



“When You Talk - We Listen!”



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 18, 2012
Pages 1513 to 1809

1 APPEARANCES

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3

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1 --- Upon commencing at 9:01 a.m.

2

3 THE CHAIRPERSON: Good morning. I
4 believe we are ready to -- to commence proceedings, and
5 I wonder if there are some matters to attend to before
6 we hear from -- from the -- from witnesses.

7 MS. PATTI RAMAGE: Yes. Thank you, and
8 good morning, Mr. Chair. The -- the first matter I
9 guess to attend to is this morning we distributed the
10 CV of Mr. Larry Kennedy, who's appearing today on
11 behalf of Manitoba Hydro. And I'm suggesting that be
12 marked as Manitoba Hydro Exhibit 23.

13

14 --- EXHIBIT NO. MH-23: CV of Larry Kennedy

15

16 MS. PATTI RAMAGE: And then I think the
17 second matter to attend to is to have Mr. Kennedy sworn
18 so we can begin leading him through his direct
19 evidence.

20

21 LARRY KENNEDY, Sworn

22

23 MS. PATTI RAMAGE: We thought we'd
24 begin Mr. Kennedy's direct with just a few questions
25 regarding his background, following which we'll ask --

1 ask that he be qualified as an expert. So for those
2 few questions...

3

4 EXAMINATION-IN-CHIEF BY MS. PATTI RAMAGE (QUAL.):

5 MS. PATTI RAMAGE: Mr. Kennedy, can you
6 state your name and address?

7 MR. LARRY KENNEDY: Good morning, Mr.
8 Chairman, Board members. My name is Larry Edwin
9 Kennedy. My business address is Suite 277, 200
10 Rivercrest Drive South East in Calgary, Alberta.

11 MS. PATTI RAMAGE: And your occupation?

12 MR. LARRY KENNEDY: I am currently a
13 vice president of Gannett Fleming Canada ULC. Gannett
14 Fleming Canada is a wholly owned subsidiary of Gannett
15 Fleming Inc. I also hold the title of director of
16 Canadian Services for the Valuation and Rate Division
17 of Gannett Fleming Inc.

18 MS. PATTI RAMAGE: And just to confirm,
19 Mr. Kennedy, we just distributed Manitoba Hydro Exhibit
20 23. That is your CV?

21 MR. LARRY KENNEDY: It is.

22 MS. PATTI RAMAGE: And you've -- the CV
23 outlines a number of things, including your testimony
24 before regulatory boards. Can you confirm that your --
25 briefly, your testimony before this and other

1 regulatory boards?

2 MR. LARRY KENNEDY: Certainly. I've
3 testified as an expert witness on depreciation in
4 utility plant accounting on number occasions before
5 regulatory boards throughout Canada, as summarized in
6 my curriculum vitae which was distributed this morning,
7 as Ms. Ramage indicated, as Manitoba Hydro Exhibit 23.

8 Also in my CV I have a number of
9 appearances pending and have prepared a number of
10 depreciation study reviews that have resulted in
11 negotiated settlements or where appearances were not
12 required. In all cases listed in my CV associated with
13 regulatory proceedings, my reports have been entered as
14 expert evidence.

15 MS. PATTI RAMAGE: And you -- can you
16 describe the purpose of your evidence before this
17 Board?

18 MR. LARRY KENNEDY: Manitoba Hydro
19 retained Gannett Fleming to provide advice and opinion
20 on various implementation issues related to the IFRS
21 and to prepare a detailed depreciation study. The
22 depreciation study report resulting from this
23 assignment was entered into evidence in this proceeding
24 as Appendix 5.7 of the General Rate Application.

25 Additionally, Gannett Fleming was

1 retained to assist in the preparation of information
2 request responses, and in the preparation of
3 depreciated -- depreciation -- it's going to be a long
4 day -- depreciation-related sections of the rebuttal
5 evidence of Manitoba Hydro. The evi -- this evidence
6 outlines the scope of services and helps provide a
7 brief outline of the depreciation-related issues.

8 MS. PATTI RAMAGE: And have you
9 previously been retained by Manitoba Hydro?

10 MR. LARRY KENNEDY: Yes. I'm -- I'm
11 proud that Gannett Fleming has had a longstanding
12 relationship with Manitoba Hydro for consulting
13 services relating to topics of depreciation and utility
14 plant accounting. Specifically, in addition to this
15 current assignment, Gannett Fleming completed the 2001
16 and 2005 depreciation studies.

17 MS. PATTI RAMAGE: Were you the lead
18 consultant from Gannett Fleming in each of these
19 studies as well as the current depreciation study?

20 MR. LARRY KENNEDY: Yes. And the 2001,
21 the 2005 and the current study were all prepared under
22 my direct supervision and -- and direction.

23 MS. PATTI RAMAGE: Thank you, Mr.
24 Kennedy. With that, Manitoba Hydro suggests that Mr.
25 Ta -- Kennedy be qualified as an expert in depreciation

1 and utility plant accounting.

2 THE CHAIRPERSON: Are there any
3 concerns from the Intervenors regarding the
4 qualifications of Mr. Kennedy?

5 MR. ANTOINE HACAULT: No, but I would
6 have a couple questions.

7 MR. BYRON WILLIAMS: We do not object
8 to his qualifications as framed. In the course of our
9 cross-examination, we will explore his qualifications a
10 bit -- a bit more, but we do not object as framed.

11

12 RULING (QUAL.):

13 THE CHAIRPERSON: No, I think we are
14 okay here. So welcome, Mr. Kennedy, to Winnipeg.

15 MR. LARRY KENNEDY: Thank you. I wish
16 I could enjoy a hockey game while I was here.

17 MS. PATTI RAMAGE: So do I.

18 THE CHAIRPERSON: Board member Soldier?

19

20 EXAMINATION-IN-CHIEF BY MS. PATTI RAMAGE:

21 MS. PATTI RAMAGE: Mr. Kennedy, could
22 you summarize the nature of Gannett Fleming Consulting
23 Services that relate to this proceeding?

24 MR. LARRY KENNEDY: In early 2009, I
25 was contacted by Manitoba Hydro to discuss some

1 potential consulting work related to plant accounting
2 issues associated with the implementation of the IFRS.
3 This IFRS assignment included the review of the group
4 properties or the accounts, the group depreciation
5 procedures, review of the options for the recovery of
6 net salvage costs, the required level of
7 componentization, and the derecognition of costs upon
8 asset retirements.

9 Over the course of this assignment, I
10 provided Manitoba Hydro with an indication of the
11 potential impact of the conversion to the equal life
12 group, or ELG, procedure; concepts and options for the
13 recovery of net salvage; options for modellings of
14 gains and losses incurred upon retirement; and
15 development of processes to allocate accumulated
16 depreciation balances from the old -- from the old
17 account structure to the new IFRS-compliant account
18 structure. The work related to these areas continued
19 through 2010.

20 In May of 2010, Gannett Fleming and
21 Manitoba Hydro held discussions regarding the
22 information and policy decisions that I would require
23 from Manitoba Hydro in order for Gannett Fleming to
24 conduct a full and comprehensive depreciation study for
25 Manitoba Hydro that would be in compliance with the

1 conversion to IFRS.

2 It was determined that a significant
3 amount of detailed work required to be undertaken by
4 Manitoba Hydro to undertake the detailed research and
5 analysis of the historic asset records in order to
6 properly allocate costs from the existing to the new
7 asset component groups. Following completion of this
8 work by Manitoba Hydro, Gannett Fleming was retained in
9 May of 2011 to complete a full and comprehensive
10 depreciation study.

11 MS. PATTI RAMAGE: Can you summarize
12 your recommendations to Manitoba Hydro related to IFRS
13 implementation?

14 MR. LARRY KENNEDY: Gannett Fleming
15 recommended that a review of the level of
16 componentization should be undertaken and ordered to
17 ensure that the requirements of the International
18 Accounting Standard, or IAS 16 are met. As part of
19 this review, Gannett Fleming also recommended that the
20 level of componentization would be more granular if the
21 average service life, or ASL, procedure is used in the
22 calculation of depreciation rates.

23 Likewise, Gannett Fleming advised that
24 the conversion to the equal life group, or ELG,
25 procedure would reduce the amount of additional

1 components that would be required.

2 As indicated in the Manitoba Hydro
3 rebuttal evidence in Section 2.2.4, conversion to the
4 ELG procedure upon adoption of the IFRS would require a
5 lesser level of componentization than would be required
6 in the circumstances of the continued use of the ASL.
7 It is my view that if the ELG procedure is not adopted,
8 Manitoba Hydro would need to undertake additional
9 review of its level of componentization and will likely
10 require a number of additional new accounts.

11 I also advised that the IFRS would no
12 longer permit the inclusion of net -- negative salvage
13 percentages into the depreciation rate calculations for
14 financial disclosure purposes. Additionally, and as
15 indicated previously, Gannet Fleming advised that the
16 account structure would require revision in order to
17 comply with IAS 16. For example, I noticed that the
18 generation accounts would require a significant
19 increased level of componentization.

20 MS. PATTI RAMAGE: Could you outline
21 the process you've followed in the completion of the
22 depreciation study that's submitted as Appendix 5.7 in
23 this proceeding?

24 MR. LARRY KENNEDY: Certainly.
25 Normally, a depreciation study for an existing client

1 with whom we've had a longstanding relationship and
2 completed previous assignments is relatively routine in
3 that it involves the updating the retirement experience
4 of the existing asset classes, and development of
5 average service life and net salvage estimates based on
6 a combination of a review of the company's historic
7 retirement history, opinions and judgments of internal
8 operation and management staff, and on the professional
9 judgement of myself and Gannett Fleming.

10 However, in this circumstance, the
11 development of the IFRS-compliant depreciation rates
12 required a significantly different approach, given that
13 the considerations for the new component groupings, the
14 possibilities of using equal life group, the
15 possibility of changing the approach to net salvage,
16 and the possibility of having to continue with Canadian
17 GAAP for a period subsequent to the completion of the
18 study prior to the implementation date to IFRS.

19 In order to provide recommendations
20 regarding average service life, I visited Manitoba
21 Hydro and met with IFRS project staff, operational
22 staff, management staff, engineering staff, to
23 determine the nature of the equipment included in each
24 of the components in Manitoba -- Manitoba Hydro's
25 operational and engineering experience with the

1 equipment in each category.

2 Given the development of new components,
3 Gannett Fleming is required to more thoroughly
4 interview operational and engineering staff to
5 determine appropriate asset service lives. A notable
6 difference from the last depreciation study was the
7 availability of analysis and empirical evidence
8 collected by Manitoba Hydro in con -- in conjunction
9 with its concern over its aging infrastructure.

10 This information provided valuable
11 information for determining the service life of certain
12 asset classes, including the distribution accounts,
13 with a history of recognized asset retirements was not
14 representative of the -- the expected life of the
15 assets within the group.

16 In the end, Manitoba Hydro advised
17 Gannett Fleming that upon implementation of the IFRS,
18 the Company wished to convert to the equal life group
19 procedure and to the rollover approach to net salvage.
20 In other words, net negative salvage was removed from
21 the depreciation rate calculations.

22 Additionally, given the deferred
23 implementation of IFRS, a separate set of calculations
24 were developed for the period in which implementation
25 of IFRS was anticipated. At the time of my study that

1 period was anticipated to be the 2013/2014 year.

2 It's my understanding that the policy
3 decisions made by the Company with respect to the use
4 of the equal life group procedure and the removal of
5 net salvage from the depreciation rate calculations
6 were made specifically to coincide with the timing of
7 the transition to IFRS.

8 MS. PATTI RAMAGE: You've -- you've
9 indicated that the ELG procedure is appropriate for
10 implementation upon the conversion to IFRS. Is the ELG
11 procedure appropriate for rate-making purposes?

12 MR. LARRY KENNEDY: Absolutely. In
13 fact, the ELG procedure was specifically developed for
14 use by rate regulator companies. The EL -- the ELG
15 procedure was popularized -- popularized in a
16 publication of the Iowa State University entitled
17 "Depreciation of Group Properties Bulletin 155," by
18 Robley Winfrey in 1942. At the time of the publication
19 of Bulletin 155, what is currently known as the equal
20 life group procedure was at that time published as the
21 unit summation procedure.

22 Initially, the use of the ELG procedure
23 was somewhat limited because of the extremely large
24 number of calculations that are required when this
25 procedure is used. However, in the 1970s and 1980s as

1 we developed computerized programs, this method became
2 more popular rendering the number of calculations to be
3 a non-issue.

4 At that time, many rate -- many
5 regulated telephone companies adopted the use of the
6 ELG, including virtually all of the regulated telephone
7 companies that were regulated by the CRTC. In the late
8 1980s many other utility subjects began to adopt the
9 use of the ELG procedure throughout North America.

10 The ELG procedure is a calculation that
11 groups large groups of assets into smaller subgroups
12 that will have similar average life characteristics.
13 As such, it is only used in circumstances of group
14 depreciation and group accounting. Therefore, it is
15 specific to the rate-regulated industry.

16 MS. PATTI RAMAGE: Would you consider
17 that the use of the ELG procedure is appropriate in the
18 case of long-lived assets?

19 MR. LARRY KENNEDY: Certainly. Long-
20 lived assets such as electric generating units or hydro
21 facilities are comprised of a large number of smaller
22 components. Given that the assets being depreciated
23 will have a long life expectation, it's -- it is also
24 expected that a number of the components will be
25 replaced. These replacement of the components are

1 referred to as "interim retirements" and are
2 specifically considered in the estimation of an Iowa
3 survivor curve.

4 Given the expectation of this interim
5 retirement activity, the components either need to be
6 specifically isolated and depreciated over their
7 specific life, as is the case with utilities such as BC
8 Hydro, SaskPower or Nalcor, or with the use of the ELG
9 procedure as is recommended in this proceeding.

10 MS. PATTI RAMAGE: Would you agree that
11 the use of the ELG procedure results in a fair
12 allocation of the recovery of the original cost of
13 assets to all customers?

14 MR. LARRY KENNEDY: Yes. As indicated
15 in Section 2.2.2 at page 15 of the rebuttal evidence,
16 the use of the ELG procedure actually enhances the
17 generation of equity to all toll payers when all
18 relevant costs are considered. Use of the ELG
19 procedure provides an enhanced matching of the
20 depreciation expense component of revenue requirement
21 to the consumption of the service value of the assets
22 providing utility service.

23 Figure 5 at page 17 of the rebuttal
24 evidence clearly shows that when the ELG is used for a
25 stable asset pool where individual parts are replaced

1 when they reach the end of their life, as is common for
2 utility assets, ELG delivers an equal amount of expense
3 each year throughout the life of the pool.

4 Assuming the asset in question generates
5 the same level of output over its service life,
6 charging consumers with an equal depreciation expense
7 each year satisfies the concept of intergenerational
8 equity. I also note that as indicated by Robley
9 Winfrey in Bulletin 155, the unit summation procedure
10 of the present worth method is shown to be the only
11 mathematically correct method.

12 MS. PATTI RAMAGE: There has been
13 evidence in this proceeding that the ELG procedure is
14 not appropriate for Crown-owned hydro facilities. In
15 your opinion is the ELG procedure appropriate for
16 Crown-owned hydro facilities?

17 MR. LARRY KENNEDY: In my opinion, yes.
18 The ELG procedure is a mathematical exercise where the
19 investment of a group of assets is subdivided to
20 specifically recognize the life expectation of each of
21 the subgroups. This exercise is independent of the
22 type of ownership of the utility.

23 There is no literature of which I am
24 aware that indicates that the ELG procedure is specific
25 to privately owned utilities. In fact, I know of a

1 number of municipally owned utilities systems that
2 incorporate the use of the ELG procedure.

3 Rather than ownership structure of the
4 utilities, the account grouping and level of
5 componentization is a larger factor in the selection of
6 the depreciation calculation procedure. Use of the ELG
7 procedure could be considered redundant, and
8 circumstances for the componentization is such that the
9 interim retirement activity is captured within the
10 account structure.

11 MS. PATTI RAMAGE: At page 3-8 of the
12 Gannett Fleming report, you provide a set of
13 recommended depreciation rates for the Wuskwatim
14 generating plant. Can you describe the calculations
15 that were made in your report?

16 MR. LARRY KENNEDY: During my
17 discussions with Manitoba Hydro, I became aware that
18 the Wuskwatim generating station would be placed in
19 service in 2012, and therefore a need to develop
20 depreciation rates existed in this application as the
21 units would be in service prior to the next study.
22 However, my study-developed depreciation rate is based
23 on plant in service as at March 31st, 2010.

24 While my study incorporated the use of
25 the equal life group procedure for most accounts, I did

1 not believe that basing the ELG procedure on
2 calculations using forecast amounts for Wuskwatim was
3 appropriate. As described in response to MIPUG Pre-ask
4 5, the ELG procedure weights depreciation accrual rates
5 by vintage with varying annual accrual rates applicable
6 to each vintage.

7 Given that Wuskwatim was not yet in
8 service and would likely have large amounts of
9 investment over the forecast period, and further given
10 the precise amounts of investments by account and by
11 install year were not known at the time of the study,
12 Gannett Fleming viewed that the use of the -- an
13 average service life depreciation rate would be
14 reasonable for the period of time until the next study
15 is completed.

16 As such, the depreciation rates
17 recommended at page 3-8 of my report relating to the
18 Wuskwatim generating station are based on the average
19 service life procedure.

20 MS. PATTI RAMAGE: Thank you, Mr.
21 Kennedy, and I apologize. Before concluding your
22 direct, I meant to ask you this at the outset: Do you
23 have any corrections to your evidence?

24 MR. LARRY KENNEDY: Yes, I do have one
25 (1). During -- in preparation of this appearance, I

1 became of -- one (1) error that I would like to correct
2 on the record. In response to the Request for
3 Information PUB/MH-1-85A, also included in -- this is
4 also included in Volume III of the Board counsel's book
5 of documents at Tab 28, page 299, I provided a listing
6 of Canadian utilities that are used in the equal life
7 group procedure.

8 On page 2 of that listing, Quebec Power
9 Corporation is listed in error. In fact, the Quebec
10 Power Corporation uses the average service life
11 procedure and should not have been included in this
12 response.

13 MS. PATTI RAMAGE: And with that
14 correction, Mr. Kennedy, is your evidence accurate to
15 the best of your knowledge?

16 MR. LARRY KENNEDY: Yes.

17 MS. PATTI RAMAGE: And does this
18 conclude your direct evidence?

19 MR. LARRY KENNEDY: It does.

20 MS. PATTI RAMAGE: Mr. Chairman, Mr.
21 Kennedy is now available for cross-examination.

22 THE CHAIRPERSON: Thank you, Mr.
23 Kennedy.

24

25 MANITOBA HYDRO PANEL 2 - REVENUE REQUIREMENT, RESUMED:

1 VINCE WARDEN, Resumed

2 DARREN RAINKIE, Resumed

3 LARRY KENNEDY, Resumed

4

5 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

6 MR. BOB PETERS: Good morning, Mr.

7 Kennedy. We -- we met off mic this morning, and

8 welcome to Winnipeg.

9 MR. LARRY KENNEDY: Good morning.

10 MR. BOB PETERS: Mr. Kennedy, I will

11 have a number of questions for you, but I also have

12 some questions of your -- of your colleagues on the

13 panel today, if I might, Mr. Rainkie and Mr. Warden.

14 Mr. Rainkie and Mr. Warden, would the

15 Board be correct in understanding the depreciation

16 expense is the financial recognition of an asset over

17 its economic useful life?

18 MR. DARREN RAINKIE: That's a fair

19 summary, Mr. Peters.

20 MR. BOB PETERS: And Manitoba Hydro

21 wants customers to pay for the -- in my words, the

22 annual wear and tear on the capital assets?

23 MR. DARREN RAINKIE: That's right.

24 It's part of our cost of service of doing business.

25 MR. BOB PETERS: And it is a non-cash

1 expense item, Mr. Rainkie?

2 MR. DARREN RAINKIE: That's right.

3 MR. BOB PETERS: What does that mean in
4 -- in basic terms to the Corporation?

5 MR. DARREN RAINKIE: It means that the
6 cash was put out at the time that we purchased or
7 constructed the asset, and depreciation is really the
8 recovery of that asset in rates over time as -- over
9 the service life of the asset.

10 MR. BOB PETERS: Manitoba Hydro isn't
11 expending any additional cash on account of the
12 depreciation expense?

13 MR. DARREN RAINKIE: No, not at the
14 time that we're booking the depreciation expense. But
15 of course we are building a reserve, because we
16 eventually have to replace those assets at some time,
17 so. It's part of the concept of depreciation as well,
18 I think, Mr. Peters.

19 MR. BOB PETERS: The reserves of
20 Manitoba Hydro though are not -- are not put in a bank
21 account?

22 MR. DARREN RAINKIE: No, it's an
23 accounting concept, Mr. Peters.

24 MR. BOB PETERS: And Manitoba Hydro
25 does depreciation studies, we heard from Mr. Kennedy,

1 approximately every five (5) years?

2 MR. DARREN RAINKIE: Yes, Mr. Peters.

3 MR. BOB PETERS: And that's a matter
4 that the Corporation seeks the good services of Mr.
5 Kennedy?

6 MR. DARREN RAINKIE: Yes, it's a whole
7 industry, so it's --

8 MR. BOB PETERS: It's not done -- it's
9 not done internally?

10 MR. DARREN RAINKIE: No, it's a -- it's
11 a very complex calculation, so we very much appreciate
12 the services of Mr. Kennedy from time to time.

13 MR. BOB PETERS: Does -- Mr. Kennedy,
14 you -- you're welcome to jump in on any question, sir,
15 if -- if the ground rules haven't been set out by Ms.
16 Ramage to you in advance.

17 But does Gannett Fleming have
18 proprietary software that they use to assist your
19 clients?

20 MR. LARRY KENNEDY: Yes, we do.

21 MR. BOB PETERS: And so, Mr. Rankie,
22 that's one of the things that Gannett Fleming brings,
23 in terms of value to the Corporation, is their
24 proprietary software?

25 MR. DARREN RAINKIE: That's correct.

1 MR. BOB PETERS: Mr. Rankie, the last
2 depreciation study done by Centra was based on March
3 31st, 2005, data, if I have that correct?

4 MR. DARREN RAINKIE: Manitoba Hydro,
5 you mean, Mr. Peters, the last study from Manitoba
6 Hydro was?

7 MR. BOB PETERS: Yes, did I --

8 MR. DARREN RAINKIE: You said Centra.
9 I'm sorry, sir.

10 MR. BOB PETERS: It's going to be a
11 long day.

12 MR. DARREN RAINKIE: Perhaps at a
13 hearing not in the too distant future we might talk
14 about Centra, Mr. Peters.

15 MR. BOB PETERS: I apologize, Mr.
16 Rainkie.

17 MR. DARREN RAINKIE: No, but your
18 figures -- no need for the apology, Mr. Peters. The
19 figures -- sorry, the time frame that you described is
20 appropriate.

21 MR. BOB PETERS: All -- all right. And
22 if I refer to it as the 2005 study, it was based on
23 2005 data, and it came in, in about July of 2006?

24 MR. DARREN RAINKIE: I think that might
25 be when the study was delivered. I -- I think we

1 implemented those rates on April 1st, 2007, if I'm not
2 mistaken.

3 MR. BOB PETERS: Okay, fair comment,
4 Mr. Rainkie. The depreciation studies that -- that
5 Manitoba Hydro uses are -- are straight-line
6 depreciation studies?

7 MR. DARREN RAINKIE: Yes, they are.

8 MR. BOB PETERS: And when we say,
9 "straight line," Mr. Kennedy, that assumes the value of
10 the asset is the same in each and every year over its
11 useful life?

12 MR. LARRY KENNEDY: It assumes that
13 there's an equal amount of depreciation expense
14 allocated to each year of service of the asset in
15 service.

16 MR. BOB PETERS: Doesn't it follow then
17 that the expectation is that the value of the asset is
18 equal in each of those years to the -- to the
19 ratepayers?

20 MR. LARRY KENNEDY: Generally,
21 remembering that we -- we look at large groups of
22 assets rather than each individual asset. But you're
23 correct. The -- the assumption inherent in that is
24 that there is an equal allocation of the value and
25 asset over the life of the asset.

1 MR. BOB PETERS: And as we'll come to
2 it, in terms of straight-line depreciation, there is
3 different methodologies used in that approach?

4 MR. LARRY KENNEDY: Yes, there is.

5 MR. BOB PETERS: And one of them is
6 average service life?

7 MR. LARRY KENNEDY: Average service
8 life is a straight-line approach, as is the equal life
9 group procedure, sir.

10 MR. BOB PETERS: Mr. Rainkie, at the
11 last Manitoba Hydro general rate application, Manitoba
12 Hydro sought depreciation expense based on this 2005
13 study as applied to the 2010/'11 and 2011/'12 test
14 years?

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

17 MR. BOB PETERS: And the study done by
18 Mr. Kennedy's firm, Gannett Fleming, was completed in
19 approximately November of 2011?

20 MR. DARREN RAINKIE: October, I think,
21 Mr. Peters.

22 MR. BOB PETERS: Dated November 2,
23 2011?

24 MR. DARREN RAINKIE: Probably by the
25 time the final report was issued, yes.

1 MR. BOB PETERS: By the time the ink
2 was dry?

3 MR. DARREN RAINKIE: That's a good
4 description, yes.

5 MR. BOB PETERS: Okay. So it -- it was
6 November 2 of 2011, but the Corporation had the
7 results, Mr. Rainkie, in October of 2011?

8 MR. DARREN RAINKIE: I guess it slop --
9 slipped over into November. My memory was failing me.

10 MR. BOB PETERS: Seldom does that
11 happen, Mr. Rainkie. But -- but it would be correct
12 for this Board to understand that that depreciation
13 study had not been filed until this proceeding?

14 MR. DARREN RAINKIE: That's right.
15 It's the first time the Board would have seen that
16 study, Mr. Peters.

17 MR. BOB PETERS: Okay. And, Mr.
18 Rainkie, for the 2011/'12 test year, depreciation was
19 noted as \$407 million on IFF09 to be in customer rates.

20 Can you confirm that or take that
21 subject to check?

22 MR. DARREN RAINKIE: I'll take that
23 subject to check, Mr. Peters, just so we can move on.

24 MR. BOB PETERS: In the annual report
25 that Manitoba Hydro has filed in these proceedings for

1 the 2011/'12 annual -- fiscal year, Manitoba Hydro used
2 a different depreciation number in their annual report
3 than what was before the Board at the last hearing, Mr.
4 Rainkie. Isn't that correct?

5 MR. DARREN RAINKIE: Yes, we
6 implemented these rates effective April 1st, 2011, Mr.
7 Peters.

8 MR. BOB PETERS: And when you say you -
9 - you "implemented these rates," these rates resulted
10 in a depreciation expense of \$353 million and not the
11 407 million?

12 MR. DARREN RAINKIE: Yes, for electric
13 operations.

14 MR. BOB PETERS: It'd be correct --

15 MR. DARREN RAINKIE: Mr. Peters, sorry,
16 I should just -- just one (1) of your previous
17 questions. I was just reflecting on it is, you know,
18 the -- the services that Gannett Fleming provides. Of
19 course, there's a lot of interaction with Manitoba
20 Hydro stuff. It's not just a -- a totally outsourced
21 study.

22 And I should recognize to my right,
23 Michelle Hooper is our -- our internal staff member
24 that has worked on this study for the last three and a
25 half (3 1/2) or four (4) years. She has worked

1 tirelessly -- tirelessly on this one.

2 It's, you know, breaking \$14 billion
3 worth of plant down into components, and she's worked
4 significantly with Mr. Kennedy to bring these results.
5 It's a very good study and we're very proud of the
6 results. So I thought I should acknowledge her hard
7 work over the last number of years. It's no -- no
8 insignificant undertaking, this.

9 MR. BOB PETERS: Thank you, Mr.
10 Rainkie. I certainly knew you weren't the depreciation
11 expert and I knew somebody else had to be, so.

12 MR. DARREN RAINKIE: I certainly
13 wouldn't be qualified as one here, Mr. Peters. There's
14 no dispute on that.

15 MR. BOB PETERS: All right. Enough
16 poking at you, Mr. Rainkie, and -- and welcome also to
17 Ms. Hooper, who -- who we've seen lurking in previous -
18 - on previous days.

19 But, Mr. Rainkie, back to the last
20 general rate application, Manitoba Hydro recorded \$54
21 million lower depreciation expense than what it applied
22 for before the Public Utilities Board?

23 MR. DARREN RAINKIE: Yes, we recorded
24 lower depreciation expense than what was included in
25 our application.

1 MR. BOB PETERS: And would it be fair
2 to then conclude that the \$54 million of lower
3 depreciation expense flowed straight through to the
4 Corporation's bottom line?

5 MR. DARREN RAINKIE: In that particular
6 line item, yes, Mr. Peters. I'm sure there were other
7 puts and takes, but for that particular line item that
8 follows.

9 MR. BOB PETERS: All right. But for
10 that particular line item, consumer rates could have
11 been \$54 million lower if that report had been brought
12 in during that application?

13 MR. DARREN RAINKIE: Yes, as you recall
14 that application spanned some two (2) years, Mr. Peters
15 and, you know, as it is with the depreciation, it's an
16 estimate, an accounting estimate. So you usually
17 implement it when you have the information. And we did
18 implement it as soon as we had the information. So
19 that was the basis for, you know, implementing those
20 rates in 2011/'12. Once you have that information you
21 use it for accounting purposes.

22 MR. BOB PETERS: But it wasn't used for
23 part of rate setting purposes, Mr. Rainkie?

24 MR. DARREN RAINKIE: No. I was trying
25 to think of the years. I think that hearing finished

1 up in -- was it July -- June, July of 2011, I think it
2 was. My memory has been fading in the last few weeks.
3 And we didn't get the results of that study until, as
4 you indicated, November of 2011.

5 MR. BOB PETERS: The new depreciation
6 expense that the Corporation puts forward in this study
7 from Gannett Fleming, the November 2, 2011 study, it
8 was based on plant accounts as of March 31 of 2010?

9 MR. LARRY KENNEDY: That's correct.

10 MR. BOB PETERS: Is there a particular
11 reason, Mr. Kennedy, that you want the year-end
12 numbers, or does it matter what -- what numbers you --
13 you're provided?

14 MR. LARRY KENNEDY: No, we -- we
15 generally like the ability to reconcile the -- the
16 study investment, or the investment that we're
17 studying, to be a number that we can at least reconcile
18 or tie into actual audited financial statements of the
19 Corporation's.

20 As I indicated in my -- in my direct
21 evidence, particularly with use of the equal life group
22 procedure, there is a -- a significant weighting that
23 goes on to -- that's based on the vintage distribution
24 or the -- the investment by install year.

25 I take great comfort in the ability to

1 reconcile the totals of the database that we receive to
2 -- to, you know, audit it, and -- and publish financial
3 statements.

4 MR. BOB PETERS: It provides Gannett
5 Fleming with some degree of comfort to see that these
6 year-end numbers have passed the rigour with the
7 Corporation's auditors?

8 MR. LARRY KENNEDY: That's definitely
9 part of it. It also gives me a number that I can con -
10 - consistently check through the various stages of the
11 study back to, to make sure that as we're going through
12 the -- literally, hundreds of thousands of lines of
13 database, that we accidentally don't delete a line.

14 So we have a constant ability to come
15 back and check and reconcile our results to -- to
16 ensure that somewhere along the line, the data has not
17 become contaminated. So it does give us a very precise
18 ability to -- to reconcile and -- and check our -- our
19 calculations.

20 MR. RAYMOND LAFOND: I'd like to
21 understand this reconciliation issue. Who produces
22 what, and why the need for the reconciliation? Why
23 two (2) databases?

24 MR. LARRY KENNEDY: Oh, certainly. So
25 the -- the depreciation study looks at data in a number

1 of different ways. One, we -- we take the data that's
2 provided to us and we develop average service life
3 estimates. That involves the use of looking at
4 transactions that may be considered an outlier
5 transaction that would not be considered as indicative
6 to reoccur in the future. So at various stages we are
7 taking data in and out of the database or considering
8 taking data in and out of the database.

9 So, for example, in the generating
10 stations for powerhouses, just to take an example, we
11 would take the investment data from each of the sites,
12 aggregate that to come up with a common life estimate
13 for powerhouses. When we actually apply the
14 depreciation rate, we -- we apply the depreciation rate
15 specific to each site. So that's a slightly different
16 version of the database. It now has locational
17 information in it.

18 So, we -- we take the -- the overall
19 database the company provides, do some segregation of
20 it, do some analysis of it for life purposes, but we do
21 a different analysis for -- of that same database for
22 the -- the depreciation rate calculations. So one of
23 the -- the checks and balances that we like to make is
24 at each stage we can take those databases and reconcile
25 back to the database the company has provided.

1 Secondly, occasionally companies, when
2 they provide us databases out of their system, miss a
3 piece somewhere. Not the case -- I don't want to
4 suggest that's the case here at all. But we deal with
5 hundreds of companies. And nothing is more
6 uncomfortable to be sitting here and having a cross-
7 examining attorney remind me that, gee, we missed a --
8 a piece of the data that was downloaded into our
9 databases.

10 So for me, very early in the process, we
11 like to ensure that there is an ability to ensure that
12 we have all the data. And if we don't have, then we
13 start exploring the reasons that we don't have. So
14 it's that comfort level to ensure that we have all the
15 data, that we are considering the complete investment
16 of the company, and then to provide that checkpoint at
17 various stages throughout the study.

18 MR. BOB PETERS: Mr. Kennedy, just to
19 follow on that. In some of the letters that were
20 exchanged between Gannett Fleming and Manitoba Hydro
21 that were provided in response to the MIPUG pre-ask
22 questions, you were -- in my words, effusive of your
23 praise of Manitoba Hydro, perhaps Ms. Hooper, in terms
24 of the quality of data you -- you obtain from Manitoba
25 Hydro?

1 MR. LARRY KENNEDY: Oh, definitely, and
2 -- and Mr. Rainkie alluded to it. The internal staff,
3 and Ms. Hooper in particular, went through an
4 incredible amount of work over a very long time to deal
5 with the componentization of assets. In my view, they
6 did one of the better jobs that I've seen of anybody in
7 the country that I consult with, in making the effort
8 and dedicating their resources to going back to the
9 old, hard, paper copy of records -- sometimes many,
10 many, many years old -- to get accurate information.

11 Occasionally, I'm faced with -- with
12 clients that want me to do, perhaps, a bit of
13 statistical allocations to -- to look at a data. In
14 some cases, that's all you have and that's all you can
15 do. But I think Manitoba Hydro did an incredible
16 amount of work and -- and really dedicated the
17 resources that were necessary to -- to provide the most
18 accurate possible database to myself.

19 MR. BOB PETERS: Manitoba Hydro shared
20 that extensive database with you, with -- with Gannett
21 Fleming?

22 MR. LARRY KENNEDY: Yes, they did.

23 MR. BOB PETERS: And that database will
24 continue to reside not only with Manitoba Hydro, but
25 with Gannett Fleming for, what I'm sure you hope are

1 future assignments?

2 MR. LARRY KENNEDY: I certainly hope
3 so. We -- we hold those databases, if you will, in --
4 in trust for the client. If the client asks for the
5 return of it, we return the database and we destroy any
6 copies that we have. But normally, we keep them in our
7 archives such that the next study, we don't have to go
8 through all this work again.

9 The company, assuming five (5) years
10 from now, could provide perhaps a -- the incremental
11 data from April 1st, 2010, through -- pick a number --
12 March 31st, 2015. We then don't have to re -- redo the
13 database that was through the end of March; we would
14 simply be adding those five (5) years of data.

15 MR. BOB PETERS: Mr. Rainkie and Mr.
16 Warden, for the benefit of the Board, at page 276 of
17 the book of documents, under Tab 26, is a copy of some
18 materials from Manitoba Hydro's Application.

19 And I'm not asking the Corporation to
20 refile it, Mr. Rainkie, but I've -- I want you to
21 confirm for the Board that under the 2012/'13 test
22 year, if we follow it down to the total depreciation
23 and amortization expense on page 276, the number of
24 four hundred million, eight hundred and forty-six
25 thousand (400,846,000) is -- is now, in IFF12, rounded

1 to \$399 million.

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

4 MR. BOB PETERS: So I'll pencil that in
5 underneath that, Mr. Rainkie, and I appreciate there
6 will be some -- some changes on the -- on the
7 components of that.

8 But the bottom-line number is -- is
9 actually approximately the same?

10 MR. DARREN RAINKIE: Yes, very close,
11 Mr. Peters.

12 MR. BOB PETERS: We don't see the same,
13 Mr. Rainkie, in 2013/'14, when the \$354 million of
14 depreciation expense in the second test year will go
15 up, under IFF12, to \$430 million, correct?

16 MR. DARREN RAINKIE: That's right, Mr.
17 Peters. Do you want me to explain why, or --

18 MR. BOB PETERS: I'll give you every
19 opportunity at the time, Mr. Rainkie, but --

20 MR. DARREN RAINKIE: Okay. Sorry. I'm
21 jumping the gun again.

22 MR. BOB PETERS: Mr. Rainkie, to my way
23 of thinking, Manitoba Hydro has made what I call four
24 (4) changes in this depreciation study that -- that the
25 Board would not have seen in a prior depreciation

1 study.

2 Do you agree with that number, first of
3 all?

4 MR. DARREN RAINKIE: I'm with you, Mr.
5 Peters, yes.

6 MR. BOB PETERS: All right. One of the
7 changes is componentization?

8 MS. LOIS MORRISON: That's right.

9 MR. BOB PETERS: And that's where you
10 take what formerly had been a description of assets,
11 and you break it down into smaller components?

12 MR. DARREN RAINKIE: I suppose smaller
13 or different components.

14 MR. BOB PETERS: Okay. Different
15 components. And we heard Mr. Kennedy say Ms. -- Ms.
16 Hooper and her colleagues provided some extensive data
17 to -- to componentize Manitoba Hydro's assets, correct?

18 MR. DARREN RAINKIE: That's right,
19 along with our operational staff.

20 MR. BOB PETERS: And I -- yes, and I
21 don't mean to -- to discount their efforts, but their
22 efforts fed through Ms. Hooper?

23 MR. DARREN RAINKIE: That's right.

24 MR. BOB PETERS: And so this
25 componentization was an IFRS requirement, or will be an

1 IFRS requirement, as I heard Mr. Kennedy speak in his
2 opening comments?

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

5 MR. BOB PETERS: The second of the four
6 (4) changes, Mr. Rainkie, is a change in the service
7 lives of the assets of Manitoba Hydro?

8 MR. DARREN RAINKIE: That's right,
9 which is a normal part of a depreciation study, as --
10 as Mr. Kennedy said in his direct. Usually it's a
11 fairly routine exercise to update the service life for
12 changes between the depreciation studies. But it's --
13 that's -- that's something that's done as part of the
14 study, but it's not a -- something abnormal, I suppose.

15 MR. BOB PETERS: It's something that's
16 not -- not mandated by IFRS?

17 MR. DARREN RAINKIE: No, it's something
18 that we would do as part of a normal study.

19 MR. BOB PETERS: All right.

20 MR. LARRY KENNEDY: Mr. Peters, can I
21 come back just to your last question? I don't mean to
22 interrupt your --

23 MR. BOB PETERS: Please.

24 MR. LARRY KENNEDY: -- your flow.

25 MR. BOB PETERS: Yeah.

1 MR. LARRY KENNEDY: The -- the
2 componentization aspect, while it was undertaken with a
3 -- an eye on -- on implementing the International
4 Financial Reporting Standards, it's important to note
5 that even prior to that, we would look at a utilities'
6 assets, particularly assets that change due to
7 technology, to understand if there is a need to break
8 out a class into some additional sub-classes.

9 Some utilities have gone down the path
10 of smart metering, for example. We -- we put those
11 digital meters perhaps in a different account.

12 So I wouldn't want to suggest the
13 componentization or the look at the account structure
14 is very specific to IFRS, but I will note that the --
15 the need for the level of componentization was
16 definitely driven by the implementation of IFRS. I
17 just wanted to clarify that a bit.

18 MR. BOB PETERS: And the example you've
19 given the Board, Mr. Kennedy, is that there may be
20 occasions where technology takes a -- brings into play
21 certain assets that -- that hadn't been thought of
22 previously as part of the -- of the larger group?

23 MR. LARRY KENNEDY: Or would have
24 different forces of retirement that -- that could
25 impact their life. So in other words, we look at a

1 group of assets and we say, Gee -- and I'm going to
2 pick on meters only because it's top of my head in
3 another proceeding I was just in. Analog or electro --
4 electromechanical meters would have a different set of
5 forces of retirements than would circuit boards
6 involved in a -- in a smart meter or digital meter.

7 So when we see the impact of technology,
8 as one (1) example, that would cause a change in the
9 life characteristics of an asset, then we do suggest
10 that those be analyzed separately, or at least be
11 considered from -- in a separate analysis.

12 MR. BOB PETERS: Thank you, Mr.
13 Kennedy. Mr. Rainkie, back to you. The third of the
14 four (4) changes that are noted in Manitoba Hydro's
15 evidence is Manitoba Hydro's policy decision to change
16 from average service lives to equal life groups?

17 MR. DARREN RAINKIE: That's correct.

18 MR. BOB PETERS: And for abbreviations,
19 we'll hear -- the Board will hear this morning ASL and
20 ELG to -- to be the acronyms for those -- for those
21 methodologies?

22 MR. DARREN RAINKIE: Yes, that would
23 certainly make it a lot easier.

24 MR. BOB PETERS: Both of those, again,
25 straight-line methodologies that Mr. Kennedy told the

1 Board about?

2 MR. DARREN RAINKIE: That's right.

3 MR. BOB PETERS: Mr. Rainkie, the
4 change in methodologies from average service life to
5 equal life groups is a policy decision by Manitoba
6 Hydro. It is not mandated by IFRS, is it?

7 MR. DARREN RAINKIE: No. That's
8 correct, Mr. Peters. I think either ASL or ELG will
9 work under IFRS, but it's not quite that simple because
10 they may require different levels of componentization
11 to get to the -- to get an IFRS-compliant result.

12 MR. LARRY KENNEDY: And -- and I think
13 --

14 MR. BOB PETERS: We'll come to that,
15 sure.

16 MR. LARRY KENNEDY: Oh, okay. And
17 maybe you'll come to this. I was just going to suggest
18 this. Other aspects with the equal life group
19 procedure that perhaps make conversion or
20 implementation of IFRS easier. For example, the gains
21 and losses inherent upon retirement of assets work
22 better with -- with ELG.

23 It doesn't mean you can't use ASL. It
24 just means there's more steps and more perhaps
25 regulatory accounts that are required. But definitely

1 ELG works better with IFRS. It doesn't mean it's
2 exclusive, but does work much better.

3 MR. BOB PETERS: And, Mr. -- Mr.
4 Rainkie, the -- the fourth of the four (4) changes that
5 we're going to talk to the Board about is Manitoba
6 Hydro has removed the asset retirement obligations from
7 the depreciation expense.

8 MR. DARREN RAINKIE: Asset retirement
9 obligations --

10 MR. BOB PETERS: Let me -- let me
11 rephrase the question. Manitoba Hydro has removed net
12 salvage costs out of depreciation expense?

13 MR. DARREN RAINKIE: That's -- that's
14 the correct way to state it, Mr. Peters.

15 MR. BOB PETERS: All right.

16 MR. DARREN RAINKIE: Otherwise, we're
17 mixing up two (2) topics.

18 MR. BOB PETERS: That the -- the
19 removal of -- of net salvage value from depreciation
20 expenses is an IFRS requirement?

21 MR. DARREN RAINKIE: Yes, that's our --
22 our analysis indicates that including those costs in
23 depreciation expense is not IFRS compliant. I should
24 also note, Mr. Peters, that the third and fourth change
25 that you've -- that you've outlined would be upon the

1 adoption of IFRS in 2014/'15 now. So just -- just to
2 be clear when these various changes are being
3 implemented.

4 MR. BOB PETERS: All right, Mr.
5 Rankie, you're right on cue. On page 278 of the book
6 of documents that the Board has and parties have, there
7 is a -- I'll call it a "table" in -- in bold type, Mr.
8 Rankie.

9 MR. DARREN RAINKIE: Yes, I see it.

10 MR. BOB PETERS: And what you're
11 telling the Board is that we should pencil in another
12 column to the right of the 2014 fiscal year of the
13 Corporation for 2015, and the change in methodology ELG
14 number of thirty-two million three hundred and seven
15 thousand (32,307,000) should be moved over to the 2015
16 column?

17 MR. DARREN RAINKIE: That's correct.

18 MR. BOB PETERS: And then, likewise,
19 the removal of asset retirement costs from
20 depreciation, the fifty-five million, five hundred and
21 seventy-four thousand (55,574,000), should also be
22 moved over to the 2015 line to reflect Manitoba Hydro's
23 current expectation as to when IFRS will be required
24 for Manitoba Hydro?

25 MR. DARREN RAINKIE: That's correct,

1 Mr. Peters.

2 MR. BOB PETERS: All right. I think
3 we're on the same page so far, Mr. Rainkie. When we're
4 looking at that same page, on 278, the first -- the
5 change in service life, PP&E, property plant and
6 equipment, net of contributions, the Board will note
7 that thirty-five million, four hundred and thirty-three
8 dol -- thousand dollars (\$35,433,000) of reduced
9 depreciation expenses was recorded by Manitoba Hydro in
10 the 2012 fiscal year, correct?

11 MR. DARREN RAINKIE: Yes, that's our
12 estimate of the impact of that -- that change, Mr.
13 Peters.

14 MR. BOB PETERS: And that change in
15 service life actually encompasses the first two (2) of
16 the four (4) changes that you talked to the Board
17 about, that being the componentization and the change
18 in service lives. That's all rolled into that line
19 item, Mr. Rainkie?

20 MR. DARREN RAINKIE: That's a fair summ
21 -- summation, Mr. Peters.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: And Manitoba Hydro is

1 proposing that the change in service life methodology
2 continue in the first test year before this Board,
3 which is the 2013 test year, in the amount of thirty-
4 eight million, four hundred and twenty-nine thousand
5 dollars (\$38,429,000)?

6 MR. DARREN RAINKIE: That's right, Mr.
7 Peters.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: To show the Board an
12 example of componentization, Mr. Rainkie, Mr. Warden,
13 and Mr. Kennedy, perhaps we can turn to Tab 27, page
14 288, of the book of documents.

15 Mr. Rainkie, page 288 in Board counsel's
16 book of documents, which has been marked as PUB Exhibit
17 14 for these proceedings, is Manitoba Hydro's response
18 to Information Request PUB/Manitoba Hydro Second Round
19 34A. And you have that, sir?

20 MR. DARREN RAINKIE: Yes, we do.

21 MR. BOB PETERS: And what the Board
22 will note here, Mr. Rainkie, is that under the previous
23 depreciation studies, there would be a component noted
24 as a civil component, and it would have an average
25 service life of a hundred years, and that would be the

1 information provided to the Board, correct?

2 MR. DARREN RAINKIE: Correct.

3 MR. BOB PETERS: And what Manitoba
4 Hydro has now done, and has done since 2012 fiscal
5 year, is Manitoba Hydro has broken down the civil
6 components into -- into subsets and provided an average
7 service life for each of those subsets?

8 MR. LARRY KENNEDY: That's correct, Mr.
9 Peters. I think that that provides a good example of
10 the -- my comments from before, that the IFRS may have
11 been the stimulus to go through the work to
12 componentize these. But as you see here, the -- the
13 various components had some very different life
14 characteristics that, upon looking at them, make a lot
15 of sense to -- to depreciate independently of each
16 other and thus componentize them.

17 And so I think one needs to consider
18 that while the stimulus of the -- of the exercise was
19 IFRS, the result is something that -- that provides a
20 better study irregardless of IFRS, which is why we
21 suggested that that become a change that -- that while
22 the Company did because of IFRS, it's not necessarily
23 linked to the implementation of IFRS.

24 MR. BOB PETERS: These component
25 average service lives that are now effective April 1 of

1 2011, Mr. Rainkie and Mr. Kennedy, they have a limit on
2 them, in terms of what the actual life span date would
3 be on the asset?

4 MR. LARRY KENNEDY: They would. I
5 think it might be beneficial if we maybe talk about
6 that limit. I don't know if you intend to come to that
7 a bit later or if it's something that would perhaps
8 help the Board understand the -- the two (2)
9 influences. One (1) is the average service life
10 estimate, and the second is the life span estimate.

11 We could take that time now, or we could
12 maybe chat about that if we're coming to it later in
13 your cross. I think it just -- it might help clarify
14 the -- the pieces? I'm -- I'm in your hands though,
15 Mr. Peters.

16 MR. BOB PETERS: I -- I think we should
17 just take a minute with it now, Mr. Kennedy, as you've
18 raised it. What you're wanting to bring to the Board's
19 attention is that even though there is a -- a new
20 service life prescribed for a component, that service
21 life has to be grounded by the expected life span of
22 the physical asset to which it relates?

23 MR. LARRY KENNEDY: Certainly. And I
24 hope -- I'm going to try to keep this a little bit non-
25 technical but let me know when I start to lose the

1 parties.

2 In response to an information request,
3 we did provide the detailed analysis of the service
4 life calculations, the -- the life tables if you will.
5 I'm going to try to continue without having to turn it
6 off but -- Ms. Hooper informs me it's Appendix 16. In
7 that, there would be an Iowa curve, and that curve has
8 a ski slope shape to it.

9 So, if we look at an average service
10 life estimate -- and I'm looking at the ones applicable
11 to dams, dikes and weirs, that ski slope starts at age
12 zero with 100 percent of the investment surviving, goes
13 through all the way to the bottom of that slope, if you
14 will, would be at about a hundred and seventy (170)
15 years. In other words, it's anticipated that if all
16 the account would have an average service life estimate
17 of a hundred and twenty-five (125), that is an average.

18 In fact, we would expect some assets to
19 retire as early as perhaps age ten (10) or twenty (20),
20 but we also expect some assets within that group to
21 last as long as a hundred and seventy (170) years
22 unconstrained.

23 THE CHAIRPERSON: I wonder if we
24 wouldn't be better off to have something in front of us
25 to understand. I think it would --

1 MR. LARRY KENNEDY: Certainly.

2 THE CHAIRPERSON: -- allow us to
3 visualize.

4 MR. LARRY KENNEDY: I think that's a
5 very good suggestion Mr. Chairman.

6 MR. BYRON WILLIAMS: And Mr. Chair,
7 it's Mr. Williams here, I can just indicate that we
8 have an exhibit with that actual page on it if that
9 would help or if you would like to just get it from
10 your own sources. We haven't brought it, we're --
11 we're just going to present it later today. Or --
12 we're -- yes, I've got copies, so, I'm just seeing if
13 that will assist matters. And -- and it's the dams,
14 dikes and weirs that you were referring to, Sir?

15 MR. LARRY KENNEDY: That's correct, Mr.
16 Williams.

17 MR. BYRON WILLIAMS: And it's account
18 000A?

19 MR. LARRY KENNEDY: It is.

20

21 (BRIEF PAUSE)

22

23 MR. LARRY KENNEDY: I apologize, Mr.
24 Peters, for us requiring this time but I think it is
25 beneficial to -- to try to get this -- it's kind of a

1 complex topic and if we could have it in front of us it
2 will be -- make life a little bit easier.

3 MR. BYRON WILLIAMS: I believe it's
4 page 21 in the -- or page 20, so 21 is on the right
5 side -- hand side, page 20 is on the left-hand side.

6 THE CHAIRPERSON: Just a point of
7 order, I guess we should -- do we acknowledge the
8 exhibit number at the present time or...?

9 MR. BOB PETERS: We'll -- let me
10 provide an exhibit number as a CAC exhibit, I'll do
11 that while Mr. Williams is distributing further copies.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: Mr. Chairman, on my
16 unofficial list, it's CAC Exhibit 5 and if Mr. Williams
17 has a different number or otherwise, we'll -- we'll --
18 we can deal with it later but for purposes of the
19 transcript I think we should mark it as CAC Exhibit 5.
20 And Mr. Williams has indicated that for -- to assist
21 the witness the pages that are relevant at this point
22 in time would be those that are numbered in the top
23 right-hand corner, 20 and 21. I, too, would thank Mr.
24 Williams for his providing it at this time.

25

1 --- EXHIBIT NO. CAC-5: Table of service life
2 calculations

3

4 MR. LARRY KENNEDY: Yes, Thank you very
5 much.

6 THE CHAIRPERSON: Thank you very much,
7 Mr. Williams.

8 MR. LARRY KENNEDY: So now that we have
9 the -- the page in front us, what you see there is that
10 ski slope that I was referring to a few minutes ago.
11 The -- the slope or the area underneath that curve,
12 statistically, would have an area of -- equal to one
13 hundred and twenty-five (125). Now, what that slope
14 indicates is that if we take a look at about age fifty
15 (50), very little plant is expected to have retired
16 through -- through wear and tear, through natural
17 causes. But starting at about age fifty (50), and
18 particularly at about age seventy (70) through age
19 hundred and fifty (150), we expect, from a pure
20 physical standpoint, that that type of plant or those
21 assets would start to experience very accelerated
22 retirements.

23 Through -- and as I mentioned before, at
24 about a hundred and seventyish (170ish) there still
25 would be a little bit of plant left in service. So

1 what we're suggesting is the -- based on unconstrained
2 factors, this plant would have an average of a hundred
3 and twenty-five (125) year life, with some plant
4 retiring prior to the hundred and twenty-fifth year and
5 some plant extending past the hundred and twenty-fifth
6 year.

7 Now, so we -- we talk about this having
8 an average service life of a hundred and twenty-five
9 (125) years. Well, what we have done in the study --
10 and I -- and I didn't mean to -- to leap ahead in Mr.
11 Peters's cross-examination -- if you were to take a pen
12 and draw a straight line down at what would be age a
13 hundred and forty (140) -- in other words, slightly to
14 the left of the age of a hundred and fifty (150) --
15 that would be, if you will, a wall.

16 In other words, for the purposes of our
17 study, we assumed that once the plant reaches to the
18 hundred and fortieth year, it will retire due to other
19 factors, economic factors to -- to business case
20 factors. In other words, we are not allowing the plant
21 to live from the hundred and fortieth through the
22 hundred and seventieth year for depreciation study
23 purposes.

24 So we -- we calculate rates based on
25 that curve, the curve shape being a hundred and twenty-

1 five (125) year average year. But we truncate that
2 curve at the hundred and fortieth year. In other
3 words, we don't allow it to go all the way to zero. We
4 draw a line straight down at the hundred and fortieth
5 year.

6 So we have these two (2) -- two (2)
7 offsetting influences. One (1) is being the estimation
8 of that curve, the hundred and twenty-five (125), or
9 four (4) in this case, but we constrain that at a point
10 in time known as the lifespan of the truncation date,
11 being the hundred and fortieth year on the curve.

12 THE CHAIRPERSON: So I guess the
13 question -- the question -- the first question that
14 comes to mind is the one twenty-five (125), initial one
15 twenty-five (125), was established on what basis using
16 this curve? Why there as opposed to, say, one thirty
17 (130) or --

18 MR. LARRY KENNEDY: Oh. So the one
19 twenty-five (125) would be on the basis of -- well,
20 I'll back up one (1) more step and hopefully can answer
21 your question, Mr. Chairman. The black dots you see
22 there are the actual retirement history that -- that we
23 have observed from age zero, or day 1 of the Company,
24 through March 31st, 2010.

25 So you notice at the top end of that

1 curve we fit very well. We do have some retirement
2 history starting at ages, thereabouts, of sixty (60) to
3 seventy (70) years. That becomes one (1) of those
4 questions: Do we expect that retirement activity to be
5 reflective of future retirement activity?

6 Thus, we -- you know, we'd talk to the
7 operation staff. We'd talk to the engineering staff
8 and to management to decide what type of weighting we
9 would put on that historic retirement activity and
10 what's the probability of reoccurrence.

11 In -- in the preparation of the study we
12 take those factors into account. We look at them. We
13 -- we may weight the -- the probability of reoccurrence
14 of those relatively early retirements in this case and
15 establish this curve shape.

16 So that curve shape is an estimation
17 made based on our judgment, considering the historic
18 retirement practices or activity, the peer analysis of
19 other utilities throughout Canada and North America,
20 the opinions of the internal management and operational
21 staff, tho -- those type of factors that -- that would
22 come into building that curve shape.

23 We try to -- to keep out of that
24 analysis, at that time, the -- the economic side of
25 things: water supplies, licensing, that type of thing.

1 So we -- we try to have an unconstrained life estimate
2 that this one hundred and twenty-five (125) year curve
3 would be based on. And that's, as I suggested, the
4 operation of interviews, our peer analysis, our
5 experience throughout North America as a firm that
6 looks at very large number of hydro-generation
7 facilities.

8 So that -- that's -- it's an estimate
9 based on our -- on all the factors we have or the tools
10 that we have in our toolbox.

11 THE CHAIRPERSON: And the follow-up
12 question, I guess, would be: How did you end up --
13 using again the same curve, how did you end up at one
14 forty (140) from one twenty-five (125)?

15 MR. LARRY KENNEDY: The -- the one
16 forty (140) really is based on discussions we had with
17 the -- the management staff at Manitoba Hydro. In
18 other words, what is an appropriate lifespan? Like
19 what is the appropriate date that we should constrain
20 that -- that last bit of this curve? And that comes
21 down to the fact -- a number of factors. Largely, do
22 we foresee plant without significant amounts of upgrade
23 going past that?

24 The second piece would be, if you notice
25 where we have the hundred and forty (140) year line,

1 you're down to about 20 percent of the investment. Are
2 we at a spot then that plant -- an operating plant
3 can't run down with one (1) single asset left in it.
4 There's this point in time that you have to anticipate
5 you're going to have a significant reinvestment in the
6 plant that really will start the cycle over again.

7 So it gets to be a -- a decision point,
8 largely a policy decision point, of the company. But
9 we have a lot of influence to it, where we -- we ask
10 the company to look at those kinds of considerations.

11 We did -- we did, in response to an
12 Information Request, and that would be the Public
13 Utility Board/Manitoba Hydro 182, where we outlined the
14 kind of factors that -- that we would look at in -- in
15 considering, you know, what the stations were. And the
16 stage, we -- we put together a bit of a -- a summary
17 there of the types of factors we look at. I'm not
18 going to clutter the record by reading that in, but
19 there -- there is a discussion there of the types of
20 factors that we do look at.

21 MR. RAYMOND LAFOND: You're looking at
22 historical data. On the other hand, do you allow for -
23 - for instance, higher quality cement in the recently
24 built dams versus those build seventy-five (75) or a
25 hundred years ago? Because I was told by an engineer

1 that the quality of the cement has changed over the
2 last century.

3 MR. LARRY KENNEDY: Definitely. That's
4 -- you've hit on one (1) of the very interesting
5 points. And I'm discussing hydro facilities and --
6 well, this would be at least the third case that's
7 currently underway right now or recently completed.

8 The -- the question of the quality of
9 cement in the 1930s and '40s era, and the fact it's
10 very alkaline in nature and -- and corrosive, in
11 essence corroding the dams from inside out, is an
12 issue. And we do look at that. And that's partly why,
13 you notice, we didn't try to fit our hundred and
14 twenty-five (125) year curve specifically to the
15 retirement history.

16 So we look at those kind factors. The -
17 - the new concrete being used is a different quality
18 and a different chemical composition than the concrete
19 that was used in the 1930s, particularly around the --
20 the war era or immediately following the war era.

21 We look at construction techniques, the
22 -- the way the dams are built, the way the dams are
23 footed we look at. We're looking at things like
24 grouting of dams. Can you grout the footings of dams
25 to extend the life? So we -- we do try to take that

1 type of information into account, definitely.

2

3

(BRIEF PAUSE)

4

5 THE CHAIRPERSON: Now, the bars -- just
6 -- just again for my edification, I guess, the -- the
7 solid bars that we see to the -- underneath the curve,
8 those are to represent particular assets or -- that
9 have been replaced that are components of the dam,
10 right?

11 MR. LARRY KENNEDY: Yes, that would def
12 -- that -- that is investment that has been retired at
13 some point in time between the beginning of the Company
14 and the study date of March 31st, 2010. Those would be
15 in the pages following on the -- on the exhibit that
16 Mr. Williams so kindly provided, pages 22 and 20 --
17 sorry, 21, 22, and 23.

18 You will notice some -- some retirement
19 dollars under the column entitled "Retirements During
20 Age Interval." And, for example, at age fifty-four
21 point five (54.5), there's a hundred and ninety-two
22 thousand dollars (\$192,000) of retirement. Those --
23 those would be causing those dots that you see, where -
24 - where they fall below a hundred percent.

25

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: I -- I guess the --
4 you know, given the transition between where you were
5 going from average service life on the entire unit
6 versus components of that unit, I can -- I can see that
7 there would be issues around establishing the age of
8 some of the -- some of the subcomponents.

9 What do you do in those cases? You
10 know, for example, if you don't have any records of
11 when this particular subcomponent was replaced or...?

12 MR. LARRY KENNEDY: That's the -- the
13 shape of that curve that -- that was provided in the
14 exhibit -- in this case it's an R4 -- becomes very
15 critical in the -- in the establishment of the
16 estimation of those subcomponents.

17 So what we've done in the circumstances
18 of the study is we first looked at the components. In
19 other words, we broke dams, dikes and weirs separately
20 from powerhouses and separately from a number of the
21 other assets.

22 Once we've done that, now we're looking
23 specifically at this group of assets. Well, this is
24 still a very large group of assets that has a fair
25 number of subcomponents. That becomes very important,

1 or that curve shape, an R4 curve shape -- I'm trying
2 not to become too technical here. But the lower the
3 number of that 'R' -- in other words, if we used an R1,
4 that curve would have a lot more indication of
5 retirements earlier than would have this R4. An R1
6 curve would almost go as a 45-degree line across the
7 page.

8 So when we select that curve shape, that
9 curve shape is meant to be indicative of the
10 subcomponents of that group we're looking at. In other
11 words, this particular curve shape anticipates very few
12 early or interim retirements through about age fifty
13 (50), but it also would say that this type of asset
14 would have the characteristics for some of the
15 subcomponents.

16 Perhaps it's refacing of the concrete
17 dams. Perhaps it's dealing with corrosion of the -- of
18 the rebar within the dam. Perhaps it's having to
19 stabilize the footings of the dams. Perhaps it's a
20 number of instances, right?

21 That -- that is the interim retirement
22 activity that's inherent in -- in this curve. This is
23 particularly important when we move to the equal life
24 group, as you -- as you -- as you noted. What we do
25 is, each year I'm going across, that -- that axis of

1 year becomes a separate life.

2 In other words, when we move from the
3 age fifty (50) to age fifty-one (51), there's a tiny
4 bit of retirement activity that's expected. That
5 becomes its own life group and is straight-line
6 depreciated for fifty-one (51) years, as is in the
7 fifty-second (52nd) year. There's a tiny bit of
8 retirement activity expected. That group gets a fifty-
9 two (52) year life and is amortized or depreciated over
10 fifty-two (52) years, except for right across to in the
11 case where we truncated in the hundred and fortieth
12 year.

13 That's the benefit of the equal life
14 group procedure. It specifically looks sat those
15 interim retirements that are expected year to year and
16 depreciates the life of that investment over that
17 specific period.

18 So the equal life group procedure, in
19 the case of this account, would have a hundred and
20 forty (140) straight-line calculations: one (1) for the
21 assets -- we'd have one (1) calculation with 100
22 percent rate for the investment that intends to retire
23 at age zero. Circumstances of this account, given the
24 shape of the curve and the long-life nature, is
25 virtually zero. It would have a second calculation of

1 a 50 percent rate for the stuff that would be
2 anticipated to have a two (2) year life; a 33 percent
3 rate, et cetera, et cetera, all the way through to a
4 hundred and forty (140) years.

5 So we -- we deal within the equal life
6 group of looking at the shape and the decline of that
7 curve year over year to -- to estimate that interim
8 retirement on an annual basis and, specifically through
9 straight-line depreciate, depreciate that investment
10 year by year.

11 So in essence, this account would have a
12 hundred and forty (140) separate calculations embedded
13 in it, which is why my -- in my direct testimony I
14 indicated that prior to the age of computerizations,
15 utilities -- these calculations became very intensive.
16 This is one (1) account, and if you multiply that by
17 many accounts and many subaccounts, the calculations
18 became onerous.

19 So it's really with the advent, in the
20 1970s and '80s, of -- of software that we are able to
21 do this and make it a non-issue and -- and start to
22 recognize the benefits of the equal life group
23 procedure.

24 I think that was a long answer to a
25 short question, but I hope it clarified it.

1 MR. RAYMOND LAFOND: If we move to page
2 24, it does show an R2 curve versus as R4 curve, which
3 is I guess steeper. Well, not steeper; not as steep as
4 the -- the first one.

5 MR. LARRY KENNEDY: Yes.

6 MR. RAYMOND LAFOND: So this -- the
7 heading there is -- I think this is for a spillway. Am
8 I correct?

9 MR. LARRY KENNEDY: That is correct,
10 sir.

11 MR. RAYMOND LAFOND: So I can read from
12 this that, after twenty (20) years, already about 4 or
13 5 percent of the sil -- spillway would be retired?

14 MR. LARRY KENNEDY: That would be our
15 estimate.

16 MR. RAYMOND LAFOND: Isn't the spillway
17 just one (1) major component?

18 MR. LARRY KENNEDY: Well, in part. It
19 is one (1) big piece. Often concrete that may require
20 refacing could be changed slightly. But, yes, it
21 definitely -- that's correct. This shape would reflect
22 that, by age twenty (20), we would be anticipating
23 about 5 percent of the original investment to be
24 retired.

25 There's a number of factors that would

1 go on the spillway that -- that would cause that, but
2 that -- that is our estimate that -- that we provided
3 in this case.

4 Now, when we truncate this account at a
5 hundred and forty (140) years, you'll notice at the
6 hundred and fortieth year there's nothing left. So
7 truncation or life spanning in the circumstance of this
8 account has virtually no impact - or has zero impact,
9 quite frankly.

10 So the impact of that hundred and forty
11 (140) year life span varies from account to account,
12 depending on the shape of the curve and depending on
13 the -- the average service life. But to your question,
14 the -- the shape of the curve definitely impacts that
15 equal life group calculation and the -- the estimation
16 of those interim retirements that occur throughout the
17 life to which the equal life curve -- equal life group
18 procedure is specifically acknowledging.

19 I'm not sure if I -- hopefully I
20 answered your question, Mr. Lafond. I'm not -- we
21 didn't do, in our -- in our actual study itself,
22 discuss the factors that we looked at in terms of
23 developing the curve shape. I'm sure if I -- hopefully
24 I did answer it.

25 MR. RAYMOND LAFOND: Well, I guess it's

1 the word "retirement" I have difficulty with. It's as
2 if a piece of the spillway is taken away and replaced
3 with some -- is retired and replaced with something
4 else rather than its just, you know, gradual reduction
5 of lifespan because of wear and tear.

6 MR. LARRY KENNEDY: Well, I think
7 you're correct. And particularly with the changes in
8 the accounting standards, where if you do capital
9 maintenance or rebuilds or overhauls to facilities, you
10 -- you now capitalize that. And as you capitalize
11 that, you should retire a piece of your original
12 investment. So, it's -- it's rather akin to as you do
13 these overhauls or upgrades, et cetera, you have two
14 (2) choices. We could develop a separate category for
15 overhauls, give them a five (5) or ten (10) year life
16 and depreciate them, or reflect that in the -- the
17 shape of the curve because we are using the equal life
18 group.

19 So as spillways require some -- some
20 type of maintenance, a capital maintenance activity
21 over the years, that's -- you're not retiring the whole
22 spillway. You're retiring pieces to it or you're
23 overhauling the -- the investment that's there that
24 does result in a -- should result in the recognition of
25 a small amount of retirement dollars.

1 I think that -- maybe I've answered your
2 first question a bit more directly.

3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: Mr. Kennedy, thank
6 you. Did Gannett Fleming separately address the
7 service life of each and every hydraulic and thermal
8 generation unit of Manitoba Hydro?

9 MR. LARRY KENNEDY: And you said
10 "unit"? Are -- I mean, each specific site, unit by
11 unit?

12 MR. BOB PETERS: Yes, sir.

13 MR. LARRY KENNEDY: We looked at the --
14 the type of asset over -- across all the units. In
15 other words, spillways across all the plants generating
16 -- generators across all the plants; dams, dikes and
17 weirs across all the plants. So we come up with a
18 constant life estimate for that type of asset. But
19 what we did address, location by location, was that
20 life span date. We generally defaulted to a hundred
21 and forty (140) years, but there was some locations for
22 which a hundred and forty (140) years did not make
23 sense that was specifically identified.

24 So we looked at the type of asset
25 globally, but we looked at the application of the life

1 span on a site-by-site basis.

2 MR. BOB PETERS: And perhaps the Iowa
3 curve, by definition, what's the origin of the Iowa
4 curves? Briefly.

5 MR. LARRY KENNEDY: Well, briefly? In
6 1935, our friend, Mr. Robley Winfrey, who I referred to
7 in examination, produced a document called Iowa State
8 Bulletin 125 -- I happen to have a copy with me just in
9 case we got into this discussion -- that -- that
10 theorized that industrial property, and particularly
11 utility property, could be -- the retirement patterns
12 could be generalized into one (1) of approximately
13 thirty (30) curve shapes, being the R4, the R3, et
14 cetera. I won't go through all the gory details of why
15 he picked that number and how he came up with them.

16 He -- he tested that through extensive
17 testing at Iowa State University, amongst with using
18 hundreds of graduate students, quite frankly, in the
19 1930 -- early 1930s to test his theories, and published
20 the document called, Iowa State Bulletin 125. Thus,
21 the -- the resulting curves became known as the Iowa
22 curves, actually originally known as the Iowa State
23 University Curves, which was over time shortened to
24 Iowa curves.

25 MR. BOB PETERS: Would it be correct

1 for the Board to conclude that the depreciation rate is
2 sensitive to the selection of the curve?

3 MR. LARRY KENNEDY: Yes, it is.

4 MR. BOB PETERS: And on page 22 of CAC
5 Exhibit 5 -- and this may be the last time Mr. Williams
6 provides us with his documents in advance -- but can
7 you identify the specific facilities that were retired
8 that you brought to the Board's attention?

9 MR. LARRY KENNEDY: I'm not sure if I
10 totally understand the question. Are -- are you asking
11 the specific facilities that might be retired in the
12 development of the R2 curve shape or the specific
13 retirements that drove the -- the black dots going
14 across the top?

15 MR. BOB PETERS: Yes, I -- I'm looking
16 at the black dots, but they're also noted in on page
17 22, in the middle, "Retirements during age interval."
18 And at fifty-four point five (54.5) years you brought
19 the Board's attention to retirement of a -- a dam,
20 dike, or weir.

21 MR. LARRY KENNEDY: I'm --

22 MR. BOB PETERS: Do you know which --
23 which facilities those related to specifically?

24 MR. LARRY KENNEDY: Definitely not off
25 the top of my head, sir. That would be -- it could be

1 a number of facilities. What that means is there was
2 retirements that occurred in the 54th year. So it
3 could be stuff that retired in 2010 that was installed
4 in 1945, or stuff that was retired in 2009 that was
5 installed in 1944. And I'm going to mess up my own
6 arithmetic on the fly here.

7 But it means that all the plant that
8 went in, that had the opportunity to get to the 54th
9 year, of that plant, of which there was eleven million,
10 six hundred and thirty-five thousand (11,635,000), a
11 hundred and ninety-two dol -- a hundred and ninety-two
12 thousand dollars (\$192,000) retired. I wouldn't know,
13 nor would I necessarily even have in my work papers,
14 the specific facilities that would have driven that.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Mr. Rainkie and Mr.
19 Warden, I wonder if, for the completeness of the
20 record, we could ask an undertaking from Manitoba Hydro
21 to provide the -- the specific facilities that were --
22 gave rise to the retirements during the age intervals
23 as noted on page 22 of CAC Exhibit 5?

24 MR. LARRY KENNEDY: Mr. Peters, just to
25 clarify, you're looking for the -- the retirements that

1 resulted in the hundred and ninety-two thousand dollars
2 (\$192,000) specifically?

3 MR. BOB PETERS: For all of the items
4 listed under the retirements during interval. There's
5 six (6) of them noted.

6 MR. LARRY KENNEDY: The -- there is a
7 fair bit of work involved in that in that, if you can
8 imagine, we're going -- we're going to have to sort
9 through many hundreds of thousand of lines of a
10 database. Now, we can establish that. We can look for
11 it.

12 It may not be available definitely by
13 the time of my appearance finishing here. I'm worried
14 about getting it in in time for the completion of the
15 record of the proceeding. There is a bit of work. We
16 can do our best efforts to try to find what we can with
17 that on a timely basis.

18 MR. BOB PETERS: Let's -- let's leave
19 it at best efforts. And I'm -- I'm not looking for
20 somebody manually to sift through hundreds of thousands
21 of line items. That's not the intention of that
22 information, so. So thank you for your best efforts on
23 that.

24 Would -- would it be correct, Mr.
25 Kennedy, that when the Board looks at the Iowa curve on

1 page 20 of the CAC Exhibit 5 there aren't a lot of data
2 points?

3 MR. LARRY KENNEDY: That would be
4 correct, sir.

5 MR. BOB PETERS: And so whether or not
6 Iowa 125-R4 is the curve or not for this particular
7 utility, you'd need a lot more specific data points to
8 -- to be more certain of that?

9 MR. LARRY KENNEDY: Yes, you would.
10 You -- the -- the more data points you have and -- and
11 the further those -- the further that the actual data
12 points extend down to zero percent surviving, provides
13 a better degree of comfort in using the statistical
14 analysis. Again remembering the statistical analysis
15 is only one (1) of the tools in the toolbox, as -- as I
16 was alluding to before.

17 There's discussions we hold with
18 management, our opinions, the engineering reports, as
19 Mr. Lalond (sic), our Chairman, or member Lalond (sic),
20 alluded to, the -- the knowledge that we have with
21 maybe technology changes within the asset groups, that
22 type of thing. So that's -- the statistical analysis
23 is but one (1) tool, but a very important tool.

24 MR. BOB PETERS: I hope I'm not getting
25 too far ahead of ourselves here, Mr. Kennedy, but you

1 had mentioned to Board member Lafond that the quality
2 of cement was -- was a factor.

3 How would Pointe du Bois fit on the 125-
4 R4 Iowa curve found on page 20 of CAC Exhibit 5? Would
5 it fit?

6

7 (BRIEF PAUSE)

8

9 MR. LARRY KENNEDY: Mr. Peters, I was
10 caucusing only to make sure I have my facts straight,
11 which is always important when you're putting in
12 testimony.

13

14 (BRIEF PAUSE)

15

16 MR. LARRY KENNEDY: Now...

17 MR. DARREN RAINKIE: Mr. Peters, it
18 might be helpful just while Mr. Kennedy's getting back
19 to the regularly scheduled programming if the Board
20 looks at page 290 of your book of documents because we
21 have our assumed lifespan date of Pointe du Bois. And
22 I think, as we chatted about in our capital plan,
23 there's a -- I hate to use the term "a placeholder,"
24 for replacement of that project in 2031 in accordance
25 with the power resource plan.

1 And that's the lifespan date that we've
2 used in the analysis. And that's my understanding of
3 the issue. If there's anything further, I'll let Mr.
4 Kennedy continue.

5 MR. LARRY KENNEDY: And, Mr. Peters, I
6 -- I appreciate the opportunity to get my pages all
7 turned. I often thought about trying to do this
8 electronically with a laptop, and here's a good example
9 of -- of why that may not work.

10 Your question is: How would Pointe du
11 Bois fit into that -- that life curve of 125-R4?
12 There's really two (2) -- two (2) things to look at,
13 though. One (1) is the -- the Pointe du Bois station
14 as -- and we -- we talked about that specifically in
15 response to PUB/Manitoba Hydro-1-82, where we talked
16 about the Pointe du Bois and the issues it's having,
17 particularly around some of the concrete issues it's
18 having.

19 We -- we constrained that at a hundred
20 and twenty (120) years, rather than a hundred and forty
21 (140) years. That provides recognition to the fact
22 that it's approximately a hundred years old now and
23 there is plans to do some -- some restoration activity
24 there.

25 So we -- we looked at that plant

1 differently than we did all the other plants. And as I
2 mentioned before, we looked at each site in -- to
3 determine that lifespan date, or that truncation date
4 or wall. We -- we chose a different date in the case
5 of Pointe du Bois.

6 Secondly, if you look at that Iowa 125-
7 R4 curve, by the time you get to about age a hundred,
8 there is an indication of about 17, 16 percent of the
9 investment -- and that would be all investment in -- in
10 dams, dikes, and weirs -- would be expected to be
11 retired.

12 Largely, the Pointe du Bois would be
13 part of that expected retirement experience by the time
14 you reach age a hundred, and definitely by the time you
15 reach to about age a hundred and twenty (120). You're
16 down to -- to the 60ish percent kind of category.

17 So the -- the Iowa curve particularly --
18 or, specifically makes reference to the fact that some
19 investment will not make it all the way to the hundred
20 and twenty-fifth year. Pointe du Bois would be
21 definitely involved in -- as part of that estimation.
22 And secondly, we reflected that the wall, or the
23 lifespan, is different for Pointe du Bois than it is
24 for other generating plants.

25 MR. BOB PETERS: If the Pointe du Bois

1 plant, which I think was -- had a placeholder as far
2 back as the capital expenditure forecast '09, Mr.
3 Rainkie -- I'm not sure that matters.

4 But if the Pointe du Bois facility was
5 decommissioned in -- instead of being replaced, does
6 that impact where it would fit on the curve at all?

7 MR. LARRY KENNEDY: It may. One of the
8 things we look at as we do the studies is the facts and
9 circumstances that exist at the time of the study. If
10 at the time we did the study it was anticipated that it
11 would be completely retired, that would raise a number
12 of questions, in terms of, you know, what's happening
13 with the dams and the weirs, what's happening with the
14 facilities. Are they -- you know, are they going to be
15 reused, perhaps in a different reconfiguration? That's
16 very difficult in -- in this case.

17 But we would look at those facts and
18 circumstances at the time of the study, given the
19 management's plans for the -- the facilities that --
20 that are in discussions. So it -- it may have been,
21 Mr. Peters. But given that the shape of the curve does
22 start having indications of significant retirement
23 activity in around the hundred (100) years, it may not
24 have changed, or would likely not have changed really
25 drastically, given a -- a rebuild versus a -- a

1 retirement scenario.

2 MR. BOB PETERS: Okay, thank you for
3 that, Mr. Kennedy. Did you have anything further
4 related to the lifespan issue that you wanted to
5 provide to the Board at this time, or should I -- can I
6 go back to the componentization issue?

7 MR. LARRY KENNEDY: No, I -- I think
8 we've covered that and I've taken you far enough off
9 your -- off your agenda. But I -- I thought it was --
10 at that time was important to maybe bring that light
11 for -- in -- for the Board's consideration and for
12 everybody in the room to understand that concept.

13 MR. BOB PETERS: Yeah, ab --
14 absolutely, sir. No -- no --

15 MR. RAYMOND LAFOND: Mr. Peters? I'm
16 just curious as to why the Laurie River project would
17 have a lifespan of seventy-nine (79) years as opposed
18 to all the others well above a hundred and twenty
19 (120)? Or, a hundred and twenty (120) and a hundred
20 and forty (140) mostly? This was built in 1952, or at
21 least the in-service date was in 1952.

22 MR. LARRY KENNEDY: Certainly. And I
23 can draw your attention again to the Information
24 Request Response PUB-1-82. At page 2 of that, we -- we
25 discussed specifically the Laur -- the Laurie River.

1 We talked about it being a much smaller electrical
2 producer. It has -- in other words, it has some
3 economic considerations that are different than the
4 other types of plants.

5 We -- we could go -- I could read the
6 paragraph into the record, but it is definitely
7 described --

8 MR. RAYMOND LAFOND: That is
9 sufficient.

10 MR. LARRY KENNEDY: -- at -- at that
11 point.

12 THE CHAIRPERSON: Going back to the
13 Exhibit 5 from CAC page 21, I just wanted to understand
14 some of the material there. I -- it -- I'm looking
15 specifically at exposures at beginning of age interval
16 and the evolution of that value.

17 Could you explain that, please?

18 MR. LARRY KENNEDY: Certainly. I'm
19 trying to think of the -- the Reader's Digest version
20 of this. The -- the exposures at the beginning of each
21 age interval represents the investment of plant or
22 investment in plant that had the opportunity to reach
23 that age. So in other words, at age zero, there's a
24 value of eight (8) -- five hundred and eight thousand,
25 four hundred and twenty (508,420) -- five hundred and

1 eight million, four hundred and twenty-one thousand,
2 nine -- seven hundred and ninety dollars
3 (\$508,421,790). In other words, that investment was
4 originally available to be retired at age zero. In
5 other words, it represents the some of all plant that
6 have ever hit age zero.

7 Now, I'm going to put this a little bit
8 morbidly. I'm afraid to do this given, the
9 circumstances of last week. But these -- this analysis
10 was really developed through the statistical analysis
11 in the life insurance industry of human retirement and
12 of -- of mortality of human beings, in terms of life
13 insurance. So if we look at that and say of the
14 population of people, we may pick a category of it, the
15 population of people born in -- in, say, Winnipeg.
16 Anybody born has reached age zero. That would be that
17 exposures at age zero as the pon -- anybody that was
18 ever born at any given time in that -- in that period.

19 So in other words, it's not the current
20 population; it's the population that was ever -- ever
21 exposed to retirement or to mortality. We also call
22 these mortality curves for the same reason. As you go
23 through that, a certain segment of the population would
24 -- would expire at age one (1) and expire at age two
25 (2) and expire at age three (3).

1 What we do is -- to build up this
2 exposures, we look at the total plant exposed as at the
3 study date, that ever reached age zero. Well, that
4 would be, in the case of this -- circumstances of this
5 account, all the plant that was ever installed from
6 1923 through 2010 had an opportunity to get to age
7 zero. It was installed. Well, as we look at that,
8 stuff that had the opportunity to get to age, for
9 example, one (1) would be the sum of all that
10 population. But it would be, now, because it's a
11 shorter period of time, we subtract the -- the
12 additions that went in the very first year and build
13 that up.

14 So in other words, we look at the
15 statistics or the population that had an opportunity to
16 get to age one (1). We look at the population at age
17 two (2), the population at age three (3), et cetera, et
18 cetera, all the way through. So it's the sum of all
19 the additions that had the opportunity to get to that
20 age, no matter when installed.

21 THE CHAIRPERSON: And I guess the --
22 the rather obvious question is, you know, we're dealing
23 with one (1) unit. So when you're talking about
24 population, you're really talking of similar units?

25 MR. LARRY KENNEDY: Yes, Mr. Chairman,

1 we are actually talking about one (1) type of -- of
2 plant, one (1) account. So this would -- this account
3 would be the sum of all the dams, dikes, and weirs
4 within the system at many different locations, so over
5 the number of hydro stations they have. It's not one
6 (1) particular station. This curve is based on the --
7 on the aggregation of all the hydro facilities.

8 So it would represent a number of
9 specific individual units, but it's all the individual,
10 one (1) type, one (1) account.

11 THE CHAIRPERSON: Now, the impact of
12 that, those values -- relating it back to the
13 depreciation that we've -- that -- that's being
14 generated, does it have any impact at all beyond...

15 MR. LARRY KENNEDY: What it -- the
16 impact is that it provides us a statistical look at
17 what's historically occurred. In other words, the --
18 the pure use of this is to determine that -- those dots
19 on the Iowa curve. So the -- it's the one tool in the
20 toolbox that we have that looks at the -- the
21 retirement history of the company.

22 And the retirement history is -- is --
23 as you see here, it's plotted as a percent surviving,
24 but the key number is the retirement ratio. What's the
25 -- what's the ratio of retirements -- what's the ratio

1 of retirement as a percentage of the plant that was
2 exposed to retire at each age interval? The survivor
3 curve is really -- starts to become one (1) minus that,
4 what we're doing.

5 So really, it's purely a statistic that
6 we use to review the historic retirement practices.
7 And again, it's one tool in our toolbox for the
8 establishment of that Iowa curve.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Mr. Kennedy, if we go
12 back to -- maybe take the Board back to page 1 --
13 sorry, to 281 of the book of documents, 281, 282, what
14 we're showing the Board here, from Manitoba Hydro's
15 evidence, again, a number of things, but let's just
16 focus on the componentization. Manitoba Hydro's
17 depreciation group has been divided into -- into many
18 subgroups, as we've called them?

19 MR. LARRY KENNEDY: That's correct.

20 MR. BOB PETERS: Different accounts, as
21 you call them?

22 MR. LARRY KENNEDY: Different -- yes,
23 different accounts. We've actually -- we established
24 the account structure within their accounting system to
25 recognize the various accounts.

1 MR. BOB PETERS: And -- and that's my
2 next question is: Did Manitoba Hydro provide Gannett
3 Fleming with the groupings?

4 MR. LARRY KENNEDY: It was iterative.
5 The -- Manitoba Hydro asked me beginning in 2009 to
6 look at the account structure and whether or not the
7 account structure would be -- meet the requirements of
8 International Accounting Standard 16, and that
9 throughout the industry this became a very common -- a
10 very big issue in late 2008.

11 At one (1) time, it was thought that
12 what we see here as, you know, ten (10) or twelve (12)
13 accounts for a generating station, there were some --
14 some utilities that thought that might have to get down
15 into the hundreds per station.

16 And so there was a big debate, how
17 precise do we have to be. So I worked with many
18 utilities on this precise issue, what is the -- the
19 appropriate level of componentization that is required
20 to -- to meet the requirements of Standard 16 that
21 says, Thou shalt -- and I'm paraphrasing here, Thou
22 shalt depreciate your asset over its expected useful
23 life.

24 So there became that -- that tension in
25 terms of how far do we need to go. So Hydro engaged my

1 services based on my experience with working with a
2 number of electric utilities across the country to --
3 to try to manage that -- that level of componentization
4 we required.

5 So I became engaged in '09. We met with
6 operational staff. We met with the engineers. We
7 toured some sites. And I came back with a -- what I
8 thought would be a preliminary list. And that went
9 back and forth at least once where operational staff
10 looked at that and said, Well, gee, that's too precise,
11 maybe not precise enough.

12 And generally we -- we went through a
13 series of refinements to -- to end up where we did. So
14 it was really a combined effort, sir.

15 MR. BOB PETERS: Is the listing of
16 components and new -- and different accounts, is it
17 standard at -- at hydraulic utilities, as an example,
18 or is it -- is it one (1) size fits all or is it
19 designed for the utility that you work with?

20 MR. LARRY KENNEDY: It's designed for
21 the utility it works with. Life would be really easy
22 if all hydraulic facilities across the country used a
23 uniform system of accounts. I have clients that get
24 into the hundreds of components on some hydraulic
25 plant, particularly those not using the equal life

1 group. It becomes more important there. And utilities
2 that are, you know, really down to about this level.

3 I would suggest this level is what I've
4 recommended to -- to utilities going through an
5 exercise of -- of componentization. There's a number
6 of utilities out there that historically kept it at a
7 more granular level. That provided some different
8 types of opportunities. So it is really specific to
9 the utility.

10 MR. BOB PETERS: Can you confirm that a
11 renovation cost grouping was not completed for the
12 major generating stations in the -- in the 2010 study?

13 MR. LARRY KENNEDY: Yes, and in part
14 because of my view of the Iowa curve, particularly when
15 you're using the equal life group procedure, that Iowa
16 curve provides that -- that level of interim retirement
17 that would be required.

18 If you were using the average service
19 life method, I would suggest you do need to really
20 consider the use of an overhaul account. And a number
21 of utilities using ASL do in fact have overhaul
22 accounts in -- in a variety of their -- that would be
23 one (1) example where the -- the granularity changes
24 based on the calculation procedure that's used.

25 MR. BOB PETERS: Would it change

1 Manitoba Hydro's results if you did use the -- the
2 overhaul account?

3 MR. LARRY KENNEDY: That's a very
4 difficult question to answer, sir. If you had less --
5 well, I think -- as I understand your question, is if
6 we used a smaller level of componentization or less
7 granular, would the results change. We would
8 definitely have a different Iowa curve shape, in most
9 cases, more likely very less moded.

10 To -- to use the example that Mr. Lafond
11 found in the -- the exhibits kindly provided by the
12 CAC, that R2 is a different curve shape than the R4 and
13 reflects more interim retirements.

14 If you were to go to a lesser degree of
15 componentization you would have to look at that curve
16 shape to make -- ensure that the curve shape picks up
17 the -- the retirements that are caused by the -- the
18 components that would retire earlier. And so it would
19 be a completely different curve shape.

20 So the -- the challenge I'm having in
21 answering your question directly is I don't know what
22 that curve shape would look like, so it's hard to
23 determine what the depreciation expense would look
24 like.

25 MR. BOB PETERS: Do any of the

1 utilities that Gannett Fleming studies that also use
2 the equal life group procedure, set up an account for
3 renovations or overhauls?

4 MR. LARRY KENNEDY: I can think of one
5 (1) or two (2). And that -- that's just a policy
6 decision that they made, that they -- they wanted to
7 break that out. That would allow us to go to a
8 slightly higher moded curve for the remaining plant
9 though.

10 And so the -- the -- you have to an --
11 it's kind of built in if you look at all the pieces,
12 not one (1) by one (1), but in tandem. I can think of
13 at least one (1) utility that does have an overhaul
14 account that uses equal life group, yes. And probably
15 more if I took the time to flip through the -- the
16 hundred and some-odd studies that we've done, but there
17 would be at least one (1) that comes to my mind
18 immediately.

19 MR. BOB PETERS: Mr. Chairman, I'm
20 going to move to asset service life discussion with Mr.
21 Kennedy and Mr. Warden and Rainkie. This might be an
22 appropriate time for our morning recess if that suits
23 the Board.

24 THE CHAIRPERSON: Let's take ten (10)
25 minutes. Thank you.

1 --- Upon recessing at 10:30 a.m.

2 --- Upon resuming at 10:52 a.m.

3

4 THE CHAIRPERSON: You should know that
5 we had lots of festive season chocolates at the break,
6 so we're -- we're back. We're charged up for battle.
7 And I'll make sure that we circulate the chocolates
8 this afternoon so that all of us are well --

9 MR. BOB PETERS: Thank you, Mr.
10 Chairman. I -- I hope I haven't missed out totally on
11 those.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: I'd like to turn with
15 this panel, Mr. Chairman, back to page 278 of the book
16 of documents and just ground our next discussion.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: On page 278, Mr.
21 Rainkie, you indicated to the Board that in 2012 fiscal
22 year, Manitoba Hydro made a change in service life.
23 And you also acknowledged that in addition to the
24 service life change, Manitoba Hydro did the
25 componentization change, correct?

1 MR. DARREN RAINKIE: That's correct,
2 Mr. Peters. And I just wanted to tidy up the record on
3 something we talked about at the front end of all this.
4 You indicated that for 2012 our forecast in IFF09 of
5 depreciation expense was 407 million. And we actually
6 booked about three hundred and fifty-three (353).

7 And I -- I said I would check that. And
8 that's -- that particular line item is fine in terms of
9 how you articulated it. But I wouldn't want to leave
10 the impression that we over-earned in that year be --
11 because, of course, when you look at our electric
12 operations net income for that year, we had forecast
13 \$87 million, and we actually earned sixty-two (62).

14 So I said on the fly there were other
15 puts and takes, Mr. Peters, and there were that year.
16 So I just wanted to make sure that was clear on the --
17 on the record. I was kind of flat-footed when you
18 asked me that question, so I took the opportunity at
19 the break to correct my memory.

20 MR. BOB PETERS: We appreciate the
21 update, Mr. Rainkie. On the line -- I thought we were
22 very specific that the line item that we were talking
23 about on depreciation was \$54 million lower than what
24 was initially applied for?

25 MR. DARREN RAINKIE: We were, but our

1 net export earnings were also lower, Mr. Peters. So
2 when we look at our actual financial results they were
3 lower than forecast, so.

4 MR. BOB PETERS: Yes. The net income
5 for the year was 67 million, or maybe it was sixty-two
6 (62) --

7 MR. DARREN RAINKIE: Sixty-two (62).

8 MR. BOB PETERS: -- after subsidiaries
9 were -- were backed out?

10 MR. DARREN RAINKIE: Yeah, yeah.

11 MR. BOB PETERS: Okay. Thank you, sir.
12 Let's get back to page 278, Mr. Rainkie. The change in
13 service life line, the \$35.4 million reduction in
14 depreciation expense, that was as a result -- none of
15 that was as a result of componentization. Would you
16 agree with that?

17 MR. DARREN RAINKIE: I -- I think of
18 componentization and service life as being commingled.
19 I don't think it's possible to -- to split out the
20 subcomponents of those. At least we haven't done that
21 to date. So I think that, to me, is the impact of both
22 of those first two (2) changes.

23 MR. BOB PETERS: Okay. No. Appreciate
24 the -- the response.

25 Mr. Kennedy, did Gannett Fleming provide

1 a recommendation to Manitoba Hydro since 2007 to
2 specifically change the service lives of its assets?

3 MR. LARRY KENNEDY: The first recommend
4 -- the recommended change to service lives was in this
5 report or in this study, so we did not do an interim
6 study in the period between the '05 and the current
7 study, no. There was -- as we suggested, this was a --
8 a two (2) to a three (3) year project by the time we
9 went from componentization to the study. But, no, we
10 definitely did not undertake to update the service
11 lives in between, other than to provide the Company
12 some indication of what the various components might
13 look like.

14 But -- in other words, as we looked at
15 componentization, one (1) of the key things, as I
16 suggested this morning, is that you have to -- it's
17 only meaningful to break out a component if you think
18 it has a different life characteristic. So in that
19 regard, we did provide some indications but not
20 specific recommendations, nor did we do any type of
21 life study, as such, in that interim period.

22 MR. BOB PETERS: Mr. Rainkie, while I'm
23 still on page 278 and have my pencil out, sir, I made
24 another column for IFF12 numbers, and you've already
25 told the Board that you would move over the 32 million

1 for ELG and the \$55 million reduction for removal of
2 asset retirement costs.

3 For change in service lives, Manitoba
4 Hydro is proposing to continue on with the change in
5 service lives through to the 2015 fiscal year, correct?

6 MR. DARREN RAINKIE: That's correct.

7 MR. BOB PETERS: And the impact is
8 again approximately \$40 million of reduction in
9 depreciation expense?

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

12 MR. BOB PETERS: Dealing with the
13 change in service lives, Mr. Rainkie, Mr. Warden, the
14 Board has at some points requested Hydro to provide an
15 asset condition assessment report.

16 Do you recall that?

17 MR. DARREN RAINKIE: I think we talked
18 a little bit about that in the first week, Mr. Peters.

19 MR. BOB PETERS: And that asset
20 condition assessment report hasn't formally been
21 prepared, has it?

22 MR. DARREN RAINKIE: I think what we've
23 done thus far in the material, Mr. Peters, is talked
24 about our various business units and which stage they
25 are -- they are at. We refer to it as one (1) report,

1 but of course the work done internally has many
2 different dimensions to it, depending if you're in the
3 generation, transmission, or distribution space, Mr.
4 Peters.

5 MR. BOB PETERS: Is the Company working
6 on a -- a comprehensive asset condition assessment
7 report?

8 MR. VINCE WARDEN: Mr. Peters, the --
9 the compilation of the reports that Mr. Rainkie
10 referred to by the -- by the different business units
11 would ultimately form the comprehensive asset condition
12 report for the Corporation.

13 MR. BOB PETERS: And the timeline on
14 that again, Mr. Warden?

15 MR. VINCE WARDEN: Well, we did respond
16 through an Information Request to the status of asset
17 condition reports or assessments within each of the
18 business units, and they're at varying stages of
19 completion. The ultimate end completion date is still
20 in the future, but that specific date I don't have
21 readily available.

22 MR. BOB PETERS: It's not known at this
23 time? All right. We'll -- we'll check that further,
24 Mr. Warden.

25 Would it be correct, Mr. Warden and Mr.

1 Rainkie, that for the prior sixty (60) years of
2 Manitoba Hydro's history, Manitoba Hydro used an
3 overall life estimate of a hundred years for their
4 generating stations?

5 MR. VINCE WARDEN: Well, the average
6 has been the sixty-seven (67) years. The -- the civil
7 works I believe was a hundred years.

8 MR. BOB PETERS: And the new policy for
9 the civil is to stretch it out to approximately a
10 hundred and forty (140) years of economic life?

11 MR. LARRY KENNEDY: Mr. Peters, I'm --
12 I'm going to jump in a little bit here. Again, I think
13 you may be confusing the concept of the life span
14 versus the life estimate. The life estimate really is
15 stretched out from a hundred years to as high as a
16 hundred and twenty-five (125) for some components. And
17 I think as low as about twenty-five (25) for other
18 components.

19 I think an average of that is something
20 actually not too far off the hundred (100) overall on a
21 weighted average basis. So there's various life --
22 now, the -- but your question about the hundred and
23 forty (140) years is that lifespan or that truncation
24 date that's applied to those life estimates. So I just
25 want to make sure we're clear.

1 MR. DARREN RAINKIE: Mr. Peters, if you
2 go to page 288 of your book of documents, that
3 demonstrates what Mr. Kennedy was just chatting about,
4 at least for the civil works, is that it was a -- an
5 average service life of a hundred. And when you weight
6 the six (6) components that we now have, it's a average
7 service life of a hundred and four (104). So it --
8 that -- that's the particular change for that category
9 of plant.

10 MR. BOB PETERS: And how is the
11 weighting done, Mr. Rainkie or Mr. Kennedy?

12 MR. DARREN RAINKIE: Assume it's simply
13 by the amount of pro rata on the amount of plant in
14 each category.

15 MR. BOB PETERS: By dollars?

16 MR. DARREN RAINKIE: By dollars, yes.

17 MR. LARRY KENNEDY: Yeah, just the
18 original cost investment.

19 THE CHAIRPERSON: Could we go back to
20 life estimate versus lifespan, just to make sure I
21 understand it? Because I -- I don't, so.

22 MR. LARRY KENNEDY: Again, I wanted
23 just to be clear. As we were talking about on page
24 288, there's a number of components. And you'll notice
25 the components at that page have dams, dikes, and weirs

1 at a hundred and twenty-five (125). Now, again, that's
2 that curve that we were looking at that Mr. Williams so
3 kindly provided to -- to assist my -- my description.

4 That curve is then truncated in the
5 hundred and fortieth year. So I wanted to be clear.
6 And I was just chatting with Mr. Peters that the -- the
7 move wasn't from a hundred to a hundred and forty
8 (140). The move was from a hundred to a hundred and
9 twenty-five (125) on some components, and from a
10 hundred to twenty-five (25) on other components, that
11 each of those are -- then have the influence of that
12 hundred and forty (140) year lifespan applied to it.

13 MR. RAYMOND LAFOND: So the straight-
14 line depreciation would be effectively done over a
15 hundred and twenty-five (125) years, rather than a
16 hundred and forty (140) years?

17 MR. LARRY KENNEDY: Yes. Now, I'm --
18 I'm going to clarify that, though. Because re --
19 remember that curve stretched out as far as a hundred
20 and seventy (170) years approximately, but we stopped
21 it in the 140th year. So we would do, with the equal
22 life group procedure, a hundred and forty (140)
23 separate straight-line calculations for each of the
24 hundred and forty (140) years inside that curve.

25 In days gone by, that would have been

1 different. So it's not a hundred and -- so this is
2 where it gets a little bit confusing. It's based on a
3 hundred and twenty-five (125) year average service
4 life, but it would have a hundred and forty (140)
5 separate straight-line calculations prepared within
6 that -- within that account.

7 MR. RAYMOND LAFOND: Could you give us
8 an example, for instance, using just an asset of a
9 hundred thousand dollars (\$100,000)?

10 MR. LARRY KENNEDY: Of the straight li
11 -- of the equal life group? Absolutely.

12 MR. RAYMOND LAFOND: Yes, and -- and
13 what the depreciation would be in year 1, year 5, year
14 10, year 50.

15 MR. LARRY KENNEDY: Yes, there's
16 actually been a couple of -- of versions of that. And
17 I'm -- I'm going to, if I can, take you to the
18 depreciation study. We -- we provided a -- like a
19 three (3) asset example over -- I hope we provided it.

20

21 (BRIEF PAUSE)

22

23 MR. LARRY KENNEDY: I finally found it.
24 At -- starting at page II, or II-37, we provide a -- an
25 -- an example, taking --

1 THE CHAIRPERSON: Just hang on. We'll
2 -- we'll find the document, okay?

3 MR. LARRY KENNEDY: Oh, ab -- oh,
4 absolutely.

5 MR. DARREN RAINKIE: I think the
6 reference on that, for the assistance of the Board, is
7 Appendix 5.7 of our original Application.

8 MR. RAYMOND LAFOND: Which page in
9 Appendix 5.7?

10 MR. DARREN RAINKIE: It's the report
11 itself. And I think it's Section 2-20...

12 MR. LARRY KENNEDY: Oh, starting
13 section 237.

14

15 (BRIEF PAUSE)

16

17 MR. LARRY KENNEDY: Okay, so this --
18 this is a two (2) asset example. The same example
19 appears in a variety of literature. I noticed in, I
20 think it was the book of documents provided by MIPUG,
21 they -- they produced a NARUC manual that has a ten
22 (10) asset example. But the -- I'm going to walk you
23 through this one only because it's a bit easier
24 sometimes with two (2).

25 This example would assume that we have

1 an account, and the account is comprised of two (2)
2 assets. One (1) of the assets is a five (5) year
3 asset, it's expected to live five (5) years; the second
4 asset is expected to fifteen (15) years. Each of the -
5 - each of the assets is comprised of a hundred dollars
6 (\$100) -- or, a thousand dollars (\$1,000) of
7 investment. So we have two thousand dollars (\$2,000)
8 in this account: one thousand dollars (\$1,000) with a
9 five (5) year life estimate, one thousand dollars
10 (\$1,000) with a fifteen (15) year life estimate.

11 Now, let's assume for a second that it's
12 legitimate to put them into one (1) account and we're
13 not going to componentize them into two (2).

14 THE CHAIRPERSON: I don't think we're
15 on the same page. I just want to make sure that --
16 could you repeat the reference again please?

17 MR. LARRY KENNEDY: Certainly. It's
18 Appendix 5.7, page II-37 is where I start. And the
19 title of that page is titled "Calculation of Annual and
20 Accrued Depreciation."

21 MS. PATTI RAMAGE: And if it helps,
22 that's in Volume I-A of the materials.

23

24

(BRIEF PAUSE)

25

1 MR. RAYMOND LAFOND: It looks like
2 computers are not that bad.

3 MR. LARRY KENNEDY: One of these days
4 I'm going to figure out the iPad version of evidence,
5 but I -- I haven't taken the leap yet, Mr. Lafond.

6 THE CHAIRPERSON: I think we've got the
7 document now.

8 MR. LARRY KENNEDY: Okay, thank you.
9 So in this example, we've provided that page and over
10 the next couple pages, the example. So as I was
11 saying, the example is -- is assumed to have two (2)
12 assets, one (1) with a thousand dollar (\$1,000)
13 investment with a five (5) year life, the second asset
14 with thousand dollars (\$1,000) of investment with a
15 fifteen (15) year life.

16 If we look at what happens in the two
17 (2) procedures and if you go to the next page, II-38,
18 what we do is we say, Okay, in the first year we have
19 two thousand (\$2,000) of investment. Well, under the
20 average service life method, we would say, My five (5)
21 year asset and my fifteen (15) year asset, the average
22 of those two (2), weighted by investment of thousand
23 dollars (\$1,000) each, gives me a ten (10) year average
24 service life. In other words, five (5) plus fifteen
25 (15), divided by two (2).

1 That would give you a ten (10) year
2 life, a ten (10) year average service life with --
3 using the average service life method or procedure
4 would result in a 10 percent rate. So if you look at
5 that chart on page II-38, that would result in, for the
6 first five (5) years, a 10 percent rate being applied
7 to the two thousand dollars (\$2,000) of investment, two
8 hundred (\$200) per year of accrual.

9 Now, we've taken in this example things
10 like the midyear convention and timing of the -- the
11 month of the retirement, that type -- we've assumed
12 those all just for simplicity. So if we assume for the
13 first four (4) years, we have two hundred dollars
14 (\$200) per year going in; that's 10 percent times two
15 thousand dollars (\$2,000) gives me a two hundred dollar
16 (\$200) accrual. We build up an accumulated
17 depreciation balance up to eight hundred dollars
18 (\$800). Well, in the fifth year, we also added two
19 hundred dollars (\$200) of accrual, but we retire the
20 investment associated, the one thousand dollars
21 (\$1,000), at which point in time we have zero dollars
22 left in the accumulated depreciation account.

23 Now, because we're using the average
24 service life procedure in this example, our rate stays
25 constant at 10 percent. And that 10 percent is now

1 being applied to the remaining one thousand dollars
2 (\$1,000) of investment, resulting in a hundred dollars
3 (\$100) per year of annual accrual. And you see that
4 all the way through year 14. That account then has the
5 10 percent applied against the hundred (100) --
6 thousand dollars (\$1,000) at a thou -- hundred (\$100)
7 per year. At the end of the fourteenth year, our
8 accumulated depreciation account is now \$900.

9 Fifteenth year comes in because we are
10 retiring this asset in the fifteenth year, we have
11 depreciation expense of a hundred dollars (\$100). We
12 retire the thousand dollars (\$1,000), leaving our
13 accumulated depreciation balance at zero.

14 In other words, over the fifteen (15)
15 years, we have -- we've covered the complete one
16 thousand (\$1,000) of investment. Important to note,
17 though, at the end of the fifth year, we have no
18 dollars left in our accumulated depreciation account
19 for the asset that has been in service for five (5)
20 years, that remains in service.

21 And we have a hundred dollars of charge
22 going against fif -- for the next fifteen (15) years,
23 so it's an -- a very average method. Thus the name,
24 The average service life.

25 Now, compare that to what the equal life

1 group procedure does. The equal life group procedure
2 says I have one (1) asset with a five (5) year life --
3 in other words, a six (6) point -- or a 20 percent
4 depreciation rate. And I have a second asset with a
5 fifteen (15) year life -- in other words, a 6.67
6 percent depreciation rate.

7 If I sum those two (2) -- and if you
8 remember in my -- in my direct examination this
9 morning, I mentioned that this method used to be called
10 the "unit summation method" because it really sums the
11 -- the appropriate accrual rate for the two (2) units.
12 So we sum the twenty dollars (\$20) that's applicable
13 for the five (5) year unit -- or the two hundred
14 dollars (\$200), I'm sorry -- plus the sixty-seven
15 dollars (\$67) that's applicable for the fifteen (15)
16 year unit. And on an annual basis from year 1 to 4, we
17 -- we book two hundred and sixty-seven dollars (\$267)
18 of depreciation expense per year. At the end of the
19 fourth year, we have one thousand and sixty-eight
20 dollars (\$1,068).

21 Now along comes year 5. We book again
22 the same two hundred and sixty-seven dollars (\$267) of
23 accumu -- or depreciation expense, we retire the
24 thousand dollars (\$1,000), but that leaves in our
25 account three hundred and thirty-five (\$335). That

1 represents one-third (1/3) of the -- the investment
2 cost of that second asset. In other words, even after
3 the retirement of the first asset, we have accrued
4 enough to recognize the one-third (1/3) of the life
5 consumption of the second asset.

6 Now, going forward from there, what we
7 have left is only the second asset. We're only booking
8 a depreciation expense of sixty-seven dollars (\$67),
9 being the fifteen (15) year life of the second asset
10 that has a fifteen (15) year life estimate: the sixty-
11 seven dollars (\$67) per year.

12 Over the course of that now, we've had
13 some rounding we've had to play with, you know, to make
14 it sixty-six dollars and sixty-seven cents (\$66.67).
15 So you'll see sixty-seven dollars (\$67) and sixty-six
16 dollars (\$66). But at the end of the fourteenth year
17 we have accrued nine hundred and thirty-four dollars
18 (\$934). The fifteenth year comes along, we top that up
19 with the last year's accrual, the sixty-six dollars
20 (\$66), and we retire the thousand, and again we end up
21 with a nice, clean example where we -- we fully
22 depreciate the account at the base of the retirement.

23 A couple of things to note, and as I
24 pointed out as I was going through, ASL method at the
25 end of the fifth year leaves nothing you'd be willing

1 to bank for that first asset as compared to the ELG
2 method, or procedure, providing for the recognition of
3 the consumed life of that second asset.

4 Another thing is, if you notice, both of
5 these calculations are straight-line calculations.
6 They're based on, in one (1) case, your estimate of the
7 average life, straight line. It's -- your average life
8 is ten (10) years. It's the investment divided by the
9 ten (10) years.

10 The second case, all we've done is taken
11 that same equation, made two (2) pieces out of it. We
12 said the fifteen (15) year -- year asset is sixty-seven
13 dollars (\$67), the five (5) year asset is two hundred
14 dollars (\$200). Still straight-line calculations. We
15 sum those two (2) straight-line calculations together
16 to -- to get the accrual applicable each year in
17 service.

18 So I think -- I don't know, Mr. Lafond,
19 if that helped understand the -- the preciseness of the
20 calculation. What happens in -- in real life now, when
21 we move away from the simple example, we -- we take
22 that Iowa curve that we looked at, that hundred and
23 twenty-five (125) year Iowa curve, and we do this for
24 each one of those hundred and forty (140) year
25 intervals that's in that curve. So this happens --

1 MR. RAYMOND LAFOND: That's where
2 you've just lost me.

3 MR. LARRY KENNEDY: Okay. So that's --
4 that's why I wanted to make sure that -- that we'd
5 clear this up. So in that -- that Iowa curve that we
6 had that had a twenty-five (25) year life that we
7 truncated at the hundred and fortieth year, inherent in
8 that is -- because we truncated at the hundred and
9 fortieth year, there's a hundred and forty (140)
10 separate life estimates.

11 So as compared to my simple example
12 where I had one (1) at year 5 and 15, in that one I
13 have a life estimate of one (1) year, of two (2) years,
14 of three (3) years, of four (4) years, of five (5)
15 years, all the way through to the hundred and fortieth
16 year. So I'm doing the same thing as I've done in the
17 simple two (2) life example, except I'm doing it for
18 each of those years over that hundred and forty (140)
19 year period. In other words, we're assuming some
20 retirement in each of the hundred and forty (140)
21 years.

22 And so we take this simple example and
23 make it a lot more complicated and do it a hundred and
24 forty (140) times over. So this chart becomes a lot
25 more complicated. Same theory. It's exactly how it

1 works. It's just occurring over a lot more life
2 estimates within the group.

3 MR. RAYMOND LAFOND: But your ASL, if
4 it would have been broken in two (2) components, it
5 would have given the same depreciation results as the
6 ELG?

7 MR. LARRY KENNEDY: Precisely. And
8 that's -- that's the point I was making in my -- in my
9 direct evidence, that you -- you have two (2) choices.
10 You can componentize even further and apply ASL over
11 many more components, or you can use the equal life
12 group.

13 MR. RAYMOND LAFOND: Now, looking at
14 this, it indicates to me that equal life group
15 procedure actually incurs more depreciation in the
16 first years in the ASL method. However, in our final
17 results, we show a decrease in depreciation rates
18 because -- rather than an increase in depreciation
19 rates. Why is this?

20 MR. LARRY KENNEDY: In -- in the actual
21 application, you mean? The -- this is only one (1)
22 piece of the component. If we were simply moving to
23 the equal life group procedure all on its own, it would
24 have shown an increase because we -- at the time we
25 implement the ELG we've also taken net salvage out of

1 the equation that more than offsets that.

2 MR. DARREN RAINKIE: Maybe I can jump
3 in here. I think -- I think it was a different
4 question. And -- and I think Mr. Kennedy was going --
5 jumping to another subject, but.

6 And this goes to why this ELG is a fair
7 methodology for rate setting than ASL. Is that when
8 you look at the equal life group you got two (2)
9 assets, one (1) that has a five (5) year life and
10 customers are contributing two hundred dollars (\$200)
11 over -- you know, which is over the five (5) year life,
12 which is appropriate.

13 Customers in the first five (5) years
14 are also contributing sixty-seven dollars (\$67), one
15 fifteenth (1/15th) roughly, for the asset that is in
16 the place for fifteen (15) years. And -- and that's
17 why it's fair from an intergenerational equity. I
18 mean, it's indisputable, as far as I'm concerned.

19 This simple example shows that -- that
20 principle. When you're using the average service life
21 what you're doing is you're undercharging the, you
22 know, first customers for five (5) years and
23 overcharging them in the back end. It's indisputable,
24 as far as I'm concerned.

25 MR. RAYMOND LAFOND: I understand that.

1 It's just that looking at this example -- and I would
2 be tempted -- or should be concluding that depreciation
3 expense in your last statement should have increased
4 rather than decreased. Is it because we're further
5 along your curve?

6 But I've just heard that one (1) of the
7 reasons is the net salvage value which is not taken
8 into consideration.

9 MR. VINCE WARDEN: Mr. Lafond, just to
10 clarify, we're not implementing ELG until 2014/'15, so
11 beyond -- beyond the test -- two (2) test years. So at
12 that point, if we -- assuming we go to IFRS,
13 depreciation expense will increase because of ELG.

14 MR. RAYMOND LAFOND: So we are
15 implementing ELG but not the IFRS portion, that is the
16 net salvage value not being taken into con --

17 MR. VINCE WARDEN: No, no, no, no,
18 we're not -- we're not implementing ELG until we
19 implement IFRS, which is in the 2014/'15 test -- or in
20 -- in the 2014/'15 fiscal year in Manitoba Hydro's IFF.

21 MR. LARRY KENNEDY: So the increases
22 indicated -- or the decreases rather indicated on page
23 278 have nothing to do with the application of ELQ
24 (sic). We're still on ASL?

25 MR. VINCE WARDEN: We're still on ASL

1 in this -- for the test years, yes.

2 MR. RAYMOND LAFOND: Okay, so --
3 whoops. So it is simply the change in service life and
4 -- and components. I understand that now.

5 MR. VINCE WARDEN: Yes.

6 MR. LARRY KENNEDY: And, Mr. Lafond,
7 you'll notice in the 2014 column the change due to the
8 methodology is actually an increase, consistent with
9 your initial intuition.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: Mr. Kennedy, just to
13 conclude on the chart that you reviewed with the Board
14 between average service lives and equal life groups --
15 and I'll -- I'll come back to that as well, but how
16 does your analysis work if the account balances,
17 instead of declining, are actually increasing?

18 MR. LARRY KENNEDY: The -- this in --
19 is done -- this calculation is made on a install-year
20 by install-year basis. So not only do we have a
21 hundred and forty (140) calculations, we have a hundred
22 and forty (140) calculations for each and every install
23 year.

24 So as -- and that's why I mentioned in
25 my direct examination this morning that the ELG

1 procedure is sensitive to additions of plant going in.

2 So it really becomes a little bit three-dimensional.

3 You have your investment for any given

4 install year that follows this example. You layer on

5 top of that the same set of a hundred and forty (140)

6 calculations for the next install year, and you layer

7 on top of that again the -- the ones that go for the

8 third install year, all the way through.

9 So this -- this simple example is really

10 meant to show, if you are a stable account with no

11 additions, or -- other than the -- the assumed

12 retirements in it, as you start adding new plant each

13 and every year, your level of calculations increase.

14 The calculations are the same, we just do them on each

15 and every vintage.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: The layering isn't as

20 extensive, then, on the average service life

21 methodology because you are by definition just taking

22 the averages?

23 MR. LARRY KENNEDY: That's correct.

24 MR. BOB PETERS: Are you able to run

25 the example you have on page Roman numeral II-38, and

1 do it with an inclining balance where you're adding --
2 adding assets during the years that you've depicted?
3 Would -- would that provide the Board with a
4 demonstration as to what happens in that circumstance?

5 MR. LARRY KENNEDY: It gets -- we
6 could, but it gets really complicated. It becomes
7 almost a three-dimensional worksheet. We do provide,
8 in some Information Request responses, the -- the
9 output from our programs, if you will, that show the
10 calculations vintage by vintage. We -- we did provide
11 those in response to -- I need -- just need to find the
12 right IR response here.

13 But it was -- there was, in a series of
14 MIPUG questions, I think it was 75, and I should check
15 here. We -- we were asked to provide the -- the
16 calculations for a number of specific circumstances.
17 We did there. And that shows the vintage-by-vintage
18 layering.

19 Although in those ones, again, to -- to
20 avoid the three-dimensional would take thousands of
21 pages, we -- we show one (1) accrual rate applicable to
22 each vintage that is, in essence, that -- that two
23 hundred and sixty-seven dollars (\$267) from my example.

24 MR. BOB PETERS: Well, let's not --
25 let's not do that example. But conceptually, if the

1 balances are growing, depreciation expense is -- is not
2 declining in reality. It'd -- it'd be increasing.

3 MR. LARRY KENNEDY: Depending on the
4 amount of the additions that go in. The --

5 MR. BOB PETERS: Fair -- fair enough,
6 that's true.

7 MR. LARRY KENNEDY: You know, if your
8 additions exceed the -- the level of the interim
9 retirement activity that's embedded in that curve, then
10 they would go down. But in a growing account, yes,
11 your assumption is correct.

12 I -- I did, just by -- the -- the
13 responses that I was referring to are MIPUG-2-11. And
14 it was a series of 11A through MIPUG-2-11, I think it
15 was 'E'. It was a series of detailed calculations that
16 we provided that -- that would show that the accrual
17 rates change for each vintage.

18 MR. BOB PETERS: Thank you. We'll --
19 we'll review that at the break. I just want to step
20 back to where I was in terms of the -- the change in
21 service lives. The -- as I understood your direct
22 evidence, the -- and let me -- I apologize before I --
23 my terminology was perhaps too loose.

24 But the life estimate changed from a
25 hundred year life estimate to a hundred and twenty-five

1 (125) for some accounts?

2 MR. LARRY KENNEDY: That's correct.

3 MR. BOB PETERS: And in addition to
4 that the life span was taken out to a hundred and forty
5 (140) years?

6 MR. LARRY KENNEDY: That's correct.

7 MR. BOB PETERS: And would it be
8 correct to understand the -- the life estimate as being
9 the probable remaining life added on to its -- onto the
10 asset's existing age, and that's your life estimate?

11 MR. LARRY KENNEDY: In other words, if
12 my asset is forty (40) years old, I get a probable life
13 estimate from that curve and I can add the two (2)
14 together to get the total?

15 MR. BOB PETERS: I was suggesting that
16 would give you your life expectancy?

17 MR. LARRY KENNEDY: Yes, that's
18 correct.

19 MR. BOB PETERS: And in terms of doing
20 the work to -- to change the life estimates, was that
21 work done by Gannett Fleming?

22 MR. LARRY KENNEDY: To change the --
23 the estimates? Yes, that was definitely our work. No,
24 I mean, it was done in consult with the interviews we
25 had with the operational and engineering staff. We --

1 we assembled as much information as we could to make a
2 reasonable life estimate, but it was our recommendation
3 and resulting from our study.

4 MR. BOB PETERS: All right. It was
5 based on the -- on the data and the work provided by
6 Manitoba Hydro?

7 MR. LARRY KENNEDY: In part, yes.

8 MR. BOB PETERS: Well, Gannett Fleming
9 has an engineering division?

10 MR. LARRY KENNEDY: Yes, we do.

11 MR. BOB PETERS: But they didn't go out
12 to all the dams and generators and decide what they
13 felt was the remaining life?

14 MR. LARRY KENNEDY: They did not.

15 MR. BOB PETERS: No. Okay.

16 MR. LARRY KENNEDY: We relied on the
17 internal experts within Manitoba Hydro for some
18 opinions.

19 MR. BOB PETERS: Can you tell the
20 Board, Mr. Kennedy, if the hundred (100) year life
21 estimate for generating stations is being extended in
22 other Canadian utilities?

23 MR. LARRY KENNEDY: We've definitely
24 seen life extension pressures. We do have some -- some
25 lifespans that are some -- average service life

1 estimates for this type of equipment that is extending
2 past a hundred years. I would say more are still using
3 a hundred than have gone out beyond a hundred years,
4 but there is definitely indications throughout the
5 industry that this plant does need to extend past a
6 hundred years, yes.

7 MR. BOB PETERS: Is -- for example, in
8 British Columbia, are the -- the life estimates still
9 at a hundred?

10 MR. LARRY KENNEDY: Off the top of my
11 head, I think so, but I'd have to take that subject to
12 check.

13 MR. BOB PETERS: That's fine.

14 MR. LARRY KENNEDY: For example, the
15 other -- the other one that was a bit more recent in my
16 head, we -- we just used through a negotiated
17 settlement process, the end result was a hundred year
18 life estimates in Newfoundland on their dams that we
19 just completed in the last month or so.

20 MR. BOB PETERS: I'm sorry, I didn't
21 hear that. You -- the life estimate there was a
22 hundred years?

23 MR. LARRY KENNEDY: Yes.

24 MR. BOB PETERS: All right.

25 MR. LARRY KENNEDY: Now there was some

1 pressure and there's a lot of evidence in that case
2 that perhaps there was some pressure to pull it out.
3 But at the end of the day we recommended a hundred
4 years, and that's -- that's the number that's being
5 used. Now, I will stress that was a result of a
6 negotiated settlement, so there's pushes and pulls on
7 that as well.

8 But the -- the hundred (100) years is, I
9 would say, still the most commonly used life estimate.
10 But we -- to take your point, there is definitely some
11 indications and pressures that may be extending in a
12 number of jurisdictions.

13 THE CHAIRPERSON: Could I explore that
14 -- some of your comments there? You know, you said
15 clearly that you've seen life extension pressure, and I
16 can understand why that would be, because of the
17 obvious impact on -- on rates if -- if depreciation
18 amounts decrease.

19 Now, you said that there was negotiated
20 settlement in Newfoundland and there was pressure to
21 increase the -- the life expectancy -- or, pardon me,
22 the life...

23 MR. LARRY KENNEDY: Estimate.

24 THE CHAIRPERSON: I want to make --
25 estimate.

1 MR. LARRY KENNEDY: Yes.

2 THE CHAIRPERSON: I want to make sure I
3 use the right words. But who was pushing the other
4 way?

5 MR. LARRY KENNEDY: Well, the
6 intervening community was pushing to -- to pull out
7 beyond a hundred (100) years. The company, they
8 believed that a hundred years was maybe even on the
9 long side. So there's a bit of a divergent of opinion
10 as -- as our infrastructure in this country, and
11 particularly hydro dams, are reaching ages where we
12 might start seeing -- if a hundred years is correct.
13 And some utilities have started to see retirements of -
14 - of hydro dams in around that age, and a hundred years
15 becomes appropriate.

16 Other utilities, such as this utility,
17 have some significant amount of investment that's
18 approaching a hundred years that is not yet scheduled
19 to retire, so that would provide the indication that
20 it's pulling out. So I would think it's -- I don't
21 want to suggest that it's generally coming out longer.
22 It really is company specific. But if I sat here five
23 (5) years ago, I probably would have said I don't think
24 there's anybody using beyond a hundred years.

25 We are now starting to see some -- some

1 indications that we do need to get longer than a
2 hundred years. And that's just where we're getting to
3 with the infrastructure starting to age more and more
4 that is not yet being retired or replaced or even
5 partially replaced in some circumstances, that we do
6 see a need to -- to extend the lives.

7 I always look at this as the goal is to
8 get that estimate right. And, you know, sometimes
9 there's influences that we can reduce tolls by
10 stretching it out or we can increase tolls or
11 depreciation expense by shortening up. And I advise
12 parties on both sides of the fence, Don't do that.
13 Let's get the right number, because it's to every
14 bodies benefit to have the number that is the most
15 correct.

16 And in circumstances where we see a
17 utility with aging infrastructure that is not yet
18 scheduled to retirement, the right thing to do is
19 stretch it out, as we've done here. Other utilities
20 aren't quite as confident that they won't have
21 retirement of those facilities in their circumstances
22 at those ages, and the right thing to do is to leave it
23 at a hundred years. Or, in fact, some are shorter than
24 that.

25 But I think Mr. Peter's question was:

1 Are we seeing this stretch out? And we are definitely
2 seeing more indications now of more of the
3 infrastructure having perhaps a need to be -- to be
4 pulled out of this type of infrastructure.

5 MR. RAYMOND LAFOND: This is, I guess,
6 a bit of hypothetical question. But if -- and it's to
7 determine which factors you include into your lifespan
8 or average life.

9 If, for instance, there was something
10 being uncovered, discovered whereby the production of
11 energy was a totally different way, whether it was
12 using solar energy, and -- and we expect that within
13 ten (10), fifteen (15) years, we'll have very, very
14 cheap energy and non-polluting, et cetera, would that
15 affect the life span? Because even though the dam is
16 good for a hundred and twenty-five (125) years, if we
17 start thinking that it's not going to be used more than
18 twenty-five (25) years, what do we do then?

19 MR. LARRY KENNEDY: You -- you've hit a
20 very important point, Mr. Lafond. You're right. The
21 physical life may still show a hundred and twenty-five
22 (125) years. It's that lifespan date that we would
23 move. And if in fact there was a new source of energy
24 that would render the -- the usefulness of -- or the
25 economic usefulness of hydro production, you know,

1 uneconomic in, say, twenty-five (25) years, we would
2 amend the lifespan date to the twenty-five (25) years.

3 We might still have a hundred and
4 twenty-five (125) year physical life estimate. But,
5 quite frankly, that would be almost irrelevant in the
6 discussion, because the predominant factor would be
7 that short lifespan. And we've seen that with -- with
8 some categories of plant. I alluded to meters this
9 morning, for example, where there's a change.

10 The -- the thermal industry in the
11 United States, we're going through an awful lot of
12 looks down there now with the new environmental changes
13 that have been introduced in the United States. It's
14 rendering an awful lot of the coal thermal production
15 to be uneconomic or unfeasible in a relatively short
16 time, and we are amending lifespan dates in some of
17 those applications quite aggressively, quite frankly.

18 MR. RAYMOND LAFOND: So, therefore, the
19 depreciation expense is of course applied on the span
20 life rather than the average service life?

21 MR. LARRY KENNEDY: And not to try to
22 be at all technical, but it really is the lesser of the
23 lifespan data, the physical life estimate.

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Mr. Kennedy, can we
2 turn to page 284 of the book of documents as an
3 example? And I want to follow up on a question from
4 the Chairman, looking at page 284 of PUB Exhibit 14, I
5 think, Mr. Kennedy.

6 MR. LARRY KENNEDY: I do have that.

7 MR. BOB PETERS: And let's go down to -
8 - Limestone is one (1) of the generating stations in
9 Manitoba. You haven't been to that station, or have
10 you?

11 MR. LARRY KENNEDY: I do not think so.

12 MR. BOB PETERS: In any event, the --
13 the column shown as the effective April 1, 2007, the
14 one point two-four (1.24) was the -- was the percentage
15 applied to the civil components of Limestone in the --
16 in the old, if I may, Gannett Fleming depreciation
17 study.

18 MR. LARRY KENNEDY: In the 2005 study,
19 yes, it was.

20 MR. BOB PETERS: And that study used
21 ASL?

22 MR. LARRY KENNEDY: It did.

23 MR. BOB PETERS: So if we follow along
24 and we see on the right-hand side of the page that
25 Limestone was componentized, if that's the right word,

1 into a number of other accounts, correct?

2 MR. LARRY KENNEDY: Correct.

3 MR. BOB PETERS: And that was done
4 effective April 1 of 2011?

5 MR. LARRY KENNEDY: Yes.

6 MR. BOB PETERS: And the effective
7 April 1, 2011, numbers that are shown, those would
8 still be ASL numbers, average service life numbers?

9 MR. LARRY KENNEDY: Yes. I just wanted
10 to make sure, because I didn't prepare this chart, so I
11 wanted to make sure.

12 MR. BOB PETERS: Oh, and certainly the
13 question's open to Mr. Rainkie as well --

14 MR. LARRY KENNEDY: I'm --

15 MR. BOB PETERS: -- if there's any
16 further --

17 MR. LARRY KENNEDY: I'm told it is ASL.

18 MR. BOB PETERS: Yeah. All right. And
19 then going over to the far right-hand column where we
20 see effective 1 -- effective April 1, 2012 -- I'm
21 sorry, '13, that proposes equal life grouping?

22 MR. LARRY KENNEDY: It -- it proposes
23 two (2) things: one, equal life group procedure, but it
24 also reflects the removal of the net negative salvage
25 from the depreciation calculation. And that's why you

1 see lower numbers in -- in that column than you do in
2 the -- in the left column.

3 MR. BOB PETERS: And that's the point
4 that I think Board member Lafond and the Chairman had,
5 was but for the removal of the net salvage value, one
6 would expect to see that percentage number higher?

7 MR. LARRY KENNEDY: Correct.

8 MR. BOB PETERS: And higher than the
9 ASL?

10 MR. LARRY KENNEDY: Correct. Higher
11 than the one twenty-four (124)? It -- it's difficult
12 to say. It definitely would be higher than the April
13 1, 2011, number. The one that's effective April 1,
14 2007, it's -- it's an apples-to-oranges kind of
15 comparison. But the point is it would definitely be
16 higher in '13 than it was in '11.

17

18 (BRIEF PAUSE)

19

20 MR. RAYMOND LAFOND: The whole issue of
21 eliminating the net salvage value, this is really the
22 cost of decommissioning?

23 MR. LARRY KENNEDY: Generally, yes.
24 It's -- it's the cost of final retirements and
25 decommissioning. There's a little bit of ongoing

1 retirement, as -- for another words, if you replace an
2 asset there's sometimes a cost of removal of the old.
3 But the -- the big cost, if you will, is the final or
4 terminal retirement costs, yes.

5 MR. RAYMOND LAFOND: What is the logic
6 under IFRS to remove these costs? Because someone has
7 got to pay for them. And it should be -- should it not
8 be the current consumers rather than the consumers
9 using different --

10 MR. LARRY KENNEDY: The next --

11 MR. RAYMOND LAFOND: -- power stations?

12 MR. LARRY KENNEDY: Conceptually, I
13 agree with you. The -- the IFRS -- and I -- I would
14 love to be able to put myself in the minds of the -- of
15 the lords in London that -- that have developed the
16 standard that said, Thou shall either put it into the
17 replacement cost of the asset or to expense it in the
18 year of occurrence.

19 I really think that when they developed
20 the standards they did not think of utility plant. Of
21 course, the standards are applied to all types of
22 plant. And I -- I think they thought that the
23 provisions in International Accounting Standard 37 that
24 deal with asset retirement obligations -- my view is
25 that they think that there's significant costs that are

1 going to be picked up as part of that standard rather
2 than necessarily being included in the depreciation
3 expense.

4 I truly don't think that they -- they
5 recognize that, at least the North American utility
6 practice, of putting that in depreciation expense to --
7 to, as you suggest, fairly recover that cost over the -
8 - over the current users.

9 So I can't -- I can't put myself in
10 their head, unfortunately. That's -- I can only
11 surmise that they think they've -- they've picked it up
12 in -- in Standard 37, which is the retire -- asset
13 retirement obligation standard.

14 The challenge becomes for utilities such
15 as Hydro, then, how do you do that. Like how do meet
16 the -- the regulatory construct that's in the historic
17 one that says, Gee, net salvages is recoverable from
18 those using their facilities, and -- and mesh that with
19 the standards without going through an awful lot of
20 work and -- and keeping two (2) sets of books.

21 And that becomes the -- the tension that
22 -- that exists for a lot -- a lot of utilities as they
23 are entering this world of IFRS. And really the --
24 the, if you will, compromise solution is, as Hydro has
25 -- has come up with and done, is to say, Well, at this

1 point in time, the expectation is that there is an
2 ongoing life. In other words, as assets reach the end
3 of their life they will likely be replaced.

4 And the IFRS standard allows you to put
5 the removal costs of the old asset into the replacement
6 cost of the new. I recognize there's a generational
7 question there. It's the future toll-payers paying for
8 the total cost of yesterday's asset. That seems to
9 have been amongst utilities -- and -- and Hydro looked
10 at it and spent an incredible amount of time and -- and
11 thought about it, that becomes the -- the -- kind of
12 the compromise solution.

13 And I think the -- the gentlemen to my
14 left here can -- you're right, can -- can probably talk
15 about that a bit better, what they went through in
16 making that internal decision. I firmly believe, as --
17 as a construct, that, to the extent we could, and
18 without causing all kinds of work and administrative
19 burden, net salvage should be to the account of those
20 using the asset.

21 The -- the challenges and the tension is
22 it becomes very administratively difficult to do
23 without maintaining two (2) sets of books, or
24 maintaining all kinds of deferral accounts and all
25 kinds of reconciliations. I have clients that have

1 done it. But they have specifically developed an awful
2 lot of logistic burden behind to do it.

3 After the debate and -- that Hydro
4 decided to do here. And Mr. Rainkie and Mr. Warden can
5 talk about that. Their decision was that, no, they --
6 they would rather take, you know, a little bit of the
7 comprise but still recovered from toll payers, granted
8 maybe not as generationally accurate, but still recover
9 it in basis that's consistent with Standard 16.

10 MR. VINCE WARDEN: So --

11 MR. RAYMOND LAFOND: Sorry. So
12 essentially, I, for instance, visited the pipeline
13 coming in from Prudhoe Bay in Alaska. And -- and the
14 deal is that when it's all done they've got to re --
15 bring everything back to how it was, the natural state
16 it was originally. So who would pay for that if it's
17 not the current consumers?

18 I -- I -- and just like if it's a, one
19 (1) big project like that, I'm not sure how -- what the
20 -- and I did understand your -- your answer. It's just
21 that it seems that it doesn't follow logic.

22 MR. LARRY KENNEDY: Well, I -- I agree
23 with you to some extent. Now the National Energy Board
24 of Canada is currently spending a very grand amount of
25 time and resources on this very exact topic dealing

1 with pipelines. They -- they've commissioned a -- a
2 whole proceeding known as the Land Consultative
3 Management -- LMCI, Land Matters Consultative
4 Initiative, where they are investing options for
5 underground pipelines and who pays and how do they
6 recover those abandonment costs.

7 That -- that process is currently
8 underway. I have a number of clients that are in the
9 middle of that and they're -- they're facing the same
10 dilemma. The -- the difference there is a number of
11 those clients -- and most of those pipelines have
12 actually adopted US GAAP. So the question -- the
13 question of not being allowed within IFRS goes away a
14 little bit for those clients or those companies.

15 The ones that have not adopted US GAAP
16 are facing this exact same question and will probab --
17 probably be sitting down before the National Energy
18 Board within the next few years having this very same
19 discussion about that tension between the -- the
20 standards and the -- the equity of the tolls, and the
21 policies to administer that, and the logistics that
22 goes behind that.

23 So it's a -- it's a very big tension
24 throughout the industry right now. And, quite frankly,
25 utilities have taken very different management policy

1 decisions on that, depending on their own
2 circumstances.

3 MR. RAYMOND LAFOND: Thank you.

4 THE CHAIRPERSON: Since we're talking
5 about -- we often compare Manitoba Hydro to Quebec
6 Hydro. And I'm -- I'm sort of wondering in the case of
7 Quebec Hydro with their nuclear facility that is going
8 to be shut down, what happens to the retirement costs
9 of that? Will they -- would they have to expense that
10 as part of rates?

11 MR. LARRY KENNEDY: One (1) of the few
12 utilities that I don't do in this country is Quebec
13 Hydro, so I'm not really intimate with them. I
14 understand, based on what I've read -- and this is a
15 little bit of just my understanding of -- of the -- of
16 the circumstances, that they have an asset retirement
17 obligation set up for that facility, in which the
18 annual accretion expense from the asset retirement
19 obligation is included in their tolls. But I am -- by
20 no means have firsthand knowledge of -- of that
21 circumstance.

22 MR. VINCE WARDEN: I might just comment
23 from a policy perspective. So I think we -- we have --
24 there's two (2) options with respect to the -- the net
25 salvage issue. And -- and that, Mr. Kennedy just

1 referred to the -- an asset retirement obligation. So
2 if -- if we're aware that there is a -- a terminal
3 retirement, that is there will be no asset
4 reconstructed on that site at some future date, then we
5 can provide for that.

6 And through annual accretion to that
7 asset retirement obligation is -- it is recovered
8 through rates over the life of that facility. So
9 that's one (1) instance.

10 In the other instance where it -- an asset is going to
11 be rebuilt, there could be an argument made that the
12 ratepayer of the day should be bearing the cost to
13 prepa -- to prepare that site for future use. So if we
14 were going into a greenfield site now, that's what the
15 ratepayer today would do. They would have to bear the
16 cost to prepare that site for -- for use.

17 If there's an asset there that's totally
18 expired and it would have to be removed, part of the
19 cost of getting that site ready for future use would --
20 could -- an argument could be made that it should be
21 borne by -- by the ratepayer of the date, future
22 ratepayers and not those that use that asset.

23 MR. RAYMOND LAFOND: The very first
24 part of your comments, though, in terms of the policy
25 for essentially a power plant that would be abandoned

1 where there would be no reconstruction, that policy
2 would not follow IFRS guidelines?

3 MR. VINCE WARDEN: Oh, yes. Yes. We
4 can -- we -- under IFRS we can still establish an asset
5 retirement obligation. And we would do that. And --
6 and through annual accretion to that obligation we
7 would recover that cost through -- through ratepayers.

8 MR. RAYMOND LAFOND: How does that
9 differ from what we've just heard about not recovering
10 the net salvage value?

11 MR. VINCE WARDEN: Well, I -- I think
12 it's the second instance, the second example I gave,
13 where we have no intention of -- of terminally retiring
14 that asset. That -- that the asset would be expected
15 to be used -- replaced when -- when it's currently
16 expired. So -- or when it expires in the future.

17 MR. RAYMOND LAFOND: But I -- I need
18 some clarification on this, because when we looked at
19 page -- I forget which one -- 278, I think? Yes.
20 Where we say, "Removal of asset retirement cost from
21 depreciation, \$55 million," page 278 of the book of
22 documents. You break that down Mr. Warden in two (2)
23 categories and that would be the net of the two (2)?

24 MR. VINCE WARDEN: Well, with the
25 adoption of IFRS it would be the net of the two (2).

1 But I think what we were discussing is an instance in
2 which there is a terminal retirement such that a
3 replacement asset would not be constructed. In that
4 instance, we would make a provision, referred to as an
5 "asset retirement obligation," set it up as a liability
6 and accrete that every year such that the -- the cost
7 of -- would be charged to the current rate bearer.

8 MR. RAYMOND LAFOND: So, this would be
9 a new form of deferral account to be established?

10 MR. VINCE WARDEN: Well, it would be
11 equivalent -- no, actually, we do have osset -- asset
12 retirement obligations today, but it would be
13 equivalent to the net salvage value or the net rate --
14 what we're in -- including today in depreciation rates
15 for removal costs for those assets that are terminal.
16 They have a life and we're going to return them the --
17 the site to its original state. In those instances, we
18 would set up an asset retirement obligation.

19 MR. RAYMOND LAFOND: Where do I see
20 that on the financial statements?

21 MR. VINCE WARDEN: There is a liability
22 that's -- I'll just take a moment and find it.

23

24

(BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Warden, just to
2 assist the -- Board member Lafond, it's related to
3 Brandon coal as the primary example of the ARO that's
4 set up on your financial statements.

5 MR. VINCE WARDEN: Yes, that's exactly
6 right Mr. Peters, so, page -- page 73 of the Manitoba
7 Hydro's annual report, 2011/'12 annual report, asset
8 retirement obligations under Note 15, we have a
9 liability established of \$9 million at the end of 2012.

10 MR. RAYMOND LAFOND: So I can conclude
11 that this liability in the future, if we adopt IFRS,
12 would increase substantially because of -- because of
13 removing that salvage value from the depreciation
14 rates?

15 MR. VINCE WARDEN: No, not necessarily.
16 In fact, it wouldn't because it would only increase for
17 those assets that we do not intend to reconstruct. So
18 those assets that have terminal life span.

19 MR. RAYMOND LAFOND: Yeah, I -- I was
20 assuming that on just these assets where you would not
21 reconstruct.

22 MR. VINCE WARDEN: Yes, you know, we
23 would probably take a much closer look at assets to
24 determine whether or not an asset retirement obligation
25 exists under IFRS. And it -- it might very well

1 increase just because of -- of -- we would study that
2 closer -- more closely.

3 MR. RAYMOND LAFOND: I understand that
4 principle.

5 MR. BOB PETERS: Mr. Warden --

6 THE CHAIRPERSON: Relating it back to
7 the Pointe du Bois example, sorry to interrupt Mr.
8 Peters. Relating it back to the Pointe du Bois
9 example, I guess, if you -- if the decision was not to
10 -- to rebuild the Pointe du Bois, then we would have to
11 progressively write off that asset starting now,
12 basically, right?

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: Yes, so the fact
17 that we've included a depreciation rates provision for
18 net salvage, there would be a provision there for
19 removal cost of Pointe du Bois. So theoretically, when
20 Pointe du Bois -- if Pointe du Bois was returned to
21 greenfield, there would be a -- a -- theoretically,
22 there would be sufficient funds in accumulated
23 appreciation so it would be charged against accumulated
24 depreciation for that -- for that amount. So there
25 would be no -- no impact on current -- there'd be no

1 charge against current operations for the -- that
2 removal cost.

3 MR. RAYMOND LAFOND: That's because we
4 were not following IFRS?

5 MR. VINCE WARDEN: That's right.
6 That's right. We -- but we were of course following
7 Canadian GAAP, yeah.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: If rate-regulated
11 accounting were to be required to be continued by this
12 Board, net salvage value should continue to be
13 calculated in depreciation rates, Mr. Kennedy?

14 MR. VINCE WARDEN: Yes. If -- if rate-
15 regulated accounting were approved, or some form of
16 rate-regulated accounting by international board, then
17 we would -- at that point it would be a policy decision
18 as to whether or not we wanted to incl -- continue to
19 include net salvage value. We would also consider re -
20 - perhaps reconsider ELG at that point as well.

21 MR. RAYMOND LAFOND: That being said,
22 you would really like to avoid, if at all possible, two
23 (2) sets of books, if I can call it as such.

24 MR. VINCE WARDEN: Oh, absolutely, yes.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Your last comment to -
3 - to me, Mr. Warden, underscores that until IFRS is
4 firmly determined whether it does or doesn't apply, and
5 the extent to which it does or doesn't apply to
6 Manitoba Hydro, that's when Manitoba Hydro will best be
7 in a position to make a decision on equal life groups?

8 MR. VINCE WARDEN: That's right, best
9 on -- based on the best information we have today that
10 the implementation of IFRS will be effective April the
11 1st, 2014. But if it isn't, if that decision is
12 deferred yet again, we'll keep pushing that out.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: I'm not sure if we're
17 splitting hairs here, Mr. Warden, but if -- if rate-
18 regulated accounting is permitted, Manitoba Hydro would
19 not use ELG?

20 MR. VINCE WARDEN: We haven't -- I can
21 honestly say we haven't really come to a final decision
22 on that yet. If rate-regulated accounting is
23 permitted, then we would have a -- a policy decision to
24 make at that point. We're -- our forecast has been
25 prepared on the basis that rate-regulated accounting

1 will not be permitted.

2 MR. BOB PETERS: Mr. Rainkie and Mr.
3 Kennedy, on page 301 of the book of documents at Tab --
4 Tab 28, I want to get back to a point that was made in
5 the discussion with the Board. There's a comparison of
6 the composite weighted average rates by class under ASL
7 versus ELG.

8 Would it be correct to understand that
9 under the ASL rate, the net salvage value remains in?

10 MR. DARREN RAINKIE: Yes, that's
11 correct, Mr. Peters.

12 MR. BOB PETERS: But under the ELG
13 schedule, the net salvage value has been removed?

14 MR. DARREN RAINKIE: That's correct as
15 well.

16 MR. BOB PETERS: Have you got this
17 table, Mr. Rainkie, so we can -- and I think one (1) of
18 the panel member's words this morning compare --
19 compare our fruit properly, apples to apples and
20 oranges to oranges, by providing the Board with the --
21 the rates with both in and both out - that is, asset --
22 sorry, retirement net salvage value in and net salvage
23 value out?

24 MR. DARREN RAINKIE: Mr. Peters, to be
25 precise about it, we would have to ask Mr. Kennedy to

1 go to the extent to develop it.

2 Can we undertake to think about if we
3 can estimate that? I guess it's just a matter of
4 precision.

5 MR. BOB PETERS: That would be fine.
6 Would it -- would it be general, Mr. Rainkie, to expect
7 that the -- the ELG ratings with the -- with the asset
8 -- the -- the net salvage value included would be
9 larger than ASL?

10 That intuitively follows, does it not?

11 MR. LARRY KENNEDY: Intuitively it
12 follows, yes.

13 MR. BOB PETERS: All right. Maybe the
14 undertaking, Mr. Rainkie, then, for the record, is to -
15 - to consider the matter further and come back to the
16 Board with your best estimate of -- of that
17 information.

18 MR. DARREN RAINKIE: That's fair, Mr.
19 Peters.

20

21 --- UNDERTAKING NO. 30: Manitoba Hydro to consider
22 estimating ASL and ELG with
23 retirement net salvage
24 value in and net salvage
25 value out

1 THE CHAIRPERSON: Could I ask a
2 question again? I just want to go back over the
3 response from Mr. Warden in respect of adopting ELG or
4 not, absent the obligation under the IFRS requirements.

5

6 Now, I guess I want to understand, from
7 your perspective, from a strateg -- strategic, tactical
8 standpoint, what would be the advantage for Manitoba
9 Hydro to adopt ELG if there wasn't IFRS?

10 MR. VINCE WARDEN: Well, the -- the
11 primary advantage, from my perspective, would be less
12 componentization. So if we -- if we were to continue
13 with ASL, we would have to componentize to a greater
14 degree than what we currently do. And if we did that,
15 we might very well end up at the same -- same place.

16 MR. LARRY KENNEDY: Mr. Chairman, if I
17 could add to that just a little bit. I think there's
18 benefit inherent with the equal life group procedure,
19 notwithstanding IFRS. In other words, we went through
20 that two (2) example -- two (2) asset example, where
21 there is -- it is generally generationally more
22 accurate. It -- it is a refinement to the average
23 service life method, looking at the life estimate of
24 each of the components. So there is benefits to the
25 equal life group procedure from -- from a number of

1 areas.

2 The -- the challenge is: Do the
3 benefits outweigh the -- the total impact or do they
4 outweigh the -- the change, et cetera? And that -- I
5 mean, I've had a number of clients for a number of
6 years that have used the equal life group procedure
7 long before IFRS was considered. But it -- it really
8 is a management decision. And they'd have to look at
9 the pros and cons.

10 But some of the -- some of the pros
11 would be, I believe, conceptually, that it is a more
12 precise method and more exact method, and it -- it
13 better manages the generational equity issues. But
14 that -- that has to be weighed as a company policy
15 decision. And I think that's what Mr. Warden was
16 referring to.

17 But there is -- I wouldn't want to
18 suggest that ELG is purely beneficial only in the
19 circumstances with IFRS. It's been a longstanding
20 method that has had benefits, but it does have some
21 cons. And generally those cons are the increased tolls
22 and the pressures that go with that. So it becomes a
23 bit of a tension, in terms of does one (1) outweigh the
24 other. And that -- that purely becomes a management
25 decision.

1 MR. RAYMOND LAFOND: I would like to
2 understand the last question posed by Mr. Peters and
3 the estimates being looked for. How -- how different
4 is that from what we were looking at on page 278?
5 There's something I -- I am missing there, 278 of the
6 book of documents, where we do have the numbers for the
7 change of methodology and the removal of asset
8 retirement costs.

9

10 (BRIEF PAUSE)

11

12 MR. DARREN RAINKIE: Mr. Lafond, maybe
13 I can help out here. What we have on page 278 is an
14 estimate of the financial impact of ELG and removing
15 asset retirement costs. If you flip from 278 back to
16 301 -- sorry to make you do that, but -- where we have
17 very precise rate calculations by category of plant.
18 And we don't have those readily available.

19 We can estimate the impact, but we
20 estimate it not from having all the detailed rates, if
21 that makes sense to you. That's just the differences.
22 We were able to estimate the impacts, but we don't have
23 the finite detail, in terms of the rates. But I think
24 we can do something in that undertaking to demonstrate
25 to the Board. I'm just warning them it might not be as

1 precise as, you know, as -- as Mr. Kennedy's, you know,
2 final rate schedule.

3 MR. RAYMOND LAFOND: So I'm still
4 trying to understand what we're trying to get at. So
5 I'm looking at that page 301. And you want to
6 estimate, by component, what that \$35 million would be
7 on page 278?

8 MR. DARREN RAINKIE: I think what's
9 being requested is that we can -- so the -- the column
10 that has ELG rate there has two (2) things in it. Of
11 course, moving to the EG -- ELG methodology and the
12 removal of net salvage, I think the request was to
13 include net salvage in that column along with ELG and
14 prec -- precisi -- and provide the precise, you know,
15 weighted average rate by category of plant, which is a
16 different exercise than providing the financial impact,
17 which you have in the previous page.

18 THE CHAIRPERSON: Maitre Hacault, did
19 you have something you wanted to say?

20

21 (BRIEF PAUSE)

22

23 MR. ANTOINE HACAULT: Over lunch --
24 because I assume we're going to take a lunch break
25 pretty soon -- perhaps Mr. Kennedy and Hydro

1 representatives can look at draft number 1, which was
2 provided as part of the answers to pre-asks requested
3 by MIPUG. My quick review of that table, there's an
4 ELG table in there, and it provides all the rates. It
5 also has a separate line for cost of removal of
6 salvage.

7 So it may be that in the drafts that
8 were not produced as part of the official report, there
9 may be much of that information available. But I'll
10 leave them, look at that and decide whether it's
11 useful.

12 THE CHAIRPERSON: Thank you, Maitre
13 Hacault. Okay, given -- given the time I suggest that
14 we recess for approximately one (1) hour. So we -- we
15 would resume proceedings at one o'clock. Thank you.

16

17 --- Upon recessing at 12:01 p.m.

18 --- Upon resuming at 1:00 p.m.

19

20 THE CHAIRPERSON: I believe we're ready
21 to -- to resume proceedings. We have some
22 documentation to acknowledge.

23 MS. PATTI RAMAGE: Yes. Thank you, Mr.
24 Chair. We have a number of responses to undertakings
25 to file this afternoon, the first of which is the

1 response to Manitoba Hydro's Undertaking Number 3.
2 That was at transcript page 631. And this was dealing
3 with capital contributions when extending service to
4 new developments. We're suggesting that be marked as
5 Manitoba Hydro Exhibit 24.

6

7 --- EXHIBIT NO. MH-24: Response to Undertaking 3

8

9 MS. PATTI RAMAGE: The next is Manitoba
10 Hydro's quantification of the lost revenue out of the
11 1996 wind event that took Bi -- took down Bipoles 1 and
12 2. That's Undertaking number 16 at transcript page
13 1,062. And we suggest that be marked as Manitoba Hydro
14 Exhibit Number 25.

15

16 --- EXHIBIT NO. MH-25: Response to Undertaking 16

17

18 MS. PATTI RAMAGE: The next is Manitoba
19 Hydro Undertaking number 17, which is at transcript
20 page 1,171. That's the history of RSG charges. And we
21 suggest that be given the Manitoba Hydro Exhibit 26.

22

23 --- EXHIBIT NO. MH-26: Response to Undertaking 17

24

25 MS. PATTI RAMAGE: The next one is

1 Manitoba Hydro Undertaking number 22 at transcript page
2 1,213 through 1,214. And that is the provision of
3 details of other revenues and costs excluding sales of
4 Manitoba Hydro generated revenue that appear in the IFF
5 for the test years under extra-provincial revenue and
6 fuel and power purchases for the years depicted up to
7 2015/2016. And that we suggest be marked as Manitoba
8 Hydro Exhibit number 27.

9

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

11

12 MS. PATTI RAMAGE: And then, finally is
13 Manitoba Hydro Undertaking number 27, which appears at
14 transcript page 1,389. And this is the link to the BC
15 Hydro review of -- or, I'm sorry, the BC-UC review of
16 BC Hydro. So that -- this provides the link to that
17 report; and as well a hard copy of Manitoba Hydro's
18 comments on that report are attached to that
19 undertaking response. And that will be Manitoba Hydro
20 Exhibit 28.

21

22 --- EXHIBIT NO. MH-28: Response to Undertaking 27

23

24 MS. PATTI RAMAGE: And that is
25 everything we have to file this --

1 MR. BOB PETERS: There might be one (1)
2 more, Ms. Ramage.

3 MS. PATTI RAMAGE: Oh, there is one (1)
4 more? Oh. Thank you. Lastly is Undertaking Number
5 28. For the record, it appears at transcript page
6 1,396, and that is the demonstration that the head
7 office building had 65 percent less energy usage than a
8 standard building. And that will then be Manitoba
9 Hydro -- I'll have to think on my feet here, 29.

10

11 --- EXHIBIT NO. MH-29: Response to Undertaking 28

12

13 THE CHAIRPERSON: Thank you. Mr.
14 Williams, a document appeared on our desk labelled,
15 "CAC-6". Did you want to talk about that at all,
16 or...?

17 MR. BYRON WILLIAMS: I was not -- I
18 would have normally asked -- I -- I neglected not -- I
19 would have wanted to just double check with My Learned
20 Friend. I don't think it's a problem, but I would have
21 normally waited till my cross was coming up. So I will
22 ask you just to turn it over and then I'll talk with My
23 Learned Friend at the break.

24 And I don't think it'll be a problem,
25 but we'll -- that's the kinetics report, Ms. Ramage.

1 We -- we -- what I'd suggest is we talk over the break,
2 Mr. Chair. And I apologize for -- for my error.

3 THE CHAIRPERSON: Mr. Peters, please.

4 MR. BOB PETERS: Thank you, Mr.

5 Chairman

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Mr. Kennedy, there's a
9 couple of points I want to tidy up from this morning
10 before I move along, hopefully quickly. The -- page
11 284 of the book of documents, sir. If you would mind
12 just having that in front of you.

13 You'll recall we talked about Limestone
14 going from the old ASL methodology used April 1 of
15 2007. And then that got updated with the
16 componentization in ASL to April 1 of 2011. You recall
17 that discussion?

18 MR. LARRY KENNEDY: Yes, I'm with you,
19 sir.

20 MR. BOB PETERS: And then we look forw
21 -- we looked forward to April 1 of 2013, and we had
22 some questions related to that. One (1) of the
23 questions I did not ask you was to confirm whether
24 there is a further extension of life, with respect to -
25 - and let's pick Limestone, the dams, dikes and weirs.

1 Is there a further life extension in the April 1 of
2 2013, as compared to April 1 of 2011?

3 MR. LARRY KENNEDY: No, there's not.

4 MR. BOB PETERS: Thank you. The
5 change, then, will represent the removal of net salvage
6 value?

7 MR. LARRY KENNEDY: And inclusion of
8 the equal life group procedure.

9 MR. BOB PETERS: Yes.

10 MR. LARRY KENNEDY: Yes.

11 MR. BOB PETERS: Yeah. And, Mr.
12 Kennedy, if I understand from your curriculum vitae
13 from this morning, you've also provided recommendations
14 to utilities in Saskatchewan with respect to their
15 hydro facilities?

16 MR. LARRY KENNEDY: I have.

17 MR. BOB PETERS: And in those cases the
18 recommendation is to have a life estimate of those
19 facilities of a hundred years?

20 MR. LARRY KENNEDY: I think so. I'd
21 have to take that subject to check, but I think that's
22 correct.

23 MR. BOB PETERS: And you indicated this
24 morning that a hundred years was the Newfoundland
25 factual example, as well?

1 MR. LARRY KENNEDY: That's correct.

2 MR. BOB PETERS: On page 293 of Board
3 counsel's book of documents -- and Mr. Rainkie may need
4 to follow along with us here, as well -- some of the
5 information provided in what the remaining life was
6 back in 2005 was updated in 2010. And then if you do a
7 calculation of the life estimate, in the far right-hand
8 column the -- the total life estimate would be -- would
9 be calculated.

10 Mr. Rainkie, did you have a chance to
11 just understand the methodology there?

12 MR. DARREN RAINKIE: Yes. I think we
13 did understand the methodology, but it's flawed, I
14 suppose. It's actually a misleading exhibit because
15 it's not an ap -- apples to apples comparison, Mr.
16 Peters.

17 Like, for ins -- for instance, if you
18 look at the Limestone generating station, that seventy-
19 six (76), I think, was the total civil component from
20 the past study. And now that one (1) component has
21 been broken down into six (6) components. And if you
22 took the weighted average of those six (6) components -
23 - so a fair apples to apples comparison -- you'd
24 actually get a seventy-four (74) year remaining life.
25 And there's actually a two (2) year reduction in the

1 study -- over this study versus a twenty-six (26) year
2 increase.

3 So I think, Mr. Peters, we should maybe
4 perhaps undertake to redo this table, because I -- it's
5 kind of misleading for it to be still on the record.
6 It's not as -- it's not that it's just a little bit
7 off. It's so far off that I wouldn't want to leave the
8 impression with the Board that it paints, so --

9 MR. BOB PETERS: Well -- well --

10 MR. DARREN RAINKIE: -- now, I can take
11 you that again, Mr. Peters, if you want to understand
12 the --

13 MR. BOB PETERS: No, no. No, no, I --
14 you -- you've hit on the point I was going to ask you
15 though, Mr. Rainkie. And the componentization of
16 Limestone, for example, was ostensibly -- would net to
17 zero, if I say that right.

18 Would that be generally correct?

19 MR. DARREN RAINKIE: Well, the weighted
20 average, to make it comparable, apples to apples
21 comparison, would be about seventy-four (74) years. So
22 -- so there's actually a two (2) year reduction between
23 those two (2) studies, Mr. Peters, if -- if you try to
24 make it apples to apples.

25 MR. BOB PETERS: And if we were picking

1 the maximum -- the maximum account -- excuse me, the
2 maximum account, Mr. Rainkie, under the Limestone
3 component depreciable group, would this chart then be
4 more accurate?

5 MR. DARREN RAINKIE: I think you really
6 need to do a weighted average calculation. So if you
7 move in your book of documents back to 280 -- page 288,
8 this is really a prime example why you need to re-
9 weight the -- this calculation for all of the various
10 components, is that you see if you picked one (1) over
11 the other you can compare a hundred years to a hundred
12 and twenty-five (125) years; you compare a hundred
13 years to seventy-five (75), or twenty-five, (25) of
14 fifty (50), but if you don't do a weighted average
15 calculation you'd never get to the point where you
16 concluded that there was only really a four (4) year
17 change between those -- those two (2) components.

18 So doing a simplified -- I -- I under --
19 I appreciate the -- trying to do a simplified approach
20 here, but it doesn't portray the real information when
21 you do that. Now, luckily you gave us this information
22 ahead of time. And -- and we're in the process of
23 putting a table together that would do an apples to
24 apples comparison. So for the clarity of the record,
25 we would provide those calculations for the Board if --

1 if that's appropriate.

2 MR. BOB PETERS: Well, certainly, sir.
3 We'll -- we'll accept that as -- as your undertaking,
4 Mr. Rainkie. Can you also include on that table then
5 the life estimates and I think ex -- what will be
6 extensions for the maximum civil component that you
7 have, and -- and do that comparison to what it was in
8 the previous study, sir?

9

10 (BRIEF PAUSE)

11

12 MR. LARRY KENNEDY: Maybe just because
13 it's just after lunch, I'm having a hard time figuring
14 that out Mr. Peters. I think what you asked is if you
15 take the longest life estimate in the current study as
16 compared to the -- the single life estimate that was
17 used for civil in the last study?

18 MR. BOB PETERS: Yes.

19 MR. LARRY KENNEDY: I mean, we could do
20 that; that -- the problem with that is it is a little
21 bit misleading. The -- I think as -- important is to
22 take the shortest life estimate in this case to the
23 single estimate that was last time or, as Mr. Rainkie
24 suggested, to take the composite. But...

25

1 (BRIEF PAUSE)

2

3 MR. DARREN RAINKIE: Mr. Peters, maybe
4 what we'll do rather than just doing the summary table
5 is we will provide the calculations that get us to that
6 summary, and in that you'll see the difference between
7 the one (1) component and the six (6) components in the
8 various life -- you know, life estimates. And I think
9 when the Board sees that, they'll see what point we're
10 trying to make.

11 You really need to weight it to get a
12 fair comparison, or you're just comparing two (2)
13 things that are non-comparable, as far as I'm
14 concerned.

15 MR. BOB PETERS: Okay. Well, I've got
16 your point on it, Mr. Rainkie, and I've also got your
17 undertaking so, I think that will be helpful for the
18 Board to review it at that time. Mr. Rainkie, do you
19 want to try to re-frame that?

20 MR. DARREN RAINKIE: Give me a second
21 to get back to the...

22

23 (BRIEF PAUSE)

24

25 MR. DARREN RAINKIE: So, Manitoba Hydro

1 will undertake to redo the analysis on page 293 of the
2 PUB counsel book of documents and provide supporting
3 calculations demonstrating the overall averages.

4

5 --- UNDERTAKING NO. 31: Manitoba Hydro to redo the
6 analysis on page 293 of the
7 PUB counsel book of
8 documents and provide
9 supporting calculations
10 demonstrating the overall
11 averages; and will provide
12 explanations for
13 significant changes in the
14 weighted average comparison

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: And, Mr. Rainkie, if I
18 can piggy-back on your generous undertaking that --
19 that appears to be partially underway, can you include
20 on that a column, Mr. Rainkie, to advise the Board as
21 to what expenditures have been made in relation to that
22 asset that support Manitoba Hydros reclassification and
23 life estimates?

24 MR. DARREN RAINKIE: We could Mr.
25 Peters, but once again, I'm -- I guess I'm not

1 understanding how that really impacts on the matter. I
2 assume the expenditures, to the extent they are past
3 expenditures, are already included in the retirement
4 analysis that Mr. Kennedy has conducted. So that was
5 probably the most puzzling part of this schedule, is
6 really what that section was intended to -- to do.

7 As -- as I said for Limestone, we would
8 be moving from a weighted average of seventy six (76)
9 to a weighted average of seventy four (74), or a
10 reduction of two (2), not an increase of twenty six
11 (26) as depicted on this table. And I'm not sure what
12 having the expenditures there really adds to the
13 equation, but I suppose we could -- I think 'cause
14 they're just summarized from a previous IR we could
15 include it on there. But I'm really not -- Maybe Mr.
16 Kennedy can comment, I'm really not sure what that
17 really proves or doesn't prove.

18 MR. LARRY KENNEDY: I think the -- the
19 challenge will be the -- the expenditures may or may
20 not -- or probably relate to differing categories
21 within each other these -- each of these groupings.
22 For example, I look at the rou -- and going -- do I --
23 take the first box there, under what changed, and it
24 talks about a roof in 2009, et cetera, et cetera.
25 Those may or may not be applicable to the longest life

1 asset. And so we'll have to try and match that up.

2 And so, I mean, that -- that's I guess
3 what Mr. Rainkie and I are just having a little bit of
4 a hassle -- or not hassle, just difficulty in
5 understanding what we can provide on a timely and
6 meaningful basis to the Board. But, like I say, the
7 expenditures may not align to the longest life but we
8 can try to, I think, slot them in where we can. Or Mr.
9 Rainkie may --

10 MR. BOB PETERS: I wonder if the pages
11 1 -- sorry 291 and 292 of the Board counsel book of
12 documents would assist you on that, Mr. Kennedy, where
13 the expenditures on the capital assets has already been
14 broken down.

15 MR. LARRY KENNEDY: Oh, okay.

16 MR. DARREN RAINKIE: We could include
17 that, Mr. Peters, but, maybe more importantly, what
18 we'll do is, where there's been -- and the table that
19 we're going to provide where there's been a significant
20 change, maybe we'll provide an explanation why. And I
21 think that would be more insightful than just having
22 sporadic capital expenditures that may or may not match
23 up to the categories.

24 MR. BOB PETERS: All right, Mr.
25 Rainkie. I think you probably have -- have nailed the

1 -- the essence of the question.

2 MR. DARREN RAINKIE: It's my turn to
3 try to be good at doing this, I guess. Manitoba Hydro
4 will also undertake to provide explanations for
5 significant changes in the weighted average comparison.

6 MR. BOB PETERS: Mr. Rainkie, does that
7 answer suggest to the Board that Manitoba Hydro
8 spending \$2.7 million on a new roof at Limestone has no
9 impact and nothing to do with the life estimate
10 extension of -- of some of the civil works?

11 MR. LARRY KENNEDY: I wouldn't say it
12 has no impact. It would be something that we would
13 have analyzed as part of the life analysis piece of the
14 -- of the work that we did. Those -- those
15 replacements, for example, of \$2.7 million in '09,
16 would be captured in the -- that Iowa curve that --
17 that we have in the exhibit that the CAC provided to
18 help me with in that interim retirement activity.

19 So that's -- we would anticipate there
20 would be retirements and replacements needed of
21 component parts within each of these plants, and that's
22 the -- partly the beauty of the equal life group
23 procedure in that it -- it accomplishes picking that up
24 rather than the need to specifically componentize
25 those. So we would have picked up a lot of that within

1 that curve shape already, and we would have -- that --
2 that's part of the toolbox, or part of the information
3 that we would have looked at in -- in developing those
4 life estimates, for sure.

5 MR. BOB PETERS: Mr. Kennedy, remind
6 the Board of what other input Manitoba Hydro had that
7 led you to believe that the changes in service lives --
8 let's just pick for the maximum life -- was
9 appropriate.

10 MR. LARRY KENNEDY: We -- we discussed
11 with the operating personnel with -- with the company
12 how they operate the plant, what's happening, looking
13 at the plant. Now, you've got to remember, and I think
14 it's important to consider, that when we came up with
15 an average life of a hundred years, for example, in
16 some of these plants before, that was with the
17 knowledge there was some longer-life components and
18 with the knowledge there was some shorter-life
19 components.

20 And what we've done here is we've
21 separated those longer life, just -- so to suggest that
22 maybe any particular component has got a different life
23 estimate now, well, what we've done is we've identified
24 that component and broken it out. It doesn't mean that
25 it had a longer or a shorter life than the last study;

1 it was more averaged and -- and grouped last time. But
2 in the componentization exercise, what we've done is
3 specifically recognized that differing life estimate.

4 MR. BOB PETERS: I understand your
5 point, but in addition to -- and I appreciate Mr.
6 Rainkie's undertaking may detail the -- the rationale
7 that led to the change in life estimates of -- of the
8 items he's going to enumerate on -- but your discussion
9 with operating personnel is what led you to believe
10 that the -- the life estimates were -- were
11 appropriate?

12 MR. LARRY KENNEDY: In part. In part
13 the -- the evidence that they and -- and the company as
14 a whole was able to show to me that they have some
15 plants that are nearing a hundred years that are not
16 yet subject to any plans for retirement. And that --
17 that's providing an extension or an indication to me
18 that, gee, a hundred years was short.

19 And, again, I come back to the point
20 that in the last study we -- we all recognized there
21 were some components that would be longer than a
22 hundred years, but they were averaged in with that
23 group of stuff that was under and came up with an
24 average of a hundred years.

25 The -- the -- like I say, the -- we --

1 we had extensive amount of discussions with operations
2 to -- to try to see what we could do. And again I come
3 back to the -- the fact that we try to get this right,
4 and when we see empirical evidence that suggests that
5 there could be a life, or the life should be in the
6 hundred and twenty-five (125) year range on average for
7 -- for Hydro's -- for dams, dikes, and weirs, for
8 example, that -- that we take that we listen to that
9 and we use it.

10 MR. BOB PETERS: Thank you, Mr.
11 Kennedy. Before we leave changes in service lives,
12 there's another issue that I want to move to. And back
13 at page 278 of the book of documents, the Company has
14 quantified the financial impact of the change in
15 service lives and the componentization, Mr. Rainkie?

16 MR. DARREN RAINKIE: That's correct.

17 MR. BOB PETERS: And not only have the
18 de -- has the depreciation expense going forward been
19 reduced, but there's also been, in my words, what I'll
20 call a massive over-depreciation of Manitoba Hydro's
21 assets by approximately \$594 million to date?

22 MR. LARRY KENNEDY: I'm going to maybe
23 quibble on the word "over-depreciation". We do have
24 more booked accumulated depreciation as at the study
25 date than the calculations of the theoretical reserve

1 would be.

2 The rates the Company had been using
3 historically were right, based on the estimates that
4 the Company was using at that time, based on the
5 circumstances of those studies, based on the inclusion
6 of net salvage in the rates, et cetera.

7 The -- every time we do a study we
8 reevaluate all the parameters, the life estimates, the
9 use of salvage, the use of the calculation procedure.
10 And so as we change those estimates, yes, we do put
11 ourselves in a position where the accumulated
12 depreciation account can be either over -- overstated
13 based on the new assumptions or understated based on
14 the new assumptions.

15 So I'm -- I'm quibbling only with the
16 word of -- of "over-depreciated." The fact is that,
17 yes, the arithmetic shows that it's over-depreciated,
18 but I want to be sure that we don't look at that too
19 much in a pejorative fashion.

20 MR. BOB PETERS: I wasn't attaching
21 malice to it, Mr. Kennedy. And you've -- you've made
22 your point, I believe, that the accumulated
23 depreciation account of Manitoba Hydro will have \$594
24 million under the ELG methodology of -- of excess
25 depreciation?

1 MR. LARRY KENNEDY: Based on the
2 parameters as at that study date, that -- that's
3 correct.

4 MR. BOB PETERS: And that same -- and -
5 - and I'm not meaning it to be pejorative, but that
6 over-depreciation amount of five hundred and ninety-
7 four (594) under the ESL method -- sorry, under the ELG
8 method is 555 million under the average service life
9 method.

10 Can you confirm that, Mr. Rainkie?

11 MR. DARREN RAINKIE: One (1) second,
12 Mr. Peters. I think we can confirm that.

13

14 (BRIEF PAUSE)

15

16 MR. DARREN RAINKIE: Mr. Peters, just
17 to give you a reference, it's -- it is five hundred
18 (500) -- the surplus is 552 million. And I find that
19 in MIPUG/Manitoba Hydro First Round 15E.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: Mr. Rainkie, Mr.
24 Warden, does Manitoba Hydro look at that approximate
25 half a billion dollars as money that has been over-

1 collected from the consumers to date for the
2 depreciation of its assets?

3 MR. DARREN RAINKIE: Mr. Peters, I
4 think, as Mr. Kennedy says, we see that as a surplus of
5 booked accumulated depreciation that's a result of a
6 fairly significant change in our methodologies and --
7 and service lives. And keeping in mind that
8 depreciation is an estimate in the first place, you
9 always take the best information that you have at the
10 time.

11 I don't look at that as an over -- over-
12 collection, per se. I think, again, weatta --
13 attaching terms to it for emotional purposes.

14 MR. BOB PETERS: Well, I'm -- I'm not
15 trying to do that, Mr. Rainkie. So I apologize if
16 that's your -- your take on my question. It's not
17 meant to be.

18 But the -- if Manitoba Hydro's proposed
19 depreciation rates carried through, at the end of the
20 day, whenever that is, there would be \$594 million left
21 in the accumulated depreciation account?

22 MR. LARRY KENNEDY: No, Mr. Peters. I
23 was a bit afraid that's where you were going with it.
24 And that's why I took some query with your -- your
25 first term.

1 At the end of the day, the depreciation
2 rates that we propose are reduced such that at the end
3 of the life of the assets, they will be exactly fully
4 depreciated if everything works according to the
5 estimates we have. I mean, that's a perfect world.

6 We have -- we -- we have adjusted the
7 rates as proposed in this study to recognize that the
8 accumulated depreciation balance at this point in time
9 is in excess of the theoretical calculation. So in
10 other words, we've slowed down the depreciation going
11 forward to deal with that.

12 MR. BOB PETERS: I think we're saying
13 the same things, but you maybe jumped ahead of me, Mr.
14 Kennedy. Manitoba Hydro is proposing to refund that
15 \$594 million over the remaining service lives of the
16 assets. Would that be true?

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

19 MR. BOB PETERS: And that works out to
20 approximately \$7 million a year, Mr. Rainkie?

21 MR. DARREN RAINKIE: No, I don't think
22 that's the case. I -- I think we provided in our
23 rebuttal evidence a chart that says -- because the
24 different accounts have different lives, that that
25 amount would change annually. And -- and so it's not

1 \$7 million a year forever. We'd have to go to our
2 rebuttal evidence for that -- the curve on that, Mr.
3 Peters, in terms of how quickly it's refunded.

4 MR. LARRY KENNEDY: And I think, Mr.
5 Peters, just to follow up on Mr. Rainkie's comment, we
6 don't -- don't do it -- the calculation, although it
7 results in the first-year impact of \$6.7 million, is
8 done on an account-by-account basis. I'm losing my
9 voice and it's only just after lunch.

10 The -- the calculation is actually done
11 on a account-by-account basis, such that as each
12 account completes its true-up, then that falls out of
13 the total calculation. So the amount will change each
14 year based on the -- the amount of true-up for each
15 account.

16 So there's some accounts that will be
17 trued-up within a -- a year or two (2), or three (3),
18 or four (4); I think as short as a couple of years.
19 Some accounts will take fifty (50), sixty (60), and
20 seventy (70) years. So -- so the amount would change
21 each year, but it's done on a account-by-account basis.

22 The arithmetic adds up that the impact
23 in the first year is \$6.7 million. But in the second
24 and third years, or the next time we do a study, that
25 number will be quite different. But the goal is to

1 true it up on each account over the estimated remaining
2 life of each account.

3 MR. DARREN RAINKIE: Mr. -- and, Mr.
4 Peters, if the Board wants to -- in terms of seeing
5 that, I don't know if you need to do it now. But in
6 our rebuttal evidence, Section 2.1.6, page 9, we
7 actually have a figure that shows over time how that
8 surplus would be refunded to customers.

9 MR. BOB PETERS: I -- I've seen that,
10 but -- and it's fully amortized over eighty-five (85)
11 years. Isn't that the -- the schedule or the chart
12 you're showing me, Mr. Rainkie?

13 MR. DARREN RAINKIE: Yes, it is. But,
14 for instance, 50 percent of it has been amortized over
15 eighteen (18) years, so --

16 MR. BOB PETERS: And -- and 10 percent
17 is amortized -- or, that variance will be realized over
18 the first six (6) years?

19 MR. DARREN RAINKIE: That's right.
20 Once again, in MIPUG/Manitoba Hydro First Round 15I, we
21 detail -- we put in some detail how that surplus would
22 be refunded.

23 MR. BOB PETERS: Rather than my simple
24 averaging of it, you -- you've been -- you've refined
25 it again, Mr. Rainkie. But if we turn back to page 278

1 with the Board, in the Board counsel's book of
2 documents, and we look at the change in service life,
3 in 2012, for example, the number is \$35 million of
4 lower depreciation expense, Mr. Rainkie?

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

7 MR. BOB PETERS: And how much of that
8 35 million is the refund of this, what I have
9 apparently inappropriately called the over-
10 depreciation?

11

12 (BRIEF PAUSE)

13

14

15 MR. DARREN RAINKIE: Mr. Peters, we
16 might have to dig into the bowels of the schedules to
17 find that number.

18 MR. BOB PETERS: We can -- we can leave
19 that for now without an undertaking, because I know Ms.
20 Hooper's actually on the case. But the -- the point
21 the Board should understand is that that \$35 million
22 that goes up to \$40 million of lower depreciation
23 expense contains the refund of a portion of the excess
24 depreciation realized to date?

25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Mr. Peters, while
4 they're looking for that, I wouldn't mind just
5 commenting. Depreciation, by its very nature, is an
6 attempt to recover, over the useful life and -- of an
7 asset, the cost of -- the cost of that asset.

8 Every depreciation study we do, and we
9 indicated earlier we do depreciation studies every five
10 (5) years, there's refinements to the previous study.
11 So it's always moving towards that ultimate goal of
12 recovering the cost over the life. And there's going
13 to be adjustments that -- that will appear -- that will
14 occur from -- from study to study. And this one is --
15 is more significant than others because of the detailed
16 review that we undertook, but it doesn't change.

17 In the future, we're going to -- and
18 then when we do a study five (5) years from now, I -- I
19 -- you can be guaranteed that that number will -- will
20 change again and we'll recover that, either recover it
21 or refund it prospectively, as we've done -- always
22 done in the past.

23 MR. LARRY KENNEDY: Mr. Peters, I just
24 had the opportunity to check with Ms. Hooper, who's
25 kindly the provider of all my detail. It's about a \$7

1 million decrease in that number, or that number's been
2 decreased by about \$7 million to reflect the -- the --
3 six point nine-six-nine (6.969) would be the equivalent
4 number of the six point seven-nine-one (6.791) that you
5 see in our report. So it's 6.9 million versus \$6.7
6 million. That's for '11/'12.

7 MR. BOB PETERS: All right. And so
8 back on page 278, the Board sees the number of \$35.4
9 million of lower depreciation expense. Approximately
10 \$7 million of that is attributed to the refund of the
11 excess depreciation, and \$28 million is as a result of
12 the change in service lives and the componentization?

13 MR. LARRY KENNEDY: Largely, that would
14 be correct.

15 MR. BOB PETERS: Thank you. And now
16 let's talk, Mr. Rainkie and Mr. Warden. There's
17 different ways Manitoba Hydro can -- can credit that
18 over-collection, as I call it, back to consumers.

19 Is that not the case?

20 MR. VINCE WARDEN: And what I just
21 suggested, Mr. Peters, is that we would do it
22 consistent with how we've always handled depreciation
23 studies, and either collect it from customers or refund
24 it prospectively over the remaining lives of those
25 assets.

1 MR. BOB PETERS: And that's one (1)
2 methodology, and that's the one that Manitoba is
3 proposing, correct?

4 MR. VINCE WARDEN: The -- the -- it's
5 the methodology we're proposing, yes, and the
6 methodology we've followed consistently from day 1.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: One of the other
11 options, Mr. Warden, Mr. Rainkie, is -- is that it
12 could be refunded more quickly than what Manitoba Hydro
13 proposes, correct? And while that's not your
14 recommendation, that is an option?

15 MR. LARRY KENNEDY: Mr. Peters, maybe I
16 can provide some -- some response to that. The -- the
17 refund of the variance, be it positive or negative, can
18 happen in a couple of different ways, as you suggested,
19 one over the composite remaining life of the assets.
20 And I'd point out that's, in my view, the -- the most
21 generationally fair way of refunding it, and it's by
22 the far the most widely used method.

23 We -- I -- I do studies throughout
24 Canada, our firm does studies throughout North America.
25 I would say by far the majority -- I wouldn't want to

1 put a percentage around it, but by far the majority of
2 those cases refund the variance over the composite
3 remaining life in the manner that we have proposed
4 here.

5 There is other methods, there's other
6 methods that would refund it faster. The -- I have a
7 problem with the generational equity perhaps of that.
8 I -- I think it's done for perhaps the wrong reasons.

9 The -- the issue with refunding it too
10 fast is if, in a future study, we find some issue with
11 some of the accounts. Perhaps we have a new alkaline
12 version or problem with -- with dams. The -- we could
13 very easily get ourselves into a pendulum swing into
14 refund a whole bunch of money real fast now and then
15 have to collect. Well, we're going to be back before
16 the Board suggesting how we may be a lot short in eight
17 (8) or ten (10) years down the road. Who -- how would
18 we recover that variance?

19 And so the -- the underlying concept is
20 these variances build up over a great number of years,
21 they're building up for a variety of reasons, and we
22 can pay them back over a great number of years. And
23 that will provide a great comfort in terms of the
24 stability, that we won't be into a pendulum from over-
25 recovery to under-recovery to over-recovery to under-

1 recovery and -- and going all over the place.

2 It's -- it's not by accident that the
3 majority of jurisdictions allow or suggest the recovery
4 over the composite remaining life of each asset group.
5 The -- and I -- and I've seen studies in Canada where
6 we've done something different. More often than not, I
7 would suggest, we've come back in the next study and --
8 and had -- had an issue that -- that that's -- that's
9 caused. And I'm going to suggest to the Board to be
10 really careful of the -- the easy -- the easy grab for
11 -- saying, Gee, we can really reduce tolls and then do
12 something. And then we're faced with being massively
13 under recovered.

14 Remembering that if we -- we reduce our
15 rate significantly, in this case because of a refund of
16 their under-recovery, and then over the next five (5)
17 year period, we add a significant amount of investment,
18 that new investment is being depreciated over a rate
19 that's abnormally low because we -- we've artificially
20 decreased it to pay back this recovery.

21 So the study comes round. All that new
22 investment has been depreciated at a too low of rate.
23 And it's really not uncommon to find that all of a
24 sudden we're in a shortfall position.

25 MR. BOB PETERS: Your -- your examples,

1 coming back to supporting Manitoba Hydro's
2 recommendation to this Board, is that the way you've --
3 the way it's proposed now by Manitoba Hydro is it
4 likely won't result in significant rate impacts over
5 the useful life of these assets while the -- while the
6 money is being refunded.

7 MR. LARRY KENNEDY: The refund
8 component, like we won't --

9 MR. BOB PETERS: That was my suggestion
10 to you, sir.

11 MR. LARRY KENNEDY: That's correct.

12 MR. BOB PETERS: And when you went from
13 '05 to '10 in your depreciation studies, you -- you --
14 you make adjustments for the various service life
15 issues that happens in every depreciation study, from
16 what I gathered in your direct evidence.

17 MR. LARRY KENNEDY: It's definitely
18 something to look at -- oops, I'm sorry -- definitely
19 something we look at in every study, yes.

20 MR. BOB PETERS: Right. And -- but by
21 and large, those adjustments are not as significant as
22 a methodol -- a methodology adjustment, as we see in
23 the case of moving to -- to what's happened here.

24 MR. LARRY KENNEDY: This is a bit of an
25 extreme case in that we componentized plant. We -- we

1 really went back to a -- a foundation kind of level of
2 how the depreciation should be calculated for this
3 company in the -- the account structure. So you
4 combine the changes we made to account structure, you
5 combine the changes that we've made from a policy
6 level, yes, there's -- there's been some bigger changes
7 in this than we would normally see in -- in kind of the
8 every three (3) to five (5) year renewal period, yes.

9 MR. BOB PETERS: You said that in --
10 Gannett Fleming has experience in other methodologies
11 of refunding the -- the variance, correct?

12 MR. LARRY KENNEDY: Correct.

13 MR. BOB PETERS: And one of the methods
14 was, you said, refunded faster. Are there any other
15 approaches, other than that, that you care to share
16 with the Board?

17 MR. LARRY KENNEDY: Definitely the
18 refund faster seems to be the -- the default option, or
19 default alternative. I'm having a hard time coming up
20 with something different. I do know we experimented
21 one time to actually go longer than the composite
22 remaining life in every account. In other words, we
23 set a fixed life that in some cases was longer or
24 shorter. Pick a number; say, twenty five (25) years.
25 And that would be longer than the average life and

1 shorter than the average life on the other one. So it
2 becomes a fixed term.

3 But generally the -- the options revolve
4 around playing with that composite remaining life,
5 either making it a default shorter, or, like I say,
6 I've seen cases where we investigated going longer.
7 Normally the -- the default option is, though, if you
8 don't follow the composite remaining life to do
9 something shorter -- and -- and I caution -- I caution
10 that in that I think that can cause some -- some fairly
11 near-term issues in the next study.

12 MR. BOB PETERS: Mr. Kennedy, Mr.
13 Rainkie, Mr. Warden, perhaps my memory isn't right on
14 this. But from the '05 -- in the '05 study, wasn't
15 there an -- a variance that was recovered, a variance
16 of about \$117 million that was recovered over a five
17 (5) year period?

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Gentlemen, let me
22 withdraw that last question. Other peoples' memories
23 are better than mine.

24 The -- is one of the options to amortize
25 the -- the refund between this study and the next study

1 that's done for Manitoba Hydro, like -- like pick a --
2 pick a year when the Corporation would be re-
3 initializing its depreciation rates?

4 MR. LARRY KENNEDY: That was -- and
5 I've kind of categorized that into the life shortening
6 or -- but that was a method that was used in -- in one
7 (1) case that I'm aware of, where they had a seven (7)
8 year negotiated settlement period, and they amortized
9 the -- the variance over that seven (7) year period.
10 The thought was that by the end of the seventh year
11 everything would be nice and clean. What we're finding
12 now, and like I -- I'll say this is kind of yet to be
13 seen, but that same utility's going to come in with a
14 very significant shortfall, and the very near future,
15 and would go to the regulator. It's -- it's caused a
16 big issue.

17 MR. DARREN RAINKIE: I was -- what I
18 was going to add, Mr. Peters, imagine the communication
19 issue for the Public Utilities Board of Manitoba Hydro
20 saying to ratepayers, We need a larger rate increase
21 because of a previous depreciation refund based on Iowa
22 curves, as opposed to saying why we need rate increases
23 based on our business, like export revenues and cost
24 structure, et cetera.

25 You know, what happens in that

1 shortening up period? What happens when that's done?

2 I mean --

3 MR. BOB PETERS: It's the same issue,
4 Mr. Rainkie, perhaps depending on the magnitude, of
5 when a rate rider falls off on your gas side of your
6 business, and a result of a rate-rider falling off, the
7 rates may have to be increased.

8 MR. DARREN RAINKIE: But it's not an
9 even-up comparison. Usually a rate-rider is based on a
10 change in the cost of gas for the previous year, so
11 we're refunding -- or recovering that in the next
12 year because the customers who have caused that refund
13 are very near.

14 In this situation, this surplus is built
15 up going back as far as Manitoba Hydro, so refunding
16 that in a couple years to customers is not fair. And
17 then what do you do when it comes off?

18 So I -- I wouldn't accept that example,
19 Mr. Peters, as a fair apples-to-apples comparison.
20 It's -- it's not in the same league.

21 MR. BOB PETERS: The intergenerational
22 issue, Mr. Kennedy, my last point on this, that you
23 raised, is that isn't it correct that the -- the
24 ratepayers, up till today, have contributed to the \$594
25 million of variance?

1 MR. LARRY KENNEDY: All historic
2 ratepayers, yes.

3 MR. BOB PETERS: And if one (1) refunds
4 it over the remaining service lives of the -- of the
5 class, you're then providing a credit to tomorrow's
6 ratepayers?

7 MR. LARRY KENNEDY: Over the long-term,
8 remembering that today's ratepayers and the historic
9 ratepayers have had the benefits of these true-up
10 calculations built into the depreciation rates
11 historically as well. So they've received the benefit
12 of the cost of -- of those variance true-ups
13 historically.

14 MR. BOB PETERS: I'd like to -- I'd
15 like to move on at this time. And I just wanted to --
16 to maybe focus on some questions on equal life group
17 that haven't already been posed throughout the day.
18 I'm not sure I remember if the Corporation
19 acknowledged, for how long has average service life
20 procedure been -- been used by Manitoba Hydro?

21

22 (BRIEF PAUSE)

23

24 MR. LARRY KENNEDY: I -- I'll start,
25 Mr. Peters. And maybe Mr. Warden can -- has -- has got

1 a bit more history in Manitoba Hydro than I do.

2 Ever since I've been doing studies,
3 which goes back to basically the year 2000 and 2001,
4 the average service life procedure has been used. I
5 believe -- or my understanding is that it's -- it was
6 in place for a long period of time before that.

7 MR. VINCE WARDEN: Yes, I just want to
8 reinforce that statement. To my knowledge, we've
9 always used the ASL methodology.

10 MR. BOB PETERS: And we're -- we're on
11 common-ground that both the average service life and
12 the equal life group methods are equally as accepted
13 under GAAP and under IFRS?

14 MR. LARRY KENNEDY: Definitely under
15 GAAP. IFRS, we -- we get some intricacies where the
16 external audit community that I -- that I've discussed
17 -- and I've had a lot of discussions with all the major
18 four (4) year -- accounting firms -- recognize that
19 they ASL method is acceptable for the development of
20 the annual accrual, providing that the componentization
21 of the company is such that the -- the requirements of
22 Standard 16 are met, that the -- the assets are
23 depreciated over the life.

24 The challenge really is -- or the
25 benefit of equal life group also extends to the -- the

1 sections of -- or the -- the paragraphs of IAS16 that
2 indicate:

3 "Upon derecognition or retirement of
4 an asset, the gains and losses should
5 be -- flow to the income statement."

6 With the ELG method, as we demonstrated
7 this morning, there is a depreciation calculation in
8 there that recognizes the expected life of each of the
9 subgroups. We've been able to -- to convince the audit
10 community, and believe me that wasn't easy, that if the
11 equal life group procedure was used, and we can
12 demonstrate that the age of retirements in a given year
13 were close to the expected age of retirements used in
14 the Iowa curve, that the gains and losses will likely
15 not be material and not have to be taken to the income
16 statement.

17 In other words, there will be definitely
18 a far lesser amount of gains and losses to go to the
19 income statement, if any at all, in the use of the
20 equal life group procedure. So to that extent, the ELG
21 method is more compliant with IFRS, but in terms of the
22 actual development of the depreciation rate, both are
23 acceptable.

24 MR. BOB PETERS: Mr. Rainkie, to follow
25 up on Mr. Kennedy's last comments, I think Manitoba

1 Hydro was asked to demonstrate to the Board that very
2 impact that Mr. Kennedy just spoke of. Do you recall
3 that being asked of the Corporation, Mr. Rainkie?

4 MR. DARREN RAINKIE: Yes, I remember
5 that in the Information Requests.

6 MR. BOB PETERS: And my recollection of
7 it, sir, is -- and I don't have it in the book of
8 documents, is that Manitoba Hydro is unable to provide
9 the calculation to demonstrate what Mr. Kennedy show --
10 explained to the Board and, therefore, it's on a
11 theoretical level, just as Mr. Kennedy explained it?

12 MR. DARREN RAINKIE: That's right. The
13 -- the way that the regulated accounting has worked in
14 the past is, we have not segregated out those gains and
15 losses for income statement purposes, so we were unable
16 to produce those. But I think, from a theoretical
17 perspective, just looking at that simple example, it
18 demonstrates the principle.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: Mr. Kennedy, in your
23 intimate discussions with the big four (4) accounting
24 firms, did any of them provide you with papers or
25 explanations that would demonstrate that under equal

1 life grouping there would be no gains or losses needed
2 to be booked against the -- the income statement?

3 MR. LARRY KENNEDY: The major four (4)
4 firms -- actually five (5), if you take -- put Grant
5 Thornton into the equation, who are getting to be just
6 about a major firm, have not put anything in writing
7 because the standards, the IFRS, are a -- a standard.
8 They -- they won't suggest that it's a uniform basis
9 that they would accept it.

10 What they have accepted -- and I have a
11 number of utilities that have used equal life group and
12 have adopted IFRS at the earliest IFRS adoption date,
13 have now gone through two (2) year ends -- going into
14 the second year end, I'm sorry, of audited financial
15 statements under IFRS, and have accepted the fact that
16 we have been able to demonstrate that there is no
17 retirement or losses on retirement, and have allowed
18 those utilities to book a zero gain and loss to their
19 income statement.

20 MR. BOB PETERS: You also consult to
21 SaskEnergy?

22 MR. LARRY KENNEDY: I do.

23 MR. BOB PETERS: And they've adopted
24 IFRS?

25 MR. LARRY KENNEDY: They have.

1 MR. BOB PETERS: And they've stuck with
2 ASL?

3 MR. LARRY KENNEDY: They have.

4 MR. BOB PETERS: Mr. Rainkie --

5 MR. LARRY KENNEDY: Actually, just to
6 follow up on that -- I was waiting for the next
7 question, Mr. Peters. It teaches me for not jumping
8 in.

9 MR. BOB PETERS: I know when to stop --

10 MR. LARRY KENNEDY: I haven't. I think
11 you have to recognize that SaskEnergy -- I think you
12 said -- was it SaskEnergy or SaskPower you asked about?

13 MR. BOB PETERS: SaskPower, who I --

14 MR. LARRY KENNEDY: Okay, SaskPower.

15 MR. BOB PETERS: -- who I'm thinking of
16 when I --

17 MR. LARRY KENNEDY: Both -- both do the
18 same thing, so I wasn't sure. They apply the average
19 service life method on a unit-by-unit basis, and they
20 have historically and always taken the gains and losses
21 to the income statement. So upon adoption of IFRS they
22 didn't have a change to make. They, in essence,
23 followed the historic practices.

24 What they did do is further componentize
25 themselves to have more components to allow the average

1 service life method to -- to meet the standard sno --
2 or to meet the standard sixteen (16), but they had
3 historically taken gains and losses to the income
4 statement anyway. So that wasn't a change for them.
5 In other words, they hadn't been following the more
6 traditional regulatory accounting.

7 MR. BOB PETERS: Mr. Rainkie, I'm not
8 sure if this point is germane other than to clarify the
9 record as you and I have been trying to do. When the
10 Board rereads your Appendix 5.2, which was your status
11 update on IFRS -- I'm sorry, it was Appendix -- in --
12 in Appendix 5.5, I think, in section 5.2.

13 There was, Mr. Rainkie, just some
14 suggestion that Manitoba Hydro must switch from ASL
15 method to equal life group. Do you recall that?

16 MR. DARREN RAINKIE: Yes, I -- I recall
17 that, Mr. Peters.

18 MR. BOB PETERS: Page 43 of 48, if
19 you're -- if you're referencing it?

20

21 (BRIEF PAUSE)

22

23 MR. DARREN RAINKIE: I have that. It's
24 page 26 of 48, I think. But at any rate, Mr. Peters,
25 I'm -- I'm familiar. I reviewed the report. I can --

1 I can chat with you about it.

2 MR. BOB PETERS: Well, what I wanted
3 you to confirm to the Board is that the statement in --
4 in Appendix 5.5, the IFRS status update, is not correct
5 if it's meant to suggest that Manitoba Hydro must
6 switch from ASL method to equal life group as a direct
7 result of IFRS becoming operable.

8 MR. DARREN RAINKIE: We wouldn't have
9 to switch to ELG, but we wouldn't be able to maintain
10 ASL as it currently exists, I think, is what we
11 clarified this morning and this afternoon. And, you
12 know, as I look at the wording here, we were trying to
13 take some very complex accounting issues and kind of
14 boil it down to some fairly simple paragraphs.

15 But I think we -- we made that
16 additional point in our rebuttal evidence. We
17 recognized it and that it was a misunderstanding, that
18 we couldn't just take ASL as -- of the past and apply
19 it on a go-forward basis, if that clarifies things, Mr.
20 Peters.

21 MR. BOB PETERS: Well, first of all, I
22 appreciate the -- the breaking it down to simple terms.
23 And -- and I just wanted to make sure that the Board
24 understood that the indication isn't that -- that ASL
25 wouldn't fit under IFRS. It's just, as the Corporation

1 is suggesting, is that there would be additional work
2 required.

3 MR. DARREN RAINKIE: Additional work
4 required that would come to the same result, cost the
5 Company and the ratepayer money and come to the same
6 result, which we didn't see as being part of the value
7 equation.

8 MR. BOB PETERS: Sorry, it would come
9 to the same result of -- if Manitoba Hydro did use ASL
10 and provided the additional componentization by Gannett
11 Fleming, it would come to an increase in depreciation
12 expense of about \$32 million?

13 MR. DARREN RAINKIE: Just to be clear,
14 Mr. Peters, we would have to componentize at a much
15 more granular level than what is inherent in our ELG
16 proposal to be able to apply ASL under IFRS. And when
17 you do that, I think we come to a similar result as ELG
18 under the componentization that has been agreed upon
19 between Manitoba Hydro and Mr. -- and Gannett Fleming.

20 MR. BOB PETERS: My trouble with your
21 answer, Mr. Rainkie, is I'm not sure we're connecting
22 the dots to how we come to the same result if the -- if
23 Manitoba Hydro, in your words, takes it to a more
24 granular level, in terms of componentization, will end
25 up with an additional \$32 million of depreciation

1 expense.

2 MR. LARRY KENNEDY: Mr. Peters, maybe
3 I'll start and Mr. Rainkie can clarify the record after
4 I -- I muddle it a little bit.

5 The -- the componentization that we
6 ultimately recommended was based on the fact that the
7 Company had -- or, at that time was strongly leaning
8 towards the adoption of the equal life group procedure.
9 Had the Company come to me and said, We are not going
10 to adopt equal life group, we are going to maintain the
11 use of the average service life, you would see likely
12 many, many, many more accounts on these pages.

13 My experiences with utilities that use
14 the average service life have hundreds of accounts in
15 their generation plant. We have tens, not even -- may
16 not even plural tens; I think it's in the tens. It's -
17 - it's a significant different level. So had -- had we
18 prepared and come forth with ASL study, we would have
19 many more accounts and much more granularity in those
20 accounts.

21 Now, if you remember that simple example
22 of the ELG that we talked about this morning, if we
23 take that one (1) account that had a -- a five (5) and
24 a fifteen (15) year asset and we applied ASL but made
25 two (2) accounts -- one a five (5) year account and one

1 a fifteen (15) year account -- you get the same result.
2 And that's -- what -- that would have been the
3 theoretical trend at least of going to many more
4 accounts.

5 MR. BOB PETERS: All right. So now I'm
6 understanding Mr. Rainkie's word of "get to the same
7 result". That is in terms of the -- the way the
8 accounts would be broken down, Mr. Rainkie?

9 MR. DARREN RAINKIE: That's why he's
10 the expert and I'm the utility worker.

11 MR. BOB PETERS: Thank you, Mr.
12 Rainkie. And -- and just so we're -- we've used the
13 word "more granular" a number of times on the record.
14 What I'm taking that to mean is breaking it down into
15 finer quantities?

16 MR. DARREN RAINKIE: That's essentially
17 what we're saying, Mr. Peters, yes.

18 MR. BOB PETERS: All right. And, Mr.
19 Kennedy, Hydro-Quebec and Newfoundland are examples of
20 jurisdictions that use the average service life
21 grouping in conjunction with it being acceptable to
22 IFRS?

23 MR. LARRY KENNEDY: I can speak to
24 Newfoundland and Labrador Hydro. Hydro-Quebec, as I
25 mentioned this morning, unfortunately isn't one of my

1 clients, yeah. And so I -- I don't have really
2 intimate knowledge about what they do.

3 I can tell you Newfoundland Hydro, yes,
4 they use average service life. And within the confines
5 of IFRS or going to IFRS, they have in excess of a
6 hundred generation accounts.

7 MR. BOB PETERS: And just so that we're
8 clear, I'm -- I understand you to be telling the Board
9 that to continue to use ASL, Manitoba Hydro would have
10 to develop more service accounts for its assets?

11 MR. LARRY KENNEDY: That's my belief.
12 I -- I think the external audit community would, A)
13 require it for financial statement purposes. And I
14 believe that to be the case, as well, so I can't
15 totally blame the auditors on that one. I -- I would
16 believe that to be the case, as well.

17 MR. BOB PETERS: You're providing the
18 Board with your -- with your interpretation of your
19 discussions with the audit community, even though they
20 haven't yet given anything in writing on -- on what
21 would be required to do that?

22 MR. LARRY KENNEDY: That's correct. I
23 -- I'm -- I guess what I'm providing the Board with is
24 my experience with a number of clients that have
25 adopted IFRS, both using equal life group and -- and

1 using average service life. I don't think you'll ever
2 see the audit community actually publish anything that
3 says this is the method and the only method they use.

4 I -- I've been, quite frankly, trying to
5 bribe them to do that -- not bribe. I -- I wish they
6 would put a paper out that -- that would say -- give
7 their opinion one (1) way or the other. And then I'd
8 know what we're dealing with. Unfortunately, they --
9 they don't because it's a world standard. It's not a
10 Canadian standard. It's not a North American standard.

11 And before any of the big four (4) in
12 Toronto can -- can issue a paper, they actually have to
13 view -- run it and vet it through their international
14 offices around the world. And that isn't high on their
15 priority list, I can assure you of that.

16 MR. RAYMOND LAFOND: I'm a fellow
17 chartered accountant. I can -- I'm happy to hear that
18 you could not bribe them.

19 MR. LARRY KENNEDY: There's -- there's
20 that code of ethics thing that -- that we all adhere
21 to, yes.

22 MR. DARREN RAINKIE: Mr. Peters, just
23 to add to that, auditors audit. They don't tell you
24 what to do. You produce your books, and they audit.
25 And they are very hesitant to tell you what to do.

1 It's not within their frame of reference to propose a
2 policy. So they prefer that you propose something and
3 they look at it.

4 And -- and I'll go right back to one of
5 your first questions of me, is, well, what did we --
6 what did we purchase when we brought Mr. Kennedy into
7 this, is not just his fine models, because I'm sure
8 there's many firms that have that. But one of the
9 things that we purchased is his knowledge, because he
10 has been working with the audit committee -- community
11 since early on.

12 And I remember a CEA, sub -- finance
13 subcommittee meeting where representatives of the big
14 four (4) were coming and saying -- this is around 2000
15 -- early 2009 -- saying that group accounting wouldn't
16 work under IFRS, which left us in the room sitting
17 there going, Well, how do we account for millions of
18 assets then? We're not going to calculate depreciation
19 on each -- each asset.

20 So one of the things that we purchased
21 with Mr. Kennedy and his firm is, you know, working
22 with audit firms to try to understand what would be
23 compliant and wouldn't be compliant with IFRS.

24 MR. BOB PETERS: And, Mr. Kennedy, in
25 your depreciation study that you've done for Manitoba

1 Hydro, you've already taken generating stations and
2 broken them down into -- into various accounts,
3 correct?

4 MR. LARRY KENNEDY: That's correct.

5 MR. BOB PETERS: And that's part of the
6 initial componentization that was done to make -- to
7 make it IFRS compliant?

8 MR. LARRY KENNEDY: Yes, assuming the
9 use of the ELG procedure.

10 MR. BOB PETERS: I'm sorry, your last
11 part was to conti -- assuming that you would switch
12 over to ELG?

13 MR. LARRY KENNEDY: Tha -- that's
14 correct. The --

15 MR. BOB PETERS: All right.

16 MR. LARRY KENNEDY: That -- that
17 componentized list or that level of account was based
18 on the fact that the company would be proceeding
19 forward into IFRS using the equal life group procedure.

20 MR. BOB PETERS: Did you look at both,
21 Mr. Kennedy?

22 MR. LARRY KENNEDY: Specifically for
23 Hydro? Not really. We -- we -- we chatted IFRS; we
24 talked about the conversion to equal life group
25 procedure. We started down the componentization path.

1 My advice to the company was: Where do we stop? If
2 you think you're going to the average service life
3 procedure, we got a whole lot more work to do. We
4 would have had Ms. Hooper back in the bowels of the --
5 the paper records, finding a whole lot more and doing a
6 lot more detailed work.

7 So we -- we determined that the level of
8 componentization that we thought would meet equal life
9 group was appropriate. And at that point the Company
10 had indicated to me that that was the way they were
11 leaning. So, no, we didn't try to further develop all
12 the -- the components that would be required.

13 I will tell you that the clients that I
14 have done that exercise for have resulted in many, many
15 more accounts.

16 MR. BOB PETERS: All right. Let's now
17 talk about -- maybe we can ask her to leave the room --
18 but the additional work for Ms. Hooper, should it be
19 required that Manitoba Hydro would go from the average
20 service life, together with the componentization that
21 you already have done for them on the assumption that
22 ELG would become operable.

23 But if average service lives were going
24 to continue to be the methodology used, what additional
25 unit accounting would be required?

1

2

(BRIEF PAUSE)

3

4

MR. LARRY KENNEDY: That's a big
5 question. Definitely we would have to expand the list
6 of -- of accounts. So if I look at things like the --
7 the generation accounts, we have one account called
8 "governors and excitation system". That account would
9 probably turn into governors, governor windings,
10 governor casings, excitation systems, excitation
11 windings, excitation starters. And that's only one (1)
12 account.

13

MR. BOB PETERS: And this is what
14 you've done in other jurisdictions?

15

MR. LARRY KENNEDY: It is.

16

MR. BOB PETERS: And in terms of the
17 time line in which that data can be assembled, if it's
18 not already assembled, sir?

19

MR. LARRY KENNEDY: Well, that -- the
20 last part of the question was -- is the key there. A
21 lot of utilities have, for some unknown reason,
22 maintained that level of details within subaccounts
23 within their companies. So their -- their main --
24 continuation of the use of the average service life
25 method was a lot easier in that they had already

1 componentized themselves to a very granular level, if
2 you will.

3 Utilities that have had to do one (1) of
4 two (2) things. They've had to develop that list of
5 accounts; they've had to then go back to their archived
6 records, try to find the cost information around that;
7 not only find the cost information, find the historic
8 retirement information so we could start doing some
9 retirement analysis on those new accounts.

10 Quite frankly, most utilities have come
11 up against a brick wall there. And what we've had to
12 do is do some statistical breaking out of those
13 accounts. Now we're into cost allocation methods and
14 estimation practices that -- that aren't as --
15 obviously aren't as viable as having the actual
16 records.

17 So you either have to spend literally
18 months and months, if not years, going back to do that
19 or accept the fact that you're going to use a less-
20 precise method, in terms of some type of allocation
21 methods. Or, in the case of most utilities that
22 haven't got the ability to go back and dig through the
23 archives and aren't comfortable with using estimates,
24 to suggest that equal life group is the -- the most
25 viable alternative.

1 MR. BOB PETERS: And you use a
2 statistical approach with Manitoba Hydros ELG
3 presentation?

4 MR. LARRY KENNEDY: We did for a few
5 accounts where, quite frankly, we just ran into a brick
6 wall where we couldn't find the level of detail. In a
7 few of the distribution accounts, for example, we did
8 do a statistical -- had to use a statistical approach.

9 MR. BOB PETERS: Mr. Warden, Mr.
10 Rainkie, have you any estimates for the Board, in terms
11 of the time it would take to provide a more granular
12 componentization for Gannett Fleming?

13 MR. DARREN RAINKIE: No, I don't Mr.
14 Peters. I mean, it's -- it's really a ridiculous
15 thing. We've indicated to you that -- that, you know,
16 applying ELG or applying ASL at a more granular level
17 would result in the same -- in the same depreciation
18 expense under IFRS.

19 You know, we had a chat about operating
20 costs yesterday. This is one of things that if there's
21 extra burden for no benefit, customers pay for that. I
22 don't have an estimate; it's just something that we
23 don't see as being a reasonable thing to do.

24 We have \$14 billion worth of assets.
25 This is not some exercise where an accountant goes back

1 and spends a day and comes up with something, you know.
2 This would require consulting help of Mr. Kennedy; may
3 even put our IFRS implementation in jeopardy at some
4 point, depending on how, you know, detailed they want
5 to get. So I don't have an estimate, because it
6 doesn't really make much sense.

7 MR. BOB PETERS: Mr. Rainkie, you're
8 not suggesting to the Board that by doing the ASL
9 further componentization, you're going to run up a bill
10 of \$32 million?

11 MR. DARREN RAINKIE: No, I'm not. But
12 what I'm suggesting is we're going to come to a same --
13 the same depreciation level, and then we have -- will
14 have spent customers' money on unnecessary
15 administration in the Corporation. And then I'll come
16 back to the hearing and everybody will be asking me
17 next year, How did we constrain costs? Or, next time,
18 How did we constrain costs? Like, we have to, in a
19 situation with low export revenues, make sure that
20 we're not doing unnecessary calculations. I'll leave
21 it at that.

22 MR. BOB PETERS: Mr. -- yeah, Mr.
23 Rainkie, there's no question that Manitoba Hydro's SAP
24 system can handle the additional accounts if -- if
25 they're available. Isn't that correct?

1 MR. VINCE WARDEN: Mr. Peters, given
2 the situation we have with IFRS at this particular
3 time, we -- we - there's some uncertainty as to whether
4 or not we'll -- we'll move to ELG. In the interim
5 period, we -- we are still using ASL. And now, if we -
6 - if we proceed down this path and IFRS continues to be
7 deferred, we will continue to use ASL. And if it -- if
8 we take it to the next depreciation study in five (5)
9 years from now, in fact, we will be adding more
10 componentization to -- in order for ASL rates to be
11 compliant.

12 So we may very well get there anyway,
13 but it would probably be not a worthwhile exercise at
14 this juncture.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Mr. Kennedy, I
19 understood from your previous answers to me, sir, that
20 if the -- if the data level wasn't available, one of
21 the options was for the Utility to use a statistical
22 approach, correct?

23 MR. LARRY KENNEDY: There are
24 statistical approaches that can be used. And in a few
25 accounts in -- in the circumstance of this company, we

1 did have to use a statistical approach, yes.

2 MR. BOB PETERS: Mr. Kennedy, you're
3 familiar with Schedule 2 of your 2010 depreciation
4 study, without getting into specifics? Certainly, the
5 format of it.

6 MR. LARRY KENNEDY: I am, yes.

7 MR. BOB PETERS: You're telling the
8 Board that that may or may not meet the required
9 standards? You're not sure?

10 MR. LARRY KENNEDY: I don't think it
11 would meet the standards upon implementation of IFRS,
12 Standard 16, in terms of componentization. And,
13 secondly, definitely gains and losses would have to be
14 dealt with, because the Company would have an issue
15 around the -- upon retirement of assets, where do the
16 gains and losses go?

17 With the equal life group procedure, we
18 can at least hope to -- to minimize those losses that
19 have to go to the income statement. On the average
20 service life method, they will go to the income
21 statement.

22 MR. BOB PETERS: That's if, and only
23 if, IFRS then becomes operable?

24 MR. LARRY KENNEDY: If it becomes
25 implemented, yes.

1 MR. BOB PETERS: Yeah, for -- for this
2 utility?

3 MR. LARRY KENNEDY: Yes.

4

5 (BRIEF PAUSE)

6

7 MR. BOB PETERS: Mr. Kennedy, I do have
8 a question on a pre-ask that Manitoba Hydro was kind
9 enough to provide to the Board. It's -- it's part, Mr.
10 Chairman and Board members, in the -- in the binder
11 that Manitoba Hydro marked as Manitoba Hydro Exhibit
12 18. And this was a binder that had information
13 predominantly, I might say, related to Pointe du Bois.
14 But it also had some tabs at the front end of it that
15 related to some pre-ask questions related to
16 depreciation.

17 And I just would like to clarify --
18 actually, get a better understanding of -- of the Pre-
19 ask number 1, where a generating station was picked off
20 the -- off the schedules. And it happened to be Kettle
21 Generating Station, and a spreadsheet was requested,
22 comparing ASL to ELG.

23 And, Mr. Kennedy, Mr. Rainkie is
24 providing you with a copy of that?

25

1 MR. LARRY KENNEDY: Yes, he has.

2 MR. BOB PETERS: And -- and maybe for
3 Mr. Rainkie, if -- if he's the author of the answer --
4 or did you answer this question, Mr. Kennedy?

5 MR. LARRY KENNEDY: I think this was a
6 response prepared by Manitoba Hydro.

7 MR. BYRON WILLIAMS: Mi -- Mr. Peters,
8 I'm sorry to interrupt. Is it Pre-ask 1 that you're
9 referring to, sir?

10 MR. BOB PETERS: It -- it is, Mr.
11 Williams. My apologies. Pre-ask number 1. It's not
12 marked as a specific different exhibit, but it's in the
13 tab. It's in the tab of -- in the binder that Manitoba
14 Hydro provided. Just give us a minute to turn it up,
15 please.

16 MR. BYRON WILLIAMS: Thank you, Mr.
17 Peters.

18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: My questions will be
21 brief here, Mr. Kennedy. But if we go down -- and
22 let's just pick -- first of all, the top half of the
23 graph deal -- or, sorry, the top half of the page of
24 the chart deals with the ASL methodology based on 2011
25 data? Mr. Rainkie, you can help.

1 MR. LARRY KENNEDY: I think that's
2 correct, sir.

3 MR. BOB PETERS: And, Mr. Rainkie, to
4 the extent you have additional information, feel free
5 to provide it. And it would be based on hundred year
6 life scenarios?

7

8 (BRIEF PAUSE)

9

10 MR. LARRY KENNEDY: Mr. Peters, I might
11 need you to repeat the question now that we have the --
12 the information before us.

13 MR. BOB PETERS: I was proceeding on
14 the assumption, Mr. Kennedy, until you tell me
15 otherwise, that the top half of the page dealing with
16 average service life methodology also had the maximum
17 one hundred (100) year life estimates in it?

18 MR. LARRY KENNEDY: And that's --
19 that's the part that I was a bit confused out and I was
20 seeking clarification for. Those are the life
21 estimates. So it'd be the hundred and twenty-five
22 (125) year life estimates. In other words, it's the
23 ASL rates as proposed for the -- for the '11/'12 year,
24 as compared to the ELG rates that are -- that the
25 original study was proposed for the '12/'13 year.

1 So they have -- they both have the
2 updated average service life curves.

3 MR. BOB PETERS: And if we -- if we
4 just stay with -- I guess the powerhouse is the one --
5 I'll start with. If the powerhouse number in the top
6 is \$1.273 million, correct?

7 MR. LARRY KENNEDY: I'm with you so
8 far, sir.

9 MR. BOB PETERS: And that's in the 2013
10 year?

11 MR. LARRY KENNEDY: Correct.

12 MR. BOB PETERS: And -- and then why is
13 the same powerhouse number, the starting point, a
14 different number when we get down to the ELG?

15

16 (BRIEF PAUSE)

17

18 MR. LARRY KENNEDY: Exactly. So the --
19 there's -- the ELG number would include -- kind of both
20 pieces will go with ELG. One (1) is the introduction
21 of ELG but the reduction of the -- or the removal of
22 the net salvage piece. That gives you the -- a bit of
23 the surprise result.

24 MR. BOB PETERS: And that would explain
25 comparing other items with -- under the two (2)

1 methodologies, as well as comparing the totals?

2 MR. LARRY KENNEDY: I believe so, sir.

3 MR. BOB PETERS: Mr. Kennedy, when we
4 stay with the powerhouse under the ASL model at the top
5 part of the page we -- the Board will see that from
6 2013, where it's \$1.2 million, by 2018 it goes up to
7 \$1.3 -- .07 million, correct?

8 MR. LARRY KENNEDY: I see that.

9 MR. BOB PETERS: And why does it
10 flatline essentially after that, sir?

11 MR. LARRY KENNEDY: Perhaps, Mr.
12 Rainkie can -- can correct me when I go astray here.
13 The -- these rates take the average service-life rate
14 and apply it against the -- the plant in service
15 estimated at that point in time. In other words, there
16 are some capital additions that are forecast to be
17 placed into service over the next period of time. I
18 believe that the capital forecast only extended out a
19 cer -- to a certain period of time, and then you'd
20 start to see the flatlining, as -- as you've seen here.

21 MR. BOB PETERS: So, Mr. Rainkie, if
22 the -- if the capital expenditure forecast was -- was
23 extended the full twenty (20) years, we'd expect to see
24 the -- the depreciation expense increasing over that
25 time as opposed to flatlining, if that data was

1 available?

2

3

(BRIEF PAUSE)

4

5 MR. DARREN RAINKIE: Mr. Peters, I'm

6 trying to get grounded on this schedule, sorry.

7 There's so much material back and forth, I'm not sure.

8 Well, this is for Kettle, right, and so

9 I think that's -- that -- it's just reflecting capital
10 expenditures in our forecast up to a certain period of

11 time, and then after that it's just -- it's just

12 depreciating that level of plant after that. So I'm

13 not sure if there's anything more to it than that.

14 MR. BOB PETERS: There's no upgrades

15 included in the numbers then, Mr. Rainkie; that'd be

16 your understanding as to the reason why it would go

17 flat?

18 MR. DARREN RAINKIE: I'm not sure, Mr.

19 Peters. You know, if there's a question, maybe you can

20 pose it and we can -- I'm not -- this is kind of

21 getting into some of the minutia for me, and I'm not

22 sure I can give you the best answer right now.

23 MR. BOB PETERS: Well, let's -- let's

24 leave it with you, Mr. Rainkie, that the understanding

25 then of the Board is that -- and you're right, this

1 picked Kettle generating station, and only to the
2 extent that there were upgrades or capital expenditures
3 planned would they be added to the depreciation in the
4 years. So in the years in which the items go --
5 essentially flatline, in my words, the Board will
6 understand that to mean that there are no planned
7 upgrades during those periods of time unless you'd
8 advise us otherwise.

9 MR. DARREN RAINKIE: That's what I
10 would have expected, and I'll advise you otherwise if
11 it's a different case.

12 MR. BOB PETERS: That same answer, Mr.
13 Rain -- no, that's no undertaking. That would be Mr.
14 Rainkie taking it subject to check, and the subject to
15 check is on him.

16 If we go down to the ELG part of the
17 page, Mr. Rainkie, the same answer would apply using
18 the ELG methodology as well that you've explained?

19 MR. DARREN RAINKIE: It would, sir.

20 MR. BOB PETERS: All right. And is
21 this -- Mr. Kennedy, if we take the -- the total under
22 2013, the \$5.5 million, and then we go out to 2018 and
23 see the \$7.2 million, that's an approximate increase of
24 29 percent.

25 And you'd take that number, subject to

1 check?

2 MR. LARRY KENNEDY: Subject to check,
3 yes.

4 MR. BOB PETERS: Okay. Whatever that
5 number is, sir, would you have expected that to be the
6 exact same number when we got to the ELG grouping and
7 we went from the 4.8 million out to the 6.4 million?

8 MR. LARRY KENNEDY: I -- I notice, sir,
9 that the -- in a perfect world, we would have
10 recalculated the ELG rates each and every year going
11 forward. That wasn't done here. Here, the -- the rate
12 that was used was simply carried all the way through.

13 MR. BOB PETERS: Okay.

14 MR. LARRY KENNEDY: So one would
15 actually expect that to be differing each and every
16 year, but that -- that's a very significant amount of
17 work to -- to make the ELG recalculation each year.

18 MR. BOB PETERS: I -- I think you've
19 just then answered the question, that you made the same
20 assumption at that -- at that level.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Can the Board
25 conclude, Mr. Kennedy, that, in response to this Pre-

1 ask question number 1 as part of PUB Exhibit 18, that
2 the only difference then under the two (2)
3 methodologies is really the starting point?

4 MR. LARRY KENNEDY: Yeah, the -- the
5 starting point of the rates, and then that same rate
6 has been applied against the -- the forecast balances
7 going forward.

8 MR. BOB PETERS: Yes. And thank you
9 for that --

10 MR. RAYMOND LAFOND: Should there not
11 be added to that the fact -- I thought I heard that
12 under the second portion, the ELG based rates did not -
13 - it included the removal of net salvage value as
14 opposed to the ASL method?

15 MR. LARRY KENNEDY: That's correct. In
16 the -- in that starting first rate, the ELG had the
17 salvage removed and continued to use that same rate
18 with salvage removed going forward.

19 MR. RAYMOND LAFOND: So that would be
20 the major reason for the difference in numbers under
21 one (1) method versus the other method?

22 MR. LARRY KENNEDY: That we see here,
23 yes.

24

25

(BRIEF PAUSE)

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Kennedy, we've --
3 we've talked around it a little bit, but if we turn to
4 page 310 of the book of documents, there's an extract
5 from the evidence of Mr. Bowman filed in these
6 proceedings.

7 MR. LARRY KENNEDY: I always like
8 discussing the Intervenor evidence, yes.

9 MR. BOB PETERS: I'm sure you'll get a
10 -- more of an opportunity with Mr. Hacault.

11 MR. LARRY KENNEDY: I am sure.

12 MR. BOB PETERS: But can you confirm --
13 and you're on page 310 -- three (3) -- three one zero
14 (310), Tab 29, of Board counsel's book of documents?

15 MR. LARRY KENNEDY: I do have that,
16 yes.

17 MR. BOB PETERS: Can you confirm to
18 this Board that all Crown owned Canadian utilities are
19 using average service lives rather than the ELG?

20 MR. LARRY KENNEDY: Those listed here,
21 sir. There's some municipally -- municipally owned
22 utilities. I'm not sure if that qualifies as Crown; I
23 don't think so. But they are a government-owned or a
24 taxpayer-owned utility that are using equal life group.

25 MR. BOB PETERS: Are any of those

1 municipal utilities in Ontario?

2 MR. LARRY KENNEDY: Not that I'm aware
3 of.

4 MR. BOB PETERS: Is it your
5 understanding, Mr. Kennedy, that the Ontario Energy
6 Board has prescribed ASL methodology over equal life
7 groups?

8 MR. LARRY KENNEDY: I'm not aware --
9 I'm not sure if they've prescribed it, but I'm not
10 aware of any Ontario utility using equal life group.
11 And that -- it's probably not by accident, sir. The --
12 that's the case, but all the Ontario utilities that I'm
13 aware of use equal life -- or use average service life.

14 MR. BOB PETERS: And if we turn
15 backwards to page 298 in the book of documents...

16 MR. LARRY KENNEDY: Just before we
17 leave page 310, sir, I -- I would point out that the
18 majority of these utilities are not only using average
19 service life, but the majority are applying that rate
20 on a unit basis rather than on a group basis, and are
21 also taking the gains and losses to the income
22 statement rather than to the accumulated depreciation
23 account.

24 MR. BOB PETERS: And which ones are not
25 using the unit basis as -- rather -- and are sticking

1 with the group basis, sir, do you know?

2 MR. LARRY KENNEDY: Yukon Energy
3 Corporation, I think applies it on a -- on a group
4 basis. Qulliq applies it on a group basis, as does
5 Northwest Territories. The BC Hydro, BCTC,
6 Newfoundland, SaskPower, all apply the -- the rates on
7 a unit basis.

8 MR. RAYMOND LAFOND: And most of them
9 do not include the net salvage value in their
10 calculations?

11 MR. LARRY KENNEDY: That would be
12 correct, sir.

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: And are these
16 utilities all audited to your knowledge, Mr. Kennedy?

17 MR. LARRY KENNEDY: I believe so. The
18 -- some of them, I think, are audited by the Attorney
19 General of Canada, as I understand it. And other ones
20 are audited by -- by the accounting firms.

21 MR. BOB PETERS: For those that you've
22 identified as still with the ASL group method as
23 opposed to the ASL unit method, is there a move to --
24 to change; that is, for Yukon, Qulliq, and Northwest
25 Territories?

1 MR. LARRY KENNEDY: I don't think so,
2 sir. Mr. -- Mr. Bowman may be in a better position to
3 answer that question, but I understand they're all
4 happy in the group method.

5 I -- I'm going to come back to a -- a
6 question from our -- from the Board panel here. The -
7 the question was didn't -- they all don't have salvage
8 in it, and -- and that's correct at this time. I will
9 point out though that in the circumstance of Northwest
10 Territories Power Corp, they -- they are not accruing
11 any further salvage at this time. In essence, the
12 concept's approved, but the rate approved is zero, and
13 so there's -- there's a bit of a nuance. In other
14 words, they took a pause approach to salvage for at
15 least one (1) test period.

16 MR. BOB PETERS: Turning to the other
17 side of the coin, Mr. Kennedy, if you were finished,
18 back on page 298 at Tab 28 of the book of documents is
19 an extract from an Information Request that -- that you
20 answered, sir?

21 MR. LARRY KENNEDY: That's correct,
22 sir.

23 MR. BOB PETERS: And you were asked to
24 provide the methodology used by other Canadian
25 jurisdictions where equal life group was adopted. And

1 not only did you provide some Canadian examples, but
2 you also went south of the border?

3 MR. LARRY KENNEDY: It was. This --
4 this is a document that -- this question comes up quite
5 a bit, so it's -- it's a document that -- that we -- we
6 put in. Unfortunately, it's the one (1) I had to
7 correct this morning. And I'm going to figure out how
8 Qulliq ever made into this, if you will, boilerplate
9 response that we have.

10 MR. BOB PETERS: Well, I suppose you
11 have the -- the negative of this question then right in
12 your briefcase, Mr. Kennedy. If the Board was to ask
13 how many utilities are using the average service life
14 methodology, I take it your answer would be -- would be
15 considerably longer?

16 MR. LARRY KENNEDY: Yes, it would be.
17 The --

18 MR. BOB PETERS: It'd be all the other
19 utilities in --

20 MR. LARRY KENNEDY: I would --

21 MR. BOB PETERS: -- in North America?

22 MR. LARRY KENNEDY: Most of the others.
23 I mean, there's some other methods other than equal
24 life group and -- and average service life. But it
25 would be the -- the majority of the remaining

1 utilities, yes.

2 MR. BOB PETERS: And on that extensive
3 list of ASL users there would be many hydro-electric
4 utilities, as well?

5 MR. LARRY KENNEDY: There would be.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: Mr. Kennedy, there's
10 one (1) example, and it was also a pre-ask question, in
11 fairness. It was Pre-ask number 2 found again at PUB -
12 - I'm sorry, I've been calling it PUB Exhibit 18; it's
13 Manitoba Hydro Exhibit 18. And I -- it's a binder that
14 Ms. Ramage provided. And it's the same binder that has
15 much of the Pointe du Bois information. I -- I
16 apologize. I mis-referenced it.

17 At -- at the second pre-ask question a
18 similar question was asked in respect of Bipoles 1 and
19 2. And, Mr. Kennedy, you're aware that Manitoba
20 Hydro's capital plans for Bipole 1 and 2 includes
21 spending about \$1.1 billion out to 2032 on the existing

22 HVDV -- MR. DAVE CAUGHILL: system?

23 MR. LARRY KENNEDY: I'm aware there's a
24 very aggressive capital program. I'm not sure if I
25 could quote the number off the top of my head.

1 MR. BOB PETERS: Well, you might have
2 that mixed up with Bipole 3. But -- that was an
3 attempt at humour, Mr. Rainkie.

4 I -- I'm referring, Mr. Kennedy, to the
5 upgrades or whatever on the existing HVDC system, not a
6 new plan -- a new -- a new transmission line.

7 MR. LARRY KENNEDY: So far I'm with
8 you, sir.

9 MR. BOB PETERS: All right. Can you
10 please explain to the Board how these system components
11 and their expenses have been incorporated into the ASL
12 and the ELG-based depreciation rates?

13 MR. LARRY KENNEDY: In the rates that
14 were used, the actual rate itself?

15 MR. BOB PETERS: Yes, sir.

16 MR. LARRY KENNEDY: They were not.

17 MR. BOB PETERS: Okay.

18 MR. LARRY KENNEDY: The -- the fact
19 that there was a program and an indication, that I was
20 aware of, that there was going to be some retirement of
21 the existing assets, that was taken into account in the
22 average service life estimates. So as we developed the
23 life estimates surrounding stations, we -- we were
24 aware of this and we took that as the information, and,
25 quite frankly, very valuable information, that they

1 were used in those life estimations.

2 But in the actual calculation of the --
3 of the rate itself we did not attempt to put the
4 forecast additions and retirements into the rate
5 calculation. But it was definitely -- the knowledge
6 was definitely used in the average service life
7 calculation.

8 MR. BOB PETERS: Is there any
9 difference in the treatment between ASL and ELG with
10 respect to the Bipole 1 and 2 capital upgrades?

11 MR. LARRY KENNEDY: As -- given that
12 the rates were calculated as at March 31st, 2010, no,
13 they would not be. In future years, they definitely
14 will be as these -- these programs come into place and
15 we refresh the ELG rates.

16 MR. BOB PETERS: When we talked of
17 retirements with respect to the Bipoles 1 and 2, you're
18 talking about retirements of certain components of the
19 -- of the system?

20 MR. LARRY KENNEDY: That's correct,
21 sir.

22 MR. BOB PETERS: Okay. I have your
23 point.

24

25

(BRIEF PAUSE)

1 MR. BOB PETERS: Mr. Kennedy, does it
2 follow that if the expenditures on Bipole 1 and 2 were
3 not over \$1 billion out to 2032, that you might have
4 used a different -- a different Iowa curve and come up
5 with a different rate then for Bipole -- Bipoles 1 and
6 2?

7 MR. LARRY KENNEDY: I'm going to need
8 you to repeat the first part of that question, sir.

9 MR. BOB PETERS: What I'm just trying
10 to get -- be clear on is that if Manitoba Hydro does
11 not -- did not plan to spent \$1 billion on refurbishing
12 or upgrading Bipoles 1 and 2, would that have resulted
13 in a different Iowa curve and a different rate used by
14 -- by Gannett Fleming in -- in both the ASL method and
15 the equal life group method?

16 MR. LARRY KENNEDY: Definitely the --
17 the projected future pattern of retirements may have --
18 would have changed, so the Iowa curve's shape may have
19 changed, as well as the average service life may have
20 changed. We -- we definitely took that -- that
21 retirement knowledge, or that knowledge of the upcoming
22 capital programs, into account to provide to us an
23 expectation of -- of the retirement profiles that we
24 need to consider.

25 And -- and I guess then, to -- to

1 complete your question, to the extent that Iowa curve
2 and life estimate may have changed, the -- the rates
3 may have changed, yeah, in conjunction with using that
4 different curve.

5 MR. BOB PETERS: I'm going to tread
6 carefully on this next question, because I think it was
7 asked by my friends opposite. But in the materials
8 before the Board, Gannett Fleming has treated Wuskwatim
9 as -- under average service life methodology and not
10 under equal life group.

11 Is that correct?

12 MR. LARRY KENNEDY: That's correct,
13 sir. I -- I --

14 MR. BOB PETERS: And --

15 MR. LARRY KENNEDY: Go ahead.

16 MR. BOB PETERS: And the -- the primary
17 reason is that there -- there isn't enough data
18 available at this point in time with respect to the
19 Wuskwatim Generating Station?

20 MR. LARRY KENNEDY: That's correct,
21 sir. The -- the -- at the time we actually prepared
22 the -- the rate calculations, I didn't have actual
23 numbers in pocket. And as I mentioned before, the
24 equal life group procedure is very sensitive to the --
25 the weighting of -- of investment. It's very sensitive

1 to the amount of investment. So I felt it to be not
2 appropriate to develop a rate for use starting in 2012
3 using, if you will, a more precise calculation method,
4 being the equal life group procedure, without all the
5 facts and -- and hard dollars in front of me.

6 I, in essence, defaulted back to the
7 more simplistic average service life method, but I'm
8 doing that only with the knowledge and -- and the
9 forewarning to the Board, I guess, that that's only for
10 this period. Once we do the next study and we have
11 that investment by account and we understand that if
12 there's perhaps, you know, subsequent additions or
13 carryover additions into 2013 for cleanup kind of costs
14 and we have the proper vintaging of those costs, we
15 will be using the equal life group at that point.

16 It was just for this first initial
17 period when we didn't have hard dollars in front of us
18 that I suggested the use of the average service life
19 method or procedure.

20 MR. BOB PETERS: And I suppose if I
21 take your answer and go to page 305 of Board counsel's
22 book of documents to probably a textbook that -- that
23 you have in your library perhaps, "The Public Utilities
24 Depreciation Practices," compiled by the National
25 Association of Regulatory Utility Commissioners --

1 MR. LARRY KENNEDY: It's not in my
2 library because it's in my desk. It's on the top of my
3 desk. I -- I refer to it somewhat regularly.

4 MR. BOB PETERS: You need a Christmas
5 gift. I'm sorry, that --

6 MR. LARRY KENNEDY: My wife tells me I
7 need a life, never mind a Christmas gift.

8 MR. BOB PETERS: Mine was an attempt at
9 humour. I hope it was taken that way. But on page 305
10 of Board counsel's book of documents, in the top half
11 of the page, the last paragraph talks about the equal
12 life procedure. And I'll quote:

13 "Therefore, in order to calculate
14 accurate depreciation accruals using
15 the ELG procedure, detailed vintage
16 plan mortality data must be
17 maintained from which future
18 mortality dispersion can be
19 estimated. Without the long term
20 accumulation of data involving large
21 numbers of units within each group,
22 such accuracy may not be obtainable."

23

24 I read that correctly?

25 MR. LARRY KENNEDY: Pretty close

1 anyways, yes.

2 MR. BOB PETERS: And that's exactly
3 what you were trying to tell the Board in -- in your
4 answer when I asked you about why you used ASL, not EL
5 -- ELG, related to Wuskwatim?

6 MR. LARRY KENNEDY: Definitely. I
7 agree with the publication, that the equal life group
8 we see to is much more sensitive to that vintaging,
9 yes.

10 MR. BOB PETERS: And so Gannett Fleming
11 expects that by the time it is retained to do the next
12 depreciation study for Manitoba Hydro, Ms. Hooper will
13 have some of that data available for you?

14 MR. LARRY KENNEDY: I hope so. But we
15 definitely will have audited financial statements that
16 indicate, at least, the cap -- the model of capital
17 investment by vintage starting in 2012 and going
18 forward.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: I took from your
23 second-last answer, Mr. Kennedy, that the ELG procedure
24 is more sensitive to this retirement dispersion curves
25 than would be the ASL procedure?

1 MR. LARRY KENNEDY: That's correct.

2 THE CHAIRPERSON: Can you clarify
3 something for me? I -- I'm -- my brain is imprinted
4 with the example that we looked at initially to
5 understand the difference between the two (2) methods.
6 And now we're seeing examples involving Kettle, for
7 example, in Bipole 1 and 2, where we're getting the
8 opposite effect, where ASL is actually higher than --
9 than the other op -- method. And I'm -- I'm confused.

10 MR. LARRY KENNEDY: It's -- it's
11 partially confused by the fact that we changed not only
12 the equal life group to ASL assumption in those
13 differing rates, we also changed the net salvage
14 assumption. So equal life group alone would have
15 resulted in higher rates, but that's been more than
16 offset but the removal of the net negative salvage from
17 the rates. So it creates a two (2)way street that
18 sometimes becomes very confusing.

19 THE CHAIRPERSON: Yeah. Okay.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: It's possible to take
23 the net salvage value out of the ASL numbers as well,
24 if -- if that was your assignment?

25 MR. LARRY KENNEDY: It is possible,

1 yes.

2 MR. BOB PETERS: Yeah. I want to turn
3 to, perhaps, that issue as my last issue and maybe try
4 to complete it before the break, subject to the
5 decision of the Board.

6 But the fourth change to the
7 depreciation expense, Mr. Rainkie, that you told the
8 Board way back this morning was the removal of asset
9 retirement costs from the depreciation expense,
10 correct?

11 MR. DARREN RAINKIE: That's correct.
12 Upon adoption of IFRS in 2014/'15.

13 MR. BOB PETERS: Yes, and --

14 MR. DARREN RAINKIE: And until we get
15 back grounded and when things are supposed to happen.

16 MR. BOB PETERS: Sorry, I was -- I
17 didn't hear your last sentence.

18 MR. DARREN RAINKIE: Sorry, I just want
19 to make sure that we know what are the impacts in the
20 test years. And -- and I'm always conscious of Mr.
21 Warden indicating that things are still happening out
22 there, in terms of the accounting world. So we have --
23 you know, we'll -- we'll make our final determinations
24 for 2014/'15 when we have a little bit more certainty
25 about what's happening on rate-regulated accounting and

1 other issues. So just trying to get us grounded back,
2 Mr. Peters, to what's happening when.

3 MR. BOB PETERS: Right, and if -- if
4 the IFRS deferral number 3 hadn't been granted, this
5 would be an impact that the Corporation would be
6 looking for the second of the two (2) test years before
7 this Board?

8 MR. DARREN RAINKIE: That's right.
9 That's changed now.

10 MR. BOB PETERS: And -- and just to
11 ground the Board on that point, back at page 278, the
12 removal of asset retirement costs from depreciation is
13 a \$55 million reduction in -- in depreciation expense,
14 Mr. Rainkie?

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

17 MR. BOB PETERS: And I, at least in my
18 copy, have moved it over to the 2015 fiscal year of the
19 Corporation as that's when it may hit the Corporation,
20 depending on what happens between now and then.

21 MR. DARREN RAINKIE: And that's as it
22 is in IFF12, Mr. Peters, yes.

23 MR. BOB PETERS: That reduction of the
24 removal of asset retirement costs from depreciation
25 would be a relatively constant number going forward,

1 Mr. Rainkie?

2

3

(BRIEF PAUSE)

4

5 MR. LARRY KENNEDY: I'm hesitating, and
6 I want to try to be as accurate as possible but as
7 simple as possible here, sir. The easy answer to your
8 question is no, because as you add plant going forward,
9 we apply a rate to plant. Now, if that rate includes a
10 provision for net salvage, there's -- there's a
11 different amount of resultant depreciation expense. So
12 the amount would change.

13 The -- the general impact, i.e. the --
14 the type of magnitude you've seen, was also somewhat
15 variable upon the -- the life of the plant. Obviously,
16 if your -- if your average service life expires and you
17 don't renew that plant, well, then you have some --
18 some changes.

19 So I think the simple answer to your
20 question, sir -- and -- and I'm trying to make this as
21 -- as easy as possible -- is generally yes, but
22 precisely not.

23 MR. BOB PETERS: Currently --
24 currently, with asset retirement costs included in
25 depreciation expense, if there was a hypothetical \$10

1 million asset that had a ten (10) year life but had a
2 \$1 million retirement cost, the entire eleven (11) mil
3 -- had a \$1 million retirement cost, adding that \$1
4 million retirement cost to the asset and getting \$11
5 million, it's the \$11 million you'd -- you'd amortize
6 over the -- the ten (10) year period?

7 MR. LARRY KENNEDY: That's correct,
8 sir.

9 MR. BOB PETERS: And IFRS mandates that
10 going forward, only the \$10 million of the asset's li -
11 - value is to be amortized over the ten (10) years,
12 with the \$1 million retirement cost being charged
13 against the income in -- I suppose in year number 11?

14 MR. LARRY KENNEDY: You're really
15 close, sir. The -- the only change is -- is a couple
16 of options. One (1) is that \$1 million, if it was
17 deemed to be significant and of probable enough cause,
18 the organization could set up a \$1 million asset
19 retirement obligation and -- and deal with it that way.
20 And so -- there -- there's that slight nuance that I --
21 I just wanted to be clear on.

22 MR. BOB PETERS: And I'm maybe not
23 clear on it and probably could benefit from some advice
24 on it, but I won't get it before I open my mouth.

25 But, Mr. Warden, the -- the Brandon

1 Generating Station for which you brought to the Board's
2 attention you have an asset retirement obligation set
3 up -- and I think on note 15 of your financial
4 statements -- there's no actual fund being created for
5 that, is there?

6 MR. VINCE WARDEN: No, that's right.

7 MR. BOB PETERS: So what happens in the
8 year in which the Brandon plant is -- is
9 decommissioned? Where is that \$18 million found?
10 Where does that money come from?

11 MR. VINCE WARDEN: Well, I think we
12 would be -- we -- we have the liability set up on -- on
13 the balance sheet, so it would be a charge against that
14 -- that liability in the year of removal.

15 MR. BOB PETERS: And it would impact on
16 retained earnings? That's where it would --

17 MR. VINCE WARDEN: No, no, it would
18 have no impact on retained earnings at that point. It
19 would have been charged against income each year
20 progressively until that asset is retired.

21 MR. BOB PETERS: Is that what's
22 happening now with Brandon?

23 MR. VINCE WARDEN: Yes.

24

25 (BRIEF PAUSE)

1 MR. LARRY KENNEDY: Mr. Peters, Mr.
2 Warden reminded me of something here that -- it's
3 always good to have more than one (1) of us up here
4 after speaking all day. In your example of that \$1
5 million charge, I suggested one (1) option under IFRS
6 would be to -- to move it -- treat it as an asset
7 retirement obligation.

8 Another method, or another acceptable
9 option under IFRS, is to charge that \$1 million to the
10 cost of the new asset that goes in, in the tenth year.
11 And so it forms part of the capital cost of the new
12 asset at that point in time, or it could, is another
13 option under IFRS and, in fact, is the option that this
14 company is proposing when they adopt IFRS.

15 MR. BOB PETERS: I was actually coming
16 to that. But your answer to me, Mr. Kennedy, only
17 applies if the Utility does in fact continue the asset.
18 But if the Utility discontinues the asset or takes it
19 out of service, then the net salvage would be charged
20 against -- against the -- the income?

21 MR. LARRY KENNEDY: I'll start, and --
22 and maybe one (1) of my colleagues here can correct me.
23 But that -- that's generally true. If the asset is
24 replaced, that becomes an option. If the asset is not
25 replaced or a terminal retirement, then it either needs

1 to go to income or have had an asset retirement
2 obligation set up if it's a -- a material amount.

3 MR. BOB PETERS: Mr. Warden, can you
4 enlighten the Board as to what Manitoba Hydro did when
5 -- maybe it was in the '70s and '80s -- the North
6 Central Transmission Project that came into service
7 probably as late as 2000, put landlines to former
8 diesel communities. What did Manitoba Hydro do with
9 the decommissioning and the salvaging of those diesel -
10 - diesel facilities?

11 MR. VINCE WARDEN: In the case of the
12 North Central Project, there -- there -- first of all,
13 there -- there were a number of salvageable units,
14 diesel units, that had value. And those values were
15 realized by -- by selling those units.

16 With respect to the -- subject to check,
17 Mr. -- Mr. Peters, I would have -- I -- I expect there
18 would have been a provision for net salvage in the
19 depreciation rates, and there would have been a charge
20 against accumulated depreciation for those costs on
21 removal. That would be our normal practice, net -- net
22 of any recoveries from the -- from those units that
23 were sold.

24 MR. BOB PETERS: On page 310 of the
25 book of documents, Mr. Kennedy, you already talked to

1 me about the evidence from Mr. Bowman and the page that
2 was reproduced from him from that evidence. And as
3 Board member Lafond indi -- discussed with you, as
4 well, net salvage was included in -- whether and --
5 asked where net -- net salvage was included or not
6 included in the depreciation rates, the ones for which
7 you provided, except Northwest Territories, have it
8 excluded, correct?

9 MR. LARRY KENNEDY: I'm just going to
10 go down the list, sir, because the circumstance is
11 rather unique to each utility. BC Hydro in -- I think
12 it was '05, the British Columbia Utilities Commission,
13 in essence, turned off the net salvage accrual. They
14 had previously had an account called the FRS, or Future
15 Removal and Site Restoration Account.

16 That stopped being funded as part of
17 that decision. The order was for the -- any
18 dismantlement cost or costs of removal going forward
19 was to draw that account down, after which I think they
20 are mandated to take the -- those of most income.

21 So definitely there's no amounts being
22 charged as part of the depreciation rates. The same
23 story for BC Hy -- BC Transmission Corp.

24 Newfoundland and Labrador Hydro do not
25 include it and, in -- in fact, take the -- the net

1 salvage provisions directly to income. SaskPower does
2 the same; they take the net salvage cost straight to
3 income.

4 Yukon Energy Corp, I think are rolling
5 the costs as part of the cost to the new assets. And
6 I'm sure Mr. Bowman can enlighten us on that at the
7 right time, but I think that's what they're doing.

8 Qullig takes it to income. And
9 Northwest Territory Corp. presently have a fund set up
10 that there's a pause in the funding of it, but there is
11 a fund to which the net salvage removal costs are --
12 are charged against. So I think the answer to your
13 question is none are included in -- in depreciation,
14 but there's a slightly different method for a number of
15 them in terms of how they're dealing with the actual
16 costs.

17 MR. BOB PETERS: Mr. Kennedy, Mr.
18 Warden, and Mr. Rainkie, turning back to page 278, as
19 I've used that chart to make these examples to the
20 Board, at page 278 of the Board counsel book of
21 documents again is the chart with the -- with the
22 numbers.

23 And, Mr. Rainkie, you've made it clear
24 that the \$55 million figure would be pushed over to the
25 2015 fiscal year, subject to the qualifications that

1 Mr. Warden has -- has provided to the Board, correct?

2 MR. DARREN RAINKIE: That's a fair
3 summation, Mr. Peters.

4 MR. BOB PETERS: And, Mr. Kennedy, is
5 there anything that you're aware of that would prevent
6 Manitoba Hydro from early adopting that -- that IFRS
7 adjustment and taking the -- the \$55 million to reduced
8 depreciation expense say as early as 2013 or 2014?

9 MR. LARRY KENNEDY: The -- that becomes
10 a policy decision of the company, and obviously the
11 order of the Board. It would be strongly against my
12 recommendation. I believe in the concept of the
13 recovery of net negative salvage; it's a regulatory
14 construct. However, upon adoption of IFRS it becomes
15 very difficult. And that was the dilemma this company
16 faced; is how do you -- how do you deal with the
17 maintaining one (1) set of books -- the desire to
18 maintain one (1) set of books and still comply with
19 IFRS.

20 As I -- as I characterised this morning,
21 there's a bit of a compromised solution in terms of
22 adding the cost of removal to a replacement asset if,
23 in fact, the assets are replaced. I understand that
24 and I think that makes a lot of sense in the
25 circumstances of this company. If you're not adopting

1 IFRS, that requirement isn't there.

2 So, I think it would be the continuation
3 of the long standing practice of this utility under
4 regulatory accounting without the confines of IFRS to -
5 - to continue to recover those costs. I think absent
6 an overriding considerations such as IFRS, that
7 recovery is appropriate.

8 MR. BOB PETERS: You acknowledge in
9 that answer that this Board could direct that the net -
10 - the removal of asset retirement costs from
11 depreciation could be left in -- in either of the test
12 years or both?

13 MR. LARRY KENNEDY: Not a question of
14 loss, but I think the mords (sic) the master -- the
15 Board is the master of its own destiny in terms of it
16 decides. I -- I would advise against it, but that's --

17 MR. BOB PETERS: And you gave us your
18 reasons and I thank you for that. Could you tell the
19 Board, why would -- why should it be included in rates
20 now when you're going to remove it next year, if it's
21 just a timing issue?

22 MR. LARRY KENNEDY: I don't think it's
23 a timing issue, sir; I think it's a change in policy.
24 And the change in policy is to move to the inclusion of
25 those retirement costs in the -- the cost of the

1 replacement asset. That -- that's -- that's a
2 significant change in -- in the manner in which you
3 deal with a -- a fairly large cost. I think it's
4 appropriate in the circumstances at this company, but
5 it's appropriate when you need to do it and for an
6 overriding reason.

7 I don't think it's appropriate to say,
8 Gee, we have an opportunity to reduce the -- the
9 revenue required by \$50 million so let's just strip the
10 net negative salvage out without any -- any benefit of
11 -- of doing something other.

12 MR. BOB PETERS: Is -- is there is a
13 court -- I'm sorry, I didn't mean to cut you --

14 MR. LARRY KENNEDY: No, no I'm -- I'm --
15 - I just -- and I just want to be clear that the -- the
16 construct, it's been long standing, it's widely held in
17 regulatory circles, that net negative salvage costs are
18 part of the total cost of ownership of an asset and
19 ought to be recovered over the toll-payers that -- that
20 have the benefit of the service of those assets. And
21 so absent an overriding constraint, I still believe in
22 that principle.

23 MR. BOB PETERS: But it's IFRS that
24 requires it to be removed from depreciation expense?

25 MR. LARRY KENNEDY: Yes, and that's why

1 I think the timing of removal of that out of the
2 depreciation expense -- to remove it ought to be timed
3 with the implementation of the IFRS.

4 MR. BOB PETERS: IFRS can be adopted
5 early?

6 MR. LARRY KENNEDY: Now you're into a
7 company decision and -- and that's --

8 MR. BOB PETERS: I appreciate that.
9 Mr. Kennedy -- I'm sorry.

10 MR. DARREN RAINKIE: Mr. Peters, if
11 IFRS can be adopted early, I suppose we could adopt
12 expensing more overhead cost early, as well. So, I
13 mean, obviously the company has been trying to look at
14 -- there's some major changes coming in the accounting
15 world and we've been trying to manage it on an overall
16 basis. We're not trying to cherry pick one (1) piece
17 over the other. I mean, we could adopt ELG early as
18 well, if we wanted to

19 So, you know, we are obviously
20 maintaining the methodologies that we have in the test
21 years that are currently in front of the Board. We're
22 monitoring the situation with, you know, the gyrations
23 of the International Accounting Standards Board. We
24 will -- when those deliberations are done, we'll look
25 at both finan -- what we want to do under financial

1 accounting and rate-setting and make a proposal to the
2 Board. But we're not -- our proposals really are not
3 cherry picking one (1) or the other, we're just looking
4 at what we need to do and -- and looking at it from an
5 overall perspective.

6 So I just wanted to -- we start talking
7 about an early adopting IFRS; I don't think you can
8 early adopt one (1) little part of IFRS and leave
9 another off. I -- I just -- that's not going to work
10 for us.

11 MR. VINCE WARDEN: And just to add to
12 that, Mr. Peters; if we were to say, Oh, let's take
13 advantage of the net salvage value and pass that on to
14 ratepayers, the would be -- as Mr. Kennedy indicated,
15 that would be -- absent the implementation of IFRS,
16 that would be considered a change in accounting policy,
17 and we would have to retroactively restate Manitoba
18 Hydros accounts for a -- for a number of years to -- to
19 reflect that which would -- would cause us extreme
20 difficulty, and I would highly advise against that.

21 THE CHAIRPERSON: Does that hold --

22 MR. BOB PETERS: Mr. Kennedy --

23 THE CHAIRPERSON: Does that necessarily
24 hold true? I mean, frankly, you could continue to
25 issue statements according to GAAP and you could give

1 us statements that reflect, you know, reflect the
2 salvation in costs that we would then use to salvage
3 rates. I mean, that's how the other jurisdictions do
4 it, right? They don't necessarily modify their
5 financial statements to -- to do the calculations for
6 rate-setting purposes.

7 MR. VINCE WARDEN: So you're suggesting
8 we use a different methodology for rate --

9 THE CHAIRPERSON: I'm -- I'm say -- I'm
10 simply suggesting that other jurisdictions, their --
11 their regulator will ask for separate statements that
12 reflect the calculations it needs to use to establish
13 rates. So, you know, you still issue your statements,
14 your financial statements based on GAAP. But for rate-
15 setting purposes, you would basically go through some
16 other calculations to establish what the rates should
17 be based on -- on a separate set of calculations.

18 MR. VINCE WARDEN: We absolutely could
19 do that. But to the extent that it resulted in a
20 different rate -- or, revenue requirement than what
21 we're asking for, it could very well mean we'd be
22 booking losses in our financial statements --

23 THE CHAIRPERSON: Yeah.

24 MR. VINCE WARDEN: -- that would not be
25 pleasant.

1 THE CHAIRPERSON: I think that's the
2 elephant in the room, right? It's the loss that would
3 result if you were to -- if the -- the steps I'm
4 describing result in lower rates and consequently
5 revenue is decreased and you're booking a loss on a
6 financial statement, yeah, that -- I mean, that's the
7 elephant in the room.

8 MR. DARREN RAINKIE: Mr. Chairman, just
9 one (1) other point to that. A lot of the other
10 utilities have moved to US GAAP, and it's not all about
11 their customers. It's -- it's to maintain -- and this
12 is in their applications to the regulators. They've
13 asked to maintain the same accounting principles for
14 accounting and for rate setting.

15 So one (1) of the prime reasons a lot of
16 the utilities have moved to US GAAP is to maintain --
17 not to maintain two (2) sets of books, but to maintain
18 one (1) -- one (1) set of books.

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: One (1) of my last
22 questions then, Mr. Kennedy, is to go back to an answer
23 you gave me a few minutes ago, where you -- you said
24 that -- you talked about the policy issues, and we've
25 now heard from Mr. Rainkie and Mr. Warden on those

1 matters.

2 But one (1) of the consequences would be
3 that the net salvage value would have to be included in
4 the cost of the replacement asset, if I noted you
5 correctly.

6 MR. LARRY KENNEDY: I think your two
7 (2) choices would be to put it into the cost of the
8 replacement assets or take it against the income
9 statement. I'm thinking the -- putting it in the cost
10 of the replacement assets is likely where the Company
11 would consider going. I -- that -- that again would be
12 a policy decision, in terms of how they'd implement
13 that. But that would make a lot of sense to me.

14 MR. BOB PETERS: Are you aware of any
15 net salvage costs that would have to be charged to
16 either the cost of the replacement asset or to net
17 income in the next few years?

18 MR. LARRY KENNEDY: I haven't looked at
19 that, Mr. Peters, to -- to give you an answer. There -
20 - there'd probably be some minor costs, for sure, but I
21 have -- that's -- that's not a -- a study or an
22 investigation I've made yet.

23 MR. RAYMOND LAFOND: Can I --

24 MR. BOB PETERS: Yes.

25 MR. RAYMOND LAFOND: The thing is, yes,

1 it can be capitalized with the replacement costs or
2 project or taken to income, but taken to income in the
3 year of the commissioning or over a period like now is
4 being set up through a deferred account or a liability
5 account. So it is to income, but it could be over a
6 period of twenty (20), thirty (30), fifty (50) years,
7 rather than just in -- at the time of decommissioning.

8 MR. LARRY KENNEDY: You're correct,
9 Board member Lafond. The -- the current approach is
10 really to take it to income over the life of the asset.
11 The -- so, yes, my -- my characterization of taking it
12 to income is -- isn't one (1) shot at the -- at the
13 time of decommissioning.

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Well, I haven't heard
17 Ms. Ramage's closing submissions on this, Mr. Warden.
18 Manitoba Hydro is not -- not yet asking for a decision
19 from this Board on ELG necessarily or negative salvage,
20 but you've indicated a few times that there may be a
21 proposal coming in the next GRA?

22 MR. VINCE WARDEN: Yes. Assuming that
23 we do adopt IFRS effective April the 1st, 2014, that
24 would be incorporated in our appli -- next application.

25 MR. BOB PETERS: I promise, my last

1 area of questioning before I'll request the recess.
2 We've talked about -- and I've used page 278 with its
3 numbers.

4 But sitting here, Mr. Rainkie and Mr.
5 Warden, has the Corporation considered what impact
6 those changes have on the Cost of Service Study that
7 this Board is going to review in 2013?

8

9 (BRIEF PAUSE)

10

11 MR. VINCE WARDEN: We'll give that some
12 thought over the break, Mr. Peters.

13 MR. BOB PETERS: Certainly. And with
14 that, Mr. Chairman, I'll take this opportunity to thank
15 Mr. Kennedy. And I'll stand down, but Mr. Warden
16 won't.

17 MR. VINCE WARDEN: Yeah, I just had one
18 (1) further comment I wanted to make with respect to --
19 and I -- and I don't know whether this matters to the
20 discussion or not.

21 But with respect to your question on the
22 North Central project, Mr. Peters, I -- I thought
23 further about that. And actually, the North Central
24 project was funded 75 percent by the federal
25 government, 15 percent province, 10 percent Manitoba

1 Hydro. So if there are any costs incurred as a result
2 of the early retirement of those assets, it would have
3 been picked up under that agreement.

4 MR. BOB PETERS: Did -- did -- well,
5 always a question for a question. But who took the
6 depreciation hit on that? Would it have been -- would
7 the depreciation of those assets be on Manitoba Hydro's
8 books only to 10 percent, or is Manitoba Hydro claiming
9 all of the depreciation expense on the North Central
10 expenditures?

11 MR. VINCE WARDEN: Well, the net cost -
12 - any net costs that would have resulted from that
13 project would have been shared in the propor -- in
14 those proportions.

15 MR. RAYMOND LAFOND: I -- I need to get
16 -- that project, would it have been cap -- I mean, if
17 you did it today, you would have to capitalize at 100
18 percent and set up a -- a liability or a deferred
19 account for the revenue, to offset it against 100
20 percent of the depreciation of the -- like the total
21 cost of the project?

22 But I'm just wondering when it happened
23 and how did you account for it?

24 MR. VINCE WARDEN: So we would have --
25 the -- the costs of the North Central project, which,

1 as I recall, were about \$135 million, would have been
2 funded 75 percent by the federal government. And that
3 would have been a contribution which would have reduced
4 the -- the net investment. Manitoba Hydro would be
5 depreciating the net investment over -- over the life
6 of that project -- the estimated life of the -- of the
7 project -- of the assets.

8 MR. RAYMOND LAFOND: Because the monies
9 you received from the federal government and the
10 provincial government would have been in the form of a
11 grant or a contribution towards the costs?

12 MR. VINCE WARDEN: It would've been
13 cash. So that would have offset the actual cash outlay
14 that we would have incurred.

15 MR. RAYMOND LAFOND: Which year is this
16 -- this occurring?

17 MR. VINCE WARDEN: That would have been
18 in 1992/'93, in that time frame.

19 MR. RAYMOND LAFOND: I understand.
20 Because I think today we'd have to account 100 percent
21 of the cost on the books with a deferred account for
22 con -- and -- and then full depreciation amount offset
23 by the amount of revenue being accrued -- that had been
24 accrued.

25 MR. VINCE WARDEN: In effect, that's

1 what we did, yeah.

2 THE CHAIRPERSON: Okay, before anybody
3 else asks a question, let's adjourn. Let's take ten
4 (10).

5

6 --- Upon recessing at 3:05 p.m.

7 --- Upon resuming at 3:21 p.m.

8

9 THE CHAIRPERSON: So I think we're
10 ready to resume proceedings now. I wonder if there's
11 any matters to attend to before we -- I ask Mr.
12 Williams to start his work?

13 MS. PATTI RAMAGE: Yes, Ms. Fernandes
14 is just circulating some more responses to
15 undertakings, so.

16

17 (BRIEF PAUSE)

18

19 MS. PATTI RAMAGE: Okay. The -- the
20 first of the documents that have been distributed is,
21 for the record, Manitoba Hydro Undertaking number 10,
22 found at transcript page 863. It is an explanation as
23 to what was driving the annual increase of 8.9 percent
24 in energy consumption from 1998 through 2003 in the
25 residential market, as well as why it was flat in the

1 last five (5) years. I'd suggest that be marked as
2 Exhibit Manitoba Hydro 30.

3

4 --- EXHIBIT NO. MH-30: Response to Undertaking 10

5

6 MS. PATTI RAMAGE: The next document is
7 Manitoba Hydro Undertaking number 2, which is found at
8 transcript page 607 through 608. It is a comparison of
9 the price of natural gas to the peak and off-peak of
10 electricity for each day in the last year. I'm
11 suggesting that be marked Manitoba Hydro Exhibit 31.

12

13 --- EXHIBIT NO. MH-31: Response to Undertaking 2

14

15 MS. PATTI RAMAGE: Now, the next two
16 (2) I may require some -- oh, I'm sorry, there is
17 another one here before I get to the next two (2). And
18 that's Manitoba Hydro Undertaking 13 at transcript page
19 934. And that's the calculations with respect to
20 annual space heating costs of eleven hundred and fifty-
21 two dollars (\$1,152) for electricity and five hundred
22 and seventy-five dollars (\$575) for natural gas, as
23 well as calculations with respect to the water heating
24 cost for electricity and natural gas at the prices
25 indicated. And that should be Manitoba Hydro Exhibit

1 32.

2

3 --- EXHIBIT NO. MH-32: Response to Undertaking 13

4

5 MS. PATTI RAMAGE: The next document in
6 the package is a revised response to Information
7 Request MIPUG/Manitoba Hydro First Round 15P. And
8 that's an update regarding depreciation expenses for
9 actuals and forecasts through 2013/'14.

10

11 (BRIEF PAUSE)

12

13 MS. PATTI RAMAGE: This response would
14 be one (1) of the revisions based on IFF12. So I don't
15 believe Mr. Singh has been assigning these exhibit
16 numbers. They've just been going into the -- into the
17 binders at the appropriate space. So that can just go
18 into the MIPUG -- the binder to update that response.

19 Then the next document is again one that
20 won't be assigned an exhibit number. It is
21 PUB/Manitoba Hydro Pre-ask 2 revised. This is the
22 question regarding Bipole 1 and 2 and the twenty (20)
23 year spreadsheet. And this was a question dealing --
24 this was just a calculation correction. It was, I
25 believe, pointed out by MIPUG that there had been --

1 been an addition error. So this corrected -- corrects
2 that and should replace the former Pre-ask 2.

3 MR. BOB PETERS: And that would be, Mr.
4 Chairman, in the binder that has been marked as
5 Manitoba Hydro Exhibit 18. And it has the pre-ask
6 questions from the PUB. Again, the volume of the
7 materials was weighted for the Pointe du Bois, but
8 that's where the Board will find space for this to
9 replace the previous one.

10 MR. BYRON WILLIAMS: Mr. Chair, I -- I
11 hesitate to interrupt My Learned Friend, Ms. Ramage.
12 But if I could, just for clarification, with your
13 permission, pri -- prior to PUB Pre-ask number 2
14 revised, Ms. Ramage, I -- I believe you made reference
15 to a revised response to MIPUG.

16 MS. PATTI RAMAGE: Yes.

17 MR. BYRON WILLIAMS: And -- okay. We -
18 - we found it. It was in a different order in our
19 document. I apologize for that.

20 MS. PATTI RAMAGE: And then lastly we
21 have a CAC pre-ask. It's CAC/Manitoba Hydro Pre-ask 1.
22 And that would be inserted into the smaller binder that
23 was distributed. It's the Intervenor pre-ask binder.
24 And it, again, would not be assigned a separate exhibit
25 number.

1

2

(BRIEF PAUSE)

3

4

MS. PATTI RAMAGE: For those attempting
5 to organize their binders right now, that would just be
6 the very last page of that Intervenor pre-ask binder.

7

8

(BRIEF PAUSE)

9

10

MS. PATTI RAMAGE: And that is all of
11 the documents Manitoba Hydro has to distribute at this
12 juncture.

13

THE CHAIRPERSON: I seem to have
14 another one here which is the MIPUG/MH -- Manitoba
15 Hydro 1-15. Is that for a later...

16

MS. PATTI RAMAGE: No, that is the one
17 that is just to go into your IR binder. It would be in
18 --

19

THE CHAIRPERSON: Okay.

20

MS. PATTI RAMAGE: -- First Round IR
21 bond -- binder. It'll go into Volume VII of your
22 binders and replace -- or it's to supplement that
23 answer to update it for IFF12.

24

25

(BRIEF PAUSE)

1 MR. BOB PETERS: Mr. Chairman, I
2 appreciate everybody is with a flurry of papers. The
3 reason for my asking for the Board's attention on this
4 matter is that at pages 295 and 296 and 294 of Board
5 counsel's book of documents is the old MIPUG/Manitoba
6 Hydro First Round 15P.

7 So you will have seen this before, but
8 it's been -- it's been updated to -- to do what I think
9 Mr. Rainkie told us in his oral evidence; of moving the
10 equal life group adjustment off to 2015, and, likewise,
11 the net salvage reduction numbers, move that over to
12 2015. And I think that's probably the only significant
13 changes on that schedule, subject to Mr. Rainkie's
14 comments.

15 MR. DARREN RAINKIE: Yes, those are the
16 major changes, Mr. Peters.

17

18 (BRIEF PAUSE)

19

20 THE CHAIRPERSON: I think we've
21 completed the -- have we completed the -- the document?

22 MR. BOB PETERS: Yes, we have, sir.

23 THE CHAIRPERSON: Yes. Okay. I guess
24 Mr. Williams, please?

25 MR. BYRON WILLIAMS: Yes. And just for

1 the Board, earlier this morning we had kind of a
2 haphazard distribution of CAC Exhibit 5, which is the
3 one that Mr. Kennedy referred to in terms of Iowa
4 curves. And the other document, which we would ask be
5 marked as CAC Exhibit 6, is a report, or an excerpt of
6 a report, by Kinectrics titled "Asset Depreciation
7 Study for the Ontario Energy Board." I did provide a
8 copy of this to -- to my -- to Manitoba Hydro
9 yesterday. I'm not sure it made its way to Mr. Kennedy
10 till -- till today, but my understanding is that Hydro
11 may have some comments, but they're not objecting to
12 its admission as an exhibit.

13 MS. PATTI RAMAGE: Yes, Mr. Williams is
14 correct. We're not objecting to its admission; we just
15 bring to the Board's attention that it's not a document
16 that our Manitoba Hydro witnesses are familiar with.

17 Mr. Kennedy has seen it before. I'm not
18 sure of his degree of -- of knowledge of it, as he was
19 not one (1) of the people who prepared it, but he's
20 certainly willing to answer questions, to the best of
21 his ability.

22 MR. BYRON WILLIAMS: And on behalf of
23 CAC (Manitoba), Mr. Chair and members of the panel, we
24 -- we thank Manitoba Hydro for their consideration.

25

1 --- EXHIBIT NO. CAC-6: Excerpt of a report by
2 Kinectrics titled "Asset
3 Depreciation Study for the
4 Ontario Energy Board"

5

6 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

7 MR. BYRON WILLIAMS: And I'm always
8 hesitant to offer compliments, either to My Friend Mr.
9 Peters, or to Mr. Rainkie and Mr. Kennedy for fear --
10 certainly in the case of Mr. Peters -- that it may
11 inflate his -- his already material ego. But I do want
12 to note, first of all, that Ms. Desorcy is -- is here
13 and -- on behalf of CAC (Manitoba) and has sat through
14 much of the afternoon, which she described to me as not
15 just interesting, but very interesting, so -- which
16 leads me to question some of the instructions I get
17 from my client.

18 But, Mr. Kennedy, let's start with that.
19 When's the last time your depreciation studies were
20 called "very interesting," sir?

21 MR. LARRY KENNEDY: Well, I like to
22 think that we can make them at least a little bit
23 exciting. I -- I had a client one time tell me that I
24 can -- I have somehow an ability to explain certain
25 concepts and that -- that can take a boring subject and

1 at least make them no more than mundane, at least.

2 MR. BYRON WILLIAMS: Well, Mr. Kennedy,
3 I -- I hate to start off on an adversarial note and
4 impeach you already, but certainly in your direct
5 evidence this morning -- I'm teasing, sir -- the -- I
6 believe you -- you -- and without asking you to
7 elaborate, in describing normal depreciation studies
8 you said that -- or you said some -- words to the
9 affect that normally -- normally depreciation studies
10 are "relatively routine".

11 You -- do -- you recall words to that
12 affect, sir?

13 MR. LARRY KENNEDY: Certainly. I think
14 my words were that normally depreciation studies
15 conducted on behalf of clients, or long standing
16 clients to whom I've done previous studies, are more
17 routine in -- in terms of the types of things we have
18 to look at.

19 MR. BYRON WILLIAMS: And, certainly,
20 sir, would it be fair to say that in -- in the context
21 of this particular study conducted for Manitoba Hydro
22 in the period between 2 -- 2009 and 2011, involving as
23 it did issues such as increased componentization, ELG
24 versus ASL, net salvage, would it be fair to say, sir,
25 that this study would be far from routine?

1 MR. LARRY KENNEDY: That's correct,
2 sir. This -- this study was -- as have a few studies
3 as we've entered into this realm of the International
4 Financial Reporting Standards have -- have taken a
5 different tone and it's allowed us to -- guys like me
6 that could do these routine studies to -- to have an
7 opportunity to -- to delve into some areas we often
8 haven't. And so, yeah, this is definitely not routine,
9 and we've got a lot of issues. We've got into some
10 policy discussions that, quite frankly, is -- gets the
11 juices flowing a little bit in terms of thinking and --
12 and that type thing, so.

13 MR. BYRON WILLIAMS: Okay. I thank you
14 for that, sir. And I -- I don't -- certainly don't
15 want to go over ground that My Friend, Mr. Peters, has
16 covered in any great -- great detail but if I were to
17 compare the 2005 depreciation study conducted for your
18 long time client Manitoba Hydro, versus Gannett
19 Fleming's most recent effort, I would ask you to
20 confirm, without elaborating, that one significant
21 difference would be the degree of componentization.
22 Agreed?

23 MR. LARRY KENNEDY: Oh, definitely.
24 The -- the componentization was looked at in -- over a
25 period of over a year it took.

1 MR. BYRON WILLIAMS: And in terms of
2 componentization, that would be particularly detailed
3 with regard to generation and distribution assets?
4 Fair enough?

5 MR. LARRY KENNEDY: I think substation
6 and communication received a fair bit of attention, as
7 well.

8 MR. BYRON WILLIAMS: And, Mr. Kennedy,
9 you don't need to, but if you're flipping around in
10 CAC-5, I'm -- I'm -- I am kind of directing your
11 attention to page 3, marked in the top right-hand
12 corner. Hand written. Not my handwriting.

13 Wha -- in terms of componentization,
14 would it be fair to say that -- that Hydro has
15 developed a significant number of new accounts,
16 particularly with regard to electric generation?

17 MR. LARRY KENNEDY: I'd say so. We --
18 we added a number of new accounts. We've added more
19 accounts in some utilities, but definitely we spent a
20 significant amount of time analyzing -- and added a
21 number of new accounts. I, at one time, had a mentor
22 that often warned me about using the words like
23 "significant" because I'm going to get crossed on them,
24 and I got a feeling it's going to come to fruition
25 here.

1 MR. BYRON WILLIAMS: Not yet, sir, but
2 -- but the word "significant" were -- were your words
3 agreed?

4 MR. LARRY KENNEDY: That is correct,
5 sir.

6 MR. BYRON WILLIAMS: And there's been a
7 lot of reference to the indomitable -- I believe it's
8 Ms. Hooper, is that -- I'm not sure the word
9 "indomitable" was used but you know of whom I speak?

10 MR. LARRY KENNEDY: I know her very
11 well.

12 MR. BYRON WILLIAMS: And it's fair to
13 say that, as part of the development of new accounts,
14 the company went to extensive eff -- efforts in
15 recreating a database of aged plant accounts -- age
16 plant -- excuse me, recreated a database of aged plant
17 accounting retirements and balances, agreed?

18 MR. LARRY KENNEDY: That's correct,
19 sir.

20 MR. BYRON WILLIAMS: I want to back
21 away from generation for a second, Mr. Kennedy, and of
22 course we'll come back to it at a -- at a later date.

23 But staying with the comparison of the
24 two (2) most recent depreciation studies conducted for
25 your long-term client, would it be fair to say that

1 another material difference be -- between the -- the
2 two (2) studies is that in terms of areas such as
3 distribution, there is more reliance on operational
4 information and perhaps less reliance on statistically
5 developed asset lives, sir?

6 MR. LARRY KENNEDY: I think in the
7 circumstances of at least a number of distribution
8 accounts, you know, we -- we did place a very large
9 reliance on the opinions of the operational staff.
10 Interestingly enough, at the same time we were doing
11 componentization, or the review of componentization,
12 the -- the Company was undertaking some reviews on what
13 do they do with their aging infrastructure, and how do
14 they handle that?

15 So there was a lot of people within
16 their organization that -- that had some interesting
17 opinions about the age of the plant, how it's going to
18 live, how it's going to last, how it's going to be
19 replaced. And that -- that provided us with some
20 useful information. And definitely that became another
21 tool in our toolbox upon which we could rely.

22 MR. BYRON WILLIAMS: And so without --
23 without getting in too far into asset management
24 methodologies and -- and what the Corporation is doing
25 -- I'll leave that for another discussion with the

1 Corporation -- you're pointing to a happy synergy
2 between your -- that -- in -- in the fact that your
3 depreciation study was ongoing at the time that the --
4 the Corporation was examining some of its assets for
5 the -- the purposes of asset management, agreed?

6 MR. LARRY KENNEDY: Yeah, I don't know
7 if the word "synergy" is the one I would use, but it
8 was a happy -- happy circumstance, definitely, that --
9 that we had people thinking about the -- the concept of
10 life and how different assets live at the same time
11 that we were looking at, how do we componentize and how
12 do we make this company compliant with IFRS.

13 MR. BYRON WILLIAMS: And when you refer
14 to different accounts within distribution, you -- in --
15 in particular, I presume, you're referring to ones such
16 as poles and fixtures, agreed?

17 MR. LARRY KENNEDY: Agreed. That was
18 an account that we -- we spent some time analyzing
19 specifically, because we got different statistical
20 results than we did indications from the operating
21 staff, in terms of their expected life estimates.

22 MR. BYRON WILLIAMS: And we'll come to
23 that and -- and we'll fully explore that in -- in just
24 a few minutes. But in terms of the increased
25 operational information available -- and this may go to

1 Mr. Rainkie, or it may go to you.

2 In terms of poles and fixtures, one (1)
3 opportunity or one (1) -- one (1) positive aspect was
4 the -- in terms of poles and fixtures was the
5 introduction of bar coding with -- in -- in terms of
6 tracking poles and fixtures, agreed?

7 MR. LARRY KENNEDY: I think utilities
8 Canada wide -- I -- I hesitate to say North American
9 wide -- have implemented various types of pole-tracking
10 mechanisms. Bar coding is one of them; tagging's
11 another. I mean -- but, yeah, definitely the invent --
12 the inventorying and tracking of -- of pole
13 characteristics has -- has been very helpful for guys
14 like us doing studies.

15 MR. BYRON WILLIAMS: And, Mr. Rainkie,
16 just to this -- if you can go to page 2 of CAC Exhibit
17 5, which is, you'll see, is an excerpt from Appendix
18 5.7. Do you have that, sir?

19 MR. DARREN RAINKIE: I do.

20 MR. BYRON WILLIAMS: And in that first
21 -- it's page 2 of -- towards the top of -- of page 2 of
22 CAC Exhibit 5 is a -- a suggestion that the extension
23 in estim -- and I'm not going to ask you to elaborate
24 to a great degree.

25 But one of the factors in -- in terms of

1 the extension and estimated service lives for poles and
2 fixtures flowed from the introduction of bar coding.

3 Do you see that reference, sir?

4 MR. DARREN RAINKIE: Yes, I do.

5 MR. BYRON WILLIAMS: And can you intr -
6 - indicate to -- to my client and to the pa -- the
7 Board when that was introduced, in terms of poles, sir?

8

9 (BRIEF PAUSE)

10

11 MR. DARREN RAINKIE: I forget what the
12 adject -- adjective was, but Ms. Hooper --

13 MR. BYRON WILLIAMS: Indomitable.

14 MR. DARREN RAINKIE: Indomitable. Is
15 there an expression, right-hand woman? I don't know,
16 but certainly as it relates to depreciation, there is
17 for me anyway. I think she's -- she indicated -- and
18 Mr. Hall is in the back room; he might be able to
19 elaborate -- that they've been working on this for five
20 (5) years, Mi -- Mr. Williams. So it's been a
21 significant undertaking. I know there is a
22 distribution report somewhere on the -- on the record,
23 as well, that may -- I think, that may further
24 elaborate on that.

25 MR. BYRON WILLIAMS: So it's been

1 within the last five (5) years, sir?

2 MR. DARREN RAINKIE: That's our
3 understanding, yes, Mr. Williams.

4 MR. BYRON WILLIAMS: And it looks like
5 I may have a modest carryover into tomorrow time-wise,
6 so I may -- I may have -- a had a couple questions, in
7 terms of how many poles have been coded. But perhaps
8 I'll check in -- I'll recheck that report. And then
9 we'll explore that tomorrow morning.

10 Mr. -- and we'll -- we'll -- I'll come
11 back to that tomorrow morning, sir. Mr. Rainkie -- and
12 I don't mean to keep Mr. Hall too busy either. But
13 certainly in -- in terms of operational changes that --
14 that perhaps may allow the estimated service lives --
15 lives for poles and fixtures to be extended, one (1)
16 would be -- one (1) would be enhancements in the use of
17 pole preservatives.

18 Would that be right, sir?

19 MR. DARREN RAINKIE: That's right.
20 We've summarized that on the page that you had
21 indicated, Mr. Williams.

22 MR. BYRON WILLIAMS: And about when
23 would that have been initiated, sir?

24 MS. PATTI RAMAGE: Mr. Williams, do you
25 have a number of questions in this area? Because we

1 have Mr. Hall in the back row. He has been sworn. And
2 it'll avoid having to turn to Mr. Hall.

3 MR. BYRON WILLIAMS: It's fab -- I only
4 have one (1) or two (2) right now. I may have more
5 tomorrow though.

6

7 JAMES HALL, Resumed

8

9 CONTINUED BY MR. BYRON WILLIAMS:

10 MR. BYRON WILLIAMS: Mr. Hall, welcome.

11

12 MR. JAMES HALL: Thank you.

13 MR. BYRON WILLIAMS: And Mr. -- perhaps
14 to -- Mr. Hall, just let's go back to bar coding for a
15 second. When was it introduced, sir?

16 MR. JAMES HALL: It was in -- within
17 the last five (5) years that we've been...

18 MR. BYRON WILLIAMS: And percentage-
19 wise, roughly -- roughly how many poles have been --
20 have been -- had bar codes implanted?

21 MR. JAMES HALL: Presently, over 90
22 percent.

23 MR. BYRON WILLIAMS: That's of the
24 total population, sir?

25 MR. JAMES HALL: Yes.

1 MR. BYRON WILLIAMS: And in terms of
2 the enhancement in the use of pole preservatives, when
3 did -- when can we date that to, sir?

4 MR. JAMES HALL: That's a little more
5 difficult. We do different treatments on poles, and
6 some may be characterized as -- as preservatives. But
7 two (2) types of preservatives we think of is when we
8 purchase the poles and the preservatives that were
9 used. And in the -- probably in the late 1980s we
10 started using the -- the CCA-treated poles. So those -
11 - that might be what you're referring to, in terms of
12 the -- the change in preservatives.

13 MR. BYRON WILLIAMS: Mr. Hall, in the
14 period since 2005, what, if any, additional
15 technologies, at a general level, have been put in
16 place that may have resulted in extended service for --
17 for poles and fixtures, sir?

18 MR. JAMES HALL: I don't think we've
19 introduced any new approaches since 2005.

20 MR. BYRON WILLIAMS: Mr. Hall, I
21 believe you can be excused. But just before you do,
22 maybe I'll ask one (1) more question. And I think it
23 goes to Mr. Rainkie, but I -- I don't want to have you
24 coming back and forth.

25 Going back to Ms. Hooper, Mr. Rainkie,

1 and her recreation of the database of each plant
2 accounting, retirements, and balances, leaving aside
3 any costs associated with Mr. Kennedy, does the
4 Corporation have an estimate of -- of the internal
5 costs associated with that recreation of the database?

6 MR. DARREN RAINKIE: Mr. Williams,
7 we've been tracking our IFRS implementation costs, but
8 I don't think we've segregated that particular portion
9 of it although, as we did indicate earlier, that --
10 that work has been ongoing for two (2) years. So it's
11 not a -- it isn't an insignificant work effort.

12 MR. BYRON WILLIAMS: You used the words
13 "not insignificant". So -- so, Mr. Rainkie, are -- are
14 you suggesting to me it's -- it's more than five
15 hundred thousand dollars (\$500,000), speaking
16 specifically, sir, of the recreation of the -- of the
17 database?

18

19 (BRIEF PAUSE)

20

21 MR. DARREN RAINKIE: Looks like you're
22 a better estimator than I am on the fly, Mr. Williams.
23 I think we've had up to five (5) -- five (5) people
24 working on this for a year and a half. So, as I said
25 before, keep in mind we have \$14 billion worth of plant

1 and it is a huge effort.

2 And, you know, it's not only the -- the
3 creation of the original information, of course, that
4 was used to do the study, but you have to maintain this
5 on an ongoing basis. Like we break down all of our
6 capital projects into components as well. So it's not
7 just the one (1) time putting this together. It's the
8 ongoing maintenance of it is another dimension of it as
9 well.

10 MR. BYRON WILLIAMS: And I thank you
11 for that, Mr. Rainkie. But just numerically, in terms
12 of the recreation of the database --

13 MR. DARREN RAINKIE: Let's go with your
14 five hundred thousand dollar (\$500,000) figure. Just
15 looking at the number of EFTs in the period of time,
16 it's probably not too far off.

17 MR. BYRON WILLIAMS: Thank you for
18 that, sir. And, Mr. Kennedy, just a couple of small
19 points. If you turn to page 4 of CAC Exhibit 5, I'm --
20 I'm going to ask you to accept, subject to check, that
21 this is an excerpt from your 2005 study, page 1-4?

22 Are you prepared to accept that, sir?

23 MR. LARRY KENNEDY: Yes, subject to
24 check. It appears to be from the '05 study.

25 MR. BYRON WILLIAMS: And again, a small

1 point, sir, but at that period in time, it appears that
2 your advice to Manitoba Hydro was that complete
3 depreciation studies should be performed every three
4 (3) to five (5) years.

5 Would that be consistent with your
6 recollection, sir?

7 MR. LARRY KENNEDY: Sorry. That --
8 that is. That's a recommendation that we make for
9 utilities of this size that in that period of three (3)
10 to five (5) years there -- there's sufficient plant
11 activity indications that -- that would require a
12 reevaluation of the service lives.

13 MR. BYRON WILLIAMS: And, sir, just
14 directing your attention to the -- the next page of CAC
15 Exhibit 5, page 5, you'll agree, subject to check, that
16 this is a -- an excerpt from your 2010/2011 report?

17 MR. LARRY KENNEDY: That's correct.

18 MR. BYRON WILLIAMS: And there, sir, a
19 small point, but you -- you see that -- a suggestion
20 that the depreciation rate should be reviewed
21 periodically.

22 Do you see that, sir?

23 MR. LARRY KENNEDY: I do, sir.

24 MR. BYRON WILLIAMS: And, sir, just in
25 terms of -- when you use the word "periodically" here,

1 are you staying with that same perspective, three (3)
2 to five (5) years, sir?

3 MR. LARRY KENNEDY: The -- the change
4 may appear small, but it was made for a very important
5 reason.

6 MR. BYRON WILLIAMS: I thought it might
7 be, sir.

8 MR. LARRY KENNEDY: The introduction of
9 the International Financial Reporting Standards
10 specifically indicate that utilities should review
11 their average -- average service life estimates
12 annually. Now, I think that's overkill. I think the
13 people in the position of Mr. Warden and Mr. Rainkie
14 can so decide on an annual basis if there was any major
15 retirement programs that may stimulate a review, and I
16 think that -- that satisfies the requirement.

17 But the -- the audit community was not
18 comfortable with the three (3) to five (5) year
19 recommendation, particularly for utilities that were
20 adopting the equal life group procedure, because they -
21 - they felt that the -- the weighting needed to be --
22 needed to be confirmed.

23 So, really, this wording is -- if you go
24 -- wording that is acceptable to the audit community
25 and -- and is not meant to indicate annual, but it's

1 not meant to indicate three (3) to five (5) years
2 either. But I would suggest it's meant to indicate no
3 more than three (3) to five (5) years and, perhaps,
4 with more -- more rigour, maybe a bit more often than
5 that.

6 MR. BYRON WILLIAMS: So, sir, if I
7 compare the advice that you gave to the Corporation --
8 and shall we call the report the two (2) -- 2010
9 report? Is that okay for you, sir?

10 MR. LARRY KENNEDY: If that works for
11 you, sir.

12 MR. BYRON WILLIAMS: Okay. The advice
13 you gave to the Corporation in 2010 as compared to the
14 advice you gave to the Corporation in -- in 2005
15 directionally would suggest more frequent reviews than
16 perhaps might have been inferred from the 2005 report,
17 especially in -- in the context of ELG, agreed?

18 MR. LARRY KENNEDY: Agreed. And now
19 you'll notice it doesn't say the rate should be
20 recalculated. It says they should be reviewed. And
21 there's a -- there's a difference. And again, that's a
22 slight terminology thing. But it means that I think
23 that the -- the Utility needs to more often at least
24 review to ensure that they're comfortable with the
25 rates.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Thank you for
4 that, Mr. Kennedy. Turning to page 6 of CAC Exhibit 5.
5 Mr. Kennedy, this page hopefully will look familiar to
6 you. You see it marked as -- from 3-19. And I'll ask
7 you to accept that it's an excerpt from -- from your
8 report -- your 2010 report, sir. You'll accept that?

9 MR. LARRY KENNEDY: Yes.

10 MR. BYRON WILLIAMS: And just in terms
11 of you had a conversation with My Friend, Mr. Peters.
12 And I'll be careful, I hope not to use the same
13 language he used that -- that caused difficulties.

14 But if -- and recognizing that this is
15 using the ELG methodology, I'm correct in suggesting to
16 you that the difference bet -- the total -- in terms of
17 total depr -- depreciable assets, the difference
18 between booked accumulted -- accumulated depreciation
19 and calculated accrued depreciation is about \$595
20 millions, sir?

21 MR. LARRY KENNEDY: That's correct,
22 sir, and you were very careful in your
23 characterization.

24 MR. BYRON WILLIAMS: Let me be less
25 careful now, sir. Well, maybe -- maybe I'll be careful

1 for a couple questions more. If we go to the next
2 page, page 7, you'll see a -- what I -- just for your
3 reference, sir.

4 Of that close to \$600 million
5 accumulated depreciation variance, would I be correct
6 in suggesting to you that, using the ELG methodology,
7 close to \$330 million of that is related to total
8 distribution, sir?

9 MR. LARRY KENNEDY: The -- the variance
10 of \$595 million approximately largely comes from the
11 distribution accounts, yes. I think it comes from the
12 distribution accounts and not necessarily due to the
13 conversion to the equal life group procedure. And I
14 think -- I'm not sure if that was inherent in your
15 question or not.

16 MR. BYRON WILLIAMS: That was not
17 inherent in my question. I just wanted to make sure,
18 sir, that we -- we knew that we were using the ELG
19 figures, as opposed to the ASL figures?

20 MR. LARRY KENNEDY: That's correct.

21 MR. BYRON WILLIAMS: So
22 disproportionately, in terms of the accumulated --
23 accumulated depreciation variance, that flows from
24 total distribution, agreed? That's the mathematical --

25 MR. LARRY KENNEDY: The arithmetic is

1 such that most comes from distribution, yes.

2 MR. BYRON WILLIAMS: And within
3 distribution, sir, the second-largest contributor to
4 the accumulated depreciation variance would be account
5 4000L, being the ever-popular overhead conductor and
6 devices, sir, at about \$110 or \$111 million?

7 MR. LARRY KENNEDY: I think the largest
8 contributor is poles and fixtures at a \$136 million;
9 second-largest would be the ever popular overhead
10 conductor.

11 MR. BYRON WILLIAMS: And I was getting
12 to that, sir; I think the used the words, "second
13 largest".

14 MR. LARRY KENNEDY: Oh, did you? I'm
15 sorry, I missed that.

16 MR. BYRON WILLIAMS: One of us is being
17 careful, and I'm not sure which it is. So, sir, we can
18 agree --

19 MR. LARRY KENNEDY: We can definitely
20 agree.

21 MR. BYRON WILLIAMS: We can agree that
22 the -- within distribution, it's account 4000J, poles
23 and fixtures, and account 4000L, overhead conductor and
24 devices, which are -- are driving -- driving the bus,
25 in terms of the accumulated depreciation variance,

1 correct?

2 MR. LARRY KENNEDY: That's correct.

3

4 (BRIEF PAUSE)

5

6 MR. BYRON WILLIAMS: And Mr. -- Mr.
7 Kennedy, we're going to get to the factors leading to
8 this in -- in two (2) stages, just so I don't -- you
9 know, I guess I -- I can't stop you from jumping ahead,
10 but I'm going to encourage you to.

11 So we're going to come to 182E in a
12 couple moments. But I want to start, sir, with -- on
13 pages 9 and 10 of CAC Exhibit 5, being pages 2-33 and
14 2-34 of -- of your -- the appendix -- or, excuse me, of
15 your 2010 evidence. Do you have that, sir?

16 MR. LARRY KENNEDY: Yes, I do.

17 MR. BYRON WILLIAMS: Now, just to
18 orient the Board and others, if we're looking for poles
19 and fixtures on -- on this page, we're going to find
20 them towards the bottom, really the last paragraph,
21 under "Distribution Accounts," agreed?

22 MR. LARRY KENNEDY: That's correct.

23 MR. BYRON WILLIAMS: And we'll get into
24 the details in a moment, sir. But would it be accurate
25 to say that in the 2005 depreciation study for the --

1 the distribution systems, you recommended a 31-R2 Iowa
2 curve, subject to check?

3 MR. LARRY KENNEDY: Subject to check.

4 MR. BYRON WILLIAMS: And, sir, in terms
5 of poles and fixtures, directing your attention to the
6 next page, being page 10 of CAC Exhibit 5, your -- the
7 recommendation of Gannett Fleming in this particular
8 report, being the 2010 report, was an Iowa 55-R3 curve?

9 MR. LARRY KENNEDY: That's correct.

10 MR. BYRON WILLIAMS: And again, I'll
11 give you a chance to explain in just a second. But
12 that -- that's a fairly significant move, sir, from --
13 from one report to the other?

14 MR. LARRY KENNEDY: It very -- it
15 definitely is, sir.

16 MR. BYRON WILLIAMS: Now, concentrating
17 -- and again, we're going to come to PUB-1-82E in a
18 moment or two (2). But concentrating on the
19 explanation that you provided here, sir, I'm going to
20 suggest to you that there were three (3) factors that
21 you were considering, and I'm going to break them down
22 individually.

23 One (1) of them was the Corporation's --
24 Gannett Fleming's knowledge of typical industry lives
25 for wood poles ranging from thirty-eight (38) to fifty-

1 five (55) years, agreed?

2 MR. LARRY KENNEDY: Correct.

3 MR. BYRON WILLIAMS: And almost -- and
4 you also had statistically developed estimates of
5 average service life of -- in the range of thirty-four
6 (34) years, correct?

7 MR. LARRY KENNEDY: That's correct.

8 MR. BYRON WILLIAMS: And a -- a third
9 consideration was the -- the views of operational staff
10 that the thirty-four (34) year average service lis --
11 life estimate was too short and that this account
12 should have an average service life of at least fifty-
13 five (55) to sixty (60) years, agreed, sir?

14 MR. LARRY KENNEDY: That's correct,
15 sir.

16 MR. BYRON WILLIAMS: Now, focussing
17 just on -- on this particular explanation, you kind of
18 took those all into account and recommended an Iowa 55-
19 R3 curve, fair enough?

20 MR. LARRY KENNEDY: Fair enough.

21 MR. BYRON WILLIAMS: Now, directing
22 your attention, sir, to -- on page 11 of CAC Exhibit 5.
23 Hopefully, Mr. Kennedy, you'll see a -- a sadly marked-
24 up version of PUB Information Request to Manitoba Hydro
25 1-82. Do you have that, sir?

1 MR. LARRY KENNEDY: I have. It looks
2 like much of my notes.

3 MR. BYRON WILLIAMS: I -- I do hope
4 your handwriting is better. And -- and essentially,
5 sir -- and again, I want to break this down into small
6 points. But the -- the PUB is -- is asking you at a
7 high level to -- to explain the ration -- rationale of
8 extended lives as compared to the previously
9 statistically developed estimates.

10 Do you see that, at -- at a high level,
11 as a question they're posing, sir?

12 MR. LARRY KENNEDY: Yes, I do.

13 MR. BYRON WILLIAMS: And directing your
14 attention to the messily circled bit in the first
15 paragraph. One (1) of the points Gannett Fleming makes
16 in its response to the PUB is that:

17 "The average service life estimates
18 in the 2005 dep -- depreciation study
19 were based predominately on the
20 results of a study where the original
21 installation years of retirements
22 were not known, but were -- rather
23 were statistically developed using
24 the computed mortality method."

25 Agreed?

1 MR. LARRY KENNEDY: I see that, sir.

2 MR. BYRON WILLIAMS: And I'm going to
3 come back to that point in just a few minutes, Mr.
4 Kennedy.

5 And so in the second paragraph, I'll
6 suggest to you that the Corporation is providing its
7 explanation in greater detail why they -- why they
8 chose not to rely on those estimates. And -- and one
9 (1), again, was the -- the views of Manitoba Hydro
10 operational staff, agreed?

11 MR. LARRY KENNEDY: That's correct,
12 sir.

13 MR. BYRON WILLIAMS: Second was your
14 identification of a trend to longer average service
15 life estimates among the peer group analyzed, agreed?

16 MR. LARRY KENNEDY: That's correct,
17 sir.

18 MR. BYRON WILLIAMS: And third, sir,
19 was the information provided from the results of a
20 depreciation study related to electric distribution
21 assets flowing from the province of Ontario, agreed?

22 MR. LARRY KENNEDY: That -- that's the
23 third point that we list here. To me it really is kind
24 of part of your second -- second point, but...

25 MR. BYRON WILLIAMS: Fair enough. And

1 certainly the -- the information that Gannett Fleming
2 drew from that Ontario report was that, in terms of
3 industry trends, it indicted that average service life
4 estimates were -- were much longer than those currently
5 used by Hydro?

6 MR. LARRY KENNEDY: That's correct.

7 MR. BYRON WILLIAMS: Okay. Now, we'll
8 -- we'll come to this in a -- I'm not sure if we'll get
9 to it today or not, sir, but in terms of the Ontario
10 information relied upon, was that the -- the report
11 prepared for the Ontario Energy Board by Kinectrics?

12 MR. LARRY KENNEDY: The -- the report
13 was the Kinectrics report, yes.

14 MR. BYRON WILLIAMS: Now, Mr. Kennedy,
15 I just -- I want to stay with this -- this excerpt for
16 a coup -- couple more moments. Towards the end of --
17 of this page, in the second paragraph, you see a
18 sentence saying:

19 "During the operational interviews,
20 the Manitoba Hydro operational staff
21 were able to provide empirical
22 evidence that the results of the life
23 study were resulting in life
24 estimates that were too short for the
25 plant currently in service."

1 Do you see that reference, sir?

2 MR. LARRY KENNEDY: I do, sir.

3 MR. BYRON WILLIAMS: And, Mr. Kennedy,
4 in terms of the record of this hearing, are those em --
5 is that empirical evidence on the record?

6

7 (BRIEF PAUSE)

8

9 MR. LARRY KENNEDY: It is, I think, in
10 a couple spots. And I -- and I want -- I'm trying to
11 be clear. That's why it took me a second to -- to
12 gather my thoughts, sir.

13 MR. BYRON WILLIAMS: No worries.

14 MR. LARRY KENNEDY: Manitoba Hydro, I
15 think has filed an Appendix 40; that's -- that's a
16 detailed review of -- and I can't remember the title.

17 MR. BYRON WILLIAMS: Of distribution,
18 okay.

19 MR. LARRY KENNEDY: And -- and so at
20 the time that we were doing the interviews that -- that
21 study was -- was in construction, if you will. So
22 that's part of it.

23 I -- I think, and I -- I may have to
24 look tonight to find the Information Request response
25 that summarize some of the things in there where we

1 talked about the -- the basic buildup of poles being in
2 the electrification programs eras of the 1950s. And
3 those poles are now getting into the fiftyish (50ish)
4 year life and now starting to look like they need to be
5 retired, but have not previously been retired.

6 So we started seeing some evidence that
7 the life estimates at thirty (30) years were obviously
8 too short, but the life estimate in the -- in the --
9 you know, looking at the realistic life estimate now
10 that the company was going out and expending some
11 resources to do was -- was in fact recurring. And --
12 and I think, sir, we discussed that at greater length.
13 I knew if I talked long enough I'd remember the
14 reference I was trying to find. It was in the Manitoba
15 Hydro rebuttal evidence, and I'm just looking for the
16 page refer -- page 7.

17 Yes. At the bottom of page 7, we
18 discussed the -- the more empirical evidence that they
19 -- we had. So I think it's between Appendix 40 and the
20 Manitoba Hydro rebuttal evidence beginning at page 7
21 that -- that we would find that.

22 MR. BYRON WILLIAMS: I -- I thank you
23 for that, Mr. Kennedy. And in terms of the -- the peer
24 -- peer group analysis, is that information on the --
25 on the record somewhere, sir?

1 MR. LARRY KENNEDY: I don't think it
2 was on the record, sir.

3 MR. BYRON WILLIAMS: And would that be
4 difficult to put together in terms of an overview of
5 the -- the peer group evidence relied up on by -- by
6 Gannett Fleming?

7 MR. LARRY KENNEDY: I could find it.
8 My problem would be I can't find it here. It's sitting
9 in my office back in Calgary, and I'd have to -- so I -
10 - I could definitely supply that upon my return after
11 my appearance.

12 MR. BYRON WILLIAMS: And so I would ask
13 you to agree to -- I would ask you to undertake to
14 provide the peer group analysis relied -- or relied
15 upon by Manitoba Hydro in con -- in -- in concluding --
16 excuse me, relied upon by Gannett Fleming in concluding
17 a trend to longer average service life estimates.

18 MR. LARRY KENNEDY: That -- that is
19 worded slightly different than what I -- I can provide
20 the peer group analysis of the currently approved life
21 estimates. To show the trend, I'd have to give you a
22 peer analysis over a number of different periods, and
23 that's -- that's more difficult, sir.

24 MR. BYRON WILLIAMS: I can live with --
25 I'd ask -- so what you're telling me you can provide is

1 the currently approved --

2 MR. LARRY KENNEDY: List of companies.

3 MR. BYRON WILLIAMS: -- list of
4 companies which were relied upon by Gannett Fleming?

5 MR. LARRY KENNEDY: Yes, that I can.

6 MR. BYRON WILLIAMS: Okay. And I'm
7 just going to look to the court reporter for approval.
8 I'm up on Mr. Peters yet again.

9

10 --- UNDERTAKING NO. 32: Manitoba Hydro to provide
11 list of companies relied
12 upon by Gannett Fleming for
13 currently approved life
14 estimates

15

16 CONTINUED BY MR. BYRON WILLIAMS:

17 MR. BYRON WILLIAMS: Mr. Kennedy, I
18 think we will be able to hopefully get to CAC-6, which
19 is the asset depreciation study for the Ontario Energy
20 Board, prepared by Kinectrics on July 8th, 2010.

21 Mr. Kennedy, you have that?

22 MR. LARRY KENNEDY: I'm sorry, I was
23 just writing down my undertaking. I do have the Kine -
24 - Kinectrics --

25 MR. BYRON WILLIAMS: And -- and I

1 should be clear that this is just an excerpt. There's
2 a -- the report is more voluminous, and I -- I thought
3 this would assist without unduly straining the
4 photocopiers.

5 And -- and, Mr. Kennedy, you've already
6 confirmed that this was the Ontario information which
7 assisted Gannett Fleming in -- in concluding that --
8 that there were average service life estimates much
9 longer than currently -- currently used by Manitoba
10 Hydro?

11 MR. LARRY KENNEDY: It was one (1) of
12 the sources of information, yes.

13 MR. BYRON WILLIAMS: And, Mr. Kennedy,
14 perhaps a -- a useful place to turn to would be page 17
15 of this report, which provides a -- a summary of
16 results.

17 Do you see that, sir?

18 MR. LARRY KENNEDY: I have that, sir.

19 MR. BYRON WILLIAMS: And in terms --
20 first of all, Mr. Kennedy, in terms of the information
21 that this report, which -- which might have been useful
22 to Manitoba -- or to Gannett Fleming, in deciding to --
23 to increase the lives for poles and fixtures and
24 overhead conductors and devices, I presume, sir, that
25 that would be the information related to fully-dressed

1 wood poles in Asset Category 1, as well as some of the
2 OH information captured in -- in four (4) through ten
3 (10).

4 Would that be accurate, sir?

5 MR. LARRY KENNEDY: That'd be correct.

6 MR. BYRON WILLIAMS: And -- and, Mr.
7 Kennedy, there's some -- there are some -- at the top
8 of this table under "useful life", you're going to see
9 some terms -- or I'll suggest to you that there are
10 terms such as MIN-UL, TUL, and MAX-UL. And, Mr.
11 Kennedy, if -- if I could ask you just for a second to
12 turn to page 9 and 10 of this report and -- and help
13 us to understand what those terms mean.

14 And, Mr. Kennedy, I've been doing a lot
15 of talking. I'm prepared to take you through typical
16 useful life, TUL on page 9, and MAX and MIN on -- on
17 page 10. Or, you like to entertain, so you're also
18 welcome to -- to run us through.

19 Would you like me to do it, or would you
20 like to do it, sir?

21 MR. LARRY KENNEDY: Oh, you can do it,
22 sir. I -- I'm not sure if my -- my testimony's
23 entertainment, but...

24 MR. BYRON WILLIAMS: Then -- then, Mr.
25 -- Mr. Kennedy, I'll -- I'll suggest to you that when

1 we see the term "TUL", I'll suggest to you that -- that
2 it stands for "typical useful life" as employed by
3 Kinectrics.

4 And perhaps going to one (1) of the
5 questions that Mr. Lafond asked earlier today, that is
6 defined, I'll suggest to you, differently depending on
7 the asset car -- category and component type, but can
8 include one (1) of three (3) scenarios: assets are
9 replaced only when failed; assets are replaced due to
10 reasons not related to their performance; or assets are
11 replaced for economic reasons, agreed?

12 MR. LARRY KENNEDY: That's how
13 Kinectrics have defined that term, yes. I wouldn't
14 suggest those are typical industry terms.

15 MR. BYRON WILLIAMS: Fair enough. But
16 this is a report that you did place some weight on,
17 sir?

18 MR. LARRY KENNEDY: I looked at the
19 information contained in the report, yes, I did.

20 MR. BYRON WILLIAMS: And you cited it
21 to the Public Utilities Board as an authority which you
22 gave some weight to?

23 MR. LARRY KENNEDY: As a document that
24 I reviewed, yes.

25 MR. BYRON WILLIAMS: And turning to

1 page 10, under "useful life ranges," you'll see that
2 MIN-UL is used by Kinectrics to define the age when a
3 small percentage of assets reach their physical end of
4 life. Not using the word "Iowa curve", but using --
5 using -- usually at the beginning section of the
6 statistical bathtub curve, that's how Kinectrics
7 defines it?

8 MR. LARRY KENNEDY: Yeah, that's
9 correct, sir. And this is a very much -- the
10 terminology used in this study is a very much
11 engineering-based study, rather than a depreciation
12 terminology-based study. And that's -- the --the
13 analogy to the bathtub curve is very much an
14 engineering type of curve.

15 MR. BYRON WILLIAMS: Yes. And it -- it
16 left me wondering about the shape of my bathtub, Mr.
17 Kennedy. And -- and, again, recognizing that these are
18 terms that you don't necessarily see as frequently in
19 the depreciation lit -- literature. But when we look
20 at MAX-UL, that's the age when -- when most of the
21 assets reach their physical end of life, usually at the
22 end-section of the so-called statistical "bathtub
23 curve" as def -- as used by Kinectrics, agreed?

24 MR. LARRY KENNEDY: That's correct.
25 And I think, just to put some context around that, the

1 Kinectrics study did not recognize or use the concept
2 of an -- an Iowa or survivor curve. The survivor
3 curves that we looked at this morning, where we started
4 to see the -- that ski sloped style curve near the top,
5 when you start seeing some retirements, is what
6 Kinectrics is referring to as their MIN-UL. The very
7 end part of the curve, the very -- down at the very
8 bottom of the tail, would be what the Kinectrics study
9 is referring to as the MAX-UL. The area under the
10 curve, I think, to the extent I can read into it, and I
11 hate to put words in another consultant's mouth, would
12 be more typical of the mid portion of the curve, or the
13 area underneath that curve.

14 MR. BYRON WILLIAMS: That's very
15 helpful, Mr. Kennedy, and I thank you for that. Before
16 we leave page 10, I do want to ask you -- direct your
17 attention to "utilization factors," which appear at the
18 bottom of page 10 of this report, and -- and the top of
19 page 11.

20 And again, Mr. Kennedy, I'll ask you to
21 confirm your understanding that, as used in this
22 report, the term "utilization factors" refer to factors
23 that are expected to affect the typical useful life of
24 assets and their -- and their components, agreed?

25 MR. LARRY KENNEDY: That's correct,

1 sir. These -- these would be terms that we would refer
2 to more predominantly as wear-and-tear in the
3 depreciation vernacular.

4 MR. BYRON WILLIAMS: And -- and some of
5 those factors would be mechanical stress, and -- as
6 well as environmental conditions, agreed?

7 MR. LARRY KENNEDY: That's correct.
8 And I think the term "utilization" is a little bit --
9 I'll use the word "misleading," not in a pejorative
10 sense. People often think of utilization as the -- the
11 percentage of usage of an asset, rather than in the
12 type of force of -- causing the retirement. So these
13 would be -- in my study you see me talk about forces of
14 retirement; that -- that would be more akin to what the
15 Kinetic -- Kinectrics study is referring to as
16 utilization factors.

17 MR. BYRON WILLIAMS: And -- and just
18 going to your comment of the -- associating these with
19 wear-and-tear. When we look to Factor 6, nonphysical
20 factors, would it be fair to suggest that they appear
21 to use it rela -- relate -- refer to things not
22 directly related to physical condition, such as
23 obsolescence, economic considerations related to cycle,
24 et cetera?

25 MR. LARRY KENNEDY: Then -- that'd be

1 correct, sir. The -- I'm hesitant to say what they
2 meant by a certain term. They do not include either an
3 Iowa survivor curve, nor a lifespan date, in their
4 calculations.

5 I -- I believe this is, in part, their
6 effort to -- to recognize those types of forces of
7 retirement.

8 MR. BYRON WILLIAMS: And, of course,
9 Appendix I sets out their -- we don't need to go there,
10 sir, but it sets out with greater detail their
11 methodology -- that's toward the --

12 MR. LARRY KENNEDY: Yes.

13 MR. BYRON WILLIAMS: -- report --
14 agreed?

15 MR. LARRY KENNEDY: That's fine, yeah.

16 MR. BYRON WILLIAMS: And finally, sir,
17 just before we leave these factors, what Kinectrics
18 attempts to do is, with each of these components,
19 assign a qualitative ranking of the -- the potential
20 effect of these factors on typical useful lives,
21 agreed?

22 MR. LARRY KENNEDY: That's what they
23 did in this report, sir.

24 MR. BYRON WILLIAMS: So I thank you for
25 that, Mr. Kennedy. And -- and let's just go back to --

1 with that insight gathered from you, just go back to
2 page 17.

3 And so, Mr. Kennedy, when -- when you
4 refer to these reports as -- as suggesting average
5 service life estimates much longer than those currently
6 used by Manitoba Hydro, one (1) example of this would
7 be fully dressed wood poles where the -- according to
8 Kinectrics, the typical useful life is in the forty-
9 five (45) -- is at forty-five (45) years and the
10 maximum useful life is at seventy-five (75), agreed?

11 MR. LARRY KENNEDY: Yes, sir. I just
12 have a point while we're on this table, to the point we
13 were making this morning for utilities using the
14 average service life procedure; you'll notice that this
15 table indicates in excess of fifty (50) accounts for
16 distribution, mainly because those utilities will be
17 using the average service life. I think in our report,
18 we had in the neighbourhood of what, twelve (12) or
19 fifteen (15), so significantly reduced.

20 So this is a good indication, Mr.
21 Peters. And I talked this morning, about how far do
22 you have to componentize to go to ASL; this may be a
23 good example.

24 MR. BYRON WILLIAMS: And I wonder if we
25 could stay with this example for a few more minutes.

1 And it would probably take us to the end of the -- the
2 hour. If you could turn to page 25 of -- of the
3 Kinectrics report. At the top of the page you should
4 see the -- see a heading, "fully dressed wood poles."

5 Do you see that, sir?

6 MR. LARRY KENNEDY: I do see that.

7 MR. BYRON WILLIAMS: And, Mr. Chair and
8 members of the panel, I should acknowledge there's a
9 former member of the PUB here: Mr. Mayer. And
10 certainly our -- our client has fond memories of long
11 nights and days spent with Mr. Mayer. So CAC
12 (Manitoba) does welcome him here.

13 Mr. -- Mr. Kennedy, just on page 25,
14 directing your attention to the degradation mechanism
15 towards the end of the page. Without going into
16 details, we can -- we can agree that Kinectrics goes at
17 -- at some length to describe some -- some of the
18 factors that may -- may affect wood poles, in terms of
19 the -- the end of their life, agreed?

20 MR. BYRON WILLIAMS: And while I've got
21 you -- and -- and I'm sure you'll be hesitant to
22 comment too much about someone else in the foo --
23 field. But just in the terms -- in terms of
24 communication, Mr. Kennedy, and -- do you feel that
25 references such as "the degradation mechanism" might

1 assist the non-depreciation expert in -- in analyzing
2 reports such as this?

3 MR. LARRY KENNEDY: I'm not certain it
4 does, sir. Quite frankly, when we start talking about
5 the fungi attacks or the impact of woodpeckers on
6 poles, if we did that for every account and every type
7 of force of retirement, my cross-examination here will
8 take me to next Christmas, never mind this Christmas.
9 The -- the fact is, there is forces of retirement, and
10 we recognize that.

11 The -- Kinectrics does a report in a
12 certain manner and they -- they provide the information
13 they think is appropriate for their report. I'm not
14 certain that this level of detail for one (1) account
15 necessarily helps a lot, but it doesn't -- I guess it
16 doesn't hurt either. So I'm -- I'm kind of neutral, I
17 guess, to the terms according to them.

18 MR. BYRON WILLIAMS: Okay. And it's so
19 rare, Mr. Kennedy, where you're neutral. So I'll --
20 I'll -- we'll turn to page 26. I consider that a
21 triumph, I have to tell you, sir. I'm just teasing
22 you, Mr. Kennedy.

23 MR. LARRY KENNEDY: That -- that's
24 fine. I -- I can give as good as I take, so.

25 MR. BYRON WILLIAMS: I'm sure I'll

1 experience that before too long. Sir, under -- just if
2 you can assist to the extent you're capable in -- in
3 describing to the -- the panel, Figure 1.1, in terms of
4 fully dressed wood poles. I'll suggest to you, sir
5 that -- that the -- the Kinectrics has -- has provided
6 certain age estimates, in terms of the minimum useful
7 life the -- towards the left-hand side of the graph,
8 the typical useful life towards the centre, and the
9 maximum useful life towards the right-hand side,
10 agreed?

11 MR. LARRY KENNEDY: Agreed. It's
12 interesting, sir, that -- I mean, this report is based
13 on the -- on the sample of six (6) Ontario small-
14 distribution companies. So I think we need to
15 understand the -- the base upon which Kinectrics had,
16 or the -- the base set of data that they had, for --
17 for undertaking this report. The presentation is -- is
18 fine. But -- and -- and you've described the
19 presentation correctly.

20 MR. BYRON WILLIAMS: And let's be
21 careful there, Mr. -- Mr. Kennedy, because if we look
22 at what they presented here, on the left-hand side in -
23 - in bo -- or, in black, we will see their assessment
24 of the minimum, typical, and maximum, in terms of
25 industry data, agreed?

1 MR. LARRY KENNEDY: I think that's the
2 industry of the six (6) utilities they looked at, as I
3 understand it, sir.

4 MR. BYRON WILLIAMS: Then we're going
5 to -- we -- we may have to -- I may -- we may have to
6 revisit this tomorrow, Mr. -- Mr. Kennedy.

7 MR. LARRY KENNEDY: It could be. And
8 it may be that I'm not intimately knowledgeable of the
9 reports, sir. So if I misunderstood that, I may just
10 be misunderstanding what -- what they're presenting, in
11 terms of industry data.

12 MR. BYRON WILLIAMS: Yes, and -- and
13 what I'm going to suggest to you, sir -- and perhaps
14 you can reflect upon it overnight -- is that in the --
15 from the red, blue, green, purple, light blue, and
16 orange, those are the actual utilities with the -- will
17 you accept that subject to check, sir?

18 MR. LARRY KENNEDY: That -- that I do
19 agree with, sir.

20 MR. BYRON WILLIAMS: And what you'll
21 see using the yellow is -- excuse me. And -- and so
22 what you'll see in terms of the -- the third coloured
23 column in under -- is essentially the utilities'
24 average, which is presenting the average of the six (6)
25 utilities, sir? Agreed, subject to check?

1 MR. LARRY KENNEDY: I'll take that
2 subject to reading the report in more detail tonight,
3 yes.

4 MR. BYRON WILLIAMS: And you'll see the
5 yellow column is essentially a -- a weighting -- a
6 blended weighting of the industry average and the six
7 (6) utilities' average, agreed?

8 MR. LARRY KENNEDY: I need to read that
9 tonight, because I'm not sure where they get the
10 utility -- the industry average numbers from, sir.

11 MR. BYRON WILLIAMS: And -- and, Mr.
12 Chair, this is probably a good time to -- to take a
13 break. Mr. Kennedy, just for your reference, industry
14 researches, you can see a reference to it at page 12.

15 MR. LARRY KENNEDY: I see it at page
16 12.

17 MR. BYRON WILLIAMS: Mr. Chair, subject
18 to the direction of the Board, I -- I can indicate I --
19 I don't expect to be that long tomorrow morning. I
20 certainly won't be long on Kinectrics, but I -- I would
21 anticipate that I'd certainly be done within the hour
22 and -- and hopefully before that.

23

24 (PANEL RETIRES)

25

1 THE CHAIRPERSON: So I -- do we have
2 any matters to attend to before we -- we adjourn for
3 the evening?

4 Mr. Mayer, I'd like to acknowledge your
5 presence, and you've missed an exciting day dis --
6 discussing depreciation.

7 So there being no other business today,
8 I would suggest we adjourn now, and we will see each
9 other tomorrow morning at nine o'clock. Thank you,
10 everyone.

11

12 --- Upon adjourning at 4:29 p.m.

13

14 Certified correct,

15

16

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19

20 _____

21 Cheryl Lavigne, Ms.

22

23

24

25

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