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

February 25, 2013

Pages 5689 to 6003

APPEARANCES

Bob Peters	)Board Counsel
Anita Southall (np)	)
Patti Ramage	)Manitoba Hydro
Odette Fernandes	)
Byron Williams	)CAC (Manitoba)
William Gange	)GAC
Peter Miller	)
Antoine Hacault	)MIPUG
Michael Anderson (np)	)MKO
Denise Pambrun (np)	)City of Winnipeg

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--- Upon commencing at 9:04 a.m.

THE CHAIRPERSON: Bonjour, ladies and gentlemen. Welcome back to this hearing and welcome to the first day of two (2) days of oral closing submissions for Manitoba Hydro's 2013, '13/'14 General Rate Application.

The Board and parties concluded the oral evidentiary phase of the hearing on January 24th. The Board has set aside today to hear oral submissions from Board counsel and -- and the Intervenors to be followed by the closing oral submissions of Manitoba Hydro on Wednesday, February 27th at 9:00 a.m.

Before I turn to Mr. Peters, there are a few administrative matters that need to be attended to. First Mr. Peters circulated an email last week that had an article attached to the effect that the Accounting Standards Board decided to extend the existing deferral of the mandatory IFRS changeover -- changeover date for entities qual -- for -- with entities with qualifying rate-regulated activities by an additional year to January 1st, 2015.

Before the interveners make their closing submissions, the Board would like to hear from Manitoba Hydro as to what effect, if any, this announcement has on Hydro's General Rate Application in the two (2) test years that are before the Board.

The Board notes that on February 22nd, 2013, Manitoba Hydro sent a letter to the Board and all parties. In that letter, amongst other things, Manitoba Hydro indicated that it would be adopting the further -- the further one (1) year deferral and now plans to transition to IFRS during its '15/'16 fiscal year.

That February 22nd of 2013 letter from Manitoba Hydro also indicates that this additional one (1) year deferral does not impact the current rate application before PUB for the '12/'13, '13/'14 fiscal years as IFF12 had assumed IFRS implementation during the '14/'15 fiscal year.

Mr. Rainkie, the Board and the parties can take from your letter of -- from Manitoba Hydro's letter of February 22nd, that the additional IFRS deferral has no financial impact on the test years that are the subject of this GRA?

MANITOBA HYDRO PANEL - REVENUE REQUIREMENT, RESUMED:

DARREN RAINKIE, Resumed

MR. DARREN RAINKIE: Good morning, Mr. Chairman, members of the Board and ladies and gentlemen, that -- that's correct, Mr. Chairman. That does not have any impact on the two (2) test years in this application.

THE CHAIRPERSON: So -- so the expectation is that you would be addressing that as part of the next GRA?

MR. DARREN RAINKIE: That is correct, Mr. Chairman. We would have that as part of our -- most likely a '14/'15 and a '15/'16 GRA.

THE CHAIRPERSON: Now, in addition to that, we received the copies of the quarter 3 financial results for Manitoba Hydro, and I have some questions in relation to those results that were published last week.

Could Manitoba Hydro confirm that Manitoba Hydro has not included the revenues from the deferral account as a result of the 1 percent rollback in the third quarter operating results that have just been published?

MR. DARREN RAINKIE: That's correct. Until we get a further order of the Board, we would not record any of those amounts going into the deferral account as revenue.

THE CHAIRPERSON: Could you confirm that the revenues from both April 1st, 2012, and September 1st, 2012, interim rate increases that were granted to Manitoba Hydro are -- are included revenues in that quarter 3 report?

MR. DARREN RAINKIE: Yes, those -- the revenue from those two (2) interim rate increases are included in the Q3 results.

THE CHAIRPERSON: Now, could you confirm that your '12/'13 financial -- year-end financial forecast has not included those deferral account revenues, the 1 percent rollback, in the year-end financial forecast?

MR. DARREN RAINKIE: Sorry, I hope we're on the same page, Mr. Chairman. The -- the forecasts that are included in IFF12 do include the -- the recovery of the 1 percent deferral account, as is our application before the Board. So if the Board grants us an order approving that application before we close our books, we would record the $35 million in -- in our '12/'13 fiscal year. So -- so our forecast does include that am -- those amounts, as per our application.

THE CHAIRPERSON: Okay. I was thinking more in terms of the forecast that was made at the time the Q3 reports were -- were issued, which was projecting 30 million profit for the year.

MR. DARREN RAINKIE: Maybe I can just update the Board on that, because the -- the third-quarter report goes through a long process before it's released. And -- and there was another point in that letter of February 22nd that -- that you alluded to that is important in considering our net income projection for 2012/'13, is that we have -- we have not at this point come to any other arrangement with NCN, so our -- on the Wuskwatim project. So our expectation is that we would book the $14 million, or whatever the exact amount is. I don't think it'll be much different than the $14 million non-controlling interest in 2012/'13.

We also took a -- a quick look, a high-level look, at our expected results for '12/'13. And with some of the colder weather than we've experienced in the last month, it looks like we -- we may come close to our projected net income -- I think it was $53 million, if I'm not mistaken -- for '12/'13.

So with -- with -- if we book the non-controlling interest, which is attributing the loss -- part of the loss in Wuskwatim to NCN, and with -- assuming normal weather for the last couple of months of the year, which is always a big assumption -- and I always have to put a caveat at it, is that, of course, at year end we look through all our provisions and all of our accruals, and -- and there can always be some expenses that come in at the end that you weren't expecting.

But I -- I think you can rely on IFF12 as a reasonable forecast for our net income. I don't think it would be any higher than the amount that we have in IFF12. It might be slightly lower, once we review all our provisions and accruals at year end and look at the -- things like the pension discount rate and those types of things, which can have, you know, year-end adjustments associated with them.

So I -- I would think -- and we -- we'll cover this is our argument as well -- that you re -- rely on the IFF12 forecast as being a reasonable forecast of our net income. If anything, it might come in a little lower, but I don't think it'll be much higher. But every time we promise one (1) of those things, there's -- there's something else that happens, so I just put that caution on -- on it. But that's our best information that we have at this point.

THE CHAIRPERSON: Okay. I'm still a bit confused. So the 30 million that you were projecting as of last week does not include the -- the 1 percent deferral?

MR. DARREN RAINKIE: The -- the 30 million did, but at -- at the time that we were putting together the -- the third-quarter report, we thought that we would have a different arrangement with NCN by the end of the fiscal year, and we didn't have the information on what this colder weather would do to us. So it was -- it was a lower number.

But I think for the Board's foc -- I wouldn't focus on that $30 million number. I would focus somewhere closer to what our original forecast was in IFF12, maybe a little lower, but -- but -- than the 53 million. But it's -- I think that's a better information for the Board to take away as it makes its deliberations.

THE CHAIRPERSON: Now, in terms of the -- in terms of the results, are we dealing with electric operations or is that comprehensive income?

MR. DARREN RAINKIE: Just net income, not comprehensive income. We tend to focus just on the net income line for purposes of rate setting.

(BRIEF PAUSE)

THE CHAIRPERSON: Just, again, to clarify in my own mind, assuming the 1 percent deferral account revenues are excluded from the quarter 3 results, can you advise whether the -- the interim rate increases that were granted -- set on the -- you know, beginning of the year in September have been calculated -- revenues from those increases have been calculated excluding the 1 percent from -- from the base rates, the 1 percent deferral?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Let me just clarify. So the -- the third-quarter results do not include anything with respect to what we're booking the -- to the deferral accounts. So -- so we would expect that that deferral account started out at about $23 million at the start of the year, that we would book around $12 million to that deferral account during the fiscal year 2012/'13.

And if the Board grants our application to include that in '12/'13 revenues, then we would take that $35 million back into -- back into our revenue. So -- so everything associated with that 1 percent deferral is being accumulated in a deferral account, not included in our revenues.

THE CHAIRPERSON: Now, you men -- you'd talk about the -- the -- the non-controlling interest, and you did mention the 14 million.

So I take it from your comments that you have not arrived at an agreement with NCN with respect to the Wuskwatim project?

MR. DARREN RAINKIE: That's correct. At this point, it doesn't look by your end that we will have an alternate agreement so the -- we will book income in accordance with the current arrangements.

MR. RAYMOND LAFOND: Will you need to put in a provision for not collecting it to offset it? Because from what I heard, was that, you know, the chances of collecting this were minimal.

MR. DARREN RAINKIE: I don't -- I don't think we would need to do that at this point. I think what aggravates the situation is -- is that as the projections stand, over the first ten (10) years of the project, we would need to have cash calls that -- to fund some of the operating losses. And so I think that's the invent -- event that makes the load difficult to repay. So that event hasn't incurr -- hasn't occurred yet.

So I -- it's a matter that we'll have to take up with our -- with our auditors of course at year end. But I think my opening position would be is that event that makes that loan questionable hasn't occurred yet, so I think we -- I don't think we would be proposing any write-down of the receivable at this point in time.

MR. RAYMOND LAFOND: So therefore, your IFF12 was projecting a net income of about $60 million, and that is still what you're looking at right now?

MR. DARREN RAINKIE: Yes, I think you're referring to the consolidated number. So just to be clear, the consolidated number -- I think, is around sixty (60) and the -- the electric number's around fifty-three (53). That's what I was quoting just a few minutes earlier.

THE CHAIRPERSON: Now, would -- if you were successful in arriving at an agreement with NCN before the end of the fiscal year, then -- then obviously the numbers would -- would be adjusted accordingly and we would see those are part of the year -- year-end financial statements, I guess, post -- post decision from this panel.

MR. DARREN RAINKIE: Yes. I think -- I think we would have to -- in discussion with our auditors, we would have to have a pretty firm agreement by March 31st to -- to -- it would have to be all down on paper and signed and sealed and delivered to reverse our existing arrangement. So I don't -- given where we are right now, I don't see that happening. But you're right. If something miraculously happened and there was a signed deal, we would have to -- have to adjust it to the new arrangement. I just don't see that happening in the time we have left, until March 31st.

THE CHAIRPERSON: Could you confirm that the increased domestic revenues are as a result of the interim rate increases that have been awarded by this Board?

MR. DARREN RAINKIE: On a year-over-year basis, yeah, that's what we had included in the -- I think in our writeup in the Q3 report.

THE CHAIRPERSON: Do you expect that the year-end forecast of domestic revenue will change from what had -- you had projected in IFF12?

MR. DARREN RAINKIE: It looks like there may be some favourability in it, based on the weather that we've just experienced. But just that I'm always cautious at this time of the year, because most of our -- a lot of our net income is back-end loaded in the -- in the winter heating season. And -- and we can have some warm weather yet before the end of -- end of the year. But -- but I think we -- as we sit now with our outlook, assuming normal weather, we -- there may be some favourability in that -- that number.

THE CHAIRPERSON: Do you expect any change in your year-end forecast of export revenues compared to what you had forecast in IFF12?

(BRIEF PAUSE)

MR. DARREN RAINKIE: We had a little bit of unfavourability up until the end of December, but I think -- I think that may come back in the remainder of the fiscal year. So I don't -- I don't think we'll be too much off, plus or minus, Mr. Chairman.

THE CHAIRPERSON: I'd like to turn for a few minutes to the operating expenses that have been disclosed in the Q3 report. And specifically, have there been any reported changes in operating expenses in the Q3 report that changed what you had anticipated for the '12/'13 fiscal year-end? And perhaps you could speak to the individual accounts that have been impacted, if there are some significant changes.

MR. DARREN RAINKIE: No, our -- our -- we're about $1.6 million unfavourable in electric operations to December 31st. So on a base of, at that point, $334 million, it's a fairly small change. So to date, there hasn't been any significant -- there's always lots of puts and takes in our business. It's a very complex business, lots of moving parts, but we're pretty close right now.

But I just leave you with that one (1) caveat, that at year-end we take a look at all of our provisions and accruals and -- and that. So if there's -- there's anything that comes up there, there can be more expenses that -- there tends to be in that kind of a review more expenses, not anything that comes up positive, but usually things that -- that come up that need to be expensed.

So -- so right now we're tracking. But year-end, we'll review things like the discount -- the pension discount rate and those -- those types of issues. And they -- there may be some -- some adjustments. I don't think at this point they would be hugely material, but there -- there can be some.

THE CHAIRPERSON: Now, I understand that Wuskwatim has come on stream -- fully come on stream during the core -- Q3 report period.

Was there any change in respect of Wuskwatim that is different than what was presented during the GRA? Was there anything that -- of note?

MR. DARREN RAINKIE: No, I -- I think the -- the non-controlling interest that we booked to the third quarter was plus or minus $500,000 bang on, in terms of the forecast. So the -- the financials are coming in pretty close to what we had projected.

THE CHAIRPERSON: Now, current capital assets increased by 797 million for the nine (9) months ended December 31st, 2012. How much of this was related to Wuskwatim?

MR. DARREN RAINKIE: I think we probably -- we have -- I have that right on the report, if we -- let me just flip to it, Mr. Chair. I can find it.

If you look on the second page of the financial overview, right above the paragraph that says, "Natural Gas Operations," you can see that in the nine (9) month period there was 63 million related to the Wuskwatim generating station. It's about one (1), two (2), three (3), four (4), five (5), six (6) lines up from the title, 'Natural Gas Operations'.

THE CHAIRPERSON: Now current liabilities are reflected as being 1.2 billion, up from 711 million last year. This increase of about 560 million, what contributed to the increase?

MR. DARREN RAINKIE: I think that is line -- sorry, I don't think; I know -- that that is just due to the reclassification of debt from long-term debt to the current portion of long-term debt. There was very little current portion in the prior year. And I think most of that change is just in this year we have some current long-term debt that will be due in the next twelve (12) months.

THE CHAIRPERSON: Thank you very much, Mr. Rainkie. The Board would now like to hear from counsel that have filed additional exhibits since the last -- since we last adjourned. We want to ensure that, of course, that we have all the exhibits properly entered on the record of this proceeding.

Starting with Manitoba Hydro, Ms. Ramage, can you identify the additional exhibits that were filed with the Board since it adjourned on January 24th?

MS. PATTI RAMAGE: Yes, certainly. And thank you, Mr. Chairman. Good morning.

Manitoba Hydro, by letter of February 6th, distributed a number of undertakings. And I'll just run through quickly what they are. We've also provided paper copies this morning.

But it was -- Undertaking number 46 has

been assigned Exhibit 111.

--- EXHIBIT NO. MH-111: Undertaking 46

MS. PATTI RAMAGE: Undertaking number 80 has been assigned Exhibit 112.

--- EXHIBIT NO. MH-112: Undertaking 80

MS. PATTI RAMAGE: There was a request found at transcript page 4,958, and it has been assigned Manitoba Hydro Exhibit 113.

--- EXHIBIT NO. MH-113: Request at transcript page 4,958

MS. PATTI RAMAGE: Another request, at transcript page 4,993, was assigned Exhibit 114.

--- EXHIBIT NO. 114: Request at transcript page 4993

MS. PATTI RAMAGE: Oh, and I see Mr. Simonson is just handing this out now. Sorry, I thought you had that. What I'm saying is summarized in the cover letter.

Finally, there was a request at transcript page 5098, which has been assigned Manitoba Hydro Exhibit 115.

--- EXHIBIT NO. 115: Request at transcript page 5,098

MS. PATTI RAMAGE: Manitoba Hydro also provided a schedule illustrating the impacts to net income over ten (10) years following the implementation of IFRS, which Mr. Warden had offered up at page -- at transcript page 5,064. It wasn't specifically identified as an undertaking. And this schedule has been assigned Manitoba Hydro 116. So each of those undertakings are contained in that package.

--- EXHIBIT NO. MH-116: Schedule illustrating the impacts to net income over ten (10) years following the implementation of IFRS

MS. PATTI RAMAGE: The other document that ought to be assigned an Exhibit would be Manitoba Hydro's letter of February 22nd that you just discussed with Mr. Rainkie which had, as an attachment -- and we suggest it be one (1) exhibit. But the let -- and that exhibit be 117. And that would be the letter of February 22nd, combined with the quarterly report for the nine (9) months ending December 31st, 2012.

--- EXHIBIT NO. MH-117: Letter of February 22nd, combined with the quarterly report for the nine (9) months ending December 31st, 2012

MS. PATTI RAMAGE: And I believe that brings the Board completely up to date on Manitoba Hydro's paperwork.

THE CHAIRPERSON: Can you confirm that all of the Manitoba Hydro's undertakings have now been entered?

MS. PATTI RAMAGE: Yes, they have been entered. There's a few that were done on the record verbally, so they wouldn't be in the paper copies. But our review of the record indicates they've all been provided.

THE CHAIRPERSON: Merci. Now I turn to Mr. Williams. Good morning.

MR. BYRON WILLIAMS: Good morning, members of the panel.

THE CHAIRPERSON: I have to comment on the -- the success of the Montreal Canadians over the last while.

MR. BYRON WILLIAMS: Well it -- it's been a great -- we could talk about that for the rest of the day and I'm sure we'd all be happy. It's been a -- it's been nice for the kid to get back in the lineup.

THE CHAIRPERSON: Could you please identify, Mr. Williams, the additional exhibits that should be filed with the Board since it adjourned January 24th?

MR. BYRON WILLIAMS: Yes. And I'm going to blush and perhaps make my friend, Mr. Gange, blush as well, because I don't think it's quite as professional as Manitoba Hydro has put together. Mr. Dunsky, on behalf of CAC/GAC, made five (5) undertakings on January 17th, and those have been filed electronically.

And they've -- with -- so the -- the undertakings, I would suggest, be marked as -- I don't know if you've received them in a paper version or not. Here they come.

THE CHAIRPERSON: Yeah, we did receive them. Thank you.

MR. BYRON WILLIAMS: And I'm going to ask Mr. Simonsen for guidance, in terms of the number. I believe it may be number 5, but I'm -- I'm not sure.

--- EXHIBIT NO. CAC/GAC-5: Undertakings from January 17th

MR. BYRON WILLIAMS: Yes, and Mr. Chairman, the -- the correct identification for it would be CAC/GAC-5. And we would -- what we've essentially done is bound them all together as -- as one (1) package. And to the best of our knowledge, those are the undertakings that were outstanding.

THE CHAIRPERSON: Now, for the record, do we need to identify a number to each of these exhibits?

MR. BYRON WILLIAMS: Yes.

MS. PATTI RAMAGE: I think -- if I could just jump in with Mr. Dunsky, would it not be CAC/GAC exhibit? Oh, I thought I just heard just CAC, sorry. Okay, I'm sorry.

MR. KURT SIMONSEN: So it is CAC/GAC?

MR. BYRON WILLIAMS: It is and I

appreciate Ms. Ramage's efforts to hold the fragile coalition together.

MR. KURT SIMONSEN: And did you want to call it all just one (1) exhibit, Exhibit number 5?

MR. BYRON WILLIAMS: That's what we would suggest, Mr. Simonsen.

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you, Mr. Williams. Now I'll turn now to the Green Action Centre. Mr. Gange, do you have any exhibits to file?

MR. WILLIAM GANGE: No, I believe that all our exhibits have been filed, Mr. Chair.

THE CHAIRPERSON: And -- and all your undertakings have been answered?

MR. WILLIAM GANGE: Have been answered. I believe that -- I believe that we're up to date. I don't think there's anything outstanding. The only thing that -- that had been asked was that a paper copy of the Excel spreadsheet be filed, and -- and it was filed at the time -- the Excel spreadsheet was there for the -- for the Excel part, not for the spreadsheet part. So it -- I think we're right up to date with everything.

THE CHAIRPERSON: Okay. Merci. Mr. Hacault, do you have any -- does MIPUG have any additional exhibits to file?

MR. ANTOINE HACAULT: No, I believe that the ones that were filed prior to the hearing ending, being MIPUG-10 and MIPUG-11, which related to Undertakings 95 and 96, were all that -- the ones that were outstanding those were filed before the end of the hearing.

THE CHAIRPERSON: Merci. Now I'd guess -- I think we've taken care of all the matters that I need to attend to. So I'll -- I'll turn the microphone over to Mr. Peters, who is going to be addressing the process to be followed today, together with any closing comments that he may have for the Board. Mr. Peters...?

CLOSING COMMENTS BY MR. BOB PETERS:

MR. BOB PETERS: Thank you and good morning, Mr. Chairman, Board member Soldier, and Board member Lafond, ladies and gentlemen. As counsel to the Board in this proceedings, I take no position on the merits of any of the requests or issues before the Board. In my brief closing comments, I'm going to summarize Manitoba Hydro's application, albeit in a different chronology than was presented by Manitoba Hydro.

In its application, which can be found at page 1 of Volume I, Tab 1, of Board counsel's book of documents, which has been marked as PUB Exhibit 14 for those of you following on the new internet access code and electronically, the first approval that Manitoba Hydro sought was to maintain in base rates the rates that were approved by the Board in Orders 30/'10 and 40/'11 and include in current year revenues the revenues previously billed and collected, which have been accumulated in the deferral account pertaining to rates implemented April 1 of 2010.

Now, this related to a matter that the Chairman discussed this morning with Mr. Rainkie, in terms of the 1 percent deferral revenues. But this request by Manitoba Hydro relates to the initial interim rate that was granted effective April 1 of 2010 that was finalized in Board Order 5/'12 at 1 percent lower than what was approved on an interim basis.

As shown in Tab 2 of Board counsel's book of comments on page 17, approximately $11.4 million, up to $12 million per year for each of the past three (3) years, has accrued in the deferral account Mr. Rainkie mentioned. The existing balance is approximately 35 or $36 million.

The next item in Hydro's application is seeking final approval of Orders 32/'12 and 34/'12, approving interim rates effective April 1, 2012, and final approval of any interim rate orders issued subsequent to the filing of this application and prior to the conclusion of the proceedings.

So what this request relates to, Mr. Chairman and Board members, is the 2 percent interim April 1, 2012, increase granted in Order 32/'12. That's when Manitoba Hydro had sought a 3 1/2 percent interim rate increase. The additional annual revenue is approximately $25 million, also as seen in Tab 2 of Board counsel's book of documents.

The next item is the approval being sought by Hydro. And it was on an interim basis of rate schedules incorporating an across-the-board 2.5 percent increase on currently billed rates effective September 1, 2012, sufficient to generate additional revenues of $20 million in '12/'13.

While this request, when drafted and filed, was posed as going to be seeking an interim rate increase and Manitoba Hydro has since sought and has been since awarded a 2.5 percent interim rate increase effective September 1st of 2012.

Interestingly, in the current fiscal year this interim rate generates approximately $20 million of additional revenues over the seven (7) month duration that it would be in effect. In the next fiscal year of Manitoba Hydro, which will be the 2013/'14 test year of this GRA, this 2 1/2 percent interim rate increase would generate approximately $33 million over the full twelve (12) months.

The next item is approval of a further 3.5 percent increase in overall revenue effective April 1, 2013, sufficient to generate additional revenues of $48 million 2013/'14. This was going to be in accordance with rate schedules to follow subsequent to Manitoba Hydro's Board approval.

This request relates to Manitoba Hydro's next fiscal year and the second test year of its GRA, which commences in just over a month from now. Recognizing the Board will be conducting a separate process for consideration of the cost of service methodology and time-of-use rates, we understand Manitoba Hydro's evidence to be that any average rate increase on April 1 of 2013 would be implemented equally across all customer classes.

The next item listed, just for completeness, was Manitoba Hydro seeking approval on an interim basis of rate schedules incorporating a 6 1/2 percent rate increase effective September 1, 2012, consistent with previous and proposed rate increases for grid customers for the full-cost portion of the rate applicable to general service and general customers in four (4) remote communities served by diesel generation sufficient to generate additional revenues of approximately two hundred thousand dollars ($200,000) in the current fiscal year.

Manitoba Hydro addressed this request on an basis, and the Board did likewise in the September 1st, 2012, interim rates order. In terms of this request, we'll leave it to hear from Manitoba Hydro as to when it will be seeking finalization of this amount, because it does relate to a further request they've made about finalizing all die -- diesel zone rates.

I'm going to lump the next four (4) items of relief together that Manitoba Hydro sought, because they relate to specific rate programs. Manitoba Hydro was seeking confirmation that the Board accept the rate-approval process and the given proposed modifications to the terms and conditions of the surplus energy program, as discussed in Tab 11 of their application. And Manitoba Hydro also wanted confirmation that the Board accepts the rate-approval process, given the proposed modifications to the curtailable rates program, also discussed in Tab 11 of the application.

Related to this and these two (2) rate programs, Hydro was seeking final approval of all weekly surplus energy program interim ex parte rate orders as set forth in Tab 11 of Hydro's application, as well as any additional surplus energy program ex parte rate orders issued subsequent to the filing of Manitoba Hydro's application and prior to the Board's final order in this matter.

And connected to the curtailable rates program, Hydro was seeking approval of interim ex parte Order 52/'12, as well as any additional ex parte orders issued related to the curtailable rates program.

The last item I'll mention from Manitoba Hydro's application is that Manitoba Hydro was seeking final approval of diesel-zone interim orders. They're lengthy, but, for the record, 17/'04, 46/'04, 159/'04, 176/'06, 1/'10, 134/'10, 1/'11, 148/'11, all of these subject to confirmation that MKO has provided the parties to the agreement with the required affidavits from representatives of signatories to the agreement.

From Manitoba -- sorry, from MKO's opening comments and from Manitoba Hydro's witnesses, we understand that the conditions precedent to Manitoba Hydro wanting to finalize diesel-rate zones has not been met. The Board has also been told that Hydro is conducting its business relationship with all customers in the diesel zone and is charging rates as if the interim rates are finalized and the settlement agreement has been in effect since 2004, even though the formal documentation from MKO has not been provided.

The Board can expect to hear from Manitoba Hydro as to what the current status is of this request. And related to that, Mr. Chairman, is a -- I'll call it a late-breaking email this morning from Mr. Anderson. I won't pull it up, but to the effect Mr. Anderson would like to have the opportunity to file with the Board, in writing, MKO's closing submission with an intention to have it provided -- his email said January 26th; I'm sure he meant February 26th, or tomorrow morning, at nine o'clock. And that -- that order -- sorry, that request from him is one that I'll leave to -- to all counsel to provide their comments on to the Board today. But that request did come in this morning from Mr. Anderson.

I want to say in conclusion, Mr. Chairman and Board members, that the volumes of Board counsel's books of documents, which have been marked collectively as PUB Exhibit 14, together with the additional Manitoba Hydro exhibits and Intervenor exhibits, will provide the Board with further identification of the issues in Manitoba Hydro's application that relate to the various rate increase requests being made by Manitoba Hydro, and on which the Board can now expect Intervenors to provide their submissions.

Mr. Chairman, as that concludes my comments, and as a result of a scheduling adjustment between the Consumers' Association of Canada (Manitoba) and the Green Action Centre, Mr. Gange will proceed next, following me, with the closing submissions on behalf of the Green Action Centre.

Before calling on Mr. Gange, I would ask the Board to maybe provide Ms. Ramage an opportunity to -- to take me up on my invitation about the MKO request to provide written comments tomorrow so the Board can hear Manitoba Hydro's comments as well.

Following Ms. Ramage, then following Mr. Gange, and depending on the timing of the morning recess, I suggest the Board would then call on Mr. Williams, and then, following Mr. Williams, either late this morning or maybe more likely this afternoon, the

Board would call on Mr. Hacault for closing submissions on behalf of their respective clients.

I would also indicate, Mr. Chairman, that this morning the Board has received a written presentation regarding the proposed rate increases for Manitoba Hydro. It was sent on behalf of Winnipeg Harvest by its executive director. I'll provide a copy to Ms. Lavigne to be incorporated as a presentation into the record of the proceedings, and I'll ensure that paper copies are provided to the -- to the Board, as well as parties in the room today.

So subject to any questions you would have of me at this time, Mr. Chairman, I would suggest calling briefly on Ms. Ramage, and after hearing from Ms. Ramage, then to call on Mr. Gange for his closing submissions. Thank you, sir.

(PRESENTATION BY WINNIPEG HARVEST INSERTED)

To the Board:

The proposed cumulative eight per cent annual increase in Manitoba Hydro rates is more than three times the rate of inflation.

For people with fixed incomes, or who are on EIA, these types of increases are extremely hard to budget for.

There has been no overall increase in Employment and Income Assistance rates since 1992. Even though EIA does pay Hydro bills for clients, retailers pass on their increased Hydro costs, so EIA clients pay more for food, clothing and so on.

People on fixed incomes do get an increase in pension plan cheques, but only two to three per cent a year. They also face increased costs from retailers passing on the Hydro rate increase.

All low-income people do use Hydro, in many cases, more than other groups, as their houses and apartments are often not as well-maintained as other properties.

Many low-income families who own their own house cannot afford insurance or live in areas of the city where they cannot get insurance. This disqualifies them from participating in Manitoba Hydro's Low Income Energy Efficiency Program.

For these reasons and others, people living with poverty use more hydro than other groups.

Winnipeg Harvest urges the Public Utilities Board to bear in mind the difficult circumstances already facing Winnipeg Harvest clients and other low-income Manitobans.

We note that, in the past, the Board has considered requiring Manitoba Hydro to enter into programs that would provide lower rates for low-income Manitobans.

Winnipeg Harvest supports the principle of such an order and thanks the Board for its intent. We caution that the devil is in the details of such programs. In a paper before the Board several years ago, Tom Carter detailed programs in other jurisdictions that were not helpful to low-income consumers because they were based on flawed assumptions, resulting from a lack of consultation and understanding.

We believe that any program that is entered into must be agreed to by the people it is intended to benefit, though direct consultations with low-income consumers and organizations that represent them.

Winnipeg Harvest stands ready to play a helpful role in such a process.

We thank the Board for its consideration of this matter.

Yours sincerely, David Northcott, Executive Director

(END OF PRESENTATION)

THE CHAIRPERSON: Merci, Mr. Peters. Maitre Ramage...?

MS. PATTI RAMAGE: Thank you. Manitoba Hydro does have some concerns with Mr. Anderson's proposal. Mr. Anderson appeared during the opening comments of this hearing, and he has not appeared since. Nevertheless, we understand that Mr. Peters has kept him informed regarding the schedule throughout the proceedings. And it's been over four (4) weeks since the close of the evidentiary portion of the hearing completed.

Manitoba Hydro certainly understands the tendency to leave the heavy lifting, with respect to preparing argument, to the end and perhaps not taking advantage of the four (4) weeks. That's perhaps why a few of us look a little tired in the room and why we have devoted our weekend to being at the office.

But, nevertheless, the Board set a deadline for us, and we were given plenty of time pre prepare -- to prepare. And we -- everyone in this room, I believe, has met that deadline.

Tomorrow was set aside to fine tune final argument; it wasn't set aside to review and address matters not previously raised or -- or to review arguments that weren't provided today. And I'd add that, for personal reasons, I'm not available tomorrow to -- or at least the better part of it, to be reviewing a new argument that -- that isn't presented today. In the time that I do have, I think it's critical that we address the arguments we hear today.

So Manitoba Hydro does have serious concerns with Mr. Anderson's proposal. At the same time, we recognize that this Board is generally reluctant to deny anybody the right to be heard.

We also recognize that the delay in dealing with the diesel is as a result of MKO not having provided true copies of the settlement agreement filed with this Board. And I think, during the evidentiary portion of the hearing, you heard from Manitoba Hydro that we are at a loss as to why that hasn't been filed. We understand it is completed and that it is in Mr. Anderson's hands. So we don't know why it hasn't been filed.

So our proposal would be, in balancing all those interests, is that Mr. Anderson be afforded the opportunity to file his argument, provided it's accompanied by the true copies of the settlement agreement that will allow this Board to render its final decision without conditions, as Manitoba Hydro is proposing.

And if the Board elects to proceed in this fashion, the one (1) caveat we'd have is, again, because of the time limitations, if Manitoba Hydro determines that it requires some additional time, that it be afforded the opportunity to respond on writing, perhaps -- as soon as possible, by mid next week, if there's anything raised in that argument that we had not anticipated that we -- that we have not already addressed in the -- in the draft that we've put together to date.

So that would be Manitoba Hydro's view of a means to accomplish this and perhaps put this diesel to bed once and for all.

THE CHAIRPERSON: Thank you, Maitre Ramage. I think what we'll do is we'll reserve judgment on that particular issue, give us time to -- to talk as a panel, and we'll -- we'll let you know, probably after lunch, what we plan on doing. So thank you -- thank you very much, Maitre Ramage.

I now turn to Mr. Gange, if you wouldn't mind providing us with your comments, please.

CLOSING COMMENTS BY GAC:

MR. WILLIAM GANGE: Thank you, Mr. Chair. I'd like to commence by thanking My Learned Friends, especially Mr. Williams, for accommodating me. When we set the scheduling, sometimes it -- it conflicts with other things. I'm in the middle of a trial, and I -- so I did get an accommodation from the trial judge with respect to this argument. But this will -- I don't want to appear to be rude. I probably am rude, but I don't want to appear to be rude. And as soon as my argument is finished, I will be leaving.

My usual practice would be to -- to listen to the arguments of -- of Mr. Hacault and Mr. Williams and Ms. Ramage, but I don't have that opportunity. So I will leave and -- and bid farewell to this portion of this hearing.

I -- I've provided to the parties and to the Board a written argument. You should have a bound copy of that. Professor Miller and I have -- have prepared this, so I'm going to go through it. I hope it will -- the fact that I'm going to be reading it may be a little tedious, but I -- I will run that risk.

With respect to the introduction, in the initial comments, Professor Miller advised the Board that the Green Action Centre is a non-profit organization that promotes practical green measures to improve the sustainability and quality of life for Manitobans. 'Living green, living well' is the slogan of Green Action Centre. Our research, education, and advocacy are addressed to individuals, institutions, and businesses and governments, including this forum.

The Green Action Centre and its predecessor, Resource Conservation Manitoba, along with Time to Respect Earth's Ecosystem, which we used as RCM/TREE, have participated before the Board for some significant period of time, providing comments on the -- the applications of Manitoba Hydro and, at times, Centra Gas from the perspective of the questions of sustainability, social justice, and quality of life. The many activities of Green Action Centre are displayed at -- on the web at Greenactioncentre.ca.

Green Action Centre highly values the importance of Manitoba and its premium product, hydroelectricity. We advocate policies to ensure that the benefits are optimized, not squandered; that Manitoba Hydro and its assets and future developments are protected from major risks; that Hydro's enabling potential to multiple other renewable energy sources through firming is effectively realized; and that costs and benefits are distributed justly to -- and to maximum advantage to Manitoba and beyond. Aggressive

Power Smart programs and Power Smart pricing of energy, such as inclined rates, are two (2) strategies to promote these ends.

We understand that the focus of this hearing was Manitoba Hydro's revenue requirement with differentiated cost of service and rate design issues severed for another process. At this stage, the panel will appreciate the vast number of issues that contribute to the vin -- final determination of what constitutes just and reasonable rates -- virtually the entirety of the Corporation's operations and plans -- and the natural, economic, and social context within which they take place.

As Professor Miller stated at the opening on December 10th, a startling fact that has dominated our thinking and, we submit, dominates the projected costs that are the background to the revenue requirement is the steep rate of increase of Manitoba load.

As Manitoba Chair -- Manitoba Hydro's president, Scott Thomson, told the Winnipeg Chamber of Commerce last September 19th, electric -- electricity use in Manitoba is projected to grow by 1.6 percent, or 80 megawatts of peak demand, annually, and this is expected to continue well into the future.

To place this is context, the capacity of the new tim -- 200 megawatt generating station at Wuskwatim will be used up in only two and a half (2 1/2) years. To supply this growth, Manitoba Hydro requires additional capacity by 2020, which is only eight (8) years away.

Figure 2 of the 2012/2013 power resource plan shows the forecast relentless increase in peak -- peak demand. And on page 2 we've reproduced Figure 2 which, as you can see, is a straight curve, a steep curve straight up. The projected demand requires a response. Doing nothing is not an option, as Scott Thomson reminds us.

The future is now, in terms of forecasting, planning, preparation, provisioning, decision-making, and the costs that these entail. In our brief, we shall comment on a number of elements effecting both the demand trajectory and potential responses. And in particular, we shall comment on consultations with respect to the cost of service study and rate design proposals, fuel switching, demand-side management, intergenerational equity, confidentiality, marginal costs, revenue requirement, and the disposition of interim orders.

At page 3 of our presentation, I'm going to start with the consultation process. Although class-differentiated cost of service analysis and rate design issues were severed from the current hearing for treatment in a subsequent process, procedural issues related to these can not be avoided.

In a November 6th letter to Ms. Ramage on scope and process, the PUB indicated its preference for Intervenors to file rate design proposals in the subsequent process and stated:

> "in the interim and until the separate hearing is held, parties are encouraged to meet with each other to review and explain their cost of service and rate design proposals, including developing specific proposals, to allow for a more efficient process in the spring of 2013."

We attached that letter from Mr. Simonsen, dated November 6th, 2012, as Tab 1 to this presentation.

In response to the instruction from the PUB, Professor Miller wrote to Robin Wiens on November 25th, and we've reproduced that as Tab 2. And Professor Miller invited such -- just such a consultation prior to the spring hearing and proposed four (4) topics in order of priority to Green Action Centre. The first was the residential rate structure. The second was the non-time-of-use general service rate structures; 3) general service time of rate -- time-of-use rate structure; and number 4, cost of service issues.

In the December 7th, 2012, rebuttal evidence, Manitoba Hydro states,

"It is made application for the implementation for time-of-use rates for general service 30 kV and for the implementation of rate increases on a class-differentiated basis and that these matters, in conjunction with the review of the supporting cost of service study, are the only matters that should be addressed in the proposed public hearing process and any consultation sessions proceeding it."

Manitoba Hydro further stated:

"Significant consultation has already been undertaken on the time of use rates proposal, with both directly affected customers and other interested parties. Manitoba Hydro offers to consider the merits of hosting a technical conference regarding its proposed cost of service study prior to any scheduled public hearing, but only to explain the proposal and not [and I quote] to solicit alternatives to its already filed proposal."

Regarding other rate proposals, Manitoba Hydro had this to say:

"Manitoba Hydro does not support GAC's proposal to review residential rate structures at this time, nor does it propose to expand its current proposal to include non-time-of-use general service rate structures in the upcoming public hearing process. Manitoba Hydro is prepared to consider stakeholder conferences on these matters once the current GRA, including the cost of service and time-of-use rate review, is concluded."

Green Action Centre makes the following observations about this exchange. First, while it is true that a very significant consultation was undertaken over several years with MIPUG members, their consultant, and a number of departments at Manitoba Hydro, this was not the case with other parties, including Green Action Centre, which I'd identified a rate structure reform as a key issue since the commencement of the -- of Green Action Centre's interventions a decade ago which -- that's at Appendix 36.1, slides 2 and 3.

We participated in one (1) technical conference last August in which the results of the MIPUG consultation were presented and questions invited, much like the technical conference Manitoba Hydro is willing to consider for its cost of service study proposal.

Secondly, while it is true the Manito -- that MIPUG members are directly affected by industrial rate structures, the sharp demand increase driving billions of dollars of new investments and their costs in two (2) decades of rate increases twice the inflation affects us all. We submit that conservation rates and programs for all customer classes to address the spiralling demand are urgent.

Thirdly, we appreciate that Manitoba Hydro wants quick approval of industrial rate and cost of service study proposal, years in the making, and is impatient with potential further delays. However, the calendar opportunity for such a review is running out with the Centra Gas process soon underway.

Moreover, Manitoba Hydro has indicated that it is unlikely to ask for a second rate change to adjust cas -- customer class allocations from a new cost of service study and new rate structures prior to its next rate application.

So at the decision -- decision point time is insufficient for a hearing with the detail and thoroughness of the current process to review a new cost of service study and time-of-use proposal. Yet it's -- it is important to Manitoba Hydro, MIPUG, Green Action Centre and previous PUB orders that we get on with the job of reforming rates.

Number 7, in our November 25th letter to Mr. Wiens at tab 2, Green Action Centre said:

> "Inclined residential rate structures have been under consideration for a decade, supported by repeated directives and recommendations from the PUB and Manitoba Hydro's

corporate strategic plan which
commits to the strategy to use rate
design and targeted price signals to
encourage price -- energy
efficiency."

I believe they're trying to develop rate structures through a ponderous expensive dialogue in which rate proposals by Manitoba Hydro and responses from the PUB occurring at two (2) year intervals has been a dysfunctional process.

The PUB's recommendation above, that is consultation prior to a formal hearing, provides a constructive alternative we should seize.

Number 8, Green Action Centre believes that the best proce -- prospect for creating an efficient review of cost of service study and rate-design alternatives is to convene interested parties and experts by teleconference in combination with email, if need be, to flesh out alternatives, identify points of commonality and difference, plus issues regar -- requiring resolution and evaluations of pros and cons.

We believe that parties who have been working on these issues for years can, in a collaborative setting without prejudice, move quickly and -- and to -- to understand and organize the alter -- alternatives so that a subsequent formal process begins with a common understanding of alternatives, facts and data and so we can deal with the policy issues efficiently.

And, finally, with respect to this issue, the conclusion and the recommendation that we make is that since Manitoba Hydro has expressed reluctance to undertake this course themselves, we recommend that the Public Utilities Board, through its staff, convene the parties to undertake this task.

I'll then move to the fuel switching report. Fuel switching from natural gas arises in two (2) -- from natural gas to electricity arises in two (2) ways. The first is that existing customers replace their natural gas space and water heating equipment with electric equipment.

Secondly, it arises when developers choose the installation of electric heating equipment in new homes in areas that are serviced by natural gas. Manitoba Hydro has filed Appendix 26 to this hearing as an analysis of the impact of fuel switching. The study concludes that switching to electricity for space and water heating has consistently adverse impacts from the perspective of customer, utility, provincial leakage and global environment.

Selecting electricity over gas is undesirable by every measure considered by Manitoba Hydro. Fuel switching is projected by Manitoba Hydro to account for 11 percent of the increase in net firm energy requirements from 2011/'12 to 2030/'31. And that is taken from Mr. Chernick's analysis, which is included at Tab 3 in the lines 19 to 24.

This increase is significant and unnecessary in the consumption of electricity. GAC is concerned about the information contained in the fuel switching report. The Green Action Centre believes that proper measures ought to be introduced to ensure that better choices are made by customers that would reduce this unwarranted load growth.

As an example of the problem, Manitoba Hydro estimates that, over the next twenty (20) years, on average, 46 percent of new homes in gas-available areas will choose electric space heating rather than natural gas. And my source for that is Tab 4, IR GAC/Manitoba Hydro Second Round, Number 12.

Secondly, between 2005 and 2009, 83 percent of new residential customers installed electricity for water heating in gas-available areas, and only 2 percent of new residential customers chose natural gas water heating. And the reference for that is Tab 5, Undertaking Second Round 15.

Mr. Chernick suggests that there are a number of methods that could be implemented to reduce the load growth due to fuel switching. One method is directly under the control of this Board. This is through rate-design measures.

We recognize that rate design has been severed from this hearing and will be considered in a future hearing. Mr. Chernick makes the point, however, that an inclining block rate would be a powerful incentive for customers who have access to natural gas to continue to use natural gas rather than switching to electricity.

Mr. Chernick also stresses that DSM programs that provide better information, rely upon trustworthy vendors with appropriate incentives, pay an adequate share of capital cost, and offer low-cost, on-bill financing transferrable to future residents would assist customers to make choices that are more preferable.

In addition, Mr. Chernick points out that the builders of electrically heated homes should pay connection fees that reflect the true costs imposed upon home buyers and the province by the installation of electric heat. I believe, Mr. Lafond, that you made that same suggestion, or -- or raised that question during the presentation of demand-side management, that why aren't there greater connection fees?

I'm then going to move to demand-side management. This is at page 6 of the written presentation. The Green Action Centre has consistently acknowledged the excellent work on demand-side management efforts made by Manitoba Hydro in the past. In addition, Green Action Centre has acknowledged the well-trained and dedicated staff responsible for GSM for the Corporation.

Indeed, Mr. Dunsky, in both his written material and in his oral presentation, has high praise for the staff members that make up the DSM team. In fact, it appears to us that GAC and Mr. Dunsky have more faith and belief in the abilities of the DMC team than Manitoba Hydro gives credit to the DSM efforts.

Mr. Dunsky has reviewed the DSM savings presented in the Power Smart plan. Mr. Dunsky points out that the current Power Smart plan would result in a decrease in the savings targets of Manitoba Hydro over the next decade. Although Manitoba Hydro has been a leader in the past when compared to other utilities in Man -- in North America, Mr. Dunsky concludes that

Manitoba Hydro plans to fall behind other utilities over the time period reviewed.

By Mr. Dunsky's analysis, Manitoba Hydro is currently at the top of the third quartile when compared to other utilities in North America on savings ratios based upon DSM-planned savings. By 2025, however, Manitoba Hydro is projected to be close to the bottom of the fourth quartile. By 2020, the planned savings ratio for Manitoba Hydro is less than a quarter of the ratio planned for in Nova Scotia, and is less than one-seventh those planned in -- for in Massachusetts and Vermont.

That was in -- that was pointed out in Mr. Dunsky's pre-filed testimony at page 13. But I think more effectively, slide 21 from his presentation, which is reproduced at page 6, shows the slippage of Manitoba between the current period and 2030 in the red arrows going downwards as compared, for instance, to Nova Scotia, British Columbia and Minnesota and Main going upwards -- Massachusetts, I'm sorry.

It is tempting to attempt to blame the difference in the projected savings ratios upon differences in the various markets. Mr. Dunsky did a very thorough analysis both in his written material and his -- in his oral submission to make fair comparisons between the regions he examined.

One (1) point raised to ex -- distinguish Manitoba from other jurisdictions is the low rates charged in Manitoba in comparison to other regions. Mr. Dunsky does not, in fairness, discount entirely the possibility that rates do have an impact. He does, however, state that he does not find a compelling argument that the difference in the rates could result in savings ratios that are separated by multiples, as shown on the previous page in slide 21.

Mr. Dunsky points out that in many of the jurisdictions he has reviewed planned savings are not voluntary targets but are hard requirements that must be met. Failure to meet the incentives could put either managerial or organizational survival at risk.

DSM is the lowest cost resource for balancing supply and demand. The cost of DSM is two (2) to four (4) cents per kilowatt hour. Mr. Dunsky concludes that there is much that could be done by Manitoba Hydro to increase its savings by virtue of demand-side management measures. This Board ought to do all that it can to encourage Manitoba Hydro to increase its DSM efforts.

Mr. Dunsky points out the advantages of adopting an aggressive DSM program. Those advantages include the fact that it presents the lowest utility cost, the lowest utility risk and the lowest environmental impact. He points out that it is the only resource that can reduce customer bills even it if does increase customer rates.

And we've repeated on numerous occasions throughout numerous years and numerous hearings that customers pay bills, they do not pay rates. It is also the only resource that provides added customer value in terms of comfort and productivity. Missed DSM results -- missed DSM, results in multiple lost opportunities.

Mr. Dunsky also makes a compelling case that DSM has the ability to defer the need for expensive capital investment in new dam construction. The graph presented at the Dusk -- Dunsky presentation at slide 43 depicts the effect on energy consumption of increased DSM savings.

We've show -- reproduced that at page 8 of the presentation. And you can see that the green line shows the effect on -- on energy deferral at -- at ramping DSM up to 1 percent, and then further increases -- or fur -- pardon me, further savings in energy growth in scenario 2 and scenario 3.

At page 9, the graph at the Dunsky presentation, slide 44, shows the effect of increased

DSM upon capacity. And again, the green line shows the effect at ramping up the savings to 1 percent, very significant increase -- par -- pardon me, very sig -- significant savings with respect to deferral in the peak demand, as shown on -- on slide 44.

For the benefit of this Board, the issues raised by Mr. Dunsky were raised by Mr. Chernick on behalf of the Green Action Centre at the last GRA hearing. At that time, the Green Action Centre made the following recommendations. The Green Action Centre recognized that it was not the role of the Board to micro-manage Manitoba Hydro in its DSM activities. The Board should, however, set targets for Manitoba Hydro to reach.

And at that time, we recommended that the Board direct Manitoba Hydro to benchmark its DSM programs to the programs of the three (3) lighting -- leading providers, as identified by Mr. Dunsky in the previous hearing on behalf of -- when he was doing work as a consultant on behalf of Manitoba Hydro. And he listed specific gas and electric efficiency in Vermont and Xcel Energy Minnesota.

We secondly recommended that the Board require Manitoba Hydro to increase its efficiency investments and to -- and its achievements to reach the

90th percentile of North American jur -- jurisdictions and that the Board direct Manitoba Hydro to abandon the use of the RIM test in program design or screening.

In this hearing, we think that those recommendations still have -- have significant value. But what we are recommending is that the Board set a conservative floor requiring Manitoba Hydro to ramp up its DSM programs to achieve energy savings of 1 percent of domestic sales by 2015 and to sustain that ratio thereafter. This would result in energy savings of 0.8 percent for the three (3) year period between 2013 and 2015. So the ramping up would reach 1 percent by 2015 and the -- the average rate would be eight (8) -- .8 percent.

GAC also endorses Mr. Dunsky's recommendation that special consideration be given to examining whether, and if so, to what extent, the targets ought to be higher. GAC would also recommend that the Board put in -- build into the rate application an amount to supplement DSM spending in the amount of $41 million per year, as suggested by Mr. Dunsky in slide 41 of his presentation so that we've rep -- reproduced slide 41.

And you can see that in the green portion, Mr. Dunsky identifies that he costs that he is recommending of increasing DSM spending the rate of 1 percent by 2015 would cost the utility $329 million over those four (4) years. And so we've calculated that at $41 million per year. It might actually be $42 million per year.

The Green Action Centre is not prematurely rejecting Manitoba Hydro's preferred development package prior to the NFAAT. Our position is that -- that the perpetually rising demand curve from the power resource plan moves from 45 megawatts -- 4,500 megawatts to 7,400 megawatts of capacity by 2047/2048. That is an increase of 2,900 megawatts, which uses the entire capacity of Keeyask, Conawapa, and a second Keeyask.

If Manitoba Hydro's formula for success is to sell into the export markets, DSM preserves that capacity much more cost effectively, allowing exports to grow through new development, if that should prove to be a desirable strategy.

I'm going to move on page 11 to intergenerational equity. The question of intergenerational equity is a central component of the perspective that GAC attempts to bring to the review of this and the other rate applications in which it has participated.

Future ratepayers ought not to be saddled with an unfair burden of debt and costs as a result of decision made by this generation. Today's ratepayers enjoy the blessings of decisions made by previous generations which have resulted in Manitoba ratepayers paying far less than what a proper rate for electricity should be currently. In addition, for many years, Manitoba ratepayers have paid less than the actual cost of production of electricity because of the export sub -- subsidy that until recently has lowered rates.

Manitoba Hydro has suggested changing its depreciation methodology from the Average Service Life method to the Equal Life Group method. Much time was spent during this hearing examining the cost of the change and challenging the bonafides of the change.

Depreciation is, by its nature, an accounting entry that is, at best, an educated guess at applying normal rates of decay to an existing structure that may or may not be depreciating at the suggested rate. If it is depreciating at the predicted rate, it does so by coincidence, rather than by design.

It is the view of the Green Action Centre that the appropriate method of depreciation is to apply the rate that is most likely to reflect intergenerational equity. Green Action Centre accepts the position advanced by Mr. Kennedy in his evidence that the Equal Life Group method meets the role of depreciation to make the appropriate charges of the consumption of the value of the assets over their specific life. Green Action Centre accepts Mr. Kennedy's view that the ELG method is fairer in its allocation between generations with respect to the gen -- the depreciation expense.

And what I've done there is to attach at Tab 6 the questions that I asked Mr. Kennedy at pages 3,576 through to 3,580 on the question of the fairness and intergenerational aspects of the depreciation methods.

Confidentiality issues: An issue that has been a recurring problem from the perspective of GAC and its consultants has been Manitoba Hydro's application of the principle of confidentiality to justify not sharing with Intervenors and to justify the manner in which Manitoba Hydro provides information.

It is the position of the -- the Green Action Centre that Manitoba Hydro is in -- unduly restrictive in its application of confidentiality before this Board. I will acknowledge that -- that Manitoba Hydro, in this hearing, did share a number of

-- of Excel spreadsheets, for which we were grateful.

Mr. Chernick has an advantage that many of us involved in this hearing do not have: He testifies regularly before regulatory boards across North America. Mr. Chernick testified that he cannot recall any other utility company that has refused to make its proof of revenues and bill comparisons calculations available. Mr. Chernick gave num -- numerous examples of companies providing their material in Excel spreadsheets. This included hearings in Nova Scotia, Alberta, Utah, Massachusetts, and Maryland.

The reason that this is -- issue is so important is that it allows the Intervenors' experts the ability to test the conclusions presented to the Board by adopting other models that may produce results that differ from those presented by Manitoba Hydro.

The effect of the re -- refusal to produce material in the Excel spreadsheet format is that it drives up the cost and the time required by Intervenors to conduct a proper review of the case presented by Manitoba Hydro. It also -- I didn't put this in, but it also introduces an element of uncertainty in that when the transfer is being made from the PDF format to the Excel spreadsheet, errors can be introduced in the transcription.

In addition to the format issue, however, Mr. Chernick is of the view that the content provided by Manitoba Hydro is not sufficient for a revenue -- for a proper analysis by Intervenors. Mr. Chernick testified that marginal cost documentation was not provided. He provided to the Board examples of other utilities that routinely provide full avoided cost estimates. He pointed out that in New England, the regional avoided costs are derived -- the -- this entire process is derived in a collaborative process that includes the utility, consumers' representatives, environmental advocates, and the regulators.

An understanding of marginal costs allows the Board to understand the value of load reductions and the costs of load increase. The proper review of marginal cost information has an impact upon the understanding of demand-site management programs, of proper analysis fuel-swish -- switching issues, and rate design.

Manitoba Hydro takes the position that commercially sensitive material ought not to be available to the public through this Board because counter-parties could use that information to the disadvantage of the Corporation in the negotiation of -- of new contracts. We recognize that this is a problem.

Mr. Chernick has provided examples, however, of how that issue is dealt with elsewhere through confidentiality agreements that Intervenors and their consultants must sign in order to obtain commercially sensitive material.

There's no magic to these types of arrangements. There's no reason why a similar process could not be adopted before this Board. We provided to -- in -- as a -- as an undertaking in PUB/GAC Number 1, examples of those confidentiality agreements.

It is the position of the Green Action Centre that there ought to be a fuller and more transparent process in place before this Board for the review of Manitoba Hydro's test years, and especially for the NFAAT, when enormous financial commitments and their alternatives are at stake.

I'm going to move to Section F, the revenue requirements. The Green Action Centre is satisfied that Manitoba Hydro has met the requirements imposed upon it to establish that the requested rate increase is just and reasonable.

Green Action Centre agrees that there is a need to invest in existing infrastructure for reliability purposes. Green Action Centre also agrees that the drop in export revenues arising from the decline in prices for short-term export sales has had a negative impact upon the financial position of the Corporation. Green Action Centre therefore supports Manitoba Hydro's request for a 3.5 percent rate increase, effective April 1st, 2013, and approval to maintain in base rates the revenues previously billed and collected in the deferral account.

In addition, however, the Green Action Centre is of the view that the evidence presented by Mr. Dunsky supports the position that there ought to be funding to support DSM programs that will, in the long run, result in a significant reduction of energy needs in the province.

Mr. Dunsky has suggested a target of 1 percent for the 2015 savings, at an average savings of .8 percent for the three (3) year period of 2013 to 2015. The costs of this initiative, as we understand it from Mr. Dunsky's presentation, is $41 million per year for the three (3) years.

It is anticipated that if this amount were to be added to the rate schedule, there would be no further need to add an additional amount, as the DSM budget would be incorporated into the base rate.

GAC recommends, therefore, that the rate increase be 3.5 percent, plus the additional $41 million, which -- that -- we think that's 1 percent for 2013, with an additional 1 percent dedicated to DSM in each of the following two (2) years, to generate the necessary $41 million annually required to fund an ambitious DSM program.

Finally, with respect to the -- the interim orders, GAC recommends that the Board provide final approval of the interim orders set out in the rate application. It is the view of the Green Action Centre that Manitoba Hydro has provided the necessary evidence to establish that the matters set out in the interim ought to be given final approval.

That is the submission of the Green Action Centre.

THE CHAIRPERSON: Thank you, Mr. Gange. The panel has no questions. I do have a question in respect of -- that you didn't comment on diesel, the diesel rate.

MR. WILLIAM GANGE: Well, with res -- with respect to the issue of the fact that the -- that -- that the agreements have not yet been delivered, the way that -- the way that the -- the interim order has been framed is fine. We're -- we're fine with that. We have no idea why the -- why the final agreement has not been signed. It's a mystery.

MR. RAYMOND LAFOND: Just a matter of clarification. On page 5, the second paragraph, under "Fuel Switching," the very last two (2) sentences:

"Further, between 2005 and 2009, 83 percent of new residential customers installed electricity for water heating in gas-available areas. Only 2 percent of new residential customers chose natural gas water heating."

So I'm not sure what we're saying here, 83 percent in one (1) case, and we're saying only 2 percent --

MR. WILLIAM GANGE: Yes.

MR. RAYMOND LAFOND: -- in the other case?

MR. WILLIAM GANGE: Mr. Lafond, Ms. Morrison provided an explanation for that during the cross-examination that I conducted. There is -- you're -- you're right, there's 13 percent missing in -- in that total, but Ms. Morrison explained that. Unfortunately, I didn't bring a copy of it. But I know that I reviewed that yesterday when I was going over this, and there was an explanation for it.

But the -- the important point of that was that in gas-available areas, where -- where there is no excuse for people not putting in -- and I'll -- a gas water heater, 83 percent -- or 80 -- that number, 80 -- 83 percent choose electric heating.

And -- and Ms. Morrison did explain during the cross-examination that that ha -- that there's a number of reasons for that. One (1) is the chimney issue and -- and one (1) is the increased cost of the side-vented gas water heater. But -- but that's what we think has to be addressed to make it economically viable for people to put in gas water heaters.

MR. RAYMOND LAFOND: Thank you.

THE CHAIRPERSON: I believe that's the end of the questions for the panel. I wish to offer you best wishes for that trial that you have to go to now. So thank you for being here today, this morning, to give us a presentation.

I think it's an appropriate time to take a break, so I suggest we take ten (10) minutes before we hear from Mr. Williams.

MR. WILLIAM GANGE: Thank you very much, sir. And I will excuse myself. I appreciate -- thank you.

--- Upon recessing at 10:28 a.m.

--- Upon resuming at 10:45 a.m.

THE CHAIRPERSON: I believe we're ready to resume the proceedings. So I will turn the microphone over to you, Mr. Williams.

CLOSING SUBMISSIONS BY CAC (MANITOBA):

MR. BYRON WILLIAMS: Thank you. Just before we get into the outline of our argument on behalf of our client, I should note that Ms. Desorcy is here. And she spent many hours with me, both on Friday and over the weekend, developing these submissions.

We also -- I would note, Mr. Chair and members of the panel, that when you get to the outline titled, 'The Tale of Two (2) Hydros', we have tried to put in numerous excerpts from the record. And it might have -- but when one is cutting and pasting out of those documents, from time to time words don't always kind of appear in exactly the same order, so we put in the -- the footnote.

And I would always recommend to the Board that -- that you take a second look at the transcript. We do our best to show fi -- fidelity to the transcript, but from time to time, I've noticed a couple of cut and paste that look like they're just slightly -- slightly off. I don't think the intent has changed, but there's words missing here and there.

And the -- I -- I have, clearly, a son who loves Charles Dickens. And I'm not sure how a hockey player did that. But Ms. Ramage got her son -- or daughter on the record. So, hi, Sam.

But, Mr. Chair and members of the Board, it's -- our -- our client is pleased to be here today to -- to talk to you about 'A Tale of Two (2) Hydros'. And -- and we took that quote obviously, turning to page 2 of the outline, from -- from Dickens's 'A Tale of Two Cities', because the opening sentence of -- of that -- that book, in a way, captured some -- the really interesting nature of this application.

The book starts:

"It was the best of times. It was the worst of times."

And certainly ,if we compare this bad time for Manitoba Hydro compared to one (1) of my early experiences with Manitoba Hydro right after the great drought of '03 and '04, when the debt-equity ratio had plummeted to 88/12. Certainly, our clients are not happy at all about the proposed rate increases, but they know some -- note some distinct differences and --

and -- which suggest that -- that, in some ways, these are indeed the best of times.

Certainly, from Manitoba Hydro's perspective, the retained earnings at the end of fiscal 2011/'12 are -- are, to our knowledge, as high as they have ever been. And while the -- there are of course material risks to the Corporation, another positive aspect of Hydro's current situation is that the risks associated with a five (5) year drought are lower than -- than they were calculated just a couple of years ago for a variety of reasons, the biggest one (1) probably that the -- the bad events in the other -- in the export market have -- have already occurred.

So from the best of times, there's two (2) aspects that certainly suggest that perhaps Manitoba Hydro is in not as dire of a circumstance as it -- as it was in -- in 20 -- back in the early February 25, 20132000s.

But turning to page 4 of the outline, this is a -- a very troubling application for our client. The sheer numbers associated it with Manitoba Hydro seeking some $197 million in incremental revenue adjusted -- adjustments for the 2012 and the 2013 fiscal years is of concern.

And -- and the sharp deterioration in --

in the promises of Manitoba Hydro, just two (2) years ago Manitoba Hydro was telling -- telling consumers that they would -- they would have a decade of investment to -- to be followed by a decade of returns. Now if -- if one looks out into this -- what was projected to be the decade of returns just two (2) years ago, you can see that -- that it is a decade of rate increases pro -- indicated by Manitoba Hydro at roughly twice the rate of inflation - the indicated rate increase, not sought in this hearing, but indicated out past 2030 at 3.95 percent.

And obviously, on -- as set out on page 5 of this application, these are concerning times for Manitoba Hydro ratepayers. And we've used the example on this page of the impacts of someone heating their home with electric heat, whether in a First Nation community or in rural Manitoba. And you can see the first table on page 5 highlights the impacts of the monthly increases from -- or the increases from 2009 through 2013 if this rate application is accepted: eighteen dollars and fifty cents ($18.50) a month, two hundred and twenty-two dollars ($222) a year, and that at a time of an acute economic slow down.

The perspective becomes more -- or at least equally or perhaps more grim, looking out to

2020/'21, where again you see that the indicated rate increases suggest a monthly impact for that consumer of close to fifty dollars ($50) a month, between five hundred and fifty (550) and six hundred dollars ($600) a year.

At page 6 in the outline -- and the Board will -- we didn't cite it because it's been heard -- it's been Manitoba Hydro's mantra. The rate increases proposed are modest and balanced. And I was almost going to put in a quote from Swift about a modest proposal, but I thought that's too -- too literary for -- for my humble academic background. But we certainly did wonder if Manitoba Hydro was using the word 'modest' satirically.

Contrast the use of 'modest' in this hearing, when one looks at that $197 million hit to ratepayers, with -- with their definition in Centra. End I have no idea whether my client will be endorsing that application or not. But in -- in the Centra proceeding, Hydro is requesting that the PUB approve a modest 2 percent general rate increase effective August 1st, 2013.

And certainly without endorsing the proposed rate increase, that type of use of that adjective is certainly more appropriate than the context in which Manitoba Hydro has used it in this hearing.

And certainly, the question comes to our client, given the situation of Manitoba Hydro, the question that they pose at page 7 is: Is this fait accompli? Should we resign ourselves to dramatic rate increases? Is this the season of darkness in the winter of despair for Manitoba ratepayers?

And really, the answer to that depends on -- on a tale of two (2) Hydros and which version of that tale you accept. Is Manitoba Hydro merely a victim of unfortunate circumstances? Or has Manitoba Hydro played a role, a meaningful role, in authoring its own situation?

So tale 1 and the -- the faultless Hydro appears on page 8. It's a story of Shale Gas and its impact upon export revenues and export demand. It's a story presented by Mr. Warden, certainly in this hearing, of capital expenditure situations beyond the control of Manitoba Hydro; sticker shock, sticker shock. It's a story of the US recession. Those are really the big three (3) of the faultless Manitoba Hydro, and that's certainly a story that it has ably presented in this hearing.

But there's a different tale, as set out in page 9, and that's the tale that our clients endorse. And that's a tale of a Manitoba Hydro which has been buffeted by untoward circumstances, certainly in terms of the export market, but a Manitoba Hydro that has a lot of work to do to sharpen its pencil to -- to get its act in order.

And this is a Manitoba Hydro, as we note on page 9, that in our client's respectful submission, is staying behind the curve in asset management best practice. It was out of date, in our client's perspective, in 2008. It's made some strides, but it's still behind the curve even now.

It's a Manitoba Hydro that's swimming against the tide, the North American tide, in dramatically reducing incremental DSM savings. It's a Manitoba Hydro that's incurring dramatic -- that incurred dramatic increases in Wuskwatim's capital expenditures, including a 13 percent increase post, flowing from the capital expenditure forecast 2009, so after sticker shock presumably would have susided -- subsided with the great recession of 2008.

It's a Manitoba Hydro that, in our client's submission, has -- has had some shortcomings in its management of the diesel program, difficult as that program may be. And a Manitoba Hydro that has inadvertently inflated distribution and sub-transmission depreciation booked costs through the com -- computed mortality meth -- method. It's a hard one to say. I -- I'll come back to that in a little bit.

And it's a Manitoba Hydro, in our client's submission, that has brought to this Board excessive depreciation costs and front-loaded accounting costs that are not appropriate in the current circumstances in which ratepayers or Manitoba Hydro find themselves.

And it's a Manitoba Hydro that since 2004 has added one thousand (1,000) equivalent full-time employees to the rolls. A Hydro that is -- that in CEF, or capital expenditure forecast, '09 grossly understated the expected capital costs of the big three (3) -- Conawapa, Keeyask, and Bipole 3, and materially mis-read 2011/'12 opportunity market prices, even in IFF10-2.

So I'm not a good writer. I'm not a good author, because you're suppose to leave the ending to -- to the end. So -- but my client has asked me to give you a bit of a preview of -- of the ultimate position of our client, in terms of rates.

And in -- in terms of what they -- they will be recommending to the PUB that it accept is the 1 percent related to the deferral account for the 2012/2013 years; the 2 percent interim granted on 20 -- April 1st, 2012/2013; and the 2.5 percent interim granted on September -- in September of 2012.

But our clients are asking this Board to deny Hydro's application and rebate to Manitoba ratepayers the 1 percent related to the deferral account for 2010/'11 and '11/'12, as well as the 3.5 percent sought by Manitoba Hydro effective April 1st, 2014.

And certainly, perhaps in exhaustive detail -- I hope it's not exhaustive, but our client will -- has asked me to walk you through our arguments. But if you think, at the heart of the CAC (Manitoba) position, later you can go down to the -- the fine details, but really, in -- in a way, this is a big-picture hearing.

Our clients are not prepared to endorse Hydro's application for four (4) main reasons: 1) is the unbalanced nature of the Hydro application; 2) is the need to send an efficiency signal to Manitoba Hydro and our client's firm belief that the only way to send that signal is through rates; 3) is our client's judgment of the record of this proceeding; and 4), and not to be overlooked, is the necessity of mitigating consumer impacts in these -- in these times of slow growth, of layoffs, of times when -- when far too many Manitobans are struggling to make ends meet.

At page 12, our clients highlights what they consider to be the unbalanced nature of the Hydro application. And certainly, they strike a theme that is similar to that of Mr. Bowman in his written evidence and, to some extent, in his oral evidence.

And from our client's perspective, this -- the proposed rate application is not just, is not reasonable from a perspective of intergenerational equity, because today's ratepayers are being asked to pay for the, in quotation marks, 'sins' of poor estimating and capital expenditure control related to Wuskwatim, but also being asked to absorb a significant amount of risk related to the future, in terms of what they consider to be front-loaded accounting and depreciation costs, as well as very significant amount of debt related to capital projects which are not yet approved.

And from the residential customers' perspective, there's also a strong belief that they will be experiencing excessive delays in re -- in the return of overbooked depreciation costs to consumer.

Our client is also uncomfortable with

being asked to absorb inefficiencies in the operation of the diesel program and the offloading of risks from the Rus -- Wuskwatim partner to ratepayers. And again, my client is -- is not opposed to the renegotiation of the -- of the agreement, but they -- they are unimpressed by the impacts of that renegotiation upon Manitoba Hydro's bottom line and upon the rate proposal.

At page 13, our clients highlight one (1) of the central aspects of -- of regulatory thinking. And it's -- we had this discussion with Mr. Bowman in his -- in -- in our client's cross-examination of him, about one (1) of the central roles that this Board plays in the absence of a competitive market is the -- the role of disciplining natural or legislated monopolies to run their business efficiently.

And it's a particularly challenging task when the regulators concerned about the efficiency of -- of a monopoly -- when it's a Crown monopoly. And certainly the -- it's clear that the previous Board, under former Chairperson Mr. Lane, struggled with this issue.

In -- in the early years as a regulator, you could see relatively generous rate increases coupled with stern words of admonition. As he moved to the later part of his regulatory term, you could certainly -- the inference our client drew was that -- that the -- the im -- the impression grew that stern words were not enough.

And certainly, our clients certainly urge upon you in this hearing, if you have discomfort with the direction of Manitoba Hydro's expenditures, if you have discomfort with -- with some of their -- the prudence and reasonableness of some of their costs, then you can use fancy words. But our -- in our client's experience, actions speak louder than words. And our clients certainly are calling up this Board if it -- if it, in its discretion deems it appropriate, to signal their discomfort with the direction of Hydro's costs by sending a rate signal to Manitoba Hydro.

At page 14 our client repeats the words -- or not the words, but the thrust of the Board Order 5/'12, in terms of the role of the regulator in setting just and reasonable rates.

Usually it's task 2 in our formulation of this task, but for the -- of this -- these five (5) points, but for this hearing we've started it as number 1, ensuring that the actual and projected costs incurred by Hydro are necessary and prudent, ensuring that its forecasts are reasonably reliable, assessing the reasonable revenue needs of the Corporation in the context of its overall general health. And certainly this in -- includes considerations of risk-related reserves. Less important perhaps for thi -- this hearing are the last two (2) points: determining appropriate allocation of costs, and also in -- when the situation demands it, setting just and reasonable rates.

In part 2 of our -- our client's submissions, starting at page 15, they pose the question:

"Are the actual and projected inc -- costs incurred by Man -- Manitoba Hydro necessary and prudent?"

And the bullets on the rest of this page are merely an outline for the discussion which follows, and I've -- I've referenced them before. So rather than go through them, I'm just going to -- to flip over to page 16. But we do want to start with asset management.

And if you think back to Board Order 2/'08, the -- the two (2) Board orders by this -- the Public Utilities in 2008, and there's certainly a number of references to them in thi -- in this submission, in our client's respectful view, both Manito -- both the Manitoba Public Utilities Board and certainly our client, in those proceedings known as the Coalition, were -- were urging Manitoba Hydro to get their capital asset management program in order.

They were warning Manitoba Hydro that their Low Income Energy Program would not succeed as currently designed. They were urging Manitoba Hydro to get their day-to-day expenditures under control. And this Board in particular was warning Manitoba Hydro that their capital programs entailed more risk than Manitoba Hydro envisioned or was portraying.

So at page 17, our clients begin an extensive discussion of asset management. And on page 17 -- and I'm not going to, I'm sure you'll be relieved, walk you through that extensive quote. It's from the KEMA report, which is actually now four (4) years old. But KEMA, which was a re -- which is a ref -- an exhibit on this record, CA-13 -- CAC (Manitoba)-13, is a compilation of asset management best practice and principles compiled for the purposes of the Ontario Energy Mor -- Board.

And KEMA makes the point that asset management is essential, but it's not new. This issue is not something that was discovered in 2008. Indeed, in the United Kingdom, utilities have been working on it for ten (10) to fifteen (15) years. And certainly in Canada, it was not a novel discovery in 2008.

But the thrust of the increased emphasis over the last ten (10) to fifteen (15) years on asset management does echo a concern of Manitoba Hydro, that we're in a period of a -- where infrastructure is getting older. And at this point in time in particular, it's important to optimize asset replacement in order to minimize future operating costs.

And so we put in, on pages 17 and 18, some selections from KEMA, making the point of how important asset management is, in terms of allowing modern corporations to make prudent and reasonable decisions. And at the bottom of page 18, you'll see a reference to the fact that of course this is not new, it's been going on in the United Kingdom for quite some time.

And on the record of this hearing, Mr. Chairman and Members of the Panel, is the first efforts by Manitoba Hydro in terms of a compellation of an asset condition report. And we thought at page 19 it was important to distinguish between what is an asset -- I see I've spelled 'assessment report' improperly on the large bullet -- but the difference between an asset condition assessment as -- as compared to a management plan.

With the asset condition assessment being a review, a state of the union, when it comes to the corporation's components in terms of their relative health, in terms of the cost associated with repair and the urgency of those repairs. But it's just one (1) stepping stone to what should be and has to be an asset management report and strategic plan allowing a corporation to develop a multi-year plan to maintain its assets and -- and prioritize properly.

And at page 20, we simply note, you've heard evidence from Manitoba Hydro, Mr. Warden in particular, in this hearing that doing these asset management assessments and these plans is complicated, because their business is complicated. And our clients accept that.

But the point our clients wish to make at -- at page 20 is not only were folks in the United Kingdom getting on the road of proper asset management assessment and management, but so were folks in Ontario. So were folks in different parts of Canada. And certainly way back in 2008, we had very refined asset management plans from Ontario to share with

Manitoba Hydro. So the point we make at page 20 is that Manitoba Hydro then was behind the curve.

And at page 21, really we set out our client's concerns with the state of the union where Manitoba Hydro was on this critical issue back in 2008. And our client's view at that point in time, it was behind the curve, in terms of good practice and reporting as compared to other jurisdictions.

And frankly from our client's perspective and certainly the expert witness presented by Manitoba -- by Mr. Harper on behalf of the coalition on that point in time, its practices appeared relatively simplistic compared to our client's experience or our expert's experience in other jurisdictions. And certainly back in 2008, our clients were not confident that Hydro was managing its day-to-day capital investment in a way to optimize ratepayer value and quality.

The last point in terms, you can read the rest of the page at your leisure, we're also -- as we turn to page 22, Mr. Harper -- so on the next page, Mr. Harper also flags and our client flagged another concern. How was this regulator to sit in judgement on the prudence and reasonableness of Manitoba Hydro's expenditures when it didn't have a asset management assessment or asset condition assessment and a asset manage -- asset management plan to properly review?

At page 23 our clients provide an excerpt from the Board order relating to -- to asset management to -- to suggest to you that our concern was not restricted to the coalition, but it was shared by the Board. I would caution when the Board looks at this excerpt, there's a date there of June 30th, 2009. And of course, that date was sub -- subsequently varied.

So we simply include this quote just to highlight the fact that this matter, not only was of -- of significant concern to the coalition, but it was of significant concern to the PUB almost five (5) years ago now.

So at page 24 we ask the question: Where is asset management in 2013? And the conclusion we draw, aided by the evidence of Manitoba Hydro, is that the Corporation is still not there yet in terms of where it should be, in our client's respectful submission.

And we've given you some quotes, in terms of excerpts from the record. At the top of page 24, we're still not there, in terms of having something that we can say we're total -- totally satisfied with that we can integrate with our planning cycle. And we note on page 24 that on the critical issue of generation assets, in the last gen -- General Rate Application we were promised a generation asset assessment for April 2012. And that assessment is yet to be provided.

And Mr. Warden was very interesting on this subject. And I put in a very small quote from him on -- on page 3,754. I urge you to look up that quote because Mr. Warden starts in the preceding paragraph by saying: We're making good progress. You know, we -- we've made good progress.

And then, to his credit he corrected himself and put a little caution on his words:

> "Should -- I shouldn't say 'good process' (sic), because it's taking longer than we probably would have liked."

And from our client's perspective, we can't endorse those comments strongly enough.

From our client's perspective we weren't at the right starting point in 2008. Manitoba Hydro should have been well on this road well before this, like other Canadian jurisdictions. And we're still not where we should be or need to be, in terms of the necessity of prudently and reasonably stewarding the ratepayers' money. We're not there today either.

So where are we in 2013? In terms of generation, to date there is not yet an asset condition assessment filed with the Board. In terms of generation, there is no asset strategy -- management strategy document filed with the Board. In terms of transmission, there is no transmission con -- condition asset -- assessment filed with the Board, and there is still no asset management strategy document related to transmission filed with the Board.

Manitoba Hydro is, as we turn to page 26, farther ahead on the distribution side. And you can see the quote, it doesn't have a proper cite; I believe it's from page 3,777. But at the top of page 26 of the outline the que -- Manitoba Hydro responded to a question: Would it be fair to say that Hydro has filed a preliminary asset condition report, but that's still to come as a development of a long-term capital plan and asses -- asset management structure redistribution?

And Mr. Warden conceded that that was fair to say. And so even on distribution, where progress has been made, we're certainly not all the way there, and arguably not halfway there.

We'll come back to distribution in just one (1) second. And I neglected to note -- and if the Board for one (1) second could just turn back to page 20 of the outline for just one (1) second.

Towards the -- the bottom of page 20, we're outlining some of the concerns that existed in 2008. One (1) was that there was no overarching strategy document to allow for prioritization. And of course, that's still the case today.

But in terms of technology it's important to -- to look at the word with the acronym, AEMPS, A-M-P-S (sic). And I can't remember what 'AEMPS' stands for anymore. But on the generation side, AEMPS was, and today still is, critical, because it was the main tool used to plan and schedule maintenance tasks and inspections for generating stations. And the evidence in 2008 -- these aren't words from CAC (Manitoba); these are evidence from the record -- was that AEMPS was archaic and it was to be replaced by enterprise asset management.

So now we turn to page 2. And where are we on enterprise asset management? Well, it certainly sounds like progress has been made over these four (4) to five (5) years, but the enterprise asset management tool is not done. And based upon the record of this proceeding, we can conclude that it is behind schedule and over budget.

Again, we -- on page 27, we highlight what it -- what it is supposed to do, this tool, this -- making sure that we take the type of preventive maintenance that is cost-effective over the long term. And you'll see that the system is not in place, and we still have the old AEMPS, A-E-M-P-S, system in place.

Enterprise asset management was to be in service in July of 2013. But on this record of this hearing, it's been confirmed that that schedule is unlikely to be met and the current total budget of $18.6 million is likely to be exceeded. There's an application in for an increase. We don't know how much, but we do know, because there's a CPJ, or capital project justification, associated with it, that it's more than $1 million.

Going back to distribution just for one (1) second on page 28, within Manitoba Hydro, distribution is ahead of the curve. But clearly, much remains to be done. And -- and I do have to say -- and at the start of this hearing, Ms. -- Ms. Ramage talked about her rookie witnesses that she was bringing to the hearing and urged us to be gentle.

And I -- I certainly didn't feel the

need to be gentle with Ms. Morrison or Mr. Morin or Mr. Hall. There's probably one (1) other one that I'm missing, but they were -- Ms. -- I'm not sure if I'd ever cross-examined Mr. Miles before, quite honestly -- because, like the rest of the Manitoba Hydro panel, they were -- they were very capable.

But I have to say that my particular favourite was Mr. Morin. And I -- I've never actually seen anyone be enthusiastic about -- energized, indeed -- about capital asset management. But certainly, there was a witness who was really into it.

And what Mr. Morin told us, in terms of cable, underground cable, was that there is a lot to be done and that there are many opportunities there. Certainly, in my client's submission, these opportunities should have been realized more than half a decade ago, but that there are many opportunities there.

And he pointed out that underground cable, which is a big-ticket item, over the next decade perhaps in the range of half a billion dollars -- excuse me, next twenty (20) years -- historically, it's simply been run to failure -- you replace it when it breaks -- and that Manitoba Hydro was not conducting active investigations or inspected -- inspections of underground cable, with the exception we did discuss a pilot project that took place a few years ago.

But now, in terms of how much more needs to be done, we're at a stage now where Hydro is -- is talking to vendors about inspections and about some life-extending processes. And at the bottom of page 28, we highlight two (2) opportunities that are -- are there by virtue of the approach that our client has been urging for close to half a decade in terms of improved asset management practice.

One (1) is in terms of an injection process and the -- in the middle of the -- page 28, which allows one to defer replacement and extend service life of cable. But Mr. Morin was also eager to point out that there are saving opportunities associated simply with inspections. And through testing, you could go to an area where maybe you might have, in the olden days, i.e., now, replaced 100 percent of the underground cable, but the testing might give you some data saying leave 30 or 40 percent of it or leave 50 percent of it. So there's an unrealized opportunity as of yet, but one (1) -- one (1) to come.

And again, in terms of poles, there's opportunities not yet realized on the distribution side, and street lights; I could have Cited ducts as well but I thought that was enough -- ducts is D-U-C-T-S for the reporter.

So when our client and I, on their behalf finished -- turning to page 30 of the outline. When we finished our cross-examination, or we thought we finished our cross-examination of -- of Mr. Morin, in terms of asset management, Board member Solider and Board member Lafond scared me and the clients by asking some really tough questions.

You asked, really: Are these just inspections for inspections sake? In essence is it payroll padding? Or are there -- is there real utility coming out of these expenditures? And certainly our client believes that the answers of Mr. Morin are quite instructive. And they're instructive for two (2) reasons.

Fist of all, they -- they point to the real opportunities that can flow from modern asset management practices, but they also point to the historic inadequacy of the Corporation's asset management practices on the distribution side. And cer -- certainly the inference we draw is that there are many opportunities for efficiency in terms of the distribution side, and we would expect similarly in terms of transmission and generation as they evolve over time.

Look at the comments of Mr. -- Mr. Morin as reflected on page -- if you would, at page 30. We've since implemented a maintenance plan, so every area has an actual plan. Now, one might have expected that to have been in place years before. They're noticing that there's a standardization of assessments developing in terms of -- through standardized training, in terms of certifying the inspectors, so to have a more standardized approach to assessing what needs to be done.

On page 31, Mr. Morin points out the opportunity to use more complex analytical tools. But at page 32 is really where Mr. Morin, in our client's submission, made a powerful submission about the potential -- the, to date, unrealized potential of asset management -- good asset management practices for this corporation.

The question I pose to him at the top of page 32 was:

> "Aren't you tired? Looks like you've been working pretty hard."

And his response was -- and I'm not sure I've ever seen someone from a Crown corporation actually do this, but he said, "No, I'm kind of energized." You know when he talked about how daunting the task was originally but now, We're moving along really well and we're excited about how it's going. And he really -- I believe it was in a response to questions by Board member Solider, he says,

"You know, even with poles and cables, there's like different views on prioritization."

And -- and he pointed to the value, instead of thirty (30) different or twenty (20) different areas creating their own priorities, getting a centralized approach, bringing in best practices, improving productivity. And it's a fabulous quote on pages 3,853 and 3,854 which certainly our client urges upon the Board, because it's really a testimony -- a testimonial, A) to the potential, but also insight into the -- the need for this and the need, which, in our client's submission, should have been bef -- implemented many years before.

So in terms of asset management practices, Mr. Chairman and members of the Board, is it the best of times? Is it the worst of times? It's better than 2008. But certainly in our client's view, Manitoba Hydro even in 2008 was half a decade behind the curve at least. So it's better but it's -- it's certainly not where we would have expected it to be, giving the -- given the strong message sent by the Board back in 2008.So neither the -- the best of times or the worst of times, but a situation with many opportunities for improved efficiency from the -- in terms of the Corporation.

Mr. -- Mr. Chair and members of the Board, I want to turn to page 33 of the outline to the issue of demand-side management.

THE CHAIRPERSON: Mr. Williams, do you want a minute or two (2) just to -- just to rest your voice?

MR. BYRON WILLIAMS: I could take one (1), sir. Thank you.

THE CHAIRPERSON: Let's break for just a couple minutes just to give you a chance to rest.

--- Upon recessing at 11:29 a.m.

--- Upon resuming at 11:31 a.m.

THE CHAIRPERSON: I believe we're ready to -- to resume the proceedings. Back to you, Mr. Williams.

MR. BYRON WILLIAMS: Thank you. And lest the Board members fear I'm going to take the whole day, I won't be done before lunch, but I -- I think we'll move relatively briskly through this.

Just we did, in terms -- apart from the outline, we also did hand out a brie -- a brief supporting materials. And if the Board wanted to turn to page 9 in the top right-hand corner, you'd see slide from the 2011 -- from Mr. Dunsky's -- Mr. Dunsky's PowerPoint presentation.

Just one (1) second. I may have left My Friends at Manitoba Hydro at an inadvertent disadvantage.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Page 9, Ms. Ramage. Still on the major heading of 'Prudence and reasonableness of expenditures', the subheading at page 33, the outline is are we essentially getting big -- sufficient bang for the buck, in terms of energy efficiency.

And Mr. Dunsky put this point glibly at the transcript at page 4,263, arguably perhaps a slight overstatement. But he stated:

"So customers get the 3 1/2 percent annual rate increase and they get

little or no opportunity to reduce
their consumption."

And certainly, from our client's perspective, there's -- gravely concern with the overall magnitude of the rate increase. And as a parallel concern, they're -- they're significantly concerned with the shrinking of Manitoba Hydro's commitment to energy efficiency programming.

And the central message of this section of our client's submission is that Manitoba consumers are not well served by Hydro's current approach and planned approach to energy efficiency and that Manitoba Hydro's falling behind, in terms of planned DSM savings and can be no longer characterized as an industry leader. And that is eloquently stated by Mr. Gange.

Hydro's failure to maintain and enhance its DSM portfolio will result in considerable foregone opportunity. Our clients as well are concerned the Manitoba Hydro's most vulnerable ratepayers are not well served by the existing DSM approach -- the existing DSM approach.

And in terms of their central messages, they -- they finish with three (3) positive ones. There is a key and prime -- prime opportunity for Hydro to become more efficient with existing programs, to sell, to work -- to work the -- the doors and the streets harder. And that really, in our client's view, was a central message of Mr. Dunsky. There is considerable room for innovation and that independent evaluation matters, and it has -- can have considerable utility for this Corporation.

I'll try not trespass too much on areas where my friend, Mr. Gange, made the point certainly more -- perhaps more persuasively than I could, but I do want to spend a couple of moments, in terms of Mr. Dunsky, his expertise and his credibility.

And Mr. Warden, as we note at page 34, was kind, in terms of Mr. Dunsky and noting that Mr. Dunsky has certainly provided value to us and -- and cer -- and certainly in past -- he wasn't speaking of this hearing; I don't know what his position is on this hearing -- but in terms of past work that Mr. Dunsky had done for Manitoba Hydro.

And in terms of assessing the credibility of Mr. Dunsky, the Board certainly, we would suggest, should be guided by his outstanding credentials and his rich experience, both in industry, with government, and non-profit, almost a unique experience. And certainly, if you look at the -- if you compare his work history, his expertise history, to that of, for example, Mr. Kennedy, you can see Mr. Dunsky is one of those rare experts that's able to move between worlds, working for Manitoba Hydro or New Brunswick -- Efficiency New Brunswick one (1) day, working for a non-profit the other. There aren't that many experts like that, and certainly our clients thinks that goes to his credibility, and it goes to the point that he's trusted by all aspects of the energy efficiency community.

Mr. Dunsky's experience was enriched by his wealth of experience in Canada and in the United States. In Canada, eight (8) out of ten (10) provinces -- from innovators like Nova Scotia and British Columbia to provinces just getting their feet wet, like New Brunswick -- and working with some leading American jurisdictions, including Efficiency Main.

And it's important to note that Mr. Dunsky, as we note on page 35, is not simply an advocate for -- for higher targets. And indeed he testified in this proceeding that in the last hearing he'd appeared at, he'd actually provided advice to the province in question that they were aiming too high.

So in -- in Mr. Dunsky, our clients submit, that you have one (1) of those rare witnesses respected by all sides who also has a -- kind of a -- a unique mixture of pragmatism, evidence-based business practices, with -- with a -- a touch of progressivism or idealism with him, and a -- a very powerful mix and of great value to the Board in this proceeding, our clients would submit.

At page 36, Mr. -- Mr. Gange has -- has made this point, so I'll only go over the headline -- Mr. Dunsky emphasized the importance of energy efficiency as a key resource with -- with lower risk. And that point, in terms of the lower risk of energy efficiency, is well set out at page -- page 36.

And again, at page 37, not to trench too much on the comments of Mr. Gange, but Mr. Dunsky points to the value of energy efficiency for consumers, whether they are business or residential customers, both financially and in -- in -- including increased satisfaction.

A point that wasn't touched on is set out -- by Mr. Gange is set out at page 38, but it is really central to much of our client's submission on energy efficiency. Good DSM, best-practice DSM, in Mr. Dunsky's view, has, as an important component, social equity.

And I put the quote there and the importance that Mr. Dunsky highlights of making programs accessible and meaningful to more vulnerable consumers, whether they be single moms living in apartments or persons in remote communities. And we'll come back to that in a -- in a few moments.

In -- in a benchmarking -- turning to page 39 of the outline, in a benchmarking exercise, such as Mr. Dunsky conducts, utilities are often anxious to point out their weaknesses. Mr. Dunsky provided powerful testimony in this hearing about some of the real strengths of Manitoba Hydro, strengths that many of his clients -- other clients would go a great deal to obtain.

Hydro's unique strengths include coverage of the entire province, full electric and gas integration, existing relationships with a lot of market channels, billing integration, data integration. Advantages that should serve Manitoba Hydro well.

Now, of course, the -- perhaps the -- the most attention grabbing element of Mr. Dunsky's evidence is his look at what was going on with Manitoba's Hydro -- Manitoba Hydro's incremental DSM savings. And we put at -- in our supporting material slide 9, as well as slide 10 from his Power Point presentation. And the -- the graphical evidence on slide 9 is -- almost is -- it's very difficult to believe. And at slide 10 on the next page, Mr. Dunsky presents similar information, but allowing for the crowding out government initiatives. And he characterizes the declined and planned incremental DSM savings as very sudden, very dramatic, as of just about now go into the future. And certainly that is a matter of grave concern to our client.

At the same time that this Utility is proposing rate increases quite significant for the two (2) test years, and with indicated rate increases of close to double the rate of inflation going out to 20 -- the 2030s, the fact that planned DSM incremental savings are essentially falling off a cliff is a major concern to our client.

And as one (1) of the key reasons that our client took the unprecedented step of jointly presenting Mr. Dunsky with their -- their friends from the Green Action Centre. And -- and the -- the Board may not be aware, but that is a -- probably a first time ever occurrence to my knowledge. And you'll hear in the course of the day that the Green Action Centre and CAC (Manitoba) don't always take the same positions.

And -- but the importance and in -- indeed the urgency of this issue certainly, from our client's perspective, was a significant incentive to -- to work together with CA -- Green Action Centre to bring Mr. Dunsky to us. Whether or not we all agree with everything he says or the Green Action Centre says, it was felt urgent to bring a witness of his caliber to this Board.

So if you flip over in the supporting materials to Slide 13 and you can be at Page 41 of the outline. You see the status quo as of 2010, it should say -- the heading should be 'Achieved Savings 2010'. And you see Manitoba Hydro, which has -- certainly has a proud history in energy efficiency languishing in the third quartile of achieved savings, incremental savings in 2010.

And at page 41 of the outline our client has highlighted just further evidence of the decline in the commitment, from our client's perspective, to energy efficiency of Manitoba Hydro.

You'll see in the middle of the page Manitoba Hydro's projections in terms of savings for the '09/'10 and '10/'11 year, and then the actuals in the next column over. And again, from our client's perspective, a disturbing drop between projected and actuals.

Turning to the supporting materials,

slide 19 which is page 12 in the top right corner. You see the next step of Mr. Dunsky's bench marking exercise and I will not dwell on this except for to note that focussing on the 2015 year, in terms of planned savings, it is Manitoba in red that is languishing at the bottom of this table.

Jurisdictions such as -- as British Columbia, Nova Scotia, Maine, Vermont, and Massachusetts significantly outstrip Manitoba Hydro; not in -- in simple 20's or 30 percents but in -- in a hundreds of percents in terms of planned incremental savings.

And again, the slide that was used -- the next slide, page 13 in the top right-hand corner, slide 21, a splendid depiction of Manitoba Hydro, in essence, swimming against the tide in terms of planned incremental DSM savings. In the sense of moving towards Alabama in contrast to jurisdictions like Nova Scotia, British Columbia and others. And certainly this was of concern both to Mr. Dunsky and to our client.

Page 43 of the outline, we certainly anticipate and Manitoba Hydro did this in their rebuttal evidence to limited effect, we certainly expect Manitoba Hydro to seek to distinguish and put context upon Mr. Dunsky's benchmarking exercise and certainly an argument we've heard from Manitoba Hydro is that it's because of their relatively low rates.

But at page 43, you'll see Mr. Dunsky's conclusion when he looked at the top third of the regions that he didn't really find a significant relationship between rates and energy saving targets.

And a good case in point is Idaho which is captured in the middle of the page. Their rates are 6th and some -- something on average. But their expected planned savings are about 1 percent a year.

Contrast that with New Jer -- New York whose savings are comparable to Idaho, perhaps a bit below, but their rates are close to three times a much.

Compare, if you will, Idaho to Manitoba Hydro and again you'll see that there's little evidence to suggest that rates are what is preventing Manitoba Hydro from achieving cost effective DSM planned incremental savings of a greater magnitude.

At page 44, we deal with one (1) additional argument of Manitoba Hydro saying it's because of our marginal costs. And you'll see evidence from Mr. Dunsky at -- from transcript page 4,208, who had completed work for a client whose marginal costs were actually somewhat lower than Hydro but who was able to say that the potential study was into -- in the 1 to 2 percent range achievable. Despite those lower marginal costs.

And also suggesting Mr. Dunsky does it, even when you take examples of -- if you try and associate a difference related to marginal costs, you're not going to see in that context an explanation for variances of the magnitude that we see in terms of Hydro's planned savings compared to best practitioners in the community.

Mr. Gange, on behalf of the Green Action Centre, spoke effectively in terms of -- at page -- of potential lost opportunities. So we will not dwell on that point.

But really focus at the end in terms of DSM -- starting at page 47 of the outline, on a key message of Mr. Dunsky's which is some -- somewhat over shadowed by the -- the spectacular decline in Manitoba Hydro's planned incremental DSM savings.

And -- and the Board will recall questions at pa -- of their own in terms of getting out and knocking on doors. And when Mr. Dunsky was asked, What -- what are the things you can do to bring this plan up to a higher level? The first thing he didn't go to was innovative programming. The first thing he -

- he did not go to the rim test. What he said was, Get more efficient, get more -- go out and sell, sell, sell.

And Mr. Dunsky, with his experience across North America with DSM programming, ha -- his argument and his leading point was, Sell. There's many opportunities for Manitoba Hydro to promote its products, the -- its -- its existing portfolio, in a powerful manner. And sometimes that point is lost, but it's really at the heart of Mr. Dunsky's messaging.

And at page 48 we highlight evidence in this proceeding from other witnesses in terms of the importance of selling, promoting the product, not necessarily product innovation but getting on the streets or in the reserves and moving product.

And Ms. Morrison had a couple of excellent examples from Manitoba Hydro, their water and energy saving program achieving about 19 percent of doors knocked to installations. And then looking at the installation rate in diesel communities in -- in terms of -- in the range of 40 percent. At the bottom of page 48, Ms. Morrison made the point that we spent quite a bit more time in those communities identifying what opportunities there might be, and so our numbers had been adjusted to reflect that. And that, I guess, would represent more of that door-to-door assessment.

And certainly evidence in this proceeding that there were opportunities for Manitoba Hydro not just in innovative products, but in -- in working -- working harder, working better, and that the skill set is within this corporation at this time to do so.

Mr. Dunsky also made a key point which appears at page 49 of the outline in terms of the value of independent evaluations. And it's a lengthy quote which I won't read to you, but he makes the point that no client he's ever had is really im -- been joyful about having independent evaluations but they're -- they've been a powerful learning experience for the Corporation, that there always are indep -- surprises that come out of these -- these evaluations in terms of how the corporations conduct their business that can make a real difference.

And that's a key point that our client raised in the last General Rate Application and reiterate in this one. And at page 50 of the outline they note with disappointment that in the last General Rate Application Manitoba Hydro filed an action plan relating to energy efficiency and that it indicated that it inti -- intended to hire a third party to conduct an evaluation of one (1) of their Power Smart Programs. And to date, that has not been done. And certainly from our client's perspective that is a disappointment and a key lost opportunity.

The final point in terms of Mr. Dunsky's evidence, Mr. Chair, that we -- and members of the panel, that we wish to make at this point, at this time, is Dunsky's evidence that managing the coal -- goal is key. And our clients are certainly not as ambitious as their friends at the Green Action Centre, but they certainly felt that Mr. Dunsky provided valuable insight into Manitoba Hydro essentially hitting the 0.8 percent target, that being eminently reasonable.

So at page 52, Mr. Chair, we -- we propose come suggested findings in terms of energy efficiency. And certainly our client's view is that the -- notwithstanding the -- the capable evidence of Ms. Morrison, that Mr. Dunsky's evidence, in terms of the opportunities to Manitoba Hydro, is to be preferred based upon his independence and his wealth of experience.

We would hope that the Board would make a finding that Manitoba Hydro has foregone material opportunity for incremental savings. And that his benchmarking exercise was carefully designed and excluded variables that -- that are not driving the difference.

We hope that this Board will conclude that there are real -- realistic cost effective opportunities for DSM incremental savings at a level higher than planned for by Hydro, and that Hydro is going against the tide in North America which raises material risks of the loss of opportunities in terms of cost reduction.

And certainly our clients encourage the Board to -- to find that the importance of enhanced energy efficiency opportunities at times where indicated rate increases are in the range of double that of inflation.

Now, Mr. Chair, at fif -- page 53, in cross-examination I -- I raised an issue with Mr. Warden in terms of suggesting, Well, what would happen if -- if the Board, you know, gave a rate rebate, returned to -- to consumers the -- the money in the deferral accounting relating to the 2010/'11 and 2011/'12 year, but -- but invited Manitoba Hydro to apply for a review on a very -- focussed on DSM.

And -- and My Friend, Ms. Ramage, quite rightly sticking up for her witness and argue -- I'm not sure she was quite as right in arguing that was out of the Board's jurisdiction. But she -- she said, certainly Hydro was -- was not in a position to -- to answer that -- that question.

I -- I do point out Mr. Warden's response. He -- he gave me what he could. And certainly from our client's perspective this is an issue that they've -- they've been struggling with. They strongly believe that that $23 million related to the deferral account for the 2010/'11, '11/'12 year belongs in the pockets of ratepayers. They believe that, from the client's perspective, that was the intent of Board Order 5-12, that's certainly their interpretation of it.

And they certainly would be vehemently opposed to those monies, which in their view, should be in ratepayer's pockets, going to Manitoba Hydro's bottom line to be used for whatever purpose.

What my clients have struggled with is, certainly if there was a mechanism within the Board's jurisdiction to free up some of those funds for a targeted purpose for DSM, our clients would be open to -- to that dialogue.

The idea of rebating the money and -- and giving Hydro the opportunity to -- to make an application to -- to use some portion of that for DSM was the best we could come up with recognizing that the Board does not have jurisdiction over what Hydro spends its money on, but merely on what -- the rates that it -- that it sets.

So from our client's perspective you've got clever legal counsel on your side of the table, with a lovely shirt, I have to say, Mr. Peters. And certainly, from our client's perspective, I've been instructed to convey our clients believe strongly that that should be in ratepayers' pockets, but they -- they are also gravely concerned with the direction of Hydro's DSM expenditure. And so they would be open to -- to discussing mechanisms to enhance Hydro's DSM portfolio, at least to some degree, with some of those funds.

Mr. Chair, I'm moving to -- I do expect to move quite a bit quicker through the next portion. But this -- the next section's probably would take about twenty (20) minutes.

What I would suggest, subject to the Board's wishes, is I could be prepared to resume at 12:30 or whatever, but I wouldn't mind resting my voice for just a few moments, Mr. Chair.

THE CHAIRPERSON: I suggest that we

adjourn for lunch -- or, break for lunch rather and come back at one o'clock and -- and resume proceedings at that time. So have a good lunch everyone.

--- Upon recessing at 12:00 p.m.
--- Upon resuming at 1:03 p.m.

THE CHAIRPERSON: I believe we're ready to -- to resume the proceedings. I believe you were on page 55. Is that correct?

MR. BYRON WILLIAMS: 54.

THE CHAIRPERSON: Okay.

MR. BYRON WILLIAMS: I could switch to 55 if...

Moving quickly through page 54, just -- it's a point that really is kind of the segue to the next bit of -- of our client's submission, and it -- it -- the energy efficiency and DSM programming is -- is often sold properly in the sense that if the -- even if the -- the rate is higher, the bill is lower.

But a concern with that line of thinking from my client has always been that's not always the case, and it's particularly not the case if energy efficiency programming is not accessible to the extremely vulnerable. They -- they face distinct barriers, especially low-income persons or persons in remote communities face distinct barriers in accessing energy efficiency programs that -- that make the challenges of hitting that market particularly strong. And from our client's perspective, energy efficiency programming that is not accessible is -- is materially flawed.

And at page 55, we've provided to the Board, just as an intro to this issue, a commentary from the Board in 2008 relating to the urgent need for low-income energy efficiency programs.

And at page 56 of the outline -- and I certainly won't go through this, but halfway down the page you see a critique by Mr. Dunsky back in 2008 arguing at that point in time that the low-income energy efficiency programming implemented by Manitoba Hydro was not going to achieve its potential, was not going to achieve what it set out to do, because of design issues. And -- and just immediately below that, you see an acute concern, again quite properly, by the Board, in terms of the lack of access to energy efficiency from First Nation communities.

And at page 57, our clients make the point that the concerns raised by -- by our clients and by the Board in 2008 still exist today, that low-income energy efficiency programming by Manitoba Hydro is still struggling to meet expectations; is still leaving too many persons, whether in the city or in the country or in other parts of our province, behind; and that even with the Corporation's pre -- targeting -- targeted objectives for 2017, that there will be a very large perso -- per -- percentage of low-income homeowners and renters who -- who lack the adequately insulated homes and who cannot -- have not -- are not being drawn into these programs.

At page 58, our clients make a point that I -- I think probably has escaped many in this hearing. We've heard a lot of the RIM tests, and we -- we certainly know Professor Miller and -- and Mr. Dunsky's concerns about the RIM test. But one (1) -- one (1) striking fact of this hearing is that, on a forward-looking basis, when you look at Hydro's low-income energy efficiency portfolio, even if you include AEF, or affordable energy expenditures, it's still one point two (1.2).

And we put the transcript references there for you. And it actually appears, I believe, in -- that came to our attention, looking through the -- Hydro's filing. So that's an important point: On a forward-looking basis, even taking AEF into account, the numbers look fairly positive for LIEEP if one uses RIM as a test.

So at page 59, we -- our clients highlight the challenges in historical performance that Manitoba Hydro has had with this program. Back in the 2009 Power Smart Program, Hydro was hoping, expecting, planning to reach eight hundred and eighty-three (883) homes annually. You see by 2011 a much less optimistic outlook: five hundred and twenty-six (526) homes, a 40 percent drop in expectations.

And indeed, at page 59, the very last quote there, if you look at the four and a half (4 1/2) to -- years or so, perhaps closer to four and three-quarter (4 3/4) years from the start of LIEEP, L-I-E-E-P, Manitoba Hydro managed to insulate only one thousand, one hundred and forty-five (1,145) electrically heated homes, around three hundred (300) a year.

At page 60, our clients highlight a bit of an analytical disconnect in Manitoba Hydro's low-income energy efficiency programming. We put in a quote from Manitoba Hydro's response to CAC/GAC-11C. This is not our submission; this is where Hydro is saying the greatest opportunities are. They're saying the greatest opportunities exist in single detached and multi-detached homes and with those customers who own their homes.

And so on page 60 we do a comparison over the first four and a half (4 1/2) to five (5) years of the program, in terms of who they're actually reading -- reaching. They say that this is their first target. How are they doing? And -- and you can see there that they're struggling to meet that customer-owned market. The good news is that they're -- they're certainly doing well, in terms of social housing owned by government and also certainly making modest progress in First Nations.

But the -- the point that our -- our client wanted to highlight on this page is: You're saying this is where your greatest opportunity is; how are you doing? And if you go to page 61, again, recognizing what they say is their greatest opportunity, again, you -- you can see the very evidence challenges that Manitoba Hydro is -- is experiencing in -- in accessing the customer-owned homes. And it was certainly, back in 2008, one (1) of the concerns identified by -- by Mr. Dunsky.

I should note before we leave this page that these were the -- this was from a response provided by Manitoba Hydro, but the data has actually been updated by PUB-1-110. I've noted that on the page. And I certainly can indicate in fairness to Hydro that they have better results, in terms of First Nations, they've -- they've upgraded that -- that assessment. So that was the best information we had, but it -- it appears that they've done a little bit better.

So what is Manitoba Hydro targeting, in terms of insulating low-income homes? And recognize that in terms of the home -- all-electric home population, it's certainly in excess of twenty-five thousand (25,000). But -- but Hydro has targeted a certain group which they think are most in need based upon what this group has self-identified.

And here's Hydro's target. And this was conveyed to me by Ms. Morrison. She corrected some evidence she had provided on the Thursday on the Friday morning. And you can see roughly a target of fifty-three hundred (5,300) all-electric single detached homes, three thousand (3,000) target First Nation homes, and about a thousand (1,000) target rental homes, with no targets set for -- for rental apartments.

And so where is Hydro hoping to be, expecting to be perhaps, by 2017? Reaching about thirty-three hundred (3,300) of these homes. And I suggested to Ms. Morrison that it -- that would be roughly 35 percent, you'll see on this page. And she was quite candid and said, It's not directly -- 35 percent would be actually over-representing our anticipated penetration rate. Her point being that not all the homes they reach would -- would receive insulation. Some might receive other parts of the LIEEP program.

So there, even with Hydro kind of fileting or focussing their markus -- market ten (10) years out in Low Income Energy Efficiency Program, even with a narrow -- narrower target, roughly one third (1/3) of the way there. And from our client's perspective, especially at a time of very aggressive indicated rate increases, that is not a positive outcome.

At pages 65 through 67, my client will be -- will chastize me if I don't spend a little time on tenants. And certainly, low-income persons are a concern for CAC (Manitoba). They also are concern, in terms of the ability of the Corporation to -- to reach tenants and to -- to have programming that is effective in reaching tenants.

And one (1) -- it's not in the notes

here but one (1) -- one (1) in review in Mr. Dunsky's test -- evidence yesterday that -- that caught my eye when he was discussing one (1) of the American utilities that he worked with, he had identified that the refrigerator replacement program was actually over-represented in one (1) of the states by low-income tenants.

And -- and certainly, that's not our -- our expectation in -- in Manitoba. So my simple point is that while tenants are a challenging marketplace, some jurisdictions are certainly -- are getting out there and -- and making contact.

So our clients express their overall concerns with the overall energy efficiency programming. The concerns are particularly acute with low-income energy pro -- programming, the persons most in need and the persons that Hydro is struggling to reach.

Members of the Board, at page 68, our client turns to Wuskwatim. And in our client's opening statement, they -- they raise the question of -- the concern with the under-performance of Wuskwatim as compared to expectation and -- and asked: Is it fair, is it only ratepayers who should assume the costs of its -- its failure to perform as expected?

And at page 68, our clients take a look at the issue of sticker shock. And if you recall the evidence, especially of Mr. Warden, in describing the challenges that Manitoba Hydro has -- has experienced in -- in delivering capital programs on time and on budget and even in its estimating pro -- process for the big three (3) coming down the pipe, he talked a lot about sticker shock; you know, the surprise that Manitoba Hydro found in the previous decade, you know, given pressures in the oil sands, et cetera, for scarce labour and scarce contracting abilities.

So our clients decided to take Manitoba Hydro up on their sticker shock thesis. And they -- they -- what they undertook was to look at variations in capital expenditure forecasts post economic slowdown, post recession.

And certainly our clients -- so what we have done in this table -- and it's -- it can also be found in CAC Pre-ask 9 and the Hydro's response to it, and at pages 3,681 to 3,684 of the transcript -- is look at the difference between capital expenditure forecast '09, post slowdown, and CEF12. And there's two (2) things going on there. One (1) is the deferral in time, and the other is the material revision in expenditures.

But there you see the comparison: Keeyask, a 35 percent increase between CEF09 and CEF12; Conawapa, a 60 percent increase; Bipole 3, a 45 percent increase. And even Wuskwatim, very near completion, in the post-sticker-shock era, a 13.6 percent increase. That's on generation; with transmission thrown in, it was a bit less than 13 percent.

And on page 69, we see the very real challenges being experienced by the Wuskwatim partnership, driven in part by under-performance, in terms of capital management; driven in part by the remarkable developments, in terms of the export market in terms of prices and supply.

And our clients may differ with legal counsel for the Board in our analysis; we've worked off of 75/25 percent debt-to-equity ratio. I think in some of the analysis that the Board has done, they've been trying to look at the all-in costs. And, you know, that's certainly open to the Board to do that.

One (1) of the reasons our clients have kind of looked at the costs based upon the 75/25 is because they were participants in (ch) -- in -- in the Bipole -- excuse me, in the Wuskwatim proceeding. And that was the -- the way that the material was pres -- presented in -- in that hearing was on an assumed 75/25 debt-to-equity ratio. So our clients felt in fairness to Manitoba Hydro that should be their analytical framework, in terms of Wuskwatim.

But there, if we focus on the 2013/'14 year there we have the -- the very real challenges being experienced by the Wuskwatim Partnership. On the extreme right column, you see the forecast based upon the expectation of -- of the high export price was for revenues in the range of $140 million to the partnership in 2013/'14. And there we see the -- the devastating results portrayed in IFF12 almost $100 million later.

On the cost side, again focussing on the 2013/'14 year, on the high export side, expected costs in the range of 71 million. There you have, even on the 75/25 debt-to-equity ratio, a dramatic escalation in costs portrayed in IFF12. And, of course, that rolls out into the -- to the net income calculation.

The Chairman asked in -- in his -- in his questioning, in terms of Wuskwatim, what lessons have we learned. Certainly, we can't speak -- we're not -- we're not sure what lessons Manitoba Hydro has drawn. Our client, which was a very involved participant in Wuskwatim, recognizes that they placed too much confidence in the ability of this Corporation to manage its capital expenditures. That's a lesson that they've learned. And -- and the -- the lesson that we all learn is that when you -- in the marketplace, there's -- there's no certainties.

At page 70 -- and this is not meant to be critical of the actions of Manitoba Hydro, but merely to note the impact on ratepayers. The proposed forgiveness of the non-controlling interest contribution under the partnership agreement only serves to exacerbate the -- the impact of the under-performance of Wuskwatim on ratepayers. And I want to be clear, our clients aren't critical of that. Ms. Desorcy, and -- and CAC (Manitoba) are -- think that that's an appropriate decision by Manitoba Hydro. But they wonder, given the extraordinary events flowing from Wuskwatim, whether it's appropriate for rate -- ratepayers to -- to bear the entire consequence of that.

And so from their perspective, set out at page 71, our clients think it's important to recognize that Manitoba ratepayers were presented with a very different picture of Wuskwatim than what we have here today. That pictures (sic) appears at page 69 of this outline. And certainly, part of their call for -- for a reduced application compared to what Manitoba

Hydro is seeking is from the strong sense that Manitoba Hydro should be seeking harder and deeper within itself, in terms of the -- to find efficiencies in this context.

At page 72, our clients highlight the growth in capital -- or in EFTs of Manitoba Hydro, roughly a thousand since 2004. Mr. Bowman has insightful evidence on this, and I'm sure we'll hear from Mr. Hacault on that.

Just to sum up this section, in terms of operating, maintenance, and administration costs at page 73, the thrust of Manitoba Hydro's argument appears to be once the adjust -- accounting adjustments are excluded, it's OM&A in the test years track inflation.

And we will get to our position in terms of the accounting adjustments. But certainly from our -- our client's perspective, at this point in time, given Hydro's delay in implementing capital asset best practices; given the material revenue pressure it's under; given that its new capital project, Wuskwatim, is underperforming; and given the heavy debt pressures being placed upon it related to proposed, but not approved, capital programs, an inflation-level OM&A -- OM&A, leaving aside accounting char -- changes, is not acceptable from our client's perspective. And certainly our -- our clients seek a signal from this Board directing Hydro to come in with a plan of less than inflation while maintaining necessary service standards.

At pages 74 through 81, our clients detail their concerns with Manitoba Hydro's management of the diesel program. And certainly, from our client's perspective, dating back to pre-2004, they're not satisfied that Manitoba Hydro's actions have always been consistent with the best interests of its ratepayers.

At the risk of going through ancient history, there was a substantial pre-2004 deficit that was accumulated for which Manitoba Hydro kicked in roughly $17 million to recover. There's some curious behaviour by Manitoba Hydro, in terms of not seeking interest payments from some of the other government bodies who are contributing to this program. And of course, that failure, at page 75, we note trickles down to ratepayers.

At page 76, I have done a very poor job of pulling quotes from the transcript. You've got the page -- you don't even have the page ref -- yes, there's a page reference there. This is a quote from

Mr. Wiens. I'm not sure why I wanted to give myself so much credit for it. The -- the first quote in the page should be struck out, and -- but this -- this quote, I have not done a very good job of presenting.

But what we're noting on this page is that post-2004, after that -- the deficit issue was supposed to be cleared up, there's another $7 million that accumulated up to 20 -- 2010. And on page 77, there's another 1.4 -- or 1.5 million in 2010/'11.

And at page 78, our clients identify the relaxed attitude, in their submission, that Manitoba Hydro has -- has taken, in terms of pursuing contributions from other parties. And you'll see on this page -- I will not drag you through it -- that in terms of the outstanding amounts from other government, in terms of capital contribution, it was not until August of 2012 that Manitoba Hydro sent correspondence seeking recovery.

In terms of what is owed by over -- other government, we haven't tried to -- we haven't put a figure on this table on this page, because, frankly, I've struggled to understand how much is owed. We know there's something that -- that Hydro's seeking to forgive related to Brochet remediation, but we've struggled with the figures.

At page 79 we note simply that diesel rates are not -- Hydro is not proposing to fully recover their costs, even with the current application.

And at pages 80 and 81, we sound some worrisome notes, in terms of the actual losses for the '11/'12 year and the '12/'13 year. We don't know what the costs are at page 80 for the 2011/'12, but we do know that revenues are more than three hundred thousand (300,000) below expectation. We don't know -- we know what Hydro projects for the 2012/'13 year: a loss of 1.4 million. But we also know that revenues are lower than expected -- or, excuse me, lower than built into that estimate, because the rate increase did not come into effect until September of 2012.

So in sum, with depreciation and -- and our clients again are not satisfied that Hydro -- excuse me, depreciation with diesel -- our clients are not satisfied that Hydro has managed that portfolio in -- in all cases to the best -- in the best interests of ratepayers.

In terms of issues relating to depreciation and full-cost accounting, I should start with an apology to the Board. We -- CAC (Manitoba) retains one of the -- a really top-notch accountant, Mr. Mapichuck (phonetic), and we really should have brought him to this hearing. And so that was a poor judgment call on -- on my part, for which I apologize. We've been very fortunate though to -- to have the -- the fine work of Mr. Bowman to -- to assist us.

I want to start with deprecation. And I do have some comment, and I know My Friend, Mr. Hacault, will have some comment as well, in terms of the weight that should be given to the expert retained by Mr. -- by Manitoba Hydro, Mr. Kennedy.

And certainly, our clients accept that Mr. Kennedy is a -- is an expert and that he brings certain strengths to his work. He clearly has experience in the school of hard -- hard knocks. He's done a lot of these applications, and he's spent many years advocating for industry and his clients. And he certainly has extensive experience dealing with the auditors and the -- the big four (4) or the big five (5), as he described them. And those are clear strengths for Mr. Kennedy. He also brings strengths in terms of his experience from numerous other jurisdictions. And that experience cannot be under -- underestimated. And a strength from his firm clearly is their proprietary software.

However, in this proceeding Mr. Kennedy demonstrated some serious weaknesses, in our client's respectful submission, which should be considered carefully in weighing his evidence. And it is clear that Mr. Kennedy is not an empiricist.

And if the Board gets a -- a few moments to turn to -- not right now, but at -- to turn to pages 1,860 to 1,866 of the transcript, you'll see there that we posed a question to him, in terms of: What tests of statistical significance did you conduct in evaluating your survivor curves? And the answer is very entertaining and, with respect, demonstrates that Mr. -- Mr. Kennedy is clearly not a statistician. I've made a note to not show it to Mr. Pelly, the Board's actuary on MPI -- MPI matters. But take a moment and -- and read that and -- and draw your own conclusions.

And certainly the evidence, the written evidence, of Gannett Fleming, in our client's respectful view, materially oversold the actual nature -- the actuarial nature of the depreciation studies. And we'll come to this point in greater detail.

But the empirical support, in terms of the initial survivor curves for poles, overhead conductors, spillways, weirs, and dams are very questionable. And -- and so that was a concern to our client.

And another concern, again from our

client's perspective, being far more familiar working with actuaries or econometricians, was that Gannett Fleming was -- was not very careful in identifying data or analytical limitations. So that, in our client's per -- perspective, is something, notwithstanding his great experience, which -- which should weigh against giving too much weight to the evidence of Mr. Kennedy.

At page 84, we draw a contrast between the Gannett Fleming report on depreciation and the excerpt from the Kinectrics report for Ontario that was provided as an exhibit by CAC. And again, I -- I don't have the exhibit number with me, but we invite you to compare the quality of those two (2) reports. And in our respectful submission, Gannett Fleming offers less insight into methodology and conclusions, it is less tran -- transparent, and it is much -- it is more poorly sourced.

A review of the transcript -- and I wasn't here for -- for some of this discussion, but -- but Mr. Kennedy made some comments regarding componentization required with ASL. And in reviewing the transcript, and specifically the -- some of the cross-examination of My Friend, Mr. Hacault, it certainly would be, from our client's perspective, open to conclude that the evidence of Mr. Kennedy in this regard was wounded by information related to the National Energy Board and the Ontario Energy Board, in terms of the degree of componentization. And I know My Friend, Mr. Hacault, will be touching on this, but I -- I've put in some references from the transcript which we feel may assist the Board.

At page 85, we simply draw the Board's attention to -- to the -- the reality that Gannett Fleming's work in -- in this -- this hearing was assisted by, but relied quite heavily upon, the Corporation's own asset con -- dis -- asset assessment process. And certainly, one (1) of the benefits of the in -- increased interest of the Corporation, with the urging of this Board, in asset assessment, may be in -- in more -- more accurate estimates of depreciation costs. And towards the bottom of page 85, Mr. Kennedy makes reference to the happy circumstance that we -- that the asset assessment work was going on at the same time as his depreciation study.

Really, I'm -- I'm going to skip over page 86, but I do want to chat for a little while in terms of the life estimates presented by Manitoba Hydro and by Mr. Kennedy. And My Friend, Mr. Peters, had a lengthy cross-examination of Mr. Kennedy on this point.

And, as I understood Mr. Peters's cross

and the dialogue that he had with -- with Mr. Kennedy, Mr. Peters quite properly was asking, you know: You -- you've got some expanded life expectancies, whether it's for generation in aggregate, whether it's for poles, whether it's for overhead conductors. What evidence do you have to -- to support that?

And at pages 87 and 88, we try and summarize our sense of the record. In terms of Hydro's push to -- towards longer life estimates in certain asset categories, we would note, from our perspective, that it is consistent with -- with a trend towards longer life estimates identified in -- in some other jurisdictions. So that's something in favour of Manitoba Hydro's estimates.

We do note a data limitation concern, and that is on four (4) of the big -- the big categories: poles, conductors, spillways, and dams and weirs. There's not a lot of what Hydro -- or Gannett Fleming calls 'retirement analysis', the so-called actuarial analysis in support. There's just not the data to - to support -- the Manitoba data to support some stro -- very strong conclusions in that regard.

Where there is support on the distribution side of the significant move to Iowa 55R for Poles is -- there's two (2) sources of that: the

Hydro dri -- distribution asset paper, which, in our client's views, gave some strong support for moving the poles life out; and also the Kinectrics from Ontario, which was also supportive of that.

So when it comes to the distribution assets, such as poles and conductors, due to its asset management work on distribution, as well as the work of Kinectrics, our clients had some confidence in the directional trend of the distribution est -- estimates.

There is some, although weaker, support for the longer than one hundred (100) years for generation. And we've put in the best support that we could find on the record, a -- a quote from -- from Mr. Kennedy. And in looking at the life estimates, our clients conclude that there is some evidence to support longer life evidence, especially the distribution assets as corroborated by Kinep -- Kinetic -- Kinectrics and Hydro asset condition report. And also some, albeit weaker, for generation.

At pages 89 through 93, members of the panel, our clients talk a little bit about the proposed true-up with regard to the -- the difference between booked depreciation and calculated accrued depreciation. And, of course, given in this hearing the number in terms of that gap, what we -- we call sometimes 'over-booking' is -- is quite large: over half a billion dollars, leaving aside issues of net salvage, whether one uses the Average Service Life methodology or the ELG methodology.

So Hydro, to its credit, has identified that there is a significant gap between booked depreciation and calculated accrued depreciation and proposed to true-up that gap in the traditional practice that -- that it has traditionally done over the life of the assets, as we understand it. Mr. Rainkie or Ms. Ramage could do more justice to - to that point.

The question our clients pose in this case is whether that kind of delayed true-up is -- is appropriate or whether it should be accelerated. And -- and it's something that our clients have struggled with. But at page 89, we start with a quote from Mr. -- Mr. Kennedy. And he -- you know, he certainly proposed to collect that true-up in the traditional fashion. But he does note that this case is a bit of an extreme case, because they really dug deep. They really componentized plant. So right from the start there's an admission that this is not your normal depreciation study.

At page 90 we note that whether one uses the ELG methodology or the Average Service Lifes -- Life methodology, the large -- the -- the big players - - the -- the big drivers, in terms of the difference between booked depreciation and calculated accrued relates to distribution and sub-transmission. And we put in some quotes from Mr. Kennedy. He conceded that -- or not conceded, but he noted that -- that most comes from distribution. And this was a question I posed to him, the next quote, which he confirmed:

> "It's poles and fixtures and overhead conductor devices which are driving the bus, in terms of the accumulated depreciation variance."

And he -- he agreed with that. And you -- you can think of the -- using AFL of that $550 million over-booking, roughly 400 million of that is related to distribution and sub-transmission.

So in terms of a -- this ex -- a bit of an extreme case, in terms of a dep -- depreciation study, in terms of the degree of componentization, but also the magnitude of the over-booking, we can see that much of the issue, much of the problem relates to -- to those who -- who are -- served by sub-transmission and distribution.

At page 91, using just poles as one (1)

example, we seek to make the point on this page that the dramatic difference in depreciation, the over-booking for poles is not a function of changed or improved techniques. You can see the -- I note from Mr. Hall that the tech -- the treatment technique for poles has been in place since the late 1980s.

So this over-booking related to deprec -- to distribution, we would suggest, based on the evidence as we understand it, is not because of new technology improving pole treatment technique. That's not the driver. So what is?

Well, as you'll note at the bottom of page 91, Ms. -- there's a note that Hydro just didn't have a thorough inventory of its poles until quite recently. And so how was the 2005 depreciation study done for -- for distribution? It was done using a methodology set out at page 92, the computed mortality methodology.

And this is not a direct quote here at the top, but it's my summation of the record from pages 1,834 to 1,838,

"Given the dearth of actually data held by the Corporation at that time, the depreciation associated with these ast -- assets was estimated in the 2005 actuarial analysis under the computed mortality methodology."

And at the bottom of the page, you -- you see a comment from -- from Mr. -- from Mr. Kennedy, saying that when they went to do the study again, when they looked at the results using the computed mortality methodology as compared to the internal experts of Hydro, they -- they developed some concerns with the accuracy of the computed mortality methodology.

So the point from that, members of the panel, is simply that in terms of the over-booking of depreciation, in our client's submission, as it related to distribution, a great deal of it can be attributed to an analytical flaw in the 2005 study driven by lack of data, as opposed to a enhanced treat -- enhanced -- enhanced life, per se.

So our conclusions on page 93 is that, to a significant degree, the key -- a key driver for revised estimates for distribution and sub-transmission appear to be better data, rather than technological change leading to longer service lives. And our clients note that Hydro proposes to true -- true these up. But if you think of it, think of a pole which was previously at Iowa 32 or 34 -- I can't remember which -- with now its extended service life being extended out to Iowa 55 - a very significant difference.

And so our client's concern is for those distribution ratepayers who would have had that over-booking collected over a shorter period of time, the payout of it is over a considerably longer time. And that's of concern to our client.

So in those circumstances, given the -- to quote Mr. Kennedy, the extreme case of this depreciation study and some of the unique aspects in terms of depreciation, our clients are not satisfied with the proposed true-up.

The problem, of course, is how do you mathematically come up with the right -- the right answer. And Ms. Desorcy will recall we spent some time on Friday trying to come up with a more principled way to expedite the repayment back to our clients.

And -- and frankly, we -- we -- there wasn't -- we don't have a real recommendation in terms of that, except for to ask the Board in its wisdom to address its mind, if it has concerns with the equity of that to ratepayers served by distribution whether Manitoba Hydro should be directed to come back with a revised proposal in terms of true-up, given the extraordinary circumstances of this case and given, really, the dramatic extension of -- proposed extension of service lives for poles is just one (1) example.

At pages 94 through 97 our clients suggest and they believe they're supported in this by the statements of Mr. Kennedy, that the retirement rate analysis was not -- not reliable or not the primary driver for Keeyask accounts.

And, of course, if -- if you've -- been burdened by having to read a depreciation study of late, the retirement rate analysis is the purported actuarial methodology of -- of Gannett Fleming.

And certainly in the cross-examination, both of My Friends Mr. Peters and of Mr. Hacault, as well as of -- of our own on behalf of CAC/MSO -- CAC (Manitoba), we identified concerns with the data being relied upon for the purposes of the retirement rate analysis.

And we put excerpts from the transcripts on these pages related to pole retirement, related to overhead conductors, related to spillways, and related to dams and weirs, and suggesting that the retirement rate analysis was not the primary driver in many cases just not reliable.

And the most pointed example of that is on page 90 -- 95 where you see a discussion of spillways. And you see Mr. Fleming -- Mr. Kennedy indicating that his -- his judgment was not primarily driven by the re -- retirement data. And the -- the quote in the middle is -- is -- it's confirmed by him that we place little reliance on historic retirement data when it came to spillways.

And at the top of page 96 he -- he notes that:

> "Most likely I did not even ask for a statistical best fit."

Why does this matter? It -- it's an important segue to our conversation about Average Service Life versus ELG because as -- and we'll come to this in a couple minutes. But as -- as Mr. Kennedy freely conceded, the ELG procedure is much more sensitive to the selection of Iowa curves than the -- than the Average Service Life -- the more simplistic Average Service Life approach.

And a threshold question our clients ask in terms of ELG is whether, given these data and anacl -- analytical limitations identified in this hearing for -- really four (4) key drivers of -- of depreciation costs: poles, conductors, spillways, and dams and weirs, whether we can -- we can take much comfort or have much confidence in ELG. Because generally, assuming proper data and a stable rate base, ELG is generally conced -- conceded to be the more precise technique.

The concern our clients raise is whether, given the experience in -- in this study with this data, whether we can have that confidence.

At page 98, I -- I'm confident My Friend Mr. Hacault will -- will discuss net salvage at length. I'll -- I'll simply state our -- our comments are there for you to read; that our client generally is -- is supportive of Mr. Bowman's proposal to bring forward the -- the net -- taking net salvage out of the depreciation calculation.

I'm going to leave the front loading. It's just, given the time and it's not that central to our -- our submission, it's -- it's more a -- but I do want to spend a few minutes at pages 101 through 104 on ASL versus ELG.

And the Board had requested to do a pros and cons, and, frankly, Mr. Chair and members of the Board, I just ran out of time for -- for most of these issues to -- to do a pros and cons. But for A -- Average Service Life versus ELG, we attempted a bit of one.

We note, in terms of -- this isn't really pro ASL, but that both are IFSR -- IFRS compliant, although, as Mr. Rainkie noted, ASL would -- it certainly was his view that it would require -- it would need to look differently from what it looks now to be IF -- IFRS compliant.

In terms of Average Service Life, we note as well that it is consistent with the approach of major regulated Crowns and most regulated utilities. At least the high -- high level, we recognize that -- that whether -- that some of these are -- are more componentized than -- than Hydro, or at least so it is alleged.

We note as well that in Ontario there does not appear to be any utility using the Equal Life Group, so the ASL approach is certainly compliant with IR -- IFRS and consistent with the approach of most, or indeed perhaps all, major regulated Crowns and of most regulated utilities.

We note an interesting and -- and candid point of Mr. Kennedy, that -- that -- and that's from page 1781 of the transcript, because I'd asked him -- in his previous depreciation study, he had suggested that there should be a -- a three (3) to five (5) year review of the deprecation study, and he noted that the audit conni -- committee was not comfortable with the three (3) to five (5) year recommendation, particularly for utilities that were adopting the Equal Life Group procedure, because they -- they felt that the weighting needed to be confirmed.

So the inference we drew from that statement was that one might expect more frequent depreciation reviews under ELG. Now, Mr. Kennedy was -- was careful, though, to point out he didn't say that meant full-out studies, but, as I understood his evidence, he was suggesting it would require more frequent reviews than the three (3) to five (5) year period cur -- envisioned under ASL.

At page 102, we simply make a point and Mr. Kennedy was forthright in making his point in his direct evidence and again in cross-examination by Mr. Peters. If you think back to the examples that Mr. Kennedy used for ELG, he spoke primarily of -- of -- in a stable investment incli -- climate -- climate, and he did note that -- at the first paragraph at the top of page 102, that the ELG procedure is sensitive to additions of plant going in.

Equally important to our clients is at page 103, which is that the -- is the vulnerability of ELG to unreliable data, coupled with Hydro's data limitations. And we see this statement by Mr. Kennedy in terms of ELG being more sensitive to the vintaging, and Mr. Bowman perhaps expressed it better, again on page 103:

> "You're more dependent on having the right curve under ELG than you are under any other method. To the extent that there is unreliable data, its impacts on ElG will be more profound."

That was my question and Mr. Bowman agreed with that. And so that, from our client's perspective, is -- is a concern.

At page 104 we -- we cite and probably don't do the justice to the points that we should, some of the pro ELG arguments. A strong one (1) advanced by Mr. Rainkie and -- and Mr. Warden and -- as well as Mr. Kennedy was that arguably that there was less componentization required.

We got what we believed was an estimate of what Ms. -- Ms. Hooper and her team had done already in terms of componentization, about five hundred thousand dollars ($500,000), so we noted that that is not an insignificant cost.

And certainly our reading of the information suggests that in the climate of a stable rate base, with reliable data, there's a strong argument to be made for ELG in terms of being more equit -- equitable and precise. And I put in one of my favourite quotes of Mr. Rainkie because he would go farther than a strong argument. He said, "It's indisputable", he was very emphatic on that point twice on that same page, so I enjoyed that.

But the -- and certainly our sense of the literature, members of the Panel, is when the data is there and when you've got a stable rate base, there's a lot to be said for ELG -- ELG in terms of equity and precision. The question is: Can you say the same when we've got these data and empirical uncertainties and when you've got this rapidly go -- growing rate base?

Another powerful argument for ELG as we understand it, and I don't want to get into IAS-16, I just put the quote there. But arguably that it's more stable under -- under ELG and the accountants can -- can work with that one.

So certainly from our client's perspective they see the intellectual attractiveness of ELG. They wonder with these data limitations in this escalating capital portfolio whether it's the right -- the -- intellectually tempting, but practically not the right way to go.

Our clients have a couple points just in terms of full cost accounting. They just want -- they think while they're supportive generally of Mr. Bowman's desire not to see a continued move away from full cost accounting in the 2 -- 2012/'13 and 2013/'14 test year, they do acknowledge that Hydro has a fair point. A strong point is that what they've been doing in this regard is really consistent with prior direction of the Board. And so our clients wanted to -- to note that.

At page 107 our clients articulate a strong decent in terms of the -- from the rate-making perspective in terms of the -- the treatment of demand side management proposed under IFRS. Again, that's not in -- at issue in terms of the test years. But the last bullet on 107 I think is a good articulation of why in certain circumstances regulatory asset accounts are a good idea from a regulatory principle perspective.

And clearly there's a long-term benefit to DSM to customers and to utility systems overall. And -- and certainly from our client's perspective directionally they're not -- they would be supportive of -- of treating DSM on a going-forward basis at least for rate pay -- rate making purposes as a regulatory asset.

Mr. Chairman, I think I can probably finish in about twenty (20) -- fifteen (15) to twenty (20) minutes. I'll try and -- the next section should go quite -- relatively quickly, so.

THE CHAIRPERSON: Do you want to take a few minutes?

MR. BYRON WILLIAMS: I could take a three (3) minute break, but I'm --

THE CHAIRPERSON: Let's do that.

MR. BYRON WILLIAMS: Okay.

--- Upon recessing at 2:02 p.m.

--- Upon resuming at 2:07 p.m.

THE CHAIRPERSON: I believe that we can resume the proceedings.

CONTINUED BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: Thank you, Members of the Board. I'm at page 108 and in terms of forecast there's -- there's -- our client -- and -- and the question of whether the forecasts of Hydro are reasonably reliable, our clients do want to identify a couple of significant concerns.

One (1) is that even in the -- the shale gas era, Manitoba Hydro, in our client's sub -- submission, is still struggling in terms of its estimates certainly in the opportunity or spot marketplace. And certainly our clients would have expected some adjustment issues but that is of some concern to them. And then, again, what we -- which we've -- we've identified before in the context of Wuskwat -- Wuskwatim is challenges in terms of capital estimation in the post-sticker shock era.

And at pages 109 and 110 we -- we look at forecasts of average export revenue versus actual or revised forecasts and, again, remembering when you look at average export revenues you -- you have to always normalize for volume. But as you'll see at the bottom of 109, certainly the discussion between -- on pages 3,660 through 3-6-6-7 Hydro conceded that the primary variation driver was price not val -- volume.

And certainly you can -- you can see in the table towards the middle of the page the sharp gap between IFF09 in terms of the expectations of average export revenues and IFF10, and then the calamitous decline reflected in IFF12. So again, just an illustration from our client's perspective of the challenges Hydro was experiencing.

And on -- on page 110 there's another apt illustration of this. I've titled it 'Forecast Average Price the Spot Market 2011/'12.' Mr. Cormie might use different languages. But this is -- this is the variance between IFF10-2 and the actuals for the 2011/'12 year. A fairly short time period and yet you see a -- a variance between the forecasts and actuals of 43.6 percent. Some driven by volume but Mr. Cormie pointed out that the stronger driver was the -- the softening of the market. So a concern our clients have with their -- the reliability of the forecasts in terms of export revenues.

We've already talked at page 111 in terms of the -- the variance between capital expenditure forecasts and revised forecasts or actuals, but the top of 111 we -- we highlight for the Board a quote from DBRS. And Manitoba Hydro often talks about getting the debt equity right, getting the interest coverage right, but a strong warning -- and this is not just in this one (1) DBRS report, if you go through the DBRS reports in 2010, '11, '12 you'll see the same message:

> "Completing the large Hydro generation transmission projects on time and -- and within budget is key

to maintaining a stable financial profile."

And we know what the experience has been in the post-2009 era. And that table that I provided to you previously is restated at page 112.

Just for a couple of moments I do want to talk about on Part 4 at page 113, reserves, and about risk. And in our client's respectful submission the dialogue in this hearing in terms of issues of risk is regressed a little bit from the last hearing. Perhaps that's natural given the inordinate focus on -- on risk issues in the last hearing.

Often we hear Manitoba Hydro in this hearing talk about risk in terms of the magnitude of its exposure, and that, of course, is a key element. But our client did want to remind the panel and perhaps all in this room that when we look at risk and we've certainly heard this on the MPI side. The assessment of risk is an assessment not just of the magnitude of the risks but the probability of the risk. And also as Mr. Bowman pointed out to me in this excerpt from the transcript, is it a mean reverting nature -- is it a risk with a mean reverting nature and what -- what he meant by that is -- is it likely to self correct over time. So just a small point on -- on risk.

In terms of assessing the financial strength of the Corporation at pages 114 through 115, much as Hydro likes to talk about its -- its weaknesses, we think it's important to look at its strengths. And these have been identified by Standard and Poor's, by Moody's: low cost hydroelectric generation, government ownership, the vertically integrated monopoly, a diversified customer base and supportive regulation.

And on page 115, we provide reference to information from Moody's really highlighting one (1) of Hydro's and BC Hydro's unique advantages which is the hundred -- the debt guarantee. So those are some of the strengths that are -- that are often or sometimes overlooked.

At pages 116 through 119, we make the point that supportive regulation doesn't always mean giving Hydro what it -- what it asks for. And certainly we provide a reference from a prior Board order -- excuse me, bond rating report in which, you know, in the recent fiscal year, Hydro got less than it had -- had expected and yet the bond rating remains stable. And so that's the simple point that we make at this -- this point.

At page 120, I'm not sure -- I thought

this might be of interest to Board member Lafond and perhaps others on the panel. Mr. Lafond -- Board member Lafond has talked about risks associated with interest rate fluctuations and he did pose a question to Mr. Warden, a -- a really good question, were bond rating agencies raising this as a concern in terms of the floating rate debt. And Mr. Warden indicated that they had not.

And on this issue, we also direct the Board's attention to the National Bank report filed in the previous GRA and an excerpt of which appeared in this GRA, looking at some of the benefits that can come from a modest diversification of the portfolio.

A final point on -- on risk, Members of the Panel, is that something that's occurred to our clients in just reviewing many of the bond rating agency reports is that some of the risks that -- that are being identified in these reports are ones that are a function or a product of the Hydro's choices or their management approach.

I referred you previously to the con -- the caution of DBRS in terms of capital projects going over budget and over the time estimate and then at pages -- still on page 121, at page -- pages 3,714 and 3,715, there's a very interesting conversation with Mr.

Cormie reported there in terms of Standard and Poor's concerns with the merchant plant.

Now in -- in fairness to Hydro, they suggested S&P really were unfamiliar with its operations and -- and they disagreed with that statement. But it's a really interesting comment showing that some -- suggesting that perhaps some of the capital projects of Manitoba Hydro were starting to get an increased attention from the regulator.

Just -- I'm going to jump right to page 129 and -- and just highlight a few of our client's recommendations.

In terms of rates at page 129, clearly our client has made the point that they think the -- the deferral account related to 2010/'11 and '11/'12, as well as the 3.5 percent rate increase should be denied.

At page 130, they do leave open some openness to finding some way to dedicate some portion of these funds to DSM. We know Ms. Ramage's views of -- of that option. We -- we've -- we've agreed to respectfully disagree on that.

At pages 131 and following, our clients identify more specifically some of the accounting changes that -- and other changes that they -- they would recommend to the Board. And I won't go through the pros and cons, but just summarize the -- in -- in large part, the su -- the changes or proposals.

At page 132, in terms of the overhead accounting charges proposed by Hydro related -- of 27 million related to IT infrastructure, building and depreciation, from our client's perspective, they -- they would be not supportive of including that in the revenue requirement, and would prefer a more traditional accounting approach, or more historical one perhaps is the better word.

In terms of the overhead accounting charges for 2014/'15, our clients just feel it's not necessary to take a position on that.

At page 134, in terms of the proposed changes in extended service lives, our clients are generally supportive of Hydro's proposals in this regard. Again, they did flag in their discussion here that they had more confidence in the distribution numbers than the generation, and certainly they would suggest that perhaps these -- the -- these estimates should be revisited once the generation and transmission asset management reports are filed and finalized.

Our client talked -- or I talked on

behalf of our client at length about the deprecation true-up. I think when -- when our client was struggling to come up with a proposal, we say here direct that Manitoba return with a more equitable true-up provision, our -- our clients were thinking of a shortened period of recovery, whether it's in the -- the twenty (20) to -- to -- year range or something like that, but they didn't have any principled basis on which to advance that number.

Depreciation net salvage at page 136. Our clients support Mr. Bowman's proposal to delete that from costs.

With some reluctance in terms of ELG versus ASL, although it's not in play for the rate test year, our clients are not supportive of ELG. Analytically attractive as it is, they have concerns with the data reliability and its implementation at a time of an increasing capital base.

Page 138, I've made these comments regarding OM&A before. I will not repeat them. Likewise with DSM.

And our -- at page 140, our concerns with the prudence findings are -- have been expressed in our argument already.

At page 141, I did want to talk for just a moment about benchmarking, and I -- certainly our clients want to draw to Manitoba Hydro's attention and this Board's attention, although we often hear about the impossibility or the challenges of benchmarking, we have two (2) in -- in -- and certainly in our client's regulatory experience, two (2) good examples of where, in their view, benchmarking has been very successful and very valuable.

And one is not on a -- is not from this proceeding, but certainly, if Manitoba Hydro wished to review the Board's most recent order with regard to Manitoba Public Insurance, they would see the value flowing from the Gartner Group's review of information technology.

And in the context of this hearing, certainly from our client's perspective, the benchmarking exercise conducted by Mr. Dunsky has been acutely valuable in -- in showing opportunities for Manitoba Hydro and -- and highlighting potential differences.

And certainly our client sees more potential in benchmarking studies than Manitoba Hydro, and they see that opportunity to -- to have benchmarking studies, perhaps Hydro assisted, by external experts in specific, specialized areas. I'm not sure if information technology is one for Hydro; it's certainly worked for Manitoba Public Insurance.

In terms of forecasting, we've identified our con -- concerns. One (1) thing that I should have noted, Members of the Panel, and it -- I will just finish up with this, and it's at page 123 of our client's outline. Page 123 under Part 5: Rate signals.

This is not the hearing in which inverted rates will be discussed, but our clients think it's important to -- to understand that when it comes to rate signals again, there is, at times, what sounds good in theory may not work so well when confronted with human reality or empirical evidence.

And while, from our client's perspective, theoretically price signals are a -- a potentially valuable tool for incenting consumer behaviour. Consumer behaviour in the marketplace is -- it's just a lot more complex. And Ms. Morrison made this point very well talking about choices consumers make in terms of gas versus electricity. And a lot of those concerns or the choices made in -- in her evidence she talked about how even where there might be a financial benefit there was a -- a loyalty to electricity because it was perceived as being more stable.

Just to underscore the point that -- that stabil -- consumer behaviour is not always well described by the model of the rational economic actor.

That point is particularly the case when we look at the behaviour of consumers of electricity, a basic necessity for which there are few substitutes available. And Mr. Wiens and I had a lovely discussion, I always love talking to Mr. Wiens, at page 2,621 to 2,633 of the transcript, and he made the point that there is very -- that there is -- in terms of residential customers, limited residential elasticity, especially in the short-term, and that it would take a pretty significant rate increase for a marginal payback. And that's an informative discussion.

One (1) last point on this is in the next hearing or certainly in the NFAAT, our clients will want to discuss in greater detail the role that assumptions about consumer behaviour pay -- play in Manitoba Hydro's load forecasts. Because our understanding of the evidence, and I provided you with the references here, is that Hydro's forecast, whether for residential or general service, do not recognize any dampening effect of price on usage. And that is, in our experience, inconsistent with most models, although perhaps it's reflective of the very limited price elasticity of residential and other customers.

Mr. Chair and members of the panel, it's been a pleasure to appear before you, you've been so patient. And I apologize for the length of our submissions, our client had a -- a lot to say, and hopefully it was of some value to the Board. Thank you very much. And subject to any questions, that ends our submissions.

THE CHAIRPERSON: Maitre Williams, we do have some questions so if you mind -- if you're patient enough to answer them I'd really appreciate it.

MR. RAYMOND LAFOND: The first one is more general and I guess more lengthy, the fir -- the next two (2) ones will be brief and require a brief answer also.

But you started your presentation talking about the risks and -- and you ended -- just before ending you talked again about risks. And I'm not sure you concluded that in the second portion but in the first portion I'm quite sure I heard you -- you state that you were of the opinion that at this stage of Manitoba Hydro's life risks were not as -- I shouldn't say important, but would not have as much of an effect that if it -- as if it would have had previously in the past.

Now when I look at Exhibit 15 I think it is -- the present -- yes, it is. A present -- Manitoba Hydro Exhibit 15 presentation by Mr. Warden, page 43, where he details some of the high consequence risks and I know the first one (1) is possibly a bit improbable but a major one (1), infrastructure. And if I would add to what's indicated on that page, it says, Probably a couple billion dollars for Manitoba Hydro and tens -- if I'm quoting him correctly, tens of billions in terms of social costs.

We see the drought. We see the loss of export markets. Interest rates which are not inconsequential especially considering that interest rates are today, very, very low. Not sure I agree with this but most are projecting increases in rates. While a 1 percent increase means 700 million over ten (10) years, a 5 percent increase would be substantial and not unthinkable because that would be more like an average rate over the last twenty (20) years or so.

You talked about retained earnings being in the best position ever. I admit and I concur, however, when we look at projections, we see retained earnings going down to 10 or 12 percent which means that there's less of a cushion, if I can call it as such, to absorb any of these probable risks or unforseen risks.

I think we started to see though -- I'm new at this panel, the consequence and as you mentioned in one (1) quote in your conclusion here, the consequence of aging assets that need major restoration or replacements. And that's starting to happen with most utilities across North America. And besides that, it's at much higher cost. The replacement cost of these are -- are much higher.

You talked about the diversif -- the -- one of the assets is the diversified customer base. And I'm sympathetic to that and I agree with this in -- in at least, in theory. I was a bit concerned when I heard from a MIPUG client who uses the equivalent of close to Wuskwatim in a year, said that, Well if rates are too high, they would leave. And it didn't seem to be like, if rates doubled or tripled but just a fairly reasonable increase or modest increase, if we can use these words.

And then the other thing I think that came up in terms of risks was the Bipole 3 which is -- I wouldn't call this a risk in the sense that it's -- it's hap -- it's going to happen regardless of whether or not -- for instance, Keeyask or Conawapa would go based on the issue of safety to avoid this improbable but possible disaster scenario with only one (1) major station being Dorsey and the duplication being -- being created with this additional line and also with the Riel station.

So all this to say that somehow, even without any additional consumption or -- or load forecast, we would need Bipole 3 and the Riel Station for safety reasons which is really, to some extent, a duplication of what exists for safety measures and -- and in case something happens. I don't know how you react to that.

MR. BYRON WILLIAMS: I guess I'm going to try, I probably have four (4) points and I'm mindful of your caution to be brief. Let -- let's take the infrastructure one to start with and -- and absolutely, it's a legitimate risk, especially the -- the vulnerability associated with Dorsey.

One (1) of the cautions I did have though -- and that -- the page the you refer too was unfortunate in my view because -- and I don't have it in front of me but I don't remember seeing those probabilities attached to it. And -- and what we learned in the last hearing is that modern risk assessment is -- it's much more nuanced than -- than identifying a few risks and putting a number to it. It's to look at the -- the possibilities of those risks and the probabilities of those risks in combination with -- with others.

My answer to that was going to be, that risk would be addressed presumably in 2017/'18 by -- by Bipole 3. There's also evidence, not in this hearing, in terms of former Hydro engineers are proposing other alternatives to that.

I don't deny -- well, I would point out that the mathematical, you know, if -- if you look at what Hydro has always -- has traditionally sought to protect against the biggest risk with a high pri -- probability associated with it, I think that has historically been drought and in this hearing you started to see some shifting of the language of Hydro away from that.

But from our client's perspective that remains a primary concern because of the magnitude and the proba -- probability. And so to -- to that degree there is a -- a lowering of the magnitude of that risk, although not the probability.

Interest rates have been flagged quite legitimately as a concern from the -- the Board. And you'll probably see in the quotes that I didn't go through in detail back in 2004, legitimate risk. And that's -- although, as I understand it, there are some offsetting short-term interest rates seem to be correlated with revenues, energy revenues, in the -- in the United States and the National Bank has some very interesting information about that.

Aging assets, if Mr. -- Mr. Lafond, if you go back to the 2004 report of the Public Utilities Board, and I think -- or the 2008, that has been a concern flagged by Manitoba Hydro, a legitimate concern. Our clients are feeling a little more bullish on -- on that issue.

Why our clients were pushing asset management for close to half a decade now is be -- because they were confident with the positive results from other jurisdictions. And -- and I think we -- you can start to see some of those now.

I wouldn't -- I use those words, the best of times/the worst of times, because to -- to convey some sense of ambiguity. And, Mr. Lafond, the concerns you flag are totally appropriate. I guess the point I was trying to make on behalf of my clients is that there are some offsetting factors and -- and also, this is a corporation that has huge, huge advantages.

And if you think of the dramatic, almost calamitous decline in the capital market, but yet Manitoba Hydro still is -- is looking at a modest positive net income, these are not happy times, but it -- it speaks to the resilience of a monopoly in -- in Manitoba.

Did that -- I don't know if that helped, but that's the best I could do. I'll be quick on the next two (2).

MR. RAYMOND LAFOND: Thank you. Actually I've -- one of the -- it will be three (3) questions. One (1) of the points you highlighted in your conclusion here was the cost of Wuskwatim and -- and the impact on current rates after it's becoming in service.

So there -- in that regard there are, I guess, two (2) questions. The first one is: You indicate on page 71 that ratepayers should probably not pay for all these additional costs. And if I refer to the page, that's on page 71. You say:

> "Manitoba ratepayers should not bear the entire burden of the Corporation's material under-estimation of the capital cost of Wuskwatim."

So therefore my question is: Who

should? Because we, the Board Panel here, do not have sufficient funds.

MR. BYRON WILLIAMS: Just in -- in the broader context of that statement -- and if you recall in our opening statement we talk -- talked about setting -- sending a signal to Manitoba Hydro.

And -- and one (1) of the -- the important messages, from our client's perspective, is we've got a capital project that is, in their view, materially under-performed, we've got three (3) or four (4) in the hopper.

You almost want to -- if you send a signal -- in our client's view, if one grants Manitoba Hydro what it's seeking, you -- you send a signal that could be misinterpreted. And the -- the signal could be misinterpreted in that it's a -- you know, mis-estimate as you will, you'll get what you -- what you say you need. And that's a concern from our client.

At the end of the day, Mr. Chairman -- or, Mr. -- Board member Lafond, don't ratepayers -- ratepayers always pay. But if -- if a message could be sent to Manitoba Hydro, come back with an OM&A below in -- less than inflation. Maybe, like all of us, when pushed, they would -- would dig a little -- little deeper.

So that's the context in which we offered those comments, if that's of assistance.

MR. RAYMOND LAFOND: And I guess this one, if you want to respond to this, you're most of course willing to -- I would appreciate that, but I'm not sure that there's an answer to this.

Wuskwatim, we see the impact on the current rates required after it becomes on service, and that was a relatively minor -- well minor -- minor capital expense compared to what's coming up with Keeyask and Wuskwatim.

And assuming a very rough estimate of costing -- a cost of nine (9) cents per kilowatt hour in terms of in-service costs, or costs when it does come in service, if a plant like Conawapa costs seven (7), eight (8) times more than Wuskwatim, that -- the impact this year, for instance, would have been seven (7), eight (8) times more than it is for Wuskwatim.

You agree with that?

MR. BYRON WILLIAMS: Directionally, yes, sir. Mr. Lafond, I'll accept that.

MR. RAYMOND LAFOND: Okay. Now, would you -- would you -- would your -- would CAC think that we should start preparing in advance for that, maybe not at this time, but several years before it gets into service, in order to -- to avoid this major rate shock?

MR. BYRON WILLIAMS: Mr. Lafond, that's one -- I have talked with my client about this. I just want to make sure I've got my ducks in the row on...

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Mr. Lafond, when -- when one assesses the merits of a major capital project like Keeyask or Wuskwatim, as -- as I understand, certainly this was the approach our client took in -- in Wuskwatim, you're looking at two (2) things in terms of whether this project can be justified.

One is its -- its long-term benefit over what -- you know, levelized benefit over a certain period of time. The second is: Can today's ratepayers tolerate it? Can they handle that bump in the road? Or, in this case, can they handle those three (3) great big bumps in the road with all the attendant risks that you -- you spoke of?

And my client, if -- from my client's perspective, there's a grave concern that -- that they can't. You know, they're not prejudging these projects. So they -- they would not be supportive of ramping up the revenue base to -- to pay for projects that might not be in the best interests of today's ratepayers. Their advice would be to slow down in terms of those projects.

And I want to be clear, our clients have not pre -- prejudged any of these projects, but one (1) of the reasons our clients brought Mr. Dunsky here was to -- to look around and -- and give us some insight into whether there are some other options, both for today's ratepayers in terms of energy efficiency, but also in terms of deferring major capital costs.

MR. RAYMOND LAFOND: Thank you. And I guess my next question is for you because of the experience and the knowledge you have about consumers. And you referred quite at length to those who -- who essentially are on fixed incomes and do not necessarily have the means to absorb some -- some increases, especially over and above inflation.

And -- and if you do not have that answer, I think Manitoba Hydro can answer later on, but a letter from Winnipeg Harvest, and more specifically for a Mr. -- from a Mr. Donald Benham, director of Hunger and Poverty Awareness, he has a paragraph in there that states:

"Many low-income families who own

their own house cannot afford
insurance, or live in areas of the
city where they cannot get insurance.
This disqualifies them for -- from
participating in Manitoba Hydro's
low-income energy efficiency
program."

Is this a fact?

MR. BYRON WILLIAMS: I -- I can't testify with certitude, but I -- I am aware of -- oh, just one second.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: We're certainly aware of the insurance dilemma, and I think we have a -- a research grant proposal that -- that's -- that may look at that. Anecdotally is all I can offer. I -- I am aware from -- at least one (1) person who's participated in the CAC advisory group and focus groups that he was unable to -- his ev -- suggestion was he wasn't able to qualify because he couldn't get insurance. But that's one (1) person. I'm not familiar with the policy.

MR. RAYMOND LAFOND: Thank you. That

concludes my questions.

THE CHAIRPERSON: My questions in relation to the recommendation you have made or your client has made with respect to rebating the 1 percent deferral account that has been accumulating since the last Board Order.

And you indicated that -- you suggest -- you suggested that the appropriate vehicle would be to ask for review and vary, that would see some of the funds from that deferral account allocated to deside -- demand-side management.

Now would you -- could you explain that a little bit more for me, my sake please?

MR. BYRON WILLIAMS: I think what I proposed was this -- and the starting premise, although I've never been quite sure what the PUB did with the furnace program so I'm not going to speak to -- to that. But the starting premise, my understanding is, is that the Board approves rates and it doesn't approve expenditures.

So our -- we were trying to think creatively about how, if at all, one might give Manitoba Hydro the opportunity to invest more in energy efficiency. And so one (1) idea our client floated in cross-examination with Hydro was the Board issuing an

Order rebating that money to consumers but you know, leaving it -- leaving it open in -- in language in the Board Order for example, for Hydro to apply if they wished to -- to review and vary that Order and seek to dedicate some portion of that -- that money to enhanced energy efficiency.

Ms. Ramage's response in -- during my cross-examination of Mr. Warden was that was doing through the back door which you can't do through the -- the front door. I don't think that's quite the case. It's making a decision to rebate the money but leaving it open to Manitoba Hydro, if it chose, the decision would still reside with Manitoba Hydro to come back in with a proposal.

So that was essentially what we were thinking of. And I -- I haven't -- I can't claim to have done any elaborate legal research on it. We were trying to be creative and to -- and to speak to both our client's strong sense that that money is -- is -- should be directed towards ratepayers. But also the sense that something is amiss in energy efficiency at Manitoba Hydro.

THE CHAIRPERSON: Thank you very much, Maitre Williams. I think that's it for the questions from the Panel. So I would suggest that before we hear from Maitre Hacault that we take ten (10) minutes and then we can start the proceedings, if that's okay with you.

--- Upon recessing at 2:45 p.m.
--- Upon resuming at 2:59 p.m.

THE CHAIRPERSON: I believe that we're ready to resume the proceedings. I would like to follow up on a deferred decision which we talked about this morning, specifically the request that we received from MKO in respect of the current rate application.

So the panel did have a chance to consider that request, and it has decided that it will accept the proposal -- the proposed submission from MKO in respect of the application, subject to MKO giving us a letter advising us of who or which organization has the agreement in his/or her possession or its possession. We also need to -- that letter should indicate what specifically needs to be done for the agreement to be concluded. And finally, the panel needs to have an indication from MKO as to when the agreements will be received by PUB for its consideration.

The panel has also decided that Manitoba

Hydro will be able to submit its written response to the submitted MKO information or position by the middle of next week.

Now, I know that -- I note the time, three o'clock, and Maitre Hacault has not been able to start his -- his submission. The panel has advised -- or wishes to advise you that we will keep on sitting until we hear all of the submission from Maitre Hacault. So we will certainly be going beyond 4:30. So those of you with family obligations, it's unfortunate, but we need to, I think, get the work done today.

So without further ado, Maitre Hacault, please.

CLOSING SUBMISSIONS BY MIPUG:

MR. ANTOINE HACAULT: Thank you. And I'd like to start by thanking everyone present, especially the lawyer colleagues for their collegiality and their efforts in running an efficient hearing and -- on revenue requirements. It's much appreciated.

With respect to the document that the Board has in front of it, it is -- it should be entitled 'MIPUG Final Argument Written Submission', February 25, 2013.

The structure of that document is as follows: There should be a table of contents at the very beginning. And what MIPUG attempted to do, and consistent with past practice, is to divide the information by the major issues which it felt were being dealt with by the Board.

That way, if the Board has questions or specific references that it would like to look at, as far as transcript or exhibits, hopefully we've compiled a fairly complete listing on each issue as it relates to that.

The structure of an application such as this one starts by Manitoba Hydro, and this is required under the Manitoba Hydro Act. They have to set out the reasons for their application -- for the rate increases. They bear the onus of doing that.

And in the GRA itself -- and that's a Tab 2 of the application -- the main reasons identified were lower export prices, more power purchases, and a concern with respect to interest coverage, and lastly a general statement with respect to risk.

As MIPUG analyzed the documents, it was of the view that although these matters were stated as reasons for the increase, and I think it's been fairly obvious from -- from the hearing, is that fundamentally one (1) of the large rate drivers were proposed changes in accounting/reporting policies. So we've seen a lot of discussion with respect to that issue.

I'll deal with all the issues set out in this brief, but with the primary focus on the two (2) test years, and I say that quite intentionally.

We've talked about, and there will be in the future, a lot of considerations, and we can't totally ignore those. I agree. But I'll give you one (1) example of why we don't, or shouldn't, in my respectful submission, put too much weight on future events that we think are coming down the pipe.

Look at Conawapa, for example. When I did my first hearing in 1989/1990, it was supposed to be built imminently. Everybody was worried about the costs, whether the project would be good or not, whether we had to put something aside for that project. And today we're talking about Conawapa maybe in 2026 being in service.

So we have to be very careful, in my respectful submission, of how much weight we put about the unknowns and the thing that have gone through a needs-for-alternative test. Conawapa, when it's going to be decided that they'll proceed with the project -- right now, they're just protecting it -- there will be a thorough analysis which will deal with a lot of the concerns that this Board has and which was expressed in one (1) of the questions by Board member Lafond: Well, should we start collecting for things like that, because, you know, isn't it going to be exponentially the same kind of problem, or, you know, are we potentially facing losses?

Well, number one, Wuskwatim unfortunately, on the needs-for-alternative test, we couldn't foresee those problems. At that time, it was the best decision as to when that plant should be in service. And Mr. Bowman explained that, and he says it's a really hard thing, and he doesn't criticize Manitoba Hydro at all for what happened and -- and why they were proposing that project. It turns out today that the numbers are different.

But we can't predict that, because Limestone, when I did that one, everybody thought it was going to be a bad thing, and it turns out to be one (1) of the best projects we've ever built. And it was very productive, and it produced very good income early on in its years compared to what it appears Wuskwatim's going to do.

So I start with that general statement, two (2) years, two (2) test years. Yes, let's be mindful of things that are coming up, but we don't know for sure what those are going to be. And I'm going to discuss the risk issues, the interest issue, et cetera, later on in my presentation to deal with those things.

What we've done therefore, and I won't go through too much of the introduction, but pages III and Roman numeral IV of the preface, we've quoted some extracts of the ex -- Mr. Turner's presentation. And I'll just read them. The first one is in the first paragraph:

"MIPUG members compete in a global marketplace, and -- and attractive, cost-based rates allow industry to remain competitive in Manitoba by offsetting some of the geographic climate and other disadvantages faced by industry in this province, including distance to market and the strong Canadian dollar."

The next short extract which I want to highlight is found on the nes -- next page, partway through the first paragraph:

"Throughout this entire period, Hydro has produced costs of service studies that show industry paying 10 percent

or more above its costs; yet all rate
changes were implemented on an
across-the-board basis. At the same
time, industries in other
jurisdictions are offered a much
wider range of ways to help manage
their load and to participate in
alternate rate settings. There are
minimal such offers in Manitoba."

And then the next paragraph comments that while Manitoba used to be among the lowest cost producers for power, it's not necessarily true today.

What I have in the next division is a summary of MIPUG recommendations. I don't propose to go through them now. I -- I believe it'd be more effective to go through them after each issue, because they do relate to each issue. But it's like a corporate executive summary of the recommendations; you have all of them compiled in one (1) place in this presentation. It doesn't mean that we don't encourage the reading of those sections.

I'll move into what we've entitled 'Relevant Statutes'. It's prior to issue topic number 1. And I apologize for going through kind of a technical matter, but we're all here because of parameters in legislation. And sometimes it's useful to remind ourselves what those parameters are.

So the statutory framework at page 2, I'm going to jump to verage -- various extracts. Page 2 of the document, there's a Section 26(4), which outlines matters which the Board may take into consideration. So we've gone through a lot of those; I'm not going to repeat them. But that's an outline of what the legislature thought that this Board might look at, were it going to be looking at a rate application. And you can see that one (1) of the things that I've highlighted is the word 'reserves'. And that relates to a subsequent discussion on retained earnings which we don't see anywhere in the statute.

It's a fairly broad list of things that the Board can take into consideration. And it has kind of an all-inclusive clause which flips onto the top of page 3:

> "Any compellising -- compelling policy reasons that the Board considers relevant to the matter; any other factors that the Board considers relevant to the matter."

Now, I also extracted Section 28, which is also on page 20 -- at page 3, that's the section that talks about compensation or refunds. And I'll leave it to more intellectually capable people, Board advisors. But I thought that this section was worth reading, so:

> "When a new rate for services or an increased rate is allowed pursuant to an interim order..."

And that deals with the 1 percent; that's what happened. And here's where it gets a little bit more confusing. It says:

> "...and a final order does not allow any changes or allows changes other than those permitted in the interim order."

So there was an interim order allowing for rate higher than what was ultimately granted by this Board. But the unusual factor was that the previous Board chose to say: Well, you can continue collecting that amount. It's not rates. You can continue collecting them, and you can put them in a deferred account.

So the Board is left with, in my submission, something that falls within this section. The final order did not allow changes or really contemplate what was going to happen with this 1 percent that was going to be put into the deferred account. And it appears, based on the reading of this section, that the Public Utilities Board may make, firstly, an order to compensate for, that would be one (1) con -- concept; or secondly, to refund any excess amounts collected by the Corporation that it considers necessary and appropriate in the circumstances.

So you'll see later in the submission that what MIPUG is recommending is that for two (2) years, the first two (2) years leading to this GRA, that there be some form of compensation or refund to the ratepayers of this province. Going forward after that date, it's the MIPUG recommendation that the rates be built into -- or take into consideration the 1 percent. That will be more for -- fully detailed in -- in the recommendations.

I next flip to page 7 of the extracts. And in Section 77 of the Public Utility Board Act, we see language such as the language that's been used by Mr. Williams, by Ms. Ramage, by other people in -- in this hearing, 'just and reasonable'. And I've got a little note there of a Manitoba Court of Appeal case that said, Well, this is one (1) of the sources of PUB's authority to determine rates.

So not only does the section start with

'just and reasonable', but it also ends in describing other form of rates:

> "That the rate should not be unjust, unreasonable, insufficient, or unjustly discriminatory or preferential."

And I had started by explaining, well, the industrials were always over 110 percent, although it's not been subject of much discussion in this hearing because it's going to come up at the next part of it. That was considered to be in the range of reasonableness, anything plus or minus so much. And we were outside. And when I say, "we," MIPUG was outside that zone of reasonableness.

There are Sections 78(2) dealing with depreciation. The midway of that section:

> "To be sufficient to provide the amounts required over and upon the expense of maintenance to keep the property in a state of efficiency corresponding to the progress of the industry."

Again, 82(1), that's 'A' -- that's further down on the page, you again see the wording:

"...unjust or unreasonable, unjustly

discriminatory, or unduly preferential."

These are all pretty standard descriptions in most utility regulatory statutes.

The next section I wish to draw the Board's attention to is on page 8, At the very bottom, the onus. In the last Board order, Chairman Lane in part refused the requested increase on the grounds that Manitoba Hydro had not satisfied its burden of proof. So that -- sitting here today, it's not MIPUG that has the onus proof of certain things or the various Intervenors. Manitoba Hydro has to justify, in my respectful submission, why it needs these increases and why they are just and reasonable. So the section specifically states,

> "The burden of proof to show that any such increases, changes, or alterations are just and reasonable is upon the owner seeking to make the increases, changes, or alterations."

I then flip to page 10. We're into a different statute now. It's the Manitoba Hydro Act, page 10, at the very bottom. And there's a heading there, 'Material Supplied by the Corporation'. So we see that in this hearing, Manitoba Hydro provided the information set out in 39(10), it showed a statement of the prices fixed or proposed to be fixed; 'B' -- and I've just summarized it, but it's in Tab 2 of the General Rate Application -- there's a statement of the reasons for any changes.

And I've also noted that absent in that section is any kind of indication that there would be an increase required as a result of the changes in accounting policies including the depreciation. The material is found later in the application, as far as tabs, but it's not stated to be a reason why they need to the increases.

The next section, which is somewhat confusing to me, because it stayed in for some time, although there's been some subsequent amendments to the legislation, is on page 11. And it's Section 39(11). The reason I bring it to the Board's attention is I believe that this section allows this Board to make recommendations and a report to the minister.

It's not something that has been traditionally done by this Board. It's certainly, with respect to rates, is no longer applicable, because now this Board doesn't make a recommendation which then gets implemented by the government. It just sets the rates and has the power to do that.

But this section doesn't say that the

report is limited to making a report on rates. It says that report can include recommendation, as to prices. Well, we don't need to do that right now. So in my respectful submission, this section would give the Board the power to make a report to the minister and make some recommendations specifically. And we make submissions on that with respect to OM&A. We've seen that similar things done, not in the same way, but where BC government decided to do an independent review on OM&A, Quebec, there was an order to -- you know, let's look at costs. And I say that in the context of this Board, for nearly ten (10) years, the -- your predecessors saying, We're concerned about them, please do something.

And I don't want to seem flippant here, but when we talk about significant changes and numbers in this Board, I always make mistakes. I forget to say it's $10 million or 11 or $12 million. That's what it takes to find a percent.

And when we see a report on what has been done by Manitoba Hydro, one (1) of the examples -- and I'm not criticizing it -- is we're cutting travel. It's nice to cut travel. There's not a -- it may or may not be a good decision. But that, in my respectful submission, the fact that that finds its way to a report that says, This is how we're cutting costs, and that's maybe, what, fifty (50), sixty (60), maybe -- let's give the benefit of the doubt -- $200 million a year. It's not even close to a rounding error. Yet somebody thinks that that's worth indicating.

It does show the example --

MR. RAYMOND LAFOND: I think you meant two hundred thousand (200,000) and not 200 million --

MR. ANTOINE HACAULT: Yeah.

MR. RAYMOND LAFOND: -- per year for travelling.

MR. ANTOINE HACAULT: I'm making mistakes again. But it does show the example, and the example is good. There's no doubt about that. But when smaller expenses like that are shown as an illustration of the efforts that are being made, that causes our clients concern.

Now, the -- in pages 12 and 13, I've extracted some decisions from Manitoba that consider these concepts that are set out in the legislation being just and reasonable. And the more important extracts that I'd like to draw the Board's attention to are -- start at the top of page 13:

"In determining a just and reasonable rate [and I'm quoting], the objective

> of the Board is to protect both the consumer and the utility and to safeguard the overall public interest."

That's the first quote. And then midway through the page, around line 18, Justice Monnin explains:

> "Rate approval involves balancing the interests of multiple consumer groups with those of the utility. The role of the PUB under the Accountability Act is not only to protect consumers from unreasonable charges, but also to ensure the fiscal health of Hydro."

So that the Board has a very challenging task. We've heard a lot of evidence about the financial health of Manitoba Hydro. And that was good information; it was necessary information.

But the other part that we can't forget about -- and I think it was former Chairman Gerry Forrest who used to say this -- we can't forget the old lady that lives on Magnus -- Agnes Street on a fixed income, and how are we going to explain -- and I'm putting it into the context of this hearing: How would

I explain to this lady, according to MIPUG's analysis, that your rates are going to be increased by about 10 percent because we have accounting reporting policies that are changing, policies that have served this utility, according to Mr. Warden's testimony, well for twenty (20) years?

So we've proceeded twenty (20) years in a particular way. And now, because we're going to have to change the way we report our income or expenses, you're looking at a 10 percent increase.

How is that lady going to understand that? Who's going to protect her? Who's going to protect her interests? And does it really make a difference in the expenses that were incurred to provide her service?

Now, the next page is starting at the bottom of page 13. I just draw to the Board's attention-- and I know the Board said it was going to give the weight that it thought Mr. Bowman's evidence deserved, that he was the only expert qualified in this proceeding to give evidence with respect to how these various depreciation matters fell into the regulatory principles that were applicable to Manitoba Hydro, a Crown corporation.

And it may not -- it may seem like a

fairly technical point, but nobody in their cross-examination challenged Mr. Bowman and said, Well, listen, you know, how can you say this about Crown-owned utilities, there's this and this happening?

Ms. Ramage did cross-examine him on a number of points. And I know I've just summarized them, but I note those on page 14, his knowledge of credit rating. She put to him and had a long discussion with him about BC Hydro's financial statements, because Mr. Bowman was of the view that they would not have to be qualified as a result of departing from GAAP. And it was in re-examination that we saw a part of that report, where the minister said that they would be making a note. And the reference is at the end of page 42, Manitoba Hydro Exhibit 110.

She discussed with him the views of any exposure by Manitoba Hydro to interest rates, his reference to the BC Hydro report on the EFT count, recommendations as it related to accounting changes, and his opinion on the removal of net salvage value.

But nobody challenged the principles in -- at least in my review of the evidence, that are set out. And I've numbered them as 1 to 10. They're taken both from Mr. Bowman's direct pre-filed evidence and from his oral evidence that ratepayers should only be paying for the assets that are used and useful.

To put a very specific context to that I refer to Board member Lafond's question of Mr. Williams: Well, shouldn't we start to collect money to deal with the Conawapa problem? That is inconsistent, in my respectful submission, with the concept of used and useful, and that's why there's full-cost accounting.

Once you start to have the electricity that comes out of a generating station, or once you start using Bipole 3, then you start charging customers because it's used by them and it's useful.

So when you get away from that principle you're starting to get into exceptional circumstances which the Board in its discretion might be able to deal with and explain their reasons, but it is a fundamental principle that ratepayers should only be paying for what's used and useful.

So if we look at Limestone, and we've talked about the big bump, how do we deal with that big bump? Because in Manitoba the projects are expensive. And at the very beginning, based on past history, they don't do very well. It may take five (5), it may take ten (10), it may take fifteen (15) years, but they don't do that well, they don't automatically provide a lot of good returns.

But we had the same discussion when I was here about twenty (20) some years ago in '89/'90, the first rate review. Everybody says, Well, it's a big bump. It would be contrary to intergenerational equity to make the people who have that big bump pay for it all. Why? Because for the next eighty (80) or a hundred years, as we've seen, you reap the benefits.

And in the last hearing Mr. Warden said the decade of investments followed by the decades of returns. Now why should we penalize the people who are living today in a decade of investment if there's going to be all these returns for eighty (80), ninety (90) years?

You aren't -- if you front-load costs, you are penalizing current ratepayers to the detriment of those who will reap all those decades of return that Hydro has talked about and we've seen and experienced.

Third principle not challenged, one (1) of the Board's roles is to protect consumers from the monopoly supplier. That's pretty obvious, I guess. Manitoba investments must be shown to be prudent and necessary. The Board determines which costs are reasonable and recoverable from ratepayers.

The fifth principle, page 15. Manitoba

Hydro's revenue requirement is based on the cost of service. And Mr. Bowman went through a lengthy exp -- explanation of that. We aren't here to provide returns to an investor who says, Well, listen I want a risk premium of 15 percent because I'm going to be investing in this company.

Number 6 I've referred to that already. Look at the two (2) test years and, to a lesser degree, to relevant subsequent periods to the extent needed to take into account the critical concept of stability.

Number 7, that wasn't challenged. Hydro projects are expected to have low economic returns in the near term but basically assured of having high returns in the medium to very long term.

Number 8, with the benefit of the guarantee from the Province of Manitoba, Hydro can access the capital it needs to finance the construction of the capital-intensive projects. This is contrasted with non-Crown-owned utilities which require a considerable rate of return on equity to venture into similar capital projects.

The ninth thing that wasn't challenged, as a crown corporation, Hydro is not sensitive to variations in its revenues when compared to public or private corporations. Hydro does not have to report to private investors who would probably demand excessive risk premiums on equity returns as a result of income variations caused by water flow variation. We've seen the huge water flow variations.

Tenth principle, as a Crown utility, Hydro has no investor or shareholder equity, per se. Lenders do not require an equity cushion to ensure they will be repaid. Many Crown utilities have operated for long periods with little or no equity. The purpose of reserves is linked to the ratepayer risks, the largest of which remains drought and infrastructure failure. As a result, Hydro operations can continue with very low annual net income, which can be adjusted as necessary following a GRA.

That -- subject to any questions, I don't know how the Board wants to deal with questions, if they want to deal with it in various sections or at the end. I would proceed to the accounting policy changes.

MR. RAYMOND LAFOND: If you permit me to have a bit of humour here on the first part. Did I hear that MIPUG users would love to compensate the little ladies on Magnus who have difficulty paying?

MR. ANTOINE HACAULT: Well, that comes to the class of service. There's -- MIPUG is not in a different situation. You've heard some of the presenters, Board member Lafond, who said when they hit the 2008 recession, they made major changes in their operating facilities, worked with Manitoba Hydro and kept employees employed.

So they -- they face, in various circumstances, very real economic challenges too. Sure, the numbers are in a different order, but they still are challenges that they have to face. And it's not only international competition; it's very real challenges.

And one (1) of the last things -- things we had suggested in the last hearing was, well, all the comp -- MIPUG companies and all the individuals in Manitoba were tightening their belt in 2008. And if you look at the numbers of Manitoba Hydro in 2008, what do we see? We don't see reductions in OM&A by 5 percent or 10 percent, so...

MR. RAYMOND LAFOND: I was just -- I was not expecting an answer and -- but I'll deduct from that that you don't also expect her to subsidize MIPUG users?

MR. ANTOINE HACAULT: Absolutely.

MR. RAYMOND LAFOND: On a more serious note, I -- I agree in principle with the principles enunciated, essentially. I guess -- and you alluded to a comment I made earlier in terms of questioning. Principle number 7, which you -- I guess you took objection to my comments, where you say -- where it says:

> "Hydro projects are expected to have low economic returns in the near term but basically assured to have high returns of the medium to very long term."

I think that is the crux of the issue, the word 'basic' -- the two (2) words 'basically assured'. That works well with domestic service. And even at that, we heard from your clients that if rates go up any significant extent, they would consider moving away.

And so therefore -- and then it's -- the other thing is the whole issue of exports, which are not basically assured, and I think that's one (1) of the big dilemmas all Manitobans, including the -- this panel, needs to consider. I'm not saying that I'm against that principle; it's just the words 'basically assured' have to be looked at and considered.

MR. ANTOINE HACAULT: I -- I would have some comments with respect to that. I don't -- the reason why I would suggest that that principle was not challenged in any way by any of the parties here is the way Manitoba Hydro manages the growth of demand in this province. And that is specifically dealt with in the needs for an alternatives to hearings. It's -- it's not dealt with in this hearing.

But the one (1) thing that Manitoba Hydro has to do for -- for its demand, the demand more or less goes up fairly evenly. We saw that in a graph that was presented by Mr. Gange this morning. But adding power comes in big blocks. So if you see the -- the graph, all of a sudden you -- you add a Wuskwatim, well, it brings it way over what Manitobans need, and then they continue and add another big block.

The way they manage that, and it was explained by the Hydro witnesses, is they enter into long-term contracts. So we've heard a lot about the long-term contracts. And unless they can demonstrate at the needs for an alternatives to hearing that it makes sense and it is the best alternative for Manitobans, they won't build that project.

And the experience has always been that in the first years -- and may I suggest that's in part just the time value of money -- in the first years, you've got some of the lower export prices; doesn't fully absorb the cost. As soon as you get to the point where Manitobans are using most of the cost at the seven (7) cents instead of the three (3) cents, to use general numbers, then you see the project starting to make a lot more sense from an economic perspective.

We've seen that, and it continues to get better. I would rather be a ratepayer today paying for Limestone at the one point eight (1.8) cents plus transmission, et cetera, than paying one point eight (1.8) cents thirty (30) or twenty (20) years ago.

The val -- time value of money, and that time value continues, so that eighty (80) years from now, the Limestone plant, which is intensive in capital costs, still basically just costs them one point eight (1.8) cents. All that you do is you put water through it and -- and you pay some water -- water rental rates, et cetera.

You'll have some operating and maintenance costs, but we've heard that they're in very good condition, and that they expect to be in very good condition for about a hundred and twenty-five (125) years, maybe up to a hundred and forty (140).

So this statement is founded not only in speculation, I would say, that -- for basically assured. History has shown that none of these projects are bad projects if they -- given the life that they have, given that the capital costs -- we look at the costs for Limestone, I think they were in the range of $1.8 million. I don't know if my memory's right, but it -- it wasn't anywhere near what a new Conawapa would be. And we get to benefit from that for a hundred years.

So that statement is that we don't have to be too worried about low expected net revenues or losses at the beginning, because the projects last a long time, the capital costs in today's dollars go down exponentially, and you don't have any fuel costs, or your fuel costs are the water rental costs.

MR. RAYMOND LAFOND: I hear that. However, when I look at your page 2 of your submission -- sorry, yes, page 2 -- I've got this upside down here -- where you quote Section 26.4 or subsection (4) of Part 4 of the Public Utilities Board Review of Rates, it says:

"In reaching a decision pursuant to this Part, the Public Utilities Board may take into consideration to -- to 4] reserves for replacement renewal in obselace -- obsolescence of works of the Corporation any other reserves that may -- that are necessary."

The first types of reserves would imply that the Board needs to take into consideration, for instance, not just using and paying the interest on limestone. Because I've heard from Manitoba Hydro that the actual principal of the debt is not being paid and there's no intent of being paid. So according to this, it should be reserves for replacement, and replacing limestone would be at least five (5) times what it costs, and maybe substantially more. So based on this, reserves should be taken to replace these facilities as we go on at replacement cost.

Am I correct in reading this?

MR. ANTOINE HACAULT: The statement to -- to take into reserves, you've correctly read that, but that's a hundred -- hundred years away.

And we've also heard that the replacement may be at significant less cost because it's no longer a green field. So until you have information on which you can rely, which is good information, in my submission that that section really doesn't enter into today's discussion. It may enter into a discussion when we have to replace another -- another generating plant. And we say well, listen, it's going to cost us this much to replace that existing plant and we know that today. This is the estimate. This is the needs for alternative, so, we are actually going to replace it. Because Laurie River, for example, is a plant that they won't replace. So if we don't need to replace it we shouldn't take any reserves for that.

MR. RAYMOND LAFOND: But based on this, though, should we not be providing now for replacement costs of Point du Bois which we know is going to be -- or at least we know it's -- what it would cost to replace it and it would cost twenty-five (25), thirty (30) cents per kilowatt hour also to produce?

Like, should we be starting there now because we know that this needs to be replaced?

MR. ANTOINE HACAULT: Well, see this is where we have to be careful in my submission, Board Member Lafond, is that we don't know that. We don't know that more than we know that Conawapa was going to be built in 1990 and it's now said it's going to be built in 2026. It's in the capital projects plan but we don't know until there's a needs for and alternatives to review that's done to know that that's what's going to be done. It's in the plan but it -- Conawapa was in the plan thirty (30) years ago.

THE CHAIRPERSON: Could -- could I suggest, given the time, that -- that we try to -- to focus on the -- the arguments and maybe from the standpoint of the Panel what we should be ensuring is that we clarify anything that we don't think is clear and -- so that we can get through the -- the bulk of the positions from MIPUG.

MR. ANTOINE HACAULT: Thank you very much.

So going to issue topic number 1, which is the accounting policy changes, that should be the next issue, we've identified that issue even though it wasn't set out as a reason for the suggested rate increases, is that: How do we deal with this? And there's a lot of discussion about this. If IFRS is required to be followed by Manitoba Hydro and if IFRS does not have an exception put into it, because that's what's being discussed right now for rate regulated entities, how do we deal with that.

In my respectful submission - and that's why I went through the statutory obligations - it's not an accounting reporting change that drives whether or not increases should be granted by this Board. They may coincide but they don't necessarily do so.

And the MIPUG recommendation is that

after twenty (20) years of applying rate regulated accounting Hydro is purporting -- proposing to the Board that recent accounting changes that it has adopted and further changes are now expected or speculated be included in Hydro's regulatory accounting framework.

And it's our submission that these changes really don't make a lot of difference in what's happening. This is just a lawyer's perspective, I know it's not an accounting perspective. But even Manitoba Hydro, when it justifies its OM&A, it says, Well, really it hasn't increased. The only reason you see all the numbers increase is because it's accounting changes really -- you know, ignore those accounting reporting changes because we really haven't done anything different.

So we've heard now that -- and this is maybe a point of clarification. This is in Ms. Ramage's letter dated February 22, 2011. It says:

> "The Corporation can advise on a preliminary basis that it intends to adopt the further deferral."

I'm not so sure what a "preliminary basis" is. In the hearing it was pretty clear that for the first deferral, if it was def -- going to be deferred they weren't going to be implementing it. But now it's qualified as being a preliminary basis.

I don't know if Ms. Ramage can help us with that, or Mr. Rainkie.

(BRIEF PAUSE)

MS. PATTI RAMAGE: I think, Mr. Hacault, if it assists, it is -- the preliminary reference is simply because this is a very new development to Manitoba Hydro.

It's -- it's responded, but Manitoba Hydro does have an -- a Board, an audit committee, and other parties and if -- it hasn't had a chance to review them, so that's what it would expect would happen as in the past, but we -- we do have other masters.

And so Manitoba Hydro wanted to just clarify that it is such breaking news that it hasn't had the opportunity to -- to fully vet it through all its parties or fully vet it itself if there was something in there that it didn't appreciate on first review.

MR. ANTOINE HACAULT: Thank you for that clarification. It -- what I'll probably be doing, based on that clarification, is proceed on the basis we aren't really sure that there is going to be a further deferral by Manitoba Hydro, even though we've -- we've got this deferral --

MS. PATTI RAMAGE: I -- Mr. Hacault --

MR. ANTOINE HACAULT: -- because it has to go --

MS. PATTI RAMAGE: -- I don't think that was the intention. It was just we -- we want to be very clear who -- who is making ultimate decisions and -- and who provides direction at Manitoba Hydro.

And -- and the newness of it I'd -- I would think it would -- based on that letter, the idea was that we think it is safe to probably proceed on the basis that that's the best information we have, that it will be deferred.

CONTINUED BY MR. HACAULT:

MR. ANTOINE HACAULT: Okay. Thank you for that further clarification.

In summary, accounting in a regulatory sense and the way it's been done for twenty (20) years, from the first time it had a hearing in '89, that's when it started, to today -- and I mean, in today's days -- in '09 served ratepayers well.

We aren't in a -- we're in the best position that Hydro has ever been for retained earnings. That's without ramping up costs in OM&A as a result of accounting policies and it's without ramping up the type of depreciation changing to an ELG method of depreciation.

So that, at least in the interim, we would recommend that there be some reconciling entries, if Manitoba Hydro, in fact, does change its accounting reporting, so that we can clearly see the impacts of the accounting changes over the long-term revenue requirement.

The second matter which we recommend is that Hydro and the Government of Manitoba should be encouraged to investigate options that provide for better representation of the impacts of rate regulation. And this can include approaches similar to that apro -- adopted in British Columbia, for example, the potential use of US GAAP in the future and/or continuing to track and advocate for rate-regulated accounting under IFRS. And it may be the wish of this Board to also make some comments in its decision with respect to that issue.

Now as far as background, there's a couple points that I wish to draw to the Board's attention. In the last GRA and this is at page 1 of 2, background and points and support. The numbers reported by this Board were significantly lower than what is being talked about in this hearing.

So we were talking 27 million in the 2010/'11 year and 22.5 million in the 2011/'12 year. And those were described as items that were required to comply with international financial reporting standards.

Now, the way they've been described has changed. I don't think there's any magic in how we describe them, they're all reporting standards. In this particular hearing, flipping on to page 1-3 at line 4, Exhibit 55 sets out a total of accounting changes in excess of 137 million; comprised of 62 million for overheads and intangibles, 39 million in accounting changes for admin in general and 36 million in increased costs for depreciation changes to Equal Life Group, the ELG method.

This represents approximately a 10 percent rate increase or rate pressure on domestic rates. And they're due solely to the way the expenses are reported. They don't reflect any costs in the export markets, et cetera. And as we discuss further in the actual topic, they actually don't take into account applying that to Wuskwatim. Wuskwatim is done on ASL, so, the amounts are actually even higher.

Now, the first heading on page 1-3 at about line 30 is, Ignored impacts. Now a lot of these costs have -- are simply reporting matters. And really don't have an impact on actual expenses, it's the way you report them. Either you capitalize them or not in my lawyer understanding of them. And Mr. Bowman explained that these items are dealt with and we've got a quote there in BC as to how they've dealt with them.

The second point he had made in his testimony as -- page 1-4 of our submission, at line 31, DSM cutbacks. Manitoba Hydro had basically said, Well, don't worry about it there's not too much impact on ratepayers. But DSM cutbacks are totally - in my respectful submission - delinked to any accounting reporting matters.

If Manitoba Hydro has decided to reduce its spending and there's been much criticism of that by Mr. Williams and Mr. Gange from $23 million a year to fifteen (15) -- or $38 million a year to $23 million a year, that is simply an ex -- a change in policy in how much they're going to spend in DSM. We say that that shouldn't be a credit. If they're going to change their policy and if that's an appropriate policy and they can justify it and we have no comment on it at this time, that's one (1) thing. But it is not something that's linked to actually IFRS, it's a policy change.

I'm flipping then to -- and Members of the Board, what I propose to do is whenever there is extracts, not always, of the transcript, they're there for your reference. If there is some particularly important parts, I might refer to them but otherwise I'll leave them there for reading. They support and further explain the positions that are set out in the narrative.

So on page 1-6, the negative salvage elimination. Going forward, Hydro determined that it would no longer propose to include net salvage in rates. That would drive $63 million in reduced costs, approximately. Again, that is more a policy matter than a reporting matter, in our respectful submission.

It's dealt with further in that topic, but, basically, Mr. Kennedy agreed that it wasn't -- it didn't have to be tied in to a particular depreciation change; it was a policy that stood on its own as to whether or not you needed to include that net salvage or not.

The other matter that we say is that

when there's -- they say there's $137 million change, the ELG impacts are not correctly set out. We deal with that further in topic 2 on ELG, but for Bipole 3, Keeyask, Conawapa, all those have not, in our respectful submission, fully accounted for how much impact there was going to be in the change of this depreciation policy.

And why do I say it's important in this context to look in the future? Because I've just told you, Don't. If we're going to change a policy, and it's a Board Order, at one (1) point in time somebody's going to say, Well, the Board decided this is the policy that you should apply on depreciation. They've already discussed it. We can't revisit it.

Now, if that has a whole bunch of impacts going forward, we can't just consider what's the impact of changing ELG in this two (2) years. Because the Board's decision and Order will impact how that matter can be reviewed in the future. The Board is entitled to, in my respectful submission, to consider the impact of changing the policy not only in the two (2) years in question, but in -- for future projects.

Now, I'm flipping to page 1-7. One (1) of the options is Hydro adopts the IFRS. It says it hasn't done it, it's not going to do it, because it's been further deferred and we can deal with that in the net -- next General Rate Application this fall.

The basic message there is that, if it does it, there's a couple of options, and those are set out how other provinces have dealt with them. Hydro went to US GAAP, BC Hydro went to IFRS but has exemptions for rate-regulated accounting -- maybe that's going to happen ultimately with IFRS -- and Newfoundland and Labrador and Yukon and Northwest Territories also had IFRS, but had specific exemptions for all regulatory reporting.

So there are options. It's not the best, obviously, and I can understand that the finance department and accounting department in Manitoba Hydro doesn't like to do reconciling entries, but they already do them. They do them to justify their administrative and overhead expenses. They say, Well, listen, don't look at this number, because we're reconciling accounting changes, and there's this much accounting changes, so don't get worried about the increases.

The next point at page 1-8: In the event international accounting standard boards rejects rate-regulated accounting. For now, it doesn't appear to be a huge issue. We note, however, the concerns not only in the Canadian Electrical Association letters, et cetera; we've also repro -- reproduced a letter which was referenced in Mr. Bowman's evidence, and that's referred to at the top of page 1-9.

And I -- if you could flip just past page 20 of this particular issue, the letters were produced and I'd just like to reference a couple of things that the Canadian Association of the Public Utility Tribunals have said, so this is your association as a Board.

At the bottom of page 1A-1, the CAMPUT reminds the International Financial Reporting Interpretations Committee that all CAMPUT members are essentially charged with the task of ensuring approved rates are just and reasonable.

And then further on in that same paragraph at the bottom of the page:

> "Regulatory orders and decisions have provided utilities with the ability to recover prudently incurred expenditures through current or future rates. This has allowed the regulatory agencies to manage the annual revenue requirements of the

utilities so that consumers enjoy stable or reasonable rates."

And then an example is provided by your association of how a utility may be faced with two (2) different policy matters: One is the accounting policy; and the other one is the rate-regulating policy.

And at the top of the page 2 of that letter:

"An example of where specialized accounting has occurred in this -- in -- is in the circumstance where utility has incurred extraordinary costs to repair damage caused by a storm. In the case of regulator -- a regulator has decided to allow the economic rec -- recovery of these costs through rates over a specified period of years. Canadian accounting recognizes that such rate-setting decision has provided for future recovery and that an asset has been created and recognized in general purpose financial statements, an economic reality that seems unreasonable to ignore."

Now, again, I'm not an accountant, but if you want to be transparent, if there was such a big expense you'd have to include it, unless it was a capital matter, in your current rates. The transparency of accounting would be different than the purpose of stability and reasonable rates.

And so CAMPUT provides another example. And then midway through the page it explains:

"CAMPUT is particularly concerned that under IFRS it may no longer be permissible for utilities to continue to recognize certain regulatory assets and liabilities in their financial statements."

And then in number 2 at the very bottom of that page:

"Regulatory rulings are often specifically designed to alter the cash flows of utilities and the rate-based payments of customers. Utility regulators are likely to continue to take these actions regardless of IFRS accounting standards to meet rate-setting objectives."

Of course this doesn't bind the Board, it's just a statement of principles and views by the association that this Board belongs to.

But it is consistent, in my respectful submission, with what Mr. Bowman was explaining. And when he was trying to provide his opinion of the different policy reasons that you might have for financial reporting as opposed to rate regulation.

Now why should we be concerned about these accounting changes? If they were in the range of 10 million or 20 million, it might not be such a huge issue. But if you're going to be incorporating in rate base 10 percent increase in costs just because of the matter -- manner things are reported, a little guy like me pays about four hundred dollars ($400) a month, about five thousand dollars ($5,000) a year, so I'm going to be paying five hundred dollars ($500) every year just because of the way things are recorded, no other reason.

And there's a lot of other people who have -- in rural Manitoba they don't have a choice, they have to heat and use electricity. And as I started, how are we going to explain to those people that, Well, we're just going to change the way we report things and because we changed the way we report things, we're going to charge you another 10 percent.

We take extracts on page 1-9 and 1-10 of Mr. Bowman's explanation that reconciling is a fairly common thing so the Board shouldn't be too concerned about that. And that in the paragraphs that follow, we talk about some of the evidence that explained that there would be different policy objectives for reporting requirements as opposed to rate regulation.

I'll flip to page 1-11 and the pros and cons of a recommendation. Each issue has those pros and cons. The pros of adopting the recommendation that was the reconciling items for one (1) or two (2) GRAs is that:

> "The Board can clearly establish that it will assess Hydro's financial conditions, forecasts, and test requirements primarily on the tests that will be driven by the Board's mandate so set just and reasonable rates."

What's been happening for twenty (20) years prior to these accounting changes.

> "Financial reporting standards have other main objectives, primarily transparency, consistency, and

comparability. While these items are also important to regulatory review, they can be achieved by relying on audited financial statements for transparency and regulatory statements with the appropriate reconciling items for assessing fairness of rates in a given year."

So Manitoba Hydro's conclusion is that this advantage is not required as the impact on consumers is being phased in so it won't lead to rate shock. Well, in my respectful submission, it's not whether it's rate shock it's whether or not the items are just and reasonable and it creates inter-generational issues.

The -- I go to the bottom of page 1-12, line 35:

"The advantage of the pros proposed by MIPUG is that no such impact on customers would arise unless and until the Board was convinced based on legislatively required just and reasonable rate test that such higher rates were merited and of long-term benefit to customers. The decisions of accounting standard bodies have -- who have no authority or role on the Manitoba rate regulation legislation should not be the primary driver in setting rates."

And the one (1) thing that isn't in the list of things to be considered by the Board, and I suggest it's no coincidence, it doesn't say if there's changing in accounting reporting, you've got to change the rates accordingly.

The cons of this puts Manitoba Hydro in a situation where it would have to do what's commonly referred to as two (2) sets of books. Mr. Bowman explained it's not really two (2) sets of books, it's reconciling items.

So this shouldn't be an issue, it's -- Manitoba Hydro's doing it for OM&A already. There's just a couple of items that they've identified that are going to be of concern. And I had asked Mr. Schulz questions about well, how -- what's that going to do, for example, for credit rating agencies. I guess trying to determine what Hydro's going to do with that.

And at the bottom of page 1-13, line about 38, I asked, as you may recall why the considerations would not likely be affected by adopting any particular reporting standard. And Mr. Schulz, the treasurer, said:

> "Well, as a general rule, it's my understanding that the credit rating agencies you typically look at cash flows as being their primary consideration with respect to debt leveraging and interest coverage ratios and so on. They tend not to be focussed on any accounting changes."

I asked that because, number 1, what's the practical administrative effect. Number 2, is there kind of any external effect that we have to be worried about. Doesn't appear so.

So that the short-term alternative which we've suggested, and this starts at lines 5 to 15 on the next page, 1-14, is:

> "That Hydro continue to report its regulatory results and forecasts on a status quo basis and provide a comparison of the results for the next one (1) or two (2) GRAs. In adopting this recommendation, the PUB

should recommend that for regulatory reporting purposes, Hydro should refrain from further reduction of capital costs from the actual 2011 and 2012 letter -- levels until further transparency and necessity is provided.

The other pro of this approach is that the Board is able to weight better information that is likely to become available by the Canadian Accounting Standards Board and the International Accounting Standard Board to determine how to best deal with rate regulated entities."

We've also put some additional relevant extracts that discusses this particular issue and how it can be dealt with. I'd turn to page 1-18 which is one (1) of those extracts and it -- it provides Mr. Warden's view of this situ -- issue, rather. So page 1-18.

I had asked Mr. Warden how many years Manitoba Hydro had used its depreciation policies and accounting prin -- principles which were in effect as of 2009 and we ultimately get to 1989 was the year.

Mr. Warden's response at line 9 was,

"Mr. Hacault, rate-regulated accounting has served Manitoba well in the past. As you know, as we go forward we have to adapt. So accounting policies change over time and for as long as I've been here..."

And then he continues,

"...IFRS is the most significant change in those policies that we've experienced at Manitoba Hydro."

Now I know Manitoba Hydro also looked at some other jurisdictions to see what they were doing to inform itself on the changes in accounting policies, especially with respect to capitalization of costs as it relates to long-term projects. But those, for example, in Ontario -- and this forms another part of our recommendations later. There's actually a detailed analysis of those accounting capitalization properties -- policies and those for Ontario people have described them as extreme also. That was in Mr. Bowman's evidence.

So that -- one (1) of the things that we've also recommended is that there be an independent review of those capitalization policies as opposed to an internal review to better inform the Board and to allow it to make decisions as to whether or not any particular changes in accounting policy also make sense from a rate regulation perspective.

One (1) example that Mr. Bowman had given in his evidence was that there was capitalization of depreciation expense, I think, on some buildings. Well there's some of those particular items that Mr. Bowman was aware of -- he said he would agree that it might be appropriate not to continue that practice even from a rate regulation perspective.

In this quote -- and I see some of the members continuing to read, there's also an indication at line 28 when Mr. Warden continues his response that it was implicit through their auditors -- there was implicit approval of the regulate -- or of certain things that we do that are germane to the operations of the utility. So that goes back to as long since ever, we were regulated going back, I believe, to 1989 was the first year of regulation.

If the auditors from 1989 to 2009 thought there was a problem during those twenty (20) years, they would have qualified the statements. The statements of Manitoba Hydro were not qualified.

I'll move to the next issue.

MS. PATTI RAMAGE: Mr. Hacault, if I could just jump in for a moment, just to assist me. I thought I had a pretty good handle on the record and I'm wondering if you could tell us this CAMPUT letter, where that is on the record?

MR. ANTOINE HACAULT: Yes. It's -- just let me see here. We've referenced it in the material. It's at page 1-9, at the top of the page, I think we footnoted it. It's Manitoba Hydro Exhibit Number 3 at page 4-9, is where it's footnoted -- or, sorry, MIPUG Exhibit 3, page 4-9.

And that's the CAMPUT letter, so that would be the reference. If you would go to Exhibit 3 at page 4-9 you should find the reference to that letter.

If I might --

MS. PATTI RAMAGE: Mr. Hacault, I think it -- Exhibit 3 is Mr. Bowman's pre-filed evidence. And I think it's -- quite frankly, I'm feeling awkward, but I believe this letter was one (1) of the letters that the Board had explicitly -- had indicated was not part of the record in this proceeding.

MR. ANTOINE HACAULT: Well, I -- I think the Board ruled that anything that wasn't previously filed or used by MIPUG wasn't properly in front of the Board, but I don't think the Board suggested that matters that had been referenced in Mr. Bowman's letter and was available to everybody could not continue to be referenced. I don't -- I don't think they struck out Mr. Bowman's evidence and Mr. Bowman's reference to letters.

MS. PATTI RAMAGE: No, I'm not suggesting they did, if that's there. But I -- I do recall this letter being struck. I'm looking at the record of the MIPUG book of documents and it was number 23. And if we are talking about the same one, it is the CAMPUT letter from Peter Gurnham dated October 27th, 2008.

And I'm just concerned if we're going -- if we're respecting the Board's ruling or if we're going off. And maybe you could speak to that.

MR. ANTOINE HACAULT: Well, I guess the Board relied on your statement and Hydro's statement that all the documents that were at those tabs were not part of the evidence and that it objected to reference to those letters on the basis that it weren't part of the evidence.

Now if -- I can understand because it was dealt with very quickly that perhaps Manitoba Hydro wasn't able to look at Mr. Bowman's pre-filed evidence to know that, in fact, it had been referred to in there in making that statement. But I don't view the Board's ruling as, again, saying that things that had been in Mr. Bowman's evidence and footnoted in Mr. Bow -- Bowman's evidence should be struck out, that was why we file pre-filed evidence.

And I think all that happened is because in the rush of all things that happened, Manitoba Hydro assumed that everything that was in there they had not seen before without the opportunity of actually reading Mr. Bowman's evidence. And they made that submission on the basis that an erroneous assertion that it wasn't included in Mr. Bowman's evidence. I'm not faulting Manitoba Hydro for it, but that's, I think, how it happened.

THE CHAIRPERSON: I'm struggling as to what to do about this. I -- I suggest that we leave this matter for -- for the discussion with our Board counsels and counsels for the parties and then we can come back to it. Thank you.

MR. RAYMOND LAFOND: I -- I have two (2) questions. The most important one is: Often enough, Mr. Hacault, you referred to -- and you gave the example your house bill going up by 10 percent or five hundred dollars ($500) a year. And you quote, it's on page 1-3 -- 1-3 that rates would have to go up by 10 percent or $1.3 billion.

I'm trying to reconcile this with the page 45 of Exhibit 15 from Manitoba Hydro entitled, IFRS Impacts. And Mr. Warden has the net income impact for 14 -- for 2014/2015 is actually an additional $5 million after making a whole lot of changes.

So when I read this it means no significant increase in rates as -- to the opposite is an additional $5 million of income, while you're talking of a 10 percent increase. So can -- can you explain that for me?

MR. ANTOINE HACAULT: I'll have to pull the exhibit, but that was one of the things Mr. Bowman tried to explain. Is that there's a lot of offsetting entries.

MR. RAYMOND LAFOND: Yes.

MR. ANTOINE HACAULT: Well, number 1 -- you know, just like DSM. You're saying it's -- it's included in there that there's going to be -- when they say there's only $5 million in difference, they say, Well, we're -- but we're taking credit because we've made a policy decision to reduce our DSM spending by 15 million.

Well, okay, it's no longer 5 million.

If you make a policy decision to change your DSM spending by 15 million, that's a policy decision, it has nothing to do with IFRS.

So you add to the 5 million the DSM and we've gone through each of the items that we say, listen, these aren't really IFRS things. You can say that overall -- when you look at the overall picture, the 137 million doesn't look so bad because we're gonna -- we've found a whole bunch of savings elsewhere, or we're going to do different things elsewhere. But the bottom line is that there's $137 million of accounting changes.

You take away $63 million for net salvage, well, we can do that today. Why credit that to IFRS? Why not credit today?

MR. RAYMOND LAFOND: Okay, we're going to have to clarify this because I was under the impression that this was happening because of IFRS standards and not just because we're trying to change our standards from accounting -- but we -- we can give precision to that later on. Thank you.

MR. ANTOINE HACAULT: It's -- it's our issue 5, we deal with that in more detail as to why we say, Well, listen, don't take Manitoba Hydro's number for 5 million because, and then we go through each of the items and that - one (1) of them is just like -- well, it's salvage at 63 million. Well, that's not an FI -- IFRS thing; we could do it today. We could have $63 million of savings today on net salvage.

You know, if you want to reduce $137 million and say, well, listen, we're not impacting people by 137 million.

MR. RAYMOND LAFOND: I -- I understand that but my understanding is that the re -- we can do that today but the reason we're doing it is because we have no choice but to do it under IFRS.

MR. ANTOINE HACAULT: I'll deal with that in the issue.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: So Equal Life Group method. The first thing I have is that we submit that Manitoba Hydro should continue to use the long-standing average service life.

Now Mr. Bowman didn't say for the -- at least I wasn't chastised when I was cross-examining the over depreciation. We've got about 900 million under ASL and about 500 million under ELG if you do the same standard being no salvage.

We're not saying change the rate of

refund, et cetera, but what Hydro is asking to do is: Listen, we've got this huge differential and it's a positive one, okay, we've over depreciated, and in addition to that, let's go to a more aggressive ELG standard. Let's collect more. It's more aggressive than ASL. Twenty (20) years we've been doing a different form of depreciation. All Canadian utilities for Crown owned are using ASL and they're saying, well, listen, even in the context of having nearly a billion dollars more with no salvage under ASL, let's change to a more aggressive ELG method.

Now, I have a fairly lengthy discussion here about the weight to be given on the expert testimony on this issue. And like Mr. Williams, Mr. Kennedy had very valuable information; he's clearly somebody that understands a lot.

But in my experience, and I do a lot of hearings with experts, there are two (2) types of experts. Some experts and in courts the advocacy expert wouldn't be qualified as an expert. Mr. Kennedy for certain things, I would submit -- and I'm going to go through some of the examples -- explained but he didn't provide his opinion. He was -- once Manitoba Hydro made a policy change to do certain things, he supported that. And there's nothing wrong with an expert supporting a position of a company, but it puts his information in a different light.

The quality of his report -- if it's a true expert that provides independent advice, you'll see this in appraisals, they'll put qualifications. They'll say, But be mindful that...we have weaknesses in all the data. But be mindful that...the ch -- the -- the choices of the Iowa curves are very subjective and we need to come back every couple of years to see whether they make any sense at all because otherwise our study doesn't make any sense at all.

A true independent expert would put that right up front because he's supposed to provide independent advice to the Board of both sides and present them fairly. And some of that information, maybe not all, came out in cross-examination and it shouldn't have to if it's an independent expert.

So with respect to his evidence, the other matter that I suggest that the Board be mindful of is -- he was part of the Hydro Panel. And we'll say, Well, why is that unusual? In the last hearing we had a risk hearing, KPMG provided and was asked to provide an independent report. It sat alone. It provided its opinion. It was tested on its opinion. It wasn't part of the Hydro team.

There's a difference. If you're part of the Hydro team, you advocate for the position of the Hydro team. It doesn't mean that the information you provide is necessarily wrong, but it's got to be viewed in that context.

The other -- last thing and I'll go through some of the more specific examples of things that I think it's -- the Board should consider, is that Ms. Ramage when she qualified Mr. Kennedy as an expert, she didn't seek to qualify him on his opinions on regulatory accounting and how the options to deal with depreciation.

The qualification -- and this is at lines 28 and 29 on page 2-1, was in depreciation and utility plant accounting. He wasn't qualified to give his opinion on other issues such as setting just and reasonable rates or the impacts of alternative approaches to depreciation on fairness of rate -- of rates. Mr. Bowman was qualified after a challenge on those matters.

So what I've done is I've just put some reading -- and this is from a book on expert evidence at the end of this particular issue and there's -- from that text, there were certain things that the authors point out would be material in looking at how you look at an expert advocate's evidence. And to see whether he's truly independent.

And I go through those things -- through a discussion of those matters at page 2-2 and forward and I'd like to highlight a couple of them. The first is that -- this is at line 19, page 2-2, line 19.

Mr. Kennedy has a close, long standing relationship with Manitoba Hydro. He provided Hydro with depreciation methodology options and once Hydro chose the approach, Mr. Kennedy became part of the Hydro panel.

And I submit if you review his evidence that it's clear that his task there was to provide information to this Board with a view of convincing it that it was appropriate to change to ELG upon IFRS because he did answer that both methods were acceptable.

He did acknowledge on cross-examination after having -- I had asked for a copy of his presentation to the Canadian Electrical Association and this is quoted at lines 31 and 32,

> "It has -- it was a very hotly contested because there was some divergent opinions between myself and the audit committee at that time."

That's correct, he does say "at that time" but it was acknowledged later on that there continues to be divergent views.

I don't intend to go through all the detail that follows but I -- I tried to understand his evidence and whether it was consistent. When he would say there needed to be componentization. So I'd asked, Okay, well what about -- in your presentation it says if it's componentized like the National Energy Board, that's sufficient for ASL. That's what he had put in his presentation.

So I brought him to the NEB standards and they were less componentized than Manitoba Hydro. He said in his presentation:

> "The Ontario Energy Board seemed to generalize -- generally meet the componentization rules."

I'm quoting -- this is at lines 6 and 7 and 8 of page 2-3. So I also asked him and brought him to those. I said, Well, they're -- again, if we compared line by line on the componentization, they were not more componentized.

And it seems to me an independent expert would have said right up front, Well, NEB has less componentization and it's been adopted; Ontario Energy

Board has about the same, maybe a little bit less, but that's okay for ASL. But I had to pull that out from him.

Then he indicated in one (1) of the other answers that there would have to be a whole host of accounts -- and this is at lines 22 to 28. I quote:

> "That's a big question. Definitely, we would have to expand the list of accounts. So if I look at things like generation accounts, we would have one (1) account called governors and excitation system. That account would probably turn into governors, governor windings, governor casings excitation systems, excitation windings, et cetera, and that's only one (1) account."

That was what he said, but it didn't match up with his previous statements. And I say you have to be careful when somebody starts saying one thing in a presentation that we get as a result of digging, and something that he says that's untested.

And I go to page 2-4 at the top. After he had said, Well, all that componentization would have to be done, I provided him with a list of the generated

-- generation components used in the Ontario uniform system of accounts, and they weren't there. I provide the quote from the evidence.

I asked them where they were. He says:

"I'm confused. I'm having a hard time finding those references."

I said:

"Q. So under the ASL in Ontario, we don't have further componentizations of windings, bearings, and casings. Correct, sir?

A. Not in the uniform statements of account."

I know this is pretty technical, but I -- and I kind of apologize we're going some -- through some of it, but I think what I'd like to leave the Board is you have to understand the purpose of Mr. Kennedy's testimony. It was to help this Board understand why ELG was prefer -- a preferable way to deal with things, and his evidence is not very consistent.

And it's not even consistent in his -- in the internal recommendations. Think about it. He says: "I'm okay with ASL for Wuskwatim." His complaint was, Don't use ASL because it's not componentized enough. It's componentized in the same way as other -- every other generation plant, but he says ELG for all the other ones, and for the new ones, where you have pretty good numbers, he doesn't want to use them. He says we have to go to ASL. So he's inconsistent even in his own approach.

As of the hearing, he had all the details, in my respectful submission, to be able to do an ELG for Wuskwatim. There was no reason. He says, It doesn't have to be as componentized, and everything we've got is componentized enough, but he didn't do it.

Another example that I brought out was what was happening in other utilities. So I -- this is at the bottom of page 2-4. He explained to this Board that Newfoundland had an incredible amount of detail in -- in all its accounts, and as -- as a result of that, he was recommending ASL.

But the one (1) thing that he did admit, and, again, it was something that we had to dig out, and it's in the middle of page 2-5, lines 13 to 15:

> "The implement -- implementation of ELG procedure would significantly increase the revenue requirement for depreciation expense as compared to the ASL method."

And that was even with all the componentization.

Now we've heard some suggestion in this hearing and I had put it to him, well, I mean if it's componentized enough you get the same result. Remember, because he tried to give us that example of the five (5) years and ten (10) years and he says, Well, if we componentize those sufficiently, we should get the same result but ELG's a better method because it -- it -- you know, better estimates stuff.

Well, he said that Newfoundland had componentized to every little piece. Couldn't get more componentized in Newfoundland. That was a reason he said ASL was a good one. But even with that. He conceded that the implementation of the ELG procedure would significantly increase the revenue requirement for depreciation expense as compared to ASL.

So I ask him myself, Well, if you can't get more componentized than Newfoundland and you're supposed to get the same result with the two (2) and you don't, you get a significant -- doesn't that tell you something?

So he also makes some comments that ELG is the better procedure and he wasn't qualified to say this, from an intergenerational and fairness perspective and Mr. Gange can -- quoted that. Well, why then if he's really of that view does he recommend ASL in Newfoundland? Why doesn't he recommend ELG? Why isn't he consistent in his approach? Why does he recommend it's better intergenerational and -- and for fairness in Newfoundland to use ASL but here he says it's better to use ELG. That's on the fairness issue. He's not qualified to give that opinion but he's inconsistent in his views.

The other matter that appear -- I've given some quotes at page 2-5 and 2-6, is his reference to clients and wanting to follow the client line. So for example, and this is at the bottom page 2-5 when I questioned him about certain of Hydro assets, he didn't want to put anything on the public record. That's page 2-5, line 31,

> "I wouldn't want to put on the public record the condition of somebody else's facilities categorizing as falling apart. I like my clients too much for that."

And another example when I asked -- and this was questions with respect to depreciation on the short-term items like computers and stuff, he had an opinion. It was clear he had an opinion but he didn't want to get on the record, if you look at what happened at that -- during that questioning, he says and this is page 2-6,

"I was just caucusing with my
colleagues to see -- to see if they
support me in an approach where I
could say we could recalculate it."

And my submission -- and there's other examples there, is that it is pretty clear from extracts like that one (1) and others that he wasn't truly an independent expert. A truly independent expert would have said right away, You can't continue to do this with respect to the computers. That has be changed. If they did the IFF that way, it should be changed. He would give his opinion to this Board.

But instead of doing that, he has to ask his team whether or not he can advise the Board of his opinion. And you may recall that ended up in an undertaking, it didn't even end up with his opinion.

And on other things, they were outside the scope of his assignment. So that page 2-7 for example, he did have comments on salvage -- net salvage but I asked him to understand, again, was it his opinion. And in the middle of that extract -- and I forsake of time, I'm not going to read it all. He's saying at line 28:

"That's correct. We accepted the policy of the company that they wished to continue to record net salvage value in their rates, so they left them."

That was until IFRS. And then I asked him:

"So Gannett Fleming didn't conduct a separate study -- study or exercise its independent opinion..."

And there was a reason why I was phrasing it that way.

"...on the issue of salvage, is that correct?

A. We did not, nor were we asked as part of the engagement."

So Mr. Kennedy -- and I want to be fair to him. I mean, I'm not criticizing Mr. Kennedy for doing what he did. He did what he was asked to do. He wasn't asked to provide an independent opinion and he didn't, that's okay. It's -- there's nothing wrong with that, but you have to understand what his statements are for and -- and what -- what the value is.

I'll move on to page 2-9, the bottom paragraph. Just stating again that Manitoba Hydro is alone along its peer Crown utilities in selecting the ELG method. Further explanations but -- that, I submit, should say something especially in the context of this over depreciation, they're definitely swimming against the current and they're asking this Board to set a precedent which hasn't yet been set in Canada.

Flipping to page 2-10, the heading 'ELG Iperes -- Impedes Achieving Fairness'. Now I acknowledge Mr. Kennedy made some statements with respect to his view of what was fair, whether ELG was fairer than ESL. He wasn't qualified to express those views, but nonetheless he did.

The point in my submission is that -- and this was confirmed, I submit, through cross-examination of Mr. Kennedy, that the ELG will give the higher deprecation costs in early years of an asset life. And it does not -- he didn't admit this part:

> "Does not match the economic benefit profile of large assets to ratepayers."

What do I mean by that? We were discussing the initial part of a new hydro generation project is very expensive, we're going to be building that into rates. In addition what the ELG would do is you bump up the expenses during those early years when a project is already very difficult instead of making it more equal for the life of the project.

And we've heard evidence that there were still some other utilities that were doing a sinking fund approach. And that used to be a fairly common view; let's not charge very much to ratepayers at the beginning because that's when the expense really hits you. Let's just recover more of it at the end when you're really getting the economic benefits.

Well, ELG is doing the total opposite. They're front-loading costs and charging less at the end. So that doesn't match the inter-generational principle.

The other thing that I think needs to be appreciated, and this is at page 2-11, it's the next heading:

> "ELG can lead to higher costs forever with no offsetting benefit."

Why do I say that? Where is it in the evidence?

We've seen in the evidence, and this is in the middle of the paragraph according to IFF12,

> "Hydro is projecting over $19 billion

in new capital expenditures in the
next ten (10) years and a total of
$34 billion in capital expenditures
over the next twenty (20) years."

It's turned into a little bit more than a decade of investment. But during that decade of investment you're always adding the new big chunk of assets which attract the higher deprecation rate. And the costs of those assets are significantly higher than the historical vintage that we have.

So that's why it was explained that if you adopt this method, you're going to have front-loading of about $34 billion in future capital expenses as those are incurred. So you're going to saddle ratepayers with that higher initial depreciation cost during the whole major capital expansion that highers -- Hydro's proposing, assuming it gets approved by the NFAATs.

Next heading, even when ELG is perfectly -- applied perfectly and makes annual depreciation more accurate, this can come at the expense of fairness. Mr. Bowman went through an ex -- example -- I don't know if it assisted the Board in understanding this, but of the fridges if a ratepayer is just getting so much hydro to his house, does it really make a difference? Should he really be front-ending costs because you think there might be, based on speculative Iowa curves, more retirements?

This brings me to page 2-12 on the appropriateness of ELG for Manitoba Hydro. I'm not going to go through it in a lot of detail, it's the same comment that Mr. Williams had is Hydro does not have good enough data. And we provide the same quotes -- this is on page 2-13 -- that the ELG is more sensitive than VG, that would be the ASL, to retirement dispersing curves.

And we don't have this -- those curves in this submission but we have detailed explanation. You may recall that some of the curves just had a couple of points and I went through Greats -- Great Falls and Seven Sisters and asked them:

"Q. Well, are there any bridges anywhere else?
A. No.
Q. Oh, but you've included that as a point to choose your Iowa curve. Is there any bad concrete elsewhere?"

Because we were talking about Great Falls and Seven Sisters, it was the older concrete.

"A. No.

Q. Oh, but you've used that to set
your Iowa curve. It -- it's shown as
data points."

If they weren't relevant he wouldn't have included them at all. In my submission, they weren't relevant to all the other facilities. But that shows you that you have -- if you have data it's not very good and it's setting a discretionary curve that sets out discretionary depreciation.

The next point on page 2-14. The chosen ELG Iowa curve assumptions are not credible. One of the things that we use to test whether or not they kind of made sense is to look okay, Wuskwatim -- and I think Board Member Lafond had asked some of those questions. Well, we were supposed to retire 5 percent of the -- based on 75-R2 Iowa curve for spillway, on the basis that we're going to have 5 percent of that that's going to have to be replaced or something is going to have to be done with it. So we looked, okay, well, does Hydro even think that this is true? Because if they think it's true they're going to put it in their capital expenditure forecasts.

Well, there was nothing that was specific to that. Mr. Warden in fairness said, Well, it may be in this catchall category, because we've got a general discretionary category. But Manitoba Hydro did not specifically think that they had to put something aside, this 5 percent for Wuskwatim.

The next thing we said, well, do Hydro have a -- does Hydro have accounting policies that match what Mr. Kennedy is saying. And that's at page 2-15. And through the - we've asked whether the accounting policies had changed and whether they intended to change them in the future. That's at lines 9 to 11 of my submission. And the response was that it did not.

If their policy would be to change accounting from repair and maintenance to somehow be a retirement, then there might be matching of the theories. But those policy changes from accounting perspective haven't occurred and there's an exchange that we've quoted between Member Lafond and Mr. Bowman on that issue. So that if they were to adopt the accounting policies and the ELG pattern of retirements was proposed by Mr. Kennedy with the Iowa curves was correct. And this is at page 2-17 of our submission that I'm reading from:

> "Hydro would materially have to reduce its OM&A forecasts and increase its capital plan by a

correspondingly large amount to --
to reflect this policy shift."

But they haven't done that, so they're recommending a change in the depreciation policy without having an appropriate change in OM&A policy.

The next heading on page 2-17, 'ELG becomes a Barrier to New Development'. Why do I say that's relevant? Because this Board regulates rate in the public interest, and unless it believes that it wants to set some kind of a policy that discourages and becomes a barrier to new development, it should be careful to adopt this new policy which will do that, in our respectful submission, because it makes it more expensive.

So when they're going to come to an NFAAT hearing, they're going to say, Okay, well, now we've got to depreciate at this really high level to be able to justify, and we're going to have to justify this project when we know that the project is going to be more beneficial in the future.

The estimate with respect to Wuskwatim and other generation -- and this is at page 2-18 -- was that there's going to be over half a billion dollars of front-loading on new projects if this new method is adopted. That's lines 12 and 13, page 2-18.

Fourth point, I'm not going to repeat it. It still is the industry standard, and it's acceptable under any financial reporting standards. That's the ASL method.

And here, I'm not too sure how to understand Hydro's evidence, but my belief is that Hydro -- key people in Hydro didn't fully understand the ELG and the impacts and how it was being put into their IFFs and all of this. And I've put some extracts in the material. And this is not a criticism of Hydro, but I think it's just a reality that, because if I looked at pre-asks -- and this was in January, we got -- and this is page 20, 2-20 -- if you look at lines 20 in that -- of that response:

"Manitoba Hydro asked Gannett Fleming to determine appropriate depreciation rates for the new Wuskwatim Generating Station using life assumptions consistent with that of other hydraulic generation stations. There were no separate draft reports or communications specific to Wuskwatim Generating Station."

I know that speaks to appropriate depreciation rates, but when we asked -- and I know that Mr. Kennedy made a very short reference to Wuskwatim being done on ASL, but it didn't appear that people fully understood the impact of not doing Wuskwatim on ELG. And, in fact, the depreciation study was just kind of blank on it. You remember there was no numbers at all beside Wuskwatim.

So we had -- and this was further on. This was December 19. I'm quoting a part of the transcript, and I'm asking the depreciation panel, so that included Mr. Rainkie and Mr. Warden and Mr. Kennedy:

> "And, in fact, Wuskwatim was presented over the long range, including up to 2034, on ASL, correct? It hasn't any estimates for Wuskwatim showing us all the deficiencies and revenues are -- or not -- or not have all been done on ASL?"

My question wasn't very good. What I was trying to understand is, Mr. Kennedy said, Well, okay, you can do ASL for a couple years, but going forward, you should do ELG for Wuskwatim, just for a couple years ASL. Has Hydro followed that?" Mr. Kennedy:

"That's be correct, sir. I
do point out that the ASL
estimates -- I'll agree
with your assumption that
we have not provided
anything with ELG at
Wuskwatim."

So then we started to understand, okay, the IFF was done on ASL, something that Mr. Kennedy says is not a good thing and he's done it for the full twenty (20) years.

And the Chairperson says, "Well, I'm a bit confused." I was, too.

"If we look at the CF -- the capital
expenditure forecast, the next twenty
(20) years, so those were prepared on
the basis of ASL or..."

And Mr. Warden interjects and he says:

"No, the current financial forecast -
- that is, the one most recently
submitted to the Board we referred to
as IFF12 -- that's based on ELG."

I don't know the reason why Mr. Warden thought that he was presenting to this Board an ELG picture, but his understanding was clearly incorrect.

And that was clarified later on in the hearing when we drilled down into how the estimates were done for all the major generating plants.

And it was also clarified that even for the other assets that were done on the ELG method, they were done on vintage depreciation. So assuming we've got Conawapa that's a major generating plant around 10 billion, we know that was done ASL. We know Keeyask was done on ASL in the IFF, and we know Wuskwatim was done ASL on the IFF.

It was explained that some of the other things were not done ASL; they were done ELG, but based on depreciation rates of vintage assets. Why do I say that makes a difference? Because if you use vintage assets, you aren't using the depreciation rates for a new capital project. You're using assumptions that this is twenty (20) years old, thirty (30) years old, whatever. But you don't have a correct amount.

So the -- my point is that the Board does not have a true understanding and it does not appear that Manitoba Hydro has a true understanding of the true impacts of ELG and how that will affect ratepayers and rate increases. The best estimate we could come up with was that it would drive an impact of 1 to $1.5 billion.

Do the calculations on what needs to be provided over those years, as far as rate increases, just for that uncertain item. So be very careful, I would submit, Board, to adopt a method that has all these uncertain impacts on ratepayers.

I'm at the pros and cons of this particular issue. And this is not minimize anything that's in there, I'm just mindful of the time and I want to do the highlights. So pros and cons.

The pros, it's consistent with long standing, widely used standards for utilities. It doesn't lead to higher rates; it says lower rates. Well, it's -- it would be maintaining and there's less challenges when attempting to justify to build major new generation.

One (1) of the issues raised by Manitoba Hydro as to why they wanted to chose the ELG method was with respect to the variability with respect to gains and losses. And I jumped over that part, but there is evidence he referenced to the fact that Manitoba Hydro does not view that those gains and losses would be significant. So that shouldn't be a major issue.

The cons with the recommendation proposed by MIPUG: If it does not come back to the Board for some time with the depreciation -- they say they do the depreciation studies every five (5) years. It may go beyond the transition to IFRS. So we may not have a better understanding of how that impacts everything and not have an opportunity to review it.

If -- I'm flipping to page 2-24. If it's not eligible for the IFRS rate-regulated accounting, that may also be an issue - the ASL method, that is. If it's truly forced on Hydro, it may cause -- the ASL method, that is -- it may cause further componentization, and there may be some cost to that issue.

Now the one (1) thing that I -- thing that needs to be said with respect to that componentization last item, I'd flip back to page 2-4. So if you could flip back to page 2-4, lines -- it starts at lines 22 up to 29 on page 2-4. When I cross-examined Mr. Kennedy on the componentization, he, in my respectful submission, conceded appropriately that it depends on the auditors. And the IFRS is a funny standard. And I'll be clear about that. It is really the opinion of the partner doing the audit, in terms of what that level is.

And that's why I asked questions of the Utility as to whether or not they had asked their auditor, and they said no; whether they asked for any accounting opinion, they said no. So at best, I suggest to this Board it's left with a very uncertain information. I suggest that it -- Hydro has not met the onus, the burden of proof on it to show that this really is something that needs to be done by this Utility. There's too much uncertainty with respect to this method; the approach and the impacts of the method.

THE CHAIRPERSON: Maitre Hacault, you've been talking for well over an hour now. So why don't we take a -- a short breather, say ten (10) minutes, okay?

MR. ANTOINE HACAULT: Okay.

--- Upon recessing at 5:02 p.m.

--- Upon resuming at 5:12 p.m.

THE CHAIRPERSON: I believe that we are ready to -- to resume the -- your statement, Maitre Hacault.

MR. ANTOINE HACAULT: Before I get into the next issue topic, I had a couple of notes that I had with respect to the presentation by Mr. Gange and Mr. Williams.

Very briefly, Mr. Gange suggested that

RIM should no longer be a tool for DSFM. It's MIPUG's view that RIM is still a useful tool in evaluating the business case. It doesn't mean it's the only one, but that if there's going to be DSFM spending, there should be a business case for it. And RIM would be a tool that could be used in deciding, amongst other tools, whether it's useful.

With respect to Mr. Gange's reference to Mr. Kennedy on ELG and the quote that it's the only mathematically correct method. We've heard that from Mr. Kennedy.

It may be mathematically correct, but I can -- I would submit that mathematical correctness of a theory doesn't mean that you end up with the right result if you have a number of subjective elements that you put into that mathematical calculation.

I don't know if I'm making my distinction correctly. It can be 'A', 'B', 'C' is the mathematical formula, and that bay me (sic) the best mathematically correct formula. But if you've got a lot of subjectivity in 'B' and 'C', you don't know whether your result is going to be the best one.

Board member Lafond had asked about the discrepancy between how MIPUG viewed the $137 million in accounting changes and -- and the statement that

Manitoba Hydro had made, Well, there's only a $5 million impact. I'm just generally put -- trying to put things back into context.

References to the comments on that evidence are really -- it's -- it was in topic 1. I maybe didn't fully cover all of that, but my submission is that we shouldn't get hung over nomenclature, just like what we call it, if we call it IFRS or not, because what the Board referred to as IFRS changes in its last order related to the previous GRA, they said they were IFRS changes. The wording that was used by Manitoba Hydro would say, Well, it's -- it's not really IFRS; it's CGAAP.

And then, if we look at the letter that was provided by Mrs. Ramage in the third-quarter report, IFRS is not in there, and in this hearing we've been referring to CGAAP changes. But this report says, with respect to the $27 million increase in operating and administrative expense, that this is attributable to IFRS accounting changes.

That's in the description of the quarterly report, under 'Electricity Operations Financial Overview', if the parties could go to that. It's the second page, not the one immediately -- there's 'Financial Overview' and then 'Electricity

Operations'. And then if we flip to the next page -- I don't have page numbers on my document, unfortunately -- it talks -- it starts:

"Expenses attributable to the electricity operations totalled 1.218 billion for the nine (9) month period, an increase of 8 percent."

It talks about the increase was a net result of a $27 million increase in operating and administrative expenses, a $28 million increase in depreciation/amortization, partially offset by $14 million in decreased power sales -- power purchases, rather. And this is where I'm quoting:

"The increase in operating and administrative expenses was mainly attributable to IFRS-related accounting changes."

I guess my point is sometimes we call it IFRS, sometimes we don't. I don't want to get hung up on whether it's IFRS-driven or not. If it's a way that we have changed our reporting for accounting purposes, that is the key issue and whether or not there's a corresponding justification for doing that from intergenerational equity or fairness. I don't think it advances the argument at all to say this is IFRS or not.

The true test for this Board is whether rates are just and reasonable. And just because it says in a quarterly report that it's IFRS related and Mr. Rainkie said something else in his direct evidence, I don't want to get hung up on how people called the accounting changes. They are accounting changes in the way people report their expenses, and it's in that context which the first issue is -- is drafted.

Going to Topic 3, so page 3-1, this deals with capitalized overheads admin and general. And I have had some discussion with respect to that in the accounting policy change, but I'll read the MIPUG rec -- recommendation on that issue.

> "Hydro's approach to determining which costs to capitalize for rate setting purposes should be based on full-cost accounting. This is expected to result in the vast majority of the overhead allocation changes proposed being rejected. Hydro should be directed to complete a thorough third-party study of proper overhead policies and consistent full-cost accounting

similar to studies of this type that have been directed by regulators in other jurisdictions, and Ontario is one of them. As a practical matter the Board may want to accept the changes that Hydro adopted prior to the test years for rate- setting purposes today pending completion of that study. The Board would make it clear in its Order that the acceptance of the changes does not mean that they would be excluded from subsequent review in the next GRA."

So we're trying to find a practical solution to this because we don't have a proper detailed study that would allow us to comment on whether or not the changes that have been made make sense from an inter-generational perspective. There's a lot that's un -- unknown and unsure, and IFRS or even CGAAP as to -- to what extent those changes match with proper rate-making principles.

So background and points in support. The reason we're dealing with all these accounting policies is that they are the single biggest cost driver, in our respectful submission, for the period

2008 to 2014/15. And we reference Exhibit 55. I think, Board member Lafond, you just referenced that.

In that document they talk -- "they" being Hydro, reference the impact of accounting changes on page 13 of 13. And for 2014 and '15 it's projected that the summary of accounting changes come to a total of a hundred and thirty-six million, six hundred and three thousand (136,603,000), that's page 13 of 13 and for 2013/'14 the forecast was 78 million.

I know that for -- that was revised for the IFF12. And my understanding of the IFF12 backed out the mandatory requirements under IFRS for the two (2) test years, so that brought us to $78 million for the two (2) test years.

Now, they are growing and the issue with the new approach being taken by Hydro is that previously, for the last twenty (20) years or so, it was based on full-cost accounting. So that if you had -- and we went through this in the testimony, an engineer from Acres, we'd put the full cost for -- from lawyers or whoever. So if you had a hundred and fifty dollars ($150) an hour that included the overhead, it included the administrative staff, it included the buildings. You tried to capture the full cost of that person working on the project.

Hydro, as we understand it, is moving away and that's an example that may -- I know there's others, from a full-cost accounting perspective. And the reason why that's important from an inter-generational perspective is we -- we've heard that there's over two thousand (2,000) employees or so, depending on the time of year, it bumps up more in the summer.

I know for one (1) utility when the project was cancelled -- I think it was BC, all of sudden they laid off over a hundred (100) engineers 'cause the project wasn't there. Well, what did they do with that space? What did they do with building? What did they do with all the staff, the secretaries and stuff like that.

If you start loading those costs on current ratepayers, it causes an intergenerational issue. Because they're being asked to pay for something that's not yet used -- something that's not yet useful. They're asking to help prefund the expenses during this major capital expansion that Hydro is going to be doing.

And you're going to be front loading all those costs on the ratepayers. So this Board, irrespective of whether we call it an IFRS or CGAAP accounting reporting issue, in my respectful submission, needs to have an independent analysis of what is properly a full-cost accounting and the costs that are really linked to those new projects.

So Hydro has argued and we understand the argument and this is on page 3-3, that it's pursuing the changes because it was at the extreme end of accounting practice. Although it was acceptable and excepted by their auditors, they believe they should eliminate some of the extreme ends. But we don't have a detailed report of what that might be. Those extreme ends.

The second reason Hydro uses is that the Board has known about the IFRS and encouraged Hydro to begin a transition to a narrow scope of capitalizing overheads. I'll deal with that.

The next reason it gives is that in the future IFRS will require a much narrower range of cost to be capitalized based solely on incremental or direct-cost tests and not full-cost accounting.

The IFRS issue, if there isn't rate-regulated accounting adopted under IFRS, I can understand that they need a reconciling line. They've done that in Exhibit 55 and done it very well and nobody seems to have complained that it took a long time to do it. And let's say, well, two (2) sets of books. Well, they've done it. They've shown us the difference.

The accounting perspective is an important one because we rely on audited statements, no doubt about it. At pages -- at page 3-5 is where I'll take you next. It's after -- it's under the heading of, 'Undermines just and reasonable rates,' I'm starting at line 9.

> "From an accounting perspective, capitalization of indirect costs provides the potential of hiding expenses for it officially enhancing net income in a given year. And for failing to reflect to an investor or lender that there are certain costs like the costs of heat, depreciation on an owned office building or a human resources department that can't be avoided as they are not incremental.
>
> For these reasons, these costs are added to the operating statement each year as they represent ongoing costs regardless as to whether capital

projects are occurring or not. In short, err towards recording spending on the operating statement each year and use an incremental or avoidable cost test."

This is, in our submission, a perfectly reasonable as an accounting principle. However, we distinguish that from the mandate of the Board. That cost -- and this is at line 20,

"Costs incurred which serve to help develop an asset whether directly, or indirectly, need to be recorded in the revenue requirement in the year where the asset -- where it's -- they were contributing to its providing -- to his -- that's a typo, providing benefits. Otherwise, the mismatching leads to ratepayers being disadvantaged by being burdened with costs that properly relate to assets that will not serve them. Fairness and matching are the principles that must -- must guide rate setting."

And then, with respect to full-cost accounting and whether or not that is the standard and norm in the Utility, there were questions asked of Mr. Rainkie, and that's quoted at line 37 of this submission on page 3-5:

"Full-cost accounting has been a norm in the utility industry because our business is we're constantly building. It's -- we're not just an operating company, we're a -- in a lar -- in large part, a capital company."

So as a result of the massive parts of Hydro's organization exists not for any specific direct capital project, but it exists at the scale that they do solely because of the scale of the capital spending occurring. Last hearing, we were throwing around a million dollars a day on yet uncommitted capital projects. That's not insignificant.

So Mr. Bowman reviewed, on direct examination, the mismatching of the costs, and I'll bring you down to line 17 on page 3-6. Mr. Bowman indicated:

"My understanding would be that, under Hydro's capitalization policies, if you're hiring an outside firm, all the costs associated with

the rates you pay to that outside
firm to work on capital would be
capitalized, because they would all
be considered incremental. And I'm
assuming that the rates you're paying
for Acres covers, not just Acres
staff costs, but Acres vehicles and
IT, Acres building, but that would be
the basic premise of the external
resource to the work."

And then, further down, he -- jumping to line 41:

"The regulatory would say, Is this a
fully loaded cost associated with
carrying on that project? And you'd
probably say yes, plus maybe a bit of
my contracting department to be able
to handle that work, and so you'd
capitalize that, but they'd basically
head to the same outcome. All of the
costs associated with that resource
would be capitalized."

And I'm not going to continue through all of his explanation, but there's a significant difference between IFRS reporting and even some of the moves that have been done with the CGAAP changes between rate-making principles and -- and purposes and the reporting purposes.

Our next point, on page 3-8, is that, in our view, Hydro incorrectly interprets past Board orders and options to deal with IFRS. The first point is that we submit that -- and this is at line 4, paragraph 'A':

"Hydro incorrectly assumes in their application that these external factors effectively bind the Board. In our view, this is not correct. The Board's mandate for review comes from the Manitoba legislation, and its focus is on just and reasonable rates."

Now, I think we also have to put the other Board Order in context, and that's in paragraph 'B' on that same page, starting at line 12:

"The previous Board was assuming IFRS was in -- inevitable and immediate for the 2011 and '12 year, and the Board was also attentive to the risks that there would be no option for rate-regulated accounting, but was attempting to protect the potential of having one (1) set of books."

Now, at that time, as explained further in that paragraph, the IFRS, or accounting changes, were in the range of 30 million. The Board refers to 22 to 27 million. Now we're up to 136, and that doesn't include all the proposed ELG stuff. The underestimation, because it's done on ASL, of Wuskwatim. There's -- it's entirely a different matter, so that if you had -- this is a little bit more than a rounding error, but I can understand why the Board was saying, Well, listen, if it's 22 million, you know, it's a percent and something, let's deal with it.

But when we start getting in the range of a hundred (100) and -- a hundred (100) plus million dollars of impact on rates, that's a totally different thing. And I don't think that the Board had any idea - well, it couldn't, because it didn't have the information - that the impacts of accounting reporting would be such of a mag -- a magnitude such that it is.

So our view is that, in saying that, Well, listen, the Board said we should do this and it should happen, the Board didn't analyse it in a lot of detail because of the amount and because they probably didn't think there were other options.

Now, according to Mr. Bowman's testimony, and he wasn't cross-examined on his estimates, if you adjust for the accounting entries, the reporting - and this is at top of page 3-9 - Hydro's forecasted net income would be approximately 142 million, even with the 1 percent holdback.

And he explained how he arrived at that, and we've extracted a part of his testimony, but there's -- the actual exhibit is also a part of this package, and it's in the next -- it's at page 6-A, but we don't need to go there right now.

Our proposal, so the pros, would be that Hydro retain the concept of full-cost accounting as much as possible for the cal -- calculation of capital -- capital overheads. This may not reduce Hydro's revenue requirement by the IFF for the full $97 million currently estimated for the change in overhead, but it is expected to reduce the vast majority of that amount. And you'll see in our recommendations that's why we come to no 3.5 percent as of April 1 of this year. That's well below the -- the $97 million.

But the pros is that, in MIPUG's view, it leads to a fairer outcome for ratepayers; costs will be recognized in the revenue requirement that matched the benefit, so used and useful. It follows also long-standing regulatory requirements, as mentioned by Mr. Rainkie, and long-standing practices, over twenty (20) years, from 1989 to 2009. I'm at line 12 on page 3-10 on the pros and cons.

Finally, maintaining the approach for the current GRA is consistent with the theme that percent -- potential uncertain IFRS changes don't need to be adopted or determined today.

If we start to crystallize all those things today, what happens if the Board, for the international accounting standards, says, Yeah, you can do all this and you can have your old regulatory tests. Are we going to go back? Are we going to redo our financials now that they said it's okay to do it that way, the way it's been done for over twenty (20) years?

The cons, of course, is that, absent the international standard board permitting rate-regulated accounting, it will almost surely lead to two (2) sets of books. And I use that term loosely as it's used in the regulatory sense. It's reconciling items as they do in other provinces. The con will also be it will have a dampening effect on Hydro's cashflow as overhead items are true cash costs in a given year.

As I've indicated, a conclusion may be that Hydro should reverse the changes it's already adopted in prior test years. MIPUG does not consider that this is necessary. There's a quote there as to -- there may be some things that are needed. We don't have all the details but some of them that he was aware of seemed odd and an odd accounting practice. And if it isn't tied to used and useful and it does properly reflect when accounting entries should be charged to ratepayers, then it makes sense to make those accounting policy changes.

Now, we've provided some additional extracts. I'm moving to issue topic 4. And that's DSM accounting. Essentially, the recommendation is that the Board should encourage Hydro - and that's at line 16 - to pursue rate- regulated accounting for DSM expenditures for financial reporting purposes, if at all possible under the accounting standards imposed on the Utility. And the reasons and background to that are in the pages that follow.

At line 22, I'm starting, Utility spending on DSM activities is premised on securing load reductions and attendant cost savings in the years that follow expenditure. For example, Mr. Dunsky confirmed that DSM spending in a given year is of enduring benefit to the Utility over future years.

So if you've got something of an

enduring benefit in a rate-regulated world, it makes sense to capitalize it as Hydro was always doing and not to expense it every year. Under IFRS it appears that you won't be able to continue to consider this as an asset.

Flipping on to page 4-2, I've quoted from Mr. Dunsky again with respect to an Information Request and his evidence starting at line 10 of this submission. It was answering a question with respect to DSM spending as being of future value; not to the extent that the savings forecasted -- forecasts properly account for the useful lives of measures.

> "Typically -- open parenthesize (and I believe this is case of Manitoba Hydro) -- close parenthesize -- energy savings associated with a given measure are assumed to have an estimated useful life after which they are assumed to cease to provide value."

The point is that if it does have that value from a regulatory perspective, it would be appropriate to have a reconciling item if Manitoba Hydro is forced to not capitalize those costs.

And I direct your attention to line 28

now. Mr. Bowman also commented on long-term value of DSM when rec -- reviewing the report of the BC auditor which created a -- as the BC Hydro's regulator accounts, generally, noting at page 554 of the transcript that:

> "While BC -- the BC auditor expressed concern with certain of BC Hydro's regulatory account, I'm not sure whether the statement is meant to be specifically pertaining to something like DSM where you clearly have spent the money. Not for the current period, not for kilowatt hours you're going to get tomorrow but for the kilowatt hours you are going to get over fifteen (15), ten (10), fifteen (15) years."

So we've seen the presentation and the concern by Mr. Williams and his client about the -- and how -- I wasn't here for Mr. Dunsky's evidence but how Mr. Dunsky viewed that these investments in DSM would defer capital projects. So you're spending to get an enduring benefit. The enduring benefit is deferring the need for the next generation.

So if you're going to have a narrow

definition of what's of benefit to the ratepayers, then you're not going to be properly accounting and matching the economic benefits of that spending. If you didn't spend DSM, you'd have to have capital spending in Conawapa. If you spend more on DSM, you can maybe avoid it. Those are both capital in nature, in my respectful submission.

So when he dealt with this issue -- and I'm moving to page 4-3, line 15 -- Mr. Bowman's testimony in the 2010 GRA Hydro discussed the problem at the transcript pages 4,446 to 4,448 and provided examples of solutions that should be pursued, such as a supplementary schedule which forms the basis for rates separating from IFRS financial statements or, alternatively, electing an accounting approach that leads to a qualified audit, which was described as being not the end of the world.

So I guess here we've heard Mr. Williams saying it's a tale of two (2) Hydros. It depends which hearing we're at. In one (1) hearing it's not the end of the world for an accounting reconciliation, and then we have a different perspective that it would be very complex.

So pros and cons of the issue: Pros, MIPUG believes that it properly reflects an ongoing asset to Manitoba Hydro and the ratepayers and that the calculations based off Hydro's reserve level fairly include this investment. Your call if we have to write it off. There's a writeoff to retained earnings. This will also ensure that the incentives to cut annual DSM budgets to balance the books in any year is not present in Hydro's organization.

Let me explain that comment. If, when we looked and Board member Lafond said, Well, the impacts are not that great for IFRS, look -- you know, once we take all these adjustments. Well, one (1) of the adjustments was cutting $15 million in DSM, so it doesn't look so bad. And that's in the IFRS accounting changes in policies.

So it leaves me wondering: Are they doing that reduction in DSM to try and ease in the accounting reporting? Is -- is that one (1) of the drivers? And if it is, I'm not saying -- we haven't heard any evidence on it but if it -- if -- if that is one (1) of the effects of -- of IFRS in the accounting, we shouldn't be doing that and letting IFRS accounting or just general accounting reporting influence how we're going to do DSM in -- in this province.

Page 4-4, the cons. Well, the only one (1) we could identify would be two (2) sets of books, which Mr. Rainkie in the previous hearing said it wouldn't be the end of the world. So the other thing that was summarized by the Board in the previous Board order -- and this is the end quote at page 4-4 that's taken from Board Order 5/'12 at page 96.

> "Since IFRS results -- result in changes to the timing when certain costs will be recognized in its operating accounts, Manitoba Hydro believes that some mechanism may be required to defer cer -- certain costs for rate-setting purposes. Manitoba Hydro stated it would provide the Board with alternatives to consider at the appropriate time."

The next topic, 5, is a fairly short topic dealing with net salvage. MIPUG's recommendation is that net salvage should be removed from annual depreciation costs in rates. You have to understand it's a net negative salvage. I had taken some -- Mr. Kennedy through some examples of other -- there's other filings when he provided the componentization where there are net positive salvage values being reported by some utilities. But by and far, net -- or salvage values and making adjustment for that is not something that other utilities do.

Now best we can understand it --and this is line 18, page 5-1 -- Hydro's test years' costs include about $60 million per year to fund an annual provision for net salvage. Mr. Kennedy explained that these are really not a true estimate of major future costs for removing plant, and in fact there's a way to deal with that if you do have it. The most common one is like a coal plant. You know that there will be a site cleanup and restoration costs to deal with that kind of an item.

When Mr. Warden was asked about what he would do for Grande Pointe, he said, Well, there's no plans to remove or clean up that site. So -- and if there was, he explained, as I understood it -- it's an accounting principle; I don't purport to be an accountant -- but asset retirement obligation would be done. And, in fact, I think they do have it for the coal plant in Brandon, as I recall the evidence.

Now, as best we can understand it, there's about 400 million on Hydro's books with respect to negative salvage. Where do we get that number? At lines 30/31 at page 5-1, flipping over to the next page. It was from the response that Mr. Kennedy provided, because he compared ASL with salvage and without salvage. He gave us that calculation, and the calculation showed about $400 million set aside.

Now, Mr. Bowman's evidence was that, out of all the major Crown-owned utilities, only one (1) was identified to maintain a net-salvage provision. Mr. Kennedy agreed with that assessment. I'm at line 5 on page 5-2. So utilities that do not have a net-salvage provision include BC Hydro, Newfoundland and Labrador, and Yukon Energy Corporation.

And this is not tied into -- again, the Board's mandate is not tied into accounting matters; it's tied into: Is this really needed, is it reasonable? Has Hydro proven and met its burden of proof to show that it needs $60 million a year with respect to a potential negative salvage?

Firstly, we note that, at best, the salvage spending -- and this is at lines 18 to 21 -- in the last five (5) years, we've had $4.7 million a year, on average. They're collecting sixty (60) but spending about four point seven (4.7).

And the accounting options -- this is continuing -- to address the change are as follows: They can add the cost of removal to the replacement asset. That was consistent with what KPMG had done in Newfoundland. And there's some question, then, with respect to what Mr. Kennedy felt. He tried to -- although he wasn't asked to provide his independent opinion, he actually disagreed with the recommendation to -- and that's at page 5-3, lines 17 to 20:

"I would strongly -- it would be strongly against my recommendation. I believe in the concept of recovery of net negative salvage. It's a regulatory construct. However, upon adoption of IFRS, it becomes very difficult."

But we submit that that was not an opinion that was supported by any kind of analysis of Manitoba Hydro's assets. And in the next pages, in addition to quoting the KPMG study that was performed for Labrador, I give examples of the discussions I had on whether or not there would be positive salvage values. KPMG's analysis in Newfoundland starts at line 39 on page 5-3:

"When a major asset is replaced by a new asset at the same nature at the same site rather than abandoned, site restoration or rehabilitation is not required. The existing site will still be occupied by the new asset, most likely in an upgraded or improved form. Salvage will include the removal costs of the asset that is replaced, which will normally take place as part of the construction activities related to the new asset. In most cases, it would actually be quite hard to separate the costs of the two (2) activities. In the case of negative net salvage, the rationale for this treatment is the assumption that any such salvage is most likely to be offset by the construction cost savings attributable to the fact that the site has been previously occupied by a similar asset."

So Mr. Bowman gave the example of a site up north, the Bluefish, I believe. Blue something, if I -- if I misquoted it. Whether it -- it was purchased even though the site was -- the generating station was mothballed, and because of all the inherent values, all the licencing, the fact that it's not Greenfield. Other examples that I went into in the hearing is when I suggested to Mr. Warden Bipole 1.

What would your options be for Bipole 1? He said, Well, there is no option. We'd just rebuild on the same site. Why is that? Well, for him it was kind of obvious. It's -- it's a lot cheaper to do it at the existing site than to do it on a new site. So you have major transmission. You've got negative salvage value attributed to that.

But you've got Hydro saying, Well, there's no negative value. That's -- we've already got the site cleared up. We've got the roads, et cetera. Why wouldn't we just use that site? It would be more expensive to go to a different site.

So if it's more expensive to go to a different site, why should we burden the cost of some speculative cost on ratepayers today to the tune of $60 million per year? The same type of questions were asked of him, and I've got the transcript references, but with respect to all the plants on Nelson River.

They've done a lot of diversion work. They've done a lot of work, and they've put a whole bunch of agreements with -- and partnerships with the First Nations. Why do we have to pay -- that doesn't have to be paid for twice. You've gone through all the regulatory approvals. You have the -- everything there.

So that, in my respectful submission, the evidence on record is that in fact that there's positive values. I went through small things like the Taylor building. You know, is there a negative value to that building right now? Well, right now we're being asked to pay -- to tear it down.

How many buildings in the city are over a hundred years old? They continue to be renovated. They continue to be sold at increased market prices. But we're asking to pay an amount for net negative salvage assuming that it's going to be torn down.

Pros and cons on this particular issue. It's easy for the Board to say, Well listen, Hydro hasn't proved that it needs net negative salvage. Other utilities are not doing it. It's not -- it's kind of an exception for Manitoba Hydro to do it.

Manitoba Hydro is very fine to do it as soon as IFRS comes in. Well, if it's okay for IFRS why isn't it okay now? From a rate-making approach, there's no difference because of an accounting-reporting approach.

The cons to this: Well, if the change is made there's minimal downside, in our respectful submission. There's -- a couple utilities have terminated the net salvage provision. We footnoted those at line 39, page 5-5.

There's -- neither of those utilities ultimately did any restatement of their balances retroactively, or had their statements qualified as a result of this change. So it doesn't appear that that would be an issue.

The -- I guess a side issue is what we do with the notational 400 million that's set aside for this? I guess Mr. Bowman's opinion was that it shouldn't have to be dealt with differently than the over depreciation, or the difference between booked value. But it should be considered by this Board that there's about $400 million notionally sitting for net salvage, and another about half a billion dollars on the accumulated depreciation.

That's a healthy thing. If we'd seen the opposite when -- if Mr. Kennedy has come in and says, Oh well you've been over depreciating just like all these years, and -- and really these assets aren't in good shape. You know, really, you should be ramping up your depreciation because you're off by half a billion dollars, and we need to collect this. I -- I would think that he would be saying, We need to collect it quicker than in fifty (50) or sixty (60) years, which is what's being proposed as a payback. He'd say, Well, listen, it's negative. We need to ramp up the depreciation and collect that over five (5) or ten (10) years, or maybe more aggressive, I don't know.

But Mr. Bowman suggested we put a little star and said, Well, Listen, we've got all of this money from an accounting-reporting perspective, we don't need to refund it quicker. We have a little bit different view than CAC on that. But it is a fel -- healthy part, and a good thing to know about Manitoba Hydro.

So the outcome that would be acceptable at page 5-6, line 30, even if Hydro were required to restate its financials, and we don't think it would be, the end result would be a transfer from accumulated depreciation to reserves, based on our -- our understanding of the accounting principles. That wouldn't be a bad thing. We'd have better reserves from an accounting reporting standard.

I come to the conclusion part on the recommendations for the rates. I think, members of the Board, that this will probably take about fifteen (15) to twenty (20) minutes, so if -- if it's okay I'll just proceed.

We set out the issues as we see them. The first one is the 1 percent rollback which was ordered but not implemented. MIPUG's view is that that should be reversed, however, permitting the 1 percent increase to be included in final rates for the test years starting as at April 1, 2012.

The next point is permitting Hydro to retain the amount in the deferred balances pertaining to the 1 percent rollback for periods up to March 31 but then we provide our recommendations on the -- on how we think that that can be dealt with by way of a refund or some kind of offsetting entry on the bills. That would be Hydro to decide how it would be reimbursing those amounts.

The third bullet, the 2 percent across the board interim rate should it be final. Our recommendation is, yes.

The two point four (2.4) interim rate increase, should it be made final. Our recommendation is, yes; however, you may recall my cross-examination to discuss the issue that there wasn't an across-the-board impact, so I'll discuss that a little bit further.

The intensive users were -- were charged more than the two point four (2.4). And we -- consistent with Mr. Bowman's recommendation -- proposed recommenda -- 3.5 percent not be implemented. So all those recommendations follow in pages 6-1 to 6-2.

At line 10 is: Hydro should deny Hydro from -- or the Board should redy -- deny Hydro from retaining the deferred balances related to the 1 percent for the periods prior to March 31, including interest. And in our view, having the Utility retain these amounts is un -- undermining the conclusions in the Board Order 5/'12 and the reasonable customer explanations.

I'll speak a little bit more about that, but the deferred amount is something that the Board wanted to do to send a message to Manitoba Hydro. Tried to review that order, we reviewed that, it wasn't successful in reviewing that Order. There has to be some messaging still left from that Order in the deferral message.

With respect to the September 1, 2012 interim rate change, we'd requested the Board implement up to the .2 percent rate adjustments - we had gone through that in our evidence - so that we have the across-the-board for the classes and we can look at any tweaking to that in the Cost of Service.

Now, how do Mr. Bowman and MIPUG come to those recommendations? Firstly, does it allow for Wuskwatim, that's projected to lose about $50 million a year, at least for the time being? Yes, it does. We're not taking that out, so ratepayers are paying for the decision that was made in the NFAAT and the Project.

Now in some circumstances some might suggest, Well listen, let's soften that blow, that's nearly 4 percent. Let's soften that blow and maybe only add progressively until we start to see more benefits from Wuskwatim instead of hitting ratepayers with a $50 million loss which appears what's going to be the number based on the fact that the contract is going to be renegotiated.

Now, what about operating expenses? There's a total of about 136 million for operating expenses. There's an increase in 27 million that was stated to be related to IFRS in accounting changes. Even that doesn't change the recommendation because there's enough room in the calculations presented and done.

The suggestion in the GRA -- and here I'm at the top of page 6-3. You'll recall I started, What were the reasons for the increases? They said lower natural -- the lower export prices. Well, that was due to low -- low natural gas prices and the economic conditions were at the roots of that.

And Mr. Bowman clarified that although those conditions lead to $250 million a year reduction in export revenue when compared to '09, you have to look at the offsetting costs. If you have lower gas prices, you've got about a mil -- a 100 million that's saved in hydro for the fuel costs. And you've got about $60 million that's saved through lower costs of debt dur -- due to the current economic conditions.

And we've seen that the impact of drought now has been significantly reduced. In prior years, we were looking at like $4 billion, and then it went down and went down. There was an incentive to save money and put aside revenue requirements with respect to the impact of the drought, but now that's really been diminished.

So our view is that the economic conditions have proven to be internally offsetting. We've said that the major drivers, in our view, are the accounting reporting changes and, in conjunction with that, the as yet unimproved -- unapproved major capital projects, and increases in operating and maintenance expenses, and Wuskwatim.

Now, apart from that, it's our view that Hydro, with the highest reserves and retained earnings in history, is financially stable, and we look at the two (2) year time frame. And the -- although it's a small revenue that they're projecting, they're projecting $60 million this year.

A summary of all the factors are started at 6-3 so that PUB/MIPUG-11 revised for IFF12, and that's attached at 6A-1, that was a document he went through and explained. So all these explanations are repeated in summary again in this document, and they relate to the document that's at 6A.

If we -- if there's reversal of accounting changes totalling about $56 million, the implementation of the elimination of net salvage -- I'm at line 29 on page 6-3 -- those are two (2) items which could be removed.

The elimination of spending on Keeyask and Conawapa to date from the calculation of the rate-regulated financial metrics, these are major capital projects that are not yet used and useful and which remain uncommitted. And I will have comments for the panel with respect to how to deal with Bipole 3. I'm talking here about Conawapa and Keeyask.

So with those matters being taken into account -- and here I'm -- I'm sorry if I've referred to the magical accounting pen. It's an accountant's -- certainly not an accountant's perspective, and I'm happy when my accountant does it. But with the changes in account reporting that used to be in place for twenty (20) years, why should the accounting reporting drive rates?

Now, operating and maintenance expenses, MIPUG is not pleased with the efforts made there. We ask questions of the new president, Mr. Thomson. We're looking at annual average increases of about 3 percent after adjustments. And these were what were reported by Hydro, as we understand it, to net out accounting changes in Wuskwatim. If you add Wuskwatim and you add accounting changes, they're a lot higher than that. And some of the graphs show that.

So if Hydro maintained a 2 percent growth rate in OM&A for its operations, that would give them savings. And those potential savings should also be considered. So if you had 2 percent growth, and that's higher than inflation, that would bump up the net income to between 159 and 149 million in the test years.

I've already said it; the next heading is 'Wuskwatim'. The calculations of Mr. Bowman include the payment of the net losses -- that's at line 26 -- expected to be about $50 million per year.

Now, the next thing that is discussed is concept of reserves and making sure we have enough reserves for risk. We've referenced the section in the Manitoba Hydro Act with respect to that.

Now, I do want to address Board member Lafond's concern and question to Mr. Williams about interest. And that is going to be a little bit later on, on interest rates and management. The point with respect to the reserves is that Mr. Bowman explained -- and this is line 22, page 6-5.

I went through the historical matters with Mr. Warden. First, Manitoba Hydro operated with a reserve equal to two (2) years of drought. We're now at five (5), so we've increased that target. And that, from an equ -- debt-equity, they evolved to 85/15 when I was doing the previous hearing; the actual fact was it was closer to 95/5 and it stayed there for a number of years.

The testimony of Mr. Bowman was that other Canadian Crown-owned utilities do not operate with similar reserves. Some of them don't have them at all. I'm not saying it's not prudent to have them, but it's just noting that other Crown utilities don't even take that approach.

With respect to operating and maintenance -- that's 6-6 -- we note that the top line, which is the total expenses projected before capitalization, is growing between 4 and 5.5 percent. The number that Hydro likes to quote is in the green. That's the reconciling items that they do with respect to financial reporting.

So on the graph on page 6-6, if you look at the 2010 GRA, then you move into the 2012 GRA, you get the line that Manitoba Hydro reports, saying, Well, listen, our -- we haven't really increased our expenses by much. Look at our green line. But the real line that -- is closer to 8.9 percent per year. Sorry, not per year; it's forecasting to grow about 5.5 percent, and it appears that it's going to be forecasting to grow by about 4.2 percent. That's the total amount. Those are very real costs.

And the concern of MIPUG members is that they don't seem to be under control. If we flip to page 6-7, staff for Manitoba Hydro has gone almost eight hundred (800) EFT during the time period that Mr. Thomson thought they weren't growing -- they were only growing by about inflation. But that's about 12 percent growth.

The questions I asked of Mr. Thomson were about zero-based budgeting, lending that a little bit from health industry, even education industry:

What would you do, Manitoba Hydro, if you were not allowed to increase your expenses at all this year? What would you cut?

That isn't happening yet. It may happen under Mr. Thomson. But I also put to Mr. Thomson with respect to what was happening at BC Gas because he had been out there and because the government there mandated an external review and evaluation. And it leads us to the conclusion at the top of 6-9 that an inter -- external review and evaluation of Hydro's OM&A spending is needed.

Why do we come to that conclusion? To date, other forums have repeated expressions of concern by the Board, and there's a raft of them at Tab 13 of Volume II of the PUB book of documents do not appear to have had any significant effect.

It's not the first time Mr. Williams argues that a message should be sent to Hydro by way of not giving the full rate increase. That's kind of a very limited tool, because Hydro just comes back with, Well, these are our expenses, and they were needed, so we need a rate increase.

The other item which has been consistently overstated is vacancies. So they're assuming 6.2 in budgeting; that's what they're showing, and that's how they come to ask for the money that they're asking. But over the five (5) last years, they've been running at 8 percent. So that would be an annual savings of $11 million -- that's at line 23 and 24 -- if the assumptions matched or better matched the actuals.

Now, I talked about sending the right message, page 6-10. I reference executive costs. The -- this is something if you look at the staff compliment growing, it's continually increasing. It's not -- the eight hundred (800) is not just comprised of the worker bees, as I say, it's at an administration level, and now the charts show that Hydro in '07 operated with five (5) vice presidents and twenty-seven (27) division managers. That's jumped up to six (6) vice presidents and thirty-seven (37) division managers. There was a growth from thirty-two (32) to forty-three (43) executive positions in five (5) years. And there's a new vice president that's supposed to be added.

It may just be messaging. I'm sure those salaries won't make a difference. But if you're saying you're trying to control costs and you're adding that many additional executive positions, why would the worker bees think that they have to be treated any differently?

The risks - also material in determining. And there's been a lot of questions about the Board about risks and about putting aside enough for the risks, so I'd like to spend a bit of time dealing with those.

At page 6-11, one (1) of the biggest and most discussed risks apart from infrastructure risk has been drought risk, and that's quite simply because it's a water-based utility. We had very extensive hearings, very extensive reports on that. The longest one (1) in history was the last GRA looking at this very specific item. And even in that, nobody thought that if the prices went down in the States on exports that it would help us that much. But the risk, now, of a drought and the consequences have been cut in half compared to what we were looking at then.

And the chart illustrates in a coloured version of that. So that -- is it a factor that should drive an increase, in our respectful submission, based on the two (2) years and a review. It may be different in subsequent reviews, but this particular risk, being drought risk, is materially under what the reserves are.

And we have to be careful with numbers

because there's two (2) sets of numbers that are talked about in this hearing: One (1), is the change in revenue; and one (1), is the net loss. And Mr. Bowman, in his evidence, went through the differences.

At this time, with the averaging and the projections that are done, there's only a couple years in which there would actually be a net loss by Manitoba Hydro with an adverse drought. That doesn't mean that there's going -- not going to be a variance.

If we're projecting $120 million of net revenue, because of a drought you may go down to zero revenue, there will be a variance of $120 million, but it doesn't mean that there will be a net loss. So, in looking at the numbers and trying to appreciate what the numbers mean, I would just suggest to the Board be very careful to not think that, Well, the effect of a drought, and that's shown in the financial report, is 'X' amount millions of dollars. Well, that's the effect in reduced revenue, it's not the net losses and I clarified that under cross-examination.

So if you look at the exhibit which you referred to, Board Member Lafond, at page 43 on the risks, the risk of a $1.6 billion item is not $1.6 billion in losses, it's a variance in the expected revenue.

And Mr. Bowman explained, Well, the odd thing is the way Hydro is looking at it you should save for a drought when you're in a drought. But this number is not the net losses, so we're over the $2 billion mark for reserves, we're not talking $1.6 billion losses.

The next risk which the Board had been very concerned about in pri -- previous GRAs, that's at 6-12, Low Export Market Risks. Former Chairman Lane was very concerned about this. He was concerned that Manitoba Hydro wasn't correctly estimating how low the numbers might go because of shale gas, because of natural gas, and that the incremental or marginal rate in the States was largely driven by gas and coal.

So where are we at today on that? I think the general view is that the decline which we've seen has bottomed out and certainly the projections that have now been made are based on the low prices. So that if we go to line 30, in the submission, when you compare IFF09 to IFF12 we've gone down from 66.90 a megawatt hour down to 31.36. And the average pri -- purchased energy has reduced -- again, we talk about the offsetting items, from 66.76 per megawatt to 36.01 per megawatt.

So in our view the evidence supports

that we've basically hit the bottom and we're at the bottom or very near to the bottom, so it's not the big concern that the Board used to have in the expression of risk that it -- we needed to -- to do something different to deal with that risk. We're into it and we're dealing with it.

Now, the next one that was identified is infrastructure and the biggest one was bipole outage and what happens if we don't have Riel convertor station.

It's certainly a risk that has huge financial consequences. Now, in the risk hearing we had little boxes. We had the size of the risk, and the possibility or likelihood that that risk would occur. And this infrastructure risk was big in magnitude but not high in the probability.

So the question in the previous hearing, Well, the blacks won. What happens if you have like this event that nobody thinks is going to happen but happens; how do you deal with it? Well, this Board, and I think it's a proper approach, deals with risks that are likely to happen. And given that we should in the next couple of years have the Bipole 3 which will increase that reliability, I don't think that we need to be overly concerned. We have a plan. The plan is being implemented, is being looked at.

We are into the review of the -- Bipole 3 coming up, to my understanding, so that we don't think that there needs to be a specific amount, especially considering all the other factors that needs to be set aside for that. We've all -- already got a lot more reserves than we need to be able to deal with a drought.

The next matter that's been raised by Board members at page 6-14: Well, what about the new capital projects? What about all the costs that are attendant to that, including interest, et cetera? That's a really tough question, and I'm glad I'm not sitting on the Board.

But here is our view of it, and I come back to Conawapa. Conawapa was supposed to be there back in the '90s. Now it's predicted to be in service in 2026. What happens if we have good DSM programs? It may not be in -- in place for 2040. We won't be incurring the interest expenses of the major capital costs if it doesn't get approved, or if a different project becomes a priority one, or a better one.

So our recommendation and our view is that although there's some uncertainties, we're not at the point yet where we have to burden ratepayers with -

- I'm not going to say speculation but with whether or not those projects will actually be built.

The wisdom of building them, all the risks attendant with building them, and the timing, and I know that was raised by Board member Lafond, Well, why don't we build it a little bit later and -- and do gas right away? All those types of issues get dealt with at the NFAAT. And it may be that the Board that's going to review the NFAAT is going to decide, Well, we don't need to incur 11 -- $11 billion or $10 billion in Conawapa, let's just spend a certain amount on CCCTs.

And -- and -- or enhance our interconnection with the States, and do long term contracts to bring their -- I mean, we already have some of that happening. There's a whole -- so we say that these new capital projects which are going to be reviewed at NFAAT hearings should not be driving the rates today. They may in subsequent GRAs but we don't believe it's necessary to do it.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: The other item that I wish to deal with, and it starts at page 6-17, getting close to the end, is what happens with respect to the interest risk?

And Board member Lafond in speaking to Mr. Williams this -- I don't know if it was this morning or this afternoon, it's been a long day -- said, Well, what if interest rates go to 5 percent?

That's not inconceivable that it'll do that. I'm not so sure that in my direct examination and -- and cross -- and examination of -- of Mr. Schulz that I was successful in trying to explain the way Manitoba Hydro looks at interest.

When it talks about the 1 percent variance in interest rates and the impact of that over ten years, it's assuming that in each and every of the ten (10) years -- so that includes today -- if they assume 3 percent today, it was off by 1 percent and it should have been 4 percent. If they assumed that it would be 5 percent, they're off and it's really 6 percent.

Hydro has been assuming interest rate increases in its IFFs. It's planning for increases for long-term debt from 3.15 percent -- this is at line 4 -- to 5.30 percent. It agrees with this Board that -- and -- and probably the generally held view, that interest rates will not stay where they are. They're going to be going up.

But that interest rate exposure only becomes an exposure if they're off in their budgets by more than 1 percent in each and every year of that forecast. If they're off only in the last year, you will only have an impact for one (1) year, not in each of the other nine (9) years, which Hydro has already projected there would be an increase.

The other matter with respect to interest is we come back every two (2) years. If interest rates jump up in a way that nobody anticipated, Manitoba Hydro will adjust its IFF and adjust its projections. And it'll adjust its rate application, saying: Listen, we really missed the mark. Nobody could anticipate that interest was going to go up to 8 percent. This is what's happened.

So this is a self -- it's not a self-correcting, but there's sufficient reviews at intervals at one (1) -- two (2) year intervals for ratepayers to adjust. So if it does go up to 8 percent and every -- the project may not be built. It may not be feasible to build. Build it, and then it won't even meet. So Conawapa won't go ahead; Keeyask won't go ahead. But that would be determined at an NFAAT.

So the -- it's our view -- this is page 6-11 to -- or 18, rather, to 19 -- that given that

Manitoba Hydro is already projecting increases from 3.15 percent to 5.3 percent and that none of the forecasters, when we looked at that, were outside that 1 percent range, that there's been sufficient thought put to this.

In addition, at page 6-19, I had gone through in cross-examination the interest rate risk management. And you see there's -- when I had looked at that -- and it's discussed at page 6-19 -- there's long-term floating rates. They tried to match them with the projects. So you'll see thirty (30) year debt, I think up to forty (40) year debt, and they roll over. So even though interest rates go up, if it's properly managed with the rolling, there's a way of manage it -- managing it.

So the last reason why we don't think that there should be additional reserves put for interest rate issues is that we're dealing with a Crown utility. If ratepayers have to pay a bit more because there's a rate increase -- interest rate increase, and we see that in the two (2) years, then it can raise prices -- the Board can raise prices. It can adjust it based on actuals. It doesn't have to speculate about what's going to happen.

The pros and cons of the recommendations

-- I'm at page 6-21 -- reflects full-cost accounting, brings rate increases that are above inflation and CPI, but it still protects with respect to certain matters. It would send a signal and in addition to the recommendation we make on an external review that Hydro would be expected to improve its financial performance from 3 percent increases in OM&A down to 2 percent.

The cons is there's a possibility, because nobody can predict the future, that there might be a net loss in the test years. But it doesn't appear that the -- it -- this would be a large risk. All -- most of the changes are overhead accounting policy changes or accounting reporting changes, and this includes Wuskwatim. So we don't have to deal with that. It also includes Bipole 3 and the costs of that. We haven't backed that out. But it requires booking of costs for indirect overheads for Keeyask and Conawapa.

So we believe that this is very realistic. And once you make the adjustments we've talked about from a reporting perspective, it's consistent with what's been happening over the last twenty (20) years before we got into the reporting issues.

The last subject which I deal with and it won't take very long, is the curtailable rate program and industrial rate options. That's at issue 7. And thank you -- thank the Board for its indulgence.

Two (2) things: MIPUG rec -- recommends the curtailable program not be capped. And that the second point that MIPUG recommends the Board direct Hydro to investigate other options that are a win/win situation. MIPUG is not expecting handouts. But if there can be situations, such as the curtailable program which are a win for the Company and a win for Hydro, why shouldn't we investigate them?

So the conta -- curtailable rate program, the concern is that if you cap it now, it's a disincentive for other companies to come in because they don't have rate options. And we know Manitoba is no longer the -- necessarily the lowest rate area.

I also asked questions of Mr. Cormie, and he said, Although the current situation is that there isn't much -- I'm struggling for my words here -- value in the capacity selling -- and this is what the curtailable rate program was -- was doing, is that he believes that the market is going to change in the States and that it -- there may be value again in the sales of that kind of capacity.

So if that is the case, why make the

change? And the quote on the thought of Mr. Cormie that there would be a change is at page 7-3. And when I asked him, Would there be a change in the upcoming years in the United States? Yes, was the answer:

> "The MISO market rules have -- are evolving such that Manitoba Hydro can now begin to participate in a voluntary capacity auction and our capacity is now deemed to be deliverable, so we've begun selling capacity forward as we used under the MAPP Generation Reserve Sharing Program. Unfortunately, market prices are very, very low, but we expect that, given this market will change the impending shutdown of a large amount of capacity in the US, that value will increase and that as the prices go up."

So our question to the Board and to Manitoba Hydro, I guess, is: If you think that there may be changes, why put a cap right now?

There has been no evidence that there -- this program causes any material or significant losses to Manitoba Hydro, that it isn't a win/win situation.

In fact, Mr. Cormie said it continues to be a win/win situation for that program. So capping the program, in our view, is not a decision that needs to be made right now, and not a decision that needs to be approved at this time.

Other rate offerings, I'll leave that to the Board to read. There's a host of other options that are available to MIPUG members in other jurisdictions. There's been material filed with respect to those types of options. One (1) of them that I discussed was the non-utility generation. If it makes sense economically for DSM that you spend so much and you invest so much to save on capacity issues, why doesn't it make sense to offer those same type of options to major industrial users?

If they can help -- and my understanding of the evidence was that what they do right now is one (1) of the biggest DSM programs under the curtailable rate program. It helps the most. Out of all the different programs right now, it's one (1) of the biggest ones. I've got the reference to the evidence in here. Why shouldn't we look at other win-win situations?

The last thing that wasn't part of the reasons for the rate increase, but was generally cited, was, Listen, we've got a lot of old and aging infrastructure, and we need to make sure we've got enough money for that. Mr. Thomson referred to that in his testimony.

I have two (2) kind of main points with respect to that. There was a lot of evidence, and I'm not going to go through it, that was gone through by Mr. Williams on what stage Hydro was at in evaluating whether the assets needed repair and when they needed repair and whether they had implemented the asset management system. They didn't have that information. They apparently don't have that information.

Now, the one (1) thing that we do know is it's Mr. Kennedy's evidence that he spoke to a lot of staff at Manitoba Hydro and, based on their view of the condition of the assets, they've prob -- across the Board practically, increased the lives of those assets.

So then I asked myself the question: If all these assets are in such a rough shape and we should be so concerned about the condition of the assets per OM -- OM&A, why is it that we're saying that they're in a lot better shape when it comes to depreciation? What's the message?

I think the only conclusion that this Board can have is that it's uncertain, and it's uncertain because there hasn't been a proper asset condition analysis of all its assets. And although there's some views in Manitoba Hydro that caused Mr. Kennedy to think that he should extend the lives of the assets because they were in such good condition, maybe that isn't fully known. So it shouldn't, again, be a driver for rates once we're getting inconsistent messaging.

Subject to any questions that the Board has of me, I thank the Board, all the witnesses, and all the participants again.

MR. RAYMOND LAFOND: I -- I would simply ask Manitoba Hydro to respond to the issue of the increase in the third-quarter OM&A due to IFRS as reported in their third quarter. And maybe that can be done tomorrow as you do your conclusion. Sorry, Wednesday. A few more hours and it'll be tomorrow.

THE CHAIRPERSON: I believe I have no further questions. I believe there's an outstanding issue in relation to the letter that was cited, that letter from CAMPUT, which we are going to be -- I think the counsels are going to resolve. But in any case, we can -- we can address that on Wednesday morning.

Just a reminder: Unless there's further businesses to do tonight -- business -- I guess there isn't -- we are adjourned until. . .

(BRIEF PAUSE)

MS. PATTI RAMAGE: Mr. Chairman, and we're throwing this out there because we don't know the answer, but we are now about 35 percent over the time we expected to be today, and that's 35 percent into the time we had to prepare tonight to get ready for Wednesday. And, as I indicated, I'm not available tomorrow.

And we're just wondering if the Board has any additional time on Thursday, or if there's any options that way, if we don't cover -- we've heard far more than we expected to hear today, particularly from the MIPUG group. If there's an option there on Thursday, or if there -- if that doesn't work, if there's an option to follow up some of these issues we weren't expecting in writing afterwards or -- we're just concerned in terms of. . .

(BRIEF PAUSE)

THE CHAIRPERSON: All of us are available. So what we -- we could do is sit until 4:30

on Wednesday and then resume on Thursday morning at nine o'clock and go till we drop. How's that?

MS. PATTI RAMAGE: It's really more the prep time that I'm concerned about than the...

THE CHAIRPERSON: I see. Okay. So we would then simply resume the proceedings on Thursday, and so we'd -- you'd have two (2) days to -- did I understand that correctly?

MS. PATTI RAMAGE: I -- I think that would work better for Manitoba Hydro, if that works for the Board.

THE CHAIRPERSON: I'm getting lots of nods, so --

MR. ANTOINE HACAULT: I --

THE CHAIRPERSON: -- I think -- I think we're -- we're on for -- so --

MR. ANTOINE HACAULT: I -- I'm sorry. I just have a question, members of the Board, and maybe for Board counsel. I know it's not necessarily usual, and there probably wouldn't be any kind of reply, but if Hydro's going to be making a presentation and there's one (1) or two (2) new points that we couldn't anticipate, usually in a hearing there's a very short measure of reply, if only for new items. I don't think there would be any, but my problem is Thursday, because if -- if -- I'm not going to be able to be here in the afternoon for that. I may be able to rearrange everything. I can try and do that.

MS. PATTI RAMAGE: We've -- the practice here has never been to have a reply to Manitoba Hydro's evidence, so I would be concerned about adding that to the -- to the process. And my intention was not that we were adding new items; that we had heard items that we felt were new that we haven't had an opportunity to discuss. And, quite frankly, I don't know who's going to be left back at the shop, because the meeting started at 4:30.

THE CHAIRPERSON: Okay. I think I heard that we would be able to meet on Thursday, and the understanding is that no new items will be introduced. You'll be addressing issues that were raised today. And on Thursday, do you expect that you'd be able to finish by seven o'clock at night?

MS. PATTI RAMAGE: Oh, yes. I'm guessing -- today, I would have guessed four (4) I might -- it might go to five (5). But we also getting the benefit of cutting too in the next -- you know, we've prepared and we've heard -- we haven't -- we've had other items that we thought would be addressed that parties haven't taken issue with, so, maybe it is four

(4) hours.

THE CHAIRPERSON: I think we have an agreement. So, Thursday, nine o'clock we meet again. And we are adjourned tonight for the next two (2) days until Thursday morning. Thank you everyone.

--- Upon adjourning at 6:53 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.

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