



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO  
GENERAL RATE APPLICATION  
2012/13 AND 2013/14

Before Board Panel:

Regis Gosselin - Board Chairman  
Raymond Lafond - Board Member  
Larry Soldier - Board Member

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue

Winnipeg, Manitoba

January 7, 2013

Pages 2087 to 2384

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

2

3 THE CHAIRPERSON: Good morning,  
4 everyone. I believe that we're ready to start. Well,  
5 on behalf of the other panel members, I offer you  
6 greetings for the two -- for the year 2013. All the  
7 best to you and your family for the coming year.

8 And I believe the January grind is now  
9 starting. So I turn it over to you, Ms. Ramage.

10 MS. PATTI RAMAGE: Yes, thank you and -  
11 - and happy New Year, Mr. Chairman, Mr. Soldier, and  
12 Mr. Lafond. Before we begin, I just wanted to offer  
13 our condolences to Mr. Lafond on behalf of the Manitoba  
14 Hydro panel. It was -- hopefully the new year will --  
15 well, we can all start fresh, but I know it was a tough  
16 holiday season for your family.

17 We have filed this morning -- it also  
18 appears it was a tough holiday season for a few Hydro  
19 employees, and they appeared to have worked fairly hard  
20 on an entirely different level. But we've got a number  
21 of filings this morning. I thought I'd just very  
22 briefly walk through them.

23 I'm not intending, as I normally would,  
24 to walk through each -- each one of the exhibits. But  
25 we've handed out this morning a list called, "Exhibits

1 filed January 7th." I'm not intending to make that an  
2 exhibit itself. It's just instructional.

3 But just to make sure everybody knows  
4 what they've received in the package this morning, the  
5 first box on that list, it says, "MIPUG Pre-ask 12," at  
6 the top line. You have a binder called, "Intervenor  
7 pre-asks." In your Intervenor pre-ask binder, MIPUG  
8 Pre-ask 12 should follow the MIPUG Pre-ask 1 to 6; 7  
9 through 11 have not been filed yet, but we're putting  
10 12 in. So that's where that first tab should go.

11 The next group of tabs are numbered 2  
12 through 6, I believe it is -- 2 through 8. And they  
13 should go -- if you have that Intervenor binder -- to  
14 the very back of the binder, the last tab you would  
15 currently have is CAC/Manitoba Hydro Pre-ask 1. The  
16 remainder of those tabs, 2 through 8, would get filed  
17 in that binder at that point.

18 That takes care of the first box on that  
19 list. The next groupings are revised IFF12 IRs.  
20 Manitoba Hydro was -- requested to update various IRs  
21 for the IFF12 information. So these are done in groups.  
22 But -- and -- this is -- I don't prepose to walk  
23 through each one. But the first group are MIPUG Round  
24 1 IRs, and we're preposing they be marked Exhibit 38.  
25

1 --- EXHIBIT NO. MH-38: MIPUG Round 1 IRs

2

3 MS. PATTI RAMAGE: The next group are  
4 PUB -- all PUB Round 1 IRs and it will be marked as a  
5 group, Exhibit 39.

6

7 --- EXHIBIT NO. MH-39: PUB Round 1 IRs

8

9 MS. PATTI RAMAGE: The next grouping is  
10 PUB Round 2 IRs. And there's nine (9), I believe,  
11 Second Round IRs of the PUB. They will be marked  
12 Exhibit 40, and that's twenty-four (24) pages.

13

14 --- EXHIBIT NO. MH-40: PUB Round 2 IRs

15

16 MS. PATTI RAMAGE: Following that is a  
17 series of undertakings, and it's Undertaking 9, marked  
18 as Exhibit 41.

19

20 --- EXHIBIT NO. MH-41: Response to Undertaking 9

21

22 MS. PATTI RAMAGE: Eleven (11) as 42.

23

24 --- EXHIBIT NO. MH-42: Response to Undertaking 11

25

1 MS. PATTI RAMAGE: Undertaking 12 as  
2 Exhibit 43.

3

4 --- EXHIBIT NO. MH-43: Response to Undertaking 12

5

6 MS. PATTI RAMAGE: Undertaking 15 is  
7 Exhibit 44.

8

9 --- EXHIBIT NO. MH-44: Response to Undertaking 15

10

11 MS. PATTI RAMAGE: And then on the  
12 backside of that instructional page, we go through  
13 Undertaking 18 is Exhibit 45.

14

15 --- EXHIBIT NO. MH-45: Response to Undertaking 18

16

17 MS. PATTI RAMAGE: Nineteen (19) is  
18 Exhibit 46.

19

20 --- EXHIBIT NO. MH-46: Response to Undertaking 19

21

22 MS. PATTI RAMAGE: Undertaking 20 is  
23 Exhibit 47.

24

25 --- EXHIBIT NO. MH-47: Response to Undertaking 20

1 MS. PATTI RAMAGE: Undertaking 30 is  
2 Exhibit 48.

3

4 --- EXHIBIT NO. MH-48: Response to Undertaking 30

5

6 MS. PATTI RAMAGE: Undertaking 31 is  
7 Exhibit 49.

8

9 --- EXHIBIT NO. MH-49: Response to Undertaking 31

10

11 MS. PATTI RAMAGE: Undertaking number  
12 33 is Exhibit 50.

13

14 --- EXHIBIT NO. MH-50: Response to Undertaking 33

15

16 MS. PATTI RAMAGE: Undertaking 35 is  
17 marked as Exhibit 51.

18

19 --- EXHIBIT NO. MH-51: Response to Undertaking 35

20

21 MS. PATTI RAMAGE: Undertaking 39 is  
22 marked as Exhibit 52.

23

24 --- EXHIBIT NO. MH-52: Response to Undertaking 39

25

1 MS. PATTI RAMAGE: Undertaking 40 is  
2 marked as Exhibit 53.

3

4 --- EXHIBIT NO. MH-53: Response to Undertaking 40

5

6 MS. PATTI RAMAGE: And I should mention  
7 that Manitoba Hydro has marked all these on your  
8 copies, so that's why I'm going as fast as I am. There  
9 was a undertaking given at transcript page 1,583. It  
10 was not marked as a undertaking but that -- so it's an  
11 un-numbered undertaking. It is included as Exhibit  
12 number 54.

13

14 --- EXHIBIT NO. MH-54: Response to undertaking at  
15 transcript page 1,583

16

17 MS. PATTI RAMAGE: And then we have an  
18 update to -- two (2) additional updates. That's PUB  
19 Manitoba Hydro First Round 42 updated is now Exhibit  
20 55.

21

22 --- EXHIBIT NO. MH-55: PUB/MH I-42

23

24 MS. PATTI RAMAGE: And MIPUG/Manitoba  
25 Hydro First Round 35A is Exhibit 56.

1 --- EXHIBIT NO. MH-56: MIPUG/MH I-35A

2

3 MS. PATTI RAMAGE: And that's the  
4 package of materials that we've filed this morning.

5 And Mr. Warden -- was -- wished to speak to one of the  
6 undertakings, so if we could do that just before we get  
7 underway.

8

9 MANITOBA HYDRO PANEL 2 - REVENUE REQUIREMENT, RESUMED:

10 VINCE WARDEN, Resumed

11 DARREN RAINKIE, Resumed

12 DAVID CORMIE, Resumed

13 TERRY MILES, Resumed

14

15 MR. VINCE WARDEN: Yes, good morning  
16 Mr. Chair, members of the Board, ladies and gentlemen.  
17 The undertaking that I wan -- wish to speak to was  
18 actually Undertaking number 1. And that is we were  
19 requested to provide the estimated in-service cost per  
20 kilowatt hour for Pointe du Bois.

21 And I did want to speak to it, because  
22 whenever we do provide the unit costs of generating  
23 stations, it always has to be qualified, in terms of  
24 the year in which we are expressing those costs. And  
25 with in the case Pointe du Bois, the in-service --

1 schedule in-service date for the powerhouse and  
2 transmission isn't until 2030. So we want to be  
3 careful when we express the unit cost so that it's  
4 expressed in some common dollars.

5                   So what we've done is we've calculated  
6 the unit cost for Pointe du Bois and then -- then  
7 brought it back to 2012 dollars. And on that basis,  
8 it's seven point eight (7.8) cents per kilowatt hour.  
9 And maybe just for comparison purposes, because we've  
10 done that for all the generating stations -- or at  
11 least for the Wuskwatim, Keeyask, Conawapa generating  
12 stations -- putting it in common 2012 dollars for  
13 comparison purposes, maybe I'll put those on the record  
14 at this time as well.

15                   So, as I mentioned, seven point eight  
16 (7.8) cents per kilowatt hour for Point du Bois.  
17 Conawapa would be seven point zero (7.0) cents;  
18 Keeyask, seven point five (7.5) cents; and Wuskwatim,  
19 seven point three (7.3) cents. Now, I think we had  
20 some slightly different numbers on the record  
21 previously, but this for the -- for this purpose, all  
22 of those unit costs are in 2012 cents per kilowatt  
23 hour. Thank you.

24                   MR. RAYMOND LAFOND: Thank you. First  
25 of all, thank you for your wishes, Mrs. Ramage. And



1 thank you all for having accepted to essentially end  
2 the hearings just before Christmas. I have to tell you  
3 that when I got the call at ten (10) after 8:00, I was  
4 all ready to come. And, of course, I wanted to call my  
5 five (5) children and spe -- see my mom's body for the  
6 last time and spend some time with my sisters and  
7 brothers. So I thank you very much for having accepted  
8 to do that.

9                   Now, back to business. Mr. Warden, in  
10 terms of the costs you've just indicated, these would  
11 include, of course, amortization or depreciation, would  
12 include financing costs, would include the operation.  
13 Does it include any overheads from Manitoba Hydro?

14                   MR. VINCE WARDEN: Yes, thank you, Mr.  
15 Lafond, for that question. And I should have clarified  
16 that. That is the capital cost only, which include the  
17 cost of -- of building the -- the powerhouse, or the  
18 powerhouse and transmission. But it does not include  
19 operating costs. So it excludes operating and  
20 maintenance costs and water rental. So it's only the  
21 capital costs which would reflect the interest and  
22 depreciation.

23                   And the interest, by the way, is -- is -  
24 - the -- the unit costs are very sensitive to the  
25 interest rate that we assume for calculating these unit

1 -- unit costs. So the interest rate that was used for  
2 this purpose was 6 percent.

3 MR. RAYMOND LAFOND: And the  
4 depreciation amounts would be based on the old formula  
5 or the new formulas? Or the ones being proposed, I  
6 should say.

7 MR. VINCE WARDEN: Well, they would be  
8 -- the depreciation would be based on a -- a straight-  
9 line amortization of depreciation of per -- with a  
10 sixty-seven (67) year life.

11 MR. RAYMOND LAFOND: How many years?  
12 I'm sorry.

13 MR. VINCE WARDEN: Sixty-seven (67)  
14 years, which we've used as the average life for all  
15 components of the generating station.

16 MR. RAYMOND LAFOND: Thank you.

17 THE CHAIRPERSON: I'm afraid I'm lost.  
18 So it doesn't include operating costs, but wh -- where  
19 does depreciation come into the equation?

20 MR. VINCE WARDEN: Sorry, the -- the  
21 operating costs we're referring to are the -- the wages  
22 and salaries, the -- the costs of people operating the  
23 plants and --

24 THE CHAIRPERSON: Okay.

25 MR. VINCE WARDEN: -- but it includes

1 depreciation in financing costs --

2 THE CHAIRPERSON: I see.

3 MR. VINCE WARDEN: -- associated with -  
4 - with that investment.

5 THE CHAIRPERSON: Okay.

6 MR. RAYMOND LAFOND: I would imagine  
7 that internally you would do some allo -- you -- you  
8 would do some analysis, in terms of the main -- well,  
9 the direct -- well, it's fairly simple, the direct  
10 maintenance and operation, but also an allocation of  
11 overheads. Would you do that?

12 MR. VINCE WARDEN: Yes. Yes, we would  
13 do an allocation of overheads. They typically get  
14 included in -- in what we would refer to as the  
15 operating costs of -- of the plant. We've -- in the  
16 past, we've used a -- a rough -- for -- for purposes --  
17 I shouldn't say rough, but it's for purposes of doing  
18 our an --analysis, we've used 1 percent as the ope --  
19 representative of the operating cost of -- of the  
20 plant, which would include associated water rentals.

21 MR. RAYMOND LAFOND: So the operating  
22 cost would be 1 percent of the -- for instance, the  
23 seven point zero (7.0) cents for Conawapa?

24 MR. VINCE WARDEN: No, actually, what  
25 we would do -- and we could do that if -- if you would

1 like to have that number expr -- the operating costs  
2 included. What we would do, instead of using a -- a  
3 rate of 6 percent for purposes of the calculation, we  
4 would use a rate of 7 percent, which would be all  
5 inclusive of operating costs.

6 MR. RAYMOND LAFOND: I see. For -- I  
7 would imagine that internally you would have for every  
8 project, whether it would be Great Falls, Long Pru --  
9 Long Spruce, or Slave Falls, or whichever -- Limestone,  
10 you would know your costs of production for every one  
11 of them, in terms of, of course, capital cost and  
12 transmission, but also maintenance and operation and  
13 also allocation of overheads.

14 Would it be possible to get an analysis  
15 of all your sources of production and your cost and  
16 allocation? I mean -- and I'm not talking of a fifty  
17 (50) page document. I'm talking of one (1) or two (2)  
18 pages here.

19 MR. VINCE WARDEN: Yes, we can do that  
20 for the existing generating stations, for those that in  
21 service currently, yes.

22 MR. RAYMOND LAFOND: Because it would  
23 help us to understand to the comparison between a  
24 facility built twenty (20) years ago, fifteen (15)  
25 years ago, and today and in the future.

1 MR. VINCE WARDEN: Yes. And, you know,  
2 I could have also given you Limestone, which, in the  
3 2012 cost per kilowatt hour comparison, was one point  
4 eight (1.8) cents. So the one point eight (1.8) cents  
5 would be comparable to the seven point eight (7.8)  
6 cents for Pointe du Bois.

7 But, Mr. Lafond, in response to your --  
8 your question though, we will take an undertaking to  
9 provide the operating costs of all existing generating  
10 stations on Manitoba Hydro's system at this time.

11 MR. RAYMOND LAFOND: And to the point,  
12 for instance, total expenses of -- except for the  
13 distribution, but transmission coming in, et cetera,  
14 would be all included?

15 THE CHAIRPERSON: Now, some of these  
16 questions as you're going -- will appreciate will be  
17 germane to a future NFAAT process. Now, I guess one  
18 (1) of my interests, looking forward -- not today, but  
19 looking forward -- would be trying to establish what  
20 the returns have been on some of those dams over time,  
21 because I think that gives a better picture of the  
22 economic reality of those investments.

23 And so I guess what I'm trying to  
24 understand is, for example, Wuskwatim is not going to  
25 be profitable initially. And that should be factored

1 into a picture of what the potential return might be  
2 from Wuskwatim over time, given that in the initial  
3 years it probably won't be profitable venture.

4                   What I'm trying to get at -- and this is  
5 not for today -- I think we need to understand what  
6 kind of return we can expect if you're going to be  
7 making these kinds of investments. What's the  
8 potential return on -- over time for some of these  
9 structures, net of all costs? So in any case, it's not  
10 for today.

11                   Do we have any other -- do you have any  
12 questions? No.

13                   MR. VINCE WARDEN: Can I just -- sorry,  
14 just to be clear on that last undertaking for Mr.  
15 Lafond, the allocation of transmission would be a  
16 little bit more difficult. We'd have to make a lot of  
17 assumptions to allocate transmission to the generating  
18 station.

19                   So I think, if it's okay with you, maybe  
20 as a starting point, we can give you the operating  
21 costs for each generating station. And then you can  
22 make -- make a determination at that point whether it  
23 meets your -- your needs.

24                   MR. RAYMOND LAFOND: Well, I -- I think  
25 I -- I would agree with that. But somehow, at the end

1 of the line, I would like to have -- see all expenses.  
2 And those that cannot be allocated easily without any  
3 kind of arbitrary assumptions -- just in total for all  
4 the plant so that we can see the total expenses of  
5 Manitoba Hydro as best as they can be allocated by  
6 source of generation, and then those that cannot be  
7 allocated, that at least we see in total.

8 MR. VINCE WARDEN: Yeah. And -- and,  
9 Mr. Lafond, now I think we're getting into the cost of  
10 service study a little bit, because that's what the  
11 cost of service study does. It shows the cost of  
12 generation, transmission, distribution, administration,  
13 breaks that out and shows what kind of -- how that  
14 compares to the -- the revenues that are being received  
15 for -- applicable to those -- those costs -- recovery  
16 of those costs.

17 But that'll be clear in the cost of  
18 service study, which will be another proceeding. I  
19 will ensure though that, for purposes of this  
20 undertaking, that you -- you are totally aware of what  
21 the costs of generating stations are, including all  
22 costs that are allocated to those generation station,  
23 all overheads.

24 MR. RAYMOND LAFOND: I'll accept that.

25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Yes, I think the  
4 undertaking is that Manitoba Hydro will provide the  
5 costs -- unit costs of all existing generating stations  
6 on Manitoba Hydro's system.

7

8 --- UNDERTAKING NO. 42: Manitoba Hydro to provide  
9 the unit costs of all  
10 existing generating  
11 stations on Manitoba  
12 Hydro's system

13

14 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

15 MR. BOB PETERS: Thank you, Mr.  
16 Chairman. I too wish all gathered and listening the  
17 best of the new year. Mr. Warden, in an effort to  
18 assist the Board with your last undertaking, did your  
19 calculation of in-service costs include any allocation  
20 of internally generated funds?

21 MR. VINCE WARDEN: No, it did not.

22 MR. BOB PETERS: So it assumed the full  
23 capital costs for purposes of interest and  
24 depreciation?

25 MR. VINCE WARDEN: That's correct, Mr.



1 Peters.

2 MR. BOB PETERS: And in terms of  
3 bringing the calculation back to 2012, as you indicated  
4 Manitoba Hydro has done, can you explain to the Board  
5 how you did that, how Manitoba Hydro did that?

6

7 (BRIEF PAUSE)

8

9 MR. VINCE WARDEN: So we have for -- in  
10 the case of Pointe du Bois powerhouse and transmission,  
11 we have an in-service cost of \$1.6 billion, I believe  
12 is the number. Just one (1) minute please, Mr. Peters.  
13 I just want to confirm that.

14

15 (BRIEF PAUSE)

16

17 MR. VINCE WARDEN: Yes, Mr. Peters. I  
18 just wanted to confirm that -- that in-service cost.  
19 So the in-service cost of Pointe du Bois, including  
20 transmission, is 1.6 billion. We simply took a present  
21 value of that number back to -- sorry, back up a step.

22

23 We -- we determined what the annualized  
24 payment is necessary to -- to amortize that capital  
25 cost over a sixty-seven (67) year life; looked at the  
annual generation that comes out of Pointe du Bois,

1 which is 900 gigawatt hours; came up with an in-service  
2 cost of eleven point one (11.1) cents per kilowatt  
3 hour. So that's in-service in two (2) thou -- in the  
4 year 2030. And then present value, that eleven point  
5 one (11.1) cents to 2012.

6 MR. BOB PETERS: Was the provincial  
7 debt guarantee fee included in your calculation, Mr.  
8 Warden?

9 MR. VINCE WARDEN: Yes, the -- we --  
10 again, we used an assumption of 6 percent interest,  
11 which would include the debt guarantee fee.

12 MR. BOB PETERS: Five (5) percent long  
13 term, plus 1 percent provincial debt guarantee fee?

14 MR. VINCE WARDEN: That's right. And  
15 for this purpose, you know, we used 6 percent across  
16 all -- for all generating stations and -- yeah.  
17 Although not precisely what our current borrowing costs  
18 are, it -- it's very close.

19 MR. BOB PETERS: And as I understood  
20 your undertaking to Board member Lafond, you're going  
21 to provide the detailed calculation of in-service costs  
22 and bring them to 2012 for all of the generating  
23 stations of Manitoba Hydro?

24 MR. VINCE WARDEN: Yes, we will show  
25 the current operating costs for the fourteen (14)

1 generating station -- hydraulic generating stations  
2 that we currently have on the system. I guess that's  
3 fifteen (15) with Wuskwatim, actually.

4 MR. BOB PETERS: And when you say,  
5 "operating costs," but do you also mean the in-service  
6 unit cost of energy that's going to be produced by each  
7 of those stations?

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

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: And I just want the  
13 Board to be aware, Mr. Warden, that when you used a 6  
14 percent interest calculation to -- to bring the present  
15 value back to 2012, that's an approximate interest  
16 rate, not -- not based necessarily on what actual  
17 interest rates will be for the particular station?

18 MR. VINCE WARDEN: Yes, that's right.  
19 It -- it was used to represent what the interest rates  
20 -- we, you know, don't know, of course, what the  
21 interest costs will be in 2030. But -- but for  
22 purposes of comparing one (1) generating station to --  
23 to the other, we used the same rate across -- across  
24 all.

25 MR. BOB PETERS: It's just that your

1 IFF12 used -- shows a higher interest rate going  
2 forward than -- than what you've just indicated. But  
3 you're rounding it to provide a comparison based on --

4 MR. VINCE WARDEN: Yeah, this is -- for  
5 a scenario analysis purposes, as long as we're using a  
6 consistent rate which is representative, yeah, that's  
7 considered -- that's what we did.

8 MR. BOB PETERS: Thank you, Mr. Warden.  
9 Mr. Chairman, if that completes the undertakings, and I  
10 -- I would like to step back and do some procedural  
11 housekeeping matters that I -- that I -- if the Board  
12 would indulge me, please.

13 Earlier this morning -- there is an  
14 orange or coral-type colour calendar of the month of  
15 January of 2013 provided to the Board and also to  
16 counsel. This is a copy of a calendar that had been  
17 circulated in December after counsel had met. And I  
18 wanted to run the Board through it. And, also, I will  
19 invite counsel who participated in the meeting, if they  
20 have any points to make that I have failed to make,  
21 that they're welcome to -- to get to the microphone and  
22 -- and provide them to the Board.

23 The concern of -- of the Board, Mr.  
24 Chairman and Board members and all parties, is that the  
25 Board's availability to conclude this General Rate

1 Application was prescribed by the -- the dates that had  
2 been previously provided. We were looking, once we  
3 were underway of the hearing -- and I think we've sat  
4 for seven (7) days already -- to see how the -- the  
5 hearing would unfold.

6 So what the Board sees in front of them,  
7 starting today, Manitoba Hydro's revenue requirement  
8 panel is back. And, quite frankly, the revenue  
9 requirement panel will be -- will be the panel that  
10 Manitoba Hydro brings back and forth to fill in the  
11 dates as required.

12 You will see, starting tomorrow, that  
13 there will be a new panel before the Board to  
14 accommodate Manitoba Hydro's witnesses. The rates  
15 panel, speaking primarily on rates issues as well as  
16 diesel, will be available for a couple of days. And  
17 not only the Board, but all other parties will ask  
18 their questions of that panel and complete that panel.

19 It's envisioned that Manitoba Hydro's  
20 demand-side management witnesses will be available  
21 starting on the 3rd of January. And it was hoped that  
22 the DSM panel would be concluded certainly before the  
23 Intervenor witnesses come the following week.

24 So the DSM panel was -- is slated for  
25 Thursday/Friday. And we boldly also indicated that it

1 would be available on Saturday, because the Board had  
2 indicated an availability to sit on Saturdays if  
3 required. I should indicate that one (1) of Manitoba  
4 Hydro's witnesses -- I believe, Mr. Miles -- will not  
5 be available on that date. So we will have to work  
6 around that issue.

7                   Next week, Mr. Kennedy will return on  
8 the Monday. He has a number of undertakings that have  
9 -- I shouldn't call them undertakings. While there are  
10 some undertakings that I haven't checked to see which  
11 ones are answered -- filed this morning, there also  
12 were some pre-ask questions over the holiday season  
13 that our friends from MIPUG had advanced. And there  
14 were also some undertakings to CAC/MSOS.

15                   I believe Mr. Kennedy's evidence will  
16 conclude in one (1) day, and that will include  
17 primarily MIPUG's questioning and possibly some -- some  
18 questions from CAC. The revenue requirement panel  
19 would be called back to fill in the time on the 15th of  
20 January.

21                   And then on the 16th and the 17th, we  
22 would proceed to Intervenor witnesses. We would expect  
23 Mr. Chernick would take all day on the 16th. The day  
24 will also include presentations just after the lunch  
25 hour by, I believe, two (2) representatives of MIPUG

1 that would like to come and address the Board with a  
2 presentation. That isn't expected to be lengthy, but  
3 that would take place right after lunch.

4 MR. ANTOINE HACAULT: Mr. Peters, on  
5 that, it may be that the presenters would be the day  
6 before. But I'll speak to you further on that.

7 MR. BOB PETERS: Yes, thank you, Mr.  
8 Hacault. On the 17th of January, it's envisioned and  
9 scheduled that Mr. Dunsky will be in town to testify on  
10 behalf of the Consumers Association of Canada (Manitoba  
11 Chapter) as well as testifying on behalf of the Green  
12 Action Centre.

13 And following his testimony on the 17th,  
14 it's envisioned that the revenue requirement panel  
15 would be available again on the 18th, and perhaps even  
16 the 19th, should that be required and requested by the  
17 Board. It's envisioned that the following week, to the  
18 extent only needed, it would clean up with any further  
19 questions of the revenue requirement panel and also to  
20 deal with MIPUG's witness evidence.

21 I've kept only a rough scorecard, Mr.  
22 Chairman, and the schedule does include a couple of  
23 extra days -- maybe as many as two (2), up to three (3)  
24 days -- that are before you that -- that, based on the  
25 time estimates, we will not need. So I'm optimistic

1 that the evidence certainly can be finished within the  
2 calendar shown to you.

3                   The complication becomes, quite frankly,  
4 the Board's availability and counsel's availability on  
5 dealing with closing submissions. Counsel has repeated  
6 their request that they be allowed some opportunity  
7 following the close of evidence to collect their  
8 thoughts, to review transcripts and documents,  
9 undertakings and responses, to provide closing  
10 submissions.

11                   And Manitoba Hydro also would prefer at  
12 least one (1) clear day after hearing from Intervenors  
13 to ensure that their closing submissions join all  
14 issues and provide Manitoba Hydro's response to that.

15                   So I put this before the Board today. I  
16 will caucus with the Board and find out the Board's  
17 availability in February for closing submissions. And  
18 I do recognize that it is limited. And that being the  
19 case, that may dictate whether -- whether we sit later  
20 some evenings and whether the weekend dates that are  
21 prescribed will, in fact, be used.

22                   So with those comments, Mr. Chairman,  
23 we'll -- we'll keep our hand on the pulse of the  
24 schedule. And we'll -- we'll work to make sure that we  
25 conclude the schedule in the availability of the Board,



1 as well as the parties. If I've left any comments out  
2 that counsel wish to provide, I'd invite them to jump  
3 on the microphone before I continue.

4

5

(BRIEF PAUSE)

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: All right. Hearing  
9 none, I want to turn to Mr. Warden and Mr. Rainkie.  
10 And hopefully they didn't re-gift Board counsel's  
11 Volume II of the book of documents, PUB Exhibit 14.  
12 Tab 17, Mr. Rainkie, is approximately where we  
13 concluded. Yourself and Mr. Warden were providing  
14 responses to the Board.

15 We had dealt with some issues,  
16 particularly the impact on retained earnings. And I  
17 think we came to common ground that Manitoba Hydro, in  
18 the test years, was not proposing to write off rate-  
19 regulated assets against retained earnings. That would  
20 be a matter that the Corporation is contemplating doing  
21 in fiscal -- in -- in the fiscal years following the  
22 two (2) test years of this General Rate Application.

23 Have I got that right?

24 MR. DARREN RAINKIE: You have, Mr.  
25 Peters. And just maybe one (1) piece of information

1 for the Board that happened subsequent to the last day  
2 of the hearing, is that the International Accounting  
3 Standards Board was meeting, I think, between Dece -- I  
4 want to say December 13 and 17. And it took to about  
5 December 20th to get some information on what happened  
6 at the meeting, at least to us.

7                   And they indicated that they are  
8 proceeding with looking at an interim standard with  
9 respect to rate-regulated accounting. Just -- we'll  
10 caution the Board once again that just -- that's their  
11 plan. If -- if they develop an interim standard, it  
12 would be exposed for public comment. And so you're  
13 never quite sure if it's actually going to get to  
14 fruition or not. But I don't think we had that  
15 information when we last spoke.

16                   But they now have decided to go down  
17 that path of an interim rate-regulated accounting  
18 standard, which may mean that we never have to write  
19 off those assets. I'll just leave it at that, Mr.  
20 Peters.

21                   MR. BOB PETERS: Well, no, I think --  
22 thank you for your last comment, or your last sentence,  
23 Mr. Rainkie, because what you're telling the Board is,  
24 for certain, rate-regulated accounting is permitted  
25 during the two (2) test years that are before this

1 Board?

2 MR. DARREN RAINKIE: That's right,  
3 because we've decided that we're going to defer any  
4 implementation of IFRS to 2014/'15. So that would  
5 bring that outside of the test years, Mr. Peters.

6 MR. BOB PETERS: And what you're  
7 telling the Board is while it is certain that -- that  
8 rate-regulated accounting is not -- is going to be  
9 permitted during the two (2) test years, it may be  
10 permitted longer, depending on the International  
11 Accounting Standards Board?

12 MR. DARREN RAINKIE: Yes, one (1) of  
13 the -- one (1) of the options in front of the Board is  
14 to grandfather existing practices for -- for a company  
15 -- for -- sorry, for countries that are trans --  
16 transitioning to IFRS until they develop a final  
17 standard. And the best information that we have right  
18 now is that they wouldn't develop a final standard  
19 until 2016 at the very earliest, I think.

20 So if the interim standard is exposed  
21 and approved by the International Board, then there  
22 would be at least, you know, a temporary period that we  
23 would be able to maintain rate-regulated accounting.  
24 And then we'll go through the process again with the  
25 final standard. They'll develop one. They'll expose

1 it and see what the public comments are. And they'll  
2 either decide to finalize it or not.

3 So it's -- it looks like we have a few  
4 more years of this continuing question, based on the  
5 information we have right now.

6 MR. BOB PETERS: I was going to make  
7 some flippant comment about lawyers always being blamed  
8 for delays, Mr. Rainkie, but I think this one the  
9 accountants... What -- what you're telling the Board  
10 -- when you say, "grandfathered," does that -- does  
11 that potentially mean that, for Manitoba Hydro, who has  
12 used rate-regulated accounting, the grandfathering  
13 could continue in perpetuity?

14 MR. DARREN RAINKIE: Well, I'm not sure  
15 in perpetuity. I think the -- the grandfathering, the  
16 reason it would be called an interim standard would be  
17 that we would be allowed to continue our current  
18 practices until they determined finally whether it's a  
19 go or not.

20 So that may give us a couple more years,  
21 until 2016. And then we'll have to see what happens,  
22 in terms of the final project, Mr. Peters. As I said,  
23 it's -- we're not able to predict whether the board  
24 will approve this in the final stages or not.

25 But, you know, I think there's -- it's a

1 positive sign, I think, developing an interim standard.  
2 But much like when this Board produces an interim  
3 order, it says it's not the final order. It's the same  
4 -- it's the same caution there, that even we get to  
5 interim standard, it doesn't preclude them from  
6 changing their mind in a final standard.

7 MR. BOB PETERS: Perhaps a good  
8 analogy, Mr. Rainkie. Mr. Rainkie, would it be --  
9 would it be possible for Manitoba Hydro to undertake to  
10 file written communications respecting the most recent  
11 decisions of the IASB with this Board?

12 MR. DARREN RAINKIE: I'm just -- I can  
13 take that undertaking, Mr. Peters. I'm not sure if --  
14 if the material -- this is just material from their  
15 website. I'm not sure if it's copyrighted or not. But  
16 if we can't provide the actual physical material, we  
17 can certainly point you to the -- to the link. But I  
18 just would have to check whether it's copyrighted and -  
19 - or not.

20 MR. BOB PETERS: Well, then plea --  
21 please would -- that would be appreciated, I think, Mr.  
22 Rainkie. Can you also indicate at this time to the  
23 Board whether Manitoba Hydro has received any  
24 information it can file with this Board from your  
25 external auditors related to this issue?

1 MR. DARREN RAINKIE: No, no additional  
2 information. I think everybody's still digesting what  
3 came out of the International Accounting Standards  
4 Board meeting, Mr. Peters. So I think everybody is  
5 referencing that same one (1) or two (2) pages that's  
6 on the International Board's website that's saying that  
7 they've -- they're proceeding to develop an interim  
8 standard.

9 MR. BOB PETERS: Thank you for that  
10 undertaking, Mr. Rainkie. And we'll await to see if  
11 you can provide the written material from IASB related  
12 to their interim standard for rate-regulated accounting  
13 or whether you will only be able to provide the Board  
14 with a link, and then the Board can access it from that  
15 venue.

16

17 --- UNDERTAKING NO. 43: Manitoba Hydro provide the  
18 written material from IASB  
19 related to their interim  
20 standard for rate regulated  
21 accounting or a link to the  
22 information

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Mr. Rainkie, back at

1 Tab 17 of the book of documents, on page 194, maybe  
2 just to close off on this topic -- and thank you for  
3 that update -- in terms of the treatment of rate-  
4 regulated assets and liabilities, what we see on pages  
5 194 and 195 of PUB Exhibit 14 is that different  
6 jurisdictions are treating the issue differently, as it  
7 were, both respecting regulatory purposes as well as  
8 external reporting purposes, sir?

9 MR. DARREN RAINKIE: Yes, Mr. Peters,  
10 different jurisdictions have had -- developed different  
11 approaches to this issue. But just -- just to make  
12 sure we're clear, I think when I -- when I look through  
13 the pages that have been reproduced here, probably in  
14 most of the circumstances it hasn't resulted in dif --  
15 differences between financial reporting and regulatory  
16 reporting.

17 And it was just that last part of your  
18 question I wanted to make sure we were clear on, is  
19 that almost invariably -- and I -- I can't say that  
20 I've looked at every jurisdiction across the country --  
21 is that if a utility has moved, let's say, to US GAAP  
22 for its financial reporting purposes, it has asked for  
23 and almost invariably received approval from its regu -  
24 - regulator to use the same framework for -- for  
25 regulatory purposes, so. There might be one (1) -- one

1 (1) exception. I'm not sure about ATCO Electric and  
2 ATCO Gas.

3 But, you know, we talked about -- before  
4 the break about, you know, the principles about this.  
5 And I think the principle has been -- really, has  
6 developed into each ind -- individual utility looking  
7 at their circumstances, determining what makes sense  
8 for them and their customers, and then going to the --  
9 their respective board and asking for whatever they  
10 need, in terms of approvals. But I think there's been  
11 a real push in the industry to tie -- to try to keep  
12 one (1) set of books, if you like, between financial  
13 reporting and regulatory report -- reporting.

14 So the information we've looked at and  
15 my staff has looked at, when -- when companies have  
16 changed their financial reporting framework they've  
17 asked their regulator to use that for -- for finan --  
18 for regulatory and rate-setting purposes just because  
19 of the confusion and cost of having two (2) sets of  
20 books.

21

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: Mr. Rainkie and Mr.



1 Warden, would I be correct in suggesting that, as  
2 initially filed, Manitoba Hydro's GRA based on IFF11-2,  
3 accounting changes were a significant driver of the  
4 rate increase requests?

5 MR. VINCE WARDEN: No, Mr. Peters, I  
6 wouldn't agree with that. It's more so the -- the  
7 situation in the export market that would drive rate  
8 increases and -- or at least the rate increases we're  
9 seeing, together with increased cost of maintenance  
10 associated with the aging infrastructure issues. So,  
11 no, accounting changes would not have been driving the  
12 rate increase.

13 MR. BOB PETERS: Well, let's just  
14 explore that a bit further with the Board, Mr. Warden,  
15 by turning to Tab 18 of the book of documents and  
16 looking at Appendix 5.6 on page -- page 199 of PUB  
17 Exhibit 14. And perhaps, Mr. Rainkie and Mr. Warden,  
18 we can -- we can work through that by -- by -- let's  
19 review with the Board the accounting changes that  
20 Manitoba Hydro has already made. And let's start with  
21 2009/'10.

22 Am I correct, gentlemen, that back in  
23 twen -- in 2009/'10, Manitoba Hydro wrote off to  
24 operating costs certain previously capitalized costs?

25 MR. VINCE WARDEN: Yes.

1 MR. BOB PETERS: And they're listed  
2 there as the stores overheads, executive costs, and  
3 property taxes on facilities, correct?

4 MR. VINCE WARDEN: Correct.

5 MR. BOB PETERS: And -- and so that \$9  
6 million back in '09/'10 became an additional revenue  
7 requirement in Manitoba Hydro's cost of service?

8 MR. VINCE WARDEN: Well, we -- you  
9 know, we haven't talked cost of service yet, but yes,  
10 that would -- that -- that additional -- that \$9  
11 million would find its way into operations, whereas  
12 previously it was charged to capital.

13 MR. BOB PETERS: And likewise, these  
14 planning -- there's a -- there's an item called  
15 "intangible assets ineligible for capitalization". And  
16 if memory serves -- and it might not -- Mr. Warden,  
17 that related to planning studies?

18 MR. DARREN RAINKIE: Yeah, that --  
19 primarily planning studies. There was some, I think,  
20 some write-off of IT costs as well, Mr. Peters, and  
21 that. But the largest chunk was planning studies.

22 MR. BOB PETERS: And that was no longer  
23 eligible for capitalization, Mr. Rainkie?

24 MR. DARREN RAINKIE: That's right. We  
25 made that change when the new -- the Canadian

1 accounting standard on goodwill and intangible assets  
2 came into being.

3 MR. BOB PETERS: And the  
4 reclassification at the bottom part of the chart that  
5 netted out to \$1.94 million, that again was Manitoba  
6 Hydro's reclassification of -- of accounts and  
7 expenses, Mr. Rainkie, that it decided to -- to bring  
8 to the operating statement, as opposed to -- I suppose,  
9 previously having it capitalized?

10 MR. DARREN RAINKIE: Well, Mr. Peters,  
11 what we need to make sure of is that this -- this  
12 particular schedule that we're looking on, on page 199,  
13 is changes to operating costs, right? They're not all  
14 of the accounting changes. This is just changes to  
15 operating costs. And so, for instance, the  
16 reclassification of the funding payments for the Town  
17 of Gillam and schoo -- the Frontier School Division,  
18 they would be moving from operating costs to capital  
19 costs. So there's no income statement effect, if you  
20 like, or revenue requirement effect of that particular  
21 change.

22 Sorry, Mr. Peters. I said, "Capital  
23 costs." That should be capital and other taxes.

24 MR. BOB PETERS: Yes, thank you, Mr.  
25 Rainkie, for the clarification. The -- the accounting

1 actions that were made back in '09/'10 was a conscious  
2 effort by Manitoba Hydro to move away from what  
3 Manitoba Hydro called "full-cost accounting," Mr.  
4 Rainkie and Mr. Warden?

5 MR. DARREN RAINKIE: Well, the -- if  
6 you're looking at 2009/'10, the stores overhead was  
7 related to a new Canadian accounting standard for  
8 inventories that came into being in that particular  
9 fiscal year. And, you know, each year we do look at  
10 our overhead capitalized and make adjustments. We look  
11 at what's happening in the industry. So, yes, that --  
12 that's probably the start of us looking at what was  
13 happening in the utility industry and moving away from  
14 -- moving away from full-cost accounting.

15 But there are -- mixed in here is also  
16 some direct application of some new accounting  
17 standards that came into being under Canadian GAAP  
18 during that period, Mr. Peters.

19 MR. BOB PETERS: Would it also be  
20 correct, Mr. Rainkie, that those accounting changes in  
21 Canadian GAAP, it was also in anticipation of Manitoba  
22 Hydro's expectations of IFRS requirements?

23 MR. DARREN RAINKIE: Well, not just  
24 Manitoba Hydro's, but the Canadian Accounting Standards  
25 Board. I mean, people are not making accounting

1 changes that are inconsistent with IFRS. Of course,  
2 when -- and that goes with the stan -- the Canadian  
3 standard-setters as well. They have been implementing  
4 some of the IFRS sections early under Canadian GAAP.  
5 And so all of the changes that are on this page are  
6 consistent with, I think, IFRS in the end but are  
7 permissible under Canadian accounting standards.

8 MR. BOB PETERS: It would have also  
9 been permissible under Canadian accounting standards to  
10 continue to capitalize some of those expenditures that  
11 were brought to the operating statement, Mr. Rainkie?

12 MR. DARREN RAINKIE: No, Mr. Peters,  
13 I'm not sure I -- I share that perspective. As we've,  
14 you know, talked about over the last seven (7) or eight  
15 (8) days of the Hearing, there are some different  
16 accounting practices in the utility industry. And in  
17 my mind, when the accounting practices in the industry  
18 changes, Canadian GAAP in the industry changes.

19 It -- when you look out and you do  
20 research, as we do every year, into what's happening  
21 and you see changes happen out there, you have to make  
22 those changes. So -- ha -- when you go out and you do  
23 surveys and you look at what's happening, either for  
24 our normal business practice -- because we look at this  
25 every year. As well, we've been looking at this very

1 -- in very much detail in the last number of years  
2 because of IFRS has been impending for a number of  
3 years.

4                   When you get that information, overhead  
5 is a -- is a accounting estimate just like  
6 depreciation. And when you get that information, you  
7 have to make changes. And that's, you know, what we've  
8 essentially done over the last number of years, Mr.  
9 Peters.

10                   MR. VINCE WARDEN: I might just add to  
11 that, Mr. Peters. We were getting pressure from our  
12 external auditors as well. They were -- they had  
13 expressed discomfort with some of our full-cost  
14 accounting policies in the past. So we were strongly  
15 encouraged to move in this direction by our external  
16 auditors.

17                   MR. DARREN RAINKIE: Mr. Peters, you  
18 might also recall that the Board, in Order 116/08, made  
19 a recommendation to Manitoba Hydro that we look at our  
20 overhead practices. And they actually, in that  
21 recommendation, said that we should sit down and talk  
22 with our IFRS advisors and -- as well as our external  
23 auditors about this sit -- about the issues. So if you  
24 go back to that order, you'll -- you'll see that  
25 recommendation as well.

1 MR. BOB PETERS: Mr. Warden, where will  
2 the Board see the recommendations, or the strong  
3 recommendations, from the external auditors? That's  
4 not contained in the financial report, is it?

5 MR. VINCE WARDEN: The financial  
6 report, Mr. Peters?

7 MR. BOB PETERS: The -- the annual  
8 report.

9 MR. VINCE WARDEN: Oh, the annual  
10 report, sorry. No, it's not in the annual report. But  
11 we certainly have received that from our external  
12 auditors, both verbally and in some written  
13 communication that we received from our external  
14 auditors, as well as part of management.

15 Whether the external auditors would be  
16 willing to put that on the record or not, I would have  
17 to double check with them. But -- but that -- it is --  
18 it is definitely there.

19 MR. BOB PETERS: Well, then could you  
20 undertake to check with your external auditors and, to  
21 the extent possible, provide to this Board the -- the  
22 advice or the pressure or strong recommendations that  
23 you've indicated have been made by them with respect to  
24 Manitoba Hydro's accounting practices?

25 MR. VINCE WARDEN: Yes, we'll undertake

1 to do that, Mr. Peters.

2

3 --- UNDERTAKING NO. 44: Manitoba Hydro to provide  
4 the advice or the pressure  
5 or strong recommendations  
6 by external auditors with  
7 respect to Manitoba Hydro's  
8 accounting practices

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Yes, thank you for  
12 that, sir. Mr. Warden, were the expenditures necessary  
13 for the capital projects to which they were originally  
14 charged?

15

16 (BRIEF PAUSE)

17

18 MR. VINCE WARDEN: Yes, absolutely.  
19 All expenditures by Manitoba Hydro are prudently  
20 incurred. What -- it's a question of whether or not  
21 they would be charged to capital or operating. But,  
22 yes, absolutely.

23 MR. BOB PETERS: And knowing that these  
24 costs were no longer going to be capitalized, could  
25 Manitoba Hydro have either cut out these expenses or



1 reduced them further?

2 MR. VINCE WARDEN: No. No, it had  
3 really nothing to do with the cost control part of our  
4 business. Those costs, as I mentioned, were all  
5 prudently incurred.

6 MR. BOB PETERS: So Manitoba Hydro's  
7 only response was to then move these costs to the  
8 operating statement?

9 MR. VINCE WARDEN: Yes, and -- and all  
10 costs, whether they are capital or operating, are --  
11 are subject to cost cons -- ongoing cost constraint  
12 measures.

13 MR. BOB PETERS: I was just thinking  
14 further of Mr. Rainkie's comments this morning. Would  
15 it be correct to conclude that until the International  
16 Accounting Standards Board makes a final decision on  
17 rate-regulated accounting, Manitoba Hydro's own  
18 policies will not be finalized?

19 MR. VINCE WARDEN: Yes, our policies  
20 will be consistent with the International Accounting  
21 Standards Board. So that -- that's correct. We will  
22 not finalize until we're clear on what that direction  
23 is.

24 MR. BOB PETERS: And for regulatory  
25 purposes, those policies will be influenced by the

1 directives of this Board?

2 MR. VINCE WARDEN: Yes, to the extent  
3 that we have regulatory assets and liabilities, they  
4 will be influenced by the direction of this Board, yes.

5

6 (BRIEF PAUSE)

7

8 THE CHAIRPERSON: Could I ask a  
9 question at this point? I -- you know, I'm looking at  
10 page 199. And I recall a similar table that we -- we  
11 reviewed some days before this -- before today was --  
12 which -- which labelled some of the changes as being IF  
13 -- IFRS-related changes -- I don't know if you recall  
14 that table -- and identified some recent changes, even  
15 some current changes that related to -- to IF -- IFRS.

16 And I guess the question is: Those will  
17 stay in place, notwithstanding the fact that IFRS has  
18 been kicked ahead?

19 MR. DARREN RAINKIE: Yes, I think we  
20 engaged, Mr. Chairman, you and I, a little bit on this  
21 in one of the first few days of the hearings, that --  
22 that we use the term "IFRS related" to mean that they  
23 wouldn't have to be unwound under IFRS. They were --  
24 they -- they were permissible and required under  
25 Canadian GAAP, but they're consistent, ultimately, with

1 IFRS.

2 THE CHAIRPERSON: And -- and the fact  
3 that the -- and the fact that IFRS has been delayed,  
4 will -- will that entail further IFRS -- IFRS-related  
5 changes in the coming couple of years?

6 MR. DARREN RAINKIE: Yes, Mr. Chairman.  
7 In fact, I don't know if you can find it in your big  
8 stack of documents that were just filed, but if you  
9 look at Manitoba Hy -- Hydro Exhibit number 55, I think  
10 it is, which was the update of PUB/Manitoba Hydro First  
11 Round 42 Information Response, it will tell you, if you  
12 look under the 2015 column, which is the current date  
13 that we expect IFRS to be implemented for Manitoba  
14 Hydro.

15 If you go down the page, if you have it,  
16 sir, it would be page 2 of 13. If you go under -- if  
17 you go down underneath "IFRS changes" and you see the -  
18 - the line that says, "Adminis" -- "Admin in general,"  
19 you'll -- and if you move over to the 2015 column,  
20 you'll see that we're planning another re -- reduction  
21 of overhead capitalized of about \$37 million,  
22 commencing in 2014/'15.

23 And we -- in the original material that  
24 was in the Application that -- you would have seen that  
25 figure in the 2013/'14 column. But now that we've

1 deferred IFRS by one (1) year, that's been pushed into  
2 2014/'15.

3 MR. RAYMOND LAFOND: That -- this \$37  
4 million from 2015 would be, if I recall from reading  
5 somewhere else, the 17 percent of overheads actually  
6 cap -- being capitalized, versus 24 percent a few years  
7 ago?

8 MR. DARREN RAINKIE: We actually are  
9 back at -- at a 20 percent overhead rate. But what  
10 will happen under IFRS is that the overhead rate will  
11 disappear in its entirety. That pool of cost will no  
12 longer be -- be acceptable to be capitalized.

13 MR. RAYMOND LAFOND: I understand that.  
14 But you -- you were at twenty-four (24), went down to  
15 seventeen (17), and now back up to twenty (20)?

16 MR. DARREN RAINKIE: Yeah, it's -- we -  
17 - we -- that's true. It's a bit counterintuitive.  
18 What -- what we did is we -- we could allocate overhead  
19 in the company through two (2) -- on two (2) bases: one  
20 (1) through our activity rates and one (1) through our  
21 overhead rate.

22 So our activity rates are a buildup of  
23 salaries and benefits and other costs in a particular  
24 department. And then our overhead rates, we segregate  
25 certain costs into our overhead pools and develop an

1 overhead rate to be applied.

2                   So as part of our preparations, if you  
3 like, to be IFRS compliant, what we did is we moved any  
4 costs out of our activity rates that would no longer be  
5 IFRS compliant into our overhead pool so that when we  
6 do our comparative reporting, we -- we can track those  
7 costs so that now all of -- all of the costs that will  
8 no longer be eligible for capitalization have been  
9 moved into our overhead pool.

10                   And that resulted in rate increasing a  
11 little bit again. It's kind of a counterintuitive  
12 result. And you have to kind have almost been part of  
13 the company to understand why.

14

15 CONTINUED BY MR. BOB PETERS:

16                   MR. BOB PETERS: Mr. Rainkie, to assist  
17 the Chairman in his deja vu moment, page 20 of Mr.  
18 Warden's Exhibit Manitoba Hydro-15, it was a coil-bound  
19 PowerPoint presentation that had slides on it. And I'm  
20 just wondering if this was the -- this -- this is the  
21 only chart I could think of that may have been  
22 discussed previously with the Chairman. And I -- I may  
23 be incorrect on that.

24                   But does that not also depict some of  
25 the same information that we're going over at this

1 time, sir?

2 MR. DARREN RAINKIE: Did you say page  
3 20, Mr. Peters?

4 MR. BOB PETERS: Slide 20.

5 MR. DARREN RAINKIE: Yeah. Yeah, that  
6 -- that has been updated for IFF12. But unfortunately,  
7 we don't have the 2014/'15 year, which is where IFRS  
8 would be implemented. But we do have this similar  
9 chart in that PUB -- that revised PUB/Manitoba Hydro-1-  
10 42 that we just looked at, Mr. Peters.

11 MR. BOB PETERS: Yes. And -- and, Mr.  
12 Rainkie, you'll note then -- the Chairman will note  
13 that starting on page 200 of Board counsel's book of  
14 documents is -- is a copy of Manitoba -- is a Public  
15 Utilities Board Information Request First Round 42 to  
16 Manitoba Hydro and the, then, response.

17 And Mr. Rainkie was obviously busy over  
18 the Christmas recess, not just resolving the NHL  
19 dispute, but filing a new document that contains the  
20 updated information based on the current information  
21 that Manitoba Hydro has.

22 MR. DARREN RAINKIE: That's correct,  
23 Mr. Peters. I -- I slept with this stuff under my  
24 pillow.

25 MR. BOB PETERS: Yes. You are under

1 oath. Mr. Rainkie, let's take the Board to -- let's  
2 stay on page 199, because I think we can, with a sharp  
3 pencil, show the Board exactly the point that you had  
4 made with Board member Lafond and the Chairman.

5 Turning to 2010/2011, the actual  
6 results, Mr. Rainkie, in addition to the changes made  
7 in the previous year, Manitoba Hydro made an additional  
8 \$19 million of items being charged to current expenses,  
9 correct?

10 MR. DARREN RAINKIE: Yes, that's the  
11 total of those three (3) changes you see there, Mr.  
12 Peters.

13 MR. BOB PETERS: Yes. And the three  
14 (3) changes between fiscal '10 and fiscal '11 amounted  
15 to \$19 million.

16 And, again, these were expenses that had  
17 previously been capitalized by the Corporation?

18 MR. DARREN RAINKIE: That's correct.  
19 Now they will be operating costs.

20 MR. BOB PETERS: And this time the  
21 change was made in anticipation of IFRS?

22 MR. DARREN RAINKIE: No, Mr. Peters, it  
23 -- it -- this change, I think, resulted from us doing  
24 our normal practise of looking at what's happening in  
25 the utility industry, in terms of overhead capitalized

1 practices. Certainly we were taking a much more  
2 comprehensive look at that issue because we were  
3 getting ready for IFRS. But the changes that are made  
4 here are not early implementation of IFRS; they are  
5 just changes that are consistent with what we saw going  
6 on in the utility industry in Canada under Canadian  
7 General Accepted Accounting Principles.

8           As I mentioned to the Chairman a few  
9 minutes ago, they won't have to be unwound when we move  
10 to IFRS; they certainly are consistent with IFRS. But  
11 they were driven by us looking at what's happening in  
12 the industry and making a change. As I -- as I  
13 mentioned, overhead is an accounting estimate, so when  
14 you -- just like depreciation, when you find  
15 information that's different than your current practise  
16 you are required professionally to -- to implement  
17 those changes.

18           MR. RAYMOND LAFOND:    Could I assume  
19 that, on that column, one (1) of the major elements of  
20 this addition of \$29 million would be the \$11 million  
21 for interest on common assets, facilities and  
22 equipment, and that would correspond to the opening or  
23 putting into service the new building?

24           MR. DARREN RAINKIE:    No, this -- this  
25 would be -- it wasn't driven by the new building. What



1 -- what it would be is all of our common assets that we  
2 have, all -- so it would be 360 Portage, it would be  
3 our Taylor Avenue, it would be warehouses, it would be  
4 all common assets that we have across our whole  
5 company.

6 MR. RAYMOND LAFOND: Thank you.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Mr. Rainkie, would it  
10 not also be correct that Manitoba Hydro could have  
11 continued to capitalize these expenses?

12 MR. DARREN RAINKIE: No, Mr. Peters, I  
13 -- I don't -- I don't think so. As I just mentioned,  
14 we -- we're doing infa -- surveys of what was happening  
15 in the utility space and we found that other companies  
16 weren't capitalizing these types of costs, and that  
17 together with the review by our auditors, as Mr. Warden  
18 mentioned, as well as, you know, taking into  
19 consideration the previous views of this Board in terms  
20 of our capitalization practices, we decided to make  
21 those changes under a Canadian GAAP.

22 So in my mind if they're -- if -- if  
23 you're capitalizing these types of cost in the first  
24 place because of industry practices, when those  
25 industry practices change then in my mind Canadian GAAP

1 changes. You know, I -- I hope that -- that  
2 perspective is clear, Mr. Peters, because it's an  
3 important one. We can continue on this discussion if  
4 it isn't clear.

5 MR. BOB PETERS: Well, if -- if the  
6 Board directed, for rate-setting purposes, these items  
7 should continue to be capitalized then that would be an  
8 acceptable approach?

9 MR. DARREN RAINKIE: Are you -- are you  
10 saying hypothetically that the Board would direct those  
11 to be set up as a rate regulated asset? Is that --

12 MR. BOB PETERS: That's the -- that's  
13 the premise of the question.

14 MR. VINCE WARDEN: I think then, Mr.  
15 Peters, it would become a policy decision as to whether  
16 or not we did that. And Manitoba Hydro -- as you know,  
17 the Board has jurisdiction over rates, but not over  
18 accounting policies. So although we look to this Board  
19 to endorse our accounting policies, we don't look to  
20 this Board to approve or set our accounting policies.

21 MR. BOB PETERS: And to the extent that  
22 this Board determines that for rate-setting purposes  
23 those expe -- those expenses should continue to be  
24 capitalized to the projects that they were, then for  
25 rate-setting purposes the -- the pol -- the accounting

1 policy would -- would reflect that.

2 MR. VINCE WARDEN: Yes. And then we'd  
3 have a decision to make if we didn't agree that those  
4 costs should continue to be capitalized, and -- and  
5 that's certainly the position we've come to, and if the  
6 Board continued to be of the view that it should be  
7 capitalized then we would have the situation where we  
8 might require two (2) sets of books, which Mr. Rainkie  
9 has indicated earlier where we would definitely attempt  
10 to avoid at all costs.

11 MR. BOB PETERS: I think we've got that  
12 position, so thank you, Mr. Warden, for your response.

13 MR. DARREN RAINKIE: Mr. -- Mr. Peters,  
14 sorry, I'm --

15 MR. BOB PETERS: Yes, sir?

16 MR. DARREN RAINKIE: -- I -- I guess  
17 I'm having trouble following some of the train of  
18 thoughts. I don't disagree with what -- what Mr.  
19 Warden said, but these changes were reviewed at the  
20 last general rate application. I think by the time  
21 that the end of the last GRA happened that we had  
22 indicated we were making some of these changes. And  
23 they were accepted by the Board for rate-setting in  
24 Order 5/12. And they were consistent with the previous  
25 directives of the Board in Order 116/08.

1                   So I'm -- I mean, it's an interesting  
2 theoretical discussion that we had about what would  
3 happen if the Board directed otherwise but, to me, the  
4 Board has looked at these changes and ruled on them.  
5 And -- and so I'm -- I'm having trouble with the source  
6 of the questioning, that the Board would unwind those  
7 at this point.

8                   I understand it's a hypothetical  
9 question, but, you know, I just wanted to point out  
10 that we've -- we -- these -- these in -- these changes  
11 have been out there for a number of years, and they  
12 seem to have been accepted for rate-setting purpose  
13 thus far.

14

15                   (BRIEF PAUSE)

16

17                   MR. BOB PETERS:   Mr. Rainkie, at the  
18 last general rate application that you referenced,  
19 there was a indication from Manitoba Hydro that a  
20 provision would be taken for another \$15 million of  
21 other charges for IFRS-related changes for the 2013  
22 fiscal year?

23                   MR. DARREN RAINKIE:   That's correct.  
24 That's what the provision was at -- at that point in  
25 time. I think it was 18 million one (1) year and 15 in

1 the next, but it was --

2 MR. BOB PETERS: Well, if we -- thank  
3 you, Mr. Rainkie. If the Board looks to the column on  
4 page 199 under the 2012/'13 year, the Board will see  
5 that the provision is -- isn't 15 million or 18; it's  
6 17.1 plus 9.5 million now, another \$26.6 million, Mr.  
7 Rainkie.

8 Have I got that right?

9 MR. DARREN RAINKIE: Well, Mr. Peters,  
10 if we moved -- if we're moving to the 2012/'13 changes,  
11 those are -- those are additional changes that we're  
12 proposing -- well, that we are implementing in  
13 2012/'13. So the original provision was never -- they  
14 weren't contemplated at that point in time. I was  
15 talking about the three (3) changes above, in terms of  
16 the provision.

17 MR. BOB PETERS: Okay, I -- I've got  
18 your point. What was taken as \$19 million in the  
19 previous GRA, Manitoba Hydro was estimating back then  
20 it was going to be 15 to \$18 million going forward?

21 MR. DARREN RAINKIE: That's correct.

22 MR. BOB PETERS: All right. And then  
23 now we see under the 2012/'13 column, there's an  
24 additional \$26 million of expenses that the Board has  
25 not, as you put it before, ruled on or considered,

1 correct?

2 MR. DARREN RAINKIE: That's right.  
3 They couldn't have because they didn't have that  
4 information until we filed this general rate  
5 application.

6 MR. BOB PETERS: Well, Manitoba Hydro  
7 didn't put it before the Board. You weren't aware of  
8 it at the last general rate application, or that was a  
9 decision made subsequent?

10 MR. DARREN RAINKIE: That's fair.  
11 That's right.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: And when we add the  
16 17.1 and the \$9.5 million, Mr. Rainkie, to the previous  
17 amounts, that generates the \$56 million of reduced  
18 capitalization that is now put forward to the operating  
19 statement?

20 MR. DARREN RAINKIE: That's right;  
21 related to the overhead capitalized item.

22 MR. BOB PETERS: And so, Mr. Warden,  
23 back to you. I asked you earlier to agree that  
24 accounting changes was contributing to the additional  
25 revenue requirement. And it appears that there's \$26.6

1 million of additional accounting changes that is  
2 contributing to additional revenue requirement?

3 MR. VINCE WARDEN: Yes, Mr. Peters,  
4 definitely contributing. I think your -- your  
5 proposition earlier though was that accounting changes  
6 were driving the rate increase, and I didn't agree with  
7 that.

8

9 (BRIEF PAUSE)

10

11 MR. DARREN RAINKIE: Mr. Peters, I  
12 mean, the other point perhaps we should make clear at  
13 this point, is that there's another accounting change  
14 that we've made that we've talked about previous, and  
15 that's the reduction in our service lives and the  
16 direct reduction in depreciation expense, which, if you  
17 look at Manitoba Hydro Exhibit number 55, was a  
18 reduction of expenses of 35 million in 2012 and we're  
19 forecasting a reduction of expenses in 2013 of 40  
20 million and 2014 of 44 million.

21 So just keeping in mind the sheet that  
22 we're on is the changes in operating costs, but there  
23 are other parts of our revenue requirement that are  
24 impacted by accounting changes. And, in my mind,  
25 depreciation and overhead are both accounting estimates

1 and they change over time, based on the information  
2 that you have. And we should take into consideration  
3 both of them in -- in thinking about our revenue  
4 requirements and not get fixated just on operating  
5 costs.

6 MR. BOB PETERS: But the point you're  
7 making Mr. Rainkie, is that there are some offsets to  
8 this increase; that's the -- that's the point you're  
9 trying to make?

10 MR. DARREN RAINKIE: Yes, if you're  
11 going to talk about accounting changes, let's make sure  
12 that the Board is apprised of the full picture and not  
13 just one (1) part of it, I suppose.

14 MR. BOB PETERS: And if we're talking  
15 about the accounting changes relating to the operating  
16 statements, we're -- we're dealing with a \$26.6 million  
17 additional request for the test years?

18 MR. DARREN RAINKIE: Well, whether it's  
19 an additional request, it's certainly an additional  
20 cost, Mr. Peters. In our cost of service rate-setting  
21 methodology, the -- the Board does not approve each  
22 line of our cost, or doesn't approve our accounting  
23 policies as Mr. Peters -- Mr. Warden indicated. What  
24 the Board has usually done is look at our revenue  
25 request and used cost as a guideline.



1                   But -- but I think what we're -- we're  
2 not accepting as a proposition that if costs increase  
3 one dollar (\$1), rates increase one dollar (\$1). We --  
4 we look at our financial targets on a go-forward basis  
5 and make our rate proposals, but it's not a dollar for  
6 dollar -- it's not like a rate-based rate of return  
7 type of scenario, Mr. Peters, and that's I think what  
8 we're trying to clarify here.

9                   MR. BOB PETERS:     Put another way,  
10 Manitoba Hydro can point to offsets to increases to --  
11 to come up with a net figure?

12                   MR. DARREN RAINKIE:    Yes. And there  
13 also is some judgement in the amount of revenue  
14 increase that we request, Mr. Peters. Just because a  
15 cost goes up doesn't mean we necessarily have to  
16 increase our rate -- rate -- rate increase. At least,  
17 that's the way it's worked in this jurisdiction  
18 historically.

19                   MR. BOB PETERS:     Maybe put another way,  
20 Mr. Rainkie. If the Manitoba Hydro didn't come in  
21 looking for an additional \$26.6 million of operating  
22 costs then the net income that was initially filed  
23 would have increased from -- would more than doubled  
24 from the 20 million that you'd filed up to \$46 million.

25                   MR. DARREN RAINKIE:    With that I guess

1 we get back to our previous discussion: Should we have  
2 withheld the reduction in depreciation expense?

3 MR. BOB PETERS: Well, is the only  
4 reason it's including is to offset this amount?

5 MR. DARREN RAINKIE: No, no, Mr.  
6 Peters. Both of these items, depreciation and  
7 overhead, are accounting estimates and they are  
8 reviewed each year by the Company and we make changes  
9 based on the best information we have.

10 MR. VINCE WARDEN: And, Mr. Peters, I  
11 think when it comes right down to it, as we've said  
12 many times, when we apply for a rate increase to this  
13 Board, we're balancing fiscal responsibility of  
14 Manitoba Hydro with customer sensitivity. So,  
15 regardless, I -- I believe the rate increase we -- is -  
16 - is -- to a large extent, and in fact historically at  
17 Manitoba Hydro, the rate increase has been drive by --  
18 more so, by customer sensitivity than as by fiscal  
19 responsibility.

20 We've always, for most of the time --  
21 years we've been before this Board, we've been striving  
22 to attain that financial structure which we -- we  
23 finally have achieved. But, going forward, we want to  
24 make sure that financial structure is maintained, and  
25 to maintain that we want to make sure that we have that

1 appropriate balance; that -- that the balance being  
2 between fiscal responsibility/customer sensitivity.

3 MR. BOB PETERS: Mathematically, if the  
4 operating costs were not increasing \$26.6 million, the  
5 rate in -- the rate increase request before this Board  
6 would be reduced by 2 percent?

7 MR. VINCE WARDEN: No, no, because we -  
8 - we think the rate increase that we're requesting  
9 before this Board takes into full account customer  
10 sensitivity. You can see from our financial forecast  
11 that our ratios are going to be declining substantially  
12 in -- over the next decade, and if we didn't have that  
13 customer sensitivity in mind we'd be asking for a much  
14 higher rate increase than we are today.

15 MR. BOB PETERS: Well, just to close  
16 that up then, Mr. Warden. Manitoba Hydro -- and it  
17 was discussed when your depreciation consultant was  
18 here -- Manitoba Hydro could remove net salvage value,  
19 that \$55 million additional cost, and adopt that policy  
20 early, if it so chose?

21 MR. VINCE WARDEN: Mr. Peters,  
22 depreciation -- and we'll be talking more about this  
23 when our witness returns -- but depreciation is an  
24 allocation of costs over future periods; recovery of --  
25 of the capital costs over future periods. So we would

1 not be looking at retroactively adjusting depreciation  
2 rates; that would just be contrary to all accounting  
3 principles to be doing that.

4 MR. BOB PETERS: But you could early  
5 adopt the issue of removing net salvage value from the  
6 depreciation expense item? And that would be something  
7 that wouldn't have to be unwound, or that wouldn't be  
8 contrary to external audit --

9 MR. VINCE WARDEN: And -- and we are  
10 proposing to do that, but in -- in conjunction with  
11 going to ELG method -- methodology depreciation, which  
12 largely offsets.

13 MR. BOB PETERS: The -- the point I was  
14 getting across, or trying to, Mr. Warden, was that  
15 those two (2) aren't linked together, other than  
16 Manitoba Hydro choosing to introduce them at the same  
17 time?

18 MR. VINCE WARDEN: Well, to some extent  
19 they're linked together, because if we were to remove  
20 net salvage value and -- and stay with ASL methodology,  
21 we would be looking at a much greater level of  
22 componentization of our assets than we have today. And  
23 -- and that, in itself, would move us more towards the  
24 ESL methodology of depreciation.

25 So I think we'd end up at the same

1 place, essentially.

2 MR. BOB PETERS: Let's move forward,  
3 looking at the 2013/'14 column on page 199. On mine,  
4 I've drawn a line under that \$9.690 million attributed  
5 to building depreciation and operating costs.

6 Is that the expense for the new office  
7 tower?

8 MR. DARREN RAINKIE: No, Mr. Peters,  
9 that -- much like the interest on common assets, that's  
10 the -- the depreciation part of -- of common assets and  
11 op -- and the related operating costs. So it's all of  
12 our common facilities; it's not related entirely to the  
13 new head office.

14 MR. BOB PETERS: All right. The  
15 request for -- for the fiscal '13 and the fiscal '14;  
16 for fiscal '14 has now changed, Mr. Rainkie, and those  
17 items starting with technical and soft skills training,  
18 all the way down to fleet and stores administration,  
19 there is an approximate \$37 million of additional costs  
20 that have now been referred out to fiscal 2015,  
21 correct?

22 MR. DARREN RAINKIE: Yes, that change  
23 would be made under IFRS now, in '14/'15.

24 MR. BOB PETERS: And that was the  
25 number you drew to the Chairman's attention a short

1 while ago when you introduced him to Manitoba Hydro  
2 Exhibit 55 on page 2, where you demonstrated that  
3 additional IFRS changes for administration and general  
4 would be \$37 million, out in that 2015 fiscal year?

5 MR. DARREN RAINKIE: Yes, those are the  
6 same -- same costs, Mr. Peters.

7 MR. BOB PETERS: And when we look at  
8 page 20 of Manitoba Hydro's Exhibit 15, which was the  
9 presentation by Mr. Warden and yourself, Mr. Rainkie,  
10 and others, the Board will also see that the rate-  
11 regulated accounts, which, coincidentally I guess, also  
12 total up to approximately \$37.6 million, those also are  
13 going to be deferred out to a subsequent test year, out  
14 to 2015, depending on what happens with the  
15 International Accounting Standards Board's interim  
16 ruling and exposure drafts?

17 MR. DARREN RAINKIE: You learn very  
18 quickly, Mr. Peters. That's correct.

19

20 (BRIEF PAUSE)

21

22 MR. RAYMOND LAFOND: Can I go back two  
23 (2) -- two (2) seconds for the building depreciation  
24 and operating costs? You said it is only partly to the  
25 head office.

1                   Would that not be the major component?

2 I mean, the building is what, amortized over fifty (50)  
3 years? And then the operating costs would be what, six  
4 dollars (\$6) a square foot times 700,000 square feet?

5                   MR. VINCE WARDEN:    Mr. Lafond, to be  
6 clear on this though, we're only -- what we're removing  
7 from capital and charging back to operating is -- is  
8 the portion of our buildings, and this is buildings  
9 across -- across the Corporation, the -- the portion of  
10 those buildings that were used for capital purposes.  
11 So all the -- to the extent that the building is used  
12 for operating purposes, it would already be included in  
13 depreciation expenses. Only that capital portion is  
14 being removed here.

15                  MR. RAYMOND LAFOND:    The portion of the  
16 depreciation that was capitalized?

17                  MR. VINCE WARDEN:    Correct.

18

19                                       (BRIEF PAUSE)

20

21                  MR. RAYMOND LAFOND:    And the IT  
22 infrastructure and related support, \$17 million, comes  
23 about all of the sudden in 2012/2013. Is this because  
24 of a replacement or -- or what? Like -- like that's an  
25 additional amount to previous years in terms of IT

1 expenses?

2 MR. DARREN RAINKIE: No, it's -- it's  
3 not a change in our operations. It's simply looking at  
4 whether or not those types of costs are being  
5 capitalized across the industry. And when we did that  
6 research we found that other companies -- or the  
7 utilities were not -- no longer capitalizing those  
8 costs, or had never been capitalizing them, so we also  
9 made that change, Mr. Lafond.

10 MR. RAYMOND LAFOND: Okay. Then I  
11 understand that the IT infrastructure and related costs  
12 prevly -- previously capitalized, that will not  
13 capitalized in the future?

14 MR. DARREN RAINKIE: That's correct.

15 MR. RAYMOND LAFOND: Thank you.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: Mr. Rainkie and Mr.  
19 Warden, I just want -- before I leave the rate-  
20 regulated accounts, the Board will see that Power Smart  
21 programs is the major component, at \$32 million  
22 approximately. The intention, if IFRS was adopted at  
23 this point in time in the 2014 fiscal year, would be to  
24 expense those items as opposed to capitalize them, or -  
25 - or depreciate them or amortize them over a ten (10)



1 year period?

2 MR. VINCE WARDEN: Correct.

3 MR. BOB PETERS: And if the Corporation  
4 was required to expense the IF -- I'm sorry, the  
5 demand-side management expenses in the year incurred,  
6 it would approximately equal the amount that's proposed  
7 to be written off here, correct?

8 MR. VINCE WARDEN: Yes, approximately  
9 tho -- those amounts equal each other.

10 MR. BOB PETERS: The new items that are  
11 found on page 20 of your presentation at Manitoba Hydro  
12 Exhibit 15, Mr. Warden, were expenses in the test years  
13 related to pensions and a change in the discount rate.

14 Do you recall that?

15 MR. DARREN RAINKIE: I recall it very  
16 vividly, Mr. Peters.

17 MR. BOB PETERS: Well, \$8 million in  
18 the first test year and 10 million in the second test  
19 year, Mr. Rainkie, were being added in to the operating  
20 statement, correct?

21 MR. DARREN RAINKIE: That's correct.  
22 Added in to operating costs, Mr. Peters.

23 MR. BOB PETERS: All right. From  
24 where?

25 MR. DARREN RAINKIE: Well, as a result

1 in the -- of the change in the discount rate, our  
2 pension obligation is now higher. So a reduction in  
3 the pen -- in the pens -- in the discount rate  
4 increases the obligation, and when you increase the  
5 obligation you increase the -- the cost that you  
6 recognize each year. So it's not coming from anywhere;  
7 it's a change in the discount rate, which is -- is  
8 resulting in increased current service costs.

9                   Now, when you increase the discount rate  
10 you also -- it also results in a actuarial loss on the  
11 obs -- obligation. That actuarial loss would be  
12 recognized in income under Canadian principles over the  
13 rem -- remaining employee service life.

14                   So those two (2) components will  
15 increase expense on a go-forward basis. That -- what  
16 seems like a simple change in a discount rate down will  
17 result in quite a large increase in operating expense--

18                   MR. RAYMOND LAFOND:    Would I simply  
19 summarize this on the basis of expected revenues from  
20 investments are going to be less, so, therefore, we  
21 need to meet the obligation through some other way?

22                   MR. VINCE WARDEN:    We haven't really  
23 changed our assumption with respect to a return on  
24 investments. We think -- well, the people that manage  
25 the investments think that we will return to the rate.

1 I believe it's 7 percent we're using in our assumption  
2 for -- for overall return on the pension fund. We  
3 think that -- or, again, the people that do this think  
4 that it's going to return to that over the long-term.

5 MR. RAYMOND LAFOND: So why the  
6 increase in obligation to -- to employees?

7 MR. DARREN RAINKIE: If you -- if you  
8 think about a present-value calculation, Mr. Lafond, if  
9 you reduce the discount rate, you get a high -- you  
10 have a higher value, right? If you take a stream of  
11 future -- what we're trying to do here is we're trying  
12 to say, What are the future payments to employees? And  
13 then you take a discount rate to figure out what the  
14 current obligation is.

15 If you reduce the discount rate,  
16 mathematically it increases the obligation. If you  
17 increase the obligation and then you're take -- you're  
18 taking that obligation and you're allocating it to each  
19 year as the employees render service, then you're  
20 increasing the cost.

21 MR. RAYMOND LAFOND: So what is that  
22 discount rate being used now? Or the decrease from  
23 what rate to what rate?

24 MR. DARREN RAINKIE: At the last fiscal  
25 year it was reduced from 6 1/2 percent to 5 1/4

1 percent.

2 THE CHAIRPERSON: Now, the actuarial  
3 loss is not reflected here, obviously. This is just  
4 the -- the operating loss, right? Or the -- pardon me,  
5 the increased operational costs based on the discount  
6 rate.

7 MR. DARREN RAINKIE: This figure takes  
8 into consideration both the increase in current service  
9 that we just talked about, as well as the fact that we  
10 will amortize that actuarial loss over time. So -- so  
11 this -- this figure is those two (2) -- those two (2)  
12 figures, essentially.

13 MR. RAYMOND LAFOND: So the number is  
14 how much being amortized over how many years?

15 MR. DARREN RAINKIE: Mr. Lafond, if you  
16 look in our financial statements under note 18 -- let  
17 me see if I can find it here. I think it's --

18 MR. VINCE WARDEN: Page 81 in Manitoba  
19 Hydro's annual report.

20 MR. DARREN RAINKIE: If you --

21 MR. RAYMOND LAFOND: Thank you. I have  
22 that.

23 MR. DARREN RAINKIE: If you look at  
24 page 80, you can -- and if you look under the Manitoba  
25 Hydro pension fund column 2012 and you go down, you'll

1 see that there was an actuarial loss of \$137 million in  
2 2011/'12. So that's the amount that we're talking  
3 about.

4 So what we've done is we've calculated  
5 the increase in current service and the amortization of  
6 that loss, and we've -- because part -- part of our  
7 employee benefits are capitalized, so we've -- you  
8 know, made provision for that. And then the figure  
9 that Mr. Peters was talking about is the net of that  
10 that would go to our operating costs.

11 If you look on page 80 -- 81 as well, it  
12 shows you all of the -- at the very bottom chart, it  
13 shows you the var -- the various pension and benefit  
14 assumptions that we've made.

15 MR. BOB PETERS: Mr. Rainkie, was the  
16 pension discount rate provided by your actuary?

17 MR. DARREN RAINKIE: Yes, Mr. Peters,  
18 it's provided by our actuary and it's based on  
19 calculations, particularly -- a particular methodology  
20 that's out on the marketplace.

21 MR. VINCE WARDEN: To be clear though,  
22 they are management's best-estimate assumptions, and  
23 the actuary provides advice to Manitoba Hydro as to  
24 what assumptions to use. And we can choose to use  
25 others if we -- if we decide to. However, this is --

1 this was in consultation with the actuary.

2 MR. BOB PETERS: Why wouldn't you use  
3 the same discount rate as you would for your present  
4 valuing? Your generating stations, for example?

5 MR. DARREN RAINKIE: Mr. Peters the --  
6 the reason there was a change in the discount rate was  
7 there was a clarification by the Canadian Institute of  
8 Actuaries late in our 2011/'12 fiscal year about how to  
9 apply the discount rate. And previously, we have had a  
10 discount rate that had both -- well, it was kind of a  
11 weighted average between bonds and equity.

12 And the clarification from the Canadian  
13 Institute of Actuaries -- and there were -- was  
14 professional accountants that sat on this task force --  
15 was that what you should be using is the yield, if you  
16 like, on high quality bonds, which I think is  
17 interpreted as being AA-rated bonds.

18 So this isn't a weighted average cost of  
19 capital calculation. The clarification of the  
20 accounting standards is that you're supposed to use a  
21 bond yield and a high quality bond yield. And that's  
22 what this a -- this 5.25 percent figure reflects.

23 MR. BOB PETERS: Just to finish up on  
24 the accounting chang -- excuse me -- accounting  
25 changes. If we're still on page 199, Mr. Rainkie and

1 Mr. Warden, of the book of documents, the bottom-line  
2 number for the two (2) test years has now changed.

3 And I suggest you can confirm to the  
4 Board that the more accurate, current calculation is  
5 now found on Manitoba Hydro Exhibit 55, filed this  
6 morning?

7 MR. DARREN RAINKIE: That's correct.  
8 That -- the new page that's equivalent to this is on  
9 page 13 of 13 of that exhibit.

10 MR. BOB PETERS: And in the 2013 test  
11 year, the total OM&A accounting changes for the test  
12 year 2012/'13 is \$75 million and for the fiscal --  
13 sorry, for the 2014 fiscal test year, it's \$78 million?

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

16 MR. BOB PETERS: I apologize, Mr.  
17 Rainkie. You -- you did your homework and you -- I see  
18 on page 13 of 13, you've -- you've carried them forward  
19 to the -- to the next fiscal year.

20 MR. DARREN RAINKIE: Yeah, we thought  
21 that would be helpful and...

22 MR. BOB PETERS: I think it is, and I  
23 appreciate that, Mr. Rainkie. Mr. Chairman, this  
24 might be an appropriate time for the morning recess.  
25 I'll review my notes, but I suspect I'll be moving over

1 to finance expense when we get back.

2 THE CHAIRPERSON: Thank you. Let's  
3 take ten (10) minutes.

4

5 --- Upon recessing at 10:33 a.m

6 --- Upon resuming at 10:47 a.m.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: I -- just looking at  
10 my notes -- and I'm sure the undertaking Mr. Warden  
11 provided earlier will -- will clearly answer this.

12 But, Mr. Warden, when you talked with  
13 the -- with Board member Lafond about the in-service  
14 unit costs of energy, depreciation for the plants was  
15 based on sixty-seven (67) years, as I understood it?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: So that's -- is that a  
18 1.3 percent --

19 MR. VINCE WARDEN: One point three-  
20 three (1.33), I believe it is, yes.

21 MR. BOB PETERS: All right. And I'm  
22 sure that the calculation will show that. The interest  
23 rate, as I recorded it, was 5 percent plus 1 percent  
24 provincial debt guarantee fee? Six (6) percent total?

25 MR. VINCE WARDEN: That's the



1 assumption that was used for this purpose, yes.

2 MR. BOB PETERS: Right. And whether  
3 that's the actual interest rate or not, time will tell.  
4 But for comparative purposes, you've -- you've used the  
5 same interest rate?

6 MR. VINCE WARDEN: Correct, yes.

7 MR. BOB PETERS: And -- and then the  
8 point I wasn't clear on was in terms of the discount  
9 rate used to -- to bring back numbers or get numbers to  
10 2012, what discount rate was used?

11 MR. VINCE WARDEN: Mr. Peters, subject  
12 to check, I believe we used...

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: Mr. Peters, rather  
17 than put something on the record, I'm -- I'll just  
18 confirm that.

19 MR. BOB PETERS: And you'll just  
20 include that in your undertaking response would be  
21 fine, Mr. Warden.

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

23 MR. BOB PETERS: Yeah. All right. I'd  
24 like to move to finance expense. And I see that Mr.  
25 Schulz has joined the front table. And I'd perhaps ask

1 Mr. Singh to swear in Mr. Schulz, and I'll proceed with  
2 my questions thereafter.

3

4 MANFRED SCHULZ, Sworn

5

6 THE CHAIRPERSON: I wonder, before you  
7 start -- welcome, Mr. Schulz. Could you enlighten us  
8 about where you -- what you do at Hydro, just to  
9 situate you in the org chart?

10 MR. MANFRED SCHULZ: Delighted to be  
11 here, Mr. Chairman. And good morning to all members of  
12 the panel and Intervenors. My name is Manny Schulz.  
13 I'm curr -- currently the corporate treasurer for  
14 Manitoba Hydro.

15 Perhaps by way of a more broader CV, if  
16 you will, I have an architecture degree from the  
17 University of Manitoba in 1981, followed up by an MBA  
18 from -- from Man -- the University of Manitoba, also  
19 from 1988. I'm a CMA in two (2) thou -- in 1995 and  
20 became FCMA in 2009.

21 I joined Manitoba Hydro in 2006 as  
22 corporate controller. And then in 2008, Mr. Rainkie  
23 and I did a rotation. He was previously the treasurer,  
24 I was controller. And we did the rotation. I went  
25 into the corporate treasurer role. I've been in that

1 role for approximately five (5) years.

2 THE CHAIRPERSON: Thank you very much.

3 MR. MANFRED SCHULZ: Thank you.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Welcome here, Mr.

7 Schulz. You can give your -- your colleagues on the

8 panel a -- a rest. I want to take the Board, as

9 quickly as you will, through the finance expense chart,

10 but to not gloss over it, because it's the second-

11 largest revenue requirement expense in this General

12 Rate Application.

13 Isn't that correct?

14 MR. MANFRED SCHULZ: That's correct,

15 sir.

16 MR. BOB PETERS: And not only that, but

17 it's forecast to essentially double in about seven (7)

18 or eight (8) years as well?

19 MR. MANFRED SCHULZ: Finance expense

20 does certainly become a very major component of the

21 financial statements, moving forward.

22 MR. BOB PETERS: Mr. Schulz, if you can

23 share a book of documents with your colleagues, Board

24 counsel's Exhibit 14, Volume II, Tab 19, and

25 particularly page 211 is perhaps where we can start

1 with the Board.

2 This response to an Information Request  
3 posed summarizes the aspects of finance expense from  
4 '07 up until the two (2) test years, correct?

5 MR. MANFRED SCHULZ: That's correct.

6 MR. BOB PETERS: And the Board will  
7 note, and we should make that clear, that in IFF12, I  
8 think the finance expense in the first test year before  
9 this Board is 452 million, and in the second test year  
10 it's 444 million. So the numbers are slightly  
11 different from what is provided in this response.

12 But you'd agree that those are the  
13 orders of magnitude, sir?

14 MR. MANFRED SCHULZ: I would agree.

15 MR. BOB PETERS: And when we look at  
16 the gross interest paid to bond holders, Mr. Schulz,  
17 can you explain to the Board what that -- what -- what  
18 that's for?

19 MR. MANFRED SCHULZ: So the first line,  
20 called, "Gross interest," is primarily composed of the  
21 coupon payments that are made as part of our debt  
22 portfolio. So the -- the representations there would  
23 be for the interest payments made on our entire  
24 portfolio of long-term debt, both US and Canadian  
25 denominated.

1 MR. BOB PETERS: The debt appears  
2 higher in the first test year as compared to the second  
3 test year, at least in terms of the -- the finance  
4 expense, Mr. Schulz.

5 Is that related to this component, the  
6 gross interest on -- on the bonds?

7 MR. MANFRED SCHULZ: So I believe  
8 you're referring to the numbers there moving from  
9 approximately 513 million to 550 million. Is that what  
10 you're referring to, Mr. Peters? And if so, that does  
11 in fact reflect the increase in the gross interest  
12 costs through the -- through the test years.

13 MR. BOB PETERS: When -- what's the --  
14 what's the length of debt that Manitoba Hydro prefers  
15 to issue?

16 MR. MANFRED SCHULZ: Well, I would  
17 suggest that our debt-management strategy is a good  
18 document. It's in Appendix 17 for those that would be  
19 interested in reading that. We borrow throughout the  
20 entire yield curve, both short-term debt as well as  
21 long-term debt. Our basic financing strategy is to  
22 take financing terms that are generally in excess of  
23 ten (10) years, although we do occasionally take  
24 shorter-term borrowings. So we're not heavily fixated  
25 on one (1) particular term. We do move anywhere from

1 short-term debt, less than one (1) year, to debt that  
2 may be forty (40) years in tenure.

3 MR. BOB PETERS: Does Manitoba Hydro  
4 try to match the duration of the debt to the life  
5 expectancy of the asset?

6 MR. MANFRED SCHULZ: We don't do it in  
7 the same way that actuaries might have with an asset  
8 liability matching, if you're familiar with that  
9 concept. We do believe that with long-lived assets,  
10 that it's appropriate to have long-lived liabilities,  
11 particularly in the sense of the fixed-rate financing,  
12 and that it's a prudent way of matching some of the  
13 assets with the liabilities. So that is a  
14 consideration that we do consider when we apply our  
15 debt-management strategy decisions.

16 THE CHAIRPERSON: Sorry, Mr. Schulz,  
17 you referred to another source of information that we  
18 could read for -- whi -- which source did you refer to?

19 MR. MANFRED SCHULZ: Yes, our debt-  
20 management strategy. And it's in Appendix 17.

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: Mr. Schulz, when the  
24 Board has in front of it Manitoba Hydro's IFF12, which  
25 was filed as Exhibit Manitoba Hydro number 9, on page

1 37 it contained the electric operations financial  
2 forecast, which we call IFF Manitoba Hydro '12.

3 The finance expense in 2013 was  
4 approximately \$12 million higher in IFF12 than it was  
5 in IFF11-2. Would you be aware of that, sir?

6 MR. MANFRED SCHULZ: Yes.

7 MR. BOB PETERS: Okay. IFF11-2 was  
8 found at Tab 3, way back in Board counsel's documents  
9 if you needed a copy.

10 But are you able to, at this time, tell  
11 the Board, with interest rates falling, why the finance  
12 expense went up as between those two (2) -- those two  
13 (2) IFFs?

14

15 (BRIEF PAUSE)

16

17 MR. MANFRED SCHULZ: The overall  
18 finance expense is a function of a number of moving  
19 parts. It's gross interest. It's -- I think you're --  
20 you're suggesting it's also sinking fund. It's in --  
21 capitalized interest. It's a number of different  
22 factors that go into play.

23 The -- the numbers that you're seeing in  
24 IFF12 on page 37 do show that for the fiscal year 2013,  
25 that finance expense does move from four fifty-two

1 (452) to four forty-four (444) in the subsequent year.

2 MR. BOB PETERS: Mr. Schulz, on page  
3 211 of Board counsel's book of documents, for the two  
4 (2) test years, 2013 and 2014, we are just going down  
5 some of those line items.

6 Would you be able to undertake to revise  
7 this Schedule 5.6.0 by -- by updating the two (2) test  
8 year columns to -- to show the Board where the -- where  
9 the changes have been as between IFF11-2 and IFF12?

10 MR. MANFRED SCHULZ: I don't believe  
11 that an undertaking is required. It's actually -- I  
12 think it was filed this morning as part of the  
13 documents that were supplied to all members present  
14 here. And I think that you would find that under  
15 Exhibit 40 on that table of information that Ms. Ramage  
16 brought forward. And it's PUB/MH Second Round 64.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Mr. Schulz, you've --  
21 you've deftly managed to escape an undertaking. I've --  
22 - I've located the document that you referred to. And  
23 I won't, on the microphone, compare the -- the two (2)  
24 items. But I believe we can -- we can work with that  
25 information. You've got the schedule updated, so we



1 thank you for that, sir.

2 MR. MANFRED SCHULZ: You're welcome.

3 MR. BOB PETERS: Mr. Schulz, in  
4 addition to what you've told the Board related to gross  
5 interest, we also see that the provincial debt  
6 guarantee fee is recorded.

7 This is simply a function of the 1  
8 percent provincial debt guarantee fee on both long-term  
9 and short-term debt on the year-end balances of  
10 Manitoba Hydro's debt?

11 MR. MANFRED SCHULZ: That's correct.  
12 And I think there's actually a schedule in tab 23 of  
13 the book of documents -- the PUB book of documents that  
14 describes the PGF calculation. But it's the -- the  
15 general calculation, as you've described, is correct.  
16 It's 1 percent of the outstanding advances at March 31.

17 MR. BOB PETERS: Mr. Schulz, moving to  
18 the amortization of the premiums or discounts and  
19 transaction costs, can you explain what that item  
20 represents?

21 MR. MANFRED SCHULZ: Be happy to. It's  
22 the -- when we're executing financing in the capital  
23 markets, there are occasionally situations where the  
24 arranged coupon rates are different than the -- the  
25 rates that we would have from an all-in yield

1 perspective.

2                   So the coupon rates are the ones that  
3 reflected in gross interest. And any kind of discounts  
4 and premiums associated with the financing are  
5 amortized over the life of the -- the piece of debt in  
6 that line item that you're describing there.

7                   MR. BOB PETERS: We saw, Mr. Schulz, at  
8 the -- at the front end of Manitoba Hydro's IFF12,  
9 which was Manitoba Hydro Exhibit 9, there was a table  
10 that Mr. Warden and Mr. Rainkie had taken us to, just -  
11 - just reflecting that interest rates long term and, I  
12 think, short term had fallen since the -- since the  
13 previous IFF. Do you -- you're aware of that  
14 generally?

15                   MR. MANFRED SCHULZ: I agree.

16                   MR. BOB PETERS: Does that suggest then  
17 that debt is cheaper now than it was previously?

18                   MR. MANFRED SCHULZ: You know, since  
19 the -- the economic downturn, primarily since 2008 and,  
20 happily, coincidental to when I started as corporate  
21 treasurer, the financing rates for long-term debt have  
22 been steadily moving downward in the last number of  
23 years. So if you were to compare our financing terms  
24 this year at the present rate compared to where it was  
25 even a year or two (2) ago, you would find it to be

1 less expensive.

2 MR. BOB PETERS: Does that suggest that  
3 Manitoba Hydro would be wise to try to renegotiate some  
4 of its former debt with -- with more current debt, at  
5 least try to get a lower interest rate now, compared to  
6 what it may be locked into or had agreed to previously?

7 MR. MANFRED SCHULZ: Well, what you're  
8 suggesting is the notion that perhaps some of the debt  
9 is callable or we could refinance an -- existing rates  
10 of debt. And -- and there is actually an -- an  
11 Information Request on that matter that was raised. I  
12 -- I don't have that immediately in front of me.

13 But the reality is, is that our  
14 financing that we've arranged thus far is not open to  
15 renegotiation. We are fixed with what we already have  
16 negotiated. The refinancing that we do have would be  
17 when we have the periodic refinancings. And at that  
18 time, we can take advantage of the lower rate --  
19 interest rate environment.

20 MR. BOB PETERS: Just for the  
21 completeness of the record, PUB/Manitoba Hydro First  
22 Round 29A, I think, is the -- the Information Request  
23 you referred to.

24 In that, if you could take it, subject  
25 to check, that you're commenting that the annual

1 report, note 12, does not provide for early redemption  
2 or retirement with the exception of a couple of noted  
3 issues. And one (1) of them was \$100 million of Hydro  
4 bonds and a \$1.9 million mitigation bond.

5 Are you suggesting then that those are  
6 the only two (2) bonds where there is an opportunity  
7 for Manitoba Hydro to refinance at a lower rate?

8 MR. MANFRED SCHULZ: Those are the opp  
9 -- only opportunities that are available within the  
10 existing debt portfolio that we have to open up our  
11 existing long-term debt pieces to refinance them, if  
12 you will. Other than that, we are subject to the terms  
13 and conditions of the pieces of debt that we've already  
14 financed.

15 MR. BOB PETERS: And those pieces of  
16 debt contain penalties if you tried to refinance or  
17 open them up?

18 MR. MANFRED SCHULZ: I don't think they  
19 even allow for the opportunity to open them up.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: Does Manitoba Hydro  
24 attempt to include that in its borrowings - that is, a  
25 -- a condition or a term that would allow for

1 renegotiation under certain circumstances?

2 MR. MANFRED SCHULZ: I'm not sure how  
3 best to respond to that, because, as indicated, the  
4 financing terms and conditions that we have in our debt  
5 portfolio are not open -- are not callable and not  
6 subject to reconsideration or early retirement and  
7 renegotiation. Those -- those items are just not  
8 available to us on the provincial advances.

9 MR. BOB PETERS: And -- and the point  
10 that you are leading into is, when you call them  
11 "provincial advances," is -- is it Manitoba Hydro or  
12 the province that would end up negotiating that debt?

13 MR. MANFRED SCHULZ: The long-term debt  
14 is executed by the Province of Manitoba and advanced to  
15 the Manitoba Hydro Electric Board. So the terms and  
16 conditions on the original pieces of financing that the  
17 province would undertake in the capital markets are not  
18 open to being callable for early retirement purposes.  
19 Therefore, that availability does not extend back to  
20 us.

21 MR. BOB PETERS: Can you explain as we  
22 go down on page 211, the next item, which is the inter-  
23 company interest receivable?

24 MR. MANFRED SCHULZ: Yes, that's  
25 primarily associated with the interest receivable from

1 the primary subsidiary, which is Centra Gas.

2 MR. BOB PETERS: And that's interest on  
3 the debt advanced for Centra Gas or -- or negotiated  
4 for Centra Gas?

5 MR. MANFRED SCHULZ: That's primarily  
6 associated with the -- exactly, with the -- due to  
7 parent that we provided short term, as well as the --  
8 the other financing that we provide to Centra.

9 MR. BOB PETERS: Can you explain to the  
10 Board the interest earned on the sinking fund and how  
11 Manitoba Hydro gets to take that as a credit?

12 MR. MANFRED SCHULZ: Well, we have a  
13 sinking fund as part of our statutory obligation. And  
14 the earnings that we achieve on that sinking fund are  
15 items that you can see here, coming in as a contra or  
16 as a reduction to finance expense through these years.  
17 So to the extent that we have the sinking fund and they  
18 have earnings associated with them, we can recognize  
19 those reductions in finance expense on that line, as  
20 stated.

21 MR. BOB PETERS: And I don't recall the  
22 size of the sinking fund at this time, do you?

23 MR. MANFRED SCHULZ: Yes, the sinking  
24 fund has been steadily moving down. So, for instance,  
25 in the 2007/'08 year, the fiscal year-end balance for

1 the sinking fund was \$718 million in Canadian  
2 equivalent. And, for instance, at the actual for  
3 2011/'12, it went down to 372 million. So there's been  
4 a steady, sort of, movement down in the volume of that  
5 sinking fund, which you can see reflected in the  
6 amounts of credit that you're seeing coming back to  
7 finance expense as well.

8 MR. RAYMOND LAFOND: Can I assume that  
9 means as of this day in the future, we are incurring  
10 debt without any sinking fund provisions?

11 MR. MANFRED SCHULZ: No, we have a  
12 statutory obligation to provide sinking fund  
13 contributions. And it's based on 1 percent of the  
14 gross debt at March 31 plus 4 percent of the sinking  
15 fund balances at March 31. So we still have that  
16 statutory obligation.

17 What has been happening, in terms of the  
18 reduction in the volume in the sinking fund, is that  
19 we've been able to make retirements out of the sinking  
20 fund and -- and, as a result of that, been able to  
21 reduce the overall balance. But every year, we still  
22 have to make those contributions.

23 MR. RAYMOND LAFOND: This obligation  
24 comes from the nego -- the terms and conditions of your  
25 agree -- of your negotiations for debt, or is it part

1 of the Act, Manitoba Hydro Act?

2 MR. MANFRED SCHULZ: It's specified in  
3 the Manitoba Hydro Act. And it's also described in the  
4 notes to the financial statements too. I mean, we --  
5 there is a sinking fund note there that you can  
6 reference if you like.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Does it follow, Mr.  
10 Schulz, that in light of Manitoba Hydro's preferred  
11 development plans, that this sinking fund is going to -  
12 - is going to increase significantly, going forward?

13 MR. MANFRED SCHULZ: I think our  
14 intention is to keep our sinking fund balances to a  
15 relatively minimal level. And the reason for that is  
16 that the -- the returns in our sinking funds tend to be  
17 slightly smaller than we have on our debt payment and  
18 so there's a negative cost to carry associated with the  
19 sinking funds.

20 So, our desire is to keep our sinking  
21 funds to an overall minimal level. And so we are  
22 moving the items out of the volumes that we have in the  
23 sinking fund, making the retirements in accordance with  
24 the availability that we have to draw out of the  
25 sinking fund, but then basically moving up the sinking



1 fund based on the contributions. So, every year when  
2 we make a contribution we'll put it in and try to keep  
3 that down as much as possible.

4 The benefit of the sinking fund, and  
5 there's a number of them, but one (1) of them is -- and  
6 Standard & Poor's for instance have noted this, is that  
7 it's in a -- a form of enhanced liquidity, and at this  
8 point in time, Standard & Poor's for instance,  
9 considers that to be a positive rating characteristic.

10 So, we're balancing off a number of  
11 factors, but we do see that the sinking fund overall  
12 balances. We're trying to manage that so that while we  
13 are maintaining the obligation under the Manitoba Hydro  
14 Act, that we keep those balances at -- at manageable  
15 but minimal levels if possible.

16 MR. RAYMOND LAFOND: So, the sinking  
17 fund is all invested by the Province of Manitoba?

18 MR. MANFRED SCHULZ: Correct. Yeah,  
19 the sinking fund is managed by the Province of  
20 Manitoba.

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: Was there a  
24 consideration of asking the province to remove the  
25 sinking fund obligation on Manitoba Hydro?

1 MR. VINCE WARDEN: Yes, Mr. Peters. We  
2 have talked about this at previous proceedings and the  
3 province is aware that it's our intention or desire to  
4 eliminate the sinking fund. It would require a change  
5 to the Manitoba Hydro Act. It's one (1) of those  
6 things the province hasn't acted on as yet, but they --  
7 in the meantime though, as Mr. Schulz has indicated,  
8 they have agreed to manage the sinking fund in such a  
9 way as that the amount is minimized.

10 We do, as well -- and maybe perhaps Mr.  
11 Schulz was getting to this, but we also use the sinking  
12 fund as part of our Foreign Currency Exposure  
13 Management Program. So it does -- as it's operating  
14 today, it does serve a purpose for -- for Manitoba  
15 Hydro.

16 MR. BOB PETERS: Just not sure I was  
17 clear on the management at a minimal level. But the  
18 requirement is still to fund it to the extent of 1  
19 percent of year-end debt?

20 MR. VINCE WARDEN: It is, but we can --  
21 we have some flexibility in how we draw it down. So  
22 when we have a debt maturity, we can choose to remove  
23 the maximum amount from the sinking fund for the  
24 purpose of that debt repayment.

25 MR. BOB PETERS: Mr. Schulz, can we

1 move down to the "interest allocated to construction"  
2 line item; and can you explain to the Board what this  
3 represents?

4 MR. MANFRED SCHULZ: Just as described,  
5 it's the amount of interest capitalized. So, as our  
6 capital projects move forward, they have interest  
7 that's capitalized and this is the contra that comes to  
8 that. So this is reduction in the gross finance  
9 expense to reflect those amount that are being  
10 capitalized.

11 MR. BOB PETERS: If I understood that  
12 answer, sir, the interest that is incurred on the  
13 capital projects is removed from finance expense and  
14 left as a capitalized expense?

15 MR. MANFRED SCHULZ: No, the amounts  
16 that are attributed to the capital projects are moved  
17 out of the gross expense that we're seeing here on the  
18 top line and capitalized, so that the amount that we're  
19 recognizing on the income statement for finance  
20 expenses reduce by that amount.

21 MR. VINCE WARDEN: Just to be clear,  
22 and perhaps it is, but that's only while the project is  
23 under construction. Once that project is placed in  
24 service then the interest on that capital item is  
25 reflected on the operating statement.

1 MR. BOB PETERS: It comes back into the  
2 top line expenses that Mr. Schulz was referring to?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: Yeah. The corporate  
5 allocation, Mr. Schulz, can you explain that to the  
6 Board?

7 MR. MANFRED SCHULZ: That reflects the  
8 interest on the Centra acquisition debt.

9 MR. BOB PETERS: For how many years is  
10 that expected to -- to remain a -- an item?

11

12 (BRIEF PAUSE)

13

14 MR. MANFRED SCHULZ: The piece of debt  
15 that was undertaken in 1999 was a thirty (30) year swap  
16 arrangement. So the existing finance expense thereto  
17 pertaining will be moving forward to 2029. The  
18 expectation would be, however, that there would be a  
19 refinancing after that point in time.

20 So in 2029 there would be a subsequent  
21 refinancing. So after that point in time, there still  
22 would be some measure of corporate allocation at that  
23 point.

24 MR. RAYMOND LAFOND: Can you explain to  
25 me the difference between this corporate allocation and

1 the intercompany interest receivable, which is also  
2 from Centra Gas, essentially due to the intercompany  
3 receivable, if I heard correctly?

4 MR. MANFRED SCHULZ: Yeah, so the --  
5 due to parent, which we pro -- this is now speaking to  
6 the intercompany interest receivable -- is largely  
7 related to the short-term, due to parent, that we  
8 provide to Centra Gas. And so then there is a refi --  
9 the -- the financing charges that we recover from  
10 Centra Gas as part of that subsidiarization comes back  
11 to a reduction, as shown here, from the MH electric  
12 purposes.

13 MR. RAYMOND LAFOND: What's your rate  
14 being charged for this short-term receivable?

15 MR. MANFRED SCHULZ: The due to parent  
16 is currently being charged at the three (3) month -- or  
17 just one (1) sec.

18 It's being charged at the three (3)  
19 month Canadian T-bill rate.

20 MR. RAYMOND LAFOND: And the other  
21 corporate allocation?

22 MR. MANFRED SCHULZ: The corporate  
23 allocation was being char -- for the Centra acquisition  
24 debt was -- it's approximately 6.4 percent. So it does  
25 move around and it does -- in terms of the

1 refinancings, you can see that there's a step change  
2 that occurred in the -- from 2009/'10 to '10/'11.

3 So there are some periodic refinancings  
4 that occur on that debt stream all the way out to 2029.  
5 So that's still largely a fixed rate piece of debt  
6 based on interest rate swaps that we have out there.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Did I gather from your  
10 answer related to the refu -- or the Centra acquisition  
11 debt, that that amount will -- will continue in  
12 perpetuity?

13 MR. MANFRED SCHULZ: The response that  
14 I provided was that there's the expectation that we  
15 would be refinancing that stream of debt at the  
16 conclusion of the interest rate swap which concludes in  
17 September of 2029. So again, I was just conferring  
18 with Mr. Warden, but the expectation is that there  
19 would be continuity in subsequent refinancing.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: The last item is  
24 "other amortizations"; to what does that relate?

25 MR. MANFRED SCHULZ: The primary aspect

1 to that is the -- the amortizations associated with the  
2 Winnipeg Hydro obligation.

3 MR. BOB PETERS: And what is that  
4 obligation?

5 MR. MANFRED SCHULZ: It's -- 16 million  
6 per year is associated with the Winnipeg Hydro  
7 obligation.

8 MR. RAYMOND LAFOND: For how many  
9 years?

10 MR. MANFRED SCHULZ: In perpetuity.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: What else will be  
14 included in that amount, in that line item?

15 MR. MANFRED SCHULZ: There are a number  
16 of other mitigation settlements that are associated  
17 with those other amortizations.

18 MR. RAYMOND LAFOND: Like what, for  
19 example?

20 MR. MANFRED SCHULZ: There would be  
21 some associated with the northern flood agreements, a  
22 number of other agreements with Nelson House, et  
23 cetera. I mean, there are a number of assorted array  
24 of -- of mitigation settlements that are in that line  
25 item.

1

2

(BRIEF PAUSE)

3

4 CONTINUED BY MR. BOB PETERS:

5

MR. BOB PETERS: Mr. Schulz, from

6

what's included in page 211 of Board counsel's book of

7

documents to Manitoba Hydro's Exhibit 40, it appears

8

that these other amortizations have increased in the

9

two (2) test years by about 3 million in the first test

10

year and 5 million in the second test year.

11

Have I got that right?

12

MR. MANFRED SCHULZ: That's correct.

13

MR. BOB PETERS: Can you indicate to

14

the Board what that relates to, what -- what the reason

15

for the increase is?

16

MR. MANFRED SCHULZ: It'll be subject

17

to check, but my understanding is there were a number

18

of other mitigation settlements that -- new ones that

19

came into place during that period of time and, in

20

accordance with that, you have some changes in that

21

line item.

22

23

(BRIEF PAUSE)

24

25

MR. BOB PETERS: Perhaps, you could --



1 perhaps you could confer with Mr. Warden or undertake  
2 to indicate to the Board what those additional  
3 mitigation resolutions were?

4 MR. MANFRED SCHULZ: We'll take an  
5 undertaking on that.

6 MR. BOB PETERS: All right. Thank you,  
7 sir. Mr. Schulz, you'll undertake to advise the Board  
8 as to the additional other amortization expenses in the  
9 two (2) test years, as between the IFF11-2 and IFF12?

10 MR. MANFRED SCHULZ: I agree.

11 MR. BOB PETERS: Thank you.

12

13 --- UNDERTAKING NO. 45: Manitoba Hydro to indicate  
14 the additional amortization  
15 expenses in the two (2)  
16 test years, as between the  
17 IFF11-2 and IFF12

18

19 MR. RAYMOND LAFOND: Before we leave  
20 that page, if I remember correctly, about 2 billion of  
21 the total, 9 billion, as of the end of March is US --  
22 debt in US denomination?

23 MR. MANFRED SCHULZ: That's correct.

24 MR. RAYMOND LAFOND: And in the future,  
25 are we looking at borrowing more in terms of US

1 denomination, or less? Like, what is the strategy?

2 MR. MANFRED SCHULZ: First of all, I  
3 mean, from a debt-management strategy perspective we  
4 always look to secure stable lowcost financing. So  
5 cost effectiveness is always a key consideration for  
6 us.

7 In terms of the denomination of the  
8 piece of debt, if we have -- if there's a requirement  
9 for a piece of debt, then the question is: Where can  
10 we obtain the best cost effectiveness for that? So,  
11 generally, that would be in the domestic Canadian  
12 markets.

13 However, though, we do occasionally find  
14 situations where we can occur -- or to achieve US  
15 borrowings on a global basis, and the swap it back to  
16 Canada at rates that would be less expensive than  
17 domestic issuance. So we will occasionally do that as  
18 part of our overall financing strategies, again, in  
19 keeping with the notion of having lowcost financing.

20 Occasionally though, we do keep some of  
21 those dollars still resonant in US denominations. So  
22 we wouldn't have made that swap and brought it back to  
23 Canada, per se.

24 In those scenarios, we leave those  
25 dollars in -- denominated in US dollars as part of our

1 overall exposure management strategy; that we look to  
2 balance off our US dollar inflows and outflows to  
3 create the natural hedge. And -- and a good  
4 description of that IR, I think you'll find under CAC-  
5 MH Round 1 -- CAC 1-03 (phonetic). It provides a good  
6 explanation of some of the strategy intent that we have  
7 for that moving forward.

8                   So in the IFF, we will -- as part of  
9 strategy we will, depending on the amount of US dollar  
10 inflows, primarily from US dollar denominated export  
11 revenues, we will have some offsetting US dollar  
12 interest payments that we will look to create that  
13 balance so that we, in effect, create some inoculation  
14 to our income statement from an exposure management  
15 program.

16                   So as we move forward with our actual  
17 levels of US dollar debt and -- and US dollar revenues  
18 and all of the other kinds of changes we do take a  
19 close look at that; and at those points in times,  
20 looking not only at the cost effectiveness of the US  
21 debt, but also seeing where we are in the overall  
22 balancing of our effects exposure (phonetic).

23                   MR. RAYMOND LAFOND: I understand. So  
24 you naturally, to use your expression, reduce your  
25 exposure to exchange rates with the offsetting inflows?

1 MR. MANFRED SCHULZ: Exactly correct.

2 MR. RAYMOND LAFOND: Can Manitoba Hydro  
3 actually borrow from another party than the Province of  
4 Manitoba?

5 MR. MANFRED SCHULZ: The long-term debt  
6 advances are all originated from the province of  
7 Manitoba. And it's my understanding that that's --  
8 that's the manner, from a long-term debt perspective,  
9 that we have all of those advances, and that's the  
10 protocol that we use.

11 For short-term debt, we do have the  
12 jurisdiction under Manitoba Hydro Act to allow us to do  
13 our short-term borrowing up to five hundred (500) dol -  
14 - \$500 million limit. And so that's what we can secure  
15 on our own behalf in the financial markets. And -- and  
16 that's something that we execute within the treasury  
17 division. But on the long-term debt side, for all the  
18 advances, they're executed by the Province of Manitoba.

19 MR. RAYMOND LAFOND: How much of your  
20 debt, for instance, today or last week, would be  
21 invariable rates?

22 MR. MANFRED SCHULZ: At December 31 it  
23 was 16.2 percent floating rate debt.

24 MR. RAYMOND LAFOND: When inter -- when  
25 interest rates are as low as they are now, you must

1 certainly be tempted on moving it all to long-term debt  
2 because, though not everyone believes such, a lot of  
3 people are expecting interest rates to go up, and your  
4 actuaries and your pension plan to make a 7 percent  
5 return?

6 MR. MANFRED SCHULZ: Well, just as a  
7 little bit of a finesse to that I would agree with you,  
8 generally, but also you have to keep in mind that  
9 floating rate debt isn't necessarily short-term debt.  
10 We can take out long-term debt that's floating. In  
11 fact, we have pieces of floating rate debt that's  
12 fifteen (15) years long.

13 So just on the finesse of that, we have  
14 that point -- 16.1 percent of floating rate debt the --  
15 that's both short and long-term debt.

16 As a general protocol, we have as our  
17 policy, our floating rate debt is not to exceed 30  
18 percent, but we try and keep it within the target range  
19 of 15 to 25 percent. In the last number of years we  
20 had been closely watching that, as you would -- would  
21 expect and we had been keeping that at a -- the bottom-  
22 end of that range in large measure because we're seeing  
23 the -- the long-term fixed financing coming in at  
24 exceedingly low levels, too.

25 And in accordance with the earlier

1 question about asset liability matching and -- and  
2 those kind of things, to the extent that we have long-  
3 lived assets it seems very prudent for us to have long-  
4 lived liabilities, particularly if we can lock them in  
5 at fixed rates that are exceedingly affordable to  
6 Manitoba Hydro.

7 MR. RAYMOND LAFOND: I understand very  
8 well how variable or floating rates work on demand  
9 loans type -- type. However, on a fifteen (15) year  
10 fixed loan -- or, I guess, term -- a fixed term loan,  
11 how would you -- how does that work?

12 MR. MANFRED SCHULZ: On a fixing --  
13 fifteen (15) year floating?

14 MR. RAYMOND LAFOND: Yes. I mean, do  
15 you revise the rate every year or every month or -- and  
16 on what basis?

17 MR. MANFRED SCHULZ: So floating rate  
18 Canadian debt, for instance, is -- and I'm just working  
19 off memory here, but I believe that our fifteen (15)  
20 year floating rate debt had a -- terms and conditions  
21 of a three (3) month Bloomberg BA rate, plus a fixed  
22 rate margin of around forty-eight (48) basis points,  
23 and it gets refinanced -- or, it's subject to interest  
24 rate resetting every six (6) months.

25 So, I think on that particular stream of

1 debt, every six (6) months what happens is, is that  
2 three (3) month Bloomberg BA rate becomes the variable  
3 component. So whatever that ends up being -- like,  
4 it's approximately 1.2 percent right now, so in say six  
5 (6) months time if it goes to 1.3 percent then you take  
6 that 1.3 and you add the forty-eight (48) basis points  
7 and that becomes your rate for the next six (6) months.

8                   So on the floating rate debt in that  
9 particular case, it becomes reset on the quarterly --  
10 or, in this case I think it's semi-annual reset rates.  
11 So that's where it becomes floating.

12                   So there's a fixed and a floating  
13 component to that. And for the extra length of time  
14 you'll often typically see that fixed-rate component  
15 have a higher com -- a higher measure to it; in this  
16 case I think it was around forty-eight (48) basis  
17 points.

18                   MR. RAYMOND LAFOND: Thank you for this  
19 explanation, in that floating rates are not just on  
20 short-term rates, and I think I have a good  
21 understanding of what you just explained.

22                   However, I come back to my first  
23 question. And to -- with today's rates being as low as  
24 they are, would you not be tempted to -- that 16  
25 percent, to bring it down to just a few percentage

1 points, if at all, and fixing these rates on these  
2 floating contracts?

3 MR. MANFRED SCHULZ: Well, I think as  
4 part of our overall debt portfolio, you would see that  
5 in fact our percentage of floating-rate debt has been  
6 moving down through the years in accordance with that.  
7 We can't just snap our fingers and have it happen over  
8 night. So as part of an overall strategy you're seeing  
9 us move towards the bottom end, if you will, of that  
10 target range.

11 There's always still benefits with  
12 floating rate debt. In some cases it comes in slightly  
13 less expensive in the -- in the short-term. But as a  
14 general measure, I would agree with you, from a  
15 strategy perspective, that we are advocating for long-  
16 term fixed rate financing; we think that's the  
17 appropriate way to go.

18 MR. RAYMOND LAFOND: When you've eluded  
19 to that getting down to the bottom of that range, what  
20 is the bottom? Is it 10 percent? Or is it 5 percent,  
21 or 2 percent?

22 MR. MANFRED SCHULZ: It's 15 percent.

23 MR. RAYMOND LAFOND: And this is  
24 established by Manitoba Hydro Board policy?

25 MR. MANFRED SCHULZ: It's interesting



1 that you talk about this. This was heavily canvassed  
2 at previous GRAs. The policy though for the floating  
3 rate debt not to be lower than -- not to be higher than  
4 30 percent is a long standing policy of Manitoba Hydro;  
5 I think dating back to 1998. The target range has been  
6 -- certainly as far as I can recall and Darren Rainkie  
7 similarly so, and I'm sure Mr. Warden, as well -- the  
8 target range has been in that range for quite a while.

9           The consideration is, perhaps, we could  
10 move slightly below that, and there have been some  
11 discussions on that. But at this point in time, we're  
12 still -- you know, keeping to the target range of 15 to  
13 25 percent.

14           MR. RAYMOND LAFOND: But, again, that  
15 15 to 30 (sic) percent range is acce -- adopted by  
16 Board policy or -- or who makes that decision?

17           MR. VINCE WARDEN: Yes, Mr. Lafond, it  
18 is Manitoba Hydro Board policy.

19           MR. RAYMOND LAFOND: And revised every  
20 two (2) years, or looked at and reviewed every two (2)  
21 years, or so?

22           MR. VINCE WARDEN: Well, as Mr. Schulz  
23 indicated, it's been long standing board policy, so  
24 that range has served us well. And over the -- the  
25 long term, we've probably gravitated more towards 20

1 percent of floating rate debt, but given the  
2 circumstances of today, we -- we've moved it down to  
3 very close to the 15 percent.

4 We haven't really seen an advantage to  
5 going below that at this point in time. But if we did,  
6 based on the analysis that Mr. Schulz and others in  
7 treasury do, if we saw an advantage to moving below 15  
8 percent then we would have to revise our policy and  
9 take it to the Board, but that has not been presented  
10 to our Board for many years as -- as a policy decision.

11 MR. RAYMOND LAFOND: Thank you.

12 THE CHAIRPERSON: Just a follow-up  
13 question. The underpinning logic of having fifteen  
14 (15) as opposed to five (5) in the current environment,  
15 what's -- what's the logic there? There must be some -  
16 - I can see variable rates, a floating rate being an  
17 advantage in declining interest rate markets, but now  
18 we're going -- we're probably heading back the other  
19 way at some point, and I'm trying to understand what  
20 the log -- what the -- what advantages does Manitoba  
21 Hydro have from having 15 percent?

22 MR. MANFRED SCHULZ: The floating rate  
23 debt provides -- as you were saying, there are some  
24 advantages to keeping some floating rate debt within  
25 our port -- portfolio from an economic perspective.

1                   It's interesting too though, that it was  
2 a number of years ago we were commissioned to provide a  
3 consulting report and it was produced by National Bank  
4 Financial, whereby they looked at what should be the  
5 optimal, or what should be the range for floating rate  
6 debt within the portfolio. And as part of their  
7 analysis, one (1) of the key considerations they also  
8 looked at was that there was an interest rate hedging  
9 in effect between short term -- there was a correlation  
10 between short term interest rates and export pricing in  
11 the MISO market.

12                   And so, based on that analysis as well  
13 as Monte Carlo simulation studies that they performed,  
14 they came through with an assessment that the floating  
15 rate portfolio for Manitoba Hydro should be between 14  
16 and 27 percent.

17                   So, it's not just on the economics as  
18 well; we're also seeing a hedging, if you will. So,  
19 there is a benefit to the overall volatility of the  
20 financial statements by having some interest rate  
21 hedging against export pricing. So, that's another  
22 component to it.

23                   But as a general overall debt-management  
24 strategy, I agree with the propositions that are being  
25 put forth here, that the weight of our portfolio has in

1 fact been moving more and more towards a higher level  
2 of fixed-rate financing.

3 MR. VINCE WARDEN: And at this point in  
4 time, there is a -- an advantage -- a differential that  
5 is between short term. And if we look at one (1) year  
6 versus thirty (30) year money, we're looking at  
7 differential of close to hundred and twenty (120),  
8 hundred and thirty (130) basis points.

9 So, they're -- you know, as long as the  
10 rates stay low then there is an advantage to going at a  
11 short term or keeping that rate variable. There's a  
12 risk of course, associated with that, and that's what  
13 we try to balance with the -- the range -- or with the  
14 proportion of short term versus -- or floating versus  
15 fixed-rate debt.

16 MR. RAYMOND LAFOND: I think that's one  
17 (1) of the issues in -- in my mind, in that there is a  
18 risk of doing such. And with a high level of retained  
19 earnings, then you can afford to take that risk. But  
20 retained earnings projected to come down to somewhere  
21 between 10 and 13 percent, that becomes a bit more --  
22 makes Manitoba Hydro a bit more vulnerable to rapidly  
23 increasing rates, which would have been not forecasted.

24 MR. VINCE WARDEN: I absolutely agree,  
25 Mr. Lafond. That's something we have to be always

1 cognizant of.

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Maybe, Mr. Warden,  
5 just to conclude on this discussion, if the Board could  
6 find Manitoba Hydro Exhibit 9, which was the IFF12  
7 document, and refer to page 3 of that document, Mr.  
8 Warden. I had understood -- I had understood Mr.  
9 Schulz to be indicating that -- that, at this point in  
10 time, Manitoba Hydro did not see an advantage to going  
11 below 15 percent on its floating debt. And I was  
12 wondering how Manitoba Hydro tested that.

13 And, Mr. Warden, you may have answered  
14 that question by saying that the basis point spread is  
15 the test. And if the -- if the spread is sufficient,  
16 while it carries a risk, that will allow Manitoba Hydro  
17 the ability to test whether or not to stay with the  
18 floating as opposed to looking to fix that debt.

19 Would that be a fair conclusion?

20 MR. MANFRED SCHULZ: Well, again, I  
21 would suggest that Appendix 17, debt management  
22 strategy, would be a good document to review on this  
23 matter. But we do look at our mix within our debt  
24 portfolio of Canadian and US and fixed and floating in  
25 a balanced fashion.

1                   A number of considerations come into  
2 play. One (1) would be the -- the term spread, what  
3 would be the difference between fixed and floating.  
4 One (1) of the key considerations -- and, Mr. Lafond,  
5 you -- I think you were sort of alluding to this -- is  
6 just the interest rate risk as we're moving into higher  
7 levels of gross debt that we're undertaking and having  
8 the normal interest rate exposure associated with just  
9 taking on new debt.

10                   The -- the consideration that we are  
11 actively looking at is to reduce the exposure on our  
12 existing debt portfolio, in keeping with the overall  
13 exposure we have on the new debt that's coming on. So  
14 in keeping with that and -- and consistent with that,  
15 we are starting to move the amount of floating rate  
16 debt to a lower level within the target range in  
17 recognition of the -- the fact that our overall  
18 interest rate risk profile is something that we need to  
19 really take a hard look at. It's not just on our  
20 existing portfolio, but the new.

21                   So, Mr. Peters, one (1) of the things we  
22 do look at is the term spread and the differential  
23 between short- and long-term debt. But it's -- you  
24 know, when we're looking at financing going out thirty  
25 (30) years, we have to be careful that we don't take a

1 myopic view and just look at the here and now. We also  
2 have to look at where the spreads have been in the  
3 past.

4                   And there have been situations where  
5 short-term debt has been an inverted yield curve, where  
6 it's been higher than the fixed-rate financings and  
7 long-term debt. And so we just can't look at the  
8 spread now, because we're looking at financing that we  
9 want to take for thirty (30) years. And so we balance  
10 off a number of factors, sort of all coincidentally.

11                   But to your point, Mr. Lafond and -- and  
12 Mr. Chairman, we very closely look at the overall  
13 interest rate risk profile. And that's why we have  
14 been moving it down in a measured way, down to the  
15 lower end of our target range. Will that circumstance  
16 arise where we maybe go below that? That may happen  
17 and -- and, as Mr. Warden suggested, you know, that's  
18 something that we will be taking a look at, perhaps as  
19 we move forward.

20                   MR. RAYMOND LAFOND: I -- I would like  
21 to add that -- or ask Manitoba Hydro if it's  
22 considered, for instance, getting into interest swap  
23 agreements whereby interest rates would be fixed even  
24 before you start building in a project?

25                   And -- and please let me explain. There

1 are some corporations who are doing that because they  
2 know -- they -- they signed firm contracts for exports  
3 or rentals or whatever. And then they know what their  
4 revenues are going to be for the next twenty (20)  
5 years, for instance. So, therefore, they immediately  
6 fix their rates so that they can maintain that margin  
7 and not be caught with fixed revenues for twenty (20)  
8 years, but having no idea where their fixed costs are  
9 going to be. And especially in projects, whether it's  
10 building projects for rental purposes or whatever,  
11 where the capital com -- component is major and -- and  
12 makes a corporation very vulnerable.

13 MR. MANFRED SCHULZ: The use of  
14 interest rate swaps is something that we do consider.  
15 And -- but there is a cost to undertaking those --  
16 those costs. And there's the forward points that you  
17 have to take a look at.

18 In a circumstance, for instance, where  
19 we have seen in the last year or two (2) the overall  
20 fixed-rate financing at the point of incurrence being  
21 on the downward movement, to take a forward position  
22 may end up costing us more.

23 So we're -- in the environment where we  
24 see -- start to see a rapid escalation in the interest  
25 rate environment, then we become more motivated to



1 undertake exactly the type of technical strategy that  
2 you're -- you're discussing. And that's something that  
3 the province, as well as Manitoba Hydro, would be  
4 certainly looking at, in terms of locking down  
5 financing as required.

6 MR. VINCE WARDEN: I might just add to  
7 that, Mr. Lafond, that in the National Bank study that  
8 was done for Manitoba Hydro, I believe it was three (3)  
9 years ago now, it was interesting they did see a  
10 correlation between prices on the export market and  
11 interest rates.

12 So, yes, it is important for us to lock  
13 down as much as we can or should, where it's  
14 appropriate to do so, with respect to our costs to the  
15 extent that our revenues are fixed. But our rev -- a  
16 lot of our -- approximately 50 percent of our revenues  
17 on the export market thereabouts are -- are variable.

18 So the variable -- the variation of  
19 those revenues, as this study indicated, is correlated,  
20 to some extent, with interest rates. So there is that  
21 -- that consideration, as well.

22 MR. RAYMOND LAFOND: Thank you.

23 THE CHAIRPERSON: Could you walk me  
24 through the -- how you finance, for example, Wuskwatim  
25 -- Wuskwatim, you know, from the date of -- from the

1 date of which you start doing your prep work to the  
2 point where, you know, the dam is operating, how that  
3 was financed, in -- in general terms?

4 MR. MANFRED SCHULZ: Mr. Chairman, in -  
5 - in general terms, when we look at our overall  
6 corporate financing, we look at it on a consolidated  
7 basis. So in treasury, every day we look at what our  
8 cash positions would be, in terms of our utilization of  
9 -- of cash, cash burn for capital or operating  
10 expenditures, as well as what we're receiving on an  
11 incoming basis.

12 Based on that kind of a cash analysis on  
13 a consolidated basis, that drives our decisions about  
14 when we need to have additional cash coming in. At  
15 that point in time, if we reach a situation where we  
16 need to have an extra influx of cash, then we consider  
17 going -- either taking a short-term debt or we take a  
18 long-term debt.

19 We typically do not associate our actual  
20 treasury financings with any one (1) particular project  
21 and don't do specific borrowing. Not to say that we  
22 can't, but in general measure, we borrow and look at  
23 our cash management on a consolidated basis.

24 So with respect to Wuskwatim, we did not  
25 take out any specific borrowings targeted -- identified

1 specifically for Wuskwatim. The debt that was  
2 attributed to the project was due to -- the calculation  
3 of that was derived as part of the agreements, in terms  
4 of the -- the notional amounts of, you know, which  
5 pieces of debt would be attributed to them.

6 But from an actual cashflow basis, we  
7 don't have \$200 million increments that would go to  
8 Wuskwatim. And -- and we don't leave that in a  
9 separate bank account and just draw that down, because  
10 we look at everything from a consolidated perspective,  
11 in terms of our cash and sources and uses of cash.

12 THE CHAIRPERSON: So in terms of --

13 MR. VINCE WARDEN: Sorry, I was just  
14 going to add to that a bit further. Every -- every  
15 year we go to the province for Loan Act authority. So  
16 there -- we actually get authority to borrow our  
17 upcoming -- look at our upcoming requirements,  
18 including such projects as Wuskwatim, Keeyask, all of  
19 our capital requirements.

20 So we go through a process and identify  
21 what our capital requirements are, look at what the --  
22 our internally generated funds are, take into account  
23 our current cash -- cash position, and then request  
24 additional authority from the province. And they'll  
25 actually have a Loan Act that identifies Manitoba

1 Hydro's requirements for the upcoming year.

2                   So that could be in the order of \$2  
3 billion, based on -- on the -- on the amount of  
4 borrowing or constru -- capital con -- driven largely  
5 by the amount of capital construction that we've got  
6 going forward.

7                   So in -- when Wuskwatim was constructed,  
8 that would have been part of that Loan Act authority  
9 that we would have had authorized by the province each  
10 year.

11                   THE CHAIRPERSON:    The attribution of  
12 interest cost during construction and after -- during  
13 construction would be based on a formula that you use,  
14 is that --

15                   MR. VINCE WARDEN:    Yes, we have a  
16 formula for capitalizing interest which is based on --  
17 maybe I'll get Mr. Rainkie to just summarize how we --  
18 how we derive that formula.

19                   MR. DARREN RAINKIE:    It's a -- it's a  
20 calculation of the thirty (30) year borrowing cost at  
21 the point in time where, as Mr. Schulz indicated, when  
22 our debt line gets to \$200 million, we take it from a  
23 floating rate to a fixed rate so we just look in the  
24 market place or Mr. -- Mr. Schulz' staff look in the  
25 marketplace at that point and determine what Manitoba

1 Hydro's thirty (30) year borrowing cost would be at  
2 that point and that's what's attributed to the project.

3 MR. RAYMOND LAFOND: I'm sorry, you  
4 move from a floating rate to a fixed rate or floating -  
5 - floating term to a fixed term?

6

7 (BRIEF PAUSE)

8

9 MR. MANFRED SCHULZ: Just as a point of  
10 clarification, are you asking for information on the  
11 interest capitalization rate or the long-term debt  
12 that's attributed to the Wuskwatim project?

13 THE CHAIRPERSON: I think primarily the  
14 -- not the capitalization rate but the other one and --  
15 and -- but the capitalization rate I think we should  
16 probably understand that too.

17 MR. RAYMOND LAFOND: If I can add to  
18 this, I can understand that when you look at your whole  
19 debt structure you would say, Well, our average term is  
20 such and our average rate is such and is that what you  
21 are charging on a new construction project; or rather,  
22 taking what the -- the -- the current terms and rates  
23 in the current markets to charge to that project?

24 MR. MANFRED SCHULZ: Okay, so just  
25 perhaps to provide some clarification and assistance,

1 there are two (2), I think, questions that are being  
2 raised here. One (1) has to do with the interest  
3 capitalization rate and how that's derived and then the  
4 other one (1) was how is the -- what's the derivation  
5 of the long-term debt issues to the Wuskwatim project.  
6 So, if I could perhaps have the forbearance to answer  
7 or at least start the -- the discussion on those two  
8 (2) separate items.

9                   So, on the first one (1) which is the  
10 attribution of the long-term debt to the Wuskwatim  
11 project, I think Mr. Rainkie provided the essence of  
12 that answer. Is that we have a calculation of a  
13 revolving line with the WPLP project and short-term  
14 debt. And at that point in time when it reaches a  
15 certain level, then we notionally assign, move it from  
16 short-term to the fixed-rate financing. And we don't  
17 actually go to the marketplace and secure \$200 million  
18 of debt specifically for Wuskwatim but it is a notional  
19 assessment of that based on contractual terms in the  
20 agreements.

21                   And I think one more thing, subject to  
22 check, but I believe what we're looking at there is we  
23 look at what the thirty (30) year financings would be  
24 from the capital markets and we -- we look at what on  
25 that particular day, what the long-term interest rates

1 would be on a notional piece of debt at that point in  
2 time. And that's what we move forward into the  
3 agreements into for the Wuskwatim project.

4                   With respect to the interest  
5 capitalization rate and I see that Mr. Rainkie is  
6 conferring with the back row but for the interest  
7 capitalization rate, what we look at is the -- the  
8 interest rate that will be in effect for that fiscal  
9 year.

10                   So, for the fiscal year that would be,  
11 for say the '12/'13 year, that it would be the amount  
12 of interest that would be -- the weighted average cost  
13 of debt, if you will, during that fiscal year is part  
14 of the IFRS adjustments that we now have. That that's  
15 -- that's the amount of interest rate that's associated  
16 to the interest capitalization calculations. And you  
17 can see that coming in again as a contra to our overall  
18 gross interest expense.

19                   MR. DARREN RAINKIE: Maybe I'll just  
20 try. We seem to be crossing each other's territories  
21 here. We work closely together on this kind of stuff,  
22 so --

23                   MR. RAYMOND LAFOND: Well, you changed  
24 jobs with one another, so.

25                   MR. DARREN RAINKIE: We did. It gets

1 kind of mixed up in your head after a while, who's  
2 doing what. But when it comes to the -- the  
3 capitalization rate, really, as Mr. Schulz described,  
4 what -- what we're doing is we would take -- when --  
5 when we're trying to determine a capitalization rate,  
6 let's say, for 2013/'14, we would take our weighted --  
7 we would look at our current debt portfolio. And then  
8 we would look at the borrowings that we plan on making  
9 in -- in that particular year.

10                   And we would weight the rate between the  
11 outstanding borrowings and the new borrowings so that  
12 it's a weighted average rate under -- that's the  
13 requirement under IFRS. So it's really just a weighted  
14 average of the debt that's expected to be outstanding  
15 in the -- in the particular year that we're calculating  
16 the rate for, if that helps to clarify things.

17                   So -- so, sorry. You might have -- you  
18 might have 8 billion worth of debt before the year in  
19 question, and you might have plans to -- to borrow a  
20 billion dollars worth of debt in the year in question.  
21 So you're just weighting it between the 8 billion that  
22 you have on -- you have in your -- you already have in  
23 your portfolio, and the 1 billion that you plan on  
24 issuing in the following year.

25                   MR. RAYMOND LAFOND: I guess, I -- I



1 want to be clear on that. If, for instance, and --and  
2 I'm going to use a very simplistic example, your  
3 weighted average rate cost of interest was 5 percent  
4 and you were building a brand new project and it could  
5 all be done in the month of December of 2013. If a  
6 major catastrophe happened in the world and rates went  
7 up to 10 percent, would that new project be charged at  
8 15 perc -- at 5 -- at 10 percent, or a weighted  
9 average?

10 And I'll tell you why I'm saying this.  
11 Like any project, usually when people look -- I mean,  
12 if -- if, for instance, you want to build a new  
13 building for rental purposes, you look at the financing  
14 costs of -- of this new capital, and not an average  
15 cost throughout the corporation. You understand my  
16 question?

17 MR. DARREN RAINKIE: Yes, I do. And --  
18 and, as has been indicated, we do have the capability  
19 of -- of -- of specifically attributing a debt issue to  
20 a particular asset. But we haven't done that thus far.  
21 Our policy has been to look -- manage our requirements  
22 on an overall basis and use the weighted average cost.  
23 Because our customers are going to have to pick up the  
24 weighted average costs anyway, right? I mean, it's --  
25 it's -- it doesn't -- if we act -- if we -- if we

1 change the way that we calculate interest cap on a  
2 particular project, it doesn't change the bottom line  
3 finance expense of the company. It's really just what  
4 -- what project you're attributing costs to. And, thus  
5 far, we have used the overall capitalization rate for  
6 all of our projects.

7 MR. RAYMOND LAFOND: I accept that,  
8 except in terms of future projections, it can ha -- it  
9 can be a major factor in influencing as to whether or  
10 not you go ahead with a certain project.

11 MR. VINCE WARDEN: When we're looking  
12 at whether or not we proceed with a certain project or  
13 not, though, it's -- it's usually driven by -- by need.  
14 So -- well, in fact, it's always driven by need at some  
15 point. So if we're looking at Keeyask generating  
16 station, for example, we need to -- we need new power  
17 to supply the Manitoba load in that 2022 time frame.  
18 So we'll look at the cost of finan -- financing  
19 Keeyask, versus the cost of financing the alternative.  
20 So we're always comparing to an alternative when we're  
21 looking -- making an investment decision.

22 With respect to the -- the rate that we  
23 capitalize, though -- and -- and there's really no  
24 reason, if we were to go out and borrow specifically  
25 for a project like Keeyask, a large project like

1 Keeyask, then -- then we could attribute that borrowing  
2 directly to that -- to that project, as we did,  
3 actually. When we go back in time, we did that for  
4 Limestone. So we went out and specifically borrowed  
5 for the Limestone generating station. We had a  
6 specific interest capitalization rate that we used for  
7 that -- for that project.

8                   We chose not to do that with Wuskwatim,  
9 because Wuskwatim, relative to some of our other  
10 plants, was quite small. And -- and there were  
11 agreements that we had with the -- our partner on that  
12 as well, as to how the financing was to be charged to  
13 the project.

14                   But there's really no reason why we  
15 couldn't do that -- we couldn't do that. We could  
16 assign a specific borrowing to -- to a project.

17                   THE CHAIRPERSON: I'm somewhat familiar  
18 with the way in which MPIC and the province work with  
19 respect to the investments, which is the flip-side of  
20 where you are.

21                   Now, could you enlighten us about the  
22 management of your borrowings? The relationship  
23 between you and the province, within Manitoba --  
24 between Manitoba Hydro and the province in term -- from  
25 a -- from a day-to-day standpoint or a yearly

1 standpoint, how that works?

2 MR. MANFRED SCHULZ: As previously  
3 indicated the long-term debt advances are issued by and  
4 executed by the Province of Manitoba, however, we  
5 provide them with the guidance in terms of which  
6 particular term we want, which denomination we'd be  
7 looking at, fixed versus floating, those are  
8 determinations that we make.

9 Traditionally what happens is that out  
10 of the treasury division, based on looking at the  
11 cashes -- cash flows that occur on a daily basis, when  
12 we reach a certain measure of cash requirement then a  
13 recommendation will come out of treasury to the chief  
14 financial officer for a recommendation to say, for  
15 instance, we would like to secure a Canadian financing  
16 for a term not to exceed 'X' amount of years with a  
17 range of interest rates to be 'X' and 'Y' and then we  
18 would get the approval from the chief financial  
19 officer, provide that direction to the Province of  
20 Manitoba, and then they would seek to execute that.

21 In advance of that, however, there are  
22 ongoing conversations that occur between treasury  
23 division at Manitoba Hydro and the treasury division at  
24 the Province of Manitoba and we have ongoing  
25 discussions with them, as well as Manitoba Hydro has

1 with the capital markets. So in treasury, we have  
2 capital market discussions with all of the different  
3 financiers so that we know what happens on the pulse of  
4 the capital markets on any point in time. We know what  
5 the arbitrage is in terms of the cost effectiveness  
6 between Canadian issuance versus US issuance. So we  
7 keep a very close eye on that. But we do work with the  
8 Province of Manitoba on such matters.

9           So for instance, on the US debt piece of  
10 issuance, the size and quantum of that piece of debt is  
11 traditionally very large, typically a minimum of \$500  
12 million. So that whole quantum is too large for us to  
13 -- for instance, to take on, so then we would work with  
14 the Province of Manitoba and -- and this would be  
15 understood and we work together in a collaborative  
16 fashion to determine if there is an appetite for them  
17 to take some of that financing, if we would take on  
18 some of it. So we work in collaboration with the  
19 treasury folks at the Province of Manitoba.

20           In terms of the actual working  
21 relationship, I would say it's very good and it's very  
22 close, but from a directional perspective we consider  
23 that we provide them the direction and give them a  
24 range so that as the capital markets move on any  
25 particular day - and they do move around - so we give

1 them a range, let's say, we want the interest rate to  
2 be between here and here, and then they go and they  
3 execute that. So in terms of the working relationship  
4 I would say it's very good, but we are the ones that  
5 provide them the direction.

6 In terms of MPIC, you know, I'm not in  
7 depth familiar with the manner in which they -- they  
8 handle their investments and their -- their working  
9 groups and -- if you will. But from Manitoba Hydro's  
10 perspective, we consider ourselves to be the  
11 determinant of our debt portfolio.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: If I could try to  
15 finish up this area of finance expense before I request  
16 the lunch recess. Let's turn to page 212 and 213 of  
17 the book of documents at tab 19.

18 This information, Mr. Schulz, is now --  
19 is now going to be updated by IFF12 and the balance  
20 sheet provided in that document, correct?

21 MR. MANFRED SCHULZ: Correct.

22 MR. BOB PETERS: And if I read it  
23 correctly, out by 2032, the net assets will go up to as  
24 much as \$31 billion and the net debt would go up to  
25 about \$28 billion.

1 Would you accept that, subject to check?

2 MR. MANFRED SCHULZ: Subject to check.

3 MR. BOB PETERS: Okay. Turning to page

4 215 -- well, just before I do that, one thing that

5 struck me on the -- on the net debt is that it's got a

6 downward slope at some point in time. And I -- I

7 always remember Mr. Warden telling me that, in essence,

8 debt is -- all debt is good debt and never paid off.

9 Mr. Warden, help me out here.

10 Is -- even though debt eventually will

11 go down for this Corporation?

12 MR. VINCE WARDEN: Yes. Not sure

13 whether I will see it or not, but... Yes, our good

14 debt/bad debt discussion goes back a few years, Mr.

15 Peters. But good debt is -- is debt that we borrow for

16 investment in new facilities, as -- as we do here.

17 But when we put a station like Conawapa

18 in -- in service and we start generating significant

19 revenues after the in-service date in Conawapa, and

20 that's what we're seeing here, the revenues are

21 contributing towards a reduction in that debt.

22 MR. BOB PETERS: There's no major

23 projects planned right after Conawapa that are going to

24 keep driving that debt higher?

25 MR. VINCE WARDEN: No, that's right.

1 MR. BOB PETERS: And I'm sure you'll  
2 see it, Mr. Warden. And we'll have that discussion.  
3 If we turn to page 215, the only point on this document  
4 -- this has also been updated by -- I think the Board  
5 will find at page 2 of IFF-12, which is Manitoba Hydro  
6 Exhibit 9, some of this information is -- is updated.

7 The most significant of which, Mr.  
8 Warden, appears to be that the debt equity ratio -- I  
9 was going to say bottoms out, maybe it tops out at 90  
10 percent debt, 10 percent equity, out in 2022, around  
11 that time?

12 MR. VINCE WARDEN: Yes, that's right,  
13 Mr. Peters.

14 MR. BOB PETERS: And I know the -- the  
15 debt equity ratios will -- will change from what's  
16 depicted here. But I think the Board has that  
17 information at least in summary form on page 2.

18 To respond to a question about the --  
19 the interest rates, perhaps we can -- I guess en route  
20 to getting there, page 216 of the book of documents,  
21 Mr. Warden.

22 Just remind the Board that back in 1992,  
23 when Limestone was -- was being constructed, the debt  
24 was 94 percent?

25 MR. VINCE WARDEN: The debt ratio was



1 94 percent; 94 debt, 6 percent equity, yes.

2 MR. BOB PETERS: And in the drought  
3 year of 2003 and '04, particularly '04, the debt equity  
4 ratio -- the debt reached 87 percent with 13 percent  
5 equity?

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

7 MR. BOB PETERS: If we follow that line  
8 item across, Mr. Warden, not only do we see the large  
9 net-income loss suffered by Manitoba Hydro, but the  
10 DBRS bond rating didn't correspondingly take a downturn  
11 at that point in time, did it?

12 MR. VINCE WARDEN: No, it didn't. And  
13 that's why it's so important for Manitoba Hydro to keep  
14 in -- in close contact with its rating agency. So they  
15 always understand what our situation is, and that's a  
16 good example of that.

17 MR. BOB PETERS: And -- and that's  
18 something you do on an annual basis?

19 MR. VINCE WARDEN: We do.

20 MR. BOB PETERS: Perhaps you travel  
21 there or they travel here?

22 MR. VINCE WARDEN: Typically they  
23 travel here. And it's -- it's really more than an  
24 annual basis. We're -- we're in contact with them  
25 whenever the need arises.

1 MR. BOB PETERS: Quarterly?

2 MR. VINCE WARDEN: Formally on an  
3 annual basis. But they don't hesitate to pick up the  
4 phone and call us if they have a question.

5 MR. BOB PETERS: All right. Looking at  
6 the interest sensitivity, which is on page 217, this  
7 was prepared based on IFF11-2, correct?

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

10 MR. BOB PETERS: And what it shows the  
11 Board, if we can cut to the chase, Mr. Rainkie, is that  
12 if the interest rate increases at 1 percent and the  
13 Board follows it over, there's going to be an extra  
14 billion dollars of long-term debt needed.

15 MR. DARREN RAINKIE: No, I think what  
16 it's showing is our retained earnings would go down by  
17 724 million, Mr. Peters.

18 MR. BOB PETERS: You're -- you're ahead  
19 of me on that, Mr. Rainkie. I was just looking at the  
20 top lines. That the long-term debt issued would be  
21 \$18.2 billion over a ten (10) year period, but if it  
22 went up 1 percent on average, that would increase it by  
23 a billion dollars?

24 MR. DARREN RAINKIE: Yes, Mr. Peters, I  
25 see where you're at now.

1 MR. BOB PETERS: All right. And what  
2 you've done for the Board is you've gone right to the  
3 bottom line, and you've -- you've shown that things  
4 like interest capitalized or on assets during  
5 construction would decrease, and the end result would  
6 be when the netting is done, that net income would be  
7 down as much as three-quarters of a billion dollars?

8 MR. DARREN RAINKIE: Yes, the 725  
9 million, yeah.

10 MR. BOB PETERS: And turning the page  
11 to 218 just to conclude this area. If the interest  
12 rate goes down 1 percent, then there's a benefit,  
13 although not proportionally correct and directionally  
14 correct, but not exactly the same magnitude, correct?

15 MR. DARREN RAINKIE: Yes, it's pretty  
16 close to the \$700 million figure. I mean --

17 MR. BOB PETERS: And what does that  
18 tell Manitoba Hydro -- or what should that tell the  
19 Board, is that -- that the bottom line on your  
20 calculations is tied into interest rate?

21 MR. VINCE WARDEN: Well, it's som --  
22 it's intended to convey the -- the risk that Manitoba  
23 Hydro fac -- faces with the change, plus or minus, in -  
24 - interest rates. I think it's as simple as that, Mr.  
25 Peters.

1 MR. MANFRED SCHULZ: And I would also  
2 offer that when we're looking at the retained earnings,  
3 that further to the conversation I think Mr. Lafond had  
4 with Mr. Hacault on day 1, that retained earnings are  
5 not just to buffer against drought; that you can see  
6 that here the interest rate risk that we do see as a  
7 corporation that needs to be considered as part of our  
8 retained earnings and our buffering that we have on our  
9 debt-equity ratio.

10 MR. BOB PETERS: At the front end of  
11 IFF12, page 3 of Manitoba Hydro Exhibit 9, Mr. Warden,  
12 you set out that Manitoba Hydro had adjusted its long  
13 term interest rates.

14 You recall that?

15 MR. VINCE WARDEN: Yes, Mr. Peters.  
16 Our assumption of long term interest rates, yes.

17 MR. BOB PETERS: And so, that  
18 assumption has already been built into IFF12?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And the resulting  
21 impacts will be seen, particularly for Manitoba Hydro,  
22 when they get -- when the Board looks at page 37 of the  
23 IFF12?

24 MR. VINCE WARDEN: That's right.

25 MR. BOB PETERS: All right, I think Mr.

1 Chairman, recognizing the hour, this would be an  
2 appropriate time for me to stand down. Thank you.

3 THE CHAIRPERSON: I suggest we -- we  
4 recess and we restart the proceedings at one o'clock.

5

6 --- Upon recessing at 12:06 p.m.

7 --- Upon resuming at 1:02 p.m.

8

9 THE CHAIRPERSON: Good afternoon. I  
10 believe we're ready to resume the proceedings. We have  
11 some exhibits to acknowledge?

12 MS. PATTI RAMAGE: Yes, we have -- I --  
13 I believe another four (4) have been distributed, the  
14 first of which, which is -- we're suggesting be marked  
15 Manitoba Hydro Exhibit 57. And that is a response to  
16 Manitoba Hydro Undertaking 32 regarding peer  
17 information for the companies relied on by Gannett  
18 Fleming for its currently approved life estimates.

19

20 --- EXHIBIT NO. MH-57: Response to Undertaking 32

21

22 MS. PATTI RAMAGE: The next, which --  
23 exhibit is Undertaking 35, which we suggest be marked  
24 Exhibit 58. And that deals with Pointe du Bois, the  
25 retirements, and clarifying the vintage calculation.

1 Again, that's Exhibit 58.

2

3 --- EXHIBIT NO. MH-58: Response to Undertaking 35

4

5 MS. PATTI RAMAGE: Exhibit 59 again was  
6 an undertaking which Mr. Kennedy took. That was  
7 Undertaking number 36. And that's the provision of two  
8 (2) detailed calculations using an example of  
9 investment installed in 1923 with a lifespan to 2063,  
10 and detailed calculations assuming plant installed in  
11 2013 with a lifespan to that same date. So again,  
12 that's Undertaking 36 being marked as Manitoba Hydro  
13 Exhibit 59.

14

15 --- EXHIBIT NO. MH-59: Response to Undertaking 36

16

17 MS. PATTI RAMAGE: And then lastly,  
18 Exhibit number 60 is Mr. Schulz's CV.

19

20 --- EXHIBIT NO. MH-60: CV of Manfred Schultz

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: Thank you, Mr.  
24 Chairman. I'd like to start this afternoon in my  
25 discussions with respect to Manitoba Hydro's financial

1 targets. And to the panel, I don't want to repeat what  
2 we've canvassed already, but one (1) of the three (3)  
3 main financial targets used is the interest coverage  
4 ratio.

5                   Isn't that correct, Mr. Warden?

6                   MR. VINCE WARDEN: Yes, it is.

7                   MR. BOB PETERS: And when we talk of  
8 these financial targets, they become iterative  
9 calculations that work into the IFF once they're set.

10                   Wouldn't that also be correct?

11                   MR. VINCE WARDEN: Yes.

12                   MR. BOB PETERS: And so they do impact  
13 again on the rate increases that are sought by Manitoba  
14 Hydro?

15                   MR. VINCE WARDEN: They do.

16                   MR. BOB PETERS: Now, the interest  
17 coverage ratio is currently set at a ratio of one point  
18 two-zero (1.20), Mr. Warden?

19                   MR. VINCE WARDEN: That target is set  
20 at one point two-zero, (1.20), yes.

21                   MR. BOB PETERS: Was it -- was it lower  
22 than that back in the mid-2000s?

23                   MR. VINCE WARDEN: Yes, it was at one  
24 point one-zero (1.10) at -- at one point.

25                   MR. BOB PETERS: In approximately 2005?

1 MR. VINCE WARDEN: That sounds right,  
2 yes.

3 MR. BOB PETERS: All right. And the  
4 essence of the interest coverage ratio is that Manitoba  
5 Hydro wants to be able to pay 100 percent of the  
6 interest on its current debt that's payable in the  
7 year?

8 MR. VINCE WARDEN: Yes, it's an  
9 indication of the extent to which we are capable of  
10 paying bond holders interest on -- on the money that is  
11 loaned to us.

12 MR. BOB PETERS: And the ratio being  
13 one point two-zero (1.20) suggests that there's 20  
14 percent more than would be absolutely, positively  
15 needed. So there's a bit of a cushion?

16 MR. VINCE WARDEN: It provides a -- a  
17 measure of comfort, yes, recognizing that our net  
18 income is subject to variation primarily due to water  
19 conditions.

20 MR. BOB PETERS: What you're saying,  
21 Mr. Warden, is that to the extent that this cushion of  
22 20 percent isn't needed, the Corporation would expect  
23 that it would end up in the net income of the  
24 Corporation?

25 MR. VINCE WARDEN: Well --



1 MR. BOB PETERS: If it wasn't needed to  
2 pay a debt?

3 MR. VINCE WARDEN: It -- it -- yes, it  
4 will end up in the net income and -- and retained  
5 earnings of the Corporation to the extent that that,  
6 with the other ratios, are met.

7 MR. BOB PETERS: Well, it would be used  
8 -- the 20 percent cushion, if you -- if it wasn't  
9 needed in a particular year to pay the interest on  
10 debt, it could be used to pay the cost of major capital  
11 projects?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And so that's  
14 considered internally generated funds?

15 MR. VINCE WARDEN: That's right.

16 MR. BOB PETERS: And if it wasn't used  
17 in that capacity -- or even if it was used in that  
18 capacity, I suppose -- it would still flow to the  
19 bottom line as a contribution to net income?

20 MR. VINCE WARDEN: Yes.

21 MR. BOB PETERS: Turning to the capital  
22 coverage ratio, this capital coverage ratio used to  
23 also be lower than its current rate, didn't it, Mr.  
24 Warden?

25 MR. VINCE WARDEN: Actually, I think

1 it's been one point two-zero (1.20) for some time. I  
2 don't recall it being lower than that.

3 MR. BOB PETERS: Mr. Warden, I'm not  
4 sure much turns on it this time, but my -- my marginal  
5 note to myself was that back in '07/'08 in the  
6 corporate strategic plan, the capital coverage ratio  
7 was one point zero (1.0) -- or was to be greater than  
8 one point zero (1.0).

9 MR. VINCE WARDEN: Okay, yes, I'll  
10 accept that Mr. Peters.

11 MR. BOB PETERS: And so in the last  
12 general rate application before this Board, it was  
13 increased to one point two-zero (1.20). Would you  
14 accept that?

15 MR. VINCE WARDEN: Yes, I will.

16 MR. BOB PETERS: And this is a amount  
17 that is built into the IFF to provide Manitoba Hydro  
18 with sufficient revenues from rates charged to  
19 consumers to allow Manitoba Hydro to pay 100 percent of  
20 the base capital expenditures each year?

21 MR. VINCE WARDEN: Yes. To the extent  
22 that the ratio -- the capital coverage ratio is greater  
23 than one (1), there'll be sufficient -- there'll be  
24 funds that could be used to contribute for other  
25 purposes.

1 MR. BOB PETERS: Right. And when we're  
2 talking about paying off 100 percent of the base  
3 capital each year, this is the type of capital, if I  
4 might, that perhaps Mr. Hall was talking about, in  
5 terms of some of the refurbishment of the distribution  
6 system and the -- the capital program that the  
7 Corporation undertakes on a regular basis?

8 MR. VINCE WARDEN: Yes, it's referred  
9 to as base capital by Manitoba Hydro, but "sustaining  
10 capital" is another term that's used. It's -- it's  
11 intended to sustain the current system and to provide  
12 for -- well, more than that actually, because it does  
13 provide for increased low growth or customer services.

14 MR. BOB PETERS: The base capital, what  
15 we've also then now called the sustaining capital, that  
16 excludes the major capital projects, correct?

17 MR. VINCE WARDEN: It excludes major  
18 generation and transmission, yes.

19 MR. BOB PETERS: All right. And with  
20 the capital coverage ratio set at one point two-zero  
21 (1.20), that dollar amount is then iteratively built  
22 into the IFF that Mr. Rainkie constructs?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: And when it's set at  
25 one point two-zero (1.20) there's a 20 percent cushion

1 -- in my words, "cushion" -- that would be available  
2 again to apply to other matters as the Corporation  
3 determined?

4 MR. VINCE WARDEN: Yes.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: And would the Board be  
9 correct in understanding that, again, of that 20  
10 percent cushion for the capital coverage ratio, those  
11 monies could be applied on the major capital projects,  
12 such as Keeyask, Conawapa, and Bipole 3?

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

14 MR. BOB PETERS: Those would also be  
15 considered internally generated funds -- that is, that  
16 extra 20 percent -- Mr. Warden?

17 MR. VINCE WARDEN: They -- they would,  
18 yes.

19 MR. BOB PETERS: Does Manitoba Hydro  
20 acknowledge that with the 20 percent surplus built into  
21 the capital coverage ratio and, I suppose, the 20  
22 percent surplus built into the interest coverage ratio,  
23 Manitoba Hydro's revenue requirement is increased over  
24 what it would be if the targets were less?

25 MR. VINCE WARDEN: I think we have to

1 take into consideration not only the interest coverage  
2 and capital coverage ratios, but also the -- the debt  
3 ratio. So it could very -- we could have a situation  
4 where the rate increases are being driven more so by  
5 the dr -- debt ratio than they are by the other two (2)  
6 ratios.

7 MR. BOB PETERS: Is that the case  
8 before the Board in the two (2) test years?

9 MR. VINCE WARDEN: Well, there's a  
10 balance. We certainly -- in -- in recent years, we  
11 have tended to focus more so on the debt ratio than we  
12 have on the other ratios, but they're all important  
13 though. They're all measures that the rating agencies  
14 look at. And, you know, they compare us to other --  
15 other utilities in Canada. And, invariably, they'll --  
16 they'll comment on the weakness -- the weakness of our  
17 ratios compared to other utilities in Canada.

18 So I think if we just strive for one (1)  
19 -- one point zero (1.0) on both interest coverage and  
20 capital coverage, we would probably run into some  
21 difficulties with the credit rating agencies on that.

22 MR. BOB PETERS: You have nothing in  
23 writing from them that would confirm that from their  
24 perspective?

25 MR. VINCE WARDEN: Other than in the

1 rating reports as they -- they continue -- continually  
2 refer to the -- the weak ratios of Manitoba Hydro  
3 relative -- relative to other utilities.

4 MR. BOB PETERS: That's been a  
5 longstanding comment by them, would that not be true?

6 MR. VINCE WARDEN: Yes. Yes, it is.  
7 It has been.

8 MR. BOB PETERS: And perhaps to -- to  
9 look at that point on page 220, at Board counsel's book  
10 of documents is a restatement of IFF11-2, where the  
11 capital coverage ratio is set at one point zero (1.0).

12 You've got that, do you?

13 MR. VINCE WARDEN: Yes, I do.

14 MR. BOB PETERS: And to look at the  
15 point, under 2013, the rate increase would be the same  
16 as currently applied for. But in 2014, the rate  
17 increase would be 0.10 percent if a capital coverage  
18 ratio of one point zero (1.0) was used?

19 MR. VINCE WARDEN: That's right. And -  
20 - and that's why it's -- it's important to not look at  
21 the ratios in isolation, because you can see on that  
22 same exhibit -- or on the same page, the equity ratio  
23 over that period of time drops as low as 6 per -- 6  
24 percent by the end of the ten (10) year period.

25 MR. BOB PETERS: But the Corporation is

1 prepared to allow it to fall as low as 10 percent in  
2 its most current IFF. Isn't that correct?

3 MR. VINCE WARDEN: Well, we -- we have  
4 -- again, it comes back to what we talked about many  
5 times, the -- that balance that we're trying to achieve  
6 between customer sensitivity and fiscal responsibility.  
7 And, yes, for a temporary period, we are allow --  
8 allowing the ratios to weaken.

9 MR. BOB PETERS: And would it also be  
10 correct though that on this -- on page 220, Manitoba  
11 Hydro has simply done the iterative calculation of  
12 reducing the capital coverage from one point two-zero  
13 (1.20) down to one point zero (1.0), with no  
14 adjustments to the -- to the other expense items?

15 MR. VINCE WARDEN: Yes, that's just to  
16 respond to this Information Request.

17 MR. BOB PETERS: All right. So this  
18 doesn't include any other management decisions that  
19 could be made if that was the reality, in terms of how  
20 to manage the -- the losses or the -- the equity ratio?

21 MR. VINCE WARDEN: Yeah, I think it  
22 points to the -- the fact that really you can't look at  
23 one (1) ratio in isolation. You have to look at the  
24 ratios together.

25 MR. RAYMOND LAFOND: Can I simply

1 intervene? And -- and I hear you when you talk about  
2 Manitoba Hydro accepting that its equity ratio come  
3 down temporarily. But the temporarily is twenty (20)  
4 years. And it's really planned, rather than because of  
5 an unforeseen long drought or something to that effect.

6 MR. VINCE WARDEN: It is. Remember,  
7 drought is built into the forecast though. So we -- we  
8 -- assuming that we have average water flow conditions  
9 over that twenty (20) year period, it -- a drought will  
10 occur, and we will still get back to that 25 percent  
11 equity at the end of that twenty (20) year period.

12 That's though -- that's what we keep  
13 reiterating to the credit agencies, is that, yes, we  
14 are entering this period of major capital investment,  
15 our ratios will weaken, but they do recover. They do  
16 recover and it's -- that's how. We have to keep  
17 reinforcing that the ratios do recover with the  
18 assumptions that we have built into the forecasts, of  
19 course. And that assumes that there will be rate  
20 increases along the way.

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: What you're telling  
24 the Board, Mr. Warden, is that the credit agencies are  
25 comfortable with the decrease in the equity ratio and



1 the increase in the debt ratio that's forecast by  
2 Manitoba Hydro?

3 MR. VINCE WARDEN: They -- they've  
4 never gone so far as to say they were comfortable.  
5 They have though accepted -- they accepted the reasons  
6 why the ratios have -- have deteriorated or declined  
7 the way they -- they have in the fore -- are projected  
8 to in the forecast.

9 MR. BOB PETERS: Would the -- would the  
10 rating agencies been made aware of the IFF12 filed, I  
11 think, back on December 10th?

12 MR. VINCE WARDEN: Just a moment.

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: Yeah, the timing is  
17 such that when we reviewed our forecast with Moody's,  
18 Standard & Poor's, we would have -- only have IFF11-2  
19 at that time. However, DBRS would have received --  
20 because they were here later, they would have received  
21 IFF12. So we always review the most recent financial  
22 forecast with the rating agencies.

23 MR. BOB PETERS: There's an expectation  
24 by them that the equity ratio will deteriorate during  
25 times of major capital construction?

1 MR. VINCE WARDEN: Yeah. Yes, they --  
2 they accept that as a natural consequence of the major  
3 capital investments that we're undertaking.

4 MR. BOB PETERS: Rate increases would  
5 be just too punitive to try to maintain a capital  
6 structure of 75/25 during the major capital program  
7 that Manitoba Hydro is envisioning?

8 MR. VINCE WARDEN: Yes, we would never  
9 recommend rate increases that would be necessary to  
10 maintain 75/25 throughout.

11 MR. BOB PETERS: We saw before lunch  
12 that the -- that the -- during the Limestone years, we  
13 saw the debt-equity ratio. We also saw what happened  
14 during the drought in 2004.

15 Would it be correct to conclude the that  
16 the provincial debt guarantee fee is a major source of  
17 comfort for all the rating agencies?

18 MR. VINCE WARDEN: Oh, absolutely, yes.  
19 They -- without -- not so much the fee, but the  
20 guarantee of the province, yeah.

21 MR. BOB PETERS: I'm sorry, did I say -  
22 - if I -- if I said the fee, I meant the provincial  
23 debt guarantee --

24 MR. VINCE WARDEN: Yes.

25 MR. BOB PETERS: -- is of comfort to

1 the debt rating agencies because the province is  
2 backing Hydro's debt.

3 MR. VINCE WARDEN: Yes, absolutely. We  
4 wouldn't -- we wouldn't receive the favourable rating  
5 we do without that guarantee.

6 MR. BOB PETERS: Does the position of  
7 the debt rating agencies remain the same even if the  
8 major generation is being advanced over Manitoba  
9 Hydro's domestic requirements to serve an export load?

10 MR. VINCE WARDEN: They understand the  
11 fact that it's necessary for Manitoba Hydro to  
12 negotiate long-term firm contracts to -- to absorb the  
13 large quantities of generation that comes on stream  
14 when we build plants such as Keeyask and Conawapa. So  
15 -- so, yes, they're -- they're accepting the fact that  
16 the timing of those contracts and -- and the  
17 commitments we have to make won't always coincide  
18 exactly with the in-service date of those facilities.

19 MR. BOB PETERS: Manitoba Hydro's own  
20 board of directors hasn't sought a stronger capital  
21 structure when pre-building for export contracts, has  
22 it?

23 MR. VINCE WARDEN: No. But, you know,  
24 Manitoba Hydro's board of directors is -- is apprised  
25 of Manitoba Hydro's financial position every month.

1 They're totally supportive of the financial structure  
2 that we are -- that we have today and -- and what's  
3 required to maintain that structure over the long term.

4 MR. RAYMOND LAFOND: They're  
5 supportive. But there has to be quite a bit of concern  
6 with the equity rate going down to 10 percent?

7 MR. VINCE WARDEN: Oh, yes. I wouldn't  
8 say there -- they've absolutely expressed concern.  
9 They realize, you know, there -- there's risk  
10 associated with any investment program. And they're  
11 fully cognizant of the risks that are -- are before us.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: Maybe just to put  
15 numbers on it in that last discussion with Board member  
16 Lafond, if we turn to page 223 of the book of  
17 documents, this IFF run, I'm sure, by Mr. Rainkie and  
18 his colleagues, was -- was designed to show the Board  
19 the type of rate increases that would be required in  
20 order to achieve, at this point, an 80/20 debt equity.

21 And if we look down to the third line  
22 from the bottom, we see that 20 percent equity ratio is  
23 -- is maintained out through the planning horizon on --  
24 on both page 223 and 224. But if we just look to the  
25 two (2) test years, Mr. Warden, 2013 and 2014, the

1 increase in 2013 would be as requested at two (2) point  
2 -- sorry, at three point five-seven (3.57).

3 But then for 2014 it goes up to close to  
4 15 percent followed by another 15 percent rate increase  
5 before it would flatten out, correct?

6 MR. VINCE WARDEN: Correct, yes.

7 MR. BOB PETERS: Why is it that it  
8 wouldn't be feathered in, so to speak, as you did with  
9 your IFF12? Why is it that -- that it maintains that  
10 debt-equity ratio of 20 percent equity by the infusion  
11 up front as opposed to more gradual throughout?

12 MR. VINCE WARDEN: Well, I -- I think  
13 that was just responding to the information request.  
14 It -- it was -- I believe the information request is --

15 MR. BOB PETERS: No, I -- I appreciate  
16 -- I appreciate that, Mr. Warden. But wouldn't one  
17 expect that the capital structure, once it got to 80/20  
18 in the early years, would deteriorate from that and it  
19 -- with -- without rate increases of some significance?

20 And it appears here, for the first ten  
21 (10) years there's really no rate increases needed  
22 after the first -- after 2015.

23 MR. VINCE WARDEN: Yeah, but it's got  
24 an upfront 30 -- 30 percent rate increase, so.

25 MR. BOB PETERS: So that -- you're just

1 telling the Board that's sufficient to carry it?

2 MR. VINCE WARDEN: Yes. Yes, that's  
3 what this -- this demonstrates, yes.

4 MR. BOB PETERS: And just to perhaps  
5 connect the dots to the IFF12 that Manitoba Hydro  
6 filed, Manitoba Hydro was accepting of the  
7 deterioration in the equity ratio and just used a  
8 mathematical formula to achieve a 75/25 at the end of  
9 the IFF, and that gave rise to the eighteen (18) years  
10 at 3.95 percent rate increases?

11 MR. VINCE WARDEN: That's right.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: I suppose if we turn  
16 to page 226 in the book of documents, we'll see the  
17 same type of information, except the parameter was  
18 changed to -- to get to a 25 percent equity ratio,  
19 which is really to maintain the 25 percent equity as it  
20 currently has.

21 And here again, Mr. Warden, we can see  
22 that in -- in 2014 we just need a little, modest 65  
23 percent rate increase, and that would -- that would  
24 tidy it over fairly handily for the -- for the planning  
25 horizon?

1 MR. VINCE WARDEN: Yes, we wouldn't  
2 have to appear before the Board again for quite a  
3 while.

4 MR. BOB PETERS: Well, you'd come back  
5 in 2015 to ask for a rate reduction, I would expect, of  
6 21 percent?

7 MR. VINCE WARDEN: You know, this --  
8 this was unadjusted for IFRS. And, you know, we have  
9 that in 2013/'14. In this scenario we would have the  
10 charge against retained earnings, which distorts this  
11 somewhat. And as we talked about earlier this morning,  
12 that's going to be pushed out, so.

13 But, yes, with -- with that writeoff to  
14 retained earnings that occurs in that year and under  
15 the scenario that was requested here, that's the kype -  
16 - type of rate increases that we would see.

17 MR. BOB PETERS: Your point was that  
18 the \$241 million of rate-regulated assets won't be  
19 written off against retained earnings in 2014?

20 MR. VINCE WARDEN: That's right.

21 MR. BOB PETERS: But your IFF12, I  
22 believe the number was 225 million, approximately, that  
23 would be written off and recovered over the planning  
24 horizon of the IFF? That was built into IFF12?

25 MR. VINCE WARDEN: It was but with the

1 further work being done by the International Board, it  
2 looks as Mr. Rainkie had indicated earlier, it's looks  
3 like -- earliest we can expect any kind of a decision  
4 now is 2016. So we'll be -- when we come back here  
5 with IFF13, we'll be -- we'll be deferring that yet  
6 again, or we'll have to make a decision as to how we  
7 are going to handle the IFRS issue at that point in  
8 time.

9 We do know at this point that it won't  
10 be a charge against retained earnings in the 2014/'15  
11 year, as we have currently in IFF12.

12 MR. BOB PETERS: What that really tells  
13 the Board is that if the rate-regulated assets of  
14 approximately \$225 million dollars are not written off,  
15 even in 2014, following the test years, the 2.95  
16 percent rate increase that's embedded in IFF12 could  
17 mathematically be a lower number?

18 MR. VINCE WARDEN: It -- it could be  
19 affected somewhat.

20 MR. BOB PETERS: But it would be  
21 mathematically affected?

22 MR. VINCE WARDEN: It would, although,  
23 you have to remember, that's being amortized over a ten  
24 (10) year period as well. So over the term of the  
25 forecast, it's already reflected.



1 MR. BOB PETERS: In that second-last  
2 answer, Mr. Warden, does the Board conclude that  
3 Manitoba Hydro won't seek to impose equal life grouping  
4 of depreciation in 2015?

5 MR. VINCE WARDEN: You know, it's --  
6 that's a policy decision that we'll have to make, but  
7 that would be my expectation, yes.

8 MR. BOB PETERS: Is it also your  
9 expectation that the -- that Manitoba Hydro would not  
10 seek to remove net salvage value from -- from the  
11 depreciation expense in 2015 either?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: Your -- your view is  
14 you would still tie equal life grouping with the net  
15 salvage issue together and impose them in the same test  
16 year?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: Has that been a policy  
19 decision by the Board, or is that one you would  
20 recommend or where was that at?

21 MR. VINCE WARDEN: It was -- it would  
22 be one that we would recommend. And -- and for the  
23 reasons that we indicated earlier, absent the  
24 implementation of IFRS, we'd be looking at an  
25 accounting change with all kinds of retroactive

1 adjustments that would be necessary if we were to do it  
2 without -- without IFRS.

3 MR. BOB PETERS: Can the Board take  
4 from your -- from your answers to me, Mr. Warden, that  
5 you'll be coming back to this Board following this  
6 General Rate Application with Manitoba Hydro's proposal  
7 as to how to deal with IFRS and accounting changes,  
8 going forward?

9 MR. VINCE WARDEN: Yes. I -- I think,  
10 again, as Mr. Rainkie indicated, this was something  
11 that was late breaking and we didn't really become  
12 apprised of, other than through the website informat --  
13 the limited information that's available on the  
14 website. So we'll have to study that further and make  
15 a determination as to how we're going to present that,  
16 going forward.

17 MR. BOB PETERS: All right. I'm going  
18 to turn if I could, Mr. Chairman and Board members,  
19 over to some capital expenditure items. And we've had  
20 some discussion about this. But at page 229, under PUB  
21 Exhibit 14, found under Tab 21, it sets out one of  
22 Manitoba Hydro's responses to -- I think it's  
23 Information Request First Round 93-A, with a chart  
24 dealing with capital expenditures and the evolution of  
25 those expenditures.

1 Mr. Warden, you're familiar with that?

2 MR. VINCE WARDEN: Yes. Yes, I am.

3 MR. BOB PETERS: And I think mine's  
4 marked up. I'm not sure if yours is. But -- I'm not  
5 sure what's in the book.

6 Wuskwatim total project is now \$1.771  
7 billion. Have I got that right? I think I took that  
8 from CEF12.

9 MR. VINCE WARDEN: Yes, that would be  
10 including transmission, I believe.

11 MR. BOB PETERS: Yeah, the transmission  
12 is \$329 million? Or maybe -- sorry.

13 MR. VINCE WARDEN: Three twenty-three  
14 (323), I think.

15 MR. BOB PETERS: Okay, I'll accept  
16 that. And the only -- the other ones of note, let's  
17 just go down to Conawapa. Instead of 7.771 billion,  
18 it's now 10.2 billion?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And then Keeyask has  
21 gone from five point six (5.6), up to 6.2 billion?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: And I appreciate other  
24 items have changed as well; I just haven't gone through  
25 and -- and updated my notes. But those are certainly

1 the major updates. Would that be correct?

2 MR. VINCE WARDEN: Yes, those would be  
3 the -- the major updates.

4 MR. BOB PETERS: When one looks at  
5 Wuskwatim as an example -- and I want to come to some  
6 questions on Wuskwatim later this afternoon -- the  
7 total project costs, when one follows it through -- and  
8 let's go back to CEF03, if we can, Mr. Warden.

9 Was the intention in '03 to provide a  
10 capital cost of the total project in-service at \$988  
11 million?

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: That wasn't a trick  
16 question, so maybe I've asked it wrong.

17 MR. VINCE WARDEN: Sorry, in -- in -- I  
18 -- I was just trying to confirm in -- in the CEF04, I  
19 believe -- oh, yes. I'll -- I'll answer "yes" to that  
20 question, and maybe you can proceed.

21 MR. BOB PETERS: The point I'm getting  
22 at, Mr. Warden, is what you're attempting to  
23 demonstrate in your CEF is the in-service cost of the  
24 project?

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

1 MR. BOB PETERS: When you snip the  
2 ribbon, that's going to be the cost that's going to be  
3 expected to be totally incurred?

4 MR. VINCE WARDEN: That's -- that's the  
5 objective, yes.

6 MR. BOB PETERS: And that contains  
7 forecasts of interest rates, forecasts of construction  
8 costs? All of those things are built into it and  
9 rolled into it?

10 MR. VINCE WARDEN: That's right.

11 MR. BOB PETERS: So when we look at  
12 Wuskwatim and only use it as an example, we can see  
13 that what was forecast in '03, some ten (10) years  
14 later that forecast was -- was considerably incorrect?

15 MR. VINCE WARDEN: Well, it -- it was  
16 revised upwards considerably, yes.

17 MR. BOB PETERS: You said it nicer than  
18 I did. And -- and not -- not being pejorative at all,  
19 Mr. Warden, but the -- there's got to be reasons that  
20 that happened?

21 MR. VINCE WARDEN: Yes. Yes, and with  
22 every capital expenditure forecast, if -- if a project  
23 changes, management submits a -- a justification for  
24 that change before it's approved.

25 MR. BOB PETERS: And some of those

1 increases in cost, presumably, are beyond the control  
2 of Manitoba Hydro , and there may be some that are --  
3 that are within the control of Manitoba Hydro?

4 MR. VINCE WARDEN: That's fair, yes.

5 MR. BOB PETERS: And so when we look at  
6 Wuskwatim going from -- in my numbers, you know, from  
7 900 million up to 1.8 billion, a doubling in cost, what  
8 lessons does the Utility learn from that exercise that  
9 it can apply going forward with its Conawapa and  
10 Keeyask projects that are coming in?

11 MR. VINCE WARDEN: Well, with Wuskwatim  
12 there was definitely a lot going on in the construction  
13 industry during that period of time: huge cost -- cost  
14 escalation in materials, in contracts, competition for  
15 labour, materials. So price escalation was -- was  
16 commonplace in the market over -- over that period of  
17 time when Wuskwatim was -- from the time Wuskwatim was  
18 committed to the time it was ultimately placed in -- in  
19 service.

20 We saw the exact opposite situation with  
21 Limestone, where -- whereby we hit the -- the  
22 marketplace just right. And rather than costing --  
23 costing \$3 billion, as was originally estimated, it  
24 came in at 1.5 billion or 1.4 billion. So it can go  
25 the other way. But as you can see from the -- what's

1 on this page, because of the cost escalation that has  
2 been experienced, it's affected all of our projects.  
3 All of our projects have been affected upwards.

4 MR. BOB PETERS: Well, and I -- when I  
5 look at Conawapa as an example, Mr. Warden, in three  
6 (3) years it's gone from 6.3 billion to ten point two  
7 (10.2), which is some, I suppose, 62 percent increase  
8 in -- in costs in three (3) years.

9 MR. VINCE WARDEN: Yeah, some -- some  
10 of that is -- is because of changing in-service date,  
11 and so it's not totally related to cost -- cost  
12 escalation. The later, of course, the in-service date,  
13 the more it's going to cost just because it's another  
14 year of escalation added to the -- to the project cost.

15 MR. BOB PETERS: Well, it's another  
16 year of carrying the costs.

17 MR. VINCE WARDEN: Yes, and escalation  
18 on the -- on the cost of materials and input -- all the  
19 input costs would have gone up.

20 MR. BOB PETERS: But the -- but as I  
21 understood your previous answers, when Manitoba Hydro  
22 provides a capital expenditure forecast it takes into  
23 account a forecast for increases in labour and  
24 materials, as well as the competition or lack thereof  
25 in the -- in the construction industry?

1 MR. VINCE WARDEN: Yeah, that's right.  
2 And assuming it goes into service in the year in which  
3 was originally projected, that should hold. But if you  
4 delay the -- the in-service date by a year, then  
5 you've got one (1) more year of escalation that has to  
6 be added onto -- onto that project cost.

7 MR. BOB PETERS: When Manitoba Hydro  
8 says, "One (1) more year of escalation," you're talking  
9 about escalation in the wages of -- of labourers or the  
10 cost of materials?

11 MR. VINCE WARDEN: Both of -- both of  
12 those, yes. I mean, if you're -- a dollar today is not  
13 -- is going to be -- going to be a dollar -- two (2)  
14 or three (3) next year. So it's going to be likewise  
15 with all of the input costs for -- for these  
16 facilities.

17 MR. BOB PETERS: So the cost of  
18 delaying the project's in-service will be one (1) of  
19 the factors that isn't planned in the CEFs because you  
20 have an in-service target date.

21 MR. VINCE WARDEN: That's right. And  
22 that's what's not illustrated in this -- in this  
23 particular table, is that the in-service dates for many  
24 of these facilities would have changed and affected the  
25 capital cost for that reason alone.



1 MR. BOB PETERS: And so let's exp --  
2 let's explain to the Board. Why does the in-service  
3 dates change for these projects, Mr. Warden?

4 MR. VINCE WARDEN: Well, there's a  
5 number of different reasons: the length of time -- in  
6 the case of Conawapa, the length of time it takes to  
7 get all -- go through all regulatory and other  
8 approvals, it just was not -- it's not physically  
9 possible to put it into service before 2025.

10 MR. BOB PETERS: And I suppose that may  
11 be a factor that Manitoba Hydro had more control over,  
12 in terms of starting its regulatory approvals earlier?

13 MR. VINCE WARDEN: Yes, the lead times  
14 for these projects are -- seem to be getting longer  
15 rather than shorter though. So we -- we do the best we  
16 can, in terms of coming up with those lead times. And  
17 in this instance it was longer than -- than we had  
18 estimated.

19 MR. BOB PETERS: And do the  
20 counterparties with whom Mr. Cormie negotiates ever  
21 request the in-service date or the commencement date of  
22 the contract be pushed back a year or more?

23 MR. VINCE WARDEN: Maybe I'll let Mr.  
24 Cormie answer that.

25 MR. DAVID CORMIE: They haven't

1 requested that, but Manitoba Hydro knows that the in-  
2 service dates to -- for the new generation on which  
3 the contracts are conditioned are -- are uncertain.  
4 And we negotiate the right to delay deliveries if -- if  
5 necessary.

6 MR. BOB PETERS: I'm sorry, I maybe  
7 didn't follow that as closely as I should have, Mr.  
8 Cormie. But does the -- the term sheets certainly  
9 don't bind Manitoba Hydro to a specific in-service  
10 date, although the -- the term sheets may target an in-  
11 service date.

12 Would that be fair?

13 MR. DAVID CORMIE: The -- the term --  
14 the contracts envision an -- a delivery date in which  
15 electricity begins to flow. And Manitoba Hydro has the  
16 option under the contracts to delay that date if there  
17 is a delay in the -- in the start of construction of  
18 the facility for regulatory reasons, for example. If  
19 we don't get regulatory approval in time or if a  
20 transmission is not built in time, then Manitoba Hydro  
21 has the right to -- to delay the deliveries.

22 MR. BOB PETERS: And with -- have any  
23 of your contracts that have now been signed and are  
24 pending, the delivery dates have been pushed back a  
25 year on -- on one (1) of those?

1 MR. DAVID CORMIE: No, we're still  
2 intending to deliver power under the contracts that we  
3 have according to the -- to the contract. We haven't  
4 in -- we haven't exercised our right to delay, and it's  
5 -- it's still -- there's plenty of time to exercise  
6 that option, Mr. Peters.

7 MR. BOB PETERS: With -- Conawapa has  
8 been pushed back a year, in my terms, in the capital  
9 expenditure forecast. Have I got that right? Its now  
10 in-service date has been moved from Manitoba Hydro's  
11 fiscal '25 to Manitoba Hydro's fiscal '26?

12 MR. DAVID CORMIE: Yes, but none of  
13 Manitoba Hydro's signed contracts are -- require  
14 Conawapa. Only --

15 MR. BOB PETERS: You're saying --

16 MR. DAVID CORMIE: -- only --

17 MR. BOB PETERS: -- they'll be serviced  
18 out of Keeyask?

19 MR. DAVID CORMIE: Yes.

20 MR. BOB PETERS: And, Mr. Warden, back  
21 to you. With -- with Conawapa being deferred a year,  
22 when I look at the page 229 and I see 7.771 billion,  
23 and then going up to 10.2 billion, the one (1) year  
24 delay in in-service isn't the cause of the \$2 1/2  
25 billion of additional costs on Conawapa, is it?

1 MR. VINCE WARDEN: Not totally. I  
2 should be clear. Actually, between IFF11 and IFF12  
3 there's actually a two (2) year delay, because in  
4 IFF11, although we -- we were aware that it was --  
5 Conawapa was delayed one (1) year in that forecast, we  
6 decided -- or determ -- determine -- a determination  
7 was made that there was sufficient contingency in the  
8 forecast such that we wouldn't change the forecast at  
9 that time.

10 When we got to IFF12, the -- the  
11 forecast then reflected a full two (2) year delay in  
12 the -- in the estimate. So that was a portion of the  
13 delay almost -- or of the increase. The other large  
14 component of that increase though was the provision of  
15 a management reserve. So we ni -- we did not have a  
16 management reserve in -- built into the forecast  
17 before. And the concept of a management reserve is to  
18 provide for unforeseen increases.

19 So we go through our estimating process  
20 as we normally do. And then on top of that, which we  
21 have not done with either Keeyask or Conawapa in the  
22 past, we've added this -- this concept of a management  
23 reserve, such that it should provide for any unforeseen  
24 circumstances that might arise before the plant is  
25 actually constructed.

1 MR. BOB PETERS: Is this management  
2 reserve a new concept used by Manitoba Hydro?

3 MR. VINCE WARDEN: Yes, it is.

4 MR. BOB PETERS: And can you file with  
5 the Board the breakdown of that management reserve,  
6 specifically with Conawapa and with, I guess, Keeyask?

7 MR. VINCE WARDEN: Yes. Yes, we can do  
8 that.

9 MR. BOB PETERS: And how much of -- how  
10 much of the additional capital cost is attributed to  
11 just the delay in in-service? Will that be shown on  
12 that information?

13 MR. VINCE WARDEN: Yes, we'll -- we'll  
14 take an undertaking to -- to breakdown the increase  
15 from the 7.8 billion for Conawapa to the 10.2 billion  
16 current estimate.

17 MR. BOB PETERS: Likewise, will you do  
18 Keeyask from 5.6 to 6.2 billion?

19 MR. VINCE WARDEN: Yes, we can do that,  
20 as well.

21

22 --- UNDERTAKING NO. 46: Manitoba Hydro to provide a  
23 breakdown of the increase  
24 from the 7.8 billion for  
25 Conawapa to the 10.2

1 billion current estimate;  
2 and Keeyask from 5.6 to 6.2  
3 billion; and to indicate  
4 if, in Conawapa, there was  
5 a two (2) year change, or  
6 whether it was only one (1)  
7 year

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: And was there a  
11 management reserve taken in the case of Wuskwatim?

12 MR. VINCE WARDEN: No.

13 MR. BOB PETERS: I'm just wondering,  
14 when you take that undertaking, Mr. Warden, could you  
15 just double check your in-service dates on Conawapa to  
16 see if -- if there was the change, the two (2) year  
17 change that you referenced, or whether it was only one  
18 (1) year, just check that as well, please.

19 MR. RAYMOND LAFOND: What is the in-  
20 service date of Keeyask?

21 MR. VINCE WARDEN: 2019. Yes, I can do  
22 that, Mis -- Mr. Peters. But I -- I can tell you was a  
23 two (2) year deferral in IFF12.

24 MR. RAYMOND LAFOND: If Keeyask is --  
25 is -- if Keeyask is -- has an in-service date of 2019,

1 why does it incur so many costs in 2020 to 2022; like,  
2 well over a billion dollars?

3

4

(BRIEF PAUSE)

5

6 MR. DAVID CORMIE: M. Lafond, that  
7 first unit is in-service in the fall of 2019. And the  
8 subsequent units come in over the next while. So, it -  
9 - this doesn't -- the station doesn't come all into  
10 service at one point in time; it's spread out over --  
11 over two (2) years.

12 THE CHAIRPERSON: I guess a particular  
13 concern to me in this rate application is that fact  
14 that Wuskwatim came in considerably over-budget and  
15 later than expected. And I guess, you know, we can't -  
16 - in this rate application we are to some extent  
17 concerned about future costs, but clearly we're now  
18 expecting ratepayers to pay for the cost of the dam  
19 that just started operation where the costs are way  
20 higher than what had -- originally projected and -- and  
21 that included the operating costs.

22 So, I think we need to do some soul  
23 searching about what happened and why we are now  
24 expecting ratepayers to pay for that. I think we at  
25 least owe the ratepayers a fairly thorough explanation

1 of what -- what happened and what, if any lessons we  
2 can draw from that ex -- exercise. Because you know,  
3 that's a lot of money off -- that's off base and we  
4 expect people to pay for that now.

5                   And it seems to me that we -- we need to  
6 look back at what happened and -- and if only to -- to  
7 explain to Manitobans that we did the very best that we  
8 could under the circumstances. But I also think that  
9 we owe it to them to -- to be in a position to say,  
10 Okay, we've learned some lessons here and we're going  
11 to apply them in the future to make sure that we don't  
12 go off base on some of these even more significant  
13 capital projects.

14                   So, I guess my -- I guess, you know, if  
15 we're going to be looking at -- my -- my question would  
16 be: Would it be possible, if we're going to be looking  
17 at what's happened with the projected costs for the two  
18 (2) major dams that are being planned, would it be  
19 possible also to look back and say, Okay, what happened  
20 with respect to the previous construction project? It  
21 seems to me that we should be able to examine what  
22 happened. And -- and I don't know that we're looking  
23 for detailed examination so much as we are looking for  
24 an understanding of what happened with respect to the  
25 progression and costs and the -- and the shift -- the



1 shifting in the time-lines, all of which had a big  
2 impact in -- in the end results.

3 I wonder if -- could you undertake to do  
4 that please?

5 MR. VINCE WARDEN: Yes, Mr. Chairman.  
6 I actually thought we had something on the record in  
7 that regard, but we're having difficulty just putting  
8 our hands on it. So, we -- we -- we will undertake to  
9 provide a explanation of the escalation in costs from -  
10 - for Wuskwatim from the first estimate to the --  
11 through to the final cost.

12

13 --- UNDERTAKING NO. 47: Manitoba Hydro to provide a  
14 explanation of the  
15 escalation in costs for  
16 Wuskwatim from the first  
17 estimate through to the  
18 final cost; and provide an  
19 explanation of how the  
20 management reserve was  
21 derived; and to indicate  
22 what level of reliability  
23 they have that the current  
24 capital estimates are going  
25 to be accurate on in-

1 service date

2

3 THE CHAIRPERSON: Now, I realize that  
4 this is part of what you're talking about now in terms  
5 of, you know, including a management reserve and so on,  
6 but that obviously would be something that's been  
7 learned from the last exercise. So, that's the kind of  
8 thing that I -- I think I would like to have addressed  
9 if possible.

10 MR. TERRY MILES: I would know, Mr.  
11 Chairman, we did submit a response to an Information  
12 Request from CAC; it's Round 1 and it's Response 73C.  
13 And in there it's provided a high level description of  
14 the changes in cost. That's CAC/MH Round 1 73C.

15

16 (BRIEF PAUSE)

17

18 THE CHAIRPERSON: I don't think I've  
19 got the right one, but, nonetheless, why don't we agree  
20 that I'll take a look at what we have and then we can -  
21 - I can raise this as a topic later on.

22 MR. VINCE WARDEN: Yeah, that --  
23 that...

24

25 (BRIEF PAUSE)

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10 CONTINUED BY MR. BOB PETERS:

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MR. VINCE WARDEN: Yes, Mr. Chairman,  
just to conclude on that, perhaps. We did look at  
CAC/MH-73, and I think that's probably a little bit  
higher level than what you were looking for. So we  
will undertake to provide that in more detail than  
what's -- what is provided there.

THE CHAIRPERSON: Thank you very much.

MR. BOB PETERS: Mr. Warden, how did  
Manitoba Hydro determine that a management reserve  
should be taken with respect to Conawapa?

MR. VINCE WARDEN: Well, I think it's  
partly explained by page 229, Mr. Peters. Of course,  
management is very concerned as well about the  
escalating costs. And there was a complete re-estimate  
of Conawapa, as I understand. And with that re-  
estimate there were some un -- uncertainties that were  
still identified, and rather than being faced with  
having to continually update this estimate, it was  
determined that a management reserve, as is being used  
in other jurisdictions, is the prudent way to go with  
this.

So -- so yeah, that's basically what was

1 done in terms of --

2 MR. BOB PETERS: And how did -- how did  
3 management set the -- the quantification of that level?

4 MR. VINCE WARDEN: Mr. Peters, perhaps  
5 it would be more efficient to include that in the  
6 undertaking that we have -- we've committed to.

7 MR. BOB PETERS: Yes, thank you, sir.  
8 Just while we're on this topic...

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARDEN: We'll -- we'll  
13 capture that in the previous undertaking that we took  
14 with respect to providing an explanation of the  
15 increases in -- in the capital cost estimate for  
16 Conawapa and Keeyask, including an explanation of how  
17 the management re -- reserve was derived.

18 MR. BOB PETERS: Mr. Warden, when I  
19 look at page 229 in the book of documents and I write  
20 in my IFF12 column like I have, what level of  
21 reliability does Manitoba Hydro now have that the  
22 current capital estimates are going to be accurate on  
23 in-service date?

24

25 (BRIEF PAUSE)

1 MR. VINCE WARDEN: We'll include that  
2 as -- as part of the undertaking, Mr. Peters.

3 MR. BOB PETERS: All right. Thank you  
4 for that.

5 Mr. Warden, I don't see any updated  
6 number on account of Bipole 3. Can the Board interpret  
7 that to mean that the most current capital forecast  
8 cost of in-service of Bipole 3 is the \$3.3 billion?

9 MR. VINCE WARDEN: Yes.

10 MR. BOB PETERS: And does that include  
11 mitigation and compensation, or is that just the -- the  
12 metal and the wire, so to speak?

13 MR. VINCE WARDEN: No, it does include  
14 mitigation and compensation as well.

15 MR. BOB PETERS: And does that include  
16 synchronous condensers, or not include synchronous  
17 condensers, or do we know?

18 MR. VINCE WARDEN: It -- it does  
19 include the con -- conversion equipment.

20 MR. BOB PETERS: There's been no  
21 management reserve taken for that particular capital  
22 expense item?

23 MR. VINCE WARDEN: No, there has not.

24 MR. BOB PETERS: Is it just Conawapa  
25 that has a management reserve now?

1 MR. VINCE WARDEN: No, Con -- Conawapa  
2 and Keeyask.

3 MR. BOB PETERS: All right. And the  
4 undertaking will show how big it is for Keeyask,  
5 correct?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: Yeah. I don't want to  
8 go through too many of the capital expenditures, other  
9 than I want to -- there's one (1) new topic that  
10 appears, to me anyway, in the -- in the capital  
11 expenditure forecast.

12 And, Mr. Chairman, the capital  
13 expenditure forecast found on pages 220 -- sorry, 230,  
14 all the way through to 233 and following all the way  
15 through to 237, they've been replaced by Capital  
16 Expenditure Forecast '12 in amounts.

17 But there's a -- Mr. Warden, are you  
18 able to explain, or perhaps Mr. Cormie, there's a  
19 north/south alternating current line as one of the  
20 projects?

21

22 (BRIEF PAUSE)

23

24 MR. DAVID CORMIE: Mr. Peters, when --  
25 at some point in time in the future, after Bipole 3 is

1 built, there's still insufficient north/south  
2 transmission to serve Manitoba load on a firm basis.  
3 And so additional north/south transmission from  
4 Northern Manitoba to the south is needed and there's  
5 funds in the capital expenditure forecast for that  
6 additional transmission.

7 MR. BOB PETERS: \$318 million, correct?  
8 Is that what I read?

9 MR. DAVID CORMIE: Yes.

10 MR. BOB PETERS: I guess I'm looking at  
11 CEF11-2, Mr. Cormie, with you, but that may have been  
12 revised in CEF12. I don't have that right in front of  
13 me, but --

14 MR. RAYMOND LAFOND: I'm sorry, I need  
15 to understand this. We're saying that eventually there  
16 needs to be a Bipole 4?

17 MR. DAVID CORMIE: Well, eventually  
18 there -- as we develop the balance of the hydro  
19 potential in Northern Manitoba more transmission will  
20 be needed. Bipole 4, whether it's DC or AC, I believe  
21 at this time it's planned to be AC transmission, not  
22 additional DC transmission. So from my understanding,  
23 we've -- once we've built Bipole 3 there will be no  
24 additional DC built.

25 MR. BOB PETERS: Maybe help me with

1 that, Mr. Cormie. As we sit here today, there is  
2 sufficient north/south transmission to serve Manitoba  
3 on a firm -- on a firm basis, correct?

4 MR. DAVID CORMIE: No, there's not;  
5 that's why we're building Bipole 3.

6 MR. RAYMOND LAFOND: But when Bipole 3  
7 has been built, there is sufficient to take care of the  
8 two (2) next projects: Keeyask and Conawapa?

9 MR. DAVID CORMIE: There -- there is  
10 sufficient transmission to bring northern generation  
11 south. However, a portion of that energy will be  
12 exported, and it's subject to curtailment rights. And  
13 so if we have problems with -- with the DC system, we  
14 can curtail our exports and -- and continue to serve  
15 Manitoba load.

16 But as the Manitoba load grow --  
17 continues to grow through the '20s and into the '30s,  
18 we'll have to reinforce north/south transmission  
19 further with AC upgrades so that we can continue to  
20 serve Manitoba load on a firm basis. Right now, we  
21 serve it on a firm basis because we have the right to  
22 curtail exports.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Then I'm -- I'm not



1 understanding a previous answer you gave me. Manitoba  
2 Hydro serves 100 percent of domestic load -- that is,  
3 not-interruptible load -- on a firm basis?

4 MR. DAVID CORMIE: Yes.

5 MR. BOB PETERS: And with the addition  
6 of Bipole 3, that will enhance the ability to serve  
7 Manitoba's domestic load, will it not?

8 MR. DAVID CORMIE: Yes, until we get  
9 into -- you know, I -- I'm not sure of the year; it's  
10 in the capital expenditure forecast. But at -- in --  
11 in 20 -- just a minute. Oh, I'm -- I stand corrected.  
12 It does come in -- it is timed to come into service  
13 with Conawapa.

14 MR. BOB PETERS: So that means that  
15 because Conawapa Energy will be exported, you need some  
16 more reliability transmission for Manitoba's domestic  
17 load?

18 MR. DAVID CORMIE: Yes, as the -- as  
19 Conawapa comes into service we need more north/south  
20 transmission to -- to serve firm load.

21 MR. RAYMOND LAFOND: And the total  
22 estimated cost of that is three hundred and ninety-five  
23 thousand (395,000) compared to what we're talking with  
24 Bipole 3?

25 MR. DAVID CORMIE: It's \$318 million.

1 Yes.

2 MR. RAYMOND LAFOND: I see three  
3 hundred (300) -- I see three hundred and ninety-five  
4 (395) in IFF12.

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: Yeah, we have -- Mr.  
8 Cormie and myself, sir, we're looking at Board  
9 counsel's book of documents which had only the CEF11-2.

10

11 But Mr. Cormie can confirm that in CEF12  
12 the additional north/south transmission comes in at  
13 \$396 million.

14 MR. DAVID CORMIE: Yes, I see that now,  
15 yes.

16 MR. RAYMOND LAFOND: Why would it be,  
17 like, 10 percent of the cost or 12 -- 15 percent of the  
18 cost of Bipole 3?

19 MR. DAVID CORMIE: It -- it's not a new  
20 transmission line all the way from northern Manitoba to  
21 the south. It's incremental changes to the AC network.  
22 So we do have AC transmission that -- that comes from  
23 northern Manitoba to southern Manitoba, and so these  
24 would be reinforcements.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: It's a supplement to  
3 the HVDC system?

4 MR. DAVID CORMIE: No, it would be a  
5 supplement to the AC system, not the DC.

6 MR. BOB PETERS: Well, it would enhance  
7 the AC system as it currently is, but it would be  
8 provided because the DC system isn't sufficiently  
9 sized?

10 MR. DAVID CORMIE: Well, the DC will be  
11 sized appropriately, but additional transmission  
12 capability will be required.

13 MR. BOB PETERS: And the additional  
14 transmission capability is required, but there's no new  
15 generating stations?

16 MR. DAVID CORMIE: No, it's about  
17 reliability.

18 MR. BOB PETERS: So it would bring  
19 power from Northern Manitoba to allow for exporting  
20 through Southern Manitoba?

21

22 (BRIEF PAUSE)

23

24 MR. DAVID CORMIE: I -- I don't believe  
25 so, Mr. Peters, because none of our -- our transmission

1 system isn't designed to serve the export sales. It --  
2 all export contracts are curtailable for -- for  
3 transmission. So none of our export sales have the  
4 same reliability requirements as the Manitoba load  
5 does.

6 They're not firm from a transmission  
7 perspective. They trans -- in-transmission  
8 interruptions are a reason for curtailment. So  
9 although the energy can be sold, it can't be sold on  
10 the same basis as it's sold to our domestic customers.

11 MR. BOB PETERS: And, Mr. Cormie, I'm -  
12 - I apologize if I'm being obtuse on this, but I had  
13 understood that Bipole 3, at least partially, was being  
14 used for reliability upgrades to Manitoba, domestic  
15 customers?

16 MR. DAVID CORMIE: Oh, it's comple --  
17 it's required completely to serve Manitoba, but it  
18 creates transmission so that energy can be sold on the  
19 export market.

20 MR. BOB PETERS: And if reliability is  
21 enhanced through the Bipole 3 project, why are further  
22 enhancements needed of -- of the magnitude that we're  
23 talking here, \$396 million?

24 MR. DAVID CORMIE: Because the Manitoba  
25 load continues to grow, and it will outgrow the

1 capability of Bipole 3 to supply it on a reliable  
2 basis, so additional transmission will be required.

3 And, you know, given the amount of money  
4 involved that far into the future, I suspect that these  
5 are not significant projects, Mr. Peters.

6 MR. RAYMOND LAFOND: Can you explain to  
7 me a wee bit technically what that involves? This  
8 additional AC transmission is incremental to the three  
9 (3) lines, Bipole 1, 2 and 3?

10 MR. DAVID CORMIE: Yes, they will be --  
11 it is incremental.

12 MR. RAYMOND LAFOND: On the three (3)  
13 lines?

14 MR. DAVID CORMIE: No, on the AC  
15 network, not on the DC network.

16 MR. RAYMOND LAFOND: And what is the AC  
17 network presently? Is it part of Bipole 1, Bipole 2,  
18 or...?

19 MR. DAVID CORMIE: No, the -- the --  
20 Manitoba Hydro's transmission system can be broken down  
21 into high-voltage DC. And that's what we're all  
22 familiar with. It's been in the news. But their --  
23 most of the transmission system throughout the province  
24 is not DC; it's AC. And there's a significant  
25 north/south transfer capability on the AC system, and -

1 - and we will be enhancing that under this project.

2 MR. RAYMOND LAFOND: In, and again, not  
3 too many words, what kind of -- what's involved with  
4 these enhancements? I mean, could you give me a wee  
5 bit of -- just for my own education here?

6 MR. DAVID CORMIE: Mr. Lafond, maybe  
7 we'll take that as a undertaking. We'll give you a  
8 description of what north/south transmission additions  
9 are.

10 MR. RAYMOND LAFOND: I'm not looking  
11 for something very lengthy. It's just something to  
12 have an idea of what this all means so I have some  
13 understanding.

14

15 --- UNDERTAKING NO. 48: Manitoba Hydro to provide a  
16 description of what  
17 north/south transmission  
18 additions are

19

20 MR. TERRY MILES: Well, it could be as  
21 simple as some additional extra lines connecting places  
22 where there's -- where there's gaps. It could be some  
23 initial infrastructure, some transformers in that -- in  
24 the north and in the south where there are bottlenecks,  
25 if you will, congestion points, as we've talked about

1 earlier, and from the north to the south. And there's  
2 a number of places, as Mr. Cormie indicated.

3                   We do have a -- a AC system going from  
4 the north to the south. So these increments could be  
5 part of that system. They could be part of the HVDC  
6 system. They could be incremental to a number of  
7 things. I think the key point though is that a  
8 decision has not been made as to what the projects are  
9 and when they will be made. The timing of them is with  
10 the seventh unit of Conawapa. So it is out in '25/'26,  
11 '26 time frame. So there is still time to do the  
12 studies and the analysis around that. So the specific  
13 details of what really is required will come with time,  
14 from a transmission design perspective.

15                   I mean, I'm not a transmission design  
16 engineer, but I do understand that those detailed  
17 studies haven't been undertaken to determine exactly  
18 what would have to be done for those incremental  
19 things. But -- but it is that. It's additional lines,  
20 some additional equipment. It's not like the HVDC  
21 system, where they have a major converter station in  
22 the north and the south associated with that.

23                   MR. RAYMOND LAFOND: So, it's  
24 essentially additional lines -- lines, additional  
25 equipment, filling in gaps, but on the current three

1 (3) Bipoles essentially. Attach to this or link to  
2 that.

3 MR. TERRY MILES: It's not attached to  
4 the Bipoles. It could be. There could be some  
5 incremental improvements in the Bipoles. There could  
6 be some incremental improvements in the AC. But the  
7 Bipoles and the AC system are two (2) separate -- they  
8 are two (2) separate systems and they operate  
9 independently.

10 MR. RAYMOND LAFOND: So it is,  
11 essentially, a fourth system of lines coming through?

12 MR. TERRY MILES: There -- there is  
13 already that AC link; but, in essence, yes. If that's  
14 the case, yeah.

15 MR. RAYMOND LAFOND: That's all I need.  
16 Thank you.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: I think there's going  
20 to be more specifics provided, so we'll leave the  
21 undertaking as is. And Manitoba Hydro, if they could  
22 just review it and decide if anything further is  
23 needed. Would that be acceptable?

24 MR. TERRY MILES: I'm not sure there's  
25 any specifics that we can provide at this time.



1 MR. BOB PETERS: You could check that  
2 and indicate in your response?

3 MR. TERRY MILES: I guess so, sure.

4 MR. BOB PETERS: Mr. Cormie, Manitoba  
5 Hydro expects to export Conawapa energy under firm and  
6 dependable export contract terms, does it?

7 MR. DAVID CORMIE: Yes.

8 MR. BOB PETERS: And can Manitoba Hydro  
9 export Conawapa energy without Bipole 3?

10 MR. DAVID CORMIE: No.

11 MR. BOB PETERS: Can Manitoba Hydro  
12 export Conawapa energy without the additional northwest  
13 transmission project, or do you know at this point in  
14 time?

15 MR. DAVID CORMIE: Yes, we can.

16 MR. BOB PETERS: You can export  
17 Conawapa energy without this north/south project?

18 MR. DAVID CORMIE: I believe so.

19 MR. BOB PETERS: Okay.

20 THE CHAIRPERSON: I'm sorry, I lost you  
21 along the way. North/south project, you were referring  
22 to?

23 MR. BOB PETERS: The north/south, the  
24 AC project, the one that's the \$396 million, Mr.  
25 Chairman, that we were -- were talking about.

1 MR. TERRY MILES: Just -- just to  
2 clarify, I think if characterized in the CEF as  
3 additional north/south transmission. I think we should  
4 be careful calling it the north/south AC project. It's  
5 just additional north/south transmission. We don't  
6 want to get that in the -- on the record that it's  
7 specifically the AC line, just as nuance.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: Thank you Mr. Miles  
11 for correcting me. Do you know, Mr. Miles, from your  
12 previous answer, you're telling the Board that there  
13 are really no capital project justification yet  
14 prepared for that expenditure? Maybe Mr. Warden can  
15 assist us.

16 I was asking Mr. Miles whether or not,  
17 in light of his previous answer that the studies  
18 haven't been done and the like, whether there is an  
19 existing capital project justification form for the  
20 additional north/south transmission?

21 MR. VINCE WARDEN: Mr. Peters,  
22 typically for a project to make its way into the  
23 capital expenditure forecast, there is a CPJ, or -- or  
24 a capital project justification. In this particular  
25 case, though, this has been -- and I know we don't like

1 to use the term, but in this particular case it's been  
2 put -- put in there as a placeholder. There -- and --  
3 and, you know, part of our undertaking will explain why  
4 that is necessary.

5 I do recall reading and -- and it's a  
6 very technical issue, I believe, with respect to Bipole  
7 3, that this north/south transmission AC is required in  
8 conjunction, at some point in time. And that's about  
9 as much as I know about it. But I -- I do know there  
10 is a technical reason as to why that is required. In -  
11 - in our undertaking we will, perhaps, provide that.  
12 Well, in fact, we will provide more -- more fulsome  
13 justification for that, or expla -- explanation of  
14 that.

15 MR. BOB PETERS: All right. And just  
16 to test -- make sure I'm clear, I had understood from  
17 Mr. Cormie's previous answer that it was a reliability  
18 issue, as opposed to, say, a -- a quality of power  
19 issue.

20 Do you know that to be correct, or am I  
21 -- am I making an -- an error in my assumption?

22 MR. DAVID CORMIE: I think we should  
23 leave that for the undertaking, Mr. Peters.

24 MR. BOB PETERS: Thank you for that,  
25 sir. Would it -- maybe my last question: Would this

1 additional AC transmission be required if Bipole 3 was  
2 on the east side of Manitoba?

3 MR. DAVID CORMIE: I think we'll have  
4 to leave that to the undertaking, Mr. Peters.

5 MR. BOB PETERS: All right. Let --  
6 it's the same undertaking and there's been some sub-  
7 parts to it. And we'll -- we'll sort that out when we  
8 get the response. So we'll just leave it as the  
9 undertaking that was given and we'll be happy with  
10 that.

11 MR. RAYMOND LAFOND: Actually, I'd --  
12 I'd like to ask two (2) more questions. I did allude  
13 to this earlier on in the hearings. I -- I had a  
14 question in regards to the timing of the projects,  
15 Conawapa versus Keeyask. And -- and I'd like at this  
16 time to rephrase this a bit differently.

17 Conawapa, the cost per megawatt is  
18 something like \$6.2 million. I'm sorry, I have this  
19 here somewhere. Like, it's about 30 -- 30 percent less  
20 per megawatt hour to build Conawapa than both Keeyask  
21 and Wuskwatim. So I have to wonder why there could  
22 have been 66 percent more power for only 28 percent  
23 more cost?

24 So why would have proceeded with that  
25 type of timing? Why build Keeyask and -- and

1 Wuskwatim, rather than just going and building Conawapa  
2 at a much cheaper cost per megawatt hour?

3

4 (BRIEF PAUSE)

5

6 MR. VINCE WARDEN: Well, Mr. Lafond,  
7 both projects are required ultimately to serve the  
8 Manitoba load. So if we set that as -- as fundamental,  
9 then the -- the question becomes which is -- is the  
10 most manageable project to serve -- the next plant in  
11 the sequence to serve the Manitoba load?

12 So with a requirement in 2022, Keeyask  
13 being the smaller of the two (2) plants at 695  
14 megawatts, that will only serve -- serve the Manitoba  
15 load for just over six (6) years. So Conawapa will be  
16 required immediately in 2025 time frame. So you could  
17 -- we could build Conawapa first and then defer  
18 Keeyask. But, you know, they're -- both plants are  
19 required for -- for Manitoba load purposes. And  
20 Keeyask better fits the export sales contracts that  
21 we've negotiated.

22 MR. RAYMOND LAFOND: I guess my second  
23 question is, the projections are till 2032. So that's  
24 twenty (20) years, and I -- I do see, of course, the  
25 projections for Keeyask and Conawapa. Certainly that

1 doesn't mean that capital ends forever after. There's  
2 got to be some planning on some other projects and some  
3 costs incurred before 2032, otherwise I'm hearing that  
4 we will simply not need any other capital projects till  
5 2042, '45, or '50, because the timeline on these are  
6 like fifteen (15) years or so.

7 MR. TERRY MILES: Well, our power  
8 resource plan as filed, Mr. Lafond -- goes out to  
9 2047/'48. I think the 2000 of '12/'13, but -- the  
10 2012/'13 plan I'm just -- happening to be looking at,  
11 goes out to 2047/'48. Now, we do look at those in  
12 terms of the planning process and -- and look out as to  
13 when we need resources.

14 MR. RAYMOND LAFOND: I will look at  
15 that. Thank you.

16 MR. TERRY MILES: Okay.

17 MR. VINCE WARDEN: Just to -- sorry,  
18 just a correction. I -- I think I said Keeyask would  
19 serve the Manitoba load for about six (6) years. I  
20 think it's -- it's more like nine (9) years that --  
21 based on load growth of about 80 megawatts per -- per  
22 year, so it's closer to nine (9) years.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: I'd like to turn to

1 the other Bi-poles, Bi-poles 1 and 2. And in the  
2 capital expenditure forecast 11-2, that's in Tab 21, it  
3 shows that there's some major expenditures going in  
4 place with respect to Bi-poles 1 and 2.

5 Have I got that correct?

6 MR. DAVID CORMIE: Yes.

7 MR. BOB PETERS: And I'm not sure if I  
8 have the number correct, Mr. Cormie, but I thought from  
9 2012 out to 2032 there's about \$1.3 billion being spent  
10 on the -- on those two (2) lines, those existing to  
11 Bipole lines.

12 Have I got that right?

13 MR. DAVID CORMIE: Mr. Peters, I'm not  
14 sure if it's correct to ascribe all the work to the  
15 transmission lines then, per se, or if it's the  
16 facilities at the converter stations.

17 MR. BOB PETERS: Okay. And that --  
18 that might be help -- so it might be more accurate to  
19 categorize these as converter expenses?

20 MR. DAVID CORMIE: Converter station  
21 expenses, yes.

22 MR. BOB PETERS: What were the initial  
23 in-service dates of Bipoles 1 and 2? Does anybody  
24 recall?

25

1 (BRIEF PAUSE)

2

3 MR. DAVID CORMIE: Kettle generating  
4 station initially ran AC, Mr. Peters, on the DC lines.  
5 The converter equipment came in shortly after that on  
6 Bipole 1, and Bipole 2 would have come into service in  
7 the late '70s coincident with the in-service of Long  
8 Spruce.

9 MR. BOB PETERS: And what would be your  
10 estimate then on the -- the Bipole 1 coming in-service  
11 even though it was used for AC out of Ket -- out of  
12 Kettle?

13 MR. DAVID CORMIE: You know, I -- I  
14 don't have the exact date, but it's probably around  
15 1972 or '73 thereabouts.

16 MR. BOB PETERS: That's fine for my  
17 purposes and thank you for that, Mr. Cormie.

18 And what about the in-service dates on  
19 the converter facilities, do you know that?

20 MR. DAVID CORMIE: Well, those -- those  
21 were the dates that I was referring to. The  
22 transmission line went in initially and -- and it ran  
23 as AC -- as an AC line with the initial generation from  
24 Kettle, and -- and subsequently it was converted to a  
25 DC line. And in order to operate DCE then the



1 converter facilities had to operate.

2 MR. BOB PETERS: Do you know the life  
3 expectancy of the upgraded converter facilities, Mr.  
4 Cormie?

5 MR. DAVID CORMIE: No, I don't.

6 MR. BOB PETERS: And what about the  
7 life expectancy of the transmission lines on...

8

9 (BRIEF PAUSE)

10

11 MR. VINCE WARDEN: Mr. Peters, that  
12 would be indicated in our depreciation study. We'd  
13 have to dig that out just to see what the remaining  
14 useful life estimate is, but we don't have that right -  
15 - readily.

16 MR. BOB PETERS: No, we'll check that.  
17 And if we require it, we'll get back to the Corporation  
18 on that.

19 MR. VINCE WARDEN: Okay.

20

21 (BRIEF PAUSE)

22

23 MR. DAVID CORMIE: Mr. Peters, the  
24 Dorsey converter station was put in service in 1968,  
25 but it would have operated AC at that time. And -- and

1 then Bipole 2 would have come into service in 1977, and  
2 it would have operated at DC from the get-go.

3 MR. BOB PETERS: Thank you for that.

4 Has Manitoba Hydro concluded that there will be no  
5 additional energy or capacity revenue gains from these  
6 upgrades on Bipoles 1 and 2?

7 MR. DAVID CORMIE: Well, I thi -- I --  
8 I think those gains are included in the -- the numbers  
9 that we attribute to Bipole 3, because the entire DC  
10 system will run more efficiently as the average loading  
11 on all -- on Bipole 1 and Bipole 2 decrease.

12 MR. BOB PETERS: All right. So for  
13 whatever gains there are, they've been just attributed  
14 for -- to Bipole 3 as a matter of convenience?

15 MR. DAVID CORMIE: Yes, the incremental  
16 capacity that Bipole 3 supplies relieves Bipole 1 and  
17 2, and that -- and the overall efficiency gains are  
18 shown as additional capacity and energy available to  
19 serve load.

20 MR. BOB PETERS: The issue of Pointe du  
21 Bois is one that has been raised and questions posed.  
22 I should just indicate at this time, with the  
23 concurrence of my colleague, Ms. Ramage, that over the  
24 holidays -- I think, more accurately last week or this  
25 last weekend -- additional questions came from -- on

1 behalf of the Board were -- were posed as pre-ask  
2 questions related to Point du Bois.

3           And I don't propose to go into those on  
4 the record at this point in time. I would accept those  
5 as responses in writing when Manitoba Hydro gets to  
6 them, unless there's some issues at this point in time.

7           MS. PATTI RAMAGE: I can only advise  
8 the questions only came to my attention this morning,  
9 so we haven't had an opportunity to fully review them  
10 to -- to determine how they'll be responded to or -- or  
11 exactly how long it'll take to respond to them.

12

13 CONTINUED BY MR. BOB PETERS:

14           MR. BOB PETERS: All right. Thank you.  
15 I would turn -- and we've gone through quite a bit on  
16 the power resource plan already, as it turns out. But  
17 on page 246 of the book of documents, the last page in  
18 Tab 22, there is a supply/demand balance chart that has  
19 inferentially been referenced by Mr. Warden and, I  
20 think, by the Chairman and Board member Lafond.

21           First of all, the purpose of the  
22 supply/demand information is to provide a general  
23 indication as to when Manitoba Hydro will be either  
24 short on energy or short on capacity. Would that be --  
25 would that be a fair conclusion?

1 MR. TERRY MILES: Yes, that would be a  
2 fair conclusion, yes. Sorry.

3 MR. BOB PETERS: And in the -- Manitoba  
4 Hydro filed as Exhibit 11 an updated power resource  
5 plan, and that's one that Mr. Miles referred to just a  
6 few minutes ago. But when we look at page 246, and it's  
7 not in colour, but it depicts items that are circled,  
8 in terms of dependable energy.

9 And the suggestion is that in 20 -- in  
10 2009/'10, Manitoba Hydro could see itself short of  
11 dependable energy in the year 2022/'23, Mr. Miles?

12 MR. TERRY MILES: That's correct.

13 MR. BOB PETERS: And then when it was  
14 updated by the 2010/2011 power resource plan, the  
15 energy shortage -- or dependable energy shortage jumped  
16 a year earlier, as early as 2021/'22?

17 MR. TERRY MILES: That's correct.

18 MR. BOB PETERS: And then in the  
19 2011/2012 power resource plan, the dependable energy  
20 started surfacing in 2020 and 2021, correct?

21 MR. TERRY MILES: That's correct.

22 MR. BOB PETERS: Now, the Exhibit 11  
23 that's been filed, the dependable energy shortage  
24 doesn't occur now until 2022/'23, if I've got that  
25 right?

1 MR. TERRY MILES: That's correct.

2 MR. BOB PETERS: In terms of looking at  
3 winter peaking capacity, as opposed to energy, capacity  
4 was a concern in the 2009 power resource plan out in  
5 the year 2025, correct, Mr. Miles?

6 MR. TERRY MILES: That's correct.

7 MR. BOB PETERS: There was -- it shows  
8 a shortage of 53 megawatt hour -- megawatts, sorry, of  
9 capacity?

10 MR. TERRY MILES: Yeah, that's correct.

11 MR. BOB PETERS: Likewise, in the  
12 intervening power resource plans, that winter peaking  
13 capacity shortage and shortfall came forward. And in  
14 2011/'12, it was evident in 2021/'22?

15 MR. TERRY MILES: That's correct.

16 MR. BOB PETERS: And under the new  
17 power resource plan, the winter peaking shortage gets  
18 pushed out to 2024/'25. Have I got that right?

19 MR. TERRY MILES: I think it's '25/'26  
20 on my --

21 MR. BOB PETERS: Okay. One of us is  
22 right. Let's just...

23 MR. ANTOINE HACAULT: Page 17.

24 MR. BOB PETERS: Okay, sorry about  
25 that. It's '25/'26. Can you indicate, Mr. Miles and

1 Mr. Cormie, if we were short that capacity this year  
2 for some reason that Manitoba Hydro didn't forward plan  
3 for, how would you meet that? What would be your  
4 options?

5 MR. TERRY MILES: One of the things  
6 that we do incorporate into the -- into the supply  
7 demand when we do the power resource plan, is a 12  
8 percent -- there's a 12 percent capacity reserve. So  
9 that does allow for, as we move forward, if there is a  
10 year out in the future that we are short out in time.  
11 You know, one (1) year, two (2) years, as we move out.  
12 For example this year, say, that was -- that was the  
13 case. So from a planning perspective we make sure that  
14 we have the system resources in -- in place to do that.

15 From a -- I guess at that -- at that  
16 time, then, I guess there are potential to settle, if -  
17 - if that is required and we are in a position where we  
18 need that capacity and we have the weather that  
19 requires that. I believe in the short term, really  
20 short term, if it was just sort of the operating time  
21 frame that's there, there are provisions that we are  
22 able to do to get that capacity from the marketplace,  
23 et cetera, depending on how much it was. But some of  
24 the minor shortfalls that are here are probably -- are  
25 probably -- it's reasonable to consider that.

1                   What we do consider is when there is --  
2 as we go out in the planning horizon, and you'll see as  
3 we go out in time, you'll see the -- it's not in colour  
4 in the -- in the book of documents, but in the power  
5 resource plan itself, it's in red. And we like to  
6 think of a -- a -- you know, recurring shortfall in  
7 capacity or energy out in time.

8                   You might go out in time in -- in the  
9 near term and be at one (1) or two (2) years. And you  
10 might get one (1) year that's a shortfall, and then the  
11 next year it isn't and so on. So we typically plan for  
12 recurring shortfalls over the -- over the long term.

13                   MR. BOB PETERS:   When you say that one  
14 (1) of your options is -- well, one (1) of the -- one  
15 (1) of the options is you've -- you've built in a  
16 capacity reserve and that's what would be utilized,  
17 because that capacity reserve is -- is Manitoba Hydro's  
18 capacity reserve; it's not a MISO requirement, is it?

19                   MR. TERRY MILES:   No, that's a Manitoba  
20 Hydro system reserve. That's correct.

21                   MR. BOB PETERS:   All right. And then  
22 another option is you could purchase either the energy,  
23 the dependable energy, or you could purchase the  
24 capacity from the market?

25                   MR. TERRY MILES:   That would be

1 correct.

2 MR. BOB PETERS: And the line items on  
3 this table, Mr. Miles, do not include firm export  
4 contract energy, do they?

5 MR. TERRY MILES: They do not. This is  
6 solely meeting Manitoba load requirements, I believe.  
7 No, actually, there is firm --

8 MR. BOB PETERS: What -- what I'm  
9 suggesting is that if there were no firm exports, there  
10 would be more surplus. Maybe I worded that wrong.

11 MR. TERRY MILES: Yeah, these -- these  
12 do include our firm commitments, and that's Manitoba  
13 load and firm contracts. If there was no firm  
14 contracts...

15 So you're -- you're suggesting, Mr.  
16 Peters, that if there were no firm contracts, that  
17 these numbers could be lower? That's not necessarily  
18 the case, because without the firm contracts, we don't  
19 have the firm imports associated with those. And in  
20 many cases there's offsetting -- actually, in a lot of  
21 our contracts there's offsetting imports and exports.

22 MR. BOB PETERS: So your -- your cap --  
23 your ability to serve on the exchange level would be  
24 impacted when you have a diversity agreement, that may  
25 impact and show up as a -- as a negative number in your



1 capacity, for example, that is presently met through  
2 diversity?

3 MR. DAVID CORMIE: Yes, that's correct,  
4 Mr. Peters. Right now we have 500 megawatts of  
5 seasonal diversity. So that -- that defers the need to  
6 have additional capacity built in Manitoba. So you  
7 can't walk away from the export if you -- unless you're  
8 prepared to walk away from the import.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: Is it -- is it correct  
13 that the power resource plans assume no new generation  
14 for each specific plan?

15 MR. TERRY MILES: There is a -- in the  
16 power resource plans, there is a -- it's a table that  
17 has no new generation, which doesn't add any new  
18 generating resources out in time. It has existing  
19 contracts, signed contracts, and existing contracts out  
20 in time. So -- and the resources that are committed to  
21 you at the time.

22 So the table that we are looking at here  
23 wouldn't have, say, Keeyask and Conawapa committed out  
24 in -- in time. There's no new resources.

25 MR. BOB PETERS: I'm sorry, it includes

1 or excludes them?

2 MR. TERRY MILES: It excludes them.

3 MR. BOB PETERS: And so --

4 MR. RAYMOND LAFOND: I'm -- I'm,  
5 therefore, looking at the power resource plan, page 35  
6 and -- pages 35 and 36, the demand peak load.

7 MR. TERRY MILES: Mr. Lafond, could you  
8 please tell me what year of the power resource plan  
9 that you have? Just at the bottom it should 2011/'12  
10 or 2012/'13, of the page, each page.

11 MR. RAYMOND LAFOND: 2012/'13.

12 MR. TERRY MILES: Okay, thank you.

13 MR. RAYMOND LAFOND: And it's page 35 -  
14 - I'm looking at pages 35 and 36 of your Exhibit 11,  
15 which I think you referred to earlier.

16 MR. TERRY MILES: Okay, I -- I have it  
17 here.

18 MR. RAYMOND LAFOND: And I guess if we  
19 look at the second page, just -- not for a lengthy  
20 discussion, but just to put things in perspective.  
21 When I look at that and I look at the peak demand and  
22 what's coming in and over the dec -- up to 1947/'48. I  
23 see that there is a substantial production from the  
24 single-cycle gas turbine plant.

25 Is this all existing, or is some of this

1 additional?

2 MR. TERRY MILES: No, this is existing.

3 MR. RAYMOND LAFOND: Okay, thank you.

4 MR. TERRY MILES: Now, the pages that  
5 you're looking at are alternative plan 1, which has --  
6 just -- just to note, there are in the back of --  
7 there's tables -- there's different -- there's tables  
8 for the different development plans that are listed in  
9 the power resource plan.

10 MR. RAYMOND LAFOND: Okay.

11 MR. TERRY MILES: So the tables that  
12 we're looking at right now, at the top left, it says,  
13 "Alternative development plan 1." So that's -- that's  
14 a plan that has Keeyask and a small interconnection.  
15 And then beyond Keeyask, when we talked about -- I  
16 think Mr. Warden alluded to needing new resources out  
17 in the '27/'28/'29 time frame, those new resources in  
18 this particular plan have been -- or the requirement  
19 has been met with...

20

21 (BRIEF PAUSE)

22

23 MR. RAYMOND LAFOND: I don't mind  
24 looking at alternative plan number 2 if you prefer.

25 MR. TERRY MILES: Yeah, what -- what

1 we're looking at here is, actually, this is the  
2 capacity table. So this is indicating that we have  
3 capacity being utilized by the thermal resources.  
4 Those are the existing thermal resources that you see  
5 under "Manitoba thermal plants." Is that what you are  
6 referring to?

7 MR. RAYMOND LAFOND: Yes.

8 MR. TERRY MILES: Okay, that's correct  
9 then.

10 MR. RAYMOND LAFOND: Now, can I  
11 conclude from this that essentially after Conawapa and,  
12 of course, some rerunning at Kelsey and Pointe du Bois,  
13 which we've talked about, there are essentially no more  
14 additional generation required, or new generation  
15 required, until 1947/'48? And of course, that assumes  
16 that the contracted exports are all over? In other  
17 words, we have not negotiated new contracts?

18 MR. TERRY MILES: That's -- that's not  
19 correct. After Conawapa, that's in this...

20

21 (BRIEF PAUSE)

22

23 MR. TERRY MILES: So after Conawapa in  
24 this plan, there'll be -- if we go -- I can take you to  
25 another -- another page in the table here. But there

1 will be some thermal resources that -- new thermal  
2 resources that will have been added after Conawapa for  
3 -- for Manitoba load growth.

4 MR. RAYMOND LAFOND: So -- so under  
5 plan alternative 2, when I look at the "new thermal  
6 plants" line, it's not -- it's all new? It's not  
7 existing?

8 MR. TERRY MILES: No, if you -- I'm  
9 looking at page 36. If we look at page 36 --

10 MR. RAYMOND LAFOND: Sure, okay.

11 MR. TERRY MILES: -- you'll see  
12 starting in 2040/'41. And there's -- under, "New  
13 thermal plants," there's a line, "SCGT." And you'll  
14 see two hundred and forty-six (246). You'll see  
15 several of those. Those are 246 megawatt simple-cycle  
16 generating units that are put in place out in time.

17 MR. RAYMOND LAFOND: So that would be,  
18 essentially, the only new additional generation station  
19 besides, of course, the -- the Pointe du Bois fixing  
20 and Kelsey rerunning?

21 MR. TERRY MILES: That's correct, in  
22 this particular plan, yes.

23 MR. RAYMOND LAFOND: I don't think it's  
24 very different from plan number 2 except that on plan  
25 number 2, what I don't understand, there are no

1 contracted exports, but there are some on plan number  
2 1?

3 MR. TERRY MILES: That's correct. Plan  
4 number 1, with Keeyask in place and the small -- on the  
5 interconnection, we have the contracts associated with  
6 -- with that. With Conawapa in place with the  
7 alternative 2 plan, we have no currently negotiated  
8 sales contracts or -- in -- in place for that.

9 It doesn't mean there won't be any at  
10 the time. But right now, in the plan itself it's  
11 assumed that there's no contract specifically  
12 associated with that.

13 MR. RAYMOND LAFOND: I think I -- I  
14 missed something here. There are some negotiated,  
15 fixed, firm contracts for exports under plan 1 but none  
16 under plan 2?

17 MR. TERRY MILES: That's correct.

18 MR. RAYMOND LAFOND: Aren't we talking  
19 about existing contracts?

20 MR. TERRY MILES: Okay, let me -- let  
21 me correct that. I guess that's beyond...

22 MR. DAVID CORMIE: Well, the existing  
23 contracts expire. And they're not renewed because we  
24 don't have -- we don't have a transmission line built  
25 in over -- over which to export the -- the additional

1 surplus.

2 MR. RAYMOND LAFOND: I'm trying to  
3 understand the reasoning why they are included under  
4 alternative 1 and not under alternal -- alternative 2  
5 if there are existing firm export contracts.

6 MR. TERRY MILES: The existing firm  
7 export contract -- they are existing firm export  
8 contracts under alternative 2. Those are in place  
9 until such time as we don't have the resource to serve  
10 those contracts those contracts when those contracts do  
11 -- do expire. So those will continue out to a point in  
12 time.

13 Yeah, okay. Thanks. And they go out to  
14 -- contracted exports, under alternative 1, go out to  
15 2034/'25.

16 MR. RAYMOND LAFOND: '34/'35, yes.

17 MR. TERRY MILES: That's correct.

18 And...

19 MR. RAYMOND LAFOND: They stop in  
20 '25/'26 under proposed plan alternative 2?

21 MR. TERRY MILES: That's correct.

22 MR. RAYMOND LAFOND: What I don't  
23 understand, if they are firm contracts in place, how  
24 can we assume they're not there under alternative 2?

25 MR. TERRY MILES: You mean beyond

1 '24/'25?

2 MR. RAYMOND LAFOND: Yes.

3 MR. TERRY MILES: Beyond '24/'25, we  
4 don't have the firm surplus associated with those. And  
5 those aren't negotiated contracts yet. Right now, we  
6 have term sheets in place or contracts in place that  
7 are negotiated. They're signed. And they extend out  
8 in time.

9 So for this plan that we have, we're  
10 assuming that if there's firm under available under the  
11 plan itself, we will still assume that we can make some  
12 of those sales out in time if that is available in  
13 time, any surplus that is there. But right now, the  
14 contracts are set to -- to expire at that point, in  
15 '24/'25.

16 MR. RAYMOND LAFOND: So the difference,  
17 going out to '35/'36 or thereabouts, is just projected?  
18 It's -- these aren't signed contracts?

19 MR. TERRY MILES: That's correct. And  
20 there won't be as much surplus available under  
21 alternative 2 as there was under alternative 1.

22 MR. RAYMOND LAFOND: And why is this  
23 again?

24 MR. DAVID CORMIE: Monsieur Lafond, the  
25 -- the arrangement we have with Minnesota Power is



1 conditional on the construction of Keeyask coming into  
2 service in 2019, and the sale starts in the summer of  
3 2020 and it's conditional on having an new  
4 interconnection at that time. If Manitoba Hydro were  
5 to choose not to build Keeyask those contracts  
6 disappear. The only contracts that will remain are the  
7 existing sale agreement with NSP that expires in  
8 2024/'25.

9 So the alternative development plan  
10 doesn't build a transmission line, doesn't provide new  
11 hydraulic generation to the market in time to meet  
12 these customers' needs. And so the alternative  
13 development plan doesn't show any pro -- any contracts,  
14 because we don't have any customers who are -- have  
15 shown any interest in contracting that far out in time.

16 If -- were we to build Conawapa in 2028,  
17 there would be plenty of time to negotiate something  
18 associated with that. But we will have lost the  
19 opportunity to engage Minnesota Power; they would have  
20 done something else to provide them with new resources.  
21 And the Wisconsin transaction would -- would not occur  
22 and Northern States Power would have replaced its  
23 purchases from Manitoba Hydro that expire in 2025 with  
24 some other -- other resource and so we would be -- kind  
25 of starting from scratch under the alternative

1 development plan.

2                   So we don't have any -- it -- it shows  
3 up as surplus, but we don't have a con -- we don't have  
4 customers. We've let those customers know that we're  
5 not capable of meeting their needs and we may at some  
6 point in the time -- may at some point in the future be  
7 able to come back to them, but we will have lost the  
8 opportunity to engage them now.

9                   MR. RAYMOND LAFOND:    So can I conclude  
10 in an oversimplistic fashion that you do have these  
11 contracts; however, it's pending construction of new  
12 facilities otherwise the contract does not come into  
13 effect?

14                  MR. DAVID CORMIE:    That's correct.  
15 They -- they're all conditional on Manitoba Hydro  
16 choosing -- electing to -- to build and getting  
17 regulatory approval for Bi-pole 3, Keeyask, Conawapa,  
18 and the new interconnection.

19                  MR. RAYMOND LAFOND:    So, again, in an  
20 oversimplistic fashion, the only new construction being  
21 looked at are thermal plants between now and 2047,  
22 assuming no exports -- not -- not in the current --  
23 present, but no exports by the time we get to 2035 or  
24 '40?

25                  MR. TERRY MILES:     I'm not sure I -- I

1 understood that. But you mean beyond the hydro  
2 resources that we're developing, the other resources  
3 that we're considering in the plans are thermal  
4 resources, that's correct in these plans, yeah.

5                   And in part it's because the time-frame  
6 out in the future that we've put them out there and the  
7 resources to -- to fulfill the plan and meet the load  
8 to the lowest capital cost in -- in part, they don't  
9 necessarily provide the most -- the overall most value,  
10 as such. But out that far in time, as Mr. Cormie  
11 indicated, we would look at that closer to the date as  
12 we have the last number of years with Keeyask and  
13 Conawapa, as things have changes over the last three  
14 (3) or four (4) or five (5) years.

15                   MR. RAYMOND LAFOND: Thank you.

16

17 CONTINUED BY MR. BOB PETERS:

18                   MR. BOB PETERS: Mr. Miles, Board  
19 Member Lafond is on -- if he turns to page 17 of  
20 Manitoba Hydro Exhibit 11, he's going to see the most  
21 current supply/demand balances for the last three (3)  
22 years that -- that I've initially included at page 250  
23 -- sorry, at page 246 of the book of documents.

24                   Is that correct?

25                   MR. TERRY MILES: That's correct.

1 MR. BOB PETERS: And the supply/demand  
2 balance assumes that there are no new resources added  
3 to the system over the years depicted.

4 Is that also correct?

5 MR. TERRY MILES: That's correct.

6 MR. BOB PETERS: And are Manitoba  
7 Hydro's, Mr. Cormie, diversity contracts conditional on  
8 firm export contracts being in place?

9

10 (BRIEF PAUSE)

11

12 MR. DAVID CORMIE: The 350 megawatt  
13 seasonal diversity contract that was recently signed  
14 with Northern States Power is the stand -- is a -- is a  
15 -- was one (1) of the five (5) contracts that were  
16 signed. The 150 megawatt seasonal diversity contract  
17 that we have Great River -- with Great River Energy  
18 that expires in 2014, we expect to roll that  
19 transaction over, and it won't be tie -- it -- it will  
20 be -- it will be part of a similar diversity  
21 arrangement. But they're not -- they're not -- only  
22 the NSP is conditional upon the package. The Great  
23 River Energy is not conditional on a -- seasonal  
24 diversity and -- contract is not conditional on any  
25 other transaction.

1 MR. BOB PETERS: And, Mr. Miles, what  
2 you're showing the Board on -- on page 17 of Exhibit  
3 11, or on page 246 of Board counsel's book of  
4 documents, is when there will be a dependable energy  
5 shortfall and when there will be a dependable capa --  
6 or, sorry, there'll be capacity shortfall, based on  
7 Manitoba Hydro's most current forecast load growth?

8 MR. TERRY MILES: That's correct.

9 MR. BOB PETERS: And to the extent that  
10 those assumptions are incorrect, then the information  
11 on this table would likewise be incorrect, one (1) way  
12 or the other?

13 MR. TERRY MILES: Say to the extent  
14 that they change, I guess, from year to year.

15 MR. BOB PETERS: All right. Perhaps  
16 you worded it better than I did. And when we talked  
17 about the table on page 246 of Board counsel's book of  
18 documents, the only export contract that's considered  
19 in arriving at these figures would be the -- the NSP  
20 375/325 (phonetic) arrangement, would that be correct?

21 MR. TERRY MILES: No, that's not  
22 correct.

23 MR. BOB PETERS: All right. Which  
24 other ones are included?

25 MR. TERRY MILES: It includes all

1 existing contracts that we have. It includes the GRE -  
2 - oh, in the 2011, page 246, it would include the --  
3 all the existing contracts that we have in place that  
4 extend out into that -- that time-frame, so our signed  
5 contracts.

6 MR. BOB PETERS: It -- it includes the  
7 ones with Minnesota Power and Wisconsin Public Service?

8

9 (BRIEF PAUSE)

10

11 MR. TERRY MILES: No, it does not  
12 include those -- yeah, you're correct.

13 MR. BOB PETERS: Okay. Thank you.

14 MR. TERRY MILES: Because those are  
15 tied to the new generation that we have.

16 MR. BOB PETERS: I missed your last  
17 comment, Mr. Miles?

18 MR. TERRY MILES: I just said those are  
19 tied to the new generation.

20 MR. BOB PETERS: Right. And, likewise,  
21 that additional 125 megawatt sale to NSP is tied to new  
22 generation, and therefore not included in these -- in  
23 this chart?

24 MR. TERRY MILES: That's correct.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: I'm not sure if you  
4 can answer this as you sit there, Mr. Miles, but  
5 focussing on test year 13, in -- on page 256, why did  
6 the surplus energy decline as much as shown? If we  
7 pick the 2012/'13 year and go down, it goes from a  
8 surplus of 2,155 gigawatt hours down to one thousand  
9 eight hundred and eighty-eight (1,888). And then it  
10 drops further to one thousand eight hundred and twenty-  
11 six (1,826).

12 Are you following me, sir?

13 MR. TERRY MILES: You had said two  
14 fifty-six (256), but it's two forty-six (246); is that  
15 correct? You're on page 246?

16 MR. BOB PETERS: I'm on page 246, you  
17 are correct.

18 MR. TERRY MILES: Okay. And so  
19 2012/'13, is that where we are?

20 MR. BOB PETERS: Yes, I was just  
21 picking that year and then working down the column on  
22 the various power resource plans.

23 MR. TERRY MILES: Am I -- going from  
24 2009/'10, 2010/'11, 2011/'12, that's changes in  
25 Manitoba load growth. That would be reductions in

1 Manitoba load growth primarily, I believe.

2 MR. BOB PETERS: And what about in  
3 2013/'14? Again, the -- the drop in surplus energy, is  
4 that attributed to only Manitoba load growth, or is  
5 that as a result of some other resource not being  
6 available?

7 MR. TERRY MILES: You know, my back row  
8 has just advised me there is a bit of a change, as  
9 well: different wind assumptions between 2009/'10 and  
10 2011/'12. I believe there's less wind in 2000 -- in  
11 the forecast in 2011/'12 then there is in '09/'10,  
12 which would reduce the surplus dependable energy  
13 available.

14 So, increasing load growth would reduce  
15 the surplus, and then the reduction in the potential  
16 wind would reduce that further.

17 MR. BOB PETERS: If we stay on the  
18 2009/'10 line of energy and go over to 2014/'15 and the  
19 year following that, there appears to be a significant  
20 increase in surplus energy going from 1,231 gigawatt  
21 hours up to 3,175 gigawatt hours.

22 Can you readily explain that Mr. Miles?

23 MR. TERRY MILES: I'm sorry, I don't  
24 see those numbers. Are we still on the same table?

25 MR. BOB PETERS: I'm at -- yes, I'm on



1 page 246 still.

2 MR. TERRY MILES: Okay.

3 MR. BOB PETERS: And I'm on the  
4 2009/'10 line, but under fiscal '15 and fiscal '16.  
5 And I'm seeing the dependable energy increase.

6 MR. TERRY MILES: Yeah, that's the NSP  
7 self-supply under the new contract.

8 MR. BOB PETERS: I'm sorry, the NSP  
9 self-supply?

10 MR. TERRY MILES: That's the NSP  
11 supply. That comes from NSP, yeah.

12 MR. BOB PETERS: And just help me with  
13 that. What's the additional incremental supply that we  
14 expect from NSP?

15 MR. DAVID CORMIE: Mr. Peters, under  
16 the existing contract it expires in 2015. And when we  
17 go into the new contract, the new contract has some  
18 additional energy available under adverse water  
19 conditions, and we were able to reduce our export  
20 obligation in the winter due to our call option. And  
21 so that -- that, in affect, the -- our ability to buy  
22 from NSP more then offsets our energy obligation to  
23 them, and so that frees up surplus energy in the  
24 Manitoba Hydro system.

25 MR. BOB PETERS: Okay. I want to

1 conclude my questions in this area, if I can, before I  
2 request the afternoon recess, just to talk about the  
3 Brandon Coal Unit 5. And we've talked about it  
4 already. So, this is a plant that was commissioned in  
5 approximately 1958, would that be correct, Mr. Cormie?

6 MR. DAVID CORMIE: The station was  
7 built in that time-frame; however, unit 5 came into  
8 service 1969.

9 MR. BOB PETERS: Maybe explain the time  
10 dely for --

11 MR. DAVID CORMIE: Unit 5, that meant  
12 there were four (4) units prior to that unit; it's one  
13 (1) to four (4). And when I was a little boy, my  
14 family lived in Brandon and my dad worked on that, so  
15 I'm -- I was -- I was covered in coal dust all the  
16 time. But yeah, those -- those small units have been  
17 retired from service and removed and -- but the number  
18 5 coal unit still is available and is still operating.

19 MR. BOB PETERS: And so it's economic  
20 life span for unit 5 would be fifty (50) years? Do you  
21 know? Or do I have to go to the depreciation study to  
22 check that?

23 MR. DAVID CORMIE: Yeah, I think you're  
24 right, Mr. Peters. It's in the order of fifty (50)  
25 years.

1 MR. BOB PETERS: And since 19 -- since  
2 2010, since January of 2010, Brandon unit 5 is only to  
3 be used for emergencies as defined in the provincial  
4 regulations.

5 Have I got that right?

6 MR. DAVID CORMIE: In addition to  
7 emergencies, we are authorized to operate the station  
8 to maintain proficiency. And so each year we schedule  
9 generation in order to ensure that the facility is  
10 functional and that the staff is trained and competent  
11 to operate the station safely, so that if an emergency  
12 were to occur, it can operate as -- as needed.

13 MR. BOB PETERS: All right. So in  
14 addition to emergencies, Manitoba Hydro can make sure  
15 it has the necessary skills to fire it up and use it if  
16 and when needed?

17 MR. DAVID CORMIE: That's correct.

18 MR. BOB PETERS: And the emergencies  
19 are defined in regulation -- and I don't want to get  
20 too legalistic here -- but it's -- it's really drought  
21 or interruption of firm supply for Manitobans?

22 MR. DAVID CORMIE: yes, it -- it says,  
23 "emergency and drought operation," Mr. Peters, in the  
24 legislation.

25 MR. BOB PETERS: Okay. And Manitoba

1 Hydro, each year, has to submit a report to the  
2 Minister if it wants to fire it up for emergency or  
3 drought reasons.

4 Have I got that right?

5 MR. DAVID CORMIE: Each -- each year we  
6 provide the minister with a forecast of our anticipated  
7 operations, yes.

8 MR. BOB PETERS: And that tells the  
9 minister whether Manitoba Hydro anticipates having to  
10 use Brandon unit 5 to meet domestic load?

11 MR. DAVID CORMIE: Generally that  
12 forecast, because we don't anticipate any emergencies  
13 and we -- and we can't anticipate emergency drought  
14 conditions, generally is a forecast of the generation  
15 needed to maintain proficiency.

16 MR. BOB PETERS: So the report you're  
17 telling the Board that gets filed just indicates to the  
18 government how often or for how long Manitoba Hydro  
19 expects to -- to fire up Brandon unit number 5 for  
20 proficiency reasons?

21 MR. DAVID CORMIE: Yeah, it -- it's a  
22 schedule by month for the year showing the en -- the --  
23 the number of hours that it will run and the number of  
24 -- of gigawatt hours of generation that the station  
25 will burn coal.

1 MR. BOB PETERS: In Manitoba Hydro's  
2 application, Mr. Warden, for April 1st, 2012, interim  
3 rate increases, there was a suggestion that Manitoba  
4 was experiencing low precipitation levels in the  
5 province.

6 Do you recall that?

7

8 (BRIEF PAUSE)

9

10 MR. VINCE WARDEN: Yes, Mr. Peters, at  
11 the time the application was filed that was the case.  
12 Yes.

13 MR. BOB PETERS: Did that result in a  
14 report to the minister that Brandon unit 5 may be  
15 needed in 2012?

16 MR. DAVID CORMIE: No, it didn't, Mr.  
17 Peters.

18 MR. BOB PETERS: Why -- why didn't it?

19 MR. DAVID CORMIE: Because even under  
20 the worst -- our worst water flow assumptions Brandon  
21 was not necessary to operate.

22 MR. BOB PETERS: The Board understands  
23 from the Power Resource Plan that Manitoba Hydro  
24 intends to decommission the Brandon coal unit in  
25 approximately 2019/'20?

1 MR. TERRY MILES: I don't think we've  
2 explicitly said "decommission". I think we don't  
3 expect -- we're not counting on its operation at this  
4 time or from a planning perspective beyond 2019/'20, so  
5 its fate beyond 2020 -- 2020 is still, I guess, under  
6 consideration in terms of options as to what -- what to  
7 do with that plan. But from a planning perspective,  
8 we're not counting on the coal generation at unit 5  
9 beyond 2019/'20.

10 MR. BOB PETERS: I'm just wondering, in  
11 light of that answer, Mr. Miles, Mr. Warden had told  
12 the Board that in his financial report for the last  
13 year-end there was an asset retirement obligation set  
14 up for Brandon coal unit 5, if I understand that  
15 correctly.

16 Does that mean that even though the ARO  
17 is set up, that the plant may not be decommissioned at  
18 that time?

19

20 (BRIEF PAUSE)

21

22 MR. TERRY MILES: I understand that the  
23 ARO was set up for later than 2019/'20.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: We'll -- we'll check  
2 that date in the financial annual report.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: And I'm seeing it.  
7 It's -- 2024 is the -- is the date in which it could be  
8 decommissioned. Yeah, page 73 of the annual report  
9 under, "Note 15," if those who are following it want to  
10 check that.

11 The point I'm coming to, Mr. Warden, Mr.  
12 Miles, is that there's no mandatory, prescribed sunset  
13 date on Brandon unit 5 in the legislation to Manitoba  
14 Hydro's knowledge at this point in time? Would you be  
15 aware of that?

16 MR. TERRY MILES: Under provincial  
17 legislation it's -- it's -- it affects our operations  
18 under emergency conditions and drought. Under federal  
19 legislation there is actually legislation, the new  
20 federal coal regulation that has come out that does  
21 affect the operation of Brandon unit 5 beyond 2019.  
22 It's actually January 1st, 2020, and it reduces the  
23 operation considerably. As -- as a --

24 MR. BOB PETERS: I'm not sure the Board  
25 is going to want to hear some -- some legal argument,

1 but Ms. Fernandes was kind enough to confirm the  
2 regulation issue. But it's -- my understanding is, the  
3 regulation is not yet enacted.

4 Is that Manitoba Hydro's understanding,  
5 or do you -- are you even aware of that?

6

7 (BRIEF PAUSE)

8

9 MS. PATTI RAMAGE: We're going to have  
10 to get back to you on that, Mr. Peters. But it is what  
11 it is.

12 MR. BOB PETERS: Okay. I -- I can  
13 provide you a copy at the break, Ms. Ramage, if you  
14 want.

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: But do you know what  
18 the intensity of the carbon output is of the Brandon  
19 plant? Is it -- is it less than 420 tonnes of CO2 per  
20 gigawatt hour of -- of energy?

21

22 (BRIEF PAUSE)

23

24 MR. DAVID CORMIE: It's probably double  
25 that, Mr. Peters.



1 MR. BOB PETERS: Is there, under the  
2 existing -- under the regulation that -- that I am  
3 suggesting is not yet enacted, is there an opportunity  
4 that it may -- Manitoba Hydro may be able to keep the  
5 facility as an emergency facility? Or are you not  
6 aware of that?

7 MR. DAVID CORMIE: We -- we believe it  
8 would be cost prohibitive to continue to operate the  
9 station.

10 MR. BOB PETERS: Cost prohibitive in  
11 what way, Mr. Cormie?

12

13 (BRIEF PAUSE)

14

15 MR. DAVID CORMIE: To get the emissions  
16 down to -- to below the four twenty (420), Mr. Peters.  
17 So there would have to be something done to remove the  
18 carbon from the emission stream.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: I take it, Mr. Cormie,  
23 that matter's been studied to some extent already by  
24 Manitoba Hydro?

25 MR. DAVID CORMIE: Well, I believe the

1 four twenty (420) is the emissions that you would get  
2 from a modern combustion turbine. So it would make  
3 sense for Manitoba Hydro to -- to replace the station  
4 with a -- with a new facility that does it directly,  
5 rather than as a -- by -- by modification to an ancient  
6 plant that has a limited life span. So, yes, we have  
7 studied that.

8 MR. BOB PETERS: And I wonder if the  
9 shortest way to circumvent the questions, Mr. Cormie,  
10 is to provide the Board with the study that Manitoba  
11 Hydro has as to whether or not Brandon coal can be  
12 utilized as a stand-by unit?

13 MR. TERRY MILES: Mr. Peters, we -- we  
14 do not have a study at this time. We're studying the  
15 impact. The regulation just came out, so we are  
16 reviewing the implications to us in terms of what that  
17 means from operation as is, or whether operation under  
18 some other format or with other emission controls, et  
19 cetera.

20 MR. BOB PETERS: Do you know the  
21 capacity factor of -- of the Brandon coal plant?

22 MR. TERRY MILES: The actual operating  
23 capacity factor?

24 MR. BOB PETERS: Yes, is it -- is it  
25 operated at 9 percent capacity factor or less, which I

1 think is the number under the le -- under the  
2 regulation?

3

4 (BRIEF PAUSE)

5

6 MR. TERRY MILES: I guess typically the  
7 -- the capacity factor at Brandon is -- is less than  
8 that 9 percent, but the legis -- the regulation limits  
9 the actual operation of that plant to that under its  
10 current -- current conditions.

11 MR. RAYMOND LAFOND: Page 89 of your  
12 annual report says that thermal production is .22  
13 percent, so therefore one-fifth of 1 percent.

14 Is that what we're looking for?

15 MR. TERRY MILES: That's, I believe,  
16 the percent of energy supply in the system, as opposed  
17 to the capacity factor of the plant itself, so.

18 MR. BOB PETERS: I think with that  
19 response, Mr. Chairman, I'm going to move to a new area  
20 after the break, so this might be an opportune time for  
21 an afternoon recess.

22 MR. RAYMOND LAFOND: Can I ask two (2)  
23 questions before we break? Talking about the Brandon  
24 coal plant, what also comes to mind is the fact when I  
25 look at your resource plan in the long -- very long

1 term we're looking at a single cycle gas turbine  
2 generation plant as opposed to a combined cycle.

3                   And from the little I know is that  
4 combined cycle is much more efficient and also much  
5 gentler on the environment, so why would we be looking  
6 at a single-cycle gas turbine plant?

7                   MR. TERRY MILES: Depends on the need  
8 out -- out in time. So whether it's simple cycle or  
9 combined cycle is a function of how often you expect  
10 the plant to operate. Yeah, a combined cycle is more  
11 efficient if you're running it at a -- at, you know, 40  
12 to 60 percent of the time, but if we need it less  
13 amount of the time -- so, if we have average water  
14 conditions as such, even out at that point in time we  
15 may not need the -- that particular plant to run very  
16 often.

17                   So, out in time and because it's -- it's  
18 far enough out in time, and we're just looking at the  
19 capital cost and operations, we're -- we're looking at  
20 that, so as we got closer to that point in time we'd  
21 more specifically define what the system would need and  
22 make the decision as to whether it's a simple cycle or  
23 a combined cycle out in time. But that far out in time  
24 in the planning horizon it's not having a significant  
25 implication on our decisions, if you will, for that.

1 MR. RAYMOND LAFOND: And that's because  
2 the cost, the capital cost, of a combined cycle plant  
3 is substantially more than a single cycle one?

4 MR. TERRY MILES: Typically larger  
5 capital cost with the benefit of a more efficient  
6 operation, so lower fuel cost, lower variable cost,  
7 yes.

8 MR. RAYMOND LAFOND: My next question  
9 is: If we're looking at the gas -- the gas turbine  
10 plant in the very long term, why do we not consider  
11 that also in the short term?

12 And let me explain. For instance, we're  
13 always looking at being able to meet peak demand. And  
14 building hydro dams is very expensive just to meet  
15 several days of peak demand or -- or thirty (30) days  
16 of peak demand when we could have a gas turbine plant  
17 that would take care of the peak demands for the thirty  
18 (30) or forty (40) days required throughout the year  
19 and only build the hydro dams when we get to a certain  
20 level of usage of the -- of the thermal plants and then  
21 build a hydro dam and simply park it for a while and --  
22 and use it for emergency purposes.

23 And there are other advantages such as  
24 security, because you can essentially build it in the  
25 backyard of the City of Winnipeg. So what's the

1 response to that? It seems to be good for the future,  
2 but not good for the present?

3 MR. TERRY MILES: I think we look at  
4 the resources we have available to us at the various  
5 time frames. I think in the present we look at the  
6 resources we have, the economics around the resources  
7 that we have. And our analysis has shown to date that,  
8 sort of the path we're taking has been -- has been the  
9 path to go ahead with.

10 If load grows we always keep those  
11 resources in our -- in our back pocket. So, for  
12 example -- and we keep our studies -- you know, we try  
13 to keep them as current as possible as we need to. If  
14 the load grows quickly and we need to install a gas  
15 resource, if you will, something like that, you can  
16 install them quickly, they have a much shorter time  
17 frame with them that's there. And our hydro resources  
18 do have some lead time to them, so we can't get them in  
19 necessarily in certain time frames. So if load grows  
20 faster than expected, we can put those types of  
21 resources in -- in place that are there.

22 It has been, I think, more recently in  
23 our analysis we're -- we're looking more so at those  
24 with the cost of gas and the high cost of hydro and  
25 that, and we keep doing that, that's -- that's an

1 annual process that we look at all those things. So I  
2 think the -- the short answer is, is that I believe we  
3 do factor those in -- into our -- into our work when we  
4 look at our long-term resource plans.

5                   We also have in the short term the  
6 ability to do things like import and that, we have our  
7 -- our inter-ties with -- with the US at which point we  
8 don't have to invest any capital dollars in necessarily  
9 and we can rely on that back and forth and we do use  
10 that as a thermal resource in our system right now. As  
11 we go out in time, I mean, that changes and we look at  
12 the benefits of that as well. So I think that's --  
13 that's -- it's not that we don't consider them.

14                   MR. RAYMOND LAFOND: I hear this though  
15 I can still not reason why it would be so -- if it  
16 would be economically viable to build a hydro plant  
17 which, essentially, would operate -- or would be needed  
18 only for forty (40) or sixty (60) days of the year as  
19 opposed to a gas turbine plant.

20                   MR. TERRY MILES: I guess with that in  
21 mind, if we build a hydro plant in the surplus  
22 capacity, we have the ability to make the long-term  
23 firm sales associated with them. I think that is a  
24 true benefit of the hydro resources that are there.  
25 And I don't think -- you're not afforded the same value

1 under the resource like that as you are with the --  
2 with the simple cycle unit or -- or a gas unit like  
3 that.

4 MR. RAYMOND LAFOND: I guess that's for  
5 the NFAAT. But that's assuming that exports are  
6 generating margins at -- of profit over the cost?

7 MR. TERRY MILES: We're continuing to  
8 do our analysis on those, yes.

9 THE CHAIRPERSON: Okay, thank -- thank  
10 --

11 MR. VINCE WARDEN: If I might just add,  
12 Mr. Lafond, if you're -- if you're only going to look  
13 at it from a peak building for the next -- to serve the  
14 next peak requirement, if -- then you would never --  
15 you would never build another hydro plant. You'd  
16 always keep building for that next one (1) year of load  
17 growth with -- and filling that in with -- with gas  
18 combustion turbines.

19 So there -- there's no doubt that  
20 building hydraulic is building for the very long term.

21 MR. RAYMOND LAFOND: No, but I think --  
22 I -- I hear you. However, I'm not sure about that  
23 conclusion in the sense that you would build a gas  
24 plant which is much less expensive and use it to -- to  
25 the point whereby when you start using it too much,



1 then you do buy that hydro plant, and there -- you do  
2 build that hydro plant.

3                   And, therefore, from day 1 it's already  
4 using quite a bit of capacity. And you can shut down  
5 the turbine plants and simply wait until you need it  
6 eight (8), ten (10), twelve (12) years later as opposed  
7 to a hydro dam, which, I mean, the costs are fixed.

8                   THE CHAIRPERSON: I would think we  
9 should take ten (10) minutes and have a coffee or a  
10 drink or something. Thank you.

11

12 --- Upon recessing at 3:14 p.m.

13 --- Upon resuming at 3:31 p.m.

14

15                   THE CHAIRPERSON: I believe we're ready  
16 to resume the proceedings. Ms. Ramage...?

17                   MS. PATTI RAMAGE: Yes, thank you, Mr.  
18 Chair. We have two (2) more undertakings to file this  
19 afternoon. The first is Undertaking number 26. And  
20 that was the provision of the approximate capital cost  
21 of a 250 megawatt CCT versus the 250 megawatt SCCCT.  
22 And that undertaking number 26 we suggest be marked  
23 Manitoba Hydro Exhibit 61.

24

25 --- EXHIBIT NO. MH-61:           Response to Undertaking 26

1 MS. PATTI RAMAGE: The next is Manitoba  
2 Hydro Undertaking number 37, using Pointe du Bois as an  
3 example, what kind of premium would be paid for  
4 reconstructing on the same site as a generating station  
5 that was previously constructed. And we're suggesting  
6 that be marked at Manitoba Hydro Exhibit Number 62.

7

8 --- EXHIBIT NO. MH-62: Response to Undertaking 37

9

10 MR. RAYMOND LAFOND: Exhibit 62, I'm  
11 sorry, I was distracted here, is the PUB/MH-1I-29? No,  
12 don't think so.

13 MS. PATTI RAMAGE: No. Exhibit 62 is  
14 Underterky -- Undertaking number 37, dealing with the  
15 premium --

16 MR. RAYMOND LAFOND: Oh, 37.

17 MS. PATTI RAMAGE: -- paper.

18 MR. RAYMOND LAFOND: Oh, yeah, I found  
19 it here.

20

21 (BRIEF PAUSE)

22

23 MR. RAYMOND LAFOND: Had it combined  
24 with 61.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Thank you, Mr.  
3 Chairman. I would like to briefly, and this time I  
4 mean it, turn to Tab 23 of the book of documents. And  
5 on page 248 there is a schedule about payments to the  
6 province and municipalities. I believe much of this  
7 has been in some way discussed, canvassed, or reviewed.

8 And, Mr. Warden, this sets -- sets out  
9 not only the historical, but the forecast payments that  
10 will be made to the province and municipalities by  
11 Manitoba Hydro, correct?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And to some extent  
14 this schedule might change, but probably marginally, in  
15 light of IFF12? Would you agree with that, or do you  
16 think there's going to be any significant changes if --  
17 if it was redone pursuant to IFF12?

18 MR. VINCE WARDEN: Well, the most  
19 significant change would be in the -- because there has  
20 been some shifting in -- in borrowing associated with  
21 Conawapa primarily. The guarantee fee could -- could  
22 change, going forward. Capital tax, likewise.

23 MR. BOB PETERS: Are we talking a  
24 significant amount?

25 MR. VINCE WARDEN: Probably not real

1 significant, no.

2 MR. BOB PETERS: All right. And when  
3 we go across the top headings, the water rentals -- and  
4 there is an -- there is, on page 251 of the same tab, a  
5 -- an additional information request that provides the  
6 detailed calculations.

7 But the source of Manitoba Hydro's  
8 information is -- is based on the calculation  
9 methodology that's prescribed by the Water Power Act?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: And it depends on the  
12 actual hours generated in any particular year as to  
13 what the water rental will be?

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

15 MR. BOB PETERS: And when we get into  
16 the future, past the two (2) test years, Mr. Warden,  
17 Manitoba Hydro is assuming average water conditions.

18 So the fee -- the water rental rate will  
19 -- will be based on -- on that estimation?

20 MR. VINCE WARDEN: Will be based on the  
21 actual water conditions of -- of the day? Yes.

22 MR. BOB PETERS: Yes.

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: The debt guarantee fee  
25 -- and Mr. Schulz was -- reminded us that there was,

1 and there is on page 249, a detailed method for  
2 calculation that I don't propose to go through.

3 But suffice it to say that the  
4 provincial debt guarantee fee will increase in  
5 proportion to the debt that Manitoba Hydro has  
6 guaranteed by the province?

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

8 MR. BOB PETERS: The sinking fund  
9 administration fee, I wasn't quite sure on this one,  
10 but this appears that Manitoba Hydro pays the province  
11 to administer the sinking fund?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And in some years  
14 you're paying -- is it just a rounding error, that it  
15 rounds to either a million or to zero?

16 MR. VINCE WARDEN: It -- it is. It's  
17 just rounding that makes it appear as though we're not  
18 paying anything.

19 MR. BOB PETERS: The capital tax might  
20 be an interesting one, Mr. Warden. This capital tax  
21 that is charged is a provincial tax that's being phased  
22 out for all provincial corporations except Crown  
23 corporations?

24 MR. VINCE WARDEN: That's right.

25 MR. BOB PETERS: Has it been phased

1 out, do you know? To your knowledge, has it --

2 MR. VINCE WARDEN: I -- I believe it  
3 has, yes.

4 MR. BOB PETERS: And in terms of the --  
5 the payroll tax, again a function of Manitoba Hydro's  
6 wage and benefit payments to its employees, its O&M  
7 costs?

8 MR. VINCE WARDEN: Yes. Yes.

9 MR. BOB PETERS: The provincial  
10 mitigation or settlement obligations have various items  
11 inserted, including in 2013 there's a -- a \$9 million  
12 obligation that -- that jumps out. And the footnote to  
13 that suggests that there's only 9 million left to be  
14 paid of the -- of the previous obligations that  
15 Manitoba Hydro undertook?

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

17 MR. BOB PETERS: Manitoba Hydro pays  
18 taxes to the City of Winnipeg for property taxes?

19 MR. VINCE WARDEN: We do, yes.

20 MR. BOB PETERS: And in municipalities,  
21 it's gifts in lieu of taxes?

22 MR. VINCE WARDEN: Grants in lieu of  
23 taxes, yes.

24 MR. BOB PETERS: Grants in lieu of --  
25 sorry, grants in lieu of taxes. I was trying to deduce

1 whether it is -- it is more than coincidence that the -  
2 - the provincial payment as a percentage of gross  
3 revenue, you know, is in that 12 to 15 percent,  
4 sometimes 16 percent range.

5 Is that more than a coincidence, or is  
6 that just -- is that predetermined that that would be  
7 the target range for the...

8 MR. VINCE WARDEN: Mr. Peters, there's  
9 -- there's no predetermined target range for that  
10 percentage. So, yes, coincidence, I would say.

11 MR. BOB PETERS: And when we look at  
12 provincial payments as a percentage of gross revenue of  
13 whether they're, you know, close to 15 percent, would  
14 you agree that that's akin to a dividend to the  
15 province?

16 MR. VINCE WARDEN: Well, it's never  
17 been referred to as a dividend. Other utilities in  
18 Canada do have specific dividend provisions that are  
19 made to the province. These are payments -- payments -  
20 - we -- we always referred to them as payments to the  
21 province. And to the extend that, you know, you had  
22 payments and dividends together, it's akin, akin to a  
23 dividend. But -- but I'd hate to label it that,  
24 because it's not that.

25 MR. BOB PETERS: All right. Fair

1 enough. Is Manitoba Hydro aware of any of these current  
2 payments being increased or decreased in the years  
3 ahead?

4 MR. VINCE WARDEN: No.

5 MR. BOB PETERS: No discussion with  
6 Manitoba Hydro respecting that?

7 MR. VINCE WARDEN: With the province,  
8 no.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: Mr. Warden, Mr.  
13 Rainkie was kind enough to update us about the IFRS  
14 update. Have you any update for us respecting the non-  
15 controlling interest line, the last line on the IFF to  
16 talk about? I had understood that that was a matter  
17 that was the subject of further negotiations if it  
18 were.

19 MR. VINCE WARDEN: Yes. The -- the  
20 most I can tell you at this time, Mr. Peters, is  
21 they're discussions. Negotiations are ongoing, further  
22 meetings scheduled for this week.

23 MR. BOB PETERS: Would it be fair, Mr.  
24 Warden, that the arrangement and agreement with the  
25 Wuskwatim Power Limited Partnership was to some extent



1 a blueprint for Manitoba Hydro related to it's Keeyask  
2 development?

3 MR. VINCE WARDEN: Yes. Yes, that's  
4 fair. It was considered to be a model that we would  
5 consider using for -- for future development projects.

6 MR. BOB PETERS: Is it still the model  
7 to be considered for future development projects?

8 MR. VINCE WARDEN: No. No, I think,  
9 based on the experience we've see with Wuskwatim, some  
10 unforeseen circumstances that have necessitated  
11 renegotiation, so. So, no, it's not a model we would  
12 want to prescribe to for those other facilities.

13 MR. BOB PETERS: Well, can I pin you  
14 down on what was the unforeseen part of the  
15 circumstances?

16 MR. VINCE WARDEN: Well, it's more so  
17 on -- on the revenue side. The revenue -- the sharing  
18 of revenues, in accordance with the formula that was --  
19 was developed, have not materialized so -- or revenues  
20 have not materialized as forecasted.

21 MR. RAYMOND LAFOND: By "revenues", we  
22 are talking of net revenues or net income from the  
23 generation of that plant?

24 MR. VINCE WARDEN: We're talking about  
25 export revenues.

1 MR. RAYMOND LAFOND: The gross  
2 revenues, rather than net income or net revenue after  
3 expenses?

4 MR. VINCE WARDEN: Yeah, yes, yes.  
5 It's -- it's the gross revenues from the export market.

6  
7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: I'll follow that up  
9 further Mr. Warden, but help -- help me with the  
10 question and the answer that you just provided to Board  
11 member Lafond. WPLP is being paid based on the formula  
12 that was in the agreement. Would that be  
13 correct, to start with?

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

15 MR. BOB PETERS: And the formula that  
16 was in the agreement was going to pay WPLP on an  
17 assumed basis that some of the energy would be pursuant  
18 to a firm, dependable contract?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And some of it would  
21 have been on the opportunity market, some of that would  
22 have been on peak, some would have been off peak?

23 MR. VINCE WARDEN: Correct.

24 MR. BOB PETERS: Whether or not  
25 factually the energy was sold that way, WPLP was going

1 to be paid as if it was sold that way?

2 MR. VINCE WARDEN: No. No, it was --  
3 it was to be paid based on the actual revenues derived  
4 on the market. So the firm -- the firm part of that  
5 did not change materially, but the -- the opportunity  
6 revenues, of course, have changed significantly.

7 MR. BOB PETERS: Well, there was no  
8 firm long-term contract for the Wuskwatim Power though.

9 MR. VINCE WARDEN: No, but it was based  
10 on firm -- long-term firm contr -- existing long-term  
11 firm contracts that we would have had that --

12 MR. BOB PETERS: And that's my -- maybe  
13 I'm not asking it right or understanding it, Mr.  
14 Warden. But WPLP is getting paid as if some of their  
15 energy was sold for five (5) cents a kilowatt hour on  
16 the export market.

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: And they're getting  
19 paid as if some of their energy was sold for three (3)  
20 cents and for some of their energy sold at two (2)  
21 cents.

22 MR. VINCE WARDEN: In effect, yes.

23 MR. BOB PETERS: But we know that, in  
24 my round numbers, that all of their energy is being  
25 sold at approximately two and a half (2 1/2) cents a

1 kilowatt hour?

2 MR. VINCE WARDEN: Well, you have to  
3 make some assumptions --

4 MR. BOB PETERS: And I do. I make some  
5 pretty bold ones that --

6 MR. VINCE WARDEN: Yeah.

7 MR. BOB PETERS: All I'm suggesting is  
8 if there are no firm long-term contracts, all Manitoba  
9 Hydro can do is sell it as, essentially, opportunity  
10 energy -- whether that's firm, whether that's not firm  
11 -- and maybe get the average between two (2) and three  
12 (3) cents on it. And I said two point five (2.5) cents  
13 a kilowatt hour.

14 MR. VINCE WARDEN: Well, I -- I think  
15 you're, though, assuming that all Wuskwatim output is  
16 being sold on the ex -- export market and...

17 MR. BOB PETERS: You're going to  
18 correct me on that assumption?

19 MR. VINCE WARDEN: I'm looking to my  
20 cohorts here to say that's not the case.

21 MR. DAVID CORMIE: Well, I -- I think  
22 we went through this before Christmas, and that was the  
23 issue of whether Wuskwatim is needed to serve Manitoba  
24 load now and whether it's appropriate to evaluate it at  
25 the margin or as a -- as part of the average supply

1 portfolio that Manitoba Hydro has. And so it's -- it's  
2 an issue of -- of debate, how you want to -- how you  
3 want to evaluate the energy.

4 MR. BOB PETERS: Well, I thought Mr.  
5 Miles showed us the supply balance showing that we --  
6 we really don't need Wuskwatim this year in 2013.

7 MR. DAVID CORMIE: Oh, we do. We made  
8 the decision we -- to build it. Had we not built it,  
9 we would have been short this year. And subsequent  
10 events, such as the addition of wind generation, has  
11 created surpluses that have -- have created the -- the  
12 surpluses that are shown. But we -- we need -- we need  
13 Wuskwatim this year to serve the domestic load --

14 MR. BOB PETERS: All right.

15 MR. DAVID CORMIE: -- and our -- and  
16 our firm export contracts.

17 MR. BOB PETERS: Are you able to sell  
18 all of the Wuskwatim output that is not used  
19 domestically on the export market?

20 MR. DAVID CORMIE: Yes.

21 MR. BOB PETERS: And it's being sold on  
22 the export market in the opportunity market?

23 MR. DAVID CORMIE: Yeah, but so is the  
24 surplus that's being generated by the other generating  
25 stations being sold on the export market. Limestone is

1 producing surplus energy that's going to the export  
2 market.

3 MR. BOB PETERS: And that's because  
4 there's no long-term firm agreement respecting that  
5 output?

6 MR. DAVID CORMIE: No. Well, our hydro  
7 system, by definition, produces 40 percent surplus.  
8 And so 40 percent of every generating station on  
9 average has surplus -- is surplus. So for that reason,  
10 it's not fair -- it's not appropriate, from -- in my  
11 perspective, to allo -- to charge a generating station  
12 as being all surplus. It provides dependable and  
13 surplus, and the allocation of revenue should reflect  
14 that.

15 MR. BOB PETERS: Well -- and I -- I  
16 won't get into the debate on the record, in terms of  
17 you -- it will be a matter for, I suppose, your counsel  
18 to provide an argument.

19 But in -- in terms of paying WPLP, on  
20 what volume are they getting paid?

21 MR. DAVID CORMIE: Well, the volume  
22 that they're getting paid is based on the production of  
23 the plant.

24 MR. BOB PETERS: And it that going to  
25 be full production?

1 MR. DAVID CORMIE: Full production for  
2 this year?

3 MR. BOB PETERS: Well, I realize you've  
4 staged the in -- the in-service dates, but --

5 MR. DAVID CORMIE: Well, yeah, for  
6 every megawatt hour, they're getting -- they're getting  
7 paid, but -- and -- and the formula is based upon the -  
8 - the market price for electricity right now.

9 MR. BOB PETERS: Okay, for every  
10 megawatt being generated, they're getting paid. Are  
11 they getting paid as if that energy was sold as firm  
12 long-term contract energy, or are they getting paid as  
13 though it was opportunity energy?

14 MR. DAVID CORMIE: Because there were  
15 no firm contracts signed subsequent to the date that  
16 the partnership chose, there are no firm exports going  
17 to the partnership right now. But any new firm export  
18 sale contracts will attract the firm rate associated  
19 with that.

20 MR. BOB PETERS: Does that also apply  
21 to the NSP arrangement that comes in, in 2015?

22

23 (BRIEF PAUSE)

24

25 MR. DAVID CORMIE: Yes, it does.

1 MR. RAYMOND LAFOND: For clarification  
2 purposes, the 40 percent referred to was 40 percent of  
3 revenues or 40 percent of production, kilowatt  
4 production?

5 MR. DAVID CORMIE: Appro --  
6 approximately 40 percent of production at every  
7 generating station in an average-water year is surplus.  
8 Only 60 percent of the average is -- is dependable  
9 energy.

10 MR. RAYMOND LAFOND: But exports would  
11 make up for -- wou -- would they make up 40 percent of  
12 what's used in Manitoba or 40 percent of the total  
13 generation, of which 40 percent would be exported or  
14 extraprovincial and 60 percent would be within?

15 MR. DAVID CORMIE: Assuming that all --  
16 all surplus is exported, it will make 40 percent of --  
17 40 percent of production will go to the export market.  
18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: Mr. Warden, just help  
21 me with some of the -- the details. The -- as I  
22 understood it, Nisichawayasihk -- I'll say NCN from  
23 here on -- could have subscribed for up to 33 percent  
24 interest in -- in the generating station?

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



1 MR. BOB PETERS: And did they in fact  
2 do that?

3 MR. VINCE WARDEN: They are on that  
4 path. They have not absolutely committed to that yet.

5 MR. BOB PETERS: And Manitoba Hydro, as  
6 the limited partner, would hold the balance?

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

8 MR. BOB PETERS: I had understood that  
9 NCN had to make their election and the matter had to  
10 close when the first unit came in service, which I  
11 thought was in July of 2012, from the previous  
12 evidence.

13 Have I got that right, that the closing  
14 took place in July of 2012, or was supposed to?

15 MR. VINCE WARDEN: The -- the first  
16 unit was in June, the end of June 2012. And -- and  
17 there -- the provision whereby they would have to de --  
18 elect as to their percentage ownership has been  
19 extended to July of 2013.

20 MR. BOB PETERS: What level of  
21 ownership does NCN have currently?

22 MR. VINCE WARDEN: Well, the assumption  
23 is that it will be 33 percent, so.

24 MR. BOB PETERS: But at this point,  
25 it's factually zero?

1 MR. VINCE WARDEN: No. No, actually,  
2 they -- they've been provided advances from Manitoba  
3 Hydro so -- so as to maintain their 30 -- 33 percent  
4 level.

5 MR. BOB PETERS: So their 33 percent  
6 level would be based on the CEF12 numbers, in terms of  
7 what their contribution should be?

8 MR. VINCE WARDEN: Well, it would be  
9 based on the actual expenditures for the generating  
10 facility. So if CEF -- if -- if the costs come in  
11 exactly as in accordance with CEF12, which we do expect  
12 it will be close now, then, yes, it will be --  
13 ultimately be based on CEF12.

14 MR. BYRON WILLIAMS: Would it follow  
15 then, Mr. Warden, that Manitoba Hydro has advanced to  
16 NCN 33 percent of the costs, as depicted on CEF12, for  
17 Wuskwatim?

18 MR. VINCE WARDEN: No, NCN has put in  
19 some of their own -- their own funds. So Manitoba  
20 Hydro has made up the balance by way of equity loans to  
21 NCN to -- to bring it up to 33 percent.

22 MR. BOB PETERS: How much money has NCN  
23 put up of their own money?

24 MR. VINCE WARDEN: At this point in  
25 time, it's approximately \$14 million.

1 MR. BOB PETERS: And Manitoba Hydro's  
2 equity loans are in what approximate amount?

3 MR. VINCE WARDEN: In the order of a  
4 hundred million dollars, to date.

5 MR. RAYMOND LAFOND: What is your  
6 definition of a equity loan versus a loan?

7 MR. VINCE WARDEN: Well, it -- it is  
8 just that, the -- the per -- the amount required for  
9 NCN to maintain 33 percent equity interest in the -- in  
10 the partnership.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: Just help me -- and  
14 I'll -- we'll get to some of the documents, and that  
15 may cause me to rethink my questions. But if it's one-  
16 third (1/3) of the level of ownership, then they're  
17 going to -- then the -- NCN is going to be required to  
18 contribute one-third (1/3) of the capital costs?

19 MR. VINCE WARDEN: Well, not really.  
20 It -- the generating station itself is financed 75  
21 percent debt, 25 percent equity. So their 33 percent  
22 would be applied to the 25 percent equity portion.

23 MR. BOB PETERS: All right. Yes, I'm  
24 standing corrected. So they're -- they're paying one-  
25 third (1/3) of the 25 percent equity and Manitoba Hydro

1 is paying the balance of the 25 percent equity?

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

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: Does NCN pay interest  
7 on the loan for Manitoba Hydro?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: Do -- does NCN have to  
10 pay interest on the loan when WPLP is operating at a  
11 loss for the first number of years?

12 MR. VINCE WARDEN: To the extent that  
13 there are cash calls to maintain that equity --  
14 required equity ratio, yes, they would pay interest on  
15 those cash calls.

16 MR. BOB PETERS: And those cash calls  
17 would be advanced by Manitoba Hydro?

18 MR. VINCE WARDEN: Yes, they would.

19 MR. BOB PETERS: Has that happened?

20 MR. VINCE WARDEN: I should say the  
21 agreement is -- provides for that to happen, but that  
22 has not happened yet, no.

23 MR. BOB PETERS: That's still a matter  
24 of negotiations?

25 MR. VINCE WARDEN: Yes, I expect

1 negotiations will alter that somewhat.

2 MR. BOB PETERS: If -- the agreement as  
3 structured, Mr. Warden, if interest wasn't paid on the  
4 loan, would the equity share decrease?

5 MR. VINCE WARDEN: Yes. Yes, there  
6 would be -- ultimately their -- their share would  
7 decrease, yes.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Is Manitoba Hydro  
12 prepared to advance all of the rest of the outstanding  
13 monies to ensure that NCN has a one-third (1/3) equity  
14 interest?

15 MR. VINCE WARDEN: No. That is -- that  
16 is the issue we're facing, because those advances would  
17 be of an order of magnitude that would put the partner  
18 in an almost impossible situation to repay those  
19 advances.

20 MR. BOB PETERS: So the -- the rough  
21 calculations of this plant would require just over \$400  
22 million of equity to be contributed, to keep a 75/25  
23 debt-equity structure. And if NCN is to contribute  
24 one-third (1/3) of that, they're -- the expectation  
25 would be they would, under the current arrangement,

1 fund \$140 million. Is that approximately...?

2 MR. VINCE WARDEN: Those numbers are  
3 approximately correct, yes.

4 MR. BOB PETERS: And of that 140  
5 million the -- the NCN counterparty has advanced 10  
6 percent of that, or 14 million.

7 MR. VINCE WARDEN: To date, yes.

8 MR. BOB PETERS: And Manitoba Hydro has  
9 advanced to NCN another hundred million?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: And so the balance of  
12 26 million is the matter in -- in discussion?

13 MR. VINCE WARDEN: Well, no, the  
14 agreement provides that NCN has to put in a minimum  
15 amount of cash. So they -- they -- you know, they  
16 would not be able to -- if -- if they wanted to acquire  
17 33 percent, there's a certain minimum threshold they  
18 must invest to achieve that.

19 MR. BOB PETERS: What's Manitoba  
20 Hydro's maximum contribution to that equity loan?

21

22 (BRIEF PAUSE)

23

24 MR. VINCE WARDEN: Mr. Peters, we're --  
25 actually, we would be very close to the maximum at this

1 point in time. I believe, subject to check, the  
2 agreement provides that NCN must contribute a minimum  
3 of \$33 million of their own cash by the date of  
4 declaration of their interest. So at a hundred  
5 million, we're -- we're pretty much at the maximum now,  
6 in accordance with the agreement.

7 MR. BOB PETERS: And is Manitoba Hydro  
8 aware of the source of that \$33 million of cash that  
9 has to be contributed by your counterparty?

10 MR. VINCE WARDEN: Well, we've been  
11 having some discussions with them and there is a --  
12 yes, we're -- we are aware where they -- that they do  
13 contemplate getting the -- the funds from a trust --  
14 the trust agreement that's currently set up.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: The way the agreement  
19 is structured, Mr. Warden, should NCN choose to fund no  
20 more money, their 33 percent interest would be reduced.  
21 Is that -- is that the consequence?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: Okay, and Manitoba  
24 Hydro would pick up the balance?

25 MR. VINCE WARDEN: Yes.

1 MR. BOB PETERS: Mr. Warden, in the  
2 book of documents, starting on page 256 is the WPLP  
3 IFF11-2. And the Board should be aware, and may have  
4 had on their chair a copy of Manitoba Hydro Exhibit 34,  
5 which is an exhibit which was filed before we recessed  
6 for Christmas. And Mr. Rainkie, I think, provided us  
7 with a projected operating statement for WPLP  
8 consistent with IFF12.

9 MR. DARREN RAINKIE: I recall that, Mr.  
10 Peters. I'm trying to locate it in my paper. I  
11 started losing the paper war about three (3) or four  
12 (4) hearing days ago.

13 MR. BOB PETERS: Do you need a copy? I  
14 have an extra, Mr. Rainkie. Or else if you -- if you  
15 can't locate one --

16 MR. DARREN RAINKIE: I think Mr. Warden  
17 located one right now, Mr. Peters.

18 MR. BOB PETERS: All right. I just  
19 want the Board and -- and let me understand, the IFF,  
20 Mr. Warden, that you tasked Mr. Rainkie to prepare is  
21 prepared in the accordance with the current agreement  
22 as signed as between Manitoba Hydro and WPLP?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: And you've cautioned  
25 the Board that they shouldn't -- this may not be the



1 reality that goes forward, because there may be some  
2 renegotiation?

3 MR. VINCE WARDEN: I probably even  
4 stated it stronger than that, Mr. Peters. It won't be  
5 the reality.

6 MR. BOB PETERS: And when we look at  
7 the financial ratios on either page 2 of 7 of Manitoba  
8 Hydro Exhibit 34, or we can look at page 256 of Board  
9 counsel's book of documents, there's an effort to hold  
10 the -- the debt-equity ratio at 75/25 at some point in  
11 time, correct?

12 MR. VINCE WARDEN: Yes, there is  
13 provision for the debt-equity ratio to deteriorate to a  
14 maximum debt ratio of eighty-five (85) for the first  
15 ten (10) years of operation.

16 MR. BOB PETERS: And that's shown, to  
17 some extent, on -- on both of these documents?

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: My question is that --  
20 let's look particularly on -- on Manitoba Hydro Exhibit  
21 34 on page 2 of 7, when the debt ratio was held at 85  
22 percent for the first ten (10) years. And I see above  
23 it, the net income is -- is negative.

24 Who's paying the cash call to keep the  
25 debt -- to keep that -- that debt ratio at eighty-five

1 (85)?

2 MR. VINCE WARDEN: Well, that is --  
3 that is one (1) of the major issues. Manitoba Hydro  
4 would be advancing funds to NCN in order for them to  
5 maintain their -- their ratio. And those cash calls  
6 would be significant.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: If there was a cash  
11 call, Mr. Warden, what percent of that cash call is  
12 Manitoba Hydro's responsibility to meet?

13 MR. VINCE WARDEN: It would be --  
14 excuse me. Assuming that NCN has a 33 percent  
15 ownership, it would be 67 percent of that total.

16 MR. BOB PETERS: And to calculate the  
17 significant cash call that you -- that you referenced,  
18 would we need only look to the net income line and do  
19 the calculation as to what additional amount of -- of  
20 revenue or income would be needed to keep the net  
21 income line positive at least at an 85 percent capital  
22 structure?

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Let me rephrase the  
2 question. I may have asked it incorrectly. If we're  
3 looking at Manitoba Hydro Exhibit 34, page 2 of 7, and  
4 we see on the bottom line of financial ratios a point  
5 in time when 85 percent is maintained. If we look  
6 above that 85 percent number, and let's pick 2015 as  
7 the year, there's a \$65 million loss.

8 Would -- would it be correct in my way  
9 of thinking that the cash call that year would be \$65  
10 million?

11 MR. VINCE WARDEN: No, it would be in  
12 excess of \$65 million, because zero net income would  
13 not maintain the debt ratio at that level.

14 MR. BOB PETERS: All right. You'd have  
15 to -- you'd have to factor in the previous losses and -  
16 - and make those good before you can --

17 MR. VINCE WARDEN: Yes, there's a  
18 compounding effect.

19 MR. BOB PETERS: All right, I -- I was  
20 -- I see that now. Thank you.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Mr. Warden, on -- we  
25 had gone through, before the afternoon recess, that the

1 capital cost of Wuskwatim was approximately \$1.8  
2 billion?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: And then when I look  
5 at the IFF11-2, on the balance sheet on page 4 of 12 in  
6 my book of documents -- it'll be found on page 258. If  
7 you can -- I'll just let you get oriented to page 258,  
8 Board counsel's book of documents, which is Exhibit PUB  
9 14. It's found under Tab 24.

10 MR. VINCE WARDEN: Yes, we have it  
11 here.

12 MR. BOB PETERS: The plant in-service  
13 is shown as \$1.337 billion.

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: And I'm wondering why  
16 that isn't the full \$1.8 billion?

17 MR. VINCE WARDEN: Yeah, the -- if you  
18 look under "Current and other assets," the transmission  
19 line is included as part of other assets. So that's...

20 MR. BOB PETERS: Does the end -- does  
21 the WPLP ownership extend to the necessary transmission  
22 for Wuskwatim?

23 MR. VINCE WARDEN: No. No, the  
24 ownership only pertains to the generating station.

25 MR. BOB PETERS: And then why would

1 transmission -- transmission show up as a current asset  
2 if it's not owned by the partnership?

3 MR. VINCE WARDEN: Well, it's really  
4 intended to show under "Other assets". And in -- in  
5 determining the debt-equity ratio, that -- that's  
6 excluded from the calculation. So it's here to  
7 indicate that those costs are to be recovered over the  
8 -- over -- through the income statement. So it's kind  
9 of a -- a reconciliation, so to speak, between the  
10 balance sheet and the income statement, because the  
11 income statement reflects the costs of transmission.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: And if I -- where --  
16 where will I find that transmission charge in the  
17 operating statement -- or that transmission revenue, I  
18 suppose?

19 MR. VINCE WARDEN: The -- the charge  
20 would be under "Depreciation and amortization." So the  
21 cost of -- of the transmission, the -- the tariff, so  
22 to speak, for the use of that transmission would be  
23 recovered through the "Depreciation and amortization"  
24 line.

25 MR. BOB PETERS: All right. So the

1 "Current and other asset" line that you've shown us on  
2 the balance sheet, is that solely transmission?

3 MR. VINCE WARDEN: I'm sorry, Mr.  
4 Peters, would you just repeat?

5 MR. BOB PETERS: Yes, sir. I'm looking  
6 at the "Current and other asset" line that you drew our  
7 attention to on the balance sheet.

8 MR. VINCE WARDEN: Yeah.

9 MR. BOB PETERS: I'm on page 258. I'm  
10 just wanting to find out if that relates solely to  
11 transmission, or is there some other current or other  
12 asset included in that -- in that amount.

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: If you'll just give  
17 us a second, I'll confirm that, Mr. Peters.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: It wasn't meant as a  
22 trick question. I -- I go back --

23 MR. VINCE WARDEN: Yeah. No, I --

24 MR. BOB PETERS: -- to your CEF and I  
25 see that transmission was two ninety-eight (298) on

1 your CEF11.

2 MR. VINCE WARDEN: Yes.

3 MR. BOB PETERS: So I suspect that  
4 "Current and other assets" is transmission only.

5 MR. VINCE WARDEN: It -- it is. We  
6 just had that confirmed.

7 MR. BOB PETERS: Yeah, okay. Thank you  
8 for that. On the liability side of the balance sheet -  
9 - and I'm looking on page 258 -- we see that the long-  
10 term debt was at \$998 million for what is a \$1.8  
11 billion asset capital project.

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: When I look at the  
14 updated Exhibit 34, that amount has been increased  
15 somewhat considerably.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: And the plant in-  
20 service is -- I'm sorry. The long-term debt of a -- of  
21 a billion dollars against an asset or a capital project  
22 of one point eight (1.8), where's the rest of the -- of  
23 the debt?

24

25 (BRIEF PAUSE)

1 MR. VINCE WARDEN: Well, it looks like  
2 between the presentation and 11-2, and the Exhibit 34,  
3 there -- there's a change in presentation such that the  
4 long term debt includes the transmission as well.

5 MR. BOB PETERS: Should it?

6 MR. VINCE WARDEN: Yes, yes, that's the  
7 case. So that -- that does include -- and it's just a  
8 presentation difference here, really. But it -- it's -  
9 - the same principle applies. The -- the financing is  
10 75 percent debt for the generating facility with the  
11 transmission going in as -- as the difference.

12 MR. BOB PETERS: So the long-term debt  
13 should be 75 percent of the -- of the in-service asset?

14 MR. VINCE WARDEN: That's right.

15 MR. BOB PETERS: And it's not depicted  
16 that way on IFF11-2, but it is on IFF12?

17 MR. VINCE WARDEN: Well, it should be  
18 on 11-2 as well. The only difference, I believe, is  
19 that whereas 11-2 segregates out the -- the  
20 transmission line separately, the transmission line  
21 debt is included under long-term debt on Exhibit --

22 MR. RAYMOND LAFOND: If I can  
23 intervene, essentially un -- under page 258, long-term  
24 debt does not -- it is eight (8) -- nine hundred and  
25 ninety-eight thousand (998,000), but there's a lot of



1 current and other liabilities of three twenty-seven  
2 (327), which have, essentially, been reduced by a few  
3 hundred million dollars on the page 4 of 7 of Exhibit  
4 34.

5 MR. VINCE WARDEN: Yeah, so it's been  
6 consolidated into one line, yeah.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Thank you for that.  
10 Mr. Warden, WPLP does not use the transmission for  
11 free, does it?

12 MR. VINCE WARDEN: No. No, in fact --

13 MR. BOB PETERS: Is the -- is the --  
14 sorry.

15 MR. VINCE WARDEN: No, I was just going  
16 to say the -- the transmission co -- the cost of  
17 transmission is totally recovered from WPLP over its  
18 service life.

19 MR. BOB PETERS: Is the cost of  
20 transmission equal to the depreciated -- the annual  
21 depreciation amount --

22 MR. VINCE WARDEN: Plus the --

23 MR. BOB PETERS: -- or is there a  
24 tariff?

25 MR. VINCE WARDEN: No, it's equal to

1 the depreciation plus the related financing costs.

2 MR. BOB PETERS: And, again, that's  
3 shared between WPLP and Manitoba Hydro based on their  
4 interest, their equity interest?

5 MR. VINCE WARDEN: That's right.

6 MR. RAYMOND LAFOND: Would it also  
7 include operating and maintenance costs --

8 MR. VINCE WARDEN: Yes, it would.

9 MR. RAYMOND LAFOND: -- of that  
10 transmission line?

11 MR. VINCE WARDEN: Yes, it would.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: When we look at  
15 Exhibit 34, Mr. Warden, still on the balance sheet, and  
16 we look at that long-term debt item that you've  
17 confirmed includes the transmission debt, it appears to  
18 remain relatively constant going out into the future.

19 Is -- does that suggest it doesn't get  
20 paid down?

21

22 (BRIEF PAUSE)

23

24 MR. VINCE WARDEN: Mr. Peters, the --  
25 the assumption that is used here is this -- we take a

1 thirty (30) year debt for -- to finance the -- the  
2 project. And so it would remain constant throughout  
3 the period that we're reviewing on the -- on this  
4 particular schedule, on the balance sheet. So there  
5 would be no paydown in that thirty (30) year period.

6 MR. RAYMOND LAFOND: Is that project  
7 the thirty (30) debt would all be fixed interest rates,  
8 or partly floating?

9 MR. VINCE WARDEN: It would be all  
10 fixed.

11 MR. RAYMOND LAFOND: At what rate?

12

13 (BRIEF PAUSE)

14

15 MR. VINCE WARDEN: Yeah, there were --  
16 you know, there were various tranches of debt taken out  
17 during construction so there's -- the rate would be in  
18 and around 5 percent, 5.5.

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: Is the debt ever paid  
22 off, Mr. Warden? I didn't follow that answer you gave  
23 me. In thirty (30) years it appears that it stays  
24 constant but is the debt ever paid off?

25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: I think it would be  
4 not too dissimilar from Manitoba Hydro's debt. There  
5 is -- because we're looking at a facility that has a  
6 hundred (100) year life, there would be an assumption  
7 that the debt would be refinanced upon -- at the end of  
8 that thirty (30) years.

9 MR. RAYMOND LAFOND: Can I go back to  
10 my previous question, the interest rate of 5 to 5 1/2  
11 (5.5) percent, would that include the provincial  
12 guarantee fee?

13 MR. VINCE WARDEN: Yes, it would.

14

15 (BRIEF PAUSE)

16

17 CONTINUED BY MR. BOB PETERS

18 MR. BOB PETERS: Sorry, the debt  
19 doesn't get paid off over the term of the agreement?  
20 It's interest only, is that what I'm understanding?

21

22 (BRIEF PAUSE)

23

24 MR. VINCE WARDEN: You know, I'd have  
25 to look at the covenants on that, Mr. Peters, to see

1 actually when -- there'd -- there'd be provision for  
2 refinancing at year thirty (30) but at what point the  
3 debt would be considered repaid, I'd -- I'd have to  
4 look into that.

5 MR. BOB PETERS: You'll undertake to --  
6 to advise the Board with respect to the debt on the  
7 WPLP arrangement?

8 MR. VINCE WARDEN: Yes, yes. We'll  
9 undertake to look at what provisions are made for  
10 repaying the debt associated with the WPLP.

11

12 --- UNDERTAKING NO. 49: Manitoba Hydro to advise  
13 the Board as to what  
14 provisions are made for  
15 repaying the debt  
16 associated with WPLP

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Are you able, by  
20 looking at the operating statement and the balance  
21 sheet, Mr. Warden, to indicate on what number  
22 depreciation expense is based? Asked another way.

23 Is it based on the \$1.8 billion major  
24 capital project or is it based on the \$1.3 billion  
25 value, excluding the transmission?

1 MR. VINCE WARDEN: No, the transmission  
2 would be included in the depreciation expense.  
3 Depreciation and amortization, as well as in finance  
4 expense. And to a smaller extent, lesser extent, in  
5 operating and administrative expense.

6 MR. BOB PETERS: But finance costs are  
7 only calculated -- I thought that it was only 1.3  
8 billion out of a \$1.8 billion project?

9 MR. VINCE WARDEN: No, no. The finance  
10 expense would be applicable to the cost of financing  
11 the transmission line as well.

12 MR. RAYMOND LAFOND: The -- the cash  
13 flow generated from the depreciation and net income  
14 when it does happen, would it essentially all be used  
15 to reduce debt or is a portion going back to the equity  
16 holders?

17 MR. VINCE WARDEN: Mr. Lafond, that's  
18 just something that we're going to have to confirm with  
19 that undertaking. We'll -- we'll do that.

20

21 (BRIEF PAUSE)

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Mr. Warden, when the  
25 Board sees the partnership capital declining on the

1 balance sheet, is that to reflect dividends paid by  
2 WPLP?

3

4 (BRIEF PAUSE)

5

6 MR. VINCE WARDEN: No, Mr. Peters,  
7 dividends would not be affecting the partner's capital.  
8 That would be ref -- reflecting the losses that are --  
9 that they would be diluting the -- the losses would be  
10 diluting the partner's capital. So -- so that's what  
11 we'd be seeing with that partner's capital declining.

12 MR. BOB PETERS: I thought that might  
13 have been a dividend to reflect an advance on expected  
14 net income?

15 MR. VINCE WARDEN: An advance by the  
16 partnership?

17 MR. BOB PETERS: Yes. Or Manitoba  
18 Hydro.

19 MR. VINCE WARDEN: Yeah -- no, that --  
20 any advances that would be provided prior to the  
21 partnership being able to sustain a dividend would be  
22 advanced by Manitoba Hydro in accordance with the  
23 agreement. And there'd be a requirement for the  
24 partners to repay any of those advances.

25

1 (BRIEF PAUSE)

2

3 MR. RAYMOND LAFOND: I'm sorry, I'm not  
4 sure I follow this. If I look at, for instance, 2032,  
5 the partnership is generating an income of \$74 million,  
6 yet its capital only comes up by -- sorry, it goes down  
7 by \$7 million. So something has to be happening  
8 because net income is added to partner's capital, so  
9 then it has to be a distribution, in my opinion. So  
10 maybe that could be part of the undertaking.

11

12 (BRIEF PAUSE)

13

14 MR. VINCE WARDEN: Yes, Mr. Lafond, I  
15 think what's happening there is once you get in -- once  
16 we get into profitability, then -- then in fact the  
17 dividends are paid from the partnership. I think, in a  
18 response to Mr. Peters's earlier question through, the  
19 -- the question wa -- at least how I interpret it was  
20 that when the partnership is -- is not profitable, is  
21 there a provision for dividends to be paid. And, yes,  
22 there is, but they're in the way of a loan, a dividend  
23 loan, which must be repaid later.

24

25 So that was -- that was not the reason  
for the partner's capital declining in the -- in the



1 early years.

2 MR. RAYMOND LAFOND: So the dividend  
3 would be paid in years of losses and -- which would  
4 reduce the capital, partner's capital, but it would  
5 become a loan fro -- or -- or monies borrowed from the  
6 partners?

7 MR. VINCE WARDEN: No, it would be a  
8 loan from Manitoba Hydro.

9 MR. RAYMOND LAFOND: Yes. Sorry, yes.

10 MR. VINCE WARDEN: Yeah, that's right.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: Mr. Warden, I suppose  
14 dealing with Manitoba Hydro Exhibit 34 and looking at  
15 the -- the operating statement prepared in accordance  
16 with the current agreement, we see a \$43 million loss  
17 in the first test year of 2013, and a \$74 million loss  
18 in 2014, correct?

19 MR. VINCE WARDEN: Correct.

20 MR. BOB PETERS: Those losses that are  
21 shown here are flowed through to Manitoba Hydro's  
22 operating statement and Manitoba Hydro's net income?

23 MR. VINCE WARDEN: Well, they're -- the  
24 operations of the -- the partnership are consolidated  
25 into Manitoba Hydro's financial statements, yes. And -

1 - and --

2 MR. BOB PETERS: So these losses reduce  
3 the net income of Manitoba Hydro?

4 MR. VINCE WARDEN: To the extent that  
5 the losses are real, but that gets back to an earlier  
6 discussion. This is based on the formula for deriving  
7 the revenues. Now, they -- they're -- the question is  
8 whether some of those rev -- some of the revenues, if  
9 you were to attribute them to Wuskwatim as to where  
10 those kilowatt hours actually flowed, the revenues  
11 could be different than what is displayed here.

12 This is just based on the formula in  
13 accordance with the agreement. So the --

14 MR. BOB PETERS: But wouldn't -- let me  
15 ask it this way though, Mr. Warden. I had thought --  
16 and maybe Mr. Cormie will jump in here, that the  
17 revenues attributed to the partnership would be deemed  
18 to be more than what would actually be realized by  
19 Manitoba Hydro.

20 MR. VINCE WARDEN: No. No, that's not  
21 the case. The revenues that are attributed to the  
22 partnership I'm not -- I don't want to say they're  
23 less, but they're different than -- than what would be  
24 recorded in the consolidated financial statements of  
25 Manitoba Hydro. This -- this statement would be used

1 to determine the non-controlling interest line on  
2 Manitoba Hydro's consolidated financial statements.

3

4 (BRIEF PAUSE)

5

6 MR. RAYMOND LAFOND: Can I -- I think  
7 the comment you made has added an -- another question  
8 for me. The partner's capital between 2013 and 2014  
9 does reduce by about the \$74 million net deficit or --  
10 of operation, but the following year there's a \$65  
11 million loss, but the partner's capital only reduces by  
12 about \$20 million.

13 In that in regards to revenue allocation  
14 because of the agreement, or is that really because the  
15 dividend has been paid and it becomes a load due to  
16 Manitoba Hydro?

17 MR. VINCE WARDEN: The -- it's a little  
18 bit complicated because the partner's capital is  
19 comprised of the two (2) partners, NCN and -- and  
20 Manitoba Hydro. So Manitoba Hydro would be putting the  
21 funding necessary to maintain its 67 percent equity  
22 level, whereas the other partner wouldn't necessarily  
23 be doing that. So it gets a little bit --

24 MR. RAYMOND LAFOND: So what I'm  
25 hearing is there would be some added capital

1 contributions by Manitoba Hydro over the years?

2 MR. VINCE WARDEN: Yes, absolutely.

3 Yes.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Mr. Warden, I still  
7 need help, but if you could turn to Exhibit 34 and we  
8 look at the operating statement. And let's pick the  
9 first test year, 2013. Revenues are attributed at \$26  
10 million and that's -- that's to represent the revenues  
11 from the sale of the electricity that flows out of  
12 Wuskwatim generating station?

13 MR. VINCE WARDEN: In accordance with  
14 the formula, yes.

15 MR. BOB PETERS: That's not in quarter  
16 -- not in accordance with what factually occurs?

17 MR. VINCE WARDEN: That's right.

18 MR. BOB PETERS: Manitoba Hydro doesn't  
19 -- does it record factually what happens with the  
20 electrons that come out of that --

21 MR. VINCE WARDEN: No.

22 MR. BOB PETERS: So you have to make  
23 some assumptions?

24 MR. VINCE WARDEN: No, we -- we -- it -  
25 - the revenue -- we know how much the rev -- or the --

1 the production is, it's metered, and then we assign  
2 revenue based on -- on the formula in the agreement,  
3 so.

4 MR. BOB PETERS: And -- and I had  
5 understood and -- and I'll have to re-read what Mr.  
6 Cormie told me, but on peak, the partnership gets paid  
7 Manitoba Hydro's average price on long term dependable  
8 sales and imports. That's for on-peak energy?

9 MR. VINCE WARDEN: Yes, long term.  
10 Now, that's contracts negotiated since 2006. So --

11 MR. BOB PETERS: But it doesn't apply  
12 to any of the on peak Wuskwatim energy? Does that  
13 definition apply or not apply factually to the  
14 Wuskwatim arrangement?

15 MR. DAVID CORMIE: It would apply to  
16 the -- to the -- to any new contract that was signed  
17 subsequent to 2006. And -- and there aren't any and  
18 there won't be any until -- until 2015 when the -- the  
19 NSP sale extension occurs, or if we were to negotiate a  
20 new contract between now and that -- that date. So,  
21 it's -- it's -- the revenue formula is reflecting just  
22 the opportunity rates now.

23 MR. BOB PETERS: So, even if energy was  
24 sold from Wuskwatim on-peak, the partnership only  
25 received off-peak opportunity prices?

1 MR. DAVID CORMIE: It's on-peak and  
2 it's opportunity prices.

3 MR. BOB PETERS: I think what you're  
4 telling -- telling the Board, Mr. Cormie, is that  
5 whether it's on-peak or off-peak, it's -- the formula  
6 is now turning out a number that's the same because  
7 there are no long term firm contracts?

8 MR. DAVID CORMIE: Yes.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: And so, Mr. Warden,  
13 when we look at the operating statement and we see \$26  
14 million of revenue for the 2013 year, that's pursuant  
15 to the formula, what does Manitoba Hydro say it  
16 factually was in 2013?

17 MR. VINCE WARDEN: We don't.

18 MR. BOB PETERS: Because it's not over,  
19 or because you can't --

20 MR. VINCE WARDEN: No, no, no. Because  
21 it's -- we don't attribute revenue specifically to a  
22 generating station; it just comes in as part of the  
23 generation mix that's available for sale on the markets  
24 that we sell into.

25 MR. BOB PETERS: And the cost that you

1 show as expenses on the operating statement, those are  
2 real costs that Manitoba Hydro has -- has incurred?

3 MR. VINCE WARDEN: Yes, they are but,  
4 again, as defined within the agreement.

5 MR. BOB PETERS: All right. So the  
6 operating and main -- operating and administrative  
7 expense shown at \$6 million, that doesn't contain all  
8 of Manitoba Hydro's O&M expenses?

9 MR. VINCE WARDEN: Well, it's  
10 definitely intended to, but there is a -- it's  
11 prescribed how cost will be allocated. But the  
12 intention is to capture all the costs of operating the  
13 -- the generating station.

14 MR. BOB PETERS: Well, against that  
15 intention and if that's carried through then the  
16 expenses are real; whether cash expenses are not,  
17 they're real expenses?

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: And so, the loss --  
20 are you saying the loss isn't real? The \$43 million  
21 isn't a real loss?

22 MR. VINCE WARDEN: Well, it's real in  
23 accordance with the agreement.

24 MR. BOB PETERS: And what is it in  
25 reality?

1 MR. VINCE WARDEN: Well, I'm saying that  
2 we -- we don't attribute revenue specifically to a  
3 generating station. So you can make different  
4 assumptions and say, Well, all this went to the  
5 domestic market and we're getting seven (7) cents per  
6 kilowatt hour for this rather than two and a half (2  
7 1/2) or three (3) cents, so -- but it depends on your  
8 assumptions.

9 MR. BOB PETERS: Or it all went to the  
10 off-peak opportunity market and you got two (2) cents.

11 MR. VINCE WARDEN: But we know that's  
12 not happening because Mr. Cormie this -- you know, some  
13 of it's being used domestically, so.

14

15 (BRIEF PAUSE)

16

17 MR. BOB PETERS: Just before I leave  
18 those cost items, Mr. Warden; head office costs and  
19 overheads are not included in the amounts that are  
20 charged through to the partnership?

21 MR. VINCE WARDEN: There is provision  
22 in the agreement for some overheads, Mr. Peters, but  
23 I'm not sure that we specifically identified those to  
24 be head office costs. But there -- there is provision  
25 for administrative costs.



1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Let's turn while we're  
4 on this subject to page 268 of the book of documents,  
5 please. That's found under Tab 25, Mr. Warden.

6 This is a response that Manitoba Hydro  
7 provided to CAC in its interrogatory in the First  
8 Round, number 15A. Do you have that?

9 MR. VINCE WARDEN: Yes, I do.

10 MR. BOB PETERS: And this is to  
11 estimate the impacts of Wuskwatim on net income, the  
12 discussion we were just having. And if I read the  
13 Information Request correctly, Manitoba Hydro is  
14 suggesting in this response that under IFF11-2 in  
15 2012/'13 the impact on the -- on net income was \$106  
16 million, related to Wuskwatim?

17

18 (BRIEF PAUSE)

19

20 MR. VINCE WARDEN: Mr. Peters, I'm not  
21 sure where you're getting the 106 million from?

22 MR. BOB PETERS: I'm sorry. I'm on  
23 page 268.

24 MR. VINCE WARDEN: Oh.

25 MR. BOB PETERS: And I'm looking at the

1 column for IFF11-2 on the right-hand side of the page.

2 MR. VINCE WARDEN: Yes, I see that now.

3 MR. BOB PETERS: And so on the first  
4 test year, there's \$106 million of expenses attributed  
5 to Wuskwatim, and there's 117 million attributed in the  
6 second test year?

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

8 MR. BOB PETERS: Those, again, are real  
9 costs that will be impacting Manitoba Hydro's net  
10 income?

11 MR. VINCE WARDEN: Yes, they will.

12 MR. BOB PETERS: And what I note on  
13 this sheet, Mr. Warden, is that the projected capital  
14 costs -- and let's stay with IFF11-2, shows \$1.672  
15 billion?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: But the finance  
18 expense is not calculated based on \$1.672 billion, is  
19 it?

20

21 (BRIEF PAUSE)

22

23 MR. VINCE WARDEN: It should be, Mr.  
24 Peters. Oh, I'm -- I'm sorry. The -- in this  
25 particular -- yes, it's -- it's based on one point six

1 seven two (1.672) less internally generated funds that  
2 -- that we assumed for the project.

3 MR. BOB PETERS: Okay. What was the  
4 amount of internally generated funds? Or maybe we --  
5 we can come to that in the -- the information.

6 But what -- what you're showing here is  
7 that on the \$1.672 billion of in-service costs as  
8 forecast in IFF11-2, Manitoba Hydro has deducted an  
9 amount that it notionally attributes from internally  
10 generated funds that have been previously talked about  
11 in these proceedings?

12 MR. VINCE WARDEN: Correct.

13 MR. BOB PETERS: Manitoba Hydro doesn't  
14 track it, per se, but it's a notional calculation.

15 Would I have that right?

16 MR. VINCE WARDEN: That's right.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: If we turn, Mr.  
21 Warden, to page 274 of the book of documents. We see a  
22 response to PUB Second Round Question 50B. And I take  
23 it this is the notional calculation as to the  
24 internally generated funds that Manitoba Hydro -- I'll  
25 use the word "notionally" again -- attributes to the

1 Wuskwatim project?

2 MR. VINCE WARDEN: Yes.

3 MR. BOB PETERS: And in this particular  
4 case, the -- if we go down to line item number 9,  
5 Manitoba Hydro has determined that the total surplus  
6 cashflow from operations that it can attribute to  
7 Wuskwatim capital is \$481 million?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: And that only leaves  
10 then the 1.2 billion for financing by way of the long-  
11 term debt?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: Ang, again, Manitoba  
14 Hydro doesn't do this calculation for each of its  
15 projects. This was done after the fact, making some  
16 assumptions as contained in this chart?

17 MR. VINCE WARDEN: That's correct.

18 MR. BOB PETERS: All right. Is the  
19 same formula used for all other major capital projects?  
20 Can you indicate that, Mr. Warden?

21 MR. VINCE WARDEN: No. No, there's  
22 really no reason to do that for the other projects.  
23 This is -- we're doing this for Wuskwatim just because  
24 of the nature of -- of this project.

25 MR. BOB PETERS: Can the Board expect

1 that Manitoba Hydro is going to keep a separate  
2 financial statement for the Keeyask project and the  
3 Conawapa project if Manitoba Hydro goes into  
4 partnership with anybody on them?

5 MR. VINCE WARDEN: Yes. Yes, we would.

6

7 MR. BOB PETERS: And so for those  
8 projects you'll have to do another calculation akin to  
9 the one you did on Wuskwatim here to determine what --

10 MR. VINCE WARDEN: No --

11 MR. BOB PETERS: -- internally  
12 generated funds are going to be allocated?

13 MR. VINCE WARDEN: No, this was really  
14 done more so for -- for this forum. It has no impact  
15 on the -- on the partnership.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Mr. Warden, I'm not  
20 going to prolong it on the record, but back on page  
21 268, to the extent that the expenses are shown here are  
22 -- for Wuskwatim, under IFF11-2, are greater than  
23 what's shown on the WPLP IFF12, those additional costs  
24 again flow to Manitoba Hydro and are impacting on  
25 Manitoba Hydro's net income?

1 MR. VINCE WARDEN: Yes, to the extent  
2 that the -- the expenses are greater than what is  
3 provided for in the agreement, then that would -- that  
4 would flow to Manitoba Hydro. I'm just trying to think  
5 of a circumstance where that would occur though,  
6 because the agreement was structured so as to capture  
7 all the costs of operations.

8

9

(BRIEF PAUSE)

10

11

MR. BOB PETERS: Mr. Warden, I'm just  
12 trying to sort out a discrepancy here on the operating  
13 statement at Manitoba Hydro Exhibit 34. Costs are  
14 shown at \$69 million in the first test year, and then  
15 on page 268 of Board counsel's book of documents  
16 they're shown as \$106 million.

17

And I'm just wondering what number was  
18 embedded into IFF12 put together by Manitoba Hydro?

19

MR. VINCE WARDEN: Sorry, I'm -- I'm --  
20 I didn't follow that, Mr. Peters. I wonder if you  
21 could just state that again.

22

MR. BOB PETERS: Yes, I will. If you  
23 have Manitoba Hydro's Exhibit 34 at hand. And I look  
24 to the 2013 test year, and I see ex -- I see expenses  
25 of about 69 million shown.

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

2 MR. BOB PETERS: And when I go to page  
3 268 of Board counsel's book of documents I see a number  
4 that's \$106 million for those expenses and I'm  
5 wondering why the two (2) don't correlate.

6

7 (BRIEF PAUSE)

8

9 MR. VINCE WARDEN: We're look -- yeah,  
10 we're looking at IFF11-2, I believe, on page 268 versus  
11 IFF12. And there was a different phasing in of -- of  
12 the -- of the units that assumed in IFF11-2 that didn't  
13 occur, so -- so IFF12 updates for that, so I think that  
14 the -- the major difference.

15 If you look at the first full year of  
16 in-service on Exhibit 34, so -- so the total is 118  
17 million there for the first full year of in-service.  
18 And if you look at -- compare that to 2013/'14 the  
19 first full year of in-service, 117 million, so they're  
20 almost identical.

21 MR. BOB PETERS: So the explanation is  
22 simply the staging of the in-service of the units?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: Thank you. Mr.  
25 Warden, I think you and Board member Lafond were on

1 this point and I'm -- if you're still on Exhibit 34 and  
2 we turn to the operating statement for -- let's pick  
3 2023. On 2023 I see a forecast net income of \$2  
4 million.

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: Now if we flip to the  
7 -- let's flip to the balance sheet and let's look at  
8 2022 and 2023, respecting partner's capital. And  
9 partner's capital goes from \$177 million in 2022 up to  
10 \$322 million one (1) year later with a net income of \$2  
11 million. And I'm not following how that -- how that  
12 happens.

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: Yes, Mr. Peters, Mr.  
17 Rainkie just pointed out that's the year in which  
18 there's the 85 percent equity -- or debt ratio that is  
19 -- converts to 75 percent debt rate -- debt, so there's  
20 a -- an infusion of capital required in that year.

21 MR. BOB PETERS: Should I expect to  
22 find that on the cash flow statement, Mr. Warden?

23

24 (BRIEF PAUSE)

25



1 MR. VINCE WARDEN: I would think you  
2 could expect to see it there, but I'm --

3 MR. BOB PETERS: So that's going to be  
4 part of your undertaking, is that what you're telling  
5 me? You're going to -- you're going to help explain  
6 that to -- to me and set me straight on that?

7 MR. VINCE WARDEN: Yes, we will.

8 MR. BOB PETERS: Okay. I think -- I  
9 think, Mr. Chairman, this might be an appropriate time  
10 to -- in addition to the previous undertakings, Mr.  
11 Warden is going to provide an explanation to the Board  
12 as to the partner's capital line item on the balance  
13 sheet, and I have highlighted two (2) years for him to  
14 focus on, 2022 and 2023. And we'll -- we'll have a  
15 better understanding once he answers that question.  
16 Thank you.

17

18 --- UNDERTAKING NO. 50: Manitoba Hydro to provide  
19 an explanation of the  
20 partner's capital line item  
21 on the balance sheet,  
22 focussing on 2022 and 2023

23

24 MR. BOB PETERS: And with that, Mr.  
25 Chairman, subject to any questions the Board may have,

1 I will stand down and I will remind the Board that  
2 tomorrow morning we will have new witnesses before the  
3 Board relating to Manitoba Hydro's rates, and I believe  
4 also a little bit on the diesel issue, if -- to the  
5 extent there's questions. Thank you.

6 THE CHAIRPERSON: If there is no  
7 business to attend to, then I would adjourn the  
8 proceedings, and we'll see some of you tomorrow morning  
9 at nine o'clock. Thank you.

10

11 --- Upon adjourning at 4:54 p.m.

12

13

14

15 Certified Correct,

16

17

18

19

20 \_\_\_\_\_

21 Cheryl Lavigne, Ms.

22

23

24

25

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