition to that

17 increase, the budget for the next year was actually set

18 3 1/2 percent higher than what 2009 came in at on a

19 business unit level?

20   MR. VINCE WARDEN: Yes. And I think

21 there's a brief explanation as to why that -- why that

22 occurred.

23   MR. BOB PETERS: You're referring to

24 the explanation on page 159, sir?

25   MR. VINCE WARDEN: Yes, I am.

1404

1   (BRIEF PAUSE)

2

3   MR. BOB PETERS: And can we see from

4 this information -- well, in addition to this

5 information, that even though the fiscal 2010 budget

6 was 3 1/2 percent higher than 2009 actuals, the results

7 for 2010 I think came in as much as 5.7 percent higher

8 than the 2009 actuals.

9   Is that your recollection?

10   MR. VINCE WARDEN: I think if we refer

11 to page 19 in Exhibit 15, the actuals for 2009/'10 came

12 in at 4.28 percent over '08/'09.

13   MR. BOB PETERS: Which page?

14   MR. VINCE WARDEN: Oh, I'm sorry, page

15 -- page 19 of that document.

16   And even in that year, I think I

17 indicated earlier, that that increase was at least in

18 part due to the -- the strike that we had in the -- in

19 the fall, the strike with our bargaining unit -- major

20 bargaining unit in the fall of 2009, which increased

21 costs by some $6 million.

22

23   (BRIEF PAUSE)

24

25   MR. DARREN RAINKIE: Mr. -- Mr. Peters,

 1 just to add to that, we filed that information as part

 2 of PUB MH-159D. And -- and you'll recall that there

 3 were also costs related to the KPMG risk management

 4 review, as well. I think those two (2) points are

 5 probably the -- the biggest reason for that increase;

 6 the two (2) points being the strike and the KPMG

 7 review.

 8   MR. BOB PETERS: Thank you, Mr.

 9 Rainkie. By August of 2010, which is Manitoba Hydro's

10 fiscal 2011 year, Manitoba Hydro's president issues a

11 third memo on OM&A, dated August 13th, Mr. Warden?

12   MR. VINCE WARDEN: Yes.

13   MR. BOB PETERS: And it's found at page

14 162 of the book of documents.

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

16   MR. BOB PETERS: And in this memo,

17 additional cost constraint measures were -- were

18 implemented or imposed?

19   MR. VINCE WARDEN: Yes.

20   MR. BOB PETERS: And that is the

21 restriction on non-essential travel, which -- do I

22 understand correctly remains to this day?

23   MR. VINCE WARDEN: Yes, it does.

24   MR. BOB PETERS: And there was a freeze

25 on filling vacant staff positions. Does that exist to

1 this day?

2   MR. VINCE WARDEN: Yeah. You know, I

3 probably wouldn't describe it as a freeze. It's a

4 restriction on the filling of vacant staff position,

5 because there are a number of vacancies that simply

6 cannot be left unfilled.

7   MR. BOB PETERS: Likewise, a reduction

8 in overtime costs was targeted by the former president?

9   MR. VINCE WARDEN: Yes.

10   MR. BOB PETERS: And a potential freeze

11 on executive and management salaries is also mentioned.

12 Did that happen?

13   MR. VINCE WARDEN: Well, management and

14 executive salaries were subject to the same two (2)

15 years of zero percent increases, or zero percent no

16 increases, that all of the bargaining unit employees

17 were subject to.

18   THE CHAIRPERSON: I'm sorry, zero

19 percent for two (2) years? Which two (2) years and

20 which staff?

21   MR. VINCE WARDEN: Yes, it was all

22 staff. Zero percent -- just -- if you just give me one

23 (1) minute I'll confirm the -- the time-frame. Just

24 one (1) second.

25

1407

1   (BRIEF PAUSE)

2

3   MR. VINCE WARDEN: So increases that

4   normally would have been awarded January the 1st, 2010,

5   were zero for that year, and a further zero is part of

6   the recent negotiations that were just concluded with

7   IBEW. So that zero will be for 2013, the current

8   fiscal -- or the -- or the -- effective January the

9   1st, 2013, the -- there'll be a zero for that year,

10 which we'll apply to all bargaining units and

11 management and executive staff.

12

13 CONTINUED BY MR. BOB PETERS:

14   MR. BOB PETERS: And what of the

15 intervening years, Mr. Warden; January 1st, 2011?

16   MR. VINCE WARDEN: January the 1st,

17 2011, there was a 2.5 percent general increase.

18 January the 1st, 2012, was a 2.5 percent general

19 increase. And no increases until January the 1st,

20 2014.

21   MR. BOB PETERS: Of how much on that

22 date?

23   MR. VINCE WARDEN: According to what

24 has been negotiated with IBEW, our largest bargaining

25 unit, January the 1st, 2014, is 2.75 percent; and a

1 further 2.75 percent effective January the 1st, 2015.

2   MR. BOB PETERS: Would it be correct to

3 assume that those same percentages were afforded to

4 management and executives, as well?

5   MR. VINCE WARDEN: Well, with respect

6 to the last agreement that I just referenced with IBEW

7 we are just currently embarking on negotiations with

8 the other bargaining units, that being CUPE, Canadian

9 Union of Public Employees; our gas workers, Canadian --

10 CEP; and -- and the association of staff and

11 supervisory employees.

12   So those -- those three (3) bargaining

13 units have not concluded negotiations yet.

14

15   (BRIEF PAUSE)

16

17   MR. RAYMOND LAFOND: Mr. Peters, before

18 we move to the next tab, on page 164, "Capital

19 Rationalization," third line, we say:

20   "Will require debt financing regular

21   or base capital."

22   What is your definition of "base

23 capital"?

24   MR. VINCE WARDEN: So we identify all

25 of our major new generation and construction, and we

 1 have approximately fifteen (15) projects that fall into

 2 that category, including such projects as Wuskwatim,

 3 Keeyask, Conawapa, Bipole 3, the Pointe du Bois. So

 4 those are -- those are -- are what we call major new

 5 generation and transmission. All other capital is

 6 referred to as base capital.

 7   MR. RAYMOND LAFOND: Give me some

 8 examples of the major ones.

 9   MR. VINCE WARDEN: Of the base capital?

10   MR. RAYMOND LAFOND: Yes.

11   MR. VINCE WARDEN: Well, we would have

12 station upgrades, upgrades to distribution stations, or

13 -- or some of our generating stations, as well. If

14 they're just upgrades, or not just -- I should -- I

15 shouldn't say just, some of them are quite major, but

16 upgrades to existing generation, transmission,

17 distribution lines, customer service. A big portion of

18 the base capital is new service extensions to

19 customers.

20   MR. RAYMOND LAFOND: So, for instance,

21 Pointe du Bois is base capital because it is not

22 additional?

23   MR. VINCE WARDEN: No. Pointe --

24 Pointe du Bois was identified as a major new generation

25 and -- and construction. Just mainly because of the

 1 magnitude of the -- of the expenditure.

 2   An expenditures of that size would

 3 distort our base capital. We try to -- try to keep our

 4 base capital in the order of $500 million per year, and

 5 all other major new generation. So Pointe du Bois was

 6 put in with major new generation and transmission for

 7 that reason.

 8   MR. RAYMOND LAFOND: So there's no

 9 precise definition? It's -- like for instance, the new

10 office building would have been a new generation?

11   MR. VINCE WARDEN: Actually it was,

12 yes. We -- we made an exception for the new off --

13 even though it's not new generation and transmission,

14 we did include that as a separate line item within that

15 category. So, as again, because of the magnitude of

16 the expenditure not -- so as to not distort our base

17 capital.

18   MR. RAYMOND LAFOND: So, essentially,

19 the -- whether or not you put it into one (1) category

20 or the other is really the size of the expense.

21   MR. VINCE WARDEN: Essentially. Some

22 judgment involved in that, as well, because there are

23 some fairly major capital expenditures in base capital,

24 as well.

25   MR. RAYMOND LAFOND: Who makes that

 1 decision?

 2   MR. VINCE WARDEN: The executive

 3 committee ultimately would make that decision.

 4   MR. RAYMOND LAFOND: Thank you.

 5

 6   (BRIEF PAUSE)

 7

 8   MR. VINCE WARDEN: Mr. Lafond, I might

 9 just -- for your further information, if you'd like to

10 refer to that specifically, the listing of major new

11 generation and transmission and what's included in base

12 capital, if you refer to Manitoba Hydro's IFF12, there

13 is a tab in there for the capital expenditure forecast

14 at page 29.

15   MR. RAYMOND LAFOND: I have it.

16   MR. VINCE WARDEN: So that first page

17 lists all of the major new generation and transmission,

18 and then the subsequent four (4), five (5), six (6),

19 seven (7) pages lists all of the -- what would be

20 classified as base capital.

21

22 CONTINUED BY MR. BOB PETERS:

23   MR. BOB PETERS: Mr. Warden, while I'm

24 on that point, would it -- would a distinction also be

25 that major capital projects are designed to provide

1412

1 additional resources over and above what Manitoba Hydro

2 already has in terms of generation?

3   MR. VINCE WARDEN: Well, with the

4 exception we just noted; the new head office was an

5 exception, the Pointe du Bois is an exception.

6   MR. BOB PETERS: But the general -- the

7 general principle is that if -- if the resource brings

8 in new hydraulic generation, or, I suppose, thermal

9 generation, it becomes a major capital project.

10 Whereas, if it's repair, maintenance, or upgrades on

11 existing that doesn't enhance the energy capabilities,

12 then it -- it has to -- it's generally slotted into

13 base capital?

14   MR. VINCE WARDEN: Generally speaking,

15 that's true. We use base capital and sustaining

16 capital as somewhat interchangeable terms, so yes, that

17 -- that would be consistent with what -- what you just

18 said.

19   MR. BOB PETERS: Mr. Warden, perhaps,

20 following on some of the discussion you've had with the

21 panel, was it contemplated by Manitoba Hydro that if

22 Manitoba Hydro achieved a capital structure of 25

23 percent equity and then didn't have any major capital

24 plans, it could envision rate increases being tied to

25 inflation, or approximately inflation?

1413

 1   MR. VINCE WARDEN: Well, I think our

 2 rate increases have been -- if you look at it over the

 3 past twenty (20) years for sure -- they're

 4 approximately equal to rate of inflation over that

 5 period of time. So our -- our goal is always to have

 6 rate increases or rate change that are closely aligned

 7 with the rates of inflation.

 8   But with respect to the achievement of

 9 our long sought after debt-equity target, yes, that was

10 the thought: If we -- if we reach that target, we, in

11 effect, have covered for the majority of -- covered the

12 majority of our risks. There would be no need for rate

13 increases beyond that -- beyond that point other than

14 to maintain the -- the debt-equity level. Not ignoring

15 the other targets, though. We have to keep in mind

16 that we also have targets for interest coverage and

17 capital coverage, as well.

18   MR. BOB PETERS: And do you agree that

19 inflation really on -- only impacts on the OM&A expense

20 line item on the IFF, as opposed to the other expense

21 items?

22   MR. VINCE WARDEN: No, not really.

23 Inflation has a direct impact on the state of the -- or

24 is a reflection of the state of the economy, which has

25 a direct linkage to interest rates that we -- that we

1 pay as well. So -- so no, it's -- it's not only OM&A

2 that is affected by inflation.

3   MR. BOB PETERS: But your finance

4 expense doesn't fluctuate annually by the rate of

5 inflation, does it?

6   MR. VINCE WARDEN: No, it doesn't. But

7 over the long-term there's a linkage between the --

8 between the two (2).

9   MR. BOB PETERS: Over the long-term,

10 the new rates at which you negotiate your debt will

11 have some inflation factor built into them?

12   MR. VINCE WARDEN: Yes. And the short-

13 term debt is more so affected by -- by inflationary

14 factors; things that are going on in the marketplace

15 that affect our -- our short-term debt. And we try to

16 maintain our -- our floating-rate debt at approximately

17 20 percent of our total debt, so it's going to be

18 affected by short-term events, and -- and inflation

19 being one of those.

20   MR. BOB PETERS: And, Mr. Warden, you

21 told the Board that if you go back twenty (20) years

22 and look at inflation compared to the rate increases

23 you've recovered, you might be closely aligned to

24 inflation; is what I took from one (1) of your answers

25 just a few minutes ago?

1415

 1   MR. VINCE WARDEN: Yes.

 2   MR. BOB PETERS: What that brings into

 3 play is that, I suppose, in the 1990s you've mentioned

 4 that there were periods of time when no rate increases

 5 were sought by the Corporation?

 6   MR. VINCE WARDEN: That's right.

 7   MR. BOB PETERS: And that as mandated

 8 by the province?

 9   MR. VINCE WARDEN: No, no. That was a

10 decision of the Board of -- of Manitoba Hydro. There

11 was a period, if you go back even further in history,

12 there was a -- a rate freeze mandated by the -- by the

13 province. But that's going way back into -- into the

14 '70s.

15   MR. BOB PETERS: So somebody told you

16 about it? But, Mr. -- Mr. Warden, my serious point of

17 getting there is, the fact that Manitoba Hydro had no

18 rate increases in some years back in the '90s isn't

19 relevant to today's situation, is it, because once you

20 get to 75:25 you've met your target?

21   MR. VINCE WARDEN: Not necessarily

22 relevant to -- to today's situation. But I think I was

23 just responding to your question as to whether or not

24 it was a long-term goal of rates to be -- rate

25 increases to be aligned with inflation.

 1   MR. BOB PETERS: How fast, or how

 2 slowly, Manitoba Hydro got to their -- their debt-

 3 equity target, the fact is Manitoba Hydro is there?

 4   MR. VINCE WARDEN: Yes.

 5   MR. BOB PETERS: And maybe help me

 6 mathematically with this, but the base rates are

 7 exactly where they would have ended up, even if there

 8 were rate increases in the 1990s, if the 75:25 debt-

 9 equity target was the target?

10   MR. VINCE WARDEN: Well, yeah, I -- I

11 can agree with that. If we -- if we had rate increases

12 that were exactly equal with the rate of inflation over

13 that twenty (20) year period, base rates that we see

14 today would be approximately equal to where they are,

15 yes.

16   MR. BOB PETERS: What we do know from

17 earlier discussion in this hearing, is that in some of

18 the years leading up to Manitoba Hydro achieving its

19 debt-equity target, the rate increases were

20 considerably higher than inflation.

21   MR. VINCE WARDEN: Yes, there were a

22 couple of years in which there were 5 percent rate

23 increases.

24   MR. BOB PETERS: And we know that since

25 2008, when Manitoba Hydro did achieve its debt-equity

1417

1 target of 75:25, rate increases have exceeded

2 inflation?

3   MR. VINCE WARDEN: Yes.

4   MR. BOB PETERS: And we also know from

5 your IFF12 that was marked as Manitoba Hydro Exhibit 9

6 in these proceedings, that for the next eighteen (18)

7 years after these two (2) test years, and I guess even

8 including these two (2) test years, so the next twenty

9 (20) years, the rate increases are forecast to be at

10 least twice inflation?

11   MR. VINCE WARDEN: Well, you did say

12 forecast. And -- and we have to keep that it mind,

13 that it is just a forecast at this point in time and it

14 will be updated annually as conditions change, as we

15 know they will. It's only an indication,

16 directionally, at this -- at this stage. We're only

17 asking -- as you know, only asking for the 3.5 percent

18 effective April the 1st, 2013.

19   MR. BOB PETERS: No, I have your point,

20 Mr. Warden. But then forecast forward, Manitoba Hydro

21 has downgraded its inflation forecast from 2 percent;

22 it brings it down to more like one point seven (1.7) or

23 one point nine (1.9) in most years?

24   MR. VINCE WARDEN: Yes.

25   MR. BOB PETERS: And so the rate

1 increase is 3.95 percent?

2   MR. VINCE WARDEN: Yes.

3   MR. BOB PETERS: As opposed to 4

4 percent? Is that just an optics, or is that a

5 mathematical calculation?

6   MR. VINCE WARDEN: No, no, it is a

7 mathematical calculation. That is their equal annual

8 rate increase required to get back to our 75:25 target

9 by the end of the forecast period, by the end of that

10 twenty (20) year period.

11   MR. BOB PETERS: I just can't recall

12 there being rate increases to the second decimal, but

13 I'm sure there have been, but I've just forgotten them

14 as I sit here. But --

15   MR. VINCE WARDEN: Yes, yes, there have

16 been, actually.

17   MR. BOB PETERS: Jumping ahead, but

18 perhaps it's germane to the Board at this point in

19 time, and, Mr. Rainkie, you will discuss with the

20 Board, perhaps even later this afternoon, Manitoba

21 Hydro is proposing to -- to write off against retained

22 earnings rate regulated assets that are at least $225

23 million in value?

24   MR. DARREN RAINKIE: Mr. Peters, just

25 to be clear, we're not proposing if something doesn't

1 change in the standards, or an interim standard

2 permitting rate regulated accounting isn't issued; we

3 will have to. It's not an election by Manitoba Hydro.

4   MR. BOB PETERS: Okay. We'll discuss

5 that further, Mr. Rainkie, but I've got your attention.

6 The -- the point you're telling the Board is two

7 hundred and twenty-five dollars ($225) of rate

8 regulated assets are included in the new IFF12 as being

9 written off in -- not in the test years anymore, but

10 the year following the test years?

11   MR. DARREN RAINKIE: If it were only

12 two hundred and twenty-five dollars ($225). I think

13 you have to put a million --

14   MR. BOB PETERS: Is that what I said?

15   MR. DARREN RAINKIE: -- a million

16 behind that, Mr. Peters. Perhaps, some other

17 observations on -- on your line of questioning because

18 I'm not quite sure what your theory is on a go-forward

19 basis, but when we -- when we think about the goal of

20 having rate increases and inflation we have to remember

21 about two (2) other things. One (1) is the significant

22 decline in export revenues, and that export revenues is

23 -- that we put in all the material. Mr. Thomson talked

24 about that as the driver for the rate increases in the

25 test years. Number 2, we also have, you know, aging

1420

1 infrastructure and we're spending, as Mr. Warden said,

2 upwards of half a billion dollars a year on base

3 capital. So if you take that out twenty (20) years

4 that's $10 billion of capital.

5   So you're replacing some of your old

6 imbedded costs at the new costs for the -- even on base

7 capital. So, you know, those are factors in our cost

8 structure as well that you have to -- it -- it's just

9 not the spending on major generation and transmission

10 that -- that's, you know, changing our cost structure.

11 There's also base business issues that are without

12 major new generation and transmission that is putting

13 cost pressures on our bottom line.

14   MR. BOB PETERS: Thank you, Mr.

15 Rainkie. Back to my point, and if I misspoke I

16 apologize, but the -- the $225 million of rate

17 regulated assets that will be written off to -- against

18 Manitoba Hydro's retained earnings, that in and of

19 itself causes pressure on the rate increases, correct?

20   MR. DARREN RAINKIE: I don't think in

21 and of itself it does, Mr. Peters, because we tend to

22 draw a straight line through our rate increases.

23 Certainly it reduces our retained earnings in the short

24 period of the -- the early period of the IFF

25   But it's only a timing difference. We

 1 would have to expense those costs over some period of

 2 time. So we are writing them off at one (1) point in

 3 time under the IFRS scenario, but I think if you get

 4 out about ten (10) years in the forecast the debt to

 5 equity ratio is about the same whether or not we write

 6 off the rate-regulated assets.

 7   So it's simply a timing difference. If

 8 Manitoba Hydro was to ask for a rate increase to

 9 compensate for that write-off, I think it's in the

10 material something like 61 percent, which we of course

11 would never do. So let's not leave the impression that

12 we would ever ask for that rate increase. We will use

13 our cost of service rate-setting to smooth -- you know,

14 smooth it over time, and -- and in time it will

15 reverse. It's simply a timing difference.

16   MR. VINCE WARDEN: I might just -- just

17 to further that, Mr. Peters. I think Manitoba Hydro is

18 very fortunate that we have -- our -- our rate

19 regulated assets are -- are very small compared to

20 other utilities.

21   So we talked earlier about BC hydro.

22 Their rate regulated assets are 2.4 billion, so they

23 have a huge problem there that -- that Manitoba Hydro

24 doesn't have.

25   So the -- the write-off that we will, if

1422

1 we in fact do go to IFRS and rate-regulated accounting

2 is not eventually determined to be permissible, it's --

3 it's very manageable. The amount we're going to write

4 off to retained earnings is very manageable, and we

5 will recover that over a period of time.

6   I think one (1) other point I -- I'd

7 like to make with respect to our future rate increase

8 projection is that, as I mentioned earlier, 3.95

9 percent is just a mathematical calculation as to get --

10 what it takes to get back to 75:25 by the end of the

11 forecast period. But we have to remember that Conawapa

12 is coming into service -- not coming into service until

13 the very end of that forecast, out at -- in 2025/'26.

14 At that point Conawapa starts to generate significant

15 revenue.

16   So if we were to extend our forecast

17 further, beyond twenty (20) years, which we do for

18 internal purposes in scenar -- other -- looking at

19 other scenarios, we would see a very large increase in

20 revenues in the years subsequent to the twenty (20)

21 year forecast period.

22   So I think as we proceed down this path,

23 management will be make -- will be looking at our

24 forecast, making sure they're still on track. And if

25 that expectation of revenues at -- ten (10) years from

1 now, if we look at our twenty (20) year forecast and

2 we're going to see these -- these large revenues coming

3 in from Conawapa, I would expect that those rate

4 increase requests to this Board would be moderated

5 significantly.

6   So I wouldn't put too much emphasis on

7 the 3.95 percent for that twenty (20) year period --

8 or, eighteen (18) year period.

9   MR. RAYMOND LAFOND: Can I come in

10 here? I hear you in terms of, for instance, Conawapa;

11 but Wuskwatim has just come and has -- that does not

12 reduce rates whatsoever. Like why is the analogy not

13 similar?

14   MR. VINCE WARDEN: I think the analogy

15 isn't similar because Conawapa -- or, Wuskwatim was

16 brought in at a time when there was huge escalation in

17 commodity prices around the world. And as a matter of

18 fact, there's a -- an article that we filed at this

19 last -- or, the last proceeding. I think it was

20 called, "Sticker Shock," or some such thing, that

21 referred to just that phenomenon.

22   So it wasn't just Manitoba Hydro that

23 was experiencing those huge increases in costs that we

24 saw with Wuskwatim. We have taken a little bit

25 different approach with both our fore -- forecasts for

1 both Keeyask and Conawapa in that we've provided a risk

2 -- a management risk amount in those forecasts such

3 that we've made some provision for any kind of cost

4 increases.

5   So I think we've -- whereas with

6 Wuskwatim, we didn't provide for that risk factor, we -

7 - we have with these other projects such that we won't

8 see a similar circumstance with those projects going

9 forward. There's no guarantees, of course. We don't

10 know what's going to happen with prices in the future.

11 But I think we're better prepared in our forecasts now

12 to deal with that than we were with Wuskwatim.

13   MR. RAYMOND LAFOND: I -- I -- you

14 know, this is probably a case for the NFAATs. I'm not

15 going to go further on Conawapa, just -- it was just a

16 matter of finding out why Wuskwatim was not the same

17 thing.

18   Now, really, when -- when sitting here,

19 and I look what has happened over the nine (9) -- the

20 last nine (9) years and we've had great water flows, so

21 that increases volume, so that helps the bottom line,

22 because that's unexpected revenues, essentially.

23   Inflation rate has been relatively low

24 over the last five (5) and more years. Depreciation,

25 unless you go to new projects, does not increase on a

1425

1 year-to-year basis. And finance expenses, I mean,

2 interest rates have really declined substantially in

3 the last five (5) to ten (10) years. So whenever

4 you're renewing debt it's at a lower rate than you had

5 it prior.

6   So it seems to me, when I look at the

7 increases in rates for the last few years, it is

8 substantially above inflation in spite of these good

9 factors: lower interest rates, great water flows and

10 therefore more exports. Depreciation is a fixed

11 expense. It does not go up by -- by inflation.

12   And so that -- that really is difficult

13 to -- when looking at the global picture, why this is

14 happening.

15   MR. VINCE WARDEN: But -- but --

16   MR. RAYMOND LAFOND: I will add except

17 -- except for the fact of new construction projects

18 coming in and having to build some equity for these new

19 construction projects.

20   MR. VINCE WARDEN: Well, Mr. Lafond,

21 the major, major factor that you didn't reference is

22 export prices. So the bottom has fallen out of our

23 export price market. And, you know, I indicated

24 earlier, over the past four (4) years our export --

25 amount of our exports sales, despite the fact we've had

 1 excellent water flow conditions over tho -- that period

 2 of time, our exports -- the total value of our exports

 3 has gone down by 42 percent over that same period of

 4 time. That's the major reason.

 5   MR. RAYMOND LAFOND: That's true.

 6   MR. DARREN RAINKIE: Mr. Lafond, I

 7 would also add that we had suffered a drought in

 8 2003/'04, so some of the rate increases right after

 9 that period of time were -- were to recover the effects

10 of that drought. And then as Mr. Warden mentioned,

11 after that, net export revenues have been decreasing

12 fairly significantly in the last couple of years. So

13 those are probably the two (2) largest factors.

14   MR. RAYMOND LAFOND: Well, I -- I will

15 ask this question now, and maybe we'll deal with it

16 later. And if that's the case, please let me know and

17 we'll deal with it then.

18   Generally speaking, when any business

19 looks at a new project, it has to raise the equity, the

20 25 or -- or 40 percent required, before the project

21 states -- starts. So in our case we need the rates not

22 to build -- not to maintain the equity -- the equity at

23 25 percent over these huge projects, but rather just to

24 take care of the current operations due to decreased

25 export prices.

1427

1   Am I right in assuming that?

2   MR. VINCE WARDEN: Yes, you are right.

3 The amount of capital we need for these major projects

4 will, for all intents and purposes, be debt financed.

5 So we'll be financing that through debt.

6   MR. RAYMOND LAFOND: We have to admit,

7 as Manitobans who are not only consumers but investors,

8 that really increases the risk of -- of the utility,

9 because generally speaking, from a business

10 perspective, you make sure you have some equity ahead

11 of time to take care of some unforeseens.

12   MR. VINCE WARDEN: And -- and, you

13 know, we are in the fortunate position that we do have

14 equity. We do have $2.5 billion of equity. We do have

15 our financial ratio at 75:25. So embarking on these

16 projects, we're in a pretty good place. There -- not

17 to say that there isn't risk going forward. There --

18 there certainly is, and that's going to be the subject

19 of the NFAAT hearings for sure. But if you look at our

20 forecast and you look at the recovery over that twenty

21 (20) year period through revenues that are generated

22 from those projects, it looks pretty good. Now,

23 there's lots of risks around that, but that's probably

24 discussion for another day.

25   MR. RAYMOND LAFOND: But it does go

1428

1 down to 10 percent? The equity ratio, it does come

2 down to twenty (20) -- to 10 percent, and that's

3 assuming no increases in interest rates, if I read this

4 correctly.

5   MR. VINCE WARDEN: It does. The equity

6 ratio does go down to 10 percent. Then you have to ask

7 yourself: Do you have a sufficient -- sufficient level

8 of equity in absolute dollar terms to meet the risks of

9 the Corporation over that period of time? So if we

10 have a major drought, a five (5) year drought costing

11 1.6 billion, can we withstand that without going into

12 negative retained earnings, which, of course, would be

13 disastrous? But, yes, we -- we -- the answer to that

14 is yes, we do have sufficient retained earnings. And

15 if you look at -- even though the ratio goes down to 10

16 percent, our retained earnings continue to increase

17 modestly over that period of time.

18   MR. RAYMOND LAFOND: But we could not

19 afford several factors happening at the same time; for

20 instance, substantially increased interest rates and a

21 drought, followed shortly after by a second drought?

22   MR. VINCE WARDEN: Well, that's right.

23 If we had back-to-back droughts, it -- it would be --

24 you know, there -- there -- we can only provide for so

25 much, though, you know? There are risks going forward.

1429

 1 We provide for those risks as best we can. If there is

 2 an event, an unprecedented event, then we would have to

 3 deal with that at the time.

 4   I -- I just want to make sure we're

 5 clear, though, that even though I did say that the

 6 majority of those major projects will be debt financed,

 7 there is a portion that is financed from internally

 8 generated funds. So to the extent that we generate

 9 more funds internally than we need to fund base

10 capital, any excess would be -- would be invested in

11 those -- that major new generation transmission.

12   MR. RAYMOND LAFOND: If I understood

13 the presentations by Mr. Cormie and others, essentially

14 we have built in average water flows, taking into

15 consideration droughts over the long-term. Over the

16 short-term could be a problem; but over the long-term,

17 they're built in the forecast.

18   Am I correct in assuming that?

19   MR. VINCE WARDEN: Yes.

20   MR. RAYMOND LAFOND: Now, that's the

21 case for the generation of electricity. But in terms

22 of financing costs or interest rates, we are projecting

23 over the future at the current rates and not at average

24 rates, for instance, over the last thirty (30) years or

25 fifty (50) years?

 1   MR. VINCE WARDEN: The rates going

 2 forward are -- are based on our best projection of what

 3 those rates will be when -- when the funds are required

 4 to be borrowed, yes.

 5   MR. RAYMOND LAFOND: Which is at --

 6 which are at increased rates to what they are today?

 7   MR. VINCE WARDEN: Yes. We're at an

 8 all-time low, in terms of our borrowing costs, and they

 9 are projected to increase modestly --- not -- not

10 dramatically, but modestly -- over -- over the next ten

11 (10) -- ten (10) years.

12   MR. RAYMOND LAFOND: I sit on another -

13 - another board whereby at the end of the year -- we

14 have fifteen (15) year fixed interest rates. And at

15 the end of the year, we have, for the auditors, to

16 reflect the fair-value adjustment to retained earnings,

17 therefore being a substantial reduction of -- to --

18 retained earnings, simply because borrowing at 5.5

19 percent, for instance, when today you could borrow the

20 same amount of dollars for the same maturity date at 4

21 percent, requires a major discounted value adjustment

22 to retained earnings. And I checked the financial

23 statements, and it does not seem as is -- as if my --

24 Manitoba Hydro is required to do this, or -- and if it

25 will be under IFRS, I did not see this as one of the

1431

1 adjustments, not to the income statement, but to

2 retained earnings.

3   MR. VINCE WARDEN: Yes, we actually

4 reflect that amount in a note to the financial

5 statements.

6   MR. RAYMOND LAFOND: Could you tell me

7 where that is?

8   MR. VINCE WARDEN: Yes. Mr. Rainkie is

9 just looking it up as we speak here, I think.

10   MR. RAYMOND LAFOND: It is in a note

11 and not as an adjustment to the retained earnings.

12   MR. VINCE WARDEN: It is; it is in a

13 note.

14

15   (BRIEF PAUSE)

16

17   MR. RAYMOND LAFOND: And your auditors

18 agreed to that?

19   MR. VINCE WARDEN: Oh, yes, that's in

20 accordance with Canadian GAAP.

21

22   (BRIEF PAUSE)

23

24   MR. DARREN RAINKIE: Mr. Lafond, if you

25 look at note 16, page 74 of our last annual report,

1 there's a chart on financial instruments, and it has,

2 "Carrying Value" and "Fair Value." And if you go down

3 under "Other Financial Liabilities," you'll see, "Long-

4 term Debt, Including Current Portion."

5   So the carrying value is $9.4 billion,

6 and the fair value is 11.7 billion. I think that's

7 what you're referring to as the disclosure of the

8 difference between carrying value and fair value at

9 today's interest rates?

10   MR. RAYMOND LAFOND: Yes.

11   MR. DARREN RAINKIE: And just a

12 previous question, you were interested in our interest

13 rates that we put into our IFF12 and where they are in

14 the future relative to where they are today.

15   Sorry to quick -- I keep switching

16 documents but -- oh --

17   MR. RAYMOND LAFOND: Maybe we can

18 finish on this --

19   MR. DARREN RAINKIE: Sure

20   MR. RAYMOND LAFOND: -- note 16 first.

21   MR. DARREN RAINKIE: Sure.

22   MR. RAYMOND LAFOND: So if you had to

23 adjust your retained earnings based on that you would

24 have to adjust your -- I mean, your retained earnings

25 would essentially disappear.

 1

 2   (BRIEF PAUSE)

 3

 4   MR. DARREN RAINKIE: I'm not sure why

 5   we would adjust retained earnings. We're -- we're

 6   carrying these -- these debt costs at amortized costs.

 7   This is just, I think, providing an idea of what the --

 8   the debt would be issued in today's terms. So I don't

 9   -- I don't think we would ever adjust retained earnings

10   for that differential. It's really just a notional

11   calculation for information for users.

12   MR. RAYMOND LAFOND: I understand that,

13   but some other corporations are obliged to adjust it to

14   retained earnings and not just put in a note.

15   MR. VINCE WARDEN: Mr. Lafond, I think

16   only on the -- on the investment side. We're talking

17   on the debt side here. There -- there'd be no

18   adjustment to retained --

19   MR. RAYMOND LAFOND: I -- I wasn't

20   referring to the debt side.

21   MR. VINCE WARDEN: I -- I -- this is a

22   leg -- we have legal obligations to repay the debt in

23   the principal amount as stated. So I -- it would not

24   make sense to adjust that to -- to current value on the

25   -- on -- to retained earnings. It's -- I -- I -- maybe

 1 I'm missing your point, but it's --

 2   MR. RAYMOND LAFOND: No, I -- I

 3 understand your reasoning very well. But I know for a

 4 fact that some other corporations -- maybe it's only

 5 the private for-profit sector -- they do have to make

 6 the adjustment to their retained earnings by that

 7 notional value difference as if they were -- they would

 8 sell that debt at market rate and replace it with lower

 9 rates -- a debt with lower rates.

10   But that's fine; I have an understanding

11 now of the issue and -- and of the impact it would be

12 otherwise.

13   MR. DARREN RAINKIE: And, Mr. Lafond,

14 that will -- even under -- if we move -- well, when we

15 move to IFRS, we'll still hold our debt at amortized

16 cost. It won't be at fair value. So that's -- for

17 publically -- you know, public companies. We don't

18 make that adjustment to our retained earnings.

19   MR. RAYMOND LAFOND: Thank you. Now we

20 can go to the other matter.

21   MR. DARREN RAINKIE: Okay, number 2.

22 Sorry to keep switching documents on you, but if you'll

23 now pull out your IFF12 document, and if you go to page

24 3 of that document, there's a Section 2.3, which

25 discloses our economic assumptions built into the

1 forecast. I'll just let you grab that, and...

2   MR. RAYMOND LAFOND: I do have it.

3   MR. DARREN RAINKIE: Okay. So if you -

4 - if you go to the middle of that table, you can see

5 our short-term debt rate assumptions over various years

6 and then our long-term debt rate assumption. And as

7 the little footnote says at the bottom of that table,

8 you have to add 1 percent as well for the provincial

9 debt guarantee fee so -- to get our total borrowing

10 costs.

11   So -- so that gives you an idea what the

12 current forecasted rates are and where we see them

13 going in the future.

14   MR. RAYMOND LAFOND: Thank you. And I

15 was going to ask you another question later on, on

16 this, as to where you do take these estimates, the --

17 these estimates of future rates?

18   MR. DARREN RAINKIE: They're based on

19 consensus forecasts of forecasters out in the

20 marketplace.

21   MR. RAYMOND LAFOND: Could you give me

22 examples of who you're using?

23   MR. DARREN RAINKIE: You know, I think

24 that there's probably an IR that lists this in gory

25 detail. But it would be, you know, the -- the

 1 chartered banks, et cetera.

 2   MR. VINCE WARDEN: Yeah, the -- the

 3 major financial institutions that -- that do this

 4 forecasting. So similar to what we have on the export

 5 price forecasting, we -- we have a -- a stable of

 6 forecasters that we use for interest rate forecasting

 7 as well. So it takes -- takes the Manitoba Hydro, any

 8 bias that we might have, out of the forecast.

 9   MR. RAYMOND LAFOND: Because this is

10 public information, could we have a copy of this just

11 to get an indication of where they are at, you know,

12 the different forecasters?

13   MR. DARREN RAINKIE: Why don't we

14 undertake to point that out to you, because I'm almost

15 a hundred percent sure it's on the record somewhere?

16   MR. RAYMOND LAFOND: Thank you very

17 much.

18   MR. DARREN RAINKIE: Sure.

19   MR. BOB PETERS: We'll ask Manitoba

20 Hydro to provide us with the information request to

21 which Mr. Rainkie is referring to respond to the Board

22 member's request. Thank you.

23

24 --- UNDERTAKING NO. 29:   Manitoba Hydro to provide

25   the Board the information

1437

 1   request which addresses the

 2   list of forecasters used

 3   for estimated future rates

 4

 5   THE CHAIRPERSON: I -- I want to follow

 6 up on the -- the statement, I think, to the effect that

 7 even if the major new capital -- new generation

 8 projects were not to proceed, that the Manitoba Hydro

 9 would probably be before this Board, asking for

10 significant increases going forward.

11   Now, there's a -- you know, there's a

12 perception out there that the kinds of increases that

13 are being requested stem largely from the new projects

14 that are being proposed, the new generation projects

15 that are being proposed.

16   And I guess if we accept what Manitoba

17 Hydro is saying, it -- it suggests to me that -- that

18 one of the messages that needs to get out to

19 ratepayers, or to the -- to people who -- who buy

20 energy from Manitoba Hydro, is that get read -- get

21 ready for increases going forward irrespective of

22 whether or not those generation projects -- the new

23 generation projects are going to be undertaken.

24   Did I -- did I get -- did I get that

25 right?

1438

1   MR. VINCE WARDEN: Yes, you did. We --

2 we've talked about the aging infrastructure issue.

3 We've talked a lot about that. So our costs are -- are

4 going to go up for that reason. But, probably more

5 importantly, do nothing is not an option. Like, we

6 need new supply for the Manitoba load in 2021/'22 time

7 frame.

8   We -- we -- if we don't build new

9 generation, new hydraulic generation, then we have to

10 put something in place. That something in place -- and

11 again, we're getting into the NFAAT -- that alternative

12 would be more expensive than what we're proposing over

13 the long term.

14   So, yes, rate increa -- there will be

15 rate increases in the future. We're hopeful -- we're

16 expecting, as a matter of fact, that those rate

17 increases will be moderated as we go forward.

18   MR. RAYMOND LAFOND: I just want to be

19 clear on that, in the sense that we would need that to

20 sustain -- to -- to, of course, supply the Manitoba

21 consumers, but also to sustain the firm contract --

22 contracts we have for exports?

23   Or are we saying that by that time, in

24 twenty (20) years from now, essentially we would only

25 be using -- selling surplus at some times of the year

1439

1 because essentially we would need most of the

2 production, or a very large portion?

3   MR. VINCE WARDEN: Well, I think my

4 point was we -- we do need new supply, new generation

5 of some source in 2021/'22 time frame. So we'll have

6 to put capital facilities in place to serve that.

7   So if, for example, it was a gas

8 combustion turbine instead of hydraulic generation, we

9 would -- we would still have surplus hydraulic to sell

10 on the export market when water conditions were above

11 dependable flows. So there al -- there will always be

12 that surplus generation there for sale on the export

13 market. But we have to be able to have supply

14 facilities in place for when water flows are -- are

15 lower than -- or, at dependable or lower levels, which

16 we know inevitably will happen.

17   MR. DAVID CORMIE: Mr. Lafond, we

18 talked about the three (3) major export contracts that

19 have been signed recently, the first one being the sale

20 agreement that goes from 2015 to 2025. That is coming

21 from existing resources. Manitoba Hydro does not have

22 to build any resources to serve that sale.

23   The sales to Wisconsin and to Minnesota

24 Power have a condition precedent that we're only

25 obligated if we build new resources. So if we choose

1440

 1 not to build new hydraulic resources, the Minnesota

 2 Power sale dies, the Wisconsin Public Service sale

 3 dies, and the 125 megawatt sale to NSP don't go

 4 through, and we slowly get out of the business of

 5 selling long-term power, because we just don't have the

 6 -- the resources.

 7

 8 CONTINUED BY MR. BOB PETERS:

 9   MR. BOB PETERS: In an effort to assist

10 the Board, Mr. Rainkie, in closing up that undertaking,

11 this could be the very first -- I won't say it will be

12 the last -- my answering a Hydro undertaking, but PUB

13 First Round 28 is a document that I've asked Ms. Ramage

14 to put before you to respond to Board member Lafond's

15 questions. In specific, this document does list some

16 of the counterparties.

17   Is this the document to which you were

18 referring, Mr. Rainkie?

19   MR. DARREN RAINKIE: It's at least one

20 (1) of them, Mr. Peters.

21   MR. BOB PETERS: And could you just

22 provide Board member with an indication as to who the

23 counterparties are that are -- that are -- whose names

24 are used in the -- in the forecasting?

25   MR. DARREN RAINKIE: Sure. So we have

 1 the major chartered banks, BMO Nesbitt Burns, CIBC,

 2 National Bank, Royal Bank, Scotiabank, TD Bank, IHS

 3 Global Insight, and Conference Board, I think, are the

 4 ones that are referenced here mister -- Mr. Peters.

 5   MR. RAYMOND LAFOND: Where are you

 6 looking at, please?

 7   MR. DARREN RAINKIE: I'm looking at the

 8 response to the First Round Information Request of the

 9 PUB number 28C.

10   MR. RAYMOND LAFOND: Thank you.

11

12   (BRIEF PAUSE)

13

14   MR. VINCE WARDEN: That's also -- Mr.

15 Lafond, referred to in Manitoba Hydro's economic

16 outlook document, which is located at Appendix 4.1 of

17 the filing.

18

19 CONTINUED BY MR. BOB PETERS:

20   MR. BOB PETERS: Mr. Rainkie, if I

21 might, I want to go back to close off this area of

22 questioning relative to those memos and directions from

23 Manitoba Hydro's former president, by just looking at

24 page 173 of Board counsel's book of documents.

25   And this is Manitoba Hydro's response to

1 Information Request PUB/Manitoba Hydro First Round 64J.

2 And for the assistance of the Board, Mr. Rainkie, you

3 can confirm that the -- that the columns of -- the four

4 (4) columns on the right-hand side, or the page are the

5 furthest to the right, those represent information that

6 was provided to the Board at the last general rate

7 application, with respect to OM&A expenses?

8   MR. DARREN RAINKIE: Yes, Mr. Peters.

9 I believe that the numbers there for 2010/'11, '11/'12

10 were based on IFF10-2, which was filed at the end of

11 the last proceeding.

12   MR. BOB PETERS: And in the four (4)

13 columns on the left-hand side of the page, those

14 represent the actual results that occurred for fiscal

15 years '10, '11, and '12 of the Corporation?

16   MR. DARREN RAINKIE: That's correct.

17   MR. BOB PETERS: And so, for example,

18 the wages -- let's pick the first line: wages and

19 salaries. At the last GRA, Manitoba Hydro's forecast

20 of compounded annual growth, as found in the furthest

21 right-hand column, was approximately 2 percent. That's

22 what was anticipated back at the GRA, Mr. Rainkie?

23   MR. DAVID CORMIE: That's correct.

24   MR. BOB PETERS: And the Board will see

25 that it actually came in closer to 5.2 percent

1443

1 increase.

2   MR. DAVID CORMIE: That's right, Mr.

3 Peters.

4   MR. BOB PETERS: All right. And a

5 number of other items can be checked, as well. Travel,

6 for example, that the GRA was going to increase

7 expected on a 2 percent compounded annual growth basis,

8 and it actually came in at negative one point eight

9 (1.8), correct?

10   MR. DAVID CORMIE: That's correct.

11   MR. BOB PETERS: And that would be due

12 to the directive of the president?

13   MR. DARREN RAINKIE: Yes, ongoing costs

14 constraints on the line item, Mr. Peters.

15   MR. BOB PETERS: And I'm not sure the

16 customer and public relations, as well as the sponsored

17 memberships, were going to decrease, was the

18 expectation based on a three (3) year compounded annual

19 growth, and the -- the decrease wasn't as -- as

20 expected.

21   Do you recall anything that -- any

22 circumstances that resulted in that?

23

24   (BRIEF PAUSE)

25

1444

 1   MR. DARREN RAINKIE: Mr. Peters, I'd

 2 have to check on that. I could probably do that

 3 quickly at the break, if it's important to you.

 4   MR. BOB PETERS: Well, I just wanted --

 5 this was one (1) of the items, Mr. Rainkie, that the

 6 president identified in his memo; that is, the

 7 sponsored memberships?

 8   MR. DARREN RAINKIE: Yes, I believe it

 9 is, Mr. Peters.

10   MR. BOB PETERS: All right. When we

11 look at total costs, Mr. Rainkie, these total costs

12 include OM&A expenses that will subsequently be

13 capitalized by Manitoba Hydro, correct?

14   MR. DARREN RAINKIE: That's correct.

15   MR. BOB PETERS: And we're looking here

16 at them -- your presentation here as considered by your

17 cost element?

18   MR. DARREN RAINKIE: That's right.

19   MR. BOB PETERS: And at the last GRA,

20 the compounded annual growth was forecast at two-point-

21 two (2.2), and it's come in about four-point-three

22 (4.3)?

23   MR. DARREN RAINKIE: That's right.

24 Both for items that will ultimately be expensed and

25 items that will ultimately be capitalized --

 1   MR. BOB PETERS: That's -- that's the

 2 whole basket of O&M expenses?

 3   MR. DARREN RAINKIE: It's the whole

 4 basket of internal costs, I suppose. As an accountant,

 5 I would only think of operating costs as being the very

 6 bottom line, but this presentation includes items that

 7 are -- that will be capitalized at the top part of the

 8 sheet, as you've noted, and then we pull the -- the

 9 capitalized amounts out at the bottom to get to a net

10 operating figure, Mr. Peters.

11   MR. BOB PETERS: But whether they're

12 capitalized or not capitalized, Mr. Rainkie, the

13 intention of the Corporation is to manage and control

14 them just the same, regardless of which -- which

15 category they end up in?

16   MR. DARREN RAINKIE: That's right.

17 They're -- they're total resource costs one (1) way or

18 another, despite the accounting treatment.

19   MR. BOB PETERS: And we can see the --

20 the magnitude of the -- the capitalization -- Mr.

21 Rainkie, just since we mentioned it, there's a line

22 item down the left-side called, "capital order

23 activities," and $243 million in '10/'11, for example,

24 actual?

25   MR. DARREN RAINKIE: That's correct.

1446

1   MR. BOB PETERS: And you'd have to add

2 that, Mr. Rainkie, to the capitalized overheads, in

3 terms of getting what amounts would be allocated on the

4 electric side as capital expense items?

5   MR. DAVID CORMIE: You understand the

6 schedule very well, Mr. Peters.

7   MR. BOB PETERS: All right. And the

8 last point then is that the -- what you call operating

9 OM&A expenses, is the number that falls to the bottom

10 line there, the three hundred and ninety-six million

11 nine hundred and sixty four thousand dollars

12 ($396,964,000) of OM&A attributed just to the electric

13 operations that would show up in the operating

14 statement?

15   MR. DARREN RAINKIE: Yes, roughly 397

16 million, Mr. Peters.

17   MR. BOB PETERS: Thank you. And, Mr.

18 Chairman, in light of the hour this might be an after -

19 - time for the afternoon break, subject to the Board's

20 wishes.

21   THE CHAIRPERSON: Okay. Let -- let's

22 recess and return at three o'clock.

23

24 --- Upon recessing at 2:46 p.m.

25 --- Upon resuming at 3:02 p.m.

1447

 1   MR. BOB PETERS: Thank you, Mr.

 2 Chairman.

 3

 4 CONTINUED BY MR. BOB PETERS:

 5   MR. BOB PETERS: If I could continue,

 6 Mr. Rainkie and Mr. Warden, one (1) document that I

 7 thought at the break might be appropriate to just bring

 8 to the Board's attention, in page 170 of Board

 9 counsel's book of documents which is PUB Exhibit 14 in

10 these proceedings, here is a cost element view with

11 some historical actual information, as well as the

12 forecast information provided based on IFF11-2.

13   Is that correct, Mr. Rainkie?

14   MR. DARREN RAINKIE: That's correct,

15 Mr. Peters.

16   MR. BOB PETERS: And on the straight

17 math, the -- the increase from the 2010 fiscal year

18 through to the test year '14 is $126 million more of

19 OM&A, but that's, as we'll come to, has been revised

20 because the Corporation has some specific plans

21 relative to how to deal with the IFRS postponement?

22   MR. DARREN RAINKIE: Yes, a significant

23 chunk of the costs from 2013/'14 will now move to

24 2014/'15 by virtue of the deferral of IFRS, Mr. Peters.

25   MR. BOB PETERS: And the -- the point

1 that I just wanted to bring to the Board's attention is

2 that Manitoba Hydro has broken out of the OM&A expenses

3 amounts that are attributed to accounting changes.

4 You'll see a line item almost at the bottom of the page

5 dealing with accounting changes to the OM&A expenses,

6 as well as a line item for Wuskwatim.

7   MR. DARREN RAINKIE: Yeah, I -- I think

8 that goes back to the question that Mr. Lafond asked at

9 the first day, is that he was saying, Well, how do I

10 make sense of this schedule?

11   And -- and this is our attempt to

12 normalize it, because the accounting changes and the

13 in-service at Wuskwatim is simply changing the -- the

14 costs as presented at the bottom line. We're trying

15 to, if you like, normalize out our base spending so

16 that the Board can evaluate how good we've been at

17 controlling costs.

18   MR. BOB PETERS: When you say

19 "normalize" what you're attempting to explain to the

20 Board, Mr. Rainkie, is that the accounting changes that

21 have been in -- that -- that influence OM&A are -- are

22 timing issues?

23   MR. DARREN RAINKIE: There are

24 certainly timing issues in the recognition of costs,

25 but they're also making the -- the final numbers. If

 1 you just looked at the numbers and didn't understand

 2 what was going on, you'd come to the conclusion that

 3 costs are, you know, increasing at a rapid rate. Like,

 4 the underlying costs; the decisions that we're making

 5 every day to staffing, those types of things.

 6   So what it's trying to do is kind of

 7 normalize it. Get it -- get back to our base

 8 expenditures before some of these accounting changes

 9 occurred, so that the Board has a way of evaluating how

10 costs have increased during that period of time, Mr.

11 Peters.

12   MR. BOB PETERS: Instead of seeing OM&A

13 attributed to electric operations going from 377

14 million up to 531 million, you're saying the normalized

15 view would see that same amount going from 366 million

16 up to 382 million?

17   MR. DARREN RAINKIE: That's correct,

18 Mr. Peters.

19   MR. BOB PETERS: All right. I think we

20 have your point. I want to turn --

21   MR. VINCE WARDEN: Mr. Peters, I might

22 just point out though, this was based on, I believe,

23 IFF11-2, which has since been updated. So the most

24 current comparison would be in -- in the reference to

25 Manitoba Hydro -- Hydro Exhibit 15, page 19, is -- is

1450

1 the most current fore -- forecast of our OM&A for

2 electric operations.

3   MR. BOB PETERS: Thank you. Thank you,

4 Mr. Warden. Why don't we take a minute to look at that

5 since you raised it. To Mr. Rainkie: You have that as

6 well?

7   MR. DARREN RAINKIE: I do.

8   MR. BOB PETERS: And the only

9 difference, I think, from what you and I were talking

10 about is IFF12 reduces the accounting changes and also

11 the IFRS impacts and pushes them over to a subsequent

12 general rate application, as opposed to this one?

13   MR. VINCE WARDEN: Well, no. The

14 exhibit that we -- we're referring to on page 19

15 updates for actual costs incurred for fiscal year --

16 fiscal '11/'12, compared to page 170 of the book of

17 documents, which is a forecast for that year. So it's

18 -- it's updated to reflect our -- our current actuals

19 and the best estimate for the test years.

20   MR. BOB PETERS: And your forecast of

21 363 million for the 2012 fiscal year came in at 368

22 million?

23   MR. VINCE WARDEN: That's the

24 comparable number to this schedule, yes.

25   MR. RAYMOND LAFOND: Mr. Peters, I need

1451

 1 to understand that. We're referring to the Wuskwatim

 2 expense in the -- on page 170 of the book of documents.

 3 We're seeing one (1) year of full service for Wuskwatim

 4 was one million, seven hundred and fifty-four thousand

 5 (1,754,000) as opposed to five million, five hundred

 6 and eighty-nine thousand (5,589,000) on page 19 of

 7 Exhibit 15?

 8   That looks like a very big difference.

 9

10 CONTINUED BY MR. BOB PETERS:

11   MR. BOB PETERS: Can you explain that

12 to the Board, Mr. Warden?

13   MR. VINCE WARDEN: Mr. Lafond, I'm

14 looking at the '12/'13 forecast on page 170. The

15 number for Wuskwatim under the '12/'13 heading is seven

16 million, eight eighty-one (7,881,000).

17   MR. RAYMOND LAFOND: I'm sorry, I don't

18 have that. On -- this is page 170?

19   MR. VINCE WARDEN: Yes, page 170 of --

20 of the book of documents.

21   MR. RAYMOND LAFOND: Okay. What -- oh,

22 yes, a million seven fifty-four (1,754,000) is that

23 what you're referring to?

24   MR. VINCE WARDEN: No. No, I'm looking

25 at the column previous to that, '12/'13, which is the

1 same year as you were referring to on page 19.

2   MR. RAYMOND LAFOND: Yes. Yes.

3   MR. VINCE WARDEN: So the comparable

4 numbers are seven million, eight eighty-one (7,881,000)

5 versus five million, five eighty-nine (5,589,000).

6

7 CONTINUED BY MR. BOB PETERS:

8   MR. BOB PETERS: Mr. Warden, does that

9 reflect the staging of -- of the coming into service of

10 Wuskwatim?

11   MR. VINCE WARDEN: Yes, the schedule

12 that was prepared that's in -- on page 170 of the book

13 of documents assumed a in-service schedule that was

14 updated on page 1 -- at page 19 of the exhibit.

15   MR. BOB PETERS: And the suggestion

16 then is that the annual OM&A costs attributed to

17 Wuskwatim are about $11 million a year?

18   MR. VINCE WARDEN: When fully in

19 service, yes.

20   MR. BOB PETERS: Which is what's

21 depicted --

22   MR. VINCE WARDEN: In '13/'14 column.

23   MR. BOB PETERS: Thank you.

24   MR. RAYMOND LAFOND: Can you explain to

25 me what the million, seven hundred and fifty-four

 1 thousand (1,754,000) is just a few numbers over that

 2 nine, million six thirty-five (9,635,000) on page 170,

 3 second to the last column towards the very -- at the

 4 bottom?

 5   MR. DARREN RAINKIE: That -- that

 6 figure was the -- the differential to move us from --

 7 from a partial service year during 2012/'13 up to a --

 8 a full year for 2013/'14, because it's -- the caption

 9 there is, "Wuskwatim GS for Full Year in Service." So

10 it was a -- a differential.

11   MR. RAYMOND LAFOND: A differential

12 from what?

13   MR. DARREN RAINKIE: From the --

14   MR. RAYMOND LAFOND: It was zero the

15 previous year.

16   MR. DARREN RAINKIE: It's a -- if you

17 look a couple lines down, it's the differential between

18 the seven point eight-eight-one (7.881) and nine six-

19 three-five (9.635). So we assumed that in -- on page

20 170 that was based on IFF11-2, that Wuskwatim would

21 come into service during a par -- a part of 2012/'13.

22 And that one seven-five-four (1.754) was just to simply

23 annualize that to twelve (12) months.

24   MR. RAYMOND LAFOND: Thank you.

25

1 CONTINUED BY MR. BOB PETERS:

2   MR. BOB PETERS: Mr. Rainkie, Mr.

3 Warden, over to page 178 of the book of documents,

4 under Tab 16 of Exhibit PUB 14, if you turn to staffing

5 levels, on page 178 is the response from Manitoba Hydro

6 to PUB Question First Round 38D. And you provide the

7 Board with a history of OM&A costs before

8 capitalization related to labour and benefits.

9   Do you see that information?

10   MR. DARREN RAINKIE: I have it, Mr.

11 Peters.

12   MR. BOB PETERS: Thank you. And the

13 wages and benefits portion of the OM&A expenses is

14 taken as a -- as a percentage. And the Board will see

15 that labour and benefits have increased from 74 percent

16 of the OM&A percent up to 77 percent of the OM&A costs

17 into the first test year.

18   MR. DARREN RAINKIE: A percentage of

19 the total cost before capitalization, Mr. Peters. I

20 think you have to add that on, because that's -- it's

21 the total gross cost that we talk -- talked about

22 before, the total resource costs before capitalization.

23   MR. BOB PETERS: I consider that the

24 gross cost, but maybe I'm not thinking of that

25 correctly. But that is the -- what you're telling the

1 Board, Mr. Rainkie, is that 77 percent of the

2 Corporation's entire OM&A expenditures relate to wages

3 and benefits?

4   MR. DARREN RAINKIE: That's right. I

5 think Mr. Warden had that in his presentation the first

6 day, a nice pie -- pie chart that showed that.

7   MR. RAYMOND LAFOND: But that would

8 exclude the seventeen hundred (1,700) employees as of

9 March 31st effective to construction are being

10 capitalized, and more so during the summer, correct?

11   MR. DARREN RAINKIE: That would be

12 before you capitalized. And I think if we flip the

13 page, it's about twenty-seven hundred employees (2,700)

14 employees that we really are capitalized in.

15   We talked about that the first day that

16 the -- that the construction employees and the annual

17 report is really a fixed number at a point in time. If

18 you look on page 179, that's probably a better

19 calculation of -- of how much -- how many of our

20 employees in total are capitalized. And for '11/'12,

21 it was two six-seven-eight (2.678).

22   MR. RAYMOND LAFOND: Thank you.

23

24 CONTINUED BY MR. BOB PETERS:

25   MR. BOB PETERS: Mr. Rainkie, while

1456

1 you've got the Board's attention to page 179 of the

2 book of documents, it shows that the percent of labour

3 and wages that is capitalized is a total of 41 percent,

4 correct?

5   MR. DARREN RAINKIE: Yes. Of total

6 labour and benefits, 41 percent we've calculated has

7 been capitalized in those years.

8   MR. BOB PETERS: Which means four (4)

9 out of every ten (10) employees' costs are capitalized?

10   MR. DARREN RAINKIE: I -- I guess

11 roughly, Mr. Peters, yeah.

12   MR. BOB PETERS: You don't see it that

13 way?

14   MR. DARREN RAINKIE: You know, I'll

15 accept that to move forward. If -- if I disagree with

16 your thinking in the next question, I'll let you know.

17   MR. BOB PETERS: All right. Thank you,

18 sir.

19   MR. DARREN RAINKIE: I guess, Mr.

20 Peters, my only hesitation is that that is both

21 straight time and overtime. So if we looked at the

22 last line in that schedule, it's straight time and

23 overtime. So I don't know if that percentage bears

24 out. But let's move on, I think, and -- and we'll see

25 if it makes a difference.

 1   MR. RAYMOND LAFOND: I would assume

 2 that the average cost per employee on construction is

 3 possibly substantially different than -- from the other

 4 employees not effected to construction directly.

 5   MR. DARREN RAINKIE: Yes. Somewhere

 6 here we filed in the material the average per division.

 7 And yeah, it does vary depending on the -- on the

 8 skills of the employee, of course.

 9

10 CONTINUED BY MR. BOB PETERS:

11   MR. BOB PETERS: Mr. Rainkie, Mr.

12 Warden, on page 176 of the book of documents, it raises

13 the issue of overtime that you just spoke of, Mr.

14 Rainkie. And overtime appears to be increasing. Is it

15 increasing as a -- as a percentage, or is it just

16 keeping pace with the salaries and wages that are paid?

17

18   (BRIEF PAUSE)

19

20   MR. DARREN RAINKIE: Just wondering,

21 Mr. Peters, if your -- if your cost element schedule

22 will tell us that without me resorting the hand

23 calculator?

24   MR. BOB PETERS: Let me -- let me

25 rephrase the question, Mr. Rainkie. Is -- is overtime

1458

1 predictable?

2

3   (BRIEF PAUSE)

4

5   MR. DARREN RAINKIE: It -- it can be.

6 But, of course, we can have major events, like storms,

7 that can require a substantial amount of overtime, and

8 those aren't always predictable.

9   MR. BOB PETERS: So leaving aside the

10 weather element, this overtime is expensed for what

11 other reasons that aren't weather-related?

12   MR. DARREN RAINKIE: Well, we also will

13 have overtime to maintain the in-service dates of

14 capital projects, Mr. Peters, that's embedded in these

15 -- in these figures. So there's many reasons why we

16 might incur overtime, some related to operational

17 reasons, some are related to emer -- emergencies, and

18 some related to capital projects.

19   MR. BOB PETERS: So to protect an in-

20 service date of a major capital project, Manitoba Hydro

21 may require the construction team to -- to work

22 overtime?

23   MR. DARREN RAINKIE: I guess to protect

24 in-service dates of any project, either major or

25 otherwise, they may require that, Mr. Peters.

1459

1   MR. BOB PETERS: What's the rate paid

2   on overtime? Is it...

3   MR. VINCE WARDEN: It's double time for

4   overtime. In addition to protecting in-service dates

5   though, it's also for efficiency reasons. It could

6   very well be that a crew will be on a job and rather

7   than demobilize that crew and send them back to their

8   headquarters, they'll stay and -- and finish the job

9   and incur overtime costs as a result, which is more

10 efficient than remobilizing the next day.

11

12   (BRIEF PAUSE)

13

14   MR. RAYMOND LAFOND: All overtime is

15 double time, and none is time and a half?

16   MR. VINCE WARDEN: That's right.

17

18   (BRIEF PAUSE)

19

20   MR. VINCE WARDEN: Not counting

21 management.

22   MR. DAVID CORMIE: Division by zero.

23   MR. DARREN RAINKIE: Mr. Peters, to

24 answer your last question, if you look at the book of

25 documents, page 173, it indicated that wages and

1460

1 salaries were -- for the 2009/'10 to the 2011/'12

2 period were increasing by 5.2 percent, and overtime was

3 increasing at 4.5 percent. So that gives you some

4 rough indication of your previous question.

5

6 CONTINUED BY MR. BOB PETERS:

7   MR. BOB PETERS: Thank you -- thank

8 you, Mr. Rainkie, appreciate that. I wanted to turn to

9 page 170 -- make it 180, sorry, one-eight-zero (180),

10 of the book of documents. And this page comes from the

11 last general rate application that was filed with the

12 Board.

13   And would it be correct in understanding

14 this information that at the last GRA for both '10/'11

15 and '11/'12 Hydro was forecasting about 32 percent of

16 all labour and benefits being capitalized?

17   MR. DARREN RAINKIE: That's right, Mr.

18 Peters. This was a much more simplistic calculation

19 than what has been provided in this proceeding. I can

20 go through that if you want, but I don't want to

21 forestall your next question because I'm sure you're

22 taking me there.

23   MR. BOB PETERS: Well, on a previous

24 page, Mr. Rainkie, page 179, you've already shown the

25 Board that in the current filing for the -- for the

 1 capitalization of wage and benefits, the number is

 2 closer to 40 percent, 41 percent.

 3   MR. DARREN RAINKIE: That's right. And

 4 -- and in performing this calculation this time we took

 5 a bit of a more refined approach, Mr. Peters. And the

 6 -- the eight (8) or 10 percent differential you see

 7 there is not a change in our cost structure, but rather

 8 it's a change in the approach to estimate the statistic

 9 for the Board.

10   We actually went to a much lower level

11 of detail, in terms of analyzing our costs, to provide

12 this IR this time. So it's simply a methodology change

13 in the calculation.

14

15   (BRIEF PAUSE)

16

17   MR. RAYMOND LAFOND: Just for curiosity

18 while these gentlemen are looking at their information,

19 overtime -- not overtime -- capitalized labour and

20 benefits, equ -- full-time equivalents of two thousand,

21 six hundred and seventy-eight (2,678) actual for

22 2011/2012. And when we earlier in the hearings talked

23 about March 31st being about seventeen hundred (1,700)

24 employees being capitalized at that specific date of

25 March 31st, assuming construction season lasts about

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1 four (4) months, that would mean that in actual fact

2 during the summer there would be literally four

3 thousand (4,000) plus employees on construction being

4 capitalized?

5   Does that make any sense?

6   MR. VINCE WARDEN: Well, the -- the

7 construction period at Manitoba Hydro is really year

8 round. It's just a question of when that peaks. So it

9 does peak during the summer months, but -- but

10 employees are involved in construction --

11   MR. RAYMOND LAFOND: But at that peak

12 time, the number of employees being capitalized would

13 be how many? I want a -- I'm only looking for an

14 approximate number. Like are we talking about thirty-

15 five hundred (3,500) to four thousand (4,000)?

16

17   (BRIEF PAUSE)

18

19   MR. RAYMOND LAFOND: The reason for my

20 question is, on the financial statements as of the end

21 of March, we have one thousand, six ninety-three

22 (1,693) -- let's say seventeen hundred (1,700)

23 employees at that specific date. So the full-time

24 equivalent would be more like twenty-seven hundred

25 (2,700) throughout the year as an average.

 1   I'm just looking for what the

 2 approximate peak would be during the summer.

 3   MR. VINCE WARDEN: Twenty-five hundred

 4 (2,500) capitalized during the summer.

 5   MR. RAYMOND LAFOND: Well, I don't

 6 understand that, because one point seven (1.7) as of

 7 March 31st, or -- or seventeen hundred (1,700) as of

 8 March 31st? But twenty-six hundred and seventy-eight

 9 (2,678) equivalent full time? That would mean that it

10 has to be substantially higher than twenty-six seventy-

11 eight (2,678) during the summer months at its peak

12 time.

13   MR. DARREN RAINKIE: There are a couple

14 of differences in the methodology between those two (2)

15 calculations. And I -- I think I would rely on the one

16 that's in page 179 of the PUB book of -- the counsel

17 book of documents.

18   First of all, the calculation of the --

19 of the twenty-six seventy-eight (2,678) includes

20 overtime, whereas the calculation in the annual report

21 doesn't. And one of the refinements we made to this

22 calculation this time is we looked at not only the

23 staff costs to calculate the statistic -- not only the

24 staff costs that would be capitalized through capital

25 order activities -- so time-carding -- but also a

1 portion of other employees get capitalized through our

2 overhead rate application.

3   So this twenty-six seventy-eight (2,678)

4 is calculated on a much different basis than the rather

5 simplistic calculation that we put into the annual

6 report. So I'm not sure we can get any proportionality

7 out of, you know, these two (2) numbers.

8   MR. RAYMOND LAFOND: So what I am

9 hearing is that some employees considered overhead,

10 some of their salaries are being attributed to

11 construction and, therefore, capitalized?

12   MR. DARREN RAINKIE: That's right. And

13 this figure includes those employees as well, as well

14 as overtime, whereas, the -- the calculation in the

15 annual report doesn't include either one of those

16 components.

17   MR. RAYMOND LAFOND: I guess that's a

18 policy of Manitoba Hydro I have always -- I mean, I've

19 been an auditor and I've seen many different companies.

20 And I've never seen the capitalization of overhead into

21 any construction project, whether it be a major office

22 building or -- or major -- new venture.

23   So is that -- is that more or less the

24 norm amongst utilities?

25   MR. DARREN RAINKIE: Full-cost

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1 accounting has been a -- a norm in the utility industry

2 because our business is -- we're constantly building.

3 It -- it's -- we're not -- not just an operating

4 company, we're, in large part, a capital company.

5   Now, as we indicated throughout the

6 material, we have been less a -- we have been expensing

7 more and more costs as we've gone along because the

8 interest -- industry has moved, you know, into a more

9 conservative, for lack of a better term, approach to

10 this. And -- but it is a common utility practice that

11 you would -- you would see across the industry.

12   MR. RAYMOND LAFOND: So effectively, a

13 portion of the salaries of the people sitting in front

14 of me would be capitalized?

15   MR. DARREN RAINKIE: That's correct, as

16 our overhead practices are right now.

17   MR. RAYMOND LAFOND: Thank you.

18   MR. DARREN RAINKIE: That of course

19 would -- once we move to IFRS, that is one of the

20 changes that we would make, is that unless you direct

21 timecard to a -- a capital project, support people

22 would not be capitalized.

23   MR. RAYMOND LAFOND: So that will

24 change once you adopt IFRS?

25   MR. DARREN RAINKIE: That's correct.

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1   MR. VINCE WARDEN: Mr. Lafond, I'm --

2 I'm not sure that we totally answered your question, in

3 terms of reconciling the number of employees in the

4 annual report and the peak number of employees that we

5 have during the year -- or, the average number of

6 employees that we have during the year.

7   Would you like us to reconcile that more

8 definitively than what we have just now?

9   MR. RAYMOND LAFOND: Well, unless my

10 conclusion is improper, yes. But otherwise, I'm simply

11 now assuming that there were seventeen hundred (1,700)

12 employees, or thereabouts, as -- as of the end of

13 March, but these numbers include equivalent employees

14 in overtime and also include capitalized employees in

15 overhead, while there would be no employees being

16 capitalized in overhead under the -- page 87 of the --

17 of the financial statements?

18

19   (BRIEF PAUSE)

20

21   MR. DARREN RAINKIE: That is correct,

22 Mr. Lafond.

23   MR. RAYMOND LAFOND: That is

24 sufficient. Thank you.

25   MR. DARREN RAINKIE: Okay.

 1 CONTINUED BY MR. BOB PETERS:

 2   MR. BOB PETERS: Before we move past

 3 page 173, Mr. Rainkie, you were quick enough to point

 4 the Board to the relationship between wages and

 5 salaries and overtime on the first two (2) lines for

 6 the compounded annual growth calculations.

 7   When one compares that to what was

 8 appearing before the Board at the last GRA, there

 9 appears to be a significant change in those positions.

10 Are you able to provide an explanation for that while

11 you sit here?

12

13   (BRIEF PAUSE)

14

15   MR. DARREN RAINKIE: Mr. Peters, I

16 think one (1) factor in that is that the wage

17 settlements that we talked about earlier on weren't

18 finalized at that -- that point in time, so I don't

19 think they were factored into that -- to that forecast

20 fully.

21   MR. BOB PETERS: All right. And then

22 in terms of the overtime expenses you were forecasting

23 a -- a minus one point one (1.1) compounded annual

24 growth and it came in as a positive four point five

25 (4.5) compounded annual growth on account of overtime?

1   MR. DARREN RAINKIE: Mr. Pet -- Peters,

2 I was just searching for our original section 5.5 of

3 our application where I think we explained that that

4 was largely due to construction activities. And can I

5 just check that for one (1) second, because we did

6 provide an explanation to that at the start of this

7 process?

8   MR. BOB PETERS: Okay. Please, yes.

9

10   (BRIEF PAUSE)

11

12   MR. DARREN RAINKIE: So, Mr. Peters,

13 I'll ju -- I'll give you a reference here, because we

14 provided a fairly lengthy variance explanation. But if

15 you looked at Appendix 5.6 to the Application, on page

16 8 of 13, we talk about the overtime increases resulting

17 from the protection of key in-service dates for capital

18 projects; also, an increase in the number and frequency

19 of major storms, as we talked about. So, yeah, those

20 are primarily the factors that resulted in those

21 numbers increasing.

22   MR. BOB PETERS: Are those both

23 capitalized, or just the construction capitalized, Mr.

24 Rainkie?

25

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1   (BRIEF PAUSE)

2

3   MR. DARREN RAINKIE: The storm part of

4 that wouldn't be capitalized, Mr. Peters. I don't

5 think there would be any betterment in the assets.

6

7   (BRIEF PAUSE)

8

9   MR. BOB PETERS: We were talking before

10 the afternoon recess about some metrics of comparison.

11 Mr. Warden, you also said, Well, we should benchmark

12 ourselves against ourselves in some ways. But when we

13 look to page 175 of the book of documents, Manitoba

14 Hydro has provided us with some -- some benchmarks

15 related to the equivalent full-time positions.

16   And as I understand it, Mr. Warden, for

17 all the reasons you did previously mention, those same

18 metrics, as against comparable utilities, are hard to

19 come by?

20   MR. VINCE WARDEN: Not only hard to

21 come by but very difficult to compare. You -- you have

22 to start off, Well, okay, what's the definition of an

23 EFT? And that's going to be different in different

24 utilities. So EF -- once you conclude on that, then

25 you would have to look at the source of supply, whether

1 it's -- or -- or, I'm sorry, the geography that those

2 EFTs are serving. That is -- so -- whereas in a very

3 dense population, the number of EFTs to supply 1,000

4 gigawatt hours electricity could be very few, but in a

5 dispersed geography like in Manitoba, the -- the number

6 of EFTs would naturally increase. So the comparability

7 between jurisdictions is extremely difficult.

8   MR. BOB PETERS: Was this information

9 off the annual report? Is that where the source of the

10 data came from?

11

12   (BRIEF PAUSE)

13

14   MR. DARREN RAINKIE: I think most of it

15 would come from the annual report, Mr. Peters. I'm

16 just hesitating, because the average salary and

17 benefits per straight-time EFT, I think we might have

18 calculated that through our system. I think most of

19 the other data comes right from our annual report.

20

21   (BRIEF PAUSE)

22

23   MR. DARREN RAINKIE: I think the -- Mr.

24 Peters, the next page in this IR would have provided

25 the -- the data that we used, unfortunately. You're

 1 being green.

 2

 3   (BRIEF PAUSE)

 4

 5   MR. BOB PETERS: On page 181 contains

 6 the information request, in essence, asked to compare

 7 Manitoba Hydro with some peers in other provinces.

 8   Would you agree, in -- in terms of the

 9 type of utility you have, BC Hydro and Quebec Hydro

10 would be the most comparable utilities to Manitoba

11 Hydro?

12   MR. VINCE WARDEN: Yes. We typically

13 compare ourselves to those two (2) utilities.

14   MR. BOB PETERS: Because hy --

15 primarily hydraulic --

16   MR. VINCE WARDEN: That's right.

17   MR. BOB PETERS: -- of a large nature?

18   MR. VINCE WARDEN: That's right.

19   MR. BOB PETERS: And on page 181, we

20 don't need to go through the entire explanation, but

21 the -- the short answer is that Manitoba Hydro doesn't

22 think you can use BC Hydro as a -- as a proxy anymore

23 or a peer group member just because of the way they do

24 their financial accounting?

25   MR. VINCE WARDEN: Yes.

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 1   MR. BOB PETERS: However, you do

 2 provide on the balance of the IR put in the book of

 3 documents the comparisons to Saskatchewan and Hydro-

 4 Quebec?

 5   MR. VINCE WARDEN: Yes.

 6   MR. BOB PETERS: And in terms of

 7 Saskatchewan, Saskatchewan has already adopted IFRS,

 8 starting back in 2011, Mr. Rainkie. Is that right?

 9   MR. DARREN RAINKIE: That's correct.

10   MR. BOB PETERS: So to some extent, the

11 very comparison you said you couldn't make needs to be

12 cautioned when one (1) looks at this chart?

13   MR. DARREN RAINKIE: That's right. I

14 think there was another IR after this where we made

15 some notional corrections for overhead practices and --

16 and, to be fair, to the comparison.

17

18   (BRIEF PAUSE)

19

20   MR. BOB PETERS: Mr. Rainkie, I'd like

21 to turn with you to talk about IFRS and its impacts and

22 implications, but to start the record on this, the

23 Canadian Accounting Standards Board decreed that

24 publically accountable enterprises such as Manitoba

25 Hydro are to prepare their audited accounts in

 1 accordance with international financial reporting

 2 standards?

 3   MR. DARREN RAINKIE: That would be the

 4 Public Sector Accounting Board, Mr. Peters. That's the

 5 body that directs the reporting for the government

 6 sector.

 7   MR. BOB PETERS: I mentioned the

 8 Canadian Accounting Standards Board, so I -- it's a

 9 different Board?

10   MR. DARREN RAINKIE: Yes. What happens

11 here is that the public sector accountings centre's

12 Board says that publically accountable enterprises, or

13 -- or government business enterprises like Manitoba

14 Hydro and that are sustained by their own revenues,

15 should use publically accounted -- accountable

16 accounting standards.

17   So the Public Sector Accounting Board

18 standards refers us over to the Canadian Standards

19 Board which sets the accounting standards for

20 publically -- public companies, so --

21   MR. BOB PETERS: And IFR --

22   MR. DARREN RAINKIE: -- they both have

23 a part in it, Mr. Peters, I guess.

24   MR. BOB PETERS: Okay. Well, that's

25 fine. I Appreciate that.

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1   IFRS is to replace and become Canadian

2 General Accepted Accounting Principles?

3   MR. DARREN RAINKIE: It'll no longer be

4 called that, of course, but that would be the

5 accounting principles that are generally accepted in

6 can -- in Canada as the other countries in the world

7 that adopt IFRS.

8   MR. BOB PETERS: It'll just be known as

9 Canadian GAAP, G-A-A-P?

10   MR. DARREN RAINKIE: I don't think

11 it'll be called Canadian GAAP anymore. I think it'll

12 just be called IFRS. In fact, I know it'll be called

13 IFRS, Mr. Peters.

14   MR. BOB PETERS: And that's to provide

15 the assurance that, on an international basis, people

16 are complying with the stain -- the same reporting

17 standards.

18   MR. DARREN RAINKIE: Yes, it's recog --

19 recognizing that in today's world capital flows all

20 over the world and that it's desirable -- desirable to

21 have, you know, comparable accounting practices in

22 various countries.

23   MR. BOB PETERS: Am I correct, Mr.

24 Rainkie, that at the current time, Manitoba Hydro has

25 invoked US GAAP to continue its rate regulating

 1 accounting?

 2   MR. DARREN RAINKIE: That's right, Mr.

 3 Peters. That's commonly as -- what's been done for

 4 those companies that haven't moved to -- fully to IFRS

 5 or US GAAP. They've invoked US GAAP to -- to continue

 6 rate regulated accounting.

 7   MR. BOB PETERS: Has Manitoba Hydro

 8 been using rate related accounting since its inception?

 9 Don't look to Mr. Warden for the answer to that. Was

10 that your expectation, that that's been the way it's

11 been since the beginning?

12   MR. DARREN RAINKIE: You know, Mr.

13 Peters, I -- I don't -- I don't know. I'm not sure

14 when that practice originated. It's been around as

15 long as I've been around, but I haven't been around as

16 long as Mr. Warden.

17   MR. BOB PETERS: He started the week

18 before you, didn't he.

19   MR. VINCE WARDEN: Yeah. He takes

20 every opportunity he can get.

21   MR. BOB PETERS: You --

22   MR. VINCE WARDEN: But, no, if you go

23 back in history though we didn't refer to it as "rate-

24 regulated accounting", and we didn't set it up as a

25 separate item on the balance sheet.

 1   So although we -- we followed certain

 2 regulatory accounting principles, which our auditors

 3 would not have signed off on our financial statements

 4 without the implicit endorsement, even though the

 5 endorsement wasn't explicit by the -- by the regulator,

 6 that impli -- because the regulator did approve our

 7 rates and approved in effect our -- our financial

 8 statements as a part of that, again not explicitly,

 9 that's what lead the -- or allowed the external auditor

10 to sign off on those -- on those financial statements.

11   MR. BOB PETERS: But Manitoba Hydro has

12 been using rate regulated accounting, or whatever the

13 terminology would be, since time immemorial.

14   MR. VINCE WARDEN: Yes.

15   MR. BOB PETERS: And we've -- we've

16 alluded to it a few times, but IFRS was to be

17 implemented for years commencing on and after January 1

18 of 2011 in its initial decree.

19   Have I got that right?

20   MR. DARREN RAINKIE: That's right. It

21 would have been applied for the 2011/'12 fiscal year.

22   MR. BOB PETERS: It'd be Manitoba

23 Hydro's fiscal '12 year?

24   MR. DARREN RAINKIE: That's correct.

25   MR. BOB PETERS: And -- but rate-

1 regulated accounting, as I understand it, was an issue

2 because it was not allowed under IFRS, But all

3 utilities, at least in North America, that are

4 regulated were using rate regulated accounting?

5   MR. DARREN RAINKIE: I can't speak for

6 all of them, but I think that's a very common practice

7 in North America. And it's not a very common practice

8 outside of North America, Mr. Peters.

9   MR. BOB PETERS: All right. And rate-

10 regulated accounting is allowed under Canadian GAAP and

11 under US GAAP?

12   MR. DARREN RAINKIE: Yes, it's an

13 acceptable practice under both Canadian and US GAAP.

14   MR. BOB PETERS: And, in my words,

15 because of the outcry by regulated utilities and

16 regulators, the Accounting Standards Board, both

17 Canadian and international, have agreed to study the

18 matter further?

19   MR. DARREN RAINKIE: Yes, if you

20 recall, at one (1) time there was actually an exposure

21 draft allowing rate-regulated accounting back in the

22 summer of 2009. And then by the fall of 2010, they

23 decided they had better things to do. And recently in

24 the last number of months, fortunately, it's back on

25 the agenda.

 1   MR. BOB PETERS: Okay. I'm going to

 2 try to slow you down, Mr. Rainkie, but the exposure dra

 3 -- draft that you mentioned to the Board was the, in my

 4 words again, the Accounting Standards Board's way of

 5 studying an issue?

 6   MR. DARREN RAINKIE: Yes, it's part of

 7 their public process, is to issue a draft standard and

 8 then seek comments from interested parties.

 9   MR. BOB PETERS: And when they issued

10 that exposure draft, did Manitoba Hydro provide

11 comments?

12   MR. DARREN RAINKIE: Yes, we provided

13 comments, both individually and as part of the Canadian

14 Electrical Association.

15   MR. BOB PETERS: It all led up to a

16 deferral -- I'll call it "Deferral number 1" -- in

17 approximately September of 2010?

18   MR. DARREN RAINKIE: That's right. The

19 Canadian Accounting Standards Board reacting to the --

20 I guess the indecision of the international board,

21 decided that they would defer IFRS for one (1) more

22 year at that point.

23   MR. BOB PETERS: And so it was -- it

24 was deferred from Manitoba Hydro's fiscal 2012 year, to

25 Manitoba Hydro's fiscal 2013 year?

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1   MR. DARREN RAINKIE: That's correct,

2 Mr. Peters.

3   MR. BOB PETERS: But do I have it

4 correct that regulated utilities, and perhaps even

5 regulators, continued their opposition, and in -- and

6 in March of 2012, IFRS was again delayed and this time

7 to Manitoba Hydro's fiscal 2014 year?

8   MR. DARREN RAINKIE: That's right.

9 Once again, the Canadian Accounting Standards Board

10 took stock of the situation and felt that a -- a

11 further deferral was -- as a reasonable thing to do.

12 Really didn't want to have the situation where

13 regulated utilities would write all of these assets off

14 their books, only to find that there was a standard a

15 year or two (2) later that required them to put it back

16 -- put these things back on their books. So it was

17 recognizing that situation, Mr. Peters.

18   MR. BOB PETERS: And that was -- that's

19 Deferral number 2, then, of what we talked about?

20 Another one (1) year deferral?

21   MR. DARREN RAINKIE: Deferral number 2,

22 Mr. Peters, yes.

23   MR. BOB PETERS: All right. Was there

24 not also the concern, Mr. Rainkie, that there could be

25 significant asset write-downs and impairments?

 1   MR. DARREN RAINKIE: I'm not sure about

 2 the impairment parts, but -- but -- or impairment part,

 3 but I think there was concern that billions of dollars

 4 of freight regulated assets would be written off at

 5 that point. And, like I said, there was still

 6 uncertainty about how this was -- this issue was going

 7 to finally be -- be resolved. And I think the Canadian

 8 Board wanted to -- some time to see -- take some time

 9 to see what was going to happen.

10   MR. BOB PETERS: And that's

11 particularly true for utilities that make large capital

12 investments that last many decades, and those utilities

13 that recover those costs gradually over time?

14   MR. DARREN RAINKIE: There's all sorts

15 of rate-regulated accounts, Mr. Peters. There's -- you

16 know, on the gas side of the business there's commodity

17 deferrals and -- and there's Power Smart deferrals, as

18 we have. There's just a huge number of different

19 reasons why you might use rate-regulated accounting in

20 -- in our industry.

21   MR. BOB PETERS: So at that point in

22 time Hydro prepared the GRA, the 2012/'13 and the

23 2013/'14 GRA, that brings us here today, with Manitoba

24 Hydro expecting that it had to adopt IFRS for fiscal

25 2013/'14, which is Manitoba Hydro's second test year

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1 before this Board?

2   MR. DARREN RAINKIE: That's right. If

3 you recall one (1) of the changes between IFF11 and

4 IFF11-2 we talked about was moving IFRS to 2013/'14,

5 the second deferral, as you referred to it.

6   MR. BOB PETERS: But then Deferral

7 number 3 comes along, and that was in September of

8 2012. The Accounting Standards Board granted this

9 third deferral of IFRS implementation for entities with

10 qualifying rate-regulated activities?

11   MR. DARREN RAINKIE: Yes. I think we

12 were just in the final strokes of our first Information

13 Request process when that came out on September 19th,

14 is my memory.

15   MR. BOB PETERS: And the deferral is,

16 again, one (1) additional year at this point in time?

17   MR. DARREN RAINKIE: That's right. To

18 our 2014/'15 fiscal year.

19   MR. BOB PETERS: And it's for further

20 study?

21   MR. DARREN RAINKIE: Yes. I think

22 there are meetings that were happening on December

23 17th. I don't -- I haven't heard the final

24 determination from those meetings, but they're ongoing

25 as we speak, Mr. -- Mr. Peters.

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 1   MR. BOB PETERS: And, well, maybe you

 2 can enlighten the Board as to what Hydro's

 3 understanding is of these meetings where this issue is

 4 being discussed.

 5   MR. DARREN RAINKIE: They're -- I think

 6 as we alluded to in our rebuttal evidence in my direct,

 7 the International Board is trying to determine the path

 8 forward right now. I think their staff is recommending

 9 that an interim standard be issued that would allow

10 countries such as Canada to maintain their current

11 practices while a final standard is being developed,

12 which probably wouldn't be in place until about 2016.

13   Others favour not doing anything on an

14 interim basis and just waiting until the final standard

15 is -- is issued. So there's still some dissension, I

16 think, on the International Board whether or not there

17 should be some interim standards for select countries

18 like Canada.

19   MR. BOB PETERS: The interim standard

20 would permit Canada to continue with rate-regulated

21 accounting?

22   MR. DARREN RAINKIE: Yes. It would be

23 a grandfathering, is how they've described it, until

24 the final standard is developed, if it is ever

25 developed.

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 1   MR. BOB PETERS: But the

 2 grandfathering, in terms of Manitoba Hydro, wouldn't

 3 change when the new standard came in. It would be the

 4 -- the present view is that if it was grandfathered it

 5 would be forever grandfathered.

 6   Is that your understanding?

 7   MR. DARREN RAINKIE: No, Mr Peters. It

 8 would be grandfa -- our current practices would be

 9 maintained until the International Accounting Standards

10 Board decided whether or not they were going to issue a

11 standard. As we saw back in 2009/'10, even if you

12 issue an exposure draft, the whole thing can fall apart

13 if they get negative comments from the rest of the

14 world.

15   So you can't, at this point, suppose

16 what the International Board is going to do.

17 Ultimately, I think and I hope that -- that they will,

18 you know, listen to reason and give us an interim

19 standard while they're sorting out the longer term.

20   MR. BOB PETERS: The interim standard

21 is being recommended by the staff of the Accounting

22 Standards Board?

23   MR. DARREN RAINKIE: Yes. That -- they

24 never make a clear recommendation. They favour certain

25 things, but I think if you read between the lines,

1 that's what the staff of the International Board is

2 recommending. But the -- I caution that the Board

3 doesn't always follow what their staff is recommending,

4 much like the relationship that Mr. Warden and I have.

5   MR. VINCE WARDEN: No idea what that

6 means.

7   MR. BOB PETERS: Well spoken, Mr.

8 Rainkie. Let us -- let us close on that discussion by

9 indicating that at this point it's very unsettled as to

10 how IFRS will impact entities such as Manitoba Hydro

11 which are rate regulated?

12   MR. DARREN RAINKIE: It's unsettle --

13 unsettled for that rate-regulated accounting portion of

14 the discussion, Mr. Peters. Of course there are other

15 issues like how you account for benefits and -- that

16 aren't up in the air, but it's particularly that rate-

17 regulated accounting piece that we're still debating.

18   MR. BOB PETERS: Is Manitoba Hydro

19 making any representations to these meetings that are

20 ongoing, Mr. Rainkie?

21   MR. DARREN RAINKIE: We -- we continue

22 our participation in the CEA, and they are continuing

23 to lobby behind the scenes. Mr. Peters, at this point,

24 there hasn't been any solicitation for further comments

25 and letters. And, I assume, once -- if they do issue a

1 -- a interim standard, that that same solicitation will

2 occur and we will provide some correspondence on that.

3   MR. BOB PETERS: Does Manitoba Hydro's

4 auditors take a position or advance a presentation

5 related to this matter?

6   MR. DARREN RAINKIE: No, their -- their

7 job is to audit the standards as they exist. Although,

8 the big four (4) firms did comment on the original

9 exposure draft; and there were mixed comments all over

10 the place on the original exposure draft, Mr. Peters.

11 Yeah, I'll maybe just leave that at that.

12   MR. BOB PETERS: Do I -- and I don't

13 want to read anything further into your president's

14 comments when he was here, but is the current

15 expectation of Manitoba Hydro that the International

16 Accounting Standards Board may yield to the request

17 from North America to continue rate-regulated

18 accounting?

19   MR. VINCE WARDEN: Mr. Peters, maybe

20 I'll just pick -- pick up that one. Our financial

21 forecast reflects our -- our expectation, or at -- at

22 the time we put our financial forecast together that

23 was our expectation of what the future -- how the

24 future would unfold.

25   I do have to reiterate though, it's --

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1 either way it's not real significant for Manitoba

2 Hydro. It does take that one (1) time hit on retained

3 earnings, but our retained earnings are sufficient to

4 withstand that, and it's not going to be a rate impact

5 to Manitoba Hydro -- or to Manitoba -- Manitoba Hydro's

6 consumers.

7   MR. BOB PETERS: Let's discuss with the

8 Board, if we could, other options related to IFRS.

9   MR. RAYMOND LAFOND: Mr. Peters --

10   MR. BOB PETERS: Yes?

11   MR. RAYMOND LAFOND: -- before we move

12 to that, I just have one (1) question on Exhibit 15,

13 page 45, the reason there's really no impact in the

14 future except for this one (1) time hit in 2014/'15 --

15 2014, the net salvage removal from depreciation, which

16 really offsets all the other -- most of the other major

17 negative impact to the net income. Now, is that

18 somewhat related, or totally unrelated, to the

19 depreciation study we will be looking at? And to be

20 very precise, that number would simply not be there in

21 spite of whatever we'll be looking at in terms of

22 depreciation methods?

23   MR. DARREN RAINKIE: First of all, the

24 -- that whole topic will be -- is part of our

25 depreciation study. And I'm not sure I'm clear on your

 1 second question. Sorry, Mr. Lafond.

 2   MR. RAYMOND LAFOND: Oh, essentially,

 3 if we did not move to IFRS, this $63 million figure for

 4 2014/2015, on page 45 of Exhibit 15, would not be there

 5 and -- and -- if we did not adapt IFI -- IFRS, and it

 6 would not have an impact over the depreciation study,

 7 or would it?

 8   MR. DARREN RAINKIE: In answer to the

 9 first question, including net salvage and depreciation

10 rates is not IFRS compliant, so our reason for removing

11 it from depreciation rates is the -- is the -- is if --

12 is the fact that we're going to have to move to IFRS.

13

14   (BRIEF PAUSE)

15

16   MR. VINCE WARDEN: Mr. Lafond, as -- as

17 indicated earlier, our financial forecast has been

18 prepared assuming that IFRS will be adopted effective

19 April the 1st, 2014. If, in fact, it was further

20 deferred, and that's a real possibility based on the

21 current discussions that are now ongoing, we would have

22 to consider whether or not we would make this change to

23 our depreciation rates.

24   That -- so that would be a policy

25 decision that we would have to make at that time. And

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1 the possibility is that we would further defer that --

2 that change to our depreciation rates such that the sal

3 -- the net salvage value could remain as a component of

4 -- of those rates.

5   MR. RAYMOND LAFOND: Thank you. Maybe

6 after we've gone through the depreciation analysis and

7 study I -- we can maybe revisit that. But it may be

8 cleared up by then. Thank you.

9   MR. VINCE WARDEN: Yes, I agree.

10

11 CONTINUED BY MR. BOB PETERS:

12   MR. BOB PETERS: Mr. Rainkie and Mr.

13 Warden, other Canadian utilities and regulators have

14 adopted US GAAP for financial reporting reasons?

15   MR. DARREN RAINKIE: That's correct,

16 Mr. Peters.

17   MR. BOB PETERS: And, in fact, you've

18 told the Board that Manitoba Hydro is using US GAAP

19 currently for financial reporting?

20   MR. DARREN RAINKIE: Only as it relates

21 to rate regulated accounting.

22   MR. BOB PETERS: And have since 2009?

23   MR. DARREN RAINKIE: Well, I think that

24 practice has always been a bit of a reference over to

25 US GAAP, Mr. -- Mr. Peters. But the only aspect of US

1 GAAP that we're having now, let's be clear in our

2 statements, is -- is rate-regulated accounting.

3

4   (BRIEF PAUSE)

5

6   MR. RAYMOND LAFOND: I'm going to ask a

7 further question on rate-regulated accounting. I can

8 understand the logic behind all this. However, once

9 you start having a major portion of your sales or

10 output going to exports, then this issue of rate

11 regulated does not apply as well. Am I right in that?

12   MR. DARREN RAINKIE: Really, the -- the

13 -- those companies that can use rate-regulated

14 accounting are those that -- where their rates are set

15 by a regulator and there is an expectation that you'll

16 recover the amounts that you defer. And that's really

17 the -- the only criteria to using rate-regulated

18 accounting. You can have export sales and it doesn't -

19 - it doesn't negate that ability to use rate-regulated

20 accounting.

21   MR. RAYMOND LAFOND: But at a point in

22 time when export sales are -- for instance, a major or

23 the majority of your total sales, rate-regulated

24 accounting does not make much sense because your

25 revenues have nothing to do with rate regulation.

1490

 1   MR. VINCE WARDEN: Well, our domestic

 2 rates will always be subject to rate regulation.

 3   MR. RAYMOND LAFOND: That I understand.

 4 But the -- the logic of applying these accounting

 5 principles or reg -- or regulated accounting to the

 6 portion pertaining to exports is problematic, in terms

 7 of reasoning behind it all.

 8   MR. VINCE WARDEN: Don't think so.

 9 Revenues are still revenues, and they're accounted as

10 such through -- whether they be Canadian,

11 international, or US standards, they're -- they would

12 be accounted for in the same manner.

13   So, no, I don't -- I don't think the way

14 we do our accounting is any way affected by our US

15 sales.

16   MR. RAYMOND LAFOND: Except that the

17 revenues in regards to exports are certainly not rate

18 regulated.

19   MR. VINCE WARDEN: Oh, yeah, no, the --

20 the revenues are not -- are not rate regulated, for

21 sure, the export sale revenues. We're only talking,

22 though, rate-regulated accounting as it pertains to, in

23 Manitoba Hydro's case, certain assets.

24   So the assets that were -- were -- that

25 are mainly, primarily affected by rate-regulated

1 accounting are Power Smart -- Smart -- Power Smart

2 programs and demand-side management. It does not

3 impact revenues.

4   MR. RAYMOND LAFOND: Thank you. That

5 clarifies things in my mind.

6   MR. VINCE WARDEN: You might just refer

7 to -- Mr. Rainkie was referring to the US GAAP, or --

8 or the Financial Accounting Standards Board, FASB as

9 it's known in the US. That's referenced in note 1 to

10 our financial -- or, for our -- our accounting

11 policies, which is referenced on page 62 of Manitoba

12 Hydro's annual report.

13

14 CONTINUED BY MR. BOB PETERS:

15   MR. BOB PETERS: Mr. Rainkie, the

16 Ontario Energy Board has allowed its utilities to

17 continue with US GAAP?

18   MR. DARREN RAINKIE: I think it's been

19 done on a case-by-case basis, Mr. Peters, as far as I

20 know.

21   MR. BOB PETERS: Likewise in Alberta?

22   MR. DARREN RAINKIE: Yeah, a lot of the

23 companies have moved to US GAAP, and part and parcel of

24 that has been to ask their regulators to accept US GAAP

25 for rate setting as well.

1492

1   MR. BOB PETERS: But -- but if it's on

2 a case-by-case basis, it's always been related to rate-

3 regulated accounts?

4   MR. DARREN RAINKIE: Well, I think

5 that's the primary reason, is to avoid that writeoff,

6 Mr. -- Mr. Peters, and the uncertainty of how to deal

7 with that writeoff from a rate-setting perspective.

8   MR. BOB PETERS: And just to bring this

9 Board current to -- to the last time Manitoba Hydro was

10 before the Board, on page 187 of the book of documents,

11 is an extract from Board Order 5/12, page 96 of that

12 order. And in the middle of the page, there's a quote:

13   "Since IFRS result in changes to the

14   timing when certain costs will be

15   recognized in its operating accounts,

16   Manitoba Hydro believes that some

17   mechanism may be required to defer

18   certain costs for rate-setting

19   purposes. Manitoba Hydro stated that

20   it would provide the Board with

21   alternatives to consider at the

22   appropriate time."

23   Do you recall that, Mr. Warden?

24   MR. VINCE WARDEN: Yes, I do. And I

25 don't think we're quite at that time yet, because

1 there's still some uncertainty as to what -- where

2 we're going with IFRS.

3   MR. BOB PETERS: And that's a matter

4 better addressed at the next GRA, when it deals with

5 test years commencing for your fiscal 2015 year?

6   MR. VINCE WARDEN: Yes. And again,

7 probably the major issue there again is our demand-side

8 management Power Smart programs, as to whether or not

9 it's appropriate to write those off in the year that

10 they're incurred as required under IFRS or whether

11 there's some form of amortization would be appropriate

12 for rate-setting purposes.

13

14   (BRIEF PAUSE)

15

16   MR. BOB PETERS: Mr. Rainkie, if we

17 turn to page 190 in the book of documents, there is an

18 extract from the Alberta Utilities Commission. And I

19 think it's the same one that we've seen previously,

20 sir. This was the rule that Alberta Utilities

21 Commission established with respect to rate regulatory

22 -- rate-regulated accounting?

23   MR. DARREN RAINKIE: That's right. I -

24 - I struggle in terms of who this rule really applies

25 to anymore. I suppose there are a few utilities that

1 have moved to IFRS, but most -- most of them, I think,

2 are in US GAAP. So I'm not even sure about the

3 application of this -- this rule in practice.

4   MR. BOB PETERS: Or -- or does this

5 rule -- is this rule what precipitated the utilities

6 from asking to stay with US GAAP?

7   MR. DARREN RAINKIE: I think what

8 precipitated the utilities is the fact that they, as

9 Mr. Warden mentioned, have had large balances of rate-

10 regulated assets on their balance sheet. And moving to

11 IFRS just wouldn't work for them.

12   You know, in our situation, we're in a

13 much better situation with a smaller amount of those

14 asse -- those assets. I mean, this issue is really the

15 fiscal cliff of utilities. Some utilities, as I

16 mentioned in my direct, had as many rate-regulated

17 assets as they did equity. So if they moved to IFRS,

18 poof, all their retained earnings for the whole history

19 of their company is gone.

20   And, you know, there's a lot of

21 uncertainty in that in terms of what's the regulatory

22 treatment if you start writing off these assets? So

23 rather than go through that uncertainty, I think they

24 were able to maintain the status quo by moving to US

25 GAAP.

 1   THE CHAIRPERSON: Looking -- looking at

 2   some of the major utilities in Canada, what -- what

 3   element of the IFRS is of particular significance to

 4   them?

 5   MR. DARREN RAINKIE: It -- it's really

 6   the rate-regulated asset and liability issue, Mr.

 7   Chairman. It -- it's -- they just have a large

 8   proportion of their assets that are rate-regulated

 9   assets. And, you know, there are various other

10   accounting practices in the -- in the industry that --

11   that wouldn't survive, like negative salvage value, as

12   we just talked about, under a move to IFRS.

13   So I think while the uncertainty existed

14   about the status of rate-regulated accounting under

15   IFRS, the other utilities that moved to US GAAP simply

16   wanted to maintain the status quo until there is some

17   finalization of that issue.

18   And I -- I should mention, before I

19   forget, you know, we've talked about other companies

20   moving to a US GAAP. But for companies -- there's two

21   (2) ways to do that. One is to register yourself with

22   the Securities Exchange in the United States, which is

23   a fairly extraordinary thing to do, or go and ask your

24   provincial securities exchange commission for a

25   deferral of IFRS. And that's what this US GAAP is, is

1496

 1 a deferral.

 2   They only, right now, have a deferral to

 3 2015. So when we talk about it in these proceedings,

 4 let's not, you know, think about it as a long-term

 5 solution, because it isn't right now. I mean, who

 6 knows what the securities commissions will do. If the

 7 International Board is actually working on a solution,

 8 they might give these companies another year or two (2)

 9 as well. But it should be clear that for a lot of

10 these utilities that haven't registered themselves with

11 the Securities Exchange in the United States, this is a

12 short-term measure.

13   MR. RAYMOND LAFOND: Why would the

14 regulated assets of a utility like BC Hydro

15 proportionally be so much higher than Manitoba Hydro?

16   MR. DARREN RAINKIE: Well, I like to

17 think at Manitoba Hydro that we have judiciously used

18 rate-regulated assets. But there's all type -- all

19 different types of deferral accounts. You can -- if --

20 let's say you are writing -- writing off some plant.

21 Let's say you've made some expenditures on -- on some

22 particular piece of plant that you decided you were

23 going to no longer pursue. You could set that up as a

24 deferral account. Let's say that you -- some companies

25 have fuel cost adjustments accounts, so they -- they

1497

1 look at the difference between what is embedded in

2 rates -- in fact, Centra, in Manitoba, has this -- and

3 what the actual cost of gas is. And they defer those.

4   So over time, there's been a

5 proliferation of a -- just a huge number of different

6 accounts that have been set up for the purposes of

7 smoothing rates. And, you know, I'll leave it to

8 others' judgements whether that really helps customers

9 or if that's just deferring costs to the future. I

10 mean, there's a debate -- debate on that.

11   I recall the BC Auditor General, you

12 know, this report that we're going to file on BC Hydro,

13 we've talked about the operating cost part of it, but

14 there's also a section of that report that talks about

15 the use of rate-regulated accounts and concern that

16 those balances are growing and continue to grow.

17   So I think here we've used this practice

18 judiciously, and it's -- it's been to our benefit. You

19 can thank Mr. Warden and Mr. Brennan for that.

20   MR. VINCE WARDEN: Especially Mr.

21 Warden.

22   MR. RAYMOND LAFOND: That was a change.

23   MR. VINCE WARDEN: I can say that now.

24 That guy's gone.

25   I do, though -- I do just happen to have

1 a list of the deferral accounts -- the major deferral

2 accounts of BC Hydro, because it is quite a significant

3 difference between what we have. So -- and this is at

4 March of 2011. It was related to that study that I

5 referred to earlier, BC Hydro study.

6   So it was 2.1 billion at that point in

7 time and now 2.4 billion. But deferral -- they have

8 twenty-nine (29) deferral accounts at BC Hydro. DSM is

9 506 million; First Nation negotiation settlement costs,

10 400 million; PCB environmental compliance, 231 million;

11 variance between forecast and actual costs and rate

12 applications, which is a curious one, but that's $600

13 million. So, yes, they have -- their deferral account

14 is much -- much larger than at Manitoba Hydro.

15   MR. RAYMOND LAFOND: Thank you. I

16 appreciate that.

17

18 CONTINUED BY MR. BOB PETERS:

19   MR. BOB PETERS: And --

20   MR. DARREN RAINKIE: And, Mr. -- Mr.

21 Lafond, just one other aspect of this before I forget

22 is that you also have to think about how these other

23 companies are regulated. They're regulated under -- a

24 lot of them under a rate-based rate of return

25 methodology, where the revenues that are allowed by the

 1 regulator are based on the build-up of your costs plus

 2 a return on your rate base. And so it's a very strict

 3 methodology of rate setting, where a dollar of cost

 4 goes up, rates go up a dollar; if the dollar of cost go

 5 down, rates go down a dollar.

 6   At Manitoba Hydro, we have what we refer

 7 to as the, you know, cost of service rate-setting

 8 methodology, where what we do is we use the revenue

 9 increases that we ask for to smooth rates. We don't

10 ask for large, volatile rate increases. We tend to ask

11 for regular, reasonable rate increases, moderate rate

12 increases.

13   And so that's another reason why we

14 don't have to be fearful about IFRS as it relates to

15 rate setting. If we continue to do what we've done in

16 the past, we can very successfully manage any impacts

17 of IFRS, as far as I'm concerned, without resorting to

18 any type of accounting gimmicks or -- or anything like

19 that, because, you know what? Deferring costs on your

20 balance sheet doesn't improve your financial integrity.

21   MR. BOB PETERS: Mr. Rainkie and Mr.

22 Warden, for the benefit of the Board, if we could turn

23 to page 203 of the book of documents, 2-0-3, this is

24 Manitoba Hydro's response to an Information Request,

25 but it -- I think it was PUB/Manitoba Hydro First Round

1 42. But I wanted to turn to page 203 with you, and go

2 down to the line ite -- go down to the line items on

3 that page.

4   This, Mr. Rainkie and Mr. Warden, you

5 can confirm to the Board, is to demonstrate the impact

6 to retained earnings of the rate impl -- of the rate

7 application that was filed premised on IFF11-2?

8   Is that correct?

9   MR. DARREN RAINKIE: It demonstrates,

10 yeah, the -- the impact on retained earnings of the

11 accounting changes in general, both Canadian and IFRS,

12 Mr. Peters.

13   MR. BOB PETERS: Right. And the page

14 I'm on talks about impact to retained earnings

15 specifically, Mr. Rainkie?

16   MR. DARREN RAINKIE: That's correct.

17   MR. BOB PETERS: And Mr. Warden listed

18 off a number of BC Hydro accounts that are being

19 treated as rate-regulated assets. If we go down to the

20 middle of the chart and we see the -- the write-offs to

21 Power Smart programs, that $183 million is the largest

22 of the rate-regulated accounts of the Utility, Mr.

23 Warden and Mr. Rainkie?

24   MR. DARREN RAINKIE: That's right.

25 It's our largest rate-regulated account.

1501

1   MR. BOB PETERS: And then you have site

2 remediation at $36 million. What does that relate to,

3 Mr. Rainkie?

4   MR. DARREN RAINKIE: The remediation of

5 contaminated lands, Mr. Peters, like you -- under --

6 without rate-regulated accounting you would expense

7 those costs, because they don't increase the productive

8 value of those lands. But it's one (1) of -- one (1)

9 of our few rate-regulated items.

10   MR. BOB PETERS: And which contaminated

11 lands is that relating to, do you know?

12   MR. DARREN RAINKIE: Oh, they're in

13 various places, Mr. Peters. I'm not sure if we cover

14 that off in note 1 to our financial statements, but we

15 could --

16   MR. BOB PETERS: Was it related to --

17 to thermal -- thermal sites?

18   MR. DARREN RAINKIE: I think it's

19 related to any sites, Mr. Peters. I'd -- I'd have to

20 check on -- on that.

21   MR. BOB PETERS: Well, not at this

22 time. I'm not asking for that, Mr. Rainkie. Then you

23 also have the acquisition of Centra Gas, Manitoba Inc.,

24 and Manitoba Hydro. There's an additional $20 million

25 that's currently in a -- rate-regulated account?

 1   MR. DARREN RAINKIE: That's correct,

 2 Mr. Peters.

 3   MR. BOB PETERS: And --

 4   MR. RAYMOND LAFOND: That would be

 5 goodwill?

 6   MR. DARREN RAINKIE: No, that was the

 7 acquisition and integration costs of Centra Gas.

 8   MR. RAYMOND LAFOND: Acquisition

 9 and...?

10   MR. DARREN RAINKIE: Acquisition and

11 integration costs of Centra Gas.

12

13 CONTINUED BY MR. BOB PETERS:

14   MR. BOB PETERS: There's an annual

15 payment that's made by Manitoba Hydro to the City of

16 Winnipeg; is that included in that at all, Mr. -- Mr.

17 Rainkie?

18   MR. VINCE WARDEN: No.

19   MR. BOB PETERS: Where does that show

20 up as an expense item, Mr. Warden, can you remind the

21 Board?

22   MR. VINCE WARDEN: It shows up in

23 finance expense every year.

24   MR. BOB PETERS: Okay. And that's a

25 $16 million annual payment?

1503

1   MR. VINCE WARDEN: It is, yes.

2   MR. BOB PETERS: In perpetuity?

3   MR. VINCE WARDEN: Yes.

4   MR. BOB PETERS: Okay. And there's

5   also regulatory costs of $2 million that are also set

6   up as a rate-regulated account?

7   MR. DARREN RAINKIE: Yes, those would

8   be the costs of regulatory proceedings, Mr. Peters.

9   MR. BOB PETERS: Right. And that, in

10 my calculation, Mr. Rainkie, is the $241 million that

11 was -- was the amount that was shown in IFF11-2 to be

12 written off on the -- on the balance sheet?

13   MR. DARREN RAINKIE: I lost you, Mr.

14 Peters, in that last question, sorry. We're talking

15 about $2 million of rate --

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

17 sorry, I was talking about $241 million, the -- the

18 total of all of those items we've just talked about.

19 If I sum up the Power Smart, the site remediation, the

20 acquisition, and the regulatory costs, that's the --

21 that's the sum total of all of the regulatory accounts

22 that Manitoba Hydro has?

23   MR. DARREN RAINKIE: That's right; as

24 depicted here, Mr. Peters.

25   MR. BOB PETERS: Are there other ones

1504

1 that aren't depicted here, Mr. Rainkie?

2   MR. DARREN RAINKIE: No, Mr. Peters,

3 those are all -- the whole -- the full list of them.

4   MR. BOB PETERS: Okay. And when we go

5 back to page 190 to look at the -- the guiding

6 principles that were set up. And -- and, Mr. Rainkie,

7 you've had a chance to compare the guiding principles

8 from Alberta to Ontario, and would you agree that

9 they're relatively comparable?

10   MR. DARREN RAINKIE: I think we went

11 through this last year, right, Mr. Peters, and --

12   MR. BOB PETERS: What was your answer

13 then?

14   MR. DARREN RAINKIE: -- I think it was

15 "yes".

16   MR. BOB PETERS: Okay. And the reason

17 I raise that, Mr. Rainkie, is that in terms of these

18 principles, these principles, could they equally apply

19 to Manitoba -- to Manitoba Hydro?

20

21   (BRIEF PAUSE)

22

23   MR. DARREN RAINKIE: I think princ --

24 principles are generally the same across jurisdictions.

25 You know -- but if we went into each one, and I don't

1505

1 really want to but, you know, there's one (1) here, I

2 think, that talks about standardizing practices between

3 utilities. Well, that's not applicable in our case.

4   So, you know, the general principle that

5 the Public Utilities Board can, you know, is --

6 determines how rates are set, I'll agree with that one,

7 Mr. Peters. But if you've read our evidence and you

8 understand our evidence, we're saying because of our

9 cost of service rate-setting methodology we don't have

10 to resort to two (2) sets of books that might be

11 implied through these principles to protect the

12 customers in Manitoba. So if I was agreeing to this

13 principle I wouldn't be agreeing to two (2) sets of

14 books, because I don't think we need to do it, Mr.

15 Peters, and I just want to make sure that the Company's

16 position is clear.

17   MR. BOB PETERS: I think you've made it

18 clear. And -- and just so that we can be certain that

19 we have your point, Mr. Rainkie, you're saying writing

20 off $241 million against retained earnings while an

21 absolute big number compared to the 2.5 billion of

22 retained earnings Manitoba Hydro can absorb that

23 writeoff?

24   MR. DARREN RAINKIE: Yes, we don't have

25 to ask for that recovery of that amount in the year its

1 written off through -- for customers, so -- and in fact

2 as I indicated earlier it largely reverses itself over

3 the ten (10) years of the forecast.

4   So we don't have to resort to deferrals.

5 We don't have to resort to accounting gimmicks. And we

6 don't have to resort to two (2) sets of books to make

7 this work, regardless of how the deliberations at the

8 International Board works out; and hopefully they work

9 out such that we never have to write this off and --

10 for financial reporting purposes. I -- I keep

11 forgetting to mention that, but I just can't suppose

12 what the International Board is going to do at this

13 time.

14

15   (BRIEF PAUSE)

16

17   MR. BOB PETERS: The recovery of the --

18 the amount that Manitoba Hydro would write off if IFRS

19 came in the test years, and if Manitoba Hydro's

20 proposal to write it off was accepted by this Board,

21 you're telling the Board you'd recover over a ten (10)

22 year period, Mr. Rainkie? That's your determination?

23   MR. DARREN RAINKIE: No, what I'm

24 saying is that if you look at our forecasts with and

25 without regulatory accounting, because even if a cost

 1 is deferred it has to be written off eventually, that

 2 after ten (10) years our debt-to-equity ratio is about

 3 the same under either scenario.

 4   So what -- it -- it won't really impact

 5 rate-setting at all, I don't think, Mr. Peters. I

 6 mean, it's one (1) of the reasons we have retained

 7 earnings. It's one (1) of the reasons why we want to

 8 maintain a reasonable level of retained earnings, is

 9 when these uncontrollable issues come up you have

10 something as a buffer for customers. That's the way to

11 protect customers; not through accounting but through

12 building up retained earnings over time.

13   MR. BOB PETERS: But to get back to the

14 same level the Corporation would be had it not written

15 off the $241 million as proposed in the filing based

16 under IFF11-2, it would take ten (10) years to reverse

17 that situation which implies that it takes rate

18 increases of some amount over the ten (10) years to get

19 back to that situation?

20   MR. DARREN RAINKIE: Mr. Peters, I

21 think we had the same rate increases built into IFF11-2

22 as we did IFF10-2 for that period, and the write-off

23 wasn't included in the forecast until IFF11-2. So I

24 don't think there are any specific rate increases

25 associated with that write-off in our forecasts. I

1508

1 think it's just one (1) of the things we take into

2 consideration over the long run, Mr. Peters.

3   Like I -- I'm not sure where we're

4 getting the fact that there's an additional rate

5 requirement that comes out of that write-off.

6   MR. BOB PETERS: The -- the initial

7 deduction that would occur on the -- on the retained

8 earnings and the debt-to-equity ratio, Mr. Rainkie, of

9 a write off of 241 million, does that take the -- does

10 that take the equity ratio down two (2) or three (3)

11 points?

12   MR. DARREN RAINKIE: Yes, it -- it

13 does, Mr. Peters. But, once again, we're not asking or

14 forecasting rate increases to restore that, and that's

15 the point I think that's being missed in a lot of the

16 Information Requests; is if we were under a rate base

17 rate of return methodology and we wanted to maintain 25

18 percent, then maybe we would ask for that rate

19 increase, but we're not. We're accepting the decrease

20 and we're managing it over the life of our forecast.

21   As I said earlier, that's one (1) of the

22 reasons we have retained earnings, Mr. Peters, is to

23 guard against these things.

24   MR. BOB PETERS: Yes, Mr. Rainkie. The

25 reduction in the equity percentage is made up over time

1 and it's done through rate increases, even though not

2 all in the first year.

3   Would you agree with that?

4   MR. DARREN RAINKIE: Well, as I

5 observed earlier, Mr. Peters, between IFF11-2 and

6 IFF10-2, the write-off appeared between those two (2)

7 forecasts, and we didn't change our -- our rate

8 proposals, Mr. Peters. So I'm not sure I would agree

9 with your proposition that there's a specific rate

10 increase related to those -- to that write-off in our

11 IFF.

12   MR. BOB PETERS: Well, I was -- I'm not

13 -- I'm not connecting a dot to a particular year or

14 particular amount, Mr. Rainkie, but to recover from

15 writing off $241 million, there's got to be $241

16 million made up somewhere along the way.

17   MR. VINCE WARDEN: Yes, that's fair to

18 say. I mean, if we're going to -- if we're going to

19 restore our retained earnings to what they were pre the

20 write-off, then -- then obviously we're going to have

21 to, over the long term, have rates -- rate increases

22 that reflect that. However, let me just qualify that

23 by saying that we would be amortizing -- because this

24 is mostly Power Smart programs and we went over the

25 list; it's not entirely, but for the sake of discussion

1 let's just assume that we're going to be writing off

2 those Power Smart programs, or amortizing them over ten

3 (10) years.

4   So that would be a charge against

5 operations of -- of $24 million per year that we would

6 -- would have been charging against operations anyway.

7 We're not going to be charging that against operations,

8 because we're going -- we've written it off in one (1)

9 year.

10   So, in effect, by not charging that

11 amortization, we are recovering in rates what we

12 otherwise -- in -- in one (1) write-off we're

13 recovering that over a ten (10) year period that we

14 would have recovered it through amortization, if that

15 makes sense.

16   MR. BOB PETERS: What you're telling

17 the Board is that -- and we'll -- I'll maybe come to

18 that specific example, Mr. Warden -- but Manitoba Hydro

19 would be expensing an amount almost equal to what it

20 would -- would be entitled to amortize under its

21 deferral account schedules?

22   MR. VINCE WARDEN: In effect, that's

23 right, because our Power Smart -- we're in the kind of

24 a happy circumstance whereby -- in which our -- our

25 Power Smart programs almost equal what we would have

 1 been amortizing anyway. So the -- the net impact on

 2 expenses is very close to being the same.

 3   MR. BOB PETERS: All right. But if the

 4 -- if the DSM spending was set at say $60 million, and

 5 instead of amortizing that at 6 million a year, you'd

 6 be looking to make it up in one (1) year?

 7   MR. VINCE WARDEN: That's under IFRS.

 8 Yes, we would have no alternative but to do that.

 9   MR. BOB PETERS: All right. Thank you.

10 Mr. Chairman, in light of the hour, this might be an

11 appropriate time for me to step down and turn it over

12 to the Board?

13   THE CHAIRPERSON: Do we have any

14 matters to attend to before we adjourn?

15

16   (BRIEF PAUSE)

17

18   MR. BOB PETERS: None that we're aware

19 of at this end of the room. Thank you.

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

21 any -- anything to file this afternoon.

22   THE CHAIRPERSON: Okay. Let's adjourn

23 now and see each other again at nine o'clock tomorrow

24 morning. And thank you for that moment of levity, Mr.

25 Warden. That was a classic.

1512
1   MR. VINCE WARDEN: I'll try and think

2 of some more for tomorrow.

3

4   (PANEL RETIRES)

5

6 --- Upon adjourning at 4:28 p.m.

7

8 Certified correct,

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15 Cheryl Lavigne, Ms.

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