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MANITOBA PUBLIC UTILITIES BOARD

Re: APPLICATION BY MANITOBA HYDRO FOR APPROVAL OF
RATES FOR THE DIESEL ELECTRIC SERVICE IN
BROCHET, LAC BROCHET, SHAMATTAWA AND TADOULE
LAKE

Before Board Panel:

- Gerry Forrest - Board Chairman
- Kathi Avery-Kinew - Board Member
- Bob Mayer - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
January 6th, 2004
Volume I
Pages 1 to 251

APPEARANCES

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2
3 R.F. Peters)Board Counsel
4
5 Patti Ramage)Manitoba Hydro
6 Doug Bedford)
7
8 Byron Williams)CAC/MSOS
9 Randal T. Smith, Q.C.)Indian and Northern
10 Affairs Canada
11
12 Michael Anderson)Manitoba Keewatinowi
13 Okimakanak (MKO)
14
15
16 Carol Geehan)Court Reporter
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	LIST OF UNDERTAKINGS		
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3	1	Provide the Board with the	
4		breakdown of the cost of electric	
5		heat versus diesel fuel heating	
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8	2	Provide a calculation showing if	
9		Manitoba Hydro retained the same	
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11		government rate category, what would	
12		be the surcharge for those consumers,	
13		compared to what they're asking for in	
14		this Application.	182
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1 --- Upon commencing at 9:07 a.m.

2

3 THE CHAIRMAN: Good morning, ladies and
4 gentlemen. If I may, I'd like to call the Hearing to order.
5 I'll introduce you to the Panel that will hear this
6 Application.

7 On my right is Dr. Avery-Kinew, on my left is
8 Bob Mayer. My name is Gerry Forrest, Chairman of the Board.
9 Also with us today is the Board's Executive Director and
10 Secretary, Gerry Barron.

11 The purpose of this Hearing today is to hear
12 an Application by Manitoba Hydro for approval of rates for
13 the diesel electric service in Brochet, Lac Brochet,
14 Shamattawa and Tadoule Lake.

15 At this time, I'd like to call on parties in
16 this room to identify themselves for the record and then I'll
17 come back to each of you for your opening comments. With
18 that, I'd like to call on Mr. Bob Peters, counsel for the
19 Board.

20 MR. BOB PETERS: Thank you and good morning,
21 Mr. Chair. In terms of introductions for the record, my name
22 is Bob Peters and I will act as counsel to the Public
23 Utilities Board in this Application from Manitoba Hydro.

24 Seated on my left is Brent McLean from the
25 accounting firm of PricewaterhouseCoopers who is providing

1 accounting advice to the Board. On my right is Mr. Larry
2 Buhr from Dillon Consulting. Mr. Buhr is providing
3 engineering consulting advice as well to the Board. Those
4 are our introductions, Mr. Chair.

5 THE CHAIRMAN: Thank you, Mr. Peters. The
6 Consumers Association of Canada and the Manitoba Society of
7 Seniors, Mr. Byron Williams.

8 MR. BYRON WILLIAMS: Thank you, Mr. Chairman.
9 Good morning, members of the Panel. My name is Byron
10 Williams. I'm from the Public Interest Law Centre here on
11 behalf of the Manitoba Society of Seniors and the Consumers
12 Association of Canada, the Manitoba Branch.

13 Way back in the spectator section are our two
14 (2) most -- my two (2) most loyal fans, Mr. Chuck Cruden and
15 Ms. Eileen Cruden of the Manitoba Society of Seniors.
16 Expected but working on CAC/Manitoba time is Ms. Gloria
17 Desorcy. So she'll be in a bit later today.

18 Also with me today from -- a new addition to
19 our office is Ms. Suzanne Knowles (phonetic) who's in the
20 first row of the -- of the spectator section. Good morning.

21 THE CHAIRMAN: Thank you, Mr. Williams. MKO,
22 Mr. Michael Anderson.

23 MR. MICHAEL ANDERSON: Good morning, Mr.
24 Chair, members of the Board. Thank you. Happy New Year. I
25 hope you all had a restful holiday.

1 My name is Michael Anderson. I'm here for the
2 Manitoba Keewatinowi Okimakanak and I would like, at this
3 time, to also introduce two (2) interpreters that the Board
4 has kindly assisted in bringing with us. I'd like to
5 introduce Ms. Edna Jawbone of the Sayisi Dene Nation who will
6 be providing Dene translation.

7 Mr. Philip Michel of the Barren Lands First
8 Nation who will kindly be providing Cree translation and
9 assisting us from Betos (phonetic) Productions is Martin
10 Hebert and I'd just like to introduce those parties that are
11 here and appreciate the Board's support and interest in
12 providing for translation for the communities. Thank you.

13 THE CHAIRMAN: Thank you, Mr. Anderson, for
14 your opening introductions and we, too, welcome those parties
15 present.

16 I'd like to call Mr. Randy Smith representing
17 the Government of Canada.

18 MR. RANDAL SMITH: Morning, Mr. Chair.
19 Members of the Panel this morning, colleagues. Happy New
20 Year. I'm with the Department of Justice, Winnipeg Office
21 and with me, also from our office, is Ms. Dayna Anderson
22 sitting two (2) down, and from INAC, Mr. Fred Mills and we're
23 ready to proceed.

24 THE CHAIRMAN: Thank you and welcome, Mr.
25 Smith. I'd like to call on Manitoba Hydro and I'm not sure

1 whether it's Ms. Ramage or Mr. Bedford. Ms. Ramage...?

2 MS. PATTI RAMAGE: Good morning, Mr. Chair,
3 members of the Board. My name is Patti Ramage. I am with
4 Manitoba Hydro's Law Department as is Mr. Doug Bedford who
5 sits immediately to my left.

6 With -- representing Manitoba Hydro today are,
7 immediately to my right, Mr. Vince Warden, he's Vice
8 President of Finance and Administration and Chief Financial
9 Officer of Manitoba Hydro; Robin Wiens, Division Manager of
10 Rates and Regulatory Affairs, Chic Thomas, Cost of Service
11 Supervisor and Rob Cox, Manager of Retail Sales.

12 Manitoba Hydro is pleased to be here and we
13 are ready to proceed, Mr. Chair.

14 THE CHAIRMAN: Thank you, Ms. Ramage, I'll
15 come back to you for your opening comments, if you have any,
16 and I welcome your panel this morning.

17 Mr. Peters, back to you for your opening
18 comments.

19 MR. BOB PETERS: Thank you again, Mr. Chair,
20 Mr. Vice-Chair, Board Member, Dr. Canoe, ladies and
21 gentlemen. I do have a few brief opening comments and also
22 share in welcoming to 2004 in this first matter before the
23 Panel this new year, Manitoba Hydro is seeking new sales
24 rates for the diesel electric service it provides in the four
25 (4) communities known as Brochet, Lac Brochet, Shamattawa,

1 and Tadoule Lake.

2 The Application before the Board has traveled
3 an adventuresome, maybe rocky road, but after various
4 adjournments, including consent adjournments by all parties,
5 it's now at the Public Hearing stage.

6 When the Board last examined and approved
7 rates for diesel communities, there was a different number of
8 diesel communities, some of which have now been connected to
9 the grid system of electrical distribution.

10 During this Hearing, Board Members, I expect
11 you will hear evidence of the unique rate structures that
12 were first approved back in 1993 by this Board. That rate
13 structure has components for residential rates, general
14 service rates and government rates.

15 Each of these three (3) rates has components
16 that will be discussed in the evidence that will be before
17 the Board. Manitoba Hydro is requesting rate increases for
18 some of the components in all three (3) of these rates.

19 The Board can also expect to hear of the
20 controversy or at least the disagreement that exists in
21 respect of certain customers that are not paying their hydro
22 bills in full as they dispute their liability for certain of
23 the charges.

24 The Board will hear from the Intervenors and
25 utilities on those issues, but I remind all that the Board

1 has a mandate to set just and reasonable rates to be charged
2 for the electricity consumed in these four (4) diesel
3 communities.

4 I'm certain the Board will welcome and
5 consider all submissions that are advanced in an effort to
6 arrive at just and reasonable rates.

7 In terms of the procedures, Mr. Chair, Board
8 Members, I did hand out an outline of procedures this morning
9 and a hastily corrected a copy of it for -- for most of the
10 parties to correct Counsel for Manitoba Hydro, and I
11 apologize for my oversight.

12 If I can just draw people's attentions to the
13 outline of procedures, I would like to just lay out what I
14 propose will be the process to follow in the next maximum of
15 four (4) days.

16 We are now in the opening comments portion of
17 the procedures and following my opening comments, I suggest
18 the interveners be asked for theirs in the order as agreed or
19 alphabetical as a default, with Consumer's Association going
20 next, then followed by Indian Northern Affairs Canada,
21 followed by, and if I can be as eloquent as Mr. Anderson,
22 Manitoba Keewatinowi Okimakanak Inc., as the third
23 Intervenor, that will be followed by Manitoba Hydro's
24 Counsel.

25 Manitoba Hydro has already introduced to the

1 Board a Panel of witnesses and that Panel is expected this
2 morning to provide their direct examination through their
3 Counsel and then be turned over for cross-examination by
4 firstly, Board Counsel and then the Intervenors and
5 re-examination if requested.

6 The Board will also hear from Mr. Dale
7 Hildebrand on behalf of MKO, he's a witness being produced.
8 He will be lead through his direct examination when it's his
9 turn, by Mr. Anderson, and then cross-examined by the
10 Intervenors followed by Manitoba Hydro and lastly, by Board
11 Counsel.

12 Mr. Chair, Board Members, ladies and
13 gentlemen, I know there is also an expectation that closing
14 submissions will be heard by the Board this week and it is
15 expected that -- that will happen on or before Friday, with
16 Board Counsel providing first comments and then the
17 Intervenors and Manitoba Hydro to follow that up.

18 In addition to the formal evidence that the
19 Board will hear, the Board has been made aware that there are
20 some presenters who may be interested in making presentations
21 and I know they have been invited to come to the Board as
22 early as 1:15 this afternoon, Mr. Chair.

23 We will have to, I suppose, wait to see if
24 they do indeed attend and present, but they are scheduled for
25 today.

1 In addition, I would perhaps ask Mr. Anderson
2 in his opening comments, to advise the Board as to whether or
3 when his panel of presenters will be before this Board, if
4 that matter is still intended by him.

5 To provide for the orderly hearing, the Board
6 keeps exhibits and has published an exhibit list that has
7 been circulated to the parties already. That exhibit list
8 was sent out in draft form.

9 And at this point in time, Mr. Chair, I'm
10 proposing that the exhibits, as published, be our starting
11 point for today and that the Board take into evidence and
12 accept in the evidence, the exhibits as indicated on the
13 exhibit list. There may be some minor modifications from the
14 counsel when they speak to this matter.

15 But for the PUB there are Exhibits 1 through
16 10, that are noted on the -- on the exhibit list. For
17 Manitoba Hydro, there are Exhibits 1 through 8, these
18 encompass interrogatory questions that have been asked.

19 The Consumers Association of Canada, and the
20 Manitoba Society of Seniors has Exhibits 1 and 2 marked on
21 the list, and in addition, there is an indication that a
22 pre-ask question or questions have been advanced to Manitoba
23 Hydro, and it'll be a matter for counsel to determine during
24 the course of the Hearing whether those questions will in
25 fact be asked.

1 I can indicate that for MKO, which is the
2 acronym that I think most of us will use throughout the
3 Hearing, they have Exhibits 1 and 2 marked in the exhibit
4 list, and then for Indian and Northern Affairs Canada, there
5 is Exhibit number 1 marked, with the sub-exhibits, but
6 Exhibit number 1 represents their Information Requests of
7 Manitoba Hydro and their responses.

8 I should also indicate, Mr. Chair, and perhaps
9 invite Mr. Smith to speak to the matter in his opening
10 comments, that during the summer Mr. Smith circulated a
11 package of additional documents that he gave notice he may
12 intend to ask questions on during the Hearing, and I would
13 invite Mr. Smith to file that as perhaps the next exhibit, if
14 that's his intention when it comes time for his opening
15 comments.

16 So, Mr. Chair, subject to you -- to any
17 questions that you or your Board Members would have of me, I
18 would suggest that you now turn to the Intervenors for their
19 opening comments, to indicate the levels and areas of their
20 participation, and after that, to turn to Manitoba Hydro for
21 opening comments, followed by the swearing of their witnesses
22 and the direct evidence from their witnesses.

23 Thank you, Mr. Chair.

24 THE CHAIRMAN: Thank you very much, Mr.
25 Peters, for your opening comments. My exhibit list is

1 somewhat different than yours and I will check that at the
2 break and confirm it or otherwise, and I'll announce on the
3 record whether or not there are any changes. Thank you.

4 Mr. Byron Williams, Consumers Association of
5 Canada and Manitoba Society of Seniors, do you have any
6 opening comments?

7 MR. BYRON WILLIAMS: Yes, I do, Mr. Chairman.
8 As this Panel and My Friend, Mr. Peters, will know, I'm
9 seldom at a loss for words, whether the subject is Wuskwatim
10 or hockey or my beloved home town of Cirrus (phonetic), I
11 tend to have a lot to say.

12 But last night as I picked up quill and ink
13 pot, and I struggled to put into words the very strong views
14 that my clients hold about this Proceeding.

15 And as the mounds of discarded and crumpled
16 paper grew around me, I came to the conclusion that the key
17 factor underlying my literary struggles, was the fact that
18 this file is a bit of a mess. In fact, it's a series of
19 messes.

20 Mess number one (1) is a large and rapidly
21 growing gap between costs and revenues in the diesel
22 communities, a gap that can be attributed in part to years of
23 regulatory inaction on the part of Manitoba Hydro.

24 Mess number two (2) is another large and
25 rapidly growing bill. A series of unpaid bills, the product

1 of an ongoing dispute between Hydro, the Government of Canada
2 or INAC, and Manitoba -- MKO.

3 And underlying this dispute is a very real
4 question of whether a surcharge intended for the Government
5 of Canada is properly applied to an underfunded First Nation.

6 Mess number three (3) is an ongoing legal and
7 jurisdictionable -- jurisdictional stalemate between Hydro
8 and the Government of Canada, which has deteriorated to a
9 heated exchange over the ongoing validity of a series of
10 contracts which date back to the era of disco and Barry
11 Gibbs.

12 Fortunately, in my client's respectful view
13 the debate over whether or not these contracts were
14 terminated is a regulatory red-herring. There is no need in
15 my client's view for the regulator to venture into these less
16 than fulsome waters.

17 Rate number -- mess number four (4), relates
18 to the very real possibility of rate shock to certain
19 consumers in these communities, as a result of either the
20 Hydro or the OEMI proposals.

21 And finally, there's mess number five (5).
22 The potential burden to grid customers caused by the growing
23 gap between revenues and costs in these communities.

24 Put in the messy context of a mounting a
25 deficit, a pile of unpaid bills, and an acrimonious, but

1 ultimately sterile debate over -- over whether some ancient
2 contracts were actually terminated, I think my writer's block
3 becomes a little bit more understandable, especially when the
4 issues are further complicated by the dread allegation that
5 the diesel surcharge constitutes undiscr -- undue
6 discrimination in the regulatory sense.

7 Faced as I was by this tangled mess, this
8 Gordian Knot, I did what a lawyer and consumer representative
9 must often do, I turned to precedent and to my client's core
10 principles.

11 And in my reflections upon past president --
12 past precedent was very helpful especially with regard to the
13 claim of undue discrimination. Because while there is little
14 doubt that an economist would find both the surcharge and the
15 charging of rates to certain customers that are far below
16 cost to be discrim -- to be discriminatory, there is also
17 little doubt that both these practices can be justified in
18 the regulatory sense.

19 Indeed, that is exactly what this Board did in
20 1994, when it found that both the residential rate for diesel
21 customers and the government surcharge were just and
22 reasonable rates. And in essence, that's the same debate
23 we're having today, not whether the old contract was
24 terminated, but whether the rates proposed by Manitoba Hydro
25 are just and reasonable.

1 So, the first question my clients will ask,
2 and will be posing in this proceeding, is what, if anything,
3 has happened since 1994, which might disturb the Board's
4 findings, that an equivalent to grid rate for residential
5 customers and a government surcharge were just and
6 reasonable?

7 The second question they will ask is,
8 accepting that the premise of such a surcharge is just and
9 reasonable, is the goal underlying that surcharge still being
10 achieved by applying the surcharge to First Nations, when by
11 the admission of the Government of Canada, it's not fully
12 funding these First Nations for those bills.

13 A third question my clients will pose and this
14 is with regard to the Hydro proposal, is whether it will
15 actually work, given the ongoing refusal of First Nations to
16 pay the surcharge and the Government of Canada's adamant
17 refusal to accept responsibility for the First Nations'
18 section of the surcharge, will Hydro's proposal put an end to
19 the bleeding or will it merely perpetuate an -- the existing
20 problem?

21 In answer to those questions, my client's
22 participation in this proceeding will be guided by a number
23 of core principles and core objectives which they would
24 recommend to the Board. And the first relates to
25 affordability, especially as it relates to residential

1 customers.

2 For, given the exceedingly high costs of
3 service to these communities, it's clear that residential
4 customers cannot be charged market rates and that they should
5 be enjoying equivalent to grid rates, at least with regard to
6 non-heating electricity -- or electricity used for non-
7 heating purposes.

8 The second objective my clients would
9 recommend to the Board relates to efficiency because while
10 diesel electricity should be made affordable for -- in
11 circumstances where it is the most efficient fuel choice, the
12 pricing structure should not be set so as to encourage its
13 use for purposes where it's not the best choice; for example,
14 heating.

15 My client's third objective relates to equity,
16 both for grid customers and for customers off-grid. The
17 fourth objective, and it's an important one, relates to cost
18 control. Given the hemorrhage of money in the last few
19 years, there's little doubt that material changes need to be
20 made to protect grid customers.

21 Finally, these changes must be made with a
22 view to the objective of avoiding or minimizing rate shock.
23 And past inaction by Manitoba Hydro should not serve as a
24 justification for overwhelming rate shock for consumers.

25 At the end of the day, my clients will also

1 ask, how could we prevent this situation from re-occurring in
2 the future? What steps can be taken to more closely monitor
3 the costs, the rates, and the quality of service provided to
4 these communities?

5 As I said at the outset, I seldom lack for
6 words and my clients seldom lack for strong opinions, but in
7 this unique matter, I think I can say on behalf of my clients
8 that they suspect the truth or the answer to this case will
9 have to come from all parties. There's no cut and dried
10 solution. There's no easy answer that can simply balance the
11 objectives of affordability, efficiency, equity, with prudent
12 cost controls.

13 So they enter this proceeding with a bit of an
14 open mind. They'll hopefully offer some solutions which will
15 give some choices to this Board and they wish you luck in
16 what will be a very difficult decision.

17 Subject to further questions or any questions
18 from the Board, those are my client's comments. Oh, Mr.
19 Chairman, if I might, CAC/MSOS already has marked Exhibits 1
20 and 2. There was the pre-ask posed to Manitoba Hydro and the
21 response that CAC/MSOS received in July and I would ask that
22 that be marked as Exhibit 3 or CAC/MSO -- CAC/MSOS-3.

23 THE CHAIRMAN: Mr. Williams, just to clarify
24 the latter point, the Exhibit CAC/MSOS-3, that is response
25 received in July, I'm just going -- trying to go by memory,

1 is that the response to CAC/Manitoba Hydro question number
2 18?

3 MR. BYRON WILLIAMS: No, it's CAC/MSOS Hydro
4 pre-ask 1. It should be at page 11 of the revised list of
5 exhibits, Mr. Chair.

6 THE CHAIRMAN: Thank you for that
7 clarification and thank you, also, for your opening comments.
8 Mr. Anderson, representing MKO...?

9 MR. MICHAEL ANDERSON: Thank you, Mr. Chair.
10 I'm somewhat out of sequence on the procedure list but I'm
11 pleased to make my comments now. But I had a comment on the
12 pre-ask questions in terms of the manner of dealing with the
13 exhibits.

14 The pre-ask, Mr. Chair and Board Counsel,
15 resulted in the generation of a number of exchanges of
16 correspondence between CAC and Manitoba Hydro including an
17 e-mail that's referred to in Ms. Ramage's letter of September
18 12th, that we haven't seen.

19 And, although our -- advisor has seen the
20 August 25th correspondence, we're not able to locate it in
21 our records. Ms. Ramage, likely, will be able to find --
22 produce the delivery note for it but we did search
23 extensively for it.

24 So there is what amounts to a series of
25 documents that altogether may underpin certain comments that

1 Mr. Williams may make on behalf of his clients and I'd like
2 to ensure the entire record is before the Board and -- and
3 before the Intervenors.

4 THE CHAIRMAN: Thank you, Mr. Anderson. May I
5 suggest, sir, that at the break, you, Mr. Williams, and Board
6 Counsel and Ms. Ramage get together and make sure that the --
7 those documents are identified for the Board and the Board is
8 aware of all the documents which you make reference to. Can
9 you do that for us?

10 MR. MICHAEL ANDERSON: Thank you, Mr. Chair,
11 that'd -- that'd be fine.

12 THE CHAIRMAN: Okay, then, sir, are you ready
13 with your opening comments?

14 MR. MICHAEL ANDERSON: I am. I had no idea
15 that Mr. Williams was such a poet, Mr. Chair, but I'm glad
16 that his review of the file had inspired him to such words,
17 because in -- to a great deal of -- to a great extent, in
18 terms of his comments, we agree with the substance of it.

19 It is a complex and confusing file, it has
20 travelled a long route, as Board Counsel had mentioned in his
21 opening, but the approach that MKO would like to take would
22 be to certainly focus and clarify a lot of the considerations
23 that we have, because we do agree that paramount is resolving
24 the issue in a manner in which we can move forward from this
25 point in time, and from which the Board can set down an order

1 that is -- that will work in respect of the Manitoba Hydro's
2 remote customers.

3 I have a couple of various business items,
4 would you like for me to deal with them right now, or after
5 my comments, Mr. Chair?

6 THE CHAIRMAN: Whatever is your pleasure.

7 MR. MICHAEL ANDERSON: Well, maybe just so
8 that I can role through my comments as I go, some of my
9 preliminary comments is just to remind all parties that OEMI,
10 Optimum Energy Management Inc., was acquired by Stantec in
11 the fall, October/November. We did circulate a notice to
12 that affect in December.

13 And as such, Mr. Hildebrand will be
14 representing -- will be rep -- is an employee, is a
15 consultant with Stantec, and Mr. Hildebrand will describe the
16 acquisition and his role with Stantec more thoroughly. It
17 does not affect the evidence in any way.

18 There's also an errata that we circulated to
19 all parties by fax yesterday, in respect of a variety of
20 matters regarding materials provided and produced by Mr.
21 Hildebrand. Now, I have copies of that letter if you'd like
22 to re-circulate it for the convenience of the parties here,
23 if you wish, Mr. Chair?

24 THE CHAIRMAN: Mr. Anderson, I received both
25 of those and I have them in front of me, sir, so they will be

1 part of Mr. Hildebrand's evidence, and we'll correct them as
2 he is suggesting.

3 MR. MICHAEL ANDERSON: All right, I had
4 brought it up at this time as well, Mr. Chair, just for the
5 convenience of parties, and -- and the development of any
6 cross-examination of Mr. Hildebrand that might be affected by
7 these minor changes.

8 The other is the -- the matter of our
9 organization, MKO. We have recently, at our annual general
10 assembly, formally changed the name of the organization to
11 Manitoba Keewatinook Ininew Okimowin, which in Cree means
12 Northern People's Government.

13 It was felt that MKO should represent the
14 people of the northern region through our First Nations, and
15 so we have changed our name for the purposes of the
16 Proceedings and all the evidence we're content to use MKO as
17 the designator and have no intent to change that. But that
18 further correspondence and the introductions from others will
19 refer to our full organization, which is Manit -- Manitoba
20 Keewatinook Ininew Okimowin.

21 In terms of the presenters that Manitoba
22 Keewatinook Ininew Okimowin might provide, partly as a result
23 of the factors, recent holiday and distances and so forth,
24 I'm advised that those individuals that we would like to
25 bring will be available at different times this week.

1 An example is Chief Ila Bussidor from the
2 Sayisi Dene Nation is available Thursday, and she is
3 travelling to or presently in Winnipeg.

4 Grand Chief Sidney -- Dr. Sidney Garrioch of
5 MKO is not available on Thursday, and so his preference would
6 be Friday, if we're still sitting.

7 There are others who are currently in transit
8 that we're trying to confirm dates for. The summary of my
9 comment would be is that partly as a result of the change in
10 venue to Winnipeg, I request and seek the Board's assistance
11 and indulgence in trying to accommodate presenters when
12 they're available, because of the great distances that many
13 are travelling.

14 THE CHAIRMAN: And, Mr. Anderson, I believe I
15 can respond on behalf of the Board now, and that is that the
16 Board will do its utmost to accommodate the presenters when
17 those presenters arrive.

18 MR. MICHAEL ANDERSON: Thank you, Mr. Chair,
19 and as the -- the Board and all counsel would expect, we will
20 advise all parties as soon as we have scheduled times, to
21 ensure that it suits to the extent possible, the flow of the
22 Proceedings, Mr. Chair.

23 THE CHAIRMAN: Thank you very much for that.

24 MR. MICHAEL ANDERSON: All right. Those are
25 the basic issues and onto my opening statements if I might.

1 MKO views the issues before the Board as
2 primarily being related to Manitoba's Hydro has proposed to
3 substantially increase customer rates for all classes in
4 Manitoba Hydro remote customers served by diesel powered
5 generators and to take sudden and substantial steps toward
6 recovering nearly 100 percent of the cost of service to
7 Manitoba Hydro remote communities through these proposed
8 rates.

9 The proposed rates would represent increases
10 of customer class revenues of 77 percent to residential
11 customers, 80 percent for general service customers and 140
12 percent for the so-called government class.

13 The issues before the Board in this proceeding
14 from our view is first; the provision by Manitoba Hydro of a
15 supply of power adequate to the means of Manitoba Hydro
16 remote customers and the promotion by Manitoba Hydro of
17 economy and efficiency in the development, generation,
18 transmission, distribution, supply and use of power for
19 Manitoba Hydro remote service customers. That is all of
20 those matters that Manitoba Hydro is responsible for within
21 all of the remainder of its service area.

22 And I think the service by Manitoba Hydro to
23 the customers is the beginning point. It's a key issue here.
24 It seems to have been put in issue in previous proceedings
25 but it's a matter before the Board today and for this week.

1 The second issue before the Board in this
2 proceeding is the cost to Manitoba Hydro of providing an
3 adequate supply of power to Manitoba Hydro's remote customers
4 and whether these costs are reasonable. There have been a
5 great deal of discussion in the past about certain costs. I
6 know that there have been reference to, oh, more than \$10
7 million, 12.6 million I believe is the word -- the number
8 repeatedly raised.

9 In terms of stranded costs we're pleased that
10 Manitoba Hydro is not proposed in this proceeding to deal
11 with them. But the -- to the extent that that \$12.6 million
12 is a reasonable number, in fact, Mr. Chair, has never been
13 tested. We don't know whether that value that has been
14 circulated widely and repeated frequently in fact represents
15 reasonable costs of the utility and providing service.

16 So I'm satisfied and pleased that Manitoba
17 Hydro is for the purposes of this proceeding decided to set
18 that item aside and will be -- you know, pursuing the
19 proceeding carefully to ensure that we don't slide into a
20 discussion of stranded costs which have not been tested and
21 are not before the Board formally in this proceeding.

22 The third matter is the assignment of the
23 reasonable costs by Manitoba Hydro to the various classes of
24 Manitoba Hydro's remote customers. Of course that would be
25 through the Cost of Service Study and other practices.

1 The fourth would be those policies determining
2 what portion of the costs of supplying power to Manitoba
3 Hydro remote customers should be recovered directly from
4 Manitoba Hydro remote customers or from the Manitoba Hydro
5 grid service and whether the apportionment is reasonable.

6 The fifth issue is that -- is -- before the
7 Board is the rates themselves proposed by Manitoba Hydro to
8 recover the apportioned cost from Manitoba Hydro remote
9 customers and of course whether the proposed rates are just
10 and reasonable.

11 So the five (5) bullets in summary are the
12 provision of power, Manitoba Hydro's costs of providing an
13 adequate supply to remote customers and the reasonableness of
14 those costs, the assignment of reasonable costs to various
15 classes of customers, the policy determining what portion of
16 costs should be recovered directly from remote customers, and
17 the actual rates being proposed by Manitoba Hydro to do that.

18 The central issue before the Board is how to
19 address the cost of service for Manitoba Hydro's remote
20 service from a rate making perspective. Manitoba Hydro in
21 our view, has not made a viable or reasonable proposal
22 providing a solution to how to address the cost of service in
23 the diesel zone from a rate making perspective.

24 We share some of the -- Mr. Byron William's
25 comments, but in -- in essence we believe the proposal before

1 you will not resolve the issues that we've listed.

2 The proposed MKO tariff in our view does
3 provide a basis for establishing rates for the remote service
4 and of course, subject to additional information adduced in
5 these proceedings, cross-examination proposals from other
6 parties, the issue I wish to focus on in terms of the tariff
7 design that we've proposed is that it provides a basis. It's
8 a structure and an approach which can be adjusted if
9 necessary based on information.

10 I note in this regard for example that
11 although it wasn't sent out as an amendment to the
12 Application per se in the July 23rd reply to the -- CAC's
13 pre-ask, there is a revision in the amount of the surcharge
14 being proposed in the Application, so numbers are already
15 beginning to change, simply as a result of further review and
16 investigation of Manitoba Hydro's Application.

17 So, I just raise that as a matter for us to
18 keep alert to during this proceedings. Our -- our view is
19 that Manitoba Hydro's Application is unjust and unreasonable
20 and discriminatory for the following reasons.

21 Manitoba Hydro proposes to virtually eliminate
22 the contribution from grid customers to remote service costs,
23 which historically has been between 20 and 30 percent, and
24 abruptly move to rates based on recovering much closer to 100
25 percent of the cost of service.

1 Mr. Williams referred to rate shock and we
2 certainly don't disagree that that will occur, but
3 eliminating the grid, the contribution from grid service, is
4 a major factor in contributing to that.

5 Manitoba Hydro proposes that there be no
6 assignment of an export credit from Manitoba Hydro export
7 revenues toward the cost of service in the diesel service
8 area and the remote service.

9 Again, this is a major factor in -- in terms
10 of the rates and it's different from the treatment of all
11 other Manitoba Hydro customers. Manitoba Hydro proposes the
12 designation of all First Nation accounts and we -- we have
13 some cross-examination we'd like to lead on that, in terms of
14 the uncertainty of how these might be classified.

15 But the designation of all First Nation
16 accounts as government accounts and to charge a rate
17 substantially different to these First Nation accounts that
18 are charged to other customers in the same customer class, as
19 would be determined by loads and cost of service, being
20 general service small customers in the same community.

21 Under the current tariff they would be
22 referred to as non-government customers. And so charging a
23 very much higher rate to essentially the same customers, in
24 our view, is highly discriminatory.

25 With the exception of a forecast contribution

1 of five hundred and fifty nine thousand, three hundred and
2 fifty dollars (\$559,350) dollars from grid service, Manitoba
3 Hydro proposes that the First Nation government customers
4 directly subsidize the difference between revenues and costs
5 for all other customers in the diesel service zone, including
6 the costs of the partial uniform rate for other diesel
7 customers established and proposed by Manitoba Hydro pursuant
8 to provincial uniform rate legislation.

9 We find this aspect of the rate proposal
10 particularly troubling in that, they're asking First Nation
11 accounts to subsidize a provincial government legislative
12 policy.

13 Which again, brings us back to the inequities
14 related to the export credit and the shift away from grid
15 customers contributions to the remote service.

16 We believe it's unjust and unreasonable for
17 Manitoba Hydro to abruptly move toward a 100 percent cost
18 recovery or in that direction recognizing that full cost is
19 what they -- they are proposing as an objective, although the
20 numbers are 90 percent and 99 percent, to move abruptly
21 toward nearly 100 percent cost recovery and to substantial
22 inter and intra class subsidies within the remote service,
23 while not making a reasonable or prudent effort to contain
24 diesel service costs.

25 We bring to the Board's attention in this

1 regard, that Hydro had testified in the previous proceeding
2 that it had not pursued aggressively DSM initiatives with
3 diesel customers and believed it has no responsibility to do
4 so; that as far as we are aware from the material in the
5 interrogatory responses that Manitoba Hydro has not applied a
6 competitive tendering and lease cost approach to the
7 installation of diesel capital assets.

8 For example, new generators at Shamattawa and
9 the cost of new capital for the installation of generation
10 equipment at Shamattawa is a major factor driving the
11 increase in cost according to the Application. And in our
12 view, Manitoba Hydro has not compared, including the
13 responses to Manitoba MKO Interrogatories the forecast diesel
14 rates to the benefit costs of alternatives, including supply
15 and transmission.

16 Clearly with surcharge rates for a substantial
17 portion of supply approaching two dollars (\$2) a kilowatt
18 hour, the feasibility and benefit cost of a variety of
19 alternatives change based on previous studies that took place
20 many years ago, in some cases.

21 There's no evidence that these have been
22 aggressively re-evaluated prior to the Application coming
23 before this Board, in terms of a plan combining new supply
24 transmission and rate design as a means of addressing the
25 remote service.

1 We agree with the Consumers that the Hydro
2 Application is incomplete and uncertain. Another aspect to
3 it is that Hydro's Application, in part, refers to the
4 proposition that any costs net of rate revenues be recovered
5 in direct billings to a presently unidentified federal agency
6 that is not, in fact, a Manitoba Hydro customer or, in fact,
7 is even being supplied by power by Manitoba Hydro.

8 There, in doubt -- no doubt, will be some
9 argument and discussion with respect to the provisions of the
10 Manitoba Hydro Act and how rates and charges can be assessed
11 against a person -- an agency or an individual who is not a
12 customer nor is receiving power but I leave that for further
13 review during this proceeding, if necessary.

14 Hydro does not, in fact, even approve a rate
15 -- propose a rate to achieve this in the package of rates
16 supplied to the Board for approval. So I'm not sure how that
17 suggestion could be carried out.

18 In addition, Manitoba Hydro has presented no
19 evidence or tests to confirm that the forecast rates -- the
20 proposed rates and the forecast rate revenues from them can
21 be realized in terms of actual consumption at those proposed
22 rates.

23 If the intention of rates is to -- these rates
24 is, in fact, to communicate a -- the cost of service to the
25 customers, there's been no factoring in to determine whether

1 the consumption will actually materialize at those costs.

2 The evidence led by MKO through our witness by
3 subpoena through Mr. Mills indicated that there are fixed
4 limitations on the ability of the First Nations to cover
5 bills. So there's been no analysis of whether the proposed
6 rates will actually yield the revenues they -- that are
7 required to provide for the remote services.

8 In terms of a -- our review of comparable
9 utility treatment in remote services elsewhere in Canada, we
10 note that across the country the pattern is more toward First
11 Nation residents, businesses, and Band operated community
12 facilities within the remote First Nations being treated as
13 ordinary customers by the utility; that is not classified as
14 government or First Nation for that purpose, and treated
15 separately from other general service customers, for example,
16 and are charged the same rates as comparable non-First Nation
17 customers in each class of service.

18 The cost of service and rate design treatment
19 of remote services, typically, are guided by Provincial,
20 Territorial and/or Utility policies which provide for good
21 system contributions through the assignment of a remote
22 system capital cost as grid system capital costs or grid
23 customer contributions through rates, or both, toward the
24 cost of remote services.

25 Of course, we do take note that there is a

1 uniform rate proportion of each of the customer rates, but in
2 essence, these are guided by -- by direct policies of
3 government so, therefore, the administration of rate
4 proposals, such as the one presented to you, are more
5 straightforward by regulators, in that the policy is defined.

6 Having said that, I note that the transitional
7 provisions of the Manitoba Hydro Act Amendment 2 remain in
8 effect and, in effect, there is a statutory policy providing
9 Hydro with powers to reduce rates to non-grid customers in a
10 manner similar to grid customers but it is not directed at
11 the Board. It's a power provided to Hydro. So Hydro has to
12 present them to you.

13 That all utilities surveyed provide at least a
14 basic uniform rate to residential customers at rates
15 equivalent to grid rates for similar customer classes and
16 some utilities provide, at least, an initial consumption
17 block of grid equivalent rates to commercial and general
18 service customers.

19 Alberta, however, provides grid rates for all
20 consumptions to all customers and I'm certain Mr. Hildebrand
21 will discuss why that takes place in that province.

22 The rate design and service connection
23 policies in the utilities surveyed are intended to
24 communicate to customers the higher cost of remote services.
25 They use that as a tool to influence consumption in each

1 jurisdiction except in Alberta.

2 And capital contributions are not required for
3 generation upgrades, including in First Nation communities
4 served by these utilities. The capital cost of remote
5 services are often included as part of the capital costs of
6 the utility.

7 Our comments are is that the MKO proposal and
8 -- and the tariff that we've presented to date, absent
9 anything that you may hear in this proceedings at the present
10 time, is the only reasonable and complete proposal presented
11 to the Board.

12 The MKO proposal recognizes that remote
13 customers are Manitoba Hydro customers, that the MKO proposal
14 addresses the cost of service for remote services, that our
15 proposal proposes tariffs for all customer classes. Our
16 proposal presents tariffs that incorporate rate setting
17 principles.

18 And it, in terms of including communicating
19 the cost of service to the customer, and the MKO proposal
20 incorporates a comparison of the treatment of remote services
21 in other jurisdictions within Canada.

22 We -- it's our view that the MKO proposal
23 addresses diesel service costs in our rates with certainty,
24 and in a manner reflecting the approach of other remote
25 services in Canada. And the summary of our -- our proposal

1 and the rationale for it that we will pursue during the
2 Proceeding are these.

3 The first is to include diesel system capital
4 cost as part of all Manitoba Hydro system costs, to subsume
5 the capital cost of the system within Manitoba Hydro as a
6 utility.

7 Two (2), to provide for limited first block at
8 uniform rates for our remote customers.

9 Three (3), to establish tail blocks, and a
10 final tail block for diesel customers, equivalent to the
11 variable fuel cost, to communicate higher cost of service to
12 all customers.

13 And in so applying the first three (3) items,
14 and endorsing and adopting the MKO tariff. This would
15 correctly communicate the responsibility and obligation to
16 Manitoba Hydro to pursue on behalf of all Manitoba Hydro
17 customers, the economy and efficiency in a developed
18 generation, transmission, distribution, and supply and end
19 use of power, including the DSM initiatives within Hydro's
20 remote services of communities, and for their customers.

21 To pursue competitive tendering and least cost
22 approaches in respect to the installation of diesel and other
23 capital assets, and of course, to ensure as a result of these
24 first three (3) recommendations, the comparison of diesel
25 service cost to the benefit costs of alternatives, including

1 supply and transmission.

2 We agree with Mr. Williams that resolving
3 these issues with certainty and finality is an important
4 matter before this Board and look forward to pursuing this
5 issue as the Hearings proceed. Thank you, Mr. Chair. And
6 subject to any questions, those are my comments, thank you.

7 THE CHAIRMAN: Thank you, Mr. Anderson, for
8 your opening comments, the Board doesn't have any questions
9 at this point in time. We'll wait as we move through this
10 Application.

11 Mr. Smith, representing Justice Canada...?

12 MR. RANDAL SMITH: Thank you, Mr. Chair,
13 actually Justice Canada is representing INAC and INAC is the
14 Intervenor before you today.

15 As Mr. Peters alluded to, we did distribute
16 back in the summer time, early September, a package of
17 documents to all interested parties, that we would like to
18 mark as Exhibit 2, the INAC list of documents. And which
19 documents we may refer to in the event that we cross-examine
20 the Manitoba Hydro Panel, as the Hearing unfolds.

21 The only proviso, and I hope nobody has an
22 objection to this, regarding this package of documents, is
23 that instead of the August billings from Manitoba Hydro to
24 INAC that were included with the original package, I have
25 taken the liberty of replacing those bills with the December

1 billings, so that they're up to date, or at least as up to
2 date as we have them, together with Mr. Mills, INAC's letter
3 back to Manitoba Hydro, concerning those December billings,
4 so that we're up to date.

5 But, other than that, the package is as it was
6 when originally sent out.

7 THE CHAIRMAN: Thank you. Mr. Barron, have
8 you got a copy of those packages?

9 MR. RANDAL SMITH: I do have a couple of extra
10 packages if anybody cares to -- I have two (2) more.

11 THE CHAIRMAN: Okay, Ms. Ramage, do you have
12 any objections to the exception noted by Mr. Smith?

13 MS. PATTI RAMAGE: No, Mr. Chair.

14 THE CHAIRMAN: Thank you. Then we'll accept
15 that, Mr. Smith, and --

16 MR. RANDAL SMITH: Thank you, Mr. Chair.

17 THE CHAIRMAN: -- may I suggest we mark that
18 as INAC, I-N-A-C, Exhibit Number 2.

19 --- EXHIBIT NO. INAC 2: Package of documents.
20

21
22 MR. MICHAEL ANDERSON: Mr. Chair, and, Mr.
23 Peters, just as a procedural matter, I note that there's a
24 large number of individual documents within now Exhibit 2. I
25 suppose if any other parties wish to utilize these in

1 examination of Hydro's Panel or others, that there'll be some
2 flipping and time, that we'll just be patient and try to
3 describe them as they proceed. Or is there any other
4 suggestion that you might have with respect to these, should
5 we -- if for example, an extract of these is made or used, do
6 we give it a new exhibit number?

7 THE CHAIRMAN: Hopefully not, Mr. Anderson,
8 but maybe we'll identify them by page number, and -- and
9 maybe I'll do that at the break and then -- so that we can
10 move forward by page number with respect to Exhibit No. 2

11 MR. MICHAEL ANDERSON: That would be
12 excellent because in flipping through this briefly this
13 morning, there are at least four (4) pages I would like to
14 refer to simultaneously which would require four (4) fingers
15 in this large document to flip back and forth. I had
16 considered extracting them and copying and stapling them and
17 providing them with an MKO number, but if we could just work
18 with page numbers that would be excellent. Thank you.

19 THE CHAIRMAN: Thank you. I knew when I got
20 up this morning that I was going to be approaching a hearing
21 that was somewhat different than normal and it's reached that
22 point already. Mr. Smith do you have further comments.

23 MR. RANDAL SMITH: Just very briefly Mr.
24 Chair. INAC -- INAC believed it important that it attends
25 these Hearings so as to assist the Board with INAC's

1 perspective on some issues raised by Manitoba Hydro in its
2 Application.

3 Most importantly Manitoba Hydro raises our so-
4 called historical relationship with Manitoba Hydro and to the
5 extent that the Board is inclined to hear about that
6 historical relationship, we'll attempt to assist the Board
7 through a cross-examination of Manitoba Hydro.

8 It's not anticipated that INAC will call any
9 direct oral evidence, but we would like to reserve the
10 opportunity to -- to do so depending on the cross-examination
11 of Manitoba Hydro. Those are my opening comments, thank you
12 Mr. Chair.

13 THE CHAIRMAN: Thank you Mr. Smith
14 representing INAC camp.

15 Go to Ms. Ramage. Do you have any opening
16 comments on behalf of Manitoba Hydro?

17 MS. PATTI RAMAGE: Mr. Chair, I hadn't -- had
18 intended on any opening comments but having heard those of
19 the Intervenors, I would just perhaps add that Man --
20 firstly Manitoba Hydro agrees with Mr. Williams that the key
21 question to be determined by this Board is whether the rates
22 are just and reasonable.

23 Manitoba Hydro has provided, largely in answer
24 to information requests, a great deal of historical
25 background information in these Hearings. That information

1 was elicited I believe to demonstrate the foundation of what
2 is a very unique rate structure in Manitoba.

3 Manitoba Hydro does not have any expectation
4 that the Board is going to make a ruling with respect to the
5 contractual relationships and we thought that important to
6 state out -- up front. However, to know where we are today,
7 we have to know where we've been.

8 And so from that, we would like to make clear
9 that any information regarding historical is for that
10 purpose. What Manitoba Hydro is here today to do, is to
11 update the rates to reflect the cost of service in diesel
12 communities and to put in place appropriate price signals to
13 deal with what Manitoba Hydro understands are higher costs
14 than -- than grid customers have today.

15 Now with that, Manitoba Hydro would also agree
16 with MKO and -- and CAC and I suspect INAC would agree also
17 that the one thing that we would like to see come out of
18 these Hearings, is that we resolve this -- these issues with
19 certainty and finality.

20 And with that Mr. Chairman, I can advise
21 Manitoba Hydro is prepared to proceed with its direct
22 examination of its witnesses.

23 THE CHAIRMAN: Thank you, Ms. Ramage. Do you
24 wish to have your witness sworn at this time?

25 MS. PATTI RAMAGE: I'm sorry Mr. Chair, I was

1 --

2 THE CHAIRMAN: That's all right. Do you wish
3 to have your witnesses sworn at this time?

4 MS. PATTI RAMAGE: Yes, that's -- that would
5 be good. The one other comment that Mr. Wiens has suggested
6 I make, I -- there is a concern with respect to INAC's
7 comment that it may wish to call direct evidence. That's not
8 something that the Rules of Procedure in these Hearings would
9 normally allow without parties having had an opportunity to
10 see that evidence ahead of time and pose information requests
11 with respect to it.

12 So I would raise that concern at this point,
13 but I don't believe there's a need to deal with it until the
14 issue actually arises.

15 THE CHAIRMAN: I agree with you Ms. Ramage.
16 When the issue arises, I'll certainly give you an opportunity
17 to put your views forward and the Board will consider all the
18 views and determine how we're going to proceed from that
19 point on. Are you now ready to have your witnesses sworn?

20 MS. PATTI RAMAGE: Yes.

21 THE CHAIRMAN: Mr. Barron...?

22

23 (BRIEF PAUSE)

24

25 THE CHAIRMAN: Let the record show that Mr.

1 Warden, Mr. Wiens, Mr. Thomas and Mr. Cox have been sworn.

2

3

VINCE WARDEN, Sworn

4

ROBIN WIENS, Sworn

5

MICHAEL SHAYNE THOMAS, Sworn

6

ROBERT COX, Sworn

7

8 THE CHAIRMAN: Ms. Ramage, do you have any
9 direct?

10

MS. PATTI RAMAGE: Yes, I do, Mr. Chair.

11

12 EXAMINATION-IN-CHIEF BY MS. PATTI RAMAGE:

13

14 MS. PATTI RAMAGE: Mr. Warden, would you
15 please outline your areas of responsibility with respect to
16 this Application?

16

17 MR. VINCE WARDEN: Yes. Good morning, Mr.
18 Chairman, Members of the Public Utilities Board, ladies and
19 gentlemen.

19

20 With respect to this Application, I'm
21 responsible for general oversight of the filing and any
22 related policy matters.

22

23 MS. PATTI RAMAGE: Mr. Warden, before
24 proceeding further, do you adopt on behalf of Manitoba Hydro
25 the evidence provided in Manitoba Hydro's Application as well
as the answers to information requests and rebuttal evidence

1 all filed in these proceedings?

2 MR. VINCE WARDEN: Yes, I do.

3 MS. PATTI RAMAGE: Mr. Warden, would you
4 please describe the circumstances giving rise to this
5 Application?

6 MR. VINCE WARDEN: Yes, Manitoba Hydro is
7 applying for increases in rates to recover costs incurred by
8 the Corporation to provide diesel electric service to the
9 four (4) communities of Brochet, Lac Brochet, Tadoule Lake
10 and Shamattawa.

11 Rates of these communities have not increased
12 since 1993. Since that time, many changes have occurred
13 within the diesel zone including transfer of a large portion
14 of former diesel customers to the central grid, upgrades to
15 services within the remaining four (4) diesel zone
16 communities and substantial load growth within those
17 communities.

18 These changes, together with significant
19 increases in the cost of diesel fuel, have all lead to
20 substantially higher costs to serve customers in the diesel
21 zone.

22 MS. PATTI RAMAGE: What specifically is
23 Manitoba Hydro seeking in this Application?

24 MR. VINCE WARDEN: Manitoba Hydro is seeking
25 the approval of the Public Utilities Board to make the

1 following changes.

2 Number one (1), increase the full cost rate in
3 the diesel zone from thirty five point nine (35.9) cents per
4 kilowatt hour to seventy nine point one (79.1) cents per
5 kilowatt hour.

6 Number two (2), increase the government's
7 surcharge from forty four point eight (44.8) cents per
8 kilowatt hour to one dollar and twenty two cents (\$1.22) per
9 kilowatt hour.

10 And number three (3), limit the monthly usage
11 by residential and general service customers to which grid
12 equivalent rates apply to 2000 kilowatt hours per month and
13 apply the full cost rate to usage in excess of that limit.

14 In addition, Manitoba Hydro, is seeking
15 confirmation from the Public Utilities Board, that the
16 government rate should apply to all accounts of the
17 Government of Canada, the Government of Manitoba and to all
18 non-residential First Nation facilities that are currently
19 funded either directly or indirectly by government.

20 This confirmation is necessary because of
21 administrative changes that have occurred between the
22 Government of Canada and the First Nations and which have
23 resulted in bill collection difficulties for Manitoba Hydro.

24 MS. PATTI RAMAGE: Why is it necessary to
25 increase rates so significantly at this time?

1 MR. VINCE WARDEN: As previously indicated
2 Manitoba Hydro has not implemented a rate increase in the
3 diesel community since 1993 and many changes have occurred
4 over the intervening years.

5 When Manitoba Hydro last appeared before this
6 Board with a diesel rate Application, there were thirteen
7 (13) diesel served communities. Since that time, nine (9) of
8 these communities have been connected to Manitoba Hydro
9 central grid and are now receiving the same level of service
10 as all other electricity consumers in the Province.

11 Because costs were previously shared amongst
12 the thirteen (13) diesel served communities and because the
13 majority of electricity usage was in the nine (9)
14 communities, now connected to the grid, there was a
15 significant impact on the remaining four (4) communities when
16 they were left to bear all the cost of these electric
17 service.

18 Furthermore, these four (4) communities are
19 more -- remote than the other nine (9) communities and
20 consequently have a higher cost to serve. In addition, major
21 new investment has been made in these four (4) communities to
22 meet increased demands and to improve the quality of service.

23 Finally, fuel and other operating costs have
24 increased substantially since the last rate increase in these
25 communities.

1 MS. PATTI RAMAGE: Mr. Warden, won't the
2 magnitude of this rate increase be very onerous to the
3 average residential customer in these communities?

4 MR. VINCE WARDEN: No. The average
5 residential consumer in each of the four (4) communities pays
6 today, and will continue to pay, identical rates to all other
7 residential customers in the Province of Manitoba.

8 This has been the case since uniform rates
9 were implemented across the Province in November of 2001.
10 Prior to that, residential customers in these four (4)
11 communities paid identical rates to all other residential
12 customers in Manitoba Hydro's Zone 3, the low density area of
13 the Province.

14 There is one (1) stipulation, however, and
15 that is because of the high cost to serve residential
16 customers in diesel -- in the diesel zone are restricted from
17 using electricity for space heating purposes. This is
18 administered today through restrictions on service entrance
19 size.

20 With this Application, it is proposed that the
21 usage within the four (4) communities for residential and
22 general service customers be capped at two thousand kilowatt
23 hours (2000 kWh) per month. Customers using above two
24 thousand kilowatt hours (2000 kWh) per month will pay the
25 full cost rate for usage above that cap.

1 To put this two thousand kilowatt hours (2000
2 kWh) cap into perspective, the average residential consumer
3 in Manitoba, without electric heat, consumes approximately
4 eight hundred and seventy kilowatt hours (870 kWh) per month.

5
6 So we believe that the two thousand kilowatt
7 hours (2000 kWh) is actually quite generous and will not
8 impose any hardship on the average residential consumer in
9 the four (4) diesel communities. By comparison, Hydro Quebec
10 limits subsidized use to nine hundred kilowatt hours (900
11 kWh) per month. And the North West Territories Power
12 Corporation limits subsidized use to seven hundred kilowatt
13 hours (700 kWh) per month.

14 Manitoba Hydro often states that it has the
15 lowest electricity rates in North America. With the rates
16 proposed in this Application over 65 percent of customers in
17 the diesel rate zone will have access to that lowest rate
18 structure.

19 The remaining 35 percent will have rates
20 within the range of diesel served customers in other
21 jurisdictions in Canada. Mr. Wiens will further review
22 diesel rate comparisons to other jurisdictions in his direct
23 testimony.

24 MS. PATTI RAMAGE: You referred to a two
25 thousand kilowatt hour (2000 kWh) cap, why is that cap

1 necessary?

2 MR. VINCE WARDEN: A cap is necessary to
3 discourage the use of electric space heating in these
4 communities. If all customers used electric heat the
5 capacity of the diesel electric generators would have to be
6 increased substantially and this would further increase the
7 cost within the four (4) communities.

8 Furthermore, it is much more efficient for
9 consumers to burn diesel fuel directly as a heat source
10 rather than to convert diesel fuel to electricity for heating
11 purposes. Up until now, Manitoba Hydro has attempted to
12 discourage the use of electric heat in the communities
13 through a limitation on service entrance size.

14 This has been very difficult to administer and
15 Manitoba Hydro is confident that the two thousand kilowatt
16 hour (2000 kWh) cap will be a more efficient and equitable
17 way of providing customers with the appropriate price and
18 usage signals.

19 MS. PATTI RAMAGE: Can you describe the
20 structure of rates to the different rate classes for
21 consumption in excess of two thousand kilowatt hours (2000
22 kWh) per month?

23 MR. VINCE WARDEN: Yes. Manitoba Hydro's
24 rate structure, as set forth in the Application, is to charge
25 the full cost of service on consumption in excess of two

1 thousand kilowatt hours (2000 kWh) per month for residential
2 and general service customers.

3 The full cost rate is proposed to be seventy-
4 nine point one (79.1) cents per kilowatt hour effective April
5 1st, 2003. For government customers, Manitoba Hydro's policy
6 is to charge full cost for all kilowatt hours of consumption
7 and, in addition, to levy a surcharge which is intended to
8 recover most of the costs associated with the subsidizing
9 residential and general service usage below two thousand
10 kilowatt hours (2000 kWh) per month.

11 The government surcharge is proposed to be one
12 dollar and twenty-two cents (\$1.22) per kilowatt hour on all
13 consumption by government and First Nation accounts.

14 MS. PATTI RAMAGE: Why does Manitoba Hydro
15 propose to recover most of the cost of subsidizing up to the
16 two thousand kilowatt hours (2000 kWh) per month of
17 residential and general service usage through surcharges to
18 government accounts?

19 MR. VINCE WARDEN: The average cost to serve
20 a kilowatt hour of usage in the diesel communities is
21 forecast to be seventy-nine point one (79.1) cents per
22 kilowatt hour in 2003/2004. The uniform grid rates for
23 residential or general service -- general service recovers
24 only a small fraction of that cost. In fact, less than 10
25 percent.

1 In accordance with sound cost of service
2 principles, rates should be structured to recover the costs
3 of serving customers from those customers who cost -- who
4 caused the cost to be incurred. In the case of First Nation
5 communities, it is Manitoba Hydro's understanding that the
6 Federal Government has the responsibility to provide basic
7 services, including electricity.

8 The Federal Government has historically met
9 its -- this responsibility, to provide electricity service by
10 contracting with Manitoba Hydro.

11 The Federal Government's method of payment for
12 almost twenty (20) years has been a surcharge on Government
13 accounts. The surcharge rate structure has been reviewed and
14 approved by the Public Utilities Board, and the Federal
15 Government has paid its bills, pursuant to this approved rate
16 structure. The surcharge is a fair and reasonable mechanism
17 for the recovery of Manitoba Hydro's cost to provide diesel
18 electric service. And it would be unfair to other ratepayers
19 in the Province to burden them with such costs.

20 MS. PATTI RAMAGE: Why are you including First
21 Nation accounts within your definition of Government?

22 MR. VINCE WARDEN: To be clear, the First
23 Nation accounts are those non-residential accounts, such as
24 Band Office, recreational facilities, the school, the nursing
25 station, and other such facilities, that traditionally have

1 received and continue to receive their funding from
2 Government.

3 So, for Manitoba Hydro's purposes, these First
4 Nation accounts are being included within the definition of
5 Government, to which the surcharge should apply.

6 MS. PATTI RAMAGE: Why does Manitoba Hydro
7 believe First Nations are Governments, and that First
8 Nation's accounts should pay the Government rates and
9 surcharges?

10 MR. VINCE WARDEN: Manitoba Hydro would prefer
11 to stay out of the discussion as to whether or not First
12 Nations are Government. We are only interested in recovering
13 our costs from those who have responsibility to provide the
14 basic services -- within these communities.

15 And to put this into historical context, these
16 services were paid directly by the Government of Canada,
17 until about 1987, when responsibility for administering such
18 services was transferred by the Government to the First
19 Nations.

20 At that time, the Government of Canada
21 requested that, in the interest of promoting self Government,
22 Manitoba Hydro invoiced the First Nations directly for the
23 electric service to the First Nation facilities.

24 In his testimony, Mr. Cox will elaborate on
25 the discussions that took place with the Government of Canada

1 at that time.

2 The important point is that at no time did the
3 Government of Canada indicate that it no longer intended to
4 be ultimately responsible to pay the accounts in question.
5 The First Nations didn't inform Manitoba Hydro they were
6 assuming sole responsibility to pay these accounts.

7 Manitoba Hydro never released the Government
8 of Canada from its continuing obligation to pay for the costs
9 of energy being supplied.

10 Manitoba Hydro was led to believe that the
11 Government of Canada would include, henceforth, in its
12 funding to First Nations, the costs of those Manitoba Hydro
13 accounts, which it had previously paid directly.

14 The surcharge obligation, which was attached
15 to those accounts, therefore remained attached to those
16 accounts, notwithstanding that the name of the recipient to
17 which the bills were mailed, changed.

18 Manitoba Hydro was simply attempting to
19 accommodate an administrative change between the Government
20 of Canada and the First Nations.

21 MS. PATTI RAMAGE: Are the First Nations
22 currently paying the surcharge?

23 MR. VINCE WARDEN: No, in November 2000, MKO
24 informed Manitoba Hydro that the First Nations are not
25 Government, and should not be billed the Government

1 surcharge.

2 At MKO's request, Manitoba Hydro agreed to
3 redirect billings of the -- for the surcharge to the Indian
4 and Northern Affairs Canada.

5 MS. PATTI RAMAGE: And are Indian and Northern
6 Affairs Canada paying these bills?

7 MR. VINCE WARDEN: No, Indian and Northern
8 Affairs Canada has rejected the direct billings, claimant
9 they -- claiming that they have already funded the First
10 Nations for the cost of electricity.

11 In a letter dated January 31st, 2001, the then
12 Regional Director of Indian and Northern Affairs Canada
13 stated, Canada does provide assistance to First Nations to
14 pay for Band expenses. But does not, by doing so, accept
15 liability to pay these expenses.

16 Manitoba Hydro continues to bill Indian and
17 Northern Affairs Canada for these amounts, and Indian and
18 Northern Affairs Canada continues to reject these billings,
19 which are accumulating with interest as accounts receivable,
20 on the books of Manitoba Hydro.

21 MS. PATTI RAMAGE: How much have the unpaid
22 Government surcharges accumulated to date?

23 MR. VINCE WARDEN: The principal amount of the
24 unpaid surcharge amounts to approximately \$2.8 million.
25 Interest on this amount from November 2000 also must be dealt

1 with.

2 MS. PATTI RAMAGE: Do you charge the
3 equivalent of a government surcharge elsewhere in the
4 Province?

5 MR. VINCE WARDEN: Yes, although we don't
6 call this surcharge, we collect up-front contributions from
7 customers whenever the costs of providing new services
8 exceeds the present value of revenue to be derived from those
9 services. We could just as easy -- easily collect that
10 contribution from customers through some form of a surcharge
11 on their monthly bills. Or conversely we could collect the
12 government surcharge through an up front contribution from
13 the Government of Canada.

14 In both instances, whether it be customers
15 served from Manitoba Hydro's grid or customers served by
16 diesel electric generation, the objective is the same to
17 recover costs to be -- to serve from those customers causing
18 the cost be incurred or from those responsible for providing
19 those services.

20 MS. PATTI RAMAGE: You indicated that
21 Manitoba Hydro has not increased rates to the four (4) diesel
22 communities since 1993 despite the fact that costs have
23 increased significantly since then. Do the proposed rates
24 for 2003/2004 recover the accumulated deficit since 1993?

25 MR. VINCE WARDEN: Unfortunately no.

1 Manitoba Hydro's rate Application is only intended to recover
2 projected costs to be incurred during the fiscal year
3 2003/2004. The accumulated deficit which still has to be
4 dealt with is now in excess of \$15 million.

5 MS. PATTI RAMAGE: With such a large
6 accumulated deficit, why hasn't Manitoba Hydro applied to the
7 Public Utilities Board for a rate increase before now?

8 MR. VINCE WARDEN: First, it should be noted
9 that Manitoba Hydro did submit its Application back in
10 November 2002 but because of a number of different
11 circumstances it could not be heard until now. But more
12 importantly, at the time that the nine (9) diesel communities
13 were being connected to the grid between 1997 and 1999,
14 Manitoba Hydro recognized that a funding deficiency would
15 likely develop in the four (4) remaining diesel communities.

16 Until that time, the diesel rates approved by
17 the Public Utilities Board in 1994, were sufficient to allow
18 Manitoba Hydro to maintain a small revenue surplus. A
19 deficit did occur in the fiscal year 1999/2000 and has
20 continued to grow since that time.

21 To address the deficit issue Manitoba Hydro
22 held -- held a series of meetings with senior officials from
23 Indian and Northern Affairs Canada at which it was proposed
24 that a lump sum contribute -- contribution be made by Canada
25 towards the accumulated deficit. Unfortunately, these

1 discussions were not successful and -- and Canada has refused
2 to acknowledge responsibility for the accumulated deficits.

3 MS. PATTI RAMAGE: What is Manitoba Hydro
4 proposing to do to recover the unpaid surcharges and the
5 accumulated deficit?

6 MR. VINCE WARDEN: At the time that Manitoba
7 Hydro filed this Application in November 2002, we were still
8 hopeful that Indian and Northern Affairs Canada would work
9 with us towards resolving this funding issue. It is now
10 apparent that Indian and Northern Affairs Canada will not
11 willingly acknowledge its responsibilities and other means of
12 collection will be necessary.

13 MS. PATTI RAMAGE: What are those other means
14 of collection?

15 MR. VINCE WARDEN: Manitoba Hydro believes
16 that it is first important to have the proposed rates and
17 principals supporting those rates approved through these
18 proceedings. It would then be highly desirable for the
19 Government of Canada to recognize its obligations and settle
20 the outstanding deficits through a lump sum payment.

21 Failing this, other options to enforce payment
22 may include legal proceedings or Manitoba Hydro may return to
23 the Public Utilities Board with an Application to further
24 increases of the surcharge to recover past deficits. In
25 fact, the past practice has been to recover any accumulated

1 deficits -- prospectively through the surcharge. In the past
2 however, the deficit has never accumulated to such a
3 significant amount. Thank you.

4 MS. PATTI RAMAGE: Mr. Chair, those are my
5 questions for Mr. Warden. I'll now address my questions to
6 Mr. Wiens. Mr. Wiens, would you please outline your areas of
7 responsibility with respect to this Application?

8 MR. ROBIN WIENS: As Division Manager of
9 Rates and Regulatory Affairs for Manitoba Hydro, I have
10 overall responsibility for the preparation of the Application
11 for co-ordination and review of all responses to information
12 requests, as well as for the preparation of Manitoba Hydro's
13 rebuttal evidence. I'm responsible for providing direction
14 to staff with respect to the cost of service analysis,
15 revenue forecasting, the design of rates, and customer
16 policies.

17 MS. PATTI RAMAGE: Could you please outline
18 your experience in rate design?

19 MR. ROBIN WIENS: In June of 1989, I was
20 appointed Manager of Rates at Manitoba Hydro. In December of
21 2002, I was appointed Division Manager of Rates and
22 Regulatory Affairs.

23 In both capacities, I have had senior
24 responsibility for rate design, cost of service, customer
25 policy Applications and load studies at Manitoba Hydro. I

1 have been responsible for rate design and cost of service
2 matters in General Rate Applications before this Board in
3 1990, 1991, 1992, 1994, 1996, and 2001 and have testified in
4 respect of those Applications.

5 This includes rate design for all domestic
6 customer classes of Manitoba Hydro, including those in the
7 diesel communities.

8 MS. PATTI RAMAGE: Can you provide the basis
9 on which Manitoba Hydro provides service in remote northern
10 communities?

11 MR. ROBIN WIENS: Over the past half century,
12 Manitoba Hydro has served thirty-eight (38) remote
13 communities with diesel generation and the associated
14 distribution facilities.

15 In most of these communities Manitoba Hydro
16 has installed and operated facilities at the request of the
17 Government of Canada, usually through Indian and Northern
18 Affairs Canada. In some of these communities the Federal
19 Government had been providing service prior to contracting
20 with Manitoba Hydro to assume responsibility.

21 Since entering into this arrangement or this
22 type of arrangement with Canada, Manitoba Hydro has provided
23 diesel service to twenty-seven (27) communities. As a result
24 of initiatives such as the Lake Winnipeg East in the 1980's
25 and the North Central Project in the 1990's, that number has

1 since been reduced to four (4) today.

2 MS. PATTI RAMAGE: Can you describe the
3 arrangement with Canada you're referring to?

4 MR. ROBIN WIENS: In general, Manitoba Hydro,
5 agreed to construct, operate and maintain diesel generating
6 facilities and the associated distribution facilities in each
7 community, with respect to which a contract had been signed
8 with the Federal Government.

9 The Federal Government, in turn, agreed to pay
10 a capital contribution toward the cost of providing this
11 equipment and to pay the cost of supplying service to the
12 schools, teacherages, water -- water and sewer stations and
13 other facilities built and maintained by it.

14 These terms are clearly set forth in the
15 contracts for, for example, Shamattawa and Tadoule Lake,
16 which were filed with this Application as attachments 3 and
17 5.

18 MS. PATTI RAMAGE: And how did diesel rates
19 compare in those days with the rates for customers on the
20 grid?

21 MR. ROBIN WIENS: Rates for what we refer to
22 as local consumers, are largely residential and very small
23 commercial customers in the diesel zone, were to be the same
24 as those for similar service categories in rural communities
25 served from the grid.

1 This meant, in effect, that the rate was
2 subsidized both by Manitoba Hydro to the extent that
3 operating costs exceeded the rate and by the Federal
4 government, through capital contributions to support service
5 to the resident populations.

6 To limit the amount of subsidization, a limit
7 was placed -- placed on the size of the service facilities
8 available to local consumers. They were restricted to
9 fifteen (15) amp, three (3) wire, one twenty (120), two forty
10 (240) volt service, which was a restriction already in place,
11 in those communities where the Federal government had
12 previously been generating electricity.

13 Local consumers requiring service in excess of
14 those characteristics were charged rates based on the full
15 cost of supply.

16 Again, an example of these terms can be found
17 in the contract for service a Tadoule Lake, which is
18 attachment 5 in our Application.

19 MS. PATTI RAMAGE: What terms were set for the
20 cost of electric power being supplied?

21 MR. ROBIN WIENS: Until 1977, the contracts
22 included a schedule which set the rate which Manitoba Hydro
23 was to charge per kilowatt hour, of which local consumers and
24 the Federal government were to pay.

25 And you can see this, for example, in the

1 Shamattawa contract, which was filed as attachment three (3)
2 to the Application.

3 In 1977, Manitoba Hydro and the Federal
4 government signed an amending agreement, covering all
5 existing contracts between them. This amending agreement can
6 be found as attachment 4 in the Application.

7 Section 14 of this agreement, stipulated that
8 the rates for residential customers would be those set forth
9 in Manitoba Hydro's residential diesel electric service
10 tariff. In those days, these tariffs were published from
11 time to time, by Manitoba Hydro and changed from year to
12 year, as circumstances required.

13 The contracts for Tadoule Lake and Brochet
14 were entered into -- Tadoule Lake and Lac Brochet were
15 entered into after the 1977 Amending Agreement and hence this
16 provision was incorporated directly into the body of those
17 contracts.

18 For the record, the Tadoule Lake contract is
19 attachment 5 to the Application and the clauses I am
20 referring to are numbered 5(i) and 5(ii). The Lac Brochet
21 contract can be found as an attachment to the response --
22 Manitoba Hydro's response to PUB/MH-3-B and, again, I am
23 referring to clauses 5(i) and 5(ii).

24 MS. PATTI RAMAGE: What regulatory approvals
25 were in place in 1977?

1 MR. ROBIN WIENS: There were no approvals
2 required in 1977. The requirement that the Public Utilities
3 Board approve new rates or changes in rates was not
4 introduced until 1989.

5 MS. PATTI RAMAGE: When was the government
6 surcharge introduced?

7 MR. ROBIN WIENS: It commenced in July of
8 1984.

9 MS. PATTI RAMAGE: And why was that surcharge
10 introduced?

11 MR. ROBIN WIENS: At that time, in spite of
12 the federal contributions to capital costs, by 1978 the
13 diesel communities combined were requiring a subsidy in
14 excess of \$1 million from Manitoba Hydro.

15 The number of communities in this zone had
16 increased rapidly and the cost of equipment and diesel fuel
17 had also increased significantly. Larger facilities were
18 being constructed which led to the requirement for larger
19 generating units to carry the load.

20 By 1982 the gap between operating cost and
21 rates had increased to \$3.4 million. In order to recover
22 these costs, we determined that the most efficient and
23 fairest way would be to add a surcharge on all accounts
24 billed to the two (2) levels of government, federal and
25 provincial.

1 In addition, during that period,
2 representatives of the Department of Indian and Northern
3 Affairs had advised us, from time to time, that it was
4 difficult for them to cope in their budgeting processes with
5 requests for large contribution costs of hundreds of
6 thousands of dollars to cover new installations in the diesel
7 zone.

8 And we foresaw that by developing a surcharge,
9 it might help to smooth their budgeting for electrical
10 service. The surcharge was intended, then as now, to allow
11 Manitoba Hydro to realize a revenue cost coverage in the
12 diesel zone which was similar to that in rural Manitoba.

13 MS. PATTI RAMAGE: Has the surcharge ever
14 been reviewed or endorsed by the Public Utilities Board?

15 MR. ROBIN WIENS: Yes, it has. And
16 particularly during Manitoba Hydro's 1994 General Rates
17 Application when argument was submitted regarding the origin
18 of the surcharge and, in case of the federal government, its
19 obligation to pay the same.

20 Board Order 62/94 dated April the 8th, of 1994
21 confirmed both the rates and the surcharge as set out in
22 Manitoba Hydro's Application and commented that the surcharge
23 was just and reasonable given the high cost of servicing
24 these communities.

25 MS. PATTI RAMAGE: Is the government

1 surcharge consistent with sound rate design principles?

2 MR. ROBIN WIENS: The surcharge effectively
3 transfers the burden of the high cost of electrical service
4 in these communities from the ordinary residential and small
5 business consumer to the two (2) levels of government who are
6 responsible for assuring basic services in these communities.

7 Some of this burden is also picked up by
8 Manitoba Hydro's other ratepayers. However, not so much as
9 to violate the principle of the user to pay. The surcharge
10 is not the only vehicle which could be used to meet these
11 obligations but it is one that has worked reasonably well for
12 Manitoba Hydro and, we believe, for the federal and
13 provincial governments as well, for most of the time that it
14 has been in effect.

15 From a pure rate design perspective, other
16 vehicles, such as capital contributions or operating grants
17 not tied to the rate structure, would be more efficient.

18 MS. PATTI RAMAGE: Mr. Wiens, I'm going to
19 read to you several of Bonbright's rate principles to which
20 reference was made in the pre-filed evidence of MKO and I
21 would like you to comment on how the surcharge fits with
22 respect to these principles?

23 First, I'd like you to comment on the
24 surcharge's practical attributes such -- such as simplicity,
25 understandability, public acceptance and ease of Application.

1 MR. ROBIN WIENS: For most of the period that
2 the surcharge has been in place it was a well understood and
3 accepted feature of rate design in these communities. Over
4 time, it has become more difficult to administer because of
5 the significant increases in both usage and the cost to
6 provide service and because of Canada's decision to devolve
7 responsibility for paying the bills to the First Nations, in
8 a funding context, which does not appear to be commensurate
9 with the requirement of the First Nations for service.

10 MS. PATTI RAMAGE: Is the surcharge free from
11 controversies, as to proper interpretation?

12 MR. ROBIN WIENS: The purpose, the rationale
13 and the amount of the surcharge have always been abundantly
14 clear. What may have been unclear in recent years is the
15 locus of responsibility for paying the surcharge.

16 Manitoba Hydro policies, with respect to its
17 applicability have been well documented in its service
18 extension policies, and it has always been the intent that
19 the Federal and the Provincial Governments are responsible
20 for funding this charge.

21 During the 1994 General Rate Application, MKO
22 asked Manitoba Hydro, who is liable to pay the surcharge?
23 And Manitoba Hydro provided what we think was a very clear
24 answer, which answer was discussed during the Interrogatory
25 process in those proceedings, at the question MKO/MH-8(b).

1 I note also that Manitoba Hydro forwarded a
2 letter dated April 8, 1993 to the Bands -- April 8th, 1994,
3 to the Bands, Chiefs, and Councils, which explained the
4 Application of the surcharge.

5 Admittedly, the Federal Government's
6 devolution of responsibilities to the First Nations in the
7 current funding context, has acted to obscure that
8 responsibility.

9 Manitoba Hydro is seeking to re-document this
10 responsibility more clearly, in this the current Application.

11 MS. PATTI RAMAGE: And, Mr. Chair, Mr. Wiens
12 referred to an -- an IR MKO/MH-8(b), in these Proceedings.
13 That question directly referred back to the 1994 Proceedings,
14 and the question that Mr. Wiens just discussed, which was in
15 1994, MKO/MH-2-9, but it doesn't appear to have been put on
16 the record. While we've discussed it in IRs, a copy, I have
17 copies with me here today, and I thought it might be prudent
18 to have that distributed and marked as a Manitoba Hydro
19 exhibit, for completeness of the record.

20 THE CHAIRMAN: Thank you, Ms. Ramage, you can
21 do that now.

22

23

(BRIEF PAUSE)

24

25

MS. PATTI RAMAGE: I hadn't intend to --

1 intended to refer to that any further, so if you like, I can
2 continue while the document's being distributed?

3 THE CHAIRMAN: And just for clarification
4 purposes, we'll mark it as an exhibit just for the record,
5 just to make sure.

6

7

(BRIEF PAUSE)

8

9 THE CHAIRMAN: Ms. Ramage, we'll receive that
10 as Manitoba Hydro Exhibit number 9.

11

12 --- EXHIBIT NO. MH-9: Copies of IR MKO/MH-8(b)

13

14

MS. PATTI RAMAGE: Thank you, Mr. Chair.

15

THE CHAIRMAN: Proceed.

16

17 CONTINUED BY MS. PATTI RAMAGE:

18

MS. PATTI RAMAGE: Is the surcharge effective
19 in yielding total revenue requirements under the fair return
20 standard?

21

MR. ROBIN WIENS: For many years the surcharge
22 was effective in addressing this criterium. It would still
23 be effective, given timely updates, and especially
24 clarification as to who is responsible to pay it.

25

Until 1987, when most, if not all of the

1 accounts providing services to First Nations, were paid
2 directly by the Federal Government. The surcharge was an
3 accepted method of recovering cost, it was paid as billed, by
4 all Federal and Provincial Departments and agencies.

5 To this date, all Federal Agencies other than
6 INAC continue to pay the surcharge, as do all Provincial
7 Departments and agencies.

8 Beginning in April 1987, the First Nations
9 also continued to pay their bills, including the surcharge.
10 Only in November 2000, did the First Nations determine that
11 they would no longer pay it, and INAC has refused to pay it
12 on their behalf.

13 MS. PATTI RAMAGE: Does the surcharge provide
14 revenue and rate stability from year to year?

15 MR. ROBIN WIENS: Before 1994 the surcharge
16 was significantly variable from year to year, largely because
17 of the practice of adding under or over recoveries of costs
18 from previous years.

19 It would be possible, however, to design
20 mechanisms to reduce this variability.

21 MS. PATTI RAMAGE: Is the surcharge fair in
22 its apportionment within the rates of total cost of service
23 among the different customers and avoidance of undue
24 discrimination in rate relationships?

25 MR. ROBIN WIENS: Manitoba Hydro believes

1 that the surcharge is equitable in that it recovers costs
2 from those parties responsible for incurring them or from
3 that party which is responsible for the provision of basic
4 services within these communities.

5 MS. PATTI RAMAGE: Does the surcharge
6 adequately provide efficiency of the rate classes and rate
7 blocks in discouraging wasteful use of service while
8 promoting all justified types and amounts of use?

9 MR. ROBIN WIENS: The surcharge is effective
10 in discouraging wasteful use, but it may deter some justified
11 use to the extent that it increases the price to the party
12 deciding on use above the marginal cost of the service.

13 In theory, one might argue that because the
14 surcharge allows the price to residential and small business
15 owners to be much less than the marginal cost of supply, that
16 it masks appropriate price signals and thereby encourages use
17 that would not otherwise have taken place.

18 Against this, I would set the clear intent of
19 all parties to subsidize a basic level of service to
20 residents in these communities. In addition, the service
21 limits presently in place and which are proposed mitigate to
22 some extent the incentive to over-consume.

23 MS. PATTI RAMAGE: Mr. Wiens, you previously
24 indicated that at one time Manitoba Hydro served thirty-eight
25 (38) communities with diesel generation and that number has

1 now been reduced to four (4). Who paid the capital cost of
2 extending grid service to the formal diesel communities?

3 MR. ROBIN WIENS: Generally, the costs were
4 shared among the Federal and Provincial Governments and
5 Manitoba Hydro. In the case of the North Central project
6 which connected seven (7) major diesel communities to the
7 grid over the period 1997 to 1999, the Federal Government
8 paid 75 percent of the costs, Provincial Government paid 15
9 percent and Manitoba Hydro 10 percent.

10 In the case of the Lake Winnipeg East Project,
11 INAC agreed to arrange for and pay 100 percent of the cost of
12 clearing the transmission line right of way for nearly 400
13 kilometres and to pay some 48.3 percent of the remaining
14 capital cost of the Project.

15 These contributions were consistent with
16 Manitoba Hydro service extension policy and the share of the
17 new customer load expected to result from connecting
18 residences and businesses for whom INAC had responsibility.

19 In addition, the Federal Government has also
20 borne costs in the same proportion for remediation of the
21 adverse environmental affects of the diesel facilities.

22 MS. PATTI RAMAGE: And do you know why the
23 Federal Government contributed such a large portion of the
24 cost?

25 MR. ROBIN WIENS: From Manitoba Hydro's

1 perspective, this was the Application of normal service
2 extension policy. Manitoba Hydro would not have agreed to
3 extend grid service without the contributions. We understand
4 that the Federal Government agreed to make the contribution
5 because it had been determined -- because it had determined
6 that it would benefit by having the First Nations have access
7 to power at grid rates.

8 MS. PATTI RAMAGE: Now you also referred to a
9 service limitation of fifteen (15) amps. Is that still in
10 place?

11 MR. ROBIN WIENS: No, that is no longer in
12 place. The new limitation is sixty (60) amp service.
13 Manitoba Hydro arranged this change in 1990.

14 MS. PATTI RAMAGE: And was the subject of
15 enhanced service in the diesel communities reviewed with the
16 Federal Government?

17 MR. ROBIN WIENS: Yes it was. At least as
18 early as January 1987, Manitoba Hydro began meetings with
19 Indian and Northern Affairs Canada officials to discuss the
20 subject of improving electric service to the diesel
21 communities. There were at least fifteen (15) meetings
22 regarding options for improved service for the Shamattawa
23 community alone from 1987 to 1991.

24 Enhanced service was scheduled for Brochet in
25 1991, Lac Brochet in 1992, to Tadoule Lake and Shamattawa in

1 1994.

2 MS. PATTI RAMAGE: And are you aware of any
3 objections from representatives of Indian and Northern
4 Affairs Canada to the enhancement of services in these
5 communities?

6 MR. ROBIN WIENS: Not at the time. One of
7 the reasons driving enhanced service was the fact that larger
8 facilities and homes were being built in these communities
9 with funding provided by Indian and Northern Affairs Canada.
10 These facilities and homes were being designed for appliances
11 requiring service size of at least thirty (30) amps.

12 Without enhanced service, these facilities
13 could not be used. Our records indicate Indian and Northern
14 Affairs Canada officials participated in presentations to the
15 communities explaining how enhanced service would be
16 implemented.

17 MS. PATTI RAMAGE: And who paid the capital
18 costs for enhanced service?

19 MR. ROBIN WIENS: Manitoba Hydro paid those
20 costs on the understanding that increases to the surcharge
21 would be applied in order to recover them from government
22 customers.

23 At the same time as Manitoba Hydro committed
24 itself to enhanced service in those communities which were
25 not scheduled to be connected to the grid, it eliminated

1 generation charges, that is up front contributions in respect
2 of new connections in diesel communities.

3 The introduction of enhanced service was
4 reviewed during the 1994 General Rate Application and the
5 Public Utilities Board found -- found in Order 62/94, and I
6 quote:

7 ôIn the upgrading of service in diesel
8 communities to enhance sixty (60) ampere
9 capacity extensive capital costs are
10 incurred. These capital costs are no
11 longer borne by direct contributions from
12 the Government of Canada, but, rather are
13 subsumed within the rate structure in the
14 form of government surcharge. The
15 inclusion of the surcharge in the rates to
16 recover the high costs of serving these
17 communities is just and reasonable.ö
18 Unquote.

19 And that quote is taken from Board Order
20 62/94, page 46.

21 MS. PATTI RAMAGE: Is the cost associated with
22 enhanced service included in the current surcharge rate?

23 MR. ROBIN WIENS: To the extent that enhanced
24 service had been or was about to be implemented at the time
25 of the 1994 General Rate Application the cost of enhancement

1 was incorporated into the surcharge, it applied then, it
2 still applies today.

3 Cost associated with the community of
4 Shamattawa, for example, are not embedded in the current
5 rate, due to the fact that in 1994, Shamattawa was still
6 looking at other options such as a land line. Therefore,
7 delaying some of the investment in diesel infrastructure in
8 that community.

9 MS. PATTI RAMAGE: Now, was the surcharge
10 being paid today?

11 MR. ROBIN WIENS: The provincial government is
12 paying the surcharge with respect to those facilities in
13 those communities, which are it's responsibility. The
14 surcharge is being paid by some of the federal government
15 departments and agencies, which have facilities in these
16 communities, such as the Royal Canadian Mounted Police.

17 However, as noted by Mr. Warden, the surcharge
18 in respect to the First Nations facilities funded by the
19 Government of Canada, is not currently being paid.

20 MS. PATTI RAMAGE: Mr. Wiens, there's a huge
21 difference between the full cost you proposed to apply to
22 residential and general service usage in excess of two thousand
23 (2000) kilowatt hours per month, and to all government
24 consumption, as compared to -- to the rates charged for
25 similar customers served from the grid.

1 How do you justify these differences in
2 treatment of diesel and grid customers?

3 MR. ROBIN WIENS: They are certainly justified
4 in terms of the cost incurred to provide this service. We've
5 read evidence from MKO's consultants that there can be major
6 cost differences among customers served from the grid, yet
7 uniform rates apply there.

8 The response to this is that grid customers
9 are asked to take responsibility for costs when they are
10 identifiable and significantly in excess of the average cost
11 to serve.

12 This is accomplished through service extension
13 policy, which requires customers seeking costly extensions to
14 pay for much of the up front costs through capital
15 contributions.

16 This, in fact, is how Manitoba Hydro managed
17 its business in remote communities, diesel communities, until
18 1990, when generation contributions were ended in 1990, the
19 surcharge which until that point, had assisted with
20 recovering operating costs, also became the vehicle to
21 provide ongoing support of the capital costs associated with
22 new generation investment.

23 I can point out that this issue's been
24 extensively addressed in Manitoba Hydro's rebuttal evidence.

25 MS. PATTI RAMAGE: Do you believe that

1 Manitoba Hydro's proposal to charge higher than grid rates on
2 consumption above two thousand (2000) kilowatt hours a month
3 compares reasonably with the practices of other utilities?

4 MR. ROBIN WIENS: Yes, I do. If anything
5 Manitoba Hydro's proposal to charge grid rates on the first
6 two thousand (2000) kilowatt hours of use per month, appears
7 to be significantly more generous to residential and general
8 service customers than the practices largely elsewhere in
9 Canada.

10 Most utilities charge grid rates for a certain
11 level of consumption, after which point a higher than grid
12 energy rate is applied, which is intended to recover part of
13 if not all of the cost of service.

14 Newfoundland and Labrador Hydro rural
15 customers, excluding government departments, pay the same
16 rates as Newfoundland power customers for the first seven
17 hundred (700) kilowatt hours per month of consumption.

18 Hydro Quebec's residential customers pay grid
19 rates on the first nine hundred (900) kilowatt hours a month,
20 while the North West Territories Corporation, as mentioned
21 earlier, charges grid rates for non-government residential
22 customers on the first seven hundred (700) kilowatt hours a
23 month, which are identifiably subsidized by the North West
24 Territories Government's territorial support program.

25 MS. PATTI RAMAGE: With regard to the rates

1 themselves, how do Manitoba Hydro's rates, proposed in this
2 Application, compare with the rates charged by other Canadian
3 electric utilities for the service in remote communities?

4 MR. ROBIN WIENS: Manitoba Hydro has provided
5 evidence in response to the question PUB/MH-4 regarding the
6 rates charged by other Canadian electric utilities to
7 residential and general -- general service customers located
8 in communities served by diesel generation.

9 Manitoba Hydro's proposed rates compare
10 reasonably with those charged in most other jurisdictions
11 when the size and degree of remoteness of these communities
12 is taken into account. For amounts in excess of the basic
13 service rates tend to be higher and more closely related to
14 the cost of service.

15 Newfoundland and Labrador Hydro charge the
16 last block rate of thirteen point three (13.3) cents for
17 residential non-government and fifty-five point four (55.4)
18 cents for residential government. Hydro Quebec requires a
19 balloon rate of twenty-six point five (26.5) cents per
20 kilowatt hour for residential and fifty-eight point five
21 seven (58.57) cents for general service.

22 Hydro One's standard A rates for remote
23 communities are eighty-four point one (84.1) cents per
24 kilowatt hour in air access communities and fifty-eight point
25 two, two (58.22) cents in rail access communities.

1 In the North West Territories the balloon rate
2 raises from thirty-three point five, six (33.56) cents up to
3 two dollars and thirty-five cents (\$2.35) per kilowatt hour
4 above the seven hundred kilowatt hours (700 kWh) per month of
5 basic service.

6 MS. PATTI RAMAGE: What are the rate design
7 practices of these other utilities with respect to recovery
8 of costs?

9 MR. ROBIN WIENS: Most utilities attempt to
10 design rates which explicitly recover the cost of providing
11 service. The approach taken to do so, however, varies from
12 utility to utility with respect to the relative extent to
13 which costs are recovered from either direct customer rates,
14 capital contributions, direct government subsidies,
15 surcharges to specific customers, namely government, or
16 through explicit or implicit cross-subsidies.

17 Manitoba Hydro attempts to recover most of its
18 costs from its customers and the government agencies which
19 fund them. This is well within the continuum of practice in
20 the rest of the Canadian utility industry.

21 The rate practices of other utilities are
22 detailed in evidence provided by Manitoba Hydro in response
23 to the question PUB/MH-4. Recent developments in these
24 jurisdictions appear to move more, rather than less, toward
25 recovery through the rate charge to direct customers.

1 The North West Territories Power Corporation
2 has just received approval for new rates effective November
3 1, 2003. Their rates were designed to move all residential
4 and general service rate classes to 100 percent revenue cost
5 coverage subject to a maximum increase in energy rates of 15
6 percent over the interim rates that applied at that time.

7 North West Territories Power also applied and
8 was successful in eliminating the government rate class and
9 combining it with general service class citing that with
10 recent decentralization of various government departments
11 confusion had arisen as to which customers should fall in the
12 category of government.

13 The distinction between government and non-
14 government is still apparent for residential loads only as
15 non-government residential customers are entitled to the
16 Territory -- Territorial Support Program.

17 It is anticipated, however, that the rate on
18 the first seven hundred kilowatt hours (700 kWh) will
19 increase as a flow-through to the increase in the wholesale
20 rate for Northlands Power which is the utility serving
21 Yellowknife which serves as the base for the rate to the
22 basic level of service.

23 Newfoundland and Labrador Hydro are in the
24 final stages of a rate Application. Rates proposed for all
25 government departments, residential and general service are

1 based on full cost recovery. The utility has also proposed a
2 three (3) year plan of automatic annual adjustments which
3 would see the elimination of the lifeline block for isolated
4 general service customers and the implementation of a demand
5 and energy rate structure for large, isolated general service
6 customers.

7 Hydro One remote communities in Ontario is
8 currently reviewing its pricing strategy given that their
9 current rates do not recover a full cost to serve. Non-
10 government residential customers are subsidized through
11 Ontario's Rural Rate Assistance Program.

12 Hydro Quebec also proposing to raise diesel
13 rates by 3 percent in conjunction with their overall
14 consumers rate proposal.

15
16 (BRIEF PAUSE)

17
18 MS. PATTI RAMAGE: If the current rates were
19 to persist throughout fiscal year 2003/2004, what would
20 Manitoba Hydro's shortfall of revenue relative to costs be?

21 MR. ROBIN WIENS: For 2003/2004, Manitoba
22 Hydro is forecasting that it will incur costs of
23 approximately \$9.5 million dollars to provide service to the
24 four (4) communities.

25 The rates currently in place would recover

1 only 3.8 million, about 39 percent of the total, leaving a
2 deficit of 5.8 million.

3 However, as Mr. Warden noted in his direct
4 evidence, much of the surcharge revenue being billed is not
5 being recovered, so the actual deficit is currently higher
6 than the 5.8 million.

7 MS. PATTI RAMAGE: Mr. Chair, I'm now going to
8 direct my questions to Mr. Thomas. Mr. Thomas, would you
9 please outline your areas of responsibility with respect to
10 this Application?

11 MR. CHIC THOMAS: Good morning, everyone. As
12 the supervisor of the Cost of Service Section, under the
13 general direction of Mr. Wiens, I am responsible for the
14 preparation of the Diesel Cost of Service Study. This
15 includes not only the full cost and surcharge rate
16 derivation, but also the supporting schedules the outline --
17 that outline the costs included in this calculation.

18 MS. PATTI RAMAGE: Could you outline the
19 purpose of the Diesel Cost of Service Study for the Board?

20 MR. CHIC THOMAS: The Diesel Cost of Service
21 Study is an accumulation of forecast costs to be incurred in
22 the diesel rate zone for the period ending March 31st, 2004.

23 Forecast costs include items such as
24 depreciation and in -- and interest expense, as well as costs
25 for maintenance and fuel oil.

1 The Diesel Cost of Service Study also includes
2 an estimate of revenue for each rate class, calculation of
3 full cost and surcharge rates, as well as calculation of the
4 accumulated deficit or surplus.

5 MS. PATTI RAMAGE: How does the Diesel Cost of
6 Service Study differ from the cost of -- the cost study done
7 for grid customers?

8 MR. CHIC THOMAS: The Diesel Cost of Service
9 Study is generally comparable to the study prepared for the
10 grid customer base, in that it is an accumulation of all
11 applicable costs required during the test year, needed to
12 serve the customers.

13 Differences from the grid cust -- from the
14 grid study include fewer functional classes, plus costs are
15 not classified into energy and demand components, as diesel
16 customers pay only an energy and a customer charge.

17 MS. PATTI RAMAGE: Could you explain the
18 components in the Diesel Study that make up the full cost
19 rate?

20 MR. CHIC THOMAS: The Diesel Study currently
21 before the Board, like those before the Board in the past,
22 captures all the costs to serve customers in the diesel rate
23 zone. This includes accumulation of both fixed and variable
24 costs incurred in the year the study's based. In -- in this
25 Application the year in question is the forecast period

1 ending March 31st, 2004.

2 Fixed costs are those costs associated with
3 capital infrastructure installed at the four (4) diesel
4 communities, and do not vary with consumption.

5 Fixed costs include items such as depreciation
6 and interest expense installed, and -- and the interest
7 expense associated with the installed infrastructure within
8 the four (4) communities.

9 Variable costs are those costs that vary with
10 usage. This includes such items as fuel consumption and the
11 maintenance cost of the generating unit supplying the power.

12 MS. PATTI RAMAGE: How are the costs used in
13 the Diesel Study recorded and identified, and how is overhead
14 treated in the Diesel Study?

15 MR. CHIC THOMAS: Like the Cost of Service
16 Study done for grid customers, in the Diesel Study all costs
17 are recorded and directly identified by Manitoba Hydro's
18 Financial Reporting System.

19 Within this system, specific cost centres have
20 been set up to track costs directly attributable to the
21 diesel rate zone. These cost centres also include overhead
22 which is posted to the cost centre, based on allocators set
23 up within the system.

24 For example, payroll costs would be allocated
25 back to these cost centres, based on the gross payroll

1 included in that cost centre.

2 Overhead expenses only account for
3 approximately 6 percent of the total cost to serve, which in
4 2004 is forecast to be \$9.5 million dollars.

5 MS. PATTI RAMAGE: Are there any significant
6 methodology changes to this Diesel Study, as compared to
7 other Diesel Studies done previously?

8 MR. CHIC THOMAS: The Diesel Study currently
9 before this Board has been prepared in the same manner as
10 those done in the past, including the study upon which rates
11 were based and approved by this Board in 1994.

12 There are changes proposed and how the costs
13 were recovered from the rate classes, however. This includes
14 limiting residential consumer -- residential consumption,
15 at grid rates to only the first two thousand (2,000) kilowatt
16 hours monthly. Currently residential rate -- rate schedule
17 allows for unlimited monthly consumption at grid rates with
18 the provision that electricity is not to be used for space
19 heating.

20 This two thousand (2000) kilowatt hour monthly
21 limit is also proposed to apply to the general service
22 customers as well. Currently general service customers are
23 exposed to the full cost rate only after three thousand
24 (3000) kilowatt hours have been consumed in the month.

25 The other change is the accumulated deficit to

1 date has not been included in the surcharge calculation as
2 was done in past studies.

3 MS. PATTI RAMAGE: Now you mention that this
4 study is for the forecast period ending March 2004. Do you
5 also prepare actual diesel -- diesel studies to confirm rates
6 you propose for the forecast period in question?

7 MR. CHIC THOMAS: Yes. An actual Cost of
8 Service Study is usually done once actual data is available
9 to do so. This is done -- done for a number -- a number of
10 reasons. First, as you mentioned, it allows us to monitor
11 the accuracy of the forecast period after the fact.

12 Secondly, actual data is an integral part of
13 any perspective diesel study done as this allows us to
14 accurately compute the previous year's surplus or deficit
15 that is applied as part of the sur -- surcharge calculation
16 in the proposed rates.

17 MS. PATTI RAMAGE: Are there any items that
18 are not included in the current diesel Cost of Service Study
19 that will impact rates in the future?

20 MR. CHIC THOMAS: Yes, there are several
21 significant items that had not -- that have not been included
22 in this study that will impact future rates. The first item
23 is the accumulated deficit mentioned -- mentioned
24 previously. Recovery of this amount is not included in the
25 current surcharge calculation but provision may be made to

1 incorporate it into future rate Applications.

2 The second item is the change in depreciation
3 rates that was outlined in the Application in Attachment 2.
4 I have done a preliminary calculation of the impact of this
5 corporate depreciation rate change and determined that it
6 would add approximately seven (7) cents a kilowatt hour to
7 the current full cost rate proposed of seventy-nine point 1
8 (79.1) cents per kilowatt hour.

9 The third item is the soil remediation cost
10 scheduled for 2005 in the communities of Shamattawa and
11 Brochet. Costs from the diesel study reflect only investment
12 of in-service items such as those costs as -- and -- and as
13 such these costs have cur -- currently been excluded from the
14 2004 forecast. However, costs for this remediation work will
15 be included in future diesel studies. The forecast total
16 cost of this work is approximately \$5 million.

17 MS. PATTI RAMAGE: Now, I'm going to direct
18 my questions to Mr. Cox.

19 Mr. Cox, would you please outline your
20 involvement with respect to this Application?

21 MR. ROBERT COX: Yes, good morning. I am
22 presently the Manager of Retail Sales at Manitoba Hydro's
23 Customer Service and Marketing Business Unit. The Retail
24 Sales Group is responsible for assisting new customers with
25 service extensions, maintaining and building customer

1 communities have already participated in the Program. In
2 addition, under our Commercial Construction Program, we offer
3 incentives towards the installation of parking lot plug-in
4 controllers. We also offer advice on energy efficient
5 building methods.

6 For residential customers there is the Power
7 Smart Home Comfort Energy Savings Program. With this Program
8 we offer advice on ways to reduce energy consumption in your
9 home. We provide booklets and other print information
10 showing customers how to take advantage of low cost energy
11 saving methods and new home and renovation construction
12 methods.

13 MS. PATTI RAMAGE: I'm trying to recognized
14 Mr. Mayer's confusion. I believe, maybe Mr. Cox you could
15 clarify the parking lot plug-in controllers?

16 MR. ROBERT COX: That is a electronic method
17 of turning your individual PowerSmarts off and on, so that
18 you can cycle a group of parking lot control -- or
19 PowerSmarts, sorry.

20 MR. ROBERT MAYER: Parking lots where?

21 MR. ROBERT COX: This would be anywhere where
22 in a commercial establishment, for example, where you had
23 several workers come in and rather than having their block
24 heaters run all day, you would cycle them off and on during
25 that day.

1 MR. ROBERT MAYER: Block heaters for their
2 ski-doos?

3 MR. ROBERT COX: Well, in this case, I know
4 the Band's do have some vehicles that they would PowerSmart.

5 MR. ROBERT MAYER: All right.

6 MR. ROBERT COX: It doesn't have to be
7 necessarily a truck or a car, it could be a grader, it could
8 be a cat -- a caterpillar.

9

10 CONTINUED BY MS. PATTI RAMAGE:

11 MS. PATTI RAMAGE: Are there any PowerSmart
12 programs offered elsewhere in the Province which are not
13 available in diesel communities?

14 MR. ROBERT COX: Yes. With one (1) exception,
15 all programs offered across Manitoba, are also offered in
16 diesel communities.

17 For example, incentives for lighting and
18 parking lot controllers are available. Manitoba Hydro does
19 not offer incentives for energy efficient windows and
20 building envelope improvements in diesel communities because
21 these are only available to customers who heat with
22 electricity.

23 However, diesel customers will still benefit
24 if they adopt PowerSmart standards for all building projects.

25 MS. PATTI RAMAGE: And how is the existence of

1 PowerSmart programs communicated to diesel customers?

2 MR. ROBERT COX: Most communication is through
3 the monthly bill with tips on the bill itself, bill inserts
4 and our monthly newsletter. We also have multi-media
5 advertising campaigns.

6 In addition, staff make regular contact with
7 the Chief and Council, and we've had discussions on
8 PowerSmart with officials from the Keewatin Tribal Council
9 and INAC.

10 MS. PATTI RAMAGE: Are there any PowerSmart
11 programs designed specifically for these communities?

12 MR. ROBERT COX: No, but the tips we provide
13 to our customers on ways to reduce their energy bills are
14 certainly applicable to our customers in the diesel
15 communities.

16 For example, a customer purchasing an energy
17 efficient appliance will receive savings throughout the life
18 of the appliance. In diesel communities, for customers who
19 are paying full cost rates, these appliances provide
20 significant savings that help justify the purchase of an
21 energy efficient appliance.

22 MS. PATTI RAMAGE: Mr. Cox, you indicated you
23 worked with the diesel communities throughout the 1980's is
24 that correct?

25 MR. ROBERT COX: Yes, I was directly involved

1 with the diesel communities from January 1984 through March
2 1989.

3 MS. PATTI RAMAGE: And were you involved in
4 the discussions referred to by Mr. Warden regarding the
5 change of name on the diesel accounts from the Federal
6 government to the First Nations in 1987?

7 MR. ROBERT COX: Yes, I was directly involved.

8 MS. PATTI RAMAGE: And when did this change in
9 billing practice occur?

10 MR. ROBERT COX: The change begin happening
11 effective April 1st, 1987.

12 MS. PATTI RAMAGE: And why were the billings
13 for some of the facilities in the diesel zone transferred
14 from the Federal government to First Nations?

15 MR. ROBERT COX: Manitoba Hydro received a
16 request from the Federal government, namely INAC, to redirect
17 the billings to First Nations which had, to that date, been
18 sent to INAC.

19 Manitoba Hydro was told that this was part of
20 INAC's policy to encourage self-government within First
21 Nations communities. Manitoba Hydro complied with INAC's
22 request and began mailing invoices for facilities such as
23 schools, teacherages, and recreational facilities to the
24 First Nations.

25 However, before doing so, Manitoba Hydro

1 implemented a new policy in April 1987, stipulating that a
2 surcharge will normally be applied to accounts of federal and
3 provincial governments, their agencies, Crown Corporations,
4 and existing and new accounts historically associated with
5 these customers, regardless of who the federal or provincial
6 government designated to pay these accounts.

7 MS. PATTI RAMAGE: And has a copy of this
8 policy been filed in these proceedings?

9 MR. ROBERT COX: Yes, it can be found in the
10 response to MKO/MANITOBA HYDRO-21.

11 MS. PATTI RAMAGE: Did INAC or anyone at the
12 Federal government advise Manitoba Hydro that INAC would,
13 after April 1987, no longer be responsible for these
14 accounts?

15 MR. ROBERT COX: No, in fact, prior to re-
16 directing these invoices Manitoba Hydro staff, including
17 myself, met with INAC representatives and requested assurance
18 that INAC would continue to be responsible for these
19 accounts.

20 We were told that INAC intended to increase
21 its funding to the First Nations to assure that they would
22 have the funds to pay for the energy they were consuming.

23 Manitoba Hydro would not have agreed to re-
24 direct the invoices to the First Nations had INAC not
25 provided these assurances of continued Federal government

1 responsibility.

2 MS. PATTI RAMAGE: You said you had a meeting,
3 were any of these discussions confirmed in writing?

4 MR. ROBERT COX: I can't specifically recall
5 anything being put in writing and we haven't been able to
6 locate anything in Manitoba Hydro files.

7 MS. PATTI RAMAGE: You said that Manitoba
8 Hydro wouldn't have agreed to the change, yet you didn't see
9 the need to document Canada's obligations?

10 MR. ROBERT COX: First, you have to remember
11 that Canada's obligation wasn't changing as a result of our
12 discussions. Secondly, back then we were meeting with Canada
13 weekly, sometimes several times a week, to deal with issues
14 in the diesel communities and this is one of the many issues
15 being dealt with.

16 It is not our practice, back then, to document
17 everything. We worked with these people and had a
18 relationship where we frequently proceeded without
19 confirmation in writing.

20 In addition, when it comes to name change,
21 most of the information we receive on billing name changes is
22 received over the phone and we make the changes without any
23 confirmation in writing.

24 MS. PATTI RAMAGE: In 1987 did Manitoba Hydro
25 release the federal government from its obligation to pay the

1 surcharge for energy being consumed?

2 MR. ROBERT COX: No, we did not.

3 MS. PATTI RAMAGE: Do you recall any
4 termination of Manitoba Hydro's contracts with the government
5 in 1987?

6 MR. ROBERT COX: No.

7 MS. PATTI RAMAGE: Did Manitoba Hydro have
8 any discussions in or about 1987 with the First Nations
9 regarding the transfer of billings to their name?

10 MR. ROBERT COX: Staff meeting with First
11 Nations were told that they needed estimates of the amounts
12 that would be billed to them by Manitoba Hydro so that they
13 could secure the necessary funding from the federal
14 government but that was the extent of it.

15 MS. PATTI RAMAGE: Now, in 1987 did the First
16 Nations advise Manitoba Hydro they were accepting the federal
17 government's responsibility to pay for energy being consumed?

18 MR. ROBERT COX: No. There was no
19 discussions to that effect at all. The redirected billings,
20 including the surcharge, were sent to the First Nations and
21 paid by them until November 2000 when the First Nations
22 advised Manitoba Hydro that they did not believe they were
23 responsible for the surcharge portions of the accounts.

24 That is when we started meeting with INAC on
25 this issue and were advised that if Manitoba Hydro

1 discontinued billing the surcharge to the First Nations they
2 would reduce their funding to the First Nations.

3 MS. PATTI RAMAGE: Mr. Cox, as new facilities
4 are constructed in each diesel community, who determines
5 whether the surcharge applies to First Nation accounts and
6 how is that determined?

7 MR. ROBERT COX: Manitoba Hydro staff attempt
8 to class these accounts based on their understanding of the
9 intended use of the facility. If that use is similar to an
10 existing account that's subject to the surcharge, the
11 surcharge would be applied to the new account.

12 On the other hand, if staff are aware that the
13 new facility is delivering a service similar to those which
14 had not been surcharged in the past, the surcharge is not
15 applied to the new account.

16 MS. PATTI RAMAGE: Has the level of federal
17 funding received by the First Nation ever been a factor in
18 this determination?

19 MR. ROBERT COX: Back in 1987, when the name
20 -- the change in name was first made, our people did
21 sometimes use that to help them determine the appropriate
22 classification.

23 Due to the passage of time and the fact that
24 all accounts have now been switched over and the fact that
25 Manitoba Hydro is not privy to the current funding

1 arrangement or have control over how funding is determined,
2 it is no longer a useful indicator.

3 MS. PATTI RAMAGE: Mr. Cox, are you aware of
4 Manitoba Hydro's letter of May 2nd, 1983 to INAC which is
5 contained in PUB/MH-24-B and can you comment on this letter?

6 MR. ROBERT COX: Yes. I didn't write the
7 letter itself but I am aware of Manitoba Hydro's practices at
8 that time. It was common practice to advise our contract
9 customers about rate changes. This was especially true in
10 the diesel communities because of the large variation in
11 rates from year to year.

12 This letter is not unlike those used to change
13 the rates in -- rates in Brochet in September of 1979 when
14 rates were converted to full cost rates. A copy of the
15 letters I am referring to can be found in Volume 2, Appendix
16 1 in the Brochet section.

17 The Brochet section also contains Indian and
18 Northern Affairs' response to Manitoba Hydro's letter which
19 response is dated October 11th, 1979. It is apparent that
20 Indian and Northern Affairs understood that the only thing
21 that was being changed was the rate.

22 MS. PATTI RAMAGE: Following dispatch of the
23 May 2nd letter, who continued to operate diesel generation
24 equipment and provide electricity to the Shamattawa
25 community?

1 MR. ROBERT COX: Manitoba Hydro did.

2 MS. PATTI RAMAGE: And who continued to pay
3 for the electricity consumed in that community?

4 MR. ROBERT COX: The federal government,
5 through the Department of Indian and Northern Affairs, for
6 facilities maintained by the federal government for the
7 community.

8 MS. PATTI RAMAGE: And who paid for new
9 capital contributions in Shem -- Shamattawa immediately
10 following the May 3rd, '83 letter?

11 MR. ROBERT COX: The federal government.
12 See, for example, in the Shamattawa section of Appendix 1 the
13 electric service contract executed November 10th, 1983
14 wherein Manitoba Hydro agrees to make power available for a
15 teacherage located in the community and Indian and Northern
16 Affairs agrees to pay generation costs of twenty-three
17 thousand and forty-eight (\$22,048) dollars.

18 MS. PATTI RAMAGE: Mr. Cox, how long did the
19 federal government continue to pay for the consumption of
20 electricity in these communities for facilities built by it
21 and used by it?

22 MR. ROBERT COX: The Department of Indian
23 Affairs paid the contributions directly through 1983, 1984,
24 1985, 1986 and into 1987. From April 1, 1987 until November
25 2000, our understanding is that the Department of Indian

1 Affairs has continued to pay indirectly, by providing the
2 necessary funds to the First Nations.

3 MS. PATTI RAMAGE: Mr. Chair, that concludes
4 Manitoba Hydro's direct examination.

5 THE CHAIRMAN: Thank you, Ms. Murphy (sic),
6 and I thank the Panel. May I suggest, given the time, that
7 the Board stand down for a brief break. May I suggest ten
8 (10) minutes, and we'll try to reconvene back in this room at
9 twenty-five (25) after 11:00.

10 MS. PATTI RAMAGE: Certainly, Mr. Chair, I'll
11 have Ms. Murphy come in.

12 THE CHAIRMAN: Sorry, Ms. Ramage.

13

14 --- Upon recessing at 11:15 a.m.

15 --- Upon resuming at 11:29 a.m.

16

17 THE CHAIRMAN: Ladies and gentlemen, if -- if
18 I may, I'd like to call the Hearing back to order.

19 And just a couple of -- of things I'd like to
20 chat about briefly, with respect to Indian and Northern
21 Affairs Canada, Exhibit number 2.

22 I've numbered all the pages from the covering
23 page through to the final pages, there are 63 pages, and each
24 of them are numbered accordingly. And I would suggest,
25 parties, if they're going to use it in cross-examination, use

1 that numbering.

2 And secondly, I'm advised by Ms. Jawbone, that
3 from a translator's perspective, we were moving quite
4 quickly, and she would appreciate if we slowed down, just a
5 tad bit.

6 I would expect through normal cross-
7 examination that that will occur and I trust that Ms. Jawbone
8 will be able to keep up with us.

9 Mr. Peters, are you ready with your cross?

10 MR. BOB PETERS: Yes, sir. Thank you and good
11 morning again.

12

13 CROSS-EXAMINATION BY MR. BOB PETERS:

14 MR. BOB PETERS: Mr. Thomas, would this be
15 your first testimony before the Public Utilities Board, sir?

16 MR. CHIC THOMAS: Yes, it will.

17 MR. BOB PETERS: And Mr. Cox, likewise?

18 MR. ROBERT COX: Yes, that's correct.

19 MR. BOB PETERS: Welcome both of you, as well,
20 and I will be asking questions on behalf of the Board. My
21 questions are directed to the Panel and the Panel as directed
22 often by Counsel or whoever is the Chair of the Panel will
23 address the questions and so every question is up for grabs.
24 If that's understood?

25 All right. Thank you, sirs. Mr. Warden, the

1 Application, you mentioned, was filed in late 2002 before the
2 Board and it's now, for a variety of reasons, coming on for
3 Hearing, starting of 2004, correct?

4 MR. VINCE WARDEN: That's correct, yes.

5 MR. BOB PETERS: Mr. Warden, can you indicate
6 to the Board whether there are any revisions to the
7 Application since it was filed?

8 MR. VINCE WARDEN: There are no revisions that
9 aren't on the record, Mr. Peters. We did make a change to
10 the surcharge amount that has been provided in part -- as
11 part of the evidence. Otherwise, subject to check, there are
12 no other changes to the Application.

13 MR. BOB PETERS: All right. In your
14 testimony, Mr. Warden and perhaps Mr. Wiens, as well, there
15 was the indication that the Application was prepared hopeful
16 to get rates on April the 1st, 2003, is that correct, as to
17 how the Application was prepared?

18 MR. VINCE WARDEN: That's correct, yes.

19 MR. BOB PETERS: And now that can't happen,
20 correct?

21 MR. VINCE WARDEN: Correct.

22 MR. BOB PETERS: So my question flows, is that
23 if April 1st, 2003 rates are not possible on this
24 Application, are you now looking for these rates to become
25 effective say April 1st, 2004 or earlier?

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: We're not proposing, Mr.
4 Peters, to implement this on a retroactive basis. So given
5 the lateness of where we are today, we would implement as
6 soon as the order is received and then any surplus or deficit
7 arising therefrom, we would have to incorporate in a future
8 rate Application.

9 MR. BOB PETERS: All right. So you -- thank
10 you, you've anticipated my question. You're not seeking any
11 retroactivity to April 1st, 2003?

12 MR. VINCE WARDEN: That's correct.

13 MR. BOB PETERS: And just so that the record
14 is clear, as we start off, Mr. Warden, can you just put on
15 the record, the clarification of the surcharge amount that
16 you referenced in a previous answer to me?

17 MR. VINCE WARDEN: The correct surcharge
18 amount is one dollar and twenty two point one (\$1.221) cents
19 per kilowatt hour. I believe the previously filed number was
20 one thirty point one (\$1.301).

21 MR. BOB PETERS: And can you indicate to the
22 Board and confirm that that number changed in your
23 Application based on volume assumptions Mr. Thomas, and not
24 cost assumptions?

25 MR. CHIC THOMAS: That was discovered in an

1 error in our working papers only.

2 MR. BOB PETERS: But -- and the error though
3 was -- was attributable to volume assumptions and not cost
4 assumptions?

5 MR. CHIC THOMAS: Revenue assumptions.

6

7 (BRIEF PAUSE)

8

9 MR. BOB PETERS: In your Application that's
10 before the Board, Manitoba Hydro is seeking to maintain the
11 three (3) rate classes, is that correct?

12 MR. CHIC THOMAS: That's correct.

13 MR. BOB PETERS: Has Manitoba Hydro considered
14 implementing additional or other rate classes?

15 MR. ROBIN WIENS: No, Mr. Peters.

16 MR. BOB PETERS: All right. The first rate
17 class then, Mr. Wiens, is the residential class and this is
18 restricted to consumers who occupy their premises as
19 residents?

20 MR. ROBIN WIENS: That's correct.

21 MR. BOB PETERS: And their service size is
22 limited to sixty (60) amp or less?

23 MR. ROBIN WIENS: Technically there is no
24 limitation, but if they want to qualify for the -- for the
25 residential rate, which today is identical to the rate

1 charged customers on the grid, they would have to maintain
2 the service entrance at or below sixty (60) amps.

3 MR. BOB PETERS: But they do have the
4 capability of -- of a higher service capacity than sixty (60)
5 amp?

6 MR. ROBIN WIENS: If they are prepared to pay
7 the full cost rate.

8 MR. BOB PETERS: And, in addition, Mr. Wiens,
9 residential customers are not to use electric service for
10 electric space heat?

11 MR. ROBIN WIENS: That's correct.

12 MR. BOB PETERS: There was, maybe only to me,
13 some confusion in the filing, but do I understand that it is
14 permissible for residents to use electricity for hot water
15 heating?

16 MR. ROBIN WIENS: Yes, it is. That reference
17 in the original Application was erroneous. That was the
18 situation that applied prior to the enhancement of the
19 service from fifteen (15) to sixty (60) amps.

20 MR. BOB PETERS: Mr. Wiens, and perhaps Mr.
21 Thomas and Board Members, on page 15 of the Application that
22 Manitoba Hydro has filed and I believe I photocopied that
23 page loosely for the Board Members in a green folder.

24 Page 15 sets out, in chart form, your
25 Application for rate increases; correct, Mr. Wiens?

1 MR. ROBIN WIENS: I'm sorry, we haven't quite
2 got that in front of us.

3
4 (BRIEF PAUSE)

5
6 MR. ROBIN WIENS: Yes, we have that.

7
8 (BRIEF PAUSE)

9
10 MR. BOB PETERS: Mr. Wiens, the residential
11 customer class shown here, you've tried to demonstrate on
12 this page, sir, the existing rate scenario to that which is
13 proposed; correct?

14 MR. ROBIN WIENS: That's correct.

15 MR. BOB PETERS: And when the Board reviews
16 this, you're not proposing any change for the residential
17 customers in their basic monthly charge or their first block
18 of energy of the first hundred and seventy-five (175)
19 kilowatt hours per month; correct?

20 MR. ROBIN WIENS: Correct.

21 MR. BOB PETERS: And, also, the next block of
22 eighteen hundred and twenty-five (1825) kilowatt hours would
23 bring this customer class up to a total of two thousand
24 (2000) kilowatt hours per month with no rate increases?

25 MR. ROBIN WIENS: That's correct.

1 MR. BOB PETERS: And once this customer
2 class, under your proposed scenario, exceeds two thousand
3 (2000) kilowatt hours then the full cost rate of seventy-nine
4 point one cents (79.1) kicks in under your proposal?

5 MR. ROBIN WIENS: That's correct.

6 MR. BOB PETERS: And presently those
7 customers are able to enjoy unlimited consumption at the grid
8 rate of five point one six (5.16) cents per kilowatt hour?

9 MR. ROBIN WIENS: Again, correct.

10 MR. BOB PETERS: Underneath the residential
11 class you have revenue at forecast usage and is the Board to
12 understand, Mr. Wiens, that as current rates are bringing in
13 four hundred and seventeen thousand, five hundred and forty-
14 two dollars (\$417,542) at existing rates?

15 MR. ROBIN WIENS: That's what we forecast at
16 the time we filed the Application, yes.

17 MR. BOB PETERS: And Manitoba Hydro is
18 forecasting that that revenue under the new rates will grow
19 to seven hundred and thirty-nine thousand, four hundred and
20 seventy-seven dollars (\$739,477) as per the -- per the
21 Application?

22 MR. ROBIN WIENS: Yes, assuming the same
23 forecast consumption.

24 MR. BOB PETERS: In terms of the total
25 allocated cost to this customer class, Mr. Thomas, what is

1 that -- what would that seven hundred and thirty-nine
2 thousands dollars (\$739,000) recover?

3 MR. CHIC THOMAS: I'd have to check the exact
4 number but we're -- I think I'll have to check that.

5 MR. BOB PETERS: An approximate number is all
6 I'm looking for if you're going to do your math on that, sir.

7 Is it correct then Mr. Wiens -- I'm sorry.

8 MR. VINCE WARDEN: The target would be to
9 recover the same as we recover from all other residential
10 customers within the Province. So that's currently sitting
11 around 90 percent so we would be targeting recovering the
12 same from the diesel -- diesel zone.

13 MR. ROBIN WIENS: Except most of that would
14 come from the surcharge other than from the customers.

15 MR. BOB PETERS: Thank you Mr. Warden and Mr.
16 Wiens.

17 I think you've understood my next question
18 then, is in terms of the actual cost that's allocated to the
19 residential customers, how much is recovered by the seven
20 hundred and thirty-nine thousand dollars (\$739,000), is what
21 I would like to get from the Company.

22 MR. ROBIN WIENS: This is subject to check.
23 We'd have to go and do the calculations. It's not a
24 difficult one but we just don't have all the numbers here in
25 front of us and I -- I would hazard to guess that it would be

1 less than 20 percent. Probably in the range of 15 percent.

2 MR. BOB PETERS: Thank you Mr. Wiens. You
3 don't need to update that calculation unless you've been off
4 the mark by a considerable amount. Now in keeping with this
5 page 15 in front of us, the next class of customers that
6 you've identified, you call them the general service
7 customers, correct?

8 MR. ROBIN WIENS: That's correct.

9 MR. BOB PETERS: And when you identify
10 general service customers in these diesel communities, those
11 are for customers that are non-residential and
12 non-government?

13 MR. ROBIN WIENS: Again, correct.

14 MR. BOB PETERS: So it's not defined by who's
15 included in it, but it's defined by who's not included in
16 other categories.

17 MR. ROBIN WIENS: That's fair to say. We do
18 for our overall customer base, have definitions of what
19 constitutes a residential customer and what constitutes a
20 general service customer. And the general service definition
21 would apply here except in the case of those accounts that
22 are funded by government or assisted by government.

23 THE CHAIRMAN: But to clarify Mr. Wiens, just
24 for my purposes. If the northern stores has a residence for
25 its manager in a particular community, that residence is

1 under the residential category; or is it under the general
2 service category?

3 MR. ROBIN WIENS: I would say subject to
4 check, it would be under the residential category.

5 THE CHAIRMAN: Thank you.
6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: In terms of your proposal
9 before the Board in this Application, if I'm reading this
10 page 15 correctly, Mr. Wiens and Mr. Thomas, you are again
11 telling the Board that for general service customers
12 consuming less than two thousand (2000) kilowatt hours per
13 month, they will see no change in their rates as a result of
14 your proposal?

15 MR. ROBIN WIENS: That's correct.

16 MR. BOB PETERS: And the rates that they are
17 being charged are equivalent to grid rates for those first
18 two thousand (2000) kilowatt hours.

19 MR. ROBIN WIENS: Yes.

20 MR. BOB PETERS: Presently Mr. Wiens, general
21 service customers can get grid rates up to three thousand
22 (3000) kilowatt hours per month, correct?

23 MR. ROBIN WIENS: Yes.

24 MR. BOB PETERS: And your proposal is to
25 ratchet that back to two thousand (2000) kilowatt hours?

1 MR. ROBIN WIENS: Yes.

2 MR. BOB PETERS: And if you -- under your
3 proposal, anything over two thousand (2000) kilowatt hours
4 per month will result in the full cost rate being applied to
5 that excess consumption.

6 MR. ROBIN WIENS: That's correct.

7 MR. BOB PETERS: And that's for any amount
8 over and above two thousand (2000) kilowatt hours per month.

9 MR. ROBIN WIENS: Yes.

10 MR. BOB PETERS: Can you again, Mr. Wiens,
11 estimate to the Board what percentage of costs to the general
12 service class are recovered by the forecast nine hundred and
13 forty-four thousand dollars (\$944,000) of revenue?

14 MR. ROBIN WIENS: Again, this would be
15 subject to check, but I believe in the case of the general
16 service class, there is a larger proportion of the forecast
17 consumption that would be charged the full cost rate and
18 we're probably looking at something closer to 20 percent or
19 perhaps a couple of percentage points in excess of 20
20 percent.

21 MR. BOB PETERS: Turning to the government
22 rate class, am I correct that the definition of this customer
23 class remains unchanged from when it was last before the
24 Board?

25 MR. ROBIN WIENS: If you are looking at the

1 current rates, that would be true. If you're looking at what
2 we're proposing in the Application, we are proposing in the
3 Application that we will no longer make a distinction between
4 different types of First Nation accounts which are funded by
5 the Government of Canada, or which provide services that
6 normally are typical of Government Services that are provided
7 anywhere else.

8 In the past I would say again, roughly two
9 thirds (2/3) of the First Nation accounts would have been
10 defined as Government in the past, and we are proposing that
11 all of those accounts which are First Nation or Band accounts
12 be -- be classed as Government accounts.

13 MR. BOB PETERS: All right, I will come back
14 and revisit that with you in a minute, Mr. Wiens, but when
15 we're in the Government class of customers, there will be --
16 the only remaining feature from the existing rates is going
17 to be the basic monthly charge; correct?

18 MR. ROBIN WIENS: That is correct.

19 MR. BOB PETERS: And then for their
20 consumption, you want to charge the Government full cost
21 rates, which Mr. Thomas has -- has said that now calculates
22 out to seventy-nine point one (79.1) cents per kilowatt hour?

23 MR. ROBIN WIENS: Plus the surcharge as well.

24 MR. BOB PETERS: Well, the surcharge would be
25 added on top of their actual -- it would be charged, not

1 based on their usage, but based on the calculation of the
2 subsidized uses of other classes; correct?

3 MR. ROBIN WIENS: No, it is based on their
4 usage.

5 MR. BOB PETERS: Let me rephrase the question.
6 The surcharge is now a dollar twenty-two point one cents
7 (\$1.221) per kilowatt hour; correct?

8 MR. ROBIN WIENS: That's the proposal.

9 MR. BOB PETERS: Yes, and that replace -- that
10 is to replace the forty-four point eight (44.8) cents that is
11 currently embedded in those rates?

12 MR. ROBIN WIENS: Yes.

13 MR. BOB PETERS: And the surcharge would be
14 added to the full cost rate and applied to each kilowatt hour
15 consumed by a customer in the -- in the Government class?

16 MR. ROBIN WIENS: That is correct.

17 MR. BOB PETERS: And the total cost per
18 kilowatt hour for Government with the revised amount would be
19 then how much, Mr. Wiens?

20 MR. ROBIN WIENS: I believe it would be two
21 hundred and one point one cents (\$2.011).

22 MR. BOB PETERS: And that two dollars and one
23 cent point one (\$2.011) would be for each and every kilowatt
24 hour consumed by customers in this class?

25 MR. ROBIN WIENS: That is correct.

1 MR. BOB PETERS: And in terms of the customers
2 to whom this will apply, if I heard the evidence it was going
3 to be for all accounts directly paid by agencies of Canada or
4 Manitoba; so far correct?

5 MR. ROBIN WIENS: So far correct.

6 MR. BOB PETERS: And you want to include in
7 that, First Nation Government accounts?

8 MR. ROBIN WIENS: Correct.

9 MR. BOB PETERS: Did you agree with me, Mr.
10 Wiens, that that definition was the same definition under
11 which you operated back in the 90's, in terms of who was
12 going to be responsible to pay Government rates?

13 MR. ROBIN WIENS: The intent is the same I
14 think, Mr. Peters, as I mentioned earlier.

15 The -- prior to this Application, the
16 surcharge had been applied to those First Nation accounts,
17 First Nation Band accounts, which were deemed to either have
18 been transferred from the Government of Canada, or were
19 providing services similar to those, to the best of the
20 ability of our people in the field to make that distinction.

21 The -- the -- the effect was that
22 approximately two thirds (2/3), more or less, of those First
23 Nation accounts were treated as Government accounts, the
24 remainder were treated as what we then called full cost, or
25 what we're calling here, general service accounts.

1 The intent, however, is the same. The intent
2 is to recover the same proportion of our deficit from those
3 accounts which we believe are funded by Government, by way of
4 the surcharge.

5 MR. BOB PETERS: All you've done then, Mr.
6 Wiens, if I can simplify it, is to expand the customer base
7 that would be responsible to pay that surcharged amount, but
8 the actual amount of the surcharge is not changing?

9 MR. ROBIN WIENS: That's correct.

10 MR. BOB PETERS: Just to help, perhaps --

11 MR. ROBIN WIENS: Well, except to the extent
12 that the costs have changed, that go into the surcharge.

13 MR. BOB PETERS: All right, the dollar amount
14 of the surcharge has changed, but the --

15 MR. ROBIN WIENS: Yes.

16 MR. BOB PETERS: -- but, the cumulative total
17 doesn't change, it's just the number of customers from whom
18 you recover that cumulative total will change.

19 MR. ROBIN WIENS: That's correct.

20 MR. BOB PETERS: All right. I noted in one
21 (1) of the Hydro responses to a question from MKO, it was
22 found at MKO/Manitoba Hydro 10, there was a breakdown of
23 facilities billed to First Nations, as best determined by
24 Manitoba Hydro. Do you recall that Interrogatory? Or
25 perhaps you can locate it?

1 MR. ROBIN WIENS: Well, I do recall it, but
2 we'll have to locate it.

3
4 (BRIEF PAUSE)

5
6 MR. BOB PETERS: You have that now, Mr. Wiens?

7 MR. ROBIN WIENS: We do.

8 MR. BOB PETERS: First of all, so I'm
9 understanding the answer before I ask my next question, have
10 you listed in MKO/Manitoba Hydro 10, all of the facilities to
11 which Manitoba Hydro proposes to charge the government rate
12 to First Nations accounts?

13
14 (BRIEF PAUSE)

15
16 MR. ROBIN WIENS: That would include all of
17 them.

18 MR. BOB PETERS: And now if I understand what
19 you've told me previously, Mr. Wiens, you have on MKO/MH 10,
20 broken down by description or industry type, approximately
21 eighty (80) accounts that are considered First Nations
22 accounts or Band Council accounts?

23 MR. ROBIN WIENS: That's right.

24 MR. BOB PETERS: And in the Application that
25 you have before the Board, you're now proposing that all of

1 these accounts as listed would be billed at the government
2 rates and you're asking the Board to concur in that?

3 MR. ROBIN WIENS: Yes.

4 MR. BOB PETERS: Presently, not all of these
5 eighty (80) -- approximate eighty (80) accounts, pay the
6 government rate, is that correct?

7 MR. ROBIN WIENS: That's correct.

8 MR. BOB PETERS: And as long as you don't ask
9 me my source, I thought it was somewhere in the materials
10 that there was forty (40), approximately forty (40) accounts
11 that are presently paying -- are considered Band Council
12 accounts and are paying the surcharge rate?

13 MR. ROBIN WIENS: I believe that's correct,
14 yes.

15 MR. BOB PETERS: And so rather than have the
16 existing forty (40) Band Council accounts be responsible for
17 the surcharge portion, you want to spread that out and
18 include all approximate eighty (80) accounts that are billed?

19 MR. ROBIN WIENS: Yes.

20 MR. BOB PETERS: Mr. Wiens, back to page 15 of
21 the Application and that chart, we see that under the
22 government rates, existing revenue comes in at about \$2.8
23 million, correct?

24

25

(BRIEF PAUSE)

1 MR. ROBIN WIENS: Yes.

2 MR. BOB PETERS: And under the proposal that
3 you have before the Board that revenue forecast increases to
4 approximately \$7.3 million, as a result of your Application?

5 MR. ROBIN WIENS: Yes.

6 MR. BOB PETERS: That number of \$7.3 million
7 does not change as a result of the change in the surcharge
8 calculation number, does it?

9 MR. ROBIN WIENS: The -- the gross number, the
10 7.2, does not change, no.

11 MR. BOB PETERS: Thank you. And, Mr. Wiens,
12 from the prospective diesel Cost of Service Study prepared by
13 Mr. Thomas, and specifically, I think, Schedule 3 to the --
14 to the prospective cost of diesel study, that's found, is it,
15 Mr. Thomas, at Attachment 2 of the filings?

16 MR. CHIC THOMAS: That's right.

17 MR. BOB PETERS: And, of that \$7.3 million
18 dollars that's expected from the government surcharge class,
19 approximately \$2.7 million will come from the government
20 customers based on their full cost rates; have I interpreted
21 that correctly?

22 MR. CHIC THOMAS: Sorry, Mr. Peters, are you
23 looking at Schedule 2 or 3?

24 MR. BOB PETERS: All right. I'll take you to
25 Schedule 3, Mr. Thomas, of your diesel Cost of Service Study?

1 MR. CHIC THOMAS: Okay.

2 MR. BOB PETERS: And there is revenue
3 received from the federal government and the provincial
4 government which I add together and round off to \$2.7
5 million; do you see that?

6 MR. CHIC THOMAS: That's correct.

7 MR. BOB PETERS: And that would be based on
8 billing those customers at the full cost rate of seventy-nine
9 point one (79.1) cents a kilowatt hour?

10 MR. CHIC THOMAS: Yes.

11 MR. BOB PETERS: So if there was no
12 surcharge, that's what those customers would expect to pay
13 and that was \$2.7 million?

14 MR. CHIC THOMAS: That's correct.

15 MR. BOB PETERS: Just so the Board has the
16 big picture, is that \$2.7 million dollars from government
17 customers or customers in the government class being paid
18 monthly to Manitoba Hydro when their bills are rendered?

19 MR. ROBIN WIENS: If we assume that all
20 accounts are paying their bills, yes, they are paid monthly.
21 We know that's not the case but that's the intent.

22 MR. BOB PETERS: All right, what you're --
23 and I appreciate the clarification, Mr. Wiens, what you're
24 telling the Board is you do have some accounts receivable up
25 there in these four (4) communities but, in general terms,

1 the full cost rate customers are paying their bills and
2 there's no serious dispute that you're aware of?

3 MR. ROBIN WIENS: Not that I'm aware of; that
4 doesn't mean that there aren't some issues because with over
5 five hundred thousand (500,000) customers you always have
6 some issues and there is issues in the diesel zone as well.

7 But none that are so serious that I'm aware of
8 them with respect to the full cost customers, no.

9 MR. BOB PETERS: And I appreciate we're
10 dancing a little carefully on that, Mr. Wiens, but -- but my
11 point is, the dispute that you have is not with the -- is
12 not, in theory, with the full cost rate that is charged but
13 is rather with the surcharge portion of the rate charged to
14 the government customers?

15 MR. ROBIN WIENS: Yes, what has happened is
16 that the First Nation accounts today are being billed on the
17 basis of today's full cost rate without the surcharge
18 provisions. And, as far as I am aware, those -- those bills
19 are being paid.

20 MR. BOB PETERS: All right. So if we're
21 looking on page 15, Mr. Wiens, under the government
22 customers, the -- the rate of thirty-five point nine (35.9)
23 cents per kilowatt hour is, to your knowledge, not at the
24 heart of any dispute but rather it's the surcharge portion,
25 the forty-four point eight (44.8) cents that's leading to the

1 -- the dispute with government and Indian Affairs?

2 MR. ROBIN WIENS: Yes.

3 MR. VINCE WARDEN: I should clarify one
4 thing, not necessarily government -- all government. It's
5 those offices such as the RCMP, for example, are paying the
6 surcharge as well. It's only those First Nation accounts
7 that aren't paying the surcharge.

8 MR. BOB PETERS: All right. Let me just wrap
9 up my questioning on that, Mr. -- Mr. Warden, before lunch if
10 I could, Mr. Chair.

11 What you're telling the Board is that
12 presently you are charging the surcharge to customers in the
13 government class and that includes, in addition to First
14 Nations accounts, other agencies of the provincial or federal
15 government; correct?

16 MR. VINCE WARDEN: Correct.

17 MR. BOB PETERS: And where the dispute
18 appears to be arising, you're telling the Board, is only as
19 it applies to government rates charged to First Nations'
20 accounts or Band Council accounts?

21 MR. VINCE WARDEN: That's correct.

22 MR. BOB PETERS: And you're telling the Board
23 that where the RCMP has a station in these communities they
24 are being presently billed the full cost rate of thirty-five
25 point nine (35.9) cents for their consumption plus a

1 surcharge on top of that of forty-four point eight (44.8)
2 cents and to the best of your knowledge those accounts are
3 all being paid, correct?

4 MR. VINCE WARDEN: Correct.

5 MR. BOB PETERS: And in addition to the RCMP
6 there are other Federal Government agencies or organizations
7 that are paying their accounts monthly.

8 MR. VINCE WARDEN: Yes, there are.

9 MR. BOB PETERS: For example, what would that
10 include Mr. Warden?

11 MR. VINCE WARDEN: Health Canada -- Health
12 and Welfare Canada I believe is one of the accounts. We
13 could probably get some other examples if you need them.

14 MR. BOB PETERS: No, that's fine. Can you
15 tell me in terms of the Provincial Government, why is the
16 Province of Manitoba being asked to pay on top of the full
17 cost rates, a surcharge?

18 MR. ROBERT WIENS: The Provincial Government
19 is active in some of these communities in terms of delivering
20 service in these communities. Some of these communities are
21 -- some of the population in these communities is population
22 for which -- which are not First Nation members, which are
23 the responsibility of the Government of Manitoba.

24 MR. BOB PETERS: So Mr. Wiens, when I look
25 back at page 15 and I see the revenue, a forecast usage,

1 currently you're forecasting \$2.8 million dollars to come
2 from the government customer class, correct?

3 MR. ROBIN WIENS: At current rates, yes.

4 MR. BOB PETERS: Yes, at current rates, and
5 what you're telling the Board is that at current rates that
6 of that \$2.8 million, there's a surcharge is included in that
7 \$2.8 million dollars, correct?

8 MR. ROBIN WIENS: It is.

9 MR. BOB PETERS: And can you indicate to the
10 Board or confirm my understanding from the materials, that
11 approximately 40 percent of your government customers are
12 paying their full cost rate plus their surcharge?

13

14 (BRIEF PAUSE)

15

16 MR. ROBIN WIENS: It's about 50 percent.

17 MR. BOB PETERS: Mr. Wiens, so you're telling
18 the Board that of your current government customers -- sorry,
19 of your current customers in the government rate class,
20 approximately 50 percent of them are paying their full cost
21 rate plus their surcharge?

22 MR. ROBIN WIENS: It -- we just looked at the
23 customer account now and it looked like it would be roughly
24 50 percent. But I do recall we have put on the records
25 somewhere and don't ask me to direct you exactly to it right

1 now. That 45 percent of the totals amount that is being
2 billed as surcharge is being recovered from that group of
3 customers that are still paying.

4 MR. BOB PETERS: All right, my last few
5 questions, if I could, on page 15 then, Mr. Wiens.

6 What we see under your proposed column is that
7 we add up the residential customers proposed revenue with the
8 general service revenue, the government customers revenue and
9 the surcharge, there's one other item and that is the hydro
10 subsidy that needs to be added to get the total amount of the
11 diesel cost to service, correct?

12 MR. ROBIN WIENS: Yeah the 8.9 or so million
13 at the bottom of the page is -- reflects what we -- revenue
14 we are forecast to receive from customers via rates or the
15 surcharge. The remaining six hundred odd thousand dollars is
16 what -- is not recovered and effectively supported by the
17 Manitoba Hydro rate base.

18 MR. BOB PETERS: What you're telling the
19 Board is that in addition to the revenues that are forecast
20 from these customers, there will also -- there will still be
21 a shortfall but that shortfall is on account of your setting
22 the revenue to cost ratio for the recovery from these
23 customers at levels comparable to grid customers?

24 MR. ROBIN WIENS: That's correct. What we do
25 precisely is we look at the revenue cost, coverage of

1 comparable customers served by the grid and we say we want to
2 obtain that from the residential and general service classes.
3 And the difference between revenue at those revenue cost
4 coverages and the forecast of the actual revenue received
5 from billing the customers is the amount that goes into the
6 calculation of the surcharge.

7 MR. BOB PETERS: Thank you. Mr. Chair, in
8 light of the time perhaps this is a good time to break.

9 THE CHAIRMAN: Thank you, Mr. Peters, we'll
10 accept your kind offer, and the Board will stand down to 1:15
11 today. If any party presents himself, and wishes to express
12 views, we will hear them at 1:15. And then we'll proceed
13 back to you, Mr. Peters, for your continued cross, thank you.

14

15 --- Upon recessing at 12:07 p.m.

16 --- Upon resuming at 1:20 p.m.

17

18 THE CHAIRMAN: Ladies and gentlemen, while
19 we're missing Mr. Anderson, we will start the Hearing this
20 afternoon.

21 We've been advised, or I've been advised that
22 a couple of parties wish to make their views known to the
23 Board. One (1) is the North West Company and secondly is the
24 Frontier School Division.

25

I gather, Mr. Markham, are you here

1 representing North West stores?

2 MR. RALPH MARKHAM: Yes.

3 THE CHAIRMAN: Sir, when you're ready, please
4 provide us with your views.

5 MR. RALPH MARKHAM: Thank you. I had
6 originally prepared this in a PowerPoint presentation, but
7 some people, I believe, have copies of my slides and I don't
8 know if some of the -- if they'll be made available to
9 everybody.

10 Thank you for the opportunity to present to
11 the Public Utility Board on this very important and, judging
12 by the quantity of submittals received over the past few
13 months, contentious issue of utility rates.

14 My name is Ralph Markham and I'm the Director
15 of Store planning and facility services for the North West
16 Company. I have here with me today a couple of my
17 colleagues, Mr. Trent Hood, immediately to my right, he's the
18 Maintenance Manager for the company and also a former store
19 manager for Northern Stores in Northern Manitoba, and Mr.
20 Peter Brown who's the General Manager of Sales and Operations
21 for the Northern Stores Interior Division.

22 The four (4) locations under review today all
23 fall within Mr. Brown's operating division. The purpose of
24 our being present at this Hearing is to provide to the Public
25 Utility Board a background on the North West Company and its

1 operations in Northern Manitoba and hopefully to outline to
2 you the impact of this proposed rate increase, not only on
3 our company but, more importantly, on our customers.

4 In viewing the information requests from the
5 other parties presented to this Board, I saw little about the
6 direct impact of these utility rate increases to consumers in
7 the affected communities. Our presentation will seek to
8 educate you on costs in the north and we'll focus in toward
9 the impact of these rate increases on those costs.

10 Manitoba Hydro and the North West Company are
11 familiar -- are similar in that we have strong strategic
12 interests in the north. Hydro, of course, relies on the
13 north as its key source of raw materials to produce
14 electricity and must depend on northern residents and First
15 Nations partners in assisting in exploiting those raw
16 materials.

17 The North West Company is a service retailer
18 to those same residents in First Nations communities. In
19 many cases we are partnered with those communities to provide
20 a retail store and associated services to their residents.
21 Often where our company is partnered with the community, the
22 community shares in the success of that store.

23 My presentation will cover five (5) points.
24 Five (5) -- first is provide you with a background on who and
25 what the North West Company is so that you can fully

1 appreciate what we are to remote northern residents and
2 especially to those affected by this proposed increase in
3 Brochet, Lac Brochet, Shamattawa, and Tadoule Lake.

4 Second is to educate this Hearing on the cost
5 of doing our specific segment of business in the north.
6 Third is to present to you that -- the North West Company
7 understands the high costs of doing business in remote areas
8 of Manitoba and what steps we have taken to make our specific
9 business more efficient.

10 The purpose of this point will be to
11 demonstrate we have taken and continue to take steps to
12 reduce and control costs so that we can continue to provide
13 goods and services to our customers at fair and competitive
14 prices.

15 Fourth is to give you a measured impact of
16 this proposed Hydro increase on our specific business in the
17 four (4) affected communities and what that impact could mean
18 to our customers in those communities.

19 And, finally, outline to you legacy
20 obligations that we, the North West Company, bring to the
21 north. It is our sincere hope that other competitive
22 companies, partner organizations such as utilities, and
23 finally government, all recognize the impact of their
24 services and programs on northern residents.

25 To give you a bit of a background to us, the

1 North West Company operates a hundred and fifty (150) stores
2 across Northern Canada operating under the trading names of
3 "Northern", "Northmart", "Quickstop" and "North West Company
4 Fur Marketing".

5 We also operate a chain of twenty-five (25)
6 stores in Alaska operating under the names "AC Value Centre",
7 "AC Express", "Quickstop" and "Food for Less". In the last
8 -- in the past couple of years the company has been expanding
9 into southern Canada through the franchise arrangement with
10 "Giant Tiger Stores" of Ottawa, Ontario.

11 The North West Company offers a wide range of
12 goods and services that includes foods, including fresh
13 produce, fresh, frozen and deli meats, dairy products, frozen
14 foods, baked goods, hot meal programs and shelf stable foods,
15 family apparel, general merchandise, transportation goods
16 like snowmobiles, ATV's, boats and motors, gasoline, and
17 financial services like cheque cashing, credit ATMs, cash
18 transfers and tax services.

19 Of course, we do not offer all of these goods
20 and services in all of our stores. We customize our goods
21 and services to the specific community with those goods --
22 with those goods we are unable to offer locally -- sorry.

23 We customize our goods and services to the
24 specific community with those goods that we are unable to
25 offer locally available to our customers through our

1 selections catalogue service.

2 Our sales in 2002, we're just finishing our
3 fiscal 2003, our sales in 2002 were \$750 million in round
4 figures. A same store sales increase of 3.4 percent over
5 2001. Our company employs over five thousand (5,000) people.
6 We're recognized as Canada's largest private employer of
7 Aboriginal people at over three thousand (3,000) employees.

8 The company has taken a leading role in the
9 development of Aboriginal employees through training
10 retention programs and management promotion. We're a
11 publicly-traded company on the Toronto Stock Exchange.

12 The company is structured as an income fund
13 whereby unit holders receive distributions at a higher pre-
14 tax rate compared to after tax dividends. There is no single
15 majority unit holder in the North West Company.

16 We are widely held. One of the larger blocks
17 of units, however, and they have four hundred and fifty
18 thousand (450,000) of our trust units is held by Rupertsland
19 Holdings Incorporated.

20 A consortium consisting of the Federation of
21 Saskatchewan Indian Nations, Tribal Council Investments Group
22 of Manitoba and Denendah Development Corporation.

23 We are headquartered in Manitoba with our home
24 office located at Gibraltar House here in Winnipeg. Also in
25 Winnipeg we operate a three hundred and seventy thousand

1 (370,000) square foot dry food, apparel, and general
2 merchandise distribution center, Crescent Multi-Foods which
3 is a -- and Crescent Multi-Foods which is a wholesale
4 supplier of fresh produce.

5 We are also partnered with distribution
6 companies in Edmonton, Montreal, and Rouyan Noranda in
7 Quebec. In Manitoba specifically, in addition to our home
8 office and distribution operations, we operate thirty (30)
9 stores.

10 The total number of employees working for the
11 North West Company is by far the highest in Manitoba over any
12 other province or territory in the country at one thousand
13 four hundred and forty-five (1,445) employees of which five
14 hundred and thirty (530) are Aboriginal.

15 Our total payroll in Manitoba is \$41 million
16 and our fixed assets value at \$34 million and our working
17 capital at \$46 million. So that gives you a snapshot of who
18 and what the North -- North West Company is.

19 Now I will proceed to give you a brief
20 overview of costs in operating our business in the north.
21 It's hard to demonstrate this without the slide but I'll
22 attempt.

23 That it costs more to operate any business in
24 the north is a given fact. We've got a slide that
25 illustrates the comparative costs of operating north. Costs

1 -- these costs are going to be, how will I present this, --

2 THE CHAIRMAN: Mr. Markham, I think everyone
3 in this room has a copy of that presentation or just about
4 everybody.

5 MR. RALPH MARKHAM: Okay.

6 THE CHAIRMAN: And so just to assist you.

7 MR. RALPH MARKHAM: You do have it? Very
8 good. Thank you. So to illustrate comparative costs of
9 operating north, we put together this chart outlining costs
10 on three (3) stores in Manitoba. Costs are per square foot
11 of selling area. This is a common measure of cost comparison
12 in -- in our industry, the retail industry.

13 So Oxford House is a remote location serviced
14 by winter road and air. Shamattawa is a remote location also
15 serviced by winter road and air and is also one of the
16 locations where this proposed increase is coming. And we all
17 of course -- of course know where Winnipeg is.

18 We're highlighting these three (3) stores to
19 illustrate the impact of certain costs on our occupancy.
20 Rent costs are directly linked to our construction costs.
21 The more remote a location, the higher the construction costs
22 thus the higher rent cost.

23 So to highlight that example, our construction
24 costs in Oxford House is one hundred and thirty-five dollars
25 (\$135) per square foot. Shamattawa one hundred and fifty

1 dollars (\$150) per square foot and Winnipeg at sixty dollars
2 (\$60) per square foot.

3 The rent is directly linked to that. At
4 Oxford House our rent cost per selling square foot is \$17.30
5 and Shamattawa is \$24.27 and Winnipeg is \$4.43.

6 Utility cost, or specifically electricity and
7 heating oil costs, other occupancy costs include taxes,
8 maintenance, custodial costs and so on. Utility costs for
9 Oxford House which is on-line power, \$7.27, in Shamattawa,
10 \$21.10, that's the diesel power location, and in Winnipeg
11 \$7.06. These are all stores that we do own and operate today
12 or rent and operate today.

13 As can be expected, the total occupancy cost
14 in Winnipeg is less than those in Northern Manitoba. The key
15 variant I would like to highlight is on the utility rates.

16 You'll note Winnipeg and Oxford House have
17 some -- similar utility costs and this is because each
18 location is located on Manitoba Hydro's grid. Shamattawa on
19 the other hand is not on the grid. As such we are unable to
20 use less expensive electricity for heating as we do in Oxford
21 House.

22 And today we already pay a higher rate for
23 electricity, thirty-five point nine (35.9) cents, in
24 Shamattawa. And also pay much higher costs for heating oil
25 because of transportation, financing and storage costs

1 associated with the fuel.

2 Later in this presentation we'll give you an
3 idea how these occupancy costs impact the cost of goods in
4 our stores specifically.

5 THE CHAIRMAN: Mr. Markham, just while you're
6 on that page, the numbers that you have in your schedule are
7 your current numbers?

8 MR. RALPH MARKHAM: Yes.

9 THE CHAIRMAN: It's not to do anything with
10 the numbers that are included in the Application?

11 MR. RALPH MARKHAM: No, I do have a chart a
12 little bit later which I'm glad you all have a copy of this
13 because we're going to make some corrections to that chart.
14 I made some mathematical errors on it, so.

15 THE CHAIRMAN: And when I compare the three
16 (3) different communities, are we comparing all the similar
17 numbers? For example, on the Oxford House is \$7.27 per
18 square foot presumably. Does that suggest that the heating
19 costs are included in that, whereas in Shamattawa they're
20 not?

21 MR. RALPH MARKHAM: Yes, they are also
22 included in Shamattawa as well.

23 THE CHAIRMAN: Thank you for that
24 clarification. Sorry for the interruption.

25 MR. RALPH MARKHAM: In Winnipeg it's natural

1 gas for the heating costs, Oxford House is electric and
2 Shamattawa is heating oil and electricity.

3 THE CHAIRMAN: Thank you for that
4 clarification.

5 MR. RALPH MARKHAM: Okay. Of course occupancy
6 costs are not the only impact on our costs of business in the
7 north, all costs conspire to higher costs to northern
8 customers. Control of these costs is of paramount importance
9 if we are to provide maximum value to northern customers.

10 Other impacts also include the remoteness of
11 these locations themselves, the time it takes to get goods to
12 our stores, the distance involved, and of course, the
13 associated transportation costs affects and adds to our costs
14 in the north.

15 For comparison, the retail industry average of
16 freight cost as a percentage of sales is 3.2 percent, for
17 reference, we get that from the Food Marketing Institute.

18 The average freight cost for a northwest
19 company, Roadstore in Man -- Roadstore, this is a location on
20 a road in a Manitoba is 3.3 percent of sales.

21 For a remote northern store, these four (4)
22 stores that we're talking about today are -- fall into that
23 category, it is 12.5 percent of sales, almost four (4) times
24 the road rate.

25 These costs are by necessity, built into the

1 costs of goods. Remote locations also require higher storage
2 -- higher storage warehousing area. It has been our
3 experience that some goods are more economically delivered
4 over a seasonal road and warehoused for resale, than if the
5 same goods are flown in.

6 These are still added costs, however, for
7 warehouses, and associated costs like heat, lighting and
8 handling for -- with those warehouses.

9 Also added to these warehousing costs are
10 charges for finance -- to finance inventories over longer
11 periods of time. Store support costs for home office
12 managers, trainers, human resource personnel, et cetera, are
13 also -- are all higher, due to transportation costs and the
14 remoteness of the communities.

15 Longer transportation time means longer down
16 periods for traveling personnel.

17 In Winnipeg, deliveries of perishable items
18 are almost daily events, and we -- we own the Giant Tiger
19 Stores here in Winnipeg and they -- they do get multiple
20 deliveries everyday.

21 And in the north, perishable -- perishable
22 products are delivered only two (2) to three (3) times per
23 week, but are handled a lot more. For example, a box of
24 bananas delivered to Shamattawa is sent from Crescent Multi-
25 foods to the airport -- sorry, is -- are sent from Multi-food

1 -- Crescent Multi-foods, loaded on a truck to Thompson,
2 unloaded, loaded into an aircraft for Shamattawa, unloaded
3 and loaded onto a truck to the store, unloaded, sorted, and
4 then put onto display. A box is handled up to nine (9) times
5 before it gets to the customer, increasing the opportunity
6 for damage and subsequent shrink, and certainly is an
7 increase in our cost.

8 By comparison, that same shipment in Winnipeg
9 is only handled three (3) times, meaning less costs, less
10 opportunity for damage and shrink, but these are the
11 realities of working in the north -- north.

12 Our maintenance and repair costs also are much
13 higher than in Winnipeg, for comparison I'm going to again --
14 I'm going again -- I'm once again going to use Shamattawa as
15 an example.

16 A failed refrigeration compressor to -- to a
17 produce case is catastrophic to the produce business,
18 effectively shutting it down until it can be repaired. The
19 most common cause of failure at the North West Company of
20 compressors, is poor quality of diesel electric power. This
21 is a fact of our business, and one (1) that we simply have to
22 accept.

23 The cost of repairing that compressor is high,
24 parts and material costs are the same as -- as they are in
25 Winnipeg, so we'll only focus on the variables, which are

1 travel and associated labour.

2 To travel to Shamattawa on a short -- short
3 term booking, airfare costs one thousand (1,000) -- last I
4 checked it was one thousand three hundred and fifty-six
5 dollars (\$1,356), plus travel and repair time of seventeen
6 (17) hours at forty-seven dollars (\$47) per hour, for a total
7 of \$2155.

8 In Winnipeg that same repair requires only
9 three (3) hours of time, with call charges, the same repair
10 charge in Winnipeg is only a hundred and fifty-five dollars
11 (\$155). The difference is really in the waiting time
12 directly related to the remoteness of our northern locations.

13 After we purchase an item, the transportation
14 charges to get items there are our single largest expense.
15 Freight costs for remote Manitoba stores are almost four (4)
16 times the industry average.

17 So, at this point you may be asking why this
18 is relevant to the question at hand, specifically Manitoba
19 Hydro's Application for a significant rate increase. All
20 this has been presented to illustrate to you the
21 extraordinarily high costs of operating in the north, costs
22 that frankly, are mostly passed through to consumers.

23 As I proceed, I will illustrate to you the
24 impacts of Hydro's proposed increase on the cost of goods,
25 and demonstrate to you that the North West Company has taken,

1 and continues to take significant steps in holding down the
2 costs on goods.

3 I'm going to shift the focus on our cost of
4 doing business to the perishable food segment of our
5 business, and I'm making this shift because this is the one
6 (1) segment of our business most affected by a hydro rate
7 increase, and sub -- subsequently has a negative impact on
8 prices, meaning price increases.

9 Our perishable business specifically means
10 produce, both refrigerated and dry. Dairy products, such as
11 fluid milk, cheese, yogurt and eggs, meats including frozen,
12 fresh, and smoked deli meats, frozen foods, in store bakeries
13 and bake off products, deli's and home meal replacement
14 programs.

15 The North West Company, beginning in 1998 and
16 continuing through to the present, has undertaken a major
17 shift in its merchandising focus. We began re-profiling our
18 stores in 1998 to increase our fresh food and healthy food
19 offerings.

20 This was in direct response to consumer
21 demands and the recognition that our customers were becoming
22 aware that they needed to make healthy food choices. It is
23 no secret that the incidents of diabetes, obesity, and heart
24 disease, is per capita much higher in aboriginal populations
25 than in any other in Canada.

1 Our company also recognized this also and in
2 partnership with community groups, the government, and the
3 Canadian Diabetes Association, have an ongoing program of
4 education and healthy food choices directed at -- directed to
5 northern consumers.

6 While northern consumer spending on poor
7 perishable foods is still below the Canadian average we are
8 seeing a shift in northern consumer spending towards
9 perishable food choices.

10 At present Canadian consumer spending on
11 perishable foods is 55 percent of their food spending. At
12 our stores that spending is 43.4 percent. That 43.4 percent
13 spending figure represents a rise of 10.1 percent since 2000.

14 The North West Company has invested over \$25
15 million in re-profiling activity since 1998, specifically
16 targeted at improving our food offerings.

17 The North West Company has made a conscious
18 effort to control its cost in these very important perishable
19 departments. We are sensitive to the higher cost associated
20 with perishable foods and have maintained industry standards
21 of gross margin, which is our rate of profit before expenses
22 on all perishable products.

23 Our gross margin rates range from 16 percent
24 on dairy products to a high of 35 percent on meat products.
25 and our gross margin rate on fresh meats is actually slightly

1 less than -- than 35 percent.

2 The operating profits, which is the money we
3 make after expenses on our perishable business is impacted by
4 many -- factors. As illustrated earlier -- earlier due to
5 the transportation distance and higher handling activities
6 our shrink and spoilage rates are significantly higher than
7 in the urban south, they're double the industry average.

8 This higher rate of shrink and spoilage is
9 taken from the gross margin. Activity costs related to
10 perishable products are also significantly higher than any
11 other segment of our business.

12 Perishable products are inherently more labour
13 intensive. Just consider what's involved in cutting and
14 packaging fresh meats, preparing fresh produce for sale,
15 baking of bread, preparing hot meals and so on.

16 These activities are all labour intensive
17 costs that are also taken out of the gross margin.
18 Perishable activities are also capital intensive in the form
19 of equipment. It is a highly regulated segment of the food
20 business with specific equipment requirements.

21 Refrigerated display cases and storage boxes
22 represent over 40 percent of our investment in fixtures and
23 equipment in a typical store. Preparation equipment like
24 ovens, proofers, slicers for bakeries, saws, grinders,
25 wrappers and meat rooms, ovens, slicers and ventilation

1 equipment for deli's and hot meal programs represent a
2 further 25 percent of our capital fixture and equipment
3 costs.

4 Refrigerated equipment represents up to 60
5 percent of our total -- cost of electricity in our stores.
6 Preparation departments can add another 20 percent to that
7 total electrical -- electricity charge.

8 All of these costs are taken out of our gross
9 margin rates, and the resulting impact on our operating
10 profit is that the operating profit on the North West
11 Company's perishable business, is less than the industry
12 average, and if taken on a fully costed basis, meaning that
13 if the business were forced to stand on its own, our
14 perishable businesses would operate at a slight deficit.

15 Now, I can understand skepticism that we would
16 operate any business at a deficit, but our goal has been to
17 operate these perishable business at the tightest possible
18 margins, remain highly competitive, and make our money on
19 other segments of our businesses and services.

20 We feel we have a responsibility to provide
21 competitively priced perishable products to our customers and
22 keeping costs that impact those prices tightly controlled is
23 a cornerstone goal of our company.

24 A key focus of the North West Company since
25 1998 has been cost control and reduction with the key

1 objective of reducing customer cost and also meeting customer
2 demands for a wide range of goods and services. So how is
3 the North West Company meeting this objective?

4 As previously illustrated by increasing space
5 devoted to foods, especially cost intensive perishable foods,
6 this has provided to northern customers exposure to a much
7 wider range of healthier food choices, and selection than
8 they have ever previously been exposed to.

9 We are meeting this objective through joint
10 procurement programs with other retailers and distributors.
11 A key example of this, is through our partnership arrangement
12 with Giant Tiger Stores, a retailer based in Ottawa.

13 The North West Company has entered into a
14 franchise agreement to construct and operate Giant Tiger
15 Stores in Western Canada and we have also entered into a
16 procurement or a buying partnership with Giant Tiger.

17 For example, we combined our fluid milk, and
18 when we say "we", Giant Tiger and the North West Company,
19 combined our fluid milk purchasing contracts with -- with
20 theirs to effectively double the size of the fluid milk
21 contract.

22 We then shopped that contract to dairies
23 across Canada to come up with a better purchasing arrangement
24 resulting in reduced costs to our dairy customers. We are
25 meeting this cost reduction ob -- objective through the

1 launch of our private label programs which have provided to
2 our northern customers a better selection of food choices in
3 meats, bread, cheeses, and frozen foods at brand name quality
4 but at a significantly lower cost.

5 And we've further enhanced our private label
6 programs by partnering, again with Giant Tiger Stores, to
7 sell these same products through their stores throughout
8 Canada. They have approximately a hundred and twenty (120)
9 stores in Eastern Canada.

10 We have also launched a store capability
11 program. This is a massive undertaking whereby we are
12 investing heavily in the retraining of our store managers and
13 staff so as to raise the standards of store execution and to
14 strengthen our links with customers and communities.

15 We believe, through this program, we will see
16 lower costs. North West Company stores will be a better
17 shopping location, our product offering will continue to
18 improve and the cost to consumer will be less.

19 A key aspect of the store capability program
20 that has a direct impact on electricity consumption is
21 training stores on better maintenance methods so as to reduce
22 repair and maintenance costs due to breakdown and to reduce
23 energy consumed.

24 We've been able to demonstrate that through
25 regular cleaning of refrigeration condenser coils, for

1 example, we can have the refrigeration system operate
2 optimally and with fewer breakdowns. A refrigeration
3 condenser coil with a 50 percent blockage, which is not
4 unusual, due to airborne dirt and dust consumes up to 35
5 percent more electricity than a clean coil.

6 Some more of our initiatives, our healthy
7 living program makes our stores a destination for our stores.
8 In partnership with Diabetes Canada, governments, and
9 community organizations, we are changing the shopping habits
10 of northern consumers toward healthy food choices which will
11 give massive returns to all the customers -- to all people in
12 the north through healthier and happier living and a much
13 better quality of life.

14 Further cost reductions will be realized
15 through improved customer services. Higher store level
16 employee retention through improved education, wage, and
17 benefit programs means we have educated and motivated staff
18 which will result in reduced costs.

19 Better Application of technologies will reduce
20 costs. Intelligent point of sale and back up -- back office
21 Applications will reduce administrative loads -- loads on
22 store personnel, freeing them up to focus on customer service
23 activities.

24 Building and refrigeration control systems
25 allow us to reduce energy costs to providing -- provide for a

1 better product life through better temperature -- control and
2 reduced maintenance costs. All of these systems are being
3 linked through high-speed systems which we started rolling
4 out earlier in 2003.

5 Some stores will be linked by satellite to the
6 home office here in Winnipeg so control decisions can be made
7 immediately and with no disruption to the business. We're
8 also making better capital expenditure decisions. Every
9 dollar we invest into a store is close -- closely scrutinized
10 to ensure we are making that expenditure wisely.

11 Our focus is to provide what is required, and
12 only what is required, in a cost effective manner that will
13 yield our target returns while enhancing our business to the
14 customer. Reducing energy use is a key target.

15 Presently utility costs are our third highest
16 expense after employee and freight costs. In 2001 our
17 utility costs across the company were \$25 million; that's on
18 2 million square feet of space, by the way.

19 The North West Company -- North West Company
20 stores are located in some of the highest electricity rates
21 in North America. We do have stores operating where rates
22 are as high as eighty-five (85) cents per kilowatt --
23 kilowatt hour, sorry.

24 Unfortunately, the costs of goods at these
25 communities is also higher due to these rates. Our targeted

1 energy reduction programs include T8 lighting retrofits. In
2 fact, we've just completed three (3) T8 lighting retrofits at
3 the -- at the stores being discussed today.

4 Control Applications, exit light retrofits,
5 secondary loop refrigerant installations, self-contained to
6 remote refrigeration retrofits, and heating and air
7 conditioning system upgrades.

8 I'd like to highlight the secondary loop
9 refrigerant upgrade because we have pioneered this particular
10 Application peculiar -- we have pioneered our peculiar
11 Application completely at our cost with no government or
12 utility incentive programs. And that's not because we
13 haven't tried, it's just that this unusual way of
14 refrigerating stores is something that the utilities and
15 government hadn't recognized, did not meet any criteria for
16 their incentive programs.

17 I understand that is changing or may have
18 already changed in the past six (6) months or so.

19 Secondary loops are not unusual in the
20 supermarket industry. There's a wide Application of them
21 especially in the United States. How they work is a fluid
22 medium is used for case cooling -- case cooling is
23 refrigerated cases -- rather than refrigerant gas. This
24 reduces the refrigerant load in the store.

25 Wherein the North West Company differs is that

1 we chose to utilize all that free outdoor cooled air, today
2 is a great example of that outdoor cold air, so prevalent in
3 Canada in winter to cool that fluid rather than cooling
4 through a power intensive mechanical system.

5 The result is on days where the outdoor
6 temperature is -8 degrees Celsius or colder, our energy
7 consumption on what we call the medium temp side of our
8 refrigeration system drops by as much as 80 percent.

9 We continue to seek -- actively seek these
10 cost reduction opportunities throughout all of our stores in
11 the North West Company.

12 This next slide, the cost impact of hydro
13 increase, I'd like to make a few corrections if people would
14 like to pencil this in, please. I did a mathematical error
15 in here so the percentage increases in particular are errors.

16 That first one for Brochet, the percentage
17 increase should be 131 percent. Lac Brochet is 116 percent.
18 Shamattawa is 115 percent and Tadoule Lake is 114 percent.

19 Just to let you know that the estimated total
20 power costs after the proposed increase, those were
21 calculated by Manitoba Hydro, Mr. Ed Cook with Manitoba Hydro
22 in Thompson made these calculations for us.

23 Now let's address the impact of the proposed
24 Manitoba Hydro increases to each of these stores. The chart
25 on -- well, it's not on the screen, but highlights the annual

1 electricity charges in 2001 for each of the affected
2 locations. The estimated total power cost after proposed
3 increases was calculated by Manitoba Hydro for -- that should
4 be for all of those stores, please.

5 Okay, in Brochet our total power costs in 2001
6 were fifty-five thousand and ninety-three dollars (\$55,093),
7 after the increase the estimated cost is one hundred and
8 twenty-seven thousand, five hundred and fourteen dollars
9 (\$127,514), a rise of 131 percent.

10 Lac Brochet, total costs in 2001 were sixty-
11 four thousand, two hundred dollars (\$64,200), after the
12 increase the estimated cost is one hundred and thirty-eight
13 thousand, six hundred and forty dollars (\$138,640), a rise of
14 116 percent.

15 Shamattawa, our total power costs in 2001 were
16 fifty-six thousand, seven hundred and twenty dollars
17 (\$56,720), after the increase the estimated cost is one
18 hundred and twenty-one thousand, seven hundred and forty-four
19 dollars (\$121,744), a 114 percent increase. Sorry, 115
20 percent increase.

21 And finally at Tadoule Lake our total power
22 costs in 2001 were forty-four thousand, five hundred and
23 twenty-six dollars (\$44,526), after the increase the
24 estimated cost is ninety-five thousand, two hundred and
25 ninety-three dollars (\$95,293), a rise of 114 percent.

1 This represents an estimated total annual
2 increase of two hundred and sixty-two thousand, six hundred
3 and fifty-one dollars and sixty-seven cents (\$262,651.67).
4 It's an increase that must be borne in the cost of goods at
5 these four (4) stores, costs that are in turn borne by the
6 customers in these communities.

7 So I'm going to personalize this for you
8 according to Statistics Canada information from the internet.

9 The total population of these communities,
10 combined population is 2,355. This increase represents a
11 total increase in prices to the customer of one hundred and
12 eleven dollars and fifty-two cents (\$111.52) per person.
13 This is an increase in cost to some of the financially
14 poorest individuals in this country.

15 To illustrate the impact of the cost of this
16 proposed increase on pricing, we have prepared this chart
17 using 4 litre 2 percent milk pricing as our benchmark. We
18 have demonstrated to you how the North West Company has
19 placed a high emphasis on cost control and the impact of this
20 rate increase on milk is based upon what we call an activity
21 based cost model, which means that the product category sold
22 is assessed as if it is a stand-alone business to determine
23 what the cost of operating that category are.

24 In this example, the capital cost for the
25 equipment and activity cost will remain the same. And the

1 only cost that is increasing is the operating cost,
2 specifically electricity.

3 In Shamattawa, our dairy display consists of
4 twenty (20) linear feet of dairy case. The annual operating
5 cost of that dairy case line-up in the store is estimated at
6 seventeen thousand, six hundred sixty-four dollars (\$17,664).
7 Under the new rate, this operating cost will increase to an
8 estimated thirty-eight thousand nine hundred and eighteen
9 dollars (\$38,918).

10 11.1 percent of sales of this dairy department
11 come -- comes from 2 percent, four (4) litre fluid milk,
12 meaning that 11.1 percent of the operating increase from that
13 case must be borne by fluid milk, or an additional two -- two
14 thousand three hundred and fifty-nine dollars and nineteen
15 cents (\$2,359.19) of additional costs is added to the milk
16 cost.

17 In 2002, we sold only one thousand four
18 hundred and thirty-two (1,432) units of 2 percent, four (4)
19 litre milk in Shamattawa.

20 This additional power cost means an increase
21 in milk costs of one dollar and sixty-four cents (\$1.64) per
22 four (4) litre jug of milk, from eleven dollars and ninety-
23 nine cents (\$11.99) to thirteen dollars and sixty-three
24 cents (\$13.63).

25 There's been a lot of discussion in the past

1 several months over the high cost of basic food products in
2 Northern Manitoba. It was in fact raised as an issue in the
3 last Provincial election.

4 Our company, in October 2000, made a
5 presentation to the Manitoba Northern Food Prices Project,
6 Provincial Committee, seeking to understand the high cost of
7 foods in remote northern communities. Some of this
8 presentation that I've given to you today is part of that
9 presentation.

10 A large part of that cost is certainly in
11 transportation, but the impact of hydro cost cannot be
12 understated. From the chart you see a cost difference of two
13 dollars and thirty cents (\$2.30) from Oxford House to
14 Shamattawa. One dollar and twenty-seven cents (\$1.27) of
15 that cost difference is in the difference in hydro costs
16 today between those two (2) communities.

17 Okay, the North West Company has been working
18 with Governments and other stakeholders in making the life --
19 in making life better throughout the north. And how have we
20 been doing that? Well, we've been through subsidized freight
21 rates, not only Government subsidy, but also First Nations
22 own logistics companies. When the First Nation owns a
23 business they will not necessarily require the higher profits
24 required by non-First Nation companies, because they
25 recognize they are serving their own people.

1 Through improved mail systems, we have the
2 advantage of seeing the power of food mail systems in remote
3 bush Alaska is operated by the US Postal Service, and the
4 result of their system is food costs and perishable and
5 healthy food products, that are within 10 percent of those
6 costs in the lower forty-eight (48) States.

7 We see a much healthier aboriginal population
8 in Alaska, partially we feel as a result of this.

9 Finding a system of securing rebates and
10 delivery of perishable foods specifically, will be helpful to
11 reducing costs. Increasing ferry services up the Lake
12 Winnipeg Coast -- we're also looking into increasing ferry
13 services up the Lake Winnipeg coastline. This is a lower
14 cost delivery system to our stores on the -- on the lake.

15 Also extending highways into the north, this
16 will allow for lower transport rates. Coupled with this is
17 changing the Transportation Acts to -- to allow for extended
18 vehicle lengths into the north to fur -- to further reduce
19 costs.

20 We continue improving training of northern
21 residents, the North West company is proud to be an active
22 participant in retail training programs. Manitoba Hydro also
23 is a key contributor to trade training programs throughout
24 the north.

25 We all recognize an educated population is a

1 more content population, because they gain better control
2 over their own personal lives, and can make a valuable impact
3 to the lives of their families and people in their own
4 communities.

5 We continue to improve awareness of healthy
6 living, including exercise and eating right. These are all
7 extremely important. The North West Company has been act --
8 very active in promoting better living with its Government
9 and community programs -- community partners.

10 And finally, we're working at reducing our
11 community -- our occupancy costs. The North West Company has
12 taken steps and continues to take steps to reduce our
13 occupancy costs in a manageable and sustained manner. We are
14 reducing our energy demands across the company, while still
15 improving our levels of service and product offering to our
16 northern customers.

17 We are training our stores in better operating
18 -- operating standards, to further reduce costs, and improve
19 service levels. And we are intelligently investing in
20 technologies to reduce costs.

21 For closing, I'd like to point out -- I'd like
22 -- I would like to point out what I view as a legacy success
23 story in the making.

24 I personally have the advantage of seeing
25 first hand communities out -- throughout northern Canada and

1 Alaska. In fact, of all the stores that we operate, I've
2 been to all but nine (9) of them.

3 I am often struck by the differences between
4 these communities. One (1) area of particular success that I
5 find is in northern Quebec, specifically in non-Federal
6 reservation communities. These communities are most Inuit
7 and are administered by the Quebec Provincial Government.
8 The Quebec Government and Government organizations such as
9 Hydro Quebec, have been working closely with community and
10 native groups to develop a cost effective infrastructure in
11 remote northern communities.

12 There's a strong emphasis on health issues,
13 especially in promoting healthier -- better health lifestyles
14 and improved hospitals and nurthing -- nursing stations.
15 Housing is significantly better in Northern Quebec than in
16 any other remote community I've been to across North America.

17 The population is one (1) of the better
18 educated aboriginal populations in the country, with a very
19 high percentage of students finishing highschool, and many
20 going on to secondary education.

21 There is a very sophisticated and cost
22 effective delivery system through aboriginal and government
23 owned shipping and air transportation services. And finally
24 with some specific provisions, there is a uniform hydro rate
25 across the Province regardless of whether the service is

1 hydro, electric, diesel or wind power.

2 Quebec Hydro has been very progressive in the
3 development of alternative power sources. Quebec Hydro has
4 also firmly aware of its legacy obligations to all -- all the
5 people of Quebec.

6 Now I mentioned some special provisions in
7 diesel communities in Quebec. In diesel communities, Quebec
8 Hydro has placed restrictions on -- on what we're calling
9 resistive equipment such as electric hot water tanks,
10 electric furnaces and heaters, electric commercial ovens and
11 cooking equipment.

12 For those entities that do not comply your
13 hydro rate is over fifty (50) cents per kilowatt hour. For
14 everyone else, it's eight point two five (8.025) cents per
15 kilowatt hour.

16 I'm just give you a lit -- little story -- we
17 built a store in Kangersuck (phonetic) in -- on the Ongaba
18 Bay (phonetic), Northern Quebec, opened it up about a year
19 ago. And our first month's hydro rate in that store was what
20 we had paid the previous year at the old store. It was over
21 fifty thousand dollars (\$50,000) and it was simply because we
22 had made one (1) error, we had put one (1) little baseboard
23 heater in the vestibule of that store.

24 We quickly removed that vestibule -- or
25 quickly removed that heater and our hydro cost dropped down

1 to about three thousand dollars (\$3000) per month in that
2 particular store.

3 Okay. It's our view that all companies,
4 governments and citizens living, working, and operating in
5 the North have a legacy to uphold and an obligation to
6 improving life in the North.

7 We, meaning our company, Manitoba Hydro,
8 governments and any other businesses, residents and --
9 businesses and residents operating in the North, are unique
10 in the challenges we face in and -- and in the impacts we
11 have had and will have on our environments and on residents.

12 The people we serve in Northern Manitoba are
13 among the financially poorer populations in this country.
14 These same people are also one (1) of the most culturally
15 rich and increasingly educated and aware populations in
16 Canada.

17 They know what the financial cost of living in
18 Northern Manitoba are and are key partners with companies,
19 such as the North West Company, in bringing controls onto
20 these costs.

21 That Manitoba Hydro is seeking to recover
22 their site specific costs is not entirely a surprise if -- a
23 surprise if one (1) considers each location as a separate
24 operating entity. The North West Company also considers each
25 of its locations as independent operating entities and

1 measures the success of each store independently but also
2 recognizes that certain costs, such as operating
3 administrative costs are shared.

4 Where we feel Manitoba Hydro differs from the
5 North West Company, is Hydro is a legacy to the people of
6 Manitoba, as a whole, regardless of whether they -- where
7 they live.

8 And we feel Hydro rates should be applied
9 equally across the Province to the benefit of all Manitobans.
10 That concludes our presentation and on behalf of the North
11 West Company, I'd appreciate the -- I'd appreciate the
12 opportunity presented to allow us to make this submission.
13 I'm open to any questions you may have.

14 THE CHAIRMAN: Thank you very much, Mr.
15 Markham. Does the Board have any questions?

16 MR. ROBERT MAYER: One (1) Mr. Chairman.

17 THE CHAIRMAN: Mr. Mayer?

18 MR. ROBERT MAYER: Your -- unfortunately, your
19 page are -- pages aren't numbered. I'm at the cost of doing
20 business in the North, where you dealt -- broke out the
21 square footage costs for Oxford House, Shamattawa and
22 Winnipeg.

23 And you mentioned that the utility costs are
24 specifically electricity and heating oil. Of that twenty one
25 point one zero (21.10) per square foot utility cost in

1 Shamattawa, how much of that twenty one (21) foot is heating
2 -- heating oil and how much is electricity?

3

4

(BRIEF PAUSE)

5

6

MR. RALPH MARKHAM: Unfortunately, I can't
7 give you a specific answer on that because I don't have the -
8 - I don't have the square footage rate. I don't have the
9 square footage of Shamattawa. Peter do you know it off the
10 top of your head?

11

MR. PETER BROWN: No, I don't know.

12

MR. ROBERT MAYER: It would strike me that if
13 you're heating -- it would strike me that if you're heating
14 with fuel oil, that a very significant piece of that is going
15 to be fuel oil costs, in which case, we have no control over
16 it.

17

MR. RALPH MARKHAM: I can tell you that the
18 heating oil -- okay, that Shamattawa is approximately -- can
19 I borrow your calculator please, Peter -- yeah, Shamattawa is
20 approximately seven thousand (7000) square feet.

21

And our normal rule of thumb is 60 percent of
22 the sales area, or of the total store is sales area, which
23 would place Shamattawa sales areas at forty two hundred
24 (42,000) square feet.

25

Today, or as of 2001, our heating --

1 electricity costs in Shamattawa, actual number is fifty six
2 thousand, seven hundred and twenty dollars (\$56,720), divided
3 by forty two hundred (4200) -- whoops, that can't be right,
4 which would place the cost of electricity in Shamattawa at
5 approximately thirteen dollars and fifty cents (\$13.50) per
6 square foot.

7 MR. ROBERT MAYER: Thank you very much.

8 MR. RALPH MARKHAM: Thank you.

9 THE CHAIRMAN: Mr. Markham, first of all, I
10 want to thank you for your very thorough presentation. It
11 gives us a great insight into the -- the difficulties and the
12 cost of doing business in the north.

13 You have obviously spent a great deal of time
14 on energy efficiency issues and you've met with Hydro on a
15 number of occasions and discussed your concerns with them?

16 MR. RALPH MARKHAM: Yeah. We have, in fact,
17 been working with Hydro on -- maybe you want to address this,
18 Trent.

19 MR. TRENT HOOD: Yeah, we did -- of the four
20 (4) stores that are going to be affected out of this, we did
21 do a lighting retrofit for Brochet, Lac Brochet, and
22 Shamattawa. Tadoule Lake was -- it was questionable as
23 there's -- as a payback was actually there be in the size of
24 the stores.

25 So we did just complete -- last month we

1 completed the three (3) stores with a lighting retrofit,
2 taking them from T12 lighting to T8.

3 THE CHAIRMAN: And if I take it from the
4 presentation I just heard, that refrigeration costs in those
5 stores are about 60 percent of your energy costs. Have you
6 discussed with them a ways and means in which you can
7 maximize the benefits there as well?

8 MR. TRENT HOOD: We deal with the stores on a
9 regular basis with a -- with a maintenance program, scheduled
10 cleanings. Every time we have service guys go into our
11 communities they do a maintenance check on our equipment
12 while they're there on site.

13 THE CHAIRMAN: Mr. Markham, when you referred
14 to the eighty-five (85) cents as the -- some of your costs
15 are eighty-five (85) cents a kilowatt hour in some of your
16 communities, that's based on 2001 information?

17 MR. RALPH MARKHAM: Yes, it is. And those
18 two (2) communities specifically are Wanaman Lake in Ontario
19 and Kashechewan in -- on -- also in Ontario on James Bay.
20 Kashechewan since has gone on to line power and their hydro
21 rate has dropped to twenty-nine (29) cents.

22 THE CHAIRMAN: And lastly, sir, with respect
23 to the legacy reference you made to -- in the Province of
24 Quebec, are you fully familiar with the restructure that is
25 in place in these four (4) communities now; that is that the

1 general service customer as well as the residential customer,
2 the first block of power up to two thousand (2,000) kilowatt
3 hours per month is at the same rate as -- as those on the
4 land line system?

5 MR. RALPH MARKHAM: Yes, I am.

6 THE CHAIRMAN: And are you also familiar, in
7 Quebec, and that was certainly from the evidence we heard
8 this morning, that the threshold number in Quebec is nine
9 hundred (900) kilowatt hours per month?

10 MR. RALPH MARKHAM: I'm not aware of that,
11 no. I just know that what we pay for hydro in Quebec is
12 significantly less than what we pay at these four (4)
13 locations in ---

14 THE CHAIRMAN: Is it with respect to all your
15 stores in Quebec or just with respect to the one (1) store
16 you made reference to?

17 MR. RALPH MARKHAM: To all of our stores in
18 Quebec.

19 THE CHAIRMAN: Thank you, Mr. Markham, for
20 your presentation. I also want to thank Mr. Hood and Mr.
21 Brown for being available to us. It's of great assistance to
22 us, thank you.

23 MR. ROBERT MAYER: One other item. This may
24 sound facetious but I -- how many -- how big is your parking
25 lot in Shamattawa and how many plugs do you have in it to

1 plug in block heaters?

2 MR. RALPH MARKHAM: Zero plugs and no -- and
3 there's -- the parking lot there might hold ten (10) cars.

4 MR. ROBERT MAYER: And so PowerSmart on your
5 parking lot isn't going to be big stuff?

6 MR. RALPH MARKHAM: No.

7 MR. ROBERT MAYER: Thank you.

8 MR. RALPH MARKHAM: Oh, I should make a
9 comment on the refrigeration systems on those four (4)
10 stores, it's all very tiny refrigeration systems in each of
11 those stores. I know we've looked at secondary loop systems
12 for small locations and it just -- we cannot get a cost
13 payback.

14 The lifting cost of installing those is in
15 excess of fifty thousand dollars (\$50,000) and so the -- it
16 starts to pay back on a system that's twenty (20) to thirty
17 (30) horsepower or higher. In those stores we might have a
18 total of fifteen (15) horse -- ten (10) to fifteen (15)
19 horsepower of refrigeration system.

20 THE CHAIRMAN: Forgive me, Mr. Markham, thank
21 you for that answer to Mr. Mayer. I guess, the last question
22 I have to you, if the communities themselves, that is those
23 communities that have diesel service don't pick up the costs
24 for the system, who do you feel has the obligation to assist
25 those communities in providing appropriate electrical service

1 to them at a reasonable cost?

2 MR. RALPH MARKHAM: Again, I -- I believe --
3 we believe Manitoba Hydro was the legacy to all the people of
4 Manitoba and we feel the entire -- the cost of Manitoba Hydro
5 should be shared equally amongst all citizens of Manitoba.

6 THE CHAIRMAN: Thank you for your answer,
7 sir.

8 MR. RALPH MARKHAM: Thank you.

9 THE CHAIRMAN: I understand we also have
10 somebody here from the Frontier School Division. Is it Mr.
11 Arnold?

12 MR. GERALD CATTANI: My name is Gerald
13 Cattani, I'm the Secretary Treasurer of the Frontier School
14 Division and I have with me Hans Arnold who's our Building
15 and Facilities Manager.

16 THE CHAIRMAN: Who is going to make the
17 presentation?

18 MR. GERALD CATTANI: We're going -- I'll make
19 a brief presentation. Certainly not as long as the fellow
20 sitting next to me but I think it will be to the point. It's
21 -- our concern with the increase is that the Utilities Board,
22 Public Utilities Board understand who ultimately will pay for
23 this.

24 So I'll give you a little background into
25 Frontier School Division first of all. I have passed out a

1 map and you can see from the map that Frontier School
2 Division basically covers 75 percent of the Province of
3 Manitoba. So we're down Lake of the Woods all the way up to
4 the Territories. So we're probably the largest School
5 Division in Canada from a geographical point of view.

6 And we have an operating budget of
7 approximately \$78 million and we have a capital budget of
8 approximately \$75 million. So from a funding perspective
9 that would make us number two in the Province behind Winnipeg
10 School Division. So that's some background. We -- we
11 operate forty-two (42) schools in thirty-eight (38)
12 communities in Manitoba. And we -- we educate a population
13 of approximately seven thousand (7,000) students.

14 What makes us unique is half of our students
15 are provincial or provincially funded students and the other
16 half are First Nation students. So we deal with a real
17 complex issue in terms of funding and financing and how we
18 get paid and how we collect our payments. Very complicated
19 business.

20 Funding from -- for the First Nation students
21 is provided by the local First Nation and that funding comes
22 through their Education Grant Funding from Indian and
23 Northern Affairs Canada. And funding for provincial students
24 is through the Provincial Grant System and the Tax Levy
25 system. Now in other school divisions in Manitoba, the Tax

1 Levy makes up approximately -- it can make 40 to 50 percent
2 of the budget. And in Frontier School Division's case it's 3
3 percent just because of the sparsity of the population.

4 But our people -- our communities do have to
5 pay taxes and they do have to pay one tax rate. That's
6 legislation. We have one mill rate. We can't have a mill
7 rate for Brochet and a different mill rate for people that
8 are living in the Lake of the Woods area. We have to have
9 one uniform tax rate and we do.

10 The school in Brochet comprises one hundred
11 and fifty-six (156) students, 68 percent of the students are
12 First Nation students. The remainder are provincial
13 students. This means that the total operating cost of the
14 school are funded 68 percent by Barren Lands First Nation, 32
15 percent are funded with -- by the Province of Manitoba and
16 our tax levy, a combination of the two (2).

17 The impact of the rate increase, now these
18 calculations were performed by our engineer out of our
19 Thompson office, we have five (5) area offices and -- and the
20 one that looks after this particular school in Brochet is
21 managed out of Thompson. So we -- our -- our current average
22 electrical bill at schools is one hundred and twenty thousand
23 dollars (\$120,000). We also have ten (10) teacherages. We
24 have to provide housing for our teachers in the North, so
25 that's about fifty thousand dollars (\$50,000) for electricity

1 costs.

2 We have determined if the rate increase as
3 proposed is approved, the total increase to the school
4 operations in Brochet would be three hundred and three
5 thousand dollars (\$303,000) increase. This would equate to
6 approximately two thousand dollars (\$2,000) per student
7 attending school. I'll put that in perspective.

8 Our textbook grant is fifty-five dollars (\$55)
9 per student. The cost increase would be funded as follows:
10 68 percent of the three hundred and three thousand (303,000)
11 or two hundred and six thousand and forty dollars (\$206,040)
12 would be billed to Barren's Land First Nation.

13 Thirty-two (32) percent, or ninety-six
14 thousand nine hundred and sixty dollars (\$96,960) would be
15 recovered through the education tax levy increase to our
16 communities, because the Province won't fund us. They won't
17 say, oh, you've got a rate increase, you need ninety-six
18 thousand dollars (\$96,000) more, that doesn't happen.

19 So, what we have to do is rely on -- on the
20 education levy. So, we would increase our tax levy.

21 The net increase for our taxpayers would be
22 2.4 percent to pay for this. So, everybody would pay 2.4
23 percent, so we would have people in Grand Rapids,
24 Gypsumville, Camperville, Rorkton, paying 2.4 percent for the
25 Brochet Hydro increase.

1 So, we believe this shows the inequity of the
2 increase, the majority of the cost increase would impact the
3 First Nation -- local First Nation community, and the
4 remainder would be paid through a tax increase to communities
5 that would receive no benefit for this hydro project.

6 The increase in rates amounts to a subsidized
7 -- subsidization of the residence of Brochet by Government
8 and corporate users. This has been the effect -- this has
9 the effect of grossly distorting the rates to Government
10 users. There's been no agreement with Manitoba Hydro and
11 Frontier School Division to split the costs of electrical
12 generation in this manner.

13 As I've indicated earlier, this increase is
14 impacting individuals who cannot afford the increase.
15 Barren's Land First Nation and the thirty-seven (37) other
16 frontier communities, through a 2.4 percent tax increase,
17 would receive no benefit.

18 We believe the subsidy for this increase
19 should come directly from Manitoba Hydro. We've -- we
20 started investigating some -- some alternatives if we're
21 forced to -- to look at this, and -- and just looking after
22 our stakeholders, because I know that at the Board table the
23 politicians I think will crucify us if we're going to
24 increase their taxes.

25 So, we -- we thought if -- a three hundred

1 thousand dollar (\$300,000) stream increase would -- would
2 amount to a net present value over ten (10) years of about \$2
3 1/2 million, we would probably get into the electrical
4 generation business ourselves, and -- and probably save money
5 in the end run, just because of the high rates that we're
6 paying for this.

7 So, we strongly oppose this, we -- we ask you
8 to deny the increase, and -- and at least have Hydro come
9 back with a more equitable presentation or distribution of
10 how this can be afforded.

11 I'll also add, we have a really good working
12 relationship with Hydro in the north. They're one (1) of the
13 major funders of our Gillam school operation, and we have a
14 -- they're very cooperative whenever we're building new
15 schools, and assisting us in that regard, so this isn't a
16 slight to Hydro, I just want people to understand who's going
17 to pay -- who's going to pay for this increase, it's not --
18 it's not a fair increase, it doesn't stop at Frontier School
19 Division's doors. So, thank you very much.

20 THE CHAIRMAN: Thank you very much for your
21 presentation. And again, I appreciate you taking the time
22 and effort to put your thoughts clearly on the record, thank
23 you.

24 Mr. Mayer...?

25 MR. ROBERT MAYER: You had mentioned that you

1 have ten (10) teacherages up there? Are those teacherage --
2 are the hydro costs for those teacherages billed at
3 residential rates, or are they billed at general service
4 rates?

5 MR. GERALD CATTANI: They're -- they're at the
6 higher rate, we get paid -- we get charged at the higher
7 rate, the Government rate.

8 MR. ROBERT MAYER: That surprises me, in light
9 of what I heard from Hydro this morning about residences for
10 northern stores people.

11 So, you pay at the -- you pay at the general
12 service rate, even though your teacherages are used strictly
13 for residences?

14 MR. GERALD CATTANI: That's correct.

15 MR. ROBERT MAYER: Okay.

16 THE CHAIRMAN: Thank you very much, gentlemen,
17 for coming, I appreciate it.

18 Is there anyone else that wishes to make a
19 presentation? If not, then, Mr. Peters, I'll go back to you
20 for you to continue your cross of this Panel.

21 MR. BOB PETERS: Thank you, I do have more
22 questions, and I wondered if we should take a two (2) minute
23 break to relocate the parties who were -- who were asked to
24 move for the presentations, or should I --

25 THE CHAIRMAN: Certainly, we can do that, Mr.

1 Peters, we can stand down for just a couple of minutes, and
2 allow everyone to get relocated then we'll continue.

3

4 --- Upon recessing at 2:12 p.m.

5 --- Upon resuming at 2:22 p.m.

6

7 THE CHAIRMAN: Ladies and gentlemen, if I may
8 call the proceedings back to order. Mr. Peters, are you
9 ready?

10 MR. BOB PETERS: I am, yes, sir. Thank you.

11 Members of the Board, Ladies and Gentlemen,
12 perhaps I could just start with a couple of questions that I
13 have of Manitoba Hydro, maybe arising from some of the
14 presentation information.

15

16 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

17 MR. BOB PETERS: Maybe over to you, Mr. Warden
18 and Mr. Wiens. On my understanding of the Frontier School
19 Divisions presentation, was that of their teacherages, and
20 first of all, those are buildings that are used by teachers
21 as their residence, is that your understanding?

22 MR. ROBIN WIENS: To the best of my knowledge,
23 yes.

24 MR. BOB PETERS: And as I understood Frontier
25 School Divisions presentation, those teacherages are billed

1 at the general service rate, is that your understanding?

2 MR. ROBIN WIENS: My understanding is that
3 they are billed at the government rate, but, that would be
4 subject to check, I can confirm that.

5 MR. BOB PETERS: All right. In any event,
6 they are not billed at the residential rate, would that be
7 correct?

8 MR. ROBIN WIENS: I believe that's true.

9 MR. BOB PETERS: And can you explain to the
10 Board why, the teacherages which are used as residences for
11 the teachers, would be billed at a general service or
12 government rate, as opposed to a residential rate?

13 MR. ROBIN WIENS: Because these particular
14 residences are owned and operated by the School Division, not
15 -- and they provide the space to the teachers who are living
16 in them. The bills are paid by the School Division.

17 MR. ROBERT MAYER: Can I just follow up on
18 that then? Why is it that the residences that are owned and
19 operated by the North West Company, given residential
20 preference rate?

21 MR. ROBIN WIENS: They are actually billed on
22 the -- excuse me a moment.

23

24 (BRIEF PAUSE)

25

1 MR. ROBIN WIENS: They're billed residential,
2 it's because the individual who is occupying the house, is
3 the individual that receives the bill.

4 MR. ROBERT MAYER: So then if the teachers
5 paid the Hydro bill as opposed to the owner of the premises
6 they would billed -- be billed differently?

7 MR. ROBIN WIENS: Yes, we would. Under six --
8 under sixty (60) amp.

9 THE CHAIRMAN: And Mr. Wiens, just so I get
10 this in a proper perspective in my mind, as I understand it
11 there are twenty-two (22) teacherages in those four (4)
12 communities?

13 MR. ROBIN WIENS: That would be subject to
14 check, Mr. Chairman.

15 THE CHAIRMAN: I'm going by MKO/Manitoba
16 Hydro-10.

17 MR. ROBIN WIENS: Up to. I'm not sure if all
18 of those are teacherages.

19 THE CHAIRMAN: Okay. Now, the principles and
20 which go into your cost of service and the rates that flow
21 out of that cost of service and your surcharge that flow out
22 in the cost of service, if those teacherages were, indeed,
23 moved into the residential rate category, does that suggest
24 that the surcharge then would have to increase to pick up
25 that shortfall in revenue that is generated in the Cost of

1 Service Study?

2 MR. ROBIN WIENS: That is correct.

3 THE CHAIRMAN: Mr. Peters...?

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Thank you, Mr. Chair. Just
7 while we're still on some of those topics that arose from the
8 presentations, you will agree with me, will you, that if you
9 are to get a heat source and use electric heat compared to
10 fuel oil, the fuel oil is the more efficient heat source?

11 MR. ROBIN WIENS: It's the less -- least
12 costly heat source.

13 MR. BOB PETERS: All right. But it -- did
14 you agree with me that rather than burn the diesel fuel
15 through the diesel engine, if you were to burn the heating
16 oil directly it would -- it would provide more heat per --
17 per unit measure?

18 MR. ROBIN WIENS: Yes, over the whole cycle,
19 that's correct.

20 MR. BOB PETERS: All right. And that's one
21 of the reasons why you would discourage space heat in your
22 diesel electric communities?

23 MR. ROBIN WIENS: Correct.

24 MR. BOB PETERS: Mr. Wiens, would you be able
25 to provide the Board with the breakdown of the cost of

1 electric heat versus diesel fuel heating in -- in two (2)
2 scenarios, sir; one would be in the -- using the diesel rates
3 as the -- as a source of electricity rates that would be
4 using the residential, the full cost and the government
5 rates, compared to what the fuel -- the heating by fuel oil
6 would be in those communities?

7 And then also provide an indication as to what
8 would be the relative cost of electric heat versus fuel oil
9 heating in communities that are paying just on the grid rate?

10 MR. ROBIN WIENS: We can undertake to do
11 that. I don't have that information with me right now.

12 MR. BOB PETERS: No, I appreciate that coming
13 out of the blue at you, Mr. Wiens, but I would appreciate if
14 you could undertake to -- to provide that when you have a
15 chance to do it.

16
17 --- UNDERTAKING NO. 1: Provide the Board with the breakdown
18 of the cost of electric heat versus diesel
19 fuel heating in the two (2) scenarios given.

20
21 MR. BOB PETERS: Back to, perhaps, the more
22 mundane --

23 THE CHAIRMAN: No, Mr. Peters. Forgive me.
24 I was going to give you an opportunity to tidy up on the
25 presentation but there was one point that seems, to me at

1 least, and maybe it's my lack of understanding, Mr. Wiens.

2 In the presentation of Mr. Markham by Northern
3 Stores on the Quebec situation, he suggests to us in his
4 presentation that in this -- in this communities in Quebec
5 have a significant benefit by having their rate structure
6 being substantially different from that in Manitoba.

7 In the information you provided this morning,
8 particularly on the block -- the first block scenario or the
9 cap scenario suggested to me that the scheme that we have in
10 Manitoba, that is the Application we have in Manitoba is much
11 more beneficial to those customers but it isn't necessarily
12 so, is that correct or is it is there just different
13 information that we're using?

14 MR. ROBIN WIENS: Mr. Chairman, what -- what
15 we've provided as evidence before the Board in these
16 proceedings and the period leading up to them, is to the best
17 of my knowledge, the situation.

18 I -- I have got -- we will have a staff person
19 working on resolving what appears to be an inconsistency and
20 we'll get back to you as soon as we can.

21 THE CHAIRMAN: Appreciate that very much.
22 Thank you, sir. Back to you, Mr. Peters.

23 MR. BOB PETERS: Thank you.

24

25 CONTINUED CROSS EXAMINATION BY MR. BOB PETERS:

1 MR. BOB PETERS: Mr. Wiens, it may be helpful
2 for you to turn to Schedule 3, which was attached to Mr.
3 Thomas' perspective cost of service for the diesel
4 communities which was Schedule 3, is part of attachment 2, in
5 my materials. And I hope that's clear to the parties who are
6 trying to find it with me.

7 MR. ROBIN WIENS: Yes, we have that.

8 MR. BOB PETERS: When I look at schedule 3,
9 first of all, this is the forecast for the year ending March
10 31st, 2004, correct?

11 MR. CHIC THOMAS: That's correct.

12 MR. BOB PETERS: And Mr. Thomas, you're
13 telling the Board approximately half way down the page, that
14 after all of the revenues are received and the costs are
15 known, there's approximately \$4.5 million dollars that has to
16 be recovered through a surcharge?

17 MR. CHIC THOMAS: That's right.

18 MR. BOB PETERS: Now, in answers -- now let's
19 just conceptually discuss that. If these teacherages were
20 suddenly to be reclassified as residential properties, would
21 that increase or decrease that deficit to be recovered?

22 MR. CHIC THOMAS: That would increase that
23 deficit.

24 MR. BOB PETERS: All right. And it would
25 increase the deficit and it would also decrease the number of

1 accounts through which you recover the surcharge, correct?

2 MR. CHIC THOMAS: That's correct.

3 MR. BOB PETERS: So, the actual amount of the
4 deficit would increase, the number of customers from whom you
5 recover that deficit would decrease, all leading to an
6 increased surcharge?

7 MR. CHIC THOMAS: That's right.

8 MR. BOB PETERS: And that's because, Mr.
9 Thomas, your objective, as I understand it, is to recover all
10 -- all of the \$8.977 million dollars of cost of service that
11 you are looking for from these communities, recognizing that
12 there is approximately six hundred thousand (600,000) that
13 Hydro is absorbing through the rest of its rate base?

14 MR. CHIC THOMAS: That's our intent, yes.

15 MR. BOB PETERS: All right. And likewise,
16 before the morning -- I guess it was before the fire drill
17 and the lunch break, I was trying to understand why Manitoba
18 Hydro wants to charge the government rate to the approximate
19 eighty (80) accounts shown on MKO-10, do you remember that
20 discussion?

21 MR. ROBIN WIENS: Yes.

22 MR. BOB PETERS: And as I understood and I
23 didn't find it at the break, Mr. Wiens, but presently you are
24 billing approximately forty (40) Band Council accounts at the
25 government rate, as I understood it?

1 MR. ROBIN WIENS: Yes.

2 MR. BOB PETERS: And of those forty (40) Band
3 Council accounts, those are the accounts on which the
4 surcharge is not being paid?

5 MR. ROBIN WIENS: Yes, again.

6 MR. BOB PETERS: If you increase the number of
7 customers to whom you will be charging the government rate,
8 that doesn't increase the amount of this deficit of \$4.5
9 million that's projected to be recovered does it?

10 MR. CHIC THOMAS: No, it doesn't.

11 MR. BOB PETERS: It -- what it does do then,
12 Mr. Thomas, is it increases the number of accounts over which
13 you will try to recover that amount?

14 MR. CHIC THOMAS: Yes, that's right.

15 MR. BOB PETERS: And that has the effect of
16 keeping the surcharge at a lower number than it would
17 otherwise be, if you were to remain with the forty (40)
18 accounts that you presently surcharge?

19 MR. CHIC THOMAS: Also correct.

20 MR. BOB PETERS: Did you do a calculation,
21 sir, as to what that surcharge would be if you retained the
22 exact customer mix now, over which you charge that surcharge?

23 MR. CHIC THOMAS: We did multiple analysis
24 like that, Mr. Peters, but you know, I could produce
25 something like that, but off the top of my head I don't have

1 it, I'm sorry.

2 MR. BOB PETERS: Could you undertake to
3 provide that from your -- from your materials that you have?
4 And my question, just to be clear, is that if you retained
5 the same number of customers in the government rate category,
6 what would be the surcharge for those consumers, compared to
7 what you're asking for in this Application?

8 MR. CHIC THOMAS: So, when you say government
9 customers, based on my forecast in 2004?

10 MR. BOB PETERS: Yes -- yes using --

11 MR. CHIC THOMAS: Or previous --

12 MR. BOB PETERS: -- no using the forecast in
13 2004. Because -- is that fair, 2004?

14 MR. ROBIN WIENS: Mr. Peters, just to be very
15 sure, if we're going to undertake to do this, because it may
16 be a bit of a cumbersome calculation to make, so I want to
17 make sure that we get your intent the fir -- right the first
18 time.

19 The surcharge in the Application is calculated
20 based on including all of those First Nation accounts, as
21 government accounts.

22 MR. BOB PETERS: All of those accounts, Mr.
23 Wiens, which are recorded at MKO/MH 10.

24 MR. ROBIN WIENS: That's correct.

25 MR. BOB PETERS: All right. Yes, I

1 understand.

2 MR. ROBIN WIENS: What you are asking us to do
3 is to take only those accounts for which the surcharge is
4 currently being billed to the Government of Canada, but not
5 -- but which are not being paid. In other words, the forty
6 (40) odd accounts, and -- and assume that the remainder are
7 treated as general service accounts. Is that what you're
8 requesting us to do?

9 MR. BOB PETERS: Yes, it is.

10 MR. ROBIN WIENS: And then to determine what
11 the surcharge would have to be if that were the case?

12 MR. BOB PETERS: Yes, do the mathematical
13 calculation?

14 MR. ROBIN WIENS: Thank you.

15 MR. BOB PETERS: And in fact, Mr. Thomas, and,
16 Mr. Wiens, you can confirm to the Board that of the eighty
17 (80) accounts that are listed at MKO-10, it's only forty (40)
18 that are presently being invoiced at the Government rate; is
19 that correct?

20 MR. ROBIN WIENS: That is correct.

21 MR. BOB PETERS: And the other forty (40)
22 approximately, are being invoiced at the full cost rate?

23 MR. ROBIN WIENS: Again, to be very precise,
24 so that we all understand each other, there are forty (40) or
25 so, approximately, that are being currently invoiced at the

1 general service rate, and are being paid at that rate.

2 There are those for which we are invoicing the
3 First Nations at the general service rate, and the difference
4 is being invoiced to the Government of Canada.

5 MR. BOB PETERS: I think we're all
6 understanding the same point, Mr. Wiens.

7 MR. ROBIN WIENS: Thank you.

8

9 --- UNDERTAKING NO. 2: Provide a calculation showing if
10 Manitoba Hydro retained the same number of
11 customers in the government rate category,
12 what would be the surcharge for those
13 consumers, compared to what they're asking
14 for in this Application

15

16 MR. BOB PETERS: And, Mr. Wiens, before lunch
17 I was trying to get an explanation from Manitoba Hydro to the
18 Board, as to why is Manitoba Hydro now expanding the number
19 of First Nations accounts or Band Council accounts from
20 approximately forty (40) to approximately eighty (80) for the
21 purposes of charging the Government rate? Can you remind me
22 of -- of your reasons for that?

23

24 (BRIEF PAUSE)

25

1 MR. ROBIN WIENS: Mr. Peters, the -- the
2 simple response to your question is that over the years we've
3 had increasing difficulty relying on the kind of rules of
4 thumb that our people, in the field, relied on to determine
5 whether a Band account was substantially funded by
6 Government, or partially funded by Government, or being
7 wholly funded by Government.

8 I don't think at this point in time those are
9 distinctions that Manitoba Hydro staff can or should have to
10 make. So, that what we have proposed in here is to avoid the
11 difficulty of having to make those distinctions, is that
12 simply an account in the name of a First Nation that is
13 offering services in the community, would be billed at the
14 Government rate.

15 And that the funding issue, the matter of the
16 funding would have to be sorted out between the Government of
17 Canada and the First Nations.

18 MR. BOB PETERS: Mr. Warden, from a policy
19 perspective, you're asking this Board to approve of that
20 change in billing that Manitoba Hydro is going to be doing?

21 MR. VINCE WARDEN: Yes, in effect, as Mr.
22 Wiens has just stated, all First Nation non-residential
23 accounts would come under the definition of the Government --
24 Government accounts, which would be subject to the -- to the
25 surcharge.

1 MR. ROBERT MAYER: And those non-residential
2 accounts will be dealt with the way they're done with
3 Frontier School Division, or the way they're done with the
4 Bay -- with the Northern Stores?

5 MR. VINCE WARDEN: Well, if the account is in
6 the name of a --of a -- an individual, as they are with
7 Northern Stores, then that account would be billed in
8 accordance with the residential rate.

9 If they are in the name of the -- in this
10 case, the Frontier School Division, they would be billed in
11 accordance with the so-called government rate.

12 MR. ROBERT MAYER: Mr. Warden, can't you see
13 the hole you're going to dig yourself into if you permit
14 this? I would, if I were the Officer Commanding 'D' Division
15 of the RCMP, have the individual Constable be paying for each
16 of the -- each of the residences which the RCMP owns, but
17 which their police officers are paying for or pay rent for, I
18 would certainly start there.

19 And I could see us going all the way down the
20 line with this, if that is going to be permitted, especially
21 what we now see as a very different way, Frontier School
22 Division is being treated from the way the North West Company
23 is being treated.

24 And I can see this creating an even bigger
25 problem than the one you've already got.

1 MR. VINCE WARDEN: That could be an issue.
2 It's my understanding that the Frontier School division was,
3 in fact, offered that option of placing the teacherages in
4 the name of the teacher. They chose not to and there could
5 be very good reasons for that.

6 There could be personal tax consequences of --
7 of them doing -- of them going that route. But they were
8 provided with that opportunity at the time.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Mr. Warden you're asking --
12 from your answer, sorry, as I interpreted your answer, you're
13 asking this Board to approve a change in how Manitoba Hydro
14 will invoice specifically, if it is a non-residential First
15 Nations account, it will be billed at the government rate?

16 MR. VINCE WARDEN: Correct.

17 MR. BOB PETERS: The last time you were before
18 the Board on diesel rates, again you had the same stipulation
19 that you would bill First Nation accounts at the government
20 rate, but you made some artificial distinctions, as I
21 understand the evidence, as to whether they were partially
22 funded, fully funded or otherwise, and that was a determining
23 factor as whether they would pay the government rate? Would
24 that be correct?

25 MR. ROBIN WIENS: Yes, that would be correct.

1 Our staff, I believe -- I believe that that was addressed in
2 some of the direct this morning.

3 That an account directly transferred from the
4 Federal government to the Bands would be treated as a
5 government account. In future, as new accounts were added,
6 our staff were in the position of having to determine if they
7 were providing a service, which was similar to those that had
8 been surcharged in the past.

9 And as I've said just a few minutes ago, that
10 -- that -- that's becoming a situation in which we don't feel
11 that our staff should be called on to try to make those
12 judgments. And that is why we're proposing that if they are
13 non-residential accounts, that are paid by the Band,
14 providing services that are provided by the Band, that they
15 should be considered government accounts.

16 MR. BOB PETERS: And the point I was trying to
17 make, Mr. Wiens, is that last time diesel rates were before
18 this Board a decade ago, approximately, all of those First
19 Nations accounts, if they were -- were considered government
20 accounts and the Manitoba Hydro then had a policy as to
21 whether or not to charge the government rate or the general
22 service rate?

23 MR. ROBIN WIENS: My understanding then was,
24 that that was determined on the basis of whether they were
25 substantively funded by government.

1 MR. BOB PETERS: All right. I think I've got
2 your points on that. Thank you.

3
4 (BRIEF PAUSE)

5
6 MR. BOB PETERS: Before I leave Schedule 3,
7 and I want to soon, Mr. Thomas, a point I don't want to
8 overlook at the top of the page, the total cost of service,
9 that you forecasted for fiscal 2004, was the \$9.5 million
10 dollars, correct?

11 MR. CHIC THOMAS: That's correct.

12 MR. BOB PETERS: And if you use a 90 percent
13 revenue to cost recovery ratio, which would be analogous to
14 the residential class in the rest of the Province, there
15 would be, what you call a Manitoba Hydro subsidy of about
16 five hundred and forty-five thousand dollars (\$545,000)?

17 MR. CHIC THOMAS: Just to clarify, that would
18 be the rural subsidy to the residential customers not the
19 overall reseneue -- revenue cost coverage of the residential
20 community and -- but, yes, that's right.

21 MR. BOB PETERS: Okay. I'm sorry, I didn't
22 understand your answer. The rural residential customers in
23 Manitoba pay the same as the urban residential customers; do
24 they not?

25 MR. CHIC THOMAS: They do now, yes.

1 MR. BOB PETERS: And so this subsidy that you
2 have here really means Manitoba Hydro, instead of seeking 100
3 percent recovery of costs from that class is only seeking 90
4 percent recovery of costs from that class?

5 MR. CHIC THOMAS: That's correct, yes.

6 MR. BOB PETERS: And then on the Manitoba
7 Hydro subsidy to general service, the thirteen thousand, four
8 hundred and seven dollar (\$13,407) number, that's because
9 general service customers hooked up to the grid pay
10 approximately 99 percent of their allocated costs and you're
11 trying to make that the same for the diesel communities?

12 MR. CHIC THOMAS: That's correct, yeah.

13 MR. BOB PETERS: And when you call that a
14 "Manitoba Hydro subsidy", what you really mean is that that's
15 a subsidy paid for by all of Manitobans; do you not?

16 MR. CHIC THOMAS: All of Manitobans who are
17 Manitoba Hydro customers. That's right, yeah.

18 MR. BOB PETERS: All right. All of the grid
19 customers?

20 MR. CHIC THOMAS: Right.

21 MR. BOB PETERS: I want to turn, Mr. Cox, and
22 maybe it's your turn to find the microphone and I don't want
23 to dwell on this but I know it's going to be an issue that
24 the Board needs to have a solid understanding on and, I
25 think, from your direct evidence this morning that goes to

1 help.

2 But, in terms of the background and the
3 history, it was in the mid 1960's that there were agreements
4 between the Government of Canada and Manitoba Hydro to build
5 these diesel electric facilities for northern communities;
6 have I got that right? Mr. Wiens was there when you weren't?

7 MR. ROBIN WIENS: There were certainly some
8 in the -- in the 1960's. Also in the 1970's and some in the
9 1980's.

10 MR. BOB PETERS: And it started back in the
11 1960's where Manitoba Hydro became involved in providing
12 diesel electric service in remote communities; would you
13 agree with that Mr. Wiens?

14 MR. ROBIN WIENS: I think that's
15 approximately right; yes.

16 MR. BOB PETERS: And is it also correct that
17 at the time did I hear the evidence this morning, that when
18 Manitoba Hydro first got involved there was -- there were
19 distinctions between whether the federal government had
20 responsibilities for communities or the provincial government
21 had responsibility for various communities?

22 MR. ROBIN WIENS: Well, those -- those
23 distinctions were based on -- on the responsibilities that
24 pre-existed the 1960's.

25 MR. BOB PETERS: Those were based on

1 constitutional requirements?

2 MR. ROBIN WIENS: I believe -- I believe
3 that's correct, yes.

4 MR. BOB PETERS: Now, let's just focus then
5 on the communities where the federal government was
6 considered by Manitoba Hydro to have responsibilities. As I
7 understood the evidence, it was initially the federal
8 government that paid the capital costs to install the diesel
9 communities?

10 MR. ROBIN WIENS: They contributed to the
11 capital costs or they may have contributed the facilities
12 themselves.

13 MR. BOB PETERS: What about the operating
14 costs?

15 MR. ROBIN WIENS: The op -- the intent was to
16 recover the operating costs through the rates that were
17 charged to customers who were taking service in those
18 communities.

19 MR. BOB PETERS: And in those communities
20 where the federal government contributed to the capital
21 costs, was there also a contribution from Manitoba Hydro?

22 MR. ROBIN WIENS: I -- I believe that for
23 generation facilities in particular that the federal
24 government contributed the full cost -- almost the full cost,
25 if not the full cost, of those facilities.

1 For -- for distribution facilities, though my
2 memory doesn't go back all the way back to there, but the
3 current policy is that Manitoba Hydro will provide the basic
4 service draw from the system to a -- an individual residence
5 or a general service customer but that that full cost of
6 extending distribution facilities to a government customer is
7 collected from that customer as a contribution.

8 MR. BOB PETERS: Skipping ahead a couple of
9 decades, Mr. Wiens and Mr. Cox, is I understood the evidence
10 this morning, the surcharge was introduced in 1984; is that
11 approximately correct?

12 MR. ROBIN WIENS: That's exactly correct.

13 MR. BOB PETERS: And that surcharge was on
14 both Federal and Provincial government accounts?

15 MR. ROBIN WIENS: Yes.

16 MR. BOB PETERS: And at that time, Mr. Wiens,
17 was there also a distinction or a requirement for that
18 surcharge to be on First Nation government accounts, or were
19 there any First Nation government accounts, back in 1984?

20 MR. ROBIN WIENS: I don't have a customer
21 list from 1984, but if there were any, there wouldn't have
22 been very many. It would have been Federal government and
23 Provincial government.

24 MR. BOB PETERS: And it's Manitoba Hydro's
25 evidence that this surcharge was to permit the utility to

1 make the capital upgrades and recover the costs from the
2 government?

3 MR. ROBIN WIENS: Well, initially when the --
4 when the government was contributing most or all of the costs
5 of the facilities, no, the surcharge was intended to
6 recognize the increasing gap between what the rates were
7 yielding by way of revenue and the increases in costs that
8 were happening throughout the 1970's and into the early
9 1980's.

10 In fact, the -- the use of the surcharge to
11 assist in the recovery of depreciation and interest on
12 capital costs, really only started in 1990, when Manitoba
13 Hydro eliminated the generation contribution requirements.

14 MR. BOB PETERS: All right. Then back in '84,
15 1984, when you say there was a gap, that gap was between the
16 operating costs and the revenue recovered to pay the
17 operating costs, Mr. Wiens?

18 MR. ROBIN WIENS: That's my understanding.

19

20

(BRIEF PAUSE)

21

22 MR. BOB PETERS: Do you have any understanding
23 as to why Manitoba Hydro did not, back in 1984, simply
24 increase the rates that were supposed to be there to recover
25 the operating costs; that is the rates to the consumers?

1 MR. ROBIN WIENS: I'm relying on
2 correspondence that I reviewed from that period. But -- but
3 my understanding is that the company had proceeded since the
4 beginning of -- of electrifying some of these communities, in
5 charging what they referred to as local consumers, which
6 meant largely residential customers, and maybe some very
7 small business customers.

8 Those who were limited at that time to fifteen
9 (15) amps of services. A rate which was comparable to that
10 paid, in the rural part of Manitoba served by the grid and my
11 understanding is at that time, that Manitoba Hydro did not
12 want to abandon that and increase the rates to the local
13 consumers, by the significant amounts that would be required.

14 So, the proposal was made to -- to apply the
15 surcharge to the government accounts. That decision was
16 made, I believe, in May of 1984, the -- the accounts that
17 were affected by that, would have been notified between then
18 and July the 1st, which is the date that the surcharge was
19 implemented.

20 MR. BOB PETERS: And just so the record is
21 tidy on that point, Mr. Wiens, can you confirm that the
22 letters that are included with MKO/MH 19, are the letters
23 that Manitoba Hydro used to notify its various customers that
24 the surcharge was going to be levied?
25

1 (BRIEF PAUSE)

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MR. ROBIN WIENS: Yes, that would be it.

MR. BOB PETERS: And to keep history moving, Mr. Wiens, in 1984, the Government of Canada and the Government of Manitoba, paid the surcharge on all of the government accounts?

MR. ROBIN WIENS: To the best of my knowledge, yes.

MR. BOB PETERS: And those accounts included facilities utilized by First Nations?

MR. ROBIN WIENS: Can you elaborate on what you mean by facilities utilized by First Nations?

MR. BOB PETERS: What I'm wondering, I guess Mr. Wiens, is over the period of time I'm wondering if there are -- if there's been a physical change in the facilities that are utilized in these communities, or whether it's the same facilities, but just the name has changed and the account has transferred to a -- a different name?

MR. ROBIN WIENS: In many cases it was the same account, but I think as we stated earlier, since 1987, which is the time that we were given the advice that these accounts would be transferred, there have been other accounts that have been added.

MR. BOB PETERS: All right, and I don't want

1 to go past that, but you've already looked at MKO/MH-10, for
2 the types of facilities that Manitoba Hydro considers as
3 First Nations accounts; correct?

4 MR. ROBIN WIENS: Yes.

5 MR. BOB PETERS: And back in 1984, those were
6 the same types of facilities that were in existence; is that
7 correct?

8 MR. ROBIN WIENS: I believe so, yes.

9 MR. BOB PETERS: And the accounts for those
10 types of facilities --

11 THE CHAIRMAN: Did you want to add something?

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: The account --

15 MR. ROBERT COX: I'm sorry, Mr. Peters, maybe
16 I could just add to that?

17 MR. BOB PETERS: Yes.

18 MR. ROBERT COX: There is some that weren't
19 there in 1984 that are -- are there now, that are on that
20 list.

21 MR. BOB PETERS: All right, well that --
22 that's fair, Mr. Cox, but the general type of facilities that
23 we're talking about hasn't changed, has it?

24 MR. ROBERT COX: Well, the -- the services
25 that I have in mind here are -- are your water systems, which

1 weren't in place in 1984, which have been added since.

2 MR. BOB PETERS: All right.

3 MR. ROBERT COX: And probably more recently
4 than back closer to '84.

5 MR. BOB PETERS: All right. And taking those
6 types of ones out, for example, many of the accounts that are
7 included in that list were there in 1984?

8 MR. ROBERT COX: Yes.

9 MR. BOB PETERS: And the difference in 1984 is
10 that they were billed directly to the Federal Government or
11 the Provincial Government?

12 MR. ROBERT COX: That would be correct.

13 MR. BOB PETERS: And to the best of your
14 knowledge, Mr. Cox, those accounts contained a surcharge, and
15 that surcharge was also paid?

16 MR. ROBERT COX: Yes, that's correct.

17 MR. BOB PETERS: It sounds, from the evidence
18 you gave this morning, Mr. Cox, that from '84 through '87,
19 those types of accounts were paid by the Federal Government
20 or the Provincial Government?

21 MR. ROBERT COX: That is correct.

22 MR. BOB PETERS: But in 1987, if I have my
23 notes correctly, you interpreted it as a policy shift by the
24 Federal Government that wanted energy accounts to be
25 transferred into the names of directly the First Nations?

1 MR. ROBERT COX: Yes, that's what was
2 explained to us.

3 MR. BOB PETERS: Okay, and when it was
4 explained to you, was this explained in writing, or was this
5 one (1) of those weekly meetings, or how did that come to be?

6 MR. ROBERT COX: It was both done -- the first
7 instance was over the phone, and then following that we had
8 several meetings where that issue was discussed.

9 MR. BOB PETERS: Is there any paper in your
10 filing before the Board that -- that you rely on to -- to
11 support that there has been a policy shift back in 1987,
12 where the Federal Government wanted the energy accounts to be
13 transferred into the names of First Nations?

14 MR. ROBERT COX: There is a -- an internal
15 memo that goes from our Division Manager up to our Vice-
16 President, looking for approval to have a policy change made
17 in recognition of the change in the billing practice.

18 MR. BOB PETERS: Okay, that's fair, and I'll
19 come to that, I believe. Is that at MKO/MH-20?

20

21

(BRIEF PAUSE)

22

23 MR. ROBERT COX: Yes, that is the one (1).

24 MR. BOB PETERS: And what you're telling the
25 Board is that in 1987 as a result of this policy shift that

1 -- that you became aware of from the Federal Government,
2 Manitoba Hydro had to also shift its policy, in terms of who
3 was going to be charged at the Government rate?

4 MR. ROBERT COX: That's correct.

5 MR. BOB PETERS: You said in your direct
6 evidence through Ms. Ramage, that there were -- you had
7 discussions at the time, with the Federal Government about
8 this policy shift; is that correct?

9 MR. ROBERT COX: That is correct.

10 MR. BOB PETERS: And am I correct that it was
11 your understanding in those discussions, that the Federal
12 Government, through Indian and Northern Affairs Canada, or
13 its predecessor department, would continue the funding to pay
14 for the energy consumed by those communities?

15 MR. ROBERT COX: Yes, that was expressed to us
16 by the representatives.

17 MR. BOB PETERS: Did you -- did you understand
18 that the funding would increase from the Federal Government?

19 MR. ROBERT COX: My understanding was that
20 once the bills were changed to the First Nation's names, that
21 they would increase -- they, as in Indian Affairs, would
22 increase the funding equal to the bills for the First
23 Nations.

24 MR. BOB PETERS: Was there going to be an
25 increase in the bills just because you changed the name on

1 the bills?

2 MR. ROBERT COX: No, there was not.

3 MR. BOB PETERS: Did you have discussions as
4 to whether in the future, if the rates went up, whether the
5 government funding would go up in lockstep?

6

7

(BRIEF PAUSE)

8

9 MR. ROBERT COX: We did meet with the First
10 Nations on an annual basis to review any rate increases that
11 were being proposed and that would apply.

12 MR. BOB PETERS: Okay. And as a result of
13 those meetings did you have an understanding that the energy
14 funding would be increased by the Federal government?

15 MR. ROBERT COX: From prior knowledge, I would
16 say, yes, that we -- we did expect that.

17

18

(BRIEF PAUSE)

19

20 MR. BOB PETERS: And just so that I don't get
21 ahead of myself, when this policy shift came about, from the
22 Federal government's position to transfer energy accounts
23 into First Nations accounts, that's when the accounts of the
24 types listed in MKO/MH 10, were transferred into the name of
25 the First Nation?

1 MR. ROBERT COX: That's correct. We did
2 receive a list or -- I shouldn't say a list, but a verbal
3 list from Indian Affairs, asking us to change these names,
4 these accounts, from their name to the First Nations' name.

5 MR. BOB PETERS: Help me out here with the
6 mechanics of this Mr. Cox. Pre-1987, you send a bill for a
7 hundred dollars (\$100) on account of a community hall to the
8 Government of Canada for one (1) of these four (4) First
9 Nations and the account is paid, is that correct?

10 MR. ROBERT COX: That's correct.

11 MR. BOB PETERS: All right. And the cheque
12 comes from the Government of Canada?

13 MR. ROBERT COX: That's correct.

14 MR. BOB PETERS: Now, what happens post-1987,
15 you send a bill for a hundred dollars (\$100) to one (1) of
16 the four (4) First Nations that has diesel electric service
17 and the account is paid again, correct?

18 MR. ROBERT COX: That's correct.

19 MR. BOB PETERS: And who -- whose cheque was
20 it in -- in 1987 that paid the -- or 1988 that paid these
21 accounts, was it a First Nations cheque, or was it the
22 Government of Canada cheque?

23 MR. ROBERT COX: That would have been the
24 First Nations cheque.

25 MR. BOB PETERS: All right. In terms of how

1 the First Nations received funding to pay for that account,
2 do you have any knowledge?

3 MR. ROBERT COX: No, direct knowledge, no.

4 MR. BOB PETERS: And when you say, no direct
5 knowledge, you invite the question, you had indirect
6 knowledge from people you talked to in the area?

7 MR. ROBERT COX: As I mentioned earlier, yes,
8 in our discussions with the representatives from Indian
9 Affairs, they did indicate to us that with the change in the
10 name that they would be providing funding to the First
11 Nations to cover those bills.

12 MR. BOB PETERS: I heard from the witness
13 panel this morning, and I'm not certain it was you, Mr. Cox,
14 that the motivation that you understood for this 1987 policy
15 shift, was to promote self-government, is that your
16 understanding?

17 MR. ROBERT COX: That was expressed to us,
18 yes.

19 MR. BOB PETERS: All right. It was expressed
20 to Manitoba Hydro that to promote First Nations self
21 government their energy accounts should be transferred
22 directly to the First Nations?

23 MR. ROBERT COX: No, it -- the way it was
24 expressed to us, was that Indian Affairs and the Federal
25 government wanted the First Nations to be more accountable

1 and responsible for all of their funding. And this was just
2 one (1) aspect of their funding.

3 MR. BOB PETERS: What did you understand them
4 to mean, when they said, more responsible for the funding?

5 MR. ROBERT COX: It was a management item that
6 they wanted them to deal with, that they would manage their
7 own funds. Again, not just for Manitoba Hydro, but for all
8 of their funding.

9 MR. BOB PETERS: And while your understanding
10 then, or the Corporation's understanding was that there was a
11 desire on behalf of the government for First Nations to have
12 a more active role in the management of their funding and
13 expenses, did you have any understanding as to how that
14 relationship for funding would continue between the
15 Government of Canada and the First Nations?

16 MR. ROBERT COX: No, we did not.

17 MR. BOB PETERS: Do you know whose request it
18 was, as between the Government of Canada or the First
19 Nations, to have the energy accounts transferred into the
20 names of First Nations?

21 MR. ROBERT COX: The request we received was
22 from Indian Affairs.

23 MR. BOB PETERS: No, that wasn't my -- it
24 wasn't the question I asked though, Mr. Cox. Maybe put it in
25 a little different way. Did the First Nations ask of the

1 Government for the accounts to be transferred into the names
2 of the First Nations or was it the Government who told the
3 First Nations that they're going to transfer the accounts or
4 do you have any knowledge of that?

5 MR. ROBERT COX: We don't have any knowledge
6 of that.

7 MR. BOB PETERS: Now you draw -- you drew the
8 Board's attention to MKO/MH 20 because those were the
9 internal memorandums that existed at Manitoba Hydro that were
10 in response to this policy shift between the Federal
11 Government and the First Nations, correct?

12 MR. ROBERT COX: That is correct.

13 MR. BOB PETERS: And that policy shift was
14 the changing of the addressee on the envelope as to who was
15 getting the hydro account.

16 MR. ROBERT COX: That's correct.

17 MR. BOB PETERS: And at that point in time
18 you wanted to amend the definition of the party who would
19 then be in the government rate category, is that correct?

20 MR. ROBERT COX: That's correct yes.

21 MR. BOB PETERS: And in addition to Federal
22 and Provincial governments, their agencies, Crown
23 Corporations, you added on the provision that there would
24 also be to existing and after April 1st of 1987, new accounts
25 historically associated with these customers regardless of

1 current responsibility for payment of those accounts.

2 MR. ROBERT COX: That wasn't included in that
3 memo. That was a following memo which was the result of
4 asking for a policy change, yes.

5 MR. BOB PETERS: All right, well, thank you
6 for that clarification and it was a very perhaps disjointed
7 question. But prior to 1987 the government rate was charged
8 to only Federal and Provincial governments, their agencies
9 and Crown Corporations, would that be fair?

10 MR. ROBERT COX: That's correct, yes.

11 MR. BOB PETERS: And so after April 1st of
12 1987, Manitoba Hydro wanted to revise the definition of who
13 fit the government rate class by adding on the words and I'll
14 quote:

15 "...and to existing and effective April
16 1st, 1987 to new accounts historically
17 associated with these customers regardless
18 of current responsibility for payment of
19 those accounts".

20 MR. ROBERT COX: That's correct, yes.

21 MR. BOB PETERS: The part that was added on
22 to the Manitoba Hydro policy was specifically to catch the
23 First Nations or Band Council accounts, is that correct?

24 MR. ROBERT COX: It -- it was designed to
25 continue for -- for Manitoba Hydro to continue to receive

1 payment of the surcharge as previously applied.

2 MR. BOB PETERS: All right. And this meant
3 that there would be more customers going forward who would be
4 charged the surcharge rate.

5 MR. ROBERT COX: No, that's not correct.

6 MR. BOB PETERS: It would be exactly the same
7 number of customers who would then be paid the surcharge rate
8 Mr. Cox?

9 MR. ROBERT COX: At that time, yes, and any
10 future ones would be added, but there was no extra ones added
11 at that time.

12 MR. BOB PETERS: And the only, when you say
13 no extra ones were added at that time, all that was changed
14 was the name on the bill, not the facility to which it
15 related.

16 MR. ROBERT COX: That's correct.

17 MR. BOB PETERS: And the facilities to which
18 those bills related Mr. Cox, would generally related to the
19 types of facilities that have been enumerated in MKO/MH-10
20 interrogatory.

21 MR. ROBERT COX: That's correct, yes.

22 MR. BOB PETERS: So moving forward, after
23 April 1st, 1987, Mr. Cox, there was no rate increase as of
24 that time that you're aware of was there?

25 MR. ROBERT COX: Not that I can recall, no.

1 MR. BOB PETERS: Just a different address to
2 whom the bill was sent, you've told me?

3 MR. ROBERT COX: Yes, just the name change as
4 far as I know.

5 MR. BOB PETERS: And that was in compliance,
6 Manitoba Hydro says with the Government of Canada's request
7 to send accounts to First Nations.

8 MR. ROBERT COX: That's correct, yes.

9 MR. BOB PETERS: Can you tell the Board,
10 after April 1st of 1987, whether these First Nation accounts
11 now directly billed and mailed to the First Nations or Band
12 Councils, were they paid?

13 MR. ROBERT COX: To the best of my knowledge,
14 yes.

15 MR. BOB PETERS: And those accounts had a
16 surcharge portion as well, correct?

17 MR. ROBERT COX: That's correct.

18 MR. BOB PETERS: And the surcharge portion
19 was also paid after April 1st of 1987, at least up until the
20 year 2000?

21 MR. ROBERT COX: That's correct, yes.

22 MR. BOB PETERS: During -- let me withdraw
23 that and --

24 THE CHAIRMAN: Mr. Peters, given that you
25 were near 2000 in your cross, maybe it would be a good time

1 for the Board to take a short break and we could reconvene in
2 twenty (20) minutes and that would give you a chance to look
3 at your notes?

4 MR. BOB PETERS: Yes, thank you very much.

5 THE CHAIRMAN: Thank you. We'll reconvene at
6 3:30 and I would ask everybody to be back in their seats so
7 we can promptly use the last hour. Thank you.

8

9 --- Upon recessing at 3:12 p.m.

10 --- Upon resuming at 3:30 p.m.

11

12 THE CHAIRMAN: Ladies and gentlemen, if I may,
13 I'd like to call the Hearing back to order. It is 3:30, and
14 Mr. Peters, are you ready to continue?

15 MR. BOB PETERS: Yes, thank you.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: The point that I was moving
19 with the Panel through history, can you indicate, Mr. Wiens,
20 when Manitoba Hydro first brought diesel electric rates to
21 the Public Utilities Board for approval?

22 MR. ROBIN WIENS: 1989, I believe, during the
23 summer or fall of 1989, shortly after the -- the -- the
24 passage of the Crown Corporations Accountability and
25 Subsequent Amendments Act.

1 MR. BOB PETERS: And at that point in time
2 there was an approval of the -- the rates that were then in
3 effect, charged by Manitoba Hydro; correct?

4 MR. ROBIN WIENS: No, Manitoba Hydro actually
5 at that time -- and again, I'm -- I'm working from
6 recollection, where we're fifteen (15) years or so down the
7 road.

8 But, my recollection is that we wanted to make
9 some changes in the diesel rates in the then fourteen (14)
10 communities. Our past practice had been that those rates
11 would be changed on the 1st of July, and I believe, shortly
12 after that, we brought -- we brought our Application to the
13 Board.

14 We requested an ex-parte approval of rates. I
15 don't know if we got them effective July the 1st and
16 backdated them. I think that was what happened. And then
17 they were -- they received final approval following Manitoba
18 Hydro's submission and review of the 1990 General Rate
19 Application.

20 That's my recollection on it --

21 MR. BOB PETERS: All right.

22 MR. ROBIN WIENS: -- and I think we put some
23 of that on the record.

24 MR. BOB PETERS: Yes and you also put on the
25 record, that it was in 1994, as part of a proceeding before

1 this Board, that the surcharge was reviewed and commented on
2 by the Board as well?

3 MR. ROBIN WIENS: But, we did have a surcharge
4 in rates that we had applied for in earlier Applications
5 going back to 1989, 1990, 1991. But, the first time that
6 there was an extensive review of surcharge with the
7 participation of the Government of Canada was, in fact, in
8 February or March of 1994.

9 MR. BOB PETERS: And at that time, in the
10 chronology we've developed, Mr. Wiens, the First Nations were
11 directly invoiced at that time, for the account at the
12 government rate, correct?

13 MR. ROBIN WIENS: For a lot of them, that was
14 certainly the case, yes.

15 MR. BOB PETERS: For the non-residential ones?

16 MR. ROBIN WIENS: Any that were in the name of
17 the First Nation that were non-residential and that had, in
18 fact, through that process that we've described earlier, been
19 assigned a government class, were invoiced on the government
20 rate.

21 MR. BOB PETERS: And those accounts were being
22 paid, including the surcharge portion of those accounts?

23 MR. ROBIN WIENS: Yes.

24 MR. BOB PETERS: And when we move up to
25 November of 2000, it appears from the evidence that we read

1 and heard, that Manitoba Hydro was approached by, I believe,
2 MKO with a request not to include the surcharge in the bills
3 on account of Band Council accounts?

4 MR. ROBIN WIENS: Yes, it was November of 2000
5 that that happened.

6 MR. BOB PETERS: Can you tell the Board what
7 was the rationale explained to Manitoba Hydro, as to why MKO
8 did not want the surcharge on Band Council accounts?

9 MR. VINCE WARDEN: The rationale given to us
10 at that time, was simply that we, being First Nations, are
11 not government and therefore should not be billed the
12 government surcharge.

13 MR. BOB PETERS: And as a result of that
14 request, Mr. Warden, what if anything did Manitoba Hydro do?

15 MR. VINCE WARDEN: Well, Manitoba Hydro did
16 concede to that request and as a result of that initial
17 meeting began redirecting the bills to the Federal government
18 to INAC.

19 MR. BOB PETERS: Was that a decision that had
20 to be approved by the Hydro Board of Directors, sir?

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

22 MR. BOB PETERS: And was there any prior
23 discussions with Indian and Northern Affairs Canada, before
24 that was done?

25 MR. VINCE WARDEN: No, the notification was

1 simply by way of the letter.

2 MR. BOB PETERS: And then it was after that
3 point in November of 2000, Mr. Warden, that Indian and
4 Northern Affairs Canada, refused to pay the surcharge portion
5 of those accounts, or any portion of those accounts, for that
6 matter?

7 MR. VINCE WARDEN: That's correct, yes.

8 MR. BOB PETERS: And can you explain to the
9 Board what your understanding was of the rationale as to why
10 Indian and Northern Affairs Canada was going to refuse to pay
11 the surcharge or any portion of accounts rendered for First
12 Nation facilities?

13 MR. VINCE WARDEN: Well, their rationale and
14 there's correspondence on the record, which I think explains
15 the rationale, but, they're basically saying that the funding
16 has been provided to the First Nations to pay that surcharge
17 or to pay their electricity accounts, and therefore the fact
18 they've already been funded, they're not going to fund them
19 again.

20 MR. BOB PETERS: Did Manitoba Hydro get in to
21 any discussion as to the level of funding for various
22 facilities?

23 MR. VINCE WARDEN: We did actually have one
24 (1) meeting -- we had a series of meetings with Indian and
25 Northern Affairs Canada, at one (1) of those meetings, it was

1 explained to us the level of funding that was provided to
2 First Nations, which was interesting, but, really Manitoba
3 Hydro -- that was an issue really between Indian -- Northern
4 Affairs Canada and the First Nations. How they were funded
5 was really not of our concern.

6 MR. BOB PETERS: Was Manitoba Hydro offered
7 any ideas by Indian and Northern Affairs Canada as to how to
8 deal with this, now contentious, point?

9 MR. VINCE WARDEN: No. No, they didn't offer
10 any -- any suggestions as to how we could deal with this. We
11 agreed to, at least initially, keep meeting to look at
12 whether there might be some options but nothing substantive
13 came out of those meetings.

14 MR. BOB PETERS: What has come out of their
15 refusal to pay the surcharge portion of the accounts is an
16 account receivable that, I think your evidence this morning
17 was, is now in the range of \$2.8 million?

18 MR. VINCE WARDEN: That's correct, yes.
19 Applicable to the surcharge.

20 MR. BOB PETERS: And -- and you're saying
21 applicable to the surcharge, sir, because there are other
22 accounts receivable including the accumulated deficit as well
23 as the regular accounts receivable from this -- these
24 communities?

25 MR. VINCE WARDEN: Yes, and I think I

1 indicated, as well, that there's the matter of interest on
2 that unpaid balance that still have to be dealt with as well.

3 MR. BOB PETERS: So the \$2.8 million is the
4 principal portion only?

5 MR. VINCE WARDEN: That's correct.

6 MR. BOB PETERS: And the evidence discloses
7 that that unpaid surcharge portion was growing at
8 approximately eighty thousand dollars (\$80,000) a month at
9 existing rates; is that correct?

10 MR. VINCE WARDEN: That's correct.

11 MR. BOB PETERS: Have you calculated what it
12 will be under the proposed rates if INAC adopts its same
13 position?

14 MR. ROBIN WIENS: No, we haven't made that
15 calculation but it would be safe to say that it would be --
16 that eighty thousand (80,000) rate would, at least, double
17 and probably two and a half (2 1/2) times.

18 MR. BOB PETERS: In turning to the components
19 that have led to the revenue requirement, I think on page 10
20 of the Application there was some explanation for that. I
21 just want to review that with -- with the witnesses.

22 The first significant item was the interest
23 expense appears to be \$2.25 million; correct?

24 MR. CHIC THOMAS: That's right.

25 MR. BOB PETERS: And, Mr. Thomas, this

1 relates to -- to what?

2 MR. CHIC THOMAS: That's Manitoba Hydro's
3 embedded cost of debt.

4 MR. BOB PETERS: Cost of debt on the capital
5 facilities for these four (4) communities?

6 MR. CHIC THOMAS: That's correct.

7 MR. BOB PETERS: And it doesn't contain any
8 amount on account of accounts receivable?

9 MR. CHIC THOMAS: No, it does not.

10 MR. BOB PETERS: And this interest expense,
11 sir, has grown as the amount of capital invested has grown?

12 MR. CHIC THOMAS: That's right.

13 MR. BOB PETERS: Likewise -- I'm sorry.

14 THE CHAIRMAN: Mr. Thomas, why is there an
15 interest rate on in service plant that is different from
16 interest rate on inventory?

17 MR. CHIC THOMAS: The -- the interest rate on
18 the infrastructure is based on our cost of debt. Whereas,
19 the stores inventory that is a separate part and they hold
20 their own stores from which the fuel comes from and they
21 calculate their own internal rate.

22 THE CHAIRMAN: "They" being?

23 MR. CHIC THOMAS: I'm sorry, Mr. Chairman,
24 "they" being the storage department of Manitoba Hydro.

25 THE CHAIRMAN: But given that, I mean, from

1 the Board's perspective, isn't there one (1) interest rate
2 that should be determined with respect to interest expense,
3 Mr. Warden?

4 MR. VINCE WARDEN: Basically, the embedded
5 rate that Mr. Thomas is referring to is Manitoba Hydro's
6 long-term cost of capital. The stores rate referenced is a
7 more current rate so it would be a short -- more of a short-
8 term borrowing rate as opposed to a long-term rate.

9 THE CHAIRMAN: And that includes the debt
10 guarantee to the Province?

11 MR. VINCE WARDEN: Yes. Both -- both rates
12 would include the debt -- debt guarantee fee.

13 THE CHAIRMAN: Mr. Peters...?

14 MR. BOB PETERS: Yes, thank you.

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: On the depreciation expense,
18 again, Mr. Thomas, this is as a result of the significant
19 increase in the gross investment?

20 MR. CHIC THOMAS: That's right.

21 MR. BOB PETERS: And did I understand your
22 evidence to the Board this morning that that \$1.8 million
23 number does not include approximately eight hundred thousand
24 dollars (\$800,000) that will be incurred next year as a
25 result of increased depreciation expense?

1 MR. CHIC THOMAS: That's right.

2 MR. BOB PETERS: And what is the additional
3 depreciation expense on account, sir, that you anticipate?

4 MR. CHIC THOMAS: Manitoba Hydro periodically
5 does a review of all their depreciation rates. Regardless of
6 the asset and one of those studies was done, the exact date
7 escapes me at the moment, but that review was done some time
8 in 2002.

9 MR. BOB PETERS: And as a result of that
10 review in 2002, it's now been updated?

11 MR. CHIC THOMAS: That's correct.

12 MR. BOB PETERS: I see and so when will this
13 additional \$800,000 that you're suggesting hit the cost of
14 service?

15 MR. CHIC THOMAS: That will be done in our
16 next cost of service, it'll be brought before the Board.

17 MR. BOB PETERS: The operating cost
18 increases, Mr. Thomas, is that largely attributable to the
19 fuel costs?

20 MR. CHIC THOMAS: Primarily, yes.

21 MR. BOB PETERS: Under the item of "Other
22 Costs", you have the three quarters of a million dollars
23 listed, did I again understand your evidence this morning
24 that that Other Costs does not include approximately \$2.5
25 million for soil remediation at two (2) of the diesel

1 communities?

2 MR. CHIC THOMAS: Well, actually the soil
3 remediation costs would eventually be captured in the
4 depreciation expense, not in the other costs, but you're
5 right, it would in future studies be included.

6 MR. BOB PETERS: Alright, then let's deal
7 with that. Is it \$2.5 million, is that the number you used
8 this morning?

9 MR. CHIC THOMAS: I'd used \$5 million as the
10 total cost. The exact breakdown between each community I
11 can't say for certain.

12 MR. BOB PETERS: And when do you expect that
13 that \$5 million of additional cost is going to hit the cost
14 of service?

15 MR. CHIC THOMAS: As I had said in my direct,
16 we only include capital additions that are in service at the
17 time. Currently we are forecasting that soil remediation
18 work to be done in 2005 or 2006. So at such time as that's
19 done and closed out on the books, it will be included in our
20 diesel Cost of Service Study.

21 MR. BOB PETERS: Was there an indication in
22 your evidence -- there was evidence from the panel this
23 morning, that some of that cost is going to be paid for by
24 the Federal Government?

25 MR. VINCE WARDEN: We expect it will, yes.

1 MR. BOB PETERS: Is the \$5 million estimate
2 then Manitoba Hydro's portion of it or is that the total cost
3 of it?

4 MR. VINCE WARDEN: I believe the costs that
5 Mr. Thomas referred to earlier was the total cost. The
6 actual cost that we incur will be substantially less than
7 that.

8 MR. BOB PETERS: Mr. Thomas, the connecting
9 of the -- of nine (9) communities to the grid since this
10 matter of the diesel communities were last before the Board,
11 has had the adverse affect on the four (4) remaining
12 communities in terms of the amount of the surcharge that has
13 to be paid by a community?

14 MR. CHIC THOMAS: That's correct.

15 MR. BOB PETERS: And that's because the
16 government customers that existed in the other communities
17 are no longer available to pay part of the surcharge.

18 MR. CHIC THOMAS: As you alerted -- eluded to
19 earlier, yes as you decrease the number of kilowatt hours of
20 the government customers, the surcharge rate increases.

21 MR. BOB PETERS: That wasn't a surprise to
22 Manitoba Hydro when -- when it connected those other nine (9)
23 communities to the grid was it? That was something that was
24 known?

25 MR. VINCE WARDEN: Yes, I think I indicated

1 in my direct Mr. Peters, that we recognized during that
2 period of 1997 and 1999 when the North Central Project was
3 being installed that there would be -- likely to be a
4 substantial deficit incurred and in fact that deficit was
5 incurred and the first deficit was incurred in the year 1999,
6 2000.

7 MR. BOB PETERS: Mr. Thomas do your numbers
8 in this filing indicate that you're seeking to recover, is it
9 an additional \$5.3 million of revenue from these communities?

10
11 (BRIEF PAUSE)

12
13 MR. CHIC THOMAS: That's right, based on page
14 15.

15 MR. BOB PETERS: And of that \$5.3 million,
16 4.5 million is by way of the surcharge; correct?

17 MR. CHIC THOMAS: That's correct.

18 MR. BOB PETERS: To use the words I thought I
19 heard from Mr. Williams this morning, is that \$5.3 million to
20 stop the bleeding; does that stop the deficit from
21 accumulating year over year?

22 MR. CHIC THOMAS: I'm not in a position to
23 comment on whether it's bleeding or not but --

24 MR. BOB PETERS: But that \$5.3 million is to
25 keep you whole for this year and going forward you'll have to

1 deal with -- that will keep you whole for the fiscal year
2 ending in '04?

3 MR. CHIC THOMAS: That's correct.

4 MR. BOB PETERS: And when I say "keep you
5 whole", you're conceding that there will be an approximately
6 six hundred thousand (600,000) that will be not recovered
7 through the cost of service to these consumers and that's the
8 part that will be absorbed by all grid customers?

9 MR. CHIC THOMAS: That's correct.

10 THE CHAIRMAN: Mr. Thomas, if I go to page
11 10, the top line when we're referring to the years, the one
12 on the very far right is 2004/1994.

13 MR. CHIC THOMAS: Thank you for that
14 clarification, Mr. Chairman.

15 THE CHAIRMAN: I just wanted to clarify that.
16 Secondly, we are now approximately nine (9) months through or
17 three-quarters the way through the 2004 year; do you track
18 your revenues and expenses vis-a-vis your prospective Cost of
19 Service Study to see how close you are?

20 MR. CHIC THOMAS: As I indicated in my
21 direct, yeah, we do an actual diesel cost of service when the
22 data is available to do so. Partially to track how good our
23 forecasts are and also to keep an accurate tab on the
24 accumulated surplus and or deficit.

25 THE CHAIRMAN: And how are we tracking for

1 this fiscal year?

2 MR. CHIC THOMAS: That hasn't been
3 undertaken, Mr. Chairman.

4 THE CHAIRMAN: Mr. Wiens, this prospective
5 Cost of Service Study that we have before us was prepared in
6 2001/2?

7 MR. ROBIN WIENS: It was filed with the
8 Application in November of 2002 so it would have been
9 completed sometime in the Fall of 2002.

10 THE CHAIRMAN: And you were hoping to have
11 these rates in place on April 1st, 2003, at least?

12 MR. ROBIN WIENS: That was our plan back in
13 November of 2002.

14 THE CHAIRMAN: So we're, in essence, a year
15 behind?

16 MR. ROBIN WIENS: We are definitely a year
17 behind and we will not be whole in 2003/2004, hopefully in
18 2004/2005.

19 THE CHAIRMAN: I guess what I'm trying to get
20 to is when the Board is looking at all the material that is
21 generated in this particular Application, it would be really
22 helpful to know where we're going in the future.

23 Have you done a prospective Cost of Service
24 Study for 2005 yet?

25 MR. CHIC THOMAS: No, we have not.

1 THE CHAIRMAN: When do you expect to have
2 that done?

3 MR. CHIC THOMAS: Well, again, a lot of it
4 depends on the outcome of the Board Hearings now, for
5 example, in terms of how we handle going forward. But in
6 terms of internally, usually these things are two (2) years
7 behind the actual data.

8 So, the actual data for 2003 is now available
9 so we -- we probably have the internal data to do the
10 prospective '05 study based on the rates as they are now.

11 THE CHAIRMAN: And you have been able to
12 confirm the numbers for the fiscal year ending March 31st,
13 2003; have you not?

14 MR. CHIC THOMAS: Yes, we have.

15 THE CHAIRMAN: Which, when you prepared your
16 Cost of Service Study that we now have before the Board, you
17 didn't have that information?

18 MR. CHIC THOMAS: That's correct.

19 THE CHAIRMAN: Is there anything in that
20 information that gives you some concern with respect to this
21 Application before the Board, i.e., for example, fuel costs?

22 MR. CHIC THOMAS: No, sir. We've done --
23 we've done a number of checks and balances over the -- you
24 know, when actual data becomes available and so on and so
25 forth.

1 And one thing might be mitigated by another
2 and things might change by a cent or two (2) per kilowatt
3 hour but in terms of the -- the rate as you see it now is
4 very close to what it actually will be.

5 THE CHAIRMAN: Thank you for that, Mr.
6 Thomas. Mr. Peters...?

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Yes, thank you. Mr. Wiens,
10 Mr. Thomas, to recover the revenue deficiency that you told
11 me about, I noted three (3) methods in the Application that
12 you were going to utilize.

13 The first to increase the rates in the tail
14 block for the residential customers and for the general
15 service customers, correct?

16 MR. ROBIN WIENS: Yes, to the proposed full
17 cost rate of seventy nine point one cents (79.1).

18 MR. BOB PETERS: And the calculation, Mr.
19 Wiens, of the seventy nine point one cents (79.1) was a
20 mathematical derivation of your total cost of service divided
21 by your total forecast consumption?

22 MR. CHIC THOMAS: That's right.

23 MR. BOB PETERS: And picking up from what the
24 Chairman was getting to, the deficit that Mr. Warden had told
25 us about in his direct evidence from 1999 to 2003, was about

1 \$12.1 million, is that correct?

2 MR. VINCE WARDEN: No, I think to 2003/04 the
3 evidence is that the deficit is \$12.6 million. I updated
4 that to the end of 2003/04 and estimated that number to be 15
5 million.

6 MR. BOB PETERS: And when I look at a revenue
7 shortfall of about \$5.7 million a year, I'm wondering why --
8 how you go to 12.6 only up to 15, as opposed to something
9 higher than that, Mr. Warden?

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(BRIEF PAUSE)

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MR. VINCE WARDEN: I've just been informed
that actually the update did not take us all the way through
to the end of 2003/04, it was only to the end of December of
2003.

17

MR. BOB PETERS: All right.

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MR. VINCE WARDEN: Sorry, further correct,
November of 2003.

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MR. BOB PETERS: From a principle point of
view, Mr. Wiens, can you confirm to the Board that if
everybody paid the full cost rate there would be no surcharge
required?

24

MR. ROBIN WIENS: Yes.

25

MR. BOB PETERS: And so the surcharge is then

1 as a direct result of a policy of Manitoba Hydro to charge
2 people less than the full charge rate, the full cost rate?

3 MR. ROBIN WIENS: A long standing practice,
4 yes.

5 MR. BOB PETERS: And that long standing
6 practice is to charge grid equivalent rates for, as now
7 proposed the first, at least two thousand (2,000) kilowatt
8 hours per month of energy for the residential and general
9 service customers?

10 MR. ROBIN WIENS: Yes.

11 MR. BOB PETERS: And how does Manitoba Hydro
12 justify charging five (5) cents a kilowatt hour, when the
13 actual cost to those consumers based on cost causation is
14 seventy nine (79) cents a kilowatt hour?

15 MR. ROBIN WIENS: I can only say that this is
16 based on a -- as I mentioned -- a long standing practice that
17 goes right back into the late 60's, early 70's, whereby what
18 we referred to as local consumers would pay comparable rates
19 to those consumers on the grid.

20 And that was the understanding between
21 ourselves and the Government of Canada and the Government of
22 Manitoba.

23 MR. BOB PETERS: Has Manitoba Hydro considered
24 going to more of a North West Territories model where the
25 full cost may be charged?

1 MR. ROBIN WIENS: Well, Mr. Peters, I think
2 this Application takes us part of the way there, in that --
3 in that prior to or to this day, there is no constraint on
4 kilowatt hour consumption for the residential class.

5 There is a limit on the size of service
6 entrance, which does not necessarily constrain the overall
7 monthly consumption to what's being proposed now.

8 And for general service customers the move
9 from three thousand (3,000) to two thousand (2,000) kilowatt
10 hours per month, at grid rates, is in fact, a movement in
11 that direction, but, it doesn't take us all the way to where
12 North West Territories is today.

13 MR. BOB PETERS: Okay. That's fair. I'll
14 come back to that general service questions and rate in a
15 minute.

16 But, you would agree with me, Mr. Wiens, that
17 if the full cost rate is being used in the tail block to send
18 a price signal to consumers, wouldn't it be a stronger signal
19 to send to them, in the first block of energy being a full
20 cost rate, rather than a grid rate?

21 MR. ROBIN WIENS: It would definitely be a
22 stronger price signal, yes.

23 MR. BOB PETERS: And the only -- and the only
24 reason you're offering to the Board then is that this has
25 been a longstanding practice in Manitoba or a policy invoked

1 by Manitoba Hydro and you want to maintain that going
2 forward?

3 MR. ROBIN WIENS: Well, I -- I guess from a
4 corporate perspective, we have not thought it unreasonable to
5 provide, at least, a basic level of consumption at grid
6 rates.

7 MR. BOB PETERS: Okay. Then, Mr. Warden, to
8 you, sir, when the Province of Manitoba announced an energy
9 policy through their uniform rates legislation, was it your
10 understanding that Manitoba Hydro had an option to reduce the
11 diesel rates for all customer classes to equivalent to grid
12 rates?

13 MR. VINCE WARDEN: I think the legislation,
14 Mr. Peters, provides us with that option. At the time the
15 legislation was introduced it specifically referred to grid
16 customers. So the intent was to exclude diesel communities
17 but left open the -- opportunity for Manitoba Hydro to extend
18 uniform rates to diesel communities at some time in the
19 future if we deemed that appropriate.

20

21

(BRIEF PAUSE)

22

23 MR. BOB PETERS: The legislation that we're
24 referring to, being the Manitoba Hydro Amendment Act No. 2 or
25 Chapter 23, if I recall, you'll agree with me, Mr. Warden,

1 that it was permissive to Manitoba Hydro, it wasn't
2 obligating Manitoba Hydro to charge grid rates for all rates
3 charged in the diesel community?

4 MR. VINCE WARDEN: That would be correct.
5 Yes.

6 MR. BOB PETERS: And while it was permissive,
7 am I correct that when the uniform rates legislation was
8 enacted Manitoba Hydro did lower the rates for the first --
9 did lower the rates that were charged in the diesel community
10 to equal what was then charged in the former Zone 1?

11 MR. VINCE WARDEN: That's correct. We did,
12 yes.

13 MR. BOB PETERS: But Manitoba Hydro chose
14 then not to lower the diesel rates to equal grid rates for
15 all customer classes and all levels of consumption?

16 MR. VINCE WARDEN: Correct.

17 MR. BOB PETERS: Is there -- what were the
18 reasons or what is the reason that you didn't do that?

19 MR. VINCE WARDEN: Primarily to preserve the
20 obligation that existed at that time of the federal
21 government to pay the -- the surcharge.

22 MR. BOB PETERS: Just so I can be clear then,
23 I'd asked or we'd asked some questions, I think it's PUB-45.
24 I want to make sure the Board understands that the impact of
25 Manitoba Hydro's decision on utilizing uniform rates and

1 charging the Zone 1 rate through to the diesel class where it
2 was going on grid rates, as I understood the evidence, that
3 had an impact of sixty-one thousand dollars (\$61,000) a year
4 on the residential class?

5 MR. VINCE WARDEN: Correct.

6 MR. BOB PETERS: In other words, the rates to
7 the residential customers were lowered by sixty-one thousand
8 dollars (\$61,000) as a result of the provincial legislation?

9 MR. VINCE WARDEN: That's right. Yes.

10 MR. BOB PETERS: And for the general service
11 class, Manitoba Hydro, again, decided to make grid equivalent
12 rates equal in the -- sorry, Manitoba Hydro decided to make
13 the diesel community rates grid equivalent by lowering them
14 to what was then the uniform rate for the province and that
15 amounted to a sixty-three hundred dollar (\$6300) savings to
16 those customers?

17 MR. VINCE WARDEN: Up to the three thousand
18 (3,000) kilowatt hours, yes, that's correct.

19 MR. ROBIN WIENS: Mr. Peters, just for
20 clarification, what -- what was effected at November 1 of
21 2002, I believe that was the date, was that there was a
22 significant consumption in the diesel communities that was
23 already charged out at grid rates, that was being Zone 3
24 rates.

25 Zone 3 rates ceased to exist at that point

1 with the uniform rate on the grid and the rates -- the
2 comparable rates in the diesel zone were adjusted and that's
3 where the sixty-one thousand (61,000) and sixty-three hundred
4 dollars (\$6300) comes from.

5 MR. BOB PETERS: Yes, understood and thank
6 you for that. What you're telling the Board, Mr. Wiens, is
7 that there were grid rates being utilized but the grid rates
8 being utilized in the diesel communities were set equivalent
9 to Zone 3 rates?

10 MR. ROBIN WIENS: Yes.

11 MR. BOB PETERS: And when Zone 3 rates were
12 uniformly set to what was formerly the Zone 1 rates, you did
13 the same in the diesel communities?

14 MR. ROBIN WIENS: Yes.

15 MR. BOB PETERS: All right. Thank you, sir.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Can I turn to the residential
20 rate that you are proposing and the significant change here,
21 Mr. Thomas and Mr. Wiens, is that you want to -- you want to
22 establish a -- a hard cap of two thousand (2,000) kilowatt
23 hours per month at which point in time the rate goes to a
24 full charge rate from the -- from the grid rate; correct?

25 MR. CHIC THOMAS: That's correct.

1 MR. BOB PETERS: You also have attached and
2 provided to the Board in Attachment 1 to your Application and
3 for the Board Members' benefit it was a one-page document
4 that was photocopied in the green folder as well.

5 It is entitled "Bill comparisons, diesel rate
6 zone monthly comparison of billings at current and proposed
7 rates". You have that, do you, Mr. Thomas?

8 MR. CHIC THOMAS: I do.

9 MR. BOB PETERS: And that's Attachment 1 to
10 your Application?

11 MR. CHIC THOMAS: That's correct.

12 MR. BOB PETERS: And do I interpret that
13 correctly and would the Board interpret that correctly, if
14 they looked down your list and said that of all of the
15 residential customers for which you number them four hundred
16 and ninety (490) in total, only 6.2 percent, that is only 6.2
17 percent of them would be using consumption in excess of two
18 thousand (2,000) kilowatt hours a month right now?

19 MR. ROBIN WIENS: Yes, that's correct.

20 MR. BOB PETERS: And, Mr. Wiens, would you go
21 so far on the record to say that those who are using more
22 than two thousand (2,000) kilowatt hours of consumption per
23 month right now must be heating their homes with diesel
24 electric heat to run up a bill that large?

25 MR. ROBIN WIENS: I couldn't say

1 categorically that every one of those must be using electric
2 heat to -- to arrive at a consumption at that level. I would
3 say there's a good chance that that's what's happening. A
4 very good chance that's what's happening.

5 MR. BOB PETERS: Would you concede that
6 that's Manitoba Hydro's assumption in making this Application
7 and in establishing two thousand (2,000) as the -- as the
8 cap?

9 MR. ROBIN WIENS: Our experience is that it's
10 very unusual for a -- for a residential customer to exceed
11 two thousand (2,000) kilowatt hours a month unless they have
12 an extremely lavish lifestyle or they are heating with
13 electricity.

14 MR. ROBERT MAYER: Or plugging in several
15 cars.

16 MR. ROBIN WIENS: I'm sorry, I forgot that.
17 Maybe that goes with the lavish lifestyle, I don't know.

18 MR. BOB PETERS: Well, Mr. Wiens, if the bill
19 frequency of 6.2 percent of the bills are for consumption in
20 excess of two thousand (2,000); does that roughly translate
21 to say thirty (30) customers?

22 MR. ROBIN WIENS: No, it is likely going to
23 translate into more than thirty (30) customers because what
24 is happening here is this is -- this is 6.2 percent of the
25 bills. Some customers may have only one (1) bill in the

1 course of the year, some may have several bills.

2 So you can't automatically go from the number
3 of bills to the number of customers. If it's a few customers
4 and all their bills, it'll be less than thirty (30)
5 customers.

6 MR. BOB PETERS: Okay, well that's
7 mathematically derived then. But has Manitoba Hydro done any
8 investigation to find out why consumption is greater than two
9 thousand (2,000) kilowatt hours a month in those 6.2 percent
10 of bills?

11 MR. ROBIN WIENS: Not to my knowledge.

12 MR. BOB PETERS: Is there any reason you
13 wouldn't go to those customers and find out or do an audit or
14 ask to do an audit?

15 MR. ROBIN WIENS: Up until this point the
16 only audit that we've carried out has been at the time that a
17 service is put in to ensure that it meets the sixty (60)
18 ampere constraint.

19 It's not an easy matter to go into a remote
20 community and ask to audit their usage of electricity.

21 MR. BOB PETERS: All right, I appreciate
22 that. And the audit you referred to about the sixty (60)
23 amps, that audit would be done at the -- at the time of an
24 inspection pursuant to any permits that have been issued?

25 MR. ROBIN WIENS: Yes.

1 MR. BOB PETERS: The thrust of your two
2 thousand (2,000) kilowatt hour per month, Mr. Wiens, you
3 compared that to an average in the province, and it may have
4 been one of your Panel Members testimony, but it was
5 approximately eight hundred and seventy (870) kilowatt hours
6 used by -- by grid connected customers?

7 MR. ROBIN WIENS: Without electric heat. Not
8 customers who were not all electric customers.

9 MR. BOB PETERS: And your trying to compare
10 apples to apples by saying customers who don't use electric
11 heat on the grid compared to customers who don't use electric
12 heat in the diesel community.

13 MR. ROBIN WIENS: Well we wanted to exclude
14 electric heat from the comparison.

15 MR. BOB PETERS: Alright.

16 MR. ROBIN WIENS: Because according to our
17 policies, these are not supposed to be electrically heated
18 homes.

19 MR. BOB PETERS: Alright. And just to follow
20 up and close off on that, in PUB Manitoba Hydro 22 the
21 corporation was asked, what would happen if that two thousand
22 dollar (\$2,000) limit was dropped to one thousand (1,000) and
23 it was also asked what would happen if that two thousand
24 dollar (\$2,000) limit was increased to three thousand (3,000)
25 kilowatt hours. Do you recall that Mr. Wiens?

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(BRIEF PAUSE)

MR. ROBIN WIENS: I do recall it Mr. Peters, but I'm struggling here to find it.

MR. BOB PETERS: Well, then when you do find it, can you confirm to the Board, that if one thousand (1,000) kilowatt hours a month was the consumption level to which grid rates would apply then the surcharge goes down twenty-seven point four (27.4) cents.

MR. ROBIN WIENS: Yes, that -- that was our response.

MR. BOB PETERS: All right, and then if you were to increase the consumption to as much as three thousand (3,000) kilowatt hours per month, that would cause the surcharge to go up by nine point six (9.6) cents.

MR. ROBIN WIENS: Again, correct. All -- Remembering that this is based on our bill frequency analysis pertaining to the year 2001/2002. If -- if a decision were made to increase for example, the monthly level of consumption available at grid rates, it is of course possible that you could have a change in those bill frequencies.

MR. BOB PETERS: Okay. Back to page 15 of your Application or the last page of your Application, Mr. Wiens. By billing out the remaining consumption over and

1 above two thousand (2,000) kilowatt hours per month at the
2 full cost rate of seventy-nine (79) cents, you have a percent
3 change there of approximately 1400 percent, correct.

4 MR. ROBIN WIENS: That is correct.

5 MR. BOB PETERS: Huge percent.

6 MR. ROBIN WIENS: Yes it is.

7 MR. BOB PETERS: And you were asked in the
8 interrogatories if you had a definition of rate shock and I
9 took it from your answers that officially there is no
10 corporate definition of rate shock but you acknowledged that
11 this is a large increase for those 6.3 percent of bills
12 issued.

13 MR. ROBIN WIENS: There is no question
14 that -- that we have acknowledged that. Recalling that that
15 applies to the portion over two thousand (2,000), not to the
16 rest of the bill.

17 MR. BOB PETERS: Yes, and that applies to the
18 portion that you are assuming is done by way of using diesel
19 electric power for space heat.

20 MR. ROBIN WIENS: That there's a strong
21 probability on that, yes.

22 MR. BOB PETERS: And at the very least, this
23 would tell people that if they're going to use diesel
24 electric service for space heat, they're going to pay a
25 significant price for it.

1 MR. ROBIN WIENS: Yes, it does.

2 MR. ROBERT MAYER: Mr. -- Mr. Wiens, that
3 \$739,477 proposed revenue with the increase of 77 percent,
4 that's -- you're expecting to generate \$322,135 from those
5 people who are exceeding two thousand (2000) kilowatt hours a
6 month, is that correct? Am I reading this right?

7 MR. ROBIN WIENS: I can't confirm that. I'd
8 have to -- I think we have provided a response on how much of
9 the consumption and how much the revenue on that consumption
10 would be. But I can't confirm that particular number --

11 MR. ROBERT MAYER: What I just did -- I'm
12 sorry. What I just did is I subtracted seven hundred thirty-
13 nine (739) and change -- from seven hundred thirty-nine (739)
14 and change, I subtracted four hundred seventeen (417) and
15 change and came to \$322,135 and so, therefore, since the only
16 increase is -- in that case is going to be for people using
17 more than two thousand (2,000) kilowatt hours a month.
18 That's the revenue you expect to generate from those people.
19 I just want to clarify that that's -- and confirm that that's
20 what I'm seeing here.

21 MR. ROBIN WIENS: Yeah, plus the five point
22 one six (5.16) cents that they're paying now. So it would be
23 a little -- a little more than that. But sub --
24 substantively, yes.
25

1 (BRIEF PAUSE)

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3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Mr. Wiens, I just wanted to
5 follow up on Mr. Mayer's question as well. And if the only
6 difference is, after two thousand (2000) kilowatt hours, that
7 is under the proposal compared to the existing, is going to
8 the full cost rate of seventy-nine (79) cents --

9 THE CHAIRMAN: Proceed, Mr. Peters --

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: Mr. Wiens, still with the
13 residential customers, if the only difference is that after
14 two thousand (2000) kilowatt hours, you're to pay the full
15 cost rate of seventy-nine (79) cents and that's the only
16 change that results in an approximate three hundred and ten
17 thousand dollar (\$310,000) increase in revenue, does it then
18 answer the question for the Vice Chair, that that's coming
19 from people who are presently consuming in excess of two
20 thousand (2000) kilowatt hours?

21 MR. ROBIN WIENS: Yes, all of that incremental
22 revenue would come from people who are consuming in excess of
23 two thousand (2000) kilowatt hours a month.

24 MR. BOB PETERS: And when I was trying to get
25 a number of customers and you couldn't be specific, and I

1 suggested it could be as few as thirty (30), it is simply for
2 those 6.2 percent of the bills that are rent -- rendered that
3 would come back to collect this additional monies?

4 MR. ROBIN WIENS: That's correct.

5 MR. BOB PETERS: In terms of the general
6 service customer, I just want to look at it. You have
7 previously, under current rates, allowed them up to three
8 thousand (3000) kilowatt hours of consumption at grid rates,
9 correct?

10 MR. ROBIN WIENS: Yes.

11 MR. BOB PETERS: And you want to cut them back
12 to one thousand (1000) -- sorry -- you would cut them back by
13 a thousand (1000) kilowatt hours, down to two thousand (2000)
14 kilowatt hours per month --

15 MR. ROBIN WIENS: Yes --

16 MR. BOB PETERS: -- at grid rates --

17 MR. ROBIN WIENS: -- yes.

18 MR. BOB PETERS: And is it necessary in
19 Manitoba Hydro's view that the general service consumption
20 limit of two thousand (2000) kilowatt hours, equal the two
21 thousand (2000) kilowatt hours under residential customers?

22 MR. ROBIN WIENS: No, it's not absolutely
23 essential that they -- that they be equivalent.

24 MR. BOB PETERS: All right. If they don't
25 have to be equivalent, why have you taken general service

1 down a thousand (1000) kilowatt hours per month from what's
2 existing?

3 MR. ROBIN WIENS: This would be in -- in the -
4 - with the intent that we would want the price signal to
5 begin earlier. If we -- if we allow -- if we continue to
6 allow the three thousand (3000), it -- it does beg a question
7 about why we are treating these accounts differently from
8 residential accounts.

9 It results in a need for a higher surcharge if
10 we have a three thousand (3000) limit as opposed to a two
11 thousand (2000) limit.

12 THE CHAIRMAN: But if I understood you
13 correctly some time ago in this proceeding today, that in a
14 traditional home, non-heat -- non-electric heat, that the
15 kilowatt usage in a traditional today's home, is around eight
16 to nine hundred (800 to 900) kilowatts a month, is that
17 correct?

18 MR. ROBIN WIENS: Yes.

19 THE CHAIRMAN: So maybe that will help you,
20 Mr. Peters.

21

22 (BRIEF PAUSE)

23

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Well, Mr. Wiens, I was trying
2 to suggest that on the residential side, you have some
3 empirical evidence to suggest that residential consumers on
4 the grid who do not heat their homes electrically, consume
5 less than a thousand (1000) kilowatt hours per month,
6 correct?

7 MR. ROBIN WIENS: Yes.

8 MR. BOB PETERS: Do you -- and that's why
9 Manitoba Hydro takes the corporate position, that by setting
10 the limit at two thousand (2000) kilowatt hours per month,
11 you're being generous?

12 MR. ROBIN WIENS: Yes.

13 MR. BOB PETERS: Under the general service
14 customer, do you have empirical evidence as to what
15 comparable customers on the grid would require for the
16 same -- for the same ratings?

17 MR. ROBIN WIENS: We -- we would have access
18 to that, yes.

19 MR. BOB PETERS: But you didn't use that in
20 developing your -- your consumption limits?

21 MR. ROBIN WIENS: Well, general service
22 customers by their nature, especially small general service
23 customers are very heterogenous group. You don't have the
24 same kind of homogeneity within the class, as you do with
25 residential customers.

1 I mean, we could -- we could provide
2 information, certainly as to what cust -- customers on the
3 grid use, and I would suspect for small general service
4 accounts the majority of them would be under two thousand
5 (2,000) -- would be under two thousand (2,000) kilowatt
6 hours.

7 MR. BOB PETERS: That's not something you've
8 already done though, is it, Mr. Wiens?

9 MR. ROBIN WIENS: I have not looked at that
10 recently so I couldn't tell you exactly what that is.

11 MR. BOB PETERS: Does Manitoba Hydro take the
12 same position with general service customers that it is
13 probable that they are using their diesel electric service
14 for space heat as well?

15 MR. ROBIN WIENS: No. No. If we can review
16 some of the history of this. At the time that -- at -- if we
17 go back before 1990; if a general service customer was using
18 less than -- or had a service entrance size of less than
19 fifteen (15) amps, similar to a residential customer of that
20 size, they were provided electricity at the grid rate. If
21 they were over fifteen (15) amps they paid the full cost on
22 anything over fifteen (15) amps.

23 In -- beginning in 1991 we began to move to
24 what we called enhanced service in these communities and we
25 raised that -- that service entry limitation from fifteen

1 (15) amps to sixty (60) amps.

2 And at that time, we were considering that we
3 would do the same thing for both residential and general
4 service customers so -- so that the service entry would be
5 limited to sixty (60) amps in all cases. Those under sixty
6 (60) amps would pay similar rates to the grid. Those over
7 sixty (60) amps would pay full cost rate.

8 We made a decision back at that time that in
9 the event that there may be some customers who -- general
10 service customers who are providing a similar service to
11 another customer in the same community or in -- in one of the
12 communities, one over sixty (60) amps, one under sixty (60)
13 amps there would be a huge difference in the -- in the rate
14 that they were paying.

15 So it was at that time that we opted for the
16 three thousand (3,000) kilowatt hours as a -- as a basic
17 level of service for a general service customer.

18 Coming into this Application, we were looking
19 at, of course, significant increases. We were looking -- we
20 were looking to governments to provide significantly further
21 support by way of the surcharge.

22 We took the position that if a sixty (60) amp
23 facility in a residential community with equivalent to two
24 thousand (2,000) for most of the types of customers in a
25 general service category, it would not be that different

1 because their load factors tend to be similar.

2 MR. BOB PETERS: Well, thank you for that
3 answer, Mr. Wiens, but doesn't that just now exacerbate the
4 problem where you could have a general service -- two (2)
5 general service customers both offering the same service,
6 say, across the street from each other, one of them will be
7 charged seventy-nine (79) cents for their electricity and
8 some -- the other one will be charged five point five (5.5)
9 cents? Just --

10 MR. ROBIN WIENS: But those who are charged
11 seventy-nine (79) cents, it would only be on the amount
12 exceeding two thousand (2,000). It's not the same situation
13 where two (2) customers could be using, if the amp limitation
14 were only sixty (60) amps, two (2) customers could be using
15 the identical energy and one would be paying significantly
16 more than the other.

17 MR. BOB PETERS: Okay. I've got your point
18 and the difference in revenue between current and proposed
19 rates of approximately four hundred and fifteen thousand
20 dollars (\$415,000) that's to be recovered from, if we do the
21 math, those customers whose bill frequency is for consumption
22 levels in excess of two thousand (2,000) kilowatt hours which
23 is shown on the next page or in Attachment 1?

24 MR. ROBIN WIENS: Yes, that's true.

25 MR. BOB PETERS: And so it's relatively few

1 customers that are going to be expected to pay that four
2 hundred and fifteen thousand dollars (\$415,000)?

3

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(BRIEF PAUSE)

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MR. ROBIN WIENS: Approximately 19 percent of
bills.

8

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MR. BOB PETERS: Right and are you able to
translate that into the number of customers?

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MR. ROBIN WIENS: Again, because of the fact
that some customers may be one (1) month and some customers
may be multiple months, it would -- it would be less -- it
would be less than 19 percent of the customers.

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MR. BOB PETERS: And if there's only thirty-
eight (38) customers?

16

17

18

MR. ROBIN WIENS: You're talking somewhere
between -- of the thirty-eight (38) customers, twenty-three
(23) would exceed two thousand (2000), at least once.

19

20

21

22

MR. BOB PETERS: And it's those twenty three
(23) customers then that would pick up that, in total, four
hundred and fifteen thousand dollar (\$415,000) difference in
revenue?

23

24

25

MR. ROBIN WIENS: That's right.

(BRIEF PAUSE)

1 MR. BOB PETERS: Could you give me the number
2 for the number of residential customers, as well? I know we
3 had six point two (6.2) as the bill frequency, but are you
4 able to give me the number of actual residential customers?

5 MR. ROBIN WIENS: One hundred and sixty six
6 (166) that would exceed at least once.

7 MR. BOB PETERS: All right. Thank you for
8 that.

9 MR. ROBERT MAYER: I'm now totally confused.
10 We had -- I took Mr. Peters thirty (30) numbers and divided
11 that by the three hundred and twenty two thousand odd
12 (322,000), it came to ten thousand seven hundred and thirty
13 seven dollars and eight cents (\$10,737.80) per residential
14 customer, at the rates of 6 odd percent that I had heard
15 earlier, to arrive at that difference in revenue on the
16 residential.

17 You have thirty eight (38) customers on the
18 general service -- and you say -- how many of those are going
19 to exceed?

20 MR. ROBIN WIENS: Nineteen (19) percent of
21 bills will exceed.

22 MR. ROBERT MAYER: So each customer --

23 MR. ROBIN WIENS: Each customer has twelve
24 bills in a month -- 19 percent of those bills, but it will be
25 a higher proportion of customers, because there are probably

1 quite a few that will exceed only once in the course of the
2 year.

3 But overall twenty-three (23) customers will
4 exceed the two thousand (2000) at least once, during the
5 course of the year.

6

7

(BRIEF PAUSE)

8

9 CONTINUED BY MR. BOB PETERS:

10

MR. BOB PETERS: What you're telling the Vice
11 Chair, Mr. Wiens, is that the difference between the revenue
12 at current rates and proposed rates, which would -- I've said
13 amounts to about four hundred and fifteen dollars (\$415,000),
14 that's going to come from twenty-three (23) customers?

15

MR. ROBIN WIENS: Yes.

16

MR. BOB PETERS: And for the residential
17 customers there was three hundred and ten thousand dollars
18 (\$310,000) of additional revenue that was going to be
19 generated and it was based on bill frequency exceeding two
20 thousand (2000) kilowatt hours per month of 6.2 percent, and
21 how many customers did you translate that to?

22

MR. ROBIN WIENS: One hundred and sixty six
23 (166).

24

MR. BOB PETERS: And so those one hundred and
25 sixty six (166) residential customers will bear some portion

1 of that additional three hundred and ten thousand dollars
2 (\$310,000) of required revenue.

3 MR. ROBIN WIENS: Yes, Mr. Chairman, the
4 numbers of bills and the numbers of customers exceeding two
5 thousand (2000) was provided in response to PUB/MH/11(b).

6

7

(BRIEF PAUSE)

8

9 MR. BOB PETERS: Can I turn with you, Mr.
10 Thomas, to the government rates. The evidence that's been
11 provided under, I believe, it was Schedule 3 of your Cost of
12 Service Study, showed there was a breakdown between
13 Provincial and Federal government, correct?

14 MR. CHIC THOMAS: That's right.

15 MR. BOB PETERS: Can I deduce from that that
16 approximately 87 percent of the surcharge revenue is sought
17 from Federal governments and their agencies, including First
18 Nations?

19 MR. CHIC THOMAS: If that's what dividing
20 those two (2) numbers works out to be, yes. It's -- it's
21 roughly, you can do it mathematically directly that way.

22 MR. BOB PETERS: And if my math was correct,
23 then 13 percent of the surcharge revenue was coming from the
24 Provincial government?

25 MR. CHIC THOMAS: Yes, that's right.

1 (BRIEF PAUSE)

2

3 MR. ROBERT MAYER: Just while we're -- welfe
4 in the interim here, the 87 percent and 13 percent, I don't
5 suppose anybody's done any numbers as to how that bears a
6 relationship between the status and non-status people in each
7 of those communities?

8 I mean I recognize that there will probably be
9 very few non-status people in Lac Brochet, Tadoule Lake and
10 Shamattawa. There is, I believe, at least a significant
11 number of non-status people in Brochet.

12 But does the 87 and 13 bear any relationship
13 to the status non-status and ergo, which governments
14 constitutionally or at least according to the British North
15 America Act, would be responsible for the provision of those
16 services?

17 MR. ROBIN WIENS: It would bear some
18 relationship, I couldn't say that's it's one (1) to one (1).
19 13 percent of the population is -- is non-status versus 13
20 percent of the accounts.

21 I can tell you that most of those provincial
22 surcharged accounts are in Brochet.

23 MR. ROBERT MAYER: That strikes me as being
24 somewhere where I thought it would fit, so I trust -- I hope
25 that was by design.

1 (BRIEF PAUSE)

2

3 THE CHAIRMAN: Mr. Peters...?

4 MR. BOB PETERS: Yes, Mr. Chair, just the last
5 area of questioning on the government rates and I'm not going
6 to go back through the surcharge portion of it.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: But the evidence discloses,
10 Mr. Wiens and Mr. Warden, that some of these four (4)
11 communities are under third party management or voluntary
12 third party co-management, you're aware of that?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: Has that, in any way,
15 contributed to Manitoba Hydro's disagreement about getting
16 the subsidy portion of their accounts paid?

17 MR. VINCE WARDEN: No, it's probably -- in
18 fact, it's not related.

19 MR. BOB PETERS: Mr. Chair, in light of the
20 hour, I propose that this might be a time to adjourn and I
21 will tidy up in the -- I expect the first hour of the morning
22 and turn it over to other Counsel.

23 THE CHAIRMAN: Thank you very much, Mr.
24 Peters. With that Ladies and Gentlemen, may I suggest we
25 stand down until tomorrow morning at 9:00 a.m., at which time

1 I will, once Mr. Peters has completed his cross, turn it over
2 to you, Mr. Williams.

3
4

5 --- Upon adjourning at 4:30 p.m.

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8 Certified Correct

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Carol Geehan
Court Reporter