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2 MANITOBA PUBLIC UTILITIES BOARD
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8 Re: Manitoba Hydro Diesel
9 Interim Ex-Parte Rate Application
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14 Before Board Panel:

15 Graham Lane - Board Chairman
16 Robert Mayer - Board Member
17 Kathi Avery-Kinew - Board Member
18

19 HELD AT:

20 Public Utilities Board
21 400, 330 Portage Avenue
22 Winnipeg, Manitoba
23 December 13th, 2004
24

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Bob Peters

)Board Counsel

Patti Ramage

)Manitoba Hydro

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1 --- Upon commencing at 9:14 a.m.

2

3 THE CHAIRPERSON: I can't remember when we
4 last met whether or not these worked, but they work today, so
5 we're away.

6 Welcome to an Interim Ex-parte Hearing of the
7 Board. For the record, I am Graham Lane, Chairman, and my
8 two (2) colleagues on the Panel are Dr. Kathi Avery-Kinew and
9 Mr. Robert Mayer, Q.C.

10 Parties can expect a mid-morning break, a
11 period for lunch, with evidence in Closing Statements to
12 conclude in the afternoon.

13 Manitoba Hydro has filed an application for
14 new diesel zone rates and asked to proceed on an interim ex-
15 parte basis, which we have agreed to.

16 The last time the Board set diesel rates was
17 through the process that led to Order 1704. The rates in
18 that Order were only interim, as there were significant
19 issues to be resolved before the rates could be made final.

20 Parties may need to be reminded that only two-
21 thirds of the present Panel sat in that Proceedings, the new
22 person being myself.

23 Significant issues from Order 1704 were
24 apparently the subject of mediation, the process that has led
25 to -- apparently led to a tentative settlement between

1 Manitoba Hydro, MKO and the four (4) First Nation Communities
2 and INAC.

3 As a result of the tentative settlement,
4 Manitoba Hydro seeks to change rates for the diesel zone. As
5 all will hear -- will appreciate, the Board wants to ensure
6 it fully understands the Application and to that end has,
7 through Board Counsel, asked six (6) Interrogatories.

8 Today, we will invite Manitoba Hydro to speak
9 to the Application and respond to questions from the Board
10 Counsel and the Panel. The Panel may ask its questions
11 throughout the Hearing or at the end.

12 The Board expects the record of this
13 proceeding will be on the Public Record and be subject to the
14 further review of interested parties should an Interim Ex-
15 parte Order be issued by the Board. Following the Hearing,
16 the Board will consider the Application further.

17 I now call on Mr. Peters, Board Counsel, to
18 provide his introduction and opening comments.

19 Mr. Peters, to begin, has Hydro filed the
20 Agreement in confidence, of course?

21 MR. BOB PETERS: Good morning, Mr. Chairman,
22 and Board Members. Mr. Chairman, your question of me, I
23 believe, is in reference to the first Interim Ex-parte
24 Interrogatory that was asked of Hydro and that was to file a
25 fully executed copy of the Settlement Agreement, and the

1 response was that it has not yet been fully executed by the
2 parties.

3 Then the second part of the question said that
4 if it was only available in draft form, to please provide it
5 in draft form. The answer to that question was an indication
6 as you noted, that the target date for filing the Draft
7 Agreement was going to be on Friday, December the 10th, and
8 there was also an expectation that it would be filed in
9 confidence with the Board.

10 With that background, on Friday, I wasn't
11 aware as to whether or not it had in fact been filed and Ms.
12 Ramage spoke to me earlier this morning and indicated that
13 the Corporation has not been in a position to yet file it.

14 That does present some pragmatic difficulties
15 to the Hearing and some concerns, I suggest, to the Board,
16 but Ms. Ramage and I have briefly talked about it and feel
17 that we may be able to proceed and I'll turn it over to Ms.
18 Ramage to indicate where Hydro is with respect to at least
19 the unsigned draft version of the Settlement Agreement and
20 where we will go from here.

21 MS. PATTI RAMAGE: Good morning. Manitoba
22 Hydro recognizes the Board's desire to see the Draft
23 Agreement but Manitoba Hydro is bound by the terms of the
24 Confidentiality Agreement which requires the consent of all
25 parties to the mediation, prior to releasing any documents

1 and as of late last week, the parties were still working out
2 some of the details of the draft and did not want it to go
3 forward until they were satisfied that the -- those detail
4 had been completed.

5 The -- the agreement itself is based on the
6 principles set -- set out in the Minutes of Settlement and
7 for that reason, Manitoba Hydro continues to wish to go
8 forward this morning because at the foundation of those
9 Minutes of Settlement is that any rate application will be
10 based on the principles set out therein; those being the
11 capital contribution that's referred to in the Minutes of
12 Settlement, the -- the manner in which the accumulated
13 deficit will be dealt with and the payment of the -- the
14 unpaid surcharge payment.

15 And those are the principles upon which the
16 rate application is based, not necessarily all of those
17 details that come together in that agreement.

18 Having said that, we recognize the Board --
19 the Board's desire to see it and would be prepared to
20 certainly accept that no order would issue out of today until
21 the Board has a copy of that, have reviewed it and is -- has
22 satisfied itself that -- that going forward is appropriate.

23 MR. ROBERT MAYER: Ms. Ramage, you say the
24 parties to the mediation, does that include the Mediator?

25 MS. PATTI RAMAGE: No, that doesn't.

1 MR. ROBERT MAYER: So, who is required to
2 give consent?

3 MS. PATTI RAMAGE: That would be Canada and
4 MKO representing the four (4) First Nations.

5 MR. ROBERT MAYER: And who's the holdup?

6 MS. PATTI RAMAGE: It -- it would depend on
7 your perspective. At this point, none of -- the parties all
8 wish to have the pens put down before the Board sees this
9 agreement and as -- as long as there are -- are pens in the
10 air working out any details I think even myself would not be
11 recommending the Board issue an order based on something that
12 if -- if the details haven't been completed.

13 MR. ROBERT MAYER: My turn again? I'm
14 assuming you've seen the agreement. Can you tell us, and I'm
15 assuming this isn't much of a breach of confidentiality, how
16 long is it?

17 MS. PATTI RAMAGE: Thirty-two (32) pages, I
18 believe.

19 MR. ROBERT MAYER: So, it is obviously
20 significantly longer than the Minutes of Settlement and if
21 it's taking this long to come together, I'm assuming it's a
22 rather complicated document. How would you propose that the
23 Board get any answers to the questions that may arise out of
24 this thirty-two (32) page agreement if we hold the Hearing
25 and then leave and then sometime at somebody's convenience,

1 they send us a copy?

2 MS. PATTI RAMAGE: Well, if -- if necessary,
3 the Board could pose further IRs if they -- upon review, but
4 the principles set out in the agreement -- the base
5 principles -- are those -- those founding principles in the
6 Minutes of Settlement and -- and we wish to ensure that that
7 agreement reflects that accurately.

8 Some of the types of details that have to be
9 worked out are definitions of, I -- I think I can say this
10 without breaching any confidence, what a major capital
11 contribution would be, because one (1) of the -- the
12 provisions in the Minutes of Settlement is that Manitoba
13 Hydro won't proceed with a major capital contribution without
14 -- without having consulted the parties.

15 So, we need to know what that is and that --
16 and that requires our technical advisors and something I,
17 perhaps, should have said earlier is -- is part of the, we
18 could say, delay in -- in getting the agreement together is,
19 each of the Parties has gone of to -- to do their jobs under
20 the Minutes of Settlement and I understand INAC's been
21 focussed on moving this matter through the Treasury Board
22 process and -- and they've had a -- been focussed in that
23 area and MKO has had a -- a great deal of focus on reviewing
24 this Application we've put before you and therefore, I think,
25 turned their minds away for -- from the agreement for a

1 while.

2 So, I think now that we're back focussed on
3 it, I -- I don't think there'll be a great deal of delay. I
4 don't anticipate that in getting it to the Board.

5 MR. BOB PETERS: Mr. Chairman, unless there's
6 further questions, I -- I appreciate the questioning from the
7 Board and I think -- I think the situation is one where the
8 Board will have to decide at the outset this morning probably
9 one (1) of two (2) choices.

10 And the first choice is to adjourn the
11 proceedings at this time until some subsequent date either
12 fixed or to be fixed and you've heard from Ms. Ramage that
13 that is certainly the Corporation's wish.

14 Or the second choice and option would be to
15 continue with today recognized as Hydro has indicated that
16 the draft agreement has not been released by the parties for
17 filing before this Board, understand as the parties in Hydro
18 should that the Board will not move this Application further
19 unless and until it receives at least the draft copy of the
20 Settlement Agreement and then proceed with today to see if
21 there can be additional understandings of those principles of
22 settlement which at this point in time are expected to be the
23 ones that are set out in the minutes of settlement that have
24 been filed in these proceedings.

25 THE CHAIRPERSON: Ms. Ramage, the Board

1 understood when the Application was filed that there was some
2 urgency with respect to this matter. You're not anticipating
3 then that there's go -- that there be a significant delay
4 between today and our receipt of the -- the settlement?

5 MS. PATTI RAMAGE: I certainly hope not. I
6 -- I don't anticipate that, no.

7 THE CHAIRPERSON: We'll take about three (3)
8 minutes, thanks.

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: Okay, we'll -- we'll
13 continue. Ms. Ramage, if you would alert the parties that
14 there'll be no order coming from the Board until we have the
15 unsigned draft; the -- the full nine (9) yards as they say.
16 Mr. Peters, do you have any other opening remarks?

17 MR. BOB PETERS: I've almost forgotten but I
18 do, Mr. Chairman. I was going to say good morning to
19 yourself and to Mr. Vice-Chair and Dr. Avery-Kinew.

20 For the record -- if the record being
21 transcribed hasn't already alerted to it, my name is Bob
22 Peters and I'm appearing as counsel for the Public Utilities
23 Board this morning. The Board is also assisted in this
24 application by Jean McClellan, one of the Board's accounting
25 advisors.

1 Mr. Chairman, as you mentioned in your opening
2 comments, Manitoba Hydro filed an application last year
3 seeking new rates for its customers in the diesel zone. And
4 the diesel zone that will be referred to today is known as
5 four (4) communities considered remote. These -- these
6 communities are Shamattawa, Tadoule Lake, Bochet and Lac
7 Brochet.

8 And the Application that was filed, if I did
9 my research correct, it may have been filed as late as 2002
10 and it took into January of 2004 to be heard for a variety of
11 adjournments and various reasons. But the Board order that
12 issued was Order 17 of '04 and also a followup Order of 46 of
13 04 which approved interim rates for April the 1st, 2004.

14 And I remind the Board and the parties that
15 the rates presently approved by the Board for the diesel zone
16 are only interim. They are interim because there were as you
17 mentioned, Mr. Chairman, significant issues the Board wanted
18 resolved by the parties or perhaps by the Manitoba Court of
19 Appeal before setting final rates.

20 Manitoba Hydro, Indian and Northern Affairs
21 Canada which will in these proceedings be known by the
22 acronym of INAC and MKO which stands for Manitoba Keewatinook
23 Ininew Okimowin and that will be the last time I try to say
24 that but we'll call it MKO for the record, represents four
25 (4) First Nation communities in the diesel zone. And there

1 was an attempt by those three (3) parties with the assistance
2 of a mediator to resolve the issues.

3 When we talk about resolving the issues, they
4 were set out in Board Order 17 of '04 and particularly on
5 page 37 in the operative part and these issues which were to
6 be subject to the approval of the Board. The first one was
7 the significant accumulated deficit of approximately \$18
8 million which that number was based on the evidence the Board
9 heard last time and I realize it has changed in these
10 proceedings.

11 The second issue was the unpaid surcharge
12 billings then quantified at \$2.8 million plus accrued
13 interest. The third was the future funding responsibilities
14 and mechanisms for existing capital costs. Fourthly, there
15 was future funding responsibilities and mechanisms for future
16 operating cost deficits that had to be considered and also,
17 responsibility for future funding and the mechanisms for
18 funding future capital costs.

19 The Board is aware from its first questions of
20 the morning that the parties have tentatively reached a
21 resolution, although obviously it hasn't been -- the I's are
22 not dotted, the T's are not crossed and, in fact, it is not
23 yet fully executed. However, in furtherance of that
24 Settlement Agreement, Hydro is seeking new interim rates, on
25 a ex parte basis, to be retroactive effective May 1st, 2004.

1 Now, to enable the Board to better ensure it
2 understands the specifics of the Application, there have been
3 six (6) information requests posed to Hydro and this Hearing
4 was arranged also with a view to assisting the Board.

5 In terms of the process for today, Mr.
6 Chairman and Board Members, I propose that the outline that
7 you provided, Mr. Chairman, in your comments is appropriate.
8 That is to say following my opening comments and
9 introductions, Manitoba Hydro will be called on for their
10 opening comments, introductions and presenting its witnesses
11 and any direct evidence it may have on this matter. And then
12 I have questions in a number of areas that I would like to
13 ask to assist the Board in understanding the Application.

14 Brief closing submissions are to be expected
15 to be made following the close of evidence, which will be
16 later today. And to ensure that the record is orderly, the
17 record that you indicate will be certainly available publicly
18 and will be scrutinized if and when there is a proceeding to
19 finalize any rates in the diesel zone, there's a series of
20 exhibits.

21 The first one is a -- Exhibit 1, I propose,
22 would be a letter dated November 24th which sets out the
23 request for the hearing of today and that Hydro attend.

24
25 --- EXHIBIT NO. 1: Letter dated November 24th which

1 sets out the request for the
2 hearing of today and that Hydro
3 attend.
4

5 MR. BOB PETERS: Exhibit 2 would be Manitoba
6 Hydro's letter of October 29th and their attached
7 application.
8

9 --- EXHIBIT NO. 2: Manitoba Hydro's letter of
10 October 29th and their attached
11 application.
12

13 MR. BOB PETERS: Exhibit 3 would be letter
14 from Manitoba Hydro withdrawing a request for approval of a
15 government non-participant rate.
16

17 --- EXHIBIT NO. 3: Letter from Manitoba Hydro
18 withdrawing a request for
19 approval of a government non-
20 participant rate.
21

22 MR. BOB PETERS: And Exhibit 4 would be a
23 letter from Manitoba Hydro revising the rate schedule, that
24 is, in my words, the proposed rates back to May 1st of 2004
25 have been revised to reflect that there has been an impact

1 from the general rate application of Manitoba Hydro that was
2 heard by this Board.

3

4 --- EXHIBIT NO. 4: Letter from Manitoba Hydro
5 revising the rate schedule.

6

7 MR. BOB PETERS: Exhibit 5 would be the
8 letter of December the 8th from Manitoba Hydro to the Public
9 Utilities Board which attached the information requests. And
10 there were six (6) in number, so I suggest that they be given
11 the exhibits -- Exhibit 5-1 through 5-6.

12

13 --- EXHIBIT NO. 5: Letter of December 8th from
14 Manitoba Hydro to the Public
15 Utilities Board with attached six
16 (6) information requests.

17

18 MR. BOB PETERS: I would indicate that on the
19 very first of those interrogatory or information requests,
20 which was a Settlement Agreement, if it is filed in
21 confidence, the record should so indicate that that matter is
22 -- been filed in confidence with the Board and then the
23 record will be -- will be accurate.

24

25 Subject to any further questions you may have
of me at this time, Mr. Chairman, those are my opening

1 comments and I would suggest you call on Manitoba Hydro's
2 Counsel, Ms. Ramage is in the front row and I see Mr.
3 Sedgwick in the back row, to provide opening comments and
4 introductions as well as any other evidence.

5 Thank you.

6 THE CHAIRPERSON: Okay. So, have those
7 exhibits entered in.

8 Ms. Ramage, do you want to introduce your
9 witnesses and provide opening comments?

10 MS. PATTI RAMAGE: Yes. I -- I am joined
11 here today by the same -- I think it's the same crew who was
12 here for our previous diesel hearing -- that you, Mr. Chair,
13 weren't fortunate enough to be present at, but -- to my
14 immediate right is Mr. Vince Warden, he's Vice President of
15 Finance and Administration and Chief Financial Officer of
16 Manitoba Hydro.

17 Next to him is Mr. Robin Wiens, he is the
18 Division Manager of Rights and Regulatory Affairs.

19 And to my far right is Mr. Chic Thomas, who is
20 the Supervisor of Cost of Service in -- and Rights and
21 Policies.

22 We also have in our back row, as support,
23 Louella Harms, who is the Supervisor of Retail Electric
24 Rates.

25 And as Mr. Peters alluded to, Mr. Jim

1 Sedgwick, who participated in the mediation as Counsel along
2 with myself, Mr. Sedgwick is in Manitoba Hydro's Law
3 Department and works on aboriginal issues and therefore
4 joined us for this -- this particular process. He's crossing
5 over to see the regulatory side of the business for today.

6 In terms of opening comments, I don't have any
7 prepared myself. Mr. Warden wishes to -- to provide some
8 opening comments but I -- I thought it might be appropriate
9 prior to doing so that the Witnesses be sworn in.

10 THE CHAIRPERSON: Thank you, Ms. Ramage.
11 Mr. Barron, would you swear or affirm the
12 witnesses?

13
14 VINCE WARDEN, Sworn;
15 ROBIN WIENS, Sworn;
16 CHIC THOMAS, Sworn;

17
18 THE CHAIRPERSON: Thank you, Mr. Barron. Ms.
19 Ramage, we're back to you and Mr. Warden.

20 MS. PATTI RAMAGE: I would just turn the
21 microphone to Mr. Warden at this time.

22
23 EXAMINATION-In-CHIEF BY MS. PATTI RAMAGE

24 MR. VINCE WARDEN: Thank you and good
25 morning, Mr. Chairman and Members of the Board. I first want

1 to thank the Members of the Board for making the time
2 available this morning to hear this Diesel Rate Application.

3 And I also want to thank, on the record, the
4 other Parties to the tentative settlement; the First Nation
5 communities of Shamattawa, Tadoule Lake, Brochet, Lac
6 Brochet, represented by MKO and Indian and Northern Affairs
7 Canada for their cooperation in making this tentative
8 settlement possible.

9 I should also state in making this interim
10 Application that Manitoba Hydro feels a whole lot better that
11 when we last appeared before this Board with a diesel rate
12 application in early 2004. That Application, which was
13 followed by Board Order 1704 and 4604, resulted in very
14 significant rate increases in the diesel communities and was
15 met with a great deal of acrimony by all customer classes in
16 those communities.

17 Along with the approval of the new rates in
18 the diesel communities, Board Order 1704 also directed
19 Manitoba Hydro to meet with Indian and Northern Affairs
20 Canada and with representatives of the First Nation
21 communities to achieve a full and final resolution regarding
22 responsibility for funding service costs in the communities
23 and specifically with respect to the accumulated deficit of,
24 estimated at that time, of \$18 million unpaid surcharge
25 billings then estimated at 2.8 million, the existing costs

1 and future capital and operating costs.

2 As directed by the Public Utilities Board, the
3 Parties did meet a number of times over the summer of 2004
4 and with the able assistance of a mediator, I am pleased to
5 say that we reached a tentative agreement. This agreement
6 was documented in what we've referred to as the Minutes of
7 Settlement, to which all Parties were signatories. A copy of
8 the Minutes of Settlement have been filed as part of this
9 Rate Application.

10 While we were hopeful that a formal agreement
11 would be available for the Board's review as part of these
12 Proceedings, it is taking somewhat longer than we expected to
13 put that formal agreement together. Nevertheless, the formal
14 agreement is simply putting legal language around the Minutes
15 of Settlement and the fundamental terms of the agreement are
16 as documented in those minutes.

17 In summary, the major terms of the agreement
18 for which we are seeking interim approval with PUB are:

19 Number 1: The use a portion of export revenues
20 to, in effect, amortize the accumulated deficit of 16.9
21 million at March 31st, 2004, over a period of ten (10) years.

22 Number 2: An immediate payment to Manitoba
23 Hydro of the outstanding billings of \$3.2 million.

24 Number 3: Payment through INAC of 69 percent
25 of the total capital investment of \$28.8 million at March

1 31st, 2004. And payment of a further 10 percent of capital
2 costs is expected to be -- to be made by the other Federal
3 and provincial agencies in the communities.

4 And finally, a commitment by the parties to
5 consult on any major new capital expenditures in the
6 communities so that funding arrangements can be made before
7 those expenditures are incurred.

8 Mr. Chairman, approval of this Rate
9 Application will result in substantial rate relief to all
10 customer classes in the diesel-served communities. However,
11 because the formal agreement is still subject to Federal
12 Government approval, Manitoba Hydro is requesting PUB
13 approval on an interim basis only in the unlikely event that
14 Federal Government approval is not forthcoming, it would be
15 necessary for Manitoba Hydro to request that rates be
16 reinstated at rates similar to, or higher than, those rates
17 implemented in May of 2004.

18 I must emphasize, however, that based on all
19 representations that have been made to us by the other
20 parties, I am very confident that -- that all necessary
21 approvals will be obtained and that the formal agreement will
22 be signed by all parties in due course.

23 As a matter of fact, as early -- as late as
24 this morning, I was informed that the parties do expect that
25 the \$3.2 million will flow to Manitoba Hydro by this Friday

1 -- by the -- at this December the 17th, and that -- and that
2 the -- we will receive sign-off of the -- of the tentative
3 agreement, that is, by the three (3) parties -- MKO and INAC
4 on that same date.

5 So, we should be in a position to file the
6 draft agreement with this Board by no later than -- than --
7 than December the 17th. So, thank you very much.

8 MS. PATTI RAMAGE: Those are Manitoba
9 Hydro's, I guess, opening comments or direct evidence. I
10 don't know what we call that, but I would suggest the Panel
11 now be opened for questions from the Board.

12 THE CHAIRPERSON: Mr. Peters...?

13 MR. BOB PETERS: Yes, thank you.

14

15 CROSS-EXAMINATION BY MR. BOB PETERS:

16 MR. BOB PETERS: Good morning, Panel Members.
17 As is normal, my questions are directed to the Panel. The
18 Panel can decide amongst themselves who is best able to
19 provide the answers to the Board.

20 Just by way of general background, we heard in
21 the Chairman's opening comments that -- and through Ms.
22 Ramage's comments -- that the Chairman was not at the last
23 diesel hearing, which doesn't seem that long ago, but to
24 assist the -- the Chairman in some -- just some -- some quick
25 background facts, the diesel zone that we're talking about

1 here are four (4) separate communities; is that correct?
2 MR. VINCE WARDEN: Yes, that's correct.
3 MR. BOB PETERS: And they're not contiguous
4 communities, but they are located at various points in
5 Northern Manitoba?
6 MR. VINCE WARDEN: That is correct.
7 MR. BOB PETERS: And those communities, for
8 the record, are Shamattawa, Tadoule Lake, Brochet and Lac
9 Brochet?
10 MR. VINCE WARDEN: Yes.
11 MR. BOB PETERS: Am I correct that there's
12 approximately seven hundred (700) customers in these -- in
13 total -- in the diesel zone?
14 MR. VINCE WARDEN: That is correct.
15 MR. BOB PETERS: And in terms of ballparking
16 the customer count, and I'm -- I'm referring an interrogatory
17 IXP Number 5, just in terms of residential, I noted there's
18 about five hundred and seventy-five (575) residential
19 customer accounts. Would -- would that be approximately
20 correct?
21 MR. VINCE WARDEN: Yes.
22 MR. BOB PETERS: A hundred and twenty-three
23 (123) general service accounts?
24 MR. VINCE WARDEN: Yes.
25 MR. BOB PETERS: And thirty-six (36)

1 government accounts, if I have that right?

2 MR. VINCE WARDEN: Correct.

3 MR. BOB PETERS: And is it correct that each
4 of these customers is restricted in the amount of electricity
5 that is made available to them?

6 MR. VINCE WARDEN: Well, the --

7 MR. ROBIN WIENS: Residential accounts only,
8 Mr. Chairman. Residential accounts, to qualify for the
9 residential rate have to be restricted to a sixty (60) amp
10 service entrance.

11 There are no restrictions for general service
12 or government accounts -- that type. The other restriction,
13 however, is that space heating is not permitted.

14 MR. BOB PETERS: Space heating is not
15 permitted, Mr. Wiens, by any of the customer classes?

16 MR. ROBIN WIENS: That's correct.

17 MR. BOB PETERS: And, I perhaps, didn't
18 choose my words very carefully, but the -- the amperage of --
19 of service is restricted, but the quantity that they can
20 consume is -- is not necessarily restricted?

21 MR. ROBIN WIENS: Well, ultimately it is by
22 the -- by the amperage, but residential accounts are able to
23 use pretty much as much as any other customer -- residential
24 customer -- in the province that typically uses at the sixty
25 (60) amp level.

1 MR. BOB PETERS: And, Mr. Wiens, again on a
2 high-level background, is it Manitoba Hydro's understanding
3 that for customers, let's say, in the City of Winnipeg who do
4 not use electricity for space heat, their consumption per
5 month would be in the range of a thousand (1,000) kilowatt
6 hours?

7 MR. ROBIN WIENS: I believe we put on the
8 record before eight seventy (870) -- eight hundred and
9 seventy (870) kilowatt hours per month would be -- that would
10 be an average. A thousand (1,000) would not be untypical.

11 MR. BOB PETERS: And that doesn't recognize
12 -- when -- when we try to transpose that, Mr. Wiens, to
13 northern communities, we're not taking into account that
14 their hours of daylight and their requirements for
15 electricity for -- for lighting and that is -- is greater
16 than that in the City of Winnipeg?

17 MR. ROBIN WIENS: Certainly during the winter
18 months. During the summer months it probably -- it probably
19 be less.

20 MR. BOB PETERS: Fair comment, Mr. Wiens.
21 When you indicate that the residential customers are
22 restricted to sixty (60) amp service, other than space
23 electric heat, does that impose any other practical
24 restriction on the residential customers?

25 MR. ROBIN WIENS: In terms of the amount of

1 consumption over the course of a month, probably not. In
2 terms of how many appliances they can operate at one time,
3 sixty (60) amps may -- it may impose some -- some
4 limitations.

5 MR. BOB PETERS: Is -- is that for example,
6 you might not be able to run the electric kettle and the
7 electric toaster at the same time? Is that -- is that an
8 issue?

9 MR. ROBIN WIENS: I wouldn't imagine that
10 would be the case. I, you know -- I would think that most of
11 us could manage most of the time with sixty (60) amps. If
12 you tried to run for example, an electric range which is a
13 big power user and hot water at the same time, you -- you may
14 begin to run up against the limitation.

15 If there's some supplementary space heat in
16 the house that you try to run at the same time, you're almost
17 certainly going to run up against the limitation.

18 MR. ROBERT MAYER: Just following from that,
19 the sixty (60) amp service, I understand how that functions
20 reasonably well within a residential setting, are the -- I
21 take it you can deliver no more than sixty (60) amps so even
22 the northern stores and the schools have got the same
23 restrictions?

24 MR. ROBIN WIENS: No, no. The general
25 service accounts have -- well in the past when -- when we had

1 the old fifteen (15) amp restriction, you could be a general
2 service customer if you were within the fifteen (15) amp
3 restriction you would have all you could consumer at grid
4 rates. But when we moved up to the sixty (60) amp be
5 restriction for residential, we eliminated the restrictions
6 for general service.

7 Other than at that time we said no more than
8 three thousand (3,000) kilowatt hours a month at grid rates.
9 And beyond three thousand (3,000) kilowatt hours a month,
10 they would pay the full cost rate.

11 MR. ROBERT MAYER: So, you can -- you can
12 deliver something significantly more than a sixty (60) amp
13 service to a major user?

14 MR. ROBIN WIENS: Yes.
15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: Mr. Wiens, or Panel Members,
18 there used to be as many as I think, well in my -- perhaps in
19 my recollection, thirteen (13) remote communities that were
20 served by diesel?

21 MR. ROBIN WIENS: Depending on how far back
22 you go there were more than that. But in the early 90's
23 there were thirteen (13).

24 MR. BOB PETERS: And of those thirteen (13),
25 nine (9) of them have now been connected to the North Central

1 Transmission System?

2 MR. ROBIN WIENS: That's correct.

3 MR. BOB PETERS: And --

4 MR. ROBIN WIENS: Well, technically seven (7)
5 by the North Central project and two (2) others by separate
6 projects but the nine (9) have been correct -- connected to
7 the grid.

8 MR. BOB PETERS: All right. And why is that
9 Manitoba Hydro didn't connect to these remaining four (4)
10 communities to the grid?

11 MR. ROBIN WIENS: Plain and simply, the cost
12 of extending the grid to those four (4) communities was such
13 that it is more economic to serve them by diesel generation
14 located locally.

15 MR. BOB PETERS: And can you remind the Board
16 of what the approximate cost estimated by Manitoba Hydro was
17 to connect these remaining four (4) communities to the grid?

18 MR. CHIC THOMAS: Yeah, we had done an IR in
19 the January Hearing and if memory serves me correctly, I
20 think it was about two hundred (200) to two hundred and fifty
21 thousand dollars (\$250,000) per kilometre. And ballpark
22 figures from the closest grid connection, all communities
23 were approximately two (2) -- yeah, two hundred (200)
24 kilometres away or a hundred and fifty (150) kilometres away.
25 But the total cost would be several million; thirty (30) to

1 \$40 million.

2 MR. VINCE WARDEN: I might just add though,
3 Mr. Peters, that those cost estimates are currently being
4 updated. So, although we don't have the updated numbers
5 available to us at this time, there are studies currently
6 underway to update those numbers.

7 MR. BOB PETERS: Why would you be updating
8 those numbers, Mr. Warden?

9 MR. VINCE WARDEN: Well because I think there
10 is a desire within the communities to look at alternatives,
11 probably in fact, no doubt prompted by the -- the substantial
12 increases in costs in those communities. So, we are looking
13 at not only land lines, but such things as small hydro and --
14 and wind power for those communities.

15 Based, though -- I -- I'm -- I should say that
16 based on everything we know to-date, diesel remains as a low-
17 cost option. Nevertheless, it -- it is, I think, prudent for
18 us to update those estimates and make sure that that is still
19 the case.

20 MR. BOB PETERS: Do I take from your answer,
21 Mr. Warden, that you expect the cost will increase above the
22 thirty-five (35) to \$40 million that Mr. Thomas spoke of?

23 MR. VINCE WARDEN: Not necessarily, no. What
24 I do expect, and I don't want to prejudge what might come out
25 of those studies, but what I do expect is we'll find that

1 diesel remains the low-cost option and -- and even in the
2 event that small hydro was feasible and practical and diesel
3 back -- generation would still be required, so it's just a
4 matter of -- of updating those studies and -- and confirming
5 what we've learned in the past.

6 And also, you know, with fifty dollar (\$50)
7 and who knows what price for oil in the future and diesel
8 fuel moves in -- in direct relation to the price of oil and
9 it -- it is important for us to keep -- keep abreast of
10 changes and -- and underlying costs to serve those
11 communities.

12 MR. BOB PETERS: Thank you, Mr. Warden. When
13 you tell the Board that you're also looking at small hydro,
14 can you just explain briefly what -- what you're thinking of
15 when you say that?

16 MR. VINCE WARDEN: Well, there are two (2)
17 communities, Brochet/Lac Brochet, that -- for which small
18 hydro may, in fact, be feasible and by small hydro, it's --
19 it's a plant that -- just that -- it's small -- small plant
20 that -- for purposes of hydraulically generate electricity.
21 The river-flows in those communities though, as I understand
22 it and this is really limited knowledge, but as I understand
23 it, the river-flows are not dependable and therefore backup
24 generation -- diesel generation -- would be required when
25 those flows are not adequate.

1 MR. BOB PETERS: So, small hydro in that
2 context is -- is simply a small generating ability through a
3 local river just to serve the one (1) community?

4 MR. VINCE WARDEN: That's -- that's right,
5 yes.

6 MR. BOB PETERS: Mr. Thomas, what is the
7 approximate total cost to serve, on an annual basis, these
8 seven hundred (700) customers in the diesel zone?

9 MR. CHIC THOMAS: Page 17 of Attachment 5,
10 Schedule 4 sets out those costs as a --a total of nine point
11 (9.) -- \$9.5 million.

12 MR. BOB PETERS: Was that on a perspective
13 basis?

14 MR. CHIC THOMAS: Yeah -- yes.

15 MR. BOB PETERS: And what was your last
16 actual determination? The page before that probably? Or
17 after?

18 MR. CHIC THOMAS: Yeah, the page preceding
19 also about nine 9 million -- \$9.5 million.

20 MR. BOB PETERS: All right.

21 MS. PATTI RAMAGE: Attachment 5 --

22
23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Yes, perhaps -- it's
25 Attachment 5. It's in the Cost of Service Study, Mr. Thomas,

1 that you're referring to, which is Attachment 5 of the
2 Application.

3 MR. CHIC THOMAS: Attachment 5, yes.

4 MR. BOB PETERS: And the particular schedule
5 you were looking at was --

6 MR. CHIC THOMAS: Schedule 4 per perspective,
7 and preceding -- or the following page, Schedule 5 for the
8 actual.

9 MR. BOB PETERS: And that's on pages 17 and
10 18, then, of the Cost of Service Study?

11 MR. CHIC THOMAS: Correct.

12 MR. BOB PETERS: All right. And I'll -- I'll
13 come back to that in a -- in some later questions, but --

14 MR. ROBERT MAYER: Mr. Peters, before you go
15 on, I don't want to interrupt, but before you leave the issue
16 of the -- the -- restudying the costs of delivering some
17 other sort of power to the -- to those four (4) diesel
18 communities, I'm assuming that Hydro's study on the cost of
19 running transmission lines into the four (4) remote
20 communities preceded the Province's decision to put its
21 winter roads completely over land rather than largely, in the
22 case of Brochet, over the lake.

23 Would it be fair to say that once the Province
24 starts cutting its -- and -- and has been doing now for the
25 past several years -- cuts its winter roads basically over

1 land, would that in any way affect the cost or the potential
2 cost of running transmission lines up there?

3 MR. VINCE WARDEN: It'd seem reasonable, Mr.
4 Mayer, although I must admit I don't have any direct
5 knowledge of that. The -- the studies that were done
6 previously were done in -- in the mid 1970's so if, you know,
7 if -- if there are more efficient access to those communities
8 now through roads or other means then you would expect the
9 cost to go down but I really can't say to what degree.

10 MR. ROBIN WIENS: Just -- just to make sure
11 the record is clear today, Mr. Thomas referred to a figure of
12 around \$40 million to extend transmission and that would be
13 per community, that's not total cost; 40 million per
14 community.

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: Still on an overview basis,
18 Panel Members, can you explain to this Board why the
19 Application is being made ex parte, that is without notice to
20 the public in general and maybe the communities specifically?

21 MR. ROBIN WIENS: I think mainly in the
22 interest of moving it along on a timely basis, Mr. Chairman.

23 MR. BOB PETERS: And that is, you're seeking
24 new rates as soon as possible because these are rate
25 decreases and will have a beneficial effect to the residents?

1 MR. ROBIN WIENS: That is correct.

2 MR. BOB PETERS: And am I correct and will
3 the Board be correct in understanding that in your
4 Application you're not asking for final rates, you want the
5 Board to continue with interim rates but just different
6 interim rates?

7 MR. ROBIN WIENS: Again that's correct.

8 MR. BOB PETERS: And you won't be seeking
9 final rates until the Settlement Agreement is in place and
10 perhaps some cost of service issues are resolved?

11 MR. ROBIN WIENS: Certainly we won't be
12 seeking final rates until the settlement is -- is fully
13 realized, that's correct.

14 MR. BOB PETERS: And when you say, fully
15 realized, does the lawyer interpret that to mean the money's
16 in the bank?

17 MR. ROBIN WIENS: You've got it, Mr. Peters.

18 MR. BOB PETERS: All right. Just so the
19 Board is clear, you're making this Application --

20 MR. ROBIN WIENS: No. To -- to be fair, that
21 we -- we have received approval from Treasury Board that the
22 money will flow, not necessarily that it's in the bank.

23 MR. BOB PETERS: So, you're not aware of the
24 time -- the time difference between Treasury Board approval
25 and the actual flowing of the money; that hasn't been

1 explained yet?

2 MR. VINCE WARDEN: No. As a matter of fact,
3 some of the discussions that we're having as to whether or
4 not there is a possibility of flowing that money over a
5 period of -- an extended period. And -- and, you know, I
6 guess I -- I better be careful I don't breach confidentiality
7 here, but -- the payment may not be immediate and if there is
8 a time schedule provided for that payment, there would be the
9 appropriate interest attached thereto.

10 MR. ROBERT MAYER: That was going to be my
11 question, Mr. Warden, on Item 1 of your Minutes of
12 Settlement, the \$28.3 million. That was a number that
13 existed, as I understand it, in May of '04 and would be
14 significant -- I'm assuming significantly more now, because
15 you don't get that kind of money at no cost.

16 I'm -- my second question was going to be
17 about Item 2, the 3.2 million. But I think I heard you say
18 you hoped to have that by December 17th. So, I have no more
19 comments about that particular amount.

20 MR. VINCE WARDEN: Well, you're right. There
21 -- there's certainly a -- a cost attached to -- to monies.
22 And typically though what happens with the -- the carrying
23 costs on the investment, is they get imbedded in the current
24 costs that we recover through rates.

25 So, along with maintenance -- all the

1 maintenance operating expenditures, there's a carrying cost
2 of the investment that gets recovered through rates.

3

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Thank you. While this
7 Application is being made ex parte, would I be correct in
8 assuming that your -- the other parties to your Settlement
9 Agreement are at least aware that you're making the
10 application to the Board?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: So INAC and MKO are aware
13 that this matter is before the Board?

14 MR. VINCE WARDEN: Yes, they're very aware.

15 MR. BOB PETERS: Would the four (4)
16 communities in Northern Manitoba be aware of it, other than
17 through MKO?

18 MR. VINCE WARDEN: Yes. They're also very --
19 very aware and I must say that that's part of the reason for
20 the delay in the signing-off of the agreement or at least
21 providing the draft agreement to this Board is making sure
22 that all those communities are fully cognisant of the terms
23 and conditions in that agreement.

24 So, it has taken some time for MKO to co-
25 ordinate that with the chiefs and councils of those

1 communities. But that process has been underway and as I
2 said earlier it's -- is expected to be completed by Friday.

3 MR. ROBERT MAYER: For the record, Mr.
4 Warden, I find it absolutely amazing that that process by MKO
5 is slowing -- is slowing this whole proceeding down. Does
6 everybody not realize, I think I'm reading this Application
7 right, this is going to save a lot people a lot of money and
8 probably have a significant impact of the cost of living? Am
9 I incorrect here?

10 MR. VINCE WARDEN: Oh, you're very correct
11 and -- and I think the communities are very aware of that as
12 well and -- and from my understanding are -- are quite
13 excited about the future.

14 Ms. Ramage, I just wanted to clarify that
15 Manitoba Hydro has not been dealing directly with the four
16 (4) communities and all our correspondence has been through
17 MKO.

18 MR. BOB PETERS: When we were talking, Panel
19 Members, of people who are aware of this Application, would I
20 be correct in saying then that there's been no formal notice
21 given by Hydro to your knowledge to other Intervenors who --
22 who have appeared before the Board before? And I'm thinking
23 of CAC/MSOS, the MIPUG's, TREE and RCM, those -- those
24 parties by way of example aren't aware that this Application
25 is -- is being considered?

1 MR. VINCE WARDEN: That's correct, Mr.
2 Peters.
3 MR. BOB PETERS: And likewise the Union
4 wouldn't be aware of it?
5 MR. VINCE WARDEN: That's right.
6 MR. BOB PETERS: And the residents of the
7 four (4) communities will be aware of it through the efforts
8 of MKO and -- and the representatives of the four (4) First
9 Nations.
10 MR. VINCE WARDEN: That's our understanding,
11 yes.
12 MR. BOB PETERS: When you're answering
13 questions today, Mr. Warden, and Panel Members, are you
14 providing the Board with Manitoba Hydro's answers or are you
15 answering on behalf of the three (3) parties who are trying
16 to get the Settlement Agreement finalized?
17 MR. VINCE WARDEN: Well, we -- we will be
18 answering obviously on behalf of Manitoba Hydro but we will
19 to the best of our ability to convey the representations that
20 have been made to us by the other parties.
21 MR. BOB PETERS: Prior to the Board Order 17
22 of '04, Mr. Wiens or Mr. Thomas, the last diesel rate
23 adjustment occurred back in the -- back in about 1993; is
24 that right?
25 MR. ROBIN WIENS: 1994 -- April of 1994 I

1 believe. I think -- I think we had an ex parte approval of
2 rates in '93 and then final approval just prior to April the
3 1st of '94.

4 MR. BOB PETERS: And in terms of approval of
5 rates, the last time you appeared before the Board to tell
6 the Board what the full cost rate was, it was approximately
7 seventy-nine point one (79.1) cents, correct?

8 MR. CHIC THOMAS: That's right on a
9 perspective basis in 2004.

10 MR. BOB PETERS: And, Mr. Thomas, when you
11 tell the Board that the full cost rate is seventy-nine (79)
12 cents, you're telling the Board that if the -- that the cost
13 for Manitoba Hydro to generate one (1) kilowatt hour of
14 electricity would be seventy-nine (79) cents on average in
15 that community?

16 MR. CHIC THOMAS: That's correct. With all
17 costs included, that's the full cost rate that we state.

18 MR. BOB PETER: And you -- you said that was
19 on a perspective basis and that was perspective basis for you
20 fiscal 2004?

21 MR. CHIC THOMAS: 2003/'04 ending March 31st,
22 2004.

23 MR. BOB PETERS: And I call that fiscal 2004;
24 is that -- do I understand the same?

25 MR. CHIC THOMAS: Correct.

1 MR. BOB PETERS: All right. In the materials
2 that you file now before the Board, you're telling the Board
3 if you had to reset the full cost rate, that is if you had to
4 re-calculate it, it would no longer be seventy-nine (79)
5 cents (79), it would go up to eighty-three point four (83.4)
6 cents?

7 MR. CHIC THOMAS: That's right.

8 MR. BOB PETERS: And that full cost rate
9 includes capital, O&M and all costs therein?

10 MR. CHIC THOMAS: We like to refer to it as
11 fixed and operating costs together, yeah.

12 MR. BOB PETERS: Okay. How you like to refer
13 to it, it's a bit confusing to me because your operating
14 costs of the distribution system are considered fixed costs.

15 MR. CHIC THOMAS: Yes. That -- yes, that can
16 be a little confusing. But distribution costs, the
17 maintenance on that is -- is usually pretty static and
18 doesn't vary with the consumption levels in the communities.

19 So, it's just more convenient to include it as
20 a fixed cost versus a -- a true operating cost, which does
21 vary with consumption levels.

22 MR. BOB PETERS: Okay. You'll probably have
23 to repeat that to remind me of that, Mr. Thomas later today.
24 But the -- the cost for the residence on the grid would be in
25 the neighbourhood of five (5) cents a kilowatt/hour by

1 comparison.

2 MR. CHIC THOMAS: Approximately, yes, that's
3 true.

4 MR. BOB PETERS: All right. Now, the Board
5 in Order 1704, Mr. Warden, basically told the parties that
6 there were significant issues and if they couldn't address
7 their minds to it, then there would be some alternative way
8 to look at that. And, to that end, Hydro, MKO and INAC went
9 through a mediation process, correct?

10 MR. VINCE WARDEN: Correct.

11 MR. BOB PETERS: And it's the mediation
12 process that has given rise to the Settlement -- the Minutes
13 of Settlement; is that correct?

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: And the Minutes of
16 Settlement, in your understanding, are the underpinning of
17 the Settlement Agreement that will ultimately be signed by
18 the parties.

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: If the Settlement Agreement
21 that is ultimately signed by the parties is different in any
22 material way from the Minutes of Settlement, does that mean
23 Manitoba Hydro will back off of this Application and want to
24 reconsider the rate issue?

25 MR. VINCE WARDEN: All I can tell you right

1 now, that the agreement will not be different in any material
2 way from the settlement.

3 MR. BOB PETERS: What you're telling me is
4 that if there are revisions and amendments that other parties
5 want that takes it away from the principles in the Minutes of
6 Settlement, Hydro's not signing it.

7 MR. VINCE WARDEN: That's right.

8 MR. BOB PETERS: And would it be correct then
9 to say that Manitoba Hydro is making this Application to the
10 Board on the assumption that the Minutes of Settlement will
11 reflect the Settlement Agreement and the Settlement Agreement
12 will ultimately be -- be in place amongst all the parties?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: And this Application is to
15 have reduced rates as a result of what's come out of the
16 mediation process.

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: You agree with me -- and
19 this might -- I'll alert Ms. Ramage this may have some legal
20 undertones, but -- Manitoba Hydro does not consider the
21 Minutes of Settlement to be, in fact, the Settlement
22 Agreement amongst the parties.

23 MR. VINCE WARDEN: We believe the Minutes of
24 Settlement, as you referred to them earlier, are the
25 underpinnings to the ultimate agreement that the parties will

1 -- will sign.

2 MR. BOB PETERS: And, perhaps as only lawyers
3 can, this two and a half (2 1/2) page document will become
4 thirty-two (32) pages, and that will contain all of the
5 specific terms and conditions that the parties are -- are
6 working towards an agreement on.

7 MR. VINCE WARDEN: That's what we expect,
8 yes.

9 MR. BOB PETERS: On a procedural basis, when
10 the Settlement Agreement is filed with the Board, the Board
11 will expect to see it unsigned; is that correct?

12 MR. VINCE WARDEN: The agreement that we
13 expect to file on December the 17th will be unsigned.
14 However, I would like to see some kind of a cover letter or
15 such signed by the three (3) parties -- to -- the same three
16 (3) parties that signed the Minutes of Settlement.

17 MR. BOB PETERS: There's an indication that
18 the Settlement Agreement, when filed with the Board in the
19 draft form, will be filed in confidence. Will it be the
20 position of Hydro that that document is to remain in
21 confidence until it is fully executed?

22 MR. VINCE WARDEN: Manitoba Hydro, I believe,
23 would be indifferent to that. I don't -- I can't though
24 speak to the other parties. I think they would probably want
25 to keep it in confidence until it is formally approved by --

1 by their principles, but I can't say for absolute certainty
2 that would be the case.

3 MR. BOB PETERS: All right. And following
4 that further, when would this Board expect to hear from
5 Manitoba Hydro to make whatever interim rates, if any, are
6 revised by this Board as a result of this Proceeding? When
7 will the Board hear from you to make those final? What would
8 be the timeline that you expect?

9 MR. VINCE WARDEN: Well, again, based on the
10 representations that have been made to us, the -- the
11 agreement will be fast-tracked, so to speak, as fast-tracked
12 as things go, through the various authorities in -- in the
13 Federal Government, but we were -- we were led to believe
14 that it could take up to a year from the date of the signing
15 of the Minutes of Settlement. My understanding, again based
16 on representations made to me is that it will be somewhat
17 less than that.

18 MR. ROBERT MAYER: I thought I read that, not
19 a year from the Minutes of Settlement, but a year from the
20 agreement, that we would expect to see on December 17th?

21 MR. VINCE WARDEN: That wasn't my
22 understanding, Mr. Mayer.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: I know I have some questions

1 in my notes later on that point, but let's see if we can
2 clear that up. The \$3.2 million, you have reason to believe
3 that it may be flowed to Manitoba Hydro as early as December
4 the 17th of 2004; is that correct?

5 MR. VINCE WARDEN: That's correct.

6 MR. BOB PETERS: In terms of the portion of
7 the Settlement Agreement that deals with the undepreciated
8 capital costs, a portion of the -- of the undepreciated
9 capital costs is pending approval by the Federal Treasury
10 Board?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: And as I understand it, the
13 interrogatories asked or the Information Request suggested
14 that there has been some movement in that process -- some
15 positive movement -- and the matter is proceeding, at this
16 point, favourably to the best of your understanding?

17 MR. VINCE WARDEN: That's our understanding,
18 yes.

19 MR. BOB PETERS: And it's also your
20 understanding that the monies that may start to flow from the
21 Treasury Board approval of a portion of the undepreciated
22 capital costs could be as early as July the 7th of -- of
23 2005?

24

25

(BRIEF PAUSE)

1 MR. VINCE WARDEN: I think that -- that's
2 fair, Mr. Peters. I would be hopeful, though, that we would
3 have the agreement finalized before that date.

4 MR. BOB PETERS: When we talk about the
5 agreement needing to be finalized, there was indication that
6 there were a -- there were various approvals within the
7 Federal system that had to be obtained for that to happen and
8 I understand one (1) of those approvals is the Treasury
9 Board, but are there other approvals within the Federal
10 system that you're aware of that need -- need approval?

11 MR. VINCE WARDEN: We at Manitoba Hydro
12 really didn't get too much involved in that. We do -- there
13 is a hierarchy, I believe, that INAC has to go through before
14 it eventually gets to Treasury Board. In fact, there was
15 even some discussion as to whether or not it might not have
16 to go to Treasury Board at some point. So, our concern was
17 mainly that the agreement be approved at the appropriate
18 levels in the Federal Government and we left it to INAC to --
19 to make sure that that happened most expeditiously.

20 MR. BOB PETERS: If -- the approval of a
21 Settlement Agreement by the -- by the four (4) communities,
22 is that going to be obtained through the efforts of MKO?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: The four (4) communities are
25 not going to be individually signatories to the Settlement

1 Agreement, to your knowledge?

2 MR. VINCE WARDEN: Yes, ultimately they will
3 be.

4 MR. BOB PETERS: Okay, then I'm -- I'm
5 perhaps -- whereas MKO signed the Minutes of Settlement, you
6 expect the four (4) communities to sign the actual Settlement
7 Agreement?

8 MR. VINCE WARDEN: Yes, MKO was authorized by
9 the four (4) communities to act on their behalf, but
10 ultimately the agreement will be signed by the four (4) --
11 four (4) communities.

12 MR. BOB PETERS: Do you expect MKO to be a
13 signatory to the -- to the Settlement Agreement?

14 MR. VINCE WARDEN: I would expect MKO to be
15 certainly a signatory to the draft agreement which we file
16 with this Board. Following that, the important signatories
17 are the four (4) -- four (4) communities.

18 MR. BOB PETERS: And --

19 MR. ROBERT MAYER: Why is that, Mr. Warden?
20 I -- I mean the Board directs -- certainly directed
21 consultation; the Board directed a number of things to be
22 done.

23 But it does seem somewhat unusual that you
24 would require the signatures of the four (4) communities if
25 they themselves are not going to be required to put up any of

1 the extra funding and if the extra funding is being supplied
2 by Manitoba Hydro's grid customers and by the Federal
3 Government. Am I missing something here?

4 MR. VINCE WARDEN: Well the funding will flow
5 through those communities from the Federal Government. So,
6 in affect we are dealing not so much with the Federal
7 Government, although we -- we need the assurance of the
8 Federal Government, so therefore we want them as a signatory
9 to the agreement but the monies will flow through the four
10 (4) First Nation communities.

11 And therefore we need them as signatories and
12 that's part of the reason it's taking as long as it has. My
13 understanding is that they do, in fact, have Band Council
14 resolutions now that have been approved or are very close to
15 being approved.

16
17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: It also appears that the
19 Settlement Agreement will remain tentative or at least
20 conditional upon approval of it by the Public Utilities
21 Board. Have I got that correct?

22 MR. VINCE WARDEN: Yes, absolutely.

23 MR. BOB PETERS: And the request that you
24 will subsequently make of the Board will be to approve the
25 rates that will flow out of the Settlement Agreement that

1 will be signed?

2 MR. VINCE WARDEN: Mr. Peters, perhaps I
3 should -- would you mind just repeating the question previous
4 to your last. I -- I may have answered that I think -- that
5 I thought that the Public Utilities Board would approve the
6 agreement if I answered that way. I didn't really intend to.
7 Obviously the Board approves the rates that flow therefrom
8 but not the -- not the agreement itself.

9 MR. BOB PETERS: All right. I did ask and I
10 recall the materials indicating that the sent -- the
11 settlement is tentative and will remain that way subject to
12 various approvals, one (1) of which would be through this
13 Board. And as I take your answer to be that this Board will
14 have -- will be asked to approve on a final basis, the rates
15 that flow from any Settlement Agreement that is executed?

16 MR. VINCE WARDEN: Yes, that's correct.

17 MR. BOB PETERS: And in terms of when the
18 Board would be asked to make the rates final, that will be
19 dependent upon when all of the signatures are obtained which
20 you hope to be before July 7th of 2005 but it could be as
21 late as January 7th of 2006; would that be correct?

22

23 (BRIEF PAUSE)

24

25 MR. VINCE WARDEN: Mr. Peters, I guess a

1 simple answer to your question is yes. We expect the --
2 based on the best information we have available to us today,
3 we do expect the agreement will be signed in its final form
4 on or before July the 7th of 2005.

5 The monies flowing therefrom as I indicated
6 earlier, could be based on a payment schedule that's included
7 within the terms of that agreement. Important date for us
8 though, is the -- when -- when it's finally signed off by the
9 -- by the Federal Government and the First Nation
10 communities.

11 MR. BOB PETERS: So, in terms of timelines,
12 it's unlikely you would be before this Board before next
13 summer asking for final diesel rates?

14 MR. VINCE WARDEN: Yes, that would be fair.

15 MR. BOB PETERS: Again, a question with a bit
16 of a legal flavour to it, for your Panel Ms. Ramage, does
17 Hydro acknowledge that if the Board was to approve the
18 Application before it today, the Board is in no way approving
19 the Settlement Agreement?

20 MR. VINCE WARDEN: Yes, we agree with that.

21 MR. BOB PETERS: And so you would agree also,
22 Mr. Warden, that even if the Board approved the Application
23 before it, it could, at a future date, revise or amend the
24 rates for the diesel community?

25 MR. VINCE WARDEN: Yes.

1 MR. BOB PETERS: I want to turn, Mr.
2 Chairman, to the Minutes of Settlement, and I wondered -- I
3 could start on that or we could have the morning recess, as
4 it pleases the Board?

5 THE CHAIRPERSON: We will return in fifteen
6 (15) minutes. Thanks.

7

8 --- Upon recessing at 10:22 a.m.

9 --- Upon resuming at 10:40 p.m.

10

11 THE CHAIRPERSON: Mr. Peters...?

12 MR. BOB PETERS: Thank you, Mr. Chairman.

13 Just before I -- I do move to that new area,
14 help me with my timeline if you could, Panel Members. I note
15 that the Minutes of Settlement that are filed at Attachment 1
16 were executed on July the 8th of 2004 or that was the -- the
17 effective date of the agreement; have I got that right?

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: And at the time they were
20 signed, had all of the necessary approvals from INAC to sign
21 it been obtained or were those matters that had to be
22 obtained subsequent?

23 MR. VINCE WARDEN: They were obtained.

24 MR. BOB PETERS: And the same answer then,
25 Mr. Warden, for MKO, that is all the necessary information

1 and prerequisites that MKO needed were obtained on or before
2 July the 8th, 2004 to sign the Minutes of Settlement?

3 MR. VINCE WARDEN: Well, I'm not as certain
4 of that. I -- it is not just MKO was representing the four
5 (4) communities. We accepted that they have the authority to
6 -- MKO had the authority to sign on the behalf of those
7 communities.

8 MR. BOB PETERS: And then, after July the
9 8th, it went to the Manitoba Hydro Board of Directors. And
10 you told us in one (1) of the Information Requests that that
11 was approved on or about August the 19th of 2004, correct?

12 MR. VINCE WARDEN: That's right.

13 MR. BOB PETERS: And was there any other
14 approvals obtained after July the 8th from MKO or INAC that
15 were necessary to sign or to have the Minutes of Settlement
16 go forward?

17 MR. VINCE WARDEN: No, not to my knowledge.

18 MR. BOB PETERS: Can you tell the Board,
19 without breaching any confidentiality, whether there have
20 been ongoing medication sessions subsequent to July 8th of
21 2004?

22 MR. VINCE WARDEN: There have been not.
23 Excuse me -- excuse me one (1) second, please.

24
25

(BRIEF PAUSE)

1 MR. VINCE WARDEN: The mediator was present
2 at a subsequent meeting but it was mainly to put some
3 language around the -- the draft agreement. The -- there was
4 no outstanding issues at that point in time. All the issues
5 were resolved in the -- and -- and reflected in the Minutes
6 of Settlement.

7 So, we -- we did engage the mediator for one
8 (1) more day, but more in his capacity as someone
9 knowledgeable that could help us with putting the agreement
10 language together.

11 MR. BOB PETERS: Do I take and should the
12 Board take from that answer, Mr. Warden, that there are no
13 further mediation sessions planned?

14 MR. VINCE WARDEN: That's correct.

15 MR. BOB PETERS: And it would also then
16 follow that any of these revisions to the Settlement
17 Agreement are all being done through correspondence amongst
18 the parties and their counsel?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: In the Minutes of Settlement
21 which are at Attachment 1 in the Application, there are
22 principles set out and these are the principles that will
23 underpin, you've told the Board, the Settlement Agreement
24 that is expected to be signed by the parties?

25 MR. VINCE WARDEN: Yes.

1 MR. BOB PETERS: Can you explain the very
2 first principle set out in the Minutes of Settlement which
3 indicates the principle relationship is between the First
4 Nations as consumers of power and Manitoba Hydro as the
5 provider of services?

6 MR. VINCE WARDEN: Yes, well, it relates a
7 little bit back to the previous discussion we had with
8 respect to the flowing of the monies and that is that the
9 monies will not flow directly from the Federal Government to
10 Manitoba Hydro, they will flow through the First Nations.

11 So, although INAC recognizes its
12 responsibilities as a funder in those communities, it's
13 relationship is with -- with the First Nations and not with
14 Manitoba Hydro, so our relationship are directly -- in this
15 bullet -- first bullet simply recognizes that fact that our
16 primary relationship is -- that is, our Manitoba Hydro
17 relationship is with the -- with the First Nations and not
18 with INAC.

19 MR. BOB PETERS: Is this first principle to
20 change any pre-existing understanding of Manitoba Hydro as to
21 the responsibility for providing services and paying for
22 those services in these diesel communities?

23 MR. VINCE WARDEN: I think it -- it makes
24 clear -- clearer -- the relationship that we've had in the
25 past. We've -- we've looked -- always looked to INAC as the

1 -- having the ultimate responsibility for funding in those
2 communities and relied -- relied upon that as a matter of
3 fact for payment of bills in the past.

4 MR. ROBERT MAYER: Mr. Warden, if -- my only
5 comment on the first one is that you better get this
6 agreement together because if this, in fact, is the primary
7 relationship, your court case is probably toast because I
8 think the argument there would have been based on the primary
9 relationship would be between Her Majesty and her aboriginal
10 subjects which goes back into the treaties, which goes back
11 into the legislation.

12 This, in my reading of that, says that
13 somebody's changing that principle relationship to one
14 between Manitoba Hydro despite the fact that you were -- that
15 you got into those communities on agreement with INAC or its
16 predecessor prior -- and who were responsible for providing
17 that service before you agreed to do so on contract.

18 MS. PATTI RAMAGE: I think you're correct,
19 Mr. Mayer.

20 MR. VINCE WARDEN: Although, I would just add
21 that for purposes of provision of power, we don't deal
22 directly with INAC on that relationship to the -- other than
23 to the extent that they have facilities in those communities.

24 MR. ROBERT MAYER: If -- if it had of said
25 that I wouldn't have had any concern, Mr. Warden, but it

1 doesn't.

2 MR. VINCE WARDEN: Well, I think that's what
3 was intended. So, that's why, I guess -- I guess that's why
4 we need a formal agreement, to make those things clear, yeah.

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: So, when we look at those
8 principles, what -- what I hear you saying to the Board is,
9 well, INAC has a responsibility for funding and that funding
10 will flow through the First Nations and then on to Manitoba
11 Hydro?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And that is how one (1) of
14 the other terms of the settlement, that is the unpaid
15 surcharges, will -- will flow as well?

16 MR. VINCE WARDEN: That's correct.

17 MR. BOB PETERS: Mr. Warden, again with a bit
18 of a legal flavour to it, but does the Uniform Rates
19 Legislation, which I believe was 1990 -- I'm sorry, 2001 --
20 does that have any impact and is that the basis of any part
21 of your Application before this Board?

22 MR. VINCE WARDEN: Well, the -- the impact of
23 that legislation is only as it relates to the first two
24 thousand (2,000) kilowatt hours of consumption in those
25 communities. Those are all at the rates charged elsewhere in

1 the Province, so those are uniform rates. But direct impact;
2 no.

3 MR. BOB PETERS: But the first two thousand
4 (2,000) kilowatt hours and the rate provided to that --
5 that's been a -- a matter of policy of Manitoba Hydro, not a
6 matter of legislation. Would you agree with that?

7 MR. VINCE WARDEN: That -- that -- yes, I
8 agree with that.

9 MR. BOB PETERS: All right. And would you
10 also agree that if Manitoba Hydro -- or Manitoba Hydro did
11 have an opportunity back in approximately 2001 to consider
12 whether to make the diesel rates equivalent in all respects
13 to grid rates?

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: There was an opportunity for
16 Hydro to consider that and the legislation provided that
17 opportunity?

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: But Manitoba Hydro did not
20 put the diesel rates equivalent in all respects to grid rates
21 in 2001 or any time subsequent to that?

22 MR. VINCE WARDEN: No. And -- and of course
23 the -- the primary reason for that is because of the
24 substantial cost differential in serving those communities.

25 MR. BOB PETERS: Would another reason be, Mr.

1 Warden, that not only cost, but that could potentially remove
2 INAC from the funding equation?

3 MR. VINCE WARDEN: Well we always recognize
4 the under -- the source of funding in those communities. And
5 yes, you're correct that is one of the reasons.

6 MR. BOB PETERS: Does it, even with this
7 Application that's before the Board today, Mr. Warden, does
8 Manitoba Hydro take the position that it's providing
9 electricity to the diesel zone because it was initially
10 requested to do so by government?

11 MR. VINCE WARDEN: By the Federal Government;
12 yes, that -- that is still our position.

13 MR. BOB PETERS: And is it -- is it Manitoba
14 Hydro's position that because the Government or governments
15 have either assumed or have responsibility for the people of
16 -- in these four (4) communities that continues to be a
17 responsibility on the Government or governments to be
18 involved in funding the cost of utilities for these
19 communities?

20 MR. VINCE WARDEN: Yes. And that's why it's
21 a three (3) party agreement we're -- we're seeking.

22 MR. BOB PETERS: Does the agreement that
23 underpins your Rate Application in any way change the
24 responsibility of parties to fund the four (4) diesel
25 communities for utility costs?

1 MR. VINCE WARDEN: In my view, no.

2

3

(BRIEF PAUSE)

4

5 MR. VINCE WARDEN: Mr. Peters, would you mind
6 repeating your last question? I just want to confirm that my
7 answer was in fact right.

8 MR. BOB PETERS: Only because I don't have
9 the exact words, Mr. Warden, but let me take it to you this
10 way then and -- and start again. You've told us that
11 Manitoba Hydro provides service to the diesel zone because it
12 was requested to do so many years ago?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: And in 2001, Manitoba Hydro
15 was given an opportunity through the legislation to consider
16 making the rates in the diesel zone exactly the same as grid
17 customer rates?

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: Manitoba Hydro decided not
20 -- decided not to make diesel zone rates equivalent to grid
21 rates in all respects when it had the opportunity to do so?

22 MR. VINCE WARDEN: Correct.

23 MR. BOB PETERS: And one (1) of the reasons
24 it decided not to do so is that that could potentially remove
25 INAC from the funding equation for the utility costs in the

1 diesel zone?

2 MR. VINCE WARDEN: Yes.

3 MR. BOB PETERS: And if INAC was removed as a
4 funding source for utilities in the diesel zone, then there
5 would have to be some subsidization of the costs that Mr.
6 Thomas will tell us, run approximately fifteen thousand
7 dollars (\$15,000) a customer per year?

8 MR. VINCE WARDEN: There would have to be
9 some subsidization of the costs from elsewhere, yes.

10 MR. BOB PETERS: And Mr. Thomas, I -- I'm not
11 sure you'll agree with the fifteen thousand dollars (\$15,000)
12 a year, but is that -- do you have any comment on that
13 amount? It's a significant amount and if we do the math
14 we'll --

15 MR. ROBIN WIENS: I think you can take that 9
16 million of cost and divide it by the seven hundred (700)
17 customers, it's a little over ten thousand (10,000). And I'm
18 not sure exactly the provenance of the fifteen thousand
19 (15,000) but it may have related to concerns that we had at
20 that time, that if the -- if -- if all power was priced at
21 grid rates that consumption would expand and -- and -- and it
22 could cost as much as fifteen dollars (\$15,000) per customer
23 per year.

24 MR. BOB PETERS: All right. So, I'm reminded
25 that in your application, on page 2, that fifteen thousand

1 dollar (\$15,000) per customer number was used and -- sorry,
2 that's in the -- in the Cost of Service Study, Attachment 5,
3 page 2.

4 Your expectation is that while you can do the
5 simple arithmetic now, you'd also have to factor in that
6 there would be increased consumption driving up the
7 approximate ten thousand dollar (\$10,000) figure based on
8 today's cost of service to what might happen if people had
9 unlimited access to electricity.

10 MR. ROBIN WIENS: I believe that was the
11 intent of that paragraph, Mr. Peters.

12 MR. BOB PETERS: All right. So, Mr. Warden,
13 there would have to be some subsidization for the customers
14 in the diesel zone if the funding arrangements were altered
15 from what has been Manitoba's Hydro's understanding of the
16 historic responsibilities.

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: And because the governments
19 have in past, assumed responsibility or taken responsibility
20 for peoples in these four (4) communities, Hydro remains of
21 the view that there is an ongoing and continuing
22 responsibility of governments to be involved in the funding
23 of the utility costs for people in these communities.

24
25

(BRIEF PAUSE)

1 MR. VINCE WARDEN: Mr. Peters, I believe
2 that's the question that you've posed before, or essentially
3 the question to which I answered yes, and that's still my
4 answer, yes.

5 MR. BOB PETERS: Okay. Thank you for that.
6 When the Minutes of Settlement are said to be:

7 "without prejudice to the rights of the
8 parties."

9 Can you explain to the Board what's intended
10 by that statement, also under the -- the first portion of the
11 Minutes of Settlement?

12 MS. PATTI RAMAGE: Mr. Peters, I -- I know
13 I'm not a sworn witness but it's somewhat of a legal question
14 so, if perhaps I could give the Corporation's view on this
15 one.

16 It's simply that these Minutes of Settlement
17 were -- are non binding and it was intended that any
18 representations or conclusions one could draw from them would
19 not prejudice another.

20 If, for example, the -- a court case, as Mr.
21 Mayer had alluded to, were to proceed, that the fact that
22 Manitoba Hydro is prepared on a go-forward basis under these
23 Minutes of Settlement to recognize the First Nations as the
24 -- party they're dealing with, would not prejudice Manitoba
25 Hydro in such a case on a -- on a go-forward basis.

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Warden, you've heard the
3 answer that your Counsel has provided, would you accept that
4 as your own evidence?

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: Okay. And -- and I -- I
7 appreciate we're doing kind of a lawyering thing here, Mr.
8 Warden, but we do want to know if it's evidence before the
9 Board or whether it's just a comment that the Board ought not
10 give the weight that it gives the evidence.

11 MR. VINCE WARDEN: No. I -- I fully support
12 that statement.

13 MR. BOB PETERS: All right. So, I interpret
14 that to mean Hydro's understanding is that if any party backs
15 away from the table, you can't hold against them what they've
16 said leading up to the -- the Minutes of Settlement.

17 MR. VINCE WARDEN: That's correct.

18 MR. BOB PETERS: All right. The Settlement
19 minutes also reflect that the mediation, I think, is ongoing
20 or is a continuing process. And I thought I heard you tell
21 me that as far as Hydro's concerned, all the issues have now
22 been mediated.

23 Can you help with that? And I'm still on the
24 first page of the Minutes of Settlement.

25

1 (BRIEF PAUSE)

2
3 MR. ROBERT MAYER: Presumably, Mr. Warden,
4 you've said that you don't expect to have to go back to
5 mediation. Presumably, if the fly in the ointment showed up,
6 you could call on the mediator, so technically the mediator's
7 still around. Is that about where it sits?

8 MR. VINCE WARDEN: Yes, Mr. Mayer. I'll
9 accept that. I think at the time that we signed off on the
10 Minutes of Settlement I -- I certainly made it clear that it
11 had to go to the Board of Manitoba Hydro and there may be a
12 reason to recall the mediator. That didn't happen and the
13 mediation is definitely concluded.

14
15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Just as we have talked
17 about, I want to just nail down a few more approvals that may
18 be necessary here, Panel Members. And I've understood your
19 evidence today to say that the settlement should be taken as
20 tentative because there are some further approvals that are
21 required.

22 And you've told me about the Federal
23 Government approval and your understanding, Mr. Warden, that
24 Treasury Board or whoever has to approve it will -- will get
25 the necessary approvals in place and from that point, you

1 think the Federal Government's responsibility will -- will
2 have been met in getting the approvals for the Settlement
3 Agreement?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: Is there a -- is there an
6 approval needed from the Province of Manitoba for this
7 Settlement Agreement that you are preparing?

8 MR. VINCE WARDEN: No.

9 MR. BOB PETERS: Is there approval from any
10 municipal governments other than the governments of the four
11 (4) communities that is required to effect the Settlement
12 Agreement?

13 MR. VINCE WARDEN: No.

14 MS. KATHI AVERY-KINEW: Excuse me, Mr.
15 Peters. I don't think the First Nations would call
16 themselves municipal governments.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Let me follow-up, then, on
20 Dr. Kinew's point. When the -- when the communities are --
21 let me rephrase the question.

22 Mr. Warden, I understood your evidence to be
23 that when the final approximate thirty-two (32) page
24 Settlement Agreement is before this Board, fully executed,
25 the Board will see the signatures on behalf of four (4) First

1 Nations?

2 MR. VINCE WARDEN: Yes.

3 MR. BOB PETERS: And in addition to the four
4 (4) First Nations who will be signatories, will there be
5 anybody else from the communities and not members of the --
6 of the First Nations who would also have responsibility to
7 approve the agreement?

8 MR. VINCE WARDEN: No.

9 MR. BOB PETERS: And the First Nations
10 approvals that will be obtained will come through the Band
11 Council and their prerequisites for approval?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And am I clear that it may
14 be that MKO is not a signatory to the final settle --
15 Settlement Agreement?

16

17 (BRIEF PAUSE)

18

19 MR. VINCE WARDEN: We -- we do, in fact,
20 expect MKO -- MKO to sign-off on the agreement as well.

21 MR. BOB PETERS: So, as I understand then,
22 the agreement is expected to be executed by Manitoba Hydro,
23 separately by the four (4) First Nation communities in the
24 diesel zone on their own behalf and also signed on behalf of
25 MKO?

1 MR. VINCE WARDEN: By -- by MKO? Yes. And
2 -- and the reason for that is we expect MKO will have an
3 ongoing responsibility within those communities in terms of
4 flowing monies -- monies will be flowed through, as I
5 understand it, in trust to the legal representatives working
6 with MKO. So, there will be that ongoing requirement and for
7 that reason we have included MKO as a signatory to the -- to
8 the agreements.

9 MR. BOB PETERS: But, then on behalf of the
10 Federal Government, is INAC expected to be a signatory?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: Any other -- any other
13 entity on behalf of the Federal Government expected to be a
14 signatory to the Settlement Agreement?

15 MR. VINCE WARDEN: INAC will -- will sign the
16 agreement on behalf of the Government of Canada.

17 MR. BOB PETERS: And no other government
18 agency or department would be involved in the Settlement
19 Agreement?

20 MR. VINCE WARDEN: No.

21 MR. BOB PETERS: All right. I would like to
22 turn to the -- the issues that were identified by the Board
23 in Order 17 of '04 for which the mediation took place. And
24 we'll deal with them I guess in the order of the Minutes of
25 Settlement and that was the existing undepreciated capital

1 costs.

2 Am I correct that the existing undepreciated
3 capital costs have been quantified at \$28.3 million as of May
4 1st, 2004?

5 MR. CHIC THOMAS: Actually it's \$28.8
6 million, Mr. Peters.

7

8 (BRIEF PAUSE)

9

10 MR. ROBERT MAYER: The Minutes of Settlement
11 say twenty-eight point three (28.3); where's the issue here?

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: Mr. Thomas, the -- I was
15 looking here at the Minutes of Settlement, the front page,
16 point number 1; there was a request to allocate funds through
17 Treasury Board of the estimated \$28.3 million of existing
18 undepreciated capital costs. I take that that now has been
19 revised and is quantified at 28.8 million?

20

MR. CHIC THOMAS: That's correct.

21

22 MR. BOB PETERS: And all the parties are
aware of that?

23

MR. CHIC THOMAS: Yes.

24

25 MR. BOB PETERS: And the funding percentage
for which Treasury Board approval is going to be sought

1 remains at 69 percent of the \$28.8 million?

2 MR. CHIC THOMAS: That's correct.

3 MR. BOB PETERS: Mr. Thomas, is the \$28.8
4 million of undepreciated capital costs, the total amount
5 existing of undepreciated capital costs or is there money
6 over and above that exists for capital in those communities?

7 MR. CHIC THOMAS: As of March 31, 2004 those
8 are the -- the records on the books of Manitoba Hydro as the
9 undepreciated capital cost.

10 MR. BOB PETERS: Is there any amount included
11 in there for stranded assets or stranded costs?

12 MR. CHIC THOMAS: No, there's not.

13 MR. BOB PETERS: Are there any stranded costs
14 in those communities on a capital nature?

15 MR. ROBIN WIENS: No, Mr. Peters, there
16 aren't.

17 MS. KATHI AVERY-KINEW: Excuse me, Mr.
18 Peters, the twenty-eight point eight (28.8), could you
19 clarify that?

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: In terms of what is
23 presently on your books as of March 31, '04 for undepreciated
24 capital costs, Mr. Wiens and Mr. Thomas, can you provide the
25 Board with an indication of what that would include?

1 MR. CHIC THOMAS: That includes principally
2 three (3) items; the generation assets, the distribution
3 assets and then the -- the building -- the buildings like the
4 local offices that we have in those communities.

5 MR. BOB PETERS: And when I referenced a
6 stranded cost, Mr. Wiens, you understood that to be an asset
7 that was no longer required for the utility to generate the
8 electricity in the diesel zone?

9 MR. ROBIN WIENS: Mr. Peters, I actually had
10 understood that to mean an asset for which we couldn't
11 recover the costs either in the rate -- either through rates
12 or some other way. And the point here is that the 28.8
13 million represents the entire sum of undepreciated capital
14 costs on the books as of March 31, 2004 and which form the
15 basis for calculating the contribution that INAC will seek
16 from the Treasury Board of Canada.

17 MR. BOB PETERS: So, what you're telling the
18 Board is that there are no undepreciated capital costs in the
19 diesel zone for which you're not seeking a contribution by
20 the governments?

21 MR. CHIC THOMAS: That's right. And if I
22 might also just clarify stranded costs, if you're thinking of
23 former diesel sites that might have stranded assets, no
24 they're not included in that \$28.8 million.

25 MR. BOB PETERS: Well, that's -- that was my

1 next question, then. We heard that there were, as late as
2 the 1990s -- or in the -- in 1990 -- approximately thirteen
3 (13) diesel communities for which there may be diesel
4 generation capital items sitting but not being used. Would
5 that be fair?

6 MR. CHIC THOMAS: Yes, that would be fair.
7 There isn't a significant amount of that. A lot of the
8 agreement in the North Central project took care of -- of
9 what the salvage costs might be and a lot of that was
10 disposed of, but there are some -- what -- if -- if we want
11 to use that term, "stranded assets", but are not included in
12 what we're reflecting in this Application here.

13 MR. BOB PETERS: Can you quantify that, Mr.
14 Thomas?

15 MR. CHIC THOMAS: Not offhand, I cannot.

16 MR. BOB PETERS: And can you tell the Board
17 how Manitoba Hydro has dealt with those stranded costs in its
18 financial statements, Mr. Warden?

19

20 (BRIEF PAUSE)

21

22 MR. VINCE WARDEN: Mr. Peters, the -- any so-
23 called stranded costs are really incidental. There -- there
24 -- there's some minor cleanup that may be required, but any
25 costs incurred there -- related thereto would, to the extent

1 that it's not recoverable from the Federal Government in
2 accordance with the terms in the North Central agreement,
3 would be -- any costs incurred, it would -- would just form
4 part of the base rates for which we recover through -- in a
5 normal process. But again I emphasize those costs are really
6 very small.

7 MR. BOB PETERS: But in terms of the diesel
8 community, I'll just repeat the point if I have it right that
9 there are no stranded costs at all in the remaining four (4)
10 diesel communities?

11 MR. CHIC THOMAS: That's correct.

12 MR. BOB PETERS: All right.

13 MR. CHIC THOMAS: Just the four (4)
14 communities that we've -- that you've outlined at the start
15 of the proceeding.

16 MR. BOB PETERS: In the Minutes of Settlement
17 -- yes, sorry --

18 MS. KATHI AVERY KINEW: I'm just confused
19 about the difference between twenty-eight point three (28.3)
20 and the twenty-eight point eight (28.8) million.

21 MR. CHIC THOMAS: If I can clarify that.
22 First of all, I'll make the point that I wasn't part of the
23 Settlement Agreement, but in terms -- it was a preliminary
24 number that I would have flowed through to Mr. Wiens to take
25 to the settlement as a starting point for those negotiations

1 that was subsequently clarified for the Federal Government at
2 a later time to be that twenty-eight point eight (28.8).

3 THE CHAIRPERSON: After year end?

4 MR. CHIC THOMAS: After year end, yes.

5 MS. KATHI AVERY KINEW: What will the thirty-
6 two (32) page say; twenty-eight point eight (28.8) or twenty-
7 eight point three (28.3)?

8 MR. VINCE WARDEN: It will refer to the
9 twenty-eight point eight (28.8).

10 MS. KATHI AVERY KINEW: Twenty-eight point
11 eight (28.8)?

12 MR. VINCE WARDEN: The full -- the full cost,
13 yes. The -- the -- I think the Minutes of Settlement
14 referred to the twenty-eight point three (28.3) as being an
15 estimated number. It -- that was at -- at year end. We have
16 finalized that cost right down to the -- the dollars, as a
17 matter of fact. Down to the penny, you could say.

18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: And the \$28.8 million figure
21 has been accepted by the Parties to the settlement?

22 MR. VINCE WARDEN: Yes, that's not an issue.

23 MR. BOB PETERS: All right. What may or may
24 not be an issue, Mr. Warden, is that INAC is approaching
25 Treasury Board for only a portion of that \$28.8 million and

1 the portion for which INAC is to seek funds is 69 percent; is
2 that correct?

3 MR. VINCE WARDEN: Yes, that's correct.

4 MR. BOB PETERS: And -- and don't take my
5 math as accurate, but that's approximately \$19.9 million?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And can you tell the Board
8 how did 69 percent of that undepreciated capital cost get
9 determined?

10 MR. ROBIN WIENS: We took a look at the
11 recent -- most recent two (2) years of -- of usage by all
12 customers in the diesel zone and found that we were able to
13 attribute approximately 69 percent of that either to --
14 either to First Nation residents, First Nation general
15 service accounts or what we've called the First Nation band
16 or community accounts, such as band offices, education
17 facilities and other community infrastructure, that those
18 accounts collectively accounted for about 69 percent of the
19 kilowatt hours used in the most recent two (2) years.

20 MR. BOB PETERS: Does the \$28.8 million
21 include any carrying costs?

22 MR. ROBIN WIENS: No, the contributions were
23 determined on the basis of the outstanding undepreciated
24 balance of capital in the four (4) communities as of March
25 31st, 2004.

1 MR. BOB PETERS: Does Manitoba Hydro incur
2 carrying costs with respect to the \$28.8 million, Mr. Warden?

3 MR. VINCE WARDEN: Well the carrying costs,
4 up to March 31st, 2004, would be reflected in the \$18 million
5 of unrecovered costs, operating costs at that time. So,
6 carrying costs are a component of that and that's the amount
7 that's being disposed of through this mechanism that we've
8 put forward in this agreement.

9 MR. BOB PETERS: All right. And so there are
10 no express carrying costs after April 1st, of 2004 if the
11 monies are flowed prior to July 7 -- if the monies are flowed
12 prior to July 7th of 2005?

13 MR. VINCE WARDEN: Yes. While the agreement
14 did make provision for carrying costs or -- or interest
15 beyond that date but what we were attempting to do is to
16 bring everything back to equivalent amounts as at March 31st,
17 2004.

18 MR. BOB PETERS: And the only interest or
19 carrying costs with respect to the portion for which INAC is
20 seeking Treasury Board contribution would be if the monies
21 are not paid by July 7th of '05 and at which point interest
22 would start running at about 5 percent per annum?

23
24 (BRIEF PAUSE)
25

1 MR. VINCE WARDEN: Yeah, Mr. Peters, you have
2 to appreciate that this is a negotiated agreement and there
3 were some back and forth give and take that -- that went on
4 in deriving the ratio of 69 percent.

5 There was some consideration given to the fact
6 that there would be interest accruing beyond March 31st, 2004
7 for which Manitoba Hydro would otherwise be required to -- to
8 fund or -- or find the source of funds. So, recognizing that
9 had an impact on the ultimate ratio of capital costs that we
10 -- we agreed on.

11
12 (BRIEF PAUSE)

13
14 MR. BOB PETERS: Do I take from that answer
15 that the 69 percent responsibility of the undepreciated
16 capital costs for which INAC is seeking Treasury Board
17 approval is to compensate Manitoba Hydro for all aspects of
18 the capital costs including carrying costs up to July 7th of
19 '05?

20 MR. VINCE WARDEN: Well, Mr. Peters, I
21 wouldn't want to give the impression that we were not precise
22 in our calculation. There was, as I mentioned earlier,
23 consideration of the fact that there would be a time lapse
24 between the signing of the Minutes of Settlement and the
25 actual flowing of monies.

1 But the interest provision of 5 percent was --
2 was made after what we considered to be a reasonable date for
3 -- for -- for payment.

4 MR. BOB PETERS: But prior to that date
5 there's no express carrying costs and Manitoba Hydro only
6 expects INAC to approve 69 percent of the undepreciated
7 capital costs.

8 MR. VINCE WARDEN: That's -- that's correct,
9 yes.

10 MR. BOB PETERS: Is there any magic to the
11 date of July 7th of '05 of January 6th of '06? I just want
12 to -- I know there -- I'm just wondering why those dates were
13 particularly used? Is there any...

14

15 (BRIEF PAUSE)

16

17 MR. VINCE WARDEN: Yeah. Well, we did -- as
18 you'll see, the Minutes of Settlement are signed on July the
19 8th of 2004. The expectation was it would take approximately
20 one (1) year to get Treasury Board approval.

21 So, one (1) year from -- from that brings us
22 to July 7th of 2005 and --

23 MR. ROBERT MAYER: I'm much more interested
24 in the 2006 date. I wondered where that one came from. I
25 could sort of figure out the first one.

1 (BRIEF PAUSE)

2
3 MR. VINCE WARDEN: Well, you know, we -- we
4 -- we recognized that 5 percent was a very attractive rate
5 and that we couldn't let them go with that indefinitely,
6 Therefore, we had to draw a line as to where the -- the 5
7 percent would no longer apply.

8 And that was giving them a -- another further
9 six (6) months to make -- make sure that payment would --
10 would flow. And beyond that, the -- the rate would increase.

11 MR. ROBERT MAYER: Now I -- now I'm confused.
12 As I read the agreement, if you get payment on or before July
13 7th, 2005, there's no interest. If you don't get payment on
14 or before July 7th, 2005, interest accrues at 5 percent per
15 annum thereafter; am I correct?

16
17 (BRIEF PAUSE)

18
19 MR. VINCE WARDEN: I wouldn't agree with
20 everything you said except for the word, "thereafter", Mr.
21 Mayer. It -- it doesn't go on indefinitely.

22 We, at the time this was put together, we did
23 expect full payment by January -- no later than January the
24 7th of 2006. And if payment wasn't received by July the 7th,
25 2005, there would be interest applied after that date, until

1 January the 7th of 2006.

2 MR. ROBERT MAYER: And in the unlikely event
3 that you don't have the money by January of 2006, are you
4 telling me interest stops or do we start over again?

5 MR. VINCE WARDEN: No. We -- we then would
6 -- and this would be provided for in the -- in the agreement,
7 in the event that we don't have payment by January the 7th,
8 2006, the interest rate would -- would be more reflective of
9 Manitoba Hydro's cost of capital.

10 MR. ROBERT MAYER: Refresh my memory; would
11 it go up or down?

12 MR. VINCE WARDEN: Oh, it will go up.

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: And it would go up in your
16 IFF numbers, Mr. Warden. You're using approximately 7
17 percent as the carrying cost for -- for Manitoba Hydro; is
18 that correct?

19 MR. VINCE WARDEN: Well, it's approximately
20 correct. It's somewhat higher than that. In the -- in the
21 agreement that we're drafting, we're -- we've included a rate
22 somewhat higher than the 7 percent.

23 MR. BOB PETERS: All right. Thank you for
24 that, sir. Once you struck this ratio, you call it 69
25 percent to be funded by the Federal Government, you indicated

1 you were going to approach other Federal Government
2 departments and perhaps other Provincial Government
3 departments to see if they wanted to buy into the same
4 arrangement; would that be correct?

5 MR. VINCE WARDEN: Yes, that's correct.

6 MR. BOB PETERS: And, initially in your
7 Application that you filed with this Board, you assumed that
8 there may be some Government Agencies or Departments in the
9 diesel zone, who would be non-contributing to the Settlement
10 Agreement and they were going to have a non-participating
11 rate separate for those type of customers; is that correct?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And since you filed the
14 Application, you've withdrawn the request for a non-
15 participating government rate, which suggests that Manitoba
16 Hydro expects all government department and agencies
17 represented in the diesel zone will want to get in on the
18 same rate structure that's presently before the Board?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And if they want in on that
21 rate structure, they're going to have to pay some up-front
22 capital costs which are the existing undepreciated capital
23 costs?

24 MR. VINCE WARDEN: Either up-front or
25 agreement on a payment schedule that would amount to the same

1 thing, yes.

2 MR. BOB PETERS: And in terms of who else
3 wants in on this arrangement other than those to whom INAC
4 arranges funding, that would include the RCMP, Health Canada,
5 as two (2) Federal Government Agencies and Departments?

6 MR. VINCE WARDEN: Yes, those -- those are
7 the two (2) main outstanding Federal Government authorities,
8 yes.

9 MR. BOB PETERS: And the Province of Manitoba
10 would also be approached to see if they want the same reduced
11 rates as in this Application, if they are prepared to
12 contribute to the undepreciated capital cost?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: Can you tell the Board where
15 Manitoba --

16 MR. ROBERT MAYER: Oh, excuse me. You told
17 me already, earlier you told Mr. Peters that you don't need
18 the Province's agreement on this.

19 MR. VINCE WARDEN: We don't need the
20 Province's agreement on -- on the -- the Province's agreement
21 on the agreement per se, but if they want to take advantage,
22 and primarily it's the Frontier School Division, if the
23 Frontier School Division wants to take advantage of the lower
24 rate, and we have every indication that they do, then there
25 -- there's a capital contribution from -- required from them

1 as well.

2 MR. ROBERT MAYER: But the capital
3 contribution require -- or the agreement to a capital
4 contribution requires somebody's signature other than the
5 five (5) parties you've already talked about.

6 MR. VINCE WARDEN: That's really something
7 that can be accomplished by exchange of letters, which we --
8 we're in the process of doing.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: To follow up on the Vice-
12 Chair's questions, if hypothetically, one of these government
13 agencies or departments indicates that they do not want to
14 agree in the correspondence with you, to provide capital
15 contribution towards the undepreciated capital costs, what
16 rate are they going to have to end up paying?

17 MR. ROBIN WIENS: Mr. Chairman, we would --
18 that has not been the indication that we have had in our
19 discussions with those parties, but if that were to be the
20 case, we would come back to this Board and request another
21 rate, higher rate to be charged to a non-participant.

22 MR. ROBERT MAYER: And that would be the rate
23 that you withdrew prior to coming before the Board?

24 MR. ROBIN WIENS: It would be close to that
25 rate, yes.

1 MR. BOB PETERS: Mr. Wiens, you explained to
2 the Board generally how the 69 percent ratio number was
3 achieved. Was the same approximation made for the 10 percent
4 that Manitoba Hydro suggests will come from other Government
5 Departments for the undepreciated capital costs?

6 MR. ROBIN WIENS: That's correct.

7 MR. BOB PETERS: And so, it was based on
8 their usage over the past couple of years?

9 MR. ROBIN WIENS: Yes.

10 MR. BOB PETERS: Can you tell the Board when
11 you expect to be in a position to know whether any of these
12 other Government Agencies or Departments will be agreeing to
13 the contribution as well as the lower rates?

14 MR. ROBIN WIENS: Well, all of them have
15 indicated to us, either verbally or by letter, that they are
16 interested in participating. Formal approval; I don't have a
17 specific date for that but I'm anticipating it won't be too
18 much further into the future.

19 MR. BOB PETERS: I'm going to try to pin you
20 down on that, Mr. -- Mr. Wiens, but Christmas, this year?
21 Are we talking into the first quarter?

22 MR. ROBIN WIENS: We're probably talking --
23 we're probably talking early January by now. We've gotten
24 close enough to the Christmas season that we're probably
25 looking at early January.

1 MR. BOB PETERS: So, the first quarter --
2 well, January you say, of 2005, you hope to have all other
3 remaining government customers on-side; is that correct?

4 MR. ROBIN WIENS: That -- that's my
5 considered estimated, Mr. Peters.

6 MR. BOB PETERS: And in exchange for those
7 parties coming onside, their rates will be the same rates
8 that are in the Application before the Board for Government
9 customers?

10 MR. ROBIN WIENS: That's correct.

11 MR. BOB PETERS: And they would also be --
12 would they entitled to any retroactive bill credits if the
13 Board is so inclined with respect to your Application?

14 MR. ROBIN WIENS: Yes, they would be, but our
15 expectation is that they would probably want to let those
16 payments stand as -- as -- as a way of them beginning to make
17 a contribution.

18 MR. BOB PETERS: Do you envision that the
19 contribution -- this is the 10 percent contribution -- of the
20 undepreciated capital costs will be on -- on a time schedule
21 -- a time payment plan?

22 MR. ROBIN WIENS: I -- I expect for some of
23 them it will be because they have indicated an interest in
24 stretching the payments out.

25 MR. BOB PETERS: Can you tell the Board

1 whether or not carrying costs will be included in any
2 correspondence confirming or otherwise the arrangement
3 between Hydro and those government departments and agencies?

4 MR. ROBIN WIENS: On exactly the same basis
5 as we've discussed for INAC.

6 MR. BOB PETERS: Would it be fair, then,
7 Panel Members for the Board to conclude that in my words, the
8 same deal that's being on the table for INAC to accept is
9 going to be made available to the other Government agencies and
10 departments that provide service to customers in the diesel
11 zone?

12 MR. ROBIN WIENS: That's correct.

13 MR. BOB PETERS: Mr. Wiens, not to go back in
14 history, but pre-1990, the Corporation did have non-
15 participating or non-contributing rates, did they not?

16 MR. ROBIN WIENS: Yes, they did.

17 MR. BOB PETERS: And -- and you told the
18 Vice-Chair that in the event that these parties did not agree
19 as you were expecting them to, you would come back to the
20 Board and seek a non-participating rate similar in amount to
21 what's in this filing, but again, similar to the methodology
22 used in -- in prior years dating back to the year -- 1990s?

23 MR. ROBIN WIENS: Well, to the -- to the
24 extent that we would be charging one (1) group of customers
25 a different rate because they had not made a contribution.

1 That's -- that's true. I -- I don't want to -- at least
2 today anyway -- try to go back in history and say how exactly
3 those pre-1990 contribution versus non-contribution rates
4 were calculated, but this would be something similar.

5 MR. BOB PETERS: Yes.

6 MR. ROBERT MAYER: A non-contributing rate
7 would just basically be another class or subclass of customer
8 in the diesel community?

9 MR. ROBIN WIENS: We would have to recover
10 depreciation and interest in that rate, which we're not
11 having to recover from the participants.

12 MR. BOB PETERS: Still on the undepreciated
13 capital costs, Panel Members, once the 69 percent is -- is
14 put under the INAC column, and 10 percent under the other
15 government columns, that leaves 21 percent that still is not
16 funded, correct?

17 MR. ROBIN WIENS: It's not funded by any
18 outside party.

19 MR. BOB PETERS: Good choice of words, Mr.
20 Wiens. You're telling the Board that it's funded then, by
21 Manitoba Hydro?

22 MR. ROBIN WIENS: That's correct.

23 MR. BOB PETERS: Or are you telling the Board
24 that it's really funded by all of Manitoba Hydro's existing
25 customers?

1 MR. ROBIN WIENS: That's also correct.

2 MR. BOB PETERS: Would you agree then, that
3 would amount to -- that would be a cross-subsidization by
4 grid customers of the diesel zone?

5 MR. ROBIN WIENS: Yes, that's what it would
6 amount to, Mr. Peters. You're talking about approximately \$6
7 million here.

8 You're talking about -- these are residential
9 and general service customers that account for the remaining
10 21 percent. They are, if you will, private sector consisting
11 of the residential customers -- would be those who are non-
12 treaty -- and living in those four (4) communities.

13 The general service customers would be
14 commercial operations that are operating in one (1) or more
15 of those four (4) communities such as the northern stores.
16 And we've taken the position in this Application that we will
17 not request capital contributions from those parties.

18 MR. BOB PETERS: Are you going to ask that
19 the reduced rates to the general service customers for which
20 the subsidy is being provided by Manitoba Hydro's customers
21 be reflected in the costs of the services and goods that they
22 provide in the diesel zone?

23 MR. ROBIN WIENS: Well, Mr. Chairman, ideally
24 that would be the case, but we have not signed a contract
25 with them if that's what you're getting at.

1 MR. BOB PETERS: Well, no and I -- I threw
2 that question, now maybe I should have given it more thought,
3 Mr. Wiens but I do remember the northern stores making a
4 presentation before this Board; do you recall that?

5 MR. ROBIN WIENS: I do.

6 MR. BOB PETERS: I thought the upshot of what
7 I heard was if the Board approves the rates that the Board
8 did approve in Order 17 of '04 the residents in a diesel zone
9 can expect that the cost of goods was going to rise because
10 it had to be recovered from the consumers by some general
11 service customers.

12 MR. ROBIN WIENS: I do recall that.

13 MR. BOB PETERS: And to your knowledge I -- I
14 heard there was some acrimony in Mr. Warden's opening
15 comments towards the introduction of the rates in Order 17 of
16 '04 and that would have led to a higher cost of living for
17 those residents in the diesel zone?

18 MR. ROBIN WIENS: I would expect it would,
19 yes because -- because in affect we were -- we had requested
20 in this Board approve the rate which was approximately double
21 that for which they had been paying before on in excess of
22 three thousand dollars (\$3,000) and multi-fold on the
23 consumption between two thousand (2,000) and three thousand
24 dollars (\$3,000). So, I would expect that -- that they would
25 want to recover their costs through their sales.

1 MR. BOB PETERS: And while you would expect
2 that to be the case, Mr. Wiens, do you have any -- any
3 knowledge as to whether or not prices did go up as a result
4 of the increase in electricity rates in the diesel zone?

5 MR. ROBIN WIENS: Other than anecdotally no,
6 I don't.

7 MR. BOB PETERS: All right. And you have no
8 way of -- no way of providing comfort to this Board that if
9 the rates are decreased as requested in your Application,
10 that there will be -- that those decreases will be reflected
11 in the cost of goods and services in the -- in the diesel
12 zone?

13 MR. ROBIN WIENS: No. I have no way of
14 knowing that but his was a concern that was expressed by our
15 partners in the mediation exercise. And I would expect that
16 the communities would be fully aware if this application is
17 approved by this Board, that there had been a decrease in the
18 cost of general service electricity.

19 MR. BOB PETERS: I appreciate that's not in
20 your control, Mr. Wiens and I thank you for providing us with
21 the Corporation's understanding as to where that is. I'd
22 like to turn to the second major aspect of the settlement,
23 the minutes of settlement and that deals with the unpaid
24 surcharge billings.

25 Mr. Wiens and Mr. Thomas, perhaps you can help

1 me, recognizing the Chairman wasn't part of the process
2 leading up to 17 of '04, the starting point is that the grid
3 rates are charged for the first two thousand (2000) kilowatt
4 hours of -- of energy to the residential customers and the
5 general service customers in the diesel zone?

6 MR. ROBIN WIENS: That's correct.

7 MR. BOB PETERS: And the grid rates you told
8 me earlier today were say five (5) cents a kilowatt hour,
9 correct?

10 MR. ROBIN WIENS: In the range of five (5) to
11 six (6).

12 MR. BOB PETERS: And the full cost of service
13 rate in the diesel communities is closer to eighty (80)
14 cents?

15 MR. ROBIN WIENS: Yes.

16 MR. BOB PETERS: And so, the difference
17 between the five (5) cents and the eighty (80) cents has to
18 be paid by somebody and the way the rate structure was
19 designed that difference was incorporated as a surcharge on
20 -- on government accounts?

21 MR. ROBIN WIENS: I guess to be technically
22 correct, most of that difference was incorporated and
23 recovered through the surcharge.

24 MR. BOB PETERS: All but five (5) cents of
25 it?

1 MR. ROBIN WIENS: No. There was, in addition
2 -- we -- we would in developing the -- the full cost rates
3 and the surcharge in the diesel communities, we would expect
4 to get from the diesel communities the same revenue cost
5 coverage from the residential and general service classes as
6 in the rural part of the grid.

7 So, we would recover from depending on -- on
8 the year we would recover in the order of 85 percent from --
9 from residential customers, rates plus the surcharge in
10 respect of that consumption. And in the order of ninety (90)
11 or so percent from the general service customers.

12 MR. BOB PETERS: Thank you for that
13 clarification. So, the surcharge was a significant portion
14 then of the difference between the full cost and the -- and
15 the billed rate to the residential and general service
16 customers on their first two thousand (2,000) kilowatt hours?

17 MR. ROBIN WIENS: Yes. Typically about 85
18 percent.

19 MR. BOB PETERS: That surcharge arrangement
20 on the government accounts, Mr. Wiens, had existed from
21 approximately when?

22 MR. ROBIN WIENS: 1984, July the 1st.

23 MR. BOB PETERS: I'll take that as an
24 approximate date. You recall that the surcharge went in back
25 in the -- in 1984 through reading the historical records, I'm

1 sure, Mr. Wiens. But it was paid up until 2000 by the First
2 Nations' accounts that were charged at the government rate;
3 is that correct?

4 MR. ROBIN WIENS: That is correct.

5 MR. BOB PETERS: And there was approximately
6 -- was it forty (40) of those accounts?

7 MR. ROBIN WIENS: That's approximately right.

8 MR. BOB PETERS: So, prior to 2000 there were
9 approximately forty (40) First Nations accounts paying at the
10 government rate, which included the surcharge.

11 MR. ROBIN WIENS: Yes.

12 MR. BOB PETERS: In 2000 the First Nations
13 approached Manitoba Hydro and indicated that they felt it was
14 inappropriate to continue paying that surcharge, and at that
15 point in time the surcharge was then removed from their
16 accounts and billed over to INAC; is that right?

17 MR. ROBIN WIENS: Yes. The -- the step that
18 was taken was that those forty (40) odd accounts were
19 switched to being billed at the general service rate and the
20 remainder of the cost billed at the full rate, was -- was
21 billed to INAC.

22 MR. BOB PETERS: And INAC refused to pay that
23 surcharge, saying in essence that INAC was already funding
24 First Nations for some portion of their utility costs.

25 MR. ROBIN WIENS: That's what they did.

1 MR. BOB PETERS: And that led to a dispute,
2 and the dispute led to approximately \$3.2 million of unpaid
3 surcharge billings.

4 MR. ROBIN WIENS: Yes. That would be between
5 approximately the end of November 2000 up to the 1st of May
6 2004. That amount would have accrued to 3.2 million.

7 MR. BOB PETERS: And as a result of the
8 Minutes of Settlement, there's an indication that that -- a
9 100 percent of that amount is to be funded by INAC seeking
10 authority to flow the funds to the First Nations.

11 MR. ROBIN WIENS: That's what we've been
12 assured.

13 MR. BOB PETERS: And if Mr. Warden is --
14 information is correct, you may even see that cheque later
15 this week.

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: And that's the full \$3.2
18 million.

19 MR. VINCE WARDEN: Yes, it is.

20 MR. BOB PETERS: Here's a question that you
21 may or may not be able to answer, but: If the agreement --
22 the Minutes of Settlement were signed on July the 8th, 2004,
23 why does it take until December the 17th to flow the monies?

24 MR. VINCE WARDEN: You're right. We can't
25 answer. We, you know, we were led to believe it was imminent

1 and for whatever reason it was -- took longer than expected.
2 But again, to the best of our knowledge, we -- it -- it is
3 now imminent.

4 MR. ROBERT MAYER: I'm assuming that it would
5 bear some resemblance to the same reason we aren't seeing the
6 agreement today.

7 MR. VINCE WARDEN: Well, partly, that's
8 correct. Because we do need Band Council resolutions for
9 this \$3.2 million to flow through to Manitoba Hydro. My
10 understanding, again, is that the funds from INAC were
11 approved relatively quickly but just the mechanism of flowing
12 it through the First Nation community did take longer than
13 expected.

14 MR. ROBERT MAYER: And that was the trust
15 arrangements we heard about from Ms. Ramage a little earlier.
16 I thought I heard. Somebody said they are going through the
17 lawyers.

18 MR. VINCE WARDEN: Well, I think I -- I said
19 that earlier, that, yes, that will come through in trust.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: When we talk of the unpaid
23 surcharge billings, Panel Members, Mr. Wiens has quantified
24 them at 3.2 million up until May 1st of 2004; that's correct?

25 MR. ROBIN WIENS: Yes.

1 MR. BOB PETERS: Now, Mr. Wiens, from May the
2 1st, 2004 until today, the surcharge was approved in the
3 rates that the Board ordered in Order 17 of '04 to continue
4 for those forty (40) customers; is that correct?

5 MR. ROBIN WIENS: That is correct.

6 MR. BOB PETERS: But the evidence before the
7 Board suggests that even though the Board approved the
8 continuation of the surcharge to those forty (40) First
9 Nation accounts, Manitoba Hydro has not, in fact, charged the
10 surcharge to those accounts from May the 1st, 2004?

11 MR. ROBIN WIENS: This is because Manitoba
12 Hydro recognizes during -- early on in the course of
13 mediation, that in fact it was that level of funding that we
14 were looking for in the process and that it wasn't
15 necessarily available to any of the parties, so Manitoba
16 Hydro agreed to continue billing those accounts as it had
17 been from November of 2000 up until May of 2004 and to
18 accumulate the remainder in a deferral account pending the
19 resolution of this issue -- in -- in the expectation that
20 this issue would be resolved.

21 MR. BOB PETERS: And the deferral account to
22 which you referred and which the -- the surcharges for those
23 forty (40) accounts would accumulate, would now be in the
24 order of approximately \$1.4 million to the end of November?

25 MR. ROBIN WIENS: Yes.

1 MR. BOB PETERS: Is there anything in the
2 Settlement Agreement as to who was going to pay the \$1.4
3 million of surcharges on those forty (40) accounts from May
4 1st until December of '04?

5 MR. ROBIN WIENS: No. I mean, the
6 expectation was that this issue was going to be resolved as
7 part of a settlement. And as you will see the -- the
8 Application before you is seeking to extend the rates made
9 possible by the settlement back to May the 1st so, in effect,
10 we will not be dealing explicitly with that one point four
11 (1.4) million. It has, in fact, been subsumed in all of the
12 other terms of the settlement.

13 MR. BOB PETERS: I understand the point, but
14 if the surcharge was not paid by those forty (40) accounts,
15 Mr. Wiens, there'll be less to refund to those customers.
16 Correct?

17 MR. ROBIN WIENS: In fact, some of those
18 customers will not receive a refund, but if these rates are
19 approved, they will in fact, be billed additional amounts.

20 MR. BOB PETERS: I was going to come to that
21 later, but since you've opened the can right now, just -- let
22 me just start off by -- by making sure that the Board is
23 clear, I want to talk just about the forty (40) First Nation
24 accounts that use to be billed at the government rate which
25 included a surcharge and you -- you understand my question?

1 MR. ROBIN WIENS: Yes. I do.

2 MR. BOB PETERS: And when you last came to
3 the Board, you wanted those accounts -- those forty (40)
4 First Nation government accounts to continue to attract the
5 surcharge, correct?

6 MR. ROBIN WIENS: In fact, we wanted all the
7 First Nation community accounts to attract the surcharge.

8 MR. BOB PETERS: And your request was denied
9 for all First Nation accounts to be billed at the government
10 rate, but the Board did leave the -- the existing forty (40)
11 accounts to be continued at the government rate?

12 MR. ROBIN WIENS: That's correct.

13 MR. BOB PETERS: And had you billed those
14 forty (40) First Nation government accounts from May 1st
15 until early December of this year, at the rates approved by
16 the Board in Order 17 of '04, there would be an additional
17 \$1.4 million of surcharge revenue that would have been
18 received?

19 MR. ROBIN WIENS: Well, it would have been
20 billed. I'm not so certain about whether it would have been
21 received.

22 MR. BOB PETERS: All right. So the one point
23 four (1.4) million would have been added on to the \$3.2
24 million in your dispute with the parties?

25 MR. ROBIN WIENS: Yes, it would have been and

1 if -- in -- in the event that we had not arrived at a
2 settlement, we would be looking to recover that as well,
3 MR. BOB PETERS: And because it's not
4 included in the settlement, that then suggests that that
5 amount is again being subsumed by Manitoba Hydro and its --
6 its customer base?

7 MR. VINCE WARDEN: Well, Mr. Peters, maybe if
8 I can jump in here, we're -- we're requesting that the rate
9 -- this Rate Application be made retroactive to May the 1st
10 of 2004. And therefore we would simply unwind that billing
11 that we made with respect to the surcharge because the
12 surcharge does not exist in the rates that have been applied
13 for subsequent to May the 1st, 2004.

14 If the -- this Board decides that no, we're
15 not going to go retroactive, that we're going to go
16 perspective, that does leave us with a bit of an issue as
17 what we -- what do we do with that accumulated amount from
18 May the 1st to the end of December? But hopefully that won't
19 be the case and as I say, we'll simply unwind that surcharge
20 that we've been accumulating.

21 MR. BOB PETERS: I've got your point, Mr.
22 Warden, but I'm not sure there's anything to unwind because
23 I'm hearing that it wasn't, in fact, billed.

24 MR. VINCE WARDEN: Oh, it was -- it was in
25 effect, billed. The bills weren't sent out, but the -- the

1 amount was put into an account, just as a holding account
2 until such time as this matter was resolved. The bills
3 weren't sent out but in as far as the accounts are concerned,
4 it was as -- as though the bills were sent out.

5 MR. ROBIN WIENS: Mr. Peters, if I can just
6 add to that: If the settlement proceeds as it's been laid
7 out, in effect the capital contributions and the other
8 elements of the settlement, will in effect negate a necessity
9 for billing any of that 1.4 million, because it will be
10 recovered either through the capital contributions or through
11 the new rates that we've applied for here, going back to May
12 the 1st.

13 MR. BOB PETERS: Well, it won't be recovered
14 through rates, Mr. Wiens, if the rates are going to be going
15 down as opposed to up; would that be correct?

16 MR. ROBIN WIENS: Between the capital
17 contributions and the rates that are being requested here,
18 all of the costs that have been incurred since May the 1st of
19 -- of this year, will be recovered.

20 The -- the capital contributions lead to a
21 reduction in the revenue requirement for this year from nine
22 point five (9.5) to -- to 4.1 million. The rates that we've
23 applied for, along with the -- at the appropriate revenue-
24 cost-coverage ratios, will recover that 4.5 million, so that
25 there is nothing left to be recovered by additional

1 surcharges.

2 MR. BOB PETERS: All right. I've got your
3 point. Was it envisioned when the 3.2 million was to be
4 sought through INAC, that the monies would be flowed
5 considerably sooner than what they appear to be flowing, as I
6 understood from Mr. Warden?

7 MR. ROBIN WIENS: Yes, it was our expectation
8 that it would happen earlier.

9 MR. BOB PETERS: Was there any requirement
10 that carrying costs or interest be added on to the 3.2
11 million dollars over the period of time for which the money
12 has not yet been paid?

13 MR. ROBIN WIENS: At the time that we signed
14 the Minutes of Settlement, we fully expected that -- that the
15 money would be forthcoming rather -- rather expeditiously and
16 we did not make a provision for any carrying costs.

17 In more recent days we have exhorted our
18 partners to flow that money more quickly and I'm not sure
19 that it was ever expressed but it was certainly our intention
20 that if it wasn't received fairly expeditiously then, that we
21 would be looking at carrying costs.

22 But there's -- there has been no provision for
23 carrying costs from the originally expected date to the now
24 anticipated date.

25 MR. BOB PETERS: And no carrying costs were

1 initially requested in coming up with the payment of the \$3.2
2 million agreement?

3 MR. ROBIN WIENS: They were not. I mean,
4 again, that was part of the give and take of the mediation
5 process.

6 MR. BOB PETERS: Does Manitoba Hydro want to
7 extend rate relief as requested in this Application if the
8 \$3.2 million is not in Manitoba Hydro's hands?

9 MR. ROBIN WIENS: No.

10 MR. BOB PETERS: Could I then ask, by way of
11 an undertaking through your Counsel, just to confirm and
12 notify the Board when the \$3.2 million referred to in the
13 Minutes of Settlement is received by Manitoba Hydro?

14 MR. CHIC THOMAS: Yes, we'll do that, thank
15 you.

16

17 --- UNDERTAKING NUMBER 1: Manitoba Hydro to confirm and
18 notify the Board when the \$3.2
19 million referred to in the
20 Minutes of Settlement is received
21 by Manitoba Hydro.

22

23 MR. BOB PETERS: I'm going to jump over the
24 -- the third term of the settlement, which was the
25 accumulated deficit and I'll deal with that after the lunch

1 recess, but before then, I want to go to the ongoing
2 operating cost requirements and what was going to happen
3 going forward.

4 And in looking at that term of the settlement,
5 maybe Mr. Thomas, you're going to have to help again, and I
6 told you -- I warned you, you have to remind me, what are
7 ongoing operating costs? What are those?

8 MR. CHIC THOMAS: Pure definition is
9 basically those -- those costs that vary with the level of
10 consumption or the amount of energy generated.

11 MR. BOB PETERS: So that would be the
12 operating costs related to generation?

13 MR. CHIC THOMAS: Primarily, yes. It's --
14 the bulk of it is the -- the fuel, the maintenance of the
15 generating and -- and as you had asked about earlier, those -
16 - those operating costs on the distribution system which we
17 previously defined as fixed? But the bulk of it is the
18 generation expense.

19 MR. BOB PETERS: While the operating costs
20 related to distribution has been considered capital, it is
21 only considered capital for the purposes of the undepreciated
22 capital amount for which you're seeking settlement or is it
23 going to be the same amount going forward?

24 MR. ROBIN WIENS: Mr. Peters, I'm sorry for
25 the confusion here. We -- operating costs include both fixed

1 and variable costs. Most of the costs are variable having to
2 do with the fuel of operation of the generators and
3 maintenance of the generators.

4 The fixed -- the distribution costs are fixed
5 but they are also operating costs. It's simply that they
6 don't vary with the level of production. So, even if nobody
7 used a kilowatt hour in those communities in a particular
8 year, those operating costs would be incurred.

9 They are not related to capital, they're not
10 depreciation or interest, but they are fixed with respect to
11 the level of consumption. So, they are -- they are included
12 in this item 4.

13 MR. ROBERT MAYER: and those are the items
14 that you generally want to at least recover partially from
15 that first block rate of six dollars (\$6) and change. That's
16 the kind of costs that -- the cost you to service a customer
17 whether they use any power or not.

18 MR. ROBIN WIENS: Well, I guess in some ideal
19 world you would recover them that way. The six dollars and
20 twenty-five (\$6.25) cents will not recover those fixed
21 distribution costs.

22 MR. ROBERT MAYER: That's why I said in part.

23 MR. ROBIN WIENS: Yeah, they're mostly
24 recovered through the kilowatt hour charge.
25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: It comes to the -- to answer
3 the question of who's going to pay the ongoing operating
4 costs, is a simple answer, the customer?

5 MR. CHIC THOMAS: Yes.

6 MR. BOB PETERS: Is there any subsidy by
7 Manitoba Hydro in that other than recognizing the RCC
8 discussion we had earlier?

9 MR. CHIC THOMAS: No, Mr. Wiens had explained
10 that RCC subsidy. That's the only one that we're extending.

11 MR. BOB PETERS: And there's no other ongoing
12 operating costs, whether those are funded through INAC's
13 funding or otherwise you will have nothing to do with that?

14

15 (BRIEF PAUSE)

16

17 MR. ROBIN WIENS: The full expectation is
18 that these ongoing operating costs except for the -- having
19 to do with the revenue cost coverage adjustment will be
20 recovered fully from -- from the customers. My
21 understanding, and I can't speak directly to it, is that INAC
22 and MKO will put in place a new funding arrangement that will
23 allow them to be more certain of their ability to continue
24 purchasing and paying for electricity.

25 MR. ROBERT MAYER: One that hopefully bear

1 some resemblance to the realities of northern Manitoba rather
2 than Nepean in Ontario.

3 MR. ROBIN WIENS: That is my understanding,
4 Mr. Mayer, is -- is that not only will it be -- not only will
5 it bear some relationship to the issues in Manitoba but it
6 will have a specific provision to ensure that the -- the cost
7 implications of diesel are factored into it.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: In the point four (.4) that
11 you referred to, Mr. Wiens, there's a -- there's an
12 indication that Manitoba Hydro is to file a rate application
13 to the Board and that's what presently is before the Board;
14 is that correct?

15 MR. ROBIN WIENS: Yes.

16 MR. BOB PETERS: There was no timeline on
17 that?

18 MR. ROBIN WIENS: As soon as possible.

19

20 MR. BOB PETERS: Well, then you opened up the
21 next question, is: If you signed this on July the 8th, is
22 this as soon as possible that you can bring it before the
23 Board or had there been intervening circumstances that have
24 delayed the application being filed?

25 MR. ROBIN WIENS: We -- we moved to prepare

1 the application as -- as expeditiously as we could. You will
2 see in -- in another part of section 4, is that Manitoba
3 Hydro agrees to seek the input of MKO into the details of the
4 proposed rate structure and recognizes MKO's interest in
5 revising the rate structure such that First Nation facilities
6 customers are treated on a basis similar to general service
7 customers.

8 And I would have to say that we spent a good
9 deal of time back and forth in terms of try to operationalize
10 to the extent possible of that aspect of the settlement.

11 MR. BOB PETERS: But there was no timeline
12 that prescribed then in your settlement as to when the
13 application had to be made?

14 MR. ROBIN WIENS: There was no particular
15 deadline, only that it -- as -- as soon as practical, which
16 is the second bullet here. And -- and that's indeed what we
17 did present. I believe we filed this October the 29th, and
18 that was, at that time, as -- as soon as practical.

19 MR. BOB PETERS: And --

20 MR. ROBERT MAYER: Well, actually, the
21 agreement says, as soon as -- As soon after the
22 implementation of the agreement is practical. So, we're not
23 even talking -- we aren't close to the implementation date
24 yet in any event.

25 MR. ROBIN WIENS: Well, I guess if you mean

1 by the implementation the full formal signature, we're not
2 there yet. We took it to -- we took it to mean as soon we
3 could prudently file it.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: All right. I -- I'll take
7 that, Mr. Wiens. In terms of the structure of the
8 Application before the Board, was that determined by Manitoba
9 Hydro or was that determined by Manitoba Hydro as well as the
10 other parties to the Settlement Agreement?

11 MR. ROBIN WIENS: Well, the input of the
12 other parties was essential to this form of the Application.
13 And we did prepare an initial draft of the Application and it
14 was reviewed by the other parties. And we had considerable
15 back-and-forth over that and a number of re-drafts before we
16 finally arrived at what was filed here.

17 MR. BOB PETERS: And was the issue of
18 retroactivity one (1) of those items that was back-and-forth,
19 or was that proposed by Manitoba Hydro initially?

20 MR. ROBIN WIENS: My recollection going
21 through this is that some interest was expressed in
22 retroactivity and initially Manitoba Hydro did not find a lot
23 of favour with that position. But as -- but as we got into
24 the application and the details, it -- it -- it appeared that
25 this would be the cleanest way to do it, would be to go back

1 to May the 1st, to the implementation of 46/'04.

2 MR. BOB PETERS: Panel Members, in an effort
3 to conclude the second last item of this Settlement Agreement
4 before the lunch recess, the future capital expenditures is
5 -- was also a point that the Board raised in Order 17 of '04.

6 Can you summarize for the Board then whose
7 obligation is it to pay for future capital expenses?

8 MR. ROBIN WIENS: It would be the obligation
9 of the customers and their funding agent. But that is
10 contingent on agreement that these are the facilities that --
11 that are actually required.

12 MR. BOB PETERS: Okay. Let me understand and
13 we'll have the Board understand your answer, Mr. Wiens. Can
14 the Board take it then that Manitoba Hydro does not plan to
15 incur capital expenditures in the diesel zone unless there is
16 a signed, sealed and delivered agreement as to how it's going
17 to be funded in advance?

18 MR. ROBIN WIENS: Yeah. The -- the intent is
19 -- is here a major capital expenditures, and we haven't fully
20 and finally resolved what constitutes a major capital
21 expenditure. But we are looking now at those expenditures
22 which are in excess of a hundred thousand (100,000).

23 MR. BOB PETERS: So, when it comes to
24 defining major capital expenses, the -- the discussions right
25 now are on quantifying that or putting a precise definition

1 on it.

2 MR. ROBIN WIENS: That's correct.

3 MR. BOB PETERS: But, then, my question then
4 is before Manitoba Hydro embarks on any new major capital
5 expenditures, there's going to have to be an agreement in
6 place as to who's paying for it in -- before you even put the
7 shovel in the ground.

8 MR. ROBIN WIENS: Yes.

9 MR. ROBERT MAYER: Arising out of that, Mr.
10 Wiens, reading through this, you're going to -- you're going
11 to need an agreement only with MKO and the First Nations.
12 This doesn't talk about the agreement with INAC. So, you're
13 assuming that MKO and the First Nations have to deal with
14 INAC because presumably the First Nations don't have any
15 available capital with which to contribute to a new
16 generation facility, if that were needed.

17 And secondly, it seems to ignore the consent
18 or the consultation with the other 31 percent of the people
19 who aren't included in the 69 percent who are allegedly
20 aboriginal or aboriginal organi -- First Nations
21 organizations.

22 And -- and I'm seeing a little bit of a hole
23 here. And I'm wondering, is this hole real or is it just my
24 perception. You've still got Frontier School Division out
25 there. You've still got the -- the private enterprises

1 which, in most cases, the major one is the -- is the northern
2 stores, but there are others in smaller -- in smaller
3 amounts.

4 They seem to be left out of these
5 consultations, negotiations and discussions. And can you put
6 an agreement together with only the four (4) First Nations
7 and MKO agreeing?

8 MR. VINCE WARDEN: Mr. Mayer, I think we
9 should make it clear that Manitoba Hydro fully believes that
10 all capital expenditures incurred in the diesel communities
11 were prudently incurred. Our problem is with payment and
12 that's what we're trying to avoid in the future here, is that
13 we'll be stuck with this -- with making expenditures for
14 which we have no commitment for payment.

15 It's not typical for us to go around and
16 canvas all of our customers and when -- outside of the diesel
17 communities before we make a capital expenditure. We have to
18 recognize what we're dealing with here is somewhat unique in
19 these communities. The capital expenditures are -- are
20 funded by others and directly to the customers from who we
21 would normally recover payment from.

22 So, the purpose of this clause of -- this part
23 of the agreement is to avoid those problems in the future to
24 the extent possible and I think we've by and large, hopefully
25 accomplished that.

1 MR. ROBERT MAYER: I -- is -- is my
2 assessment that you at least attempted to solve 69 percent of
3 the problem?

4 MR. VINCE WARDEN: We never had a problem
5 with the others' payment. They don't like the -- the quantum
6 of the rates that flow therefrom, but I think we're
7 addressing that issue as well.

8 MS. KATHI AVERY-KINEW: Mr. Peters, I was
9 wondering if Manitoba Hydro could explain why it takes five
10 (5) months to define a major new capital expenditure and come
11 up with a number of a hundred thousand (100,000)? Five (5)
12 months?

13 MR. VINCE WARDEN: We had to deal quite
14 extensively with the people that are responsible for
15 incurring those capital expenditures. We have to make sure
16 that we can cover off emergencies, that we're not seeking
17 approval while the lights are out. That would never happen,
18 but there could be the risk of an outage if we deferred
19 capital expenditures until such time as there were approvals
20 in place and we know how long it takes to get those
21 approvals.

22 So, there has to be -- there is concern
23 amongst the people that are responsible for maintaining the
24 facilities in those communities that the -- the mechanism we
25 develop will not be timely enough to deal with the issues

1 they have to deal with on a day-to-day basis. That's what
2 we're doing.

3 We're going back and forth with those people.
4 They would like to make the amount higher than a hundred
5 thousand dollars (\$100,000) because they can ring up a
6 hundred thousand dollars (\$100,000) pretty quick in those
7 communities, so those are some of the discussions that we've
8 been having and it may not be as easy as it appears on the
9 service -- surface to get that agreement.

10 MS. KATHI AVERY-KINEW: If that's the case,
11 Mr. Warden, is there something in the thirty-two (32) page
12 document that addresses emergencies or -- and a commitment by
13 all Parties to meet emergency expenditures or something...

14 MR. VINCE WARDEN: Yes, Dr. Kinew, we'll
15 definitely -- we want to make sure that emergencies -- that
16 service is maintained at the highest standards. In these
17 remote communities they just cannot afford to be without
18 service. That's the highest priority; the safety and well-
19 being of the residents of those communities.

20 MR. ROBERT MAYER: But --

21 MR. VINCE WARDEN: And then --

22 MR. ROBERT MAYER: I was going to say, I
23 didn't hear the answer, yes --

24 MR. VINCE WARDEN: Well --

25 MR. ROBERT MAYER: -- to Dr. Kinew's

1 question.

2 MR. VINCE WARDEN: The answer -- the answer
3 would be, yes, the agreement will deal with that issue.

4 THE CHAIRPERSON: Mr. Warden is there a list
5 of deferred capital expenditure projects that's waiting the
6 finalization of this settlement?

7 MR. VINCE WARDEN: No.

8 THE CHAIRPERSON: Thank you.

9 MR. BOB PETERS: In light of the hour, Mr.
10 Chairman, this may be an appropriate time for the -- for the
11 noon recess.

12 THE CHAIRPERSON: Yes, and we'll stand
13 adjourned. I think we'll -- if you don't mind, I think we'll
14 take it all the way through until 1:30 because we've got some
15 issues we want to talk about. Thanks.

16 I think we'll make it quarter to 2:00.

17

18 --- Upon recessing at 12:08 p.m.

19 --- Upon resuming at 1:55 p.m.

20

21 THE CHAIRPERSON: Mr. Peters...?

22 MR. BOB PETERS: Questions will be brief.
23 We'll see how the answers go. Thank you, Mr. Chairman.

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: I want to just touch one (1)
2 area that I did have questions on this morning before moving
3 on to a new area.

4 Panel Members, you'll recall your evidence to
5 the Board that of the undepreciated capital costs of about
6 \$28.8 million, 21 percent was going to be absorbed by
7 Manitoba Hydro and its customer base. Am I correct?

8 MR. ROBIN WIENS: Yes.

9 MR. BOB PETERS: That 21 percent, Mr. Wiens,
10 that was determined based on the composition of residential
11 customers who were not First Nations customers?

12 MR. ROBIN WIENS: That was one (1) -- one (1)
13 group making up the 21 percent.

14 MR. BOB PETERS: All right. Did you break it
15 down as to how much of the 21 percent is for particular
16 different customers?

17 MR. ROBIN WIENS: Yes, we did, although I
18 don't have that information with me. He was thinking further
19 than I was. Although I don't have -- I don't have
20 percentages here, but the largest group would appear to be
21 general service commercial and they would make up, probably,
22 14 or 15 percent.

23 MR. BOB PETERS: Of the 100 percent?

24 MR. ROBIN WIENS: Of the 100 percent, yeah
25 and -- and they would be two-thirds of the -- of the 21

1 percent.

2 MR. BOB PETERS: All right. Let's just stick
3 with those general service commercial customers, Mr. Wiens.

4 When you say, general service customers, who
5 are not First Nations, I'm having just a bit of difficulty
6 identifying the type of customer that would refer to and --
7 and I know we've put on the record one (1) such customer, but
8 are there -- can you give me examples of other customers in
9 that class?

10 MR. ROBIN WIENS: Northern Stores would be by
11 far the biggest among those, but there may also be other
12 stores, convenience stores or pool halls, that type of an
13 operation. Apparently churches as well; they are on the
14 grid, too.

15 MR. BOB PETERS: So what you've told us --
16 and when you said -- when you identified the Northern Stores
17 as being by far and away the largest of the general service
18 commercial customers, that's based on their consumption,
19 you're telling us, then?

20 MR. ROBIN WIENS: Yes, that would be based on
21 their consumption.

22 MR. BOB PETERS: All right, and -- and --

23 MR. ROBIN WIENS: Probably a number of other
24 factors as well, but for -- for -- for our purposes it's
25 consumption.

1 MR. BOB PETERS: Refresh my memory, is there
2 a Northern Store in each of the four (4) communities?

3 MR. ROBIN WIENS: We believe that to be the
4 case.

5 MR. BOB PETERS: And so this 21 percent of
6 the customers who are not First Nations customers or
7 Government of Canada or Manitoba agencies and departments,
8 will receive, in your proposal, the lower rates without any
9 capital contribution; correct?

10 MR. ROBIN WIENS: Yes, they will either be
11 residential or general service accounts that will receive the
12 lower rate without any capital contribution.

13 MR. BOB PETERS: And they'll receive the
14 lower rates and not have to make capital contributions
15 without having to -- any firm agreement with Manitoba Hydro
16 to ensure that their -- the cost of their goods and services
17 is priced reflecting the -- the new rate structure that
18 Manitoba Hydro's proposing?

19 MR. ROBIN WIENS: Well, we certainly have not
20 approached these customers or suggested that there be some
21 sort of a contractual arrangement. But even if we did, I'm
22 totally uncertain as to how we would ever be able to enforce
23 that.

24 MR. BOB PETERS: Do you expect, Mr. Wiens,
25 appreciating that there's no -- nothing -- no written

1 contract, is there -- is there at least a social contract
2 that you believe these customers will reflect their lower
3 input costs into the cost that they sell to the public?

4 MR. ROBIN WIENS: I would expect that there
5 would be some pressure from the communities if they -- if the
6 communities themselves were convinced that it wasn't being
7 reflected but I don't know that for a fact.

8 MR. BOB PETERS: Okay, I -- I appreciate
9 that. I would like to turn with you then, sir, to -- and
10 your Panel Members and the Board to the accumulated deficit
11 portion of the Settlement Agreement. And perhaps the best
12 way to start off is to ask the Board and the Panel to turn to
13 the Interim Ex Parte Information Request Number 2-C.

14 2-C was the information request which wanted a
15 breakdown of the -- the deficits and any carrying costs and
16 what you provided in that answer was the accumulated deficit
17 back since 1984, correct?

18 MR. ROBIN WIENS: Yes.

19 MR. BOB PETERS: And there's no carrying
20 costs added to this; is that correct?

21 MR. CHIC THOMAS: That's right.

22 MR. BOB PETERS: Can you explain, Mr. Thomas,
23 in 1993/'94 there's a column that starts of, Government Rate
24 Deficiency, and explain to the Board what that column
25 represents?

1 MR. CHIC THOMAS: What that column represents
2 as I charted a footnote at the bottom there, is -- is it's
3 the difference between what we calculate the full cost rate
4 to be and what we're actually charging those government
5 customers. So, prior to that time, that discrepancy wasn't
6 so large and then starting '93/'94, when that discrepancy was
7 starting to get somewhat larger than we recognize it as a
8 separate column.

9 But, in -- in other words up until our past
10 Board Order 17/'04 we were charging about thirty-five (35)
11 cents a kilowatt hour plus the surcharge of about eighty (80)
12 cents but the full cost that -- that government rate
13 deficiency represents the difference between the thirty-five
14 (35) cents and for example the seventy nine point one (79.1)
15 cents that's the actual full cost rate.

16 MR. BOB PETERS: And by demonstrating it in a
17 separate column, you're trying to show what government
18 portion is of the accumulated deficit?

19 MR. CHIC THOMAS: I -- I guess we're trying
20 to show the two (2) components of what makes up the
21 accumulated deficit. The surcharge requirement is basically
22 that subsidy that is required to -- to get back those
23 subsidized kilowatt hours to the general service and
24 residential customers.

25 MR. BOB PETERS: And that number's set out in

1 the column called, Surcharge Requirements; second column?

2 MR. CHIC THOMAS: Correct. And then in the
3 following, the Government Rate Deficiency, is the difference
4 between the actual full cost rate calculated and what was
5 charged to the government customers.

6 MR. BOB PETERS: Looking at this chart, Mr.
7 Thomas, it appears that starting in 1999 and 2000, that's
8 when the accumulated deficit started to spiral on you?

9 MR. CHIC THOMAS: Yes.

10 MR. BOB PETERS: And if I look at the -- the
11 column that says, Government Surcharge Revenue -- oh, I'm
12 sorry -- if I look at the -- the way the Corporation handled
13 it in past, you would simply flow that surplus or deficit in
14 that last column into the following year's cost of service
15 and recover it in rates or refund it in rates?

16 MR. CHIC THOMAS: Correct.

17 MR. BOB PETERS: And back in 1999 that didn't
18 happen, correct?

19 MR. CHIC THOMAS: Yes.

20 MR. BOB PETERS: And is there a reason you
21 can refresh my memory if we've asked this some months ago as
22 to why the Corporation didn't continue with that practice of
23 seeking the inclusion of the accumulated deficit in the
24 subsequent year's rates?

25 MR. CHIC THOMAS: Part of the problem and

1 some of my co-Panellists might add a little to this but
2 basically it's -- it's after the completion of the North
3 Central Project and the two (2) other communities that
4 weren't part of that and those so-called nine (9) communities
5 that were connected to the grid.

6 We were -- we knew that the cost structure and
7 the cost that would -- we'd have to be charging those
8 customers would be changed, and until we decided how to --
9 that's when we proceeded to discuss with other parties about
10 the implications of such a thing and -- and we deferred going
11 forward until we know the true impact of going from the
12 eleven (11) or thirteen (13) communities to the four (4) very
13 remote communities.

14 MR. BOB PETERS: And what the Board can take
15 and Hydro has taken from this is that by -- by putting
16 approximately nine (9) more communities on the grid system,
17 you took away a significant number of accounts that would
18 otherwise be there to absorb some of the subsidy, as it was
19 then called?

20 MR. CHIC THOMAS: That is certainly a factor
21 and another factor that is certainly the case is these four
22 (4) remaining communities, as Mr. Wiens eluded to earlier,
23 are far more remote and thus more costly to serve, so that
24 only exacerbated the problem.

25 MR. BOB PETERS: All right. And -- and the

1 extent --

2 MR. ROBIN WIENS: Mr. Peters, I might add.
3 If you're looking at -- if you're looking at that final
4 column and witnessing a rather rapid accumulation of that
5 deficit from 1999/2000, I can say that, we were well aware of
6 the situation by the middle of the following fiscal year
7 2000/2001.

8 And we've had some discussion about why an
9 application was not forthcoming until -- until a later time.
10 In previous -- in previous appearances before this Board, we
11 certainly began consultation with the affected parties as
12 early as the fiscal year 2000/2001 and as you know, we filed
13 the Application in the fiscal 2002/2003.

14 MR. BOB PETERS: And those consultations
15 didn't yield a resolution to this issue and it wasn't
16 resolved until the recent settlement mediation, correct?

17 MR. ROBIN WIENS: That is correct.

18 MR. BOB PETERS: And whereas in Order 17 of
19 '04 the number of -- for the accumulated deficit was -- was
20 over 18 million, I believe. You've now refined your
21 calculation and it's 16.9 million?

22 MR. CHIC THOMAS: That's right.

23 MR. BOB PETERS: The proposal that's before
24 the Board is that this accumulated deficit is going to be
25 recovered by Manitoba Hydro through revenues it receives over

1 the next ten (10) years?

2 MR. VINCE WARDEN: Well, the proposal that's
3 before the Board is that a portion of export revenues will be
4 allocated through the Cost of Service Study to the diesel
5 rate zone which was not done in the past.

6 So, these export revenues will be allocated to
7 the diesel communities over the next ten (10) years,
8 sufficient to offset the accumulated deficit that we have
9 before us here. Yes.

10 Yeah. Maybe I'll leave it at that and you'll
11 probably have follow-up questions to that.

12 MR. BOB PETERS: Yes, probably. You'd agree
13 with me though, and I think you did this morning, I want to
14 make sure that the Board is clear that, if the Board was to
15 be favourably inclined to your Application that's before it
16 today, you would agree with me, Mr. Warden, that -- that does
17 not mean that in the future the Board must approve some cost
18 of service methodology which would assign a certain amount of
19 revenue to certain customer class?

20 MR. VINCE WARDEN: Yes, I would agree with
21 that, Mr. Peters, with a qualification that the agreement --
22 the Minutes of Settlement that is, anticipates that there
23 will be a flow of export revenues or some such similar credit
24 at the expiry of that ten (10) year period.

25 MR. BOB PETERS: And while that may be in the

1 Minutes of Settlement, this Board has not asked for a final
2 deliberation on that in this Proceeding?

3 MR. VINCE WARDEN: That's correct.

4 MR. BOB PETERS: And in fact you've mentioned
5 it that this Board has never allocated export revenue to the
6 diesel class, has it?

7 MR. VINCE WARDEN: It has not, no. Well,
8 Manitoba Hydro has never allocated revenue to the diesel
9 class in its cost of service studies and this Board to
10 approve that in the past.

11 MR. BOB PETERS: Yes. Thank you, Mr. Warden.
12 As I understand the proposal, the \$16.9 million would be
13 removed from the cost of service methodology entirely and it
14 wouldn't be reflected in any Cost of Service Study going
15 forward?

16 MR. ROBIN WIENS: That's certainly the
17 intent, yes.

18 MR. BOB PETERS: You indicated, Mr. Warden,
19 that there's an assumption that some export revenue would be
20 credited to the diesel class, which would be used to fund the
21 amortization of the \$16.9 million, correct?

22 MR. VINCE WARDEN: Correct.

23 MR. BOB PETERS: And do I take it from your
24 materials that the Corporation finds some support for that
25 proposal in the materials that have been previously filed

1 with the Board by NERA?

2 MR. VINCE WARDEN: Yes. We've -- we
3 certainly used the NERA report in our deliberations. This,
4 however, does not necessarily reflect all the provisions of
5 the NERA report, and we're not asking for that in these
6 proceedings, that that NERA report in any way be endorsed,

7 MR. BOB PETERS: When you calculate to the
8 amortization of the \$16.9 million over ten (10) years, my
9 simple math brings me to about \$1.7 million a year, correct?

10 MR. VINCE WARDEN: Simply dividing the 16.9
11 million by ten (10), yes.

12 MR. BOB PETERS: That's as complicated as I
13 got for that question, Mr. Warden. But when I do that and I
14 look to see what Manitoba Hydro is proposing in its
15 application, is that going forward Hydro envisions on average
16 about \$1.4 million being available from export revenues if a
17 certain allocation methodology of those revenues is
18 subsequently approved by this Board; is that correct.

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: So, the difference between
21 \$1.7 million a year and \$1.4 million a year leaves a
22 shortfall of three hundred thousand dollars (\$300,000). And
23 that would be funded again by Manitoba Hydro and its grid
24 customers.

25 MR. VINCE WARDEN: I might refer you to

1 Interrogatory 2-A, in which we indicate that the amount that
2 has been booked by Manitoba Hydro as an account receivable
3 was actually different than the amount of 16.9 million.

4 So, the amount that we would be amortizing, if
5 we chose to amortize, would be something less than the --
6 simply taking the sixteen point nine (16.9) and dividing by
7 ten (10).

8 There -- and, Mr. Peters I -- I should
9 explain. It gets a little bit complicated perhaps but there
10 isn't necessarily a direct relationship between what we do in
11 the Cost of Service Study and how we account for revenues and
12 expenses in the cost of service -- or in the financial
13 statements in Manitoba Hydro.

14 So, while the Cost of Service Study attempts
15 to take all the revenues and expenses of Manitoba Hydro and
16 allocate them to the customer classes, there are certain
17 allowances that are made in the Cost of Service Study to
18 recognize such things as traditional cost coverages in -- in
19 rural Manitoba as opposed to the city of Winnipeg and other
20 considerations that don't always result in a perfect
21 balancing of -- of costs and revenues in -- in a given year.

22 So, as I indicated in -- or we indicated in
23 response to Interrogatory 2-A, the amount that was set up as
24 a receivable was \$13.5 million, which was 75 percent of the
25 estimated \$18 million at March 31st, 2004.

1 And now that we recognize the fact that we're
2 not going to be collecting this from -- directly that is,
3 from -- from INAC or the First Nation communities, we will
4 simply write that off in this current fiscal year.

5 MR. BOB PETERS: Mr. Warden, I just want to
6 go back to my initial question. When I look at the
7 approximately \$17 million of accumulated deficits that have
8 accrued to May of 2004, I had understood that the plan was
9 to, at least notionally, amortize that against export
10 revenues that might be allocated to the diesel zone over a
11 course of ten (10) years.

12 MR. VINCE WARDEN: Yes, and I think the key
13 word there is notionally and we will do it.

14 MR. BOB PETERS: All right. And when I say,
15 notionally, that assumes that at some point in time this
16 Board will be asked to approve an allocation of net export
17 revenue that would afford some credits flowing through to the
18 diesel customer zone?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And when I understood the
21 \$17 million of accumulated deficit would be amortized over
22 ten (10) years, have I made a mistake in that? Is it -- is
23 it now going to be reduced to 13.5 million amortized over ten
24 (10) years or is it still 16.9 million over ten (10) years?

25 MR. VINCE WARDEN: Well, I guess I -- I tried

1 to explain, probably not too well, the difference between the
2 -- the Financial Statements and the Cost of Service Study.

3 For the purposes of the Cost of Service Study,
4 you're entirely correct, the -- the amount that we would
5 carry forward and attempt to recover through future cost of
6 service studies is \$16.9 million. And we will use that
7 portion of export revenues as approved by this Board for that
8 purpose.

9 When we get to the end of that ten (10) year
10 period, however, it's unlikely that will be \$16.9 million,
11 but at that point, they say, okay, we're -- we've recovered
12 what we said we would through the agreement with the -- with
13 the other parties and we call ourselves even, so to speak.

14 And realizing that won't be precisely even at
15 that stage, but nevertheless that's what we negotiated, that
16 we would, you know, in effect not -- not allow the First
17 Nation communities to participate in any sharing of -- of
18 export revenues, whatever they may be, over that ten (10)
19 year period, for ten (10) years.

20 So, -- so there's an expectation that we'll
21 recover, through the Cost of Service Study, a substantial
22 portion of that \$16.9 million, but it's -- it would be
23 coincidence -- coincidence if it was identical.

24 MR. ROBERT MAYER: Mr. Warden, this is
25 starting to sound like something we call in law a legal

1 fiction. Is -- is notionally the accountant's word for legal
2 fiction?

3 MR. VINCE WARDEN: Well, Mr. -- Mr. Mayer, a
4 Cost of Service Study is not an exact science. I think we've
5 said that every time we present a Cost of Service Study; it's
6 not an exact science.

7 MR. ROBERT MAYER: I -- I understand what you
8 mean by a Cost of Service Study. When somebody says they're
9 going to do something notionally, and that's what we put in
10 the agreement -- but you're telling us here that, in fact,
11 what you're doing is you're writing it off against this
12 year's revenues, whatever; that that's what's really
13 happening?

14 MR. VINCE WARDEN: Yes.

15 MR. ROBERT MAYER: What's the shell game? I
16 mean, why are we saying this? What does notionally mean?

17 MR. VINCE WARDEN: Well, it doesn't mean a
18 shell game, for sure. The fact of the matter is that through
19 the operation of the diesel sites, we've accumulated an
20 amount that we have to recover.

21 Under normal circumstances, we would roll
22 forward and recover it through -- through future rates.
23 Because of this settlement, however, we've agreed to absorb
24 that in exchange for which the diesel communities will not
25 participate in any sharing of export revenues for a period of

1 ten (10) years.

2 THE CHAIRPERSON: Mr. Warden, can I try a
3 little bit here? If -- I think the way you're describing it
4 isn't quite notional because, for example, if in the first
5 year of your amortization process the only net export
6 revenues were the same as you were going to amortize, there
7 would be less to share with the other classes. Am I not
8 correct?

9 MR. VINCE WARDEN: Absolutely, yes.

10 THE CHAIRPERSON: Thank you.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: Following up on the
14 Chairman's last question, so -- so in actual fact, Hydro will
15 take about \$1.4 million of net export revenue that previously
16 went to other classes and will -- will give it notionally to
17 the diesel zone customers in exchange for your having not
18 charged them additional rates --

19 MR. VINCE WARDEN: Well actually, you know,
20 I'm -- I'm going to back up on that answer I just the
21 Chairman. The -- what -- we have X number of export revenue
22 dollars that we would allocate to the Cost of Service Study
23 every year.

24 In the absence of this agreement, the diesel
25 communities would share a portion of those export revenues.

1 Because we're saying no, yeah, we're absorbing this amount,
2 you can't share for ten (10) years, in effect the other
3 customers get a greater share than they otherwise would. So
4 the other customers share to a greater extent than they
5 otherwise would through -- through the Cost of Service Study.

6 MR. BOB PETERS: And that's because these
7 additional customers -- the existing customers have an
8 additional cost now that is on their side of the ledger and
9 that's their share of this accumulated deficit?

10 MR. VINCE WARDEN: That's right. In effect
11 the other customers are paying for the diesel accumulated
12 deficit now for which they will receive a greater credit than
13 they otherwise would over that ten (10) year period.

14 MR. BOB PETERS: You's agree with me, Mr.
15 Warden, that there is no additional incremental cash flow as
16 a result of your proposal on this accumulated deficit?

17 MR. VINCE WARDEN: Well we have to think
18 about what over that ten (10) year period what we would
19 propose to recover through rates, general rates to other
20 consumers. So to the extent that the other consumers have
21 this extra credit that they're getting through export
22 revenues that doesn't have to be made up through general rate
23 increases over that same ten (10) year period.

24 So cash flow, lower rate increases than would
25 otherwise be the case in the absence of this agreement. Does

1 that answer your question, Mr. Peters?

2 MR. BOB PETERS: Well, I'll take that as your
3 answer but let me go back and start from the starting point
4 of where we are today. And today we are at a point where the
5 diesel zone receives zero (\$0) dollars of net export revenue
6 credits, correct?

7 MR. VINCE WARDEN: Well, they do today, but
8 our proposal is not that.

9 MR. BOB PETERS: And -- and your proposal
10 will be at some point in the future to provide them with a
11 portion of net export credits and that will be a matter that
12 this Board will have to adjudicate on at some point in the
13 future?

14 MR. VINCE WARDEN: Well, in effect. I was
15 going to use the word notionally but I better not. No,
16 really we're asking this Board to approve an export
17 allocation to the diesel community with this application for
18 which they won't receive it for that ten (10) year period.

19 That is they won't receive the -- the cash
20 benefit of that allocation until they paid their debt, so to
21 speak, the accumulated deficit.

22 MR. ROBERT MAYER: Well, Mr. Warden --

23 MR. VINCE WARDEN: Without that -- without
24 that allocation, without that approval of that export credit,
25 we would have no, you know, dollars for -- for which to pay

1 down the -- the deficit.

2 MR. ROBERT MAYER: Mr. Warden, I'm trying to
3 fit your answer with how that applies in light of the Board's
4 direction to apply the first portion of export revenue to
5 rate equalization. In light of the fact that -- that the
6 diesel communities, the residential customers for the first
7 two thousand (2000) kilowatts -- kilowatt hours whatever,
8 basically pay the same rates as residential customers on the
9 grid, the Board has directed that the -- the rate
10 equalization cost, so that we don't talk about zone 1, zone
11 2, zone 3, et cetera, would come out of net export revenue.

12 Do not the residential consumers in the diesel
13 zone get some benefit from that direction? At least from the
14 net export revenue?

15 MR. ROBIN WIENS: To a limited extent, Mr.
16 Chairman, because much of the equalization of the
17 equalization of the first two thousand (2000) kilowatt hours
18 is in effect funded by the Government surcharge.

19 So, yes, the provision to take the effect of
20 the uniform rates in the rest of the Province as a first
21 charge against export revenue, yes, that has a limited impact
22 on the rates in the diesel zone, but not anywhere near the
23 scope of the funding provided by the Government surcharge.

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Mr. Wiens, from that answer,
2 the diesel zone customers and the surcharge mechanism that is
3 in place, is designed to recover from within the diesel zone
4 itself, all of the costs of services except for that portion
5 that is over and above the revenue-to-cost-coverage ratio to
6 bring it up to unity; does that make sense?

7 MR. ROBIN WIENS: I sort of lost you in the
8 last turn, Mr. Peters.

9 MR. BOB PETERS: All right. Let me -- let me
10 do it this way and it may be helpful to the Board. The rates
11 that you have before the Board for residential customers are
12 pre-supposing that 82 percent of the costs are recovered from
13 within the diesel zone, whether by way of -- by one of the
14 rates in the diesel zone?

15 MR. ROBIN WIENS: Yes, I'm with you. Yes,
16 that's true.

17 MR. BOB PETERS: All right. So, of -- of a
18 hundred (100), eighteen (18) cents is being cross-subsidized
19 by grid customers?

20 MR. ROBIN WIENS: Yes.

21 MR. BOB PETERS: And so when the Uniform
22 Rates Legislation came into effect, that -- that impacted
23 only what the grid-equivalent rate was going to be for the
24 first two thousand (2,000) kilowatt hours, which had an
25 impact on the quantum of the surcharge?

1 MR. ROBIN WIENS: Well, I'll try to -- I'll
2 try to line it up this way: The residential class in the
3 diesel zone, by what it actually pays on bills, accounts for
4 only about 27 percent of the total cost. We get up to 82
5 percent with the Government surcharge.

6 The remainder is provided by the -- by the
7 general rate base, Manitoba Hydro, the other 18 percent.
8 Now, what would the effect of the -- of the rate equalization
9 be, is that it in effect has taken the revenue cross-
10 coverage, if you will, which previously, when Zone 3 paid a
11 different and a higher rate, was maybe four (4) or five (5)
12 percentage points higher than it is now.

13 So that four (4) or five (5) percentage points
14 is the effect of what Mr. Mayer was asking about the -- the
15 contribution to fund the uniform rates, is in that order of
16 magnitude, four (4) to five (5) percentage points, as
17 compared to -- as compared to sixty (60) plus percentage
18 points from the Government surcharge.

19 MR. BOB PETERS: Thank you for quantifying
20 that. Back, then, to the accumulated deficit and how it's
21 going to be -- how it's going to be paid, --

22 THE CHAIRPERSON: Mr. Peters, if I may, just
23 one question: As I understand it, the Corporation asked the
24 Board to approve on an Ex-parte Interim basis, new rates for
25 the diesel communities, and my understanding to this point is

1 to do this, we need not, nor are we asked to, approve the
2 settlement, reflect the settlement, in the cost of service
3 methodology or amend the cost of service methodology. Is
4 that not the case?

5 MR. ROBIN WIENS: I -- I believe that to be
6 the case but we are asking this Board to approve, on an
7 interim basis the rates that we've applied for, which in
8 effect say that we do not intend to collect the accumulated
9 deficit from the customers to whom the rates are being
10 applied. We are asking for that on an interim basis.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: And, Mr. Wiens, if the Board
14 approves your application you won't then go back to the
15 diesel zone to find and recover that \$16.9 million of
16 accumulated deficit; will you?

17 MR. ROBIN WIENS: No, we will not.

18 MR. BOB PETERS: And if the Board, at a
19 future point in time, considers your cost of service
20 methodology and takes issue with any allocations of net
21 export revenue, that may be a time when the recovery of a
22 portion of that \$16.9 million has to be revisited?

23 MR. ROBIN WIENS: A number of possibilities
24 emerge from that. That's one (1) of them. Another may be
25 that the Board can simply approve that it be -- it be dealt

1 with in a summary basis and not involving any export revenue
2 allocation.

3 MR. BOB PETERS: And I was just going to, Mr.
4 -- I don't want to cut Mr. Warden off, but -- I just want to
5 cover the point with you, Mr. Wiens, that -- that leaving
6 aside this discussion about net export revenue, this can be
7 written off against Manitoba Hydro's bottom line, however
8 that money got to Manitoba Hydro's bottom line, whether it
9 was from rate increases or from export revenue.

10 MR. ROBIN WIENS: Yes.

11 MR. BOB PETERS: Mr. Warden, sorry, I didn't
12 mean to cut you off.

13 MR. VINCE WARDEN: Excuse me. Mr. Peters, I
14 -- I -- I guess I just have a -- a little bit of a concern
15 that we have in the agreement that we're in the process of
16 finalizing, as you know, that contemplates that this \$16.9
17 million will be written off and will not reappear at some
18 future date in diesel rates, therefore, there has to be some
19 finality to it.

20 And when we say that the Board may revisit
21 this at some future date and make a decision whether or not,
22 if I interpret you correctly, whether that might be
23 reintroduced at some future date, then that would obviously
24 cause the other parties some grave concerns.

25 MR. ROBERT MAYER: Mr. Warden, at least this

1 member of the Board understands that a deal is a deal is a
2 deal. And if you're going to take the sixteen (16) -- you're
3 going to take X number of millions -- \$3.2 million on Friday
4 and a bunch more money later, I for one (1) don't want to go
5 back on the deal.

6 Because I can now, after you've -- after
7 having had it explained to me in some detail over the last
8 forty-five (45) minutes, I certainly understand how to MKO
9 and the four (4) communities who came before this Board
10 earlier and asked for a share of net export revenue, if I
11 recall correctly during the hearings and the presentations
12 from the Grand Chiefs and from the Chiefs from the
13 communities, I understand how this particular assignment or
14 allocation or writing-off of that accumulated deficit has to
15 be important to those communities.

16 MR. VINCE WARDEN: Thank you, Mr. Mayer. And
17 that's really the point that I was trying to make.

18 THE CHAIRPERSON: But nonetheless what you're
19 asking of the Board is the approval on an interim basis of
20 specific rates for the diesel communities. We're not obliged
21 to -- to amend the cost of service methodology in advance of
22 a GRA with the participation of the other Intervenors.

23 MR. VINCE WARDEN: No. We -- we will be --
24 definitely be filing a -- a Cost of Service Study in -- in
25 normal course, as we -- as we do, before this Board.

1 I -- I think it's important though that this
2 Board be aware that the -- one (1) of the major underlying
3 assumptions is that a portion of those export revenues that
4 we flow through the Cost of Service Study, is being
5 apportioned to -- to the diesel communities.

6 Now, it -- it is correct that if this Board
7 determines in the future that, no that isn't the thing to do,
8 the diesel communities are totally unrelated to the export
9 business and therefore shouldn't share in those revenues,
10 this will still work. It's just that the revenue would have
11 to come from elsewhere.

12 So, the revenue -- the elsewhere would be
13 general revenues of Manitoba Hydro. The bottom line would
14 still be the same. It's just that the principle of sharing
15 net export revenues would be something that would have to be
16 concluded on -- at a later date.

17 Having said all that, I -- I -- I do have to
18 tell you, though, that in the mediation discussions that
19 we've had with the other parties, we certainly talked in
20 terms of a sharing of export revenues, and if there was any
21 reluctance of this Board to entertain that we would have to
22 find some other -- other source of revenue to keep those
23 communities whole, equivalent to the export revenue we're
24 proposing here.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Thank you, Mr. Warden. I
3 take from -- from that exchange --

4 MR. ROBERT MAYER: Now, just excuse me, now
5 I'm confused. I thought I heard somebody say, at some point
6 in time we can say, A write-off is a write-off is a write-
7 off. It's gone. We cut a deal, we signed -- we signed the
8 papers. Regulatory principles be damned.

9 The sixteen (16) -- whatever number it is, it
10 was eighteen point three (18.3) on the document I'm reading;
11 I now understand it to be sixteen (16) something else. We
12 write this stuff off, it's gone. Too bad, so sad, that's the
13 -- that's negotiations.

14 We told you to get to negotiations, to get to
15 mediation and you've come to us with an agreement. Can -- I
16 mean, it is still possible just to say, That money is gone,
17 goodbye. I mean, surely to God that is -- that is something
18 that is available, presumably with Board approval, but that
19 has to be available.

20 MR. VINCE WARDEN: Well, it is. And as a
21 matter of fact, I think what we've indicated is that is what
22 we intend to do. We're writing it off against revenue in
23 '04/'05. It really is a question, though, of how we handle
24 it in the Cost of Service Study. Like, the Cost of Service
25 Study, as you know, is -- is not -- when Mr. Wiens...

1 Well, when Mr. Wiens and -- and Mr. Thomas do
2 the Cost of Service Study or work on the Cost of Service
3 Study they have the luxury of not having to reconcile to --
4 to the bottom-line. So, it's not an audited Financial
5 Statement that we're accustomed to seeing with our -- with
6 Manitoba Hydro's published Financial Statements. They can
7 make certain allowances and gives and takes that say, Okay,
8 we're willing to accept a certain variance.

9 As a matter of fact, the Cost of Service Study
10 is based on perspective information which we know is
11 different, where the actuals are different from the
12 perspective and nevertheless, they go merrily along and --
13 and produce the next one (1) based on what they think's going
14 to happen in the future.

15 So, the -- the Cost of Service Study is built
16 on a whole bunch of different assumptions. One (1) of those
17 assumptions, though, an important assumption going forward
18 is, how we're going to recover this \$16.9 million and the
19 assumption that's being made here in these proceedings is
20 that we'll have a portion of those export revenues for that
21 purpose.

22 THE CHAIRPERSON: And, Mr. Warden, just to
23 bring it around full circle, this Board has asked you to
24 bring forward a model for the consideration of the Board
25 along certain particular parameters and it also asked you to

1 provide your recommendations. So, you have the opportunity
2 to bring to the Board, your preferred approach, the Cost of
3 Service methodology --

4 MR. ROBIN WIENS: Yes, Mr. Chairman,
5 that's --

6 THE CHAIRPERSON: -- at the next hearing.

7 MR. ROBIN WIENS: -- that's exactly what
8 we'll be doing.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Bringing it back to the --
12 the Minutes of Settlement...

13

14 (BRIEF PAUSE)

15

16 MR. VINCE WARDEN: One (1) -- one (1) bit of
17 a quandary we have, I suppose, right now is that, what
18 happens beyond the ten (10) years and an assumption that's
19 being made by -- in the agreement that's being drafted is
20 that there will be revenues to share beyond the ten (10) year
21 period for the benefit of those First Nation communities.

22 However, the fact that this is, you know, I'm
23 just -- sorry, I should have probably addressed this earlier
24 in our -- in our filing, but the fact that this is an interim
25 order that we're seeking, that could always be finalized in

1 a -- in a future order after the Board has -- has the Cost of
2 Service Study in hand.

3 MR. ROBERT MAYER: Depending on where --
4 where you're going to run your next bi-pole line, that
5 certainly may be an interesting concept when it comes to the
6 issue of Shamattawa, although we still can't -- we're still
7 not getting anywhere close to the other three (3) communities
8 with any other of the facilities you own.

9 MR. VINCE WARDEN: Well, the bi-pole, you
10 know, you can't -- can't just tap off the bi-pole though
11 unfortunately. So --

12 MR. ROBERT MAYER: But if you're running your
13 power -- if you're running your transmission lines through
14 the -- through the traditional territory of the Shamattawa
15 Band, you can bet your bottom dollar you're going to be, at
16 least, being considered part of the grid network in terms of
17 sharing in the export revenue because you need the third bi-
18 pole line in order to continue to efficiently have your
19 export business.

20 MR. VINCE WARDEN: Yeah, I see your point,
21 Mr. Mayer.

22
23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Thank you, Mr. Warden. Let
25 me then just sit back here and summarize what I have heard

1 from the previous exchanges. As part of the negotiation with
2 the -- with the parties through your mediation process, the
3 other parties don't want to see this 16.9 million come back
4 in the way of increased rates to the diesel customers?

5 MR. VINCE WARDEN: Absolutely, they have to
6 have that assurance.

7 MR. BOB PETERS: And your assurance to them
8 is Manitoba Hydro will find a source of revenue to pay for
9 that? That's what you've told them.

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: And you're telling this
12 Board that as you sit before this Board, you're thinking
13 about how to find that other source of revenue. And one (1)
14 option open to you is to recover it through next export
15 revenues that would or could be allocated to the diesel
16 customer zone?

17 MR. VINCE WARDEN: Well, quite frankly that's
18 the only option we're considering at this point in time.
19 It's -- we think it's the right to do is to allocate some
20 export revenues to these communities.

21 MR. BOB PETERS: And -- and you'll agree that
22 there's no such proposal presently before this Board but that
23 will be something that will come forward in the future.

24 MR. VINCE WARDEN: Yes. That's correct.

25 MR. BOB PETERS: And while you may be

1 thinking that is the only appropriate place to recover monies
2 for this accumulated deficit, the other general revenues of
3 the Corporation represents another option that -- that is
4 available although not on your preferred list?

5 MR. VINCE WARDEN: That is another option,
6 yes.

7 MR. BOB PETERS: And when you drew me to the
8 -- when you drew me to the attention of PUB-MH-I-IR XP 2, and
9 I'm looking at 2(D), you were asked what is going to be the
10 impact of carrying this accumulated deficit forward if you
11 were to carry -- add carrying costs to it. And you're
12 telling the Board that to -- to carry it forward -- to carry
13 forward the \$16.9 million over ten (10) years would result in
14 a cost of approximately \$2.4 million a year if you include
15 the carrying costs?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: And if it was carried
18 forward over the ten (10) years as you say with carrying
19 costs as we've indicated in the information request, it would
20 mean Manitoba Hydro's grid customers would be picking up the
21 carrying cost of about 7 percent a year on that money?

22 MR. VINCE WARDEN: In effect, yes.

23 MR. BOB PETERS: Now I'm going to dangerously
24 go where I ought not to when we talk financial statements but
25 you brought it up, Mr. Warden, in that for -- for financial

1 accounting you want to treat the accumulated deficit
2 different than what perhaps Mr. Thomas and Mr. Wiens would
3 for their Cost of Service Study; correct?

4 MR. VINCE WARDEN: Yes. Traditionally we
5 would have recognized the revenues and expenses in the year
6 incurred in the diesel communities. Whereas Mr. Thomas and
7 Mr. Wiens would roll it forward and recover it in future.

8 MR. BOB PETERS: And as I understood their
9 evidence is that the \$16.9 million, according to Manitoba
10 Hydro, is never to be seen again in the Cost of Service
11 Study?

12 MR. ROBIN WIENS: Never to be seen as rolling
13 into the rates of the Cost of Service Study, Mr. Peters

14 MR. BOB PETERS: Well, the accumulated
15 deficit will be removed from the Cost of Service Study, you
16 won't be seeking to recover any of that amount through rates
17 to the customers in the diesel zone?

18 MR. ROBIN WIENS: That's exactly what I said.

19 MR. BOB PETERS: And it's -- it's not needed
20 then at all for any purpose in the Cost of Service Study, is
21 it, Mr. Wiens?

22 MR. VINCE WARDEN Well, they'll still have to
23 be -- there'll still have to be a note or some such thing in
24 the Cost of Service Study that, subject to what this Board
25 may approve in the future for the sharing of export revenues,

1 that the diesel communities don't share in those export
2 revenues because of the \$16.9 million that we're recovering
3 over that ten (10) year period.

4 MR. BOB PETERS: All right. I -- I've got
5 your point and I -- I was not -- I wasn't there but I see
6 where you've gone and I understand your point is that if your
7 proposal down the road comes to fruition as you thought it
8 did during the mediation, you will be asking this Board for
9 permission to allocate that export revenue in a certain
10 fashion that would be to the benefit of diesel customers.
11 But for the first ten (10) years of that allocation it will
12 go to offset the accumulated deficit that has to be repaid?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: And you tell the Board that
15 prior to 2004 this accumulated deficit was not shown as a
16 receivable on the Financial Statements?

17 MR. VINCE WARDEN: That's correct.

18 MR. BOB PETERS: And would I be correct,
19 then, that on the Financial Statements, all you would see is
20 that the net income was lower by the cumulative amount next
21 to the year in that chart that we looked at Interrogatory
22 Number 2?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: And so the Corporation's net
25 income since 2000 is \$16.9 million lower than what it

1 otherwise would have been had its accumulated deficit been
2 recovered through the rates?

3 MR. VINCE WARDEN: Well, to the end of
4 2002/03 it would have been \$12.3 million lower, then in
5 '03/04 we did something a little bit different because of the
6 size of the -- of the deficit, the expectation that we were
7 going to recover this from INAC and therefore we did, in
8 fact, set up a receivable and the revenue would have been
9 higher by that \$13.5 million dollars I referenced earlier.

10 MR. BOB PETERS: Well, let me just take you
11 into the fiscal '03 year. Whatever net income you reported
12 in your Financial Statements was reduced by \$12.3 million as
13 a result of this accumulated deficit?

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: And for the '04 fiscal year,
16 which was the last fiscal year and that was the subject of
17 the IFF information that was provided to the Board at the
18 General Rate Application. Correct?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And in that fiscal '04 year,
21 there was significant -- a significant loss that the
22 Corporation incurred in that year. Correct?

23 MR. VINCE WARDEN: Correct.

24 MR. BOB PETERS: And as I sit here, the
25 number three hundred and fifty-five (355) is in my mind --

1 three hundred and fifty-five (355) million, but I'm not sure
2 if that was the final number.

3 MR. VINCE WARDEN: No, that was the -- the
4 forecast number; the final number was four hundred and
5 thirty-six (436) on a consolidated basis.

6 MR. BOB PETERS: And the four hundred and
7 thirty-six (436) on a consolidated basis was how much on the
8 electric side, Mr. Warden?

9 MR. VINCE WARDEN: Four twenty-eight (428).

10 MR. BOB PETERS: Not to bring up the bad news
11 repeatedly, but the --

12 MR. VINCE WARDEN: It's okay, things are much
13 better.

14 MR. BOB PETERS: -- the \$428 million of -- of
15 a net loss to the Corporation included in it, \$13.5 million
16 on account of the 75 percent of this accumulated deficit?

17 MR. VINCE WARDEN: Yeah, the net loss would
18 have been \$13.5 million higher had we not set up the account
19 receivable for -- of \$13.5 million.

20 MR. BOB PETERS: Okay. So I'm a year ahead
21 of myself here. You came in and told the Board that you lost
22 \$428 million in fiscal '04 and you would have lost \$13.5
23 million more than that had you not set up the receivable?

24 MR. VINCE WARDEN: Yes.

25 MR. BOB PETERS: Now that you've set up the

1 receivable, it will impact your records, you're telling the
2 Board, in fiscal 2005?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: And again, going by faulty
5 memory, perhaps, you told the Board that your net income
6 forecast in IFF 03/01 for fiscal '05 was in the range of \$40
7 million. Correct?

8 MR. VINCE WARDEN: That was the forecast at
9 the time. We -- things have turned around amazingly, you
10 know, with the water conditions it's absolutely incredible --
11 unprecedented the way things have turned around. So we're
12 now forecasting a net income of \$140 million for '04/05.

13 MR. BOB PETERS: I'll come to that, but --
14 but for the -- for the last time the Board sat in a -- in a
15 hearing -- in a proceeding, things weren't quite as rosy and
16 \$40 million was the projected net income for fiscal 2004. Do
17 you agree with that?

18 MR. VINCE WARDEN: '04/05, yes.

19 MR. BOB PETERS: Yes, '04/05, ending next
20 March 31st of 2005.

21 MR. VINCE WARDEN: Correct. Correct.

22 MR. BOB PETERS: Now, what you're proposing
23 is, you want to write off and -- and maybe the lawyers don't
24 understand that -- but is it -- you want to write off 100
25 percent of that sixteen point nine (16.9) or only 75 percent

1 of that sixteen point nine (16.9)?

2 MR. VINCE WARDEN: Well, we -- we didn't set
3 up, as a receivable, the full sixteen point nine (16.9), we
4 set up 75 percent of what the estimated \$18 million was at
5 '03 -- at the end of March of '04.

6 So, we set up, as a receivable, \$13.5 million
7 and we intend to write off that 13.5 million in '04/'05.

8 MR. BOB PETERS: So, you want to write off a
9 hundred percent of the \$13.5 million?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: And what happens to the
12 other, what will be, I guess, \$3.4 million?

13 MR. VINCE WARDEN: Well, as I mentioned
14 earlier, we handled that consistent with how we would have
15 handled all the other years in that schedule that we were
16 referencing earlier, in the IR-1-C, in that the revenues and
17 expenses were recorded in the years occurred.

18 So, the exception year was in '03/'04 when we
19 set up only a portion of the deficit in that year, the
20 thirteen point five (13.5). So, the remaining 3 million,
21 approximately, would have been -- would have just been
22 absorbed in that year, the year incurred.

23 MR. BOB PETERS: So, the net income in 2003,
24 in fiscal year 2003, was lower by \$3.4 million on account of
25 the difference in what the accumulated deficit was from the

1 diesel zone?

2 MR. VINCE WARDEN: Yes, exactly. Similar to
3 what the -- the net income was lower by 12.3 million in the
4 year before. Yes, it's identical to that situation.

5 MR. BOB PETERS: All right. The entire \$3.4
6 million was then reduced from net income in that fiscal year,
7 Mr. Warden?

8 MR. VINCE WARDEN: Well, the -- the revenues
9 and expenses were recorded as incurred during the year and
10 therefore the entire amount would have been absorbed on that
11 year, yes.

12 MR. BOB PETERS: All right. And now you've
13 told me that the -- the \$40 million of net income that was
14 forecast in IFF-03-01, for fiscal 2005, would have been --
15 would have been reduced by the \$13.5 million that you're
16 going to write off?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: All right. But you've also
19 now told the Board that things have improved and that \$40
20 million is now forecast to be perhaps a \$100 million more, at
21 a \$140 dollars, but that \$140 million -- is that the number
22 or was it a hundred and forty (140...)

23 THE CHAIRPERSON: Basically, Mr. Warden,
24 aren't you saying now that when you say you expect a 140
25 million in the current fiscal year, '04/'05, you still have

1 to adjust for this thirteen and a half (13 1/2) flip-flop?

2 MR. VINCE WARDEN: No, not quite. The \$40
3 million, and really it's just timing differences between when
4 the forecasts were prepared, we didn't have the Agreement or
5 the Minutes of Settlement in hand when we prepared the
6 forecast of \$40 million, so therefore, the \$40 million did
7 not contemplate a write off of \$13.5 million.

8 When we updated the forecast, to come up with
9 our new number of a \$140 dollars, we did contemplate the
10 write off, so therefore, the \$13.5 million is already
11 reflected in the \$140 million forecast.

12 Yes, in the forecast, yes.
13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: And the forecast would have
16 been \$13.5 million higher, had you not written it off?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: And because this -- this
19 accumulated deficit arose from prior years, Mr. Warden, would
20 I be correct that there'd be no change in Hydro's cash flow
21 as a result of what you're proposing?

22 MR. VINCE WARDEN: There is no change in cash
23 flow -- well, it depends on what you call change. When we had
24 set our forecast of \$40 million, we anticipated at that time
25 receiving cash or cheque for -- for thirteen point five

1 (13.5) which, you know, now of course is not going to --
2 going to happen.

3 So, to that extent, there's been a change in
4 cash -- cash flow.

5 MR. BOB PETERS: Okay. I understand your
6 distinction. And -- may I have a minute, please.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Mr. Warden, when you do your
11 financial statements for the Corporation and its auditors,
12 are those the same financial statements going forward that
13 you expect this Board will see as part of the regulatory
14 process?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: Do you -- do you envision
17 setting up a separate regulatory financial statement for the
18 Board as a result of what you're proposing in this
19 Application?

20 MR. VINCE WARDEN: No.

21 MR. BOB PETERS: And getting back to the
22 proposal that Hydro intends to make to the Board to -- to
23 retire this through the -- through net export revenue
24 credits, that is retire the cumulative deficit to the
25 greatest extent through the allocation of net export revenue

1 credits, even after the ten (10) year period it will Manitoba
2 Hydro's position that there should continue to be some
3 allocation of net export revenue credits to the diesel zone.

4 MR. VINCE WARDEN: Yes, that is our proposal.

5 MR. BOB PETERS: And that -- that will be
6 something the Board will see at -- at a later date.

7 MR. VINCE WARDEN: Yes.

8 MR. BOB PETERS: And will that allocation
9 then be used to reduce capital costs or will it be used to
10 reduce operating costs, or is that known at this point in
11 time?

12 MR. VINCE WARDEN: It would be used to reduce
13 operating costs and therefore rates -- rates in the
14 communities. If everything remained the same, we would
15 expect at the expiry of that ten (10) year period that rates
16 would go down in those communities.

17 MR. ROBERT MAYER: Or an anticipated rate
18 increase would be foregone. We're not going to really see --
19 ten (10) years down the road we're not going to really be
20 seeing rates going down, are we?

21 MR. VINCE WARDEN: Well, no. I -- I -- and
22 that's why I say -- well, everything else remaining equal, of
23 course, it won't, we know that.

24 MR. BOB PETERS: Mr. Chairman, hoping I
25 haven't confused the issue too greatly, I want to move away

1 from the settlement issues and the -- the last one of
2 accumulated deficits and move to a few other areas on which I
3 have just a few questions.

4

5

6 CONTINUED BY MR. BOB PETERS:

7 And one (1) of them is Cost of Service Study
8 itself. Mr. Thomas and Mr. Wiens, I think this is primarily
9 in your area.

10 The Board will note that the forecast
11 consumption, the last time you were before the Board on the
12 diesel rates was about 12.1 million kilowatt hours a year and
13 the actual appears to be 10.8 million kilowatt hours a year;
14 am I correct in that, Mr. Thomas?

15 MR. CHIC THOMAS: Yes.

16 MR. BOB PETERS: Can you explain to the Board
17 why there was a reduced consumption from forecast to actual?

18 MR. ROBIN WIENS: Mr. Chairman, sometimes our
19 forecasts are wrong but our actuals are usually correct.

20 MR. BOB PETERS: That's certainly one (1)
21 answer. Was there -- was it as a result of any initiatives
22 by the Corporation to reduce consumption or was this just the
23 fact the forecast was initially wrong?

24 MR. CHIC THOMAS: I'd agree with the latter
25 of that -- of those two (2) statements, Mr. Peters.

1 MR. BOB PETERS: All right. If the actual
2 consumption, then, for fiscal '04 was 10.8 million kilowatt
3 hours, your forecast for fiscal '05 is 11.4 million kilowatt
4 hours, correct?

5 MR. CHIC THOMAS: That's correct.

6 MR. BOB PETERS: And is that increased
7 consumption as a result of load growth or is there some other
8 factors attributed to it?

9 MR. CHIC THOMAS: If -- if I understand what
10 our load forecasting people forecast for this, they -- they
11 escalate it on estimated load growth and such. And I think
12 now that it's such a small percentage of the overall
13 consumption of Manitoba Hydro, it's a notional -- I shouldn't
14 say notional -- some -- some increase of approximately 2
15 percent per year.

16 MR. ROBIN WIENS: I -- I do believe that our
17 forecasts are -- are weather-normalized and that the actuals
18 will tend to be reflected in part by -- by what the weather
19 is, not as much as the consumption in the grid communities,
20 at least we hope, but there is some effect there and that we
21 do anticipate on a regular basis that there will be low
22 growth in those communities.

23 MR. BOB PETERS: Mr. Thomas, in the Cost of
24 Service Study, interest expense is shown on net investment at
25 7.64 percent and when I work through it, the interest in the

1 IFFs that you file is more in the area of 7 percent. And you
2 also answered one (1) of the Information Requests Number 2
3 showing that the current low interest rate is five point
4 seven five (5.75), so all of that preamble leads to the
5 question of: Is -- on what did you base the 7.64 percent in
6 the Cost of Service Study?

7 MR. CHIC THOMAS: Again, it's a separate
8 calculation that we do in the Cost of Service Study where we
9 -- where we look at the -- the overall cost to the
10 Corporation and -- and imputerate (phonetic) ourselves that
11 we calculate them. We do that annually for the Cost of
12 Service Study that is independent of the actual cost of
13 capital that is actually reported in the Financial Statement.

14 MR. BOB PETERS: And Mr. Thomas, when you
15 include in your Cost of Service Study interest on the diesel
16 fuel, you use 8.41 percent, correct?

17 MR. CHIC THOMAS: That's right.

18 MR. BOB PETERS: And why is that used as
19 opposed to the seven point six four (7.64) or a lower rate?

20 MR. CHIC THOMAS: We're using the short-term
21 rate as supplied to us by our -- our stores people, so it's
22 more of a short-term rate reflective of -- of the fuel we
23 have.

24 MR. BOB PETERS: If I can briefly draw your
25 attention to page 17 of the Cost of Service Study -- I'm

1 sorry, I wanted to draw your attention to Attachment 5 of
2 your Application which is the Cost of Service Study and page
3 17 which is a page that you'd referred to earlier in your
4 evidence, sir.

5 MR. CHIC THOMAS: I'm there.

6 MR. BOB PETERS: And this Schedule 4 shows
7 the Board the costs that have been removed from the Cost of
8 Service Study as a result of Manitoba Hydro's interpretation
9 of the Settlement Agreement?

10 MR. CHIC THOMAS: That's correct.

11 MR. BOB PETERS: And in it you've removed the
12 financing and -- and various costs on the capital which
13 related to the \$28.8 million of undepreciated capital costs
14 that the Corporation carried?

15 MR. CHIC THOMAS: That's correct.

16 MR. BOB PETERS: Can you explain to the
17 Board, why was capital tax removed?

18 MR. CHIC THOMAS: Well, capital tax is, as it
19 implies, it's -- it is a tax on the capital that we have and
20 assuming this capital is removed, we therefore remove the
21 capital tax.

22 MR. BOB PETERS: Won't the Corporation still
23 have to pay the capital tax?

24 MR. CHIC THOMAS: Yes.

25 MR. BOB PETERS: And then if it's not going

1 to be included in your Cost of Service Study, which customers
2 are going to pay the capital tax on the diesel assets?

3 MR. ROBIN WIENS: Well, let's not forget we
4 -- we are anticipating that contributions will be received
5 that will reduce the capital base of the -- that the
6 Corporation will have. So, to a considerable extent, the
7 parties themselves using service in the diesel communities
8 will, in effect, pay the capital tax.

9 MR. BOB PETERS: So, is the cost --

10 MR. ROBIN WIENS: To the extent that it's not
11 recovered from them, it will be recovered from the other
12 customers.

13 MR. BOB PETERS: All right. So -- just so,
14 that the record will be clear then, Mr. Wiens, is it correct
15 to then assume that 69 percent of the capital tax plus 10
16 percent of the capital tax for a total of 79 percent of the
17 capital tax will be recovered from the -- from the customer
18 classes and the customers themselves?

19 MR. ROBIN WIENS: It will not be recovered in
20 the current fiscal year. It -- it will just be reduced in
21 future fiscal years as the contributions are made.

22 MR. BOB PETERS: So, the -- the third party
23 contributions, if I can call them that, will go to reduce the
24 capital tax payable?

25 MR. ROBIN WIENS: In future years -- when the

1 contributions are recorded.

2

3

(BRIEF PAUSE)

4

5 MR. BOB PETERS: And so in the meantime,
6 it'll be -- it'll be borne by Manitoba Hydro customers in
7 total?

8 MR. ROBIN WIENS: As long as it's still on
9 the books, yes.

10 MR. BOB PETERS: And it'll be on the books
11 until the -- until, in my words, the cheque is in the bank?

12 MR. ROBIN WIENS: Until the offsetting
13 contributions are received.

14 MR. BOB PETERS: Okay. On the Cost of
15 Service Study, when we do the calculation of the government
16 rate, where the Board reads the word "premium", that was the
17 old term for surcharge; would that be correct?

18 MR. CHIC THOMAS: Yes.

19 MR. BOB PETERS: And when you calculated the
20 government rate you weren't assuming a 100 percent
21 participation in the funding of capital by all of your
22 government customers, were you?

23 MR. ROBIN WIENS: Yes.

24 MR. BOB PETERS: So, that the -- so that
25 there was no consideration for then, a non-participating rate

1 for any existing customers.

2 MR. ROBIN WIENS: Well, we -- we did for a
3 period of time consider retaining a non-contribution paid
4 rate but the advice we received from those customers is that
5 they generally intend to participate.

6 MR. BOB PETERS: But you --

7 MR. ROBIN WIENS: So -- so, that being the
8 case, we retracted that -- that proposed rate and -- and if
9 time shall bear us out to have been incorrect in that
10 conclusion, then we will have to come back to this Board with
11 a non-contribution paid rate.

12 But the rate that you see here, the dollar
13 five (\$1.05) is the rate for -- for government customers who
14 have paid the contribution or have indicated that they will
15 pay it.

16 MR. BOB PETERS: All right. Now I'm looking
17 at Schedule 8, which is page 21 of the Cost of Service Study
18 found under Attachment 1.

19 And on page 21 you're telling the Board that
20 all of the revenue requirement that has been included on this
21 schedule and calculation is from all of your government
22 customers because you've assumed there's 100 percent
23 participation in the reduction of the undepreciated capital
24 cost.

25 MR. CHIC THOMAS: Yes.

1 MR. BOB PETERS: Before I leave that page,
2 Mr. Thom --

3 MR. ROBERT MAYER: This was an amended page,
4 right? Mine -- mine has a fax number across the top, which
5 would appear to me that I have replaced page 21 with an
6 update.

7 MR. BOB PETERS: I believe you're correct,
8 Mr. Mayer. Can you -- can you confirm that -- that there was
9 a --

10 MR. CHIC THOMAS: Yeah. You're correct, Mr.
11 Mayer. The previous page had a non-participant rate on it, I
12 think you're referring to?

13 THE CHAIRPERSON: It came -- it came in a
14 week after the first.

15
16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: Can you explain to the Board
18 what the unrecover -- I'm sorry, what the government basic
19 charge is?

20 MR. CHIC THOMAS: That's the fifteen seventy-
21 five (15.75), I believe it is, that we charge to government
22 customers as the basic charge on every monthly bill. And
23 that's revenue that we don't need to recover again. So, it's
24 deducted before we calculate our premium.

25 MR. BOB PETERS: Still with the Cost of

1 Service Study, Mr. Thomas, the last time this Board looked at
2 your diesel rates you had to make an assumption as to what
3 implicit subsidy would be provided by grid customers,
4 correct?

5 MR. CHIC THOMAS: You're referring to the --
6 what we call the RCC subsidy?

7 MR. BOB PETERS: Yes, I am.

8 MR. CHIC THOMAS: Yes.

9 MR. BOB PETERS: And the last time this
10 matter was before the Board -- and in Order 17 of '04 the RCC
11 subsidy for residential customers was 10 percent and for
12 general service customers it was 1 percent.

13 MR. CHIC THOMAS: That's correct.

14 MR. BOB PETERS: And in this Application
15 you've used different assumed RCC levels which has changed
16 the inherent subsidy; is that also correct?

17 MR. CHIC THOMAS: Yes, that's correct.

18 MR. BOB PETERS: Was there anything in the
19 Settlement Agreement that required you to do that?

20 MR. ROBIN WIENS: No, Mr. Chairman, there
21 wasn't. But I, you know, I -- I will mention that when we
22 came before this Board in January we had a definite order as
23 to what cost of service procedures we should be using. When
24 we were bringing this Application to the Board, we're
25 bringing it forward in anticipation of showing some other

1 results which this Board has requested.

2 So, that's the reason for the change.

3 MR. BOB PETERS: You're telling the Board,
4 Mr. Wiens, that way back when Order 7 of '03 was issued, that
5 was the last time the Board endorsed the cost of service
6 methodology by the Corporation.

7 MR. ROBIN WIENS: Yes.

8 MR. BOB PETERS: And when this Board, in it's
9 Order 101/'04, looked at your Cost of Service there were a
10 number of issues and concerns raised, such that it's a --
11 it's still a work in progress.

12 MR. ROBIN WIENS: That's exactly correct.

13 MR. BOB PETERS: And so, because it's a work
14 in progress you had to find some inherent level of RCC
15 subsidy to use and you reverted to a level that you could
16 deduce from going back and I hate to use the word, but for
17 Zone 3 customers in -- in residential and general service
18 zones calculated under the NERA proposal?

19 MR. ROBIN WIENS: We did.

20 MR. BOB PETERS: That's not to say is it, Mr.
21 Wiens that that will be your recommendation when you file
22 your Cost of Service Study in the future with the Board for
23 approval?

24 MR. ROBIN WIENS: Not necessarily. This was
25 the approximation which we were able to make at this time. I

1 would expect going forward we will come with a recommendation
2 that we would look to have this Board approve on a more or
3 less long term basis because it's not our intention to go
4 back and continue to do Zone 3 in the Cost of Service Study.

5 So we will be looking to fix something that is
6 reasonably representative with which we can go forward.

7 MR. BOB PETERS: Is there any reason you
8 wouldn't look to the same revenue to cost coverage from the
9 diesel residential customers than you do from the grid
10 residential customers?

11 MR. ROBIN WIENS: Bearing in mind that we
12 have an Order, a directive before us to -- to in effect use
13 export revenues to subsidize the difference between the rural
14 part of the province and the -- and the current uniform rates
15 that that too will have to become some sort of a -- once --
16 once we stop attempting to create a cost of service
17 allocation for each zone, that too will have to be -- we will
18 have to fix some basis for supporting that preliminary
19 allocation of export revenues.

20 And on the same basis as we would do that, it
21 would be appropriate to go forward and -- and make some --
22 arrive at some conclusion as to what the appropriate revenue
23 cost coverage that we should be targeting for in the diesel
24 zone.

25 MR. BOB PETERS: Thank you, Mr. Wiens. I'll

1 take it that that's -- your answer really means that until
2 you make your filing and come up with your preferred
3 recommendation at this point all issues are still under
4 consideration.

5 MR. ROBIN WIENS: That's correct.

6 MR. BOB PETERS: And in the information
7 request number 6 in these proceedings that you answered,
8 there was questions about recalculating the rates using
9 different revenue to cost coverage ratios.

10 Can you explain to the Board generally, Mr.
11 Thomas or Mr. Wiens, what would happen if this Board wanted a
12 revenue to cost ratio more in line with the current revenue
13 to cost ratio for residential customers on the grid and those
14 also in the diesel zone?

15 MR. ROBIN WIENS: Are -- are you now
16 suggesting, Mr. Peters, that for residential customers we
17 would look to the revenue cost coverage of 90.6 percent as we
18 filed with -- with our last general rate application?

19 MR. BOB PETERS: As an example, yes, Mr.
20 Wiens, and I should tell the Board that I -- I did circulate
21 a copy of the perspective Cost of Service Study revenue cost
22 coverage analysis from the -- the prior general rate
23 application of the Corporation. And the revenue to cost
24 ratio for residential class is shown at 90.6 on this summary
25 and you'll recall that being the case when you last appeared,

1 Mr. Wiens?

2 MR. ROBIN WIENS: This is using the method
3 approved in 7/03.

4 MR. BOB PETERS: And the --

5 MR. ROBIN WIENS: I believe that to be the
6 case.

7 MR. BOB PETERS: Yes.

8 MR. ROBIN WIENS: Because that was the cost
9 to service study that we filed -- we filed to be consistent
10 with that directive.

11 MR. BOB PETERS: And -- and you're -- the
12 question you didn't ask except with your eyes, was that the
13 Board did not approve the same methodology in Order 101/04.

14 MR. ROBIN WIENS: I -- I didn't even think of
15 it, Mr. Peters.

16 MR. BOB PETERS: Oh, okay. So what I'm --
17 what I'm trying to get at here gentlemen is if the
18 residential customer in the diesel zone was to be treated
19 with the same inherent RCC subsidy as the residential
20 customer on the grid, what would the rate structure or the
21 rates look like in terms of changes from what you filed?

22 MR. ROBIN WIENS: Well, to give you a
23 straightforward answer to that is -- is not as easy as we
24 thought when we actually filed the response to this
25 information request. Mr. Thomas who prepared the response

1 under my direction simply went and took the revenue cost
2 coverage that was being targeted and said what does the tail
3 block rate have to be in order to recover?

4 And in the case of last year's Cost of Service
5 Study, the revenue cost covered for the residential class was
6 91 percent.

7 So, what does the tail block have to be to
8 recover 91 percent of cost? The answer was given correctly
9 in -- in the response to 6-A as being three dollars and
10 thirty-two (\$3.32) cents per kilowatt hour for the
11 residential class, which is a far cry from the thirty-six
12 point one three (36.13) cents, which we have in the
13 Application.

14 So, during the lunch break we put a little bit
15 of additional thought to this and another way of responding
16 to that would be to say, it's -- what if we were to -- what
17 if we were to target 91 percent revenue costs coverage, but
18 to say that -- that last block for the residential class
19 would be the same as we filed in the Application, i.e.
20 thirty-six point one three (36.13) cents, how much more would
21 we add to the government rate in order to achieve the 91
22 percent?

23 And that may have been where you were going
24 with the question, Mr. Peters. And the answer to that is,
25 there would be about sixteen (16) cents added to the

1 government rate, so you -- you may ask, Well, why only
2 sixteen (16) cents to the government rate, but darn near
3 three dollars (\$3.00) to the residential rate?

4 It's because the last block kilowatt hours in
5 the residential rate usage pattern is very small whereas
6 there's a lot of government kilowatt hours.

7 MR. BOB PETERS: All right.

8 MR. ROBIN WIENS: Is -- is that helpful to
9 you?

10 MR. BOB PETERS: It is helpful and I've --
11 I've got your point on that and I'll move on. In the -- in
12 the rates -- I'd like to draw the Board's attention through
13 the Witnesses to Attachment Number 2 in these proceedings.

14 Mr. Wiens, as we were turning to Attachment 2
15 you -- you gave me an answer as to what would happen if the
16 RCC target was 91 percent and what impact that would have on
17 the government rates. Did you do the same for the general
18 service customer?

19 MR. ROBIN WIENS: I -- actually, Mr. Peters,
20 I apologize. That was done for all the non-government
21 customers. That sixteen (16) cent addition covers all the
22 non-government customers.

23 MR. BOB PETERS: Even better, Mr. Wiens.
24 Thank you for the work over the lunch hour. And turning to
25 Attachment 2, Mr. Mayer will note that he probably has some

1 facts -- notations on the top of his November 3rd copy of
2 Attachment 2 and that's because there was a revision in the
3 proposed rates that you're asking this Board to approve; is
4 that correct?

5 MR. ROBIN WIENS: That is correct.

6 MR. BOB PETERS: And the proposed rates and
7 the change for them, Mr. Wiens, is as a result of this Board
8 approving a 5 percent across-the-board increase in the last
9 general rate application for Manitoba Hydro?

10 MR. ROBIN WIENS: The revision was sent
11 November the 3rd because we dropped the last rate.

12 Okay, okay. I'm being updated. It's dawning
13 on me. Yes.

14 MR. BOB PETERS: Your request includes some
15 retroactive rates back to May 1st and if you go back to May
16 1st, Mr. Wiens, you have to also recognize that on August the
17 1st, there was a 5 percent rate increase generally applied
18 across the Province?

19 MR. ROBIN WIENS: Yes, that's correct.

20 MR. BOB PETERS: And -- and this revised rate
21 schedule demonstrates that, correct?

22 MR. ROBIN WIENS: Yes.

23 MR. BOB PETERS: So, if your Application is
24 approved by the Board, the Board would be approving the rate
25 schedule that's set out in your Attachment 2?

1 MR. ROBIN WIENS: Yes.

2 MR. BOB PETERS: If I can turn to -- with you
3 -- to Attachment 3; this is a comparison of current to
4 proposed rates. And the proposed rates are from -- are the
5 ones that would be on a -- on a go-forward after the general
6 rate increase, correct?

7 MR. ROBIN WIENS: Yes.

8 MR. BOB PETERS: So what the Board will
9 notice is that for residential customers the only impact of
10 this application will be on the remaining energy over and
11 above two thousand (2,000) kilowatt hours per month?

12 MR. ROBIN WIENS: Yes.

13 MR. BOB PETERS: And that would be a -- a
14 reduction in the rate of approximately 54 percent?

15 MR. ROBIN WIENS: Yes.

16 MR. BOB PETERS: And likewise to general
17 service, it's those general service customers that exceed two
18 thousand (2,000) kilowatt hours per month that will receive a
19 reduced rate if your Application before the Board is
20 approved?

21 MR. ROBIN WIENS: Yes.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: Mr. Wiens, Mr. Thomas or Mr.

1 Warden, when the -- when the current rate over two thousand
2 (2,000) kilowatt hours is seventy-nine (79) cents a kilowatt
3 hour, that's a strong deterrent to using diesel-generated
4 electricity for space heat; would you agree?

5 MR. ROBIN WIENS: It should be, yes.

6 MR. BOB PETERS: And if the rate is revised
7 downwards to thirty-six (36) cents a kilowatt hour for
8 everything over two thousand (2,000) kilowatt hours per
9 month, does that send the price signal that it's cheaper to
10 use electricity for space heat now than it was a few months
11 ago?

12 MR. ROBIN WIENS: Well, I guess I would have
13 to say if somebody was using electricity for space heat and
14 paying seventy-nine (79) cents for it, he certainly wouldn't
15 be deterred from using it when it's thirty-six (36) cents.

16 On the other hand, if you look at the base-
17 line as being what our rates are for our grid customers,
18 where use of electric heat is commonplace, this is quite --
19 quite a -- quite a bit higher price. It's six (6) -- at
20 least six (6) times as high as what customers are paying on
21 the grid for electric heat.

22 So, I think some deterrent value still remains
23 for customers in the diesel zone.

24 MR. BOB PETERS: The deterrent is simply that
25 the -- the new rate is seven (7) times as high as the -- as

1 the base rate for the first two thousand (2,000) kilowatt
2 hours.

3 MR. ROBIN WIENS: Yeah. Instead of twelve
4 (12) times or whatever, which it -- which it currently is.

5 MR. BOB PETERS: This brings to mind, Mr.
6 Wiens, a discussion that was held at the last diesel hearing,
7 where intermediate -- if I may call them that -- rate blocks
8 were advanced by one (1) of the parties for consideration to
9 act as a warning, if nothing else, that parties are exceeding
10 a certain level that is considered sufficient to provide
11 their basic electrical needs without getting into space heat
12 and other exotic uses.

13 MR. ROBIN WIENS: I do recall that, yes.

14 MR. BOB PETERS: And in this Application
15 there is no request for intermediate or warning rate blocks,
16 is there?

17 MR. ROBIN WIENS: There is none.

18 MR. BOB PETERS: It appeared in the -- in the
19 materials that this was a matter that was under some
20 consideration still by the Corporation. And is it being
21 actively discussed with the communities?

22 MR. ROBIN WIENS: Not currently.

23 MR. BOB PETERS: And why is that?

24 MR. ROBIN WIENS: Most of -- most of our
25 effort has gone into dealing with the loose strings around

1 the agreement and filing of this Application and responding
2 to it.

3 We haven't forgotten about it but it is an
4 issue that we -- we did give some discussion to with --
5 particularly with MKO during the weeks leading up to the
6 filing of this Application. And we had some differences of
7 opinions as to how that should proceed but both of us felt
8 that it was more important to get the gist of this
9 Application on the record and then perhaps go back
10 afterwards, when we had established rates flowing from the
11 agreement, to fine-tune it.

12 MR. BOB PETERS: Do I take from that that
13 there's going to be an ongoing process to find out whether
14 those warning rate blocks would be appropriate or has
15 Manitoba Hydro concluded already that they are a good idea?

16 MR. ROBIN WIENS: We think in principle they
17 are a good idea. It's just -- it's a question of -- of
18 before incorporating them into any filing, we do want to have
19 a degree of consultation with the other parties.

20 MR. BOB PETERS: And at this point in time
21 you need additional time for that consultation.

22 MR. ROBIN WIENS: Yes. Part of it -- part of
23 it will involve an examination of some of the accounts to --
24 to try to isolate what the factors are that are causing the
25 usage, and we haven't been able to do that yet.

1 MR. BOB PETERS: Is that what's causing the
2 usage over and above two thousand (2,000) kilowatt hours a
3 month?

4 MR. ROBIN WIENS: Well, above two thousand
5 (2,000) kilowatt hours and within the range, say, twelve (12)
6 or fourteen hundred (1,400) to two thousand (2,000) kilowatt
7 hours, which is where we were looking to have the
8 intermediate step rate.

9 Or, pardon me, Mr. Peters, where we were
10 consider -- giving consideration to -- to putting in a step
11 rate.

12 MR. BOB PETERS: How do you propose to get
13 that information, Mr. Wiens? How can the Corporation obtain
14 that?

15 MR. ROBIN WIENS: We have not fully discussed
16 how we were going to obtain it. MKO has indicated to us that
17 they would be prepared to assist us in that regard.

18 MR. BOB PETERS: Okay. In turning to
19 Attachment 4 of the filing; it's the bill comparisons. Just
20 so the Board is clear on this interpretation of this
21 attachment this is to demonstrate to the Board the impact on
22 customer bills in the communities if this Application is
23 granted; is that correct?

24 MR. ROBIN WIENS: It is.

25 MR. BOB PETERS: And so, for customers under

1 two thousand (2,000) kilowatt hours this is -- this
2 Application becomes a non-issue?

3 MR. ROBIN WIENS: Residential and general
4 service under two thousand (2,000) kilowatt hours.

5 MR. BOB PETERS: There's no impact?

6 MR. ROBIN WIENS: There is no impact.

7 MR. BOB PETERS: And when we talk about
8 accounts over two thousand (2,000) kilowatts and I think
9 under the residential there's an indication of even five
10 thousand (5,000) kilowatts, what that would happen on the
11 person's account. Is there in fact a residential customer
12 that uses five thousand (5,000) kilowatt hours?

13 MR. ROBIN WIENS: I -- I don't think that
14 would be common place but you might see the odd customer in
15 the odd month if they're -- if they're really not taking to
16 heart the prescription on space heating.

17 MR. BOB PETERS: Same answer for the general
18 service customer that is in excess of five thousand (5,000)
19 kilowatt hours?

20 MR. ROBIN WIENS: Well -- well no. As we
21 discussed in -- back in January in the previous hearing,
22 general service customers run the gamut in terms of size of
23 operations. And -- and a general service customer using five
24 (5) or even ten thousand (10,000) kilowatt hours is not
25 necessarily using space heat at all. They may be operating

1 an arena for example.

2 MR. BOB PETERS: Can we take then from the --
3 from the bill comparisons filed, that for the residential and
4 general service customer the only impact would be a 50
5 percent reduction if they use in excess of two thousand
6 (2,000) kilowatt hours a month?

7 MR. ROBIN WIENS: Well it would be -- no, it
8 would be for say a residential customer at two thousand
9 (2,000) kilowatt hours, there's zero impact. At five
10 thousand (5,000) kilowatt hours there's a 52 percent impact.
11 And as you move between two (2) and five thousand (5,000)
12 that -- that gap closes so it achieves 52 percent if indeed a
13 customer uses as much as five thousand (5,000).

14 MR. BOB PETERS: On this bill comparison,
15 there's no reference on here to the First Nations education
16 accounts, is there?

17 MR. ROBIN WIENS: Yes, there is. The third
18 table on the page refers to government and First Nation
19 education accounts.

20 MR. BOB PETERS: I apologize. My notes don't
21 reflect the Application, Mr. Wiens, that's my error. But on
22 these First Nations education accounts, there's
23 approximately twenty-seven (27) of them if I -- if I recall?

24 MR. ROBIN WIENS: Yes.

25 MR. BOB PETERS: And can you explain to the

1 Board what these education accounts include?

2 MR. ROBIN WIENS: They include school
3 buildings, they would include teacherages and they would
4 include services infrastructure that's exclusively serves
5 schools which may include a heat trace or water services but
6 they're associated with a school building.

7 MR. BOB PETERS: And presently, the First
8 Nation education accounts are being treated as general
9 service accounts; would that be correct?

10 MR. ROBIN WIENS: Well technically most or
11 all of them have always been government accounts. We -- the
12 bill that the First Nation has received since November of
13 2000 has been at the general service rate.

14 MR. BOB PETERS: But you're proposing that
15 any rate retroactivity applying to this account would allow
16 them to be treated as a general service customer from
17 November of 2000 up until May 1st of 2004. And starting May
18 1st of 2004 you would put them in the government category?

19 MR. ROBIN WIENS: Well it -- it is correct
20 that they have been billed, the accounts themselves have been
21 billed at the general service rates since November of 2000.
22 However, from November of 2000 until May of 2004, the
23 difference between the government and the general service
24 rate had been billed to INAC.

25 INAC had refused the bill. So, in that --

1 therein is the 3.2 million that is also part of this
2 settlement.

3 So, Manitoba Hydro will receive, or is
4 anticipating with some degree of assurance, receiving that
5 shortly. So, the -- that takes care of the portion up to May
6 the 1st, 2004. The retroactive application of the rates
7 included in here takes care of the portion after May the 1st,
8 2004.

9 MR. BOB PETERS: And after May the 1st of
10 2004, the twenty-seven (27) accounts for First Nations
11 education accounts will increase. They're bills will go up?

12 MR. ROBIN WIENS: Substantially.

13 MR. BOB PETERS: And that's because they're
14 now going to be treated as government accounts from May 1st
15 onward?

16 MR. ROBIN WIENS: That's correct.

17 MR. BOB PETERS: To the best of your
18 knowledge, has that matter been discussed with the account
19 holders of the First Nations education accounts?

20 MR. ROBIN WIENS: I have not spoken and I'm
21 not aware that anybody at Manitoba Hydro has spoken directly
22 to the person who -- to whom the bills are addressed. We
23 have directed our communications through MKO and they have
24 assured us on a number of occasions that they are aware of
25 this.

1 MR. BOB PETERS: And meaning that the First
2 Nations education accounts are aware that they're going to
3 receive a retroactive bill increase because they've been
4 treated as a general service account since May 1st and they
5 should have been, under this proposal, treated as a
6 government account?

7 MR. ROBIN WIENS: Up to now we have relied on
8 our communication with MKO to make this clear, however,
9 assuming that these rates are approved by this Board we will
10 communicate immediately with all effective account holders of
11 the changes in rates that they're going to be facing.

12 MR. BOB PETERS: Mr. Wiens, in terms of bill
13 credits, if this Board was to approve your Application back
14 to May the 1st of 2004, there would be credits for customers
15 in the residential and general service category, correct?

16 MR. ROBIN WIENS: That's correct.

17 MR. BOB PETERS: There would be no situation
18 where a residential customer or a general service customer
19 would be asked to pay more than what's previously been
20 billed?

21 MR. ROBIN WIENS: I don't know the -- I don't
22 know the -- the currency of each and every bill or each and
23 every account in -- in those communities assuming that all
24 accounts are current. No account that is current would be
25 asked to pay more as a result of this rate change and quite a

1 few would -- would receive a -- a refund.

2 MR. BOB PETERS: And if -- if I'm an -- a
3 customer that has -- that's entitled to a refund if your
4 Application goes forward, but I have accounts receivable with
5 you, what happens to my bill credit?

6 MR. ROBIN WIENS: The credit is applied first
7 against the receivable.

8 MR. BOB PETERS: Is there any cash trading
9 hands or is it all done by way of bill credits?

10 MR. ROBIN WIENS: It's being done by way of
11 bill credits.

12 MR. BOB PETERS: Can you tell the Board
13 whether these accounts are billed on a -- a thirty (30) day
14 calendar cycle?

15 MR. ROBIN WIENS: Like most of our accounts,
16 the cycles are variable between twenty-eight (28) and thirty-
17 two (32) days. The odd time they may even fall outside those
18 limits and this is going to be due to the fact that not every
19 day is a working day, not -- not every day could the meters
20 be billed and in the case of -- or meters be read -- and in
21 the case of the remote communities, it's sometimes difficult
22 to get into those communities in order to read the meters
23 within the schedule. But by and large, we try to maintain
24 that range of twenty-eight (28) to thirty-two (32) days
25 between reads.

1 MR. BOB PETERS: But if I'm a customer living
2 in that area, Mr. Wiens, and I'm -- I'm given a -- a break on
3 my first two thousand (2,000) kilowatt hours of energy and
4 that I'm charged the same as grid rates, not the full cost
5 rates, how can you be sure that -- how can I be sure as a
6 customer that you're only recording one (1) month's worth of
7 consumption against my two thousand dollar (\$2,000) limit?

8 MR. ROBIN WIENS: 2,000 kilowatt hour limit?
9 Well, in the first place, since the last time we appeared
10 before this Board in this matter, we've instituted monthly
11 reading. So, we have moved from the normal practice, which
12 we have with residential customers which is read one (1)
13 month, estimate the next. We now read every month in the
14 four (4) diesel communities and it is because of this issues
15 having to do with the two thousand (2,000) kilowatt hours.

16 In addition, we are putting in place, a pro-
17 rationing, which will mean that we will standardize to thirty
18 (30) days on the bills. Whether they're read at a twenty-
19 eight (28) day interval or a thirty-five (35) day interval,
20 they will be -- the -- the basic charge and the initial block
21 will -- or initial blocks -- will be pro-rated.

22 So, that if we're in thirty (30) -- if we're
23 in thirty-five (35) days later, they will get thirty-five
24 (35) divided by thirty (30) times two thousand (2,000)
25 kilowatt hours at grid rates.

1 MR. BOB PETERS: Thank you for that. In
2 terms of account receivables, you answered in Interrogatory
3 Number 5 -- the bill credits -- and you've told us that if
4 you have an account receivable, the bill credit will first be
5 applied against your account receivable, correct?

6 MR. ROBIN WIENS: Yes.

7 MR. BOB PETERS: And -- in Interrogatory
8 Number 5-B, you're telling the Board what the amounts are to
9 be refunded to the various customer classes through credits?

10 MR. ROBIN WIENS: Yes.

11 MR. BOB PETERS: And it appears, if I read
12 your materials correct -- I want to ensure that the Board is
13 understanding the same -- the maximum residential credit will
14 be twenty-five hundred and sixty-four dollars (\$2,564) if
15 your application is approved; that it'll be a retroactive
16 bill credit?

17 MR. ROBIN WIENS: Yes.

18 MR. BOB PETERS: And the minimum credit will
19 be zero (0). And the minimum credit of zero (0) would likely
20 be to customers who are not using in excess of two thousand
21 (2,000) kilowatt hours?

22 MR. ROBIN WIENS: Correct.

23 MR. BOB PETERS: When I look at the general
24 service customers there will be a maximum credit of thirty
25 thousand six hundred and thirty-three dollars (\$30,633) to at

1 least one (1) customer in that class, correct?

2 MR. ROBIN WIENS: Yes.

3 MR. BOB PETERS: And the forty-one thousand
4 dollar (\$41,000) -- and it's in brackets, which always
5 confuses me, but -- it means you're going to charge one (1)
6 of your general service customers forty-one thousand dollars
7 (\$41,000) more than what they've previously paid, and that
8 would be to do with the education accounts?

9 MR. ROBIN WIENS: That's correct.

10 MR. BOB PETERS: What is the total amount
11 going to be recovered from the education accounts; do you
12 know?

13

14

(BRIEF PAUSE)

15

16 MR. ROBIN WIENS: Sorry. The undercharge,
17 assuming the approval of the rates in the Application, has a
18 total of a hundred and ninety-four thousand dollars
19 (\$194,000), excluding taxes.

20

21 MR. BOB PETERS: And the recovery of that
22 will be by way of the additional charge of somewhere between
23 fourteen hundred dollars (\$1,400) and forty-one thousand
24 dollars (\$41,000) to the various customers in that class.

24

MR. ROBIN WIENS: That's correct.

25

MR. BOB PETERS: Can you tell the Board in

1 terms of accounts receivable whether the accounts receivable
2 have increased since Order 17 of '04?

3 MR. ROBIN WIENS: I -- I'm sorry, I -- I
4 don't know the answer to that question.

5 MR. BOB PETERS: In terms of the
6 communication that you've attached in your filing under
7 Attachment 6, the communication packages are reflective of
8 the information that Hydro has carried forward with either
9 the communities or MKO to educate them about not only the
10 Board's rate order but also about wise use of energy; would
11 that be correct?

12 MR. ROBIN WIENS: That's correct.

13 MR. BOB PETERS: Do you know what the cost
14 was for the -- for the educational component of the -- of the
15 filing?

16 MR. ROBIN WIENS: We believe that it was in
17 the order of thirty thousand dollars (\$30,000).

18 MR. BOB PETERS: Can you tell the Board
19 whether one (1) of the objectives was to help customers
20 reduce their energy bills by -- by reducing consumption?

21 MR. ROBIN WIENS: Not having been present at
22 the communication meetings, I can't be absolutely sure
23 exactly what happened but at a very minimum it was pointed
24 out to all customers who participated in these meetings what
25 the impact of using electricity for space heat was.

1 MR. BOB PETERS: And the impact was exceeding
2 the two thousand (2,000) kilowatt hours per month and having
3 to pay a full-cost rate.

4 MR. ROBIN WIENS: That's correct.

5 MR. BOB PETERS: And are these consultations
6 and education programs going to continue into the future, to
7 your knowledge?

8 MR. ROBIN WIENS: It's my understanding that
9 they will.

10 MR. BOB PETERS: Can you tell the Board
11 whether or not they have yielded any positive results in
12 terms of reduced consumption through voluntary consumption
13 reductions by customers?

14 MR. ROBIN WIENS: We haven't done a before-
15 and-after examination of the consumption data, which would be
16 the only way we would be able to tell that and even then, it
17 may be masked by other factors, but we will be reviewing the
18 before-and-after consumption date.

19 MR. BOB PETERS: When you -- when you notice
20 you -- first of all, Hydro has people in the communities in
21 the diesel zone, correct?

22 MR. ROBIN WIENS: We do not have regular
23 permanent staff in any of the communities. There are --
24 there are -- they are served out of customer service offices
25 which are elsewhere other than in the community, for example,

1 Lynn Lake.

2 MR. BOB PETERS: And in terms of the reading
3 of the meter data, that's read locally and then transmitted
4 to -- through Lynn Lake, as an example?

5 MR. ROBIN WIENS: The district staff who go
6 into the community, usually fly in every month and read the
7 meters.

8 MR. BOB PETERS: Is there any effort by
9 district staff or others, when they see an account that
10 exceeds two thousand (2,000) kilowatt hours, to -- to meet
11 with or speak with the customer?

12 MR. ROBIN WIENS: That staff that goes on to
13 -- into the community to read the meter doesn't -- do not
14 necessarily even know what the previous month's reading was.
15 So, I would presume that they may from time to time address a
16 customer's concern, but they don't specifically -- they
17 aren't specifically flown into the community for that
18 purpose.

19 MR. BOB PETERS: Do they specifically, once
20 they get the data, Mr. Wiens, would they, in the normal
21 course, communicate with the customer to say, you know,
22 You've gone over the two thousand (2,000) kilowatt hours a
23 months and that's -- that's costing you a lot of money, is
24 there something that we can answer questions on to help
25 you keep your limit under two thousand (2,000)?

1 MR. ROBIN WIENS: My recollection is that
2 part of the communication process was that letters -- there
3 were letters that were specifically directed at customers
4 whose accounts were known to have exceeded 2,000 Kilowatt
5 Hours over the past year and certainly there was advice
6 provided in those letters about how the consumption could be
7 reduced.

8 MR. VINCE WARDEN: Should --

9 MR. BOB PETERS: But you're not aware -- I'm
10 sorry.

11 MR. VINCE WARDEN: Oh, sorry, I was just -- I
12 was going to point out that we should be aware that we
13 haven't really been through a heating season yet with the
14 2,000 Kilowatt Hour threshold, so, you know, we've yet to
15 experience whether -- how effective that 2,000 Kilowatt Hour
16 limit will be. We're into it now, absolutely, but we -- we
17 really don't have any experience with it yet.

18 MR. BOB PETERS: Is that something that makes
19 sense to the Corporation, Mr. Warden, that if you -- if you
20 find customers whose -- whose monthly accounts are exceeding
21 2,000 Kilowatt Hours, that that may -- it may be a good
22 investment to have some direct communication with the
23 customer to see if that can be brought under -- under
24 control, so to speak -- or less than two thousand (2,000)?

25 MR. VINCE WARDEN: As a matter of fact, that

1 is our plan. We -- we'll be, through our billing system,
2 flagging those accounts that are over 2,000 Kilowatt Hours
3 per month and we'll be looking into the reasons why they
4 exceeded that limit.

5 MR. BOB PETERS: All right. And in terms of
6 demand side management activities, since the Board last heard
7 your application, has there been any initiatives put in place
8 on demand side management, that you're aware of?

9 MR. ROBIN WIENS: I -- we really would have
10 needed to bring in somebody from our customer service side to
11 respond to that.

12 MR. BOB PETERS: There's no disagreement in
13 principle is there, Mr. Warden, with continuing efforts to --
14 in demand side management in the diesel zone?

15 MR. VINCE WARDEN: No, as a matter of fact, I
16 -- I am aware that we will be placing special emphasis on DSM
17 in the diesel communities, but I'm not just, totally familiar
18 with the details as to what they've done to-date.

19 THE CHAIRPERSON: Mr. Peters, if I could,
20 could you give us a rough estimate?

21 MR. BOB PETERS: I was hoping -- I have only
22 -- I only have one (1) area left and in conclusion I want to
23 run through the financial numbers with the Corporation of the
24 potential costs of the settlement and I expect that can be
25 done in ten (10) minutes.

1 THE CHAIRPERSON: Okay, we'll take a fifteen
2 (15) minute break and then we'll come back and finish up with
3 Mr. Peters and then we'll move over to Ms. Ramage and -- and
4 wrap it up. Thank you.

5

6 --- Upon recessing at 3:35 p.m.

7 --- Upon resuming at 3:58 p.m.

8

9 THE CHAIRPERSON: Mr. Peters?

10 MR. BOB PETERS: And I will -- I will
11 conclude on the review with the Panel Members, some of the
12 financial aspects of it and make sure that the Board has the
13 position of the Corporation.

14 I'll start off, Panel Members, in my tally
15 sheet with the accumulated deficits. We're now told there's
16 \$16.9 million in principle amount. Correct?

17 MR. VINCE WARDEN: Correct.

18 MR. BOB PETERS: And those \$16.9 million will
19 be paid -- will not be paid by the diesel community customers
20 according to Manitoba Hydro's interpretation of the
21 Settlement Agreement?

22 MR. VINCE WARDEN: Correct.

23 MR. BOB PETERS: Manitoba Hydro intends, Mr.
24 Warden, to find other revenues against which to offset all or
25 a portion of that \$16.9 million?

1 MR. VINCE WARDEN: Yes.

2 MR. BOB PETERS: And that will be done,
3 perhaps, over a period of years and it may involve export
4 revenue. Correct?

5 MR. VINCE WARDEN: Correct.

6 MR. BOB PETERS: And in addition to that
7 \$16.9 million dollars, Manitoba Hydro has been carrying that
8 for a number of years. That's also correct, Mr. Warden?

9 MR. VINCE WARDEN: Well, we started carrying
10 a deficit in the year -- fiscal year 2000 and it's been
11 building towards the 16.9 million.

12 MR. BOB PETERS: And while the total amount
13 hasn't been -- been \$16.9 million since 2000, it has
14 increased year over year since then?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: And whatever carrying costs
17 or interest rate would be attached to that monies, that has
18 been borne by Manitoba Hydro?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And in addition to varying
21 the carrying costs since 2000, whatever carrying costs can be
22 ascribed to this money going forward, will also be borne by
23 Manitoba Hydro?

24 MR. VINCE WARDEN: You're -- well, yes.

25 MR. BOB PETERS: When we turn to the

1 surcharge, the \$3.2 million of unpaid surcharge from
2 approximately 2000 to May 1st of 2004, INAC is going to pay
3 that hopefully this week, the entire \$3.2 million?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: And if there is no
6 retroactivity granted in the application, there's been a
7 continuation of the surcharge of about a \$1.4 million, \$1.5
8 million since May 1st through to November 1st of this year?

9 MR. VINCE WARDEN: Yes, that's correct.

10 MR. BOB PETERS: In terms of Hydro's capital
11 contribution, I understand the evidence if I'm correct, to
12 suggest that 21 percent of the \$28.8 million of undepreciated
13 capital costs will be borne by Manitoba Hydro and its grid
14 customers?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: And any carrying costs on
17 those capital would likewise be carried by Hydro's customers?

18 MR. VINCE WARDEN: Correct.

19 MR. BOB PETERS: And would it also be correct
20 that until INAC pays its portion Hydro will also be fronting
21 and paying for the carrying costs or absorbing the carrying
22 cost impact of that?

23 MR. VINCE WARDEN: Well there is provision
24 for interest fee assessed INAC, after July the 7th of 2005.

25 MR. BOB PETERS: But prior to that, if there

1 is any carrying costs, those would be absorbed by Manitoba
2 Hydro?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: In the terms of the RCC
5 subsidy that we talked about, Mr. Wiens and Mr. Thomas, you
6 have told the Board that historically there is a subsidy
7 afforded to residential customers and -- and general service
8 customers in the diesel zone and it's a larger subsidy in
9 this application before the Board than was previously before
10 the Board?

11 MR. CHIC THOMAS: That's correct.

12 MR. BOB PETERS: And, as long as you don't
13 ask me to cite my source, Mr. Thomas, I calculate the
14 residential and general service subsidy to be in the -- in
15 the neighbourhood of five hundred and twenty-eight thousand
16 dollars (\$528,000) a year, in this application. Do you
17 recall that being approximately correct?

18 MR. CHIC THOMAS: Approx -- approximately
19 that is correct, yes.

20 MR. BOB PETERS: And in terms of that five
21 hundred and twenty-eight thousand dollars (\$528,000) that's -
22 - that's based on the entire amount of the subsidy, correct?

23 MR. CHIC THOMAS: The entire amount being the
24 general service and residential, yes.

25 MR. BOB PETERS: But over and above the Order

1 of 17/04, the residential in this application are being
2 subsidized by a further hundred and ninety thousand dollars
3 (\$190,000) and the general service customers are being
4 subsidized by a further ninety-one thousand dollars (\$91,000)
5 than had previously been the case?

6 MR. CHIC THOMAS: Yes.

7 MR. BOB PETERS: So there's a total of an
8 additional two hundred and eighty-one thousand dollars
9 (\$281,000) a year subsidy, in this application, that was not
10 in the application before the Board previously? That is the
11 one that led to Order 17/04.

12 MR. CHIC THOMAS: That's correct.

13 MR. ROBIN WIENS: Mr. Peters, I'll try to be
14 very brief with this. But I think it's probably also
15 relevant in this context that historically over the years,
16 the -- the percent of the difference between diesel customer,
17 residential and general service rates and full cost, that has
18 been borne by the rest of Manitoba ratepayers, is perhaps not
19 coincidentally in the order of 20 percent.

20 And that's approximately what we're looking at
21 in this application and approximately the amount of the
22 capital costs that Manitoba Hydro is bearing as well.

23 MR. BOB PETERS: Does that answer -- show me
24 that there's a coincidence or is it more than that, Mr.
25 Wiens?

1 MR. ROBIN WIENS: It's probably not entirely
2 a coincidence. That -- that historically has been about the
3 proportion of the shortfall between cost and rates that has
4 been absorbed by the ratepayers of Manitoba Hydro,
5 historically.

6 Prior -- prior to 1995, I think, in the -- in
7 the period 1995 to 2004, we were seeing a larger amount than
8 that because of the failure of our rates to keep up with our
9 costs. But prior to 1994, 20 percent was -- was quite
10 common.

11 MR. BOB PETERS: Thank you for that.

12 With that answer, Mr. Chairman and Board
13 Members, that concludes my questions at the Hydro Panel. I'd
14 like to thank them for their cooperation today.

15 THE CHAIRPERSON: Thank you, Mr. Peters.
16 Thank you. So, there's no further questions from the Panel.

17 Ms. Ramage, do you want to conclude with your
18 closing comments?

19 MS. PATTI RAMAGE: Yes, Mr. Chairman.

20 As you've heard this afternoon, Manitoba Hydro
21 is seeking ex parte approval of this rate application. Under
22 Section 39 of the Board's Rules, ex parte orders, the Board
23 may -- may grant such if the special circumstances of any
24 case so require.

25 Manitoba Hydro submits that the circumstances

1 of the present application meet this criteria. The cost of
2 providing electricity service to the diesel communities is --
3 is undeniably high. Having said that, it's -- at the same
4 time, it is the cost of -- of serving those communities, and
5 Manitoba Hydro is required to recover those costs.

6 The current approved rates achieve this, but
7 as indicated by Mr. Warden this morning, it resulted in some
8 -- I believe the word he used was "considerable acrimony"
9 from the customers in those communities.

10 And so, Manitoba Hydro and the other parties
11 to the settlement were faced with -- with a unique challenge
12 in terms of trying to come up with a way to -- to get these
13 rates down to something that was more acceptable to all the
14 parties. And I think what Manitoba Hydro has brought to the
15 Board today has met that challenge.

16 What we're looking to do is to provide rate
17 relief to the customers in those communities as soon as
18 possible. And, hence, the requirement for ex parte approval.

19 Now, the -- as I indicated, the rates proposed
20 have their underpinnings in the Minutes of Settlement found
21 at Attachment 1 to the application. And those Minutes of
22 Settlement are expected to be expanded upon in the form of a
23 draft agreement.

24 And Manitoba Hydro recognizes the Board's
25 desire to see that draft agreement. And, as indicated by Mr.

1 Warden, we'll get a copy to the Board forthwith.

2 But, at the same time, the rates Manitoba
3 Hydro is asking for are founded on the principles contained
4 in the Minutes of Settlement. And, as indicated by Mr.
5 Warden, the draft agreement is not going to change that.

6 Having said that, Manitoba Hydro clearly
7 understands and accepts the Board's requirement to see the
8 draft agreement prior to the implementation of any rate
9 proposal, and as directed, will alert the other parties to
10 the settlement agreement or the tentative settlement
11 agreement, to this requirement.

12 The proposed rates, the -- the principles on
13 which they're based are set out in those Minutes of
14 Settlement. The -- one (1) of the first and important
15 principles is that capital contributions will be made to
16 offset undepreciated capital costs of \$28.8 million, 69
17 percent of which will be derived by virtue of the -- the
18 settlement agreement.

19 In addition, we've heard that an additional 10
20 percent will -- is expected to be paid by other participating
21 customers. Such that Manitoba Hydro will ultimately receive
22 79 percent of that 28.8 million.

23 A second component of -- of this deal is that
24 Manitoba Hydro will not include, in future rates, the
25 accumulated deficit of 16.9 million. Manitoba Hydro has

1 agreed that it will use export and other credits in order to
2 amortize the accumulated deficit over a period of ten (10)
3 years. But, as indicated in the response to PUB Manitoba
4 Hydro 1 -- it's longer than usual -- XP2F.

5 Manitoba Hydro's intention is to write off the
6 accumulated deficit in the current fiscal year. This write-
7 off is independent of the proposal to use export revenues
8 over the next ten (10) years to offset the accumulated
9 deficit in the diesel cost of service study.

10 So, in effect, grid customers will pay the
11 accumulated deficit now and for which they'll receive higher
12 export allocations over that ten (10) year period.

13 A third component of this deal and one (1)
14 that doesn't directly impact the rates we have today but
15 because it's part of the overall settlement it's -- it's
16 important to understand, is that Manitoba Hydro has -- and
17 the -- the other parties have agreed that we will consult the
18 First Nations prior to undertaking any major capital
19 expenditures.

20 And major -- it's the expectation of all the
21 parties that major capital expenditures will be incurred only
22 with the support of the community, as evidenced by its
23 capital contribution in support of those costs.

24 This provision I -- is unique to the diesel
25 communities and -- but I would submit that it's not as unique

1 as perhaps the one Mr. Mayer raised at -- in terms of whether
2 we're going to other customers in those communities to --
3 with the same type of proposal.

4 Because while -- I -- I think I would draw the
5 analogy to a grid customer, where if the cost to provide
6 transmission to a grid customer exceeds a certain threshold,
7 Manitoba Hydro seeks contributions from that customer. So it
8 -- it is not unique in that perspective.

9 And, in fact, the uniqueness comes from the
10 fact that we have one (1) customer that is -- one (1)
11 customer grouping that is responsible for 69 percent of those
12 costs. Hence, when there is a disagreement as there has been
13 in past years, it impacts the bottom line very quickly.

14 So, this is, from Manitoba Hydro's
15 perspective, a very good proposal to go forward with to --
16 to achieve that kind of preapproval process. And, as raised
17 by the Board, subject of course to emergency situations.

18 And, as indicated, Manitoba Hydro isn't
19 looking for approval per se of this aspect of the agreement
20 but notes that it will -- it will impact future rate
21 proposals because we don't expect that those capital costs
22 will be -- will be included in rates.

23 The unpaid surcharge amount is also not part
24 of the rate proposal per se, in that the \$3.2 million have
25 already -- is already in rates and has already been billed.

1 Nevertheless, the approval of this rate application will
2 result in the \$3.2 million issue being dealt with and those
3 monies paid.

4 MR. ROBERT MAYER: From that, Ms. Ramage,
5 however, where in your -- I did hear evidence about it this
6 afternoon, but where in the Minutes of Settlement does it say
7 we're not going to run into this problem again?

8 Because we are throwing a number of the First
9 Nations' accounts, I believe they're mostly educational
10 accounts, into that government category that are still going
11 to be surcharged. I -- I heard the evidence this afternoon
12 that we're now going to have -- INAC is going to do a real
13 number on that and they're not going to take the Nepean
14 model but they're going to use actual diesel cost when they
15 provide the funding.

16 I didn't see that in the Minutes of
17 Settlement. Could you point it out to me, please.

18 MS. PATTI RAMAGE: Well, this is something
19 that was developed through the process of putting together
20 the rate application, as Mr. Wiens indicated. In terms of
21 getting this application together there was a couple
22 different goals and different angles that were looked at.

23 And -- and ultimately how the First Nation
24 education accounts were, I believe, arrived at or one (1) of
25 the -- the -- the positives in using those accounts is we

1 were advised that those accounts are 100 percent financed by
2 INAC.

3 So that the -- we wouldn't be looking at the
4 same issue in terms of funding for those. So, in addition to
5 their other accounts being funded on a -- not using the
6 Toronto model, we would be looking at -- at these accounts
7 where they are 100 percent funded.

8 MR. ROBERT MAYER: But I thought they had
9 alleged that they were 100 percent funded before. The
10 problem was, is that the -- what they called 100 percent was
11 100 percent of something that wasn't realistically
12 attributable to Brochet, Lac Brochet, Shamattawa and Tadoule
13 Lake.

14 MS. PATTI RAMAGE: I think Mr. Wiens can
15 provide a little more information on this.

16 MR. ROBIN WIENS: Yes. Mr. Mayer, if -- if
17 you would look to the Minutes of Settlement under Item 4, the
18 last -- the last point made under Item 4:

19 "INAC and MKO will examine an operating and
20 maintenance -- mechanism that will treat
21 First Nations in the community served by
22 diesel on a basis equivalent to First
23 Nations connected to Manitoba Hydro's
24 integrated system.

25 Taking into account the difference between

1 particular it's retroactive component, will deal with the
2 unpaid surcharge which has accumulated since May 1st. This
3 is one advantage to the retroactive rate -- rate proposal.
4 In addition, by -- by implementing these rates retroactively
5 it's a much cleaner process and it does provide refunds to
6 those customers who have been paying these very high rates.

7 Rate stability would be impacted if we don't
8 make the rate proposal retroactive. Manitoba Hydro will be
9 required to lower rates because of an overpayment only to
10 raise them again in the following year.

11 This application is ultimately the product of
12 a negotiated settlement and represents the coming together of
13 minds, that at the commencement of this process, were quite
14 far apart. The rate proposal is fair, it provides rate
15 relief to most customers and that group of customers which
16 was required to pay more, due to its retroactivity, was
17 represented at the table.

18 And for this reason, Manitoba Hydro urges the
19 Board to approve the rates as applied for. And to clarify,
20 Manitoba Hydro was seeking an interim order. A final order
21 will be sought after the agreement is signed and/or all the
22 conditions of the agreement are met.

23 In addition to community approvals in the form
24 of Band Council resolutions and Treasury Board approval, an
25 order from this Board is required. While the interim order

1 should implement rates, the final order will need to address
2 the issue of net export credits to the diesel communities.

3 Manitoba Hydro recognize that the Board is not
4 prepared to issue such order today without a full review of
5 Manitoba Hydro's cost of service study. Manitoba Hydro is
6 seeking an indication from the Board today, that it's
7 prepared to entertain such proposal and a recognition that
8 the communities will not be called upon to pay the \$16.9
9 million accumulated deficit and a recognition that the
10 communities are expecting a credit in ten (10) years time,
11 equivalent to the proposed net export credit, under our
12 proposed cost of service study.

13 Beyond that, Manitoba Hydro recognizes that
14 the Board can do little else at this point in time. I think
15 what we're looking for is -- is to not hear a no, on a go
16 forward basis. We recognize that we -- it's premature for a
17 yes, but we'd like to know that it's not a no.

18 And with that, Mr. Chairman, those are my
19 final comments.

20 THE CHAIRPERSON: Thank you, Ms. Ramage.

21 MR. ROBERT MAYER: You're asking us, don't
22 screw the deal.

23 THE CHAIRPERSON: We understand you'd like
24 our order ahead of the new year. So our expectation is then
25 if you could get us the terms of the draft settlement at your

1 earliest convenience, at least one of us is officially on
2 holidays next week, but if you get it to Mr. Peters in our
3 offices, we'll find a way of -- of dealing with it.

4 And at the same time if possible, if you
5 wouldn't mind providing confirmation about the receipt of the
6 3.2 then we can have a look at that subject to clause that
7 you were talking about before.

8 So, thank you to everyone for coming. Thank
9 you, Ms. Ramage, your panel of witnesses, and Board advisors
10 and my colleagues and Ms. Wilkinson, and Mr. Barron and we
11 stand adjourned and hopefully with the draft settlement in
12 hand and notice on the \$3.2 million, hopefully the Board will
13 be in a position to act before the New Year. Thank you.

14

15 --- Upon adjourning at 4.15 p.m.

16

17 Certified Correct

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22 _____
Carol Wilkinson

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