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 2, 2015

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1 APPEARANCES

2 Bob Peters )Board Counsel

3 Sven Hombach (np) )

4

5 Odette Fernandes )Manitoba Hydro

6 Brent Czarnecki )

7

8 Byron Williams (np) )Consumer Coalition

9 Meghan Menzies )

10 Jared Wheeler (np) )

11

12 William Gange )GAC

13 Peter Miller )

14 David Cordingley (np) )

15

16 Antoine Hacault )MIPUG

17

18 Michael Anderson (np) )MKO

19 George Orle )

20

21 Tomas Masi )MMF

22 Kris Saxberg (np) )

23

24 Denise Pambrun )City of Winnipeg

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1 LIST OF EXHIBITS

1 UNDERTAKINGS

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|---|---|---|
| 33 | MIPUG to provide a list of alternative programs to this Board | 1838 |

1 --- Upon commencing at 9:02 a.m.
2
3 THE CHAIRPERSON: Good morning. It's
4 about nine o'clock, so I think we should start today's
5 proceedings. I want to welcome the -- the new members
6 of the Hydro panel. Welcome. Looking forward to
7 hearing from -- from you.
8 Today's proceedings, at one o'clock
9 we're going to have five (5) presenters addressing the
10 panel. So we are estimating that'll take about an
11 hour, but things may not follow according to script.
12 But we'll try to make it work for one (1) hour.
13 And we -- we propose to adjourn today at
14 4:30. So, we have no flexibility at the end of the day
15 to add more time for questions.
16 So with that, I'll turn the microphone
17 over to you, Ms. Fernandes. Good morning.
18 MS. ODETTE FERNANDES: Good morning.
19 Thank you, Mr. Chairman, Board members Kapitany, Bel,
20 and Grant.
21 Prior to commencing today, Manitoba
22 Hydro does have some responses to undertakings to file
23 this morning. We've provided them to Mr. Simonsen.
24 The first one is a response to Undertaking number 11,
25 which was Manitoba Hydro to report back on landowner

1 expropriations. And that would be marked as Manitoba
2 Hydro Exhibit number 47.
3
4 --- EXHIBIT NO. MH-47: Response to Undertaking 11
5
6 MS. ODETTE FERNANDES: We also have a
7 response to Manitoba Hydro Undertaking number 17, which
8 was for Manitoba Hydro to file the six (6) series of
9 amendments to the CPJs on the Bipole III project. And
10 that was actually provided in a response to a PUB
11 Information Request, and we've provided that reference
12 in the response. And that would be Manitoba Hydro
13 Exhibit number 48.
14
15 --- EXHIBIT NO. MH-48: Response to Undertaking 17
16
17 MS. ODETTE FERNANDES: We also have a
18 response to Manitoba Hydro Undertaking number 21, which
19 was for Manitoba Hydro to provide the intended typical
20 average year operation for the Bipoles, which achieve
21 equal losses. And that would be marked as Manitoba
22 Hydro Exhibit number 49.
23
24 --- EXHIBIT NO. MH-49: Response to Undertaking 21
25

1 MS. ODETTE FERNANDES: And then
2 finally, we also have a response to Undertaking number
3 22, and that was for Manitoba Hydro to make inquiries
4 as to whether we examined an alternative to Bipole III
5 that involved the hardening of the Bipole I and II
6 system. And that would be filed as Manitoba Hydro
7 Exhibit number 50.
8
9 --- EXHIBIT MH-50: Response to Undertaking 50
10
11 MS. ODETTE FERNANDES: Now, yesterday,
12 we also emailed copies of CVs for our current finance
13 panel. Unfortunately, we don't have paper copies
14 available first thing this morning, but we hope to do
15 so later today. And that would be Manitoba Hydro
16 Exhibit number 51.
17
18 --- EXHIBIT NO. MH-51: Curriculum Vitae
19
20 MS. ODETTE FERNANDES: And then finally
21 we -- we had also sent out a PDF copy of the direct
22 presentation that the finance panel will be presenting
23 today. And that would be filed as Manitoba Hydro
24 Exhibit number 52.
25

1 --- EXHIBIT NO. MH-52: Presentation of Manitoba
2 Hydro Finance Panel
3
4 MS. ODETTE FERNANDES: Now, in terms of
5 introductions, this -- the Board will be aware of Mr.
6 Rainkie and Ms. Bauerlein, as they were present on the
7 operations panel. We also have with us seated right
8 beside Mr. Rainkie, Ms. Liz Carriere, who is the
9 manager of Financial Planning. Directly to the left of
10 Ms. Bauerlein is Mr. Manny Schulz, who is also familiar
11 to this Board and he is our corporate treasurer. And
12 to Mr. Schulz's left is Mr. Ian Page, who is the
13 division manager of Corporate Planning and Strategic
14 Review.
15 And just in terms of introductions of
16 our back row, we have Mr. Greg Epp, who is our major
17 projects analysis supervisor; Mr. John Van Den Bussche,
18 who is the financial forecasting supervisor; Ms.
19 Kristen Perrault, who is the regulatory financial
20 analyst. Beside Ms. Perrault is Ms. Gina Borschawa,
21 who is the manager of man -- sorry, manager of
22 Management Financial Services. And beside her is Ms.
23 Susan Stephen, who is the manager of Financial Markets.
24 And just before we have the -- the three (3)
25 individuals who haven't been present on the previous

1 panels sworn in, I just have a couple of questions for
2 them.
3 Ms. Carriere, could you please outline
4 your experience, qualifications, and areas of
5 responsibility with respect to the portion of Manitoba
6 Hydro's filing?
7 MS. LIZ CARRIERE: Yes. Good morning,
8 Mr. Chair, panel members Kapitany, Bel, and Grant, and
9 Intervenors. I am the manager of financial planning in
10 fina -- in Finance and Regulatory. I'm a professional
11 accountant and I've been with Hydro for a little more
12 than twenty-five (25) years. My primary area of
13 responsibility is the preparation of the integrated
14 financial forecasts and capital expenditure forecasts
15 which form the basis for this general rate application.
16 I've held several accounting positions
17 throughout my career at Manitoba Hydro in asset
18 management, non-energy billings, and through -- but
19 I've spent most of my career in financial planning.
20 I've also spent some time in Aboriginal
21 relations, primarily involved with the Wuskwatim and
22 Keeyask northern training initiative. And my
23 department is also responsible for the evaluation of
24 the financial and customer impacts related to major
25 projects and negotiating the commercial arrangements

1 with First Nations communities.
2 MS. ODETTE FERNANDES: Thank you, Ms.
3 Carriere.
4 Mr. Schulz, can you please outline your
5 experience, qualifications, and areas of responsibility
6 with respect to Manitoba Hydro's filing?
7 MR. MANNY SCHULZ: Certainly. Good
8 morning, panel members, Intervenors, all others
9 present. My name is Manny Schulz. I joined Manitoba
10 Hydro in 2006 as the corporate comptroller and
11 performed that duty for two (2) years before being
12 moved into the corporate treasurer position. Perhaps
13 coincidentally, when our borrowing program started to
14 rise and with the onset of the financial crisis as
15 well, so it's been an interesting ride.
16 By way of education, I have an
17 undergraduate degree from the faculty of architecture
18 at the University of Manitoba. As well, I have an MBA
19 from the University of Manitoba as well. I received my
20 certified management accounting designation in 1995,
21 and received my fellowship in 2009.
22 In terms of the application, I will be
23 providing testimony on capital financing and finance
24 expense, debt management strategy, as well as the
25 financial markets and credit ratings. Thank you.

1 MS. ODETTE FERNANDES: Thank you, Mr.
2 Schulz.
3 Mr. Page, could you also outline your
4 experience, qualifications, and areas of responsibility
5 with respect to Hydro's filing?
6 MR. IAN PAGE: Good morning, Mr. Chair,
7 panel members, ladies and gentlemen. My name is Ian
8 Page. I am the division manager of Corporate Planning
9 and Strategic Review. I am a certified management
10 accountant as well, and I also have an MBA and a -- a
11 BSE from -- from the University of Manitoba.
12 I will be giving evidence to -- today on
13 the corporate strategic plan, economic outlook, ener --
14 and -- and these documents are -- are -- they're --
15 they're fou -- they're important in -- in that they
16 feed into the other parts of the -- Manitoba Hydro's
17 planning cycle, and ultimately culminating with the
18 IFF.
19 MS. ODETTE FERNANDES: Thank you, Mr.
20 Page. With that, Mr. Simonsen, if we could please get
21 the witnesses sworn or affirmed? Thank you.
22
23 MANITOBA HYDRO PANEL 4 - FINANCE:
24 DARREN RAINKIE, Previously Sworn
25 SANDY BAUERLEIN, Previously Sworn

1 LIZ CARRIERE, Sworn
2 MANNY SCHULZ, Sworn
3 IAN PAGE, Affirmed
4
5 MS. ODETTE FERNANDES: Thank you, Mr.
6 Simonsen. Mr. Chair, with your permission, the panel
7 is prepared to go through their direct presentation.
8
9 PRESENTATION:
10 MS. LIZ CARRIERE: Good morning. I'll
11 just walk you through, at this point, the order of
12 things we expect to proceed in. I will be covering the
13 integrated financial forecast. I will be followed by
14 Mr. Schulz, and he will cover capital financing and
15 finance expense, the debt management strategy, and
16 financial markets and credit ratings.
17 Mr. Schulz will be followed by Mr. Page,
18 and he will cover the economic outlook, the interest
19 rate forecast methodology. Then Ms. Bauerlein will
20 follow with the OM&A cost containment eff -- efforts,
21 accounting policy, and estimate changes.
22 And then I will conclude with a -- the
23 Wuskwatim Power Limited Partnership agreement changes,
24 our -- Manitoba Hydro's earning sensitivity to risks,
25 alternate rate scenarios, and our summary observations

1 for this presentation.
2 I'd like to remind you that -- stop us
3 at any point if you require clarification or any
4 questions. With that, I'll move on to the integrated
5 financial forecast section. I knew I'd do that. Too
6 many buttons.
7 So I'm sure you're familiar with this
8 graph from Tab 2 already. This is our carrying costs
9 and OM&A compared to revenues for MH14. The OM -- M&A
10 expenditures at the bottom are in the blue bars. And
11 as you can see, they're relatively flat, and they are
12 not driving our revenue requirement.
13 You can see the red bar and the green
14 bar, which are the carrying costs, the interest and
15 depreciation associated with the investments that we're
16 making over the next five (5) -- or the next ten (10)
17 years. They're expected to double over the next ten
18 (10) years, increasing from about 1 1/2 billion to $3
19 billion, including capital taxes.
20 The dotted line on this -- this graph
21 represents the general consumers revenue at currently
22 approved rates. As you can see, that is fairly flat
23 and incorporates only the load growth over time.
24 The solid black bar is our general
25 consumers revenue, which includes the 3.95 proposed and

1 indicative rates. And you can see that in all years,
2 it falls short of meeting all of our revenue
3 requirements, our costs. And then the dash line is the
4 general consumers revenue, including the 3.95 rate
5 increases, as well as the net ex-provincial revenues.
6 So that's our ex-provincial revenues less water rentals
7 and fuel and power purchases.
8 Now, we show in the ten (10) year period
9 seven (7) years of losses in -- in that and you can see
10 that the bars peak out -- peak out over the top of the
11 dash line and that's -- that reflects those losses.
12 For comparative purposes, this is the same graph
13 showing the carrying costs in OM&A compared to revenues
14 from the 2013 forecast.
15 Even though our -- our costs have
16 increased, the -- the general shape of the graph hasn't
17 changed. Carrying costs in MH13 still nearly doubled.
18 But 2014 forecast is slightly higher over the ten (10)
19 years due to those higher capital costs.
20 OM&A is -- is slightly lower in the
21 current forecast compared to last year. But again,
22 it's relatively flat and not driving rate increases.
23 The 2014 GCR, including additional, is slightly lower
24 compared to this line here. And that's primarily due
25 to the DSM savings. But overall, net ex-provincial

1 revenue is approximately the same over the ten (10)
2 year period, because any savings from the DSM are sold
3 on the export market, so that the net between domestic
4 and export sales results in almost no change over that
5 ten (10) year period.
6 On slide 6 we are now looking at net
7 income for electric operations. In the first four (4)
8 years you can see that MH14 net income has improved
9 slightly over MH13. In the first two (2) years that's
10 primarily because of favourable water flows compared to
11 the previous forecast.
12 In the next two (2) years -- in all four
13 (4) years, actually, the lower interest and
14 depreciation rates also contribute to net income being
15 favourable compared to MH13. The higher net income --
16 or you can see immediately after that period that --
17 under both forecasts net -- we're showing net losses
18 for a period of time. I think that's five (5) years
19 compared to the nine (9) years here -- or eight (8)
20 years and the losses are -- are greater in this
21 forecast and that's primarily due to the increase in
22 the capital costs related to Bipole III, Keeyask, DSM,
23 and the sustaining capital expenditures.
24 In the back end of the forecast we see
25 improvement in net income with the Keeyask revenue and

1 domestic rate increases. So it's important to note
2 that under both forecasts these include the three point
3 nine five (3.95) rate increases in MH14 till 2030 -- or
4 2031 and throughout the entire forecast in MH13.
5 Even though we show favourable earnings
6 in -- in the front end period, the losses in the -- in
7 the mid-period demonstrates that reasonable regular
8 rate increases, even in years where there's favourable
9 water flows, are important to maintain the -- the
10 financial sta -- stability of the Corporation and
11 protect the customers from -- for ris -- from risks of
12 higher rate increases in that -- that period of losses.
13 MS. MARILYN KAPITANY: Ms. Carriere,
14 when we were speaking yesterday of the increases they
15 were 3.95 percent and then dropped down to 2 percent
16 for some of the years in the period. So you said here
17 that this reflects 3.95 percent through the whole...
18 MS. LIZ CARRIERE: For MH13.
19 MS. MARILYN KAPITANY: Oh, okay.
20 MS. LIZ CARRIERE: MH14 has the 3.95
21 percent rate increases till 2031, and then followed by
22 three (3) years of two (2) percent.
23 MS. MARILYN KAPITANY: Thank you.
24 MS. LIZ CARRIERE: On slide 7, we're
25 looking at retained earnings for electric operations,

1 comparing current forecast to 2013 forecast. Our
2 retained earnings level is currently at $2.7 billion
3 and deteriorates to 2 billion by 2024.
4 Over the period, we see -- with the net
5 income in the first four (4) years, you can see that
6 there's a very slight increase in the slope of the
7 retained earnings, followed by the period of losses
8 where you say -- see it dipping to the $2 billion.
9 In this period, the retained earnings
10 are just sufficient to absorb the 1.7 billion financial
11 impact of a five (5) year drought, which puts customers
12 at risk for higher rate increases in that period,
13 should we experience low water flows.
14 Other risks have those -- have financial
15 impacts as well. And in Appendix 3.6, we show the rate
16 -- or the -- the risk sensitivity that we do for the
17 integrated financial forecast that's on page 22 of the
18 IFF14. And you can see that other variables, such as
19 interest rate and export prices, have significant
20 impacts as well.
21 These could occur at the same time and
22 suggesting -- and suggest that -- that our retained
23 earnings could be -- deteriorate even further than what
24 is projected here. Rate increases lower than three
25 point nine-five (3.95) increase the risk of higher rate

1 increases in the future during that period of losses.
2 Manitoba Hydro's financial strength is
3 measured by its key financial targets. The balance
4 sheet target is to maintain a minimum debt-equity ratio
5 of 75:25. For the operating statement, the gross
6 interest coverage target is to maintain a minimum ratio
7 of one point two (1.2) times.
8 And the cashflow statement target is to
9 maintain a capital coverage ratio of greater than one
10 point two (1.2) times, excluding major new generation
11 and transmission expenditures.
12 It's recognized that Hydro may not
13 maintain these financial targets during the period of
14 significant investment in major new generation and
15 transmission. And as you've heard over the last week,
16 those targets are currently under review, but in the
17 interim they remain in effect as Manitoba Hydro's long-
18 term financial targets.
19 Just by way -- as a bit of an
20 explanation on how they are used both internally and by
21 ratings agencies, the debt-equity ratio measures the
22 portion of assets that are paid for by debt versus
23 earnings.
24 Now, these -- that doesn't equate to
25 cash in the bank. What it really means is that it's

1 the ability of the assets to generate revenues in
2 excess of our costs. Or in times when cash -- cash is
3 un -- we're under a cash crunch, it's debt that's
4 available to borrow.
5 Interest coverage ratio. It's --
6 represents the ability of net income or of -- of net
7 income or cashflow to pay for our debt obligations, so
8 the coupon payments on our -- on debt issues. An
9 indicator -- it's an indicator of whether debt and the
10 resulting financing charges are manageable.
11 And capital coverage ratio measures the
12 sustaining capital expenditures paid for with cashflow
13 from operations. It's effective in maintaining the
14 debt and resulting financing charges at manageable
15 levels, and works in concert with the interest coverage
16 ratio and debt-equity ratio.
17 Moving on to the equity ratio on slide
18 10. Here we have a comparison of MH14 and 13 and
19 compared to the consolidated target, the red line of 25
20 percent. Our current equity ratio of 22 percent
21 deteriorates to 10 percent by 2023, and then gradually
22 improves after '26 with increasing net debt -- or
23 decreasing net debt and increasing retained earnings
24 with the revenues from Keeyask and the 3.95 rate
25 increases which are assumed throughout up to the 2031.

1 The 10 percent equity ratio is well
2 below our 25 percent target, and it's the minimum
3 equity ratio we believe is acceptable to Hydro to
4 maintain our self-supporting status and protect
5 customers for risk -- from risk. Equity ratio compares
6 -- compared to MH13 to 2028 is -- is lower due to the
7 higher capital costs. And then it's higher due to the
8 suspension of Conawapa.
9 So this graph sort of breaks out the --
10 or compares the equity ratio to the capital
11 expenditures. So you can see -- and the capital
12 expenditures are broken down by sort of major project,
13 and -- and then sustaining capital expenditures. In
14 the light on the bottom of that graph is our sustaining
15 capital expenditures. The darker blue is the other
16 major new generation and transmission.
17 The sort of -- Wuskwatim is barely
18 visible on the very left-hand side of that graph. The
19 sort of brownish-green is the Bipole III capital
20 expenditures. And then Keeyask is layered overtop of
21 that in the orange. Again, Conawapa is barely visible
22 and the very top area is related to DSM.
23 So the point of this graph is to see
24 that as -- as capital expenditures are peaking over
25 three thousand (3,000) we start to see decline in the -

1 - in the -- the equity ratio. And then, by 2021, when
2 capital expenditures are -- are -- for major new
3 generation and transmission projects are slowing down
4 you see it sort of -- the decline slows down, but it
5 takes several years before the -- the equity ratio
6 starts to show gradual improvement again by 2027.
7 And that indicates that it takes a fair
8 amount of -- of cashflow to turn that -- that equity
9 ratio around. You're seeing several years of 3.95 rate
10 increases plus the -- the revenues -- the incremental
11 revenues from Keeyask.
12 Moving on to interest coverage.
13 Interest coverage is below the one point two (1.2)
14 times target for fourteen (14) years.
15 THE CHAIRPERSON: Ms. Carriere, could
16 you go back -- by the next -- the previous slide,
17 please?
18 MS. LIZ CARRIERE: Sure.
19 THE CHAIRPERSON: I'm looking at the
20 second set of data, the dark blue line above the
21 electric. And you refer to it as major new generation
22 and transmission. What's in there? That isn't --
23 MS. LIZ CARRIERE: That's the -- well,
24 in the major new generation and transmission category
25 in the capital expenditure forecast there are other

1 projects included in there other than Bipole III,
2 Keevask, Conawapa, and DSM. There's also Kettle,
3 Kelsey. Oh, the interconnection is included in there,
4 the Manitoba-Minnesota transmission project, and Gillam
5 redevelopment, and the tail end of the -- the spillway
6 replacement. Okay.
7 Interest coverage is below target, the
8 target one point two (1.2) times for approximately
9 fourteen (14) years and is below one (1) for nine (9)
10 years. It declines to about point eight-five (.85) by
11 2022 before showing gradual improvement with Keevask
12 revenues and domestic rate increases. It's lower than
13 the 2013 forecast to 2028 due to the higher capital
14 costs that we've talked about before, and then higher
15 due to the Conawapa suspension.
16 This graph is just -- breaks out the
17 components of the interest coverage ratio. The blue
18 bars represent the net income and the green bars
19 represent finance expense. So interest coverage
20 deteriorates as net income turns to losses and fri --
21 financing charges more than double from the -- from
22 about 600 million to 1.3 billion at its peak once
23 Keevask and Bipole III are in service.
24 Again, interest coverage gradually
25 improves with improved net income and financing charges

1 gradually decrease as cashflow implo -- improves with
2 the additional revenue.
3 The capital coverage ratio is below
4 target one point two (1.2) times for nine (9) years and
5 below six (6) -- or below one (1) for six (6) years.
6 The capital coverage ratio below one (1) indicates that
7 the internally generated funds, or cashflow from
8 operations, are not sufficient to fund sustaining
9 capital expenditures and need to be augmented by
10 borrowed funds. Capital coverage ratio is lower
11 compared to MH13 in most years due to the higher
12 capital cost of Keeyask, Bipole III, and sustaining
13 capital expenditures.
14 So this graph breaks out, again, the
15 components of the capital coverage. And I think you've
16 seen this one before in -- in Tab 2 as well. The
17 yellow bars represent our sustaining capital
18 expenditures with DSM and -- and major new generation
19 and transmission immediately above on those bars.
20 And as you can see, the black line shows
21 our cashflow from operations and it dips -- it hovers
22 right around the total of sustaining capital
23 expenditures for the first three (3) or four (4) years
24 and then dips below the -- the sustaining capital
25 expenditures. And that's where we would have to fund

1 sustaining capital expenditures with additional
2 borrowing in the amount of about approximately $400
3 million.
4 In the longer term you can see that the
5 cashflow is sufficient, more than sufficient to cover
6 the sustaining capital expenditures and the major new
7 generation and transmission and indicates that we're in
8 a position to be paying down debt at that point.
9 MS. MARILYN KAPITANY: Ms. Carriere,
10 you said that you would have to borrow to the extent of
11 $400 million at some point on this graph?
12 MS. LIZ CARRIERE: That's the shortfall
13 of -- of cashflow from operations over that period of
14 time where there's insufficient cashflow from
15 operations to cover the sustaining capital. So it's a
16 cumulative amount.
17 MS. MARILYN KAPITANY: Cumulative.
18 Okay.
19 MS. LIZ CARRIERE: Yep.
20 MS. MARILYN KAPITANY: Thank you.
21 MS. LIZ CARRIERE: Yeah, and that
22 includes the 3.95 percent rate increases. So what
23 we're saying is -- is that the rate increases are not
24 sufficient to provide revenue to pay for those and we
25 could actually be asking for higher rate increases in

1 that period of time to cover -- to cover those
2 expenditures.
3 And now we're going to move on to Mr.
4 Schulz.
5 MR. MANNY SCHULZ: Thank you, Ms.
6 Carriere. If you have any questions at any point in
7 time, please feel free to interrupt and let's have a
8 conversation. The topic area that I'll be talking
9 about is capital financing, finance expense, debt
10 management strategy, financial markets, as well as the
11 credit ratings.
12 And the first slide here is a bit of a
13 segue from what Ms. Carriere just spoke about. It's
14 the -- the intersection, really of -- and I kind of see
15 this as a visual explanation of our cashflow statement,
16 because you see on here the investing activities and --
17 and the bars that you see. And then the question is:
18 How do we finance that?
19 And the other key point to this is
20 construction requires cash. While I certainly enjoyed
21 my time as corporate comptroller and doing all of the -
22 - the accounting, at the end of the day, we pay for our
23 goods and services with cash and not with accounting
24 entries. And so at the end of the day, we need cash.
25 And how are we going to be funding this investing

1 activities is through cashflow from operations, which
2 you can see there in the lines, as well as anything
3 that's above that is what the treasury division will
4 have to finance through our work with the Province of
5 Manitoba and so on.
6 So our cashflow pos -- from operations
7 provides a valuable partial source of funding for
8 Manitoba Hydro's investing activities and the balance
9 of the capital investments will be funded through new
10 debt financing. And without the proposed and
11 indicative 3.95 percent rate increases, Manitoba Hydro
12 would need to secure additional debt financing and
13 incremental incre -- interest costs would need to be
14 borne by customers through rates.
15 When looking at the amounts of financing
16 that's required above and beyond the cash from
17 operations, you can see here that the investment
18 requirements will lead to unprecedented levels of debt
19 financing. And so this is the challenge that's
20 certainly before yours truly and -- and Ms. Stephens,
21 who behind me is the -- the guru of financial markets.
22 It's a big challenge for us. You can see that
23 including debt refinancing requirements for existing
24 debt, the total debt requirements will peak at levels
25 in excess of $3 billion per year, which are

1 unprecedented levels in Manitoba Hydro's history.
2 And I wanted to bring this chart up
3 here. And this is the interplay between net fixed
4 assets and net debt. And I -- I recall the -- the
5 testimony that was once given by Mr. Vince Warden. And
6 many of you will recall him and he said that, Debt is
7 good. And I think, really, he was referring to
8 Manitoba Hydro debt is good. Because what we're doing
9 is financing all of the assets that are constructing
10 and providing safe and reliable and economic service
11 for Manitoba Hydro and its ratepayers.
12 And so the debt that we have been
13 accumulating through the years has been beneficial for
14 Manitoba Hydro. And I just pressed the off button.
15 There we go. There. But moving forward, both the
16 level of net fixed assets and net debt are forecasted
17 to grow until, you know, the 2020s before the projected
18 level of net debt begins to decline after 2025. And
19 that picks up on some of the comments that Ms. Carriere
20 spoke to. When the cashflow from operations increases,
21 that gives us an opportunity to what I would refer to
22 as 'off ramp' some of the -- the debt maturities that
23 come, and we can have the opportunity to do debt
24 retirement.
25 And capital investments drive interest

1 expense. The curve that you're seeing here with that
2 upward slope is very similar, and -- and not
3 surprisingly so to the increase in net assets, as well
4 as net debt. And the first category of finance expense
5 is the total interest on short and long-term debt. And
6 it's primarily the gross interest paid on debt, as well
7 as the associated provincial debt guarantee fee. And
8 again, this is the amount of cash largely that is being
9 moved out of Manitoba Hydro to the coupon payments and
10 to the investors and bondholders, and that the actual
11 and forecasted level of total interest in short and
12 long-term debt, which is the green line, generally
13 follows the path of the size of the total debt
14 portfolio.
15 But it's interesting to note as well
16 that the total interest is reduced by capitalized
17 interest. And in this chart, which is also shown in
18 section 5.6 in our application, you can see that the
19 interest that's allocated to construction, which is the
20 lightly shaded blue bars, is the primary factor that
21 reduces the total level of the -- the green line, as
22 you can see, to arrive at net finance expense, which is
23 what you're seeing on our financial statements and that
24 is in our revenue requirement.
25 And you can see that as we're going up

1 the -- the curve of the -- the green line, there is a
2 substantial portion of our gross interest that is being
3 paid out that is being capitalized to our construction
4 projects. And while we're paying that out, we're only
5 getting the revenue requirement on the net finance
6 expense, which is the dark blue bars. So there's a
7 cashflow differential that's seen through finance in
8 this -- in this chart.
9 And so during periods of intensive
10 capital construction, the net finance expense, and
11 hence the revenue requirement, is temporarily shielded
12 from the full weight of the gross finance expense by
13 the interest allocated to construction.
14 So turning to debt management strategy,
15 Manitoba Hydro's fundamental debt management objective
16 is to provide stable, low-cost funding to meet the
17 financial obligation's liquidity needs of the
18 Corporation.
19 The low interest rate environment over
20 the past few years has provided the opportunity for
21 Manitoba Hydro to secure stable, low-cost funding. And
22 in order to mitigate the refinancing risk and to
23 maintain the financing flexibility that we'll certainly
24 be needing during the upcoming decade, and in keeping
25 with the concept of matching the Corporation's long-

1 lived assets with long-term debt, Manitoba Hydro will
2 continue to favour long-term, fixed-rate financing with
3 maturities of ten (10) years and longer.
4 And we have two (2) objectives with the
5 debt management strategy. One is for stability, one is
6 low cost. On the aspect of stability, we are extending
7 the weighted average term to maturity of our debt
8 portfolio. And since 2006/2007, to enhance the debt
9 portfolio stability, the weighted average term to
10 maturity of the market debt portfolio, as you can see,
11 has increased by over three (3) years. And for
12 Manitoba Hydro's new long-term debt issuance in the
13 previous year, which was '13/'14, just to give you an
14 indication, the term to maturity of our new long-term
15 debt issuance ranged from three (3) to fifty (50)
16 years, with a weighted average of twenty-eight (28)
17 years.
18 And the year that was just completed --
19 because, Mr. Chairman, you had asked for recent
20 information wherever possible. To give you that, our
21 range was from ten (10) to forty-eight (48) years on
22 our -- our debt issuance for new debt. And the average
23 -- or the weighted average of that was twenty-eight
24 (28) years.
25 Low cost is also very important.

1 Reducing the weighted average interest rate is a big
2 portion of -- of what we look at every day. And since
3 2006/'07, the debt portfolio's weighted average
4 interest rate has decreased by nearly 2 percent. And
5 fixing those low interest rates for extended term to
6 maturity is beneficial to ratepayers, as it avoids the
7 interest rate reset risk assoto -- associated with
8 floating rate debt and reduces the number of times that
9 the debt stream is exposed to higher refinancing rates.
10 So the longer period we go, to the point
11 where we have the possibility to ultimately terminate
12 that debt with retirement, if we don't have any
13 intervening periods of time, no refinancings, we
14 essentially eliminate refinancing risk on that at the
15 same time as having these amazingly low interest rates.
16 I spoke a little bit about the interest
17 rate risk. We are reducing interest rate risk port --
18 exposure on our existing debt portfolio. You can see
19 here it's the chart from the debt management strategy.
20 And this is a summary of our interest rate risk
21 profile. And in 2014, Manitoba Hydro adopted a new
22 interest rate risk policy and guidelines. It's
23 described in the debt management strategy, which is in
24 Appendix 3.7. And you can see here in the composition,
25 this is at March 31, 2014. The summation of our

1 floating rate debt at that time plus the short-term
2 debt was at 19 percent. And we're also looking at the
3 fixed-rate, long-term debt to be refinanced within the
4 next twelve (12) months, and that at that time was at 7
5 percent.
6 Key as well is that during the years
7 when there's high levels of refinancing and/or new
8 borrowings -- and we're currently in that area right
9 now -- in order to manage the overall interest rate
10 risk portfolio, the Corporation's interest rate risk on
11 its existing debt portfolio will be reduced by
12 decreasing the percent of floating rate debt and short-
13 term debt to a level below 15 percent of the total debt
14 portfolio.
15 And again, looking at what's the most
16 current information, our financials have not yet
17 finally closed, but as a preliminary indication, we're
18 in and around 15 percent for the summation of floating
19 rate debt and short-term debt within our existing debt
20 portfolio.
21 Topical as well and important for us is
22 that Manitoba Hydro ratepayers benefits from Manitoba's
23 high credit rating. We receive a flow-through credit
24 rating from the Province of Manitoba. We don't have a
25 separate rating that we have for Manitoba Hydro. It's

1 a -- a flowthrough. And you can see here in --
2 highlighted in green, the Manitoba rating. So its
3 Standard & Poor's is double 'A', DBRS is 'A' high, and
4 Moody's Investors Services, AA1.
5 And the benefit of this is that it
6 reduces the cost of borrowing the customer's paying
7 rates, and it provides us an excellent opportunity to
8 obtain the financing needed for capital financing.
9 I also wanted to sort of make a point
10 here, too, that currently Manitoba has a -- what's
11 called a split rating. So if you look at that green
12 line there for Manitoba, you'll see that Standard &
13 Poor's -- they have different nomenclature for each of
14 the rating agencies, but Standard & Poor's is clearly
15 double 'A'.
16 Moody's is also AA, and they have three
17 (3) categories, AA1, AA2, and AA3, but they would still
18 be within the double 'A' category. However, DBRS is
19 single 'A', although high.
20 And so one needs to always sort of keep
21 this in mind. And you can see this with some of the
22 other provinces, as well. Their -- split ratings is
23 fairly common within -- within the landscape. The
24 different rating agencies have different, not only
25 nomenclatures, but different categorizations and

1 criterias. It is a complicated matter.
2 With respect to the benefit that we
3 derive from the flowthrough credit rating, on behalf of
4 ratepayers, Manitoba Hydro recently set a new record
5 for the lowest fixed rate long bond issuance in a
6 corporation's history. So sixty-three (63) years of
7 Manitoba Hydro, we issued in April of -- 16 of 2015, an
8 all-time record. So that was $300 million of fixed
9 rate debt with a September 2046 maturity and an all-in
10 yield of just under 2.9 percent, which is quite
11 remarkable.
12 I should also indicate, and -- and
13 perhaps Mr. Page will speak and elaborate on this
14 further, as the indicative long bond rates are now
15 higher -- so when I checked on Bloomberg this morning
16 and overnight the Bank of Can -- or the Government of
17 Canada rates moved up slightly, but I think that we're
18 in for a long bond of about three point one-six (3.16).
19 So you can see that almost twenty-six
20 (26) basis points already the markets have moved up.
21 It's largely on the underlying Government of Canada
22 bonds that have moved up. So there's a dynamic
23 interplay that's always happening, but we were
24 fortunate to capture it at that point in time to
25 achieve those record lows.

1 But it's more than just the low interest
2 rates. It's also about the access to financing. And
3 the last bullet speaks to our ultra-long fixed rate
4 financing. So anything that's beyond thirty (30)
5 years, we refer to as ultra longs. And so in the last
6 fiscal year, we secured $300 million of bonds with
7 maturities that were in excess of thirty (30) years,
8 and they were all relatively flat to thirty (30).
9 So what that means is that the interest
10 rates that we would have been able to achieve at thirty
11 (30) rates -- thirty (30) years is what we were able to
12 get at these extended terms, and so that was also
13 beneficial. It's -- it almost is like we're getting
14 the free extension without any additional cost.
15 And so you can see that $175 million of
16 the 2052 maturity, 75 million of the 2054, and 50
17 million with maturity in 2063, which will far exceed my
18 lifespan, I -- I'm quite sure, so.
19 Manitoba Hydro's contingent liability is
20 low, and it is necessary that the risk remain so. This
21 is a chart that shows the general depiction of the
22 Province of Manitoba's debt. The red piece is the
23 portion that's for the Province of Manitoba. And the
24 self-supported piece, which is blue, is for Manitoba
25 Hydro, and so at March 31, it was approximately 35

1 percent.
2 And so the important aspect here is that
3 it's -- it's what -- what's referred to as self-
4 supporting. So the credit rating agencies, the
5 financial markets, they look at the Province of
6 Manitoba's debt, and they take a look at Manitoba
7 Hydro. They look at the blue piece here on this pie
8 chart and they say, Are you self-supporting, i.e., do
9 you have the financial wherewithal to make all of your
10 coupon payments and to meet all of your financial
11 obligations? And if you are, then you are essentially
12 factored out of their equations when they do the
13 calculation of the entire Province of Manitoba
14 portfolio.
15 So when assessing the province's ratio
16 of tax-supported provincial debt as a percent of GDP,
17 the credit rating agencies exclude the Manitoba Hydro
18 debt levels from the evaluation of the provincial debt
19 portfolio.
20 And to the extent, and I had this
21 bolded, to the extent that Manitoba Hydro remains and
22 maintains its self-supporting status, the contingent
23 liability, and that's a phrase that the credit rating
24 agencies, that's how they refer to it, the contingent
25 liability represented by Manitoba Hydro's debt to the

1 Province of Manitoba is low, and Manitoba Hydro's
2 capital investments plans and capital structure should
3 have no significant impact on the Province of Manitoba
4 credit rating.
5 But it's also very important to point
6 out that we need to continue to generate sufficient
7 cashflows to meet our obligations. That's absolutely
8 critical. The liquidity and assess to capital will be
9 essential for business continuity as well. And on the
10 concept of self-supporting, the credit rating agencies,
11 they all have their different definitions. There's no
12 great precision to it. It's a bit of a frustration for
13 us too in terms of what defines self-supporting.
14 But what I can tell you, I don't have
15 complete, you know, clarity to what the precision of
16 the definition is, but what I can tell you, that this
17 is a very important concept. There are no do-overs
18 here with this, no Mulligan. It's a bright line for
19 us. It's a line we dare not cross or get close to in
20 terms of self-supporting. And that's why you would
21 have heard us at the NFAT speaking about the importance
22 of the self-supporting concept. We will maintain our
23 self-supporting status. That's really important and
24 critical for us as we move forward.
25 And I'll leave you with a view from the

1 -- the credit rating agencies, and this is from the
2 most recent report on the Province of Manitoba from
3 Moody's. It's dated October 17th, 2014, and it's a --
4 it's a long excerpt and this is the piece in that
5 Provincial Report that's pertaining to Manitoba Hydro.
6 And you can see some yellow highlighted portions there
7 on slide 28, the inherent risks related to increasing
8 debt at self-supporting entity Manitoba Hydro.
9 The -- and the first sentence indicates:
10 "The province issues debt on behalf
11 of its wholly owned utility company,
12 Manitoba Hydro."
13 They indicate the -- the total reported
14 net debt. And highlighting there as well:
15 "The anticipated increase in debt in
16 Manitoba Hydro could increase the
17 contingent liability for the Province
18 of Manitoba in the next few years."
19 That's why it's so important that we
20 maintain and have the -- the ability for us to have the
21 cashflow from operations, and to have the rate
22 increases that we have been put forth in our
23 application. The credit rating agencies are aware of
24 our rate applications. They're aware of the -- the
25 CEFs, the IFFs. They are certainly aware of that and

they've indicated, as well, that they will monitor the increase in Manitoba Hydro's debt ratios in the progress of construction of these projects.

And they also indicate:

> "We note positively that Manitoba Hydro has flexibility to increase utility rates given the fairly low rates compared to other provinces and that it has already negotiated future long-term export contracts with customers in the United States."

So with that, unless you have any questions, I will move it on to Mr. Page.

THE CHAIRPERSON: I have a few questions. Could you go back to slide 17, please.

(BRIEF PAUSE)

MR. MANNY SCHULZ: There we go.

THE CHAIRPERSON: Now, that -- that red line, the -- the drop in that red line, is that stemming from interest costs?

MR. MANNY SCHULZ: Well --

THE CHAIRPERSON: What -- what's causing the -- that very significant drop in the...

1 MR. MANNY SCHULZ: So, I thank you for
2 pointing that out, Mr. Chairman. The red line here is
3 the line that results -- that's our cashflow from
4 operations without the rate increases. So if we had
5 under the assumption of a zero rate increase, this is
6 what would happen to our financials and to -- our net
7 income would drop accordingly and then we would have
8 this impact as demonstrated in our cashflow from
9 operations.
10 And the differential then would then
11 need to be debt financed. The cashflow -- you know,
12 under the assumption that we wouldn't have any change
13 to our investing activities, we'd have to go and obtain
14 debt financing for that.
15 THE CHAIRPERSON: But -- but the point
16 I'm -- I'm trying to get at is I'm trying to understand
17 what's causing a drop in -- in that red line. Is it
18 the higher interest costs related to the Bipole and the
19 -- and the Keeyask projects?
20 MR. MANNY SCHULZ: Well, it would be a
21 whole company kind of impact, but the major
22 manifestation of that would be in finance expense.
23 THE CHAIRPERSON: Okay.
24 MR. DARREN RAINKIE: Mr. Chairman, just
25 -- just -- sorry to interrupt you, but just to that I

1 think if we flip back even further to slide 4 of the
2 deck just to make sure the Board understands this
3 point. Sorry, and we'll come back to page 17 or slide
4 17 for your further questions. But it's an important
5 point I think we want to be clear. We can see the red
6 bars in this chart. That's finance expense. And
7 that's finance expense assuming the approval of 3.95
8 percent rate increases throughout that whole period.
9 And you can see that is the primary
10 driver of the increase in our cost of service or
11 revenue requirements for those years. So if one were
12 to assume no rate increases or 2 percent rate increases
13 those red bars will just increase exponentially. You
14 know, Mr. Bowman says in his evidence, Well, you're --
15 you're already borrowing a lot so it doesn't really
16 matter if there's lower rate increases. You know, it's
17 only an extra 15 or $30 million that you borrow every -
18 - every year if there's a, you know, 1 or 2 percent
19 lower rate increase.
20 But that's a -- that's kinds of like
21 saying, you know, when your credit card's maxed out
22 let's phone the credit card company and ask for an
23 extension because that's going to, you know, be the --
24 be the answer to it. And, of course, it isn't. We
25 have to manage this finance expense. We have to manage

1 cash flow and debt.
2 And that's why we've been harping on
3 this I suppose in the last, you know, five (5) or seven
4 (7) days because this is with the rate increases. This
5 -- these red bars. And I would hesitate -- I wouldn't
6 -- wouldn't even want to show you what these red bars
7 look like without the rate increases. So with that we
8 can return to page 17 for your further questions.
9 THE CHAIRPERSON: Now, slide 25 shows
10 the relative percentages of the types of debt, you
11 know, you've got floating rate debt, short-term debt.
12 Now, this is indicating zero debt. Short -- zero
13 short-term debt. My understanding of the short --
14 short-term debt is -- is debt that you use to tide you
15 over until you get a new bond issue to -- to bring in
16 long-term funds.
17 Is that right?
18 MR. MANNY SCHULZ: The short-term debt
19 facility which we have up to $500 million capability is
20 intended primarily for bridge financing for those
21 purposes that you indicated. We could also use it for
22 -- and I think we discussed this, for instance, at the
23 NFAT -- for liquidity relief. For instance, if we had
24 periods of drought and so on that we could sort of lean
25 on that as an additional short-term bit of bridge

1 financing. So it would be for both of those purposes
2 typically.
3 THE CHAIRPERSON: Now, just -- just a
4 question about what's happening to your cash levels all
5 through this, you know, '13/'14 and '14 -- what's been
6 happening to the cash levels of the Company? Have they
7 -- have you been maintaining the same level of cash
8 reserves all the way through or...
9 MR. MANNY SCHULZ: Are you referring to
10 our --
11 THE CHAIRPERSON: You know, what I'm --
12 what I'm getting at is, you know, you have -- you --
13 you're -- we know that we are in a long-term -- we --
14 we know we are in a low interest rate environment. And
15 I guess what I'm wondering is, you know, one (1) of the
16 strategies would be to -- to increase your cash levels
17 and borrow as much money as you can at these long-term
18 rates while markets are -- I realize that, you know, it
19 -- you can't predict a trend of -- of future rates.
20 But I guess what -- what I'm asking is
21 that given that you know you can get long-term money at
22 very interesting rates why not increase your cash,
23 borrow more from the market? Is -- is that part of
24 your strategy or...
25 MR. MANNY SCHULZ: The answer is yes.

1 And the manifestation of that we have zero short-term
2 debt right now. Why? Because we're in a long cash
3 position because we've done exactly as you've described
4 which I think is -- is very prudent. And so some of
5 the long-term financings that we executed at the end of
6 last quarter and -- and even this issue that we
7 undertook in April are representing our pre-funded
8 status in order to maintain long-term -- the cash
9 liquidity at hand particularly at these low interest
10 rates.
11 And you can see even the backup in the -
12 - in the Government of Canada bond rates that I just
13 spoke to not that long ago we were very fortunate to be
14 able to do exactly that. And -- and Ms. Stephen behind
15 me was one (1) who was advocating for that exact same
16 point. Let's take on the cash now while we can because
17 the indicators are that the interest rates may yet rise
18 and so let's take on that cash.
19 There is a little bit of a negative cost
20 to carry because you're having to keep cash and you're
21 not plowing it into investments and so on. But over
22 the long thirty (30) year term of it, it's the best
23 thing for us to do. And it also reduces and mitigates
24 our liquidity risk -- risk particularly through the
25 summer months, when the bond markets are less active

1 and our construction season is high and the cash burn
2 is high.
3 So for all of those reasons, Mr.
4 Chairman, we're certainly following through on that.
5 THE CHAIRPERSON: Now, just -- just to
6 make sure I understand, I mean, the -- the purchaser of
7 these bonds is purchasing Manitoba government bonds,
8 not purchasing Manitoba Hydro. So even though the bond
9 rating agency is telling us that it's good that -- you
10 know, it's important that Manitoba Hydro keep on an
11 even keel from -- from the standpoint of paying for the
12 debt, I mean, the -- the buyer in New York is buying
13 Manitoba government bonds, not buying Manitoba Hydro
14 bonds.
15 MR. MANNY SCHULZ: Yes and no. Just as
16 a clarification, on the long-term bonds, that's the
17 Province of Manitoba. For short-term debt, we can
18 issue in our own name. But for what we're talking
19 about in terms of the long-term debt issuance, that
20 would be -- they would -- the investors would be buying
21 Man -- Province of Manitoba bonds.
22 THE CHAIRPERSON: Okay. So -- so let's
23 say for -- you know, the Manitoba government's folding
24 in your requirements along with their requirements for
25 -- for debt. So can you go to the Manitoba government

1 and say, I'd like -- we'd like to get 50 million right
2 now?
3 Do you have to fold in that -- that 50
4 million with whatever the Manitoba government needs, or
5 are you -- are you free to say to the Manigoba (sic),
6 You know, we want to go right to the market now. We --
7 we -- you know, we think rates are good. Let's go 50
8 million right now.
9 MR. MANNY SCHULZ: Manitoba Hydro works
10 with the treasury folks at the Province of Manitoba,
11 and our relationship is excellent. To the extent that
12 we need financing for the pre-funding status that we
13 for instance just undertook or we may take as we move
14 forward in the next days and weeks to follow, we
15 certainly have that capability to undertake the
16 financing for our needs.
17 So there's never any restrictions that
18 we have felt, and certainly since the time that I've
19 been treasurer, there has never been any push-back
20 saying, Thou shalt not have cash, because we need it
21 for our -- for our prudent delivery of our -- of our
22 requirements. So there's never been any impairment in
23 that regard.
24 DR. HUGH GRANT: Could I just ask about
25 this -- I'm just curious about this same slide. So

1 this chart is telling me my -- my -- the rate risk
2 profile.
3 And I guess I'm -- I'm wondering about
4 that big piece of the pie there, because in a sense I
5 feel as if I've gone to the bank and the banker's told
6 me, Relax, you've got a lot of fixed-interest debt and
7 you're good for a year. And I think my response would
8 be, Yeah, but what about after a year?
9 So is there any way that you can provide
10 more detail on that big piece of the pie?
11 MR. MANNY SCHULZ: So what you would be
12 -- and just so I can understand this, you know, you
13 really would be thinking about what we would refer to
14 as our debt maturity schedule. You know, what is the -
15 - what is the schedule of -- within that dark blue
16 piece, what is likely to be maturing within the next
17 two (2) years, three (3) years, and so on and so forth.
18 We certainly have that information. I
19 think it's in the PUB book of documents in Volume IV.
20 I think it's in one (1) of the tabs. We can certainly
21 call that up if you like. We can go through that now
22 if -- if that's important to you.
23 DR. HUGH GRANT: I guess I'm -- I'm
24 worried about the time -- the potential timing.
25 MR. MANNY SCHULZ: Right.

1 DR. HUGH GRANT: So -- so is it quite
2 possible that you've got a lot of long-term debt
3 maturing that you're going to have to refinance at a
4 time when your -- you know, other financials are at
5 their low ebb? I'm -- is there any --
6 MR. MANNY SCHULZ: Well, we take a very
7 close, hard look at that. And what, for instance, we
8 have been doing is doing what we call leapfrogging. So
9 you can see and recall that first slide where we had
10 all of the debt financing requirements.
11 And so here you can see up through to
12 2020, we have a lot of interest rate risk just on the
13 new debt that's coming on. So what we've taken a look
14 at is to ensure that we don't have a lot of
15 refinancings that are coming in coincidentally with
16 that. So I think that's playing in to your -- your
17 comment, Dr. Grant.
18 And so we leapfrog as much as possible
19 with our debt maturity plans over this period of time
20 and try to layer in debt in the 2020 and beyond periods
21 of time so that we're not creating a further crowded
22 house, so in terms of the interest rate risk during
23 this period of time.
24 We have looked at the interest rate risk
25 profile through all of the periods of time within our -

1 - our forecast period to do exactly that.
2 And that's why, on our debt management
3 strategy, we tend to favour financings that are in
4 excess of ten (10) years in large measure for that.
5 And we've made a conscious attempt to layer in lots of
6 maturities in that period of time when we have within
7 our plan sufficient cashflow from operations to
8 potentially have debt retirement. We call that 'off-
9 ramping'.
10 So if we're on the freeway of taking on
11 debt financing, seeking the opportunity when the
12 opportunity is there, should that be available for us,
13 to then reduce our debt loads. And so that's something
14 that we have consciously made an attempt do that, so I
15 thank you for that question, Dr. Grant.
16 MR. DARREN RAINKIE: Mr. Grant, sorry,
17 if -- if we can go back to slide 25, I -- I think I'm
18 interpreting your question slightly -- slightly
19 different. Maybe I've got it wrong. You let me know
20 if I have. I think it's just our nomenclature on the
21 slide. We've said that 74 percent of our port --
22 portfolio is not subject to interest rate risk within
23 the next twelve (12) months, so that's $8.1 billion.
24 But if you go over to the other side of
25 the pie, the fixed-rate long-term debt that's to be

1 refinanced within twelve (12) months is 7 percent, or
2 800 million. So I wasn't sure if your question was
3 just the way we've named this slide, if that 74 percent
4 slice of the debt is coming due within the next twelve
5 (12) months, but it's all long-term debt. It's only
6 the 7 percent that's coming due in the next twelve (12)
7 months on this slide.
8 DR. HUGH GRANT: The oth -- let me try
9 again. I think I was trying to say, Could you take
10 that big piece of the pie and split it into segments
11 where I know that so much is coming due in five (5)
12 years, and ten (10) years, and fifteen (15) years? But
13 I think slide 18 sort of addresses that fairly well. I
14 get a sense that it's fairly evenly spread out over...
15 MR. DARREN RAINKIE: I'm sure we've
16 provided an IR that provides that maturity, or in our
17 debt management strategy. There's a -- there's a
18 picture of that somewhere on the record, sir.
19 MR. MANNY SCHULZ: And actually, we can
20 call that up for you very quickly. Diana, if you can
21 pick up on page -- it's on Tab -- on Volume IV of the
22 PUB book of documents, page 45.
23
24 (BRIEF PAUSE)
25

1 MR. MANNY SCHULZ: So the Y-axis is --
2 is quite large, going up to $4 billion, but it's
3 somewhat in scale to what you would have seen in that
4 new borrowings chart that was shown in our direct
5 evidence. And so you can see what's referred to -- and
6 in fact, here's a quote from DBRS in this midst of this
7 text, saying that we have a -- a relatively smooth
8 maturity profile. And you can see the variability and
9 you can see the layering in there.
10 We've tried to minimize the amount of
11 debt that's coming up for refinancing in this crowded
12 house period. And you can see that we've got a fair
13 amount of layering that goes on in the years subsequent
14 to that.
15 THE CHAIRPERSON: Okay. Looking at
16 that, you might want -- 2020 kind of says the opposite
17 of what you've been telling us. You know, it -- it
18 look at the -- look at the -- the maturity schedule.
19 It -- it -- there's a lumpiness to that schedule. Then
20 2020 is showing -- 2020 -- I can't read -- 2017 -- '19,
21 so it's showing a -- a fair chunk of debt that has to
22 be addressed, a billion dollars. And this would be
23 over and above what you're trying to get for new?
24 MR. MANNY SCHULZ: Yes, sir, but this
25 is also -- this chart is also without any application

1 of sinking funds and so on, so --
2 THE CHAIRPERSON: Oh, I see. Okay.
3 MR. MANNY SCHULZ: -- so many of these
4 pieces of debt, we -- we would chop that off with
5 sinking fund payments, and that we would have as part
6 of our sinking fund strategy to -- to peak shave some
7 of that.
8 Where we see some of the hollows, for
9 instance, in the 2020 fiscal year, we're leaving some
10 flexibility for potentially US dollar issuance, which
11 tends to have a -- a shorter term to maturity just
12 because of the way the financial markets are. So we're
13 leaving some flexibility in there for us, as well.
14 THE CHAIRPERSON: But coming back to
15 leapfrogging, that would presuppose that the -- the
16 Manitoba government is also playing the same game. In
17 other words, they know you're going to need a whole set
18 of debt issues during that period.
19 What are they -- are they doing the same
20 thing -- attempting to do the same thing to harmonize
21 with what you're doing?
22 MR. MANNY SCHULZ: So our interests
23 would potentially be slightly different than the
24 Province of Manitoba's. Our interest, because we have
25 long-term assets, we tend to have a bias that has long-

1 lived liabilities to match them up. So we, I think,
2 would be -- tend to be slightly longer, leaving them
3 potentially room to take on some of the shorter
4 duration.
5 In the financial markets, we try very
6 hard to maintain benchmark issues in the five (5), ten
7 (10), and thirty (30) year time space. Those are kind
8 of the -- the typical terms to maturity. So we tend to
9 lean on the thirty (30) years, some tens. The province
10 sort of goes across the entire spectrum, including in
11 the five (5) years. So, you know, there's a blending
12 and coordination that happens around this. Thank you.
13
14 (BRIEF PAUSE)
15
16 MR. IAN PAGE: Good morning, panel.
17 And thank you -- thank you, Manny, for that in -- lead
18 in. I'm going to be talking primarily about the
19 economic outlook and the portion of the economic
20 outlook is of particular interest to everybody in this
21 room, and that's the interest rate forecast.
22 Our economic outlook, it's provided in
23 the -- in the application, Annex 3.1. We prepared in
24 the -- it was prepared in the spring of 2014 and -- and
25 we prepare forecasts for the -- for the vari -- the

1 variables that we see on the screen there, so interest
2 rates, short and long, exchange rates, inflation, GDP
3 growth, disposable income, and Manitoba population
4 growth.
5 Those last three (3) variables there are
6 primarily used in the preparation of the load forecast.
7 When we get closer to the time where Ms. Carriere is
8 preparing the IFF, we will do a -- we'll have a --
9 revisit some of these forecast variables and have a
10 look and see if they warrant a -- an update. And the
11 last number of years we've been doing updates in the
12 fall. So that fall update is on -- primarily on the
13 interest rates and exchange rates. It's what's inc --
14 incorporated in the IFF14 that we filed.
15 And -- and we've talked about this in --
16 in previous hearings, but the way we deal with a
17 forecast is a consensus basis. We use a -- a number of
18 financial institutions. We get their -- their
19 forecasts. Those forecasts tend to primarily be in the
20 short to mid-term. So some can go three (3), some four
21 (4) years, but they're -- they're generally in that --
22 in that sort of time frame.
23 We do use three (3) private sector
24 sources, IHS, Conference Board, and Spatial, and they
25 will give us the longer term forecasts. When we're

1 doing the population forecast, which I mentioned on the
2 previous slide, we also use the Manitoba Bureau of
3 Statistics, but I didn't put them on this slide,
4 because they were only used for the one (1) single
5 variable.
6 So this graph shows the -- the long-term
7 forecast. So it's at ten (10) plus years. So this is
8 a -- sort of a blending of our ten (10) year forecast
9 and our thirty (30) year forecast of debt issues. And
10 the -- the light blue line at the top is the -- that
11 spring up -- spring economic outlook that was done --
12 it -- that was in the filing. And that darker blue
13 line, which you can see is a little bit more than a 1/2
14 percent lower in the longer term, that's what was used
15 in that fall update.
16 I guess one of the big things that
17 happened between the -- the term -- time we did the
18 spring forecast and that fall update was the Bank of
19 Canada in -- in September of 2014, they issued a paper
20 which sort of discussed what they -- what they refer to
21 as the neutral rate of interest. And so the neutral
22 rate of interest is sort of that rate of interest where
23 it's not either being -- interest rates aren't being
24 used to either stimulate the economy or rein it -- rein
25 it back in.

1 And the assumptions that have been used
2 over the years is that -- if we look at our forecast
3 history, that all the forecasts have tend -- tended to
4 be on the -- on the high side, because there was this
5 assumption that the interest rates would be rising back
6 -- and sort of reverting to a long-term mean. This
7 paper that was prepared in September 2014 by the Bank
8 of Canada basically sort of stepped back and said,
9 Let's have a look at that. Maybe we've been -- that
10 long-term mean that we've -- everybody has been
11 assuming we're going to be reverting to, maybe that's
12 not the case anymore.
13 And so they -- they've essentially did
14 their work and said, It looks like we're at a sort of a
15 new normal for that neu -- neu -- for that neutral rate
16 of interest. And they said it was probably 1 to 2
17 percent lower than what we've been seeing historically.
18 And so when we did that fall update, that was shortly
19 after that -- that paper was issued, so some of the
20 forecasters would have fully incorporated that. Some
21 may or may not have. But -- so we do see that factor
22 having been incorporated in that longer term fall
23 update.
24 The ninety (90) day T-bill rate
25 obviously wouldn't be reflective of that sort of long-

1 term normal. So it -- we did see a very small change
2 in that rate. We did see, however, in -- again,
3 subsequent to the preparation of even the -- of the
4 IFF, we did see this in January. We did see the Bank
5 of Canada drop their overnight rate by a quarter
6 percent. So that's something that hasn't been
7 incorporated in this forecast.
8 Exchange rate is probably one (1) of the
9 more volatile variables that we try to project, because
10 in -- in essence, it's sort of the differential of --
11 or the sum of the differentials between the -- the two
12 (2) economies, the Canadian and the US economy, and its
13 -- and its built-in expectations. There's a lot of
14 hard economics in it. The financials and emotional and
15 -- and things like flight-to-quality. So a whole -- so
16 it -- it does tend to be the -- the variable that
17 fluctuates the most.
18 And we did see -- and -- and we're all
19 well aware of the dollar went from not far off par last
20 -- early last spring to -- to a substantially weaker
21 Canadian dollar in -- in -- by the time we were prepare
22 -- prepared the forecast. Fortunately, Mr. Schulz's
23 exposure management program effectively manages this
24 risk. So this -- out of all of the -- the different
25 variables that can impact us, this is -- this is one

1 (1) where we actually have the ability to proactively
2 management and sort of -- and -- and essentially
3 eliminate the bottom-line risk to Manitoba Hydro.
4 So some of the other variables that we -
5 - that were included in that spring 2014 forecast:
6 Canadian CPI at 2 percent, Manitoba CPI, two point one
7 (2.1). The real Canadian GDP was assumed last year to
8 -- for this to -- to grow 1.9 percent, and Manitoba is
9 a little bit less, 1.6 percent. Disposable income
10 growth about 2.2 percent, and Manitoba population
11 growth about .9 percent. That -- that would translate
12 to about forty-nine hundred (4,900) new residential
13 customers for Manitoba Hydro every year.
14 THE CHAIRPERSON: What date is that --
15 this forecast? This -- this one we're seeing here?
16 MR. IAN PAGE: Sorry, couldn't quite
17 hear?
18 THE CHAIRPERSON: The -- the -- is it
19 fall of 2014, or is it the...
20 MR. IAN PAGE: This -- these -- these
21 were spring of 2014. The CPI numbers changed very --
22 there was very small changes in what the forecasts were
23 by this fall, so we chose not to update that. Because
24 it's a fairly major effort for Ms. Carriere to
25 incorporate some of these things. And GDP and

1 disposable income growth, there -- there's not a lot of
2 point in us updating at that point, because the load
3 forecast would have been already finalized in the -- in
4 the summer. So any of the -- any changes we see in
5 those wouldn't be incorporated until the subsequent
6 year's forecast.
7 Now, as -- as we know the economy is not
8 static, and there's been a lot happening over the past
9 year, a lot of it being sort of pared down to oil and
10 Greece. And we're not referring to poor eating habits.
11 But we've been -- seen a -- a -- there's a huge change
12 in the price of oil, and the uncertainty caused by the
13 sort of ongoing issues in Greece.
14 Oil prices, at the time we prepared the
15 economic outlook, we were looking at about a hundred
16 dollars a barrel. By October, that was down to eighty
17 (80). In January, we were down to forty-four dollars
18 ($44), and -- and now we're back up to -- into the --
19 into the fifty (50) and sixty dollar ($60) range.
20 Natural gas prices last spring, the -- the spot price,
21 four-sixty-six (466); October, three-seventy-eight
22 (378); January, two-ninety-nine (299). And at April,
23 two-sixty-one (261).
24 And now there's significant talk -- talk
25 of what -- this the word that they're referring to as

1 'frackloq', where there is sufficient -- or -- or it's
2 not sufficient. There is a large amount of -- of
3 natural gas that's available through all of the -- the
4 widespread fracking. And the view is now that there's
5 so much of that in there that -- that it's being held
6 back with the low prices. So as the prices start to
7 creep up, more of that will come into the market and
8 that will provide a really long, drawn out recovery for
9 the price of gas. And as -- and -- and Mr. Miles has
10 referred to natural gas has a direct impact on our --
11 on our export prices.
12 Canadian GDP tied to the -- tied to the
13 drop in the price of oil. That's -- the new outlook is
14 that actually for the first half of this year, the real
15 Canadian GDP is going to be about zero. And as a
16 result of that, that's why we saw that -- that quarter
17 percent drop in the -- in the overnight rate back in
18 January.
19 Now, interest rates, we've seen
20 subsequent to the preparation of the -- the fall IFF,
21 we were asked to do an update for one (1) of the IRs,
22 January. And we did see some significant drops in the
23 interest rates, particularly in the shorter term. And
24 -- and Mr. Schulz has referred to those.
25 We are actually just completed the --

1 the -- our -- our economic outlook for 2015. And --
2 and we're seeing a lot of those changes have -- have --
3 sort of coming back.
4 There was -- there was a little bit of
5 an issue with the -- the January forecast as that --
6 you know, I mentioned all that suite of forecasters we
7 use. They're not all available at -- all the time. So
8 the longer-term forecasts that we were -- that we used
9 at that -- for that -- I think it was PUB-10(b)
10 question with the -- with the updated interest rate,
11 there was only one (1) longer-term forecaster available
12 for that.
13 So we're back to the full three (3)
14 available for the longer-term forecast now, and we're
15 seeing tho -- those interest rates are essentially --
16 the -- the short term, we've seen a little bit of
17 movement from what we -- it -- it's still lower than
18 what we saw in the fall forecast. But once we get past
19 the first couple of years, the interest rate forecast
20 is actually higher than what we were seeing by -- at
21 the time of the preparation of the IFF. So it's
22 fortunate Mr. Schulz was able to take -- take advantage
23 of that little dip in the interest rates that we're
24 seeing, because we're already seeing some of that start
25 to recover.

1 And the final value I have on there is
2 the exchange rate. As we're seeing, that's been very
3 volatile. The Canadian dollar was -- or the US dollar
4 was worth about a dollar ten ($1.10) Canadian last
5 spring when we did the update.
6 By the time we did the fall IFF, it was
7 about a dollar twelve ($1.12), January, a dollar twenty
8 ($1.20), and as of right now, we're sitting at about a
9 dollar twenty-five ($1.25). So the Canadian dollars is
10 -- is back below eighty (80) cents, or it was nearly at
11 -- yeah, it was well in the upper -- upper nineties
12 when we started the IFF cycle this year.
13 If there's any questions on -- on that,
14 I'll --
15 THE CHAIRPERSON: I do have a question,
16 just for Mr. Page. I mean, in terms of these -- these
17 data, the volatility that might come in your results
18 would be primarily from interest rates?
19 MR. IAN PAGE: Pardon me?
20 THE CHAIRPERSON: It would be primarily
21 from interest rates? I mean, I -- I don't -- natural
22 gas prices would impact the price of electricity US,
23 but in terms of your financial results, the interest
24 rates would be the one that would have the most impact?
25 MR. IAN PAGE: If interest rates were

1 to move in isolation, yes. And I -- and -- and I think
2 what we're trying to tell here, with all -- the
3 volatility and the number of things, the -- the
4 interrelationships. Like we're saying, oil prices --
5 oil prices dropping, Bank of Canada responds with an
6 interest rate drop, and -- and oil prices are dropping
7 with lots of oils available from the fracking process.
8 That also gives you natural -- natural gas is oft --
9 often associated with that.
10 So when we're seeing interest rates are
11 dropping in response to an -- an energy price change,
12 but that energy price change wasn't just oil. Oil
13 doesn't really affect Manitoba Hydro directly because
14 we're not -- we don't do a lot of contracts that are
15 tied -- or any contracts, really, tied to oil.
16 But there's a -- a -- there's a -- oil
17 and natural gas have that sort of -- because they're --
18 they're geo -- geologically associated, they tend to
19 move together.
20 So what we're -- what we're seeing on
21 the interest side, the gain -- the -- any gains that we
22 might see there, we're -- we're seeing offset by -- by
23 energy prices.
24 And there was, actually, in the -- in
25 the -- the federal budget documents this spring, there

1 was a really nice graph showing the history that we've
2 all experienced, the interest rate forecast each year.
3 There's -- assumed that it's going to come back, and
4 then the next year it's assumed it's going to come
5 back.
6 They had a parallel graph associated
7 with it showing GDP forecasts, the IMF GDP forecasts.
8 And it showed exactly the same thing. Everybody
9 assumed that GDP was going to grow back, and the GDP
10 has a direct bearing on our -- on our load, and has a
11 direct bearing on the demand for natural gas and -- and
12 electricity prices.
13 So while interest rates, on their own,
14 if they were to move in isolation, certainly, that
15 would have -- have a -- an impact on us one way or the
16 other, if it went up or down. What we tend to see,
17 though, is that, the -- because of the
18 interrelationships of all the different factors in the
19 economy, we don't often see interest rates move just in
20 isolation on their own.
21 And I think that's -- that's the point
22 we tried to make in that response to PUB-10(b).
23 THE CHAIRPERSON: Mr. Rainkie, I'm --
24 I'm looking at the -- at the clock and looking at the
25 section dealing with O&M. I think it would probably be

1 wise if we took a break right now before we embarked on
2 that next phase. So let's -- let's take ten (10)
3 minutes right now.
4
5 --- Upon recessing at 10:24 a.m.
6 --- Upon resuming at 10:38 a.m.
7
8 THE CHAIRPERSON: I believe everybody
9 is in position, so we could resume the presentation.
10 MS. SANDY BAUERLEIN: Good morning. So
11 I'm going to be discussing Manitoba Hydro's operating,
12 maintenance, and administrative expenses, and our
13 commitment to cost control.
14 As indicated, Manitoba Hydro is
15 committed to effectively controlling its costs in order
16 to minimize the impact to ratepayers. As Mr. Rainkie
17 indicated in his presentation, I believe last Monday,
18 Manitoba Hydro feels that accounting changes, and I'm
19 going to use his words:
20 "Have muddied the waters in trying to
21 demonstrate to the Board that
22 Manitoba Hydro has taken great
23 efforts to try and control its
24 costs."
25 Over the period, as demonstrated in this

1 chart here, over the period from 2009/'10 through to
2 2013/'14, Manitoba Hydro has maintained its costs to
3 operate and maintain the Utility at the same level as
4 Manitoba CPI, excluding our accounting changes, at 1.9
5 percent.
6 As we mentioned, the projected growth in
7 our operating costs is limited to average annual
8 increases of 1 percent, which will imply productivity
9 savings of approximately 2 to 3 percent, given the
10 impacts in growth, and wages, and salaries as a result
11 of general wage increases. The growth in the 1 percent
12 in IFF14 is to be at the 1 percent through to 2021/'22.
13 So what are some of these cost saving
14 initiatives that Manitoba Hydro is embarking on? One
15 (1) is we did an extensive review of our staff
16 complement in the 2014 fiscal year. Primarily, as a
17 result, and we've mentioned several times, that the
18 most significant component of our operating costs is
19 people, as wages and salaries. And therefore, we
20 needed to look at -- at reviewing our -- our staff
21 costs.
22 That review resulted in a commitment to
23 reduce approximately three hundred and thirty (330)
24 operational positions over the three (3) year forecast
25 period. And we will be achieving that primarily

1 through attrition, by taking advantage of technology
2 changes, changes in work processes and procedures where
3 they're appropriate.
4 The attrition opportunities are roughly
5 -- we have about two hundred and fifty (250) to three
6 hundred (300) employees each year that leave, primarily
7 as a result of retirement, and it is those
8 opportunities that we are looking to, to try and
9 leverage.
10 As this slide shows, it's shows we've
11 broken -- to try and provide some additional
12 information to the -- the Board this year we've broken
13 our EFTs into three (3) categories of staff. We have
14 capital construction EFTs, operations and maintenance,
15 and support and governance.
16 And you'll see that there's a decline of
17 close to three hundred (300) operational-type EFTs
18 which would include both our operations and
19 maintenance, which is the red bar, and the green bar,
20 which is our governance and support services, over the
21 period through to 2016/'17 reflecting that
22 comprehensive review of all positions to support our
23 cost containment efforts.
24 You will also notice that the blue bar,
25 which is our capital construction EFTs, is rising,

1 reflecting the cor -- the fact that the Corporation is
2 entering into a period of extensive investment and
3 reinvestment in its infrastructure.
4 We do have an IR that Manitoba Hydro
5 filed, PUB-II-1. And in there it discusses that
6 Manitoba Hydro still has a lot of work to do to be able
7 to achieve the 1 percent year-over-year growth in its
8 operating costs through to '21/'22. We are
9 anticipating the reduction of a further approximately
10 six hundred (600) EFTs or equivalent cost savings will
11 be required in that time frame in order to achieve the
12 1 percent growth. This is an aggressive target that
13 the Corporation is committed to achieve.
14 This demonstrates -- this was taken from
15 one (1) of our IR responses again, and it demonstrates
16 our progress to December 31st, 2014. At that point in
17 time, Manitoba Hydro had achieved a total reduction of
18 a hundred and seventy-nine (179) operational positions
19 which was ahead of the committed target for that year
20 of a hundred and forty-six (146).
21 And I'd like to note that to end of our
22 year-end results, to March 31st, we have committed a
23 reduction of two hundred and twenty-six (226)
24 operational positions that have been removed.
25 Some of the other initiatives that we

1 are undertaking that impact our operating costs as well
2 is that we have the consolidation of our rural district
3 offices. And we are anticipating the closure of
4 twenty-four (24) rural district offices. There is
5 actually two (2) offices still open that will have
6 final closure in March of 2016.
7 The closure of these offices was as a
8 result of -- we were noticing that there had been a
9 steady decline in customer traffic in our district
10 offices and more of a shift to online services over the
11 past number of years. So in doing that, we initiated a
12 review of our existing rural district organizational
13 structure, and that was implemented over a number of
14 phases beginning in 2008.
15 This consolidation of our district
16 offices allowed the Corporation also to further
17 leverage its implementation of the mobile workforce
18 management system. That system permits the planning,
19 scheduling, and dispatching of work orders in an
20 optimized manner to deliver cost efficiencies and
21 timely service to our customers.
22 The third initiative I'm going to
23 discuss is the supply chain management initiative.
24 This is one (1) I -- I understand Mr. Thomson also
25 discussed. Manitoba Hydro is again undertaking a

1 number of supply chain initiatives to realize savings
2 on goods and services purchased, to reduce our
3 operating costs as well as our capital expenditures.
4 And what that initiative involves really
5 is stronger -- looking at our procurement processes,
6 looking at our inventory forecasting and planning
7 processes, and as well as trying to optimize our fleet
8 through improved repair, maintenance, and fuel supply
9 networking processes.
10 So these are just an example of some of
11 the initiatives we're undertaking. Sec -- Tab 5,
12 Section 5.14, outlines some further initiatives that
13 the Corporation is undertaking.
14 MS. MARILYN KAPITANY: Ms. Bauerlein,
15 before you leave could I just ask a question about
16 slide 40 please?
17 MS. SANDY BAUERLEIN: Forty (40)?
18 Certainly. Yes.
19 MS. MARILYN KAPITANY: So the blue line
20 there is capital construction employees?
21 MS. SANDY BAUERLEIN: Yes.
22 MS. MARILYN KAPITANY: So that would be
23 made up of people who are working on the sustainable
24 capital side and on major capital?
25 MS. SANDY BAUERLEIN: That is correct.

1 MS. MARILYN KAPITANY: In 2019/2020
2 framework when Keevask comes on line and when the
3 transmission line is going to be in-service there's
4 going to be quite a drop in the number of major capital
5 employees that are needed I expect. Now, I know this
6 slide doesn't go out that far, but we've been talking a
7 lot about cost increases, rate increases going out into
8 the future.
9 So I would just like to know what is the
10 plan for -- for dealing with -- with that in terms of
11 the operating costs that are related to that? I expect
12 quite a -- a large number of people who are working to
13 -- to bring those two (2) capital projects to fruition.
14 MS. SANDY BAUERLEIN: Yes. So again,
15 the Corporation is really looking to take advantage of
16 attrition opportunities and to try and balance because
17 there is the recognition that when Keevask and -- and
18 Bipole are complete there will be a number of staff
19 that -- who potentially may be -- there's a few things
20 that can happen.
21 Some of them may be redeployed to work
22 on some of our sustaining capital initiatives depending
23 on their skill set. Some may be redeployed to other
24 operational positions that are held vacant for periods
25 of time that we feel we can manage. And then some will

1 be leaving the Corporation. Most of the positions that
2 were for these two (2) projects are term positions. So
3 there is no guarantee of employment for the staff on
4 these -- on -- most of the staff on these projects.
5
6 (BRIEF PAUSE)
7
8 MS. SANDY BAUERLEIN: I did just want
9 to note one (1) other comment, though, that in response
10 to MH/PUB-IR-I-72, we do show a favourable performance
11 in our OM&A results for the nine (9) months ending
12 December 31st, 2014. And I can indicate with
13 confidence that the preliminary year end results are
14 also showing that we are below fore -- slightly below
15 forecast to the end of the fiscal year. And as such we
16 feel that Manitoba Hydro has demonstrated its
17 commitment to prudently managing its operating,
18 maintenance, and administrative expenses.
19
20 (BRIEF PAUSE)
21
22 MS. SANDY BAUERLEIN: So again, now I'm
23 going to be talking a little bit about some of the
24 accounting changes that we've had. So as mentioned we
25 have had a number of accounting changes that were

1 previously approved by the Public Utilities Board in
2 Board Order 43/'13. And for those Board members that
3 weren't present for that hearing there's really sort of
4 three (3) areas of accounting changes that occurred
5 during these last number of years.
6 The first is really a reduction to our
7 cost capitalized. The most recent changes occurred
8 with respect to the amount of overhead costs that we
9 were capitalizing. And that took place in 2012/'13
10 fiscal year where we now expense approximately $30
11 million of costs related to IT infrastructure and
12 support, and building costs, operations, and -- and
13 depreciation on our buildings.
14 In total we have now expensed
15 approximately $60 million of costs that was previously
16 capitalized which is aligned with the previous Board
17 orders to -- to look at Manitoba Hydro's capitalization
18 policies. And that these changes have been accepted
19 for rate-setting purposes.
20 The second change that we've had is
21 we've had some significant changes to our pension and
22 benefits primarily as a result of changes in our
23 discount rate. So the discount rate has gone from
24 approximately -- well, there was 6 1/2 percent in
25 2010/'11 to a low of 4 1/4 percent in 2012/'13. And

1 again, is trending downward.
2 So the discount rate is really to --
3 used to determine the accrued benefit obligation on our
4 post-employment benefits such as our sick leave, our
5 pension expense.
6 And the discount rate references market
7 yields on high-quality bonds. Manitoba Hydro validates
8 its discount rate with its external actuary, as well as
9 a review of discount rates by other Canadian utilities
10 and the Civil Super -- Civil Superannuation Board --
11 Civil Service Superannuation Board. And it also
12 complies with the recommendations of the Canadian
13 Institute of Actuarials, Canadian standards -- can --
14 accounting standards, and IFRS.
15 And the third change was with respect to
16 intangible assets and changes in accounting standards -
17 - Canadian accounting standards required that research-
18 related and promotional expenditures were to be
19 expensed in the period incurred. And this is also a
20 similar requirement under IFRS.
21 THE CHAIRPERSON: You mentioned the
22 sick leave benefits, and I'm trying to understand the--
23 MS. SANDY BAUERLEIN: It's severance,
24 actually. I was thinking --
25 THE CHAIRPERSON: I'm sorry?

1 MS. SANDY BAUERLEIN: I was -- it would
2 be pension, primarily pension impacts, and sick leave
3 and severance.
4 So with respect to accounting policy and
5 estimate changes, as Mr. Rainkie has indicated last
6 Monday, our approach is to try and assess the overall
7 impacts of the accounting policy changes for rate-
8 setting purposes.
9 The cumulative total of all of our
10 prospective accounting changes is actually reducing
11 revenue requirement. We have a $25 million reduction
12 to revenue requirement in 2014/'15 as a result of
13 changes as a result of our depreciation study, and,
14 respectively, a $4 million decrease in revenue
15 requirement in both 2015 and '16 and 2016/'17 fiscal
16 years.
17 We believe this approach is fair and
18 reasonable, as there is no negative impact to
19 ratepayers. Also, it does not necessitate the need to
20 take a different approach for rate-setting purposes
21 versus financial reporting purposes. And therefore,
22 there is no need to have the two (2) sets of books, to
23 do something different for rate setting versus
24 financial reporting.
25 So what are some of the prospective

1 changes that we're looking at as a result of -- of --
2 in this case, it would be IFRS? We do have some
3 additional administrative and other general overhead
4 costs which, under IFRS, are no longer eligible for
5 capitalization.
6 This includes things like technical and
7 soft-skills training. And these would be the costs
8 associated with employee time and related expenses on
9 training for operational skills, trades, and
10 apprenticeship programs, as well as soft skills which
11 focusses on supervisory and management skills.
12 In addition, service areas such as human
13 resources, corporate safety, and finance functions can
14 no longer be capitalized as an overhead cost.
15 Administrative and clerical support.
16 This includes employees within a department whose role
17 is to support the staff that are directly the hands-to-
18 tools, so the -- the construction folks, with respect
19 to the maintenance and operations and construction of
20 our assets.
21 And the last area is the fleet and
22 stores administration, which would include the
23 management of our fleet and stores areas, including
24 accounting and IT functions.
25 Some other, more minor changes in

1 comparison includes an in -- slight increase in our
2 pension costs due to the impact of wage settlements and
3 the impact of the interest rate on the obligation,
4 which is offset by some reductions in other benefits,
5 which is just reflecting some changes in the
6 methodology for calculating the obligation.
7 So this slide here demonstrates again
8 the overall impact of changes is an increase to our
9 OM&A expense. It's an increase of approximately $50
10 million upon transition to IFRS.
11 And again, this is sort of the slide --
12 a similar slide to the one Mr. Rainkie had, which is
13 again showing that -- the blue line is showing,
14 including our accounting changes, the change in our
15 OM&A costs. And the red line is showing excluding
16 accounting changes. And again, this is focussing on
17 our prospective accounting changes.
18 So these changes are being offset by a
19 number of prospective changes with respect to
20 depreciation expense. And there are three (3) main
21 components of that. And I know we'll get into a lot
22 more detail on the depreciation panel.
23 So the overall change in depreciation
24 rates results in a in decreasiation (sic) in
25 depreciation expense of $25 million in '14/'15, 29

1 million and 30 million in '15/'16 and '16/'17
2 respectively. So this is a result of changes in the
3 depreciation rates as a result of the study. And that
4 change is being, again, primarily due to extension of
5 asset service lives, and really echoes many of the
6 comments that was made by my colleagues on the planning
7 and operations panel where we discussed the efforts
8 that Manitoba Hydro has done to maintain its assets,
9 and therefore, has resulted in longer service lives for
10 those assets.
11 So that decrease in depreciation along
12 with the -- a decision by Manitoba Hydro, it was a
13 policy decision, as Mr. Rainkie indicated, to remove
14 net salvage upon transition to IFRS. And that results
15 in a further $60 million reduction in depreciation
16 expense. And I do want to note that the inclusion of -
17 - of net salvage and depreciation rates is a -- a
18 common regulatory -- a sound regulatory practice and is
19 -- is fairly common in -- in many areas. And -- but we
20 did make the policy decision to remove net salvage in
21 order to -- to help manage the impact to customers.
22 And what net salvage is, is it's really
23 the collection of decommissioning costs throughout the
24 life of an asset. So both of these are resulting in a
25 decrease in depreciation expense and there is a partial

1 offset. And that partial offset is the change in
2 methodology from the ASL, which is the average service
3 life methodology, to the equal lipe -- life group
4 methodology, which will ensure compliance with IFRS.
5 And as I mentioned yesterday, both the
6 ASL and ELG methods are methods that you can use under
7 IFRS. However -- they are acceptable under IFRS.
8 However, for Manitoba Hydro to continue with the ASL
9 method it would require us to go to a further level of
10 componentization in order to meet the requirements of
11 IFRS. Right now, Manitoba Hydro's asset component
12 groups include a wide range of service lives within
13 those groups.
14 Which if we apply the ASL method, would
15 not produce annual depreciation that would be compliant
16 with IFRS. And again, the depreciation panel, which
17 myself and Mr. Rainkie are also on, will be
18 demonstrating for you that the ELG method of
19 depreciation that was chosen by Manitoba Hydro is a
20 reasonable method of depreciation. It promoted
21 intergenerational equity and it is consistent with the
22 results of the other methods that are used by other
23 hydro-electric utilities. And it is a sound method for
24 rate-setting purposes.
25 So again, this change shows that the

1 overall impact of the change is a reduction to
2 depreciation expense. And again, upon transition to
3 IFRS, this results in a reduction of just over $50
4 million and then continues to grow.
5 So I believe, Mr. Chairman, you were
6 looking for a similar slide to the O&A slide in Mr.
7 Rainkie's presentation. So again, we've done the same
8 approach. We're showing you again the blue line
9 includes accounting changes. So you can see that we're
10 lower including accounting changes than if we exclude
11 accounting changes for depreciation.
12 So that the overall net result is a
13 cumulative impact of a decrease of 4 million starting
14 in the year of transition to IFRS. And you can see by
15 this slide here we're showing, well, we've got an
16 increase as a result of the OM&A changes. We've got a
17 corresponding decrease to depreciation, which then is
18 then showing you the net impact of the two (2) being
19 the green line on the net impact of accounting changes
20 on revenue requirement.
21 So I'm hoping, Mr. Chairman, that this
22 slide is hoping to address the undertaking. I'm not
23 sure if you recall that discussion, which again trying
24 to demonstrate the overall impact of both -- of the
25 collective change of all our accounting changes.

1 THE COURT REPORTER: Is that an
2 exhibit?
3 MS. SANDY BAUERLEIN: This --
4 THE COURT REPORTER: The response to an
5 undertaking?
6 MS. SANDY BAUERLEIN: We can file
7 something on the record that just points to this graph
8 as our response to that undertaking.
9 MS. ODETTE FERNANDES: So as mentioned,
10 Manitoba Hydro has managed the impact to ratepayers of
11 the collective accounting changes and, as such, sees no
12 reason to apply a different accounting policies for
13 rate-setting purposes.
14 MS. SANDY BAUERLEIN: Are there any
15 questions? And -- and did this graph answer what you
16 were looking for, Mr. Chairman?
17 THE CHAIRPERSON: You know, let's -- I
18 mean, we'll probably have an opportunity to address
19 this later on, but let's go back one (1) slide, if you
20 don't mind, perhaps even one (1) more, Diana, please.
21 MS. SANDY BAUERLEIN: This slide?
22 THE CHAIRPERSON: I'm just looking at -
23 - bear with me a second here. Simply -- you know,
24 simply making the point that, you know, if you pick and
25 choose some of these elements you could materially

1 impact the rate requirement. In other words, if you
2 say, Let's not go with ELG, let's stay with ASL, that
3 will mean lower depreciation, hence, that we will
4 require lower rate for Manitoba Hydro.
5 So the approach that's being suggested
6 to this panel, I think, from what I've seen, is that
7 perhaps we can pick and choose some of these elements
8 and materially impact the rate requirement that is
9 being requested by Manitoba Hydro.
10 So what would be your answer to that?
11 MR. DARREN RAINKIE: Sir, the answer
12 would be I think we would encourage the Board to
13 maintain the same approach that you did in the last
14 general rate application where the very same approach
15 was being suggested to you, that you not accept the
16 overhead changes and other changes that Ms. Bauerlein
17 talked about in her previous slides.
18 That approach was rejected by the Board.
19 And I think, as read the order anyway, the primary
20 reason was, is that we can manufacture any type of
21 better results that we want. We can change -- we can
22 capitalize every dollar, I suppose, if we wanted to go
23 to the end of that spectrum. But does that change the
24 underlying economics of what we're doing? Does that
25 change the financial position of the Corporation? No.

1 What it does, if we use that -- some
2 concoction of different accounting policies, is to
3 reduce the cashflow to the Company. If we -- if we rig
4 the accounting policies to make things look better for
5 the purp -- express purposes of reducing the rate
6 increase, that will reduce the cashflow to the
7 Corporation. That will increase the debt level that we
8 see. And those red bars that I showed you will get
9 bigger and bigger as time goes on. And that is not a
10 prudent approach. That's our -- our humble submission
11 on this.
12 Because what will happen over time is
13 the customers will have to pay the cost of those higher
14 red bars. So that may be a tempting, you know, interim
15 solution, if you like, to -- to get around something
16 that's unpopular in terms of a 4 percent rate increase.
17 But I think what we need to do is look past the first
18 couple years and -- and think about what that does to
19 ratepayers long-term.
20 In our submission, that's not a prudent
21 approach, and I think the Board rejected that approach,
22 and I think there was a reason. I mean, I'm -- I'm not
23 trying to tell you what your order was, but I -- I read
24 that part of the order very carefully, and it says,
25 Rejected the approach. It didn't say reject the

1 specific recommendations. It said, Rejected the
2 approach of just adjusting the accounting policies to
3 make things look better because we can't go to sleep at
4 night just making things look better.
5 And I think what that does is just kick
6 the can down the road for future -- future ratepayers
7 to pick up the tab. I think that was the reason of the
8 Public Utilities Board a number of years ago
9 recommended that we look at our capitalization policies
10 and tighten them up. Because intergenerational equity,
11 the principal of that works both ways. It's not only
12 about making sure that current ratepayers aren't paying
13 future costs, but it's making sure that we're not
14 pushing off current costs to future ratepayers, that
15 principal that we often -- the great intergenerational
16 equity principal works both ways.
17 And -- and the Board recognized that a
18 number of years ago and asked us to make changes, and
19 we've responded. So this is all part of the same
20 theme. This is not some new thing that came up in this
21 general rate application I think. And -- and Mr. Orle
22 was -- was, you know, asking us to have different
23 options. Well, there are different options for the
24 Board. You can change your mind I suppose and -- and
25 take a different approach, but I think you already

1 recognized in Order 43/'13 the potential damage that
2 could have to ratepayers in the future.
3 THE CHAIRPERSON: Thank you.
4
5 (BRIEF PAUSE)
6
7 MS. LIZ CARRIERE: So if there's no
8 further questions for Ms. Bauerlein I'm going to move
9 on to the changes to the agreements between
10 Nisichawayasihk Cree Nation and Manitoba Hydro with
11 respect to the Wuskwatim project. While these changes
12 are not a key factor in this application or our
13 proposed rate increases we thought that it's taken a
14 while to come to terms with -- with Nisichawayasihk and
15 that there's been considerable interest in -- in the
16 outcome of those negotiations.
17 So we thought we'd put a couple of
18 slides in even that there -- even though there is no
19 impact on our proposed three point nine-five (3.95)
20 rate increases. So by way of introduction the Wuskwat
21 -- the original Wuskwatim pro -- project development
22 agreement was executed in 2006. And the first PDA
23 supplementary agreement was signed in 2011. Two (2)
24 supplemental agreements were required due to the
25 significant and involving -- evolving changes in the --

1 the partnership's financial forecast.
2 There was significant deterioration in
3 the profitability of the partnership primarily due to
4 lower than expected export prices and higher capital
5 costs compared to when we originally signed the PDA.
6 So we signed the second supplement on April 16th for
7 two (2) -- 2015, just a couple of months ago. And it -
8 - it is in effect -- effective April 1st, 2014.
9 Those changes of lower than -- lower
10 export prices and higher capital costs resulted in a
11 deferral and reduction in distribution to partners and
12 consequently higher NCN equity loans and dividend
13 loans. It was always the original intent of the 2006
14 PDA that NCN would receive benefits from the project
15 throughout its entire life. You're well aware that
16 Hydro projects are characteristically higher in cost up
17 front with more benefits generated later in its life.
18 And we've tried to balance that for the First Nation.
19 Although those -- those distributions --
20 returns to the NCN are returns on the -- on the par --
21 project are lower than what was ratified in 2006 --
22 sorry, the NCN -- what was originally agreed to and
23 what ha -- what the supplement 2 achieves now is lower
24 than what was originally agreed to in 2006. The income
25 benefits do provide a long-term source of revenue for

1 the First Nation.
2 So starting in describing some of the
3 changes in the terms, to start off as you're probably
4 well aware these -- the myriad of agreements that
5 consist of the PDA and the financing agreements are
6 very complex. And trying to find a solution that
7 didn't fundamentally change the original agreement took
8 the -- the best efforts of both parties. And that's
9 part of the reason why it took so long to negotiate
10 this arrange -- the second supplement arrangement.
11 So one (1) of the terms -- that change
12 was over the period of time where we were negotiating
13 with NCN, they've been contributing equity as we've
14 gone along, but we'd agreed to defer their final
15 investment date from final close, which was July of
16 2012, to give them more time to -- to put their final
17 investment in and deferred that to March 31st of 2015.
18 They've now contributed $22 million to the project.
19 We've also increased the total equity
20 loan available to -- to NCN to mainta -- so they could
21 maintain the 33 percent ownership interest at the final
22 settlement date. The previous agreement, the 2006
23 agreement, limited the amount of leverage that -- that
24 we would give to NCN. But from day one of negotiations
25 the 33 percent ownership was extremely important to the

1 community and so we agreed to increase the equity loan
2 available to them.
3 What wasn't part of the original deal,
4 Nisi Trust has a $40 million bond that originally
5 matured, I believe it was in July of 2013. We extended
6 it to December of 2014 and we are now -- we have
7 refinanced that $40 million bond at market coupon
8 rates. And that -- the coup -- the coupon payments
9 form part of the cashflow to NCN.
10 Annual payments of $2 1/2 million for
11 twenty (20) years are paid by Manitoba Hydro and that
12 is part of the shifting of cashflows from the later
13 more beneficial years of the project upfront for NCN.
14 And there's a tradeoff for them, they do get lower
15 returns later in -- later in the project life.
16 Because of the level of the loans we
17 decided that we did not want to make operating cash
18 calls available to NCN and that previously the -- the
19 ope -- the operating cash calls were triggered by the
20 debt-equity ratio of the partnership, which was
21 intended to be 85:15 in the first ten (10) years and
22 75:25 thereafter.
23 The -- the GP -- the board of the GP now
24 has discretion over whether -- what that -- what that
25 debt-equity ratio should be and it's allowed to rise

1 above the 85:15 level, recognizing that we fully expect
2 there to be returns later in the project. The interest
3 rate premiums on TPC and NCN loans, on the equity loan
4 there was a 1 percent premium to reflect the risks that
5 Manitoba Hydro was taking in loaning them the money.
6 The -- those have been reduced -- or eliminated,
7 actually. And now NCN and TPC pay the direct flow
8 through cost of -- of lending that Manitoba Hydro pays.
9 We amended the Power Purchase Agreement
10 to align the price of the Wuskwatim energy that the
11 partnership -- Manitoba Hydro purchases from the
12 partnership, such that system unit revenues, it brings
13 into the formula the revenues from domestic sales as
14 well as export sales for a ten (10) year period. And
15 that's reflecting that over time more and more of the
16 energy produced by Wuskwatim is being used for domestic
17 purposes.
18 Eliminating the 3 percent marketing risk
19 fee, the original 2000 agreement, reduced revenues by 3
20 percent. So that is reduced or eliminated until the
21 TPC equity loans and the NCN dividend loans are paid
22 out.
23 And then we -- we apply a 36 percent
24 marketing risk fee. And that's the mechanism where --
25 where we're trading off the short -- the near-term

1 increase in cash and reducing the cash -- cashflow to
2 NCN in -- in later years of the project.
3 In addition, this was a relatively
4 recent issue that came up. A revenue adjustment to --
5 in the PPA to account for uninte -- unanticipated lost
6 generation. Back in 2006, Manitoba Hydro projected a
7 certain amount of lost generation for Wuskwatim,
8 meaning that the plant would not always operate at its
9 -- its optimal level.
10 So what's happened this last year is
11 that, because of the very high water flows on the
12 Nelson River, we've had to cut flow down the Burntwood
13 River to -- and don't ask me how this works, but we've
14 had to cut back flow on the Burntwood River in order to
15 accommodate the higher flows on the Nelson.
16 But we didn't anticipate the degree to
17 which that would have to be cut back. So this provides
18 the partnership with an increase in revenue for the
19 amount that we did not anticipate. You might need Mr.
20 Cormie to give you a better engineering explanation
21 than I can provide.
22 So is there any questions on -- up to
23 now?
24 THE CHAIRPERSON: Just a few questions.
25 I guess the -- there was a -- there's a settlement date

1 there of March 31st, 2015. Did that happen?
2 MS. SANDY BAUERLEIN: Yes. Yeah. The
3 agreements have been executed, and NCN's final
4 investment is in.
5 THE CHAIRPERSON: Okay. What I didn't
6 understand was the refinancing of the Nisi Trust.
7 Could you go over that again, please, just to make sure
8 I understand?
9 MS. SANDY BAUERLEIN: Yeah. This
10 arises out of the NFA. We -- or the implementation
11 agreement with Nisichawayasihk. Part of the original
12 settlement with them was a $40 million bond.
13 Now, that bond matured, and NCN can then
14 take the principal amount, the $40 million, and reinvel
15 -- reinvest it in the market or, you know, wherever
16 else they would -- they would like to. But they had
17 asked to be able to reinvest that with Manitoba Hydro.
18 So there's no cash effect for Hydro. It
19 just displaces other borrowing that we would have to do
20 in the marketplace. So we agreed to refinance that,
21 and it's probably a better rate than what they would be
22 able to get in the marketplace. So -- but it's equal
23 to our cost of borrowing.
24 THE CHAIRPERSON: And the dividend loan
25 -- the dividend loan advances -- those were the

1 dividends that they would otherwise have had to pay if
2 they had fulfilled the commitments to their agreement?
3 MS. SANDY BAUERLEIN: Dividend loans
4 are -- they're repayable from future dividends. So
5 while the -- while the partnership is not profitable,
6 while it's incurring losses, the partner shot --
7 partnership is not distributing dividends.
8 So in the interim, there's a facility
9 available recognizing that the First -- the -- the
10 First Nation has invested $22 million. And it's
11 reasonable to expect that you get a return even in the
12 early years when it's not producing enough revenue.
13 So this is one (1) of the provisions
14 they have. Hydro will loan them dividends based on a
15 percentage of -- of their -- or their $22 million
16 investment that are repayable from future -- future
17 distributions.
18 What this does is increases the -- from
19 the -- it's -- it's -- with its -- it's a function of
20 the int -- current interest rate, a ten (10) year
21 interest rate, less 2 1/2 percent, so it's worth about
22 eight hundred thousand dollars ($800,000) a year right
23 now.
24 So what they wanted to do was -- because
25 when they signed the original agreement, the

1 expectation was that the community would get about $7
2 million a year. Over the years, they have taken the --
3 the income returns from the trust and reinvested them
4 back into the partnership to make up their $22 million.
5 So they've been sort of saving in terms
6 of their -- their infrastructure in order to contribute
7 to the -- to the partnership and get better returns
8 later on. So the dividend loan advances increase from
9 the eight hundred thousand (800,000) up and taking into
10 consideration all of the other payments that they're
11 getting from their coupon payments, water rental,
12 really, from the province, the eight hundred thousand
13 (800,000) approximately dividend loans they would
14 normally get, and after -- and the $2 1/2 million
15 dividend and bump that up to $10 million for 2014 and
16 $8 million for 2015 so that they can make investments
17 in their infrastructure that they've been kind of
18 missing out for the last several years.
19 And those -- the top-up is repayable.
20 MS. MARILYN KAPITANY: So, Ms.
21 Carriere, I believe I heard you say at the beginning
22 that this supplemental agreement has no impact on
23 rates. So that means that there's no impact on
24 cashflow or on the -- the bottom line in any way?
25 MS. LIZ CARRIERE: Well, there's --

1 there's cashflow impact in terms of the dividend we're
2 paying out. You know, that's $2 1/2 million. And the
3 amount of the loan is being paid -- paid out, but we're
4 also accruing interest on that loan.
5 So any incremental finance expense that
6 we incur is being offset by what eventually gets -- you
7 know, the interest income where we're also recording
8 that will eventually be paid out once distributions
9 start to flow and -- and, you know, they start repaying
10 their loans.
11 THE CHAIRPERSON: And lastly, I don't
12 understand the marketing risk fee. Could you go over
13 that again, please, just...
14 MS. LIZ CARRIERE: The marking risk fee
15 is just -- it's a term in the PPA in two (2) thous --
16 that we -- in the 2006 agreement. It simply deducts 3
17 percent from whatever the -- you calculate as revenue
18 under the PPA. So you take your energy times your
19 price. And then you deduct 3 percent of that.
20 And that was -- that was intended for
21 the risk because it's -- it's a take or pay contract
22 between Manitoba Hydro and -- and NCN -- or sorry, the
23 partnership. And if we couldn't sell it in the
24 marketplace, that was intended to cover that over time,
25 that risk.

1 So we are responsible for marketing it,
2 because it was originally intended as a merchant plant.
3 So we took all the risk in terms of being able to sell
4 it in the marketplace. That has been eliminated in the
5 -- in -- in the interim until they pay off all of their
6 loans, the -- the equity loans, and then the -- and the
7 -- the dividend loans, including interest. And then
8 when they've done that, that it gets reinstituted in
9 the agreement, but at 36 percent.
10 So, effectively, it is reducing
11 distributions to partners later in the project when we
12 expect there to be, you know, economic benefit.
13 THE CHAIRPERSON: Now, the immediate --
14 immediate impact of this agreement, similar to the
15 question that Ms. Kapitany was asking, is the -- what's
16 the increase in cashflow to the -- to the First
17 Nations? Pre -- pre the agreement, post the agreement?
18 MS. LIZ CARRIERE: Pre -- so in the
19 first two (2) years for -- for calendar year '14 and
20 '15, the community is seeing approximately $18 million.
21 And after 2015, it's approximately $6 million a year
22 until they -- they pay off their loans. And then they
23 get their proportionate ownership percentage of the
24 distributions being paid by the partnership.
25

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: There -- there's a

4 drop in income to the Band -- for the Bands? I -- I --

5 did I get that wrong?

6 MS. LIZ CARRIERE: You mean from the --

7 from the --

8 THE CHAIRPERSON: Eighteen (18) to the

9 six (6).

10 MS. LIZ CARRIERE: -- it goes from ten

11 (10) -- it's -- 2014 is 10 million; 2015 is -- is eight

12 (8); and then it's $6 million a year. Originally, they

13 had anticipated $7 million, but because of the overall

14 economics of the project has decreased because of, you

15 know, now export prices are lower, the capital costs

16 came in higher. We couldn't justify maintaining the

17 same level of income that they had inte -- anticipated,

18 so.

19 So just on the final slide, this shows

20 you the impact on Manitoba Hydro's net income and what

21 it's made up of. So I'll start with the finance

22 expense. Primarily, the finance expense impact is --

23 is created from the reduct -- or the elimination of the

24 interest -- the interest premiums on their loans, which

25 grows over time.

1 There's another little bit -- there is
2 also the treatment of the $2 1/2 million payments,
3 because that's -- that's an obligation of the Cor --
4 Corporation. That is recorded as a liability up front,
5 and as over time, the accretion is recorded in finance
6 expense. And there's a little bit -- the blue -- blue
7 bit is the amortization of that -- of that $2 1/2
8 million a year for twenty (20) years.
9 The other impact is on capital and other
10 taxes, and that's as a result of the -- the reduction
11 in the TPC receivable in Manitoba Hydro's retained
12 earnings. And the non-controlling interest in the
13 earlier years is due to because we've amended the PPA
14 and the -- it ultimately increases the value of the
15 revenue that the partnership is recording.
16 The losses are -- are being reduced so
17 that has the -- an impact of reducing our net income,
18 because not as much is being transferred over to NCN in
19 terms of -- they're still getting 33 percent, but
20 they're getting 33 percent of -- of lower losses. And
21 then once the partnership is profitable, that flip --
22 flips around and we're seeing an improvement on our net
23 income.
24
25 (BRIEF PAUSE)

1 MS. MARILYN KAPITANY: Okay.
2 MS. LIZ CARRIERE: Okay. So I'll move
3 on to Manitoba Hydro's earning sensitivity to risks.
4 Since the NFAT and -- or during the NFAT and the work
5 we've been doing since, as well as the work that we've
6 been doing with -- for KPMG, it's been very
7 informative. And we have -- I mean, we've always known
8 that -- that water flow has -- has a significant impact
9 on Manitoba Hydro's earnings. But perhaps what has
10 been surprising is the -- not just the magnitude of the
11 impact, but the timing of it. You know that the IFF
12 represents average revenues for export sales, which are
13 high -- which are entirely dependent on the level of
14 water flows.
15 And what we've learned is that, of
16 course, the duration, but also earlier water flow
17 conditions in the forecast have a significant impact
18 over time because of the compounding effects of
19 interest. And what's -- what we've discovered as well
20 is that those early water flow conditions, you know,
21 Mr. Cormie, I believe, referenced this earlier, is that
22 those can change extremely rapidly. And I believe he
23 used the example of -- of this going from over the
24 winter. We've seen the water flow conditions
25 deteriorate relatively quickly due to lack of

1 precipitation. And then you get a -- a spurt of a
2 rainfall like we saw a couple of weekends ago, and it
3 changes it quite significantly. And that has a direct
4 impact on our net earnings.
5 This isn't a new phenomenon. It's not
6 something new. We saw this in 2004 with the drought
7 that we experienced that -- in that year. We saw a
8 loss of over $400 million foll -- followed by a $600
9 million net income. And, you know, the -- that, you
10 know, was -- the $400 million loss was tempered by two
11 (2) things. It was incredibly favourable water flow
12 conditions in the -- in the two (2) years immediately
13 following that, as well as very good export prices, and
14 the rate increases that the Board gave us at that time.
15 Now, had we not had those favourable
16 water flow conditions or export prices at the level
17 that they were, those rate increases would have been
18 significantly higher than what we were given at that
19 time.
20 So -- the other thing that our -- our
21 evaluations have shown us is that the independent
22 assumptions that we've been talking about, so things
23 like our load forecast, and -- and interest rates, and
24 -- and so forth, while they do have impacts on the
25 Corporation, and there is uncertainty around those

1 assumptions going forward, when you pull all of that
2 together, it's still the water flows that are -- that
3 dominate the financial performance outcome, or results.
4 It has the most significant effect on our financial
5 performance.
6 I think Mr. Rainkie showed you this
7 graph in -- in his -- in his presentation on the first
8 day. So what this shows you is the range of -- of
9 revenues. Net int -- interchange revenue is
10 essentially the same thing as net export revenues. So
11 your export revenues net of fuel and power purchases,
12 and water rentals.
13 And if you look in 2017, it can vary
14 around the average by about $700 million. You know,
15 $500 million to the negative and 200 million positive.
16 So that, in the very near term, is what we are dealing
17 with, the level of uncertainty we're dealing with.
18 Over time, that increases due to a couple of things, a
19 forecast increase in export prices, for one thing, as
20 well as as you add resources onto the -- into the
21 system, you have more generation available, and it'll
22 have a greater impact on the -- on the level of
23 variability.
24 So in terms of the magnitude of -- of
25 the potential variation in our revenues and -- and

1 correspondingly, on the net income, we have very few
2 levers to manage that. And because these happen in
3 such a short period -- can -- they may happen in such a
4 short period of time, there is very little that we can
5 do to slow that or -- or mitigate that except through
6 retained earnings.
7 That is -- is what we rely on because
8 all other things -- operating constraints, capital
9 reductions, rate increases -- take time to implement.
10 So this is the main thing that we rely on to protect
11 our customers.
12 So the next graph shows you -- we go
13 through in -- it's Appendix 3.6, but this is the
14 section in -- in IFF14 that looks at the various
15 sensitivities of individual assumptions.
16 So the red bar is -- the blue bars are -
17 - are the retained earnings for MH14. The five (5)
18 year drought replicates the -- the drought in the '80s,
19 but occurring between 2017 and 2021.
20 The cost of that drought we've estimated
21 to be $1.7 billion, and you can see that it very
22 rapidly reduces retained earnings without any
23 mitigating factors such as, you know, changes in --
24 well, changes in operations and -- and rate increases
25 and so forth.

1 This is assuming everything stays the
2 same. And we can see that it reduces our retained
3 earnings below a billion dollars.
4 The next -- interest rates can also have
5 a significant impact. We're looking at the economic
6 outlook in the -- in the fall update forecast, interest
7 rates with -- that are rising over a period of six (6)
8 years and then remain flat.
9 So this looks at the sensitivity where
10 you -- you increase tho -- those rate -- rates in each
11 year by 1 percent. So by the end, you're looking at
12 rate increases -- after six (6) years, you're looking
13 rate -- rate increases -- interest rates in the
14 neighbourhood of 7 percent.
15 And that can have an impact on retained
16 earnings of -- higher interest rates will reduce your
17 retained earnings by a billion dollars. So that is
18 also bringing our overall retained earnings to around
19 the billion-dollar level from the current $2 -- $2.7
20 billion.
21 Favourable interest rates and -- and
22 export prices can significantly strengthen our
23 financial position. Near-term interest rate and export
24 price impacts are lower due to the fixed debt and firm
25 contracts we have in export sales. Those take a little

1 bit longer to have an effect and compound.
2 Capping -- Capex impacts. So we have a
3 -- a scenario where you have $50 million either up or
4 down per year over that ten (10) year period. And it
5 results in about a $200 million impact on retained
6 earnings.
7 We've had scenarios in previous
8 forecasts where you had $100 million increase, and that
9 results in about a $500 million impact either way on
10 retained earnings. You know, you might be surprised at
11 the -- the impact on that, but it's because the costs
12 are spread over the -- the life of the assets. So they
13 don't come immediately into revenue requirement.
14 These are the impacts on -- on the
15 equity ratios. You can see again the blue bars is our
16 current forecast, MH14. The five (5) year drought and
17 the interest rate scenario both reduce our equity ratio
18 to around 5 percent, which is well below the 10 percent
19 that -- that we're comfortable with or we're accepting
20 for a period of time. And the ca -- in -- in order to
21 turn this around, you need about a cash injection of
22 about $250 million in a year to move that equity ratio
23 up by 1 percentage point or a hundred basis points, so
24 it takes a fair amount to -- to move that, to swing
25 that to be positive.

1 I should note that our equity ratio
2 currently is about twenty-two (22) and that it
3 deteriorates fairly rapidly. Other comparable Canadian
4 utilities are -- are have -- we are at the lower end.
5 They are usually stronger. BC Hydro currently has
6 about a 20 percent and Hydro-Quebec is about 30
7 percent.
8 BC Hydro is planning on strengthening
9 their for -- their -- their financial -- or equity
10 ratios to 40 percent over the next ten (10) years or
11 so. New Brunswick Power operates at a lower equity
12 ratio, or has in the past. They too have -- they have
13 an objective of reducing their debt by a billion
14 dollars and improving their debt ratio to 30 percent
15 over the next ten (10) years -- or their equity ratio,
16 I'm sorry.
17 MS. MARILYN KAPITANY: Ms. Carriere,
18 just the comparisons that you gave for BC and Quebec,
19 are they in -- are they in a similar situation as
20 Manitoba Hydro in terms of ramping up capital to the
21 same extent that your corporation is doing right now?
22 MS. LIZ CARRIERE: Well, BC Hydro has
23 site C, but I wouldn't -- not the extent of the capital
24 investment in terms of major new generation and
25 transmission. But they're in the same situation as

1 Manitoba Hydro in terms of their sustaining capital.
2 They're in exactly the same position as we are, where
3 they are starting to heavily -- need to heavily
4 reinvest in their sustaining capital.
5 In terms of rate impacts, you know, if
6 the -- if these -- you know, these assumptions come to
7 fruition and we're looking at -- and having to have
8 rate increases to -- to mitigate some of these impacts,
9 we're looking at -- in terms of real rate increases --
10 so I've removed the inflation -- I've -- I've adjusted
11 these for inflation. So Manitoba Hydro's by the end of
12 ten (10) years is about 19 percent.
13 The five (5) year drought we're looking
14 over the ten (10) year period about a 43 percent rate
15 increase, and that's to get to approximately the same
16 financial position that the MH14 is projecting. So,
17 you know, you're only looking at $2 billion in retained
18 earnings and 10 percent equity ratios for a
19 comparability, about 30 percent for the low export
20 price and -- and interest rate scenarios.
21 And, obviously, the -- the high export
22 price, lower capital, and -- and interest rate
23 scenarios require lower cumulative real rate increases
24 over that ten (10) year period.
25 Is there any -- the net -- I'm ready to

1 move on to the alternate rate scenarios that we looked
2 at, but were there any questions on the...?
3 THE CHAIRPERSON: I'm having trouble
4 understanding the last one -- excuse me, that last one.
5 The blue bars represent...?
6 MS. LIZ CARRIERE: The blue bars are
7 the low and -- and high export pri -- or the blue bars
8 are the current projected cumulative real rate
9 increases -- or real rate increase over the ten (10)
10 year period. So those are the 3.95 --
11 THE CHAIRPERSON: Yeah.
12 MS. LIZ CARRIERE: -- rate increases in
13 real terms. We've essentially removed the 2 percent
14 inflation from them.
15 THE CHAIRPERSON: So I'm looking at
16 two-seventeen (217). So three-seventeen (317) would be
17 the multiplier of two point nine-five (2.95) over the
18 three point nine-five (3.95)?
19 MS. LIZ CARRIERE: It's -- it would be
20 the multiplier of one point nine-five (1.95) over one
21 point nine-five (1.95) effectively because you're
22 removing 2 percent inflation from both years.
23 THE CHAIRPERSON: Oh, I see. Okay.
24 Okay. Okay. Now, that -- that red bar is really
25 assuming that there's no -- there's no response --

there's no management response?

MS. LIZ CARRIERE: That's right.

THE CHAIRPERSON: And that's why you're getting that long tail that goes up to -- okay. Could we go back to the very first one (1) they used which would be slide -- this is slide 61. This one (1) -- this one (1) is reflecting the variability of revenues based on what's happening in the export market.

Now, I don't understand what's -- why we're getting a -- a difference here in terms of -- is that because the variability in export revenue is projected? The potential variability?

MS. LIZ CARRIERE: That's right. So the -- there's a green bar across zero. Under the lowest flow on record, we'll take 2017 for example. So if your -- if your -- if you have 300 million in net interchange revenue in 2017 -- I'm just making up numbers. It's not the actual number. But under the lowest flow on record you would have a billion dollars -- or, sorry, $400 million reduction or loss rather than 300 million positive.

THE CHAIRPERSON: And -- and this is different than the -- than the five (5) year drought?

MS. LIZ CARRIERE: Pardon me?

THE CHAIRPERSON: It's a different

1 result than the five (5) year drought. We're not --
2 the assu -- the assumption that you've made here is
3 there would be a one (1) year low water level.
4 MS. LIZ CARRIERE: Correct. It -- it's
5 the potential annual variability based on the lowest
6 and the highest. The five (5) year drought takes the
7 actual flow data from -- I think it's the '88 to '92
8 period and replicates that from 2017 under -- you know,
9 2017 to '21 under those prices. Under the '17 to '21
10 prices.
11 THE CHAIRPERSON: Now, you talked about
12 the sensitivity of revenues to a water flow. Is that -
13 - and so I guess the question I have is in relation to
14 a rain -- a major rain in southern Manitoba.
15 How long before that gets to -- to your
16 reservoirs? I mean, how long does that impact their
17 reservoir levels? Is it -- is it an immediate impact?
18 Is it a...
19 MS. LIZ CARRIERE: No, it's not an
20 immediate impact and it depends on where it rains,
21 partly on where it rains. Obviously if it rains in the
22 south it's going to take -- and I don't know the actual
23 amount of time. That's a Mr. Cormie question.
24 THE CHAIRPERSON: I still have in my
25 memory a rate application that we considered that it

1 was telling us that they -- we were facing low water
2 flow and then several days after we issued our decision
3 we found out that the -- that the water flow picture
4 had changed considerably. And so my question is to
5 what extent does -- do nearby water flows impact the
6 rate requirements? So nearby water flows can -- I
7 think what I heard you say is nearby water flows can --
8 can have a very material impact on revenues.
9 My question is can we reliably use
10 information -- nearby information to set rates?
11 MS. LIZ CARRIERE: I -- I don't think
12 you can because if you have very favourable water flows
13 in one (1) year, you know, the very next year or two
14 (2) years later you can have very unfavourable water
15 flows. So the -- the whole concept behind cost-of-
16 service is that rather than, you know, under rate base
17 where, you know, you would have -- you could have very
18 volatile rate increases or no rates at all, because
19 you're -- it's just flowing through a formula, whereas
20 in cost-of-service, we can -- you know, if we collect
21 too munch -- too much in one (1) year, for example, say
22 we get a rate increase now, and then we have very
23 favourable water flows, good revenues, and so forth.
24 We don't have a shareholder that we're distributing
25 huge dividends to, so the money stays in the

1 Corporation and serves to reduce the debt and financing
2 charges to customers.
3 It's not going anywhere. And that only
4 benefits customers in the following years, because it
5 is reducing -- you know, it's -- you're reducing the
6 revenues that are required from them in the next years.
7 So I don't think, you know, it's near -- setting near-
8 term rates based on current water flows is prudent.
9 The other thing is is that our forecast
10 is based on average water flows. And over very short
11 periods of time that that -- those water flows can
12 change dramatically, but over the longer term, it
13 always comes back to average. And that's what the 3.95
14 percent rate increases are predicated on, is you might
15 have short-term variability, but over the long-term,
16 the 3.95 percent rate increases are what we need. At
17 least that's the current, you know, directional trend
18 that we are seeing.
19 MR. DARREN RAINKIE: So, sir, just to
20 follow up on that, just kind of the law of averages, if
21 -- if we were to take a short-term view on things and
22 have a lower rate increase than three-nine-five (3.95)
23 because of the short-term favourable water flows,
24 mathematically, if you accept that things will revert
25 to average at some point, and there'll be lower water

1 flows somewhere along that, then we would need higher
2 rate increases at some point to get back to the three
3 point nine-five (3.95).
4 So it really depends whether you want to
5 take a short-term view of things or a long-term view of
6 things. If you want to take a long-term view of
7 things, we shouldn't veer off in either direction
8 because of short-term pluses or minuses. And Manitoba
9 Hydro, at least as long as I've been involved in the
10 Corporation, and as far as I can see back earlier than
11 that, has a real gradual way of looking at this.
12 That's -- the 3.95 percents are drawing a straight line
13 in terms of what we need. We're accepting losses in
14 many years of the forecast after year 3 or 4.
15 So our -- our rate applications are not
16 overly sensitive to short-term increases or decreases.
17 We're taking a long-term view, and of course, we -- we
18 encourage the Board to take a long-term view as well,
19 so that we can maintain those gradual 3.95 percent rate
20 increases. If we steal from the front, then we're
21 going to have to give back at the -- at the back end.
22 And I -- it's kind of a mathematical thing in the -- in
23 the end, you know, if you assume that things will be
24 average over time.
25 THE CHAIRPERSON: But, you know, the --

1 the -- look at it from this perspective, you know, in
2 2019, we're going to be in a situation where you're
3 incurring losses. If we have a high flow year, those
4 loss -- you know, those -- those high flow years will
5 mean that we've reduced the losses, you know, so I
6 think what we're -- there will be no relief in rates --
7 there is no rainbow somewhere or pot of gold somewhere
8 that will say to Manitobans, Okay, this year you get a
9 break, I think is what you're saying?
10 MR. DARREN RAINKIE: Exactly what we're
11 saying is I think we're trying to be open with the
12 Board and our customers that we expect 3.95 percent,
13 and that we're going to do as much as we can to
14 maintain that level of rate increase, and we're not
15 going to veer up or down unless there's a -- a big
16 change in the long-term outlook.
17 But as -- as some of the discussions
18 we've had in the first number of days, look at the
19 fixed cost that's coming in in the next five (5) or
20 seven (7) years in terms of the cost of the -- the
21 sustaining capital, Keeyask and Bipole III. I know
22 some folks want to go to the end of the forecast,
23 eighteen (18) or nineteen (19) years from now, and say,
24 Well, there's a recovery. But look at -- look at the
25 risks of that. Look at -- look at what the greater

1 likelihood is in the -- the next three (3), to five
2 (5), or seven (7) years.
3 We can't take money from the back end of
4 the forecast, if it ever materializes, and bring it
5 forward. But what we know is we're going to have a
6 certain level of fixed costs after those investments
7 are made. So that's why we believe that we should look
8 at the first ten (10) years of the forecast.
9 The -- the promised land is only after
10 Keeyask is in service and -- and we have multiple years
11 of 3.95 percent rate increases. The IFF assumes those
12 rate increases accumulate over time. If that doesn't
13 happen, there isn't -- the trajectory isn't up at the
14 back end, it's down at the back end.
15 But if you look at this from a risk-
16 based perspective, you look at what's coming in the
17 next number of years. And the -- and the -- you know,
18 the great thing -- the great thing and the perplexing
19 thing, I guess, about a -- an electrical utility is
20 that once those assets are in place, they have a fixed
21 cost.
22 They're -- they're great over time,
23 because they're usually an inflation hedge over time,
24 but they -- they're fixed costs. Electric generating
25 plants and -- and Bipole III, in terms of reliability,

1 are fixed costs over time.
2 They're both -- it's both the great
3 thing about our business -- high capital costs, low
4 variable costs once they're in place -- but it's also
5 the risky thing about our business, I suppose, in terms
6 of fixed costs.
7 So -- so we want to stay the course with
8 the 3.95 percents, but if we pull -- pull from the
9 front end, we're risking higher rate increases in the
10 back end.
11 DR. HUGH GRANT: Can I just ask, on the
12 last slide, this is cumulative real rate increases by
13 sixty-four (64)? So what are you deflating it with?
14 The --
15 MS. LIZ CARRIERE: CPI.
16 DR. HUGH GRANT: Manitoba?
17 MS. LIZ CARRIERE: M-hm.
18 DR. HUGH GRANT: Two point one (2.1)?
19 MS. LIZ CARRIERE: Well, on a projected
20 basis, they're the same. They're 2 percent.
21 DR. HUGH GRANT: Two percent. And is
22 this cumulative -- is there a compounding that should
23 go on that there -- there is some curvature to these?
24 MS. LIZ CARRIERE: Yeah. There --
25 DR. HUGH GRANT: So 2 percent on the 2

1 percent, or --
2 MS. LIZ CARRIERE: Yeah.
3 DR. HUGH GRANT: -- or the one point
4 nine-five (1.95). It's -- so it's -- it -- so it
5 should not be a straight line. There should be a --
6 MS. LIZ CARRIERE: That's correct.
7 DR. HUGH GRANT: Okay. Thanks.
8 MS. LIZ CARRIERE: Okay.
9 THE CHAIRPERSON: We have some
10 presenters coming in at one o'clock, so my goal was to
11 keep on going till 12:15 so that we reserve forty-five
12 (45) minutes for lunch. So since everybody's here,
13 let's continue.
14 MS. LIZ CARRIERE: This is the last
15 section, I believe, so -- so it seems there's a
16 misconception about our 3.95 percent rate increases.
17 We've pro -- been projecting 3.95 percent rate
18 increases since IFF12, which was approved by our board
19 in November 2012.
20 Mr. Rainkie made several references
21 throughout the NFAT, as did I, but these ones in
22 particular were from the NFAT.
23 And, you know, basically, they are
24 saying that over the next five (5) to seven (7) years,
25 we will be asking for 3.95 percent, and that it was --

1 3.95 percent was requi -- required no matter which
2 development plan we were seeking, because we -- and at
3 page 2 -- 2,775, we did say that we're requiring these
4 rate increases because they're primarily -- primarily
5 because of the refurbishment of existing infrastructure
6 and reliability expenditures.
7 The NFAT -- I just have a cautionary
8 note about the NFAT rate projections. I think the --
9 those were used for -- for a pur -- for a purpose. As
10 Mr. Rainkie said, there -- it was -- it was a -- a math
11 -- a mathematical search for a number between two (2)
12 points in time that achieved a 75:25 debt-equi -- debt-
13 equity ratio with -- without regard to what was kind of
14 happening in between.
15 So in the All-Gas Plan and Plan 5 or
16 Plan 6, whichever one you're looking at, those were
17 experiencing losses as well. And -- and it didn't look
18 at the degree to which those losses were being
19 incurred, so, you know, trying to do rate projections
20 or impacts on customers for long-term assets. And we
21 only looked at fifty (50) years of an -- of a long-term
22 asset. It had to be done to simplify -- we had to make
23 a simplifying assumption to be looking at the number of
24 runs we did and the number of plans.
25 It's much simpler to do under rate base

1 type of legislation, because it's -- it's formulaic.
2 You put the -- put that into the -- the new assets into
3 the rate base, and, you know, you've got your rate of
4 return and out pops a number. Well, it's not the same
5 with cost-of-service regulation, because -- and under
6 rate base, you would end up with much more volatile or
7 variable rate increases for customers. You would see
8 the huge 30 percent rate increase as soon as you would
9 put a hydro plant in service.
10 So under cost of service, we're trying
11 to smooth that out over time. And when you're doing
12 that kind of analysis, it's very hard to, you know,
13 kind of stop a run in the middle and say, Well, I'd
14 really like to have -- you know, we could -- we could
15 chop it off at this point when you're doing that many
16 runs, so it was very mechanical. And the purpose was
17 to analyze the rate differences between -- between the
18 plans.
19 And I think we said in Chapter 11 that
20 they're provided for the purpose of -- of comparative
21 rate analysis, and not intended to convey specific
22 revenue requirements, and shouldn't be used for future
23 general rate applications. So for that purpose, we're
24 -- we're saying that, you know, the 3.74 percent that
25 was projected in Plan 5 isn't -- isn't applicable or

1 appropriate for this GRA, because it ignored those
2 losses, and it was a very mechanical exercise.
3 There was no, you know, balancing
4 customer sensitivity with our financial prudence or
5 things like that. And in that -- you know, Plan 5 in
6 the -- in the GRA -- or in the NFAT, the financial
7 position of -- of that -- for the Corporation
8 deteriorated below that 10 percent equity that we are
9 willing to accept.
10 So in addition, you know, Mr. Chair, you
11 had -- had expressed concerns about, you know, that in
12 this -- this -- the little graph here, the -- the rate
13 jog there where we called it 'correction factor', and
14 it's difficult to comprehend, because it wouldn't
15 actually happen in practice. We would tend to smooth
16 those rates out over time.
17 So we had provided methodologies 1 and
18 2, where it didn't continue with three point nine-five
19 (3.95) or the three (3) whatever over the entire twenty
20 (20) year period, recognizing that if you do have
21 sufficient revenue generation once those plants are in
22 service, you can pull back on those rates, so -- but
23 it'll -- we'll have to wait and see until we get out
24 there.
25 So we did look at rate options. And as

1 Mr. Rainkie has suggested that, you know, Mr. Orle look
2 -- is looking for a $200 million reduction in capital
3 tax or whatever. You know, we're -- we're -- you know,
4 we've looked at our forecast. It's an iterative
5 process. And the three point nine-fives (3.95s) are
6 the minimum that -- that we can accept or -- or are
7 projecting at this time, simply because of those losses
8 and the compounding effects of the risks that we just
9 looked at.
10 You know, our -- we're just not willing
11 to put customers at risk for higher rate increases. So
12 the 'A' and 'B' are just demonstrations. 'A', 'B',
13 'C', and 'D', actually, are -- show, you know, what
14 lower rate increases over the entire forecast or over -
15 - over the front end of the forecast are going to do.
16 And then we show, you know, deferring
17 those rate increases, what that does to the back-end of
18 the forecast and the rates that are required in the
19 event of one (1) of tho -- of one (1) of those risks
20 that are occurring.
21 But mainly, the 'G', 'H', and 'I'
22 analysis are the rates that we really require to
23 improve our financial position and truly protect
24 customers, but we recognize that -- that those are --
25 are not going to be accepted by customers very easily.

1 And we've made the balance to reduce those -- those,
2 you know, 5 to 6 percent rate increases to three-nine-
3 five (3.95). And these are in Appendix 3.5, the -- the
4 discussion of the alternate rate scenarios that we
5 looked at.
6 So similar graphs that we saw in the
7 risks -- the risk section of the report, the retained
8 earnings graph shows that no rate increases totally
9 wipes out your retained earnings by 2022. And the
10 others are significantly -- the 2 percent from 2016 to
11 '24, and the two point nine (2.9) or -- yeah, 2 percent
12 from 2016 to -- to '19, and then the 2 percent over the
13 entire forecast period both reduce retained earnings to
14 below $1 billion.
15 The green line -- the -- the sort of
16 turquoise line and the green line show what reductions
17 in the front end do to your -- your retained earnings.
18 They show that you get back to the two point seven
19 (2.7) by the end, but you have to reduce retained
20 earnings in the -- in the interim. On the next graph,
21 we'll see that it -- it depletes the 10 percent equity
22 ratio -- or the equity ratio further.
23 And then what the -- the 5 to 6 percent
24 does is significantly imp -- improves retained earnings
25 for -- for Manitoba Hydro. In terms of equity ratios,

1 the 6 percent almost gets us to 15 percent by the end,
2 which is a much more comfortable position to be in, in
3 terms of equity ratio. And again, the -- the
4 inflationary or no rate increase scenarios
5 significantly reduce our -- our equity ratio below
6 acceptable levels.
7 And you can see that the deferred rate
8 increase scenarios of -- of where we have to increase
9 rates. If you dec -- decrease rates in -- in the
10 front end to 2 or 2.95 percent, you need significantly
11 higher rate increases in the back end to recover and
12 get us to the same -- both the same level as what's
13 currently projected in 10 percent, which again is our
14 minimum acceptable level. The -- that's what we're
15 saying is the most that -- or the minimum acceptable
16 level of risk we're willing to take on to protect
17 customers from higher rate increases.
18 Cumulative rates. You know, no rate
19 increases and inflationary rate increases result in
20 lower cumulative real rates than -- than the MH14, but
21 at a significant cost to the -- to the financial
22 position. Deferral of -- of the rate increases from
23 the front end to the back end of the ten (10) years
24 results in significantly higher cumulative rate
25 increases by '24 compared to MH14. And higher near-

1 term rate increases result in marginally higher
2 cumulative rate increases and significantly strengthen
3 our financial position at the same time.
4 So, you know, I think that just
5 demonstrates the -- the points that we've been making.
6 Like, the higher -- higher rate increases up front do
7 more to protect customers from higher rate increases
8 later on, higher than they would otherwise have to be,
9 and at the same time improve our financial strength.
10 Though -- so truly the -- the 2 perc -- 3.95 percent
11 are the minimum that we require.
12 Our final observations on this section
13 are the rate increases of three-nine-five (3.95) -- or
14 rate increases were -- have been about one and three-
15 quarter (1 3/4) times inflation ever since November of
16 2009, before -- before the reduction in electricity
17 export price forecasts and before cost increases in
18 Wuskwatim, for that matter, Keeyask, and Bipole III.
19 Three point nine-five (3.95) percent
20 rate increases projected since 2012 are following
21 electricity export forecast reductions and the capital
22 -- capital cost increases. Manitoba Hydro has
23 maintained the projected three point nine-five (3.95)
24 rate increases despite the continued reductions in
25 electricity export price forecasts and the higher

1 capital costs for Bipole III, DSM, Keeyask, and
2 sustaining capital expenditures.
3 Rate increases of 5 1/2 to 6 percent
4 would be required to maintain stronger financial ratios
5 significantly higher than the proposed 3.95 percent
6 rate increases. And the proposed 3.95 percent rate --
7 rate increases balance the rates required to maintain
8 that minimum acceptable financial ratio level and
9 impacts to customers.
10 And that's everything.
11
12 (BRIEF PAUSE)
13
14 THE CHAIRPERSON: I do have a question.
15 I wonder if we could go back to -- if we could go back
16 to sli -- slide 62. Now, one (1) of the risks that I'm
17 very concerned about is the -- the risk of construction
18 cost inflation. I'm -- I'm very concerned about -- the
19 reality is that most recent projects undertaken by
20 Manitoba Hydro have come in at significantly higher
21 costs than what was initially projected.
22 And I'm thinking, for example, there's
23 the recent experience of Bipole III being increased
24 from two point two (2.2) to -- to four point six (4.6).
25 So materially different projections. You didn't plot

1 any of -- of the risks involved in the construction
2 cost area.
3 Is that -- is there a reason for that?
4 Did -- did KPMG address that?
5
6 (BRIEF PAUSE)
7
8 MS. LIZ CARRIERE: The -- the
9 sensitivity of the -- for the capital scenario, the up
10 $50 million, that's equivalent to a half-a-billion
11 dollar increase over the ten (10) year forecast. So, I
12 mean, there's different -- different timing in terms of
13 you can take those -- those results, or the impact on
14 retained earnings. And, you know, there'd probably --
15 it would probably be a little bit higher, because if it
16 comes into service at some point, you know, in 2021,
17 you may have three (3) years of -- of interest --
18 additional interest compounding on that.
19 But, I -- I mean, in terms of the -- the
20 range, you could say that the half-a-billion dollar
21 increase, that scenario that looks at 50 million each
22 year is a proxy for a half-a-billion dollar increase in
23 one (1) project.
24
25 (BRIEF PAUSE)

1 THE CHAIRPERSON: I believe those are
2 all the questions for today. Ms. Fernandes, please.
3 MS. ODETTE FERNANDES: Thank you, Mr.
4 Chairman. Just before we break, there was some
5 discussion you had, I believe with Mr. Cormie,
6 regarding the Great Northern Transmission Line and the
7 percentages of capital and funding timeline. And I
8 believe we advised that that would be best set with --
9 during the finance panel portion of this hearing.
10 And if it's all right with the Board,
11 Mr. Cormie is available after the presentations this
12 afternoon to come in and speak with your briefly about
13 that.
14 THE CHAIRPERSON: That would be fine.
15 Thank you. So we'll recess for forty-five (45)
16 minutes. Back here at one o'clock to hear the
17 presenters. Thank you.
18
19 (PANEL RETIRES)
20
21 --- Upon recessing at 12:16 p.m.
22 --- Upon resuming at 1:00 p.m.
23
24 THE CHAIRPERSON: Good afternoon. It's
25 -- it's one o'clock, and I'd like to -- good afternoon.

1 It's one o'clock, and I'd like to get these proceedings
2 started, please. So if you could position yourselves
3 accordingly, we'll start -- we'll start the procedures
4 for this afternoon.
5
6 (BRIEF PAUSE)
7
8 THE CHAIRPERSON: So before -- before
9 we hear from the first presenter, I'd just like to
10 remind people that we are working with a restricted
11 schedule. So we have to limit the amount of time made
12 available to the presenters.
13 Before you start, I think I should read
14 something that I've been reading, different steps in
15 the procedure -- pardon me, in the -- in the hearing
16 process. So the Manitoba ombudsman has recently issued
17 privacy guidelines for administrative tribunals.
18 The PUB is mindful of its obligation
19 under those guidelines. Its decisions in respect of
20 the application being considered will be sensitive to
21 the guidelines issued by the ombudsman.
22 Personal information will not be
23 disclosed un -- unless it is appropriate and necessary
24 to do so. However, the PUB advises participants that
25 these proceedings are public, and as a result, personal

1 information protections are reduced.
2 So with that proviso, I would like to
3 welcome our first presenter, Mr. Mouland. Welcome.
4 You were -- you were here before the panel at the last
5 hearing, I believe.
6 MR. DAVE MOULAND: Yes, I did, as part
7 of a group, this afternoon, just as myself.
8
9 PRESENTATION BY MR. DAVE MOULAND:
10 MR. DAVE MOULAND: Good afternoon. My
11 name is Dave Mouland. I would like to speak to you
12 today about the increasing Hydro rates and the effect
13 these increases have on people living in poverty.
14 When we hear that Manitoba Hydro is ply
15 -- is applying for another 3.95 percent increase,
16 again, most of us just roll our eyes and continue on
17 with our lives. For those of us living in poverty,
18 it's not that easy.
19 Our budgets do not go up by 3.95 percent
20 every year. If I were living on EIA, welfare, as a
21 single person with no dependents, after housing costs
22 or partial housing costs, depending on whether the
23 housing is owned by Manitoba Housing or privately
24 owned, plus all utilities paid by EIA, I would have a
25 budget of one hundred and ninety-five dollars ($195)

1 per month to top off the rent payment not covered by
2 EIA, pay for food, clothing, transportation, and any
3 other expenses that may come up.
4 This works out to about three dollars
5 and ninety-six cents ($3.96) per day for food. Many
6 people spend more than that, three dollars and ninety-
7 six cents ($3.96), on their morning latte today.
8 When we are able to find housing and all
9 utilities paid in full by EIA, these rates increases
10 are still passed on indirectly to the poor in the form
11 of higher food prices. For the working poor earning
12 around fifteen thousand (15,000) a year, that ten (10)
13 cent increase on a wilted head of lettuce may not be a
14 backbreaker. But for someone living on three dollars
15 and ninety-six cents ($3.96) a day, it is.
16 In Manitoba the budget for the food
17 allowance has not increased in twenty-three (23) years.
18 Yes, let me repeat that. The provincial government is
19 saying that the cost of food has not gone up in twenty-
20 three (23) years. It is true that other parts of the
21 EIA budget have gone up over that time span, but only
22 for specific items like Hydro rates or rent.
23 I would also like to talk to you today
24 about a single mom on welfare with a baby and a twelve
25 (12) month-old who uses Winnipeg Harvest to supplement

her food budget. As you may know, I volunteer at Winnipeg Harvest sometimes in the call centre, speaking directly with clients. Winnipeg Harvest depends on donations to supply food to the needy. The only item we buy is baby food and infant formula.

I have priced one (1) can of formula, which is about enough for about a week's supply, at thirty-two dollars and ninety-nine cents ($32.99) per can. But there are times when we don't have sufficient funds to purchase enough at Winnipeg Harvest. At times like this, we do not fill any requests for formula until every food bank has been without requested formula.

Winnipeg Harvest cannot decide which baby gets fed and which one does not, but every mom in this situation now has to make the choice: Pay the Hydro bill and starve baby, or feed baby and don't pay the Hydro bill and risk having Hydro cut off because of non-payment. Some choice. If there is an easy answer to this question, let me know so I can pass it on to my clients.

I would like to end with just some general observations about Manitoba Hydro. It seems to me that there are always some new projects underway. New dams, power lines, converter stations, all this so

1 we can sell more power to the USA. I have lived in
2 Manitoba since 1968, and I have never lived through a
3 power outage due to insufficient generating capacity,
4 so these new projects are not really to safeguard our
5 own use.
6 Each and every major project drives Mani
7 -- Manitoba Hydro deeper in debt. This debt will be
8 paid for by Manitobans well into the future. There is
9 very little being said about renewal of existing
10 infrastructure. I see trees growing into overhead
11 power lines, but they are not trimmed back until a
12 major wind storm blows them down, along with the lines.
13 Why are power lines not going under --
14 underground in older, urban areas? Why are street
15 lights on for days at a time? Every time a contract is
16 signed, there are cost overruns and completion delays.
17 Why can't these contracts be the same as when I sign a
18 contract, which is binding on both sides? Every time
19 Hydro rates go up, so do government revenues through
20 the 8 percent PST. Where does this money go? Is it
21 dedicated to Manitoba Hydro, or does it disappear into
22 general revenue? Thank you very much for listening to
23 me, and thank you.
24 THE CHAIRPERSON: Explain, Mr. Mouland,
25 to me, the -- in your case, the -- the Hydro bill, you

1 -- you have to pay Hydro bill through the EIA payment?
2 Is that...
3 MR. DAVE MOULAND: No -- no, I am not
4 on EIA. I am speaking for people on EIA.
5 THE CHAIRPERSON: But somebody on EIA
6 would be paying their bill using the EIE -- EIA
7 revenue?
8 MR. DAVE MOULAND: Yes, sir. In some
9 cases, EIA pays directly the Hydro bill. In other
10 cases, if it's a privately owned house or housing, and
11 it's being rented by the person on EIA, then there is
12 either a short -- shortness from EIA. They will only
13 pay so much, or they don't pay at all.
14 THE CHAIRPERSON: Thank you very much
15 for having -- taking the time and trouble to -- to meet
16 with us. Thank you.
17 MR. DAVE MOULAND: Thank you.
18
19 (BRIEF PAUSE)
20
21 THE CHAIRPERSON: Good afternoon, Mr.
22 Turner. How are you?
23 MR. BILL TURNER: Good. How are you?
24 THE CHAIRPERSON: Good. Could you
25 introduce your colleague, please?

1 PRESENTATION BY MIPUG:
2 MR. BILL TURNER: Okay. First of all,
3 Mr. Chairman and members of the Board, we thank you for
4 allowing us to come and spend some time with you this
5 afternoon. For those who do not know me, my name is
6 Bill Turner and I'm the chair of the MIPUG, or Manitoba
7 Industrial Power Users Group, and the former plant
8 manager at Canexus Chemicals in Brandon.
9 With me today is Dale Bossons, of
10 Canexus. And Dale is the division -- Brandon Canexus
11 plant manager and co-chair of MIPUG.
12 You will be given a copy of the complete
13 presentation, but in order to conserve some time and
14 spend some time on the MIPUG concerns, I'll forego
15 going over that initial part of the presentation, which
16 I think you've heard before, most of you have heard
17 before on a few occasions that I've presented.
18 Basically, that introduction, just to
19 introduce, is MIPUG and who the -- the members of MIPUG
20 are, and some of the -- the benefits and -- and things
21 that the group has accomplished and done over the --
22 the last several years, including where the plants are
23 located and the communities that they help support.
24 A few years ago, we did a MIPUG economic
25 contribution to the Province of Manitoba and to the

1 communities that we all work in, and that is included
2 in that open -- opening remarks, which, again, I'll
3 forego to get into -- I think one (1) of the main
4 reasons we're today is the concerns that the MIPUG
5 members have on the potential increases in the power
6 rates.
7 This con -- current proceeding raises a
8 number of issues for MIPUG members related to the
9 curtailable rate program, industrial DSM, and overall
10 trends for further and higher rate increases going
11 forward. I will deal first with the curtailable rate
12 program.
13 MIPUG also has concerns regarding
14 Hydro's proposal to -- to reduce caps on the
15 curtailable rate program. The curtailable rate
16 program, as most of us know, was developed in the early
17 1990s through joint efforts of industry and Hydro, and
18 supported by the PUB. The program provides capacity
19 for the benefit of the system, helps with the
20 reliability, and is one (1) of the few DSM options
21 available to industrial customers in Manitoba.
22 In order to participate in this program,
23 companies such as Canexus and others have invested
24 significant time -- significant time and attention to
25 having the necessary equipment, procedures, and staff

1 training in order to respond as required when a
2 curtailment occurs. This investment is -- in time and
3 resources has paid off for both the MIPUG members as
4 well as for Manitoba Hydro and its customers.
5 The merits of this program were even
6 noted during the recent NFAT hearing, where the PUB
7 recommended that DSM programming be increased and noted
8 that the curtailable rate program had potential to
9 result in additional capacity savings and merited
10 further review.
11 Given all this, Hydro's move to reduce
12 caps on the availabil -- availability of option A and
13 'R' is surprising. It is MIPUG's view that Manitoba
14 Hydro continues to undervalue the long-term benefits of
15 the Curtailable Rate Program.
16 MIPUG is concerned about the development
17 and encourages the Board to assess whether the lower
18 interim caps sought by Manitoba Hydro for the program
19 are actually required. Members do not want to see the
20 value of the program diminished, but also do not want
21 to see this option taken away from new participants.
22 In prior MI -- MIPUG presentations to
23 the PUB MIPUG members have spoken about significant
24 rate options that exist in other locations, which
25 result in member companies having access to lower

1 overall costs for power than they have in Manitoba.
2 Members who own plants with operational flexibility
3 understand that their sister operations in other parts
4 of Canada or the USA can eas -- can alter their loads
5 to assess load daily or seasonal market prices and
6 avoid or capture the benefits at times of high
7 marketplace prices.
8 For companies that generated some
9 portion of their own power, other jurisdictions offered
10 the opportunity to receive economic price incentives on
11 that generation. Overall, there are minimal programs
12 or rate options available in Manitoba to help industry
13 manage their power costs. As a result, Manitoba's
14 position with respect to power costs has changed.
15 For many MIPUG members Manitoba was the
16 among the lowest cost jurisdictions for power, but it
17 is not at the current time. In a number of locations
18 in North America, with only a limited degree of
19 participation in alternative program offerings,
20 customers can achieve overall power costs lower than
21 what is available in Manitoba.
22 With regard to DSM, Manitoba members,
23 excuse me, have in the past worked with Manitoba Hydro
24 to develop programs to help industry managed costs.
25 Following the NFAT review the PUB recommended that an

1 arms-length entity be established to develop and -- and
2 implement a plan to meet mandated DSM targets. This
3 presents a problem further -- which would further --
4 whoops, sorry.
5 This presents a further risk element to
6 MIPUG members regarding uncertainty in how programs are
7 developed in the future and the ability for members to
8 access programs to shave or shed load. MIPUG is very
9 concerned about industrial DSM being removed from the
10 Manitoba Hydro.
11 Industrial DSM opportunities are
12 customized to suit each individual load and require an
13 in-depth knowledge and understanding on each customer's
14 energy usage and operations. Manitoba Hydro has the
15 in-depth knowledge and long-standing industrial
16 relationships with industry regarding low profiles,
17 power needs, and customer operations.
18 This model has proven successful for
19 delivering industrial DSM programming in the past.
20 Replicating this understanding in a separate external
21 agency or third party would be inefficient and
22 duplicate efforts that which are already required
23 intern -- internally at Manitoba Hydro.
24 Additionally, the ultimate knowledge of
25 a company's operation requires, for effective

1 industrial DSM programming, usually contains a high
2 degree of confidential and commercially sensitive
3 information. Adding an additional relationship with a
4 newly formed agency or third party would result in this
5 information being spread more broadly, creating an
6 additional element of risk for industry, which may have
7 a dampening effect on new capital investment within
8 Manitoba.
9 Finally, among the largest industrial
10 DSM programs are programs that help curtail the
11 capacity used by eligible industrial companies for
12 short periods, in fact, hours, at times, of -- of acute
13 system demand. It is not clear how such programs could
14 be managed in any form by any entity other than
15 Manitoba Hydro.
16 Given the customers -- giv -- given the
17 customs -- outcomes of the recent NFAT proceeding,
18 MIPUG members were also surprised by the requirement in
19 this GRA for an additional 3.95 percent rate increase
20 at this time. MIPUG intervened in the NFAT proceeding
21 and is aware of the arguments put forward by Hydro at
22 that time. Hydro argued that with 3.95 percent rate
23 increases each year, well into the future it could
24 undertake massive inve -- investments in future
25 generations while maintaining a safe and reliable

1 system.
2 Now, with the 10 billion Conawapa put on
3 hold, there are no savings for ratepayers and Hydro
4 still needs a 3.95 percent increase each year well into
5 the future. Following a period of recession Industry
6 Manitoba has continued to be challenged by steady rate
7 increases, in fact more than 40 percent since 2004. In
8 the past rate increases were presented as a decade of
9 investment followed by a decade of returns. With each
10 subsequent financial forecast these returns eroded.
11 Now, Hydro ind -- indicates that we can expect ongoing
12 and sustained proposals for rate increases that are
13 well above inflation for the next decade or more in
14 order that -- and to meet ongoing operational and re --
15 reliability requirements.
16 For MIPUG members to survive in Manitoba
17 we cannot have another decade of similar rate
18 increases. Throughout this period Manitoba Hydro also
19 produced cost-of-service studies that show industry
20 paying 10 percent or more above its costs. Yet all
21 rate changes were implemented on an across the board
22 basis. It must be noted that with a 3.95 percent rate
23 increase applied on an across the board basis the
24 industrial customer's share of that increase is larger
25 than the balance of the ratepayers.

1 Industrial customers also own and
2 maintain their own transformation which is an
3 additional cost. MIPUG companies are expected to
4 manage costs and prioritize spending in order to
5 survive in an increasingly competitive cost
6 environment. In MIPUG's view there is a need at this
7 time to review Hydro's practices in order to ensure, in
8 a way that is transparent to all parties, that Hydro is
9 pacing, prioritizing, and controlling its expenses so
10 as to control and pace rate impacts on customers.
11 Overall, MIPUG members are concerned
12 about persistent electricity rate increases that
13 undermine the advantages of operating in Manitoba,
14 especially in an environment where Hydro is offering
15 minimal programs or rate options to industrial
16 customers that would be -- that would help to manage
17 power costs.
18 Electricity prices matter greatly to
19 industrial customers and without a cost-based, stable,
20 and predictable regulated rate environment there is a
21 risk that investments will occur elsewhere taking along
22 hundreds of millions of dollars in capital investment,
23 reinvestment, and upgrades with the associated
24 construction and permanent, high-paying jobs.
25 In closing, MIPUG companies' involvement

1 in the Manitoba economy reflects past benefits of
2 competitive, cost-based rates, and of clear and
3 transparent regulation. The industrial customers of
4 Manitoba Hydro have been well served by these -- this
5 utility and the PUB in the past. Hydro is a good
6 company to deal with and we would not want our comments
7 to be read as criticism of the professional and
8 competent staff that we work with at Hydro.
9 I ask the Board to consider the
10 presentations made by PIPUG -- MIPUG in light of the
11 competitive challenges faced by industrial power users
12 in Manitoba and to help us retain our competitive
13 position in Manitoba and in North America. Dedication
14 to providing reliable firm power at fair and reasonable
15 rates ensure rates reflect of cost of service and
16 developing innovative rate options that benefit both
17 industry and Manitoba Hydro are important for the
18 future growth of large industry in Manitoba.
19 MIPUG's detailed position on the various
20 issues in this GRA will be communicated by Mr. Hacault
21 in our final argument. For today the members wanted to
22 relate to you the customer's perspectives on Hydro's
23 rates and regulations. And Dale Bossons will now
24 provide information on the importance of cost-based,
25 predictable rates for the Canexus plant. Thank you.

1 THE CHAIRPERSON: Thank you.
2 MR. DALE BOSSONS: Thank you. This
3 presentation is actually just an update of the one (1)
4 that we gave a year ago at the NFAT hearing so I
5 certainly don't want to try and walk us through the
6 entire presentation. But if we could just skip ahead
7 to probably, let's see, on -- on the handout Page 3.
8 So it would be slide 5 I believe. There we go. This
9 one (1) here.
10 So I just want to really address two (2)
11 main issues that I think are very relevant. And -- and
12 the first one (1) is really the impact and the
13 relationship businesses like Canexus has on our
14 communities within Manitoba. We've been in Brandon
15 since 1968. We've got a long history with the
16 community and we have a very tight relationship with --
17 with the City of Brandon.
18 Our employee base is probably one (1) of
19 the highest paid employee base that we have in the city
20 and -- with over a $7 1/2 million payroll. So the jobs
21 are highly valued by the -- the residents of the
22 community.
23 We spend over $60 million a year.
24 Actually, aside from our $60 million a year Hydro bill,
25 we -- we spend an additional $60 million a year on

1 materials and services to -- to operate our business.
2 That's raw materials, contractors, labour that we bring
3 on site.
4 And we also contribute over $5 million
5 worth of taxes, both provincially, you know, and city-
6 wise and -- and federally. So obviously, you know,
7 we're generating a lot of revenue within the community
8 and income for local community members.
9 As well, we also have a strong feeling
10 of social responsibility with the community of Brandon.
11 We're very closely involved with a lot of smaller
12 organizations. Our donations budget is around a
13 hundred and sixty thousand dollars ($160,000), which
14 for a city the size of Brandon is significant,
15 everything from the United Way to the Boys & Girls
16 Club.
17 So Canexus's presence in the City of
18 Brandon is very important. And our con --
19 contributions over the past forty-five (45) years now
20 have been extremely important to the growth of that
21 community.
22 So that's the first point I wanted to
23 make was the fact that we've been here a long time, and
24 we are very important to community that we're involved
25 with.

1 So the next item that I think is
2 relevant is: How do these rate increases impact
3 Canexus as a whole? So I think we have another slide -
4 - it's probably -- let's just skip forward. We won't
5 get into all the details of our process -- and the
6 importance of power pricing.
7 So, you know, Canexus, the Brandon
8 facility, is -- is probably the largest single customer
9 in the Province of Manitoba for Manitoba Hydro. My
10 Hydro bill is over $60 million a year, so it's rather
11 significant. When the bill comes at the end of the
12 month, we have to get out a really sharp pen.
13 And a 4 percent increase, or a 3.95
14 percent increase, is almost $2 1/2 million a year
15 increase to my plant operating costs. So that's $2 1/2
16 million basically right out of our operating revenue.
17 We cannot pass along that expense to our
18 customers. You know, we're generating a commodity
19 market. Its price fluctuates up and down and, you
20 know, price increases have a significant impact on the
21 operating viability of our facility.
22 Over the next five (5) years, if we were
23 to see these 4 percent price increases, that means in
24 five (5) years from now my -- my Hydro bill's going to
25 be $13 million larger than it is today annually. And

1 if you accumulate those costs, it's $37 1/2 million.
2 So we're pushing $40 million of
3 accumulated costs over a five (5) year period, and that
4 -- those kinds of dollars obviously have a significant
5 impact on our ability to reinvest in our facility.
6 I would like the plant that I'm
7 responsible for today to be here in twenty (20) years,
8 thirty (30) years, still providing jobs for the
9 residents of -- of Brandon and contributing to
10 Manitoba. And that's not going to happen if eventually
11 we're no longer able to be profitable.
12 We're located in this province for one
13 (1) reason. We built the plant here for one (1)
14 reason, and that was the cost of electricity. It's our
15 largest single variable cost, and it's the most
16 important factor as to where we locate our facilities.
17 As a matter of fact, we have shut down
18 plants and walked away from them located in other
19 jurisdictions when the price of power reached the point
20 where they were no longer viable.
21 So our intention is to reinvest. We
22 have identified, you know, growth opportunities. In
23 the past ten (10) years, we've invested over $200
24 million into the plant, creating more jobs and more
25 wealth for the community.

1 Part of that was an $8 million
2 transmission line that we -- that Hydro owns but we
3 paid for to service our -- our facility. And our
4 future growth plans in the next five (5) years are on
5 the order of $70 to $120 million is what we would like
6 to invest.
7 But that's not going to happen if, you
8 know, looking down the road, we see that the long-term
9 viability of the plant's just not going to be there.
10 And when we look at 4 percent price increases going out
11 indefinitely, that has a major impact on our bottom
12 line.
13 So I just want you to kind of consider
14 some of those points, consider the impact that these
15 sorts of rate increases have on not just Canexus, but
16 on all MIPUG members, and please just, you know, think
17 of that while you go through the decision-making
18 process. Thank you.
19 Any questions?
20 THE CHAIRPERSON: How many employees
21 work in the -- in the plant, in the facility?
22 MR. DALE BOSSONS: We have seventy-five
23 (75) direct employees in the plant.
24 THE CHAIRPERSON: I don't know very
25 much about the process that you have in the plant.

1 Could you describe what the raw materials are?
2 MR. DALE BOSSONS: Salt, water, and
3 electricity.
4 THE CHAIRPERSON: And out of that is
5 produced --
6 MR. DALE BOSSONS: We produce sodium
7 chloride, which is a bleaching chemical. So we sell
8 into the pulp and paper industry. So all of our
9 customers are spread, actually, all over North America.
10 We really don't have any customers in the Province of
11 Manitoba.
12 And I -- like -- it's basically take a
13 glass of water, fill it full of salt. If you take a
14 battery in your kitchen, hook up the wires and throw it
15 in that glass of water, you're going to generate
16 chlorine. So our electrolytic process is completely
17 driven through electrolysis. And we generate products,
18 chlorine, sodium hydroxide, and sodium chloride, in our
19 industry used in the oil and gas, pulp and paper and
20 water treatment industry.
21 Our plant specifically focuses on pulp
22 and paper chemicals.
23 MS. MARILYN KAPITANY: Mr. Turner, nice
24 to see you again. You mentioned in your presentation
25 that Manitoba was among the lowest cost jurisdictions

1 for power, but it's not anymore. And you said in a
2 number of locations with only a limited degree of
3 participation in alternative programs customers get
4 lower prices.
5 What kind of alternative programs? You
6 spoke already about curtailable rate programs, but what
7 other kind of programs are being accessed in other
8 jurisdictions that you believe are making them more
9 competitive?
10 MR. BILL TURNER: Unfortunately, Dave,
11 from Gerdau, could not be here today. And he's
12 involved with more of the programs, and he's brought it
13 up, I think, in the last presentation we had of just
14 some of the different programs that they available
15 through the Gerdau business established throughout
16 North America, and he had quite a list.
17 MS. MARILYN KAPITANY: Okay.
18 MR. BILL TURNER: If you do not have
19 that, we can make sure that we can get that from Dave
20 and -- and forward it to you.
21 MS. MARILYN KAPITANY: Or maybe Me.
22 Hacault is going to raise those in his closing presenta
23 --
24 MR. BILL TURNER: Yeah, I don't know
25 whether Antoine has that or not.

1 MR. ANTOINE HACAULT: If it's of
2 interest to the Board, we can record it as an
3 undertaking, that MIPUG will provide a list of those
4 alternative programs to this Board.
5 MS. MARILYN KAPITANY: Thank you.
6
7 --- UNDERTAKING NO. 33: MIPUG to provide a list of
8 alternative programs to
9 this Board
10
11 THE CHAIRPERSON: Well, thank you very
12 much, both of you, Mr. Turner and Mr. Bossons, for
13 having appeared before us and for giving us a very
14 clear presentation about your point of view. Thank
15 you.
16
17 (BRIEF PAUSE)
18
19 THE CHAIRPERSON: Mrs. Pugh, good
20 afternoon.
21 MS. PAM PUGH: Good afternoon.
22 THE CHAIRPERSON: Could you -- could
23 you just tell us who you are and what your interest is
24 in the particular rate application?
25

1 PRESENTATION BY MS. PAM PUGH:
2 MS. PAM PUGH: My name is Pam Pugh. I
3 farm west of Portage la Prairie. We're getting Bipole
4 III on our land. We're right next to the elevator, of
5 the Canadian Wheat Board elevator. The Bipole
6 transmission lines are going to be a 130 feet away from
7 the circular loop track which I don't know was in the
8 plans of Bipole III, but the Canadian Wheat Board was
9 being constructed last year right next door to our
10 land.
11 And the thing is, the NH3 and anhydrous
12 ammonia fertilizer tank is also on the terrorist watch
13 list. We also have a flight training school at Portage
14 where pilots are flying all the time. There's also a
15 telecommunication tower right beside the Canadian Wheat
16 Board, kitty-corner to it. And we would like to have
17 Bipole III put underground for everybody's safety and
18 protection in our community. And we know this can be
19 done.
20 We're a pedigreed seed growers, also.
21 And we want to know what you guys -- are plans for by
22 security because, in 2011, you guys left leaning hydro
23 poles on our land. And when we went to combine our
24 pedigreed seed flax -- they were left like that for a
25 whole year. And when we came to combine our pedigreed

1 seed flax there was only a foot of space between it and
2 the combine.
3 And so we want to know are the Bipole
4 towers -- how you are going to look after them and make
5 sure that they're not going to fall down, for safety
6 reasons.
7 The thing is, the farmers don't want to
8 be liable if they come into contact with these
9 transmission hydro towers and lines, because they are
10 going to be so close to the circular loop track. And
11 we want to know if you guys can reroute them or put
12 them underground for everybody's safety.
13 The Canadian Wheat Board would also like
14 them -- which is called G3 now, would also like them
15 put underground for safety reasons, or reroute them,
16 because they don't want to be liable neither for -- if
17 one (1) of those things lands on the track and
18 electrifies the train track.
19 And for -- the Canadian National Railway
20 has also told us that they cannot stop a train in time.
21 The trains are 2 miles long and they're also carrying
22 extra oil on these trains now. And so we just don't
23 want the responsibility or liability.
24 There was also a derailment there in
25 1998 where 60,000 litres of glycol went into Rat Creek,

1 which is beside it, at Bloom, and the -- it still
2 stinks there from the glycol. And people were
3 evacuated from there and told not to drink the water
4 and then they were back -- allowed in after the mess
5 was cleaned up. But we don't want that responsibility
6 or liability with all the terrorist activity that's
7 going on in the world. We want Bipole III rerouted or
8 put underground for everybody's safety.
9 Portage District General Hospital has
10 also said that they would not be able to accommodate
11 all the people if there was a disaster to happen. And
12 they said it needs to be rerouted or put underground
13 for everybody's safety and protection.
14 THE CHAIRPERSON: Now, you know, that
15 this panel is not responsible for the routing of the
16 Bipole III?
17 MS. PAM PUGH: But, if there's -- if
18 there's something to happen, the landowners don't want
19 that responsibility or liability.
20 THE CHAIRPERSON: Now, have you -- have
21 you approached the -- Manitoba Hydro with your
22 concerns?
23 MS. PAM PUGH: Yes, we have, umpteen --
24 THE CHAIRPERSON: Yeah. Have you
25 participated --

1 MS. PAM PUGH: -- times.
2 THE CHAIRPERSON: -- in the -- have you
3 participated in the consultations that were done by
4 Manitoba Hydro and -- and expressed those concerns to
5 them?
6 MS. PAM PUGH: Yes, umpteen times we
7 have. I've written umpteen emails. I've written
8 emails to Greg Selinger, to Ron Kosdyshyn, CAEPLA is
9 also opposed to it. Keystone Agricultural Producers,
10 the RM of Portage, the RM of North Norfolk are all
11 opposed to it and Manitoba Aerial Applicators are also
12 opposed to it.
13 THE CHAIRPERSON: Now, this --
14 MS. PAM PUGH: The RM of Portage has
15 also -- has bio-security in place. And if -- if you
16 guys don't clean your equipment before entering
17 landowner's land it'll be denied access until the
18 equipment is cleaned. We noticed last year when
19 Manitoba Hydro were cleaning their equipment -- or when
20 they were doing work for Canadian Wheat Board, that
21 they had put a vehicle in our vacant yard and our
22 vacant yard had no access to water.
23 When I approached one (1) of the
24 Manitoba Hydro workers I asked him for -- to see bio-
25 security and he says, Oh, I have it in my truck, but he

1 would not show it to us and he never went and talked to
2 my husband or brother-in-law.
3 In 2011 when Manitoba Hydro came to fix
4 the live leaning hydro poles too, they never went and
5 talked to my husband or brother-in-law. And for -- so
6 we want to know where bio-security was in 2011, with --
7 because now there is club root and verticillium wilt,
8 which is two (2) diseases that will affect your canola
9 crops. And once you have that in your canola crops
10 it's game over and farmers can't afford that now days
11 with the prices of everything.
12 THE CHAIRPERSON: Now, the situation in
13 your -- in your case, you indicated that they -- the
14 Bipole is running through your land?
15 MS. PAM PUGH: M-hm.
16 THE CHAIRPERSON: So you have been
17 expropriated? You have been --
18 MS. PAM PUGH: We're going to be
19 expropriated. Manitoba Hydro is allowing us -- giving
20 us time to sign for an easement if we want. Other
21 landowners are doing that right now in our area, as
22 farmers want to still own their land and be in control.
23 We want -- we -- we're just asking if
24 Bipole III could be rerouted or put underground for
25 everybody's safety. That's all we're asking.

1 THE CHAIRPERSON: Okay. Well, that's
2 very clear. Thank you. I -- I don't think the panel
3 has any further questions from you. Thank you very
4 much.
5 MS. PAM PUGH: Thank you.
6 THE CHAIRPERSON: We appreciate your
7 comments.
8
9 (BRIEF PAUSE)
10
11 THE CHAIRPERSON: Good afternoon. Mr.
12 -- Mr. Laliberte, I guess you're going to ta --
13 introduce the other representatives and yourself as
14 well of -- of the Bipole Coalition and let us know who
15 they are and so on. Thank you.
16
17 PRESENTATION BY BIPOLE COALITION:
18 MR. GARLAND LALIBERTE: Okay. Thank
19 you. Yes, I guess I will start with our president,
20 Karen Friesen. She's sitting in the far end. My name
21 is Garland Laliberte. I'm the vice president of the
22 Coalition. And everybody else up here is our -- our
23 directors of the Coalition. Sorry -- oh, and there is
24 a visitor who I will ask Dennis to introduce.
25 Next to our president is Dave Ennis,

1 director. Next to me is -- is Art Derry, director.
2 Speaking on behalf of the Coalition today is Dennis
3 Woodford, also a director. And he has a guest who --
4 who has an interest in -- in our topic. I'm going to
5 ask Dennis to introduce his dire -- his guest.
6 MR. DENNIS WOODFORD: Thank you,
7 Garland. Mr. Chairman, members of the Board, ladies
8 and gentlemen, I have with me Mr. Tim Yusishen, who is
9 the president of Solar Solutions Incorporated here in
10 Winnipeg. He's an expert on solar energy, has been
11 marketing solar plant around the world internationally
12 for nearly thirty (30) years. So if you have any
13 questions on this topic he is our expert so far as
14 solar energy is concerned.
15 In our brief to you on May the 18th, we
16 presented the changes coming to the way we generate and
17 use electricity, our most important commodity, no
18 question. We are fortunate in this province to have
19 had low-cost electricity, but reliability is
20 questionable. The last two (2) months my office has
21 been blacked out twice and we've lost production.
22 Bipole III wouldn't have helped. Just last night there
23 was an outage here in downtown.
24 Reliability is a big issue. To improve
25 reliability and combat increasing electricity rates

1 distributor generation and microgrids are being
2 enthusiastically developed in the US and in Europe. A
3 microgrid is defined as a subset of an electric grid,
4 typically at low or medium voltage, that can be inst --
5 islanded and still supply in a controlled manner or a
6 coordinated way all or most of the customers during
7 such an emergency. That's intrinsically enhancing
8 system reliability.
9 The microgrid requires smart
10 technologies to continue delivering electric power to
11 customers in an islanded mode. A microgrid can be a
12 single residence, the neighbourhood on the same
13 distribution feeder, or a commodity, as shown in slide
14 2. So where -- where's my slide? Okay.
15 Here we can see a single customer
16 microgrid, a community commercial or industrial
17 microgrid, a feeder grid or a full substation
18 microgrid. It includes generation, such as solar,
19 perhaps wind, energy storage, and connection to the AC
20 grid.
21 Why is the microgrid going to impact
22 Manitoba with its current low electricity rates? The
23 very fundamental reason is that as we increase the
24 electricity rates, then with the cost of solar panels
25 reducing, this is going to have an impact as we have

1 for the next slide.
2 This slide shows the point of grid
3 parity where it will be cheaper to obtain electricity
4 from solar panels to pay electricity rates. My brother
5 in Melvin has a solar on his roof that came with house
6 when he bought it. And he told me the other day that
7 his electricity bill is very little.
8 After parity -- after this time of
9 parity it will become customary to buy a house or a
10 building with solar panels on the roof and a battery
11 inside just like we buy a house today with a furnace.
12 I still have the furnace. Next slide.
13 Manitoba Hydro did consider solar energy
14 when grid parity is reached in the 2014 load forecast.
15 This solar energy included -- was solar energy included
16 in the load forecast, their actual load forecast? The
17 next slide.
18 Solar energy or its development into
19 distributed energy or microgrids was not included in
20 the 2014 load forecast. How deeply intrenched is
21 Manitoba Hydro in not deviating in any way from this
22 preferred development plan? If export prices stay low
23 despite a possible carbon tax in 2020 and because of,
24 and note this, significant development of solar in
25 Minnesota, is Manitoba Hydro flexible enough to deal

1 with delaying Conawapa indefinitely? It seems that
2 they're not flexible in any way. We hope they can
3 prove us wrong. Next slide.
4 Why in California, and I have a company
5 that works very closely in those two (2) states, are
6 the first states to reach parity? Just look at how
7 fast the growth of solar generation is in those states
8 compared to Manitoba's load growth at 1.3 percent.
9 Germany, on the same latitude as
10 southern Manitoba, has 27 gigawatt. But I was in
11 Europe just this last week, and I found it's at 30 some
12 -- 37 -- 38 gigawatts, and -- and they're on the same
13 latitude as we are.
14 They ha -- we have more sun and solar
15 panels, if I might correct here, Tim, and more
16 efficient in the cold?
17 MR. TIM YUSISHEN: Yes.
18 MR. DENNIS WOODFORD: Is that correct?
19 MR. TIM YUSISHEN: That's right, yeah.
20 MR. DENNIS WOODFORD: The next slide.
21 Microgrids involving more than one (1) building or
22 residence requires sophisticated or smart control and
23 protection systems despite this technology being still
24 in its infancy. See how rapidly microgrids are
25 expanding. In the past year, they've almost tripled.

1 This is not just solars. This is the microgrids, which
2 are a little more complex.
3 Next slide. There are a growing number
4 of solar projects in Minnesota. This one was announced
5 last week, and we split into twenty-one (21) sites
6 besides substations so that no transmission is
7 involved, and electricity delivered directly to the
8 distribution systems where reliability is required.
9 This power will sold to NSP or Xcel Energy as it is
10 often called, or it's another company.
11 NERC. This is a market that Manitoba
12 Hydro markets into, sells into, and so they should not
13 expect the electric energy price in MISO Minnesota to
14 increase too much to justify the costly Mani --
15 Conawapa for export.
16 Next slide. This is a possible impact
17 of microgrids and solar-based on parity being reached
18 in Manitoba, say, in 2027, just twelve (12) years
19 hence. Should Conawapa be built with this reliability
20 lying ahead?
21 Next slide. If the business case for
22 Conawapa is made even riskier by the disruptive
23 development of solar and microgrids both here in
24 Manitoba and in -- already in Manitoba's markets in the
25 US, then Conawapa is not required in a significant

1 lifting -- is not required, resulting in a significant
2 lifting of stress on rates.
3 Now, let's see if there's any further
4 lifting on stress on -- on future rates can be gained
5 by not building the Bipole III overhead transmission
6 line.
7 Next slide. A 2,300-megawatt Bipole III
8 converters at Keewatinohk and Riel have already been
9 purchased. These converters, at 2,300 megawatts, will
10 easily have the capacity to carry the extra 695
11 megawatts of Keevask now under construction.
12 The concept is that Bipole III
13 converters are connected to one (1) -- as this slide is
14 showing, to one (1) of the existing Bipoles I or II,
15 perhaps Bipole II. These lines are each rated at 3,800
16 megawatts, and are normally operated at about 2,000
17 megawatts or less. So there is plenty of capacity
18 available on either of these lines to carry 695
19 megawatts from Keevask.
20 If Manitoba Hydro states that this is
21 not possible, well, there are several good high-voltage
22 DC engineering companies with two (2) of them right
23 here in Winnipeg that include Teshmont and TGS that, if
24 given the request and if Manitoba Hydro would let them,
25 could engineer the connection of the Bipole III

1 converters to the Bipole II overhead transmission line.
2 Next slide. What are the advantages in
3 connecting the Bipole III converters to the overhead --
4 to the Bipole II overhead transmission line?
5 One (1) big advantage is that, if the
6 construction of the Bipole III overhead transmission
7 lines ceased immediately, there will be funds that
8 could not be used, which perhaps could reach $1 billion
9 or more. I don't know how much is sunk in that
10 already, but I'm assuming about 1.6 billion for that
11 line, just the overhead line, so.
12 That size of unspent money would also
13 add to easing the stress of future rate increase
14 requirements. That's $1 billion. Okay. When I was
15 younger in engineering, we used to say, Oh, what's a
16 million? Seems today, What's a billion? That's not
17 right.
18 The size of unspent money would also be
19 added to easing the stress of future rate increase
20 requirement. If the Bipole III converters can be
21 favourably re-contracted to 1,200 megawatts, then they
22 would also reduce additional stress on future rates.
23 Next slide. But Manitoba Hydro will not
24 budge on their stance on Bipole III, and their
25 justification depends on the questionable need for

1 reliability. We hear that so much.
2 Now, let's discuss Bipole III need for
3 reliability, which we have not been able to discuss,
4 and accept, and -- and we have to accept it
5 unconditionally. There are serious misrepren --
6 misrepresentations in this statement that, We need it
7 for reliability. That is so often quoted by Manitoba
8 Hydro and others to justify it, and let's list a few.
9 Next slide. First of all, Minister Gord
10 Mackintosh would not allow for NFAT for Bipole III in a
11 letter to Mr. Terry Sargeant, Chair of CEC, dated
12 August the 22nd, 2012. Secondly, you, as the Public
13 Utilities Board, regarding the NFAT review of Manitoba
14 Hydro's Preferred Development Plan were instructed by
15 an Order in Council dated April the 17th, 2013, that
16 under the terms of reference, Bipole III transmission
17 line and converter station project was not in scope.
18 No chance for discussion. No chance for debate. An
19 accepted thing that we must have it for reliability.
20 In both these directives, there's no
21 investigation possible for reliability. It was just
22 declared and not to be questioned.
23 Next slide. Manitoba Hydro submitted to
24 the PUB of Newfoundland and Labrador that a reliability
25 study for the Muskrat Falls project should be done, but

1 never tabled one for the reliability of Bipole III
2 specifically.
3 Next slide. In Manitoba Hydro's
4 submission to the PUB NFAT on its Preferred Development
5 Plan, in Appendix 13.1, an NFAT reliability evaluation
6 was undertaken to compare the reliability of in -- of
7 alternatives, of generation alternatives. Unacceptable
8 input data was used for forced outage rates for the
9 simultaneous outage of both Bipoles I and II overhead
10 transmission lines, therefore invalidating that
11 evaluation. What were these unacceptable data used?
12 Next slide. Manitoba Hydro insisted,
13 through the CEC environmental impact statement hearings
14 and the NFAT, that the simultaneous failure of Bipoles
15 I and II transmission lines would occur once every
16 seventeen (17) years. From this, they stated in this
17 hearing and the NFAT submission that the desired system
18 loss of load expectation without Bipole III was greater
19 than the industry standard of zero point one (0.1) for
20 the loss of load expectation.
21 A very good detailed weather hazard
22 report they commissioned to Teshmont Consultants and
23 they received in January 2020 -- '12, I should say,
24 said that the figure is once in ninety (90) years. Big
25 difference compared to seventeen (17).

1 Next slide, please. This slide is from
2 the Preferred Development Plan, NFAT Appendix 13.1, and
3 it shows the comparison of the generation alternatives
4 that they had there. If they used the one (1) in
5 ninety (90) years instead of the one (1) in seventeen
6 (17) years, everything would be, in my opinion, without
7 the study, of course, way below the loss of line --
8 loss of load expectation level of zero point one (0.1).
9 Next slide. Can Manitoba Hydro justify
10 continued use of one (1) in seventeen (17) years for
11 simultaneous loss of Bipoles I and II compared with the
12 Teshmont report of one (1) in ninety (90) years?
13 There's billions of dollars at stake, here. Is this
14 misrepresentation deliberate to justify the need for
15 Bipole III for reliability so that its cost of 4.65
16 billion could be sunk into the rate base and not in --
17 added to electricity export costs? We leave this for
18 you to consider this distressing situation. Nothing,
19 of course, that microgrids can increase reliability of
20 supply.
21 Next slide, the final. For centuries,
22 horse and carriage was the main load of transportation,
23 then came the disruptive technology of the automobile.
24 Presently received mis -- microgrids as disruptive
25 technology, but in time, they will be seen as

1 beneficial. Regrettably, Manitoba Hydro has not
2 indicated any recognition of the inevitability of
3 microgrids in its 2014/'15 and 2015/'16 general rate
4 application.
5 Also regrettably, there is considerable
6 uncertainty about how Bipole III is justified for
7 reliability upon which many billions of dollars are at
8 stake, include -- including the Preferred Development
9 Plan. The Bipole III Coalition requests that the
10 Public Utilities Board require Manitoba Hydro to submit
11 a detailed plan of how the emerging reality of supply
12 of electric energy is to be undertaken as affected by
13 the inevitable transition to microgrids and solar. We
14 ask that such a trans -- submission be -- state the
15 impact of microgrids on electricity rates that will be
16 paid by Manitobans. Thank you.
17
18 (BRIEF PAUSE)
19
20 MR. RICHARD BEL: I -- I have a
21 question.
22 MR. DENNIS WOODFORD: Please.
23 MR. RICHARD BEL: So just to get to the
24 nub of the argument about Bipole III and reliability.
25 MR. DENNIS WOODFORD: Yes, sir.

1 MR. RICHARD BEL: So if we use the one
2 (1) in ninety (90) years --
3 MR. DENNIS WOODFORD: Yes.
4 MR. RICHARD BEL: -- we pass the NERC
5 reliability criteria?
6 MR. DENNIS WOODFORD: I assume so
7 without having done the studies, but I've done many
8 reliability studies in the past, and I -- my experience
9 is telling me that Manitoba Hydro should do that with
10 the proper input data, not seventeen (17), but ninety
11 (90).
12 MR. RICHARD BEL: And -- and where did
13 the seventeen (17) years come from?
14 MR. DENNIS WOODFORD: I think it came
15 from a 2001 report -- original report by Teshmont, but
16 I need to be corrected on that. And so -- but the big
17 one that came was the 2012 one, which was a very
18 substantial and significant report and should have been
19 used.
20 MR. RICHARD BEL: All right. Thank
21 you.
22 THE CHAIRPERSON: There was a reference
23 in one (1) of your slides to hearsay in Alberta. And I
24 -- I wasn't sure what that --
25 MR. DENNIS WOODFORD: I had heard that

1 secondhand, and I felt that -- the slide itself, I
2 don't believe, is incorrect. But I certainly didn't
3 want to -- I had no confirmation on it, and so I
4 decided it would be best to -- Hydro themselves can
5 indicate that, maybe. I think the main thing here is
6 whether or not that -- that graph is correct. If
7 there's -- if they can show that that graph is
8 incorrect, then we're willing to listen. I think
9 that's the important factor.
10 THE CHAIRPERSON: Am I understanding,
11 based on the evidence we heard in the preceding days,
12 is that Manitoba Hydro submitted a reliability study to
13 -- as part of the CEC hearings and -- and obviously
14 you've seen that study?
15 MR. DENNIS WOODFORD: The reliability
16 study that they did for the CEC hearings did not
17 include the MMTP line, which is a major in -- factor in
18 reliability. For example, back in the 1970s, when I
19 was at Manitoba Hydro, we did a fairly detailed
20 reliability study with Dr. Roy Billinton who is the
21 world's leader in reliability of power systems.
22 And we looked at, What's the benefit of
23 the Winnipeg/Twin Cities 500 kV line that was going in
24 about 1980, and Bipole II? And we wanted to make sure
25 that we would meet this loss of load expectation or

1 those -- or the equivalent. And we included that line.
2 And here, the CEC were told -- I wish -- the -- the
3 reliability study that Manitoba Hydro did, did not
4 include that MMTP line, and they used that
5 unjustifiable one (1) in seventeen (17) years.
6 Just a minute. I might have some more
7 information on this.
8 Is that correct? Okay. Mr. Derry, who
9 is pretty -- more familiar with this has told me that
10 it did not include a probability study for the
11 transmission line. It was a deterministic study. By
12 'deterministic', it -- I -- we don't mean that the
13 probabilities are accounted for, just what happens if
14 something -- goes out, and does the world come to an
15 end?
16 And if the world -- if the -- if the
17 lines happen to collapse right at the time of -- of
18 peak time, we're all in the dark. That was the
19 deterministic study.
20 Is -- is that correct, Mr. Derry?
21 MR. ART DERRY: Yes, that's correct,
22 but I think at the hearing, it was brought up that they
23 were asked a question: What would happen if we lost --
24 and they said they had done the study, and they'd be
25 700 megawatts short. That was the -- the answer.

1 Now, that's not equivalent to the
2 probabilistic study, which gives you an outage, say, of
3 point one (.1) day per year. You can't compare the two
4 (2). They're not the same.
5 MR. DENNIS WOODFORD: And -- and could
6 I just add to that, Mr. Chairman? A utility or -- like
7 Manitoba Hydro has to compare cost versus risk. With
8 infinite cost, we can have no risk. So there has to be
9 a proper balance, and that is a challenging task and it
10 needs to be done.
11 DR. HUGH GRANT: And were you
12 suggesting there's grid parity in Hawaii? Was that the
13 -- one (1) of the slides?
14 MR. DENNIS WOODFORD: Oh, yes.
15 Absolutely. Hawaii is in the sad situation of having
16 to import all its oil.
17 DR. HUGH GRANT: So just -- but just to
18 put it in context, this is with a subsidy, subsidized
19 production costs?
20 MR. DENNIS WOODFORD: At the moment,
21 the solar -- solar systems are subsidized, yes.
22 DR. HUGH GRANT: And a price of
23 electricity at what, thirty-five (35) cents a kilowatt
24 hour?
25 MR. DENNIS WOODFORD: Oh, I can't -- I

1 don't know exactly, but it's -- it's not that high.
2 It's -- but --
3 DR. HUGH GRANT: Not over thirty (30)
4 cents a kilowatt hour?
5 MR. DENNIS WOODFORD: No. It'd be
6 lower than that. Sorry? It's based on oil. They have
7 to bring in oil on a tanker to keep the steam plants
8 going, okay? And so folks are putting up -- at that
9 rate I showed you, putting up their own solar to -- to
10 help offset that.
11 It's causing a problem, because they're
12 not connected to a big system like Manitoba Hydro is.
13 We're not connected through these wonderful
14 interconnections to the US, which is like a big, solid
15 anchor.
16 They're just -- Oahu I'm talking about
17 is just a small island. They've got no anchor. The
18 frequency's flopping around all over the place as -- as
19 the sun comes and goes.
20 And -- and we have been asked to --
21 well, we're -- we're working with -- I've been working
22 with -- our company's been working with them for about
23 six (6) years continuously. And I just had a call a
24 week and a half ago about -- about how to handle this
25 fluctuation of the electricity where they've got no

1 firm connection like Manitoba Hydro has.
2 And that's something that -- and I put
3 them onto another place where they've got that problem,
4 and they -- it -- it's a problem, but this is where the
5 batteries will come in as -- as they become cheaper.
6 And every -- there's every indication that in ten (10)
7 years' time, whether it be a solid-state battery or big
8 super-capacitor, they'll be pretty cheap. It'll be
9 printable. And if that happens, then -- then things --
10 times are going to be different. Things are going to
11 be different.
12 DR. HUGH GRANT: I -- I just wasn't
13 sure if it was a terribly good example for the case of
14 Manitoba. It just seems to me the notion of grid
15 parity when production of solar is subsidized and
16 electricity prices must be at least three (3) times
17 what they are here, the grid price --
18 MR. DENNIS WOODFORD: Well --
19 DR. HUGH GRANT: -- we still have a
20 ways to go.
21 MR. DENNIS WOODFORD: -- I -- I can't
22 tell you -- answer that. I really can't. But I do
23 know, as I've mentioned in -- in my report, that
24 Pacific Gas and Electric in northern California -- I
25 have a friend in -- in Pleasanton, California, who's on

1 PG&E.
2 And a company comes to them and says, We
3 can put solar on your -- on your roof, batteries.
4 Won't cost you a penny, and you'll just pay us a
5 monthly fee. Still connected to the grid.
6 And at the moment, they've got over a
7 hundred thousand (100,000) such applications of solar
8 panels, and they expect about five hundred thousand
9 (500,000) within the end -- the end of the decade.
10 Now, the -- the State of California and
11 -- and the PG&E's requirement is -- is debating this
12 right now in Sacramento about the -- if we're going to
13 get all these solar grids on their roof and they're
14 connected to the grid, then they're not paying for grid
15 maintenance.
16 And so there -- there will be a law put
17 forward, it may be passed now, I don't know, that if
18 you're going to connect stay -- if you're going to put
19 your solar on the roof or your -- and you're going to
20 stay connected to the grid with your microgrid, then
21 you'll have to contribute towards the well-being of the
22 grid.
23 We need the grid. There's no question
24 we need the existing grid.
25 MR. GARLAND LALIBERTE: I'd like to add

1 to that. The electric -- no, the Energy Information
2 Administration in the United States tells us that the
3 cost of solar has gone down 53 percent since 2010. It
4 also tells us that the projection is that it will
5 continue to go down during the coming years at the rate
6 of 10 percent.
7 We know as well that -- that there are
8 jurisdictions in the United States that are
9 contemplating pulling off the subsidy for solar. When
10 -- when that happens, and it will because it's just a
11 matter of time with the projections that you can make,
12 there will be ten (10) to twelve (12) states in the
13 United States who -- who, ten (10) years from now, will
14 have reached parity. That's the market -- that is the
15 market into which we seek to export. And for there to
16 be no recognition of that either in the NFAT hearing or
17 in a general rate application is, to me, amazing.
18 Could I also say -- say a word about
19 reliability? The -- the body that is authoritative on
20 that in -- in this continent is the North American
21 Electric Riabil -- Reliability Council.
22 And -- and I think if Hydro wants to
23 claim that Bipole III is needed for rel -- reliability
24 with our without the -- the inter-tie -- inter-ties to
25 the United States, it should be able to tell regulatory

1 bodies like this that it has met the requirements of
2 NERC, that body.
3 It's not enough to say that loss of load
4 expectations are less than zero point one (0.1). And
5 to claim that that is the equivalent of a probabilistic
6 study, I think if -- if Hydro could put before this
7 body evidence that it has satisfied NERC -- satisfied
8 NERC that it has met reliability requirements, then you
9 could proceed with more confidence.
10 MR. TIM YUSISHEN: May I add one (1) --
11 one (1) comment. I'm -- I'm president of Solar
12 Solution Incorporated. The head office is in Canada
13 and we're a global company. And we're all over the
14 world. And we've been working all over the world for
15 many years.
16 Our head office is here because we were
17 born here. We have relatives. It's just the way it
18 was. But we use Manitoba as a testing ground for
19 different materials we use, batteries, solar modules,
20 et cetera, and different equipment.
21 Distributor power adds tremendous
22 security to the grid because it's not just a couple of
23 -- of sites generating power, it's distributing from
24 those many sources, like grid tied, rooftop PV systems.
25 It also has an option to have grid tie with backup

1 power. In the event of a power failure, there's no
2 fuel generators used. It just uses a super battery
3 with very high power density that can backup the load
4 for hours or days, or even weeks if -- if wanted.
5 Megawatt storage is a reality. It's
6 been happening for the past three (3) years around the
7 world. In Manitoba, it's a very poor climate because
8 we don't have subsidies, unlike deficits that the Hydro
9 company is running here.
10 You know, if we look at the deficit and
11 what they're operating at now, like Ontario, they've
12 gone through some pretty serious financial issues right
13 now. Ontario Hydro, for example, is looking for 60
14 percent, selling off their assets to foreign interests.
15 There's a good case of what could happen.
16 The US is diversifying. And their
17 market -- Manitoba Hydro's market, I feel, is drying up
18 in a big way for exporting market because they're
19 taking action in using, not just one (1) source of
20 power, but multiple sources of power, diversification,
21 and that's what it's going to take because of climate
22 change, global warming, water levels fluctuating. You
23 need a diversified energy generation portfolio to
24 supply what's coming in the future.
25 So there is about half a dozen sites

1 here generating power, grid-tied very happily that they
2 -- very happy that they did it, some with backup, some
3 just straight grid-tie and no batteries. And they're
4 ecstatic. They're cancelled out their power bill even
5 at these low utility rates. You might ask yourself why
6 are these people doing this. I think they -- they see
7 the future. They want to fix their power utility costs
8 for life. And they like competition. And I open up
9 for questions.
10 MS. MARILYN KAPITANY: The people you
11 just referred to, are they doing what was referenced
12 earlier in terms of helping to pay for the grid?
13 MR. TIM YUSISHEN: As far as I know
14 taxpayers paid for the grid from the start. Manitoba
15 Hydro is a Crown utility and everybody contributed to
16 the -- the forming of the grid and through taxpayers'
17 funds. And the util -- the utility is really owned by
18 taxpayers in my opinion because that's what drives a
19 Crown corporation.
20 The -- the rural people paid the same as
21 the -- the people in the city for power and that was
22 subsidized so everybody would have a fair and even cost
23 for power in Manitoba. You know, so if you look at the
24 beginnings of Manitoba Hydro all that infrastructure
25 was set up through taxpayers and Manitoba Hydro is a

1 necessary -- necessary evil, but should also be looked --
2 looking at diversification or privatization in my
3 opinion based on what I see globally.
4 MS. MARILYN KAPITANY: The grid may
5 have been established through --
6 MR. TIM YUSISHEN: Sorry?
7 MS. MARILYN KAPITANY: The grid may
8 have been established through taxpayer money, but then
9 the people who are paying the rates are paying the
10 continued ongoing maintenance of the grid. So I'm just
11 saying when you said that people were able to cancel
12 their power bill and just do the -- the grid tie are --
13 should they then be paying some kind of part of -- of
14 maintaining the grid as well? That's what was
15 referenced earlier.
16 MR. TIM YUSISHEN: Well, I think
17 there's a service fee attached to their power bills as
18 well. It's not just a pure cents per kilowatt hour and
19 so forth. So they are paying something. But they're
20 also giving -- they're giving a reduction of
21 infrastructure by pro -- producing power in many
22 different places. So Manitoba Hydro's infrastructure
23 could be lessened. The reliability factor goes up many
24 times. So just by doing that they are -- they are
25 contributing in a big way.

1 MR. DENNIS WOODFORD: Ex -- could I
2 just add to that by referring to Pacific Gas and
3 Electric again? They have two (2) add-on rates that
4 they can put to their rate structure which is that they
5 will give credit if you ship power into the grid. So
6 that if you take power back out that credit applies.
7 So Manitoba Hydro, of course, doesn't have that or at
8 least to my knowledge.
9 MR. TIM YUSISHEN: Well, sor -- sorry.
10 What they have is -- Manitoba Hydro has agreed to allow
11 people to generate power up to what they consume, but
12 no more. In other provinces and countries it's open.
13 You're encouraged to generate at a much higher rate
14 typically and because they're taking the burden of the
15 full cost in -- in doing the power generation and
16 they're giving the utility distributed power, more
17 energy security as well.
18 THE CHAIRPERSON: Thank you very much
19 for a very thoughtful and detailed presentation. I
20 appreciate your comments and I appreciate the
21 information you've brought before this panel. And
22 certainly we will be expecting Manitoba Hydro to
23 respond to the points you have made in your
24 presentation.
25 I must add that, you know, we have

1 recommended to the government that -- that an
2 Integrated Resource Plan be developed in the future
3 before contemplating any major construction programs.
4 And so we're hopeful that as part of that planning, you
5 know, the use of -- of electricity generated from solar
6 will be considered as -- as part -- as an element of
7 that plan. So we're optimistic that that
8 recommendation will be -- will be adopted by
9 government. So thank you very much.
10 MR. DENNIS WOODFORD: That's very
11 encouraging. Thank you so much.
12 THE CHAIRPERSON: Thank you.
13 MR. GARLAND LALIBERTE: M. Gosselin, on
14 behalf of the Coalition thank you very much for
15 allowing us the -- the time and especially for the --
16 the interaction after. We -- we very much appreciate
17 that.
18 THE CHAIRPERSON: I think we should
19 stand down for ten (10) minutes or so, get people in
20 position.
21
22 --- Upon recessing at 2:18 p.m.
23 --- Upon resuming at 2:30 p.m.
24
25 THE CHAIRPERSON: I believe that we're

1 ready to resume the proceedings of this -- of this
2 panel. Do we have any business to attend to before we
3 start?
4 MS. ODETTE FERNANDES: Yes, we do.
5 Thank you, Mr. Chairman. We do have a few items to
6 file on the record. The first item we have is a
7 presentation that Mr. Cormie is going to be providing
8 with respect to the Great Northern Transmission Line.
9 And the question from the -- from yourself, Mr. Chair,
10 regarding the percentages of capital on the funding
11 timeline. And I believe it will be a very brief
12 presentation, but we'd like to have that marked as
13 Manitoba Hydro Exhibit number 53.
14
15 --- EXHIBIT NO. MH-53: Presentation by Mr. Cormie
16 with respect to the Great
17 Northern Transmission Line
18 and an answer to the
19 question regarding the
20 percentages of capital on
21 the funding timeline
22
23 MS. ODETTE FERNANDES: And then we also
24 have a response to Manitoba Hydro Undertaking number
25 16, which was for Manitoba Hydro to provide the range

1 of Min -- that Minnesota Power has given for the three
2 (3) alternate routing selections. And that would be
3 marked as Manitoba Hydro Exhibit number 54.
4
5 --- EXHIBIT NO. MH-54: Response to Undertaking 16
6
7 MS. ODETTE FERNANDES: We also have a
8 revised response to Information Request MMF-I-40(c).
9 And Manitoba Hydro has made some revisions to some of
10 the numbers in the table at the back. So we wanted to
11 ensure that the correct information was before the
12 Board.
13
14 --- EXHIBIT NO. MH-55: Revised response to
15 Information Request MMF-I-
16 40(c)
17
18 MS. ODETTE FERNANDES: And then
19 finally, as indicated on the record this morning,
20 Manitoba Hydro has provided its response to underta --
21 Undertaking number 3 with respect to preparing a graph
22 of the accounting changes. And that was provided this
23 morning in slides 51 and 54. So we've just documented
24 that for the Board. And that would be filed as Hydro
25 Exhibit Number 56.

1 --- EXHIBIT NO. MH-56: Response to Undertaking 3
2
3 MS. ODETTE FERNANDES: And with that,
4 with the Board's permission, Mr. Cormie can proceed
5 with his presentation.
6 THE CHAIRPERSON: Mr. Cormie, welcome
7 back.
8
9 MANITOBA HYDRO PANEL 4 - FINANCE RESUMED:
10 DAVID CORMIE, Previously Sworn
11
12 PRESENTATION BY MR. DAVID CORMIE:
13 MR. DAVID CORMIE: Yes, you thought you
14 were getting rid of me yesterday and I'm -- I'm back.
15 Mr. Chairman, the other day we talked about the capital
16 structure of the Great Northern transmission line and -
17 - and the ownership issues, but we didn't get into the
18 issue of who was going to operate and pay the ongoing
19 costs of the transmission line.
20 And so the purpose of my presentation
21 today is just to cover that end of the spectrum.
22 Firstly, I just want to go through the funding
23 timeline, because I think that helps understand the
24 relationship between the development period, the
25 construction period, and the operations period.

1 As I indicated the other day, for -- for
2 the next couple years Manitoba Hydro and Minnesota
3 Power are in a tenants and common relationship. Our
4 subsidiary and Minnesota Power are jointly incurring
5 the development cost, the engineering, the studies, all
6 the work that's necessary prior to construction. And -
7 - and the companies are essentially splitting those --
8 those costs based on the capital cost ratio of 54
9 percent being paid for by Manitoba Hydro subsidy and
10 the other 46 percent based on -- with Minnesota Power
11 paying those.
12 And -- and those numbers are different
13 from the ownership numbers, as -- as I can remind you
14 is -- in that they -- this -- the line was upsized to
15 883 megawatts instead of the seven hundred and fifty
16 (750) that was initially contemplated. And we moved
17 the ratios to these numbers to reflect that -- that
18 Manitoba Hydro was going to be paying for the 54
19 percent of the -- of the 883 megawatts and we get to
20 enjoy the benefits of that.
21 Our intention though is not to continue
22 to own the line once it comes -- once construction
23 starts. And we will assign the ownership rights to
24 Minnesota Power. And -- and during the construction
25 period, from 2016 to 2020, we will pay as a capital

1 contribution 54 percent of the construction costs of
2 the line.
3 Now, once that line is -- is
4 constructed, then it goes into operation. And although
5 the line has an economic life of forty (40) years, for
6 tax reasons, we've -- we've had to pay our share of the
7 operating costs over twenty (20) years. If it's longer
8 than twenty (20) years, it's deemed to be a tax lease,
9 which would expose Manitoba Hydro's export revenues to
10 US income taxes. And so by keeping it under -- our
11 contribution under twenty (20) years we've been able to
12 structure it from a tax perspective to avoid that --
13 that tax risk.
14 And so for the -- for the first twenty
15 (20) years of the operation of the line we will pay our
16 -- the operating and maintenance costs on the 49
17 percent of the line that -- that we were asking
18 Minnesota Power to build on our behalf. We will also
19 pay for the revenue requirements for the 18 percent
20 that Minnesota Power is going to own but will lease
21 back to Manitoba Hydro.
22 And, in effect, we -- and we will then
23 be paying for 67 percent of the operating and
24 maintenance costs of the line. That's the 67 percent
25 that Manitoba Hydro will be using. That's the 67

1 percent of the line that they don't require. So we're
2 paying the balance of -- of the line costs.
3 Now, you notice when we go back to
4 operating and maintenance costs we're reverting back to
5 the 49 and 51 percent ratios, not the capital costs,
6 because whether the line has a rating of 750 megawatts
7 or 883 megawatts, the cost of maintaining the line is
8 essentially the same. And so we didn't deviate from
9 the original bargain of -- of sharing the costs of
10 operating and maintenance based on the -- on -- on the
11 original 750 megawatt ratio.
12 In addition, you'll see on the third
13 line of that bullet from twenty (20) to forty (40) we
14 are responsible for 67 percent of any transmission line
15 damage costs that would be deemed to be insurable
16 damage. We investigated whether we should go to the
17 insurance company and insure the line.
18 The premiums associated with insuring
19 the full line we just horrendous, so, in effect, the
20 two (2) companies are self-insuring. I think the
21 insurance company viewed it as, well, the whole line is
22 going to go down, and so we have to insure the whole
23 line. And the Utility's perspective is portions of the
24 line may go down, a few towers may go down.
25 Our experience in -- in operating and

1 maintaining transmission lines is that you never lose
2 the whole line, you -- you may lose a portion of it.
3 And so we -- we are exposed during that period of time
4 to paying two-thirds (2/3) of the cost of any insurable
5 damage that -- that will be -- that will incur -- that
6 will be incurred.
7 For the second twenty (20) years of the
8 line's operation our only obligation is to pay for two
9 thirds (2/3) of damage costs that are deemed to be
10 insurable damage. We, in a sense, prepaid our share of
11 the operating and maintenance costs in the last -- that
12 would be incurred in the last twenty (20) years, we've
13 paid those upfront. And I'll show you that in the --
14 in the second chart.
15 So our only exposure to the cost of the
16 line in the second forty (40) years of the -- of the
17 line's life are the insurance costs. Now, the line
18 will have a much longer life than forty (40) years.
19 The line will go -- the line will essentially be there
20 in perpetuity.
21 Once we reach 2060, at that point,
22 Minnesota Power is responsible for all the costs of
23 operating and maintaining and -- and repairing that
24 line or upgrading that line as required. Manitoba
25 Hydro has no more cost exposure after 2060.

1 This is a chart that -- that can --
2 shows the -- the costs and how they flow out over time.
3 I talked about the first two (2) bars on the left-hand
4 side. The first three (3) years are the development
5 costs. We're sharing in those 54:46 percent. The
6 capital costs, again, we're sharing those on a 54:46
7 percent basis.
8 And then we go into the -- starting when
9 the line comes into service in 2020, the ongoing costs.
10 And, in effect, these costs are higher than they would
11 normally be because you'll see there are no additional
12 costs past 2039. those costs have been brought forward
13 so that we pay those future costs in the first twenty
14 (20) years. And again, we'd remind you that we did
15 that because if our contract with MP went beyond twenty
16 (20) years, in effect it would be a tax lease, and that
17 would expose us to that -- to that tax risk.
18 So these ongoing costs are -- are for
19 two (2) par -- portions of the line, the 49 percent of
20 the line that is -- that Manitoba Hydro is making the
21 capital contribution on, and also the 18 percent that
22 is -- we're paying the revenue requirements associated
23 with the -- the 133 megawatts that Minnesota Power is
24 funding.
25 And so you add those forty-nine (49) and

1 the 18 percent, and that comes up with 67 percent of
2 the operating costs. And again, those -- those costs
3 will be there for forty (40) years, but we're paying
4 for them in -- in the -- in the first twenty (20) years
5 of the line's operation.
6 So that's -- that's essentially how the
7 -- the operating costs will be experienced by Manitoba
8 Hydro. And then I think I -- we -- we did provide an
9 IR, I think it was Coalition/MH-I-15(c) that actually
10 shows how the -- Manitoba Hydro will account for those
11 costs.
12 And we will amortize the -- the -- as an
13 intangible asset it over -- over forty (40) years, even
14 though we're paying it over -- in -- in the first
15 twenty (20) years. And there's some accounting
16 treatment that I think Ms. Carriere can speak to.
17 MS. LIZ CARRIERE: So the capital costs
18 that Mr. Cormie is showing in -- in his last slide
19 here, as we incur those expenditures, those are the
20 costs that are going to be placed into an intangible
21 asset. And then, as Mr. Cormie says, those costs, when
22 the line goes in service, will be amortized over forty
23 (40) years.
24 The reason why it's an intangible item
25 versus a -- an asset of Manitoba Hydro is because we

1 are transferring the ownership rights. And we are only
2 receiving the actual transmission rights. So we don't
3 directly own the line.
4 After the in-service date, the portion
5 of the ongoing costs, the OM&A, will be recorded as an
6 operating expense. As -- as I said, the amortization
7 and finance expense associated with that will be
8 recorded in their respective categories.
9 The portion of costs that Manitoba Hydro
10 is paying for on behalf of -- of MP will be the 18
11 percent of the scheduling fee. So that covers their 18
12 percent portion of operating, depreciation, finance
13 expense, taxes.
14 And that -- we will record -- because
15 that represents an obligation of Manitoba Hydro, we'll
16 record on the in-service a -- an obligation that will
17 be amortized over -- again, over the forty (40) year
18 life.
19 In terms of the liability, we will have
20 accretion going forward for twenty (20) years that we
21 have the contract to pay those payments for. So those
22 will go to finance expense.
23 And in -- in the response to 15(c) -- or
24 -- it says scheduling fee goes to fuel and power
25 purchases.

1 (BRIEF PAUSE)

2

3 MS. LIZ CARRIERE: Okay. That's the 49
4 percent -- the forty-nine (49) -- represents the 49
5 percent of the -- the scheduling fee that includes the
6 operating, depreciation, interest, and taxes. But in
7 terms of the -- the val -- revaluation of the liability
8 from year to year, as we draw down the liability, we'll
9 be putting the accretion to finance expense as well on
10 Manitoba Hydro's books.

11

12 (BRIEF PAUSE)

13

14 MR. DAVID CORMIE: The last question
15 that I think that you had asked about, Mr. Chairman,
16 was the issue of -- if others used the line and
17 Minnesota Power was to generate some transmission rents
18 through transmission usage fees, whether -- how those
19 would be dealt with.
20 Minnesota Power is going to record the -
21 - the cost of the line as what they have invested in
22 it. And so Manitoba Hydro is in effect, by making the
23 capital contributions, reducing the cost of the line.
24 So the only asset that will be on Minnesota Power's
25 books -- it'll be a 500 kV line, but it'll -- it'll be

1 on their books as if it was a two (2) -- it would -- at
2 the cost of a 250 or 230 mega -- or 250 megawatt line.
3 And so they put that into their -- into
4 their transmission owners filing with MISO and they --
5 they get paid through the MISO tariff the -- the return
6 as if they'd made only an -- an investment in a -- in a
7 two (2) -- in a 230 kV line. Although they'll have a -
8 - a 500 kV line standing there it will let -- they --
9 they -- it will only go in there as if it was a -- a
10 much cheaper line.
11 So in effect our capital contributions
12 just reduce the cost of the line and they only record
13 with MISO what it actually cost them as a utility. So
14 to the extent that -- that there is transmission --
15 there will be no transmission payments made to
16 Minnesota Power based on it being a 500 kV line. It'll
17 only be there as if it was a two thirty (230) line. So
18 there are no -- there are no transmission rents to --
19 associated with Manitoba Hydro's upgrade.
20 And because we control a hundred percent
21 of the import and export capability in Canada and we
22 control a hundred percent of the import capability in
23 the US, plus -- what is it -- 67 percent of the export
24 capability, essentially we control the yas -- the --
25 the use of the line. And -- and as we mentioned the

other day ownership of the line doesn't give you the right to use it. The use of the line is controlled through the MISO tariff. MISO determines who -- who has the rights to use and that's done in their contract.

In our relationship with Minnesota Power if -- if Minnesota Power leaves MISO we have another contract in place that -- that commits Minnesota Power to giving us the same rights that we would otherwise have if we were in MISO. So contractually we've closed the door to somebody else coming along and taking -- make -- having use of the line in the United States.

So I -- I -- you know, I -- as long as we exercise our rollover rights under the MISO tariff we will be able to hold the rights to this transmission line in the United States in perpetuity. But we own the transmission and we have the transmission rights under the Manitoba Hydro tariff and -- and we will -- we -- we control that as well. So it's -- it's very difficult for me to imagine a situation where we would -- we would ever lose the right to use the line.

So that's why ownership doesn't bring us much value. It just brings us the tax lia -- tax liability, exposing us to the -- a permanent establishment to the United States. And as Mr. Rainkie

1 reminded me, don't do anything that puts the --
2 Manitoba Hydro's export income at US tax risk. And
3 that's what we've structured this to do.
4
5 (BRIEF PAUSE)
6
7 THE CHAIRPERSON: The revenue that will
8 offset these -- these costs at the moment the only sure
9 thing is the contracts you have in place for -- with
10 Minnesota Power.
11 Is that right? At the moment the -- the
12 only firm commitment you have is with Minnesota Power
13 in terms of that -- that line?
14 MR. DAVID CORMIE: Yes, the -- and --
15 and the benefits of the -- of the Great Northern Line
16 were explored during the NFAT. And it was the only
17 firm contract that we had in place. And we weren't
18 bringing forth the -- the case associated with Conawapa
19 or with Wisconsin yet because the Wisconsin sale was
20 tied to the construction of Conawapa. And -- and so
21 the -- the benefits of building the Great Northern
22 Transmission Line exist independent to whether we build
23 Conawapa or not, or we enter into any additional
24 contracts.
25 THE CHAIRPERSON: Now, to the extent

1 that you -- that you've said that you have the rights
2 on this transmission line. You -- you obviously are of
3 the belief that you will yield higher opportunity
4 revenues from those rights have -- having access to
5 that transmission facility?
6 MR. DAVID CORMIE: Yes, that -- that is
7 -- that is correct. The -- the benefits were in four
8 (4) different buckets. So one (1) it -- it allows us
9 to defer generation in Manitoba because it doubles our
10 import capability that -- which -- which we believe is
11 the biggest benefit. There are system reliability
12 benefits associated with having another 700 megawatts
13 of firm import capability. It makes our DSM programs
14 more attractive.
15 And it also allows us to complete the
16 Minnesota Power 250 megawatt sale and -- and generate
17 the premiums that that sale is bringing, compared to
18 taking the energy to the spot market.
19 And when you look at all of those, and
20 you add them up, there's significant net present value
21 benefits over the -- over the cost of -- of the line.
22 And -- and again, although we've -- we've evaluated
23 this over forty (40) years, this will provide Manitoba
24 Hydro with import and export -- export capability in
25 perpetuity. And so there's this intangible benefit of

1 -- of -- from that.
2 The last thing it gives us is that
3 although we're only building the line to Duluth, we
4 also, at the same time, acquired the 500 megawatts of
5 firm export capability into Wisconsin and the 300
6 megawatts of -- of import out of Wisconsin. And so now
7 we have market access into Wisconsin, which doubles our
8 -- our footprint for selling both our surplus and our -
9 - and our long-term dependable energy. So we've
10 doubled the -- we've doubled our market access.
11 We're not now just dependent on the
12 utilities that are in Minnesota to compete with our
13 power. We are -- we have access to those. Those
14 benefits we didn't quantify and they haven't been
15 included in any economic evaluation that we've done.
16 But we know that the more customers that we have -- and
17 both Wisconsin and Minnesota are highly dependent on
18 coal and -- and you saw Wisconsin Public Service come
19 to the table to -- to contract for 308 megawatts out of
20 Conawapa. There's a demand for the power there. You
21 know, we just have to find the -- find a business case
22 that will make that work for -- for them and for us.
23 THE CHAIRPERSON: And looking at what
24 could go wrong here, I mean, it would be obviously the
25 -- the initial capital costs, you know, a cost overrun,

1 for example, would be one (1) issue.
2 MR. DAVID CORMIE: Yes.
3 THE CHAIRPERSON: Is there anything
4 else that -- that -- and you've -- you've sort of
5 indicated how you're addressing that risk. What about
6 the ongoing costs? Is there something that could go
7 wrong here?
8 MR. DAVID CORMIE: Yes, and one (1) of
9 our concerns was that Minnesota Power would load their
10 utility costs onto this line and they would say, you
11 know, we're -- if this is a bad line we need to -- we
12 need to charge you more. The cost sharing is based on
13 Minnesota Power's overall system cost for their
14 transmission system and then we're picking up a pro
15 rata share of that.
16 Those -- those costs are regulated by
17 the Minnesota Public Utility Commission. The same with
18 -- and -- and so they're -- they're -- we didn't expose
19 ourselves to the specific costs of this line, but we --
20 we've tied ourselves in almost all the cost items to an
21 asset class that is being regulated by the MPUC. And
22 that -- that avoids that risk of -- of them
23 transferring costs to Manitoba Hydro that are -- that
24 are -- that aren't appropriate.
25 THE CHAIRPERSON: I didn't understand

1 the reference to insurable costs. And could you go
2 over that again, please?
3 MR. DAVID CORMIE: Yes. Normally a
4 utility self-insures when it builds a transmission
5 line. And -- and, for example, in Manitoba if we're
6 building a line, that line is used to serve load. If
7 that line goes down and needs to be repaired, you can
8 rate base those costs.
9 In this case, Minnesota Power has this
10 asset that -- that it only needs a portion of it. And
11 so their exposure to insurable damage, they don't want
12 to -- they don't want to expose their customers to the
13 cost of repairing a 500 kV line. They only want to
14 expose them to the cost of a 230 kV line.
15 And so there's additional costs --
16 there's additional risk that -- that needs to be
17 managed. And so they said to Manitoba Hydro, You need
18 to -- you need to buy insurance to protect our rate
19 base from the insurable damage costs associated with
20 the bigger line. And -- and we said, Well, okay, we'll
21 go get some quotes from the insurance company for the
22 extra -- to -- to insure against that.
23 And those costs were very high. The --
24 the premiums associated with that -- that insurance
25 policy, they were trying to insure the whole line. It

1 was exorbitant. It wasn't something that we -- that --
2 that we could live with. And so we said that we would
3 pick up any costs associated with fixing that line.
4 We'd pick up 67 percent of the cost. And their -- and
5 they could rate base the 33 percent associated with the
6 250 megawatts that they own.
7 So -- because our experience, even when,
8 you know, even on our own transmission lines, you don't
9 lose the whole line. You don't lose a 600 mile line.
10 It doesn't get blown down. You lose a portion of the
11 line. You may lose, you know, a piece of the line, or
12 a single piece of equipment, but the insurance company
13 wanted to, in effect, insure the whole thing and they -
14 - and they deemed the whole thing to be at risk. And
15 our -- our transmission people were very comfortable
16 that this was -- this was the best way to -- to reduce
17 the costs of that -- of -- of insuring the lines, self-
18 insure, don't go to an insurance company.
19 THE CHAIRPERSON: Thank you very much.
20 I don't believe the panel has any more questions.
21 Thanks for coming.
22 MR. DAVID CORMIE: Okay, thank you.
23 MS. ODETTE FERNANDES: Mr. Chairman, I
24 do believe Mr. Peters may have some questions. And I
25 also wanted to let other leal -- legal counsel know, if

they do have any questions of Mr. Cormie with respect to this presentation, we can maybe chat offline and arrange for a time to have Mr. Cormie again for cross-examination.

CROSS-EXAMINATION BY MR. BOB PETERS:

MR. BOB PETERS: Good afternoon, Mr. Cormie. It's raining again. Your prayers are answered; mine weren't. Mr. Cormie, thank you for this presentation this afternoon. I just wanted to hit on a few points to make sure that the -- the record is clear in terms of what the -- the Board has in front of it.

You have on the slide that's presently on the screen a timeline chart. And I want to go to each of those sections that is broken out. But before we do -- well, let's start with the development costs.

What are development costs in -- in brief?

MR. DAVID CORMIE: Development costs include the hiring of consulting engineers, the -- the electrical studies that are needed to be done, the regulatory process in Minnesota, taking the lines to the Minnesota Public Utility Commission, getting the certificate of need.

And now we're in the process of -- of

1 acquiring a route permit, all the environmental studies
2 that are necessary in order to get the wetlands permits
3 from the Army Corps of Engineer and -- and all the
4 other permits that are associated with the project.
5 MR. BOB PETERS: Has Manitoba Hydro and
6 Minnesota Power quantified what they expect the
7 development cost to be between 2014 and 2016?
8 MR. DAVID CORMIE: Yes, Mr. Peters, if
9 you look at the Coalition Exhibit MH-I-15(C) you'll see
10 the development costs as the first three (3) -- for the
11 first -- first three (3) years, 7 million in the first
12 year, 8 million in the second year, and I'm sure a
13 portion of the 18 million in -- in 2016. I'm not sure
14 if -- if that full 18 million is development costs or
15 if there is some construction or land acquisition costs
16 in -- in that number, I'd have to check, but it's a
17 very small amount compared to the total cost of the
18 line.
19 MR. BOB PETERS: The numbers you've
20 given, Mr. Cormie, are US dollars?
21 MR. DAVID CORMIE: No, these numbers
22 are what are in the IFF. These are in Canadian
23 dollars.
24 MR. BOB PETERS: And Manitoba - is that
25 Manitoba Hydro's share that you've just put on the

1 record of the development costs or is that --
2 MR. DAVID CORMIE: Yes, those are 54
3 percent of the -- of the development costs.
4 MR. BOB PETERS: And where in the
5 financial statements would -- Ms. Carriere, would you -
6 - would the Board find the specifics of these?
7 MS. LIZ CARRIERE: The capital
8 expenditures related to the 54 percent can -- are found
9 in the property plant and equipment line on the
10 cashflow statement.
11 MR. BOB PETERS: The -- the development
12 costs, as well?
13 MS. LIZ CARRIERE: Yes.
14 MR. BOB PETERS: All right, let's --
15 let's go back to that timeline chart, please, and we'll
16 come back to the Coalition IR. From 2016 until 2020,
17 that's the expected construction period, Mr. Cormie,
18 for this Great Northern Transmission Line?
19 MR. DAVID CORMIE: Yes. Cons -- we --
20 we are in the discussions with Minnesota Power. We may
21 defer the start of construction to 2017, but it could
22 be as early as 2016 with land acquisition.
23 MR. BOB PETERS: Does the later start
24 put in jeopardy the in-service date?
25 MR. DAVID CORMIE: No, it doesn't.

1 MR. BOB PETERS: And during the
2 construction period, the -- what is the total capital
3 cost of the project?
4 MR. DAVID CORMIE: Well, I -- just
5 going to the Coalition exhibit, Mr. Peters, the total
6 is five hundred and forty-two (542). There's 33
7 million being spent in development, so the balance will
8 be the capital construction contribution.
9 MR. BOB PETERS: Okay. I'm not -- for
10 some reason I'm -- I have difficulty following that.
11 The $542 million is only Manitoba Hydro's share.
12 Is that correct?
13 MR. DAVID CORMIE: Yes.
14 MR. BOB PETERS: So the total
15 construction cost of the Great Northern Transmission
16 Line, capital costs are approximately a billion
17 dollars?
18 MR. DAVID CORMIE: If you include the
19 Canadian portion, yes. I'm -- it's in that range.
20 MR. BOB PETERS: Okay. That -- I don't
21 understand that answer, Mr. Cormie. If we're just
22 talking the Great Northern Transmission Line --
23 MR. DAVID CORMIE: No, it's not a
24 billion dollars, Mr. Peters. It's -- I'd have to look
25 here.

1 MR. BOB PETERS: Well, 54 percent is
2 $542 million?
3 MR. DAVID CORMIE: That's our share,
4 yes.
5 MR. BOB PETERS: So the total 100
6 percent cost?
7 MR. DAVID CORMIE: Well, you have --
8 you have some -- there are -- there are some internal
9 Manitoba Hydro costs, and there are foreign exchange
10 costs as well, so.
11
12 (BRIEF PAUSE)
13
14 MS. LIZ CARRIERE: Mr. Peters, I'm not
15 sure we would know what their total in-service costs is
16 comparable to ours, because we don't know what they
17 capitalize their interest at. And I'm not sure what
18 their internal costs to the project are either.
19 I believe we do have a -- a 2013 dollar
20 cost for that, but it won't be comparable to the five
21 forty-two (542).
22 MR. BOB PETERS: Thank you, Ms.
23 Carriere. The $542 million in construction costs that
24 Manitoba Hydro has included is approximately $232
25 million higher compared to what it was at the NFAT?

1 MS. LIZ CARRIERE: That's correct.
2 MR. BOB PETERS: And that's because of
3 line rerouting?
4 MS. LIZ CARRIERE: Yeah.
5 MR. BOB PETERS: And so, Ms. Carriere,
6 when we -- when we deal with the -- and we have it in
7 front of us here now -- the capital expenditures, we
8 can see that, starting construction, the -- the capital
9 expen -- expenses jump up in 2018, '19, '20.
10 On the financial statements, can you
11 again indicate where these construction capital costs
12 will be recorded?
13 MS. LIZ CARRIERE: They can be found in
14 the investment activities section of the cashflow
15 statement under PP&E.
16
17 (BRIEF PAUSE)
18
19 MR. BOB PETERS: When we move on the
20 chart from years 2020 to 2040, if we can just go back
21 to that -- oh, there we go -- the ongoing costs, we see
22 that in terms of ongoing costs -- and if we look at the
23 bullets that Mr. Cormie has on his slide, they include
24 the operating costs for Manitoba Hydro's 49 percent.
25 I have that correct?

1 MR. DAVID CORMIE: Yes.
2 MR. BOB PETERS: And they also include
3 Manitoba Hydro paying Minnesota Power's revenue
4 requirement associated with the 18 percent of capital
5 funded by Minnesota Power.
6 MR. DAVID CORMIE: Yes.
7 MR. BOB PETERS: And paying Minnesota
8 Power's revenue requirements, that will be determined
9 by the Minnesota Public Utilities Commission?
10 MR. DAVID CORMIE: Minnesota Power's
11 revenue requirements are made up of the operating and
12 maintenance costs of that 18 percent, the property
13 taxes, the cost of debt, the cost of equity, and
14 capital recovery. So there are -- are those -- those
15 five (5) components.
16 The operating and maintenance costs are
17 -- let me just check here.
18
19 (BRIEF PAUSE)
20
21 MR. DAVID CORMIE: I'm just trying to
22 determine which -- which of these costs are reviewed by
23 the -- by the regulator.
24 MR. BOB PETERS: The return on the rate
25 base would be certainly one (1) of them, wouldn't it,

1 Mr. Cormie? MR. DAVID CORMIE: The return on the
2 rate pay -- the return on equity is FERC-approved rate.
3 And -- and it is -- it is regulated. The -- the cost
4 of -- of debt is also reviewed by their regulator and
5 the cost of equity is also approved by their regulator.
6
7 (BRIEF PAUSE)
8
9 MR. BOB PETERS: Any cost overruns, Mr.
10 Cormie, are shared, 54 percent falls to Manitoba Hydro
11 and 46 percent falls to Minnesota Power?
12 MR. DAVID CORMIE: Yes, we're sharing
13 in the in-service cost.
14 MR. BOB PETERS: I believe you told the
15 panel last week that after the project is constructed,
16 Manitoba Hydro has a point where it can walk away from
17 the transaction.
18 Did I understand that correctly?
19 MR. DAVID CORMIE: No, I -- I wish it
20 were that way, Mr. Peters. We have the right to walk
21 away when we get the fin -- at the point we get the
22 final cost estimate for the line. As you -- as you
23 know, in Minnesota, the route has yet to be selected.
24 And that -- that route is -- is something that the
25 Public Utility Commission will be determining over the

1 next year. And it's only at that point will we finally
2 know how many miles of transmission line will be built.
3 And it's only at that point will we have final design,
4 how many -- how many corner towers there'll be, how
5 much swamp and marshland that we'll be going through.
6 And it's only at that point that we can
7 -- that we can know what the final cost of the line is.
8 And the Manitoba Hydro board has the -- has the right,
9 at that point, to say, No, the -- the line is now no
10 longer beneficial and -- and we're not -- we're not --
11 we're no longer obligated to participate in the
12 project.
13 MR. BOB PETERS: That -- okay. So that
14 -- that decision has to be made before the capital
15 costs are incurred, but only at the point in time when
16 Manitoba Hydro has its estimate?
17 MR. DAVID CORMIE: Yes, we have a -- we
18 have a planning estimate at this time, and it's their -
19 - Minnesota Power's midpoint estimate. And it includes
20 reasonable contingencies, but because we don't have the
21 final route selected, it's difficult for us to say what
22 the -- what the final cost of the line is.
23 MR. BOB PETERS: And so once Manitoba
24 Hydro commits or approves the estimate of the cost of
25 the line once the routing is known, that's when

1 Manitoba Hydro is locked in?
2 MR. DAVID CORMIE: Yes.
3 MR. BOB PETERS: And going forward, if
4 there are any cost overruns, those are then shared, as
5 I've indicated, 54 percent to Manitoba Hydro and 46
6 percent to Minnesota Power?
7 MR. DAVID CORMIE: In addition to that,
8 Mr. Peters, we are also exposed to the cost overruns
9 with Minnesota Power's 133 megawatts, because they're -
10 - they're only -- they're only going to cover the --
11 what they need for their 250 megawatts. And so they
12 may own it, but the must-take fee covers the cost of
13 the equity and cost of debt associated with that. So
14 if there's -- if there is cost exposure, we're actually
15 exposed to 72 percent of the overruns, not just the --
16 not just the 54 percent, because you have to add the 18
17 percent into the -- into the fifty-four (54) to get the
18 seventy-two (72).
19 MR. BOB PETERS: If the -- if there are
20 cost overruns, Mr. Cormie, is it going to be virtually
21 impossible to tell if that cost overrun was on the 133
22 megawatt additional portion or whether it was on the
23 750 megawatt initial appo -- portion?
24 MR. DAVID CORMIE: No, it -- it'll be
25 on a pro rata share ratio.

1 MR. BOB PETERS: All right. So you're
2 in for 72 percent of the cost overruns?
3 MR. DAVID CORMIE: In for 72 percent,
4 yeah. We have a -- a big stake in the cost of this
5 line, Mr. Peters.
6
7 (BRIEF PAUSE)
8
9 MR. BOB PETERS: Ms. Carriere, the
10 ongoing costs shown between the years 2020 and 2030 --
11 it's actually to 2040. We understand Manitoba Hydro
12 will then pay its 49 percent of the ongoing costs as
13 well as the revenue requirement for 18 percent of the
14 capital funded by Minnesota Power.
15 Where will those costs be recorded in
16 Manitoba Hydro's financial statements?
17 MS. LIZ CARRIERE: If you turn to page
18 3 of Coalition 15(c)? So the far right column says,
19 "49 percent of funding of the transmission charges."
20 That reflects Manitoba Hydro's share -- 49 percent
21 share of the -- the ongoing operating costs.
22 The portion -- the 18 percent portion of
23 MP's revenue requirement and their -- 18 percent of
24 their ongoing costs are reflected in the three (3)
25 columns in the middle. So this is where the 286

1 million... So the present value of that obligation
2 will be recorded on the in-service date of the total
3 cost. So whatever the projection is of the total costs
4 as of that time period will record as an obligation on
5 Manitoba Hydro's books.
6 MR. BOB PETERS: Just to interrupt, Mr.
7 Carriere, that $286 million is the present value of the
8 18 percent capital funded by Minnesota Power's revenue
9 requirements as well as the operating costs?
10 MS. LIZ CARRIERE: Well, the -- their
11 operating costs are inclu -- included in that
12 scheduling fee. The scheduling fee consists of the
13 operating costs, depreciation, financing charges,
14 taxes, and their costs of equity. So the -- the 286 is
15 the present value of the expected payments over the
16 twenty (20) years.
17 MR. BOB PETERS: And once you indicated
18 it's the present value, you're then going to amortize a
19 portion of that into the --
20 MS. LIZ CARRIERE: We'll --
21 MR. BOB PETERS: -- financial
22 statements?
23 MS. LIZ CARRIERE: -- be amortizing the
24 542 million over forty (40) years.
25

1 (BRIEF PAUSE)

2

3 MS. LIZ CARRIERE: And then the

4 accretion on the liability is -- is the amount that --

5 charged to finance expense each year to bring the value

6 of the liability to the next year.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Just to -- to assist

11 me while the mics are on, Ms. Carriere, the -- the

12 accretion on the liability that's going to be recorded

13 in the finance expense, does -- does the source of the

14 accretion come from the present value of the scheduling

15 fee?

16 MS. LIZ CARRIERE: Yes.

17 MR. BOB PETERS: And then what is the

18 source of the amortization of intangible asset in the

19 other column of $16 million starting in 2021?

20 MS. LIZ CARRIERE: It's the five

21 hundred and forty-two (542) over the forty (40) years,

22 oh, plus the two eighty-six (286), sorry.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Just looking at the
2 way you've shown on page 3 that's on the screen, Ms.
3 Carriere, of Coalition Manitoba Hydro First Round 15C,
4 you show capital expenditures of 7 million in 2014, and
5 8 million in 2015. Has Manitoba Hydro set up an
6 intangible asset of $15 million already?
7 MS. LIZ CARRIERE: The intangible asset
8 hasn't been sit -- set up yet, but it's in PP&E, yes.
9 MR. DARREN RAINKIE: Mr. Peters, maybe
10 I can help here. It -- it -- given that our PP&E is in
11 excess of $16 billion, for the first couple years,
12 we've just tucked that in -- in our construction work
13 in progress and -- and in PP&E, but as it grows, we'll
14 reclassify that to an intangible asset, sir, so that'll
15 be both the 54 percent of the capital expenditures, or
16 the 542 million, plus the present value of the
17 scheduling fee when -- when that actually comes into
18 being in 2021.
19 So then the total of those two (2)
20 amounts, the five forty-two (542) and the two eighty-
21 six (286) -- and think of the two eighty-six (286) like
22 a lease, right? It's the present value of the future
23 of the -- of the revenue requirements on an ongoing
24 basis. So the five forty-two (542) and the two eighty-
25 six (286), if you divide those two (2) numbers by forty

1 (40) years, that's how you get to the $21 million
2 depreciation expense by the time the line is fully in
3 service.
4 But subject to check, I think right now
5 in our 2015 financial statements, the -- the amounts
6 right now are in construction work in progress, because
7 we only have -- right now in our financial statements,
8 we only have construction work in progress on the -- on
9 the PP&E line, but as this grows, we'll develop a new
10 construction work in progress on the intangible asset
11 line.
12 MR. BOB PETERS: Mr. Cormie, maybe the
13 last question is to you. The -- the transmission
14 surface -- or service rights, that is, the right for
15 Manitoba Hydro to use the transmission line, has that
16 been approved by the FCA?
17 MR. DAVID CORMIE: The facility's
18 construction agreement is between Manitoba Hydro
19 subsidiary -- no, Manitoba Hydro, Minnesota Power, and
20 MISO. And it was -- it was approved by FERC. And in
21 there, MISO contracts with Manitoba Hydro to provide
22 those transmission rights if the facility is
23 constructed.
24 MR. BOB PETERS: Would the Board
25 understand correctly then that even if Minnesota Power

1 divested itself of its ownership interests, Manitoba
2 Hydro's transmission rights are protected in
3 perpetuity?
4
5 (BRIEF PAUSE)
6
7 MR. DAVID CORMIE: The -- the
8 transmission rights are rights that MISO grants
9 independent of who owns the line. I was pausing,
10 because if Minnesota were to sell the asset to another
11 party, we would want to -- to continue to have the --
12 and -- and if MISO were to disappear, then we would --
13 we -- we would -- we would be at risk. That's why we
14 are negotiating a transmission rights agreement with
15 Minnesota Power which will inc -- include an assignment
16 clause that we -- that -- that would give us the right
17 to object to that if we weren't allowed to continue to
18 use the rights in the circumstance that MISO were to
19 disappear.
20 MR. BOB PETERS: And that agreement --
21 the status of that agreement, to Mr. Cormie, is still
22 in negotiation?
23 MR. DAVID CORMIE: Yes, there's a whole
24 series of agreements, Mr. Peters, and we're trying to
25 do them in the logical order, and we have yet to get to

1 the transmission rights agreement. It's -- it's of a
2 lower priority.
3 MR. BOB PETERS: And when we talked
4 earlier that Manitoba Hydro pays the revenue
5 requirement for the 18 percent of the capital funded by
6 Minnesota Power, I had understood that Minnesota Power
7 will look for a return on its equity, and including a
8 return on that 18 percent equity that Manitoba Hydro is
9 paying the revenue requirement on?
10
11 (BRIEF PAUSE)
12
13 MR. DAVID CORMIE: Yes, Minnesota Power
14 will be putting equity into the line, and they will be
15 -- they will be earning a rate of return on that.
16 MR. BOB PETERS: All right. But let's
17 talk about the 18 percent of the capital that's going
18 to be funded by Minnesota Power on which Manitoba Hydro
19 is paying the revenue requirements.
20 Manitoba Hydro is extensively paying
21 Minnesota Power already a return on equity on that 18
22 percent.
23 Would that be correct?
24 MR. DAVID CORMIE: We're only going to
25 pay it once, Mr. Peters.

1 MR. BOB PETERS: Well, will Minnesota
2 Power be all -- be able to claim a return on equity on
3 that 18 percent from its other customers?
4 MR. DAVID CORMIE: No. They will --
5 their -- their customer base will pay their return on
6 equity on the 250 megawatts that is being purchased to
7 serve their customer load. The 133 megawatts is being
8 built by Minnesota Power for Manitoba Hydro to use,
9 and so we are paying all the revenue requirements for
10 the hundred and thirty-three (133), which includes the
11 return on equity.
12 MR. BOB PETERS: All right. I -- I
13 understand your point now.
14 MR. DAVID CORMIE: And we -- we are --
15 we're paying the same return on equity as their
16 regulated rate base will be. And that rate is for
17 wholesale customers approved by FERC, and the retail
18 customer portion of their rate base is -- is a rate
19 that's approved by the MPOC.
20 MR. BOB PETERS: Thank you. Mr.
21 Chairman, those were my additional questions, and I'm
22 not sure if any counsel in the room had questions at
23 this time, or whether that's a matter they're going to
24 speak to Ms. Fernandes on and perhaps schedule it at a
25 later time.

1 THE CHAIRPERSON: I have some very
2 basic questions I'd like to get answered, and -- and I
3 hope you'll bear with me, Mr. Cormie. Just -- just to
4 show my ignorance, but say you have a pipe. Power goes
5 through the pipe, and you have rights to say three-
6 quarters (3/4) of that pipe.
7 So your electricity has priority over
8 everybody else's electricity on that portion that's not
9 -- that's yours?
10 MR. DAVID CORMIE: Yes. The -- the
11 transmission rights are -- they're -- they are firm
12 rights. So, you know, the guaranteed capability of
13 that line are the -- are the transmission rights that
14 we're talking about.
15 To the extent that Manitoba Hydro's not
16 using those rights, they would get freed up on an
17 interruptible basis for somebody else to use.
18 THE CHAIRPERSON: And that's where MISO
19 comes in?
20 MR. DAVID CORMIE: Yeah. MISO says
21 that, under contract to Manitoba Hydro, you have these
22 -- you have these firm rights, which means you have the
23 first right of refusal on the line. And so we will
24 hold those -- we will hold those rights to that -- to
25 that transmission.

1 THE CHAIRPERSON: And so the same would
2 be true if you were successful in signing additional
3 contracts. You would have first -- you'd have first
4 rights to those transmission --
5 MR. DAVID CORMIE: Yes. Well, we -- we
6 hold the rights regardless of the fact that we don't
7 have a contract yet. For example, I -- I believe
8 Wisconsin Public Service holds 200 megawatts of rights
9 into Wisconsin on the GNTL, so MISO assigned 200
10 megawatts of rights to Minnesota Power.
11 Remember, Manitoba Hydro already a
12 hundred and eight (108). That's how we came up with
13 the three hundred and eight (308). So although there's
14 yet to be a trans -- we don't have a transaction that's
15 complete to go to Wisconsin, Wisconsin still will hold
16 those rights when the line comes into service.
17 And in the -- in the circumstance where
18 the 308 megawatt transaction dies because Manitoba
19 Hydro doesn't choose to invest in Conawapa, we're
20 expecting that, well before that time, we will
21 negotiate something else with them that they can take
22 value from the tran -- from those 200 megawatts of
23 rights.
24 And that's -- and that's what I meant
25 before. We have the -- we have -- we have 500

1 megawatts of rights into Wisconsin, three-hundred (300)
2 that Manitoba Hydro holds, two-hundred (200) that
3 Wisconsin holds. And so in effect we've -- we've got a
4 pipeline to Wisconsin Public Service.
5 Plus we have another pipeline to
6 Wisconsin that we haven't sold -- we're not -- we
7 haven't -- we haven't got a committed customer for yet.
8 And we will want to salvage that value through some
9 type of power sale.
10 Now, all power sales don't have to be
11 firm power sales with capacity. We can sell power
12 that's intermittent. And we talked about a sale like
13 that the other day. It was a 108-megawatt sale that's
14 surplus energy, but it qualifies for holding the tran -
15 - it -- it -- it's a qualifying transaction, as if you
16 were a wind generator.
17 Wind doesn't blow all the time, but you
18 need -- you need to have firm rights. And so you can
19 qualify -- you can have a qualifying transaction
20 that'll hold those rights. And we'll -- we'll find a
21 way to tie up those transmission rights into Wisconsin
22 so that we can bring value to -- to Manitoba Hydro and
23 to Wisconsin.
24 THE CHAIRPERSON: Thank you.
25 MS. MARILYN KAPITANY: If we could just

1 take one (1) minute while Mr. Cormie moves away
2 somewhere and Ms. Bauerlein moves to the front, and
3 then the panel's available for cross-examination.
4
5 (WITNESS STANDS DOWN)
6
7 MANITOBA HYDRO PANEL 4 - FINANCE RESUMED:
8 DARREN RAINKIE, Previously Sworn
9 DAVID CORMIE, Previously Sworn
10 SANDY BAUERLEIN, Previously Sworn
11 LIZ CARRIERE, Previously Sworn
12 MANNY SCHULZ, Previously Sworn
13 IAN PAGE, Previously Affirmed
14
15 CROSS-EXAMINATION BY MR. BOB PETERS:
16 MR. BOB PETERS: Thank you, Mr.
17 Chairman. And while we're just getting finally
18 organized I'll remind the parties that PUB Exhibit 20
19 is a compendium of volumes of Board counsel documents.
20 And I'll be referring to Volume III of PUB-20 for my
21 questions this afternoon and part of tomorrow. And I
22 also have Volume IV to cover before the end of business
23 tomorrow. So we will -- we will move along at a -- a
24 brisk pace I hope. And if we could we'll start with
25 Volume III of PUB Exhibit 20. We'll go to Tab 2, Page

1 10 just to orient ourselves in the book of documents.
2 And, Ms. Carriere, you'd be familiar
3 that what's before the Board on the screen are the rate
4 cre -- are the rate increases that Manitoba Hydro has
5 received from the Public Utilities Board shown here
6 going back to 1999/2000?
7 MS. LIZ CARRIERE: That's correct, yes.
8 MR. BOB PETERS: And just for the
9 edification of the panel back in '99 and 2000,
10 2000/2001, zero percent rate increases -- Manitoba
11 Hydro hadn't come in for a number of years including
12 those two (2) years to seek rate increases.
13 Do you recall that?
14 MS. LIZ CARRIERE: Yes, I was actually
15 here. Yeah.
16 MR. BOB PETERS: I'm sorry, was
17 actually?
18 MS. LIZ CARRIERE: I was here.
19 MR. BOB PETERS: What you haven't told
20 is Manitoba Hydro didn't come in for rate increases.
21 Was that at the behest of the provincial
22 government or was that a decision by Manitoba
23 Hydroelectric board or do you know?
24 MS. LIZ CARRIERE: That would have been
25 a decision of the Manitoba Hydroelectric board is my

1 understanding for each -- each time the integrated
2 financial forecast was taken forward to the board it --
3 there would have been a recommendation as to the rate
4 increases.
5 MR. BOB PETERS: And Manitoba Hydro
6 board did not authorize any general rate application to
7 be filed for -- for those years?
8 MS. LIZ CARRIERE: Not that I'm aware
9 of.
10 MR. BOB PETERS: And in 2001/'02,
11 there's a negative 1.92 percent rate increase shown as
12 a result of uniform rate legislation.
13 Were you familiar with that -- with that
14 legislation?
15 MS. LIZ CARRIERE: Not fully.
16 MR. BOB PETERS: Would it be correct
17 for the Board to understand that Manitoba Hydro didn't
18 apply to reduce rates by 1.92 percent, but simply that
19 minus 1.92 percent would be the impact on Manitoba
20 Hydro's revenue as a result of provincial legislation?
21 MS. LIZ CARRIERE: That's my
22 understanding, yes.
23 MR. BOB PETERS: And is it your
24 understanding that the -- the foregone revenue from the
25 uniform rates legislation has not been sought from

1 Manitoba Hydro's domestic customers?
2 MS. LIZ CARRIERE: Not in that year,
3 no.
4 MR. BOB PETERS: Not expressly in any
5 event?
6 MS. LIZ CARRIERE: Correct.
7 MR. BOB PETERS: There's a matter that
8 -- in the cost-of-service study there is an adjustment
9 on account of uniform rate legislation?
10 MS. LIZ CARRIERE: I'm not familiar
11 with that adjustment.
12 MR. BOB PETERS: The 2004/'05 -- well,
13 before we get there, in 2003/'04, Manitoba Hydro came
14 in on a status update it's called, not seeking any rate
15 increases. But as a result of the status update the
16 Public Utilities Board did adjust a couple of the
17 rates.
18 Do you recall that?
19 MS. LIZ CARRIERE: Not expressly, no.
20 MR. BOB PETERS: And, Mr. Rainkie, you
21 certainly recall it. And you're grinning, so I'll --
22 I'll turn to you, sir. That rate adjustment was a
23 reduction in rates to the general service large
24 customers based on cost-of-service results?
25 MR. DARREN RAINKIE: Mr. Peters, I was

1 busy preparing gas rate applications at that point, but
2 that's my understanding, sir.
3 MR. BOB PETERS: And then to '04/'05,
4 Manitoba Hydro applied for a three (3) year rate
5 application and -- I'm sorry, they applied for 3
6 percent for two (2) consecutive years.
7 Have I got that correct, Ms. Carriere?
8 MS. LIZ CARRIERE: Yes.
9 MR. BOB PETERS: And as a result, the
10 Public Utilities Board ended up ordering a 5 percent
11 rate increase as well as two (2) conditional rate
12 increases of 2.25 percent, correct?
13
14 (BRIEF PAUSE)
15
16 MS. LIZ CARRIERE: Correct.
17 MR. BOB PETERS: And the 2004/'05 rate
18 application by Manitoba Hydro was brought on as a
19 result of Manitoba Hydro having poor water flows and
20 suffering a net loss of about $426 million?
21 MS. LIZ CARRIERE: That's correct.
22 MR. BOB PETERS: And so in the IFF14
23 and the materials you've presented to the panel up to
24 now, if another drought occurs, is Manitoba Hydro
25 indicating it will not need to come to the Public

1 Utilities Board for any rate increases above two (2)
2 point -- above 3.95 percent?
3 MS. LIZ CARRIERE: No, I think our --
4 our sensitivity analysis shows that the rate increase
5 could be as much as 2.2 percent higher than the 3.95,
6 but it will depend on the circumstances of the day.
7 MR. BOB PETERS: What would the
8 circumstances of the day include, just for the Board's
9 understanding?
10 MS. LIZ CARRIERE: Well, it would
11 depend on the severity of the drought, the magnitude --
12 or the duration of the drought, what happens in the --
13 in the years following. As we saw on '03/'04, we had
14 very favourable water flows after that period and it --
15 it wasn't necessary to come back for additional rate
16 increases. Had that drought extended for more than two
17 (2) years, it would have been very likely that we would
18 have had to ask for higher rate increases at that point
19 in time, so it really depends on the water flow
20 conditions.
21 MR. BOB PETERS: And I take from your
22 answer then that there's no promises being made by
23 Manitoba Hydro that 3.95 is going to be the maximum
24 rate increase sought going forward?
25 MS. LIZ CARRIERE: No, I think we've

1 said it's the minimum.
2 MR. BOB PETERS: And when you say it's
3 the minimum, it's the minimum that Manitoba Hydro feels
4 it can -- it can work with in terms of keeping its
5 financial targets in relative check?
6 MS. LIZ CARRIERE: It's the minimum
7 we're -- we're willing to accept and -- and the -- the
8 most risk that we're willing to put customers at in
9 terms of, you know, future rate increases.
10 MR. BOB PETERS: Would it be -- it's
11 not meant to be trite, but Manitoba Hydro would not
12 have surveyed any of its customers -- any of its five
13 thousand (5,000) -- I'm sorry, any of its five hundred
14 and fifty-six thousand (556,000) customers to find out
15 what rate increase tolerance they would have, did they?
16 MS. LIZ CARRIERE: No, I don't believe
17 we have.
18 MR. BOB PETERS: And it would -- does
19 it go without saying, Ms. Carriere, that Manitoba
20 Hydro's expectation is that every one of your customers
21 would probably prefer there not to be a rate increase?
22 MS. LIZ CARRIERE: That's probably a
23 fair statement, yes.
24 MR. BOB PETERS: And when you say that
25 Manitoba Hydro is seeking three-point-nine-five (3.95)

1 based on Manitoba Hydro's risk appetite of what it's
2 prepared to accept, Manitoba Hydro doesn't have any
3 data on what its customers' risk appetite is?
4 MR. DARREN RAINKIE: Mr. Peters, we
5 don't have a survey of six hundred thousand (600,000)
6 customers, but I think we over the years have seen the
7 reaction to the actual requested rate increases that
8 you see here in the representatives of various
9 Intervenor groups. So I wouldn't say we had no
10 information, but -- and we have as we look back on this
11 sched -- very schedule we have been able to contain
12 rate increases within the rate of inflation overall.
13 And in fact some years before this chart we actually
14 had some more zeroes.
15 So I think we actually have -- we -- we
16 understand the history of where we've been. We get
17 feedback every day from our customers in terms of our
18 call centre, et cetera. But not a -- obviously not a -
19 - a survey of six hundred thousand (600,000) customers,
20 but we have our own business sense informed as it is by
21 the factors that I just -- I just mentioned.
22 MR. BOB PETERS: Mr. Rainkie, would --
23 would a large portion of your customer base want the
24 lowest rate increase possible today and then if there's
25 a need for a large rate increase in the future that

1 they'll pay it at that point in time?
2 MR. DARREN RAINKIE: I'm not sure, Mr.
3 Peters. What I do know is that the price of power in
4 the Manitoba Hydro Act is designed that the Board
5 regulates the price of power as de -- designed by
6 legislation in Manitoba as I understand it. I'm not a
7 lawyer, but I can read. To include, you know, our --
8 our operating costs, our financing costs, plus reserves
9 for the purposes of rate stability.
10 Rate stability and predictability is a
11 common theme that runs amongst most regulatory
12 proceedings I think in North America, if not the world.
13 So while we don't have, you know, a voting -- voting
14 button for six hundred thousand (600,000) customers
15 individually I think we have some regulatory principles
16 and some established legislation of the fine Province
17 of Manitoba that provides us guidance on these matters.
18 MR. BOB PETERS: I may not word this
19 eloquently, Mr. Rainkie, but please try to understand
20 my question that in this rate application would you
21 agree that -- that this rate application is a -- is
22 somewhat landmark in the sense that Manitoba Hydro's
23 focus isn't so much now on the test years and in
24 developing a revenue requirement for the test years,
25 although you've done that, but more you're alerting to

1 the Board that down the road there are some in-service
2 costs coming that can't be avoided. And that's the
3 primary focus of your rate application.
4 MR. DARREN RAINKIE: Well, certainly
5 while that's the focus of our rate application and we -
6 - but -- in today's circumstances I think Manitoba
7 Hydro has always had a view of gradualism in terms of
8 rate changes. You would -- you know, you would not
9 have seen a company probably as we go over the requests
10 of the past ask for these types of rate increases.
11 They probably would have -- another company might have
12 asked for higher rate increases immediately after the
13 drought, et cetera, which we asked for 3 percent. It
14 wasn't a 10 percent rate increase.
15 So I -- I -- while perhaps the magnitude
16 of -- of the investments that we have on a go-forward
17 basis is -- is significant I think Manitoba Hydro has
18 always in the modern era anyway, since the Public
19 Utilities Board has regulated Manitoba Hydro's rates,
20 had as one (1) of its core principles rate stability
21 and gradualism in its rates.
22 So I -- I wouldn't say this was
23 something new and Manitoba Hydro's been only focussed
24 on the test years. In fact for as long as I can
25 remember and as long as I've been part of the Company

1 we have provided ten (10) year financial forecasts to
2 say, Okay, let's look at the rate increases that are in
3 front of us in the next couple of years in the context
4 of, you know, the next five (5) or ten (10) years. I
5 think it's a -- it's an intelligent way of going -- and
6 a responsible way of going through.
7 And I think the -- as I read the Public
8 Utilities Board orders over the -- over the years I
9 think the -- the Board has been with us as well. So I
10 -- I wouldn't say this was a new phenomena. Hopefully
11 -- that's something of a rambling response, Mr. Peters,
12 but...
13 MR. BOB PETERS: No, I appreciate the
14 answer, Mr. Rainkie. But the gradualism you refer to
15 is the gradualism to get you to a point that Bipole III
16 and Keeyask will be in service. That's the gradualism
17 that you're -- you're now targeting.
18 MR. DARREN RAINKIE: Well, that and --
19 and the need to refurbish our system and make
20 investments on DSM, sir. I can't forget those -- those
21 parts of the equation either. But -- but, yes. I
22 mean, we -- we are looking forward in the next ten (10)
23 years. I don't think there's any secret in the
24 application. I think it was quite -- we've been quite
25 open with our customers and the Public Utilities Board

1 on what our views are.
2 We're not constraining ourselves to a
3 one (1) or two (2) year view of it and then five (5)
4 years from now saying, Well, geesh, why didn't we act
5 sooner? That -- that's not what we're -- other parties
6 may have that position and that's fine. That's why we
7 have these types of hearings, but I think it's very
8 clear Manitoba Hydro is looking forward and we have a
9 position of what we feel the -- the best balancing of
10 the factors are. And other parties are entitled to
11 their position as well.
12 MR. BOB PETERS: Well, Mr. Rainkie, if
13 your president had walked into your office and said,
14 file a general rate application where there's either no
15 rate increase, or it's 2 percent or less, you and your
16 team would have combed through the materials and you
17 could have maybe looked at just the test years to -- to
18 try to do that, but then you'd be doing a disservice,
19 you've told the Board, down the road to when the --
20 when the capital costs are going to come in service?
21 MR. DARREN RAINKIE: Well, we'd be
22 doing a disservice to that. We'd be doing a
23 disservice, as I said, to the very statute that creates
24 us in terms of looking at rate stability. I think we'd
25 be doing a disservice to the precedent in this

1 jurisdiction and so, Mr. Peters, yeah, it's -- it's --
2 I don't think this is something new. I think this is
3 the way we've always -- always looked at things.
4 MR. BOB PETERS: On page 12, Ms.
5 Carriere, Mr. Rainkie had mentioned rates of inflation
6 and increases relative to inflation. And the Board
7 will see -- and it'll depend on where -- where one
8 picks up the -- the calculation. This is shown back
9 from the turn of the century here, but if one starts
10 and goes back a decade, the rate increases have been
11 larger than the Manitoba rate of inflation. That's
12 just a mathematical correct statement, is it?
13 MS. LIZ CARRIERE: That's correct in
14 that ten (10) year period, but as Mr. Rainkie said, the
15 immed -- the period immediately before that were a
16 series of zeros, more than shown just here.
17 MR. BOB PETERS: And the Board
18 understands that, and that was made for reasons
19 determined before Manitoba Hydro embarked on a capital
20 construction program as ambitious as it now has?
21 MS. LIZ CARRIERE: That's correct,
22 yeah.
23 MR. BOB PETERS: And on page 15 of the
24 materials, when the Board looks at what has -- what the
25 rates have been that have been awarded by the Board,

1 the Board can see that -- if we...
2
3 (BRIEF PAUSE)
4
5 MR. BOB PETERS: If we go down to the
6 2014 approved rate increases and follow them across the
7 page, we can see that cumulatively out to 2014/'15, the
8 rate increases in past have come up to about $395
9 million.
10 Are you with me on that, Ms. Carriere?
11 MS. LIZ CARRIERE: Three-hundred and
12 fifteen-thousand (315,000)?
13 MR. BOB PETERS: Sorry, I -- I mean
14 three ninety-five (395). I'm looking at the screen and
15 if you can look one (1) column over to the '15/'16
16 forecast, column --
17 MS. LIZ CARRIERE: Yeah.
18 MR. BOB PETERS: -- it'll be
19 cumulatively to over $400 million?
20 MS. LIZ CARRIERE: Okay. Yeah.
21 MR. BOB PETERS: And that $402 million
22 includes the 2.75 percent interim rate award of this
23 Board, correct?
24 MS. LIZ CARRIERE: Correct.
25 MR. BOB PETERS: And just below that

1 the $57.3 million represents the rate increase for
2 April 1 of 2015 that the Company applied for and that's
3 the annualized additional revenues?
4 MS. LIZ CARRIERE: Yes.
5 MR. BOB PETERS: While we're looking at
6 page 15, at the bottom, the Board will note -- and
7 maybe we'll have to, heaven forbid, shrink the scale,
8 or maybe move over to the left margin. We can see that
9 -- that the extraprovincial revenues, and there's a --
10 a net extraprovincial number and -- and -- well, thank
11 you.
12 Just while we're on that, we often talk
13 extraprovincial revenues and then we say net
14 extraprovincial revenues. And I think you had a
15 different word for it in one (1) of your slides today,
16 but when you get your extraprovincial revenues that's a
17 gross number. And then Manitoba Hydro subtracts the
18 water rentals as well as the fuel and power purchases
19 to get to a net extraprovincial revenue number?
20 MS. LIZ CARRIERE: Yes. That's the net
21 extraprovincial number that the accountants use.
22 MR. BOB PETERS: And that's just
23 generally to reflect that, when one exports, there's a
24 water rental charge or assessment against that -- the
25 water that was used to generate, and that the fuel and

1 power purchases are often used to facilitate the
2 exports.
3 MS. LIZ CARRIERE: Correct. Just to
4 note, though, that those both -- they're total water
5 rentals and fuel and power purchases. So a portion of
6 that would be related to domestic as well. But because
7 of the integrated nature of the system, it's -- it's
8 difficult to split out in a meaningful way.
9 MR. BOB PETERS: And likewise --
10 MS. LIZ CARRIERE: Generally that's
11 what's being added to our -- our revenue base.
12 MR. BOB PETERS: Right. And -- and
13 likewise with the power purchases. There's some wind
14 power in there that's purchased in Manitoba that
15 wouldn't be necessarily purchased from a US source to
16 facilitate exports, although it may be able to be used
17 for that even though it's wind power?
18 MS. LIZ CARRIERE: It's hard to say
19 where it would be used. I mean, there's also US
20 purchases that support holding back water in reservoirs
21 that's used to help supply domestic demand as well, not
22 just support export sales.
23 MR. BOB PETERS: And as we see in '04 -
24 - '05/'06, the gross extraprovincial revenues of 826
25 million. And we fast forward to 2014/'15, it's -- it's

1 less than half of that.
2 MS. LIZ CARRIERE: Yeah. That looks
3 correct.
4 MR. BOB PETERS: And then when we get
5 down to the -- the net extraprovincial revenue, it
6 actually looks worse than that because the net
7 extraprovincial revenue in '05/'06 was 570 million, and
8 it's in '04 -- in '14/'15 it's down 150 million.
9 MS. LIZ CARRIERE: That's right.
10
11 (BRIEF PAUSE)
12
13 MR. BOB PETERS: And would the Board be
14 correct in understanding, Ms. Carriere, then that one
15 (1) of the reasons for Manitoba Hydro's request for
16 rate increases, including the -- the 3.95 percent, is
17 that with that revenue loss from exports, Manitoba
18 Hydro now has to look to the domestic customer to make
19 up a greater share of that required income?
20 MS. LIZ CARRIERE: That's true, yes.
21 The -- the domestic revenue that's being collected at
22 this time isn't keeping pace with the costs to serve
23 the customers. So in addition to that, we have --
24 we're -- we're -- we have capital expenditures going
25 out the door, and they still have to be paid for.

1 Although they don't come into revenue requirement later
2 for the major new generation, we do have to continue to
3 pay the bills.
4 MR. BOB PETERS: Turning to page 18 in
5 the Volume III PUB Exhibit 20, Ms. Carriere, when you
6 prepare the IFF and you take the long view, the
7 implications of the 3.95 percent rate increase that
8 Manitoba Hydro is -- is seeking really has a greater
9 value to the Corporation in terms of what happens in
10 the future, correct?
11 MS. LIZ CARRIERE: That's correct.
12 MR. BOB PETERS: Because the fifty-
13 seven (57) -- well, let's -- let's stay with Item B.
14 The two (2) year rate application before the Board and
15 the $96 million that Manitoba Hydro seeks by way of
16 increased revenues has a present value to Manitoba
17 Hydro over the next twenty (20) years of one (1) -- $1
18 billion.
19 MS. LIZ CARRIERE: That's correct.
20 MR. BOB PETERS: And if you add in
21 additional 3.95 percent rate increases going forward,
22 the -- the rate increases today actually have a higher
23 present value of about 1.4 bil -- million.
24 MS. LIZ CARRIERE: That's right.
25 MR. DARREN RAINKIE: Mr. Peters, that's

1 the time value of money. Rate increases will
2 accumulate over time. If you don't get those rate
3 increases, the debt and the finance costs will
4 accumulate over time. That's the reverse side of that
5 equation. That was the point I was trying to make this
6 morning with the blue -- with the red bars, Mr.
7 Chairman, on our -- on our cost-of-service slide that
8 Ms. Carriere presented.
9 MR. BOB PETERS: On page 23 of the book
10 of documents, Ms. Carriere, we have a restated IFF14.
11 This one depicts the 2.75 percent rate increasing being
12 a conditional rate increase?
13 MS. LIZ CARRIERE: Yes, it's just
14 reclassified it from one (1) line to the next.
15 MR. BOB PETERS: It wasn't included in
16 the general consumers revenue, it was moved down to the
17 additional revenue line item?
18 MS. LIZ CARRIERE: That's correct.
19 MR. BOB PETERS: And everything else is
20 consistent with IFF14?
21 MS. LIZ CARRIERE: The cumulative rates
22 will be different, but everything else should be the
23 same.
24 MR. BOB PETERS: And to that extent, it
25 reflects the current financial view of the electric

1 operations?
2 MS. LIZ CARRIERE: Yes.
3 MR. BOB PETERS: And it was approved by
4 Manitoba Hydro's board in preparing the GRA?
5 MS. LIZ CARRIERE: Well, effectively,
6 yes. They had a different view of it, but -- in terms
7 of the general consumers line.
8
9 (BRIEF PAUSE)
10
11 MR. BOB PETERS: I'm sorry, just so
12 that I'm clear, your board viewed the interim rate
13 increase as a done deal and, therefore, should be
14 included in the consumer general revenue line?
15 MS. LIZ CARRIERE: It was included in
16 the general consumer line in MH14, correct.
17 MR. DARREN RAINKIE: Mr. Peters, sorry,
18 not -- not to leave the wrong impression on the record,
19 it's not -- certainly we understand that was an interim
20 rate approval by the board, and that requires
21 confirmation. It's just our presentation. We -- we
22 tend to concentrate with our board on the perspective
23 rate increases and include those that are already
24 approved in the approved line, so it's not a disrespect
25 of the board's jurisdiction to confirm interim rate

1 increases.

2 MR. BOB PETERS: Thank you. No, I -- I

3 understood Ms. Carriere's point. Ms. Carriere,

4 Manitoba Hydro hasn't prepared an update to IFF14?

5 MS. LIZ CARRIERE: No, the planning

6 cycle for the next forecast is only just beginning.

7 MR. BOB PETERS: And that'll result in

8 IFF15?

9 MS. LIZ CARRIERE: Correct.

10 MR. BOB PETERS: What would trigger an

11 interim IFF, if that's what they're called, a midyear

12 IFF?

13 MS. LIZ CARRIERE: In the past, things

14 like some -- if something was in the provincial budget

15 that had an impact, for example, changing guarantee fee

16 or water rental rates, capital taxes, or else a PUB

17 order coming out that would impact the -- the effect,

18 as well, any significant internal policy changes or --

19 or initiatives or anything like that.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: When we turn to page

24 39 of the book of documents -- we'll come back to the

25 IFF as -- as we have further questions. I think, Ms.

1 Carriere, page 38 is what the Corporation filed in
2 response to an Information Request, and then page 39
3 just presents a different view?
4 MS. LIZ CARRIERE: Yeah, it looks to me
5 that the OM&A and taxes have been flipped around.
6 MR. BOB PETERS: And would you agree
7 that it's the OM&A costs that are controllable by the
8 Corporation?
9 MS. LIZ CARRIERE: I believe Ms.
10 Bauerlein has spoken to there is a certain level of
11 discretionary. But we have cost containment measures
12 planned and in -- in effect right now.
13 MR. BOB PETERS: We'll talk about some
14 of those later. But -- but of all of the items that
15 you're showing here, it's the OM&A that has the
16 greatest control by management?
17 MS. LIZ CARRIERE: That and the capital
18 expenditures contributing to the carrying costs.
19 MR. BOB PETERS: And I was thinking of
20 it from the perspective that if -- if Bipole III and
21 Keeyask are committed there's no longer any management
22 control over those items. They're going to -- it's
23 going to occur the way you've graphed them.
24 Would that be correct?
25

(BRIEF PAUSE)

MS. LIZ CARRIERE: Well, yes, it's a projection. But based on the current plans we have, yes.

MR. BOB PETERS: And these graphs are to show the Board that for those years that are above the top line on the -- on the graph, when the bars go through the top line those are the years in which Manitoba Hydro is expecting net income losses for the year?

MS. LIZ CARRIERE: That's correct. Just over 900 million.

(BRIEF PAUSE)

MS. LIZ CARRIERE: Assuming that we -- that the three point nine-five (3.95) rate increases that are in the -- the forecast.

MR. BOB PETERS: And on page 42, 43, or -- when we look to see which years Manitoba Hydro incurs net income losses the number of years and the severity of the losses incurred by Manitoba Hydro would be less and fewer if the Public Utilities Board were to retain average service life depreciation expense.

1 Would that be correct?
2 MS. LIZ CARRIERE: You know, I -- I'm a
3 bit uncomfortable with this because this isn't a
4 scenario that we produced.
5 MR. BOB PETERS: You'll acknowledge if
6 we go to page 43 that the depreciation and amortization
7 expense with the top green line being equal life group
8 as included in the IFF by Manitoba Hydro and the bottom
9 purple line being the average service life methodology
10 would result in greater net income for the Corporation
11 by using the average service life methodology?
12 MR. DARREN RAINKIE: Sure, if you
13 wanted to be selective to that item. As we went
14 through the charts this morning I think if you look at
15 nega -- the removal of our policy decision to remove
16 negative salvage value you'd find that chart flipped
17 around.
18 MR. BOB PETERS: I understand your
19 point and I think the Chairman also indicated along a
20 similar line. But again if -- if the practical effect
21 or the -- the actual effect of -- of a different
22 depreciation and amortization number using ASL would
23 result in the Corporation losing less money.
24 MR. DARREN RAINKIE: For one (1)
25 factor, sir. We did talk about the deterioration in

1 our financial position as a result of that if -- if the
2 -- I guess there's two (2) parts to this. If you make
3 things look better by selecting a different accounting
4 policy, what are you doing on the rate increase? Are
5 you correspondingly reducing the rate increase? If
6 that happens then, of course, we would collect less
7 cash flow than what's forecast in MH12 -- 14. We would
8 have more debt, higher financing expense all things
9 being equal.
10 MR. BOB PETERS: But looking at the
11 operating statement, Mr. Rainkie, you'd agree with me
12 that that change would result in lower losses by the
13 Corporation?
14 MR. DARREN RAINKIE: Once again, if you
15 want to manufacture a lower loss there's lots of ways
16 we could do that, sir. But I don't think that would
17 reflect the true position of the Corporation, the
18 financial position of the Corporation or be to the
19 benefit of customers over the long run. And I guess
20 that's our point.
21 MR. BOB PETERS: And, Mr. Page, good
22 afternoon, sir. On page 47 of Board counsel's book of
23 documents which I believe you spoke to the interest
24 rate forecast this morning?
25 MR. IAN PAGE: Yes, I have that.

1 MR. BOB PETERS: As we look at both the
2 short term and the long term, interest rates have
3 dropped from what Manitoba Hydro used in IFF14?
4 MR. IAN PAGE: Yes, although I'd like
5 to qualify that a bit. As I'd mentioned this morning
6 when we did that January update, we only have one (1)
7 long-term source. So that is not something that we
8 would typically put a high -- high degree of confidence
9 in as opposed to -- well, we normally have our three
10 (3) sources.
11 And that's why I referred to -- there's
12 -- subsequent to that January update, we now have a new
13 forecast. And we've seen some of those changes,
14 particularly in the long-term, have -- have completely
15 reversed. The short-term hasn't changed very much. In
16 the short term, we did have that multitude of sources
17 that we usually have.
18 So the -- the short term, I would agree
19 with you. The long term, I would say we didn't have
20 enough information at the time to say that. And
21 looking at it now, I'd say in fact no.
22 MR. BOB PETERS: Well, the -- the
23 January update, as it's been called, Mr. Page, it was
24 proceeding, was it, about thirty (30) basis points --
25 I'm just looking here compared to the chart on page 46?

1 MR. IAN PAGE: If -- if I'm going all
2 the way through -- if I'm looking at the short-term
3 rates, I see a fairly large drop in the early years, .8
4 percent in '15/'16, 1.45 percent in '16/'17, and then
5 it tapers off to about .4 percent in the longer term.
6 And again .1 -- 1.1 percent drop in '15/'16, .95
7 percent in '16/'17, and then move to -- moving to about
8 a .45 percent drop in those years.
9 And -- and as I alluded to earlier
10 today, if I now -- if we were to do that estimate say a
11 month ago, which we did, then those numbers have --
12 have -- those long-term decreases of point four-five
13 (.45) are now increases of point six (.6). So we're
14 virtually right back to where we were at the time of
15 the fall IFF and the longer term.
16 So we -- we do -- do still -- still see
17 about two (2) years where there's some beneficial
18 interest effects. But in the longer term, the benefits
19 have essentially come -- come and gone in the forecast.
20 MR. BOB PETERS: Sounds, Mr. Page, that
21 you'd be in a position to redo not only the -- the
22 chart on page 46, but prepare a table similar to that
23 on page 47 of Board counsel's book of documents with --
24 showing the most current updates from your economic
25 update for 2015?

1 MR. IAN PAGE: Yeah, we can certainly
2 provide that.
3 MR. BOB PETERS: And can you also
4 provide the economic update document itself?
5 MR. IAN PAGE: Actually, I can't, and
6 that's because we've changed the -- the way we do the -
7 - the planning or the preparation of the document. In
8 the past, we've done the spring economic outlook
9 document, and then did a fall update. And the fall
10 update was what actually got used in the IFF.
11 And then we were perpetually explaining
12 the difference between what was in the spring in the
13 economic outlook, what was in the fall update. So now
14 what we've done, we do a table of update to the -- the
15 numbers that the planning people can use, and that's
16 what I have available. And the actual economic outlook
17 document will not actually be prepared until the fall
18 of this year.
19 MR. BOB PETERS: All right. We'll --
20 we'll just ask you then to update the materials with
21 the information you have, and maybe file that chart as
22 well if you could.
23 MR. IAN PAGE: We can certainly do
24 that.
25 MR. BOB PETERS: All right. Appreciate

1 that.
2 When we're looking at the test years,
3 Mr. Page, what impact does your -- and on page 46,
4 we're looking at the weighted average interest rate,
5 correct?
6 MR. IAN PAGE: Yes, and that's a
7 combination of the -- the forecast and -- and of the
8 existing debt. So that's -- that's questionable. So I
9 have to -- to split between myself and Mr. Schulz, but
10 --
11 MR. BOB PETERS: If one was to update
12 for this interest rate change for the 2015/'16 test
13 year, is the improvement about $13 million from what's
14 currently in the forecast?
15 MR. IAN PAGE: I couldn't say because
16 I'm just looking at the interest rate and not -- and
17 not in the quantity of -- of debt that's being issued.
18 So I wouldn't be able to speak to the dollar value.
19 MR. BOB PETERS: On page 49, there's a
20 table at the bottom, Mr. Page, and I was looking at --
21 I've looked at this previously with other witnesses,
22 but if we look at the difference in 2015/'16, the IFF
23 net income base case was premised on $115 million?
24 MR. IAN PAGE: Yes.
25 MR. BOB PETERS: And then...

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: And then if we look at

4 the -- it -- it's called Appendix A, Schedule --

5 "Scenario Updating Interest Rates Only," the net income

6 rises to $128 million.

7 Would I interpret that correctly?

8 MR. IAN PAGE: Yes, that's correct.

9 MR. BOB PETERS: And that's where I

10 suggested there was a $13 million improvement for what

11 was currently forecast in IFF14.

12 Would you agree with that?

13 MR. IAN PAGE: Well, that was the --

14 using the January update over -- over IFF14.

15 MR. BOB PETERS: Would you be able to

16 also update this chart with your current information?

17 MR. IAN PAGE: We'd have to see if --

18 that's not something I -- I can do. I provide the

19 interest rate, and then Ms. Carriere's people would

20 have to actually run the -- the forecast. So I'm not

21 sure how long that would take them to do that. But I -

22 - but I could advise you, though, that the interest

23 rate that we used in the January update for '15/'16

24 went from 2.3 percent in the IFF to one point five

25 (1.5). And our -- and our current update for that is

1 now -- is one point seven (1.7).
2 So it's not a huge difference in -- in
3 what was in that fall update for that year.
4 MR. BOB PETERS: All right. Well,
5 we'll --
6 MR. IAN PAGE: Sorry -- sorry, that's
7 on the short-term rate. And on the longer term rate,
8 '15/'16, it went from five point one (5.1) in the IFF
9 to 4 percent in the update, and it's actually stayed at
10 4 percent. So -- so we'd have a small change in the
11 short-term rate. So I would expect that we wouldn't
12 see anything very material in that change.
13 MR. BOB PETERS: And that would then
14 give you confidence that the numbers shown of page 49
15 are approximately accurate still, in terms of the
16 interest rate for the 2015/'16 test year?
17 MR. IAN PAGE: I thi -- I think that's
18 a fair statement.
19
20 (BRIEF PAUSE)
21
22 MR. BOB PETERS: When we turn to Tab 6
23 in the book of documents, pages 51 and 52, we see an
24 attachment that Manitoba Hydro prepared to an
25 Information Request, where it showed that the finance

1 expense is lower than forecast for each of the twenty
2 (20) years of the forecast, as found in the pages 51
3 and 52 attachments, correct?
4 MR. MANNY SCHULZ: If I can, I'll just
5 step into that. Yes, that's correct.
6 MR. BOB PETERS: Mr. Schulz, Thank you.
7 And following up, Mr. Schulz, on Mr. Page's earlier
8 comment, in terms of going -- well, in terms of going
9 forward, are you in any position to indicate to the
10 panel what's happened to the finance expense as a
11 result of the most current information?
12 MR. MANNY SCHULZ: Perhaps I'll start,
13 and then I can hand it off to Mr. Page in -- with
14 respect to the forecasting and what we're seeing. I
15 mean, what I can tell you is what the interest rates
16 are today. I can tell you what the -- the landscape is
17 like. I mean, we're looking at that every single day,
18 and we talked about it this morning in that the -- we
19 had a -- a bit of a dip in the interest rates. We took
20 advantage of that through the period of -- through
21 December and into April.
22 Now we're seeing interest rates rising
23 up again, and they're -- but what's the trajectory of
24 that is uncertain. What we do see is that the interest
25 rates are dynamic and they're moving around. What will

1 they be a -- a year from now, two (2) years from now,
2 it -- it is a bit of a crystal ball exercise, I will
3 grant you that.
4 I think on the generalities of what
5 we're putting forth, the interest rate -- the only
6 piece that we put forth in -- in response to PUB-10(b)
7 still holds, but I would put the caution to this,
8 please, because that was just a -- a very simple
9 scenario. When we look at our IFF, and you have the
10 interest rate impact, it impacts more than just the
11 debt portfolio.
12 You heard discussion about the discount
13 rate. You heard about, you know, the other aspects.
14 Mr. Page just talked about, you know, the complexity of
15 the economy. It doesn't just impact the interest
16 rates. So we just would expect a little bit of caution
17 with respect to these kind of update scenarios.
18 MR. IAN PAGE: Yeah, I'd like to sort
19 of expand on that, as we've provided the new economic
20 outlook numbers, essentially. This is -- so that's the
21 start of the 2015 planning cycle, but, you know, we
22 have to see how that falls through on all the other
23 variables.
24 The -- the next -- next piece in the --
25 in the chain would be the -- would be the load

1 forecast. So the load forecast is going to be
2 reflective of those different economic conditions that
3 -- that are associated with these different -- with the
4 new interest rates.
5 Export markets are going to be
6 different. I guess, since -- as I mentioned this
7 morning, natural gas was close to three dollars ($3) in
8 January. Now it's about two sixty (260) for -- per
9 million BTUs, so that -- that's going to translate into
10 export prices. So -- and there'll be a new capital
11 forecast. There'll be new operating forecasts.
12 There'll be -- so as -- as Mr. Schulz
13 said, it -- it's -- we're all very reluctant to -- to
14 sort of say, Aha, we have a new interest number,
15 therefore, that's what the new outlook is, because it's
16 only -- the -- we have -- we haven't seen how -- how
17 that -- those flow through all the various aspects of
18 the forecast yet.
19 MR. DARREN RAINKIE: That's why, Mr.
20 Peters, if we go back to page 49 of your book of
21 documents, there was a third column on the IR, PUB/MH-
22 I-10(b), which, when we provided the interest rate
23 update, we also provided an update in terms of export
24 prices. And I think you talked to Mr. Miles about this
25 a couple days ago.

1 And you see, then, when we look at the
2 very bottom of that, that the -- the difference by the
3 time we get to the three (3) test years is about $6
4 million. So, essentially, once again, if we don't want
5 to be selective in just one (1) variable, we see that
6 when we do have a balanced approach to looking at
7 things, that there really hasn't been much of a change
8 in our financial outlook.
9 MR. BOB PETERS: Thank you, Mr.
10 Rainkie. You might have jumped ahead of me a little
11 bit. But on page 54, Mr. Page, Mr. Schulz, the change
12 in interest rate that we've looked at for -- for the
13 IFF compared to the PUB IR 10(b) appears that there was
14 a $1.9 billion lower finance expense over the twenty
15 (20) years of the IFF, correct?
16 MR. IAN PAGE: With the proviso that
17 that was looked at in isolation, yes.
18 MR. BOB PETERS: Well, and that -- and
19 that's the point I want to come back to. And -- and
20 Mr. Rainkie stole some of my thunder, as he often does.
21 But do we have an update on the export prices in terms
22 of what -- you know, if finance expense has dropped by
23 1.8, $1.9 billion, Mr. Rainkie, are you interpreting --
24 or have you any knowledge of what the reduced export
25 revenues would be over that same twenty (20) year

1 period?

2 MR. DARREN RAINKIE: Mr. Peters, I'm

3 trying to find -- I'm assuming somewhere in your book

4 of documents, we have the other financial run that

5 included both -- both of these variables.

6 MS. ODETTE FERNANDES: Page 58.

7

8 (BRIEF PAUSE)

9

10 MR. DARREN RAINKIE: I think if we look

11 at page 59, sir -- sorry, I'm trying to go through this

12 material quickly, I think the offset was 800 million,

13 eight thirty-eight (838). Somebody on the panel can

14 correct me, then, if that's wrong.

15

16 (BRIEF PAUSE)

17

18 MR. MANNY SCHULZ: Sorry, the

19 information on pages 58 and 59 represent the -- the

20 analysis and depiction of our PUB 10(b) that includes

21 both for interest rates as well as for export revenue

22 price adjustments. And -- and I think, from our

23 perspective, this, while not a perfect representation,

24 is a more balanced one than just selectively moving on

25 interest rates to the exclusion of all else within our

1 corporation.
2 MR. BOB PETERS: And there the -- the
3 difference is still about a billion dollars favourable,
4 Mr. Schulz?
5 MR. MANNY SCHULZ: I just want to make
6 sure we're looking at the same number, Mr. Peters.
7 Are you looking at page 59 in the book
8 of documents and the difference between looking at the
9 twenty (20) year column and the difference between the
10 1.4 billion in the six hundred (600)? Or...
11
12 (BRIEF PAUSE)
13
14 MR. BOB PETERS: I think you've got the
15 correct numbers, Mr. Schulz. If we -- if we look at
16 the finance expense is down 1.454 million. Net export
17 revenues are also down 838 million.
18 And so the net income difference would
19 be positive 628 million?
20 MR. MANNY SCHULZ: We have that now,
21 sir. And the bigger change in finance expense, it's
22 important to understand as well that the benefits that
23 we arrive out of the low interest rate environment for
24 finance expense is driven largely out of the big bulk
25 of financing that we have in the next five (5) and ten

1 (10) years.
2 And to the extent that we can secure
3 those financings at fixed-rate financing, that stays in
4 the -- in -- in the books for the very long time. So
5 that's something that structurally we can take
6 advantage of. Which is why you see that on the
7 weighted average interest rate chart. There's that --
8 that line that shows, you know, the impact of the lower
9 interest rates and it stays constant, around thirty
10 (30) basis points throughout that whole time. And
11 that's a function of securing that and fixing that for
12 the entire legacy of that period of time.
13 And so to the extent that we have that
14 economic cycle that we're in now with the economic
15 malaise and low interest rate environment -- to the
16 extent that it can stay this way for a period of time
17 and we can lock it down, we have a permanence and a
18 sustainability that extends for a long time. The
19 export prices can go up and down through a longer
20 business cycle and so on, but essentially we're locking
21 and fixing, to the benefit of ratepayers, the finance
22 expense through this -- this economic cycle.
23 MR. DARREN RAINKIE: And, Mr. Peters,
24 if we turn to page 50 sick of -- 6 of your books of do
25 -- book of documents for one (1) second. And if we go

1 -- pan down a little bit, Diana, in terms of -- the
2 diffic -- the difficult part with this is that it's all
3 just not -- there's two (2) different time periods
4 here.
5 One (1) is the export revenues will go
6 down faster. The -- the impacts of lower finance
7 expense won't be felt until the plants come into
8 service and we actually start amortiz -- until the
9 interest costs on those plants, like Bipole and
10 Keevask, actually come into service. Sorry, I -- I
11 didn't explain that very well.
12 Export revenues, the decrease will be
13 gra -- will be gradual over time. The decrease in
14 finance expense won't be in the early part of the
15 forecast. It'll be in the later part in the forecast
16 once the projects come into service and the finance
17 expense associated with those projects moves from
18 interest during construction which is capitalized at
19 the asset to finance expense.
20 So that's why you see if you look at the
21 bottom, the financial ratio calculation, if you look at
22 the equity line and you go all the way over to 2024,
23 you'll see that that equity ratio is 11 percent which
24 is basically what we're -- the same thing that we're
25 looking at in IFF14.

1 Now, the rate increases of 3.95 percent,
2 as I said this morning, are designed to manage the dip
3 in our financial integrity over the next ten (10)
4 years. So unfortunately this scenario is another one
5 (1) that the benefits come towards the back end,
6 eighteen (18) -- you know, seventeen (17), eighteen
7 (18), twenty (20) years from now. But our financial
8 position, even with this scenario, doesn't
9 significantly improve in the next ten (10) years.
10 And that's what we're worried about.
11 And that's what we're worried about in terms of rate
12 stability for customers. So there -- there's different
13 time patterns. You just can't look at an effect over
14 twenty (20) years or -- we have to -- we have to look
15 at when that occurs, I guess is my point
16 MR. BOB PETERS: That hasn't been done,
17 Mr. Rainkie, since the changes that Mr. Page and Mr.
18 Schulz have spoken of?
19 MR. DARREN RAINKIE: No, sir, that --
20 that hasn't been incorporated in this.
21 MR. BOB PETERS: If we can turn to the
22 foreign exchange topic. I believe that --
23 MR. DARREN RAINKIE: Sorry, sir, just
24 that last question. This is the run that we produced
25 in that Information Request, so it does move down to

1 the -- it's still the seven (7) -- the same 11 percent
2 equity ratio that we forecast in IFF14. Your last
3 question is have -- have we built in Mr. Page's most
4 recent interest rates into this scenario, right? And -
5 - and the answer to that would be no.
6 MR. BOB PETERS: Yes, and I had
7 understood that to be your answer, so thank you.
8 MR. DARREN RAINKIE: Okay.
9 MR. BOB PETERS: And moving to the
10 foreign exchange rate, has Manitoba Hydro updated its
11 official forecast in the spring of 2015?
12 MR. IAN PAGE: Yes, we have.
13 MR. BOB PETERS: And what's the -- the
14 new number, Mr. Page?
15 MR. IAN PAGE: There is no one (1)
16 number, but --
17 MR. BOB PETERS: For --
18 MR. IAN PAGE: If we're looking at,
19 say, the test years 20 -- 2015/'16, the IFF used one
20 twelve (112) for the exchange rate, the January update,
21 which we didn't actually incorporate in 10(b) because
22 of the -- the effectiveness of the exposure management
23 program, but it would -- would -- one twenty-nine
24 (129), and now we're seeing it at one twenty-seven
25 (127). So it -- it's -- it hasn't changed a lot since

1 -- since January, but it has significantly changed
2 since last fall.
3 And the -- the longer term rates are --
4 in the fall update, we were looking at in -- in the
5 long run, about a -- a dollar ten ($1.10) exchange
6 rate, and -- and the number for this year is a dollar
7 thirteen ($1.13), so a -- a smaller change in the
8 longer term.
9 MR. BOB PETERS: A point that I -- I
10 think -- well, Mr. Page, let's maybe start with you,
11 and maybe Ms. Carriere can help. When the export
12 revenues receive the benefit of the updated foreign
13 exchange rate, in the forecast, it would go up
14 approximately 15 or 16 percent is what I -- what I hear
15 the numbers, Mr. Page?
16 Have I heard that correctly?
17 MR. IAN PAGE: Yes, that would be
18 correct. And then I'm sure the next thing you're going
19 to say, What would be the corresponding change on the
20 finance expense and so forth, and --
21 MR. BOB PETERS: Well, Mr. Rainkie, I
22 think answered that question when you weren't -- when -
23 - when you weren't here, and I'm not sure if I
24 understood it correctly, but you had indicated we have
25 to be mindful of the exposure management and some of

1 the US payments, but I had understood, Mr. Rainkie, and
2 you can tell me if I heard correctly, that you
3 estimated the foreign exchange update for 2015/'16
4 would result in a favourable change of somewhere
5 between 5 and $10 million.
6 Do you recall saying that?
7 MR. DARREN RAINKIE: I recall saying
8 that, but sorry, it wasn't that we expected that
9 increase in the -- in the near term, sir. I was
10 talking to our -- our guidelines that we would try to
11 manage our exposure to FX within being long or short
12 $100 million and -- and a ten (10) cent movement on
13 $100 million would be $10 million.
14 Typically, I think the impact on our --
15 on our net -- net income of movements and FX rates is
16 much lower, in the few million dollar range.
17 Mr. Schulz can probably assist more in
18 this, but I -- I was talking more about how over the
19 long run, we try to insulate ourselves from the effects
20 of FX rates. I wasn't making a forecast in the -- in
21 any particular year, sir, and I was talking about a
22 fairly large change in foreign exchange.
23 MR. BOB PETERS: And thank you, Mr.
24 Rainkie, and -- and you'd agree that a 16 percent
25 change in foreign exchange rate in the forecast would

1 be a -- a large rate in -- a large change?
2 MR. DARREN RAINKIE: Yes, but you have
3 to look at both the -- the long and the short and the -
4 - and the change in the exchange rate, sir, to figure
5 out the impact.
6 MR. BOB PETERS: Is -- is there a way,
7 Mr. Rainkie, you can explain to the panel how if you
8 got an extra -- an extra dollar on the extraprovincial
9 revenue side as a result of foreign exchange rate, how
10 that would translate down to net income after going
11 through the -- the exposure management program?
12 MR. MANNY SCHULZ: Perhaps I'll step in
13 here. You know, as the treasurer, we have bank
14 accounts in US dollars and denominated in that manner.
15 And so we, on a -- as a daily basis, keep track of all
16 of our US dollar cash inflows and outflows. So the US
17 dollar inflows would primarily be export revenues. In
18 the past, they've also included US dollar sinking
19 funds.
20 And we have outflows. We have outflows
21 that would be expenses pertaining to US denominated
22 debt. We have US -- a provincial debt guarantee fee
23 that we pay as US dollars on that. There would be
24 other US dollar outflows as well.
25 So what we try to do in -- on our

1 foreign exchange man -- mitigation on this is try to
2 mitigate the difference between. So if you have the US
3 dollar inflows that are coming in at a certain level,
4 and you have your US dollar outflows at a certain
5 level, your real exposure is only the net difference.
6 So to the extent that you have a -- a
7 change -- you know, a changing tide raises and lowers
8 all ships. And so as in this current context there is
9 change in US dollar, revenues are being -- when they're
10 translated back in Canadian dollars, coming in on the
11 Canadian equivalent is a higher number. Our finance
12 expense and other pieces within our complicated
13 Manitoba Hydro cashflows and so on, they come in
14 higher. And so the whole things rises and lowers.
15 The challenge we face on the US dollar
16 revenues is that they're dynamically moving up and
17 down. The debt portfolio is somewhat more structural,
18 and I -- I can move my US debt portfolio, but I try not
19 to. But the US dollar revenues will move up in
20 accordance with the volume and the -- and the pricing.
21 So as Mr. Rainkie has indicated, we do
22 have a tolerance for our long and short position. And
23 where we are in a position where we are beyond where
24 we're comfortable, and by our policies, we -- we don't
25 want to be more than $100 million long, then we

1 undertake activities to re-balance our portfolio.
2 So that would be adding to, for
3 instance, the US debt portfolio, taking some interest
4 payments and adding it into the mix and so on, so that
5 we are not in the business of speculating on foreign
6 exchange, and so that we can innoculate ourselves from
7 that.
8 And again, the caution that I have on
9 this -- and it -- it's quite remarkable for me. And I
10 look at all the financial market indicators, and -- and
11 Ms. Stephen behind me is, as I said, a guru, and she
12 follows this on a regular basis.
13 The exchange rate difference between
14 Canada and the US is quite remarkable. And we talked
15 to our forecasters, and they say it's one (1) of the
16 most difficult things to forecast.
17 Think about this: Between Canada and
18 the US, we have two (2) economic partners who -- they
19 have no wars, they have a NAFTA agreement, they have a
20 very friendly relationship, long border that's largely
21 unmonitored. And yet you have this massive change in -
22 - in foreign exchange. It is a big change, but that's
23 the reason why we try to modulate this and keep that in
24 -- largely in check.
25 So what is the balance? And so when

1 you're looking at the risk parameters -- and Ms.
2 Carriere has done that when she provides the interest
3 rate sensitivities within the IFF, and you can see that
4 a plus or minus change of ten (10) cents on our foreign
5 exchange, when it comes down to the bottom line as what
6 Mr. Peters has asked, is a very small change when
7 you're looking at the period cumulatively to 2017/'18.
8 It's in the magnitude of approximately 5 million, all
9 in.
10 It -- lots of balances in there, but in
11 simple terms, we're coming close to a point of
12 inoculation. And for me, that gives me great comfort,
13 so that I don't have to worry about foreign exchange as
14 a major risk. It's something we look at all the time,
15 but in the great categorization of it, you know,
16 compared to droughts and interest rates, it's a fairly
17 minor risk, complicated to manage, but one that we're
18 doing our best to sort of keep it in check.
19 MR. BOB PETERS: Well, you didn't give
20 me the answer I was expecting, and I've got four (4)
21 minutes to try to get it from you. But when Mr.
22 Rainkie said that the change -- if it's a large change
23 in the foreign exchange, maybe he sees a $10 million
24 positive.
25 So I'm interpreting a -- a ten (10) cent

1 foreign exchange change for a fiscal year would result
2 in $10 million. So the rule of thumb is a one (1) cent
3 change would result in a $1 million net income gain.
4 And I'm wondering if -- if you can
5 confirm or deny that?
6 MR. MANNY SCHULZ: I can confirm that,
7 if you divide 10 million by -- you know, if you'd want
8 to follow along with the arithmetic, I would agree with
9 you. The challenge here is that if you have $100
10 million as your net exposure, the -- I think the test
11 that we have is: What's a ten (10) cent change going
12 to do that?
13 It's assuming an instantaneous change,
14 right? A ten (10) cent change on 100 million is 10
15 million. It -- it -- that's sort of the -- you know,
16 what does that do for us? But these changes happen
17 through time. The foreign exchange, for instance, it
18 moved from July, I believe, last year, of around one-o-
19 seven (107) to -- it's one twenty-five (125) today.
20 So it doesn't happen instantaneously.
21 We're monitoring it as it goes along. And where we see
22 an imbalance, we'll do our best to sort of -- where we
23 can to -- to bring us back into check so that we're
24 hedging effectively.
25 MR. BOB PETERS: But, Mr. Schulz, Mr.

1 Page just delivered you a 16 percent windfall that you
2 haven't yet hedged out. So wouldn't all of that
3 windfall come down to the net income line?
4 MR. MANNY SCHULZ: Well, to the extent
5 that we are hedged, we would see the counterbalancing
6 increase on the other side of the ledger. So I would
7 say generally, no. I mean, it -- it'll only be on the
8 net exposure on the difference, so.
9 MR. BOB PETERS: Ms. Carriere, if
10 you've been listening with interest, are you able to
11 undertake to calculate for 2015/'16 what the export
12 revenue would be, the finance expense, and the fuel and
13 power purchases based on the latest foreign exchange
14 information from Mr. Page?
15 MS. LIZ CARRIERE: Well, before we go
16 there we could turn to something that's already on the
17 record. And we've been talking about ten (10) -- ten
18 (10) cent changes. In Appendix 3.6 on page 1 of 40...
19
20 (BRIEF PAUSE)
21
22 MS. LIZ CARRIERE: It's probably slow
23 to come up.
24
25 (BRIEF PAUSE)

1 MS. LIZ CARRIERE: Here we go. So if
2 you can scroll down to look at the table. This is also
3 in IFF14. About midway through the table there's a
4 Canadian dollar versus US dollar down ten (10) cents or
5 the Canadian dollar strengthening. And then it shows
6 Canadian dollar weakening by ten (10) cents.
7 So you can see that in 2016/'17 there's
8 -- there's an impact of -- of about $5 million in that
9 one (1) year and over four (4) years it's -- it's $3
10 million. So while you get an increase in your US
11 revenue directly related to a ten (10) cent change in
12 the exchange rate, you're also seeing a corresponding -
13 - hang on, Canadian weakening dollar.
14 US revenue is going up and US interest
15 payments are going up accordingly, so the net between
16 the two (2) is virtually zero. It's -- it's -- we're -
17 - I believe we're more closely hedged in the -- in the
18 near-term. And in the longer-term, when we start to
19 have the expenditures for Keevask, it gets more
20 difficult to hedge that, but we're still over the ten
21 (10) year per -- period fairly closely hedged.
22 MR. MANNY SCHULZ: And just to further
23 add to that. So you'll see the numbers beyond in the -
24 - in the retained earnings differences to 2023 and '24
25 and to what Ms. Carriere had referred to, so it's $159

1 million. So in those scenarios, what we would be doing
2 very practically as part of our treasury function would
3 be look to re-balance that.
4 So what would that mean? That would
5 likely be -- we would either take out US dollar debt
6 and leave the interest payments and accumulate the
7 counterbalance again, or we could, if we wish to, take
8 some Canadian interest payments and swap it to US. So,
9 I mean, there's some structural things that we could
10 do, but at this point in time, it would be presumptuous
11 for us to jump too far afield into that because we
12 don't know what the -- the flows are going to be,
13 particularly if we looked to change the structural
14 aspect of our debt portfolio. We're not wanting to do
15 that too far afield.
16 In either case, we think that we're
17 comfortably eliminating this from the main risk
18 category that you're seeing here and that we're
19 comfortable in our ability to effectively innoculate
20 the revenue requirement from impacts of foreign
21 exchange, which give me great comfort.
22 MR. BOB PETERS: Mr. Chairman, in light
23 of the hour, I suggest I could stand down until
24 tomorrow morning at nine o'clock.
25 THE CHAIRPERSON: Thank you, Mr.

1 Peters. Unless there's additional business to attend
2 to, then we're adjourned for the day. And thanks very
3 much, everyone. We'll see you again tomorrow at nine
4 o'clock. Have a good evening.
5
6 (PANEL RETIRES)
7
8 --- Upon adjourning at 4:33 p.m.
9
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11 Certified Correct,
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16 Bob Keelaghan, Mr.
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