MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO

GENERAL RATE APPLICATION

2014/15 AND 2015/16

Before Board Panel:

Regis Gosselin - Board Chairperson

Marilyn Kapitany - Board Member

Richard Bel - Board Member

Hugh Grant - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

June 18, 2015

Pages 4428 to 4609

APPEARANCES

Bob Peters		)Board Counsel
Sven Hombach		)
Odette Fernandes	(np)	)Manitoba Hydro
Brent Czarnecki		)
Helga Van Iderstine	(np)	)
Byron Williams		)Consumer Coalition
Meghan Menzies		)
Jared Wheeler		)
William Gange	(np)	)GAC
Peter Miller		)
David Cordingley		)
Antoine Hacault		)MIPUG
Michael Anderson	(np)	)MKO
George Orle		)
Tomas Masi		)MMF
Kris Saxberg	(np)	)
Denise Pambrun	(np)	)City of Winnipeg

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1 LIST OF EXHIBITS

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

2

3 THE CHAIRPERSON: Good morning. I

4 believe that nearly everyone is in position. So I'd

5 just like to talk briefly about events today. We'll

6 hear from Mr. Williams to complete his direct -- or,

7 pardon me, his closing arguments. And then we'll hear

8 from -- from Me. Hacault who will follow up after Mr.

9 Williams.

10 We will be recessing at ten (10) to

11 12:00 and resuming around one o'clock. So if Me.

12 Hacault is not completed by then, we'll -- we'll

13 recess.

14 And today I just want to advise the --

15 the people here that Diana Villegas is otherwise

16 occupied, and Alex Allardyce has agreed to step into

17 the breach. So thank you, Alex, for taking on that

18 challenge.

19 I believe we have no other business to

20 discuss before we turn the microphone over to Me.

21 Hacault, please.

22 MR. ANTOINE HACAULT: Mr. Chair,

23 members of the Board, as -- I understand, when I was

24 working on the submissions yesterday, that there was

25 some concern by Manitoba Hydro about some of the slides

1 that were presented by Mr. Bowman.

2 Mr. Bowman will be leaving at about

3 10:30 for another engagement. So if Mr. Williams

4 finishes, we can address those clarifications at that

5 time. I think it's a tempest in teapot really, but we

6 -- we provided and -- and discussed with Manitoba Hydro

7 key employees yesterday, sending additional

8 information.

9 It may be that a lot of it will just

10 resolve itself, but I'm just making the Board aware.

11 With that, we're prepared to deal with that concern if

12 it's the wish of the Board.

13 THE CHAIRPERSON: Mr. Williams...?

14 MR. BYRON WILLIAMS: I'll just say that

15 we're certainly -- if -- if Mr. Bowman has a time

16 issue, and if it's the will of the room, we can stand

17 down. But I leave -- I -- I -- Man -- Manitoba Hydro

18 may have comments. So we're -- we're not taking a

19 position on what should be done. We're simply saying,

20 We'll stand down if that's the will of the room.

21 THE CHAIRPERSON: Mr. Czarnecki...?

22 MR. BRENT CZARNECKI: Good morning, Mr.

23 Chairman. Yeah, we have been -- our people have been

24 discussing with Mr. Bowman some of the issues that

25 resulted from his evidence that was provided very late.

1 And as of last night, we received another email from
2 him at 11:49 p.m. I haven't had a chance to speak to
3 Mr. Carriere or Mr. Rainkie about that email.
4 We will certainly try to work our way
5 through to find a solution. But I do want to highlight
6 for the Board the procedural conundrum that this causes
7 for, you know, providing new evidence late in the game,
8 because now we're sorting through the issues that, in
9 my submission, should be properly put before the Board
10 initially as evidence and tested by way of the
11 Information Request process, and then possibly cross-
12 examining -- cross -- cross-examined on that.
13 This is a terribly inefficient way of
14 dealing with a significant matter at this juncture
15 while we're all collectively trying to prepare a final
16 argument. It is extremely late in the game. And in
17 our submission, it is inappropriate. And I think Ms.
18 Van Iderstine spoke to this being new evidence, and I'm
19 reiterating that concern.
20 Short of asking for the evidence to be
21 struck, we'll see if we can find a resolution to the
22 issue. But in any event, I think the Board should be
23 very, very cautious of this evidence as it's coming in,
24 and afford very little, if any, weight to it.
25 We do believe that the Hydro Exhibit 130

1 that we provided yesterday does provide you with the
2 proper information of an apples-to-apples-to-apples
3 comparison of the -- what a 2 percent would look like -
4 - pardon me, what a 2 1/2 percent run would look on the
5 IFF, so we do think that's the most reliable
6 information.
7 But again, I -- I do highlight the --
8 the conundrum that we find ourselves in is as a result
9 of new and untested evidence being filed extremely late
10 in the process.
11 THE CHAIRPERSON: Okay, how about we
12 agree that we'll get through Mr. Williams's arguments,
13 and then see where that takes us in terms of time and
14 if there's time available. And Manitoba Hydro has
15 comments to make about the information. Having had an
16 hour -- another hour to examine it, perhaps we can
17 discuss it at that time, so.
18 So Mr. Williams, please.
19
20 CONTINUED CLOSING SUBMISSIONS BY THE CONSUMER
21 COALITION:
22 MR. BYRON WILLIAMS: Yes. And I
23 started yesterday with some thanks-yous before --
24 THE CHAIRPERSON: Before -- I'm sorry,
25 Mr. Williams. Before you -- you go -- you start, I

1 just want to thank the people I know who worked late
2 last night, so thank you very much for your assisting
3 us in -- in this process. Thank you.
4 MR. BYRON WILLIAMS: And I did want to
5 just offer a -- a couple more thank-yous before I went
6 on. You'll get a budget at the end of the hearing
7 which will be consistent with the original budget or
8 the -- the budget of the Coalition. But I just want to
9 indicate that that will not be reflective of the time
10 spent on this hearing.
11 We want to thank Mr. Harper and the
12 folks at La Capra who've gone above and beyond the
13 call, Mr. McCormick and Dr. Booth, whose numbers you
14 will not see in that budget but who have been very
15 generous. And I -- I just -- for -- for myself, I
16 didn't have the benefit of Ms. Menzies here for the
17 first two (2) weeks of the hearing. You could tell,
18 and I'm -- I'm very grateful that -- to have her back,
19 and -- and the pressure that I put upon her in the last
20 two (2) days. Her work has been heroic, so we're --
21 we're very glad to -- to have her.
22 Yesterday, I -- I went through a lot of
23 material on sustaining capital. I perhaps rhetorically
24 talked about a pitch without a plan. But I want to
25 come down to the bottom line. This PowerPoint is

1 missing a couple words which I will add, but I -- I
2 think it -- it will help to articulate our main message
3 on sustaining capital.
4 The quality of evidence that Manitoba
5 Hydro has presented in terms of sustaining capital
6 expenditures, in our client's view, is not sufficient
7 to demonstrate that they have appropriate priorized
8 (sic) and paced these expenditures, in -- in the words
9 of Kinectrics, a least cost-effective manner, so that
10 is a concern for us.
11 It's not the standard that we would have
12 expected from Hydro. It's -- definitely, Appendix 4.2
13 is not. And it's not the standard, in our respectful
14 submission, that a regulator is entitled to.
15 There's a reason our client is on top of
16 this, or trying to be on top of this, is because this
17 is a critical issue for today, but going to the future.
18 In terms of the four (4) big messages, start with the
19 creation of appropriate health indexes for all assets
20 that go beyond just the age of the assets. And -- and
21 Hydro's made some steps, but we see major weaknesses on
22 the distribution side.
23 Prior -- priorize (sic) required
24 spending based on risk and consequence of failure, and
25 articulate that thinking pattern. You would expect to

1 see worst to first. And there is some of that on
2 Hydro's material, but -- but more.
3 Item C is a critical one, and it is
4 missing a couple of words. Link the prioritization
5 results to the proposed budget. That would be the
6 capex budget, so capital expenditure, but also link it
7 to the maintenance and operational expenditures. That
8 is a package. And then what is also missing from this
9 line is tie that to performance expectations.
10 And we showed you how PowerStream did
11 that. So what is missing from C is tie it to
12 performance expectations. Don't throw a bunch of money
13 at a problem and say, We don't expect to address it.
14 Tie it to what you expect the performance metrics will
15 be so that the tri -- tribunal has a -- something to
16 measure your investment against in the future.
17 And then show us that you've done that
18 trade-offs risk assessment both at the business unit
19 level and at the corporate level. And that -- those
20 types of working papers, but that type of analysis is
21 what we think would be a -- a modern appropriate
22 capital management strategy. So that's in a --
23 hopefully in one (1) slide. I'm missing a few words,
24 but that would be our message.
25 Just to go back to slide 2 for a moment.

1 Yes, Mr. Bel?
2 MR. RICHARD BEL: Sorry. Mr. Williams,
3 on the pacing issue, your point is they could have the
4 right pacing, but we don't know?
5 MR. BYRON WILLIAMS: That is a -- a key
6 part of it, we don't know. But I will say that the --
7 the second part is our attention was grabbed when you
8 went from four seventy (470) to five seventy (570), as
9 well. So that -- you're right, Mr. -- panel member
10 Bel. They might have it right, we don't know, but we
11 don't -- apart from the analysis, that jump doesn't
12 give us a lot of confidence as well.
13 MR. RICHARD BEL: Okay.
14 MR. BYRON WILLIAMS: Yes, you have --
15 you have my two (2) key points. We're not in a
16 position to offer an opinion on the prudence and
17 reasonableness of that expenditure, and we think we
18 should be and we think you should be as well.
19 Lest I be accused of hyperbole, again, I
20 think I'm -- those words, in terms of interest rate
21 forecasting, are the words of Manitoba Hydro. And in
22 the section that comes now, this is Section 4 on
23 interest rate forecasting, I always -- I try to say
24 this to the Board. I'm pulling some quotes out of the
25 record. I believe they fairly represent the record,

1 but I would encourage this Board to go back and make
2 sure that -- that I'm appropriately reflect -- flecting
3 the record with these -- these quotes.
4 We know going forward, as we turn to the
5 next slide, that many of the cost pressures that are
6 driving the bus for Manitoba Hydro are in that red
7 finance expense line. We know for this specific fiscal
8 year, 2015/'16, there is a lot of borrowing going on in
9 excess of 2.4 billion. So that's the risk, but also
10 the opportunity in the short-term is that 2.4 billion.
11 Going out in time, that red bar gets bigger.
12 And that's why the finance expense is a
13 critical issue for our client for this hearing, but
14 going forward. And -- and I should say that our client
15 has been raising concerns since 2010/'11, with --
16 without imputing bo -- motives with -- with interest
17 rate forecasts and expectations that have consistently
18 been above the results. And this is Coalition-II-54
19 and just pointing out the variance between forecast and
20 -- and actuals on -- on this case short-term interest
21 rates. But Coalition-I-108 does the same for long-term
22 rates.
23 And if you go through all those data
24 points on that table you're going to see that there's
25 only one (1) where the forecast was below the actuals.

1 In over forty (40) of those data points the actual
2 interest rates were lower than the forecast. And so
3 that is the concern we were expressing in our cross-
4 examination of Mr. Page and that's a lot of money
5 captured in those variances. And again, that's --
6 slide 5 makes that point that I just made to you
7 verbally.
8 On June 4th we had a discussion with Mr.
9 Page about this and -- and Mr. Page is telling us on
10 this page that -- some very important language. And
11 he's taking us back to September, January of 2014, and
12 he's saying on -- on this first quote, and I've
13 highlighted the words:
14 "In terms of interest rate
15 forecasting the prevalent views have
16 consistently been wrong."
17 And that second bullet, I want to be
18 clear, he's trying to paraphrase the message that he
19 got from the Bank of Canada in some language out of
20 last fall:
21 "So maybe we've got it wrong.
22 There's a new normal in terms of what
23 the neutral late rate is and it's
24 about 1 to 2 percent lower."
25 So that's not Mr. Page expressing his

1 own opinion as I understand it. He's attributing
2 comments to the Governor of the Bank of Canada. And we
3 put the page number in there because we want the Board
4 to be confident and to go back to that language and
5 make sure that I've captured it.
6 And Mr. Page is -- is -- he and Mr.
7 Schulz, I'm big fans of them as witnesses. I think
8 it's -- he's looking at this table now and he's saying
9 sort of a correction that's been a bit overdue. And
10 then going -- this table suggests, and he's referring
11 to the one (1) we just looked at back at -- at slide 4,
12 that it's been long overdue.
13 Now -- and I think those are important
14 and candid statements from Mr. Page. Before we move to
15 the next page, though, here you have in -- in September
16 kind of recognition that perhaps there's a new normal.
17 The next part of the story that I want to be clear
18 about is even with that new normal, that new status
19 quo, something perhaps profoundly important happened
20 again in January. Oil prices have been going down. We
21 all know about that. We know that that tends to hurt
22 oil exporting company -- countries like Canada.
23 There's puts and takes, but it tends to help oil
24 importing comp -- countries like the United States.
25 And so in January, even in the context

1 of this new normal, we had the first cut in the
2 overhead -- overnight rate in five (5) years. And so
3 our submission is that you've got the new normal and
4 then something pretty important beyond the new normal
5 happened in January, a reflection of the negative
6 impacts on the Canadian economy of oil prices.
7 And -- and so that's a nuance that our
8 client believes has -- has perhaps been lost in this
9 hearing. Because the low interest rate clim -- climate
10 of the last few years was in the context of a
11 relatively strong Canadian economy and a relatively
12 weaker American economy. That dynamic, we're still in
13 a low interest rate environment, but the dynamic of the
14 relative strengths of those two (2) economies is
15 starting to change. And we think that has important
16 ramifications, arguably for interest rates, but also
17 for demand in the American marketplace. And that's the
18 -- I'm not the expert, but that's the submission that
19 our client is trying to present.
20 Going to slide 7. Again, if we had a
21 bit more time I would change the words on the -- the
22 headline from "rates decline" -- shouldn't be "plunge"
23 -- "as oil prices plunge." That would be -- I -- I
24 think I've used a bit of hyperbole on the headline, and
25 I apologize for that.

1 But Mr. Page confirmed this was the
2 first drop in overnight rates in five (5) years. And
3 we've put the calculations of the potential impacts on
4 interest rate costs here.
5 And you can see the half -- close to
6 half a billion cumulative impact out to 2023/'24, the
7 very significant twenty (20) year value that was
8 helpfully provided by Manitoba Hydro.
9 So embedded in that forecast, the inte -
10 - integrated financial forecasts of Manitoba Hydro, was
11 an expectation of the new normal of 4.1 percent for
12 interest costs for long term.
13 Obviously, the events of January
14 shattered that, but we want to highlight this because
15 this is Manitoba Hydro saying -- I'm putting it in
16 quotation marks -- Holy -- holy cow, we're getting --
17 this year we're -- we're borrowing $2 billion. We're
18 getting record-low costs for our bonds.
19 And we've highlighted debt serie -- in
20 the first bullet, F-3, second lowest fixed rate at long
21 bond issue in the Corporation's history.
22 Going down to the next bullet, we've got
23 the series GK. This is about four (4) lines from the
24 bottom. All-in yield, 2.9, new record. And then we've
25 got another debt series right afterwards, another new

1 record. And we've added the emphasis.
2 And if you flip to the next page, our
3 timing of discussing with Mr. Schulz on -- on June 4th
4 was quite propitious because they just secured -- oh,
5 excuse me. Here's another new record, and this is debt
6 series GK-2 which we spoke about on the previous page.
7 So -- and then June 4th was -- they just
8 secured on a ten (10) year bond not a -- not a thirty
9 (30), not a long one, two point five (2.5).
10 And again, I think pretty indicative not
11 just that the forecasts in the IFF were high, but
12 they're securing returns that are lower than the
13 revised numbers from January, and good news amidst a
14 climate of some bad news. And so this is the point we
15 just want to highlight.
16 Mr. Schulz and I had a bit of a
17 discussion on -- on June 4th, and he seemed to be
18 feeling, based upon Hydro's spring update, that, you
19 know, they got the good returns and things were
20 starting to be on the uptake again in terms of interest
21 rates.
22 So by way of undertaking, we got them to
23 both file a bunch of the -- the new bank forecasts from
24 June, but also in Exhibit 82 put out -- put out the
25 calculations in terms of what was going on.

1 And if you go to the far right of this
2 table, you'll see that, even from the spring update, a
3 decline in what the -- the consensus of the forecasters
4 was showing. So a small point, but we think that it's
5 important to -- to note that positive news from the
6 perspective of Hydro.
7 Before we leave this page, if you think
8 back to the few pages previously and the talk of the
9 new records, and you look at the numbers for May/June,
10 you see three point nine-five (3.95) on the far right,
11 or four point four (4.4) going out to 2016/'17.
12 That includes the 1 percent debt
13 guarantee fee. So if you're trying to do apples to
14 apples, you would turn that four point four (4.4) into
15 a three point four (3.4) and that three point nine-five
16 (3.95) for the May/June update to a two point nine-five
17 (2.95).
18 So my simple point is this includes the
19 debt guarantee fee of -- of 1 percent. So if you're
20 trying to reconcile the previous pages, this has got
21 the debt guarantee fee built -- built into it.
22 This is one (1) of Hydro's slides. I
23 think this is slide 62 from panel 3. This is just a
24 sensitivity analysis. There are puts and takes, with
25 export prices being a big take. But it's interesting

1 if you look at the sensitivity to an interest rate at -
2 - at being down 1 percent. And it's hard to tell on
3 the yellow. I -- I encourage you to look at the Hydro,
4 but that is a pretty handsome result. That's the
5 yellow that -- that stays up above the -- or up near
6 the 3 billion in retained earnings.
7 So we're -- that's a 1 percent decline.
8 Now, we're not suggesting that's the scenario. We just
9 want to point out the sensitivity of Manitoba Hydro to
10 positive developments in interest rates. That's all
11 we're doing. That's Hydro's slide, not ours.
12 Hydro's response to our submissions on
13 interest rates is there are puts and takes and we're
14 not meeting our expectations in terms of export prices.
15 And I -- just when the computer crashed two (2) nights
16 ago that was the quote I'd found from Mr. Page. And --
17 and I love that language in terms of their forecast of
18 export prices, "Forecast export price was perpetually
19 too high."
20 I'm not sure if that was supposed to
21 give our client comfort, it did not, but that's the --
22 Mr. Page saying there are puts and takes, and we
23 thought his language deserved to be highlighted.
24 Going to slide 14. This is just the
25 nuance that we're trying to capture. Our client, if

1 you go to the second bullet, has consistently said that
2 Manitoba Hydro, in its capital programming, was not
3 fully recognizing the headwinds it faced in the
4 American marketplace, improved energy efficiency, a
5 dramatic change under the current president,
6 distributed generation, solar PV and shale.
7 So that's the bad news and the risk for
8 Manitoba Hydro. But the bullet above that, bullet 1,
9 the nuance that we think is being missed in this
10 hearing is again that relative change in the position
11 between Canada and the United States.
12 And in one (1) of the Hydro exhibits,
13 and I will provide the citation later, they filed late
14 last week a number of bank reports. And we thought the
15 Royal Bank really captured our message very well.
16 There is -- and that's that third bullet.
17 In the relatively strengthening American
18 economy there's an opportunity for Canadian exporters
19 from stable US demand which will be enhanced by the
20 weakening Canadian dollar.
21 And that's just the subtlety we want to
22 -- to add. Our -- our message still hasn't changed,
23 that's there's lost of risks in the marketplace. But
24 the one (1) bright wind -- the one (1) bright sign, the
25 one (1) reduced headwind in the American marketplace is

1 that sta -- strengthening economy coupled with the weak
2 -- the relatively weaker Canadian dollar, and so that's
3 the point we're trying to make there. And it's -- that
4 information, the Hydro exhibit number is Exhibit 82 and
5 page 86, I'm told.
6 Going to slide 15. We're trying to put
7 together our message here. We've got the updated
8 interest rate forecast. Hydro, in the second bullet,
9 is alleging puts and takes. Going to fourth bullet
10 though, we're getting record low interest rates which
11 at least should give us comfort in the current year
12 when we're borrowing $2 billion.
13 And then we go down to the fifth bullet
14 where we highlight -- and the reference is wrong. It
15 should be CAC-II-54. Consistently wrong -- excuse me,
16 consistently overestimation of interest rate prices
17 over the last few years. The -- as Mr. Page says, the
18 preva -- prevalent views have been consistently wrong.
19 And we note that based on Exhibit 82,
20 the outlook for longer term interest rates is now lower
21 than in January. Hydro's demonstrated it's able to
22 borrow less at rates lower than in the updated
23 forecast. And we've looked at the variance and done
24 some esti -- estimates in terms of an opportunity for
25 increased net income on this, with the -- the great

1 uncertainty being export prices, as -- as Hydro's
2 pointed out, and we have pointed out, but noting
3 increased eco -- opportunities in the American
4 marketplace with its strengthening economy.
5 So here should be our recommendations on
6 this point. Oops, sorry. Just go back to slide 17 for
7 one (1) other point. This is a small point. In -- in
8 its forecast capital spending, there is an
9 acknowledgment by Mani -- Manitoba Hydro that it has
10 not reduced its forecast capital spending to account
11 for the impact of lower interest rates. We think this
12 is a material impact that should be reflected in the --
13 that forecasted forecast. And so we just make that
14 point there, hopefully simply.
15 Our client's perspective is that the
16 Board find that interest rate forecasts have been a
17 source of substantial uncertainty with the prevalent
18 trend of over-estimation. To note that in this current
19 year, there is ability to lock in substantially lower
20 than forecast rates, suggesting a reduction of risk for
21 this very substantial year of borrowing, and a
22 significant rate mitigation opportunity.
23 And then moving to the Chairperson and
24 my mutual interest in Manitoba Public Insurance, we
25 just want to flag that this is a big issue for all our

1 Crowns. It's for Hydro, but it's also for MPI. And we
2 -- we're not sure what to do with that, but it would be
3 really helpful, perhaps, to -- to -- we're going to
4 suggest, to perhaps put those Crowns together in some
5 sort of technical disc -- discussion on how we approach
6 interest rate volatilities.
7 Mr. Page was very our -- in our view,
8 compelling when he talked about the new normal and
9 about a need to readjust our expectations. In a way, I
10 think he's echoing what some of what Manitoba Public
11 Insurance is saying and what our client has been saying
12 in these hearings. So we just leave that open. We
13 think this is an issue that affects both our Crowns.
14 And -- and we think for the Board and for others, I
15 think it might be useful to -- to share some -- some
16 views.
17 Chapter 5, and I know My Friend Mr.
18 Hacault is going to -- he's the depreciation guru, so
19 I'm not going to trample too much on his toes. One (1)
20 of the issues with depreciation that I think is -- I'll
21 -- I'll certainly say it's challenging our client, and
22 it's probably challenging many in the room.
23 You've got very contrasting
24 perspectives. And I guess we all have to ask
25 ourselves, What's driving these perspectives? Is it

1 altruism, is it principle, is it self-interest? So
2 that's something that our client is alive to. I will
3 say that our client went on the line and put their
4 reputation on the hook for Ms. Lee, because her career
5 of over thirty (30) years as one (1) of the leading
6 practitioners in the United States, we think stands for
7 itself, and we're very pleased to have been part of
8 bringing her insight to the hearing. We had the
9 benefit of two (2) very important witnesses on
10 depreciation in this hearing, Mr. Kennedy and Ms. Lee.
11 And our client is very proud to have brought her
12 pragmatic approach to this hearing.
13 Slide 20. These were my instructions
14 from the client and my advice to the Board. When
15 you're looking at these complex issues, start with what
16 is a just and reasonable rate.
17 An important point from our client's
18 perspective is when we look at depreciation we have to
19 ask ourselves has the Board's advice, and in fact
20 direction, been followed and respected? And I spent a
21 long time yesterday talking about advice to Manitoba
22 Hydro, good advice that -- that was in our view
23 ignored. We think it's very important when we think
24 about depreciation to ask ourselves, Has the Board's
25 direction to Manitoba Hydro from its last order been

1 adhered to? And again, like all in this room I think
2 we want to seek a reconciliation of rate-making
3 principles and accounting principles if possible.
4 Here are the two (2) questions from our
5 client. We're -- we're not going to answer them, but
6 they're what our client is struggling with. How do we
7 weigh these competing approaches? Principle, is that's
8 what driving all these positions? Altruism, self-
9 interest. And our client, like many others in the
10 room, is also worried that we could get into a never-
11 ending ESL -- ELG/ASL debate. And so our client
12 suspects that these are issues for the Board. They're
13 issues for our client as well.
14 So if we go to the next slide. Our
15 client can't answer the altruism principle or self-
16 interest question. But we can ask, What did Hydro say
17 it would do in the last GRA? What did the Public
18 Utilities Board ask it to do? And ha -- has Hydro done
19 what it said it would do, or what the PUB asked? So
20 that's our simplistic approach to these complicated
21 issues.
22
23 (BRIEF PAUSE)
24
25 MR. BYRON WILLIAMS: In terms of what

1 Hydro said, I want to draw your attention to the second
2 bullet and the last few lines. It's the fourth line
3 from the bottom. Mr. Warden is talking to Mr. Peters,
4 talking about:
5 "In the next depreciation study we'll
6 be adding more componentization in
7 order for ASL rates to be compliant."
8 This is done in the context of an IFRS
9 continuing to be deferred. So that's the context. You
10 have to read the quote in its entirety, but we think --
11 that was the impression our client was left from the
12 last GRA that Manitoba Hydro was walking down -- open
13 to walking down both paths.
14 Slide 24. We don't think this language
15 could be any clearer. Board Order 43/'13, as we
16 understand it, Hydro was to file an updated
17 depreciation rates and schedules based on IFRS
18 compliant average service life methodology. That was
19 the Board's clear direction. I am clearly not a
20 depreciation expert, but in the response to PUB/MH-1-39
21 here's Manitoba Hydro's response:
22 "That 2014 study of Gannett Fleming -
23 - Fleming is not IFRS compliant. It
24 doesn't have the requisite level of
25 asset componentization."

1 To us that's sufficient for our client
2 to con -- conclude that Manitoba Hydro has not
3 complied, in our view, with the -- the Board's
4 directive. And we -- we note that it is always open to
5 Manitoba Hydro. There have been times in the past
6 where it disagrees with a Board directive or it, with
7 the benefit of hindsight, it -- it might think, Well,
8 maybe Mr. Warden committed us to a bit too much. To
9 our knowledge Manitoba Hydro did not come back and seek
10 a review and vary. So this is a critical point for our
11 client in terms of respecting the Board process.
12 Slide 25. This is the more complex one
13 (1). The headline here is:
14 "Cross-examination of Mr. Hombach and
15 evidence of Ms. Lee casts doubts on
16 the reliability of Appendix 11.49."
17 The Board's second directive out of
18 43/'13 was to come back and let us make an informed
19 decision. Look at IFRS-compliant ASL. Look at IFRS-
20 compliant ELG. Let us make the call on full, rich
21 evidence. I do not want Mr. Hombach to get a swelled
22 head, but he did a nice job in his cross-examination of
23 Mr. Kennedy in terms of Appendix 11.49.
24 He did such a nice job that our client
25 decided to not go back into that issue, because we

1 thought the -- the doubts cast on the apples-to-apples
2 applicability of Appendix 11.49 were well made in that
3 cross-examination. And we've highlighted the pages
4 from the transcript that are important to our
5 conclusions on that point.
6 We note as well that Ms. Lee also cast
7 doubt on its reliability. And it was striking to us
8 that Manitoba Hydro did not re-examine Mr. Kennedy
9 after Mr. Hombach's cross-examination, and that they
10 did not bring him back to rebut Ms. Lee's criticism
11 either.
12 And so from our client's perspective, it
13 is open to the Board to draw an adverse inference in
14 terms of the reliability of Appendix 11.49 from this
15 series of events. That is the inference we have drawn.
16 Others may draw different conclusions.
17 Net salvage. You read the literature,
18 debates about net salvage going back forever. Do we,
19 don't we? Okay. Mr. Hom -- Hombach again got to a
20 simple point: Does IFRS allow it? No, it doesn't.
21 That's not the end of the question.
22 That's not the end of the issue. Your job, in our
23 respectful submission, is: Is net salvage appropriate
24 from a rate-setting perspective? But from an IFRS
25 perspective, we know what the answer is.

1 The positions. Mr. Kennedy appear --
2 appears to favour the non-IFRS-compliant approach,
3 although Manitoba Hydro has chosen not follow his --
4 his advice on this specific point. Ms. Lee appears to
5 favour the IFRS-compliant approach, retaining the asset
6 ret -- retirement obligation, or ARO, for legal --
7 legal obligations.
8 And Mr. Bowman, who's not an expert on
9 depreciation but has -- is expert on its application to
10 rate setting, had some interesting comments about remo
11 -- removing -- removing net salvage for generation and
12 transmission, but being open to its retention for
13 distribution.
14 From a purely self-interested
15 perspective, I have to say that our clients weren't
16 real enthusiastic about Mr. Bowman's position in the
17 sense that it -- it might have implications for cost of
18 service. But we note that -- that he was -- we just
19 note that nuance that was interesting from his
20 evidence.
21 From our client's perspective, we
22 thought Ms. Lee, in her written evidence, had pretty
23 good pragmatic advice. Going down to kind of the
24 middle of this quote, she's talking about, in this new
25 world of increased regulation, increased restrictions,

1 it's hard to -- to return a project to greenfield.
2 The alternative of new sites with costs,
3 it's -- it's just too expensive. And that, I think, is
4 why she's not opposed to the removal of net salvage, at
5 least as we understand her evidence. We think that's
6 the clearest kind of explanation of that issue that
7 we've found on the record.
8 So in terms of depreciation, we're
9 recommending that this Board find that Hydro has not
10 complied with Board Directive 8, and find that its
11 response to Board Directive 9 is inadequate.
12 We recommend that it not accept ELG for
13 rate-setting purposes on the ground that Hydro has
14 failed to comply with Board Directives 8 and 9, and
15 direct Manitoba Hydro to -- to comply.
16 We realize there are costs associated
17 with that. But a big message from our client has been
18 accountability. I may be -- or our client may be
19 misinterpreting the record, but we think the record
20 from the last Board order is pretty clear. We think
21 there's an important accountability message. Next
22 page, please.
23 So what do we do in the interim? It's
24 not the perfect solution. It may be the only solution
25 is to continue to follow the 2014 ASL study. At least

1 as we understand the math, this current ASL leads to
2 lower depreciation, although it has to be amortized.
3 So we've put our calculations base -- or
4 based upon the record on this. We recognize it could
5 be amortized over a longer period of time, but this
6 just some -- some thoughts on this issue.
7 When our client looks at the record, I
8 guess it would be open for the -- the Board to look at
9 kind of status quo ASL going into the future. If it --
10 if it did that, it would be recognizing that it --
11 status quo ASL is not IFRS compliant.
12 Ms. Lee's advice, at least as we
13 understand it, is start from a point of principle. If
14 it should be componentized, it should be componentized.
15 Look at those two (2) key questions. Is there a
16 material difference between gener -- generators and
17 turbines? And if there is, and it's likely to be
18 significant, you got to desegregate it. So we suspect
19 that status quo ASL will not be sustainable. If the
20 Board wants to be IFS -- IFRS compliant, that's the
21 Board's ultimate choice, not our client's.
22 Going forward, we think that there's
23 four (4) options on the table: traditional ASL, ASL
24 with further componentization, which we took to be Ms.
25 Lee's approach, ELG, which is clearly Mr. Kennedy's.

1 And we do highlight the nuance offered by Mr. Bowman,
2 ASL for generation and transmission, and perhaps ELG
3 for distribution, not -- anyways, those are the four
4 (4). And then you have our client's position on net
5 salvage. We prefer the advice of Ms. Lee.
6 We're just using different language
7 here. We talk about an energy inclusion agenda. Mr.
8 Colton talks about an affordability agenda. The MMF
9 and MKO use different words. We -- we have the same
10 message though. If we go to the next slide, there's an
11 ongoing concern with affordability. And this is
12 interesting, because this is taken from some of
13 Manitoba Hydro's poling.
14 And we -- you'll see the blue is the
15 Manitoba Hydro polling. The red is the con -- the CEEA
16 polling. And -- and we do note that these are
17 different samples. These are not the same poles, and
18 Mr. Masi pointed that out. But Hydro's conclusion in
19 the response to Coalition-I-6(c) is that satisfaction
20 with the price of electricity is still experiencing a
21 significant downware -- downward five (5) year trend,
22 and we agree with Manitoba Hydro.
23 And we note that every residential
24 Intervenor, as -- along with GAC, has expressed
25 concerns about affordability. The Board and the

1 government have recognized that, as well. We're not
2 going to get into a lot of numbers. Affordability is
3 an issue, and it's a growing issue.
4 Our -- our client has been big fans and
5 proponents of the Affordable Energy Program. We've
6 been pushing on behalf of our client for a faster pace.
7 I want to highlight a few bullets on this page in terms
8 of the strengths of the Affordable Energy Program.
9 Bullet 4 reduces energy -- annual energy
10 consumption. It -- one (1) of the attractivenesses of
11 it for our client is it does two (2) things, keeps more
12 money in vulnerable consumers' pockets, but it also
13 reduces overall anner -- annual energy consumption.
14 That's why it's particularly attractive to our client.
15 We've highlighted that next bullet,
16 because one (1) of the roots of our client's focus on -
17 - on this program is a historic concern that
18 traditional DSM programs were not accessible to
19 vulnerable consumers. There were too many barriers.
20 And so that meant that poor people, or vulnerable
21 people in their rates were paying for programs that
22 they couldn't benefit from.
23 So when we look at the affordable energy
24 program, it's got consumption value, it's got social
25 justice values, but it also is a regulatory mechanism

1 has equity values. It is making accessible a program
2 that low-income people were paying for in their roa --
3 rates, but could not otherwise access. And that's a
4 very important point for our client when we look -- as
5 -- as you try and understand why that's so important.
6 It fits within the traditional rate-
7 setting approach. If we're spending something on a
8 program we want consumers to be able to equally benefit
9 from it. Those are the strengths of affordable energy,
10 from our client's perspective.
11 Both Mr. Masi and -- and Mr. Orle did
12 far better than I could in terms of highlighting some
13 challenges with affordable energy. You heard a lot of
14 frustration yesterday with the pace of the roll out.
15 Our client's been expressing that concern for years.
16 But again, we do want to nuance our position from MKO
17 and MMF.
18 Our client expressed abject
19 disappointment in affordable energy in 2013. We sense
20 that -- that Hydro has renewed enthusiasm for author --
21 affordable energy. Perhaps it's the PUB's advice.
22 Perhaps it's the government's advice. Perhaps it's
23 Hydro just feeling more enthusiastic. And so we -- we
24 note and increased budget for AEP. There's $9 billion
25 in it in the current fiscal year.

1 There are some significant concerns with
2 the AEP program and Mr. Orle and Mr. Masi flagged the
3 fifth bullet here, the rural all-electric gap. That is
4 a significant service gap that our client joins them in
5 saying it needs to be addressed.
6 Turning to slide 35, I expressed on the
7 record my longstanding admiration for Mr. Colton. We -
8 - I've followed his work for well over a decade. He
9 writes. He's got some very interesting thoughts.
10 Here's some of the strengths of bill assistance. I see
11 I made a typo on the first bullet. I did not mean to
12 say slower bills. I think lower bills was probably
13 what I meant to say.
14 We see the benefit of those who
15 participate tending to pay a higher percentage of their
16 bill, lower collection costs. And again, a fourth boat
17 -- bullet, positive contribution to energy inclusion,
18 but underlining those words for those who participate.
19 Alex, I don't know if you can pull up
20 for a minute Coalition Exhibit 25, page 57.
21
22 (BRIEF PAUSE)
23
24 MR. BYRON WILLIAMS: And if it doesn't
25 work it's okay, because we have paper copies.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: Just turn to the
4 next page for a second, because I -- I want to go down
5 to the bottom of this page. This is Pennsylvania. And
6 I've talked about the strengths of bill assistance, but
7 this -- this Table 2-17 represents a significant
8 concern for our client.
9 Scoal -- scroll down to the bottom.
10 These are participation rates for Pennsylvania electric
11 utilities. And the CAP program is their version of
12 bill assistance. And again, you see PECO, that's the
13 Philadelphia utility coming in at a -- a relatively
14 handsome 46 percent. You see for the other electric
15 utilities 25 percent, and the total being 32 percent.
16 So right off the bat what that is
17 telling us is that there is -- and, you know, PECO's
18 got one (1) of the best programs in the United States.
19 A lot of poor people are not participating in these
20 bill assistance programs. If we could go up to the
21 next -- the bottom of the next page, Alex, just for a
22 moment? Right there.
23 And I took Table 2-15. This is looking
24 at PECO again, but it's striating or looking at the
25 tiers of participation. And remember that PECO is the

1 high achiever with -- of Pennsylvania utilities. And I
2 went through this with cross -- in cross-examination,
3 Table 2-15, with Dr. Colton. That first poverty level,
4 that is the poorest of the poor in PECO's population.
5 You see the eligible for bill assistance population of
6 forty-five thousand (45,000). You see to the left the
7 participants, roughly a quarter of them.
8 And so this is not meant to be
9 dismissive of bill assistance, but this is meant to
10 highlight a couple of points. Programs aimed at
11 vulnerable consumers are very challenging, even the
12 best programs. You look at New Jersey, which is well
13 known, 50 percent of the population. A concern with
14 the program is that there are a lot of poor people who
15 won't be using it and who will be paying for it in
16 their rates.
17 And we just want to highlight this,
18 because we just want to highlight the fact that bill
19 assistance, in our client's view, can't be seen as a
20 magic solution to the rate affordability problem. The
21 experience from the best programs in the United States
22 shows that a lot of poor people will not benefit. It's
23 hard to get them on the program. It's hard to keep
24 them on the program. And that is -- even PECO is only
25 reaching one (1) in four (4) of the poorest of the

1 poor.

2 And those are things that are of concern

3 to our client. So as we look at an envelope of

4 packages that -- that doesn't mean no to bill

5 assistance. That means it's not a magic bullet. We

6 have to look carefully at -- at who benefits and who

7 does not. And we have to look carefully if we -- if

8 the Board ultimately decides to go down that path, is

9 it going to be satisfied with a program that is -- that

10 is not reaching a significant level of these

11 populations?

12 If we could go back and give us back

13 control, we'll go back to slide 36. Just to go down to

14 the last bullet. These are the challenges with bill

15 assistance. And I won't go back to the Pennsylvania

16 report, but you'll recall I went through this with Dr.

17 Colton, and we als -- it's in -- found in Coalition

18 Exhibit 23. It might be Table 68 to 70.

19 You saw very significant growth in the

20 bill assistance, the CAP program in the States from

21 about 89 million in 2004, to about 230 million. And

22 then we compared that with the LIURP -- L-I-U-R-P --

23 Program. That's their Energy Affordability Program.

24 Only about $30 million. So we do raise a concern about

25 a risk of drowning out the energy efficiency programs.

1 Our client is -- it's -- it's not
2 saying, Don't go down this path, but is saying, We've
3 got to be aware. The bill assistance programs in
4 Pennsylvania are eight (8) times the size of the energy
5 affordability programs for low-income people. And you
6 can see at pages 50 and 51 of the Pennsylvania Utility
7 Commission -- or Services Commission saying on page 51
8 -- we -- we spent a lot of time on that page with Mr.
9 Colton. They're saying, Time to do more on LIURP.
10 And so this is just a nuance to this
11 issue. We don't want to shut the doors on bill
12 assistance. We just want to say it's not a panacea,
13 and we've got to be very careful how we roll this out
14 if you go down this path, because from our client's
15 perspective, the Affordable Energy Program is something
16 that needs to be cherished and enhanced.
17 The Pennsylvania experience is telling -
18 - is a big success, and that's captured in Appendix --
19 or Exhibit 23 of the Coalition at page 50. Bill
20 assistance recipients, those participating are paying
21 more of their bills and significantly more than those
22 who do not participate. That is a big success of bill
23 assistance, and it should be acknowledged and honoured.
24 We do note that in Pennsylvania, CSW is
25 those who do not have heat in the home for winter.

1 They hit a new record in 2013, and it's not a good
2 record, a record high. So it's not a panacea.
3 We also note -- and I took the Board and
4 Mr. Colton to page 18 of Exhibit 18 and Table 12. That
5 looked at the percentage of consumers in arrears,
6 traced it from 2002 out to 2014. And we would advise
7 the Board to go back to that table, because that
8 number's hardly moving in Pennsylvania.
9 Of course, the recession, 2008/2009, is
10 a big part of that. But that number has hardly moved,
11 and that is just a caution. It does not say that bill
12 assistance is not a good idea. It just says, It's no
13 panacea.
14 Others, including the GAC, have talked
15 about DSM as a whole. From our client's perspective,
16 DSM cut -- cutbacks do not belong in a pacing and
17 prioritization strategy.
18 We -- we note the considerable
19 uncertainty that the DSM program is in right now.
20 There's some good people who have some very uncertain
21 futures, and it's a robust mitigation tool for all
22 consumers, and it has good long-term results. We
23 believe firmly in that.
24 And one (1) thing the Board may look at,
25 and you did fairly recently, is amortization. We're at

1 ten (10) years, and I think that's reasonable. But we
2 -- I think our understanding is that BC Hydro looks at
3 fifteen (15) years, and that might be something to look
4 at. I don't have a citation for you, but it is on the
5 record somewhere in the volume of material.
6 Going to slide 39, that the Board
7 continue to recognize real affordability issues. We
8 think a critical affordability action is not to grant
9 the rate increase sought.
10 Our client is appreciative of the
11 increased investment of Hydro in the Affordable Energy
12 Program, but would like -- would recommend the Board
13 seek a report back for the next hearing on what's going
14 on with participation rates.
15 And we note in Mr. Dunsky's report,
16 California is targeting 4 percent growth in the program
17 versus where Manitoba is. The Board may be interested
18 in asking, What would it take to get to 4 percent --
19 that would be the top of what -- what you see in North
20 America -- and are the costs worth -- worth it?
21 In terms of the Affordable Energy
22 Program, there is that all-electric gap. And the other
23 gap that Ms. Desorcy would not forgive me if I did not
24 highlight is for apartment dwellers. Hydro's starting
25 to look at that issue now, and we thank them for that.

1 In terms of bill assistance, it's --
2 it's an important potential tool to look at. Our
3 client is insistent that, from their perspective, it
4 should not drown out the Affordable Energy Program.
5 And from our client's perspective, they're concerned
6 about the participation rates, and to consider the
7 merits of long-term amortization.
8 Our client thanks very -- can -- cannot
9 thank the Green Action Centre enough for bringing
10 forward this idea of the collaborative process. We
11 encourage the Board not to preordain a solution. These
12 are what we would suggest should be kind of the package
13 of issues going into that collaborative process.
14 What are our objectives? What are we
15 trying to do? We're trying to mitigate the damage a
16 bit. Like, how ambitious are our objectives? How do
17 we measure that? Are 30, 40 percent participation
18 rates, are -- are those good enough?
19 What are the tools for consideration?
20 We'll add another one: overall rate control. Bill
21 assistance is clearly important, AEP. We note -- we
22 won't dwell on it, but Winnipeg Harvest offered a
23 slightly nuanced approach in the NFAT. What are the
24 tradeoffs? What are the timing issues? And should
25 pilot projects be considered?

1 And just talking about pacing and
2 prioritization, one (1) of the issues for our client is
3 we just -- our client just feels like the AEP is
4 starting to move a bit. Our client really wants to --
5 to solidify the modest progress that has been made.
6 It doesn't want to say no to other
7 options, but that's why the pilot projects might be
8 more attractive to our client. But they're not --
9 they're going into that process with open eyes. I --
10 the Board can probably tell that Winnipeg Harvest is
11 probably more enthusiastic about bill assistance than
12 CAC, but those clients have moved a long way from where
13 they were a few years ago. And our client applauds the
14 Green Action Centre for bringing this proposal forward.
15 Very -- two (2) very brief
16 jurisdictional comments. And, Mr. Chairman, I'm going
17 to try and finish up in about fifteen (15) minutes.
18 I'll -- I'll shortcut a couple things, but I'll try and
19 get the thrust.
20 I loved Mr. Gange's argument yesterday.
21 He was -- he was hot on the legal issues around bill
22 assistance. I'm not sure the Board has to answer that
23 question for this hearing. We would recommend you not
24 preordain bill assistance for the collaborative
25 process, but put it on the agenda. Let's go into that

1 collaborative process at an inclusion agenda open to
2 all options, including bill assistance. See what comes
3 out of that recommendation.
4 In terms of whether the Board has
5 jurisdiction, one (1) issue where our client will
6 disagree with Mr. Gange, at least he seemed to say that
7 just and reasonable is not part of your deliberations.
8 I may have misunderstood him. We vehemently disagree.
9 The Crown Corporations Public Review and
10 Accountability Act, if you look at 26(1) or 26(3), they
11 incorporate the Public Utilities Board Act. They
12 expressly do so. Just and reasonable is at the heart
13 of the Public Utilities Board Act, Section 77. I put
14 it there.
15 If we go to the next page. So that's
16 where, in terms of in -- analysis, we disagree with Mr.
17 Gange. And goodness knows I think either on leave or
18 at hearings, I've been at the Court of Appeal about
19 five (5) times over the -- since 2005 on PUB issues.
20 The -- the Court of Appeal, in its decisions, the most
21 recent, I guess, being MPI, is looking at the interplay
22 between three (3) pieces of legislation, the Hydro Act,
23 or in the case of MPI, the Home Act, the Crown
24 Corporations Act, and the Public Utilities Board Act,
25 including just and reasonable rates.

1 So analytically, we disagree with how
2 Mr. Gange came to his analysis, and we're not as
3 confident as he is in his conclusions. But our client
4 would agree that there is a reasonably arguable case
5 for the Board to have jurisdiction. We're not as
6 vehement as Mr. Gange, but we think the better view is
7 that you probably have jurisdiction to go down that
8 path if you choose.
9 Slide 44 -- slide 44, perhaps not likely
10 to make me popular before this Board. Our client is
11 less clear on the Board's jurisdiction to ask current
12 ratepayers to pay for future projects in current rates.
13 We draw the distinction. If it's contributing to
14 reserves, to that 75:25, or if the Board in the future
15 says 80:20, the Board is clear -- has clear
16 jurisdiction to ask ratepayers -- today's ratepayers to
17 contribute to reasonable reserves.
18 In terms of asking today's ratepayers to
19 contribute to future costs, to our client, that issue
20 is less clear. I'm not going to pronounce an opinion.
21 It's something our client did want me to articulate.
22 We're not sure the Board has that jurisdiction. And
23 we're reserving the right to argue in the future that
24 it does not. We're not expressing opinion now, but
25 it's a caution, from our client's perspective.

1 Just a -- on Chapter 8, I'm going to go
2 through very quickly.
3 MR. RICHARD BEL: Mr. Williams...?
4 MR. BYRON WILLIAMS: Yes, Mr. Bel?
5 MR. RICHARD BEL: Okay, so that -- the
6 -- the last comment that you're making means that we're
7 forced to do a pay-as-you-go. Is -- is -- am I
8 interpreting you correctly?
9 MR. BYRON WILLIAMS: You're -- you're
10 putting me a little bit farther than I wish to go, Mr.
11 Bel, at this point in time. Just -- and so let -- let
12 me be clear, if I could.
13 So -- and I'm going to break it into
14 three (3) pieces. You should be certainly charging
15 today -- today's ratepayers their current costs. We
16 agree with that. And it's also totally appropriate for
17 this Board to say, We don't think your reserve levels
18 are high enough, you know, because contributing to
19 reserves is also a totally legitimate and clear mandate
20 of the Board.
21 So if the Board, for example, and we're
22 not recommending this, said, We should be going to
23 70:30, it -- you clearly have that mandate. What is
24 less clear to us, Mr. Bel, and I think you pushed me a
25 little farther than -- than I'm prepared to go today,

1 the whole concept of just and reasonable rates is
2 ratepayers are to pay their costs for today.
3 What we're not sure about, Mr. Bel, is
4 whether it's appropriate to put into today's rates
5 future costs. And so I'm not going to go quite as far
6 as you asked in your question. We'll just put in a
7 question mark there. And you can seek legal advice
8 from your advisors. They'll probably tell you, I would
9 guess, that the Board could make a reasonable argument
10 that it has the jurisdiction, but our client is not
11 conceding that it does. That's all I'm saying, Mr.
12 Bel.
13 Chapter 8, I only am going to talk about
14 two (2) slides -- or two (2) points. The first one
15 (1), Mr. Peters, I might have looked like I was
16 sleeping through his presentation yesterday. I was
17 listening very acutely. And I thought I heard him say
18 that since Manitoba Hydro applied for its interim rate
19 for 2014, that two point seven-five (2.75), it was $180
20 million to the good. And I wasn't sure -- I trusted
21 his numbers, but I did go back to in Volume III of the
22 Board's book of documents, pages 67 and 68, and I
23 should know better than not to trust Mr. Peters.
24 I think his information was that in
25 '14/'15 Hydro was projecting, at the time of its

1 interim rate application, 55 million. It got -- all
2 right, excuse me. That was for '13/'14, I apologize.
3 It was looking at 55 million and it got a hundred and
4 sixteen (116), money in the bank.
5 For '14/'15 it -- it got -- excuse me.
6 Anyways, I went back to the numbers and it looks like
7 give or take $10 million Mr. Peters was in the
8 ballpark. And I think that's important information to
9 the Board to take into account in terms of how quickly
10 things can move in a good way.
11 Slide 48 I just want to go to for a
12 second. What we're pointing out here is back in 2011,
13 and we acknowledge that Manitoba Hydro has shown
14 progress on the operational side on OM&A, back in 2011,
15 that first bullet, there's a lot of costs in terms of
16 these capital projects that are -- are not coming --
17 that have not yet come onto the rates.
18 And the Board back in 2011 is saying,
19 You need to stay on top of those costs as well. And if
20 we can just go to slide 49 for a moment. Here's our
21 understanding of the record, the number of capital
22 related FTEs is increasing at 5.6 percent per annum. A
23 similar pace in terms of salaries and benefits. So
24 that is something that we think we all need to be very
25 alive to.

1 And coming into the next general rate
2 application when -- whenever that is, we think Manitoba
3 Hydro should be directed to demonstrate that it's
4 effecting cost control measures on that part of the
5 equation as well.
6 That's not something that's going to
7 help in the bottom line for this year, or next year, or
8 the next year. I don't want to pretend that, but it's
9 a big issue for our client going forward when these
10 numbers start to hit the books. And so we simply note
11 that.
12 Slide 52. The Board asked for some
13 comments about process. We gave you some already about
14 sustainable capital. We want to -- to acknowledge some
15 positive steps on process that our client has observed.
16 On this page we've set out three (3) which we think
17 have really improved things in certain regards and so
18 we thank the Board for that.
19 Going to slide 53. Our -- our pas --
20 our clients do wonder though whether some of the
21 process changes have led to a step back in terms of
22 effectiveness and inclusion. Our client the Consumers'
23 Association is appearing a lot before the Clean
24 Environment Commission lately. We're very proud of the
25 rigour and the analysis conducted at this tribunal.

1 We think it's the foremost tribunal in
2 Manitoba in terms of rigour and analysis. In terms of
3 inclusion of the public and openness to the public, our
4 client believes that this tribunal would benefit from
5 hearing from more members of the public, whether
6 through letters, emails, or presentations. And we --
7 we think that it can learn more from other tribunals.
8 So that -- that is something that we'd say generally.
9 Our client thought that in the NFAT, the
10 consumer panels were -- were important. It's very
11 challenging to get consumers to come to this tribunal.
12 They're scared.
13 Having someone like Ms. Menzies work
14 with them to -- to understand the issues is a way to --
15 to be more open to consumers. And we think consumer
16 panels have a role in the Board's deliberation, and we
17 would just ask it to revisit it for future hearings.
18 Third bullet, our client -- the Board
19 has talked about Intervenors taking a lead issue on
20 specific issues. And our client understands the
21 intent. In our client's respectful view, it doesn't
22 work very well for a couple of reasons.
23 Intervenors may have conflicted
24 positions. They may have nuances that they want to get
25 across. We think the intent of getting Intervenors to

1 come forward and say, This is our plan to minimize
2 duplication that is a right plan, and that we should be
3 held to tell you at the pre-hearing conference how
4 we're going to minimize duplication.
5 But this -- the -- the leading roles is
6 not something we would recommend going forward. We
7 think it leads to competition between Intervenors and -
8 - rather than collaboration. We think the principle is
9 right. We think it -- there are some nuances that
10 could make it work better.
11 Bullet 4 is a big one for my client. We
12 think there probably needs to be an extra week between
13 the application and the pre-hearing conference. The
14 Board's right, it wants to dupli -- minimize
15 duplication and encourage collaboration. It is hard.
16 You can estimate ten (10) to twenty (20)
17 hours if you want to be sincere, as we were, in trying
18 to adhere to the gor -- Board's direction. At the same
19 time, you're trying to find experts. You're trying to
20 understand the filing. And we would encourage the
21 Board going forward to add an extra week in. I know
22 time is tight.
23 A last couple of points. Hydro's got a
24 lot of big issues on the agenda where they're seeking
25 input: integrated resource planning, the collaborative

1 process from the GAC, cost of service.
2 Our client very strongly believes that
3 external engagement experts would be useful for
4 Manitoba Hydro. There's a cost, but we think there's a
5 value.
6 And I'll leave the last point. The last
7 two (2) pages I won't go through. I'll just say that
8 these are recommendations of our clients with regard to
9 confidentiality, to access to models, some suggested
10 processes for -- for the future.
11 My Friend, Ms. Menzies, reminds me that
12 this document I forgot to ask to have marked as an
13 exhibit. We'd ask that it be marked as Coalition-27-2,
14 as it is part of the -- the PowerPoint that was filed
15 yesterday which we would suggest be marked as twenty-
16 seven (27) --
17 THE CHAIRPERSON: Fifty-seven (57).
18 ME. BYRON WILLIAMS: -- dash one (1).
19 THE CHAIRPERSON: Fifty-seven (57), I
20 think.
21 MR. DARREN CHRISTLE: No, it's twenty-
22 seven (27). It's confirmed.
23 THE CHAIRPERSON: Twenty-seven (27)?
24 Okay. Thank you.
25

1 --- EXHIBIT NO. COALITION-27-1: PowerPoint
2 presentation
3
4 --- EXHIBIT NO. COALITION-27-2: Document
5
6 MR. BYRON WILLIAMS: So just one (1)
7 second, and then I'll finish up.
8
9 (BRIEF PAUSE)
10
11 MR. BYRON WILLIAMS: Members of the
12 panel, it's -- it's been a great honour, as always, to
13 appear before you. We wish you luck in your
14 deliberations, and, Mr. Chairman, I guess I'll see you
15 next week.
16 THE CHAIRPERSON: Yes. I -- I do have
17 a couple of questions I want to clarify with you. And
18 I guess maybe we could go back to slide 16, not the --
19 the ones for today, but the ones for yesterday. I
20 don't know if Alex can dig that out.
21 But the -- this is the one where you --
22 MR. BYRON WILLIAMS: Like --
23 THE CHAIRPERSON: -- where you
24 recommend to this panel that we -- we approve the two
25 (2) point -- 2.75 percent interim, '14/'15, and then --

1 and then approve 2.5 percent interim for '15/'16.
2 MR. BYRON WILLIAMS: Oh, if they say --
3 THE CHAIRPERSON: And -- and I wanted
4 to explore that one with you from two (2) perspectives:
5 Why interim, and why 2.5 percent?
6 MR. BYRON WILLIAMS: Sorry. And if I -
7 - I'm -- I was unclear. So the second-last bullet is,
8 Approve the -- the 2014/'15 rate, which was previously
9 interim. So I apologize. That -- that's just a lack
10 of -- so it should say, "Finalize two point seven-five
11 (2.75)," and I apologize for that. The two point five
12 (2.5) -- the client...
13
14 (BRIEF PAUSE)
15
16 MR. BYRON WILLIAMS: The client feels
17 very strongly, to start with, that the three point
18 nine-five (3.95) would be endorsing questionable
19 decisions made against good advice. So that's -- so
20 now they're moving back. From their perspective, it
21 would not be appropriate to endorse the application
22 based upon the choices Manitoba Hydro has made in -- in
23 the face of good advice from the Board and from others.
24 So now we're moving back.
25 If you want to -- you know, I can pull

1 out ASL versus ELG. I can go to interest rates. We
2 can -- we can walk that -- those numbers down
3 mathematically, and we tried to do this in the
4 application. But to be honest, Mr. Chair and members
5 of the panel, the two point five (2.5) was not a
6 mathematical result. I -- I just want to be clear on
7 that. We know we have the hundred and seventy (170) to
8 hundred and eighty (180) in terms of improvements. It
9 wasn't a mathematical result. We think the numbers are
10 there to come to that result.
11 The client was mindful of the fact that
12 this is -- Hydro is already looking at a -- a certain
13 amount of net income already in this budget with --
14 it's -- it's going to be moving upward. So the client
15 was generally globally satisfied with the results for
16 this year and thought this should be a signal year,
17 leaving open future years if need be. I -- just to
18 finish the thought. So the client now was down at 2
19 percent. To be honest, like, that's where the client
20 would like this number to be.
21 One (1) of the things our client felt it
22 was important to acknowledge, though, is one (1) of the
23 expenditure choices that our client is very supportive
24 of is that move on the Affordable Energy Program. That
25 budget number of 9.4 million is important, from our

1 client's perspective. And so they wanted -- you know,
2 if you're trying to figure out how they went from two
3 (2) to two point five (2.5), it was to acknowledge that
4 you -- that they wanted to acknowledge that there are
5 some of the spending choices that Manitoba Hydro was
6 making that they wanted to -- to support.
7 So, Mr. Chairman, we believe the numbers
8 are very strongly on the record. But it was, send a
9 signal. There are -- there was a lot of -- this is --
10 this is a year where there's relatively positive
11 results plus the increase from the 2 percent. And then
12 trying to acknowledge symbolically that increased
13 commitment that -- that our client sees in the AEP.
14 That's our client's thinking process.
15 THE CHAIRPERSON: But -- but why
16 interim? Why interim?
17 MR. BYRON WILLIAMS: Oh, and, sir, I
18 don't think -- I don't see the words 'interim' on that
19 line. So interim was not meant. We -- that should be
20 a final rate for 2015/'16. So -- and -- and if I left
21 that impression, I apologize.
22 THE CHAIRPERSON: No, I think I may
23 have misint -- misread that -- that sentence. I assume
24 that -- that --
25 MR. BYRON WILLIAMS: The second bullet

was wrong.

THE CHAIRPERSON: Yeah.

MR. BYRON WILLIAMS: The second-last bullet should have said, "finalized." And so -- and if you want to put in, "Final approval in the range of two point five (2.5)." And --

THE CHAIRPERSON: And this --

MR. BYRON WILLIAMS: -- and, sir, just to finish the thought, we did note that this is not April 1st. It's Jul -- July or August 1st. So those words chosen there were conscious. We said, "In the range of two point five (2.5)," but recognizing that time. So that's -- that is our client's thinking process.

THE CHAIRPERSON: Okay. Now, one (1) other piece here that you referred to very obliquely and very much in passing. And that -- the reality of Bipole III in 2019, and no revenue to -- to pay for the cost of Bipole. And -- and so frankly, what we're -- what you're offering to us is saying to us, Let's -- let's stay with rates that are needed for the near term without talking about what we should do in 2019.

MR. BYRON WILLIAMS: I -- I don't think that's -- and -- and first of all, I probably moved quickly through that, because I could have sworn that I

had a bullet on that, and I couldn't find it. And it -- it dis -- we did have a Bipole III bullet in, and -- and that's -- so that's a very real question, and let me just talk my way through that to the extent I can.

We saw this as a signal year. And so unless things change, Mr. Chair and members of the panel, moving towards that tough year, there's a stro -- there -- there is a likelihood that -- that you're going to -- you're going to have to move in -- you know, that we could be looking at next year at rates higher than that.

I said, "unless things change." There's a few things I want to highlight. What we tried to put in our historical pa -- package and what Mr. Peters highlighted just yesterday is that when you look at Hydro's forecast, and then their short-term results, we think that their -- their actual results tend to outperform their forecast in the short term.

So we think that there's some positive developments on interest rates. We think there -- as Mr. Bowman and others have suggested, that there are some creative things to do, as well.

But to get to your question, our client sees a big risk with '18/'19 and recognizes that there's going to have to be, unless things change,

1 higher rates moving into that. But, Mr. Chairman, we
2 think it's very important not to lose sight of this
3 year, the results in this year, and also the message
4 that a three point nine-five (3.95) would pre -- would
5 -- would send in terms of prudence and reasonableness.
6 And we think -- we understand your
7 concern, but the Boards, in our respectful view, it has
8 to send a send a strong prudence and reasonableness
9 message. This may be, frankly, your last chance to
10 send it, if -- if that helps in terms of our client's
11 thinking.
12 And just one (1) second, please. And we
13 also think that Manitoba Hydro manages best and
14 responds best when it gets a rate signal. And so we
15 think that there is an opportunity for you to send a
16 message.
17 But if your point is that, Ms. -- Mr.
18 Williams, we're not -- we think it might be
19 unreasonable to two point five-two-two-two (2.5222)
20 going -- going forward, unless things change, there's -
21 - you're not likely to see that kind of recommendation
22 from our client.
23 THE CHAIRPERSON: You know, I think I
24 understand your choice. It's -- I understand the
25 choice that's been made by your client.

1 MR. RICHARD BEL: Mr. Williams, the
2 second bullet seems to suggest to me that you're
3 telling Hydro, I'm not opposed to rate smoothing, three
4 point nine-five (3.95) might be the right number, but
5 go away and come back and prove it to me.
6 Is -- is that what you're saying?
7 Because it's a little bit at odds with the last
8 conversation we had.
9 MR. BYRON WILLIAMS: Yeah, no, first of
10 all, what I -- well, what I'm opposed to or not is
11 irrelevant. I will tell you that the Consumers'
12 Association of Manitoba is -- is not a fan of -- of
13 rate smoothing. They're looking at the numbers for
14 this year. They're looking at Manitoba Hydro's
15 behaviour and saying, you know, If they had their way,
16 2 percent.
17 You know, I'm just -- you know, you're
18 asking... What we're saying, Mr. -- Mr. Bel, and --
19 and I really like it when I talk to you guys instead of
20 when you ask questions, but what -- what we're saying
21 here in this bullet is, yes, you're right, you haven't
22 proven it to us, and we're not prepared to accept it,
23 and it's your job to prove it to us.
24 But we're also saying you have to prove
25 to us that you've got your fiscal house and your

1 management house and your sustaining capital house in
2 order and that -- so we're going a little bit -- so
3 we're saying demonstrate that you're managing
4 prudently.
5 Our client is not a big fan of rate
6 smoothing. But, Mr. Bel, our client does recognize
7 2018/'19, and there's some challenges associated with
8 it. I don't know if I've -- if you want to -- if I've
9 been unclear, probe me a little bit more and I'll see
10 if I can get to the heart of it a bit better. And Ms.
11 Menzies has some advice for me, as well.
12
13 (BRIEF PAUSE)
14
15 MR. BYRON WILLIAMS: She reminds me I
16 said, "CAC (Manitoba)." I -- I actually did that quite
17 consciously. Our client -- but the message of the
18 second bullet is manage better.
19 And then we don't -- you know, Mr. Bel,
20 the other part of this is we're not confident in
21 Hydro's forecasts. And I want to -- we're not
22 confident at all in the interest rate forecast. We
23 just think that there's lots of cushion in that
24 interest rate forecast.
25 So I want to go a little more strongly

than I answered the last time. It's not just about management. It's not just about budgeting. It's that we think there are cushions in the -- Hydro's forecasts and we think the history in 2010/'11 has shown that there are cushions in the Hydro's forecasts. So now that I've looked at the bullet a little more carefully, that's the message we're trying to send there.

(BRIEF PAUSE)

DR. HUGH GRANT: I have two (2) questions. I may be limited to one (1). I want to come back to this slide, but before I do that, my first question was on the sort of Chapter 4 issues around finance. And I guess what I want to do -- well, the first thing I -- let's take this intergenerush -- intergenerational equity issue off the table if we can, because every time this comes up I'm reminded I was born in a hospital that was probably built by a previous generation.

And similarly, as a ratepayer today I think I've benefited from past dam construction, you know, investments taken by a previous generation, so I suspect it would all be a wash.

But what I want to do is first of all

1 complain about your meta -- bring this metaphor of the
2 house back again, because it plagued me for four (4)
3 months of my life earlier and I had just gotten it out
4 of my head and now I'm sitting here thinking about it
5 again.
6 So I've gotten to this point, and I will
7 try to bring this back to the interest rate issue. We
8 got the house, we planned to build an extension. We
9 don't need the extension right away so we're leasing it
10 out to some people from Minnesota. To get better rents
11 from them we paved the road to Minnesota, et cetera.
12 Okay.
13 And now you've got this argument with
14 your credit card. It's compounding my issue. So -- go
15 ahead --
16 MR. BYRON WILLIAMS: Well, I just want
17 to say you look to your right if you've got an issue
18 with the credit card.
19 DR. HUGH GRANT: Okay.
20 MR. BYRON WILLIAMS: Because what we
21 were trying to do is simply -- and maybe we shouldn't
22 have come back to that, but we were trying -- we don't
23 buy the credit card analogy. We think the -- the
24 house, the roof, and the mortgage is the right analogy.
25 Perhaps I tortured it to death, but anyways, that's

1 what we're trying to do.

2 Mr. Grant, in terms of the

3 intergenrational equity, I'm not sure our client's

4 prepared to put it to bed. And I'll just say this,

5 reasonably and prudently incurred investments is an

6 important part of -- of that dialogue. And -- and this

7 is a generation of clients that's kind of caught,

8 because they've been building up those reserves for the

9 first time really ever in anticipation of this day.

10 So they've made a contribution that way

11 already. They have also made a contribution through

12 the Bipole charge. And our -- our client thought long

13 and hard about it when it -- it came out. And then the

14 so called rate smoothing agenda is contribution number

15 3.

16 So I think this generation of clients is

17 -- has a bit of a different experience. And I would

18 add to that that this generation of clients was denied

19 a voice in the NFAT for Bipole III. And that is --

20 that is why this generation of clients is expressed by

21 my clients is taking issue with the triple whammy in

22 terms of that impact.

23 That -- that is -- I -- I didn't express

24 it very well, but that's where they're coming from.

25 DR. HUGH GRANT: No, that's fair

1 enough. But we -- I guess we'd agree that at the least
2 it would be a very complicated analysis to try to, you
3 know, assign the cost to various vintages of capital
4 and -- and let alone the Northern Flood Agreement and
5 who should bear responsibility for some of that.
6 MR. BYRON WILLIAMS: We agree.
7 DR. HUGH GRANT: I guess what -- what I
8 want to come to -- back to though is that Mr. Rainkie
9 has mentioned that it's maybe time that current
10 ratepayers should invest more in the future. Or let's
11 put it this way, though we've already made the decision
12 to -- to invest, but how should we finance that
13 investment.
14 And -- and one (1) view is that we
15 should have higher rates. So in other words, we
16 should, in a sense, pay out of our pocket to finance
17 these investments as opposed to borrowing more. And
18 would I by -- would I be wrong to say -- to interpret
19 part of your argument is to say we're in this
20 historically low interest rates now and there may be no
21 better or wiser time to be -- for a public agency to be
22 borrowing to make some of these investments as opposed
23 to sort of more upfront payment out of -- out of the
24 pocket of ratepayers.
25 MR. BYRON WILLIAMS: There's two (2)

1 parts of -- I think in that question. I think the --
2 the fact that -- that we are in this environment,
3 whether we should borrow more, I'm not sure. But we're
4 just pointing out that the -- locking 2.4 billion in at
5 record low rates, that's not built into the
6 Corporation's forecasts. It's not there.
7 And -- and that is -- when you're --
8 when you're looking at the very complicated risks,
9 that's a risk that we're -- that's 2.4 billion that's -
10 - that's less. Like, you -- you know what I mean?
11 Like, those record low rates are very significant.
12 Our client always answers -- or always
13 asks, when Mr. Rainkie wants to take more out of their
14 pockets, that's the last mode of control our client
15 has. What are you going to do with that money? Is it
16 going to go to 7 percent annual increases for
17 executives? Is the money that Manitoba Hydro was given
18 for DSM actually going to DSM?
19 So from our client's perspective,
20 they're not buying Mr. Rainkie's argument. If the
21 Board decides that this is what Manitoba Hydro needs to
22 have reasonable reserves against drought, and this is
23 what Manitoba Hydro needs to pay its bills, that's kind
24 of, going back to Mr. Bel's point, prudent and
25 reasonable.

1 Our client will -- not happily, but
2 they'll pay that. Our client does not have confidence
3 in what happens to that money after it leaves its
4 hands. And the cost pattern of capital projects, in
5 our client's view, strongly supports their concern.
6 DR. HUGH GRANT: Okay. Then so rather
7 than belabour this, then, because I -- I think I take
8 your point on -- let's take that segue back to slide
9 16, I think it was. And it's just, what's on this road
10 map?
11 And I think the difficult problem for a
12 regulator is always: How do you provide exactly the
13 kinds of incentives, or how do you make sure that the
14 interest of the Crown corporation is aligned with the
15 public interests?
16 And so is there anything more specific
17 you can suggest? You mentioned about something around
18 sustaining capital investment. You just mentioned DSM.
19 You mentioned OM&A. But is there anything more
20 specific you can offer or suggest?
21 Or let me put it this way. Is there
22 anything more extensive or intensive, any -- anything
23 else you'd put on the list, or can you be more specific
24 about the terms on -- of items on that list?
25 MR. BYRON WILLIAMS: Yeah. And Ms.

1 Menzies actually asked -- that was the note she gave me
2 just before the end. So -- well, let's take OM&A for a
3 second. And on the capital side, what's the plan of
4 control? So that's a -- a future cost, but that's a
5 big -- a big issue.
6 On the -- on the operations side is: Is
7 the current target the right target in terms of
8 control? And -- and I have to say that -- that number
9 might be different, because one (1) -- one (1) thing,
10 for example, vegetative management, are we spending the
11 right amount on that?
12 That might be a place where we could
13 lower some of the sustaining capital line, but we might
14 have to put some more back in. So on OM&A, I think,
15 what's the right mix? Is that 1 -- the 1 percent
16 solution the right mix?
17 Sustaining capital. I want to be clear,
18 Mr. Bel -- I -- like, we -- and Board member Grant, on
19 sustaining capital, we think Manitoba Hydro -- the
20 roadmap for there is plan better. And so it's -- it's
21 spend better, but it's also tie that spending to a
22 target. So achieve better. So -- so that is kind of
23 on the sustaining capital.
24 On the DSM, I think we've talked about
25 that.

On depreciation the road map, such as it is, is let's make -- let's come back with have we componentized enough or are there more steps to go. I think Ms. Lee was pretty adamant that there were more steps to go. And then let's close this so we don't have an endless debate for the next twelve (12) years on ASL versus ELG. And if you'll just forgive me for a second.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: On interest there's two (2) big things, Mi -- Board member Grant, on forecasting. Our client thinks there's significant cushion in the interest rate forecasts and there have been for half a decade. Let's get the forecasting side -- we're not going to get it right. We -- we know that. But what has happened? Why have we been so wrong for so long? And what is this new reality of this rela -- of -- of what happened in January? What does that mean? So that's an important side of the forecasting equation.

Another important side of the forecasting equation is let's have an honest discussion on -- on what is going on with export prices. We know

1 how badly Manitoba Hydro missed in ten (10) -- IFF10-2,
2 IFF11. Is that solidified? If not, that is a very
3 important discussion. And so a good lesson for me for
4 the future. Those are two (2) big issues in terms of
5 the reliability of these forecasts.
6 And if you go back to slide 62 -- I
7 think it's actually -- if -- if I could, and just to
8 finish this point, slide 62 from Hydro's panel 3. Do
9 you know the one (1) I'm talking about? Anyways the
10 point there is we don't have confidence in the
11 forecasts and those are two (2) big pieces that I think
12 this Board deserves to have confidence in.
13 The third one (1) I think and the
14 Board's questions in terms of forecasting have -- have
15 touched upon this, is water levels. Or, like, how we -
16 - and this is not to say that Hydro is wrong or
17 erroneous in how it's doing it. But one (1) of the big
18 lessons of Hydro's improved results compared to
19 forecasts over the last few years has been the level of
20 water. Is it just -- is that -- is that a forecasting
21 issue or is it just a -- a rain issue? You know, that
22 we're not to say.
23 So, Mr. Grant, if that helps. I think
24 those are big parts of the forecast. Our client -- or
25 Dr. Grant, excuse me. Our client does not have a lot

1 of confidence in the IFF. There are big pieces that
2 Mr. Page admitted have been consistently wrong. And so
3 we think that's very important for the Board going
4 ahead. And that would be a real nice road map, in our
5 respectful view, going into the -- into the next
6 general rate application. Can we have confidence in
7 this IFF? So thank you for that.
8 DR. HUGH GRANT: Thank you.
9 THE CHAIRPERSON: Thank you, Mr.
10 Williams, Ms. Menzies. And with that I think it ends
11 your -- your commitment to -- to these deliberations.
12 But we have to figure out some way to -- to entertain a
13 discussion with all of the parties with respect to what
14 we could do to improve the processes and rules of the -
15 - of the PUB. And -- and with the goal of continuing
16 kicking and moving the -- the yardsticks forward.
17 And so I haven't quite thought this
18 through and haven't had a -- the opportunity to discuss
19 it with my colleagues, but we -- we will find some way
20 in which we can address -- collect the -- the advice
21 and recommendations of the parties and -- and perhaps
22 yield -- yield changes that will -- will improve how we
23 do things around here, so.
24 MR. BYRON WILLIAMS: And -- and let me
25 just indicate -- and -- and thank you. And -- and I'll

1 -- I'll get on to Mr. Hacault. We just want to
2 indicate that from our client's perspective I indicated
3 this during the MPI GRA. And it is -- there's a
4 rethinking on our part as -- as well ongoing. And for
5 a variety of reasons this hearing process-wise has not
6 been the one (1) we would have imagined. But part of
7 that's on legal counsel for the Coalition. There's
8 things that I should have done better and we're
9 reflecting on that.
10 And I'll just add that that discussion -
11 - you know, for example, we're meeting with MPI today,
12 it's no secret, on some process things. We're trying
13 to -- to talk about this.
14 I think for the first time ever MPI
15 shared one (1) of its models with advisors just in the
16 last couple of weeks which we were invited to, and so
17 we see some strides. But when we're offering this
18 advice there's a lot of self-reflection that's going
19 on, perhaps too much beating up of ourselves, as well,
20 but that is ongoing, as well.
21 Thank you.
22 THE CHAIRPERSON: Thank you. With
23 that, we'll recess for ten (10) minutes. And we'll
24 start hearing from Me. Hacault. And, Me. Hacault, just
25 a word of warning, we're adjourning at ten (10) to

1 12:00 for one (1) hour and ten (10) minutes. Thank
2 you.
3
4 --- Upon recessing at 10:45 a.m.
5 --- Upon resuming at 11:03 a.m.
6
7 THE CHAIRPERSON: I believe that we're
8 ready to resume the proceedings. I believe, Mr.
9 Czarnecki, you have some documents to enter in the
10 record?
11 MR. BRENT CZARNECKI: Thank you, Mr.
12 Chairman. And it's just more or less a status check,
13 from Hydro's perspective, at this point. It is eleven
14 o'clock and we have Mr. Hacault to make his
15 presentation which we did receive very late last night.
16 And from our perspective, the shop clock
17 is running very slim or close to being expiring for
18 what we think is our ability to listen to Mr. Hacault
19 and what comes this afternoon and properly be able to
20 digest that such to be in a fair and -- position to be
21 replying tomorrow afternoon.
22 That's the reality that we're facing.
23 And -- and we do think our ability to reply has been
24 prejudiced. And I'm not attempting to lay any blame on
25 any party, but that is the reality that we're now faced

1 with due to the short time frame we're working on.
2 And I'm -- I'm just maybe bringing this
3 to the attention of the Board now to see how the
4 afternoon proceeds. We are trying our very best to be
5 in a position to reply, but we're losing optimism just
6 because of the time on our ability to do that.
7 And we do fully appreciate the
8 predicament that we're all in, and it's due to
9 availability from several people. So we're -- we're
10 going to try to hear what Mr. Hacault says and maybe at
11 the end of the day further advise the Board whether we
12 think we're in a realistic and fair position to provide
13 oral argument tomorrow.
14 If not, we would canvass other
15 considerations, including just providing a full written
16 argument with perhaps a chance to speak to it. I'm not
17 sure how that would work itself out. And -- and if
18 there's any direction, Mr. Chairman, I -- I say this
19 from the top of my head right now, that perhaps that
20 you and the Board could provide that, if we did have
21 enough time to speak tomorrow, a narrowing of the
22 issues that you would really like to hear from us
23 tomorrow afternoon, that may facilitate as to a narrow
24 presentation and actually be in the proper position to
25 provide at least oral argument on those issues you deem

1 most important to you at this stage. That may be
2 helpful to us.
3 THE CHAIRPERSON: Thank you, mist --
4 thank you, Mr. Czarnecki. We'll certainly wait to hear
5 what you have to say later on this afternoon. Thank
6 you. Me. Hacault, over to you.
7
8 CLOSING SUBMISSIONS BY MIPUG:
9 MR. ANTOINE HACAULT: Good morning,
10 everybody, again to Manitoba Hydro, all counsel. Three
11 (3) weeks of evidence. And as I understand, I have
12 some small administrative matters to attend to. Board
13 secretary advises me that the issue briefs which were
14 distributed last night should be attributed MIPUG
15 Exhibit number 14, correct?
16 MR. DARREN RAINKIE: Correct.
17
18 --- EXHIBIT NO. MIPUG-14: Issue briefs
19
20 MR. ANTOINE HACAULT: And there was
21 also previously distributed an answer to Undertaking
22 78, which was a response by Mr. Bowman to providing
23 underlying data with respect to slide 27 of his
24 presentation. And my understanding is that is to be
25 marked Exhibit MIPUG-15?

1 MR. DARREN RAINKIE: Correct.

2

3 --- EXHIBIT NO. MIPUG-15: Response to Undertaking 78

4

5 MR. ANTOINE HACAULT: So could you go

6 to slide 22, please, Alex?

7

8 (BRIEF PAUSE)

9

10 MR. ANTOINE HACAULT: During the last

11 three (3) weeks, we've heard that three point nine-five

12 (3.95) is the minimum. All of Manitoba Hydro's

13 evidence assumes that the increased level of revenue is

14 required. Manitoba Hydro asserts that it's necessary

15 to increase rates to compensate for the reduction in

16 net extraprovincial revenues. We've heard that and

17 various other reasons are advanced for increased

18 spending, including higher cost estimates, increasing

19 sustaining capital spending for safety and reliability,

20 increased DSM spending.

21 The messaging by Manitoba Hydro on cost

22 savings has largely turned around, reducing three

23 hundred and thirty (330) operational EFTs. And we

24 would submit a review of the overall EFTs indicates

25 that there is a corresponding increase in staffing

1 levels of approximately four hundred (400), albeit to
2 the capital side.
3 As we under -- our submission has two
4 (2) main messages. Based on the examination of the two
5 (2) test years, there's no need to grant a 3.95 percent
6 increase. Something in the range of 2 to 3 percent is
7 sufficient. The second message, there is time to ask
8 Manitoba Hydro to come back to this Boar -- Board and
9 propose alternate options on the expense side as far as
10 pacing and prioritization.
11 You will recall that I specifically
12 asked Manitoba Hydro whether it had considered how it
13 could work with options of rate increases less than
14 three point nine-five (3.95) based on pacing and
15 prioritization. For reasons that are later detailed in
16 this submission, we are of the view that Manitoba Hydro
17 has not sufficiently or fully addressed a robust pacing
18 and prioritization exercise.
19 I was hearing the interaction between
20 the panel and Mr. Bowman. Three point nine-five (3.95)
21 may be the right number in the next test years. But in
22 our respectful view, we don't have sufficient
23 information to come to that conclusion at this point.
24 I was reflecting, and I think I can
25 understand why Manitoba Hydro approached its filing in

1 this case the way it did. As we've heard over the last
2 weeks, for a couple of decades, there wasn't the issue
3 of this big capital bulge that we're looking at on our
4 screen. Filings were done in a way to deal with normal
5 spending and normal issues and changes, and various
6 things like export prices, and interest rates, et
7 cetera.
8 And the message in the initial evidence
9 and that I tried to convey on a theme basis in my
10 cross-examinations, is we have to step back. We've got
11 a new reality. And if pacing and prioritization wasn't
12 critical before, it's certainly a very live issue, in
13 our view, now for the next upcoming years.
14 We're of the view, and I'll go through
15 the specific recommendations in a moment, that in the
16 context of the current reality, the applications should
17 really have their own appendix and chapter on that
18 issue if the Board's going to have meaningful reviews
19 going forward.
20 That appendix should demonstrate and
21 explain all reasonable options and all reasonable
22 measures available to avoid rate increases above 2 to 3
23 percent, including measures to identify and assess
24 pacing and prioritization options for capital and O&M
25 spending. And finally, DMN -- DSM spending and

1 appropriate management of financial tar -- targets in
2 the context of current and forecast conditions.
3 The messaging that we have heard -- and
4 I'll admit, it was done well. Sometimes it seemed
5 rehearsed, as if there was preparation by the team for
6 that messaging, but it was done well.
7 The question that -- and the box that we
8 were being asked to play with, and all the evidence,
9 including, you'll see, this little side issue on Mr.
10 Bowman's example, looking at the expense side, it's the
11 only evidence and the only time Manitoba Hydro has had
12 to deal with an expense-side option.
13 We don't have it. It's all, Well, if we
14 change this rate, this is what's going to happen. If
15 we change that rate, this is what's going to happen.
16 There is an absolute wall when it came
17 to, Well, what happens if we don't have to do this on
18 the expense side, or we don't have to do that on the
19 expense side, or how can we do this differently on the
20 expense side?
21 There is a wall there, and that culture
22 and that approach, in my respectful submission, needs
23 to change if we're going to work together with Hydro,
24 with ratepayers, and this Board to come to reasonable
25 solutions as to how we're going to handle this bulge.

1 So we need to step back, in my
2 respectful submission, and find solutions like Manitoba
3 Hydro did with Wuskwatim. That was great. Didn't you
4 see, there was real issues on the revenue side. There
5 was real issues on -- debt-equity issues. The parties
6 worked together and went to a second addendum and found
7 solutions.
8 We need to step back, in our respectful
9 submission, and decide what options exist, including on
10 the expense side.
11 So now my argument is going to be
12 structured as follows. I'll just briefly deal with
13 what Manitoba Hydro has requested, our recommendations.
14 I'm going to spend some time on the -- what I would
15 call a stepped approach to how we're going to deal with
16 these challenges going forward. And then I'm going to
17 deal with the financial targets and -- and health and
18 other issues like the Curtailable Rate Program and some
19 of the accounting issues.
20 So as we understand it, Manitoba Hydro
21 seeks, firstly, final approval of the interim rate
22 increase, which was in effect at May 1, for the
23 subsequent test year, approval of three point nine-five
24 (3.95) across the board, and approval of the use of
25 various changes to rate-regulated accounting, the ASL

1 versus ELG issue, the removal of net salvage issue, and
2 miscellaneous other accounting issues related to
3 operational expenses being capitalized or expensed.
4 And finally, it takes the position that the Curtailable
5 Rate Program ought to be capped.
6 This brings me to the recommendations of
7 MIPUG, and the submission that follows will explain why
8 we're making these recommendations. So, Alex, if you
9 could bring up our Exhibit MIPUG-14, the first page?
10 And it'll be in your paper versions, too, if you want
11 to follow in the paper versions that have been --
12 sorry, Exhibit 14, if I said fif...
13 There's two (2) 14s. That's the
14 problem. People ought to correct the MIPUG
15 Undertaking. It's shown as Exhibit 14, but Board
16 counsel had previously marked our submission as Board
17 14, so the undertaking is marked as fifteen (15). So
18 we're looking for our submission, Alex.
19
20 (BRIEF PAUSE)
21
22 MR. ANTOINE HACAULT: Maybe what we'll
23 do, if the Board has its paper copy, we'll just follow
24 with the paper copy of our submission.
25 So first, finalize the previous 2014/'15

1 rate increase of two point seven-five (2.75), effective
2 May 1, 2014. Secondly, going forward, adopt the
3 following stepped approach for Board approval of new
4 rate increases for 2015/'16 and subsequent years,
5 taking into account the current unprecedented bulge in
6 capital spending on Bipole III and Keeyask.
7 Can you flip to the page that's
8 entitled, "MIPUG Final Argument," please? Thank you.
9 Now, the page appears on the screen. If you can take
10 the left thumbnail out and -- and do a full size page?
11 It's easier for my eyes. So the first subparagraph
12 (a), we're recommending a rate increase of no less than
13 2 percent, and no more than 3 percent.
14 We are also recommending that this Board
15 provide guidance that at the next GRAs, the Board will
16 use the opportunity to review thoroughly each proposal
17 for rate increases in light of facts that then
18 prevailing, including interest, market conditions, and
19 water flow conditions at that time, as well as the
20 status and timing of -- for resolution of other key
21 external factors affecting Hydro's future rate.
22 Revenue requirements for the next
23 decade. We've put various issues there. Manitoba
24 government direction and decisions regarding the
25 implementation of ongoing DSM. That's up in the air.

1 Resolution of Hydro's financial targets review. That's
2 supposed to happen this fall. Final steps in moving
3 forward with the Great -- the US Great Northern
4 Transmission project, the EPA decision affecting future
5 export pricing. We heard some evidence on that from
6 Mr. Cormie. And Hydro's review of the long-term
7 Conawapa deferral. That's not yet finalized, and that
8 could have a significant impact on what's going to
9 happen for rates.
10 And we also believe, and that's
11 subparagraph (c), that it would be useful for the PUB
12 to guide -- give guidance that annual rate increases
13 higher than 2 or 3 percent are not impossible in future
14 years, should conditions warrant. For example,
15 drought. We don't know what water conditions are going
16 to be.
17 But that Hydro will be required to
18 demonstrate that all reasonable measures to avoid this
19 unco -- outcome have been thoroughly pursued and will
20 have been investigated in -- in detail by the Board,
21 including measures to identify and assess pacing and
22 prioritization options for capital and O&M spending,
23 DSM spending, and appropriate management of financial
24 targets in the context of the current and forecasted
25 conditions.

1 A sep -- separate issue deals with the
2 rate-regulated accounting issues. So paragraph 3(a)
3 deals with that. We recommend continued capitalization
4 for rate regulation of O&M that are currently
5 capitalized. That's about a 6 -- $60 million a year
6 improvement compared to IFF14.
7 We also recommend that the Board approve
8 Hydro's request for the elimination of ongoing
9 accumulation of net salvage charged through
10 depreciation. We recommend retaining the average
11 service life depreciation for rate regulation without
12 any net salvage charges, including the last -- latest
13 updated life estimates for all depreciation accounts.
14 We recommend with respect to the
15 depreciation issue that the Board consider giving
16 direction to Manitoba Hydro that the depreciation study
17 be modified as required to further componentize
18 significant categories of assets which materially
19 affect the life estimates. That was one (1) of the key
20 recommendations by Ms. Lee.
21 And we also encourage the Board to have
22 amortization periods reflect the reasonable expected
23 life for the benefits of DSM programs without an
24 arbitrary cap at ten (10) years for programs with
25 benefits that exceed this horizon. That has a def -- a

1 -- an immediate impact on the income statements.
2 And lastly, that's paragraph 4. If you
3 can scroll down, please, Alex? With respect to the
4 Curtailable Rate Program, we're recommending that the
5 Curtailable Rate Program participation be allowed to
6 the previous caps, removing interim lower caps imposed
7 at the last GRA. We recommend that Hydro assessments
8 of CRP in the future reflect long-term value for the
9 overall grid as well as the enhancement of logical --
10 or local regional transmission reliability.
11 And finally, that Hydro conto --
12 continue to pursue enha -- enhancements to the
13 Curtailable Rate Program and explore further demand
14 side management programs with major industrial
15 consumers.
16 You've heard in the hearing that we
17 recommend that Hydro retain the responsibility for
18 planning and delivering DSM programs for industrial
19 customers.
20 And finally, we recommend that Hydro and
21 Manitoba government examine options for adjusting
22 provincial capital charges, debt guarantee fees, and
23 water rental charges during the period of unprecedented
24 capital expansion in order to reduce rate increase
25 burdens on Manitoba ratepayers from the new generation

1 and transmission assets until such time as Hydro's
2 equity recovers to at least 20 percent. This is part
3 and -- part of what's happening in other provinces.
4 Now, I'd like to make a couple comments
5 on the context that we have for this rate hearing and
6 some rate-making principles. And then I'll move into
7 the stepped -- reason why we think the stepped approach
8 to rate making works in this context that we're in.
9 We start by noting that the PUB declined
10 to undertake a three (3) year review. Instead, it
11 chose to do a two (2) year review. Based on a two (2)
12 year test period, we view this as appropriate, as it
13 ensures the PUB can assume a meaningful role in the
14 regulation of rates.
15 And there are many factors, both
16 positive and negative, which could -- can affect rates,
17 for example, pacing and prioritization, which we talked
18 about, whether major capital projects are on track to
19 be either over or under-budget, how the further cost
20 controls are coming, the timing of -- of DSM
21 enhancements, the need to amortize Conawapa
22 expenditures. We don't know that for sure. It's in
23 the IFF, but there's no decision. All the revenue
24 requirement calculations assume that -- Conawapa is
25 scrapped.

1 We've also got issues like export
2 prices, interest rate fluctuations, which Mr. Williams
3 talked about, especially in the years of substantial
4 investment for Bipole III and Conawapa and other major
5 capital projects.
6 Now, what does today look like? Midway
7 through the hearing, I started one (1) of my cross-
8 examinations on that. We have favourable water
9 conditions. We have favourable interest rates. We've
10 got challenges on export revenues. But we see also
11 that the revenues that we actually experienced are
12 higher than what were initially projected in pri --
13 prior IFFs. That's a subject that Mr. Peters has
14 covered.
15 So I sat back and I said, Well, how much
16 have we talked about that in this hearing? And I had
17 trouble identifying any real substantial conversation
18 with respect to what happened in these two (2) test
19 years. Usually, there would be some kind of a primary
20 focus and discussion as to what happened in the two (2)
21 test years. It's all favourable, with some puts and
22 takes, I acknowledge. But the discussion didn't happen
23 there and that's why I get to rate-making principles
24 and our client's view, they appreciate and understand
25 we need to have long-term stability in rates.

1 But we can't ignore what happened in the
2 two (2) test years, nor should we. And it's -- there's
3 practically been no discussion about that. The focus
4 is all on the future, which has a lot of uncertainty.
5 I think anybody acknowledges that if anything is
6 certain, is that the future is uncertain.
7 So I just note that there is a piece by
8 Mr. Bowman attached to his evidence that discusses in a
9 fair amount of detail, it's Appendix C -- or Attachment
10 C, which discusses our view with respect to rate-making
11 principles for a hydroelectric Crown utility.
12 And it's our view that it's still highly
13 relevant for the PUB to put substantial weight on the
14 test years, and to a lesser degree, relevant subsequent
15 periods to the extent needed to take into account the
16 critical concept of rate stability. The reasonable
17 continuity of rates is important to MIPUG members in
18 their decision-making process.
19 Rates do matter. And one (1) of the
20 MIPUG members, and this is MIPUG undertaking 33, filed
21 as Exhibit 12, I believe, explained, and that's the
22 Gerdau Steel, 16 percent of our plants had lower costs
23 in 2013. We're talking about Hydro rates.
24 And at the proposed pace of increases in
25 Manitoba this number will be 37 percent by 2016. Now,

1 that was at the NFAT hearing. It's the extract of the
2 presentation. But that's the reality of what's
3 happening, or projected to happen with these planned
4 3.95 percent rate increases.
5 You will note, and it's conspicuous in
6 its absence, usually there is always a slide that said,
7 We've got the best rates for our general service
8 customers. Here's the slide. It's absent. I asked
9 questions, Did you speak to them as to whether they can
10 handle these 43 percents that -- increases that are
11 projected? Oh, we've had general discussions. Do you
12 know how that's going to affect expansion plans that
13 might have been there? Do you know how that's going to
14 affect whether some of the production goes to other
15 plants for the clients that have international plants
16 across the world, US and elsewhere?
17 It doesn't appear there was much thought
18 given to that. And although Hydro has given a proposal
19 which includes what's been categorized as minimum
20 increases of three point nine-five (3.95), the members
21 are not satisfied that it has been demonstrated that
22 what's being proposed is truly prudent and necessary.
23 And I know it's just one (1)
24 illustration, but it causes at least MIPUG members to
25 think as to whether Manitoba Hydro has converted into a

culture of only incurring things that are prudent and necessary. And the example that I brought out in cross-examination was increasing the rating for Bipole III from 2,000 megawatts to 2,300 megawatts at a cost of approximately $50 million.

I went through all of the CPJs before, leading to the sixth one. It was never an option or discussed. Now, all of a sudden, after the NFAT recommendation that we put a hold on Conawapa -- and the Board can look at its orders to what it did, and we have the letter from the government marked on the record also.

All of a sudden we get -- and I quoted this from the CPJ-7 that was done in the fall after these directions. It's stated in the CPJ:

> "The rating for Bipole III was increased from 2,000 megawatts to 2,300 meta -- megawatts to ensure adequate spare HVDC transmission on the northern collector system. The increased rating ensures future generation associated with Keeyask [What?] and Conawapa can be transmitted via Bipole I, II, and III in the event of a single-valve group

1 outage. The increased rating limits
2 the amount of future upgrades and
3 equipment replacement needed on the
4 Bipole III HVDC system to accommodate
5 future Conawapa generation."
6 Our members have trouble understanding
7 how Hydro can assert that it is making prudent and
8 necessary expenses when an unpreviously (sic) discussed
9 option -- it was never on the table -- gets added after
10 a recommendation by this Board to cease expenses
11 associated with Conawapa, and before there is even a
12 final decision that Conawapa's going to move ahead.
13 In cross-examination, Mr. Rainkie says,
14 Well, it's not a huge effect. But I also went through,
15 Well, did you speak to the division manager to see
16 whether or not they could use that $50 million for
17 their safety and reliability concerns?
18 Each one of them confirmed that none of
19 them had been consulted prior to this extra $50 million
20 being spent, as the CPJ says, "needed on Bipole III
21 system to accommodate future Conawapa generation."
22 I acknowledge it's just one (1) example,
23 but it is an example of burdening current ratepayers
24 with upgrades which we have no assurance will be
25 necessarily used and useful because, based on the CPJ,

1 it's in part as a result of Conawapa generation needed
2 to be accommodated that these upgrades were done.
3 Now, what's the context of this hearing?
4 And I started in my introductory remarks about this,
5 and it's a fourth kind of in a series. We had the
6 first sets, the 2012 GRA, the risk hearing.
7 And if you go to the Board Order, you'll
8 see that when we -- a number of members were not there
9 for -- for that risk hearing. It was a major hearing.
10 One (1) of the issues that was dis -- discussed was
11 rate -- or, sorry, reliability and safety. And Hydro
12 was being tested as to whether current levels of
13 investment ensured that safety and reliability.
14 And the story I understood was being
15 communicated to this Board, and as is recorded in its
16 order, is that we have a plan in place in our capital
17 expenditure forecast that deals sufficiently with that
18 issue. It's not a risk that isn't being managed. Now,
19 that was based on previous CEFs.
20 Now, the NFAT, that was being argued in
21 May of last year. We had this asset condition report
22 that gets dated December of 2014, so about six (6)
23 months later. And I don't think it's unreasonable to
24 infer that there was work being done on that report
25 before it was issued.

1 And I asked cross -- in cross-
2 examination questions of each of the division managers
3 as to what their knowledge was with respect to the
4 condition of their assets. And you may recall that Mr.
5 Read explained that at least five (5) years ago, when
6 he was in charge of generation assets, he was aware of
7 the condition of the assets. He had a pretty decent
8 handle on it is my interpretation of his evidence.
9 I don't think any of those employees who
10 were in charge of those assets and who were very proud
11 and we saw that, and they knew quite a bit about their
12 assets, that there was any real surprise about the
13 condition of the assets. What's surprised the members
14 is that all of a sudden -- and this wasn't discussed in
15 NFAT -- all of a sudden what used to be a moderated
16 bulge -- and if we go back to slide 21 and 22 we see
17 Conawapa kind of -- and -- and the other expenses kind
18 of capping at the $2.5 billion amount area.
19 And you see the next kind of slide which
20 comes out of IFF14. We're bumping that over $3
21 billion. Well, that was like a six (6) month
22 reflection. What happened? It's like what's happening
23 in this corporation that all of a sudden we're coming
24 to the conclusion with a six (6) month time period and
25 we're not advising the Board of this in the NFAT, that

1 we're just, Whoa, there's a huge problem here. And --
2 and nearly a $2 billion problem. It -- it causes MIPUG
3 members to kind of sit back and reflect how is this
4 corporation being run? How transparent is it with the
5 information? And does it really have a good handle on
6 that information?
7 The other messages we were hearing in
8 NFAT, if you look at your Board order, is that all the
9 credit ragin -- rating agencies understood the shorter
10 time term adverse impacts of financial metrics going
11 down during the intensive investment periods. Hydro
12 took the view that we should take a long-term view of
13 these assets. MIPUG's view is consistent with that.
14 And assurances were given that retained earnings were
15 not the only tool to handle risks such as droughts.
16 Manitoba Hydro could handle those risks with other
17 tools such as curtailing or delaying operating and
18 capital expenture -- expenditures as required and as
19 appropriate.
20 Where's that discussion? Where is those
21 options now? Why is Manitoba Hydro saying in the NFAT
22 it's got these extra tools which include curtailing and
23 delaying operating and capital expenditures as required
24 and appropriate and all of a sudden they're not being
25 discussed. They're -- those options are not being put

in front of this Board.

Manitoba Hydro, and I -- I think it's consistent with the evidence in this hearing, also asserted that as long as it was making interest and principal payments to bond holders on an int -- uninterrupted basis the debt was considered by the credit rating agencies to be self-supporting.

At the NFAT we also heard, and I think it was pretty clear, that Manitoba Hydro had the firm belief that it could proceed with its Preferred Development Plan while maintaining a three point nine-five (3.95) increases over the IFF, the twenty (20) year projection.

I agree, and this is a tough one, system reliability needs to be taken seriously. That was a message that was sent a number of times by Manitoba Hydro. We, as MIPUG members, totally agree that the system needs to be safe and reliable.

Now, Manitoba Hydro's internal analysis on asset condition tells -- gives us a snapshot of the current condition and what it believes to be a twenty (20) year snapshot. The thing I confirmed in cross-examination is that that isn't broken down in little bites. Well, what needs to be done in the next five (5) years? How was that prioritized? How was that

1 being paced? What needs to be done in years like 6 to
2 10?
3 Because we hit -- in 2019, if I recall
4 my evidence correctly, basically Bipole III starts
5 hitting the books. It's a big hit because it's not a
6 revenue producing asset. And then we get Keeyask that
7 hits the books. And, unfortunately, the export revenue
8 isn't projected to cover the cost, so there's a
9 difference between what we're getting as far as export
10 revenues on that plant and what needs to be in the rate
11 base to pay for that capital expenditure.
12 One (1) short word on onus. I know this
13 is a Board and it's not caught up with burdens of proof
14 and all of this, but Manitoba Hydro files its
15 application. It goes first. It presents its case.
16 And in our respectful view, it has to satisfy this
17 Board that it's looked at all the options and given a
18 full plate to this Board to consider.
19 We've heard very good submissions and
20 arguments and answers, but it appeared to be very
21 difficult for those witnesses to answer questions with
22 respect to different options on the expense sides that
23 might be available to manage this problem. They always
24 went back, Well, we need the 3.95, we need the 3.95.
25 Well, what about this and what about that? Well, we

1 need the 3.95.

2 Even when I asked questions about -- you

3 may recall at the very end about the $600 million

4 surplus in the depreciation variance account. I

5 thought that was going to be a softball question.

6 Yeah, that's a good thing. It's not -- you know, it's

7 not like having cash in the bank, but we like seeing a

8 600 million variance. That's a positive thing. It's -

9 - it's not a negative thing. We couldn't even get an

10 answer, well, it's not positive or negative.

11 And then I put to the witness -- I said,

12 Well, what happens if you see a $600 million deficit.

13 If it was the other way, would that be a good thing or

14 bad thing? But the reason I bring that example up is

15 there was a real challenge by the Manitoba Hydro panels

16 to look at things, I say, in a balanced way.

17 It seems to me it's pretty obvious that

18 having a favourable variation in a depreciation account

19 is a hell of a lot better than seeing a negative one

20 for, like, $600 million. We'd be concerned. We have

21 been under-depreciating. We haven't been charging

22 ratepayers enough. We need to change this and -- and

23 turn this around pretty quickly, otherwise, you know,

24 we're going to be in bad shape.

25 And I'm looking at my watch. I think

1 that brings me to ten (10) to.

2 THE CHAIRPERSON: It's probably a good

3 time to break. Are you sort of at a -- at a hinge

4 point there in your presentation?

5 MR. ANTOINE HACAULT: Yes.

6 THE CHAIRPERSON: Okay. So let's break.

7 MR. ANTOINE HACAULT: What -- what I'd

8 be discussing is a window of -- of a couple years of

9 flexibility and various kind of issues related to the

10 stepped approach.

11 THE CHAIRPERSON: Okay. So let's --

12 let's break -- let's recess now and see each other

13 again at one o'clock. Thank you very much, Me.

14 Hacault.

15

16 --- Upon recessing at 11:48 a.m.

17 --- Upon resuming at 1:04 p.m.

18

19 THE CHAIRPERSON: I believe that we're

20 ready to resume the proceedings. Me. Hacault, s'il

21 vous plait. MR. ANTOINE HACAULT: Yes. On what

22 I've called a tempest in a teapot, I think it would be

23 useful for Mr. Bowman to have a further discussion with

24 Liz Carriere.

25 Those would be the kind of two (2)

1 people who were having discussions as of six o'clock, I
2 would note, not midnight, yesterday, and see whether or
3 not we can just present information to the Board as to
4 why Hydro believes certain assumptions that they've put
5 in their calculations work, and what -- what
6 assumptions are included in Mr. Bowman's run which are
7 found in his evidence.
8 I think it's better to allow that. I
9 don't want to get caught in a side issue with respect
10 to what's transpired as a result of a request for an
11 undertaking. I really view that as a side issue.
12 So that's how I'm proposing to deal with
13 it at this time. Mr. Bowman I'll have a further
14 discussion as -- to see whether we can put some kind of
15 statement to the Board that explains both sides and the
16 different assumptions that people have used. We'll
17 have different submissions on those assumptions, for
18 sure. And I don't think I need to go through where
19 everything is found in his evidence that results in
20 these calculations. I think that that is not
21 productive use of my time or the Board's time.
22 So I propose to continue with my
23 submission.
24 THE CHAIRPERSON: Agreed. I think it
25 makes sense.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: So before we broke for lunch, I was on the subject of a stepped approach. And the first point I'd like to make with respect to that is we submit that there's a window of a couple years that gives this Board flexibility to not to have to make decisions today on a 3.95 percent increase.

We note we're not currently facing a drought. Mr. Bowman's evidence was there's no need to panic over the next immediate future. We've heard Manitoba Hydro witness say that the -- Manitoba Hydro has not previously enjoyed the favourable financial metrics that it presently has going into this area, this era of substantial investment.

I think it's -- and I can show some graphs, and I think it's consistence (sic) with Hydro's evidence that there's ample cashflow to meet objections and we have very favourable interest rates.

Another thing that doesn't indicate any urgency, in my respectful view, is the asset condition report. That's Appendix 4.2. If you look at the areas that are described as very poor and needing immediate

1 attention, they're fairly limited, and also limited in
2 size.
3 So, for example, just for the record, if
4 you -- when you have the transcript, if you just want
5 to check a couple categories where there's a higher
6 level of these areas requiring attention? That's the
7 very poor category. That's how it's defined.
8 We'll see, like, at page 18, battery
9 banks. Well, if you calculate the replacement value,
10 which is stated to be $6 million for that particular
11 category, and with 18 percent, that's the number
12 needing attention, that's a hundred and eight thousand
13 dollars ($108,000). That's not a huge item. There's
14 some other items which are a bit larger that require
15 attention.
16 We have -- like, at page 44, I've been
17 able to identify one (1) which was called HVDC valve
18 groups. It had a replacement value in that asset
19 condition report of $608 million, with about 23 percent
20 requiring attention, and that's a $13.8 million number,
21 and we know the capital -- sustaining capital budget,
22 sir, ample to cover those kinds of areas.
23 And I would submit that a fair reading
24 of the concerns of the division managers that were
25 before you is that their concern is that we need to

1 deal with an issue that we're going to have in twenty
2 (20) years and -- and have a plan as to how that's
3 going to be dealt with.
4 But nobody was saying at this hearing,
5 Well, today, there's a whole bunch of urgent stuff that
6 we need to get done in the next two (2) years. I mean,
7 otherwise, everything's going to fall apart. I don't
8 think that's what the asset condition report says. And
9 I don't think that's what the evidence was saying.
10 I note in -- in passing that it's not
11 the first area in Manitoba that people are required to
12 do detailed plans on capital replacements and -- and
13 repairs. For example, the condo legislation was
14 recently modified, forcing that kind of review on a
15 regular basis so that we could pace, which was exactly
16 what year they think the expense is going to be
17 incurred for the roof, for the windows, et cetera, and
18 prioritize things with respect to those buildings.
19 It's not kind of a new concept that people have to deal
20 with. It -- it exists in other areas.
21 And the other thing that led me to the
22 conclusion that we're not looking at -- we've got time
23 to deal with things and there -- there's time for
24 thought process is Coalition/Manitoba Hydro, could you
25 please put it up, Alex, I-32(b).

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: This was out of
4 the book of documents of Board counsel and Board
5 counsel had gone through those numbers in cross-
6 examination. And what you'll note, for example, this
7 was highlighting by Board counsel in the Board counsel
8 documents. If you look at generation operations. As
9 of 2014/'15, we have a placeholder, 132 million. That
10 placeholder gets repeated up to 2020/2021.
11 The questioning of Board counsel, I
12 think, elucidated that there's not been much thought in
13 -- into what actually needs to be done. There's just a
14 placeholder there. I -- I don't think that that sent a
15 message of urgency in that we don't have time to ask
16 Hydro, to say, Okay, you've put a placeholder of 132
17 million on generation, what does that mean. Do we
18 really need to have a hundred and thirty-two (132) in
19 each and every year. Is that what -- you know, we're
20 being told. Or is there some pacing that can be done.
21 And it's the same thing with respect to
22 transmission. You'll see as of 2014/2015, 125 million.
23 It gets repeated each and every year. That doesn't
24 send a message to our clients that there's been a lot
25 thou -- of thought processes to exactly what needs to

be done and when it needs to be done. It's a placeholder that's been put there. There's time to deal with pacing and prioritization.

Now, for customer service and distribution we can see that there appears to be a little bit more analysis done there. We can see that 2014/'15 they've got a number. It changes for 2014/'15 to 241 million and then for 2016/'17 268 million. But thereafter, again, it's a placeholder. It continues at 206 million until 2020 to 2021.

So I think we have time to ask Manitoba Hydro to look at pacing and prioritization in a very thorough and robust manner.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: I harken back to the NFAT where it certainly appeared that Manitoba Hydro believed it could handle safety and reliability based on the existing CEF13 spending levels. I'm not too sure what to draw as a conclusion as to how I saw things change so quickly. Assume as Conawapa spending was taken out, as you saw the table we had put, there's a big hole that was filled.

And that's just a six (6) month time

1 period, basically, between the IFF14 and NFAT. There's
2 not been a lot of explanation as to why that pacing
3 needs to occur in -- in that way. And it appears on
4 the evidence that there could be other scenarios that
5 could be run and that the problem is not absolutely
6 urgent.
7 I'd like to talk a bit about significant
8 variables that will further crystalize, which also runs
9 on the theme of a stepped approach can work and is
10 workable.
11 There's been some debate, including this
12 side issue about the vacancy, and -- and what
13 assumptions we should use for that. And there's an
14 issue brief that we have on that explaining further
15 detail, and I'll get into that in a little bit more
16 further detail. But the fundamental message that our
17 independent expert Mr. Bowman was communicating is that
18 historically, Manitoba Hydro was projecting vacancies
19 at 4.5 percent.
20 But the real vacancies were a lot
21 higher. Now, it takes a while for me to kind of
22 process that. What does that do to the revenue
23 requirement? Well, you think about it. If I say I'm
24 going to have four point five (4.5) positions out of a
25 hundred that are going to be vacant, I'm not going to

1 have the salaries for their four point five (4.5)
2 positions.
3 Historically, we've seen from Mr.
4 Bowman's evidence taken from the Hydro material that we
5 have seen 7.4 percentage as being vacant, up to nine
6 point three (9.3). So you use my example, thinking
7 that you're going to have four point five (4.5)
8 positions which you don't have to pay for, and the
9 actual is somewhere between seven point four (7.4)
10 positions and nine point three (9.3) positions. Well,
11 all of a sudden, you saved the expense. You haven't
12 filled those positions. You haven't been paying the
13 salary.
14 And the actuals over a -- a seven (7) to
15 eight (8) time -- year time period -- I think that's
16 the time period -- is somewhere around 8 percent. So
17 that there's a significant discrepancy, history is
18 telling us, between what Hydro is projecting as far as
19 vacancy rates and what their actual expenses are.
20 They're running levels of about 8 percent vacancy.
21 And that was one (1) of the assumptions
22 that Mr. Bowman described in his primary evidence.
23 It's one (1) of the things that he answered further
24 questions about when asked by PUB counsel in
25 interrogatories as to how he was dealing with that

1 calculation and how he came to certain amounts. And it
2 was also the subject of some cross-examination by me.
3 I had asked, Well, what's the proper amount of overhead
4 -- you know, the additional benefits? And I was given
5 the answer 35 percent.
6 So now Mr. Bowman had Hydro evidence
7 that came out of this hearing which allowed him to
8 model based on not the hun -- you know, the actual
9 salaries, but as to what was appropriate from Hydro's
10 perspective to put as far as benefits. And he, in his
11 main evidence and as amplified with the additional
12 information he got from Hydro through my cross-
13 examination, presented the numbers in his evidence
14 before this Board as to what the potential savings were
15 if we did calculations based on historical past.
16 Now, we acknowledge that the last year
17 there's been an undertaking, and the actuals were five
18 point five (5.5) which is not the same pattern as what
19 happened before. But I guess my message again is: Are
20 we going to revert back to historical levels going
21 forward? It makes sense for this Board to see whether
22 or not now Hydro is entering into a different way of
23 managing its business, where the actuals are closer to
24 what it's projecting. Again, that'll be a useful piece
25 of information in the next review. Are we on track to

1 be closer in our estimates, or are we going to continue
2 to be that much off?
3 The other significant varial -- variable
4 which was talked about by Mr. Williams is debt
5 financing. If we go to Manitoba Hydro filings and
6 information, we'll see that debt refinancing from 2015
7 to 2019 is somewhere in the range of $10 billion. That
8 includes rolling over the existing financing, and
9 refinancing that, and all the new financing for the
10 major capital projects.
11 So $10 billion, 1 percent. It may go
12 up, it may go down. Hydro has its projections as to
13 how high it's going to be going up, and Mr. Williams
14 went through the historical analysis as to whether
15 Manitoba Hydro was over-estimating or under-estimating.
16 Does that help us a lot? Probably not.
17 We know that the certain's unfuture (sic). People,
18 when I cross-examined, said, Well, you know, for how
19 many years have people been thinking that the interest
20 rates are going to go up and they've been wrong?
21 But that is a significant component,
22 because if my off-the-top mathematical correction -- or
23 calculations are correct, 1 percent of 10 billion is
24 about 100 million.
25 So in the next time frame from 2015 to

1 2019, where we're going to be refinancing and financing
2 -- that's including sinking funds calculations when I
3 pulled out those numbers -- we see that there could be
4 $100 million variance, either positive or negative.
5 But I think it's pretty important for
6 the Board not to speculate on such a big variable. I
7 think a stepped approach will tell us more, will
8 crystallize more debt.
9 If we're fortunate enough as Manitobans
10 and ratepayers to see continued historical low interest
11 rates, we may have a very good picture and good news
12 story going ahead. A hundred million dollars a year in
13 difference in annual interest expense is nothing to
14 sneeze at.
15 DSM, another variable that we don't know
16 too much about right now. IFF14 has assumed an
17 increase of about $50 million per year in DSM. I had
18 cross-examined on some of that over ten (10) years.
19 And we've heard evidence and cross-
20 examination by Mr. Gange that really, the GAC view was,
21 Well, we're kind of nearly building a new generation
22 with DSM spending over the long term. That was the
23 suggestion of his line of questioning.
24 Unfortunately -- and I say
25 "unfortunately" because it would be really good news if

1 the export prices came up, because then we'd have a lot
2 of good opportunity sales and -- or export revenues
3 would go up again, as they traditionally were.
4 Unfortunately, export prices are low.
5 So we've heard Mr. Cormie explain early on in -- in the
6 hearing, If we save that seven point four (7.4) cents
7 or eight (8) cents, whatever it ends up being, in
8 residential rates through DSM programming, so we pay
9 for the program, not only will we pay for the program,
10 we lose that revenue.
11 And right now, as I understand it, most
12 of that additional energy that gets saved by DSM ends
13 up being on the opportunity market. Well, that's two
14 (2) to three (3) cents.
15 So the question is -- and in NFAT, if I
16 back up a little bit, there was a lot of push on DSM,
17 because some of the parties viewed it as a credible
18 alternative to building new generation. Spend money on
19 DSM, you can avoid building a Conawa -- Con --
20 Conawapa, you can avoid building a Keeyask.
21 The challenge we have now is, we are
22 building a Keeyask. Do we build a DSM, too, at the
23 same time? Is there a pacing and prioritization issue
24 with the new circumstances and new reality of having to
25 pay for a Keeyask and having sufficient generation?

1 Does it make sense to build a DSM generating station at
2 the same time, especially given the current export
3 prices, because we spend money to lose money.
4 That's a shorter-term view, but it
5 doesn't mean that we can't do DSM programming where
6 there's no huge rush to get -- you know, does it have
7 to be at the enhanced level, which Mr. Bowmen, when he
8 did cumulative calculation, is $280 million? My simple
9 calculation in my cross-examination was about 50
10 million, about a 10 percent factor because of the
11 amortization, the way it's done, so you have 5 million
12 in the first year, 10 million in the second year, 15
13 million. It keeps on building up and it keeps on
14 building up so that when you hit the books with Bipole
15 III you've built up that cumulative amortization on the
16 increase.
17 I'm just focussing on the increase.
18 You're building that expense on the books. And not
19 only do you do that, you hit it then with the Keeyask
20 stuff and the Bipole stuff. Is it worth looking at
21 that? We think it is because we've got a different
22 reality now than we had in NFAT, where NFAT we were
23 mounting, as some of the Intervenors were, DSM as a
24 credible alternative to generation and spending on DSM
25 at levels which would give us a generation station.

1 So on cross-examination of the DSM panel
2 we've heard that DSM is discretionary. There's been a
3 directive to try and ramp that up, so they've been
4 doing their best to do that. We know even that the --
5 even though they've been doing their best, as was ably
6 brought out by Board counsel, the budgets for DSM
7 didn't get fully spent, and there's reasons for that,
8 but...
9 So it's not as if, you know, we think,
10 well, we're over budget, we're over budget. There
11 seems to be room for discussion and dealing with that
12 issue which hits our books in a stepped approach.
13 There's also what I would call
14 inconsistent assumptions in the IFF, both of which
15 increase revenue requirement. What do I mean? Well,
16 we've heard that the rating for Bipole III is going to
17 be enhanced from 2 million megawatts to 2,300 megawatts
18 and that the cost of the subgrade is around $50
19 million.
20 The underlying assumption, of course, is
21 Conawapa will be built. I gave you that quote. It
22 maybe only hits the books whenever that improvement is
23 done, and Bipole hits the books in 2019, but,
24 nonetheless, it is an item that increases the revenue
25 requirement through depreciation and interest costs on

1 the assumption that Conawapa will be built.
2 Now, conversely, if you look in IFF14,
3 and in particular, minimum filing requirement number 9,
4 that's page 114 of PUB book of documents 20-2, we see,
5 and I asked Manitoba Hydro this on the cross-
6 examination, when is Conawapa hitting the books as far
7 as we've got to write off the expenses that have been
8 incurred.
9 Well, it starts hitting the books in
10 2017. It becomes part of the revenue requirement, and
11 on that year it adds $19 million. But that assumption
12 is totally contrary to the other one. To put that into
13 the assumption going forward you have to assume
14 Conawapa is not going forward. We haven't made that
15 decision yet, but we have added for 2017 $19 million to
16 the revenue requirement on the assumption that Conawapa
17 is scrapped.
18 And these costs continue to escalate
19 such that when Bipole and Keeyask come into service
20 between the 2019 and 2021 time frame, we see that that
21 assumption is hitting our books at about $34 million
22 per year. Again, a stepped approach, do we know for
23 sure that Conawapa is being scrapped? Do we know for
24 sure that we need to build in today's rates some extra
25 nineteen (19) to thirty-four (34), $36 million? We

1 don't.

2 Now, a stepped approach also allows for

3 monitoring. And you may recall when I was asking

4 questions of the CEO, Mr. Thomson, I put to him the

5 issue that the Board only granted an interim rate

6 increase of 2.75 percent instead of 3.95 percent. And

7 I asked him what difference did that make in the way

8 you operated your company.

9 And if people are looking for

10 references, it's transcript page 590. He answered, and

11 it wasn't the only thing and I invite you to look at

12 the full discussion, but he answered:

13 "So the fact we lost 20 million or so

14 in revenue couldn't affect our plans

15 in an -- in a significant way. The

16 only way we could have responded to

17 that on the operating costs would

18 have been to lay people off."

19 My question was intended to try and see,

20 and I guess I could have pushed him further, but -- I

21 could have went and said, Well, yeah, but that's $20

22 million in each and every year, because if you don't

23 get that $20 million you don't get it for the next

24 twenty (20) years of your IFF, so it's a $400 million

25 issue. It's not a $20 million issue. It's not just

1 laying some people off for one (1) year to deal with
2 $20 million.
3 And I don't want to read too much into
4 his answer that it wouldn't affect our plans in a
5 significant way, but I think it can tell us that when
6 we lose $400 million over the next twenty (20) years of
7 our IFF we, as MIPUG members, would expect Manitoba
8 Hydro to look at how do we deal with that. How can we
9 pace things? How can we prioritize things? And it
10 doesn't -- it didn't appear on the record and on the
11 evidence that that kind of thinking happens on a
12 consistent and planned way.
13 I had also, you may recall, challenged
14 Manitoba Hydro, and this was transcript pages 1,494 to
15 about 1,498, saying, Well, listen, have you guys run
16 scenarios where you look at what you can do from an
17 expense side, because we've heard a lot about the
18 revenue side. What happens if you get 3 percent, or
19 something less than 3.95 percent? Have you as a
20 corporation considered options as to how you're going
21 to deal with that, how you're going to pace and
22 prioritize?
23 And I indicated on the record at the --
24 close to the end of the hearing that in my view, the
25 answer to that question was really non-responsive. Or

1 if it was responsive, it tells us something further
2 about the opportunities that exist to pace and
3 prioritize and to have a full analysis of that.
4 The response was that the thought
5 process was a zero percent increase between CEF13 and
6 CEF14, a billion dollar increase or a $2 billion
7 increase, and it was isolated only to sustaining
8 capital, not other discretionary capital and O&M
9 spending. That was Undertaking 29 and the response to
10 that undertaking.
11 Continuing on a paced and stepped
12 approach by this Board. The evidence has given this
13 Board what we would say a useful example of how the OEB
14 has chosen to structure filings to assist the review of
15 pacing and prioritization. We encourage the Board to
16 review these comprehensive guidelines for the record.
17 They were referenced in Coalition/Bowman First Round
18 Interroga -- Interrogatory 3.
19 Continuing on in this stepped approach,
20 it's MIPUG's hope that this can be done in a
21 cooperative and transparent way. MIPUG, as well as
22 others in this room, were really encouraged to see what
23 a cooperative and transparent approach could do in
24 Wuskwatim. It led to innovative solutions, innovative
25 results to implement the intent of the parties.

1 We acknowledge that this process, which
2 is the adversarial process, probably tends to make
3 people advocate one (1) position. You make an
4 application for a certain thing, and you have to
5 convince the Public Utilities Board that that is a
6 balanced position and the best position. And the
7 messages of the panels under Mr. Rainkie's leadership
8 were uniform and they were well-delivered.
9 Unfortunately, though, this hearing was
10 not messaging with respect to other options on pacing
11 and prioritization, on opportunities to pace DSM, for
12 example, or otherwise. It was all about what I refer
13 to in other hearings as a 'waterbed approach'. We need
14 three point nine-five (3.95). It doesn't matter how
15 you kind of -- well, what about this savings? No.
16 Yeah, but there's this here. And then what about this?
17 Well, there's that there. All the discussions are
18 about, We need three point nine-five (3.95).
19 That's not the type of cooperative and
20 transparent approach that, I submit, we saw with
21 Wuskwatim. And maybe it's the system. Maybe it's
22 broke. I don't think it is. I think there is
23 opportunity for parties to work in an open and
24 transparent way to find solutions together. I don't
25 think we have to work as adversaries. Everybody wants

1 to try and reach a common goal: cost of service,
2 incurring necessary and prudent costs.
3 MIPUG's also encouraged that generation,
4 transmission, and distribution divisions of Manitoba
5 indicate -- Manitoba Hydro indicate that they're making
6 further progress in implementing tools. We heard about
7 the copper in -- initiative, et cetera, which will
8 assist in asset health indexes in implementing pace and
9 prioritization plans.
10 We must absolutely get away from events
11 like the Bipole III estimate which was presented as
12 being accurate in the May 2014 NFAT hearings, and then
13 learn upon pressing that it wasn't in April but in fact
14 March, March 20, that we received information that the
15 LCC technology, the more expensive one that we had a
16 4.2 billion unsigned CPJ on, was what we were going to
17 have to go with.
18 We have to get away from that kind of
19 adversarial process where you have to dig out
20 information from other people.
21 I acknowledge that in a big corporation
22 like that, that there's a line of communication, it
23 takes a while for things to get up, it takes a while to
24 get precise estimates.
25 But MIPUG has difficulty understanding

1 that, when this more expensive technology was confirmed
2 to be the option that Manitoba Hydro had to go for,
3 that that information doesn't even appear to have come
4 out in the -- I call it the CSI, closed-door hearings,
5 if you didn't have to tell everybody.
6 But it would sure be nice to see an open
7 and transparent communication in these hearings so that
8 we can all work together to find solutions that are
9 best for Manitobans.
10 I'll move now to financial issues, and
11 that's issue number 1 in the briefs. By the way, a lot
12 of the information that I've covered is covered in more
13 detail in the issue briefs. It's not my intention to
14 go through the fifty (50) or sixty (60) pages of the
15 issue briefs.
16 We've tried in the past, and we've done
17 our best within the time limits. And I can fully
18 understand what Mr. Czarnecki was talking about, but I
19 head home at 3:30 this morning, and it's been days like
20 that all over the weekend and the last days.
21 We each -- I think everybody in this
22 room has been doing their best to provide useful
23 information for this Board to consider.
24 So bringing us to that topic, I will
25 address the MIPUG recommendation. We saw some emphasis

1 on cashflow in this hearing, and it's MIPUG's view, and
2 as expressed by its expert or relying on its expert,
3 that cashflow is not the normal tool for determining
4 appropriate rate levels.
5 Though it can be informative in this
6 proceeding, Hydro's cashflow over the next decade under
7 any rate scenarios modelled, the cashflow on operation
8 remains highly positive and sufficient to fully fund
9 new extraordinary sustaining capital levels projected
10 by Hydro.
11 This occurs despite the need to absorb
12 large cash shortfalls from the limit -- initiation of
13 Bipole III and Keeyask. We believe it's reasonable if
14 not exceptional cashflow progression -- projections,
15 given the facts. For this reason, the cashflow, if you
16 look at those, don't justify an absolute need for a
17 three-point nine-five (3.95).
18 Now, there is a Manitoba Hydro graph
19 that was produced in part of its materials. If you can
20 bring it up, Alex, it's PUB/MIPUG-I-2. And it was also
21 I think in the slides of Hydro's presentations.
22 This is a Hydro calculation, and we see
23 in yellow sustaining capital. That's this increased
24 amount that Hydro's proposing. We see all the new
25 generation and transmission. And then, based on

1 Hydro's assumptions of what needs to be spent on the
2 expense side for IFF14, we see there's a little dip
3 2019 to about 2022.
4 But the message is, and Mr. Bowman
5 testified on this, we're doing a whole lot of things.
6 And plus, with that kind of a rate increase, we're
7 paying close to half a billion dollars per year of
8 sustaining capital. And then there was a run as to
9 what would happen, cashflow, and this is a Manitoba
10 Hydro run, if we only had 2 percent rate increases.
11 We're not suggesting that that's the right answer, but
12 they did run that.
13 And in no year are we in ever a position
14 where we can't pay some of our sustaining capital from
15 cash. That's another 2 percent assumption. So the
16 cashflow picture is an unusual metric. We usually
17 don't talk about that in hearings. But if you just
18 look at it from that metric, you wouldn't have concern
19 about a 2 percent. But we're not suggesting that you
20 look at it from that metric in the long term. It's
21 just, cashflow is not a problem. Don't worry about
22 this Corporation not being able to make its interest
23 payments to the bondholders.
24 And Mr. Bowman has run some scenarios on
25 that with changing assumptions on vacancy rate and on

1 DSM and on accounting change issues, and he went
2 through those in his testimony.
3 And going back to the issue brief, I
4 will go through some of the discussion and support,
5 because I didn't have it in my main presentation. We
6 understood Hydro's evidence through Mr. Thomson on May
7 26th that cashflow is a major driver for this 3.95 rate
8 application.
9 We also -- that message also be
10 delivered by Mr. Rainkie and the finance panel, and
11 pointing out that we've got to look to the bulge of
12 major new investments for Bipole III and Keeyask, and
13 this is the financial ratios issue, and also to Hydro's
14 deterioration -- deteriorating financial ratios as the
15 debt increases.
16 Now, the suggestion is that ratepayers
17 are going to be facing much higher rate increases by
18 2020 -- I'm onto the next page -- to achieve the
19 minimum required 10 percent equity ratio by 2024. But
20 that again is always on the assumption we can do
21 nothing about pacing and prioritization, and nothing
22 else on expense side except for those three hundred and
23 thirty (330) positions and the 1 percent kind of
24 holding the line increase, absent accounting changes on
25 O&M.

1 And we've heard Mr. Rainkie go further
2 and say that the 3.95 percent is the minimum required.
3 And I've quoted from the transcript, finance expense is
4 really the true serum of our forecast, and, as I
5 understood his evidence, suggested, well, fi -- higher
6 -- 5 percent rate increase could be advocated over the
7 next three (3) years to at least help cover sustaining
8 capital expenditures from cashflow to reduce future
9 finance expense after the bulge in the major new
10 capital spending.
11 We go through Mr. Bowman's evidence next
12 in this issue brief. I'll leave that for review by the
13 Board. The -- I will move to page 1-3 with respect to
14 the issue at the bottom of the page, Hydro keeping its
15 equity at $1.7 billion, which is the amount that's been
16 touted as the five (5) year drought scenario.
17 This is why we went through some of the
18 history. It's not necessarily a good thing to talk
19 about different metrics, but that's going to be
20 reviewed this fall. Is that the appropriate metric, a
21 five (5) year cushion? What other tools are in
22 Manitoba Hydro's toolbox to deal with droughts and
23 other events?
24 It -- it gets to Dr. Grant's question,
25 also in areas of -- for a Crown corporation, where we

1 don't have to be driven by profits or a need for
2 profits, does it make sense to borrow at unprece --
3 unprecedented low levels of interest and lock that in
4 for twenty (20), thirty (30), forty (40) years? Is
5 that a prudent thing to do? Those discussions need to
6 occur, and they can occur in a stepped approach.
7 The issue of continuing to seek the 25
8 percent equity level is dealt with by Manitoba Hydro,
9 and we've heard a lot of evidence by Mr. Rainkie on how
10 the Corporation has balanced this and has set a 10
11 percent kind of minimum. They don't want to go under
12 the 10 percent.
13 In cross-examination, as you may recall,
14 I went back to the historical issues, where they were
15 below 10 percent during other times of major
16 construction. Where Wuskwatim, if you looked at the
17 financials, we've got a long period of 95:5, which
18 recognizes the fact that for the first decade or so,
19 under current circumstances, hydro generation
20 facilities are not big money-makers.
21 The economic benefit clearly gets into
22 the picture in the subsequent decades, because you have
23 a fixed cost. And that also can be contrasted by DSM.
24 DSM costs will continue to increase. I mean, the --
25 they're -- they're inflation, you know. But if you

1 spend $6 billion, and we made this message in NFAT, on
2 a Keeyask, that's a fixed cost. You know that cost.
3 It's fixed. And in fifty (50) years from now, as
4 explained by Dr. Grant in relation to the other vintage
5 generation stations, people will say, Oh, $6 billion,
6 that's cheap. That's like a million -- a billion
7 dollars today. And we can charge this much for, you
8 know, rates. We're getting this much for exports.
9 And the economic picture changes quite a
10 bit. So the challenge is, and I kind of coined the big
11 bulge, how do we deal with the reality of what's
12 happening initially? And I look forward to the
13 discussion on the financial metrics. Do we need to
14 meet that 90:10 minimum in the context of the economic
15 reality of these big generating stations, which we can
16 build, because it's a Crown corporation? We wouldn't
17 be able to do that if it was a priv -- nobody would
18 want to wait fifty (50) or sixty (60) years to get good
19 economic returns on an investment if it was a private
20 invest -- investor, but with a Crown utility, we can
21 afford to take a different approach and a different
22 outlook.
23 Now, the fourth point on this page at
24 line 14 is just to note, and I'm not suggesting it's an
25 equity number, but we do have surplus depreciation,

1 which is close to a billion dollars. We've been
2 collecting net salvage to the tune of about 570
3 million. We've been collecting through depreciation
4 rates, which finds its way through the revenue
5 requirements, some other 470 million in accumulated
6 surplus in the depreciation account. This is the ASL
7 numbers, the numbers that we've always been working
8 for, for decades.
9 That's not a bad thing. Some might
10 argue, well, we've collected too much from previous
11 ratepayers and that's why we've ended up with a
12 surplus. We've heard Mr. Kennedy and Ms. Lee not want
13 to talk about that at all. It's just an adjustment.
14 It might go up. It might go down. But at least we
15 know we're health -- healthy and in the right
16 direction. It's not like a negative amount, like the
17 telecom industry where we have to catch up.
18
19 (BRIEF PAUSE)
20
21 MR. ANTOINE HACAULT: Now, I'd like to
22 move to page 6 of the issue brief. With respect to the
23 financial portion I'd like to again speak just a little
24 bit about the role of a Crown utility. And Mr. Bowman
25 provided evidence on that issue. And he provided

1 evidence with respect to the challenges that other
2 utilities are facing with major projects. In BC he had
3 said, Well, listen it's twice the amount of the revenue
4 requirement and here we're just, like, multiples of
5 eight (8).
6 But with a Crown and its shareholder
7 being the province or all Manitobans we raised the
8 question, Do we really need on these new projects --
9 I'm not talking about the vintage ones where the
10 government's already been collecting debt guarantee and
11 -- and capital tax, et cetera. Do we need to hit
12 ratepayers twice?
13 Now, think about it. And I was
14 thinking, Okay, well Bipole went up about $1.3 billion.
15 Is that a good thing or a bad thing for the province?
16 Well, on the debt guarantee 1 percent of $1.4 billion
17 is about $14 million. Boom. Sorry, we missed our
18 estimate. It's $1.4 billion more. We've got to get
19 one (1) point fill -- $1.4 billion more of loans. It's
20 good news for the government. They got another $14
21 million, but it hits ratepayers as a revenue
22 requirement.
23 We submit that it would be appropriate
24 to give some thought as to whether or not there could
25 be some foregoing of the additional revenues. There's

1 all -- already a lot of economic benefit in a project
2 like that: wages, everything else, PST. And historical
3 precedent also teaches us that there's different ways
4 we can look at this. And Mr. Bowman talked about
5 Bipole.
6 Manitoba Hydro couldn't even afford to
7 do those. And he explained about the leasing
8 arrangement which was kind of practically a reverse
9 mortgage where we weren't fully paying our interest
10 initially to give the project a kick start, let it be
11 profitable, let it be economic. The...
12
13 (BRIEF PAUSE)
14
15 MR. ANTOINE HACAULT: Just trying to
16 see whether I should hit more highlights here. Sorry
17 for the interruption.
18
19 (BRIEF PAUSE)
20
21 MR. ANTOINE HACAULT: I'll move to page
22 1-8, which provides a summary with respect to one (1)
23 of Mr. Bowman's slides. So that Mr. Bowman's evidence
24 that, outside of the four (4) long-term projects of the
25 three (3) rate increase scenarios that he examined --

1 and this is, I acknowledge, some assumptions with
2 respect to whether or not we need to change to ELG and
3 change our accounting way of dealing with operating
4 costs -- there is, if we look on those options, options
5 which can be examined by this Board whereby operating
6 costs and interest will be covered from cash from
7 operations where Keeyask and Bipole early year losses
8 are absorbed, all normal capital over ten (10) years is
9 financed by cashflow, and old debt is also paid down.
10 So our message is, Don't throw the baby
11 out right away. Those scenarios have never been
12 thoroughly and properly analyzed, in our respectful
13 submission, by Manitoba Hydro. We have an opportunity
14 to do that.
15 Hydro may have different views on those
16 assumptions. We'll get some clarity on some of those
17 views hopefully by this panel making decisions on
18 certain accounting issues and depreciation issues.
19 If that clarity is given and the same
20 models are run by Manitoba Hydro, we're going to get
21 different results because, by and large, all scenarios
22 run by Manitoba Hydro have the same fundamental
23 adjustment -- or assumptions on the operation and
24 expense side.
25 There obviously will be challenges.

1 It's not an easy task with this -- which this Board
2 has, and I'm glad I'm sitting here and not in the
3 decision seat. But the picture isn't bleak. For a
4 most part, we've been tracking good. We're in a good
5 financial position, and cashflow is not a problem, in
6 our respectful submission.
7 We've given additional information on
8 the subsequent pages with respect to DSM and with
9 respect to interest coverage on page 11. I'll just
10 reference a short part of my cross-examination where I
11 asked Ms. Liz Carriere with respect to EBITDA, and
12 wanting to know from an EBITDA per -- perspective, so
13 earnings before appreciation (sic), depreciation,
14 amortization, and taxes -- where are we at?
15 We need a point eight-five (.85) ratio
16 perspective or coverage, and the worst year in the IFF
17 brings us down to a one point three-four (1.34)
18 coverage.
19 Hydro would like to be higher.
20 Certainly nice to be higher, but EBITDA doesn't paint a
21 bleak picture which tells us we have to deal with
22 problems right away and we have to give three point
23 nine-five (3.95) without even knowing what's going to
24 happen to interest and everything else.
25 I've also put the portion of the

1 response of Mr. Rainkie where Hydro is saying -- and
2 we'll be dealing with that this fall, I guess, on
3 financial metrics -- that the Canadian utility industry
4 is around one point eight (1.8).
5 So concluding that financial issues
6 brief, I just remind the Board again of the assertions
7 in NFAT and also repeated by Moody's. And I had done a
8 cross-examination of that. That's a Moody's report
9 January 23, 2015, in Appendix 3.8, for the record.
10 Moody's was of -- of the view that Manitoba Hydro is
11 capable of prudently managing debt and mitigating such
12 risks.
13 The risk we were talking about was low
14 water levels, cost overruns and construction delays by
15 seeking rate increases. We've got the flexibility if
16 we need that, but more importantly -- and curtailing
17 capital spending to continue as a self-supporting
18 corporation. And that same message was given by
19 Manitoba Hydro in the NFAT.
20 The issue with sustaining capital is
21 another issue I gave some thought to. And we have some
22 sustaining capital that's, you know, smaller and some
23 that's bigger. And we're paying all of that with the
24 income. That's the goal.
25 So I thought, and this is not in the

1 issue brief, What's the composition of that sustaining
2 capital in -- in the asset condition report that we
3 have. Is it all short-term stuff? I'm not going to
4 get into the house analogy, but there's things, like,
5 generators. We say they're sixty (60) year items with
6 a total replacement value of 3 point -- or 2.3 billion.
7 Would it be that terribly wrong to finance a bit of a
8 sixty (60) year item instead of paying it in full?
9 Turbines, ninety (90) to a hundy --
10 hundred years, we're looking at replacing them, a value
11 of $2 billion. Is it that terribly wrong to borrow a
12 bit to replace those? And the same can be said about a
13 -- a number of items that are pretty substantial,
14 transmission. We're talking about a minimum of eighty-
15 five (85) years in the asset condition report, with a
16 replacement value of 4.6 billion.
17 Is it that wrong to finance a bit of
18 that? Do we really have to pay all of that sustaining
19 capital and get on track to replace all of that with
20 our cashflow? I think those are things which we can
21 think a bit more about. But nothing in the graph that
22 I showed you says that, except for the kind of bulge
23 period we get into even on a 2 percent rate increase,
24 which is not what we're submitting is appropriate, we
25 don't get into a situation where we have to finance for

1 all these major things that last a long time.
2 Next subject I'd like to get into is the
3 issue of keeping rate-making accounting principles
4 which have served Manitobans well over the previous
5 decades. We acknowledge that the Board has made
6 decision with respect to CGAAP, and that has had an
7 effect on retained earnings and has had an effect on
8 the financials.
9 In cross-examination, I looked at, well,
10 what was the Board told as to the level of the effect
11 when it approved that? And that's where I made the
12 mistake on $12 million instead of $22 million
13 difference, if you recall my math not being very good
14 and Board counsel and everybody trying to correct me.
15 But we're already being hit harder with
16 previously approved changes to rate-making accounting
17 principles than we thought. And we want to look at do
18 we really need to hit ratepayers more with additional
19 overhead capitalization. We deal with that in our
20 issue brief number 6.
21 The recommendation of MIPUG is that the
22 Board rec -- rejects Hydro's proposal and have Hydro
23 maintain for rate-setting purposes capitalization
24 policies consistent with those in place prior to the
25 IFRS for implementation. According to the responses by

1 Manitoba Hydro, these changes affect the IFF in some
2 years by approximately 60 million. And we say that
3 these capitalization methods are consistent with the
4 long-standing interpretation of fair cost distribution
5 between used in Manitoba, balancing what needs to be
6 paid today versus capitalized and paid as part of the
7 capital plant.
8 We expect Hydro to continue with
9 existing capitalization approaches for rate-setting.
10 Hydro, as I understand it and I understand the
11 evidence, is provided options with how to reflect this
12 Board decision in their IFRS statements. It is my
13 understanding based on the evidence they can make the
14 IFRS and regulatory statements consistent by using a
15 permitted regulatory deferral or they can reject to use
16 that re -- regulatory deferral and opt to produce
17 separate IFRS statements as a second set of books, or
18 what people have been referring to a second set of
19 books.
20 And we encourage the Board to make the
21 regulatory decision clear. We have a concern that
22 based on the current bulletins and some of that was
23 gone through with Mr. Bowman and -- and Ms. Helga Van
24 Iderstine is that it may not be an option if it's not
25 continued, a continued practice. Which may have the

1 effect of requiring these two (2) sets of books as I
2 would refer to them. Hopefully I'm not bastardizing
3 that expression in any way that offends Mr. Rainkie or
4 somebody else.
5 So we have discussion with respect to
6 that. I -- I bring the Board to page 6-3 -- or 6 dash
7 -- yeah, 6-3 around line 9. We understand the
8 Corporation's position set out by Mr. Rainkie that:
9 "We can change -- we can capitalize
10 every dollar I suppose if we wanted
11 to, to the end of the spectrum, but
12 does that change the underlying
13 economics of what we're doing? Does
14 it change the financial position of
15 the Corporation? No, what it does if
16 we use that -- some concoction, a
17 different accounting policies, is to
18 reduce the cashflow of the Company."
19 That's why I spent some time on cashflow
20 because it seemed to be a recurring theme. There were
21 different adjectives used by Mr. Rainkie in describing
22 changes to accounting policies, but fundamentally MIPUG
23 wonders if it ain't broken and it's served ratepayers
24 well for decades what needs fixing? If it didn't
25 result in any significant unfairness or injustice in

1 the past, what needs fixing?
2 And we deal with Hydro's assertions in
3 the next paragraph. We have a different view than that
4 expressed by Mr. Rainkie. We don't believe it's just a
5 concoction. It finds itself into rate requirements and
6 rate revenues because you look at the income statement.
7 And I would then bring the Board to page
8 6-4 around line 28 -- or 23, sorry. We recommend -- so
9 6-4, line 23, thank you -- that the Board reject
10 Hydro's proposal that IFRS-related O&M accounting
11 changes be simply adopted for regulatory purposes.
12 We've talked about the downside as to
13 what would happen with the two (2) sets of books. And
14 what's going to happen, as I understand it, the
15 International Accounting Standards Board has not come
16 to a final conclusion as to what it's going to do.
17 It's put these interim standards in place.
18 And there is -- at least I was pretty
19 initially convinced this is -- well, it's going to cost
20 us a lot, you know, just like it's going to make us do
21 all these things. It's going to be expensive. So --
22 and -- and questions quite rightfully came from the
23 Board.
24 I mean -- and, you know, Mr. Rainkie
25 reminds us, Well, listen, you're asking us to cut

1 costs, and now you're going to be asking us to, you
2 know, get more people to componentize for ASL and for -
3 - you know, for accounting purposes and all of this.
4 So I have two (2) things to say with
5 respect to that. We asked somebody who's been advising
6 their commission and who came to speak to us, Ms. Lee,
7 about that. Has it proven to be a real problem and
8 concern in her jurisdiction? And you've heard her
9 answer: No.
10 Manitoba Hydro has options with respect
11 to regulatory accounts. One (1) of the IRs I asked in
12 fact was something along the lines of, Well, is there
13 anything that you've presented in this application that
14 doesn't distinguish between the IFRS position and
15 accounting positions and the non-accounting positions?
16 Because if you look at the evidence, and
17 that struck me, when it comes to trying to present its
18 case about, We're controlling overheads, we're
19 controlling costs, what's the first thing Manitoba
20 Hydro does in its graphs?
21 It says, Don't look at all these
22 accounting changes. Let's compare it to what was
23 happening in the past and how we were accounting for
24 things for rate-making purposes. Let's look at that
25 picture and see what it gives us. And it gives us 1

1 percent.

2 Don't look at the picture that requires

3 us to expense more of the oper -- you know, capital

4 people because there's no direct link to projects and

5 stuff like -- don't look at that picture.

6 So just as a simple lawyer reading the

7 material, I'm saying, Okay, well, we're always --

8 already kind of doing that, aren't we? We're setting

9 out our case as Manitoba Hydro on the basis, Well, look

10 at it without accounting changes, and it doesn't look

11 that bad. Don't look at the accounting changes. It

12 makes it look worse.

13 We've also done it with respect to ASL

14 and ELG. I mean, we've been comparing the two (2) and

15 seeing the difference between the two (2) so that I

16 think we have to be careful to speculate that this is a

17 big monster that's going to create a huge

18 administrative nightmare for this utility when

19 experience tells us, based on Ms. Lee's evidence -- and

20 I would submit she was a very credible witness. That

21 it hasn't caused a problem in that jurisdiction and may

22 of them have to report differently for financial

23 purposes and for rate-making purposes, and we've given

24 that quote.

25 I'll go to the recommendations with

1 respect to sustaining capital. That's brief number 2.
2 Our recommendation is that the Board should review
3 sustaining capital projections today with a degree of
4 caution given the timing of your appearance and the
5 short window after NFAT and before GRA. I talked about
6 that. It filled the hole all of a sudden.
7 Rate proposals should be maintained only
8 -- for only the near term while Hydro is directed to
9 address pacing and prioritization of the investments
10 levels. In the meantime, regulatory measures should be
11 adopted to ensure effective regulatory oversight of
12 these costs as part of rates.
13 I don't think I need to go through any
14 of the supporting material. It's all there for review
15 by the Board. I just echo again with respect to the
16 questioning that I had gone through in saying, Well,
17 where in the report does it tell us what we need to do
18 in the next five (5) years, ten (10) years, fifteen
19 (15) years and those placeholders that I looked at in
20 the graph earlier on in my submission.
21 I'm going to tackle the depreciation
22 issue. If it ain't broke, why do you need to fix?
23 That's the golden standard. We saw that. Utilities
24 across Canada are using it. Are they getting into
25 trouble because they're using it? Is it causing

1 unfairness issues because they're using it?
2
3 (BRIEF PAUSE)
4
5 MR. ANTOINE HACAULT: I'll address a
6 couple comments with respect to the witnesses. First,
7 we acknowledge that Mr. Kennedy is clearly an
8 experienced expert with a lot of practical experience
9 in performing depreciation studies. He knows those
10 things inside out. He's also very good at explaining
11 why he doesn't follow a particular method.
12 I went through cross-examination all for
13 this utility. It makes sense because of this or that
14 or I -- I'll support the utility. And that's one (1)
15 question that specifically asked at the very beginning
16 of Mr. Kennedy. In the last five (5) years, and I've
17 put the quote in that -- that's at page -- if we want
18 to make a note for the record, page 3,428 I asked:
19 "But specifically as regards to
20 electric utilities, have your
21 services and your testimony been
22 limited to advocating on behalf of
23 utilities?
24 MR. KENNEDY: In the last five (5)
25 years, that would be correct.

1 Earlier in my career I did represent
2 the Intervenor side of the fore, but
3 I have represented at least one (1)
4 public utility board in Canada."
5 I'm not going to make much of it. I can
6 tell you, if I got that answer in front of a court, a
7 judge, the person wouldn't even be entitled to testify
8 because an independent expert is not supposed to be an
9 advocate on behalf of a utility. Their role is
10 clearly, as Mrs. Lee's role was, to provide an
11 independent view, to provide assistance to the
12 tribunal.
13 I'm not saying Mr. Kennedy didn't try
14 and do that in his own way, but he did concede that he
15 was an advocate for the utility. And we submit that
16 his evidence should be understood and appreciated in
17 that context. He does the best he can do for the
18 utilities. He's been reta -- retained by Manitoba
19 Hydro to provide them with solutions and provide them
20 with assistance.
21 We do, however, submit that the Board
22 ought to be careful in how much weight it would give to
23 his testimony, given his role.
24 What were the messages in depreciation?
25

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: If you're going
4 to componentize you've got to do it if it makes sense.
5 And I went through the generation and turbines example.
6 So you saw that in our recommendations which I
7 initially went through at the very beginning of the
8 submission, in the next depreciation study where it
9 makes sense let's componentize. It gives us a better
10 answer regardless of the method.
11 You shouldn't be putting generators that
12 have a stated life of forty-five (45) years with
13 turbines which for the study have a stated life of
14 seventy-five (75) years. They're both billion dollar
15 replacement assets. A huge part of the portfolio. How
16 is this computer supposed to guess -- because it goes
17 into a computer for ELG -- is this retirement or
18 addition a turbine that lasts seventy-five (75) years?
19 Is it a generator that lasts forty-five (45) years?
20 How's it supposed to guess?
21 How are we supposed to get an accurate
22 result by trying to put some kind of a Iowa curve
23 through data points that have totally different
24 characteristics? Equal life groups. I don't think I'd
25 have to explain very much to some person on the street.

1 If I said, If I have generators that are $2 billion
2 replacement and there are forty-five (45) years and I
3 have turbines that are seventy-five (75) years.
4 They're also a $2 billion category. Do I put them
5 together? Are they equal life groups? Clearly the
6 answer is no.
7 And for that reason we submit that Mr.
8 Kennedy's response that this componentization is only
9 required for average service life is not a credible
10 response. The very core of a group -- grouping system
11 is to try and category -- categorize significant
12 components that have significant values with
13 significantly different lives in different groups. It
14 avoids having to do a unit-based asso -- depreciation
15 for each unit. But you try to group units that are
16 similar and that hasn't been done.
17 The other thing that we think the
18 evidence clearly established is that ELG increases
19 costs up front. I took the Board through examples of
20 comparisons between ASL and ELG for new assets like
21 Wuskwatim. And we saw consistently that on the left
22 side for average service life without net salvage,
23 which is the apples to apples to ELG because it has no
24 net salvage either, it was consistently higher up front
25 for a new plant using ELG.

1 We had to go -- and you may recall the
2 tables that Board counsel went through for the dams,
3 dikes, and weirs, some seventy (70) some years in the
4 long -- the table before we hit a point where there
5 would be a cross-over and ASL started to be less. Or,
6 sorry, ELG started to be less. I got that wrong. ELG
7 was more for all of those decades up to about eighty
8 (80) years.
9 So we say that that opposition is clear.
10 It should be undisputed. It's actually in the text
11 that's the leading text, NARUC test. That -- that's
12 set out in the evidence. The other thing we say that
13 came out of Ms. Lee's evidence is if it's precision
14 that we're looking for ASL does this better than the
15 hybrid approach that we're using for ELG.
16 Everybody agrees that the theoretical
17 ELG would be per -- more precise. If you had enough
18 data points you could draw an accurate curve if you had
19 enough. But we went through examples where there were
20 no data points. That means inherently somebody has to
21 pick a curve and has to guess. Do we have it right?
22 Average service life, we do the average.
23 It can be straight line. We don't have to pick a
24 curve. Ms. Lee explained that.
25 The other evidence adduced by Ms. Lee is

1 that because of this hybrid ELG requiring subjective
2 choice of curves, you can expect larger variances when
3 you true-up as compared to average service life. That
4 creates unpredictability, bigger changes in this
5 variance account.
6 The other message was: You can't hide
7 bad componentization with the ELG procedure. And I --
8 it goes back to that double curve thing that I got the
9 witnesses to draw, comparing the grouping of generators
10 with the grouping of turbines.
11 Not only is ELG not intended to group
12 those together, I would submit, if you try to hide the
13 fact that you haven't properly componentized by trying
14 to draw some kind of a curve in the middle of the lives
15 of those two (2) major assets, you're not going to get
16 any precision. You should have two (2) distinct curves
17 for these two (2) significant groups.
18 And the other thing is that, if you get
19 your lives wrong because you're doing this curve, the
20 mistakes that you make are amplified. We see we've
21 already got a greater depreciation at the beginning.
22 Well, if you choose the rife -- the life wrong, it's
23 either -- it -- it gets amplified because it's not a
24 straight line. You're dealing with a curve. You'll
25 swing one (1) way or the other.

1 So that we say that it makes sense to
2 continue with what isn't broken. It may have been a
3 surplus in the variance account by 470 million. We're
4 dealing with that.
5 Everybody's telling us we shouldn't be
6 concerned about that. Ms. Lee was telling us that, Mr.
7 Kennedy was telling us that. But it's a good thing.
8 It's a good position for Manitoba Hydro to be in.
9 I do have to speak a little bit with
10 respect to the extrapolation study. Mr. Williams made
11 the point that it was not a study that was done in
12 compliance with the Board order.
13 Ms. Lee said, The only way you'll truly
14 know the difference is if you get a proper comparison,
15 not an extrapolation study, because by its very nature,
16 as soon as you start to extrapolate, you have to wonder
17 whether you've got the right accounts to do your expra
18 -- extrapolation.
19 If you choose one that's too high,
20 you're going to get a result that's skewed too high.
21 If you choose one that's skewed too low, you'll get a
22 result that's skewed too low. She said it was
23 counterintuitive that the amounts would be the same.
24 I'm seeing the time. I -- I just have
25 about two (2) or three (3) minutes of comments, and

1 then we can take a break, I guess.

2 So that it's -- it's in the issue brief,

3 and we go through it, but there were four (4) items --

4 or three (3) items that were gone through which I think

5 illustrate that we have to be very careful to come to

6 the conclusion that the extrapolation study gives us a

7 proper answer.

8 The first example was taken by Mr.

9 Hombach in his cross-examination by looking at the

10 buildings, and a building component was chosen. It was

11 a minor part, and it was a minor part of the overall

12 asset base. The overall asset base, I think, was 3

13 percent.

14 So when you're building an extrapolation

15 study on a component and parts of assets that are 3

16 percent, it may skew your results. And he pointed out

17 to all, What if you took that item out, what impact

18 would it have had? Directionally, it would have made a

19 larger difference between ASL and ELG.

20 He did the same thing with respect to

21 transmission. He says, Well, why did you choose this

22 item when if you'd taken the -- the structures, it

23 would lead you to a different result? I'm not going to

24 go through all the questions and answers, but it's all

25 there. And it would have led to a different result, a

1 wider difference between ASL and ELG, what intuitively
2 everybody's telling us would be the proper answer.
3
4 The example I went through in re-
5 examination, Ms. Van Iderstine, I don't know of the
6 Board was able to follow this, said, With respect to
7 generators and turbines, ASL is higher, aha. It leads
8 to a higher result than ELG. I said, Whoa, whoa, whoa,
9 let's just take a step back, see how that happened.
10 ELG picked sixty-five (65) years,
11 putting it all together. ASL, and the amounts were
12 equal, was forty-five (45) for generators, forty-five
13 (45), put on a piece of paper, plus seventy-five (75)
14 makes a hundred and twenty (120), equal amounts in
15 generators and turbines. My simple math and the math I
16 went through with Ms. Lee was, well, okay, let's do the
17 average of that. It should give you pre -- divide by
18 two (2) -- a hundred and twenty (120) divide by two
19 (2), sixty (60) years.
20 Why did Mr. Kennedy choose to do sixty
21 (60) year depreciation on ASL? Because, I mean, again,
22 intuitively, if you have a shorter life, you're
23 punching more depreciation into that shorter time
24 period, so it's going to give you a higher number,
25 right? The contrast would be if you depreciate over a

1 hundred years, you've got a hundred years to pay for
2 that asset. And if you'd bring that down to ten (10)
3 years, your payments are going to be a hell of a lot
4 higher.
5 The same thing with car payments, right?
6 Choose a three (3) year plan. You pay a hell of a lot
7 more than if you choose an eight (8) year plan. Now,
8 this extrapolation study, for some unexplained reason,
9 and he wasn't brought on -- in on rebuttal, did a
10 calculation for ASL on sixty (60) years when you
11 combine them both versus ELG for sixty-five (65).
12 Sixty-five (65) is going to lead you to
13 lower payments, right? Sixty-five (65) year -- if you
14 had a sixty-five (5) year mortgage, then as -- then a
15 sixty (60) year mortgage. Sixty (60) year, you're
16 going to be paying -- your payments are going to be
17 higher.
18 Why did Mr. Kennedy choose to do this to
19 his report? To create, I would submit, the impression
20 that ASL somehow led to a higher depreciation. Why
21 didn't he use sixty-five (65) year combined average for
22 both of them?
23 So we went through those examples. And
24 I don't think we needed to go through each example to
25 show the problems. If you're doing extrapolation and

1 you've got problems in key areas, it's, in my
2 respectful submission, reinforces the fact that no
3 reliance should be put on a study which did not comply
4 with this Board's directive.
5 The next subject I would be dealing with
6 is net salvage, but we might want to take a break. And
7 then I don't have very many other progra -- things to
8 cover. I have net salvage and I have curtailable. And
9 I think I'll have covered most of the issues in the
10 brief.
11 THE CHAIRPERSON: Okay, let's -- let's
12 take a -- a ten (10) minute break. And we'll see each
13 other again at ten (10) to. Thank you.
14
15 --- Upon recessing at 2:40 p.m.
16 --- Upon resuming at 2:56 p.m.
17
18 THE CHAIRPERSON: Me. Hacault, s'il
19 vous plait.
20 MR. ANTOINE HACAULT: I just had a
21 quick discussion with Mr. Czarnecki. And we were
22 discussing, because Mr. Bowman was around, but Ms. Liz
23 Carriere wasn't around, as to how we might deal with
24 this -- I'm going to call it a side issue. And given
25 the time frame perhaps what I could try to do on -- on

1 the record is just to articulate what I understand has
2 happened or the issues are. And then Manitoba Hydro
3 could be free to respond, but at least it -- it would
4 be put on the record.
5 I had canvassed also the possibility
6 Manitoba Hydro would file something else and then we
7 would deal with it also in writing, but it appears that
8 me trying to put our position on the record is a
9 satisfactory way to proceed, Mr. Czarnecki?
10 MR. BRENT CZARNECKI: Yeah, let's see
11 where you go with it, Mr. Hacault. And we don't want
12 to make a bigger issue out of it, but I stand by my
13 procedural comments earlier this morning that this is
14 sad, if you ask me, that we're dealing with this, this
15 late in -- in the game. So we're trying our best to
16 accommodate it.
17 But as I said, our exhibit that we filed
18 identified some flaws or some differences of opinions
19 that Hydro had as to some of the assumptions that Mr.
20 Bowman made in his calculations. And it is extremely
21 late to be asking further questions or why he did that
22 or cross-examining him. So again, I think it is just a
23 question of how much weight, if any, the Board will
24 afford to this document at this particular time.
25 MR. ANTOINE HACAULT: So with that I'll

1 try to go through this as quickly as possible because
2 it is a side issue. I don't think the hearing turns on
3 this. Our view is that the information is not new if
4 slide 27 related to vacancy rates. I'm not dealing
5 with net salvage. And the discussion about vic --
6 vacancy rates is found in Mr. Bowman's evidence at page
7 17. The discussion on vacancy rates is also found in
8 Manitoba Hydro rebuttal evidence at pages 18 and 19.
9 Manitoba Hydro rebuttal also references
10 PUB/MIPUG Round 1 -- or Interrogatory 12. That
11 interrogatory, if reference is made to it, asks for
12 scenarios to be run on how the calculations worked. So
13 that -- that answer was provided. It was available for
14 Manitoba Hydro before the rebuttal and it responded to
15 it.
16 There's new information which came out
17 during my cross-examination. Mr. Bowman's calculations
18 were based on salaries as set out in the -- the
19 filings. And the Hydro evidence was that we should be
20 adding 35 percent re: benefits. So those adjustments
21 were made. My understanding based on the email
22 exchange is that there are no errors in the
23 calculations per se that were provided.
24 What there is, is a difference of view
25 with respect to whether or not the 8 percent amount is

1 accurate, specifically addressing Manitoba Hydro
2 Exhibit 130. There appeared to be an in -- initial
3 belief that the Bowman calculations were based on a
4 total vacancy rate of 12.9 percent. That's referred to
5 in the exhibit. It has been, as I understand it,
6 agreed between the parties that that was not the basis
7 of his calculations and his calculations were
8 consistent with what the slide showed and what other
9 calculations showed based on the average of 8.2
10 percent.
11 So on the issue of it being new
12 evidence, all the issues and amounts were put in -- in
13 Mr. Bowman's evidence with respect to that slide and
14 I'll talk more about the next calculations. These
15 calculations are with respect to a different view and
16 different assumptions and suggestions on -- on the
17 expense side. As I understand it Hydro did not run
18 what impacts there would be using those different
19 assumptions, and there's a disagreement on whether
20 those assumptions should be made or not.
21 The other comment on Exhibit 130 is that
22 it's a reference to reasonably -- I guess it would
23 useful to have Exhibit 130 on the screen, Alex, if you
24 can bring it up.
25

1 (BRIEF PAUSE)

2

3 MR. ANTOINE HACAULT: I'll just read

4 for the record:

5 "It's Hydro's position that slides 26

6 and 27 of MIPUG-12 do not represent

7 the full financial picture."

8 If you go to the slides 26 and 27, they

9 are not purporting to and weren't in the part of the

10 analysis that dealt with the full financial picture.

11 They were dealing with the cashflow discussion. Slides

12 after that deal with the financial position.

13 So there was a comment quoted from the

14 transcript in Exhibit 130. It referenced page 4,128.

15 When I reviewed the transcript, I found that quote at

16 4,129. There was a discussion in the prior pages

17 between the Chair and Mr. Bowman with respect to

18 interest variability and with respect to this

19 uncertainty on interest rates being locked in over the

20 next two (2) or three (3) years.

21 And it's in that context, if you review

22 the transcript, that Mr. Bowman was suggesting that we

23 needed to look at a scenario that was reasonably

24 sustainable on the interest rate issue. I'm not too

25 sure what the concern is because the slides don't deal

1 with that. The slides just deal with cashflow.
2 The next statement that is made, as you
3 see in the -- in Manitoba Hydro Exhibit 130 is that Mr.
4 Bowman's 8.4 percent vacancy rate was applied over and
5 above the 4.5 percent included, for an effective total
6 vacancy rate of 12.9 percent.
7 It's my understanding that, that has
8 been cleared up, and it's agreed that Mr. Bowman's
9 calculations were not made by adding those two (2)
10 rates.
11 My understanding is that, as a result of
12 the six o'clock email which was sent again later on in
13 the evening, that Manitoba Hydro was able to confirm
14 that the mathematical calculations are correct, except
15 that Manitoba Hydro's position is that the scenario
16 would not be IFRS compliant as there is no assumption
17 of a regulatory deferral account to carry the
18 differences between the two (2) -- the new -- the
19 scenarios and assumptions that were used by Mr. Bowman.
20 And also with respect to the retained
21 earnings scenario, it's my understanding that Hydro has
22 not identified any errors in the mathematics. The
23 assumptions by Mr. Bowman as explained in his evidence
24 was that he included the use of ASL as per his slide
25 44. Again, those numbers were in his evidence.

He also included the pre-IFRS overheads as per his slide 36. Again, those numbers were in his evidence and were set out in detail in PUB/MIPUG-10. And the data to model those were provided in PUB/Manitoba Hydro Round num -- 173. The modelling included the same rate increase in revenue forecast.

When Mr. Bowman modelled the vacancy he attributed that to O&M and cash paid on suppliers. And when Hydro modelled the vacancy it made a change to water rentals and cash paid to suppliers. The net effect, as I understand, is it really doesn't matter where it's -- in which line it's put.

There is a difference in the calculation. And that's set out in what we're seeing on the screen. Mr. Bowman indicated that he started the vacancy adjustment in 2015 to 2016, whereas we can see on the screen that Hydro modelled the vacancy adjustment after 2019.

Mr. Bowman used, essentially, the same number as Manitoba Hydro. He used a $26 million impact on cash in 2015/'16 with a growing salary esc -- escalation, whereas Hydro used 25 million with a fixed and no growth.

(BRIEF PAUSE)

1 MR. ANTOINE HACAULT: These assumptions
2 and calculations, as I understand it, were all taken
3 from the evidence. And those are my comments. And I
4 welcome any corrections or additions by Manitoba Hydro
5 that feels is -- is appropriate.
6 It's our view that there was no error.
7 It appears that there's just a different view on what
8 the underlying assumptions should be and -- and when
9 they should start and if they are assumptions that are
10 valid. Hydro takes a pretty strong position on a lot
11 of these changes that they are incorrect assumptions
12 and shouldn't be made in the modelling.
13 Thank you very much for Hydro for
14 allowing this explanation. And as I said, they're
15 welcome to try and correct it. I've just given my best
16 understanding based on the email exchange that I have
17 in front of me between Mr. Bowman and Ms. Carriere. I
18 hope I've correctly interpreted and -- and read those
19 email exchanges.
20 And I'm not all purporting to say that
21 I've fully set out the position by Mr. Bowman and
22 Manitoba Hydro. And I acknowledge Mr. Czarnecki's
23 generous generosity in allowing me to explain this.
24 And, of course, it will be up to the Board to decide if
25 it wants to put any weight on this modelling, either

1 Hydro's modelling or -- or the -- the numbers that were
2 put in Mr. Bowman's evidence.
3 I only note again that the numbers are
4 not new; they were in the evidence. I agree that there
5 wasn't a graph drawn which showed the modelling of that
6 evidence, but certainly all the -- the numbers are in
7 the evidence. It's not new numbers, except for the 35
8 percent on overheads. Sorry, the benefits. That was
9 new information that came out in the hearing which Mr.
10 Bowman did not have when he prepared his evidence. So,
11 Mr. Czarnecki, I don't know if you have any comments
12 before I continue.
13 MR. BRENT CZARNECKI: Again, Mr.
14 Chairman, I don't want to take much more of anyone's
15 time with this issue. Perhaps we can agree to disagree
16 on the assumptions that were used by Mr. Bowman. Those
17 are his assumptions. We believe that you have the
18 apples to apples now with what a proper 2.5 percent IFF
19 run looks like so you can make comparisons.
20 This -- the other issue I would just
21 raise is that, yes, perhaps the -- the numbers aren't
22 new and they were sprinkled throughout the record. But
23 therein lies the unfairness to Hydro when we first see
24 this on a Monday morning as part of a presentation and
25 our people are diligently searching through it to see

1 that this just doesn't look right from their
2 perspective.
3 And Ms. Van Iderstine spoke of that. We
4 asked an undertaking to see the calculations. So the
5 numbers may be on the record, but we have no way of
6 figuring out how Mr. Bowman has calculated the stuff or
7 how he's piecemealed this information together to be in
8 a proper position to be responding to it.
9 So in the future I think if those types
10 of things are available to him they should be properly
11 put in in his direct evidence such that Hydro can ask
12 the questions it is now at that time and through its
13 cross-examination. And that is why I conclude and I'll
14 leave you with you can afford whichever weight you want
15 to it, but in our view from a fairness perspective it
16 should be very little, if any, weight to it at this
17 late stage. But I will not ask for it to be struck.
18 MR. ANTOINE HACAULT: Thank you for
19 those comments, Mr. Czarnecki. As I said I just have a
20 couple of comments that I wanted to cover. The first
21 one (1) was net salvage. That's issue brief number 4.
22 And MIPUG's recommendation on that issue is that it
23 agrees with Manitoba Hydro that net salvage should be
24 removed from annual depreciation costs and rates.
25 But we do so on the basis of whether it

1 makes sense and is a sound regulatory pol -- policy for
2 rates. MIPUG is not persuaded that it is in any way an
3 offset that allows for a more aggressive method of
4 depreciation to be implemented.
5 So we've set out some extracts of what
6 we understand to be Hydro's position with respect to
7 net salvage. We asked Ms. Lee as to what her views
8 were on that issue. And we've extracted on page 4-2
9 part of that evidence. She approached it from a
10 principled basis, too, I would submit and asked kind of
11 policy questions.
12 So you see she asked:
13 "The question is: Is Hydro doing
14 this for the benefit of ratepayers or
15 because it's required? I heard two
16 (2) different answers."
17 But her evidence and the evidence of Mr.
18 Bowman is that it made sense for a hydroelectric
19 utility especially with respect to generation and
20 transmission. And there was an explanation and it
21 starts at the bottom with respect to Bo -- Mr. Bowman
22 and it was pretty consistent with Ms. Lee's views and
23 explanations also, is that if there's a principled
24 reason and he explains that for generating facilities
25 there's a lot of value. And in fact he gave an example

1 of an older facility which had been sold because it --
2 because of its value.
3 So the question is: Is there a rate
4 regu -- are we left with a mess? Are we left with
5 something that's got value? And if we're left with a
6 mess, it makes sense to put something aside for that
7 mess.
8 Our view is that there's no evidence
9 that these transmission corridors and lines and
10 generation stations are leaving ratepayers with a mess.
11 There's a whole wide range of benefits
12 which you have, all the agreements that have been
13 negotiated with the communities -- we've heard a lot
14 about that -- the community development in --
15 incentives, the long regulatory licensing issues, the
16 fact -- you don't find a whole lot of areas where
17 you've got the geographic situation and construct that
18 it makes sense to put a dam there. There's only so
19 many good places to put a dam.
20 So from a principle basis for the
21 generating stations, we submit that you don't have to
22 save for a mess, because there isn't one that we can
23 foresee.
24 For transmission, again, you've heard
25 some chatter with respect to the challenges both in the

1 US and in Manitoba getting rights of way. Once you've
2 got those rights of way, you've got them. You don't
3 have to buy them again, you don't have to negotiate it
4 again. You've got a right of way for transmission, and
5 there's value to that.
6 So in those instances, for sure, it
7 makes good regulatory sense to not have to save because
8 there isn't a mess.
9 Another issue Ms. Lee brought up is,
10 unless you're putting this into a separate reserve and
11 a separate account -- and this is what I call the
12 accounting wonders -- net salvage is an expense that
13 finds its way to the revenue requirement.
14 Hydro, as I understand it from my
15 limited understanding of accounting issues, gets the
16 cash. There's nothing that says, though, you have to
17 keep it in a reserve account.
18 We've got $570 million under ASL, and
19 that's not available for any other expense that the
20 Company might want to spend on. So it becomes
21 available to be spent not on the purpose for which it
22 was saved and for which it was charged, but on general
23 matters.
24 And we've also extracted, as I've said -
25 - and we can go to page 4-5 -- Ms. Lee's observation.

1 The observation that's at the bottom, line 34, the
2 observation that:
3 "Utilities generally do not dismantle
4 major generation sites upon
5 retirement of initial facilities, but
6 rather re-purpose or retrofit the
7 facilities. We've seen this
8 specifically in Florida."
9 Turning the page:
10 "We did set aside a reserve for what
11 I called 'dismantlement of fossil
12 fuel plants'. What was -- what has
13 happened since that time was
14 companies are retrofitting. They are
15 changing out the generation from
16 steam for gas, to example (sic).
17 They are building on the same site.
18 They are not returning to greenfield.
19 If you are not totally dismantling,
20 you will have interim retirements."
21 So we believe from a principled basis
22 that it makes sense for sure for generation assets and
23 transmission assets. We take no position with respect
24 to the distribution except to point out the evidence
25 that when poles get hit by a truck, it's O&M.

1 It's not a depreciation matter, so you
2 don't need to save in a depreciation account if you're
3 going to deal with those kinds of issues through O&M.
4 The -- the evidence was that, if the pole retires
5 pursuant to its natural life, so it rots, then it's
6 considered into the depreciation account.
7 So there's also an issue of consistency
8 of treatment of the account in tran -- distribution.
9 And I question whether or not -- given that issue,
10 whether we really need to set aside net salvage for
11 replacement of units in the distribution side.
12 What did Mr. Kennedy have to say about
13 this? I brought out in cross-examination that there
14 was exceptions that he had made to his views on this.
15 He supports Manitoba Hydro's policy. And I had brought
16 him to the Ontario power generation example. And he
17 also talked about -- I forget if it was the Northwest
18 Territories, the northern example, where he said that
19 an exception was appropriate, that he supported the
20 Company views on this and at transcript 3,726 to 3,729,
21 and I'm quoting his report:
22 "As previously noted in the 2011
23 depreciation study, while these are
24 not traditional practices of
25 regulated utilities, Gannett Fleming

1 believes that
2 he used] the nature of the large
3 plant components and a small amount
4 of retirement transactions makes this
5 policy viable and reasonable for
6 Ontario power generation."
7 Now, he initially said, Well, it's
8 because it's all nuclear. But I brought him to his
9 report where it set out the numerous hydraulic plants
10 that are under jurisdiction of Ontario power
11 generation. In summary, if the position makes sense
12 from a principle basis, then it should be done.
13 The next subject which I would address
14 is the Curtailable Rates Program. And that's our issue
15 brief number 8. And I'll go through Hydro -- MIPUG's
16 recommendation.
17 "MIPUG's priority is in ensuring that
18 the value of participation to the
19 Curtailable Rate Program to con --
20 customers is maintained while Hydro
21 asserts that this can only be
22 achieved by way of finalizing the
23 interim caps from the 2012 GRA.
24 MIPUG recommends that the caps on the
25 Curtailable Rate Program should be --

1 should not be finalized as Hydro
2 requests, but should be maintained at
3 the levels last approved on a
4 permanent basis. That's a hundred
5 megawatts for Option R and 200
6 megawatts for Option A.
7 This will -- this level will allow
8 for the addition of a reasonable
9 number of interested new customers to
10 join without diluting the value to
11 existing customers.
12 We have no recommendation with
13 respect to the elimination of Option
14 C, since Hydro asserts that it has
15 little or no value to Hydro. It
16 doesn't appear to have been used
17 recently. Hydro should ensure that
18 in evaluating the benefits of the
19 Curtailable Rate Program, long-term
20 benefits and the terms of DSM as --
21 and resource planning should be
22 included."
23 And this despite, at this time, only
24 having a one (1) year contractual commitment. I went
25 through with the witness the two (2) decades where it

1 was consistently used by Manitoba Hydro, sometimes at
2 higher levels than the caps that are being proposed,
3 and where they consistently put it in their plan going
4 forward, and it represented 23 percent of their DSM.
5 That's pretty -- nearly a quarter of it.
6 The witness at -- in the DSM, Mr.
7 Barnlund, initially thought that there was nobody from
8 the industrials, for the general service groups, that
9 were looking to get into the program. But I did ask
10 him, Were you able to check your records? And he
11 confirmed that he had been advised by somebody in the
12 back row that there had been at least one (1) request,
13 and there -- he wasn't aware of how many other members
14 were -- of MIPUG were interested in having access to
15 that program.
16 You may also recall during that DSM
17 panel that there were -- there was a discussion with
18 respect to -- and I'm going to take you to page H -- 8-
19 2 -- with respect to what this program showed as annual
20 capacity savings. If you'll look at some of the
21 vintage generating stations, this program is worth more
22 than a dam at the generation level. Sure, you can't
23 open the gates and close the gates except for the
24 option -- or which was discussed by Mr. Cormie and also
25 by Mr. Bowman.

1 That essentially allows Manitoba Hydro
2 pretty much to shut down the needs of that corporation
3 for about a month. And Mr. Cormie explained that that
4 would be useful and this -- we have extracted those
5 pieces of evidence at the next page. In a cold snap,
6 for example, when they hit the peaks, it would also,
7 from an energy perspective, be able to deal with
8 drought issues. It's another tool in their box.
9 So although Mr. Cormie did explain that
10 the value has been diminished, he also indicated that
11 this may be something that changes and might be
12 temporary. So at page 8-4, at lines 15, for example,
13 he's talking:
14 "And, you know, we know that the MISO
15 market is going through a capacity
16 reduction because of the retirement
17 of coal plants. And maybe in four
18 (4) or five (5) years, the short-
19 term capacity market will come back."
20 The question is, is we've had a lot of
21 discussion about DSM and having the long-term range
22 look on these programs and the long-term value. Do we
23 start cutting it when capacity markets are not great in
24 the US and then reinstate them more when they're worth
25 more in four (4) or five (5) years and it changes

1 again?

2 From a perspective of customers who are

3 going to make substantial investments to help the whole

4 system, in my respectful submission, it is unwise to

5 take a short-term up and down view of the program. As

6 a generating station gives you capacity, if this helps

7 with capacity and the -- our energy issues, we should

8 take a long-term view of this. And it's our respectful

9 submission that these programs should not be cut as

10 soon as there's some kind of a downturn and then

11 reinstated as soon as there's kind of an upturn.

12 And one (1) of the issues that I noted -

13 - and this is page 7 of that brief -- when I did the

14 cross-examination. I said, Well, if the one (1) year

15 pro -- one (1) year contract's a program -- a problem,

16 why don't you just do a multiple year one? You know,

17 if you're concerned that there's only a commitment for

18 one (1) year.

19 And it appears that this is something

20 that's being explored by Manitoba Hydro, page 8-7. If

21 we go to -- and look at lines 6, and going down, I had

22 talked about the one (1) year renewable contracts. And

23 I said, Well, it seems to me you just change your

24 contract to a multiple year -- multiple year contract

25 and solve that problem. Have you guys -- on my bad

1 language -- had -- had discussions about that?
2 And then, yeah, even this morning I did
3 with Mr. Miles, yes, have -- I would submit that
4 there's no huge rush to implement these caps. We see,
5 based on cross-examination, evidence that there's --
6 appears to be an active discussion between Mr. Kuczek
7 and Mr. Miles with respect to -- and Mr. Friesen who
8 takes care of the industrials to deal with the issues
9 that they had in not being able to capture value
10 because there were one (1) year agreements.
11 If all we're talking about is tweaking
12 that a bit and it's a valuable program and we can
13 capture value with longer-term agreements, why cut the
14 program and make it such that you can't have new
15 entrants that can benefit from that value?
16 The last thing which I had brought up
17 with respect to Curtailable was the reaction of the
18 government and its direction to Manitoba Hydro
19 following the report by this Board on NFAT. And that's
20 at the very end at page 8-8 at lines 13 to 17.
21 That letter which was marked as Manitoba
22 Hydro Exhibit 45 provides the following view by the
23 government:
24 "The NFAT review has also raised the
25 unique needs of large industrial

1 power users. In response, we request
2 that Manitoba Hydro advance measures
3 such as curtailable rates and load
4 displacement programs which meet the
5 needs of our large power indu --
6 users like manufacturers and resource
7 industries that create jobs and grow
8 our province's economy."
9 That's not necessarily a rate-making
10 principle, but I thought it was worth noting
11 government's view on the Curtailable Rates Program and
12 as expressed in response to this panel's report in the
13 NFAT.
14 The last subject which is integrated in
15 the DSM discussion and which I don't purport -- or I'm
16 not going to take much time on is the theme that I had
17 in the hearing that Manitoba Hydro is best placed to
18 deliver DSM programs to industrials.
19 There's a lot of issues that were
20 explained by Mr. Bowman and in cross-examination that
21 were explained by various Hydro employees as to how
22 they get resources from everywhere in the company to
23 deal with helping industrials. It's a very specialized
24 service that they provide.
25 And if you look at DSM and the important

1 contribution that these load displacement programs and
2 curtailable programs fill in DSM, you can understand
3 you don't have to do very many of them to get huge
4 values.
5 You avoid a whole bunch of
6 confidentiality issues. We've got two (2) competitors,
7 Conexus and ERCO Worldwide. Same business. They can
8 have two (2) account managers in Manitoba Hydro.
9 How do you do that with an independent
10 entity? You can have two (2) separate people that go
11 into those facilities, analyze those facilities, look
12 at DSM opportunities. There's a whole bunch of
13 planning, engineering people, et cetera, that are
14 resources to put in good DSM planning for those
15 facilities.
16 So although it's not directly part of
17 this hearing and -- and the rates, it is part of DSM.
18 And the -- our clients wanted to be on the record that
19 they really appreciate the support by Manitoba Hydro in
20 doing the DSM programs with it.
21 They think that Hydro's doing a good
22 job, and they think it works best with the access to
23 the whole wide range of services which Hydro has in its
24 employee complement.
25 With that, I'd like to thank all parties

1 for the cooperation and collaborative approach. I know
2 we've had some hiccups, and some of those hiccups are I
3 think -- how do I put this in a very delicate way --
4 attributable to personal circumstances. And -- and we
5 apologize if -- if that's caused issues for other
6 parties.
7 We thank the Board for its attention,
8 for -- and if it has any boar -- questions, obviously,
9 I'd be more pleased to answer. We thank very much
10 Board staff for their help and assistance throughout
11 this proceeding, Board counsel and everybody who's not
12 here and who I don't have the opportunity to thank, but
13 all the Board advisors, council, and our court
14 reporter. Can't forget her. She's really important.
15 We've had different people.
16 And finally, I'd like to thank all the
17 support that I've received, incredible support, by the
18 InterGroup consultants. They were fabulous as always.
19 And -- and hopefully I've been able to communicate some
20 of the issues and concerns they have in this rate
21 hearing process and -- and test some of the evidence in
22 -- in my own inept way. Thank you.
23 THE CHAIRPERSON: Thank you. I have
24 one (1) question. I probably could have -- should have
25 asked it a lot earlier on, but it's the very first

1 point that -- one (1) of the first points you made.
2 And I'm looking for the citation here. I'm looking at
3 page 1 of your written submission.
4 And specifically, 2(a) says:
5 "Approved for '15/'16 a rate increase
6 of no less than 2 percent."
7 And I'm wondering how you settled on no
8 less than 2 percent?
9 MR. ANTOINE HACAULT: Hopefully I'll be
10 able to deal with that. I think one (1) of the
11 fundamental things the industrials need, and I've
12 stated it, we -- that our -- our clients need rate
13 stability. And the -- we -- the consultants,
14 InterGroup, have looked at everything. They've
15 considered to the extent they could based on the
16 materials that were there what they thought would be a
17 minimum.
18 And considering the two (2) test years
19 but not ignoring what's coming up, the consultant's
20 recommendation was that the increase should be less
21 than 2 percent. That was the minimum based on the
22 information we have here. It shouldn't be going down
23 to 1.5 percent. That would be unrealistic. And I
24 think part of that discussion occurred in an exchange
25 between the Chairperson and Mr. Bowman when there were

1 discussions about reasonable sustainability based --
2 you know, what's happening on interest rates and things
3 like this.
4 So I don't know if -- if that's helped
5 at all, but we are -- we can't ignore the future we --
6 we are -- I don't want to say stuck with. But we have
7 Bipole that's coming in at the numbers that they're
8 coming in. We have Keeyask that's coming in at the
9 numbers that are coming in. Our consultants have felt
10 that there's things that can be done to manage what's
11 happening on a go-forward basis but recognize that it
12 would be imprudent, I would suggest, to give something
13 less than 2 percent.
14
15 (BRIEF PAUSE)
16
17 THE CHAIRPERSON: I think there are no
18 further questions from the panel. So thank you very
19 much, Me. Hacault, for your contributions to the
20 deliberations of this panel. And thank you to the
21 people who supported you in that -- in your work. And
22 I think that's it. Thank you very much. Bon journee.
23 MR. ANTOINE HACAULT: All right.
24
25 (BRIEF PAUSE)

THE CHAIRPERSON: I think that completes the work for today. So, Mr. Czarnecki, you sought some direction from the PUB regarding priorities for tomorrow's closing arguments. Now, do you want that or do -- are you...

MR. BRENT CZARNECKI: You know, Mr. Chairman, in light of the hour, could I suggest that we have just a fifteen (15) minute break so we can go downstairs and see exactly where we are at with the preparation of our oral argument and ponder what we've heard this afternoon, and -- and report back to see if we are in a position to proceed with oral argument tomorrow afternoon?

THE CHAIRPERSON: What time would you like us to reconvene?

MR. BRENT CZARNECKI: Would four o'clock be acceptable, sir?

THE CHAIRPERSON: Four o'clock, then. Thank you.

--- Upon recessing at 3:42 p.m.

--- Upon resuming at 4:02 p.m.

THE CHAIRPERSON: I believe that we're ready to resume the proceedings. So, Mr. Czarnecki,

1 please.

2 MR. BRENT CZARNECKI: Thank you, Mr.

3 Chairman, and thank you for the time to consider the

4 matter further. What we've arrived at is we are

5 intending on proceeding tomorrow afternoon at one

6 o'clock with a oral argument. Again, I will remind the

7 Board and parties that it will be probably much briefer

8 than our traditional arguments are, which for some of

9 us, may be a very good thing.

10 But what I would do in the circumstance,

11 and maybe by way of an -- a bit of a compromise would

12 propose that we have Mr. Rainkie and Mr. Cormie with us

13 to answer -- to help -- to assist answer any questions

14 that the Board may have that are not specifically

15 covered in our oral argument. If there's anything

16 pressing that you need to know, we can deal with them

17 and -- and have them available for you so that you do

18 receive the necessary information from a -- from a

19 verbal perspective before we file the more

20 comprehensive written argument next week.

21 THE CHAIRPERSON: Seeing as how Mr.

22 Masi and Mr. Hacault are here, if -- if they have

23 concerns, let me -- let me know about them right away.

24 MR. ANTOINE HACAULT: As long as

25 there's no new information, there's no concern. My

1 only general comment, and it's just a general
2 procedural issue which we may want to discuss in the
3 future, is this is the first administrative hearing
4 context in which you have two (2) parties make
5 submissions. So we make submissions, Hydro makes
6 submission. But that there isn't an opportunity to
7 comment on new things that are brought out in an
8 argument.
9 In every other administrative tribunal
10 that I appear in front of, the applicant makes their
11 case. This time, we've kind of reversed the -- the
12 presentations. The other side puts their position and
13 it's very short. But if there's something new, parties
14 are always given the opportunity to make comments.
15 And that's why I said if there's nothing
16 new, there's no issue, because the process that this
17 Board has adopted over, I think, the last couple
18 decades is that although Hydro files its case and is
19 really the applicant, and in most cases -- and -- and
20 there's a historical reason why they go second. But
21 there's no opportunity to comment at all. But that's
22 for the future.
23 THE CHAIRPERSON: Thank you, Me.
24 Hacault. Mr. Masi?
25 MR. TOMAS MASI: I have no problem with

1 -- with Hydro's proposal, again, providing no new
2 evidence is tendered. But no problems otherwise.
3 THE CHAIRPERSON: Mr. Peters, any
4 comments?
5 MR. BOB PETERS: Me. Hacault and I
6 cross swords on his -- on his process issue on a
7 regular basis. So I won't talk about that. That's --
8 probably is a matter for the Board's continuous
9 improvement efforts.
10 The comment from Mr. Czarnecki that I
11 think would be of help to the panel is if Manitoba
12 Hydro could narrow down its intention as to when it
13 would be filing the written comprehensive, as I believe
14 you called it, Mr. Czarnecki, argument. Are you able
15 to provide -- if he's able to provide some information
16 to the panel, that would be my only request of him.
17 MR. BRENT CZARNECKI: So I understand,
18 Mr. Peters, the question is: When we would be in a
19 position to file that? I -- I don't want to create any
20 false expectation, but I would foresee that the
21 earliest possible would be Tuesday, close of day
22 Tuesday next week, and possibly Wednesday.
23 And -- and it's as a result of the --
24 the tight scheduling. We did hear a lot of arguments
25 from four (4) different parties, and I think the

1 written piece with for -- focus more on the reply to
2 what we've heard in the last few days. So I hope
3 that's acceptable to the Board.
4 And -- and maybe just one (1)
5 clarification. It -- it's not our intention to have
6 Mr. Rainkie or Mr. Cormie provide new evidence. It
7 would be more to clarify any specific issues that the
8 Board has on issues that are on the record.
9 THE CHAIRPERSON: Thank you, Mr.
10 Czarnecki.
11 Me. Hacault, are you here tomorrow? You
12 are. So you -- we'll count on you to object if you
13 hear any new evidence. And let us know if -- if the --
14 the line has been crossed, because, you know, I think
15 we should be attentive to the concern you've raised.
16 And -- and then hopefully, you can assist us in that
17 regard.
18 So with that, I'll adjourn today's
19 proceedings, and we'll meet again tomorrow at one
20 o'clock. Thank you.
21
22 --- Upon adjourning at 4:07 p.m.
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4 Certified Correct,
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8 Cheryl Lavigne, Ms.
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