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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
2004 GENERAL RATE APPLICATION

Before Board Panel:
Graham Lane - Board Chairman
Len Evans - Board Member
Robert Mayer - Board Member

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
July 15th, 2004
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Pages 2255 to 2525

APPEARANCES

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

2

3 THE CHAIRPERSON: Mr. Peters, do you want to
4 introduce us to the day and perhaps give us a basic overview
5 of the schedule for the next two (2) days and begin.

6 MR. BOB PETERS: Yes, thank you and good
7 morning Board Members, Ladies and Gentlemen.

8 In terms of an overview, Mr. Chairman, this
9 morning was the time set aside for the recall of Manitoba
10 Hydro witnesses and you'll see before you the majority of the
11 revenue requirement Panel and Mr. Wiens has substituted for
12 Mr. Derksen as Mr. Derksen is unavailable.

13 But Mr. Wiens is here representing the
14 Corporation and of course he was testifying before you on the
15 cost of service rates Panel, so he may be able to assist the
16 Board and making sure that any remaining questions are
17 addressed today.

18 I propose to start with this Panel and when
19 I'm finished, the Board could go through the Intervenor list
20 and see which of the Intervenors have questions. I do know
21 that Mr. Williams has questions. I also know that Mr.
22 Anderson will have questions.

23 In speaking yesterday with Ms. McCaffrey, it's
24 my understanding that there will not be additional questions
25 from MIPUG to this Panel, but we could still call the list

1 and see just to make sure of those who are here if they have
2 any questions.

3 MR. ROBERT MAYER: If we did that now we
4 could really shorten proceedings.

5 MR. BOB PETERS: I am aware that -- that a
6 couple of parties are going to be absent this morning and
7 some will be coming shortly. This afternoon would also be
8 the time that we have set aside for the completion of the
9 testimony and cross-examination of the witnesses from
10 InterGroup that is Messrs. Olsen and Bowman. They'll be back
11 and that'll be some time this afternoon and will conclude
12 their cross-examinations.

13 After today, we have tomorrow set aside for
14 closing submissions and the parties will be starting at nine
15 o'clock in the morning and I'll start with closing comments
16 followed by the Intervenors in the order that we have them on
17 the Outline of Procedures. And that would be followed by
18 Manitoba Hydro's closing comments.

19 And Mr. Chairman and the Board, while that may
20 conclude tomorrow the evidentiary portion of the Hearing, the
21 deliberation portion for the Board begins and that will be
22 when the matter is turned over to the Board for their
23 considerations and their decisions.

24 So that's the outline for today and tomorrow.
25 I would say in terms of housekeeping matters, Mr. Williams

1 has one (1) matter that he'd like to address first thing this
2 morning and I would just turn it over to him briefly.

3 MR. BYRON WILLIAMS: Mr. Chair, good morning,
4 Mr. Chair, Members of the Panel.

5 During Mr. Harper's examination last Thursday,
6 by Counsel for the Public Utilities Board, he undertook to
7 provide one (1) interrogatory response from the Status Update
8 Proceeding, in which he calculated the operating costs per
9 customer for a number of Crown utilities, including Manitoba
10 Hydro, BC Hydro, and Hydro Quebec.

11 With the exception of the Panel and Board
12 Counsel and advisors, I've distributed the response, which is
13 from the Status Update Proceeding MH-CAC/MSOS-10, and I've
14 left copies on Mr. Barron's desk to share with the Panel.

15 As usual, I can't advise you as to the proper
16 CAC/MSOS Exhibit number, although I think we're around twelve
17 (12), but --

18 THE CHAIRPERSON: I believe this would be
19 number 13.

20 MR. BYRON WILLIAMS: Well, I knew I was close.
21 So, I'd ask that be accepted as an exhibit, and as compliance
22 with Mr. Harper's undertaking.

23 THE CHAIRPERSON: Unless Ms. Ramage has any
24 problem with it, we'll accept it subject to check?

25 MS. PATTI RAMAGE: I have no problem. Just a

1 question, confirmation. Would I be correct in assuming that
2 these numbers are for the year 2000?

3 MR. BYRON WILLIAMS: I'd have to get Mr.
4 Harper's actual evidence -- the Status Update Hearing, what
5 year -- I can't even remember what year it was but --

6 MS. PATTI RAMAGE: It was 2002, but the source
7 here is City of Winnipeg 2000 Annual Report, this isn't in
8 any way a challenge --

9 MR. BYRON WILLIAMS: I think --

10 MS. PATTI RAMAGE: -- it's just a
11 clarification.

12 MR. BYRON WILLIAMS: -- no, I think that was
13 -- that was information provided by Manitoba Hydro. I think
14 Mr. -- Mr. Harper's response was current as to the timing of
15 the Status Update, and then he incorporated data from
16 Winnipeg Hydro as per the request of Manitoba Hydro.

17 So, I believe it was current as of the Status
18 Update, the Winnipeg Hydro data may be a bit dated, but that
19 was put in at the request of Manitoba Hydro.

20 THE CHAIRPERSON: We'll confirm it at the
21 break and come back to it, just so we're all of the same
22 mind. Thank you, Mr. Williams.

23

24 --- EXHIBIT NO. CAC/MSOS 13: Interrogatory Response from the
25 Status Update Proceeding MH-CAC/MSOS-10.

1 THE CHAIRPERSON: Mr. Peters...?

2 MR. BOB PETERS: Thank you. Mr. Chairman,
3 this morning I would like to go through a number of the
4 exhibits that have been marked in these Proceedings. And if
5 Board Members require copies to please interrupt and we'll
6 make sure that copies are provided, so that they can follow
7 along as well.

8

9 MANITOBA HYDRO PANEL, Resumed

10

11 CROSS-EXAMINATION BY MR. BOB PETERS:

12 MR. BOB PETERS: But I want to start with this
13 Panel with what's been marked as Manitoba Hydro Exhibit 12,
14 and this was the Debt Management Strategy.

15 Mr. Warden, you recall the filing of the Debt
16 Management Strategy, do you?

17 MR. VINCE WARDEN: Yes, Mr. Peters, I do.

18 MR. BOB PETERS: And just in terms of a
19 historical context, Mr. Warden, in Board Order 7/03, the PUB
20 requested a Debt Management Strategy, you recall that?

21 MR. VINCE WARDEN: Yes.

22 MR. BOB PETERS: And does -- and there was not
23 one (1) in existence at the time of the Status Update Hearing
24 was there?

25 MR. VINCE WARDEN: There was no document

1 similar to this, we certainly had management strategy at
2 Manitoba Hydro, but there was no published document that we
3 could file similar to this one (1).

4 MR. BOB PETERS: All right, and then is this
5 Exhibit 12 then the -- the detailed Debt Management Strategy,
6 for Manitoba Hydro, or is there additional documents still
7 being prepared?

8 MR. VINCE WARDEN: No, this was filed in
9 response to that directive of the Public Utilities Board.

10 MR. BOB PETERS: All right. And thank you.
11 Can you tell the Board, is there a test that Manitoba Hydro
12 utilizes to determine when there's too much debt?

13 MR. VINCE WARDEN: No, no, there would be no
14 such test. The debt is relative to the assets that the
15 Corporation has at any given time, as we embark on a new
16 generation expansion project, assuming we get approval to go
17 ahead, the debt will rise substantially, but we'll have
18 assets to counter that debt.

19 So, no, there's no such thing as -- as too
20 much debt.

21 MR. ROBERT MAYER: Mr. Warden, that's -- I'd
22 accept your argument with respect to new generation, but
23 let's assume for a moment that we run into another drought,
24 Mr. Cormie does the best he can to manage it, but we end up
25 acquiring a significant amount of debt to cover imports or

1 whatever other problems we run into, because we don't have
2 the cash flow, that debt doesn't have a corresponding asset.
3 Doesn't that, under those circumstances, become too much
4 debt?

5 MR. VINCE WARDEN: Yes, Mr. Mayer, and that's
6 where the debt equity ratio becomes very, very important and
7 why I've stressed throughout this proceedings that the debt
8 equity ratio of Manitoba Hydro is dangerously low. We have
9 to improve that debt equity ratio.

10 We don't think of that in terms of absolute --
11 absolute quantum of debt though in direct answer to Mr.
12 Peters' question, there's no such thing as too much debt.
13 But if you were to ask that question is there a point at
14 which the debt equity ratio becomes too high, I would
15 definitely agree that the debt equity ratio as it is today is
16 -- is too high.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Mr. Warden, how does
20 Manitoba Hydro determine the level of US debt compared to
21 Canadian debt?

22 MR. VINCE WARDEN: We -- whenever we go to
23 the marketplace Manitoba Hydro, in conjunction with the
24 Province of Manitoba, looks at where the most attractive
25 rates can be obtained. So it's -- there's no absolute

1 maximum that we would have in terms of US versus Canadian
2 debt. It really depends on where we can get the best -- the
3 best -- the best rates overall.

4 MR. BOB PETERS: In the Exhibit 12, Mr.
5 Warden, there's not a strategy set out for the hedging of US
6 debt is there?

7 MR. VINCE WARDEN: No. No, there's no
8 reference to the hedging strategy in Exhibit 12; that's a
9 separate issue.

10 MR. BOB PETERS: But the -- the hedging
11 strategy that the Corporation uses is really just to -- to
12 not have any financial hedge instruments in place but simply
13 to offset US debt with US receipts?

14 MR. VINCE WARDEN: Well, the nature of our
15 transactions with -- in the US is such that we are in the
16 very good position of having sufficient revenue streams -- US
17 revenue streams to offset the principal repayments.

18 So we hedge our principal repayments with US
19 revenue streams and thereby limiting the exposure we have to
20 exchange rate fluctuations.

21 MR. BOB PETERS: Is there a point at which
22 Manitoba Hydro determines it needs additional hedging?

23 MR. VINCE WARDEN: Well, there is. We --
24 normally we try to balance our revenue streams with our long
25 term debt -- the incurrence of long term debt. However, that

1 isn't the driving force. We don't -- we don't go out and
2 incur debt simply to match with our revenue streams.

3 The -- the driver, as I mentioned before, is
4 the rates that we can obtain in the US market versus Canadian
5 market.

6

7

(BRIEF PAUSE)

8

9 MR. BOB PETERS: Following that through, Mr.
10 Warden, how can you determine that you don't need additional
11 hedging on your US debt?

12 MR. VINCE WARDEN: Well, you know, we do long
13 term projections. We do thirty-five (35) year projections
14 that takes us out to the maturity dates of all our -- of our
15 debt.

16 Look at our firm revenues and if there is
17 additional hedging required then we would get that. We're in
18 the position today though of having all of our long term debt
19 hedged with future -- firm revenue streams.

20 MR. BOB PETERS: On page 5 of Exhibit 12, Mr.
21 Warden, there is a reference to the swapping of debt
22 instruments and you're familiar with that?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: And is there a specific
25 policy on how that's done?

1 MR. VINCE WARDEN: No. Again, we would, in
2 conjunction with the Province, look for opportunities to swap
3 debt. If there is a period of low interest rates whereby we
4 can swap some of our debt to take advantage of those rates,
5 we do that.

6 MR. BOB PETERS: Is it Manitoba Hydro or the
7 Province who decides whether or not there's going to be the
8 swapping of debt instruments?

9 MR. VINCE WARDEN: Ultimately it's Manitoba
10 Hydro. We work very closely with the Province on that
11 though.

12 MR. BOB PETERS: But it's Manitoba Hydro's
13 decision?

14 MR. VINCE WARDEN: It is.

15 MR. BOB PETERS: In the Exhibit 12, Mr.
16 Warden, there was some discussion about short term borrowing
17 starting on I think about page 7 and can you indicate to the
18 Board how Manitoba Hydro determines how it balances its short
19 term debt with long term debt?

20 MR. VINCE WARDEN: Well, short term rates are
21 extremely low right now where for the first time ever in the
22 Corporation's history we were able to borrow at sub 1 percent
23 lower than 1 percent. So in -- in times like that we take
24 advantage of that and -- and have a higher percentage and
25 floating debt than we normally would.

1 We have a guideline that we won't exceed 30
2 percent of -- of floating debt versus long term debt.
3 However, we're normally in the 20 to 25 percent range. So we
4 take advantage of -- of opportunities as they exist and we
5 are taking advantage of those opportunities today.

6 MR. BOB PETERS: Does that mean that
7 approximately 30 percent of your debt is in floating at short
8 term rates?

9 MR. VINCE WARDEN: It could be up to 30
10 percent in accordance with our policy. But at this
11 particular time I'll just ask Ms. Wray if she has that exact
12 percentage. But I think it's around between 20 and 25
13 percent.

14 MS. LYN WRAY: I think for 2003/04 it was
15 just under 21 percent.

16 MR. BOB PETERS: So I gathered from your
17 answer, Mr. Warden, that short term debt is used for more
18 than bridge financing?

19 MR. VINCE WARDEN: Yes, it is. Hydro bonds
20 by the way are considered short term debt because they -- the
21 rate is reset every year or at least on the majority of the
22 Hydro bonds. There are some fixed rate bonds as well, but
23 the majority of the Hydro bonds the -- the rate is reset so
24 we consider that to be short term debt.

25 MR. BOB PETERS: Would I be correct in your

1 answer -- taken from your answer, Mr. Warden, that Manitoba
2 Hydro tries to take advantage of short term debt by putting
3 as much as possible into short term debt?

4 MR. VINCE WARDEN: No, it's -- there's a risk
5 associated with having too much exposure in the short term
6 market so we wouldn't -- we wouldn't put as much as possible.
7 We -- we look at what we expect the markets to do over the
8 next twelve (12) to eighteen (18) months and we'll keep
9 ourselves liquid as possible. If we think the rates are
10 going to remain low, if we think there's an upward trend then
11 we'll be moving some of that into -- into longer term --
12 instruments.

13 MR. BOB PETERS: Is that the risk that you're
14 talking about, is that there's -- the trend would go up?

15 MR. VINCE WARDEN: Yes, yes, there's --
16 anytime we have short term debt there's that exposure. If
17 the rate suddenly jump on us, then we could get caught with
18 -- with high -- higher cost debt then we would -- we would
19 want it so, we -- we watch that very closely.

20 MR. BOB PETERS: You talked with the Vice-
21 Chair at the start of this morning about debt equity ratio of
22 75:25 and -- and that's -- that's really a long term target
23 of the Corporation correct?

24 MR. VINCE WARDEN: Well it is, although we at
25 one point we were on track towards getting there by 2005/06

1 so there have been some events that have interceded and we
2 won't make it within the -- probably not within the term of
3 this forecast. If the forecast is -- turns out to be
4 reasonably accurate, we'll -- we'll -- we won't make it by
5 the 2011/12 target date that we have today.

6 MR. BOB PETERS: And there's no strategy in
7 the debt management Exhibit 12 in terms of how to get to
8 75:25 by 2012?

9 MR. VINCE WARDEN: No, the debt management
10 paper Exhibit 12 is more to respond to how we manage our
11 debt. It wasn't really a discussion on debt equity targets.

12 MR. BOB PETERS: But the -- in terms of the
13 debt equity target of 75:25 as the chief financial officer of
14 the Corporation, you're telling the Board that while you'd
15 like to be closer, you're still comfortable in the plan that
16 you have before the Board?

17 MR. VINCE WARDEN: I wouldn't say I was
18 comfortable. I -- I'd like to have -- get there a lot
19 quicker to 75:25. We -- as we indicated previously, we think
20 we're -- we're requesting the maximum rate increases that are
21 reasonable at this time giving our current situation. Very
22 uneasy though in the interim until we start getting --
23 building those retained earnings again.

24 We're still feeling the affects of the -- the
25 lingering affects of last year's drought and we will for some

1 time. Our -- our first quarter results to the end of June
2 are not all that promising. So I -- comfortable? No, at
3 all. I'm not comfortable on where we are. I'm very uneasy
4 about it as a matter of fact.

5 MR. BOB PETERS: Well, what can you tell the
6 Board about those first quarter results, have those been
7 published yet?

8 MR. VINCE WARDEN: No, we have the same
9 restriction on -- on quarterly results, as we do on the -- on
10 the Annual Report, they have to be released to the
11 Legislature -- Legislature, before they're released publicly.

12 I do though have some very preliminary numbers
13 that I could possibly share and these are subject to change
14 at this point in time.

15 MR. BOB PETERS: Please do.

16 MR. VINCE WARDEN: But our -- our forecast for
17 the first quarter of -- of this fiscal year, 04/05, was for a
18 -- a net loss of \$33 million. So, we're still in the loss
19 position, even on the forecast side.

20 Excuse me, let me just correct that. The
21 forecast was for \$28 million net loss, the actual is in the
22 range of \$33 million, so it's still subject to -- to some
23 final -- still subject to finalization.

24 So, at the end of -- at the end of the first
25 quarter, we're already \$5 million -- at least \$5 million away

1 from where our forecast is for the first quarter. That
2 forecast of course being set to achieve a net income of \$40
3 million for the year.

4 So, if everything stays the same for the
5 balance of the year, we'll be -- we won't achieve our -- our
6 forecast for 04/05.

7 MR. BOB PETERS: It's not marked as an
8 exhibit, Mr. Warden, but I thought the president of the
9 Company, in a press article not too long ago -- a week or two
10 (2) ago, was suggesting that the Corporation was back on
11 track and business was back to usual, and made it sound like
12 the forecast would be met?

13 MR. VINCE WARDEN: I think he was misquoted.
14 No, you know, we're always optimistic at Manitoba Hydro, and
15 the president especially. But I'm a little more cautious
16 than that perhaps.

17 MR. BOB PETERS: Well, the -- the fact that
18 you were forecasting a loss of 28 million, would it -- would
19 it be correct to say that's a normal business cycle loss that
20 the Corporation would -- would expect?

21 MR. VINCE WARDEN: Yes, and I wouldn't be too
22 disturbed if we were on that forecast, but as I say, we're --
23 we're not there. So, despite all the rain we've been
24 receiving, things haven't turned around yet.

25 MR. BOB PETERS: I want to turn with you, Mr.

1 Warden, to a discussion on OM&A costs, and just for the
2 record, there's a number of exhibits that have been marked.
3 I'll hopefully just stay close to Exhibit 48, but in addition
4 to that, for the record, Exhibits 20, 24, 46, 47, 48 and 64,
5 I think are all documents that have been provided dealing
6 with OM&A expenses.

7 And perhaps starting on Exhibit 48, sir, this
8 was an Undertaking 37 from the Corporation, depending on how
9 you've got it filed, marked as MH-Exhibit 48.

10 MR. VINCE WARDEN: Yes, we have it here now,
11 thank you.

12 MR. BOB PETERS: And, sir, that was the OM&A
13 costs for the electric operations of Manitoba Hydro, correct?

14 MR. VINCE WARDEN: Well, the bottom line is --
15 is the electric operations, it starts off with the total
16 consolidated OM&A, deducts Centra Gas subsidiaries to
17 ultimately derive the electric OM&A.

18 MR. BOB PETERS: Thank you for that
19 clarification. And correct, sir, under the -- under the
20 updated forecast for fiscal '05 and fiscal '06, those numbers
21 are found at \$295.9 million, is the -- the number carried
22 forward, and used in your revised forecast for OM&A, correct?

23 MR. VINCE WARDEN: Yes, correct.

24 MR. BOB PETERS: And the -- the number -- the
25 \$306.9 million that's found under the fiscal '05 column,

1 that's the number that was used in the IFF for electrical
2 operations?

3 MR. VINCE WARDEN: That would be right, yes.

4 MR. BOB PETERS: And just following it
5 through then, so the \$309 million under fiscal '06 was also
6 the OM&A costs included in IFF 03-1 for the electrical
7 operations?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: And as you pointed out to
10 me, sir, the -- from that point you deduct the OM&A costs
11 that are attributable to the subsidiaries of Manitoba Hydro
12 of approximately \$11 million in each of the two (2) test
13 years?

14 MR. VINCE WARDEN: Correct.

15 MR. BOB PETERS: And from those numbers, sir,
16 that are the OM&A for the electrical operations only, am I
17 correct in understanding the -- Manitoba Hydro's evidence
18 that there's two (2) possible reductions to those OM&A costs?
19 One (1) was for the decreased pension costs and one (1) was
20 for the increased revenue attributable to subsidiaries?

21 MR. VINCE WARDEN: Sorry, would you just give
22 me that question again please?

23 MR. BOB PETERS: Certainly. If we start, Mr.
24 Warden, with the OM&A updated forecast for fiscal '05; it's
25 \$295.9 million for the electrical operations; would that be

1 correct?

2 MR. VINCE WARDEN: Yes, that's the -- the
3 number we use to derive the five hundred and eighty-four
4 dollar (\$584) per customer calculation that we've filed with
5 these proceedings, that's correct. Yes.

6 MR. BOB PETERS: Okay. And then for the
7 fiscal '06 period it's in the column beside that and it's
8 shown as \$298.3 million for the electrical operations?

9 MR. VINCE WARDEN: Yes.

10 MR. BOB PETERS: And from those numbers, sir,
11 am I correct in understanding that there will be ongoing
12 pension cost reductions that will reduce the annual OM&A
13 costs by about \$5.1 million per year?

14 MR. VINCE WARDEN: Well, we indicated that
15 there has been a turnaround in terms of pension fund
16 performance in that the provision that we had in 04/05 and
17 05/06 could be reduced by about \$5 million on a gross basis.

18 However, there is a capital portion to that as
19 well. So after allowing for the capitalization of -- of
20 pension costs that would normally occur, the net reduction to
21 operations would be about \$3.5 million all other things being
22 equal.

23 I emphasize all other things being equal
24 because there are other increases that would overtake that --
25 that \$3.5 million. So I wouldn't suggest that there is a --

1 it would be legitimate to simply pull \$3.5 million out of the
2 operating costs.

3 MR. BOB PETERS: Okay. Well, let's just take
4 that in a few steps then. I started off by suggesting the
5 annual reduction as a result of reduced pension costs was in
6 the neighbourhood of \$5.1 million and you'd agree with me
7 that those reduced costs are in the range of five point one
8 (5.1) but you're telling the Board, some of those costs are
9 capitalized?

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

11 MR. BOB PETERS: And 1.5 million or 1.6
12 million is what's being capitalized?

13 MR. VINCE WARDEN: That's correct.

14 MR. BOB PETERS: And so for the portion not
15 being capitalized, you see that as an ongoing cost reduction
16 that should be available year over year on account of the
17 reduced pension costs?

18 MR. VINCE WARDEN: All other things being
19 equal, yes, I'd agree with that.

20 MR. BOB PETERS: Okay. Let's go to whether
21 all other things are equal, you're suggesting by that answer,
22 sir, that there may be -- there may be situations or
23 circumstances that have arisen or will arise that will not
24 make that equal; is that what I take from your answer?

25 MR. VINCE WARDEN: Yes. And I -- I am

1 actually quite concerned about the upward pressure on
2 Manitoba Hydro's operating costs. A good portion of our
3 infrastructure was installed during the 60s -- the 60s and in
4 the 70s and it is ageing.

5 We're finding that higher maintenance costs
6 are to the point where we're getting the message loud and
7 clear from our business units now that they just cannot
8 sustain the types of increases that we've had -- the low
9 increases that we've had in the past.

10 We're, I think, as I -- as Manitoba Hydro
11 filed in Exhibit No. 50, we've indicated that we've had a
12 very low rate of increase over the past five (5) years, an
13 average of 2.1 percent compared to inflation which has been
14 around 2 percent, so we've been able to hold cost increases
15 very close to the rate of inflation.

16 We're in the -- as these proceedings are going
17 on, we're in the midst of another budgeting -- or our annual
18 round of budgeting at Manitoba Hydro and I'm confronted with,
19 as I indicated, all kinds of pressures to increase budgets in
20 04/05 and 05/06 because of the high maintenance costs that
21 are being incurred and a lot of other pressures on -- on
22 costs.

23 So, the three point five (3.5) compared to
24 some of the requests we're getting for increased costs --
25 increased forecasts are -- is very quickly overtaken. So, I

1 -- as I indicated, I wouldn't suggest we, in any way,
2 contemplate taking \$3.5 million out of the forecast.

3 MR. BOB PETERS: But you'd also agree that
4 your forecast does not include any of those additional items
5 on which you're saying there is upward pressure?

6 MR. VINCE WARDEN: No, the forecast that is
7 filed with this -- these proceedings is, as it's filed, and
8 we're certainly staying with that forecast for purposes of
9 this Application.

10 I -- I simply wanted to indicate that the
11 attainability of that forecast, and also as evidenced in our
12 first quarter results, is going to be very, very difficult
13 for Manitoba Hydro.

14 MR. BOB PETERS: Mr. Warden, when Mr. Harper
15 was before the Board, he had a book of documents in which he
16 included one of the Interrogatories, I think it was MIPUG/MH-
17 I-3(e), if you need it I can give you a pause to get it, but
18 this was the Interrogatory where Mr. Harper talked about the
19 revenues and the expenses of subsidiaries; do you generally
20 recall that one?

21 MR. VINCE WARDEN: Yes.

22 MR. BOB PETERS: And there was indication on
23 there, and you can take it subject to check, that the
24 revenues from the subsidiaries in fiscal '05 was about 18.7
25 million and the expenses were about 17.3 million for a net

1 surplus of 1.4 million approximately for the 2005 fiscal
2 year; will you take that subject to check?

3 MR. VINCE WARDEN: Subject to check, I'll
4 accept that, yes.

5 MR. BOB PETERS: All right. And when we --
6 when we -- Mr. Harper went through that exercise there was an
7 indication that of those expenses, that's where the \$11
8 million of OM&A expenses was included was in the expense line
9 for those subsidiaries; would that be correct?

10 MR. VINCE WARDEN: Correct.

11 MR. BOB PETERS: And in addition to the OM&A
12 expenses of those subsidiaries, there would be other expenses
13 which would fall under the -- the various line items under
14 the expenditures in the IFF that the Corporation produces
15 such as depreciation, tax, finance expense and the like?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: In understanding the filing
18 on the subsidiaries and the costs; can you tell the Board
19 where in the IFF are the revenues from subsidiaries included?

20 MR. VINCE WARDEN: For -- for purposes of the
21 IFF, the revenues and expenses are netted in the other
22 revenue line of the IFF. So, if we refer to Appendix 4.1
23 that's in Volume II, or that might be handier in the book of
24 documents and I don't have that reference. But it is in the
25 filing as Volume II, Appendix 4.1 --

1 MR. BOB PETERS: Sorry to interrupt, Mr.
2 Warden, you're looking at the IFF for electrical operations?

3 MR. VINCE WARDEN: Yes, I am.

4 MR. BOB PETERS: All right. Just for the
5 Board's ease of reference, I think that's in the book of
6 documents that -- that PUB counsel circulated as Document
7 Number 2 and I think it's also repeated as Manitoba Hydro
8 Exhibit 13 which is just a variation on it with additional
9 columns, but just so we're all -- all looking at the same
10 document, it's the IFF for MH-03-1, for the electrical
11 operations only; correct?

12 MR. VINCE WARDEN: Correct.

13 MR. BOB PETERS: I'm sorry, then I interrupted
14 you, you said that the -- the subsidiaries, revenues and
15 expenses were netted out, and the -- the net amount would be
16 found included on the other column, under the revenue section
17 of the IFF?

18 MR. VINCE WARDEN: Yes. And even though,
19 according to MIPUG-MH-1.3, we are forecasting a one point one
20 (1.1) net revenue. The actual net revenue in 03/04 was only
21 three hundred thousand dollars (\$300,000). So, it's because
22 of the relative insignificance of the -- of the net income
23 from subsidiaries, that in the past we have simply netted
24 those, and it's really just an expedient thing for the
25 purposes of putting the IFF together, that the revenues and

1 expenses of subs have been netted into other income.

2 In future though, and I think I indicated in
3 one (1) of the exhibits, we will -- because the subs -- the
4 subsidiaries are becoming more significant now, in terms of
5 revenues, we will include the gross amount of -- of revenue
6 and expenses as separate line items in the -- in the IFF.

7 MR. BOB PETERS: Mr. Warden, to -- to make
8 sure we're still clear on the concept, the other line of the
9 IFF contains the result of the netting of expenses against
10 the revenues for subsidiaries, correct?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: And in addition to that, some
13 of the other expenses of the subsidiaries are included under
14 the expense items?

15 MR. VINCE WARDEN: In the IFF, yes, that's
16 correct.

17 MR. BOB PETERS: Can you quantify how much
18 that is?

19

20 (BRIEF PAUSE)

21

22 MR. VINCE WARDEN: The -- the vast majority of
23 the expenses that would be attributable to the subs would be
24 in OM&A, and this is where we have a bit of a difference
25 between the information that we've filed as being the net

1 OM&A, attributable to electric operations, and what we've
2 included in the IFF.

3 And maybe just to try and reconcile that
4 difference, I think I have to probably explain a little bit
5 about the process we follow in putting the IFF together, and
6 how we put the OM&A budget together at Manitoba Hydro.

7 It is -- first of all, budgeting at Manitoba
8 Hydro is a very extensive process, we have five (5) business
9 units in the Corporation. Approx -- well, we have twenty-
10 four (24) Divisions, and approximately two hundred and
11 twenty-five (225) departments.

12 So, each of those departments produces their
13 own -- their own budget, and the budget from each of those
14 departments is rolled up into Divisions, the Divisions is
15 rolled up into business units, and finally it's rolled up to
16 the Corporate level to get one (1) OM&A number for the
17 Corporation.

18 The -- and that's presented to the Executive
19 Committee as a rolled up number, and I guess I'll call that
20 the bottom up process, the budgeting. Executive Committee
21 takes a top down view though, and looks at what the OM&A
22 costs of the past number of years have been, looked -- looks
23 at what we -- any special maintenance projects that might be
24 out there and comes to a -- a number that we think is
25 acceptable for -- for putting into the integrated financial

1 forecast.

2 Historically and always, there would be a gap
3 between the top down approach and the bottom up approach, and
4 we carry this as a contingency at the Corporate level.

5 This has been complicated in the past number
6 of years, because of the acquisition of Centra Gas and -- and
7 the requirement to obtain synergies, and likewise, with the
8 acquisition of Winnipeg Hydro, there are synergies that --
9 that we're striving to attain there.

10 So, there's always been this gap which we
11 attributed partly to the attainment of synergies and -- and
12 partly just because of the difference in budgeting between
13 top down and bottom up.

14 And the reason I went -- go through that
15 explanation, is because that -- in that gap there's a --
16 there's a whole bunch of things that come together, and we --
17 during the year we try to close that gap by allocating that
18 contingency to the business units.

19 However, in the past couple of years, because
20 of those acquisitions that I mentioned, we've always had a
21 number there that we haven't been able to allocate. Having
22 said that, we've been quite successful in achieving the
23 bottom line, even though the -- there's this -- always this
24 difference we're carrying, there's a -- we've been quite
25 successful in achieving the overall target that was set by

1 the Executive Committee and included in the IFF.

2 Part of that gap though, it appears now, is
3 due to subsidiaries, and even though we didn't recognize that
4 until we started doing some further analysis as a result of
5 some of the IRs that were -- were presented as part of these
6 Proceedings, when -- when the -- when the IFF is put
7 together, as I mentioned, the people that prepare the IFF
8 simply net subsidiaries in the other revenue line, whereas at
9 Executive Committee, by virtue of the way we derive OM&A for
10 putting into the IFF, subsidiaries are included in there.

11 So, if you look at the top down view of where
12 subsidiaries are included, they're included in cost of
13 operations. If you look at the bottom up view, they're not
14 included. And in the past it hasn't really mattered, because
15 we've always had this gap that I referred to, and as long as
16 we work toward -- towards closing that gap then -- then
17 everybody's reasonably satisfied.

18 That has worked during this -- this period of
19 acquisition of -- of Centra Gas and -- and Winnipeg Hydro.
20 However, now that that is behind us, we're not satisfied with
21 having that gap there, and we're attempting to allocate that
22 unallocated amount between the -- between the top down/bottom
23 up to -- directly to business units. And that's where I
24 talked about some of the resistance I was getting earlier
25 from the business units, they're saying they just simply

1 cannot absorb that, with all the pressures they're getting on
2 costs, we're trying to allocate this gap back to the business
3 units, and they say we just can't do it, it can't be done.

4 So, we've got this dilemma at Manitoba Hydro
5 as to how we're going to close that gap and still maintain
6 our operating costs within a reasonable limit.

7 The point of all that explanation is that
8 subsidiaries were probably ignored in that whole process, but
9 I'm saying it really doesn't matter in the final analysis
10 anyway, they're part of that gap that has to be closed.

11 I hope that helps a little bit, but maybe if
12 there's some fallout questions, then I'll be -- I'll try to
13 answer them.

14 MR. BOB PETERS: I'm going to have to read the
15 transcript and see what my question was. But as I understand
16 it, and I understand the discussion about the gap and having
17 to allocate the -- the gap to various parts of the
18 organization; but in terms of what is stated on the IFF, I
19 did take from your answer, sir, that the \$17 million of
20 additional -- of costs of subsidiaries, was included in the
21 cost of operations line, under fiscal '05 for one (1) of the
22 test years. Would that be correct?

23 MR. VINCE WARDEN: Well, it's actually a net
24 of \$11 million. We, for purposes of -- and this is what we
25 do for the Annual Report as well. We would eliminate inter-

1 company transactions. So, the net amount would be about \$11
2 million.

3 MR. BOB PETERS: So the \$11 million is in cost
4 of operations, and that \$11 million relates to the OM&A costs
5 that we've been talking about?

6 MR. VINCE WARDEN: That's correct.

7 MR. BOB PETERS: The other six (6) point --
8 approximately \$6.4 million would be found under the other
9 line items such as finance expense, depreciation, tax?

10 MR. VINCE WARDEN: Well, some of that would
11 but not totally because of -- as I indicated there are some
12 -- upon consolidation are some eliminations that take place
13 so of inter-company transactions. We wouldn't want to record
14 revenue that we receive from ourselves just by way of
15 charging a cost between the subs and -- and the parent
16 company. So those are netted out for the purposes of the
17 annual report.

18 MR. BOB PETERS: And then I take also from
19 your answer that the gross revenue amount shown on the
20 MIPUG/MH I-3(e), the -- the gross revenue is not found on the
21 IFF but rather only the net is and that's included under the
22 other -- under other.

23 MR. VINCE WARDEN: That's correct.

24 THE CHAIRPERSON: Mr. Harper, at the risk of
25 saying something that may not be seen as too -- too quick --

1 or sorry, Mr. Warden, I'm going to talk about Mr. Harper.
2 He's on my mind. If I gather what you're saying in simple
3 terms, you're saying that Mr. Harper's assertion that you
4 could deduct something up to \$20 million off your revenue
5 requirement because of the subsidiaries and related issues is
6 not correct?

7 MR. VINCE WARDEN: Well, I think he said in
8 his wildest dreams and that really is a wild dream.
9 Absolutely not correct though. We cannot -- we cannot take
10 \$20 million out of the forecast. If anything, we're going to
11 have real challenge meeting the forecast we've got before
12 this Board.

13

14

(BRIEF PAUSE)

15

16 MR. BOB PETERS: Can I -- can I take from
17 your -- from your last answers to me, Mr. Warden, as well as
18 to the Chair that while mathematically Mr. Harper may be
19 doing the math correctly, at the end of the day it doesn't
20 assist the Corporation and there's not the difference that --
21 that he's located is not one (1) that you can reduce from
22 your revenue requirement in this application?

23

24 MR. VINCE WARDEN: Absolutely not. I think
25 Mr. Harper indicated that he was, you know, looking at the
forest rather than taking a walk into the forest and counting

1 the trees and so there weren't -- there wasn't anything
2 specific other than the -- the pension cost item that we
3 already talked about that Mr. Harper really offered as a way
4 of -- of -- of a reduction. He didn't point to any of our
5 expenses as being higher than they should be.

6 The OM&A cost per customer, I think we
7 ultimately agreed was probably -- we were very close on. So,
8 no, I -- I definitely don't agree if there's anything there
9 that we can remove from our -- from our forecast.

10 MR. BOB PETERS: But you will agree that his
11 mathematics is correct compared to what you have presented in
12 the IFF?

13 MR. VINCE WARDEN: Well, I think based on the
14 information that Mr. Harper had before him, he went through a
15 process that -- and came to a conclusion that mathematically
16 I don't -- I don't -- didn't really see any error in his math
17 so mathematically yes, I don't agree with some of the
18 assumptions but -- but nevertheless I -- I didn't see a
19 mathematically error in any of his work.

20 THE CHAIRPERSON: Mr. Peters, I just want to
21 understand this. I think part of the problem and correct me
22 if I'm wrong, it that when Mr. Harper's looking at the
23 numbers, the numbers don't have footnotes explaining inter-
24 company offsets and things of that nature.

25 MR. VINCE WARDEN: That's true, yes.

1

2 CONTINUED BY MR. BOB PETERS:

3 MR. BOB PETERS: When you talked about OM&A
4 per customer, Mr. Warden, I note this morning Mr. Williams
5 has had marked as CAC/MSOS Exhibit 13, some information that
6 was provided to this Board at the status update hearing and
7 you probably had a very brief opportunity to see that this
8 morning; am I correct?

9 MR. VINCE WARDEN: Yes. We've looked at it
10 very briefly.

11 MR. BOB PETERS: Has Manitoba Hydro
12 considered the OM&A per customer in terms of other utilities
13 including BC Hydro and Quebec?

14 MR. VINCE WARDEN: Yes. As a matter of fact,
15 we took this opportunity to update the information that was
16 presented at the -- at the Status Update and we've put it in
17 a form of a graph which we'd be pleased to file at these
18 proceedings, if -- if so requested.

19 MR. BOB PETERS: Well, certainly, maybe you
20 can file that through your Counsel but can you tell the
21 Board, as we look at CAC/MSOS Exhibit 13 and look at the
22 bottom line, OM&A per customer. And if we assume this is
23 back in approximately 2002; can you tell the Board what the
24 updated numbers might be for Manitoba Hydro, BC Hydro, and
25 Quebec Hydro?

1 MR. VINCE WARDEN: Yes. And the -- this is
2 taking it to 2003/04, the -- the year ends of utilities
3 aren't identical but, nevertheless, we -- we've brought the
4 year ends as close together as we could, made them as
5 comparable as we could given that the year ends are
6 different.

7 So, for the comparable numbers for Manitoba
8 Hydro's year ended March 31st, 2004 Manitoba Hydro's number
9 is five hundred and sixty dollars (\$560) per customer. BC
10 Hydro's is three hundred and seventy-five dollars (\$375) per
11 customer, and Hydro Quebec is six hundred and sixteen dollars
12 (\$616) per customer.

13 So Manitoba Hydro is in -- in between Hydro
14 Quebec and BC Hydro. What's, I think, though probably more
15 interesting than or more revealing than the absolute numbers,
16 because there are different -- differences in the way OM&A is
17 -- is recorded within the utilities, is the year over year
18 change.

19 So what we've done is graph the past six (6)
20 years and looked at the trend of those costs over -- over
21 that period of time. So, we see that Manitoba Hydro has a
22 relatively flat line over that period of time whereas there
23 have been increases in OM&A in those other jurisdictions.

24 MR. BOB PETERS: From that answer and maybe
25 we can have that filed at the next break, but you don't seem

1 to agree that on the BC Hydro there's been a decrease in OM&A
2 per customer; rather you think it's been increasing up to
3 three seventy-five (375) per customer by the end of fiscal
4 '04?

5 MR. VINCE WARDEN: Oh, it definitely has been
6 increasing, yes. And -- and that will be evident from the --
7 from the graph that we -- we file after the break.

8 MR. BOB PETERS: All right. Thank you. I'd
9 like to move to some questions on Winnipeg Hydro and I think
10 Exhibit 23 might be a place to start. To help the Board
11 understand this, Mr. Warden, on Exhibit 23, and you've
12 located the document, sir?

13 MR. VINCE WARDEN: I have, yes. Thank you.

14 MR. BOB PETERS: It shows that there's
15 interest on the assumed debt of \$12 million a year, if I'm
16 reading it correctly?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: And is the assumed debt the
19 \$186 million of assumed debt from Winnipeg Hydro?

20 MR. VINCE WARDEN: Yes, it is.

21 MR. BOB PETERS: When I look at Exhibit 27
22 which was filed also dealing with the Winnipeg Hydro issue,
23 there appears to be financing expenses, Mr. Warden, shown in
24 fiscal '04 and fiscal '05 of \$27 million and \$30 million a
25 year; correct?

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

2 MR. BOB PETERS: Can you explain to the Board
3 what is included in those financing expenses shown on Exhibit
4 27 --

5 MS. LYN WRAY: Maybe --

6 MR. BOB PETERS: -- and why -- and why, Ms.
7 Wray, that's different than the interest on assumed debt
8 shown on Exhibit 23?

9 MS. LYN WRAY: Yes, the difference is the
10 interest attributable to the payments made by Manitoba Hydro,
11 for the acquisition of Winnipeg Hydro.

12 MR. BOB PETERS: From your answer, Ms. Wray,
13 you're telling the Board that the financing expense shown on
14 Exhibit 27 includes only the interest on the annual payments
15 to the City of Winnipeg, and not the principal amount of the
16 payment?

17 MR. VINCE WARDEN: Maybe if I can just answer
18 that question. Because it's bottom line neutral, there --
19 there really isn't any financing costs associated with the
20 payments. So, that line includes the payment itself to -- to
21 the City.

22 MS. LYN WRAY: I think for convenience, we put
23 it under interest expense, but as I alluded to in earlier
24 testimony, the -- there's a notional principal amount that we
25 use to -- to calculate that number.

1 MR. BOB PETERS: I'm -- I'm not sure I'm
2 following, Ms. Wray. Included in the finance expense on
3 Exhibit 27 is the interest on the assumed debt, plus the
4 interest on the annual payments, plus the annual payments
5 themselves?

6 MS. LYN WRAY: Well, it's an annual charge
7 related to the payments that we make to Winnipeg Hydro, we
8 don't charge the full 25 million. We have a process whereby
9 we look at the total payments that we will be making over the
10 next -- well, actually out into infinity, with the 16
11 million, and then we charge a portion of that annually, and
12 that amount would be approximately 18 million.

13 MR. BOB PETERS: And that's the 18 million you
14 show on Manitoba Hydro Exhibit 23, Ms. Wray?

15 MS. LYN WRAY: Essentially, yes.

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Ms. Wray, maybe we can stay
20 with Exhibit 27 and you can just help clarify the Board's
21 understanding. Is the finance expense line relatively
22 constant because of the assumptions you have made out to
23 infinity, and that explains why there's no increase as
24 payments go up year over year?

25 MS. LYN WRAY: Yes, the -- you'll see though

1 that the interest expense does go up a bit and that's because
2 there's capital expenditures and so forth, occurring within
3 that time frame.

4 MR. BOB PETERS: Can you explain to the Board,
5 Ms. Wray, if the schedule at Exhibit 27 includes the impacts
6 of the Manitoba Hydro's planned construction of an office
7 tower?

8 MS. LYN WRAY: No, it doesn't.

9 MR. BOB PETERS: Does it include any payments
10 made by Manitoba Hydro to the City of Winnipeg under the
11 PowerSmart agreement that was negotiated between the parties?

12 MS. LYN WRAY: No, I don't believe so.

13 MR. BOB PETERS: Does it include, Ms. Wray, in
14 Schedule 27, the costs that Manitoba Hydro will incur to
15 develop the DSM programs for the City of Winnipeg?

16 MS. LYN WRAY: No, I think the reason it
17 doesn't though was that at the time we saw that as being, in
18 the end, a cost neutral exercise.

19 I should mention, on the revenue side as well,
20 we don't have incremental revenues arising from monies spent
21 to improve Point Dubois either.

22 MR. BOB PETERS: Just on that point, does --
23 does the schedule include reference to the upgrade for Slave
24 Falls, which I think the capital forecast showed in the
25 neighbourhood of \$450 million?

1 MS. LYN WRAY: There are capital dollars in
2 here related to Point Dubois. I believe they're, in fact, a
3 bit larger than we have in our current forecast. I don't
4 believe they go so far as to involve complete rehabilitation,
5 but there's partial rehabilitation.

6 At the time that we bought Winnipeg Hydro
7 there was concept of introducing new Strathflow turbines;
8 that -- that concept's probably been upgraded by now and what
9 I'm trying to say is that that is not included in the
10 forecast but there are dollars for Point Dubois upgrades and
11 there aren't corresponding revenue enhancements associated
12 with that.

13 MR. BOB PETERS: That expenditure that's
14 included, Mr. Wray, is under the depreciation line; is that
15 what you're referencing?

16 MS. LYN WRAY: That's where it would show up.
17 It would also affect finance expense.

18 MR. BOB PETERS: And I take from your answer,
19 while Point Dubois has some aspects reflected in Schedule 20
20 -- Exhibit 27, the upgrade to Slave Falls is not shown?

21 MS. LYN WRAY: I think the -- the majority of
22 the upgrade was to do with Point Dubois, not Slave.

23 MR. BOB PETERS: I am advised I am in error
24 so I apologize for that. Yes. Mr. Surminski, the capacity
25 upgrade on Point Dubois is not a certainty; is that correct?

1 MR. HAROLD SURMINSKI: Yes, generally I'd say
2 that. We are currently investigating which of the options we
3 will pursue whether we just maintain existing output,
4 increase slightly with rehabilitation or -- or redevelop to
5 increase to maybe up to 120 megawatts.

6 MR. BOB PETERS: What timeline have you given
7 yourself to make that decision, Mr. Surminski?

8 MR. HAROLD SURMINSKI: Well, we are currently
9 investigating. We don't have a specific timeline. It's
10 whenever our studies are up to a level of -- that we have
11 confidence in.

12 So, we are currently evaluating options and it
13 may take longer because as we narrow down to one or two (2)
14 specific options we may have to look further into the costs
15 involved and that's what's happening.

16 We are investigating -- we have the first
17 indications of what looks attractive but we have to go back
18 and -- and do further studies on these. So, it's refining
19 the information and that could take a while.

20 I could -- could be one (1) or two (2) years
21 before we are ready to make a decision.

22 MR. BOB PETERS: Thank you for that. Ms.
23 Wray, before I leave Manitoba Hydro Exhibit 27, can you
24 confirm to the Board that the schedule assumes that there are
25 rate increases each and every year and starting in 2006 those

1 rate increases are the 2.5 percent?

2 MS. LYN WRAY: This schedule was based on IFF
3 02-1 and so it would be whatever the rate increases were in
4 that forecast. They would have been less than 2.5 percent.
5 I think they were 2 percent.

6 MR. BOB PETERS: All right, thank you. We'll
7 take that answer subject to checking the amount, but the
8 amount of the increase was consistent with IFF 02-1?

9 MS. LYN WRAY: Right. There were no
10 differences in rate increases.

11 MR. BOB PETERS: Is it correct then, Ms.
12 Wray, when I look at Schedule 27, that those rate increases
13 are included to get the net income or loss item line shown as
14 the last line on the page?

15 MS. LYN WRAY: Your question was whether --
16 what was included?

17 MR. BOB PETERS: Let me re-word that and I
18 apologize. The net income or loss shown on Schedule,
19 Manitoba Hydro Exhibit 27, is predicated on the rate
20 increases consistent with that shown in IFF 02-1?

21 MS. LYN WRAY: Yes, that's correct.

22 MR. BOB PETERS: So even with rate increases,
23 you're projecting the revenue -- the net income line close to
24 zero or even some years it's a loss of -- a loss?

25 MS. LYN WRAY: Yes. It's -- it's pretty much

1 neutral over the period.

2 MR. BOB PETERS: Mr. Warden, on Manitoba
3 Hydro Exhibit 30, Manitoba Hydro was asked what equity
4 component would have to be injected to -- to balance out on a
5 75:25 debt equity ratio and as I read the answer is if you
6 were going to do that you'd have to inject \$47 million.
7 Would that be correct?

8

9

(BRIEF PAUSE)

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MR. VINCE WARDEN: Yes, I agree with that.

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MS. LYN WRAY: Could you repeat the question,
Mr. Peters, please?

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25

MR. BOB PETERS: Manitoba Hydro doesn't plan
to inject \$47 million, Ms. Wray, to -- to show the Winnipeg
Hydro acquisition on a 75:25 percent debt equity basis?

MS. LYN WRAY: No, our target is a long term
target, and we do achieve it in that forecast IFF-02-1,

1 without having to have an up front equity injection.

2 If we were to have done so, it would have
3 actually have put the Winnipeg Hydro acquisition on a
4 stronger financial footing than the rest of the Corporation.
5 And in any event, we don't look at projects such as that on a
6 stand-alone basis, we look at our debt equity ratio for the
7 Corporation as a whole.

8 MR. BOB PETERS: And would you agree with me,
9 Ms. Wray, then, that the investment in Winnipeg Hydro would
10 be another factor that -- that decreases the debt, or I guess
11 increases the debt ratio?

12 MS. LYN WRAY: It does, but it's not by a very
13 large amount, it's -- I think it's about a half a percent at
14 the beginning of the period, and by the end of ten (10) years
15 is no more than about 2 percent.

16 The reason for that is that equity isn't
17 changed at all, because the bottom line effects are -- are
18 neutral, but there is some increase in debt and in assets, as
19 we make capital expenditures on the Winnipeg Hydro plant.

20

21

(BRIEF PAUSE)

22

23 MR. BOB PETERS: Ms. Wray, on Manitoba Hydro
24 Exhibit 63, you provided a schedule, correct?

25

MS. LYN WRAY: You're referring to the

1 Goodwill Impairment Test Schedule?

2 MR. BOB PETERS: Yes, I think that's how
3 you've labelled it, yes.

4 MS. LYN WRAY: Yes.

5 MR. BOB PETERS: And that, Ms. Wray, is for
6 the total electric operations, which comprise both Manitoba
7 Hydro and Winnipeg Hydro, is that correct?

8 MR. VINCE WARDEN: That's correct.

9 MR. BOB PETERS: What was the amount of
10 goodwill attributed to the Winnipeg Hydro utility?

11 MR. VINCE WARDEN: 46 million.

12 MR. BOB PETERS: And do I take from this, that
13 the balance of 200 million is then attributable to Manitoba
14 Hydro operations?

15 MR. VINCE WARDEN: Well, there's -- goodwill
16 arose from two (2) sources, the one (1), the acquisition of
17 Centra Gas, and the other from -- from Winnipeg Hydro. So
18 the difference between the goodwill that we show on our
19 balance sheet and the \$46 million is attributable to -- to
20 Centra Gas.

21 MR. BOB PETERS: I just wonder if you could
22 double check that for me. When I look at Manitoba Hydro
23 Exhibit 63, I had understood Manitoba Hydro Exhibit 63 to be
24 goodwill impairment test on the electric operations only, and
25 not the gas side?

1 (BRIEF PAUSE)

2

3 MS. LYN WRAY: I think looking at the
4 components of the chart, Mr. Peters, you're right. The --
5 the net income is from electric operations.

6 MR. BOB PETERS: Does that then suggest that
7 if 46 million of goodwill is attributed to Winnipeg Hydro,
8 the remaining 200 million of excess value would be attributed
9 to the Manitoba Hydro Electric operations excluding Winnipeg
10 Hydro?

11

12 (BRIEF PAUSE)

13

14 MS. LYN WRAY: I -- I think essentially yes,
15 it would have to be the balance of -- of the electric
16 operations. It might include some Winnipeg Hydro component
17 that differs from the 46 million that we're recording in our
18 books, but I think essentially, yes, it would be other --
19 other operations of the electricity side of the business.

20 Bearing in mind too, that that goodwill is
21 affected by the kind of rate increases that we're projecting
22 in the forecast.

23 MR. VINCE WARDEN: Mr. Peters, just to
24 clarify though, when we do an impairment test we're looking
25 at the total amount of -- of goodwill for the Corporation of

1 \$108 million, so the impairment test that was done is to
2 ensure that the value of the assets is in excess of that \$108
3 million as at March 31, 2004 and that's what this has
4 demonstrated; that the \$246 million is higher than the \$108
5 million of goodwill that we have on our balance sheet as at
6 -- as at March 31, 2004.

7

8

(BRIEF PAUSE)

9

10 MR. BOB PETERS: Mr. Warden, you -- you
11 introduced in your last answer a goodwill number that
12 included the goodwill for Centra Gas, did you not?

13 MR. VINCE WARDEN: Yes, I did. And I -- I
14 indicated that we are looking at impairment of goodwill in
15 totality. So it's Centra Gas and -- and Winnipeg Hydro
16 included in that -- in that test.

17 MR. BOB PETERS: But you didn't use the
18 consol -- or the consolidated income of the utility including
19 the gas side of the business?

20 MR. VINCE WARDEN: I think that's true in
21 this exhibit. I'm just looking at the -- we only used
22 electric net income. Centra Gas net income is -- is
23 virtually -- it's very close to break even over that period
24 of time. I'll just -- if you can give me a moment I'll just
25 find the reference on that.

1 (BRIEF PAUSE)

2
3 MS. LYN WRAY: I believe that there might be
4 a separate impairment test for gas operations and has been
5 filed with the PUB I assume under the -- the gas GRA.

6 In any event, the number that we have here,
7 the 246 is higher than both the 46 million and the total
8 amount of goodwill on our books. So I think the bottom line
9 is -- is to take comfort that there is an excess there.

10 MR. BOB PETERS: Thank you for that, Ms.
11 Wray, and while Mr. Warden may still be looking for that if
12 he chooses, Ms. Wray, you can confirm then that the schedule
13 shows the cash flows from the electrical operations that is
14 both hydro -- Manitoba Hydro and Winnipeg Hydro?

15 MS. LYN WRAY: Yes.

16 MR. BOB PETERS: And, Ms. Wray, can the same
17 report be done using the cash flows from the Winnipeg Hydro
18 customers?

19 MS. LYN WRAY: No it can't because we have
20 those operations now integrated and the last time we had it
21 separated was back in IFF 02, at the time of acquisition.

22 MR. VINCE WARDEN: Mr. Peters, if I can just
23 clarify my previous answer. I stand corrected, I checked
24 with the people in -- in the back row and in fact this is
25 electric only. So, there is a separate impairment test that

1 is done for Centra Gas, and the two forty-six (246) excess
2 value, should be compared to the -- to the \$46 million number
3 for Winnipeg Hydro only, and there is a totally separate one
4 (1) for -- for Centra Gas.

5 MR. BOB PETERS: I appreciate that, thank you,
6 Mr. Warden.

7 MS. LYN WRAY: I'm told that it was actually
8 filed in this Hearing, and I think, subject to check, the
9 reference is PUB-149, I'm afraid with seventeen (17) volumes,
10 we can't even remember what we've filed.

11 MR. BOB PETERS: Thank you, Ms. Wray. Your --
12 your last -- second last answer to me, Ms. Wray, suggested
13 that the only way you could compile a similar table dealing
14 with the electric operations of Winnipeg Hydro, would be to
15 rely on the information back from IFF-02-1, is that correct?

16 MS. LYN WRAY: Well, time has moved on since
17 the acquisition, and we have not tracked what would have
18 occurred if Winnipeg Hydro had remained owned by the City;
19 that's the only way you could really isolate the effects of
20 Winnipeg Hydro.

21 I should clarify. What would happen if
22 Winnipeg Hydro were to be a separate entity from -- from
23 Manitoba Hydro and -- and have financial statements of its
24 own. We have not done that kind of tracking.

25 MR. BOB PETERS: You'd have to make some

1 assumptions in that regard?

2 MS. LYN WRAY: Well there would be very
3 substantial amounts of work, and probably some very broad
4 assumptions that would have to come to play. It's not an
5 exercise that we -- we wanted to invest the time in.

6 MR. BOB PETERS: Mr. Warden, when you were --
7 were talking about the goodwill, and -- and from what I'm
8 hearing from Ms. Wray, the Winnipeg Hydro customers are now
9 treated the same as Manitoba Hydro customers, correct?

10 MR. VINCE WARDEN: Correct.

11 MR. BOB PETERS: And in fact, the Winnipeg
12 Hydro employees have also been absorbed within the Manitoba
13 Hydro Corporation?

14 MR. VINCE WARDEN: They have.

15 MR. BOB PETERS: And the costs of Winnipeg
16 Hydro since 2002, have also been co-mingled with the Manitoba
17 Hydro costs?

18 MR. VINCE WARDEN: Correct.

19 MR. BOB PETERS: And does that assimilation,
20 sir, of the customers, the costs, and the employees suggest
21 that the \$46 million of goodwill that you spoke about
22 associated with the acquisition, should be charged against
23 retained earnings at this time, and no longer track it going
24 forward?

25 MR. VINCE WARDEN: No, I'm not sure how you

1 would come to that conclusion, Mr. Peters, but no, I wouldn't
2 agree with that.

3 MR. BOB PETERS: Well, don't you have to do
4 future tests of impairment on the goodwill year after year,
5 sir?

6 MR. VINCE WARDEN: We do, we would use a
7 similar exercise to what we've gone through with Exhibit
8 number 63 though, and look at electricity operations in
9 totality, and as long as there's excess value, then the
10 goodwill is not impaired.

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: Mr. Peters, and the Hydro
15 Panel, if you don't mind, we're going to take our break right
16 now and then we'll return? Thank you.

17 MR. BYRON WILLIAMS: Mr. Chairman, Williams
18 here, if I might? If Hydro -- my understanding is that
19 they're going to be filing their -- their recalculated OM&A
20 at the break, is that -- is that correct?

21 THE CHAIRPERSON: Ms. Ramage...?

22 MS. PATTI RAMAGE: It's not a recalculation,
23 it's just the updated comparison amongst utilities, there's
24 no recalculations in it.

25 MR. BYRON WILLIAMS: We'll look for it with --

1 with anticipation.

2 THE CHAIRPERSON: Thank you.

3

4 --- Upon recessing at 9:21 a.m.

5 --- Upon resuming at 9:41 a.m.

6

7 THE CHAIRPERSON: Okay, Mr. Williams and Mr.
8 Peters, if we could begin again so we can stay on schedule.

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

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: Mr. Warden, I was reflecting
13 at the break on an answer you'd given me this morning,
14 dealing with the calculation on the OM&A costs, and I'm --
15 I'm taken back to Tab number 8 of Mr. Harper's brief, when he
16 gave his evidence, and Tab number 8, Mr. Chairman and Board
17 Members, of Mr. Harper's book of references, is actually a
18 copy of MIPUG/MH-IR-I-3(e), and that's one (1) that I had
19 spoken to Mr. Warden about earlier this morning.

20 Do you recall generally that Interrogatory,

21 Mr. Warden?

22 MS. PATTI RAMAGE: Mr. Peters, could you maybe
23 help me out and just give me the date on the book of
24 references we're using, because there's --

25 MR. BOB PETERS: July 8th, 2004.

1 MR. VINCE WARDEN: I'm sorry, would you repeat
2 that question, Mr. Peters?

3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: Mr. Warden, this morning in
6 an answer you gave me, and you indicated to the Board that
7 included in the revenue items for fiscal '05 and fiscal '06
8 of the subsidiaries, would be what I think you called Inter-
9 Company transactions or charges or revenues; am I correct?

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

11 MR. BOB PETERS: And -- and likewise, under
12 the expense -- under the expense side of the ledger, there
13 are also some expenses shown for the subsidiaries, which
14 relate to expenses incurred relative to the mother
15 Corporation?

16 MR. VINCE WARDEN: Correct.

17 MR. BOB PETERS: Can you advise the Board as
18 to how much the Inter-Company charges are on both the revenue
19 side and the expense side for fiscal '05 and '06?

20 MR. VINCE WARDEN: Yes, Mr. Peters, I'd have
21 to do that as an undertaking, but we can certainly do that.

22 MR. BOB PETERS: All right, that might be the
23 best. Have you an order of magnitude at this time, or do you
24 not want to go there at this time?

25 MR. VINCE WARDEN: Well, the order of

1 magnitude is approximately -- well, the amount necessary to
2 bring us down to that \$11 million, net number, approximately.
3 But it might be well if we documented that in an undertaking.

4

5

(BRIEF PAUSE)

6

7

MR. BOB PETERS: It might be best, Mr. Warden,
8 that we do leave it, but you're going to provide that Inter-
9 Company charges dealing with both the revenues and the
10 expense side of -- of that Interrogatory?

11

MR. VINCE WARDEN: Yes.

12

13

--- UNDERTAKING NO. 72: Advise the Board as to how much
14 the Inter-Company charges are on
15 both the revenue side and the
16 expense side for fiscal '05 and
17 '06.

18

19

20 CONTINUED BY MR. BOB PETERS:

21

MR. BOB PETERS: And just to follow up on the
22 second last answer you gave me. If it was in the ballpark of
23 \$6.4 million for fiscal '05, that would assume -- that would
24 imply to me that there were no -- that there were no expenses
25 that were attributable to things like financing,

1 depreciation, or tax. So, I'm not sure I'm following your
2 answer, but maybe I have to wait and see it before I can --

3 MR. VINCE WARDEN: Yeah, and I think it would
4 be better to wait and see. The components are of subsidizing
5 revenue and finance expense and I can put them on the record
6 now or we can include them as part of the undertaking.

7 MR. BOB PETERS: Perhaps include them with
8 the undertaking because fiscal '05 and fiscal '06 are the
9 years that I'd like to look at; the test years?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: Thank you, sir. Just to
12 conclude on some of the Winnipeg Hydro issues, I was
13 provided, and it may not be by members on this Panel, but
14 Exhibit 70, and Manitoba Hydro Exhibit 70 was a list of the
15 payments to the City of Winnipeg as well as DSM project
16 expenses.

17 I don't propose to review the specifics of
18 them, Mr. Warden, with you or your Panel Members, and it's
19 open to anybody, but just to remind the Board there's an
20 obligation on Manitoba Hydro to deliver eight hundred
21 thousand dollars (\$800,000) a year of DSM savings to the City
22 of Winnipeg; as I recall?

23 MR. VINCE WARDEN: That's right. Yes.

24 MR. BOB PETERS: And the costs of getting --
25 if you don't get to that eight hundred thousand dollar

1 (\$800,000) amount, you have to cut a cheque for the
2 difference?

3 MR. VINCE WARDEN: That's right.

4 MR. BOB PETERS: And I -- those are my words
5 and I don't mean that in the slang, but you have to
6 financially keep them whole?

7 MR. VINCE WARDEN: That's correct.

8 MR. BOB PETERS: And in terms of getting the
9 DSM savings to the City of Winnipeg there are going to be
10 expenses incurred to try to get those programs up and
11 running; is that also correct?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And if you do manage to
14 provide savings to the City of Winnipeg of eight hundred
15 thousand dollars (\$800,000) in -- in return you get the
16 energy that's been freed up and you can do with it as
17 Manitoba Hydro chooses which includes selling it on the
18 export market?

19 MR. VINCE WARDEN: Correct.

20 MR. BOB PETERS: Am I correct in my
21 understanding, and I don't want to get legal on this but Ms.
22 Ramage may -- may think I'm crossing the line, is it your
23 understanding, Mr. Warden, that your obligation on this
24 PowerSmart Agreement is to deliver eight hundred thousand
25 dollars (\$800,000) of savings a year to Winnipeg -- to the

1 City of Winnipeg and that's the extent of your obligation to
2 them on that -- on the DSM side?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: And what follows from that
5 then, Mr. Warden, is -- is looking at the information on
6 Exhibit 70; why wouldn't Manitoba Hydro simply -- well, first
7 of all, that obligation of eight hundred thousand dollars
8 (\$800,000) a year is a ten (10) year commitment; correct?

9 MR. VINCE WARDEN: Correct.

10 MR. BOB PETERS: And so eight hundred
11 thousand dollars (\$800,000) a year for ten (10) years
12 approximately \$8 million. Why doesn't Manitoba Hydro simply
13 cut a cheque to the City for -- for the 8 million rather than
14 -- than incur expenses to try to deliver additional DSM
15 savings which are going to take time to ramp up?

16 MR. VINCE WARDEN: Well, for the reason you
17 indicated earlier, that we can use that energy -- or sell
18 that energy on the export market and derive a -- a profit
19 therefrom. So there is a clear benefit to Manitoba Hydro
20 from incurring these expenses and freeing up that energy.

21 MR. BOB PETERS: Without putting too fine a
22 point on it, Mr. Warden, the savings to Winnipeg Hydro are
23 measured at the rates that Manitoba Hydro currently charges
24 the City as a customer?

25 Let me reword that, the City of Winnipeg is a

1 retail customer?

2 MR. VINCE WARDEN: Yes, it is.

3 MR. BOB PETERS: And if you provide a DSM
4 program that provides them savings, is that measured based on
5 how much money they would save on their bills?

6 MR. VINCE WARDEN: That's the concept, yes.

7 MR. BOB PETERS: At retail rates?

8 MR. VINCE WARDEN: Right.

9 MR. BOB PETERS: So if -- if you're charging
10 them retail rates then that same energy, if you had it
11 available for export, you'd be able to -- to exact, you would
12 hope, an export premium on that?

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

14 MR. BOB PETERS: And so have you done a study
15 -- an analysis to see if the export premium, how much of an
16 additional expense it justifies to -- to allow Manitoba Hydro
17 to incur significant project expenses to get the DSM programs
18 up and running?

19 MR. VINCE WARDEN: Yes, we -- absolutely we
20 have, that's -- that was the full cost benefit analysis that
21 was done to support this agreement.

22 MR. BOB PETERS: Do these project expenses
23 continue on even after the test years to your knowledge, Mr.
24 Warden?

25 MR. VINCE WARDEN: There may be some very

1 minor expenditures beyond the test years, but the bulk of the
2 expenditure is up front.

3 MR. BOB PETERS: Do you know what the total
4 expenditures might be for the DSM side?

5 MR. VINCE WARDEN: I've -- I've seen the
6 numbers, I don't recall them off hand. So, no, I don't -- I
7 can't give you that exact number right now.

8 MR. BOB PETERS: Your indication is that
9 having spent approximately \$12.4 million over the --
10 projected over the text year to 2006, that will represent
11 virtually all of the expenses to be made under these programs
12 for the benefit of the City of Winnipeg?

13 MR. VINCE WARDEN: Virtually, there may -- as
14 I indicated, there may be some relatively minor additional
15 expenditures, but that's the bulk of the expenditures, yes.

16 MR. BOB PETERS: Do you know what the dollar
17 benefit will be to Manitoba Hydro, as a result of these
18 expenditures, sir?

19 MR. VINCE WARDEN: I -- I really don't know
20 that number off hand, I -- I can get that, but I don't have
21 it readily available.

22 MR. BOB PETERS: Then perhaps, as much as I'm
23 reluctant to ask for it, if you could just get us that
24 number, Mr. Warden, that'd be helpful.

25 MR. VINCE WARDEN: We'll do that.

1 MR. ROBERT MAYER: Somebody better say
2 undertaking, right?

3 MR. VINCE WARDEN: We'll do that as an
4 undertaking.

5 MR. BOB PETERS: Thank you, Mr. Mayer.

6

7 --- UNDERTAKING NO. 73: What the dollar value will be to
8 Manitoba Hydro as a result of the
9 expenditures.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: Mr. Wiens, I appreciate your
13 being here today. I just want to have a quick question of
14 you, sir, on a couple of areas or one (1) area at this time.
15 There was discussion, Mr. Wiens, about pre-export revenue to
16 cost coverage ratios, and you led some of that discussion in
17 your direct evidence with Ms. Ramage, correct?

18 MR. ROBIN WIENS: Yes, I recall that.

19 MR. BOB PETERS: Would you say, sir, that the
20 thrust of your evidence was to tell the Board that if you're
21 going to compare revenue to cost coverage ratios between
22 customer classes, it's a good idea to look at it pre-
23 allocation of export revenue, in addition to whatever you
24 look at post allocation of export revenue?

25 MR. ROBIN WIENS: I think the -- the point of

1 that part of my evidence was that if the Board at all shares
2 our uncertainty with regard to the effect of the allocation
3 of export revenues on customer revenue cost coverage, then
4 what you need to do is to take a look at the revenue cost
5 coverage, both before and after export revenue allocation, in
6 order to put a bracket around what you might think is
7 reasonable for final outcome.

8 MR. BOB PETERS: When you calculate the pre-
9 export RCCs, Mr. Wiens, you'll acknowledge that you're
10 including in that calculation the costs that are attributable
11 to export as well?

12 MR. ROBIN WIENS: Well, I think, as everybody
13 here knows, what we do to determine the export revenues,
14 historically and what we've also done of course in the Cost
15 of Service Study for 2003/2004, is we have netted out those
16 costs which we know are associated with export revenues
17 because they happen to be variable costs that would not be
18 incurred had those sales not been made.

19 We have not historically, nor in the Cost of
20 Service Study for 2003/2004, attributed any, for example,
21 ongoing operating maintenance and administration expense, or
22 depreciation on facilities, or interest on the capital cost
23 of those facilities.

24 And while we, I guess, would acknowledge that
25 some costs in those areas would have been incurred,

1 associated with exports, we -- we do after all maintain a
2 power trading operation. We have some transmission lines
3 that interconnect Manitoba Hydro with the neighbouring
4 utilities, to whom we export. Of course, power trading and
5 interconnections are also used to facilitate imports to serve
6 the Province -- to serve domestic customers as well.

7 So, to specifically identify what portion of
8 those costs are associated with exports, it's a difficult and
9 uncertain venture, but I guess we would acknowledge that
10 there are some costs.

11 However, our -- our -- I guess, our judgement
12 is that they are probably not anywhere near as high as the
13 costs that would be attributed to exports if you took the
14 recommendation from the NERA report. We've tentatively
15 adopted that recommendation only so we are able to say, hey
16 we are being very, very conservative here about estimating
17 net exports by -- by taking that type of a recommendation.

18 So somewhere between a full share of allocated
19 costs and the -- and the costs that are attributed in the
20 current model, i.e. the variable costs. Somewhere in there
21 lie what might be termed as the -- as the cost that you could
22 actually, if you could do all the detailed work, attribute to
23 export sales.

24 MR. BOB PETERS: In terms of Manitoba
25 Hydro's, Mr. Wiens, where on that spectrum does Manitoba

1 Hydro suggest the -- the allocation of expenses should lie?

2 MR. ROBIN WIENS: Well, I'm -- I'm going to
3 give you my answer. It's not something that we've had a lot
4 of discussion about so with -- with that proviso, it is
5 certainly a very tentative answer but I would suggest it
6 probably lies closer to the pure variable cost rather than
7 the full share of imbedded costs.

8 And that's looking at it from today's
9 perspective. We recognized that over time that could change
10 as we put facilities in that we do recognize as specifically
11 put in place for exports, but that hasn't happened yet.

12 MR. BOB PETERS: In any event -- in any
13 event, Mr. Wiens, under where you are on that spectrum, the
14 pre-export RCC comparison becomes more valid if the costs of
15 export, however you calculated them, are taken out?

16 MR. ROBIN WIENS: That is true. And of
17 course by the same token, the gap between the pre-export
18 allocated RCC and the post-export allocated RCC narrows
19 considerably if you do that. Of course, depending on the
20 quantum of fixed costs that -- that you accept as being
21 attributable to exports.

22 MR. BOB PETERS: And that's -- Manitoba
23 Hydro's suggesting that may be an issue for another day
24 before this Board?

25 MR. ROBIN WIENS: Well I -- I suspect it will

1 be an issue that we will continue to have some discussion
2 about.

3 MR. BOB PETERS: All right, fair enough. Let
4 me quickly jump, Mr. Warden, back to you and Ms. Wray. When
5 Messrs. Bowman and Osler testified, they provided the Board
6 with a -- a variance analysis and came up with some
7 unexplained differences I believe in MIPUG Exhibit 10 in the
8 order of magnitude of \$300 million. Do -- do you recall that
9 general discussion?

10 MS. LYN WRAY: Yes.

11 MR. BOB PETERS: And in response to that, Ms.
12 Wray, Manitoba Hydro provided Manitoba Hydro Exhibit 61, is
13 that also correct?

14 MS. LYN WRAY: That's correct.

15 MR. BOB PETERS: Do I gather from the
16 exchange that took place between Manitoba Hydro and the
17 witnesses from InterGroup, that of the unexplained \$300
18 million, it probably was closer to \$100 million once you
19 factored in the additional premiums that had to be paid on
20 import of electricity during times of drought?

21 MS. LYN WRAY: Well it was not just the
22 -- the import costs, it was also taking, I believe, into
23 account the fact that the drought started in 2002/03 and was
24 not just in 2003/04. The interrogatory that they had been
25 relying on was where we had been asked to simulate what would

1 have happened if there was not a drought in a single year.

2 So what we did in -- in the exhibit you've
3 just alluded to was, look at the impacts of the drought that
4 we actually experienced taking into account the variances
5 that were filed with IFF-02 and IFF-03. And that, as you
6 suggested, boiled the differences that the MIPUG exhibit had
7 come up with down to 100 million.

8 MR. BOB PETERS: And do you acknowledge that
9 that 100 million, if that's the number you're prepared to
10 acknowledge is unexplained by the drought, would be related
11 to things like increased capital expenses, increased
12 operating, as well as other costs, Ms. Wray?

13 MS. LYN WRAY: I suspect it goes beyond those
14 actually, but certainly those would be a component of them.
15 We had a little bit of difficulty with this approach because
16 it -- it dealt with a number of variables and then said, aha,
17 there's an unexplained black hole that we have to be very
18 suspicious about.

19 But we have filed numerous, probably hundreds,
20 of Interrogatory Responses dealing with increases in capital
21 and increases in operating and probably increases, as well,
22 in -- in a number of other smaller line items.

23 So I'm pretty sure if we sat down and went to
24 it, we could find the answers to -- to that 100 million. But
25 I'm not necessarily accepting that the 100 million is just

1 operating and capital costs.

2 MR. BOB PETERS: What else might you
3 attribute it to at this point, Ms. Wray?

4 MS. LYN WRAY: Well, I guess, anything in our
5 financial statements that's not the items on the MIPUG
6 exhibit. They -- it's a fairly short list, drought, exposure
7 management, special payments, Wuskwatim advancement, Winnipeg
8 Hydro acquisition, depreciation rates.

9 So everything else other than those factors
10 would make up the difference. I should say as well that the
11 analysis, by the witness' own admission, is very rough. Or
12 certainly -- maybe very rough is not something they would
13 agree to, but it is rough in places.

14 So rounding as well could -- could play a part
15 when you're dealing with decimal points of \$1 billion.

16 MR. BOB PETERS: It's not in my chequebook
17 but I've got your point, Ms. Wray, and thank you for it. Mr.
18 Wiens, back to you, sir.

19 In Exhibit 72 Manitoba Hydro filed an
20 undertaking, I think in response to a question I was asking
21 and I appreciate the -- the work, but I want to make sure the
22 Board understands what you have put before them in Exhibit
23 72.

24 Was that something, sir, that you're familiar
25 with?

1 MR. ROBIN WIENS: Yes, I am.

2 MR. BOB PETERS: And under -- you've provided
3 two (2) scenarios in your analysis and those were requested
4 of you and the first scenario was to capture the approximate
5 \$28 million in fiscal 2005 with -- is that correct?

6 MR. ROBIN WIENS: Well, if you're looking at
7 page 1 of 3 on Exhibit 72, no, that's not. The two (2)
8 scenarios are simply -- I'm sorry, Mr. Peters, you're
9 correct.

10 Scenario 1 depicts the situation in which we
11 would recover the full \$28 million incremental revenue
12 requirement ascribed to the first test year in that test
13 year.

14 MR. BOB PETERS: And that means that the
15 average percentage rate increase in general consumers'
16 revenue, Mr. Wiens, goes up from the 3 percent as in the
17 filing and it calculates out to 4.3 percent on average?

18 MR. ROBIN WIENS: If you assume that it's put
19 in place effective August the 1st, it would be 4.3 percent.

20 MR. BOB PETERS: And, Mr. Warden, in your
21 direct evidence to Ms. Ramage on the transcript, I think you
22 gave it in terms of class breakdown as well, if -- assuming
23 an August the 1st increase was -- was granted, as requested,
24 for the full \$28 million in the fiscal 2005 year?

25 MR. VINCE WARDEN: I did, yes.

1 MR. BOB PETERS: All right. And Mr. Wiens,
2 the September 1st column, I think, was at the request of the
3 Vice Chair saying that if -- if any rate increase was
4 approved for the \$28 million in fiscal '05, but not to come
5 into effect until September 1st, that would result in a 4.8
6 percent overall rate increase?

7 MR. ROBIN WIENS: That's what this exhibit is
8 telling us.

9 MR. BOB PETERS: And in any event, under
10 Scenario 1, the rate increase starting April 1st of '05 for
11 the next fiscal year would be the 2.5 percent as filed in
12 this application?

13 MR. ROBIN WIENS: Yes.

14 MR. BOB PETERS: Under Scenario 2, sir, can
15 you explain briefly what -- what was attempted to be shown
16 here?

17 MR. ROBIN WIENS: Well, we had our staff go
18 back and calculate what the effect would be if we were to
19 assume that rather than trying to collect -- well, let me
20 step back for just a moment so that I can give you another
21 point of reference.

22 My -- my own calculations earlier this week
23 were that the revenue -- that if we were to put in place the
24 precise amounts requested in the application, that is 3
25 percent in fiscal 04/05, but not put it into place until

1 either somewhere between August 1st and September 1st, the
2 revenue that would not be recovered in that year would be in
3 the order of \$8 to \$10 million.

4 So what is shown in Scenario 1, of course, is
5 how do we go back and recover that \$8 to \$10 million all in
6 the fiscal year 2004/2005. Scenario 2 says, let's smooth
7 that out and let's collect that \$8 million if it's August 1st
8 or \$10 million if it's September 1st and let's collect it
9 over the -- all the remaining months of the test period to
10 the end of March 31st, 2006.

11 And if you were to do that then you would have
12 an August -- and if the first increase were to go into effect
13 August the 1st, it would be 3.2 percent. If it were to be
14 September the 1st, it would be 3.6 percent.

15 And then arriving at April the 1st, 2005
16 instead of 2.5 it would be 3.4 percent.

17 MR. BOB PETERS: And the April 1st, 2005
18 increase is incremental to the previous increase whether it's
19 August 1st or September 1st of '04, Mr. Wiens?

20 MR. ROBIN WIENS: That's correct.

21 MR. BOB PETERS: And if the Board turns to
22 the attachments to Manitoba Hydro Exhibit 72, Mr. Wiens, the
23 attachments provide, not only a proof of revenue, but provide
24 the class percentage increase -- I'm sorry, down to the sub-
25 class level as well?

1 MR. ROBIN WIENS: Well, we -- we tend now to
2 refer to all of those as classes. The three (3) large groups
3 as classes individually.

4 MR. BOB PETERS: Just turning to Attachment 2
5 if I could, Mr. Wiens, if I pick on the residential class for
6 illustrative purposes, if Manitoba Hydro was successful in
7 its application before this Board for the full \$28 million of
8 revenue that it is seeking in fiscal '05, but isn't allowed
9 to add it on as a rate rider for the balance of the year but
10 capture it until the end of fiscal '06; it would be a 4.3
11 percent increase starting August 1st, and then there would be
12 an additional 4.4 percent increase on April 1st of 2005, if
13 I've understood this?

14 MR. ROBIN WIENS: That's correct. Again,
15 assuming an August 1st implementation. We showed it -- we
16 showed the impact for both August 1st and September 1st.

17 MR. BOB PETERS: Mr. Wiens, on perhaps a
18 little bit of a different rates issue, but we're talking here
19 the -- predominantly the energy charges that -- that are
20 going through; correct?

21 MR. ROBIN WIENS: You mean that we're
22 emphasizing energy charges rather than demand charges and
23 customer charges in -- in the rate design for the individual
24 classes?

25 MR. BOB PETERS: Yes.

1 MR. ROBIN WIENS: That's what you're
2 referring to?

3 MR. BOB PETERS: Yes, it is.

4 MR. ROBIN WIENS: Yes, that's correct.

5 MR. BOB PETERS: All right. And what you've
6 perhaps reminded the Board of in your answer, sir, is that
7 for the general service customers for all of those --
8 starting at the general service with demand and -- and up,
9 they pay not only a basic monthly charge and an energy charge
10 but also a demand charge?

11 MR. ROBIN WIENS: Well, if you're talking
12 general service large in either of the three (3) categories,
13 they pay a demand charge and an energy charge.

14 If you're talking general service medium or
15 small, general service medium has all three (3), customer,
16 demand and energy. General service small, if they are demand
17 billed and some of them are, some of them aren't, the ones
18 that are demand billed have a three-part rate, customer,
19 demand, and energy.

20 And finally, general service small, non-
21 demand, is -- is customer charge and blocked energy rates.

22 MR. BOB PETERS: All right. Thanks for the
23 specific breakdown by class, Mr. Wiens, but in focussing on
24 the demand charges, these demand charges are to recover the
25 costs the Corporation uses just so that the capacity is

1 provided to the customer if and when the customer needs it?

2 MR. ROBIN WIENS: That's correct. We haven't
3 always tracked the allocated demand costs in the Cost of
4 Service Study precisely with our demand charges. But the
5 intent is that within a reasonable range they will recover
6 those costs which are determined to be fixed.

7 MR. BOB PETERS: You're -- you're equating the
8 demand charges to the recovery of the fixed costs to serve --

9 MR. ROBIN WIENS: That's correct.

10 MR. BOB PETERS: And am I also correct, Mr.
11 Wiens, that there are customers that are billed demand
12 charges, whether or not any energy is consumed by that
13 customer?

14 MR. ROBIN WIENS: Yes, this will happen if --
15 if a customer, for whatever reason, decides not to operate
16 during a particular month, our billing of demand follows
17 practises that are pretty common to other utilities, in -- in
18 which that we -- we determine billing demand to be the
19 greater of a number of possibilities. One (1) of them is the
20 actual demand established during the billing month, if the
21 customer is -- is shut down for whatever reason, obviously
22 that's going to be a zero (0).

23 Another is now 70 percent of the demand
24 established during the previous months of December, January
25 and February, which is -- historically been the peak domestic

1 demand period. And finally, if -- if this factor is higher,
2 there -- the highest -- 25 percent of the highest annual
3 usage in any month of the year, or 25 percent of the
4 customer's contract demand, the demand that we have agreed we
5 will make available to them at any and all times that they
6 require it.

7 MR. BOB PETERS: Thank you for that answer,
8 Mr. Wiens, you're suggesting to the Board that in determining
9 the demand charges to a customer, you have a number of
10 different tests that determine how that calculation is made.

11 MR. ROBIN WIENS: Yes, as I stated, it is the
12 greater of, and I believe the -- for most of the larger
13 demand billed customers, it's the greater of four (4)
14 possibilities.

15 MR. BOB PETERS: Thank you. And so if we --
16 if we follow up on your second last answer, Mr. Wiens, if one
17 (1) of these general service large customers faced an
18 economic turn down, and no longer required electricity for
19 their plant operation, perhaps with the exception of security
20 lighting and -- and space heating, is there any relief for
21 those customers from their demand charges?

22 MR. ROBIN WIENS: Well, the normal practice is
23 that we would continue to build the customer demand charges
24 based on one (1) of the probably now not actual demand in the
25 month, but one (1) of the other three (3) factors, and that

1 we would continue to bill that customer.

2 We have a provision in our -- in our customer
3 policy applications, which will allow us to look at making
4 concessions to customers who find themselves in this
5 circumstance, that circumstance being a substantial and
6 sustained reduction in their overall usage of power, and
7 overall monthly demands.

8 Typically what that means is if a customer
9 says they are shutting down, or substantially reducing, we
10 have an initial test of reducing by about 50 percent of their
11 load. We will adjust the demand ratchets accordingly to the
12 degree of reduction in the customer's overall load, as we go
13 forward.

14 Now, obviously we don't want that provision to
15 be used to allow a customer to jump back and forth between
16 rate applications.

17 So, what we say is that if a customer reduces
18 their load, receives the concession, and then begins to
19 operate again within the next twelve (12) months at the old
20 levels or at something substantially higher than the
21 concession levels, we would go back and rebuild those demand
22 charges.

23 MR. BOB PETERS: That last answer, Mr. Wiens,
24 then is the Company's way of trying to make sure that
25 customers don't take advantage of the -- of the system in

1 terms of how they plan their plant operations.

2 MR. ROBIN WIENS: It's -- it's to recognize
3 that possibility. Certainly Manitoba Hydro incurs some costs
4 up front, to serve every customer, and those costs, if you --
5 if you will, are -- a lot of them are capital costs, they're
6 mainly capital costs involved in making sure we have capacity
7 on the distribution system, and making sure we have
8 transformation available, if Manitoba Hydro and not the
9 customer, own the transformation.

10 Making sure in fact that we've got capacity
11 right back to generation to serve -- to serve these
12 customers. What the customer is paying with the monthly
13 demand charge is somewhat analogous to a mortgage payment.
14 But if the payments stop, the capital costs are still there.
15 They're still in place. Those are the fixed costs.

16 So, we -- we do make provisions that maybe are
17 less onerous on the customer than if they were actually
18 taking the demand that Manitoba Hydro has contracted to make
19 available to them; i.e. the 25 percent. But they're
20 nonetheless in place to I guess to -- to remind customers and
21 to send a price signal that costs have been incurred to serve
22 them and by virtue of the fact that they cease operations
23 temporarily, those costs continue.

24 MR. BOB PETERS: Are there any other remedies
25 that Manitoba Hydro has for customers who do temporarily

1 cease their plant operations?

2 MR. ROBIN WIENS: Remedies?

3 MR. BOB PETERS: I'm referring to relief from
4 the demand charges other than the one (1) that you've spoken
5 about where the concession is granted by the Corporation.

6 MR. ROBIN WIENS: No, of course if -- if a
7 customer -- if a customer ceases operations completely and
8 winds up in bankruptcy or something like that, it then
9 becomes very difficult to collect those fixed costs. But for
10 temporary closures, those are the types of concessions that
11 Manitoba Hydro makes available.

12 MR. BOB PETERS: So if a customer has a -- a
13 plant shutdown due to economic reasons, they can't simply
14 phone up Manitoba Hydro and say, I no longer want to have any
15 services from you, so please stop sending me any bills until
16 they're actually abandoned, you still bill them on the demand
17 side.

18 MR. ROBIN WIENS: Well, if a customer shut
19 operations completely, then the concessions to which I
20 referred is applied on a zero base. And of course then the
21 customer is not going to be billed. I -- I should add that
22 there -- there is another form of relief but it requires --
23 it requires the customer to give up some flexibility in their
24 operations.

25 Historically we have had a rate available or a

1 rate application available to customers called short term
2 power. And what the customer has to do to qualify for that
3 rate is they can shut down on -- on a regular basis but they
4 have to guarantee that they'll be off the system between
5 December the 1st and the following March the 1st.

6

7 MR. BOB PETERS: Could customers also come to
8 you and -- and simply ask for service under the surplus
9 energy program? Where there are no demand charges?

10 MR. ROBIN WIENS: Yes, they could if they
11 qualify for that program they could do that. And they would
12 be subject then to the terms and conditions of the surplus
13 energy program along with any associated terms and conditions
14 regarding their ability to go back onto the firm rate.

15 MR. BOB PETERS: And, refresh my memory, Mr.
16 Wiens. To qualify for surplus energy and getting back on
17 firm rate should they decide, what are those conditions?

18

19

(BRIEF PAUSE)

20

21 MR. ROBIN WIENS: Mr. Peters, it's been some
22 time, I may have to undertake to provide you with that. I
23 believe -- I believe we're looking at something like a year's
24 notice to get back onto the firm rate.

25

MR. BOB PETERS: No, I don't need an

1 undertaking on that, Mr. Wiens.

2

3

(BRIEF PAUSE)

4

5 MR. BOB PETERS: So you're saying that the
6 surplus energy program is an option, Mr. Wiens, but again the
7 terms and conditions are ones that would have to be looked at
8 by the various businesses to see if its cost effective for
9 them to go that route?

10 MR. ROBIN WIENS: Well -- well certainly and
11 there's a number of considerations that would be involved in
12 that. For some types of operations, we would require backup.
13 So the customer has to look at what it's going to cost him to
14 put in backup. Some types of operations can't take advantage
15 of the surplus energy program in a manner which would allow
16 them to reduce their cost relative to the firm rate.

17 Particularly in the last couple of years when
18 our -- our opportunity costs have been so high. If they're
19 able to operate substantially off peak, the surplus energy
20 program will probably work for them. But if they need to
21 have around the clock operation or an operation that is
22 geared toward peak hours, then they may not be able to
23 benefit from the program.

24 MR. BOB PETERS: Thank you for that, Mr.
25 Wiens. Mr. Warden, perhaps back to you, sir. In looking at

1 some of the exhibits the Corporation filed relative to risks,
2 I note for the record there was Exhibit 37 was Manitoba
3 Hydro's corporate risk management report, Exhibit 38 was a
4 report by Deloitte and Touche, and Exhibit 41 was a Risk
5 Advisory Report, sir.

6 Do I take from reading these reports, that
7 Manitoba Hydro carries no insurance, but is fully self
8 insured?

9 MR. VINCE WARDEN: No, no, we do have certain
10 levels of insurance on -- on the properties. We, for the
11 most part, are self insured, but there are -- but we do have
12 -- carry some insurance.

13 MR. BOB PETERS: And so the insurance is on --
14 is it on the physical properties you operate, including
15 generating and transmission facilities?

16 MR. VINCE WARDEN: It is, it's basically fire
17 and other perils type of insurance.

18 MR. ROBERT MAYER: I'm also assuming that your
19 vehicles have to be registered like everybody else's in
20 Manitoba?

21 MR. VINCE WARDEN: That to.

22
23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Is there things like
25 catastrophe insurance in place?

1 MR. VINCE WARDEN: No, there is not.

2 MR. BOB PETERS: That's what you self insure
3 for?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: Have you quantified what the
6 risk is of that self-insurance that you carry, Mr. Warden?

7 MR. VINCE WARDEN: Well, we know what the
8 impacts would be of a -- a dam bursting, for example. We've
9 quantified that.

10 The largest single risk we have, as we said in
11 these Proceedings, is -- is the drought risk. So, yes, we
12 have quantified some of our -- our largest risks.

13 MR. BOB PETERS: And in terms of how you
14 manage that, sir, you're telling the Board that under a 75:25
15 debt equity ratio, those risks are manageable and -- and
16 covered by the Corporation?

17 MR. VINCE WARDEN: I'd be comfortable with
18 75:25, yes.

19 MR. BOB PETERS: Is there liability on your --
20 liability insurance for the Directors of Manitoba Hydro,
21 those kind of --

22 MR. VINCE WARDEN: Yes, there is.

23 MR. BOB PETERS: -- insurance? Have you
24 compared the insurance of Manitoba Hydro to how other
25 utilities insure themselves, sir?

1 MR. VINCE WARDEN: Yes, we have.

2 MR. BOB PETERS: Are other insure -- are other
3 utilities also self insuring under the catastrophe side?

4 MR. VINCE WARDEN: I don't think there's one
5 (1) model out there. Each utility has its own
6 characteristics, and so there -- there's -- I don't think I
7 can speak in generalities with respect to -- to how other
8 utilities manage their risk.

9 MR. BOB PETERS: In some of the evidence
10 before the Board so far, Mr. Warden, there's been an
11 indication that one (1) of the things that is lacking from
12 the Corporation, is the quantification of the various risks
13 that it faces, you're aware of that?

14 MR. VINCE WARDEN: Well, I think we've
15 indicated that that is probably the next major step in the --
16 in the risk management process that we have underway at
17 Manitoba Hydro, is a better job at quantifying the risks.
18 What wasn't filed with the Risk Management Report, was all
19 the appendices.

20 And the appendices are really the crux of the
21 risk management process, because they look at each individual
22 risk, and there are -- must be at least seventy-five (75) of
23 those that we've identified, that we will now go through each
24 one (1) individually and quantify.

25 MR. BOB PETERS: I was --

1 MS. LYN WRAY: I think we have to bear in mind
2 too, Mr. Peters, that there are some risks that are very hard
3 to quantify, but are nonetheless major risks. The risk of
4 change in competitive conditions or regulatory conditions in
5 our export markets, the risk to our reputation from a variety
6 of factors. These are alluded to in our risk map and some of
7 them are -- are certainly in the medium or high area.

8 But I wouldn't want to leave the impression
9 that it's only a matter of time before we can come up with a
10 number that everybody will agree to. I think we've already
11 tried in that risk management report, to give some orders of
12 magnitude, but simply speaking, a lot of these risks cannot
13 be comprehensively quantified. We can only give an
14 indication.

15 Others, as in the undertaking that Mr. Cormie
16 filed, would require an extensive Monte Carlo simulation
17 involving the use of consultants, and where it's useful to do
18 so, as in the -- the issue of drought and price risk we'll be
19 doing that.

20 But I -- I think it would be perhaps not that
21 a useful exercise to -- to be anticipating to be filing
22 before this Board or even our own Board something that
23 comprehensively quantify the -- every risk in that risk
24 management report.

25 We -- we think it's sufficient for purposes of

1 our financial targets to point out that just two (2) of our
2 major risks -- those being price risk and drought risk carry
3 a price tag of \$2 billion, we're a long, long way from that
4 right now in terms of our reserves and will be for some time.

5 MR. BOB PETERS: Mr. Warden, what was the
6 time frame in which you were hoping to have the
7 quantification of those items that you could quantify pulled
8 together.

9 MR. VINCE WARDEN: Well, we present an annual
10 report to the Board of Manitoba Hydro. The risk management
11 -- management report that we filed with -- as Exhibit Number
12 37, is the second annual such report. By the time we bring
13 something to the Board next year around this time, that is
14 the Board of Manitoba Hydro, next year around this time, we
15 will have quantifying -- quantified the major risks.

16 And the Board at that point would have to
17 satisfy itself that it's within the risk tolerance that
18 they're willing to accept.

19 MR. BOB PETERS: Thank you for that answer,
20 Mr. Warden. Do I take from your previous answers on this,
21 sir, that in quantifying the risks that you can, it will
22 include combined risks? And Ms. Wray indicated, you know, a
23 drought combined with high export -- or high import prices is
24 one (1) risk or two (2) risks actually, is that going to be
25 the nature of the document, will combine those?

1 MR. VINCE WARDEN: It will. It'll look at
2 the -- the likelihood of such events occurring
3 simultaneously. But that's what risk management's all about.
4 Looking at the likelihood and consequences.

5 MS. LYN WRAY: I would just like to -- to put
6 a little anecdote on the record on this though and it relates
7 to a document I recall seeing from Ontario Hydro, it must
8 have been ten (10), fifteen (15) years ago. And it was a
9 financial quantification of some of their major risks and the
10 combined whole heap of risks going beyond what we've just
11 talked about.

12 And they -- provided a -- a graph of what
13 would happen to their net income if a combination of all of
14 these risks were to occur. Or a combination of all the
15 upside of those risks were to occur. And if you can imagine
16 that the graph had net income in a "V" shape as wide as could
17 be covering up almost the entire graph.

18 And I remember thinking how completely useless
19 that piece of information was. And it was some time after
20 that that Ontario Hydro ran into severe difficulties which
21 resulted in major restructuring to be followed by subsequent
22 further restructurings. So I would just like to put on the
23 record, some of my concerns with going down this path in --
24 in too zealous a manner.

25 MR. BOB PETERS: You've done that, Ms. Wray.

1 Mr. Warden, before I leave that. On the catastrophe
2 insurance side, have -- has Manitoba Hydro tried to get it
3 and -- and can't? Is that the problem or tried to get it and
4 it's not cost affective?

5 MR. VINCE WARDEN: Well, every year when we
6 look at -- or every three (3) years I think it is, when we go
7 out for insurance proposals, we -- we do -- we do look at
8 that and there is some quantification and I don't recall the
9 numbers offhand but -- but it is something that we do
10 consider, yes.

11 MR. BOB PETERS: Do I take from that answer
12 that if -- if you determine the -- the benefits outweighed
13 the costs, you would get it? You would get catastrophic
14 insurance?

15 MR. VINCE WARDEN: Well, any -- any decision
16 that we face if the benefits outweigh the costs, we would
17 proceed, yes.

18
19
20

(BRIEF PAUSE)

21 MR. BOB PETERS: In terms of looking at that
22 type of insurance, Mr. Warden, when the Corporation's debt to
23 equity ratio is -- is like it is, is this the time when the
24 Corporation would consider it to be more advantageous to have
25 that type of insurance?

1 MR. VINCE WARDEN: Well, if we were to go out
2 and obtain insurance relative to drought, as an example, the
3 costs of that are, again, I don't remember the numbers, but
4 they're astronomical. Like, we -- we -- even if we could get
5 it, the cost would be extremely high.

6 I think Mr. Cormie might actually have some
7 more to add to that if he'd like to join in here.

8 MR. DAVID CORMIE: I think I'll wait for the
9 question.

10 MR. BOB PETERS: Well, it was -- where I was
11 simply going, Mr. Cormie, was to find out whether or not, at
12 a time when the Corporation debt equity ratio is as it is and
13 the retained earnings aren't as high as the Corporation is
14 saying it would like, why is the Corporation not getting
15 catastrophe insurance at this time?

16 MR. DAVID CORMIE: I'm not sure I can add
17 anything to that except over the long run, the present value
18 of the premiums have to exceed the risk and to go to the
19 market you will be paying -- you're going to be paying a
20 premium over the -- over the real cost of the risk.

21 And we think self-insuring through -- through
22 equity is a lower cost way of managing. In the short term,
23 you know, we're in the position now where we don't have
24 enough equity to cover the risk of drought of potentially \$2
25 billion and that just leads us to be -- wanting to be more

1 aggressive in re-establishing those reserves so that we're,
2 as soon as possible, capable of -- of covering that.

3 But as far as going to the market today
4 and -- and buying short term insurance, it would be very
5 expensive.

6 MR. BOB PETERS: All right. Thank you for
7 that, Mr. Cormie. Mr. Warden, just to conclude on this area
8 of the risk reports; in the Deloitte and Touche Report a
9 number of recommendations were made by Deloitte and Touche,
10 you'll recall that?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: Can you tell the Board what
13 you're doing about those recommendations and what your time
14 frame is in terms of addressing them.

15 MR. VINCE WARDEN: Well, some of those
16 recommendations have already been addressed. As a matter of
17 fact, at the time the report was prepared by Deloitte they
18 weren't aware we were doing some of the things we were doing
19 and that was clarified at -- clarified as part of the
20 presentation.

21 The ones that -- that -- the major ones though
22 that they've made that -- with respect to establishing risk
23 tolerances, enhanced reporting, quantification, we -- we
24 agree with those and we will be pursuing those over the next
25 year.

1 MR. BOB PETERS: Mr. Warden or Mr. Cormie,
2 the Risk Advisory Report that's been filed as Exhibit 41
3 makes reference to a preliminary report and a final report if
4 I understood it correctly; is that also your understanding?

5 MR. DAVID CORMIE: The report that we filed
6 was the final report. It's dated April 1st, 2003.

7 MR. BOB PETERS: So there's no additional
8 report expected then from Risk Advisory, sir?

9 MR. DAVID CORMIE: I think if you look down
10 at the bottom of page 3 what it says:

11 "A final report outlining the risks in
12 greater detail will be filed no later than
13 -- delivered to Hydro no later than March
14 31st, 2003."

15 And that's -- that's the report that we have
16 in our hand.

17 MR. BOB PETERS: And that, quite frankly, was
18 the source of my confusion that you're -- the report
19 indicated in that same paragraph, sir, and I'll just read the
20 first part of it is:

21 "This report is a preliminary report that
22 sets out the preliminary risks facing Mani
23 -- facing Hydro."

24 And when I see that it was a preliminary
25 report and the date of it, it didn't coincide with whether or

1 not a final report was going to be filed. So I'm still a
2 little confused; can you help me?

3 MR. DAVID CORMIE: The -- the work that we
4 are having Risk Advisory do is a -- is a staged -- is staged
5 work. The first part of it was to produce this report.

6 The second stage that we're currently in and
7 -- and I was at Risk Advisory last Monday morning speaking to
8 them and the modelling is now complete and they will be
9 delivering the model to us shortly.

10 And before we can go any further we need to
11 use the model and understand it and learn from it. And there
12 potentially will be more reports produced by Risk Advisory
13 depending upon where we -- where we go.

14 So, you know, this -- this was -- this was
15 their view of -- of -- of what was expected at the time this
16 report was written. I'm not necessarily sure that we will --
17 whether there will be one (1) more report or two (2) more
18 reports or where the work will go.

19 But as far as the first stage of this -- this
20 was to complete the -- was to complete the review.

21 MR. BOB PETERS: Thank you, Mr. Cormie. I
22 noted in the Risk Advisory Report, which we've marked as
23 Exhibit 41, on page 12 there's reference to the Public
24 Utilities Board, as well as some of the Intervenors, in terms
25 of conducting workshops and updating those parties on

1 Manitoba Hydro's efforts. Has the Corporation thought of
2 further what that might include? I thought I'd ask you while
3 we were here?

4 MR. DAVID CORMIE: You know, this is a risk
5 advisor -- the Risk Advisory's view of the process that
6 should be followed.

7 If, you know, Manitoba Hydro were to put into
8 place whether derivatives or, you know, other financial
9 instruments that were to hedge against the drought risk, you
10 know, that -- that's one (1) way of dealing with it. The
11 other way is to deal with it in the way that we have
12 traditionally, is to build equity in the Company, and in
13 effect, self-insure.

14 We're not really at a stage yet where we've
15 just -- where we've actually quantified -- finally quantified
16 the -- the risk of drought, and until we do that, we really
17 can't talk about, you know, what the next -- next steps would
18 be.

19 So, I'd just say that that -- that Risk
20 Advisory is -- is suggesting to us that if whatever we do, we
21 need to involve the other stakeholders, including the
22 regulator, and I -- I think Manitoba Hydro would concur with
23 that, that's a, you know, the proper thing to do.

24 But what the details of that interaction would
25 be is -- is yet to be defined.

1 MR. BOB PETERS: Thank you for that. Mr.
2 Cormie, you said in the second last answer to me, that there
3 might be two (2) or three (3) more reports, or those are my
4 words, a couple more reports anyway, from Risk Advisory.

5 Can you tell the Board what the time line
6 would be for that?

7 MR. DAVID CORMIE: We -- we haven't
8 established a time line with regard to the next stages. We
9 -- we have -- we have not yet received the final version of
10 the model, running the model and -- and learning from it will
11 take some time.

12 Depending on how we want to manage the risk,
13 and if it involves the use of financial instruments, gas
14 derivatives and -- and such, at that point we may involve
15 Risk Advisory again, in order to design an appropriate
16 portfolio, but -- but that's a -- that's a -- something that
17 we have to do down the road, depending on whether we choose
18 to manage the risks through -- in that manner.

19 If we choose not to and choose to continue to
20 manage it as we have historically through equity, building up
21 equity, then there may not be an involvement of Risk
22 Advisory.

23 And we want to engage Risk Advisory to the
24 extent it's necessary to define what those options might be,
25 if you were to manage it in the financial markets.

1 So, having defined what the risk is, then you
2 have some options, and -- and Manitoba Hydro may choose to
3 not use those options, and so there's no point in affecting a
4 strategy, but we would need to know what they are, and it'll
5 be part of the -- Risk Advisory will be part of the process
6 of defining what those -- those options will be.

7 MR. BOB PETERS: Thank you for that, Mr.
8 Cormie. Mr. Wiens, perhaps you can help me in this next
9 area.

10 THE CHAIRPERSON: Mr. Peters, just one (1)
11 question I have for Mr. Warden. Mr. Warden, would it be fair
12 to say that the Corporation's approach to insurance is within
13 the context of the fact that you have one (1) shareholder,
14 which is the Province?

15

16 (BRIEF PAUSE)

17

18 THE CHAIRPERSON: I'm suggesting that the
19 Corporation has an intangible asset, in the sense that its
20 shareholder is -- is a Province with its own financial
21 resources, if you like, when you're looking at the trade off
22 between insurance premiums and self-insurance?

23 MR. VINCE WARDEN: I don't think so. I know
24 we've never ever talked about the Province being the backstop
25 for -- for any event that Manitoba Hydro might incur. So,

1 without giving that more thought, I would have to say -- say,
2 no. No, we don't consider that.

3 THE CHAIRPERSON: Thank you.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Mr. Wiens, if I can touch on
7 a different area with you, sir. Manitoba Hydro has a
8 significant penetration in the market of residential
9 customers in the Province, would you agree with that?

10 MR. ROBIN WIENS: Are you referring to gas or
11 electric?

12 MR. BOB PETERS: Touche. Electric?

13 MR. ROBIN WIENS: Yes, I would agree with
14 that.

15 MR. BOB PETERS: I don't have a number but is
16 it -- is it 98 percent; is it 99 percent or do you -- you
17 have any idea?

18 MR. ROBIN WIENS: Mr. Peters, if you have a
19 number like ninety-eight (98) or ninety-nine (99) I won't
20 dispute it. I would have said it's virtually 100 percent.

21 MR. BOB PETERS: All right. Well, let's
22 stick with your number, it's rounder, Mr. Wiens. And
23 recognizing that these consumers, even though they may have
24 access to electricity they may have other sources of heat and
25 you've acknowledged that in these proceedings?

1 MR. ROBIN WIENS: Yeah, I would say, again,
2 virtually all of them have access to some other form of heat.

3 MR. BOB PETERS: Does Manitoba Hydro track
4 the cost of energy from the various other sources, Mr. Wiens?

5 MR. ROBIN WIENS: Yes, we do. But if you
6 want to go any further than that you're not talking to the
7 right person.

8 MR. BOB PETERS: All right. Let me ask it
9 this way and I appreciate you're -- you're going to use the
10 undertaking word; can you provide the Board with, say, the
11 experience in the past five (5) years related to the
12 increased cost of other energy, and you've -- you've done
13 that to some extent with natural gas, but I wonder if you
14 could do it for other energy sources that the Corporation may
15 track?

16 And I'll -- I'll maybe leave it open-ended,
17 you know, whether it's natural gas or fuel oil or propane or
18 any other ones.

19 MR. ROBIN WIENS: I believe that we would
20 track -- and I can't say for sure that we've tracked it over
21 the entire five (5) year period that -- that you're making
22 reference to, but I believe that our marketing people track
23 propane, natural gas and fuel oil, for sure.

24 So we'll -- we'll go back and we'll see what
25 we can get, how -- to what extent we can fill that

1 undertaking.

2

3 --- UNDERTAKING NO. 74: Provide the Board with the
4 experience in the past five (5) years
5 related to the increased cost of other
6 energy sources; natural gas, fuel oil,
7 propane, or any other ones.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: That's fair. Mr. Wiens and
11 while you're getting the history of the last five (5) years
12 as best you can for those sources and any others they might
13 track, do you also track what the electricity rates have been
14 doing generally in Canada other than in Manitoba?

15 MR. ROBIN WIENS: Yes, I believe last week we
16 filed our most recent survey of Canadian electricity bills
17 effective May 1st, 2004; that's part of the record of this
18 proceeding.

19 MR. BOB PETERS: All right. And so I think
20 the initial filing you had the previous edition of that as
21 well; would that be correct?

22 MR. ROBIN WIENS: Yeah, we filed in January
23 with the most recent edition we had at that time.

24 MR. BOB PETERS: Okay. thank you for that.
25 When it comes to -- when it comes to the consumers, and I

1 think Mr. Harper alluded to it very briefly, there's a
2 recognition by the Corporation that when energy prices
3 increase it becomes more difficult for some of your customers
4 to pay their accounts; do you agree with that?

5 MR. ROBIN WIENS: Well, subject to
6 considerations of the extent to which the increase and other
7 factors, yes, generally as prices go up you would expect that
8 consumers would have -- have to reach deeper in their pockets
9 and sometimes they're -- the pockets aren't that deep.

10 MR. BOB PETERS: Can you indicate any trend
11 to the Board, Mr. Warden, or Mr. Wiens in terms of whether
12 the -- the bad debt expense of the Corporation has been
13 steady, rising, or declining over the last, say, three (3),
14 four (4), five (5) years?

15 MR. VINCE WARDEN: Yes, the -- historically
16 the bad debt write off of Manitoba Hydro has been in the 0.21
17 percent of general consumers revenue -- of our total revenue.

18 So that's sort of the benchmark we -- we -- we
19 gravitate to and that's -- has been rising somewhat over the
20 last number of years. Last year, for example, in 2003/04 it
21 was .235 percent of general consumers' revenue.

22 So I don't think it's probably established a
23 trend yet and -- and with the acquisition of Winnipeg Hydro I
24 would expect that that write off percentage would -- would
25 increase simply because of the make-up of the customer base.

1 So, we -- we also compare that percentage to
2 other utilities in Canada and historically we've been one of
3 the lowest in terms of write-offs of other utilities. And --
4 and we still are although not the absolute lowest.

5 MR. BOB PETERS: Can you quantify that, Mr.
6 Warden? You said .235 percent of consumer's revenue, what
7 does that roughly work out to...?

8 MR. VINCE WARDEN: It works to a write-off of
9 \$2.7 million for 2003/04.

10 MR. BOB PETERS: And does the Corporation
11 break that \$2.7 million down as between residential, let's
12 say, on one (1) side and general service on the other?

13 MR. VINCE WARDEN: We do. We break it down
14 into numbers of accounts and -- and the dollar -- the dollar
15 volume. The -- of the 2.7 million, 2.2 million was
16 residential and about five hundred thousand dollars
17 (\$500,000) was -- was general service last year.

18 MR. BOB PETERS: And you said, you also broke
19 it down in terms of the numbers. Of that 2.2 million in
20 residential, how many -- how many customers does that
21 encompass?

22 MR. VINCE WARDEN: That number would
23 represent eight thousand eight hundred and seventy-two
24 (8,872) residential customers. The corresponding number for
25 -- for general service is six hundred and fifty-nine (659).

1 MR. ROBERT MAYER: Mr. Warden, is that -- do
2 those numbers include the residents of Cross Lake who are
3 withholding their payments based on some concern they have
4 about other matters?

5 MR. VINCE WARDEN: No, these -- these are
6 accounts that are -- have been written off. There is a large
7 receivable at Cross Lake because of the circumstances there
8 that have not been written off. We expect to resolve that
9 some day.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: And these bad debts for the
13 residential class that you're talking about, Mr. Warden,
14 relate to consumers who have not paid their electricity bills
15 for service provided?

16 MR. VINCE WARDEN: Yes, and for the most
17 part, we're unable to locate these customers. A large number
18 of them are -- are tenant properties and they have moved on
19 elsewhere and we're unable to locate them.

20 MR. BOB PETERS: Can you tell the Board of
21 these eight thousand eight hundred and seventy-two (8872)
22 residential customers, how many of them use electricity for
23 space heat and how many of them are not space heat customers?

24

25

(BRIEF PAUSE)

1

2 MR. VINCE WARDEN: We have approximately, and
3 this -- this number is fairly approximate because it includes
4 only the -- what would be on the former Manitoba Hydro. This
5 is, it doesn't -- it hasn't been updated for -- for the
6 acquisition of Winnipeg Hydro. But approximately 57 percent
7 of that total would be -- would be electric heat customers.

8 MR. BOB PETERS: Maybe I'm pushing my luck,
9 Mr. Warden, but do you also know of those 57 percent who are
10 electric heat as well as those who are not, how many of those
11 are tenants as opposed to property owners?

12

13

(BRIEF PAUSE)

14

15

16 MR. VINCE WARDEN: I'm informed that a very
17 large percentage are tenant only but I -- I don't have that
18 exact number here and again, with the acquisition of Winnipeg
19 Hydro, our -- our numbers aren't -- probably aren't as
20 reliable as they were with the former Manitoba Hydro system
21 only, as a stand alone system.

22

23

24

25 MR. BOB PETERS: Can you tell the Board what
generally -- what steps are taken to collect these accounts
before they become the bad debts?

26

27

28 MR. VINCE WARDEN: Well, there -- there's a
routine we go through when -- when an account is 30, 60, 90

1 days past due. There's a progressive collection action
2 that's taken disconnect notices are provided to customers at
3 a -- at a certain point depending on whether they're
4 residential or general service accounts.

5 We have collectors that make personal contact
6 with customers, so there's a lot of activity that goes on
7 with those accounts. Our contact centre is involved in the
8 process as well, making phone calls to -- to customers that
9 are in arrears.

10 So, there's a -- there's a long process that
11 -- that follows, or that would occur before it reaches the --
12 the writeoff stage.

13 MR. BOB PETERS: Are you able to quantify what
14 success rate the Corporation has had in collecting these
15 outstanding accounts?

16 MR. VINCE WARDEN: I'm not sure. The -- when
17 you say success rate, the number I gave you of 0.21 percent
18 write off, or zero point two three five (0.235) in 03/04, we
19 can compare that -- as a measure of success, we can compare
20 that to other utilities across Canada, and we -- and we
21 regularly do that. So, our success would ultimately be
22 measured on that basis.

23 MR. ROBERT MAYER: Mr. Warden, once you write
24 the -- the account off, do you -- you don't pay income tax,
25 so there's no advantage to you're doing it unless it's really

1 gone. Those of us in business sometimes have to make an
2 allowance for doubtful accounts, but we don't -- but we
3 continue to try to collect them.

4 Is that the same with Hydro, once it's written
5 off it's gone?

6 MR. VINCE WARDEN: Well, no, actually once
7 it's written off we maintain a file of that and if that
8 customer reapplies for service, then right away we put it
9 back on to that customer to pay that bill.

10 MR. ROBERT MAYER: But I take it you don't
11 have a collection agency out chasing those accounts, because
12 they're generally been gone?

13 MR. VINCE WARDEN: Well, at some point in the
14 process we do in fact turn the accounts over to a collection
15 agency. When we've exhausted all of our means of collecting
16 from customers, we will turn it over to a collection agency.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: And when a customer that you
20 have had problems with in the past, Mr. Warden, reapplies for
21 service, are they made -- or asked to make a deposit before
22 you hook them on?

23 MR. VINCE WARDEN: Oh, yes, they'd have to --
24 we'd have to have satisfactory arrangements before we
25 reconnect that customer.

1 MR. BOB PETERS: And does that -- does that
2 include upfront deposits?

3 MR. VINCE WARDEN: Most often it would, yes.

4 MR. BOB PETERS: Can you indicate to the Board
5 how many customers are disconnected annually for non-payment?
6 And does it differ from the number you've given me of eight
7 thousand eight hundred and seventy-two (8,872) for
8 residential customers?

9 MR. VINCE WARDEN: Well, disconnections are
10 occurring throughout the year, however, having said that, we
11 -- we don't disconnect during the winter time, unless there -
12 - we can be assured there's no children in the home or -- or
13 other circumstances that may cause problems to the health and
14 welfare of the people living there.

15 So the majority of the disconnects take place
16 over the -- over the summer months, but that's an ongoing
17 process, and I don't have an actual tally of that, but it
18 happens all -- all the time during the summer.

19

20

(BRIEF PAUSE)

21

22 MR. BOB PETERS: When you told me before, Mr.
23 Warden, that 50 percent of your -- sorry, 57 percent of the
24 customers that you had on the bad debt side, were space heat,
25 were you referring to residential customers or the general

1 service customers or both?

2 MR. VINCE WARDEN: I was, but I think I
3 qualified that number by saying that, you know, doesn't
4 really relate to what our system represents today, with the
5 Winnipeg Hydro acquisition, I would expect that -- well, I'm
6 not really sure how that number would be affected by
7 Winnipeg. It may even be lower than that, it probably would
8 be lower.

9 So, I -- I would use that 57 percent ratio
10 with a great deal of caution.

11 MR. BOB PETERS: I think I've -- I think I
12 should have taken your advice before I asked that question,
13 Mr. Warden. If I check back to my notes, I -- am I correct,
14 that of the residential customers who are in the bad debt
15 side, 57 percent, is that the number that are space heat?

16

17 (BRIEF PAUSE)

18

19 MR. VINCE WARDEN: I'm very hesitant to give
20 you a yes on that, Mr. Peters. It's -- they have, as Mr.
21 Wiens points out, they have the capability of heating
22 electrically but I wouldn't necessarily say they're all
23 electric or they're all -- all electric heat.

24 I think we probably have better stats than
25 what I'm giving you here. And if you're really -- if that is

1 an issue, we might take that as an undertaking and provide
2 that to you, if it's -- if it's important to you.

3 MR. BOB PETERS: It is. If you would, maybe,
4 take it back and see if you can refresh those numbers or
5 provide any more accurate numbers, I think that would be
6 appreciated by the Board.

7 MR. VINCE WARDEN: Yes, okay. We can do
8 that.

9
10 --- UNDERTAKING NO. 75: Of the residential customers who
11 are in the bad debt side, how
12 many are space heat?
13

14 MR. BOB PETERS: And, Mr. Chairman, I just
15 have one (1) more general area to cover in my questioning and
16 I could do it now or immediately after lunch.

17 THE CHAIRPERSON: How long would it take, Mr.
18 Peters, approximately?

19 MR. BOB PETERS: I was hoping you wouldn't
20 ask that. I just have approximately -- I have four (4) more
21 exhibits to go through so probably twenty (20) minutes.

22 THE CHAIRPERSON: Okay, that's fine.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: I want to start with Exhibit

1 22 and Mr Cormie and Mr. Surminski that may be you and that
2 was the -- the "Forecast of the Lake Winnipeg Monthly
3 Inflows"; are you familiar with that exhibit?

4

5

(BRIEF PAUSE)

6

7

MR. BOB PETERS: I have it as Manitoba Hydro
8 Exhibit 22.

9

MS. LYN WRAY: Mr. Peters, just while the
10 Panel's looking for that, I have a little bit of additional
11 information on insurance that might be helpful that we got
12 from the back row who, in turn, got it from our insurance
13 manager.

14

And we do have fairly substantial property
15 insurance that the insurance manager that we have on staff
16 points out that there -- there is really no such thing as
17 catastrophe insurance. The peril needs to be defined and
18 then you look at -- you look at it and see if it's covered.

19

And it might, in some cases, in the vernacular
20 be considered catastrophe insurance just because it's such a
21 large amount. So, for example, the property insurance that
22 Mr. Warden alluded to has a limit of \$4.2 billion and a \$5
23 million deductible per occurrence.

24

And there's obviously terms and conditions on
25 that. And then commercial general liability, which I don't

1 believe we mentioned, has five (5) -- sorry, \$5 million
2 primary insurance and \$95 million excess coverage per
3 occurrence and the deductible there is a quarter of a million
4 per occurrence.

5 And there's some other smaller categories of
6 insurance but I wouldn't want to leave the impression that we
7 didn't have insurance in addition to the self-insurance that
8 we discussed earlier.

9 MR. BOB PETERS: Okay. Thank you, Ms. Wray.
10 Mr. Cormie, did you locate Manitoba Hydro Exhibit 22?

11 MR. DAVID CORMIE: I -- I have that, yes.

12 MR. BOB PETERS: And, again, if I'm correct,
13 you've told the Board that this is the third worst drought on
14 record for Manitoba Hydro?

15 MR. DAVID CORMIE: Yes, I did.

16 MR. BOB PETERS: And you equated the
17 frequency to be approximately once every thirty (30) years;
18 correct?

19 MR. DAVID CORMIE: Yes.

20 MR. BOB PETERS: And when I look at the
21 inflows that you have on Manitoba Hydro Exhibit 22 and
22 compare those to the inflows you've given us in some of the
23 interrogatories; would it be correct to say that the inflows
24 for Manitoba Hydro, looking into Lake Winnipeg, are similar
25 to those that have occurred on a number of occasions

1 throughout the history of -- of Manitoba Hydro and its using
2 Lake Winnipeg for generation?

3 MR. DAVID CORMIE: Exhibit 22 was provided in
4 response to the question of: please give us your forecasted
5 inflows for the 04/05 fiscal year that was -- that was
6 included in the IFF 03.

7 So these are the -- these are the median
8 inflows to Lake Winnipeg that were -- that were assumed last
9 August when we prepared IFF 03. They were not -- this is not
10 what we had forecast Lake Winnipeg inflows to be in 03/04.

11 So, this -- you can't use these tables to
12 judge the severity of the drought of 03/04, that -- that's
13 not what this undertaking was about.

14 MR. BOB PETERS: Well, does this undertaking
15 suggest that the frequency of the low water flows is more
16 frequent than one (1) in thirty (30) years, or does this --
17 is this consistent with that?

18 MR. DAVID CORMIE: This -- this is a forecast
19 of median inflows, this is not an indication of what actually
20 happened in 03/04. We were asked to update Table 1 that was
21 provided in response to Interrog -- or to PUB-MH-I-29, and we
22 had -- in that table we had provided a history of Lake
23 Winnipeg inflows for the entire period of record, and that
24 record -- that table only went up to 03/04. And we were
25 asked to update that.

1 MR. BOB PETERS: That's what you did for an
2 update, is you just took median flows and -- and put that
3 forward?

4 MR. DAVID CORMIE: Well, we've given you what
5 we've assumed in IFF-03, what the inflows would be for 04/05.

6
7 MR. HAROLD SURMINSKI: If I can add something
8 here. The -- the response or the Interrogatory PUB-MH-I-29,
9 had gone through 1997/1998. In a further undertaking we had
10 provided information as -- as current as possible, that went
11 into March of just this past March, March of '04, so that is
12 -- that was different information than used in the IFF, in
13 this case.

14 MR. DAVID CORMIE: With regard to judging the
15 severity of the drought, this -- looking at the inflows to
16 Lake Winnipeg is only a part of the picture.

17 The Lake Winnipeg water supply only accounts
18 for about 70 percent of the total water supply to the system.
19 And -- and so you need to look at the water supply that
20 includes the flows on the Churchill River, as well as the
21 tributary flows to the Nelson River downstream of Lake
22 Winnipeg, in order to capture a 100 percent of the water
23 supply.

24 So, to judge the severity of the drought by
25 just looking at this profile doesn't provide a complete

1 picture. And -- and I -- I appreciate that -- that on this
2 basis, just using the Lake Winnipeg profile, you don't see
3 the -- you don't -- you don't see that it is the third worst
4 -- there -- it's not the third worst.

5 But on a system perspective, when you include
6 all the water supply, at that point you -- you get to rank
7 03/04 as the -- the third worst on record. And the -- the
8 measuring point is -- can't just be Lake Winnipeg, it has to
9 be all the watersheds that Manitoba Hydro is looking at.

10 MR. BOB PETERS: Thank you, Mr. Cormie. Mr.
11 Cormie, is Manitoba Hydro still confident that median flow
12 generation can be achieved in fiscal '05, without drawing
13 down energy from storage?

14 MR. DAVID CORMIE: Yes, we're comfortable that
15 we will achieve the -- the generation that's included in --
16 that was included in IFF-03.

17 MR. ROBERT MAYER: Mr. Cormie, when you talk
18 about Lake Winnipeg inflow, I've noticed that you -- you're
19 ponding significant water behind -- behind Grand Rapids, so
20 to some extent you control Lake Winnipeg inflow. You, I
21 would say, because you also have some ability to do that on
22 the Winnipeg River, although I suggest probably not quite as
23 much.

24 What do you call Lake Winnipeg inflow; after
25 it gets by Grand Rapids, which would seem logical to me?

1 MR. DAVID CORMIE: Yes, that's a -- that's a
2 good distinction, you need to -- you need to look at the
3 water supply, having adjusted for storage affects. So, how
4 much water do you have -- you have to work with. And some of
5 that water can be used for generation, or it can be put into
6 storage.

7 And so you know, when we -- when we're judging
8 the severity of the drought, we're looking at the water
9 supply that runs off, and then -- and not having adjusted it
10 for storage, you know, for storage. It's -- it's based on
11 the -- the availability of inflows. And then you can choose
12 either to generate or to store.

13 So, the severity is judged based upon the
14 water supply and the rainfall not the -- not what actually
15 flows down the rivers.

16 MR. BOB PETERS: Mr. Cormie, in terms of
17 Manitoba Hydro Exhibit 22, does Manitoba Hydro have a revised
18 forecast that it's currently using for fiscal '05?

19 MR. DAVID CORMIE: Yes. We -- we -- each
20 week we update the water supply forecast. And that -- that
21 -- that number is -- could be made available, yes.

22 MR. BOB PETERS: If you could undertake to
23 provide that, I think that would -- would help me out, sir?

24
25 --- UNDERTAKING NO. 76: Provide the weekly update of the

1 water supply forecast.

2

3

(BRIEF PAUSE)

4

5 MR. DAVID CORMIE: Yes. The Edmontonians are
6 doing their part.

7 MR. BOB PETERS: Well, let's follow that up,
8 Mr. Cormie, you had said before that the eastern and southern
9 watershed no longer have drought but you weren't as confident
10 on, I think, the Churchill and the Saskatchewan side of
11 things; have I paraphrased that correctly?

12 MR. DAVID CORMIE: Yes, I said that.

13 MR. BOB PETERS: And in light of that
14 recognition when you were speaking there with the Vice Chair,
15 the recent rains in Alberta and Saskatchewan, what has that
16 done to -- to your forecast?

17 MR. DAVID CORMIE: The -- the rainfalls that
18 have occurred in Central and Northern Alberta have improved
19 the outlook for the North Saskatchewan River. The watershed
20 -- or the -- the divide between the North Saskatchewan
21 watershed and the -- and the McKenzie River watershed is just
22 north of Edmonton, it's very close.

23 And so a lot of the -- there has been some
24 pick up in the -- in the North Saskatchewan but most of the
25 heavy rains that have occurred have occurred outside the

1 North Saskatchewan watershed.

2 We -- we looked at that and -- and that has
3 improved the forecast but it just gets us to what we had
4 assumed under the median flow conditions. So we needed that
5 rain to -- to keep us on track.

6 South Saskatchewan River, water conditions are
7 still -- are just average. And our -- our storage situation
8 today is just slightly above average. So we're -- we're on
9 track to achieve what we had assumed in the IFF-03.

10 MR. BOB PETERS: Thank you, Mr. Cormie. On
11 Manitoba Hydro Exhibit 28 you drew a -- you drew a chart
12 talking about energy reservoir storage for Manitoba; have you
13 got that document, sir?

14 MR. DAVID CORMIE: I have that, yes.

15 MR. BOB PETERS: And in your second -- in
16 your second last answer to me you told me that Manitoba Hydro
17 is now sitting with storage slightly above average, if I
18 understood your answer?

19 MR. DAVID CORMIE: As of today, we're one (1)
20 -- 1 terrawatt Hour above average.

21 MR. BOB PETERS: And so if I look at this
22 chart that you have here, the average appears to be, what, 17
23 terrawatt and we're sitting at eighteen (18) right now?

24 MR. DAVID CORMIE: For mid -- for mid-July I
25 would read the chart that we would be about eighteen (18),

1 we're probably at nineteen (19) today.

2 MR. BOB PETERS: I'm sorry, I missed that.

3 MR. DAVID CORMIE: The chart indicates that
4 for mid-July we would expect to be around 18 terrawatt hours
5 and I'm informed that we are at nineteen (19) today.

6 MR. BOB PETERS: When I look at the chart
7 with that -- with my sketching the update that you've just
8 given me, Mr. Cormie, we're ahead of where we were in 2002/03
9 which was the start of the onset of the drought; correct?

10 MR. DAVID CORMIE: Yes, we are.

11 MR. BOB PETERS: But if I look at this chart,
12 it also appears to me that -- how we will do in terms of a
13 drought or no drought at this point in time, can it be
14 predicted that we're going to be on that average line
15 throughout the rest of the year or are we going to dip down
16 below it as we did in 03/02 -- sorry, 02/03?

17 MR. DAVID CORMIE: We -- we're -- we're
18 better off today than we were -- we have been on average in
19 the past. We're better off than we were last year by a long
20 shot and we're better off than we were 02/03.

21 But, as indicated in the -- by the slope of
22 the line in 02/03, if it stops raining you can see how
23 quickly storages can be depleted. So, you know, I think the
24 water supply and situation is -- is favourable. But there
25 have -- there were continuing costs due to the drought as we

1 came into 04/05 and as Mr. Warden indicated earlier, our
2 position to the end of June is unfavourable.

3 And most of that unfavourable variance is due
4 to carry over drought effects and so we need to -- we need to
5 do really well from now on in order to offset the approximate
6 \$20 million in -- in variance that I was responsible for in
7 the first three (3) months of -- of the fiscal year.

8 And being a little bit above average now will
9 help offset some of -- some of those losses that -- not
10 losses but unfavourable variances in the first three (3)
11 months of the year.

12 MR. BOB PETERS: When I look at the chart,
13 Mr. Cormie, it'll also depend, will it not, as to how quickly
14 you draw down in your reservoir storage to meet your
15 financial projections?

16 MR. DAVE CORMIE: Clearly how we manage the
17 storage affects the bottom line, yes.

18 MR. BOB PETERS: And so we could have
19 potentially a repeat of the 2002/03 year, could we not, if
20 it's drawn down in a similar fashion?

21 MR. DAVE CORMIE: The -- the effect on the
22 reservoirs would be -- would be the same. The financial
23 impacts will depend on what -- what market prices are and --
24 and natural gas prices and other factors.

25 MR. BOB PETERS: I suppose that's fair, Mr.

1 Cormie, but it's also acknowledged by you that in terms of
2 how you draw down the reservoir and storage, that may be a
3 matter that wouldn't be drawn identically this time around as
4 it was in 2002/03?

5 MR. DAVE CORMIE: Correct.

6 MR. BOB PETERS: Would I also be correct, Mr.
7 Cormie, that using hindsight, the financial performance of
8 Manitoba Hydro could have been worse in 2003/04, but for your
9 forward buying of energy?

10 MR. DAVE CORMIE: Under -- under different
11 market prices, doubling in natural gas prices, yes, the cost
12 to the Corporation had we not hedged would have been
13 significantly different than those that we -- that we
14 achieved.

15 MR. BOB PETERS: Did you go through the
16 process of quantifying what that could be?

17 MR. DAVE CORMIE: Those hypothetical
18 questions are always difficult to answer because we don't --
19 we don't what would've been. But we know that under a
20 reasonable set of worse case assumptions, Manitoba Hydro
21 could have had losses -- additional losses well in excess of
22 half a billion dollars.

23 During shortage prices situations like we
24 experienced last year the market will charge whatever we --
25 whatever the -- whatever it can and our hedging activities

1 put us in a position that we were not held hostage to the
2 spot market.

3 And -- so our hedging activities, our -- our
4 purchases of power in the forward markets, kept Manitoba
5 Hydro safe from pill -- pillaging, I guess that's what you
6 might describe it as.

7 During January we were purchasing seventeen
8 hundred (1700) megawatts of power and with those kind of
9 power demands and not to have locked in the vast majority of
10 those under fixed price contracts would've been very risky
11 and imprudent.

12 So I -- I believe we -- Manitoba Hydro
13 achieved value by hedging and in retrospect the prices that
14 we paid were a bargain compared to the -- what we -- what we
15 saw in the spot markets.

16 MR. BOB PETERS: All right. Thank you, Mr.
17 Cormie. In terms of the energy buy-back, I understood that
18 was one of the things that you did with your export customers
19 so that you didn't have to actually physically deliver
20 electrons?

21 MR. DAVE CORMIE: Yes. If economic, we
22 negotiated a -- what we call a book-out of our export
23 obligation.

24 MR. BOB PETERS: And when you say, "if
25 economic", is the only savings to Manitoba Hydro under those

1 circumstances the savings on account of transmission losses?

2 MR. DAVID CORMIE: There -- there -- there
3 are additional savings because that is -- that would be the
4 most economic supply of energy to buy down your obligations.
5 So you go to the market, you look at the -- the -- the
6 availability of supply and we -- we bought down our export
7 obligations because those -- those suppliers had economical
8 supplies of electricity available and so we purchased those.

9 So we achieved the savings -- achieved savings
10 by buying lower cost power than the alternative and, in
11 addition to that, we also saved on -- on the transaction
12 costs and the scheduling costs and the transmission costs.

13 MR. BOB PETERS: Mr. Cormie, again using
14 hindsight, and I appreciate that's what we're using, if
15 Manitoba Hydro and you, in particular, knew the drought was
16 over in terms of going forward and you drew down Lake
17 Winnipeg down to your permitted license which, I think we've
18 agreed, is seven hundred and eleven (711) feet what did that
19 -- what would that translate to in terms of savings to
20 Manitoba Hydro?

21

22

(BRIEF PAUSE)

23

24 MR. DAVID CORMIE: Our target for reserves is
25 around 3 terrawatt hours or 3 million megawatt hours. Had we

1 known -- had we -- had we the certainty of -- of good water
2 conditions in the future that three (3) -- 3 million Megawatt
3 Hours could have been taken out of storage and used to
4 generate hydraulically and we would have been able to avoid
5 \$3 million in power purchases.

6 I believe our average purchase price for
7 energy was around -- was around forty dollars (\$40) a
8 megawatt Canadian at 3 million megawatt hours would be about
9 a hundred and twenty (120) -- in excess of \$100 million in
10 reduced costs to system operations. Had we had perfect
11 foresight.

12 MR. BOB PETERS: All right. Thank you for
13 that answer. Mr. Cormie, on Exhibits Manitoba Hydro 14 and
14 15 there was some provision of spot -- sorry import and
15 export prices and quantities; do you recall that?

16 MR. DAVID CORMIE: Mr. Peters, maybe I just
17 need to finish the answer to the last question; that would
18 have -- that would have reduced Manitoba Hydro's expenses in
19 04/05 by \$120 million. But that energy is now not available
20 in future years. And so there would have been foregone
21 export revenues in the following years.

22 So you may have reduced -- reduced our
23 expenses by 120 million but we now have empty reservoirs.
24 And those reservoirs need to be re-established. And so, in
25 the future, that water would not be available for future

1 generation and so you -- you -- you can -- you can't count it
2 twice.

3 And as happened in 02/03 when we drew
4 reservoirs down, that -- that additional \$70 million that was
5 made available in that year cost us an additional 70 million
6 in 04/05 -- or 03/04. So it's a -- you know, it's a cash
7 flow thing.

8 And the final question is, after it's all
9 over, after three (3) or four (4) years have gone by, you can
10 do the evaluation of what would have been the savings and it
11 would have been the savings on differential pricing. The 120
12 million that I said was -- that -- that would just be the
13 bottom line effect in 03/04.

14 But there would have been some carry over
15 effects in 04/05 and maybe those would have been \$100
16 million. So that the difference might be \$20 million
17 depending on how you manage the reservoirs.

18 Now, if you could ask your question again on
19 this one?

20 MR. BOB PETERS: All right. I was -- your
21 answer to me though also assumes that those reservoirs aren't
22 going to fill up again and be more than full? I mean, that's
23 what -- you're going to have -- you're going to use the
24 energy sometime and it's just a question of the differential
25 pricing as to when you used it and when you might have --

1 might have used it?

2 MR. DAVID CORMIE: That's correct, if -- if
3 this year -- if water conditions this year have been -- had
4 been so plentiful that we had to open the spillways and the
5 water that was stored had no value, it had to be spilled,
6 then the full -- there would have been a full \$120 million
7 effect.

8 But we're not spilling, and we don't intend --
9 we don't expect to -- to spill this year, and so it will --
10 the cost of the -- of that kind of operation will be much
11 less than a 120 million.

12 MR. BOB PETERS: Mr. Cormie, I turn to
13 Manitoba Hydro Exhibit 15, which contained the monthly
14 average import price and quantity. Can you indicate when the
15 off-peak energy prices approached the -- approached or
16 equalled the on-peak energy prices?

17

18 (BRIEF PAUSE)

19

20 MR. DAVID CORMIE: I -- I don't believe that
21 the off-peak prices ever reached the on-peak prices, because
22 we have a limited ability to import power. What happens is
23 that we buy up to the point where the tie line is fully
24 loaded, coming north, and at that point you have to stop
25 purchasing, because you can't take delivery of more than the

1 transmission line is capable of delivering. And then you go
2 to the on-peak market, and start purchasing in the on-peak
3 market, to continue to serve your energy demands.

4 And at no time did the -- do I -- did the off-
5 peak prices ever reach the on-peak prices. If my memory
6 serves me right, off-peak power prices averaged approximately
7 twenty-eight dollars (\$28) a megawatt hour last year, but non
8 peak prices averaged around forty dollars (\$40).

9 And -- and if I understand the gist of your
10 question, you're wondering, did the off-peak price ever rise
11 to the on-peak, it didn't, on average.

12 MR. BOB PETERS: And so the -- some of the
13 losses that you incurred though, was a result of having to
14 import during on-peak times?

15 MR. DAVID CORMIE: That's correct, and -- and
16 most of our export obligations are on-peak. So, last winter
17 we had to buy down 700 megawatts of on-peak obligations,
18 because we had already maximized our ability to purchase off-
19 peak. And we were still -- and as I indicated a few minutes
20 ago, we had to purchase 1700 megawatts during the on-peak in
21 January, including the buy down of our export obligations.

22 MR. BOB PETERS: Were your export obligations
23 mostly to members of MISO, Mr. Cormie?

24
25

(BRIEF PAUSE)

1 MR. DAVID CORMIE: I'm not -- I'm not sure
2 that all our export customers are members of MISO, they are
3 all -- last winter they were all US -- they were all US
4 customers, so they were all in the MAPP -- in the MAPP
5 Region, or the MISO footprint. But whether they're members
6 of MISO, I can't say for certain.

7 MR. BOB PETERS: All right. Mr. Warden, I'm
8 not sure if this is correct, but would you -- is it your
9 understanding that there appears to be a movement afoot, for
10 MISO to gain authority over the generating capacity of at
11 least the American utilities that are members of MISO?

12 MR. VINCE WARDEN: Over the transmission
13 capacity, are you referring to?

14 MR. BOB PETERS: No, the generating capacity?

15 MR. DAVID CORMIE: All US jurisdiction or FERC
16 jurisdictional utilities, all the utilities that are subject
17 to FERC's jurisdiction in the United States, are -- have --
18 are being asked to turn operational control -- who are also
19 members of MISO, to return operational control and dispatch
20 of their generators over to the MISO, and the plan is that on
21 -- in March of 2005, MISO will dispatch those generators, to
22 provide least cost generation dispatch to -- to the members.

23 And -- and they're not being asked to transfer
24 ownership, just operational control.

25 MR. BOB PETERS: Has that request been made by

1 MISO of Manitoba Hydro?

2 MR. VINCE WARDEN: Manitoba Hydro is in FERC
3 jurisdictional, and we are -- we are -- our relationship with
4 MISO is through a coordinating agreement, rather than as
5 being a MISO member, and so our coordinating agreement
6 doesn't require us, and we would not turn operational control
7 of our generators over to an entity in a foreign country.

8 MR. BOB PETERS: You'd withdraw from your
9 coordinated agreement or your membership or relationship with
10 MISO before you would do that?

11 MR. DAVID CORMIE: That's a hypothetical
12 question, Mr. Peters. I'm not sure we -- we know what we
13 would do if -- if participation in the US market required
14 that. So far we've been successful in -- in using our -- our
15 -- the sovereignty argument to our advantage.

16 We are allowed to participate in the market as
17 an external generator without having to turn over control to
18 -- or become a jurisdictional entity in the United States.

19 MR. BOB PETERS: Mr. Cormie, prior to 2001
20 and 2002, it appears that Manitoba Hydro's domestic load and
21 total energy sales was in the neighbourhood of 100 percent of
22 your hydraulic generation; do you agree with that?

23
24
25

(BRIEF PAUSE)

1 MR. DAVID CORMIE: If -- if -- if my memory
2 serves me right, our -- our domestic load in 2001 would be in
3 the order of twenty (20) -- 21 terrawatt hours. Since we put
4 in the Limestone generating station, that was the last major
5 hydraulic plant put into service, our dependable hydro
6 capability -- our dependable hydro capability is around
7 twenty-one (21) or twenty-two (22) terrawatt hours.

8 So I think that's -- that's probably a safe
9 assumption, subject to check.

10 MR. BOB PETERS: Would you also agree with me
11 that since 2002 your combination of domestic load and total
12 export sales has been about a hundred and ten (110) to 115
13 percent of hydraulic capacity or hydraulic generation?

14 MR. DAVID CORMIE: That sounds -- that sounds
15 approximately correct; yes?

16 MR. BOB PETERS: Has there been a policy
17 change or a reason that would explain that to the Board, Mr.
18 Cormie?

19 MR. DAVID CORMIE: Our dependable capability
20 includes the total system capability not just the -- the
21 dependable hydro capability.

22 For example, our -- our gas turbines at -- at
23 Brandon have a dependable capability of approximately 2
24 terrawatt hours. The Selkirk generating station has a
25 capability of approximately one (1).

1 And we rely on approximately 4 terrawatt hours
2 of import capability. And if you add that to the dependable
3 hydro capability that -- that's what makes up our total
4 dependable supply.

5 And -- and there's been no change, that we've
6 always sold dependable power -- or firm power out of our
7 dependable resources and that hasn't -- that -- that policy
8 hasn't changed over time.

9 THE CHAIRPERSON: Mr. Peters, I'm afraid
10 we'll have to adjourn now. I'm much enjoying the discussion.
11 We'll return at two o'clock and we will finish this phase of
12 the process by the close tonight, I believe.

13

14 --- Upon recessing at 12:28 p.m.

15 --- Upon resuming at 2:03 p.m.

16

17 THE CHAIRPERSON: Okay. Welcome back
18 everyone. Mr. Peters...?

19 MR. BOB PETERS: Thank you, Mr. Chairman.
20 Before I get too comfortable on the mike, which I know will
21 only be for a short time, there are a couple of documents
22 here that perhaps Ms. Ramage will speak to because I think
23 they're Manitoba Hydro's responses to undertakings.

24 THE CHAIRPERSON: Ms. Ramage...?

25 MS. PATTI RAMAGE: Yes. The first one (1) I

1 have on my list is -- harkens all the way back to Manitoba
2 Hydro Undertaking No. 6 and that was filed "The updated list
3 of Manitoba Hydro's interim ex parte orders."

4 This -- I -- I believe we've pretty much
5 signed off in terms of that there won't be any more orders
6 prior to the presumed closing date of the hearing and we
7 would suggest this be assigned Exhibit No. 73.

8 THE CHAIRPERSON: Thank you.

9

10 --- EXHIBIT NO. MH-73: Response to Manitoba Hydro
11 Undertaking No. 6

12

13 MS. PATTI RAMAGE: The second document is the
14 operating maintenance and administrative cost per customer
15 comparison that Mr. Warden had offered this morning; that's a
16 two (2) page document that we suggest be Exhibit 74.

17 THE CHAIRPERSON: Seventy-four (74).

18

19 --- EXHIBIT NO. MH-74: Operating maintenance and
20 administrative cost per customer
21 comparison.

22

23 MR. BOB PETERS: If the microphone's back to
24 me then, Mr. Warden, I'll û

25 MR. BOB PETERS: Mr. Peters, I have some

1 other things here too, are they exhibits?

2 MR. BOB PETERS: Oh, I'm sorry, sir.

3 THE CHAIRPERSON: Oh, okay. Please, Mr.
4 Peters, that's fine.

5 MR. BOB PETERS: Yes. Those might be
6 addressed later this afternoon.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Ms. Wray, you were kind
10 enough to update the Board on the insurance aspects this
11 morning, including some real time updates. Can you indicate
12 to the Board whether Manitoba Hydro carries business
13 interruption insurance?

14 MS. LYN WRAY: I don't believe we do, I'll
15 just double check.

16 MR. BOB PETERS: And while you're checking
17 that, Mr. Warden, I remember a few years ago, and of course
18 it's probably more than a few years ago, there was a major
19 transmission outage, because of an ice storm. Do you recall
20 when that was?

21 MR. VINCE WARDEN: Yes, that was September of
22 1996.

23 Oh, yes, I was just reminded it wasn't ice.
24 If we're talking the same story.

25 MR. BOB PETERS: I think you're correct that

1 it was the -- the Bi-Poles suffered outages because of a
2 windstorm, rain storm, ice storm, tornado?

3 MR. VINCE WARDEN: That was -- I think it was
4 referred to as a wind burst.

5 MR. BOB PETERS: All right, recognizing that,
6 can you use that as an example to tell the Board whether or
7 not Manitoba Hydro had any insurance in place to recover from
8 that episode, or was that a self insured matter?

9 MR. VINCE WARDEN: That would have been self
10 insured.

11 MR. BOB PETERS: Ms. Wray, you're still
12 checking and --

13 MS. LYN WRAY: I don't see any reference to
14 business interruption, I think that would be quite a
15 difficult thing for an insurer to provide at reasonable cost.

16 MR. BOB PETERS: Okay, thank you. Mr. Cormie,
17 I just want to tidy up with you on Exhibit MH-22, you told me
18 that you filed the -- the median flows for Lake Winnipeg as
19 the forecast assumption used in IFF-03-01, do you recall
20 that?

21 MR. DAVID CORMIE: Yes.

22 MR. BOB PETERS: And you also told me that
23 Lake Winnipeg is certainly not your only reservoir storage,
24 but it's in the neighbourhood of 70 percent, approximately,
25 correct?

1 MR. DAVID CORMIE: That's correct.

2 MR. BOB PETERS: And when you compiled
3 Manitoba Hydro Exhibit 22, that was assuming median flows,
4 correct?

5 MR. DAVID CORMIE: We provided the flows into
6 Lake Winnipeg that were included in the IFF-03.

7 MR. BOB PETERS: And that was approximately
8 median flows?

9 MR. DAVID CORMIE: Yes.

10 MR. BOB PETERS: Can you tell the Board, was
11 the assumed corresponding flow on the Churchill River
12 diversion?

13 MR. DAVID CORMIE: We would have to get that
14 material -- it would have been median flows.

15 MR. BOB PETERS: And assuming that you just
16 don't know the -- the thousand (1,000) cubic feet per second
17 number?

18 MR. DAVID CORMIE: I -- I believe that when
19 you add all the flows together, including the Churchill River
20 diversion and the Lake Winnipeg flows and the local inflow,
21 the median flow that's in the forecast, at the downstream
22 Nelson River Generating Station is at a hundred and eight
23 thousand (108,000) cubic feet per second. That's the number
24 that we're using in -- as a median flow estimate in IFF-03.

25 MR. BOB PETERS: So, if I back out Lake

1 Winnipeg I'm then left with the -- the balance of your
2 resources?

3 MR. DAVID CORMIE: Correct.

4 MR. BOB PETERS: And, Mr. Cormie, maybe you've
5 done the math for me on this last area, but given the 2003/04
6 energy prices and the exports that the Corporation undertook,
7 how much additional hydraulic generation would have been
8 required for you to break even that year at zero net income.

9 I believe that the break even point on our net
10 export revenue is -- is at around the 10 percentile flows.
11 So, with flows lower than 10 percentile, Manitoba Hydro's net
12 export revenue is negative, including the long term firm
13 contracts, and with flows greater than 10 percentile, we show
14 positive net export revenues.

15 MR. BOB PETERS: Can you quantify that for me
16 in gigawatt hours?

17

18 (BRIEF PAUSE)

19

20 MR. DAVID CORMIE: We would have to take on
21 that as an undertaking.

22 MR. BOB PETERS: I hate to do that, but --

23 MR. DAVID CORMIE: If -- if you want, I can
24 estimate it, it's probably around twenty-three (23) or 24
25 terrawatt hours.

1 MR. BOB PETERS: That's fine for my purposes
2 unless I get back through your lawyer otherwise, Mr. Cormie.
3 Mr. Chairman, I again want to thank the Panel Members for
4 their answers. I hope it's been helpful for the Board's
5 purposes. I do appreciate their efforts. That concludes my
6 questions. Thank you very much.

7 THE CHAIRPERSON: Thank you very much, Mr.
8 Peters. Is Mr. Feldschmid -- does he have any further
9 questions?

10 MR. BOB PETERS: He was speaking with me
11 earlier today, sir, and his indication at that time was that
12 he did not have further questions and his not being here now,
13 confirms that.

14 THE CHAIRPERSON: All right. Then we're on
15 CAC/MSOS, Mr. Williams.

16 MR. BYRON WILLIAMS: Thank you, Mr. Chairman,
17 and good morning to you -- or good afternoon to you and the
18 Panel. It seems like the morning; that's when I was
19 expecting to be -- to be up. Just a -- just by way for the
20 Panel, I'm mindful of Mr. Peters fine work this morning. As
21 particularly with Exhibit 48 of Manitoba Hydro.

22 I just did want to indicate to the Panel that
23 I will be going through similar ground, not the same ground
24 and try not to duplicate what he's doing but for two (2)
25 different purposes. So I'm mindful always of avoiding

1 duplication but there may be -- it may appear that I'm
2 duplicating but we're aiming towards a different end.

3 THE CHAIRPERSON: We have confidence in you,
4 Mr. Williams.

5

6 CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

7 MR. BYRON WILLIAMS: Mr. Warden, I'm -- I'm
8 just going to -- for the Panel's benefit, Mr. Barron, I -- I
9 did provide kind of a document follow-up to undertakings
10 again. And perhaps you could just distribute it. Mr. -- Mr.
11 Warden, I -- with you I'm -- I'm going to start with number
12 1. But just to let you know where I'm going as well.

13 I'm kind of following up on comments you made
14 -- you made in Tab 15, Exhibit 64 when you indicated that in
15 preparing the response to this undertaking it became apparent
16 that Manitoba Hydro's practice of netting subsidiary revenues
17 and expenses in forecast at OM&A due to the relative
18 insignificance of this amount should be presented in a
19 consistent manner.

20 And so just to let you know, Mr. Warden, I'm
21 going to try and get my head around the issue of consistency
22 in the next little while, okay?

23 MR. VINCE WARDEN: Sure.

24 MR. BYRON WILLIAMS: And I wonder if you
25 could turn to Tab 1 of the CAC/MSOS Book of References which

1 is Exhibit 49 of Manitoba Hydro. Do you have that, sir?

2 MR. VINCE WARDEN: I do.

3 MR. BYRON WILLIAMS: And I want to take you
4 to the -- and as I understand it this was the -- the -- what
5 Manitoba Hydro did in this -- this one (1) was present the
6 analysis under which it hit it's revised target of cost per
7 customer of under -- for the year 2004/2005 of five hundred
8 and eighty-four (584) and for the year 2005/06 of five
9 hundred and eight-six (586). Is that right, sir? I didn't
10 hear you.

11 MR. VINCE WARDEN: Correct.

12 MR. BYRON WILLIAMS: And just so I start --
13 so I can understand your calculation, if we go to the second
14 from the right column being "Updated Forecast 2004/05". The
15 third line down we see the three -- the figure of \$306.9
16 million, do you see that, sir?

17 MR. VINCE WARDEN: I do.

18 MR. BYRON WILLIAMS: And that would be the
19 OM&A for Manitoba Hydro after making deductions for Centra
20 Gas but prior to making deductions for subsidiaries, is that
21 right?

22 MR. VINCE WARDEN: That's right.

23 MR. BYRON WILLIAMS: And then you make an
24 additional \$11 million deduction for subsidiaries to yield
25 the figure of \$295.9 million, correct?

1 MR. VINCE WARDEN: Correct.

2 MR. BYRON WILLIAMS: And you performed the
3 same calculation for the updated forecast for 05/06 starting
4 with the three oh nine point three (309.3) and then
5 subtracting eleven (11) to yield two hundred and ninety-eight
6 point three (298.3), correct?

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

8 MR. BYRON WILLIAMS: And those figures are
9 the figures by which you derived the Corporation's cost per
10 customer of the revised targets, correct?

11 MR. VINCE WARDEN: Correct.

12

13 (BRIEF PAUSE)

14

15 MR. BYRON WILLIAMS: If you can perhaps keep
16 your finger on Tab 1 and, as well, flip to Tab 2, you'll see
17 that what we have there is page 32 from the Electric
18 Operations Projected Operating Statement relating to IFF 03-
19 1; is that right, sir?

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

21 MR. BYRON WILLIAMS: And if I look under the
22 -- the column for the year 2005 and then across to the line,
23 cost of operations, I will see the figure of \$307 million;
24 correct?

25 MR. VINCE WARDEN: Yes.

1 MR. BYRON WILLIAMS: And if I flip back to
2 the Exhibit 49, that would be the figure prior to the
3 deductions for subsidiaries; is that right? One is three oh-
4 six point nine (306.9) and one is three-oh-seven (307) so
5 those are the same?

6 MR. VINCE WARDEN: Yes. Those numbers are
7 equivalent; that's right.

8 MR. BYRON WILLIAMS: And so on the expense
9 side of the equation for the operating statement there are
10 costs associated with subsidiary OM&A of about 11 million;
11 correct?

12 MR. VINCE WARDEN: Correct.

13 MR. BYRON WILLIAMS: And the same calculation
14 has been done if we move over -- again, referring to the Tab
15 2, the Electric Operations Projected Operating Statement
16 under the column for 2006, again, your cost of operations are
17 starting with the subsidiaries included; correct?

18 MR. VINCE WARDEN: Yes.

19 MR. BYRON WILLIAMS: Now, I want to turn --
20 we've looked what you've done in terms of your forecasts now,
21 Mr. Warden, I want to turn in terms of what Manitoba Hydro
22 has done with its actuals and I'd ask you to turn to Tab 4 of
23 the book of references which is Schedule 3.1 from Manitoba
24 Hydro's -- Volume I of Manitoba Hydro's application; do you
25 have that?

1 MR. VINCE WARDEN: Yes, I do.

2 MR. BYRON WILLIAMS: And when I go to the
3 column under "2001/02 actual" I see the figure of 242.2
4 million; correct?

5 MR. VINCE WARDEN: Correct.

6 MR. BYRON WILLIAMS: And this figure excludes
7 the cost of subsidiaries; correct? It does --you confirmed
8 it at page 804 through 808 of the transcript?

9 MR. VINCE WARDEN: Yes.

10 MR. BYRON WILLIAMS: And if I go over to
11 2002/03 actual, I'll see the figure of 263 million; correct?

12 MR. VINCE WARDEN: That's correct.

13 MR. BYRON WILLIAMS: And, again, that
14 excludes the OM&A costs of subsidiaries?

15 MR. VINCE WARDEN: Correct.

16 MR. BYRON WILLIAMS: If you can flip to Tab
17 5, being Schedule 4.1 of the Manitoba Hydro application, and
18 these are similar looking documents, Mr. Warden, but as I
19 understand it the Schedule 3.1 at Tab 4 reports actual OM&A
20 for 01/02 and 02/03 whereas Schedule 4.1 reports the forecast
21 OM&A for 03/04 through to 05/06; is that right?

22 MR. VINCE WARDEN: That's right.

23 MR. BYRON WILLIAMS: And if I just look at
24 these tables -- schedules, at a rough glance, you'll agree
25 with me that both have the same title and they use exactly

1 the format -- exactly the same format?

2 MR. VINCE WARDEN: Yes.

3 MR. BYRON WILLIAMS: And there's nothing in
4 these documents to suggest that the values in the two (2)
5 tables are not meant to be comparable, i.e., based on a
6 common definition and derivation? There's no footnotes
7 saying that the one includes subsidiaries but one doesn't?

8 MR. VINCE WARDEN: That's correct. At the
9 time they were submitted that was the understanding of
10 everybody but -- but you're correct.

11 MR. BYRON WILLIAMS: And I'm also correct in
12 saying that the -- the totals that appear in terms of the
13 01/02 actual or the 02/03 actuals are not strictly comparable
14 to the forecasts for the 03/04 forecast through -- through
15 the 05/06 forecasts, because one includes subsidiary OM&A and
16 one does not; correct?

17 MR. VINCE WARDEN: Yes. I agree with that.

18 MR. BYRON WILLIAMS: Now, Mr. Peters talked
19 with you about MIPUG-IR-I-3 which appears at Tab 6 of the
20 book of references and I don't want to trench on his -- his
21 turf, but if I go down to about halfway down page 1 of 1 of
22 this response Hydro indicates that:

23 "The net income from each subsidiary is
24 included in the other revenue line in
25 Hydro-03-01 in the Income statement."

1 is that right, sir?

2 MR. VINCE WARDEN: Yes, that's what that says.

3 MR. BYRON WILLIAMS: So when I want to
4 understand what's actually in your forecast for the '05 year,
5 I would pay attention to the net other revenue from
6 subsidiaries, which is forecast to be 1.393 million, and for
7 the 05/06 year, I would look for the -- for the amount, which
8 is slightly less than eight hundred thousand dollars
9 (\$800,000), that's at the bottom of the page, is that right,
10 sir?

11 MR. VINCE WARDEN: Yes, correct.

12 MR. BYRON WILLIAMS: So, if I flip back to Tab
13 2, which is that operating statement, I'll see that in the --
14 under the revenues under the other line, for '05, there's
15 about \$7 million, and of that 7 million, I can conclude that
16 in this forecast there is about 1.4 million of subsidiary net
17 income, is that right, sir?

18 MR. VINCE WARDEN: Yes.

19 MR. BYRON WILLIAMS: And if I go over one (1)
20 line, for the line relating to other for the '06 year, 05/06
21 year, of that figure of 7 million, there is about -- slightly
22 less than eight hundred thousand (800,000) of that would be
23 net income attributed to subsidiaries, correct?

24 MR. VINCE WARDEN: Correct.

25 MR. BYRON WILLIAMS: Now, Mr. Warden, I'd like

1 you to turn to Tab 7 of the CAC/MSOS book of references, and
2 that's the Corporation's response to CAC/MSOS-IR-I-15, do you
3 have that, sir?

4 MR. VINCE WARDEN: I do.

5 MR. BYRON WILLIAMS: And again we're trying,
6 in this Interrogatory, as you'll confirm for me, to get an
7 explanation for the variances between 01/02 forecast versus
8 the actual results for a number of items, including revenue,
9 financial expense, depreciation, et cetera. Is that right,
10 sir? That's what the question's asking?

11 MR. VINCE WARDEN: That's right.

12 MR. BYRON WILLIAMS: And I want to draw your
13 attention, if I might, to the second page of this -- of this
14 response, and I see under the line, Other Revenue, that the
15 forecast based upon MH-01, was for \$5 million, and that the
16 actual for that same year was \$11 million. Do you see that,
17 and can you confirm that, sir?

18 MR. VINCE WARDEN: Yes, I agree with that.

19 MR. BYRON WILLIAMS: And I wonder if you can
20 confirm for me that the explanation for that difference is,
21 or what you might consider a favourable variance in other
22 revenue, it's -- represents a difference in the presentation
23 of the forecast, as compared to how actuals are presented?

24 And by that I mean for forecasting purposes,
25 the net income of Manitoba Hydro's subsidiary companies,

1 excluding the gas operations, is recorded in other revenue,
2 as compared to how actual are presented, where other revenue
3 includes only the revenue of the subsidiary companies, is
4 that right?

5 MR. VINCE WARDEN: Correct.

6 MR. BYRON WILLIAMS: And that's from footnote
7 4, that's explaining this?

8 MR. VINCE WARDEN: That's right.

9 MR. BYRON WILLIAMS: And footnote 4 goes on,
10 and you'll confirm for me, that the expenses of the
11 subsidiary companies are presented in their respective
12 expense lines, eg. depreciation and amortization, and the
13 actual results column, is that right, sir?

14 MR. VINCE WARDEN: Yes.

15 MR. BYRON WILLIAMS: So, if I understand this
16 correctly, what Hydro has done in this response is for the
17 forecast MH-01, they've taken the net out. They've taken a
18 number of factors, one (1) of them is the net income of
19 subsidiaries.

20 And so they would -- for the forecast year
21 they would only include the net income from subsidiaries, and
22 on the expense side of the equation, they would not include
23 any of the expenses associated with subsidiaries, because
24 that has already been netted out. Is that correct, sir?

25 MR. VINCE WARDEN: That's what was done in the

1 forecast, yes, that's right.

2 MR. BYRON WILLIAMS: And then in terms of the
3 actuals, what they've done is they've taken -- they've,
4 essentially on -- on the revenue side, they've grossed up the
5 subsidiary revenues to a total of -- which resulting in a
6 change of 6 million, and on the expense side they've also
7 correspondingly put in the -- the total expense side
8 associated with those subsidiaries, correct?

9 MR. VINCE WARDEN: Correct.

10 MR. BYRON WILLIAMS: So what they've done is
11 on -- when they're using a net, in terms of net revenue, that
12 is not reflected on the expense side of the equation. When
13 they're using a gross as in gross revenue, or total revenue,
14 the corresponding expenses are reflected on the expense side,
15 correct?

16 MR. VINCE WARDEN: Yeah, and I think we went
17 through that this morning with Mr. Peters, but yes, I'll
18 agree with you.

19 MR. BYRON WILLIAMS: Mr. Warden, I do want to
20 just go back to the other revenue line from income statement
21 which -- from the income statement that appears at Tab 2 but
22 I -- and you'll recall for me that that was about \$7 million
23 for the years '05 and for the years '06, in terms of Hydro's
24 projections from the IFF?

25 MR. VINCE WARDEN: Yes.

1 MR. BYRON WILLIAMS: And I just -- apart from
2 subsidiary revenues, I want to confirm what else is in that
3 other revenue line and I wonder if you could turn to Tab 9 of
4 the CAC/MSOS book of references, which is the response to
5 PUB-II-53; do you have that, sir?

6 MR. VINCE WARDEN: I do.

7 MR. BYRON WILLIAMS: And if I read -- if you
8 can turn to page 31 of 33 from -- it's -- that is in this
9 response, would I be right in concluding that in addition to
10 subsidiary revenue which you've confirmed to be one point one
11 eight five (1.185), there is other -- the other revenue in --
12 that composes other revenue would include joint use revenue,
13 the Island Fall Energy Transfer Agreement and hot water tank
14 revenue; is that right, sir? And there's nothing else in
15 there?

16 MR. VINCE WARDEN: There is nothing else in
17 there; that's correct.

18 MR. BYRON WILLIAMS: And if we just go on to
19 -- to the next page which is the 04/05 forecast, you -- as
20 well as the 05/06 forecast, you'll confirm for me that,
21 again, the -- the constituent elements of other revenue are
22 joint use, Island Falls Energy Transfer Agreement, hot water
23 tank and net ex -- or net income from subsidiaries?
24 Those are the constituent amounts?

25 MR. VINCE WARDEN: Yes. I might just point

1 out though that this has been prepared consistent with the
2 way the forecast has been prepared and is inconsistent with
3 what is in the financial statements, and I wanted to make
4 that clear.

5 And it's a little bit of a repeat of what was
6 stated in cross-examination this morning with -- with Mr.
7 Peters but for purposes of the actuals in the financial
8 statements, the gross amount of the revenues would be
9 included in other revenue.

10 MR. BYRON WILLIAMS: And that's probably why
11 you said that you thought Mr. Harper might be mathematically
12 correct this morning; correct?

13 MR. VINCE WARDEN: Well, I didn't see any
14 problem with Mr. Harper's arithmetic. Again, it was just the
15 assumptions he was making that I had some difficulty with.

16 MR. BYRON WILLIAMS: And by "his arithmetic",
17 you don't have any -- you would agree with me that, for
18 example, we used the same -- that if you're taking the net
19 revenue on one side, you would want only to take -- you would
20 not want to make any allowances for expenses on the other
21 side; correct? That's the approach you did in
22 CAC/MSOS/15(a)?

23 MR. VINCE WARDEN: That's the approach that
24 was taken in the financial forecast; that's correct.

25 MR. BYRON WILLIAMS: I think that answers --

1 MR. VINCE WARDEN: Well, I'm just stating
2 that the net -- I think you said if you take the net amount
3 in the other revenue then you wouldn't want to make allowance
4 for expenses if you've already accounted for the net in other
5 revenue and that's -- and I agreed with that. And that's the
6 way it was handled in the financial forecast.

7 MR. BYRON WILLIAMS: No, Mr. Warden, on the
8 -- you know, and I'd -- again, on the financial forecast you
9 took the net income on one side and then you took expenses
10 and included them on the other side?

11 MR. VINCE WARDEN: I think that's what I
12 said. Yes.

13 MR. BYRON WILLIAMS: Okay, then we are
14 speaking at the same purpose and I apologize for
15 misunderstanding you.

16 Now, what I thought I heard you say to Mr.
17 Peters though -- or perhaps to the Chairman, this morning was
18 Mr. Harper may have his math right but you still think that
19 when the -- that this Board is taking into account your
20 projections for 04/05 and 05/06, they should be relying on
21 the projected income -- the projected expense including
22 subsidiaries, which is in your IFF.

23 Is that not right, sir?

24 MR. VINCE WARDEN: Yes. Well I -- I
25 indicated there's a number of factors why that should be the

1 case and tried to explain the difference between the bottom
2 up top down. And it may have not been totally clear but if
3 there's any part of it that wasn't clear I can go over it
4 again if you like.

5 MR. BYRON WILLIAMS: No, I want to do what
6 Mr. Mayer -- Mayer likes to do and I want to go to the bottom
7 line. And what you're really saying is that if you want to
8 put an additional, at least \$11 million into the electrical
9 operations expenses, is that not right, sir?

10 MR. VINCE WARDEN: We're not changing the
11 expenses as filed and if you want to look at one of the
12 exhibits, just to make sure we're --

13 MR. BYRON WILLIAMS: I would. I would like
14 you to turn to Tab 1, Exhibit 49. Because you've set out
15 your operating cost per customer based on the figure for
16 04/05 of \$295.9 million and that's how you've done your
17 calculations. But you're really telling this Board that your
18 operating expenses are -- should be the higher number, the
19 \$306.9 million, is that not correct, sir?

20 MR. VINCE WARDEN: Again, Mr. Williams,
21 there's a difference between the -- the top down, bottom up,
22 this gap that I was talking about this morning. If you want
23 me to go through that again, I will. But the purposes of
24 what we're charging to electric operations consistent with
25 how we've recorded the actuals in the past and consistent

1 with the -- the graphs we filed this morning as an exhibit,
2 or this afternoon as an exhibit.

3 The appropriate number for comparison purposes
4 and for purposes of the calculation of five hundred and
5 eighty-four dollars (\$584) is two hundred and ninety-five
6 point nine (295.9) as indicated in Exhibit 49.

7 MR. BYRON WILLIAMS: Right, but for the --
8 for the other side of -- for the other side of the equation,
9 you're telling the Board that they should be looking at
10 operating expenses for the electric side of almost 307
11 million. You're saying that the gap between -- between these
12 two of \$11 million is something the Board should take into
13 account and that's why they shouldn't worry about Mr.
14 Harper's math.

15 MR. VINCE WARDEN: Well, I'm not suggesting
16 the Board shouldn't worry about Mr. Harper's math. I -- I'm
17 saying the forecast that we had before this Board is at very
18 best aggressive in terms of the attainment of our bottom
19 line. There's a number of factors that I went into this
20 morning that raise some concerns as to whether or not the --
21 the \$40 million bottom line is attainable.

22 We can talk about whether or not we should be
23 adding \$11 million to the -- to the other revenue line and I
24 don't disagree and I -- and as a matter of fact I said for
25 future financial forecasts we will add that number to the

1 bottom line -- or to the other revenue line to make sure
2 we're totally consistent. But we can go through that and
3 it's not going to change our application in terms of what
4 we're asking this -- this Board for.

5 MR. BYRON WILLIAMS: And I -- I --

6 MR. VINCE WARDEN: And in the happy
7 circumstance -- in the happy circumstance that we were able
8 to derive \$11 million more net income, I'm -- I don't believe
9 that's attainable. I wouldn't want to suggest that but, in
10 the event we were then it helps us all the more getting
11 towards that retained earnings target that as I indicated
12 earlier are dangerously low right now.

13 MR. BYRON WILLIAMS: So what you're saying,
14 Mr. Warden, is in terms of when we look back on this
15 application a couple of years, in terms of evaluating your
16 performance and controlling your costs, you want to be
17 evaluated on the electricity side on costs of \$295.9 million
18 for 04/05, that's right?

19 MR. VINCE WARDEN: Yes, absolutely, and
20 that's in accordance with Exhibit Number 50 I think probably
21 sets out the most clearly, it shows that comparative five (5)
22 years of actuals compared to the forecast and the two ninety-
23 five point nine (295.9) is totally comparable to the previous
24 year of two eighty-three point four (283.4), that's what we
25 expect to be measured on in the future, absolutely.

1 MR. BYRON WILLIAMS: So we just still have to
2 reconcile the math?

3 MR. VINCE WARDEN: Well, I thought we did
4 that, but carry on.

5 MR. BYRON WILLIAMS: I -- I want to turn very
6 quickly to Exhibit 74, which is Manitoba Hydro's -- it was
7 filed this morning, operating maintenance and administrative
8 cost per customer comparison to BC Hydro and Hydro Quebec.

9 And I just have a few questions of
10 clarification in terms of that. And you may also want to
11 just keep at hand, CAC/MSOS Exhibit 13.

12 MR. VINCE WARDEN: Yes, we have it here.

13 MR. BYRON WILLIAMS: If I look at CAC/MSOS
14 Exhibit 13, would I be right that the one (1) difference for
15 the year 2001, between Hydro's calculations and Mr. Harper's
16 calculations, would be the operating costs per customer of
17 Manitoba Hydro, which he has at 552 million, and which you
18 have at five thirty-nine (539), is that right, sir?

19 I can -- I can help you to explain why, I just
20 want to clarify why?

21 MR. VINCE WARDEN: Well, I think this morning
22 we were assuming that this is 2001, that is Exhibit --

23 MR. BYRON WILLIAMS: And that's right.

24 MR. VINCE WARDEN: -- 13, so -- so that
25 assumption was correct, this is 2001? Okay. Then I can -- I

1 can accept that the difference between our exhibit and
2 Exhibit 13 is --

3 MR. BYRON WILLIAMS: And I wonder -- okay,
4 sorry, Mr. Warden.

5 MR. VINCE WARDEN: You were going to explain
6 something, so go ahead.

7 MR. BYRON WILLIAMS: Well, I'm going to
8 suggest an explanation to you.

9 MR. VINCE WARDEN: Okay, thank you.

10 MR. BYRON WILLIAMS: And -- and just for
11 clarification purposes, one (1) of them -- one (1) of the
12 reasons is probably that the Winnipeg Hydro costs used for
13 00/01, are now slightly less than they were in the
14 information request to Mr. Harper, and that in the
15 information request they were 36.2 million. And I think
16 Hydro's now saying that they're about thirty-five point three
17 (35.3), would that be one (1) small explanation?

18 I have another one (1) to add.

19 MR. VINCE WARDEN: Well, we are stating in
20 accordance with again going back to Exhibit Number 50, we are
21 stating that the Winnipeg Hydro costs, pre-acquisition costs
22 were thirty-five point three (35.3) for 2000/2001.

23 MR. BYRON WILLIAMS: So we're agreed, okay,
24 thank you.

25 Now, the other reason that this figure of five

1 thirty-nine (539) is probably lower, is due to some of the
2 changes -- the accounting changes that have gone on in
3 Manitoba Hydro, such as the changes for taxes, which are not
4 treated as O&M now and the Centra treatment. And that's kind
5 of what Mr. Derksen and I discussed way back at day five (5)
6 of this Hearing, correct?

7 MR. VINCE WARDEN: Well, are we trying to
8 reconcile Exhibit -- Manitoba Hydro Exhibit 74 and --

9 MR. BYRON WILLIAMS: Just the one (1)
10 figure --

11 MR. VINCE WARDEN: -- CAC --

12 MR. BYRON WILLIAMS: -- Mr. Warden.

13 MR. VINCE WARDEN: I guess my only point --
14 the only point I was going to make is that Manitoba Hydro's
15 Exhibit Number 74, all the numbers have been prepared on a
16 consistent basis, so for comparative purposes, I think that's
17 the best one (1) to reference.

18 MR. BYRON WILLIAMS: And I'm just trying to
19 understand the differences, sir.

20 Now, would I also be correct in saying that
21 the Manitoba Hydro numbers have all been done without
22 including a subsidiary OM&A?

23 MR. VINCE WARDEN: Yes, that'd be the right
24 way to do it, and that's the way it was done.

25 MR. BYRON WILLIAMS: And am I right in -- in

1 suggesting to you that both BC Hydro, and Hydro Quebec have a
2 number of subsidiaries?

3 MR. VINCE WARDEN: Yes, you're right in that.
4 Again, though, and I think I indicated earlier that it's not
5 -- we shouldn't really look at the absolute numbers, we
6 should be looking at the slope of the line.

7 So, as long as they're prepared consistently
8 from year to year to year, it really doesn't matter whether
9 subsidiaries are in or out. I could do this again if you'd
10 like and include subsidiaries, it wouldn't make any
11 difference to the slope of the line.

12 MR. BYRON WILLIAMS: Well, Mr. -- Mr. Warden,
13 let's -- let's -- why don't you try and answer my question
14 first of all.

15 MR. VINCE WARDEN: I'm trying to answer your
16 question --

17 MR. BYRON WILLIAMS: Well, I'm going to ask it
18 again --

19 MR. VINCE WARDEN: -- Mr. Williams.

20 MR. BYRON WILLIAMS: -- then. Do you mind?

21 MR. VINCE WARDEN: Please?

22 MR. BYRON WILLIAMS: Am I right in suggesting
23 to you that BC Hydro and Hydro Quebec have subsidiaries?

24 MR. VINCE WARDEN: And -- and I did answer in
25 the affirmative, I think.

1 MR. BYRON WILLIAMS: Okay, I hadn't heard
2 that, and I apologize for that.

3 And are you able to tell me whether the
4 figures you've drawn from the Annual Reports are inclusive or
5 exclusive of subsidiaries?

6 MR. VINCE WARDEN: They would be inclusive of
7 subsidiaries.

8 MR. BYRON WILLIAMS: For BC Hydro and for
9 Hydro Quebec?

10 MR. VINCE WARDEN: Correct.

11 MR. BYRON WILLIAMS: And I would like you to
12 -- so if we wanted to have an apples to apples comparison of
13 these figures we would either have to take out the
14 subsidiaries for BC Hydro and Hydro Quebec or we would have
15 to add them for Manitoba Hydro; is that right?

16 MR. VINCE WARDEN: Well, that's what I
17 attempted to answer a little bit earlier. I'm saying that
18 don't pay too much attention to the absolute numbers but pay
19 more attention to the slope of the line; that's why it was --
20 we thought it was some value to have a graph rather than
21 looking at absolute number comparisons.

22 So, we could -- we could take, if you want to
23 make it, in your words "apples to apples" which -- you know,
24 we can add the subsidiaries into Manitoba Hydro's line but it
25 won't change the slope of the line. I guess that was my only

1 point.

2 MR. BYRON WILLIAMS: I wonder if we took out
3 the subsidiaries for BC Hydro and for Hydro Quebec whether it
4 might change the slope of the line for them, sir?

5

6

(BRIEF PAUSE)

7

8 MR. VINCE WARDEN: I think the point is we
9 want to be consistent in how those numbers are compared one
10 (1) to the other from year to year to year.

11 So, if we were to take out subsidiaries for BC
12 Hydro and Hydro Quebec it would change the line. Would it
13 change the slope? It would depend on whether or not there
14 were large increases or decreases in any of those subsidiary
15 costs.

16 There's -- there's definitely limitations in
17 these comparisons and I think we indicated that before.
18 However, it was CAC that -- that wanted to submit this
19 exhibit, therefore, we just thought for added information it
20 might be helpful to have more than just the one (1) year for
21 comparison purposes and to compare over a period of time.

22 MR. BYRON WILLIAMS: I believe when you
23 described this approach before, you described it as
24 "simplistic"; is that right, Mr. Warden?

25 MR. VINCE WARDEN: Yes, it's taking the

1 numbers right from the annual reports and I think I indicated
2 that if we went to BC Hydro and Hydro Quebec they would have
3 -- they could have explanations as to why their -- their --
4 their costs -- changed the way they did.

5 And, as a matter of fact, we know that BC
6 Hydro, the spike that is evident on the one (1) graph was
7 because of the losses they incurred -- the write-offs they
8 incurred with respect to their power sales to California.

9 MR. BYRON WILLIAMS: Thank you, Mr. Warden.
10 I wonder if you can turn now to Tab 11 of -- of the CAC book
11 of references which is Hydro's response to Undertaking Number
12 19 and which is titled "Hydro Exhibit 24"; do you have that,
13 sir?

14 MR. VINCE WARDEN: Yes, I do.

15

16 (BRIEF PAUSE)

17

18 MR. BYRON WILLIAMS: And I apologize for the
19 delay. You don't need to turn back there, but you just --
20 you can -- what this response was trying to do was, if you'll
21 agree with me, explain the difference between the 2003/04
22 forecast of OM&A for Hydro of three-oh-three point five five
23 (303.55) and the -- and the actuals for 03/04 of two hundred
24 and eighty-three point four (283.4); is that right, sir?

25 And just to give you some hints, you can see,

1 as indicated, Hydro's operating costs were approximately
2 twenty (20) -- 20 million favourable in the 03/04 fiscal
3 year.

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

6 MR. BYRON WILLIAMS: And you've actually
7 attempted to do this on two (2) separate occasions in this
8 proceeding. One (1) is Undertaking 24, one (1) is
9 Undertaking -- or Exhibit 24, one (1) is Exhibit 64.

10 And I'd like to compare -- Mr. Warden, you can
11 relax for a second, I'd like to compare your answers to both
12 but I, first of all, want to understand your answers to this
13 one (1); is that fine with you, sir?

14 MR. VINCE WARDEN: That I can relax or --

15 MR. BYRON WILLIAMS: I probably should relax
16 too because I've been a little crabby this afternoon and for
17 that I apologize; is that fine with you?

18 MR. VINCE WARDEN: Yes, yes.

19 MR. BYRON WILLIAMS: We'll start with this
20 one (1). And as you look at Exhibit 24 you can see that
21 Hydro's operating costs were -- it's -- the statement is,
22 "They were approximately 20 million
23 favourable in the 03/04."

24 And then you go on to indicate that,
25 "Approximately 10.9 million related to

1 pension cost reductions, and the balance of
2 the savings relate to specific cost savings
3 that were initiated as a result of the
4 drought conditions, and to further
5 productivity savings over and above those
6 that were already embedded into budgets."

7 Is that right, sir?

8 MR. VINCE WARDEN: Yes.

9 MR. BYRON WILLIAMS: And if you'll recall from
10 my cross-examination with Manitoba Hydro on this subject, I
11 think it took place at page 819 of the transcript, which is
12 in -- is -- you can find at Tab 12, Mr. Warden, of the
13 document in front of you. Do you have that, sir? And you'd
14 want to go to page 819, which is the second page?

15 MR. VINCE WARDEN: Yes, I have it here.

16 MR. BYRON WILLIAMS: And you can see that I'm
17 inquiring of you, in terms of the \$20 million, and I'm
18 speaking specifically at line 5, I suggest to you that the --
19 we've got about 10.9 million related to pension benefits,
20 another 6 million related to short term actions, related to
21 -- to the -- to the drought, and you agree with that, and
22 then you suggest that there's another 3 million in additional
23 productivity savings, is that right?

24 MR. VINCE WARDEN: Yes.

25 MR. BYRON WILLIAMS: So we've got say 20 -- 20

1 million difference, which is explained by about ten point
2 nine (10.9) in pension savings, seven (7) in short term cost
3 savings related to the drought, and then another 3 million in
4 productivity savings, although I think that was made subject
5 to your answer in terms of contingency amounts in the
6 President's budget, correct?

7 MR. VINCE WARDEN: Yes.

8

9 (BRIEF PAUSE)

10

11 MR. BYRON WILLIAMS: And I'm going to come
12 back to this figure in just a second, but if we move over to
13 Tab 14, Mr. Warden, you'll see your response to Exhibit
14 number 46. And you indicate that there was a favourable
15 variance in the President's area of approximately 0.4
16 million.

17 So, would I be right in saying that of those 3
18 million in additional productivity, zero point four (0.4)
19 would be related to the President's Budget favourable
20 variance, and an additional two point six (2.6) would be just
21 productivity savings?

22

23

(BRIEF PAUSE)

24

25 MR. VINCE WARDEN: I'm not sure I can totally

1 agree with that, Mr. Williams. Maybe you can tell me where
2 you want to go with this, and I can -- if -- does anything
3 hinge on this particular answer, or --

4 MR. BYRON WILLIAMS: Well, just --

5 MR. VINCE WARDEN: -- I can -- I can double
6 check that, but I'm not totally comfortable answering yes to
7 your question.

8 MR. BYRON WILLIAMS: Okay. Well, maybe you
9 can just double check, and I -- I think we've got the rough
10 ballpark figure, which is ten point nine (10.9), seven (7)
11 and three (3), which is set out at page 819 of the
12 transcript, right?

13 MR. VINCE WARDEN: Yes.

14 MR. BYRON WILLIAMS: That's fair enough, sir.
15 Now, at page 815 of the transcript, which is at exhibit --
16 which is at Tab 12, the first page. I was asking you to
17 discuss the 303.5 million figure, or sorry, Mr. Warden, do
18 you have that? That's the very first page of the Tab 12?

19 MR. VINCE WARDEN: Yes, I have it here.

20 MR. BYRON WILLIAMS: I guess I was starting at
21 814, and then moving on to 815, I'm -- I'm asking you to
22 describe -- to answer whether there is a -- any definitional
23 changes, which would make the two eighty-three point four
24 (283.4) not comparable to three-oh-three (303), using the
25 original filing. And at that page you indicated you didn't

1 believe that there were any definitional changes, is that
2 right?

3

4

(BRIEF PAUSE)

5

6

MR. VINCE WARDEN: Yes, that's what I said.

7

8

MR. BYRON WILLIAMS: I wonder if you can now
turn to Tab 15, which is Exhibit 64 of Manitoba Hydro.

9

10

(BRIEF PAUSE)

11

12

MR. BYRON WILLIAMS: Do you have that, sir?

13

MR. VINCE WARDEN: I do.

14

15

MR. BYRON WILLIAMS: And if I look at the
bottom of the -- what you're doing here again is changing the
-- comparing the forecast for 03/04, with the actuals for
03/04, is that right, sir?

16

17

MR. VINCE WARDEN: We refer to this as the
updated forecast; that's right. Yes.

18

19

20

MR. BYRON WILLIAMS: And if I wanted to look
at the -- where you're going with this, again, you have the
two eighty-three point four (283.4) which is the number that
you used both in this response and in the response to Exhibit
24, is that right; that's in the first column under "03/04
actual"?

21

22

23

24

25

1 MR. VINCE WARDEN: Correct.

2 MR. BYRON WILLIAMS: And if you go to the
3 middle of the updated forecast 03/04, again, you have the
4 three-oh-three point six (303.6), I guess that we used three-
5 oh-three point five five (303.55) before, but that's the
6 number that appears in the financial statements as well as in
7 Schedule 4.1 of Volume 1; correct?

8 MR. VINCE WARDEN: In the financial forecast;
9 yes.

10 MR. BYRON WILLIAMS: Yes, I apologize for
11 that, Mr. Warden.

12 And so what you've done in the -- and if I can
13 summarize, in the first variance analysis you took the three-
14 oh-three point six (303.6) and you knocked off 10.9 million
15 for pensions and seven (7) for drought savings and then
16 another three (3) for further productivity savings and you
17 came up with two hundred and eighty-three point four (283.4).

18 And in this one you've knocked off three-oh-
19 three point six (303.6) -- you've knocked off 10 million for
20 subsidiaries and then another 10 million for lower forecast
21 -- pension forecast costs and you've again come up with two
22 hundred and eighty-three point four (283.4); do you see that,
23 sir?

24 MR. VINCE WARDEN: Yes.

25 MR. BYRON WILLIAMS: So, what I can't

1 understand is, leaving aside the issue of subsidiaries, in
2 your response to Undertaking 24 you pointed to \$20 million in
3 savings. Now, in your response to Exhibit 64, you've only
4 got 10.2 million in savings; do you see that, sir? Do you
5 see the concern?

6 MR. VINCE WARDEN: Yes, and, you know, I -- I
7 thought we had gone over this previously. However -- and
8 that's why as a footnote to this schedule we do say that in
9 preparing this -- the response to this undertaking the
10 subsidiary revenue was not being treated consistently in the
11 actual and the forecasts and that's why the difference is --
12 apparent \$10 million difference that we're -- we're --

13 MR. BYRON WILLIAMS: But what I'm trying --

14 MR. VINCE WARDEN: -- struggling with here.

15 MR. BYRON WILLIAMS: I am struggling, Mr.
16 Warden, and I'll tell you why. I can't -- in Exhibit 24 you
17 told us there were \$20 million in savings. And you
18 specifically attributed ten point nine (10.9) to the pension,
19 seven (7) to one-time only drought savings and another 3
20 million to additional productivity.

21 So, now we're down to only 10 million in
22 savings; what happened to the other ten (10)?

23 MR. VINCE WARDEN: Well, this is the
24 difference, again, to the bottom up, top down type of
25 forecast that was being prepared.

1 And that's why, in this undertaking, we --
2 we've stated the variance on a consistent basis with the
3 actual as being \$10 million. \$10.2 million.

4 MR. BYRON WILLIAMS: So --

5 MR. VINCE WARDEN: So in the earlier
6 explanation that -- of the \$20 million there should have been
7 some reference to subsidiaries and I -- I think I've admitted
8 that previously.

9 So if you want me to say that again, I'll say
10 it again. There should have been some reference to
11 subsidiaries in that -- in that response.

12 MR. BYRON WILLIAMS: No, that's okay, Mr.
13 Warden. I guess, if I just took, for example, one figure,
14 the 10.9 million in pension savings from Exhibit 24, that's
15 even more than the ten point two (10.2) variation you have
16 right here?

17 And then if I add in 7 million in alleged
18 savings related to the drought and another 3 million in
19 alleged productivity changes, I've got a gap of 20 million?

20 MR. VINCE WARDEN: Well, I guess I'm -- I
21 don't know what more I can tell you, Mr. Williams. I think
22 there -- the exhibits were filed for that reason so we could
23 clarify the difference between the actuals as they were
24 presented and the updated forecasts.

25 So we've tried to present this as best we

1 could on a consistent basis and I guess there's not much more
2 that I can tell you on that.

3 MR. BYRON WILLIAMS: And, Mr. Warden, I
4 certainly don't intend to belabour it, but if you have 10.9
5 million in pension savings; does that mean you have less than
6 zero (0) in ongoing expenditure restraints, if I'm to
7 understand this variance?

8 MR. VINCE WARDEN: I think there may be some
9 issue with the \$10.9 million in pension savings and if you'll
10 give me a moment I'll just try and clarify that specific
11 question for you.

12

13

(BRIEF PAUSE)

14

15 MR. VINCE WARDEN: It -- Mr. Williams, it
16 gets back to the difference that we were -- again the bottom
17 up top down. The people that were putting together the
18 variance explanations were considering the 303.6 number to be
19 the approved forecast net of subsidiaries whereas the top
20 down type of approach that I described earlier, and which is
21 consistent with the way the actuals have been prepared, is
22 the 293.6.

23

24 So there is this difference of \$10 million.
25 The pension variance was in fact 10.9, I've just confirmed
that. The -- there are other variances that net into that

1 that don't readily explain the 10.2 million we're trying to
2 come to. So there obviously there's offsetting variances.

3 In a -- in a forecast of this magnitude, we
4 try as best we can to come up with variance explanations at a
5 high level without getting into every single account. And
6 there are things that are happening in there. There's
7 netting that -- of variances that occur. Nevertheless, we
8 are \$10.2 million under-expended in our forecast prepared on
9 a consistent basis to the way the actuals were recorded in
10 the year previous.

11 It still only works out to a 2.4 percent
12 increase over the previous year actual. There are probably a
13 whole bunch of things going on that the net together to -- to
14 explain the difference but I can tell you there was a lot of
15 restraint going on at Manitoba Hydro because of the -- of the
16 drought, and expenses would have been higher than -- if it
17 hadn't been for that.

18 Not perhaps a detailed type of explanation
19 you're looking for and we can get into the pluses and
20 minuses, I guess, in terms of the things like adding power
21 traders and Mr. Cormie's area and what that was offset by but
22 we can get into those line by line details as your witness
23 said, Mr. Harper, we can walk in and count the trees if you
24 want.

25 We tried to give a high level explanation that

1 was complicated with this issue with subsidiaries at which
2 we've admitted is -- is an issue for us in terms of how we
3 put the forecast together, but if we want to count the trees,
4 I guess we can get into that.

5 MR. BYRON WILLIAMS: Mr. Warden, and I
6 appreciate your answer, I -- I guess this will all kind of
7 come down to the closing argument. I just want to confirm
8 that I -- I heard you correctly. The bottom up approach net
9 of subsidiaries was based on an OM&A of 303.6, is that right?

10 MR. VINCE WARDEN: That's correct.

11 MR. BYRON WILLIAMS: I can share this with
12 you if you wish, Mr. Warden. We're still trying to find
13 where things show up in your forecast, but I wonder if you
14 would accept, subject to check, then Hydro's response to
15 CAC/MSOS-I-6, you indicated that for the 05/06 year, a total
16 revenue enhancements related to Winnipeg Hydro, would be \$2
17 million. Would you accept that subject to check?

18 MR. VINCE WARDEN: I will, yes.

19 MR. BYRON WILLIAMS: For Mr. Harper's piece of
20 mind, if for nothing else, Mr. Warden, I wonder if you can
21 tell me where the additional \$2 million in net revenue
22 enhancements associated with Winnipeg Hydro would show up on
23 the forecast for 05/06.

24 And I think that's at Tab 2 of the Panel's
25 book of reference.

1 MR. VINCE WARDEN: Yes, it -- the -- any
2 revenue enhancements from Winnipeg Hydro would show under the
3 general consumer's revenue at approved rates line.

4 MR. BYRON WILLIAMS: Thank you for that. Mr.
5 Chairman, if I could have just a couple minutes to check my
6 notes, I think --

7 THE CHAIRPERSON: Please.

8 MR. BYRON WILLIAMS: -- we're near the end,
9 but I just wanted to make sure --

10 THE CHAIRPERSON: Please.

11 MR. BYRON WILLIAMS: -- I haven't missed
12 anything.

13 THE CHAIRPERSON: That's fine. We'll just
14 take five (5) minutes and then you won't have to rush.

15
16 --- Upon recessing at 3:04 p.m.

17 --- Upon resuming at 3:13 p.m.

18
19 THE CHAIRPERSON: Mr. Williams, just before
20 returning to you, if I may.

21 Mr. Warden, would it be fair to say, when you
22 look at -- in the CAC/MSOS new book of documents, Exhibit 2,
23 and you look at cost of operations -- I'm going to be quick,
24 because we've gone through this, but when you look at Exhibit
25 2, under 2004/05, you see cost of operations at \$307 million,

1 it's schedule -- it's in the -- item number 2, okay.

2 So, under the year 2004/05, under cost of
3 operations it says, three hundred and seven (307). When you
4 go to Exhibit number 1, or Exhibit number 49, Manitoba Hydro
5 Undertaking number 38, it would appear that that three-oh-
6 seven (307) is the same three hundred and seven (307) under
7 the updated forecast 2004/05, three hundred and six point
8 nine (306.9); it would appear to be?

9 MR. VINCE WARDEN: Yes. Those are the same
10 numbers, yes.

11 THE CHAIRPERSON: Okay. Right. So, then you
12 see, deduct subsidiaries, so just keeping that thought in
13 mind going back to the second schedule, Schedule 2, again,
14 one can note on 2004/05 that other income is seven (7).

15 So since it would appear the net income for
16 the year for subsidiaries was something in the order of one
17 (1) it would appear that if the cost of operations is at
18 three-oh-seven (307) including subsidiaries, the seven (7)
19 would be larger by ten (10), let's say?

20 If that was the case, then the net income
21 would be fifty (50); that's one way of looking at it. Now I
22 -- we're hearing you as saying -- that perhaps being granted
23 (ch) in the technical detail of going through it in your top
24 to bottom and bottom to top, you feel a fair representation
25 of the forecast remains the net income of forty (40)?

1 In the sense that, if -- if the cost of
2 operations were to fall from three-oh-seven (307) to, say,
3 two ninety-seven (297) to make it the same as the approach to
4 the top line, then you indicate cost pressures and other
5 factors that would push it right back up to three hundred and
6 seven (307); is that one way of looking at it?

7 MR. VINCE WARDEN: I think that's the exact
8 right way to look at it. Yes, that's exactly right. I agree
9 with that.

10 THE CHAIRPERSON: Mr. Williams, back to you.

11 MR. BYRON WILLIAMS: It certainly is. Mr.
12 Chairman, I did have another fun piece similar in I-18(e)
13 because I -- but I think we'd have engaged in a very similar
14 debate, Mr. Warden and I, trying to reconcile what may or may
15 not be reconcilable.

16 I would -- so I'm going to close my cross-
17 examination. I suspect I'm going to be -- my suggestion will
18 not be accepted but I would say that from my perspective and
19 from my client's perspective, we've had a very weighty day
20 here in terms of information and there's more yet to come.

21 And it's something that I -- certainly in
22 closing argument we would like to have the benefit of
23 reviewing the transcript before we submit our closing.

24 And, again, I'm not sure of the Panel's
25 schedule or My Friend, Ms. McCaffrey's schedule either. But

1 certainly from our perspective, given -- for two (2) reasons,
2 one is because there's a lot of new material that we think is
3 deserving of consideration and review.

4 And, secondly, because I expected to be out of
5 here by 12:00 and I think I've lost three and a half (3 1/2)
6 hours of prep time. We're facing tight time pressures and
7 also analytical pressures in terms of the closing tomorrow.

8 So, from our perspective, we'd certainly
9 appreciate if it was possible to do the closing argument
10 either next week or, at least starting later today. As I
11 said, I'm not hopeful that my plea will be granted, but I put
12 that before you.

13 THE CHAIRPERSON: Just to clarify, Mr.
14 Williams, you closed there by trailing off saying "or later
15 today"; what did you mean by that?

16 MR. BYRON WILLIAMS: I meant by -- or even
17 later tomorrow, yes.

18 THE CHAIRPERSON: We'll take that under
19 advisement as we move on to the next group; if you don't
20 mind, and before we close today we'll come back to you.

21 MR. ROBERT MAYER: Just one more -- one
22 thing. I certainly understand your concern about what came
23 today. But I also have to believe that you've done -- know
24 you've done significant work on closing already.

25 Is it possible that you could do an oral

1 closing and if you felt necessary, provide us something in
2 writing with respect to the balance of the new stuff that
3 appears to have arisen today?

4 MR. BYRON WILLIAMS: I guess anything's
5 possible, Mr. Mayer. I personally think it's better to --
6 when you're doing a closing to make sure that you know what
7 the -- the record is.

8 MR. ROBERT MAYER: And I don't much like
9 written argument either, Mr. Williams.

10 THE CHAIRPERSON: Thank you, again, Mr.
11 Williams. We'll be back to you before we finish today.

12 MR. BYRON WILLIAMS: And just, Mr. Chairman,
13 I'm making my excuses now, just in case you don't grant my
14 plea, so my colleague Ms. Kraft will be here to supervise
15 your actions in the next -- next little bit.

16 THE CHAIRPERSON: Mr. Peters will reach you
17 one way or another. Ms. McCaffrey for MIPUG; do you wish to
18 cross-examine the Panel?

19 MS. TAMARA MCCAFFREY: No, we don't. Thank
20 you.

21 THE CHAIRPERSON: Thank you. Mr. Anderson
22 for MKO?

23 MR. MICHAEL ANDERSON: Yes, thank you, Mr.
24 Chair. I did have some questions on -- giving Mr. Peters
25 excellent thoroughness in going through all of the

1 undertakings, there were two (2) of particular interest and
2 of course they arose in my cross-examination of the Panel.

3 And I speak specifically of what are now
4 Manitoba Hydro Exhibits 52, the information on the SPLASH
5 model and essentially one (1) or two (2) questions on what is
6 now Exhibit 55, the undertaking in respect of the contract
7 and non-contract mitigation payments due to drought.

8 Mr. Chair, I would, in trying to understand
9 how the SPLASH model functions, I did have some documents
10 that I had wanted to enter as exhibits because -- in order to
11 go through them. They're primarily Manitoba Hydro's
12 documents with one from the Saskatchewan Water Shed
13 Authority.

14 And I just referred -- I would like to refer
15 to these as I go through my questions in terms of
16 understanding the model and how it's actually applied in
17 practice.

18 THE CHAIRPERSON: Mr. Anderson, you
19 distributed four (4) potential schedules here?

20 MR. WILLIAM ANDERSON: I did, Mr. Chair and I
21 provided them to Board counsel and staff to Manitoba Hydro
22 and to other counsel present in the room.

23 THE CHAIRPERSON: And each one (1) of them is
24 different in material we've used before. I'm only saying
25 that to the point of whether we're going to give them exhibit

1 numbers or not.

2 MR. WILLIAM ANDERSON: I do understand.
3 These are documents that allow me to explore the application
4 and the SPLASH model and the current context and to the
5 extent that it's there, I realize Board counsel and certainly
6 the Applicant have leeway to update as they go.

7 I had wanted to use documents that were
8 current in terms of the -- my review of this SPLASH model
9 also because I'd like to review the -- refer to these
10 documents in argument.

11 MR. ROBERT MAYER: The South Indian Lake,
12 Southern Indian Lake, Foot Print Lake, Split Lake water
13 levels, are they -- they're updates of documents you
14 previously gave us, correct?

15 MR. MICHAEL ANDERSON: It -- it would in fact
16 be an update of a previous MKO exhibit, yes, Mr. Mayer; in
17 respect of the second document with the two (2) tables. And
18 then the other two (2) documents attached are Manitoba Hydro
19 documents that are currently available on their website.

20 THE CHAIRPERSON: MKO-14.

21 MR. MICHAEL ANDERSON: That would be correct.
22 I had intended to confirm that with Hydro, Manitoba Hydro.
23 But that is -- that is correct. That is exactly what it is.
24 They're identical graphs with the current information
25 available as of today on Manitoba Hydro's website.

1 THE CHAIRPERSON: Well with Ms. Ramage's
2 permission and subject to check we'd just update these to 14.

3 MS. PATTI RAMAGE: I'm not so much concerned
4 about updating if they're just updates. I do have a concern
5 in terms of where we're going with them, in that my
6 understanding is that this portion of the process is to deal
7 with following up on undertakings that Manitoba Hydro has
8 provided.

9 And without getting too far ahead of
10 ourselves, I -- I think if we ask the very first question
11 that, do these updates have -- have any bearing on the SPLASH
12 models that -- that are dealt with in the undertaking we will
13 find out that they don't.

14 And therefore I'm concerned that we're going
15 to be going off into -- if it's anything beyond the SPLASH
16 models, we're going to be heading into new territory.

17 THE CHAIRPERSON: I think Mr. Anderson has
18 indicated that he intends to pursue a line of questions
19 related to the SPLASH model. So, subject to check, we'll
20 make these updates of Exhibit 14.

21 MR. MICHAEL ANDERSON: I didn't in -- Mr.
22 Chair, with -- I didn't exactly intend to have it replace 14,
23 unless that's necessary, because the information in 14 is
24 still of some use in that it's what's attached to the record
25 of my examination of this Panel.

1 THE CHAIRPERSON: Okay, then back to the
2 beginning again --

3 MR. MICHAEL ANDERSON: If -- if we were going
4 to proceed as we have in the past, Mr. Chair, the first
5 document would be MKO-15 and so forth.

6 MS. PATTI RAMAGE: Which is the first
7 document? Are we -- I'm only at this point dealing with --
8 or at least in my mind, with the document headed Southern
9 Indian Lake.

10 THE CHAIRPERSON: I have in front of me a
11 provincial forecast, it appears to be off a Water Management
12 Provincial website in Saskatchewan.

13 MS. PATTI RAMAGE: Yeah, I -- I was dealing
14 with that as a separate matter, because I do have some
15 concerns about that because again it's new evidence and its
16 not evidence of anyone in this room.

17 MR. WILLIAM ANDERSON: Mr. Chair, I would
18 only indicate that as I go through my examination on the
19 SPLASH model, there are a series of attachments that are part
20 of the undertaking.

21 I explain how it works, what information goes
22 into it, how it's applied. The source of the document is a
23 provincial government agency in the Province of Saskatchewan
24 and should be considered reliable as a general source without
25 attribution by a witness.

1 It's available on-line and to the extent that
2 it's useful, that's exactly what I had wanted to pursue with
3 the witnesses, Mr. Chairman.

4 THE CHAIRPERSON: Okay. Mr. Anderson, I
5 think you can just proceed and we'll call the first one
6 Churchill River Basin, sixteen (16). The new charts on
7 Indian Lake, Foot Print Lake and Split Lake, Cross Lake and
8 Lake Winnipeg elevations would be seventeen (17) and then the
9 final one that you've --

10 MR. MICHAEL ANDERSON: Mr. Chair -- I'm
11 sorry, and I don't mean to interrupt or undo the -- what
12 you've just indicated, but in terms of my notes, the sequence
13 that I had wanted to call upon them would be the first one
14 would be the Churchill River Basin Forecast which would be
15 MKO-15 if we followed from my last exhibit as I understand
16 it; if Mr. Barron could --

17 THE CHAIRPERSON: He had sixteen (16).

18 MR. MICHAEL ANDERSON: Oh, excuse me, then.
19 Thank you.

20

21 --- EXHIBIT NO. MKO-16: Churchill River Basin Forecast

22

23 THE CHAIRPERSON: And then is the next one
24 the -- the charts of the lakes?

25 MR. MICHAEL ANDERSON: Thank you, Mr. Chair,

1 you're correct.

2

3 --- EXHIBIT NO. MKO-17: New charts on Indian Lake, Foot
4 Print Lake and Split Lake, Cross Lake and
5 Lake Winnipeg elevations

6

7 THE CHAIRPERSON: Last one, eighteen (18) on
8 the other website photocopy water regimens and levels would
9 be seventeen (17) -- eighteen (18).

10

11 --- EXHIBIT NO. MKO-18: Website photocopy water regimens

12

13 MR. MICHAEL ANDERSON: And then there's one
14 more that would be, I suppose, another provisional nineteen
15 (19); that was --

16

THE CHAIRPERSON: The last one would be --

17

MR. MICHAEL ANDERSON: -- Stephen's Lake

18 chart --

19

THE CHAIRPERSON: -- Stephen's Lake which
20 would be nineteen (19).

21

MR. MICHAEL ANDERSON: Thank you.

22

23 --- EXHIBIT NO. MKO-19: Stephen's Lake Chart.

24

25 THE CHAIRPERSON: And, subject to check, Mr.

1 Anderson, why don't you commence?

2 MR. MICHAEL ANDERSON: Thank you. If I could
3 just have a brief moment just to make sure my notes are
4 correct here in respect of the numbers we've just provided?

5

6

(BRIEF PAUSE)

7

8 MR. ROBERT MAYER: Mr. Anderson, perhaps,
9 just before you start your cross-examination, you could
10 explain for my benefit how the operation of the SPLASH model
11 is relevant to the -- to the General Rate Application?

12 I mean, I -- we heard a fair bit about SPLASH
13 model in the other places and I'm having a little trouble
14 equating it.

15 MR. MICHAEL ANDERSON: Well, my examination
16 would get to that in short order, Mr. Mayer, but if you have
17 Exhibit 52 in front of you, I'd be happy to answer it unless
18 you'd like me to just proceed and we'll go through it. Okay.

19 THE CHAIRPERSON: Please proceed, Mr.
20 Anderson.

21 MR. MICHAEL ANDERSON: The short answer is,
22 is that it appears that it generates the forecasted revenues
23 and costs for the hydro electric operation and -- anyway, but
24 I'll get through that. Thank you.

25

1 CROSS-EXAMINATION BY MR. MICHAEL ANDERSON:

2 MR. MICHAEL ANDERSON: Thank you for
3 preparing and filing the documents that are attached as
4 Manitoba Hydro Exhibit 52. It's appreciated in bringing them
5 over. They do provide the summary that Mr. Mayer had
6 indicated it would provide as we've gone previously.

7 I just had wanted to try to understand how
8 it's being used in the -- the documents that we have in front
9 of me and to go to responding to Mr. Mayer's question, I
10 guess the question would be to Mr. Cormie or perhaps Mr.
11 Warden.

12 But if we look at what is the one (1), two
13 (2), third, fourth page of the exhibit as filed which is page
14 3 of 4 of PCN/MH/NCN-1-NFAT-3-A, the very first paragraph, it
15 indicates that these study in terms of the outputs of the
16 SPLASH model it indicates, quote:

17 "These studies have included Annual Power
18 Resource Plans, integrated financial
19 forecasts, marginal cost analysis, review
20 of candidate generating plans, and proposed
21 long term sales."

22 That's correct, that SPLASH model is used for
23 those purposes?

24 MR. HAROLD SURMINSKI: Yes, that's correct.

25 MR. MICHAEL ANDERSON: And you had indicated

1 this previously, but that the inform -- that the SPLASH model
2 produced information that is incorporated into the integrated
3 financial forecast, is that correct?

4 MR. HAROLD SURMINSKI: Yes, that's correct.

5 MR. MICHAEL ANDERSON: Including the inter --
6 integrated financial forecasts for electric operations, that
7 appears at Tab 2 of Board Counsel's book of documents, is
8 that correct?

9 MR. HAROLD SURMINSKI: Yes.

10 MR. MICHAEL ANDERSON: Thank you. As I
11 understand the narrative, and being that I wasn't at the
12 other place in terms of the discussions, but -- have these
13 extracts and others, I just wanted to confirm that the SPLASH
14 model has -- is intended to provide consistency between your
15 short term operational planning and your long term system
16 planning, is that correct?

17 MR. HAROLD SURMINSKI: Yes, that's correct.
18 And just to follow up on your previous question, the SPLASH
19 models used for years three (3) to ten (10), years one (1)
20 and two (2) in the financial forecast are -- are from the
21 operations planning perspective, and SPLASH model is not used
22 for that part of the forecast.

23 MR. MICHAEL ANDERSON: Is there -- it
24 indicates here that there is a -- that it was -- if I read
25 this correctly, are you -- are you indicating that you're

1 using a different planning tool for your short term
2 operational forecast?

3 MR. DAVID CORMIE: That's correct.

4 MR. MICHAEL ANDERSON: And so the answer on
5 page 1 of PCN-MH-NCN-1-NFAT-3-A, where it indicates at lines
6 18 to 20, "the SPLASH model replaced the simulation model",
7 which was being used in order to simulate system operation on
8 a month to month basis.

9 Was the simulation model your short term
10 planning model?

11 MR. DAVID CORMIE: No, that's not correct, it
12 was -- that's the long term planning model, it's not an --
13 the simulation model is not an operational model, neither is
14 the SPLASH model an operational model.

15 MR. MICHAEL ANDERSON: What -- what is -- what
16 do you use for your short term operational planning?

17 MR. DAVID CORMIE: We have other computer
18 models that we use to do our operational planning.

19 MR. MICHAEL ANDERSON: If we go to the very
20 last page of MH-52, which is PCN-MH-NCN-1-NFAT-5-B, as in
21 Bravo, the very last sentence indicates that:

22 "In respect of outputs from SPLASH, the
23 common output data extracted includes
24 monthly/annual energy supply/demand values
25 and gigawatt hours, and monthly/annual

1 revenue cost values in constant near
2 dollars".

3 Is that correct?

4 MR. HAROLD SURMINSKI: Yes, that's correct.

5 MR. MICHAEL ANDERSON: And so at different --
6 this is likely been asked and answered, but a different
7 planning tool is used to do your operational modelling on a
8 less than monthly basis, is that correct?

9 MR. DAVID CORMIE: That's correct.

10 MR. HAROLD SURMINSKI: The little SPLASH model
11 is a monthly planning -- a monthly time stamp also. It just
12 includes a longer time period, the full variability of the
13 stream flows, the old '86 flow conditions, whereas the
14 operations planning is a forecast from today on, and a
15 forecast of median conditions for the second year.

16 So, there are two (2) different methodologies
17 that are used in the forecast.

18 MR. MICHAEL ANDERSON: And how does the short
19 term capability of SPLASH differ from your operational
20 planning tool?

21 MR. DAVID CORMIE: Well, the SPLASH model, it
22 does not have any short term capability, it's a long term
23 planning model that's used for years three (3) out to ten
24 (10) or twenty (20), or for however long the planners want to
25 study a future power system operation.

1 (BRIEF PAUSE)

2
3 MR. ROBERT MAYER: Mr. Anderson, the reason
4 SPLASH became an issue at the other hearings was because
5 that's the time period we were talking about for the possible
6 construction of Wuskwatim.

7 And if I recall correctly, although it was
8 never admitted, there was certain evidence that these -- this
9 particular model had been reviewed by PCN's experts and
10 apparently determined to be reasonable.

11 MR. MICHAEL ANDERSON: I can appreciate that,
12 Mr. Mayer. I think the -- to some extent I'm not sure it's a
13 dilemma at this point or not. But in my original cross-
14 examination was interested in determining how the --
15 basically the short term and annual planning of the
16 Corporation was being done in terms of water operations and
17 reservoir levels; that was the context.

18 And then we ended up deferring it to the
19 SPLASH model which has now been produced and isn't really the
20 facility that I was intending to pursue at the time and
21 deferred my examination on my -- water modelling questions
22 pending this.

23 And on the basis that it had -- was related to
24 that line of examination. So I'm finding myself in a bit of
25 a situation where I'm dealing with a longer term planning

1 tool when I was really -- what I was interested in was both
2 the longer term planning, revenue modelling and the short
3 term plan -- planning tools.

4 But I'll complete the questions that I think
5 that I can, given the answers that I've received.

6

7 CONTINUED BY MR. MICHAEL ANDERSON:

8 MR. MICHAEL ANDERSON: Also on the last page
9 of MH-52 it indicates in the middle at lines 13 through 15
10 that:

11 "The user has complete flexibility in
12 identifying output data requirements an
13 extracting the data from SPLASH view."

14 This is correct?

15 MR. HAROLD SURMINSKI: Yes. The -- all the
16 data is stored in the database and there's -- there's the
17 large file of data on a monthly basis for all reservoirs, all
18 generating stations. The user decides in the end how -- how
19 he wants is summarized.

20 MR. MICHAEL ANDERSON: In terms of the -- the
21 -- does this permit Manitoba Hydro to run a SPLASH simulation
22 essentially at any time it feels it needs to do so to upgrade
23 its existing analysis or to conduct a new one?

24 MR. HAROLD SURMINSKI: Yes. We -- we run it
25 on a weekly basis and several runs in a week depending on a

1 type of studies that we are doing.

2 MR. MICHAEL ANDERSON: Well, I think this is
3 partly where I'm hoping that you can clarify it; if you're
4 running a long term planning model on a weekly basis, what
5 would its application be to you to do these weekly runs?
6 What would you be using the output for?

7 MR. HAROLD SURMINSKI: Yeah, we do different
8 studies. For example, recently we have been doing studies on
9 Point Dubois, the integration of the Point Dubois station
10 into the system.

11 So we have various schemes of Point Dubois
12 added in or removed from the system and we compare it to the
13 existing system. So -- so it's used for various studies like
14 that. Export sales also with a sale, without a sale.

15 MR. DAVID CORMIE: But, at all times the time
16 step in the model is monthly and at all times we're looking
17 at all possible flow conditions that occurred between 1912
18 and 1997; it's a planning model.

19 It's not an operation model. It doesn't tell
20 anything about, in any level of detail, less than the month
21 time step whereas the operational model deals with daily,
22 hourly operation.

23 MR. MICHAEL ANDERSON: And knowing that this
24 is where we began this particular series of events; do you
25 have a name in your Corporation for the short term planning

1 model so that I know what I'm -- when we're addressing these
2 matters we know what we're discussing?

3 MR. DAVID CORMIE: In the -- in the
4 operational time frame we have our HERMES system. It's a
5 decision support system that involves many different computer
6 models, there's load forecasting, market forecasting, system
7 operation, hydraulic forecasts, flow forecasting.

8 HERMES is the Hydro Electric Reservoir
9 Management Evaluation System, it's been in place for -- since
10 1985. It's been the operational model that Manitoba Hydro
11 has used, that's -- that's what's used by the operational
12 planning people, in managing the day to day operation of the
13 system. And it's used for the preparation of the input to
14 the inter -- integrated financial forecast for the first two
15 (2) years of the IFF.

16

17 (BRIEF PAUSE)

18

19 MR. MICHAEL ANDERSON: So, in regards to
20 comments made earlier today by Mr. Warden and so forth, about
21 water levels and yourselves changing and assessing the effect
22 that that might have, it's HERMES that is the tool that's
23 used to do that on -- in terms of the context of our
24 discussions here?

25

MR. DAVID CORMIE: That's correct.

1 MR. MICHAEL ANDERSON: Thank you. I realize I
2 should have gotten through that and requested an undertaking
3 on HERMES, so that we could -- I could pursue the remainder
4 of it.

5 But in terms of -- so, if we look at the
6 documents, and I will try to do this, because I had intended
7 to want to refer to these documents in examination, and I
8 realize now that we're talking two (2) different planning
9 models.

10 Your clarification on the time series and
11 purpose of the two (2) was very helpful, however, because
12 then it integrates your other comments on the types of water
13 for level forecasts that you're using for different sequences
14 of years in your forecasting, and it's all sort of jelled,
15 unfortunately, at an all too -- bit of a late state.

16 As a brief detail clarification on the Table
17 1, SPLASH Input Data Summary, which is the third and second
18 to last pages of MH-52. Just really briefly, could you
19 explain the distinction between run specific constant and
20 annual, just so that I understand what those fields are --
21 the table names are actually incorporated as?

22 It's -- yeah, thanks.

23

24 (BRIEF PAUSE)

25

1 MR. HAROLD SURMINSKI: I believe at page 1
2 contains an explanation of that.

3 MR. MICHAEL ANDERSON: I have that, thank you.

4

5

(BRIEF PAUSE)

6

7

8 MR. MICHAEL ANDERSON: In terms of the data
9 sources that are identified on that same table, I'm looking
10 at hydrology information in particular. What are the sources
11 of information that Manitoba Hydro uses when it inputs the
12 hydrology information into this system?

13

14

I notice there's a distinction between
constant and runs specific. Where are -- what are Manitoba
Hydro's sources for the hydrology data?

15

16

17

18

19

MR. DAVID CORMIE: The historic flow records
from 1912 to 1997 are based upon the Water Survey of Canada
Records, for that period of time. And -- and they are
constant, and -- and they have been adjusted for present use
conditions.

20

21

MR. MICHAEL ANDERSON: And this is data for
inflows entering the Province, as you've indicated before?

22

23

24

MR. DAVID CORMIE: These are at the Official
Water Survey of Canada sites, across Western Canada, that are
necessary to provide the information for SPLASH.

25

MR. MICHAEL ANDERSON: Mr. Cormie, I'm sorry,

1 did you say that these are from locations across Western
2 Canada?

3 MR. DAVID CORMIE: Yes. The -- that would be
4 the Winnipeg River at Slave Falls, the Saskatchewan River at
5 The Pas, Churchill River at Island Falls, the -- and Lake
6 Winnipeg inflow available for outflow and various tributary
7 locations to the Nelson River downstream of Lake Winnipeg.

8 MR. MICHAEL ANDERSON: I'm just not entirely
9 clear. The information that's input into SPLASH is historic
10 data over the period of record for 86 years of water flow
11 sequences, is that correct?

12 MR. DAVE CORMIE: From 1912 to 1997.

13 MR. MICHAEL ANDERSON: I understand. And so
14 the type of information that I've provisionally presented as
15 MKO-16 would be the -- would be information that you would
16 incorporate into HERMES on a shorter term basis, is that
17 correct?

18 MR. DAVE CORMIE: Yes, the information that
19 you handed out is not relevant to SPLASH.

20 MR. MICHAEL ANDERSON: Thank you for that.
21 Would it be incorporated into your runs on the HERMES to --

22 MR. DAVE CORMIE: With regard to the
23 provincial forecast from Saskatchewan, we do not rely on that
24 source of data. With regard to the forecasts that are
25 produced for Southern Indian Lake, Foot Print Lake, Split

1 Lake et cetera for the other charts, those are outputs from
2 the operational planning department who utilizes the HERMES
3 system in their preparation.

4 MR. MICHAEL ANDERSON: Thank you, Mr. Cormie.
5 I understand that the Saskatchewan Authority information is
6 not relied on. I just wanted to make the distinction, is it
7 not relied in this narrative summary form or is the tabular
8 data that underlies it not relied on?

9 In terms of this -- water flows entering
10 Manitoba on the Churchill River Basin, what is the source of
11 the information that you input into HERMES?

12 MR. DAVE CORMIE: The -- we rely on the water
13 survey of Canada data that's available from the gauges. We
14 discuss operational strategies with Saskatchewan Water
15 Corporation but we -- we do our own forecasting that may or
16 may not be influenced by the information that we garner from
17 the Saskatchewan Water Authority.

18 MR. ROBERT MAYER: But surely, Mr. Cormie,
19 when you're talking about releases from the White Sand Dam,
20 who would know better than Saskatchewan?

21 MR. DAVE CORMIE: That is correct but we may
22 have different assumptions about the future than they would.
23 So we don't necessarily have the same risk tolerance.

24 And they don't know for certain what they're
25 going to do a month from now. So it -- it is -- it is a

1 matter of -- of how much you want to rely on their forecast.
2 Remember it is a forecast.

3

4 CONTINUED BY MR. MICHAEL ANDERSON

5 MR. MICHAEL ANDERSON: On the first
6 paragraph, taking into account that you make adjustments, I
7 just had wanted to read the last sentence of the first
8 paragraph of the Churchill River Basin forecast which is a
9 summary:

10 "The additional flow in the Basin is
11 expected to maintain flows in both the
12 Churchill and Reindeer Rivers at above
13 normal levels for the duration of the
14 summer."

15 Does Manitoba Hydro agree with that general
16 summary of the Churchill River flows?

17 MS. PATTI RAMAGE: Mr. Chair, we're -- we're
18 -- we've gone on, this is the fear that I -- I suggested
19 during my initial comments. We're now off the SPLASH model
20 and we're into new evidence which is not the purpose of this
21 afternoon. Particularly given the time constraints we're all
22 under.

23 THE CHAIRPERSON: Well, one problem I have
24 with this of course as Mr. Anderson pointed out we operated
25 on the wrong assumption. I'm looking at SPLASH in the

1 beginning. Mr. Anderson, do you have a lot more questions in
2 this particular area?

3 MR. MICHAEL ANDERSON: Well, they end up
4 dealing with how Manitoba Hydro interprets water information
5 and I can actually go through them fairly fast now that I
6 understand the distinction. But I appreciate your
7 understanding of the misapprehension that I've been on
8 waiting for this opportunity to review this particular
9 exhibit.

10 THE CHAIRPERSON: Well, we're mindful of the
11 fact to have to prepare closing argument and so please be
12 equally mindful of the various concerns of the parties
13 present for the purpose of specifically today and the time.

14 MR. MICHAEL ANDERSON: I do. In terms of my
15 argument though, the -- the one (1) -- and I appreciate Ms.
16 Ramage's comment, but if -- if I could -- given the
17 discussion today about the distinction between Lake Winnipeg
18 and the Churchill River Basin, and the distinction between
19 their contributions to energy, if it would be possible for
20 Mr. Cormie just to confirm whether this assessment by the
21 Saskatchewan Watershed Authority and the circumstances for
22 the duration of the summer on the Churchill Basin was the --
23 that the understanding of Manitoba Hydro, that would be
24 helpful.

25 And I don't mean -- intend to go any further

1 than just that.

2 MR. DAVID CORMIE: What's more relevant, Mr.
3 Anderson, is the concluding sentence in the second paragraph
4 where they indicate that the Island Falls Station will be
5 operated at slightly below full plant capacity for the
6 remainder of the summer.

7 And that any additional water that's -- that's
8 available will be stored upstream. So, whether they're at
9 normal or above normal flows upstream, the differences will
10 be made up through regulation of Reindeer Lake.

11 And in our -- in our assumption about the
12 operation of Island Falls, we also concluded that they would
13 operate the plant at slightly below full capacity -- full
14 plant capacity for the summer, and the remainder of the year.
15 And that's the assumption that we included in the IFF-03.

16

17 CONTINUED BY MR. MICHAEL ANDERSON:

18 MR. MICHAEL ANDERSON: Thank you, Mr. Cormie,
19 that was a question I was going to ask, but had struck it
20 off, so I appreciate that you've added it to it.

21 If -- if I might, with the leave of parties,
22 so I could prepare the argument that I had in mind, turn to
23 MKO-17. And I'll try to be as brief as humanly possible.

24 Thank you. I appreciate your leave, Mr.
25 Chair, as well, and the support of the parties.

1 Do you have that, Mr. Cormie?

2 MR. DAVID CORMIE: Yes, I do.

3 MR. MICHAEL ANDERSON: Can you confirm, as the
4 Chair had indicated earlier, that this -- that MKO-17 is
5 essentially an update of MKO-14, for the forecast period June
6 24, 2004 to August 31st, 2004?

7 MR. DAVID CORMIE: These charts are updates
8 prepared on June the 25th by Manitoba Hydro, indicating the
9 forecast water level conditions on these various water bodies
10 at that time -- at the time of forecasting on June the 25th.

11 MR. MICHAEL ANDERSON: Thank you. And you can
12 confirm that each one (1) of these graphs, as indicated on
13 MKO-17, identifies that Manitoba Hydro forecasts the level of
14 these bodies of water to be above the long term average
15 levels, during the forecast period?

16 MR. DAVID CORMIE: That's correct, with the
17 exception of Lake Winnipeg, which doesn't show the long term
18 average level.

19 MR. MICHAEL ANDERSON: I was going to ask
20 that. Thank you for -- for going there with me already.

21 In terms of understanding the Lake Winnipeg
22 graph, could you indicate -- because it's not identified
23 here, just for the assistance of both myself and the Board
24 and other parties, what the normal operating -- what the
25 operating range of Lake Winnipeg would be?

1 MR. DAVID CORMIE: The operating range for
2 Lake Winnipeg for power purpose is seven-eleven (711) to
3 seven fifteen (715), as I previously testified.

4 MR. MICHAEL ANDERSON: Thank you. And then
5 briefly, in respect of the graph shown for Foot Print Lake,
6 if we had MKO-14 and MKO-17 side by side, can you indicate
7 please, Mr. Cormie, what circumstances or assumptions changed
8 the forecast for Foot Print Lake. What is Foot Print Lake on
9 MKO-17 telling us now?

10
11 (BRIEF PAUSE)

12
13 MR. DAVID CORMIE: I don't have the old
14 forecast available, and I don't have the current forecast
15 available, which is now a -- now a month later. I can only
16 say it's probably rising as we had forecast it to rise.

17 MR. MICHAEL ANDERSON: Mr. Mayer had commented
18 without his mike on, but does the Foot Print -- I just wanted
19 to confirm if the Foot Print Lake graph indicates releases
20 from Notigi?

21 MR. DAVID CORMIE: That's correct.

22 MR. MICHAEL ANDERSON: And that the chart
23 indicates for the -- for a one month period beginning at the
24 end of July through the 1st of September that the level of
25 Foot Print lake will rise approximately six (6) feet.

1 MR. DAVID CORMIE: That's correct.

2 MR. MICHAEL ANDERSON: And the reason for
3 these releases being?

4 MR. DAVID CORMIE: South Indian Lake is full
5 and we have to pass the inflows. And we do that by
6 increasing the flows at Notigi in order to move the water
7 down to our generating stations on the Nelson River.

8 MR. MICHAEL ANDERSON: Earlier today you
9 indicated that none of this water would be spilled; is that
10 the operational plan?

11 MR. DAVID CORMIE: That's correct.

12 MR. MICHAEL ANDERSON: And, therefore, the
13 assumption is that the water that is being released will be
14 used for -- all for hydroelectric production downstream?

15 MR. DAVID CORMIE: That's correct.

16 MR. MICHAEL ANDERSON: And has HERMES
17 generated a forecast revenue estimate as a result of this
18 generation that's being indicated?

19 MR. DAVID CORMIE: HERMES generates a
20 forecast every time we run it; yes.

21 MR. MICHAEL ANDERSON: Thank you. Now, if --
22 just so that I understand the -- the status of the system, if
23 we could go now to MKO-18.

24 If you could please confirm that the document
25 is an advisory indicating general water level advisory for

1 Cross Lake Area for the next three (3) week period and it was
2 issued on July 8th, 2004; is that correct?

3 MR. DAVID CORMIE: That's correct.

4 MR. MICHAEL ANDERSON: And up at the upper
5 top under the header for the contacts it's dated today, July
6 15th, 2004?

7 MR. DAVID CORMIE: That's correct.

8 MR. MICHAEL ANDERSON: Thank you. Is this
9 water advisory still in effect?

10 MR. DAVID CORMIE: With Lake Winnipeg very
11 close to the top of its operating range and given that our
12 license for Lake Winnipeg regulation requires us to go to
13 maximum discharge should the level of the lake go above seven
14 fifteen (715), we felt it was prudent to advise the people
15 downstream of Lake Winnipeg that there was a risk that there
16 could be some dramatic water level rises.

17 The current discharge from Lake Winnipeg
18 is -- it's about eighty-five thousand (85,000) cubic feet per
19 second and the license would require us to go to a hundred
20 and fifty thousand (150,000) cubic feet per second, almost
21 doubling the flow.

22 And with that potential, although we think
23 that the chances of it are low, but with that potential there
24 we wanted to advise downstream -- we issue a high water
25 advisory so that people could be aware that on -- on -- on

1 short notice water levels may have to increase.

2 We're operating Lake Winnipeg several inches
3 below the top in order to give us a buffer but there could be
4 weather conditions that could result in the lake level going
5 above the full supply level and then we have to comply with
6 what our license obligates us to do.

7 And so this is a -- an advisory. It's a
8 precautionary. It's to bring -- make sure that the
9 communities understand that there is some chance that water
10 levels could rise significantly above those that are in the
11 forecast.

12 And it's not our intention to -- to do this
13 but it's a prudent and -- and a responsible thing to do.

14 MR. ROBERT MAYER: Do I understand you to
15 mean you don't want any more water in Lake Winnipeg right
16 now?

17 MR. DAVID CORMIE: Well, I -- I would love to
18 have more water. And Mr. Warden would like me to -- to make
19 as much money as possible, but we also have a responsibility
20 to the people who are affected by our operations.

21 And even though the water can be converted
22 into electricity, there are impacts on others and we have an
23 obligation, a citizenship obligation to make sure that other
24 stakeholders know that there is some -- a potential for
25 problems and -- and can -- if they can, to prepare themselves

1 for that.

2

3

4 CONTINUED BY MR. MICHAEL ANDERSON:

5 MR. MICHAEL ANDERSON: Thank you. Although I
6 had -- was thinking of -- now as a different planning tool, I
7 note from this one -- these two (2) short references, because
8 you have discussed the change in elevation and the -- the
9 need to notify residents in the area; but I extract from this
10 five (5) variables, at least, that went into making this
11 analysis and announcement.

12 I just wanted to confirm with you that these
13 were actually processed, that the five (5) that I have that
14 I've extracted from the advisory are first, high water levels
15 on Lake Winnipeg or the water levels on Lake Winnipeg.

16 The second being provincial license
17 requirements and constraints. The third variable is
18 possibility of a significant rain event. The fourth variable
19 is requirement for southern release and the fifth is
20 downstream levels that would result from the release.

21 Do you agree that all five (5) of these were
22 -- analysed in terms of the production of this particular
23 notice?

24 MR. DAVID CORMIE: That's what it says.

25 MR. MICHAEL ANDERSON: Thanks, that's

1 excellent. And HERMES is the tool that was used to do this?

2 MR. DAVID CORMIE: HERMES is a tool that we
3 use to help us make our operational planning decisions. This
4 news release is -- or advisory is something that we as system
5 operators feel is a responsible thing to do. Our computer
6 programs don't tell us to issue advisories.

7 MR. MICHAEL ANDERSON: I take that and
8 completely understand, but the information that the advisory
9 presents, is it -- is it an output of the HERMES tool?

10 MR. DAVID CORMIE: No, the -- we tell our
11 computer programs that we want the best possible forecast,
12 but we also know that there's uncertainty, and we can't
13 predict for certain three (3) weeks from now, that we won't
14 have the four (4) inch rainfall in Lake Winnipeg, which would
15 require us to operate that way.

16 So it has nothing to do with the model, it's
17 just that we're looking at all potential problems associated
18 with the operation of Lake Winnipeg, and when we're at the
19 top and the reservoir's near the top, one (1) of the
20 potential problems is that our forecasted water supplies are
21 not going to be bang on. And then we will have to respond
22 with the sudden change in water flows.

23 The model doesn't tell us that, it's that's
24 the experience of -- of operators that says, you know, you're
25 getting yourself into a corner here, and the people who may

1 be affected by that, should know that there is a potential
2 for unpredictable changes in operation. And that's the
3 purpose of issuing the advisory.

4 MR. MICHAEL ANDERSON: I understand.

5 MR. DAVID CORMIE: And these are some of the
6 things that we don't try and build into our SPLASH model, it
7 has nothing -- SPLASH doesn't try and deal with these
8 operational things.

9 But this is where the models do not have the -
10 - the long term planning models do not have the operational -
11 - all the operational considerations and -- and that's
12 important that we don't turn our operation over to computer
13 models, we need to -- need to have good judgment and -- and
14 consideration of all other factors.

15 MR. MICHAEL ANDERSON: I appreciate that. At
16 the original beginning of my examination, I had a bit of
17 humour suggesting that perhaps SPLASH is a little like Howe
18 (phonetic) in 2001, but it's clear that there are more than
19 one (1) planning tool that are being used, and I appreciate
20 your qualification on that.

21 If I could turn finally to MKO-19?

22

23 (BRIEF PAUSE)

24

25 MR. DAVID CORMIE: Go ahead.

1 MR. MICHAEL ANDERSON: Thank you very much,
2 and this is so that I can follow along and understand the
3 effect of all the things that we've just been discussing.

4 Can you -- the upper graph for Stephens Lake,
5 I just had wanted to confirm that Stephens Lake is the
6 forebay for the Kettle Generating Station, is that correct?

7 MR. DAVID CORMIE: That's correct.

8 MR. MICHAEL ANDERSON: And if we compare the
9 water levels that appear as -- as actuals in forecasts in
10 MKO-17 and MKO-14, we noticed that MKO-14 and MKO-17, they
11 are relatively smooth lines and curves.

12 Can you explain the significant -- relatively
13 significant variability in the actual water -- level
14 information in MKO-19?

15 MR. DAVID CORMIE: The uncertainty is
16 associated with what the releases are, not with what the
17 water supply and inflows would be. And the releases are a
18 function of the weather in Manitoba and the market demands.

19 And Stephens Lake is the balancing reservoir
20 that soaks up all the variability associated -- and
21 uncertainty associated with -- with load and markets and --
22 and outages, it's the balancing reservoir for the lower
23 Nelson, where almost 75 percent of Manitoba Hydro's
24 generation is.

25 And so there's tremendous uncertainty and

1 variability in the water levels of that -- that lake.

2 MR. MICHAEL ANDERSON: Now, in terms of the
3 dark line that is shown on both graphs, the line that goes up
4 on the -- to the date of the forecast in both cases, are
5 actual recorded water levels, is that correct?

6 MR. DAVID CORMIE: That's correct.

7 MR. MICHAEL ANDERSON: And so the considerable
8 variation in that line is -- is due to draw downs in the
9 Kettle -- in the Stephens Lake forebay, is that correct, or
10 -- or in fills?

11 MR. DAVID CORMIE: That's correct.

12 MR. MICHAEL ANDERSON: And that reflects the
13 balancing that you were just describing in terms of system
14 operation?

15 MR. DAVID CORMIE: That's correct, the level
16 today is at a -- on the 15th of July is at probably about
17 four fifty-nine (459) and the forecast indicated would be at
18 four sixty-two (462), so that forecast is -- was out of date
19 probably the day after it was prepared, because there is so
20 much uncertainty in that -- in the operation of that lake.

21 MR. MICHAEL ANDERSON: In terms of our last
22 discussion on this on June 23, you confirmed that the upper
23 graph was the one that was in affect and available to persons
24 like myself at that time?

25 Is that correct?

1 MR. DAVE CORMIE: The -- the top chart is the
2 forecast that was prepared on June 9th, the bottom chart is
3 the forecast that was prepared on the June 25th. So I'm --
4 I'm assuming that if you looked at it prior to the 25th you
5 would have seen the chart -- that was published on the 9th,
6 yes.

7 MR. MICHAEL ANDERSON: I appreciate that,
8 thank you. Can you -- please describe what the chart
9 prepared June 25th indicates in terms of the change in
10 forecast for the operation of the Stevens Lake forebay?

11 MR. DAVE CORMIE: It was the expectation that
12 -- that if the Kettle forebay would rise three (3) feet
13 between the 25th of June and the 15th of July. And then it
14 would be drawn down over the month of August to elevation
15 four fifty-nine point five (459.5) by the end of August. It
16 -- it shows exactly what it says.

17 MR. MICHAEL ANDERSON: Does the change in
18 forecast between the June 8th forecast and the June 25th --
19 June 9th and June 25th forecast also indicate a change in
20 anticipated sales of electricity to any party and if so,
21 whom?

22 MR. DAVE CORMIE: I'm -- I'm not sure if
23 that's relevant to the issue of SPLASH and but it's not
24 forecastable because the -- this reservoir is the balancing
25 reservoir for all the variation that occurs in the market.

1 And -- and short term water supplies on other rivers,
2 Manitoba load variation. So if Manitoba load demand comes in
3 and June was a very cool month so the demand would have been
4 down from forecast, Stevens Lake would have absorbed that.

5 It's -- it's a short term balancing reservoir
6 and it's impossible to forecast with any precision.

7 MR. MICHAEL ANDERSON: I -- I understand and
8 I take that in terms of the -- the June 25th chart where we
9 see storage and in-fill on the rising lake level. The Lower
10 Nelson River plants are continuing to generate electricity,
11 correct?

12 MR. DAVE CORMIE: That's correct.

13 MR. MICHAEL ANDERSON: And where we see the
14 draw down slope that begins in the middle of July, what we
15 see there is a relative increase in the amount of electricity
16 being produced by the Lower Nelson plants, is that correct?

17 MR. DAVE CORMIE: Only to the extent that the
18 -- the head in the water level in front of the Kettle Dam
19 goes up by one (1) foot or one and a half (1 1/2) feet which
20 is a slight increase in production capability. That's the
21 only -- that's the only affect on the production capability
22 of the change in water level.

23 MR. MICHAEL ANDERSON: And the other thing --
24 and finally that the change in water level indicates for the
25 Stevens Lake forebay is the availability of water in the

1 Manitoba Hydro system as we discussed with MKO-17, is that
2 correct?

3 MR. DAVE CORMIE: No. I think the variation
4 that occurs in the Kettle forebay has very little to do --
5 left to do with the water supply. It has mostly things to do
6 with the export market and the demand for power.

7 If water is released well in advance of need
8 four (4) to five (5) weeks in advance of when it's actually
9 going to be generated from the -- from the -- it's going to
10 be released from the reservoirs, it works its way down the
11 river and -- and conditions are rarely as forecast.

12 Loads are always higher or lower than forecast
13 because the weather is hotter or colder than forecast.
14 Demands in the market place are higher or lower than
15 forecast, prices are up or down. And Stevens Lake is used in
16 order to balance the arrival of that water that was released
17 well in advance with the actual demands for electricity in
18 the province and in the external markets.

19 And so that variation is -- is in the way that
20 they can't forecast the weather two (2) or three (3) days
21 from now, it's almost impossible to predict what the actual
22 level of Stevens Lake will be. But we've been asked by those
23 people who -- in the Split Lake resource area to forecast it.
24 We provide a forecast, the best possible forecast that's
25 available but we don't believe that we really have very much

1 skill in predicting what the water level in Stephen's Lake
2 is.

3 MR. MICHAEL ANDERSON: Does the -- the shape
4 of that spike or that curve that we have on the June 25th
5 forecast reflect a forecast of anticipated power sales?

6 MR. DAVID CORMIE: No.

7 MR. MICHAEL ANDERSON: What I -- all I'm --
8 what I'm trying to understand is why is that -- is that curve
9 apparently, according to the chart, considerably greater than
10 the long term average for those periods of time in the
11 forecast?

12 MR. DAVID CORMIE: Because for the fourteen
13 (14) day period after the forecast it was -- there was a
14 short term surplus of water relative to the demand for
15 electricity and it was forecast that water levels on
16 Stephen's Lake would -- would increase in the short term.

17 And the water level in Stephen's Lake would go
18 up by two (2) feet over the -- over the two (2), three (3)
19 weeks of that forecast.

20

21

(BRIEF PAUSE)

22

23 MR. MICHAEL ANDERSON: I think in terms of
24 the leeway that I've been provided in pursuing this, given
25 the circumstances, that I would conclude the questions that I

1 have now. And I appreciate everyone's patience and
2 assistance of Manitoba Hydro. Thank you, Mr. Chair. Thank
3 you, Manitoba Hydro for allowing me to pursue this.

4 It's actually been quite helpful to me. Thank
5 you.

6 THE CHAIRPERSON: Thank you, Mr. Anderson. I
7 see now we've been rejoined by Mr. Feldschmid. Mr.
8 Feldschmid, did you have any follow up questions for this
9 Panel?

10 MR. JURGEN FELDSCHMID: No, I didn't, Mr.
11 Chair. Thank you.

12 THE CHAIRPERSON: Then we'll move on then to
13 the recall of Mr. Bowman and Mr. Osler for MIPUG. Ms.
14 McCaffrey, I'm sure you'll want to set up so we'll just take
15 a quick break and then we'll begin. Thank you.

16 MS. PATTI RAMAGE: Mr. Chair, maybe perhaps
17 before the MIPUG witnesses commence, Mr. Warden was hoping to
18 be able to put one of the answers to the undertakings he was
19 requested this morning regarding bad debts on the record so
20 that the Board would have the information immediately rather
21 than waiting for a written response.

22 THE CHAIRPERSON: By all means. Mr.
23 Warden...?

24 MR. VINCE WARDEN: Yes, thank you, Mr.
25 Chairman. The total accounts written off in 03/04 were nine

1 thousand five hundred and thirty-one (9,531). The question
2 this morning was, how much of those were all electric and I
3 indicated that 57 percent were all electric pertaining to the
4 former Manitoba Hydro, not including the Winnipeg Hydro --
5 former -- sorry former Winnipeg Hydro customers; that
6 combined percentage I now have is 37 percent.

7 So of the total ninety-five, thirty-one (9531)
8 accounts written off, 37 percent are residential all
9 electric.

10 THE CHAIRPERSON: Thank you very much.

11 MR. VINCE WARDEN: Thank you.

12

13 (PANEL STANDS DOWN)

14

15 THE CHAIRPERSON: We'll have a short break
16 now and we'll resume with the MIPUG and the expert witness.

17

18 --- Upon recessing at 4:13 p.m.

19 --- Upon resuming at 4:19 p.m.

20

21 THE CHAIRPERSON: Ms. McCaffrey, we're back to
22 MIPUG and your two (2) experts, Mr. Osler and Mr. Bowman.

23 MS. TAMARA McCAFFREY: Thank you, we're happy
24 to return, Mr. Chair.

25 At the outset there was an undertaking given,

1 number 60 -- or 56, I'm sorry, to Mr. Feldschmid, on behalf
2 of CCEP and the transcript reference is 1929, and we have
3 distributed a three (3) page document, that I would like to
4 give Mr. Bowman an opportunity to just take you through it so
5 that he can describe the response to the undertaking. And
6 following which, I will ask that an exhibit number be
7 assigned to it, and I believe we are at MIPUG Exhibit 11.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Mr. Chairman, I believe Ms.
12 McCaffrey is right, it is MIPUG Exhibit 11, because I have as
13 Exhibit 10, the document referred to I think in the direct
14 evidence of these witnesses.

15

16 And I'm seeing Mr. Evans enter the room, and I
17 was just going to stall long enough, so that if there was any
18 evidence going to be provided other than an exhibit number,
19 we would certainly ensure his being here. But I do have it
as Exhibit 11, if that assists the Board.

20

THE CHAIRPERSON: Exhibit 11, Ms. McCaffrey.

21

22 ---EXHIBIT NO. MIPUG-11: Response to undertaking 56

23

24 JOHN OSLER, PATRICK BOWMAN, Recalled:

25

1 EXAMINATION-IN-CHIEF BY MS. McCAFFREY:

2 MS. TAMARA McCAFFREY: Mr. Bowman, can you
3 please take us through this exhibit?

4 MR. PATRICK BOWMAN: Yes, the undertaking
5 arose at pages 1928 to 1929 of the transcript, and my comment
6 there was it was in regards to growth and export revenues and
7 the extent to which they were changing revenue cost coverage
8 ratios.

9 And I made a comment that I recalled evidence
10 from the 2002 Hearing, and I had recalled it as an
11 Interrogatory that Manitoba Hydro had filed at that time,
12 indicating that even had export revenues remained back at the
13 level from 1996, in other words, had they not grown between
14 1996 and 2002, the changes to the revenue cost coverages were
15 not as material as -- as might have been assumed. And I'd
16 given an undertaking to provide that Interrogatory.

17 Going back through the files, I was corrected
18 that it was not in fact an Interrogatory, it was Manitoba
19 Hydro's rebuttal evidence that dealt with that, and so the
20 two (2) pages that we've included here are those -- those
21 excerpts from the rebuttal evidence, and the numbers that I
22 was -- I was searching for at the time.

23 The first one (1) is on page 25, which is the
24 first page of the undertaking, and it's noting that using
25 what we now call generally the -- the accepted PCOS

1 methodology, at that time they were calling it the one (1) --
2 the one (1) that had been consistently used in -- from '96/97
3 and before.

4 The GS large, greater than 100 kV revenue cost
5 coverage for 2001/2 was one point one three eight (1.138),
6 and that's in the Table 2, line 22 of that table, while the
7 residential ratio was point eight eight four (.884), so this
8 is using export revenues at the 2001/2 level.

9 While Table 3, compares what they would have
10 been, had everything else remained equal, but the export
11 revenues were back at the level that had been there prior to
12 that at the 1996/97 level.

13 And those revenue cost coverage ratios are
14 shown on the next page at line 34, for general service large
15 at one eleven point four (111.4) and for residential at
16 eighty-nine point two (89.2). So the difference was for
17 residential, had export revenues not grown, the RCC at that
18 time would have been eighty-nine point two (89.2) but because
19 they grew, they dropped to eighty-eight point four (88.4).
20 And similarly for GS Large, greater than 100 KV, had export
21 revenues remained at the earlier level would have been one
22 eleven point four (111.4) and instead because they grew, it
23 increased to one thirteen point eight (113.8).

24 And the third page there is just the excerpt
25 where we discuss this in the transcript at that -- that

1 hearing, so, we wanted to just make sure the package was --
2 was complete. So that -- I hope that responds to the
3 question that Mr. Feldschmid was asking.

4 THE CHAIRPERSON: Thank you, Mr. Bowman. Mr.
5 Peters...?

6 MR. BOB PETERS: Yes, thank you and thank
7 Messrs. Osler and Bowman for attending this afternoon so we
8 can tidy up questioning.

9
10 CROSS-EXAMINATION BY MR. BOB PETERS:

11 MR. BOB PETERS: Gentlemen, in light of
12 Manitoba Hydro's financial deterioration, is it your opinion
13 that they should have an increase in consumer rates to help
14 recover from that deterioration?

15 MR. PATRICK BOWMAN: Yes.

16 MR. BOB PETERS: In your evidence you talk
17 about causes of the financial deterioration and, broadly
18 speaking, you've put it into categories of items over which
19 Manitoba Hydro has control and otherwise items over which
20 they have no control.

21 Would you agree with that?

22 MR. PATRICK BOWMAN: It would be helpful if
23 you could point me to somewhere where -- it may have been
24 categorized that way, but, I think generally that's a fair
25 breakdown.

1 MR. BOB PETERS: I'm -- I'm not suggesting
2 you used those words but I'm understanding -- would it be
3 correct to understand your evidence that for the impacts of
4 the drought, it's your opinion that the Corporation should
5 receive some rate relief on account of that?

6 MR. PATRICK BOWMAN: Well, our -- our
7 perspective would be at any time one comes in to deal with a
8 rate application of this type, that the full package of
9 information laid before this Board in considering rate
10 increases should include the current financial position, as
11 well as the forecast financial position.

12 Of course, the current financial position
13 reflects quite materially the impacts of the drought. So it's
14 -- it's clearly a material factor and in this case, that
15 material factor would lead us to conclude that rate increases
16 are required.

17 MR. BOB PETERS: Is it the factors that
18 relate to the increased capital expenditures, the increased
19 operating costs, as well as the increased debt that are
20 factors that lead you to believe that those items should not
21 be compensated for by way of rate increases?

22 MR. PATRICK BOWMAN: Our -- our con -- I
23 would say that's generally correct. By increase though, I'm
24 particularly noting increased from earlier forecast of what
25 would be required today. We're not saying that somebody

1 should have to live with a given year's budget for all time.
2 But, in 2000 -- for example, in 2002 where a
3 ten (10) year forecast was filed, it had O&M numbers or
4 capital spending numbers for '05 and '06 and '07 and no way
5 in going forward to 2012. It's that line of numbers in each
6 respective year that has bumped upwards that causes us a
7 concern.

8 MR. BOB PETERS: When you did a review of
9 this, Mr. Bowman, you presented it to the Board in MIPUG
10 Exhibit 10 on July the 5th, is that correct?

11 MR. PATRICK BOWMAN: I have MIPUG Exhibit 10,
12 yes.

13 MR. BOB PETERS: And in MIPUG Exhibit 10, the
14 bottom-line conclusion that you reached is that as a result
15 of your analysis of comparing IFF forecasts by the company,
16 there was about \$300 million which, to you, was unexplained?

17 MR. PATRICK BOWMAN: That's the bottom line
18 conclusion out of that -- out of that table.

19 Again, it's -- by taking those line items that
20 based on the available information we could quantify versus
21 those that there may be qualitative information or not
22 consistent information so that we could not quantify them on
23 -- on some consistent measure.

24 MR. BOB PETERS: And as a result of the
25 questions and the Manitoba Hydro Exhibit 61 which was

1 prepared and shown to you during questions from, I believe
2 Ms. Fernandes also on July 5th, Manitoba Hydro was providing
3 you with some indication of the reasons that underlie the
4 changes in the forecast; correct?

5 MR. PATRICK BOWMAN: That exhibit focussed on
6 some additional line items, if it's fair to call them that --
7 that could have been quantified in this table to reduce the
8 extent to which there was an unexplained difference.

9 But the one (1) in particular -- or, sorry,
10 the two (2) in particular that I recall from that were
11 changes in the load forecast and changes in the costs
12 incurred due to higher than forecast purchase power prices or
13 -- at the time of the drought.

14 MR. BOB PETERS: With the information you
15 have been provided through Manitoba Hydro's Exhibit 61, what,
16 if any, changes would you now make to MIPUG Exhibit 10 in
17 trying to understand what is -- remains unexplained in terms
18 of the change in financial position of the Corporation from
19 the various IFF's that have been filed?

20 MR. PATRICK BOWMAN: At this point, with the
21 type of information that's been filed, I couldn't make any
22 consistent change to MIPUG Exhibit 10 because, again, on an
23 apples to apples basis it becomes somewhat difficult to -- to
24 say this is -- this is where that one (1) factor will change
25 from the earlier IFF-MH-01-1 to the new MH-03-1 forecast.

1 And we were -- we were trying to very precise
2 that -- so that we weren't perhaps mixing a bunch of
3 different factors. The exhibit that -- the Exhibit 61 --
4 sixty-one (61) that -- that came from that date, helped put
5 some meat on the bones as to what might be within that
6 unexplained category.

7 But on a consistent basis where we were
8 comparing a -- a two (2) year gap in IFF's and we were
9 comparing a level of retained earnings at that date, I have
10 no more precision in terms of any numbers that I could put on
11 that.

12 Part of that arises from the fact that most of
13 the comparisons in that were -- were comparing MH-03-1 to MH-
14 02-1 in the IFF, where we were really trying to use MH-01-1
15 as a baseline, given that it was the last that the Board
16 reviewed.

17 MR. BOB PETERS: You're saying that the
18 intermediate step that was offered up by Manitoba Hydro
19 didn't provide assistance to you to -- to clarify where some
20 of that additional financial difficulty came from?

21 MR. PATRICK BOWMAN: Yeah. MH-02-1 is not
22 one (1) that we had the luxury of reviewing in -- in perhaps
23 quite as much detail as some people who may have been
24 involved in the Wustwatim Hearings and the like where it
25 formed the baseline.

1 For those of us who were just talking about a
2 rate hearing to rate hearing comparison, oh one dash one (01-
3 1) is -- is really the last one (1) that we had on -- on that
4 basis.

5 MR. BOB PETERS: Am I correct that on behalf
6 of MIPUG you have gone on record as supporting the
7 construction of the Wustwatim generating station?

8 MR. PATRICK BOWMAN: In -- in terms of this
9 proceeding, Mr. Osler and I have made no comments either way
10 supporting or -- or not supporting Wustwatim. Although it
11 would -- it would appear from the information that's filed
12 that the normal types of concerns that one gets with building
13 a capital intensive plant are -- are -- are not there for
14 Wustwatim.

15 So I think there's a lot of factors that
16 appear to be floating about that would suggest it's a good
17 project but it's not something that we've reviewed in terms
18 of this proceeding.

19 I believe there is comment on the record from
20 Mr. Turner on behalf of MIPUG in the Wustwatim proceeding
21 that -- that is -- is more on point.

22 MR. BOB PETERS: Okay. That's perhaps
23 helpful, not being part of that proceeding. You're telling
24 me that Mr. Turner has gone on record before the Clean
25 Environment Commission in support of Wuskwatim to your

1 understanding?

2 MR. PATRICK BOWMAN: He made a presentation
3 to the Commission.

4 MR. BOB PETERS: You still haven't answered
5 the last part of my question. Is he -- is he supportive or
6 not supportive of the --

7 MR. PATRICK BOWMAN: Oh, yes, yes. I
8 understood -- that presentation included MIPUG being
9 supportive, I'm sorry.

10 MR. ROBERT MAYER: I could have sworn at
11 least one (1) of you guys was there when Mr. Turner made his
12 presentation?

13

14 (BRIEF PAUSE)

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: Can you give the Board your
18 opinion as to what is the appropriate debt level for Manitoba
19 Hydro?

20 MR. PATRICK BOWMAN: Mr. Peters, I think that
21 in -- in that -- in that general way, it's a very difficult
22 question to answer. A utility such as Manitoba Hydro that
23 doesn't raise equity through capital markets has -- at times,
24 it needs funds -- only has the opportunity of debt markets to
25 raise capital.

1 So, it becomes a -- a residual of a series of
2 other decisions rather than an item that is -- that is
3 quantified in the absolute on its own merits.

4 I think much like talk -- earlier talk of
5 trending lines, I think that's probably a more relevant way
6 to talk about debt, and -- and discussions of good debt
7 versus bad debt are concerned with regards to debt levels,
8 and in particular the reading of the earlier Board's Order is
9 that in times outside of -- of the major capital expansions
10 outside of Wuskwatim or Bi-Poles, that would be correct at
11 that level for any given year is -- is probably similar to,
12 if not slightly below the -- the prior year.

13 MR. BOB PETERS: Are you prepared to agree
14 with the Corporation that a target 75:25 debt equity ratio is
15 appropriate?

16 MR. PATRICK BOWMAN: We discussed this in
17 quite a bit of detail in the 2002 Hearing, and I would -- my
18 position would be the same as what I put on the record there,
19 which is a debt equity target for a Corporation is a matter
20 that its -- its Board of Directors and its management needs
21 to review and make a decision on, for the purposes of
22 reviewing that -- that Corporation's results, in respect of
23 setting rates.

24 There -- it's not incumbent upon ratepayers to
25 necessarily get them to the debt equity ratio that they might

1 otherwise desire or -- or think they would like to have.

2 The question is, how much -- how much
3 reserves, and I use the term loosely, because there's a lot
4 of other terms that -- that seem to be a little bit fuzzy in
5 regards to that, it's just equity or retained earnings.

6 But how much reserves is it appropriate for
7 ratepayers to be putting aside, via the rates that's charged
8 to them as justified before this Board. So at seventy-five
9 (75) -- I don't know that there is an absolute need for a
10 decision, you know, a need for an opinion on a debt equity
11 ratio.

12 MR. BOB PETERS: You will acknowledge that the
13 Corporation has significant risks, and you've heard some of
14 the quantification of that during these Proceedings?

15 MR. PATRICK BOWMAN: We -- we acknowledge now,
16 and I think that it's pretty consistent on the record, the
17 Corporation has significant risks, and -- and has had
18 significant risk for some time.

19 I think those -- what -- what I alluded to, at
20 least in our direct evidence, was that those risks, to some
21 extent, appear to be changing over time, and some risks that
22 people spent a lot of time focusing on the past seemed to be
23 either non-existent today, or much less risk today than they
24 had been while others are -- are heightened and more -- more
25 clear.

1 And of course, drought is the one (1) that --
2 that gets most focused on, and -- and clearly has become more
3 of an issue, both with what we hear about as changes in
4 export market prices, and with ongoing changes in the
5 configuration of hydro's system, the extent to which they're
6 at risk of water flows, given, for example, the -- the loss
7 of the Selkirk Coal Facility as -- as another low cost source
8 of power.

9 Or the extent to which a tie line allows them
10 to operate their reservoirs more tightly or more
11 aggressively, because they know they can get the power they
12 needed, but the question becomes at what cost?

13 So, yes, we acknowledge that there's a lot of
14 risk, and -- and in particular, we're -- we're well aware
15 that the -- the needle risk of drought is -- is probably
16 higher than at one (1) time when reviewed in the past.

17 MR. BOB PETERS: You're also critical that the
18 Corporation hasn't quantified their risks specifically, is
19 that correct?

20 MR. PATRICK BOWMAN: I would -- quantification
21 is not necessarily the absolute level. We -- we -- our
22 evidence doesn't go to criticism of not having quantified the
23 drought risk. That would be something newer, because we have
24 new numbers floating around that haven't been quantified, \$2
25 billion sort of thrown out as a preliminary or -- or

1 guesstimate number.

2 But the quantification that we are more
3 concerned about is not necessarily what is the absolute risk
4 of loss, but what is the probability of loss, and how do
5 those two (2) go together to inform the level of reserves
6 that are required.

7 That -- that would be what we read was a
8 necessary part of responding to the Board's directive in
9 regards to the reserve provision amount, and that part was,
10 in our view, quite absent.

11 MR. BOB PETERS: And you've heard the evidence
12 of the company, that they're working on that still, as I
13 interpret their -- their testimony?

14 MR. PATRICK BOWMAN: We've -- we've heard the
15 evidence of the Corporation that they're working on it.

16 I -- I would say we still have some concern
17 that when -- when we read the page and a half or so of the
18 Board's Order that deals with the reserve provision amount,
19 it's meant to inform, not just an assessment of risk, but an
20 assessment as to how we deal with reserves going forward,
21 which may look a little bit different than reserves we're --
22 that we have now, which is effectively just VR retained
23 earnings, that reserves going forward need not only look at
24 the absolute risk of drought, but -- but need to be thought
25 about in terms of how they be built up and -- and drawn down.

1 What sort of rules may be there, how they're -
2 - they're sacrosanct to what sort of, perhaps, firewalls are
3 around them. So that we're -- we're not in the end, mixing
4 reserves that customers have funded to deal with water risk,
5 with, say, ongoing operating cost changes or -- or government
6 charges, or any number of other things, that in the end, go
7 to affect the bottom line when you're talking about just the
8 retained earnings as a residual.

9 MR. BOB PETERS: Are you going so far, Mr.
10 Bowman, as to suggest that for each identified and quantified
11 risk, there should be a separate fund, or a, in my words, a
12 bank account, set up for that risk?

13 MR. PATRICK BOWMAN: I don't think we can
14 make that conclusion today, but I would think it's highly
15 unlikely that that's the case. The one (1) that may merit
16 such treatment and it would -- it would take a fair bit more
17 thinking, than -- than I think has been done to date, is
18 whether the drought reserve, in particular, somehow merits
19 this reserve provision.

20 Or -- or the drought risk and other
21 overlapping risks, at least those that are correlated to
22 drought in some way, either positively or negatively, merit
23 some form of reserve treatment different than retained
24 earnings.

25 I -- I've worked with other utilities that may

1 have a stabilization type of account or fund to deal with it.
2 Those utilities may not -- some -- it varies, the extent to
3 which they're at -- at risk of water flows, and what other
4 overlapping risks occur.

5 But it's simply, via retained earnings is not
6 the only option and that was what we would have expected to
7 see as some discussion of options.

8 MR. BOB PETERS: All right. When you say
9 retained earnings aren't the only option, is -- is the option
10 that you are suggesting that be considered is the -- the
11 reserve funds, or the funds set aside specifically for
12 stabilization, for example?

13 MR. PATRICK BOWMAN: Well, that -- that's
14 what we would have read the reserve provision amount as
15 actually the Board's ordered to do, and we think it seemed
16 quite wise. I -- I'm just hesitant to take credit for it,
17 'cause I don't think we argued that in the last Hearing. I
18 think it came out of the -- the Board's Order and it's
19 probably a pretty good idea if they can get on and look at
20 it.

21 MR. BOB PETERS: And in terms of where we are
22 at looking at it, you'll acknowledge that until we get some
23 additional data from Manitoba Hydro, it might be premature to
24 quantify and decide how big those provisions should be?

25 MR. PATRICK BOWMAN: I -- I think it's

1 definitely true. And I -- I can say this with some
2 experience with these type of funds. In some cases, they
3 make sense, in some cases they may not. And they're very
4 unique to the -- the type -- the size of the utility, the
5 extent to which you would, how big a fund you would need
6 relative to the capital of the utility, and how -- how much
7 swings and that type, some form of a stabilization or reserve
8 provision

9 It might, in the end, make fairly material
10 swings in how this utility meets access capital markets and
11 the like. So there's -- there's a fair bit of thinking that
12 needs to go into it from a couple of different perspectives,
13 you know, risks of water flows, all the way through to
14 capital markets and -- and debt ratings, are -- are all sorts
15 of other factors that -- that probably still needs to be done
16 before someone can intelligently talk about it.

17 MR. BOB PETERS: Mr. Bowman, when I asked you
18 if there was a debt equity ratio that you felt was
19 appropriate or maybe I suggested to you 75:25, I think you
20 declined to agree or disagree with that number.

21 Are you prepared to put forward a -- a dollar
22 amount instead of a percentage, of debt versus equity, that
23 should be kept as retained earnings?

24 MR. PATRICK BOWMAN: I -- I get kind of
25 nervous wading into this area because, in terms of sitting

1 before a regulator, retained earnings and -- and equity and
2 dollar amounts of -- of shareholders' equity and dividends
3 and the like, are not normally matters that a regulator would
4 deal with, even where they have a lot of levers and controls
5 over the utility, which we don't even have here. We have a
6 somewhat limited number of levers.

7 What -- what a utility board would normally
8 look to is, what is an appropriate capitalization? In some
9 cases, that may be the actual capitalization, and in some
10 cases that may be not, it may be something deemed.

11 But what they would look to is what's an --
12 what's an appropriate level of costs that are incurred by the
13 utility for the capital needed to run that utility, and --
14 and how do we build that into the rates that rate payers pay.

15 So, in terms of setting a debt equity ratio,
16 it's -- it's -- it's a very hard, or -- or an absolute value
17 of -- of equity retained earnings, it's a very hard number to
18 try to come up with, particularly outside of the discussion
19 on the reserve provision amount that we just went through.

20 MR. BOB PETERS: In terms of the rate
21 proposal before the Board, there's a request that for fiscal
22 2005, the corporation recover in total, in total, \$28 million
23 and you're aware of that?

24 MR. PATRICK BOWMAN: Yes.

25 MR. BOB PETERS: And to recover that at this

1 stage in the calendar year -- or in the fiscal year, I should
2 say, they're seeking what amounts to, in my words, a -- a
3 rate rider on top of the approved rate that they're seeking?

4 MR. PATRICK BOWMAN: That would be the way I
5 would think about it too.

6 MR. BOB PETERS: And what's your position and
7 advice to the Board as to whether that would be an
8 appropriate way to recover any amount that has been not
9 captured to date in the fiscal year?

10 MR. PATRICK BOWMAN: In the context of other
11 utilities that we deal with who are regulated a little bit
12 different than Manitoba Hydro, I would say the norm that
13 we've experienced is that utilities who deal with a rate
14 increase later in the year than the start of their fiscal
15 year have the opportunity to recover that revenue via rate
16 rider if they're -- if it's property revenue that is to be
17 awarded to the utility.

18 There will be debates as to how long the
19 revenue -- that -- that rate rider lasts and -- and how it's
20 calculated. But that would -- that would be the norm in a
21 utility that has a regulated revenue requirement.

22 In the case of Manitoba Hydro, we don't
23 determine an absolute dollar value of revenue requirement.
24 It's not a necessary step under the -- the framework or under
25 the legislation that we have in place in this province.

1 So the rules are a little bit different and --
2 and the rules to date have been that we don't do things
3 retroactively but we've never quite been in this situation
4 before.

5 I would think our position would be, if \$27
6 million is determined to be the level of rates that Hydro
7 really requires from ratepayers and it can show that that's
8 necessary to be on the road to where it needs to get to over
9 the longer term, which is really the way that, in our view,
10 you need to regulate Hydro given the levies that are
11 available. Then that revenue needs to be made available to
12 them via some form of -- of rate rider.

13 I think our evidence is that twenty-seven (27)
14 or twenty-nine (29) may not, in the end, be necessary to the
15 same level. So whether that comes from a reduced rate rider
16 or whether that comes from a reduced ongoing rate increase,
17 is a -- is -- is a bit of a mathematical trade off.

18 But I -- I don't think we're -- if it's shown
19 to be revenue that the utility requires, I don't think we're
20 adverse to the thought of -- of a rate rider to pick up the
21 difference.

22 MR. BOB PETERS: And you're not adverse to
23 extended recovery as in the exhibit that I reviewed with Mr.
24 Wiens? You may -- I don't think you were here this morning,
25 but he prepared an exhibit to show what the rate increase

1 would have to be going forward to not recover it -- to
2 recover it over a longer period of time but still in the two
3 (2) test year period.

4 MR. PATRICK BOWMAN: I think that would be a
5 normal type of option that's available when considering rate
6 riders. If you have a defined dollars to be -- recovered via
7 a rate rider, in designing rates, you actually have a bit
8 more luxury than you have with just rate increases because
9 you can decide when those dollars occur.

10 And you're not necessarily just -- you're --
11 you're managing the rate impact or managing the bill impact
12 with a bit more latitude than -- than where you have a
13 revenue requirement and you need to recover from utility.

14 So, yeah. I think that's a normal type of
15 thinking and I -- we -- we wouldn't be adverse to it.

16 MR. BOB PETERS: In turning to some cost of
17 service issues, is it your view that the zone of
18 reasonableness now is within the bounds of precision or is it
19 -- is it too tight? Is it too loose? Where do you sit on
20 that ground?

21 MR. PATRICK BOWMAN: The ninety-five (95) to
22 one-oh-five (105) range is -- is -- seems to us to be
23 reasonable. It seems quite consistent with other
24 jurisdictions that -- that I've dealt with, that in many
25 cases, are smaller and have more variability in -- in their

1 -- their data and the like than Manitoba Hydro.

2 I think in the past when -- when Manitoba used
3 ninety (90), one ten (110) it was in the early years of
4 developing an approach to cost of service. There were a lot
5 of debates over all sorts of aspect of the cost of service
6 that, in many ways, don't even get dragged up these days.

7 They've sort of been put to bed and we're
8 pretty confident with them and the load research program, I
9 think was considerably farther back then it is today. And I
10 think that that was what led to the decision to narrow it
11 from ninety (90), one ten (110) to ninety-five (95), one-oh-
12 five (105) when -- when this Board made that decision.

13 MR. BOB PETERS: Does your answer change if
14 the methodology to the cost of service changes; such as that
15 suggested by NERA, as to what is the appropriate zone of
16 reasonableness?

17 MR. PATRICK BOWMAN: Well, the -- the biggest
18 factor that drives -- in -- in my view, the biggest factor
19 that drives variability and concern with revenue cost
20 coverages is the quality of the load data. And the quality
21 of the load data wouldn't necessarily change under any of the
22 NERA proposals, unless someone moved to a time of use type of
23 data that we don't currently collect, and it would take us
24 time to get the right information.

25 I don't know whether the quality of data

1 broken down further that way, but the load data that's there
2 right now is -- is -- it's been -- there's been a lot of
3 years trying to get it right, as best I understand it.

4 The other reason though, for having of course
5 a Zone of Reasonableness is because the corollary, or saying
6 that everyone had to be exactly a hundred (100) every time,
7 is every time you came in here it would just be a
8 mathematical calculation, the rates may bump up or down or go
9 here or there, but -- but we're going to -- we're going to
10 stick to a hundred (100) darn it, and we're not going to give
11 ourselves the ability to manage some things over time, so
12 that the -- so that rates vary about a hundred (100).

13 A Zone of Reasonableness is -- is to allow,
14 you know, someone to say if it's ninety-nine (99) this year
15 and one-o-one (101) the next, that's fine. We don't have to
16 necessarily bump someone up and then down and then up again.

17 So, to encourage rate stability, and I think
18 that consideration with ninety-five/one-o-five (95/105),
19 would probably still allow the flexibility needed to
20 accomplish rate stability, even under the NERA type approach.

21 MR. BOB PETERS: Can you explain to the Board
22 what you see as the difference between how NERA has included
23 a -- an export class in their cost of service methodology,
24 compared to how Manitoba Hydro generally runs its embedded
25 cost of service study?

1 MR. PATRICK BOWMAN: I'm sorry, can you repeat
2 the question?

3 MR. BOB PETERS: Let me -- let me rephrase it.
4 In your pre-filed evidence, you raise a number of questions
5 about the NERA Study, and at this point you're not prepared
6 to support it or say it's not -- not appropriate, would that
7 be fair?

8 MR. PATRICK BOWMAN: Yeah, our biggest concern
9 with respect to the NERA Study is that we didn't see a copy
10 of it until -- until quite a bit into this process, and that
11 even at that point it would have been filed with less
12 supporting information than you'd normally get through the
13 Cost of Service Study filed by Hydro.

14 So, with one (1) round of Interrogatories, and
15 the type of high level information that's there, it -- it
16 gets to be very difficult to -- to try to wade into it and --
17 and determine the -- the devil in the detail, as I think Mr.
18 Harper may have termed it.

19 MR. BOB PETERS: Well, what -- what suggestion
20 do you have then for the Board, as to how they would address
21 some of the recommendations put forward by NERA?

22 MR. PATRICK BOWMAN: I -- I don't know that
23 we've -- we've spent a lot of time considering the right
24 process to go from here. But I think it's fair to say that
25 it's -- it's very difficult to spend too much time on the

1 NERA Report, until we have a position from Hydro as to where
2 they stand on -- on any particular approach. And we can --
3 we can debate the applicant's perspective versus other
4 people's perspective.

5 For now it's a -- it's a study by -- by a
6 consultant, and that's a -- that's a very difficult thing to
7 frame or review around, in my view.

8 Whether -- I would also think though that it
9 -- it may merit more review than is sometimes available
10 within a next GRA process, it's very difficult to get into
11 the -- the detail on -- on lots of matters in the GRA
12 process, and -- and given the number of what I consider to be
13 fairly substantial things outstanding.

14 Cost of Service may be one (1) that is --
15 that is usually carved off into some form of -- some form of
16 different type of review that -- rather than just being
17 bundled within a GRA.

18 MR. BOB PETERS: Can I take that then as a
19 recommendation you're making to the Board, is to carve it out
20 as a separate issue and address it separately?

21 MR. PATRICK BOWMAN: We -- we wouldn't be
22 adverse to that, and probably it would get better -- better
23 airing of the issues, were it done that way.

24 MR. BOB PETERS: Before we leave the NERA
25 Study, conceptually then, rather than debate the approaches

1 taken, conceptually, does your -- does your view of the
2 creation of an export class coincide with that advanced by
3 NERA?

4 MR. PATRICK BOWMAN: I don't think there's
5 very much magic on the conceptual level of -- of creation of
6 a way to assign fixed costs to exports, it's just determining
7 what the way is, that's the difficult part.

8 So, I don't think we -- we differ with them
9 that -- that you need to find a way to assign fixed costs to
10 exports.

11 MR. BOB PETERS: Would I be correct in saying
12 that regardless of the methodology used, that is whether it's
13 the NERA option or the prospective Cost of Service Study as
14 filed by the Corporation, it's -- it's your view that the
15 revenue to cost coverage ratio is a relatively stable, no
16 matter which methodology has been put forward?

17 MR. PATRICK BOWMAN: I don't know if I'd
18 describe them as stable, they do move a fair bit between the
19 different studies, but the -- the -- to the extent that one
20 wants to put value on the NERA Study now, we think it's
21 useful to consider it as -- as a series of sensitivities, and
22 I think there was a two (2) page exhibit that we went through
23 with -- with Hydro that showed a good number of cases out of
24 NERA, all the ones that we have any detail and filed, that
25 are sensitivities.

1 They do -- the revenue to cost coverage ratios
2 do bounce around to some degree, but none -- none of them in
3 terms of looking at sensitivities, change the overall
4 conclusion that -- that the same persistent groups of
5 customer classes are outside the zone of reasonableness.

6 MR. BOB PETERS: And specifically you're
7 saying as an example, the general service large is -- is
8 outside the zone of reasonableness on the -- on the high
9 side?

10 MR. PATRICK BOWMAN: The general service large
11 greater than one hundred (100) kV. I think the -- the
12 smaller general service large is -- tend to be inside, and of
13 course the other notable classes outside on the high side is
14 the general service small, demand I believe it is, not then
15 on demand, but that's the other one (1) that's been somewhat
16 persistent.

17 MR. BOB PETERS: Is it -- is it because of
18 those classes that are outside the zone of reasonableness,
19 that -- that you believe differential rate adjustments are
20 required, that is in an effort to try to get them streamlined
21 and back closer to the zone of reasonableness or to unity?

22 MR. PATRICK BOWMAN: Yeah, that's the reason
23 -- I would say that's the reason you do a cost of service
24 study, is to -- to get that type of result, to help determine
25 where the differential rate increases would occur, so, yes.

1 MR. BOB PETERS: In terms of allocating the --
2 what is -- what is ultimately determined to be -- well, let's
3 assume there's an export class created, what -- what is your
4 recommendation then, in terms of how one (1) would allocate
5 the next export revenue?

6 MR. PATRICK BOWMAN: Our -- our recommendation
7 would be that the net export revenue, over and above what the
8 export costs is allocated, the cost -- the export cost is
9 allocated, be allocated to customer groups, based on the --
10 the bulk power system that produces the net export revenue.
11 That part of Hydro's operations that -- that function -- that
12 gives rise to them, same as it would be if you had a non-
13 vertically integrated utility, a generation utility and a
14 distribution utility. It would be to the -- the generation
15 utility, that's where the -- that's where the revenues occur.

16 MR. BOB PETERS: When I said we -- you know,
17 if you assume that there was an export class created, Mr.
18 Bowman, I thought you might assume with that, or maybe you
19 did, that the export class would then be assigned the
20 generation and transmission costs that gave rise to the
21 export revenue.

22 Did you do that?

23 MR. PATRICK BOWMAN: Yes, that's -- we're
24 saying the same thing. I think in the cost of service study
25 now, there's \$420 million worth -- or something, of export

1 revenues that are flowed back as what's called the export
2 credit.

3 Once the -- that number will be different, it
4 will be lower once you assign them fixed costs, and you'll
5 end up with the lower number, and it's -- it's the lower
6 number I'm talking about.

7 All I'm saying is that if -- if you have a
8 utility responsible for generating and transmitting power and
9 providing bulk power, who has the access to those exports,
10 and as a result can provide bulk power at a lower cost to
11 everything below it. Everyone who takes power off of that --
12 that system, whether the people taking power off that system
13 are effectively a distribution arm of the business, or people
14 who actually take the higher power, then that would be
15 consistent with our -- you know, view of the proper treatment
16 of export revenue.

17 MR. BOB PETERS: But once the -- once the
18 costs are removed from the customer classes that you call the
19 bulk power, once those costs are removed, aren't you left
20 then with a true net revenue that you can allocate,
21 independent of how it was generated, because the costs have
22 been deducted?

23 MR. PATRICK BOWMAN: Mr. Peters, I would say
24 mathematically or arithmetically you can allocate it any
25 number of ways.

1 The trouble that we run into with most of the
2 ways that they get proposed is that we're -- we're sitting in
3 a room with -- with regards to regulating the utility where
4 we're guided by normal regulatory principles and practices
5 and how regulation occurs in -- across North America, and as
6 well as the frameworks that are put out with -- in terms of
7 legislation.

8 Now, it's not just a throw the chips in the
9 air and have -- let them land where they may, there are
10 certain principles and -- and guidelines that -- that are
11 part of the regulatory compact as it would normally be
12 understood between a utility and its customers and the
13 regulator.

14 And we're saying that if you apply those type
15 of principles, what you would arrive at in -- in every case,
16 is that those -- those revenues would be credited back to the
17 generation and transmission system, that provides the bulk
18 power.

19 MR. BOB PETERS: All right.

20 MR. PATRICK BOWMAN: Anything other than that
21 is the -- is the -- and I'm correct that I -- I believe I
22 used the phrase, "pure judgment," earlier on, but it was near
23 judgment as this Board had called it back in 1994.

24 MR. BOB PETERS: All right, well thank you for
25 that. While we're on the issue of cost of service, what's

1 your advice to this Board about using the Cost of Service
2 model to differentiate between the costs of different
3 generating stations, and applying that cost of generating
4 electricity to domestic classes, as opposed to export
5 classes?

6 MR. PATRICK BOWMAN: I would not consider it
7 appropriate, and that's for a couple of reasons. The
8 approach you're talking about is sometimes called sort of
9 vintaging, and it -- it adds a level of considerable
10 confusion to doing cost of service.

11 And considerable debate as to which generating
12 station is mine versus yours or -- or you know, the north
13 versus the south, sort of the -- the residential versus the
14 industrials, or the guys who were customers in the 50s,
15 versus the ones who just showed up yesterday, which is in the
16 end, bears no bearing to -- has no link to the actual costs
17 that Hydro incurs to deliver the power.

18 You can carve costs up many different ways,
19 based on vintage, based on location, based on all sorts of
20 things. But the way that the cost of service and -- and
21 rates are designed in -- in this jurisdiction, and normally
22 across most jurisdictions in North America that are
23 regulated, is -- has this level of averaging in it.

24 We have averaging across the geographic zones
25 with uniform rates, we have averaging across the -- the day

1 you arrived on the system. I believe the phrase they use in
2 this room is sort of, the little old lady on Agnes Street,
3 and the little old lady on Agnes Street might otherwise be
4 lining up for the power from -- from the Winnipeg River
5 rather than the north. I was here before the north was
6 developed, and my power is still coming from over there.

7 That's the trouble that you get into. And it
8 similarly occurs for industrial customers, that you have our
9 industrial customers versus the new guys, them who is
10 arriving and -- and therefore shouldn't have access to our
11 power.

12 Those type of debates get you into -- can get
13 you into a lot of trouble, and don't in the end provide a lot
14 of -- a lot of useful linkage to any form of cost or any form
15 of normal regulatory principles, in -- in our view.

16 MR. BOB PETERS: On the -- on the issue that
17 you raised of uniform rates, what's your view as to how the
18 Board should address uniform rates legislation, which has
19 affected a number of customer classes, none more than the
20 residential?

21 MR. PATRICK BOWMAN: Our view would be that
22 there's no longer a need to have Zones 1, 2, and 3 reported,
23 that there -- there aren't zones anymore, and that costs get
24 averaged across the various groups, the same way that it
25 would be done in any province that has uniform rates.

1 MR. BOB PETERS: Well, we know that as a
2 result of the uniform rates legislation, the revenues to the
3 residential class have dropped, and as a result their revenue
4 to cost coverage ratio has been negatively affected; is that
5 your understanding?

6 MR. PATRICK BOWMAN: Well, the -- there used
7 to be three (3) residential groups, so I suppose it depends
8 on which one (1) you're talking about, the old Zone 3
9 residential group was somewhere down around 80 percent cost
10 coverage ratio, or something in the -- in the old days, and
11 the others were -- were much more up in the high nineties as
12 I recall it.

13 So, if you now average them out, some went up
14 and some went down. My only comment on -- on the proposals
15 I've heard here is uniform rates and geographically drawing
16 the circle around the province and calling it one (1) zone,
17 rather than drawing the circles around three (3) parts of the
18 provinces and calling them three (3) different zones is not
19 uncommon.

20 It -- it's a coarse tool when we drew three
21 (3) different circles. The classic kind of example that's
22 used is the guy at the far end of the block from the
23 transformer, has -- puts different costs on the system than
24 the guy at the end of the block closest to the transformer,
25 because one (1) guy needs less wire than the other.

1 You can eventually break it down as far as you
2 want. But once you're going to throw them in and bundle
3 them, three (3) versus one (1) is not -- both are reasonably
4 principled, and none would lead to what seems to be a
5 reasonable case, to say, for all time we're going to -- we're
6 going to credit some amount back to that group because --
7 because we changed three (3) circles to one (1) circle.

8 MR. BOB PETERS: So your view is, no special
9 treatment should be afforded the residential class, it should
10 simply be averaged out and the results fall where they fall
11 on the cost of service side?

12 MR. PATRICK BOWMAN: Yeah, there -- there
13 was averaging before, there's -- there's averaging now, and
14 I'm not aware of anywhere that would -- would consider, you
15 know, crediting something back in that way to sort of back --
16 de-average it back out, or somehow net out effects so that
17 residential aren't, in the end, responsible for paying the
18 costs that they incur on the system or small -- general
19 service small as well who -- who were similarly affected.

20 MR. BOB PETERS: Gentlemen, are the rates
21 charged to industrial customers below the marginal cost of
22 Manitoba Hydro?

23 MR. PATRICK BOWMAN: I believe that would be
24 correct in most hours of the year.

25 MR. BOB PETERS: And does that follow, then,

1 that financially, Manitoba Hydro would be better off to
2 export that power than to sell it to their industrial
3 customers?

4 MR. PATRICK BOWMAN: Absolutely. That's one
5 of the arguments that is -- that is made on a routine basis.
6 The Gees, you better make sure aluminum smelters don't come
7 here or else you're all gonna be in for a pickle.

8 Unfortunately, that's one (1) view and it's
9 not the same view held throughout North America. There's a
10 lot of places who go to great lengths to attract aluminum
11 smelters, and you can debate whether you want that type of
12 industry versus this one, or the existing guys versus new
13 guys or the ones with lots of jobs versus little jobs.

14 But it's -- it's a very troubling road to go
15 down in terms of saying, we've made the leap to saying, we --
16 we've created this utility, Manitoba has done something to
17 produce a bunch of power at cost, to create a low, low, low
18 cost producer and to give Manitobans good power, but hang on
19 a second, we've now decided Manitobans shouldn't be able to
20 us it because we can make some more money elsewhere, or
21 Manitobans should only be only be able to us it if they can
22 produce enough jobs.

23 It's -- it's particularly curious when you're
24 talking about a hydro utility where, you know, Wuskwatim, at
25 two hundred (200) megawatts produces on an ongoing basis, I

1 don't know, four (4), five (5), six (6) jobs, and when
2 somebody is using two hundred (200) megawatts, even if
3 they're only, you know, I think Mr. Turner said he hired --
4 had fifty (50) people or something working for him.

5 Well, compared to jobs, it doesn't seem to be
6 the only measure that matters in terms of saying we're --
7 we're building a good province here.

8 MR. BOB PETERS: Well, when -- when the
9 industrial rates are low, does it really then matter what the
10 revenue to cost coverage ratio is, for your clients?

11 MR. PATRICK BOWMAN: Yes, the -- the point is
12 that we have a regulation in this province, and the
13 regulation is not based on testing whether we could make more
14 money elsewhere.

15 The regulation is based on providing power at
16 cost, where that cost is still net of a fairly substantial
17 payment to the people of Manitoba, and it -- and it's still
18 net of all the costs needed to run the Utility, and -- and
19 keep people employed.

20 But beyond that, we're providing power at cost
21 to the benefit of Manitobans. Under that set of rules, the
22 revenue cost coverage ratios, and the cost of service study,
23 and all those technical things are the way we measure that.

24 So if that -- if that's not going to be the
25 rules in this province and we're going to go to a market, or

1 we're -- based system, where we're going to get rid of
2 regulation, that's one thing.

3 But in a regulated system, where you have this
4 set of rules, that's the standard, that's what that means, is
5 that you'd have people pay their cost.

6

7

(BRIEF PAUSE)

8

9 MR. BOB PETERS: Do I gather from your
10 evidence, gentlemen, that in terms of rate increases, you're
11 suggesting to this Board that rate increases not be allowed
12 in excess of the rate of inflation?

13 MR. PATRICK BOWMAN: Yes, that's correct, Mr.
14 Peters. Our -- our view from reading the package of
15 information that's filed, is, we're going to be here a few
16 more times before we get somewhere, that -- that is not, I
17 think the phrase from this morning is "dangerously low".

18 And I think in that period of -- of this type
19 of ongoing regulation, re-regulation or shortened regulation
20 periods, we're going to want to have some form of -- of
21 benchmarks and standards and -- and things that help guide
22 this process through, and I think that that one's been
23 something that was established over time, and we wouldn't
24 want to lose it now.

25

And so when we look through Hydro's evidence,

1 that the biggest question becomes, geez, is this really the
2 time that we need to -- we need to throw out this standard
3 that worked through the '80's drought, and worked through
4 bringing limestone in service and work through a heck of a
5 long period now.

6 And worked through growing this utility to the
7 level it is today. Is this really the time we want to throw
8 this -- that out, when we know we've got a -- a road in front
9 of us, and that road could probably use useful benchmarks or
10 weigh points like this.

11 MR. BOB PETERS: When I look at the rate
12 proposals you put forward on page 33 of your pre-filed
13 evidence, is the assumption made on page 33 that the -- the
14 -- the rates can exceed inflation in your table, this is to
15 demonstrate how you would get to the zone of reasonableness?

16 MR. PATRICK BOWMAN: I'm sorry, Mr. Peters,
17 are you referring to Table 3.4 or Table 3.5? There's two (2)
18 on that page?

19 MR. BOB PETERS: You're correct, Table 3.4,
20 Mr. Bowman, is to what I was referring.

21 MR. PATRICK BOWMAN: Table 3.4 is -- is
22 something that falls out of the arithmetic that Manitoba
23 Hydro provided, so it does not have the assumption built into
24 it that -- that the rate increase should be kept down to the
25 level of inflation, and that's actually shown more clearly

1 down in Table 3.5, although the specific mathematics aren't
2 quite there.

3 But what Table 3.4 shows is the relative rate
4 increases proposed in the GRA versus the -- the rate
5 increases that could be supported, based on adopting some
6 form of -- of approach on this -- the road to zone of
7 reasonableness, or -- or revenue cost coverage ratios in five
8 (5) to seven (7) years.

9 What I mean by Table 3.5 is it shows that we
10 can get all of the customer classes in 2004/5 on that road,
11 or as close to that road as possible, by reducing the rate
12 increase from 27 million to 23.6 million, which is still not
13 bringing it down as far as inflation.

14 So, under our proposal that that rate increase
15 be held to inflation, there would still be some more dollars
16 available to be allocated back to customers, to help mitigate
17 the rate increase.

18 MR. BOB PETERS: All right, and you've
19 answered a couple of questions there, Mr. Bowman, but the --
20 the upshot of this evidence then, is that to march the
21 customer classes towards the zone of reasonableness, you
22 could do it at a 2.6 percent overall increase with the
23 differential rate adjustments as you've shown in the table?

24 MR. PATRICK BOWMAN: Yeah, the -- step one (1)
25 in considering how one (1) would deal with a rate increase

1 lower than what Hydro proposed overall, should probably be to
2 get these certain customer classes on -- on to that route.

3 MR. BOB PETERS: All right, and when I -- one
4 (1) piece of evidence I'm not sure I'd found in your
5 materials was for the test year 2005/6, Manitoba Hydro's
6 asking for a 2.5 percent average increase, what does your
7 analysis suggest would be the appropriate average overall
8 increase?

9 MR. PATRICK BOWMAN: We didn't deal with
10 2005/6 here, because you run into compounding effects with
11 respect to the increases, and we didn't have a model that
12 could pick that up. So, we didn't specifically set it out
13 here, but it would similarly -- the evidence, if you -- if
14 you look through the tables above, the -- each -- in Table
15 3.4, the columns above, each column has two (2) numbers
16 separated by a slash.

17 The -- the right hand side is the 2005/6
18 numbers, and similarly there's some need for relief to
19 certain customer classes in those years, and my recollection,
20 looking at this was that the likely dollar value of giving
21 that relief would be less than what -- what occurred in the
22 -- in the four (4), five (5), numbers, but we couldn't --
23 couldn't completely quantify that dollar number, because it
24 takes a certain model that's not available to us.

25 MR. BOB PETERS: Mr. Bowman, Mr. Osler, in

1 terms of the demand side management of the Corporation, where
2 is it that you -- you feel that Manitoba Hydro can find
3 greater savings than they presently are achieving?

4 MR. PATRICK BOWMAN: There's one (1) -- I
5 should say two (2) areas that we spend a bit of time on, one
6 (1) is in respect to what we call fuel switching, and -- and
7 the other that is sometimes talked about as demand side
8 management, and sometimes not talked as demand side
9 management is in respect of non-utility generation.

10 In -- there's also a more general comment that
11 the overall bar, it would appear, could quite likely be
12 higher than what we see in the -- the reports that are filed,
13 but the new reports aren't filed yet, so it could be that the
14 bar has in fact been -- been raised pretty darn far in -- in
15 the new one (1).

16 But what we still hear is that the demand side
17 management program is -- is fundamentally based on applying a
18 certain group of tests that have fancy names and fancy math
19 behind them. But really simply, one (1) that's called a Rate
20 Impact Measure Test, which we view as pretty important, is
21 the business case for the utility, with respect to
22 participating in demand side management, and that business
23 case should be favourable.

24 But the RIM test, it should not be strictly
25 one. Because there are some uncertainties with respect to

1 that business case and airing above one doesn't seem to be a
2 big concern.

3 The other tests tend to more measure the
4 business case for the customer or the business case for the
5 utility and the customer combined and a bunch of other
6 factors that rule out in the way Hydro does its math. Rule
7 out field switching because they can't absolutely guarantee a
8 customer will be further ahead.

9 We would say that programs that are offered
10 that allow customers the opportunity to look at fuel
11 switching in a way that they may appreciate the opportunity
12 and does have a business case with respect to electrical
13 customers but can't necessarily, absolutely guarantee the
14 customer that they'll be further ahead get ruled out by those
15 tests and probably shouldn't be.

16 I'll give you an example, if -- speaking from
17 a bit of experience here, but somebody -- it was in the City
18 of Winnipeg who used an electric forced air furnace and there
19 are some -- when that furnace dies could easily switch out to
20 a natural gas furnace and -- and may need only a small push
21 to be willing to do that.

22 But there is a bit of inconvenience with the
23 effective -- do that. That small push may be very cheap from
24 the perspective of getting back electricity for the system
25 and having a very strong business case.

1 And the -- the customer may -- may in the end
2 be further ahead or not further ahead but they can make an
3 informed decision with respect to that. But those programs
4 aren't available right now because when the TRC test is
5 strictly applied, there's not an absolute guarantee that the
6 customer will be ahead so that it's not offered. It's not
7 even in the -- in the slate of programs.

8 And that's seems to be a whole and -- and it's
9 possible that that whole could equally apply if someone
10 turned their mind to it -- to some rural areas that don't
11 necessarily have natural gas that there's ways to get people
12 over the hump so that they're not so subjected to electric
13 heating and the rate increases that are necessary to get to
14 inverted rates and the types of things that people are
15 talking about today.

16 On the NUGS issue which is not necessarily
17 always thought of as DSM, the current policies that are in
18 place at Manitoba Hydro have someone who shows up only in the
19 Province, for example build a turbine or wind turbine or wood
20 chip fired turbine or whatever it is, can sell power back to
21 the utility, because they have no load of their own, can sell
22 power back to utility at basically an export market type
23 price, six point one five (6.15) cents to use the one that's
24 thought about for DSM.

25 Similarly Hydro will go out and -- and

1 evaluate DSM programs for people by saying the value of the
2 power I get back is six point one five (6.15) cents and I can
3 do a bunch of mathematics and provide them with benefits and
4 -- and credits and support to help get that power back as
5 long as I can get it back for less than six point one five
6 (6.15) cents.

7 But for the customer, perhaps they, generate
8 their own power like a -- like a forestry operation. They're
9 not given any possibility of accessing that six point one
10 five (6.51) cents for the power they can offer up until
11 they're beyond their own supply. At which case they can
12 start to tap into that.

13 But the first substantial part of the power
14 they generate is -- is simply netted off of their meter. And
15 that -- that piece does not in the end treat NUG generated
16 power consistently with other power that's made available to
17 assist them.

18 It's -- it's a power resource. However you
19 look at it. They -- they are relatively consistent and in
20 fact NUG power's in many ways more useful than some -- than
21 DSM.

22 MR. BOB PETERS: Let me just interrupt Mr.
23 Bowman and I'll give you a chance to get back to that. But
24 on this non-utility generating policy, as I understood your
25 evidence and explanation of the policy of Manitoba Hydro, if

1 -- if somebody comes into Manitoba and it may have been in
2 your evidence and sets up a wind mill farm or a wind farm I
3 guess, they would have an opportunity to sell their power
4 back to the utility at the, I don't know if you call it the
5 long run marginal cost but six point one five (6.15) cents.

6 MR. PATRICK BOWMAN: The -- the price that
7 they will be offered will be based somehow off of that type
8 of pricing, there would be revisions for firming and
9 reliability and -- and risk on Hydro's part as well as to
10 some extent depending on size, some margin that Hydro keeps
11 for benefit other customers. But it's -- but fundamentally
12 the pricing is based off that type of thinking.

13 MR. BOB PETERS: And I didn't quite
14 understand, if there's an existing customer or an existing
15 business in Manitoba that generates its own electricity, it
16 first has to pay back to Manitoba Hydro what it uses before
17 it starts getting the -- the higher price?

18 MR. PATRICK BOWMAN: Yeah. If you're -- the
19 way that the policy is -- is -- reads right now and as I
20 understand it's been applied, if you're a paper mill using 50
21 megawatts and you have the option of putting in a 10 megawatt
22 generator that would run off of steam and give you some other
23 benefits in your operation and as a result effectively give
24 10 megawatts back to Hydro.

25 That's a power resource, the same way that DSM

1 or the same way that a new wind turbine is. But in terms of
2 the actual value that would be provided to you for being able
3 to put that on the system, you're not -- they don't -- the
4 thinking in terms of the value that Hydro will provide to you
5 for that, doesn't even start from that type of thinking,
6 until such time as you're actually a net producer of power.

7 And that's -- that's the difference that, in
8 our view, leads to the fact that there's no non-utility
9 generation in Manitoba, when you look to some other
10 Provinces, who admittedly have different industrial
11 structures, but who make -- make quite a bit of use of this
12 type of thing.

13 MR. BOB PETERS: So, it first of all has to be
14 a net producer, which to me means they have to -- you know, I
15 think I used the words, pay back Manitoba Hydro, but it has
16 to essentially turn the meter back to start from -- from
17 where they started, before they're going to get credit?

18 MR. PATRICK BOWMAN: Yes, they have to
19 displace their own load first, before they would start
20 getting this type of credit.

21 MR. BOB PETERS: Are you aware of customers in
22 Manitoba who would take advantage of the -- the generation
23 otherwise, if it was -- if they were able to sell it at -- at
24 the higher cost?

25 MR. PATRICK BOWMAN: No, Mr. Peters, but we

1 are aware that there are customers that have the ability to
2 self generate, and who don't necessarily use it to the extent
3 that possibly they could. Whether they would necessarily
4 make a different decision or a policy change, I can't give
5 that type of guarantee, but -- but it would -- it would
6 certainly make it more attractive for them, if they had that
7 possibility.

8 MR. BOB PETERS: A topic of inverted rates has
9 been raised again in this proceeding, gentlemen, and in terms
10 of the industrial customer, there was -- there was a
11 suggestion that the -- that the first rate block could be set
12 at a -- at an averaged amount over -- I thought it was three
13 (3) years, maybe 90 percent of the three (3) year average,
14 and then the tail block would be priced out at a marginal
15 cost rate.

16 Do you recall that evidence, I think primarily
17 from -- from TREE?

18 MR. PATRICK BOWMAN: Yes, I recall it.

19 MR. BOB PETERS: What's your opinion on -- on
20 that, in terms of how it would apply to the industrial
21 customers?

22 MR. PATRICK BOWMAN: Well, the thought of a --
23 of a two (2) block or inverted rate to industrial customers
24 has a lot of intuitive appeal -- appeal, and has a lot of
25 technical merit, but also has a lot of devil in the details.

1 We don't have a two (2) block rate right now,
2 so, it would be a significant change from what customers face
3 now, and for customers who electricity makes up a huge part
4 of their operations, you'd have to be very careful that --
5 about what the impacts are going to be.

6 The piece that would cause us concern and
7 that, to our knowledge, when other jurisdictions have looked
8 at this caused them concern, is doing this in a way that
9 allows a customer to benefit to a greater degree, like the
10 marginal cost, when they're able to achieve savings to DSM or
11 cut back on -- on loads, in a way that's more efficient and,
12 similarly, see higher costs when they have -- the term is
13 often used, load excursions or inefficient uses.

14 But at the same time not penalize growth or,
15 in the Manitoba economy, and not -- not give people the
16 massive credits, because they have a strike or -- or decide
17 to take a six (6) month shut down.

18 And the -- the unintended impact of using some
19 form of simple baseline average is -- is exactly that. You
20 will penalize people who want to either grow their operations
21 here or -- or who -- who -- or give fairly major credits to
22 people who -- who decide to lay off workers, or to scale back
23 or to take a shut down or those sorts of things which are --
24 which are probably not what you're trying to achieve.

25 The -- to our knowledge, British Columbia is

1 dealing with this one (1) right now, and they've determined
2 similarly that setting the base line is a very difficult
3 matter and, in their case, the proposals that are coming
4 forward is that they'll be individually set for each -- each
5 customer, and they -- they can be amended, not just by the
6 customer using more, but by the customer deciding to build or
7 grow its operation.

8 You can reset the base line based on the
9 customer making the decision to use their plant differently;
10 whether that's reset up or reset down, similarly, so that you
11 don't penalize growth, and they don't capture the benefits of
12 scaling back.

13 MR. BOB PETERS: So, while you generally
14 support the idea of an inverted rate structure, where that
15 base line is established is a question that you're not
16 prepared to come down on at this point, because you haven't
17 reviewed it in depth for Manitoba Hydro and the industrial
18 customers in this Province?

19 MR. PATRICK BOWMAN: That's fair. I would say
20 that when people have embarked on this type of road, it takes
21 a lot of discussion and a lot of debate, and a lot of ideas
22 being batted about to try to figure out how to do this right.

23 And the example that we latch onto in Manitoba
24 as a similar type of situation is the curtailable service
25 program, which was developed to a large degree in

1 consultation with customers and determining a proposal that
2 would work for both Manitoba Hydro and customers, and -- and
3 to provide the system with benefits, and then bringing that
4 type of proposal before -- before the Board, so that it's not
5 -- it's not just a fight before the Board, it's something far
6 more cooperative and -- and a lot of the details are worked
7 out before -- before it need be dealt with in this type of --
8 type of reasonably expensive and -- and cumbersome form.

9 MR. BOB PETERS: All right, thank you for
10 that. In terms of the costs that Manitoba Hydro capitalizes,
11 have you reviewed their policy on how they capitalize their
12 costs, is that something that was in your retainer, in terms
13 of this assignment?

14 MR. PATRICK BOWMAN: It's not something that
15 we specifically looked at in terms of this assignment, I
16 think we have -- we've generally heard discussion as to how
17 they capitalize costs, but nothing that we reviewed in
18 detail.

19 MR. BOB PETERS: Have you formed an opinion or
20 a view of these policies, based on your experience in other
21 jurisdictions?

22 MR. PATRICK BOWMAN: I think one (1) of the
23 reasons we didn't review it in much detail, is because we
24 didn't see a lot that would -- would cause us any concern, or
25 we would consider terribly inconsistent with other

1 jurisdictions.

2 MR. BOB PETERS: The one (1) that I have seen
3 some debate on is costs incurred on a project prior to
4 commitment to the project. And whether those costs are
5 simply accrued until a decision is made, or whether they are
6 on a rolling basis, amortized over time, even though there's
7 still a possibility that the decision would be made.

8 And -- and a good example is, for example, the
9 -- a cost of funding Conawapa, there's a fair bit of costs in
10 the IFF, to amortize planning costs for Conawapa, even though
11 I would think at this point if someone's spending that kind
12 of money, they're still fairly optimistic the project will
13 proceed.

14 And certainly there has been debate in other
15 places, as to whether you should amortize those costs during
16 the planning stage, before commitment has -- a go -- no go
17 decision has been made, or whether you need to get to the
18 point where you make some decision to proceed or to -- or to
19 not proceed. And at that point either build them into the
20 capital costs, or -- or amortize them.

21 That's the only -- of everything we reviewed
22 in the capitalization, that's the only one (1) that we noted
23 may have some room for debate, but it wasn't something we
24 spent a lot of time reviewing comparables elsewhere and
25 determining whether it was worth debate right now.

1 MR. BOB PETERS: All right, well that's fair.
2 Mr. Chairman, I'd like to thank Ms. McCaffrey and her
3 witnesses, Mr. Osler and Mr. Bowman. Those conclude my
4 questions and I appreciate their -- their answers.

5 And I believe with the end of my questions,
6 this Panel has also finished its testimony, and likewise, I
7 think subject to any re-examination, we are probably finished
8 with the evidentiary portion, but -- unless Ms. McCaffrey has
9 any re-examination, maybe we are finished?

10 MS. TAMARA McCAFFREY: As it turns out I
11 don't.

12 THE CHAIRPERSON: Thank you, Mr. Peters, and
13 thank you, Ms. McCaffrey, Mr. Osler, Mr. Bowman, and thanks
14 again for coming back and completing your evidence, it's very
15 interesting.

16 Before adjourning for today, I want to answer
17 the question that Mr. Williams put before us earlier, and I
18 was going to address Ms. Kraft, but I see you've managed to
19 return, so that's good, I'll be able to talk directly to you.

20 Mr. Williams' request was for a delay in
21 closing statements, the request came this afternoon, when to
22 be fair to all, it was not clear that we would be even ready
23 for tomorrow.

24 I don't know whether that's changed Mr.
25 Williams' view or not. Our understanding goes basically

1 along these lines, and please correct me if I'm wrong.

2 Mr. Williams has not indicated or demonstrated
3 his client would be prejudiced by proceeding tomorrow. He
4 did indicate that he would prefer rescheduling, to allow him
5 to review and consider today's transcript, to assist him in
6 preparing closing argument, and we can certainly understand
7 that.

8 There's a couple of concerns, one (1) is over
9 the possible affect on the timing of any order that may issue
10 out of these Proceedings. We're now in July, in fact, well
11 in July. And if final argument was delayed, we understand
12 from some surveying, that problems would arise with respect
13 to personal holidays and schedules, that again would become
14 an issue.

15 So after carefully considering and reflecting
16 on Mr. Williams', which we consider, I want to assure him,
17 quite a reasonable request, and we've decided to proceed with
18 final argument tomorrow. But also to provide an opportunity
19 to CAC/MSOS Counsel and other Intervenors, to supplement
20 closing remarks with a written submission, to be submitted to
21 the Board by next Wednesday, to be shared of course with
22 Manitoba Hydro, if any such submissions come in.

23 In conclusion, we will stay with our plan to
24 have the final -- final statements come tomorrow, and subject
25 to any last comments on procedure by Mr. Peters, we'll

1 adjourn today, and look forward to seeing you tomorrow.

2 MR. BYRON WILLIAMS: Mr. Chair --

3 THE CHAIRPERSON: Mr. Williams...?

4 MR. BYRON WILLIAMS: Just in terms of any
5 supplemental written material, just so I have in my head, and
6 you may want to consider it overnight, the ground rules.

7 My expectation would be that it would be not
8 reply kind of to what we hear from other parties but kind of
9 supplementing and enhancing what we would present in our --
10 in our closing or I'm not sure and you may want to chat it
11 over with your Panel Members and counsel just -- and give --
12 give us some guidance in terms of that.

13 THE CHAIRPERSON: That would be our
14 understanding subject to reflection overnight.

15 Mr. Anderson...?

16 MR. MICHAEL ANDERSON: Thank you, Mr. Chair.

17 Echoing Mr. Williams' interest in
18 understanding the rules, I agree that, and understand that,
19 that would be the arrangements for filing written comments.

20 And I'm just wondering if the Board has any
21 idea about where we would draw the line between those things
22 that we feel prepared to comment on orally tomorrow and those
23 things that we would prefer to submit in written form next
24 Wednesday.

25 And particularly the review of the

1 considerable discussion and revisions in today's transcript.

2 THE CHAIRPERSON: I think we'll leave it to
3 your discretion.

4 MR. MICHAEL ANDERSON: I just wanted to make
5 sure that if we were free to do so. That if we came tomorrow
6 with a brief outline and submitted a written argument, in
7 effect, on Wednesday, that that would be satisfactory to the
8 Board?

9 THE CHAIRPERSON: I think that you make the
10 closing statement that you wish and you have available to you
11 the opportunity to provide supplementary remarks to the Board
12 by next Wednesday which would provide, I think, a fair
13 opportunity given the fact that we're moving fairly quickly
14 to closing statements given how far we've gone today, with no
15 time in between now and the closing statements.

16 MR. MICHAEL ANDERSON: Thank you, Mr. Chair
17 and then there was one final area and -- and this is
18 something that I bring up just about every time when start to
19 prepare for arguments, is just to seek the Board's -- my
20 understanding of the Board's view on the use in argument with
21 weight, of course, to be given by the Board as it may,
22 information that's purely in the public domain that may not
23 have been filed as an exhibit before these proceedings, in
24 narrative information, information that may be notorious in a
25 classic sense that as we all know it exists and so on and so

1 forth.

2 Typically the Board has permitted MKO to do
3 that so long as we precisely identify the source of any such
4 information.

5 THE CHAIRPERSON: That's fine.

6 MR. MICHAEL ANDERSON: Thank you, Mr. Chair.

7 THE CHAIRPERSON: And I should point out that
8 if the Interveners see no need to provide supplementary
9 remarks in writing following making closing statements, of
10 course, that's quite fine as well.

11 So we stand adjourned --

12 MS. ODETTE FERNANDEZ: Mr. Chairman, if I
13 could just, sorry, Ms. Fernandez over here from Manitoba
14 Hydro.

15 THE CHAIRPERSON: There you are, sorry.

16 MS. ODETTE FERNANDEZ: I would just like to
17 put maybe a couple of concerns on the record, firstly, with
18 respect to allowing the Interveners to sort of choose what
19 they deal with tomorrow in closing remarks and what they file
20 on Wednesday.

21 I think I'm going to have to put Manitoba
22 Hydro's objection on the record that the parties -- because
23 everyone was preparing for final arguments tomorrow, should
24 have a substantive portion of their final argument already
25 prepared and any comments to be written and provided to the

1 Board and all the parties on Wednesday, I would suggest
2 possibly deal with undertakings that Manitoba Hydro will
3 provide in response to Mr. Peters' undertakings today.

4 And I guess the second comment we have is with
5 respect to replying to the written arguments on Wednesday as
6 Manitoba Hydro does have the right to reply to and be the
7 final sort of party to reply to any comments made by
8 Interveners.

9 THE CHAIRPERSON: All that sounds very
10 reasonable. I'm certain that Mr. Anderson and others that
11 choose not to make their full submission tomorrow will at
12 least outline the full scope of what they intend to go into.

13 Is there any other comments? Mr.
14 Feldschmid...?

15 MR. JURGEN FELDSCHMID: No, thank you, Mr.
16 Chair.

17 THE CHAIRPERSON: Okay then we stand
18 adjourned -- oh, Tamara McCaffrey.

19 MS. TAMARA MCCAFFREY: Oh I -- I just can't
20 resist an opportunity at the mike, Mr. Chairman.

21 My -- my position with respect to this on
22 behalf of my client is that any written submissions ought to
23 deal with the issues arising from today's transcript or
24 undertakings arising from today's transcript.

25 And essentially if we're doing closing

1 argument tomorrow, arguments be made and I think that
2 addresses Mr. Williams' concern that he wanted to make sure
3 he had time to reflect on today's transcripts and all the
4 work that was done today.

5 My view is that that should be what the
6 written argument should be -- should be all about as opposed
7 to echoing his concern, replying to what we heard orally or -
8 - or forming a whole -- a bulk of argument, basically,
9 dealing with -- with everything that submitting it later on a
10 Wednesday after you've have had the benefit of hearing
11 everyone else's argument.

12 So, just from the point of view of being on
13 the same playing field, that would be my position with
14 respect to this matter.

15 THE CHAIRPERSON: Thank you, Ms. McCaffrey, I
16 think the Board would appreciate Mr. Peters' advice, if he
17 has any comments on that?

18 MR. BOB PETERS: What you're hearing, Mr.
19 Chairman, and, Board Members, is -- is wanting to make sure
20 the process follows as it -- as it is intended, which has
21 been considered a fair process.

22 Manitoba Hydro is the Applicant, they bear the
23 onus of proof in establishing their case, and the Board will
24 determine whether or not they have met that onus of proof in
25 the Board's decision.

1 And in parties making closing submissions, the
2 -- Manitoba Hydro wants to make sure that they're not in the
3 vernacular, ambushed, that is or people bifurcate or split
4 their case, so that they would argue only half of their case
5 before you tomorrow, then listen to see what Manitoba -- or
6 listen to hear what Manitoba Hydro has to say, study the
7 transcript over the weekend and then file the balance of
8 their argument in writing next Wednesday.

9 And I think Ms. Fernandes is bringing to the
10 Board's attention that's a concern. I think Mr. Williams had
11 the same concern, and I think Ms. McCaffrey also had the same
12 concern, that the Board not fall into that trap, if you will.

13 And I think the Board will rely on the -- the
14 good graces of all counsel and representatives to make sure
15 that that doesn't happen, and that parties put forward their
16 arguments tomorrow, and to the extent that something came out
17 of the evidence today that want -- that they want to reflect
18 upon, that would be fair game for the written comments by
19 next Wednesday to which Manitoba Hydro would, of course, have
20 a right of reply.

21 So, I think that would be appropriate.

22 THE CHAIRPERSON: I'm sure this Hearing will
23 conclude with the same spirit of cooperation that's lasted us
24 all this far. We'll adjourn, we'll see you all tomorrow.

25

1 --- Upon adjourning at 5:35 p.m.

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Carol Wilkinson, Ms.

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