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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
2004 GENERAL RATE APPLICATION

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

HELD AT:
Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
June 14th, 2004
Volume I
Pages 1 to 232

APPEARANCES

1
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7 Byron Williams)CAC/MSOS
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18 Patrick Bowman)Power Users Group
19 Tamara McCaffery)
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21 Jurgen Feldschmid)CCEP
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1 --- Upon Commencing at 9:00 a.m.

2

3 THE CHAIRPERSON: Good morning, ladies and
4 gentlemen. I call this General Rate Application Hearing to
5 order. Welcome.

6 I am Graham Lane, Chairman of the Public
7 Utilities Board and I am joined by two (2) other Board
8 Members. To my right is Mr. Len Evans; to my left, Mr. Bob
9 Mayer. For your general information, I am a chartered
10 accountant, Mr. Mayer is a lawyer, Mr. Evans an economist.

11 There is a considerable number of professions
12 and professionals involved in this process including Board
13 staff and advisors who include an engineer, a lawyer, two (2)
14 more accountants and another economist. There are engineers,
15 lawyers, accountants and economists within the ranks of the
16 company and the intervenors.

17 With the investment in money and time
18 associated with this group, one gains a sense of importance
19 of all of us staying on point through the proceedings,
20 otherwise the ratepayers lose by virtue of the fees.

21 I am confident that with this array of
22 experience, we will be able to vide -- provide value added
23 through this process, one that will not be adversarial in
24 nature, but in the nature of a common search for the right
25 path.

1 Also assisting us with these proceedings are
2 Mr. Gerry Barron, Executive Director and Secretary to the
3 Board, and Mr. Hollis Singh, Associate Secretary to the Board
4 and Bob Peters, Board Counsel.

5 During the breaks or in insides or by notes,
6 please bring to their attention any suggestions as to process
7 that you may wish to advance.

8 Shortly in the opening phase of the hearing,
9 Mr. Peters will make further introductions including our
10 other Board advisors. Mr. Peters has the responsibility to
11 guide us through this proceeding.

12 The current expectation is that the Hearing
13 will occur over the first days -- first three (3) days of
14 this week, next week and the week following. The last week
15 being the week of the 28th of June, the week of the Federal
16 election.

17 If it becomes apparent that we will be unable
18 to complete our work with this schedule, rather than rushing
19 matters or trying to manage with half measures, consultations
20 with those involved will occur and if adjustments are made we
21 will provide as much notice as possible.

22 Currently we are thinking that if additional
23 days were required, July 6th or the 8th would be possible.

24 We plan to begin at 9:00 a.m. each morning,
25 and we will fix the clock for tomorrow, and that is except

1 for the 30th. On that day we will begin at 10:30 to
2 accommodate another necessary matter.

3 We'll have a break at around 10:30 on all days
4 except on the 30th, which of course, we'll only be getting
5 underway at that time.

6 We will adjourn for lunch at or about noon,
7 excepting for the 28th when we'll break for lunch at 11:30.
8 Each day we will plan to return for 2:00 p.m., providing time
9 for reflection, consultation and further planning.

10 The hearing will adjourn each day at or about
11 4:00 p.m. depending on how we are making out with respect to
12 the overall timetable.

13 Now to the reason for being here. The matter
14 before us is the rate application of Manitoba Hydro.
15 Manitoba Hydro's application includes a request for a two (2)
16 year rate increase to effect customer classes differently.

17 The application also includes a request for an
18 extension of the surplus energy program terms and conditions
19 of service to March 31st, 2007, increases to flat water rate
20 heating rates and final approval of the various interim ex
21 parte orders issued since the 15th of January 2003.

22 Manitoba Hydro is Manitoba's largest Crown
23 corporation and conducts operations in the energy related
24 fields of electricity and natural gas. It is also involved
25 in research and related activities with respect to alternate

1 forms of energy generation.

2 The electricity and natural gas service are of
3 critical importance to Manitoba and the cost associated with
4 each affect homeowners, landlords, businesses, industries and
5 the not-for-profit sector.

6 Rates and the forecast for rates can affect
7 property purchases, industry expansions, shift planning,
8 contract bids, and even decisions related to human comfort.

9 Manitoba Hydro has approximately five hundred
10 thousand (500,000) customers, over five thousand (5,000)
11 employees, well in excess of a billion dollars in annual
12 revenue and approximately 10 billion dollars in assets.

13 The assets are largely valued at historical
14 cost, less depreciation, so a replacement value would be
15 considerably higher.

16 As well, the Corporation has plans that would
17 see considerable future plant and line expansion, driving up
18 the future value of assets, debts and generating capacity.

19 The Corporation is administered by a
20 government appointed Board, led by an experienced president
21 and CEO. Its decisions and operations are subject to a
22 number of oversight bodies and processes, including those of
23 the Government, the Legislature, Crown Corporation's Counsel,
24 Clean Environment Commission and this body, the Public
25 Utilities Board.

1 Over the last five (5) years a number of major
2 events have occurred related to the Corporation, all bearing
3 on its future operations. These events included purchase of
4 Century Gas, purchase of Winnipeg Hydro, efforts to integrate
5 the new acquisitions, decision to construct a new and
6 downtown headquarters and planning and negotiations related
7 to three potential new generation plans.

8 As well the Corporation had to contend with a
9 year of low water levels -- very low water levels. This
10 contributed to what is projected to be the highest loss ever
11 experienced by the Corporation. One that will substantially
12 reduce its equity to debt ratio and its retained earnings.

13 Before calling on Mr. Peters, I want to make a
14 few general comments pertaining to these proceedings. The
15 purpose of these proceedings is to inform this Panel
16 sufficiently to allow us to reach a conclusion with respect
17 to the Corporation's application. The Corporation will
18 present and support its case and application. We will
19 concern ourselves with revenue requirement, cost of service,
20 rate design, demand-side, management issues and transmission
21 tariffs.

22 For each area, the company's witnesses will be
23 cross-examined with the evidence they provide to then be
24 tested by Board counsel and the intervenors.

25 The Corporation has provided voluminous and

1 significant information related to and in support of its
2 application. The efforts are greatly appreciated. Without
3 the co-operation of the Corporation which is also charged
4 with the responsibility of assisting the Panel before you in
5 reaching a proper decision, it would be next to impossible to
6 do a decent job with this.

7 Preparing for and participating in these
8 hearings have and will require a substantial investment in
9 human and financial resources by the Corporation for it and
10 its ratepayers and the other stakeholders and much rest with
11 the outcome of the application.

12 Following the Company's presentation and
13 cross-examination related thereto, we will hear from the
14 intervenors. Intervenors are also very important to this
15 process. Through the intervenors the understandings of the
16 Public Utility Board of the interest and concerns of the rate
17 payers and customers can be fully more fully -- fully
18 identified and understood.

19 The Hearing is important to ratepayers and the
20 general public. It provides a mechanism through which views
21 other than that of the Corporation and its advisors and
22 supporting organizations can be heard and taken into account.
23 To provide an organization with monopoly powers is a very
24 significant act, one inferring considerable trust. The
25 customers of a monopoly cannot choose another alternative and

1 are subject to the decisions made by others.

2 This Hearing and hearings in processes like it
3 provide a balance to monopoly power; a useful if not
4 necessary check and balance. That being said, in the case of
5 a Crown Corporation there are other checks and balances as
6 well. In short, the Board and the regulated utility coming
7 now before it function in a complex environment.

8 There are three (3) witnesses for the
9 intervenors, William Harper for CAC/MSOS, John Osler and
10 Patrick Bowman for MIPUG and Jim Lazar for TREE and RCM.
11 Cross-examination of these witnesses will involve
12 intervenors, the Corporation and the Board counsel.

13 Before we hear from the witnesses for the
14 intervenors and possibly even before the Company has
15 presented its case fully, the Hearing will receive the views
16 of four (4) scheduled presenters. These being, The Manitoba
17 League of Persons With Disabilities, as represented by Mrs.
18 Emily Ternette, Walter Naherny concerning electric space
19 heat, Cyril Cartwright, a retired Hydro employee and Alan
20 Ciekiewisz.

21 After hearing from the Company, the
22 presenters, intervenors and the witnesses and following the
23 various rounds of cross-examination, the process will move to
24 final argument. On the final day of Hearing now scheduled
25 for June 30th, closing arguments will be heard.

1 Follow -- following closing arguments the
2 Panel, myself and my two (2) colleagues will sequester
3 ourselves as required with our advisors and deliberate to
4 reach our final determination on the matters before us. In
5 the end, we may accept, deny or vary the company's
6 application. Whatever decisions we make will be made
7 carefully with the implications and consequences understood
8 as best as possible.

9 In reaching our decision we will be guided by
10 the evidence, written and oral and our determination of what
11 represents the public interest. We are concerned not only
12 with the short term economic impact of the Corporation on the
13 ratepayers, but also the fairness of the impact and the long
14 term physical and operating health of the Corporation on
15 which Manitobans depend.

16 I think it goes without saying that our
17 expectations of all that appear before us include effective
18 participation and on-point, the costs excess -- of
19 excessively wandering presentations or off-point inquiries
20 can be high, the hourly rates of all those within this room.

21 Truthful and comprehensive presentations and
22 examinations towards achieving the objectives and assisting
23 the Panel in making truly proper decisions, the employment of
24 a cooperative approach by all and useful evidence in
25 examination being with respect to the objective for the

1 process assisting this Panel in reaching a sound decision on
2 the matters before it.

3 As with our longstanding practice, the need
4 for civility is understood. People and organizations can
5 disagree and that is to be expected. The way in which the
6 disagreement is expressed can be helpful or damaging. We
7 have weighty and complex issues before us and I'm confident
8 that we will approach this process with a view that we
9 together could make it work and it has to work for the
10 benefits of the ratepayers of Manitoba Hydro, the Corporation
11 and the broader public interest.

12 Just before calling on Mr. Peters, I want to
13 bring to the attention of those present the fact that we have
14 some special guests with us today. We are particularly
15 pleased to welcome a number of observers from the Albania
16 Regulatory Commission, most notably the Chairman, Mr. Dema.

17 If you'd like to stand, sir. Thank you.

18 Several of his colleagues and his support
19 staff, including the Director of Tarriffs, the Head of Legal,
20 engineers, economists and others. We are very pleased to
21 have you with us today and we wish you well on your trip to
22 Winnipeg. Thank you, for coming.

23 Now, I call on Mr. Peters to make further
24 introductions, to explain in more detail the purpose of the
25 Hearing, to introduce the Application and to provide us with

1 an outline of the intended process to be followed over the
2 course of the Hearing.

3 Mr. Peters...?

4 MR. BOB PETERS: Good morning, Mr. Chairman
5 Lane, Mr. Vice Chairman Mayer and Board Member Evans, ladies
6 and gentlemen and our guests from Albania.

7 My name is Bob Peters and I act as Board
8 Counsel on this Rate Application by Manitoba Hydro. The
9 Board is also assisted in these proceedings by Jean McClellan
10 and Nicole Palmer Jones of Price Waterhouse Coopers and by
11 Larry Buhr, associated with Dillion Consulting.

12 By way of further background to your comments,
13 Mr. Chairman, I would like to briefly review some of the more
14 important rate, regulatory and operational events of the
15 recent past which have preceded this current Application.

16 From a regulatory perspective, this is the
17 first General Rate Application by Manitoba Hydro since 1996.
18 Board Order 51 of 1996 which resulted from the 1996 GRA
19 approved an increase in general consumer revenue of 1.5
20 percent in 1996 and a further 1.3 percent in 1997. Except
21 for some special rate applications, hydro rates remained
22 unchanged from 1997 until November of 2001.

23 At that time, the provincial government
24 approved implementation of province-wide uniform rates for
25 residential customers. As a result, the previous three (3)

1 rate zones were eliminated and all residential consumers
2 began paying the same residential rate regardless of where in
3 the province they lived. At that Manitoba Hydro estimated
4 that uniform rates would have the effect of reducing annual
5 revenue by approximately \$14 million dollars.

6 Because of the long passage of time since the
7 1996 General Rate Application and because of the many changes
8 that had occurred within Manitoba Hydro and within the
9 electrical industry in general, Manitoba Hydro filed a Status
10 Update Application in November of 2001.

11 The Status Update document was filed to
12 provide the Board and interested parties with an update on
13 Manitoba Hydro's operating results, forecasts, methodologies,
14 processes and issues.

15 As a result of that Hearing, Board Order 7 of
16 2003 issued directing Manitoba Hydro to file a revised
17 schedule of rates to be effective April 1st in 2003 that
18 reflected a 1 percent decrease for general service small
19 customers and a 2 percent rate decrease to general service
20 large customers in subclasses greater than thirty (30) KV.
21 Order 7 of '03 also included a number of other directives
22 relating to various rate design and cost of service matters.

23 On March 19th of 2003, Manitoba Hydro filed an
24 Application requesting the Board review in very certain
25 directives contained in Order 7 of '03. As a result, the

1 Board issued Order 51 of '03 which deferred the
2 implementation of Order 7 of '03 until Manitoba Hydro's
3 Application to the Board to review and vary its decision
4 could be considered.

5 Board Order 154 of 2003 detailed the Board's
6 decisions with respect to Manitoba Hydro's request to review
7 and vary Order 7 of '03. Although the rate reductions
8 referred to previously remained unchanged, Order 154 of '03
9 did approve the extension of time for the preparation and
10 filing with the Board several studies and reports.

11 Some of those studies and reports have since
12 been filed with the Board and others remain to be filed with
13 the Board. As a consequence, some of the issues touched upon
14 in the Status Update Hearing remain to be dealt with and
15 resolved.

16 In terms of diesel rates and as the Vice
17 Chairman will be acutely aware, Board Order 17 of 2004,
18 issued in February, gave certain directives to Manitoba Hydro
19 regarding diesel electric service in four (4) Manitoba remote
20 -- remote communities. Order 46 of '04 provided interim
21 diesel rates to be effective April 1st of 2004 and directed a
22 resolution process related to certain matters under dispute.

23 Some of the key issues arising from the diesel
24 Hearings included determination of responsibility for the
25 accumulated deficit of approximately \$18 million dollars.

1 And the accumulated deficit is expected to continue to
2 increase until the matter is fully resolved.

3 Also as issues were the payment of unpaid
4 surcharges of approximately \$2.8 million dollars excluding
5 accrued interest and also, the resolution of funding
6 responsibilities for diesel service to remote communities in
7 the future.

8 Manitoba Hydro will be asked to update the
9 Board on the status of these matters and the Board
10 understands that mediation is underway involving the
11 Corporation and the Federal Government and that a
12 determination may be arrived at this summer.

13 Winnipeg Hydro was acquired by Manitoba Hydro,
14 effective September 3 of 2002. As a result, approximately
15 ninety-four thousand (94,000) customers and five hundred and
16 forty-five (545) employees were added.

17 Some of the key provisions of the purchase
18 agreement included no layoffs or wage reductions to former
19 Winnipeg Hydro employees, commitments to construct a new
20 office complex downtown and annual asset purchase payments
21 commencing at \$25 million dollars a year from 2002 to 2006,
22 \$20 million payments for the years 2007 to 2016 and \$16
23 million payments thereafter in perpetuity. This
24 acquisition was approved by way of legislation and did not
25 come before the Public Utilities Board.

1 Accordingly, this Hearing represents the first
2 opportunity for the Board and other interested parties to
3 consider the Winnipeg Hydro acquisition and the possible
4 effects, if any, this transaction may have on consumer rates.

5 Turning to operating results, Manitoba Hydro's
6 net income for the fiscal year ended March 31 of 2002 was
7 \$226 million dollars and \$77 million dollars for 2003.

8 Manitoba Hydro has forecast that fiscal 2004
9 will produce a loss of approximately \$355 million dollars and
10 has attributed this loss to low water conditions which
11 resulted in lower export sales and related higher fuel and
12 power purchase costs.

13 Manitoba Hydro has also forecast a net revenue
14 for fiscal 2005 and 2006 of \$40 million dollars and \$31
15 million dollars respectively, assuming the requested rate
16 increases are approved by this Board.

17 The Board will be seeking an update on the
18 2003/04 loss development and a thorough explanation of the
19 factors contributing to the loss, as well as an indication as
20 to whether the forecasts for 2005 and '06 and future years
21 require further amendment. In particular, the Board will
22 seek an understanding of the role, if any, played by export
23 commitments and the pricing of imports required to meet those
24 commitments in a lower water year.

25 Without such an understanding, the Board may

1 find it difficult to assess the revenue requirements of
2 Manitoba Hydro going forward. I expect the Board will hear
3 a considerable debate during the course of this Hearing
4 regarding the impact of low water conditions and the
5 financial well being of Manitoba Hydro, and examination of
6 the various components of the integrated financial forecast
7 particularly for the 2005 and 2006 fiscal years.

8 In turning to the Application, Mr. Chairman,
9 the current Application includes a request for a two (2) year
10 rate increase equal to an average increase in general
11 consumer rates of 3 percent to be effective April 1st, 2004
12 and 2.5 percent effective April 1st, 2005. Although the
13 overall requested increases are 3 percent and 2.5 percent
14 respectively, there are rate change differences withing
15 specific customer classes.

16 Manitoba Hydro is also requesting that the
17 annual rate increase for fiscal year 2005 be collected over
18 the remaining months in fiscal 2005 so that the full year
19 revenue increase can be recovered from customers over the
20 remainder of the fiscal year regardless of when the rate
21 change is approved. This would result in an as-billed rate
22 increase percentage that would be greater than the 3 percent
23 average increase stated previously.

24 Manitoba Hydro's application also includes a
25 request for the extension of the Surplus Energy Program terms

1 and conditions of service to March 31st of 2007, increases to
2 flat rate, water heating rates and final approval of various
3 interim ex-parte orders since January of 2003.

4 Some of the key issues that the Board will
5 hear evidence on in the course of this proceeding include the
6 following:

- 7 - the two (2) year rate increase,
- 8 - the matter of retroactive approval of a
9 revenue requirement to be recovered in
10 2004, 05,
- 11 - key drivers of rate increases including
12 drought, power purchase costs and related
13 rates,
- 14 - export commitment requirements,
- 15 - payment to the province,
- 16 - capital expenditures, and uniform rates
17 legislation,
- 18 - the acquisition of Manitoba Hydro,
- 19 - Synergistic savings related to acquisitions
20 of Centra and Winnipeg Hydro,
- 21 - diesel rate issues,
- 22 - payments to the Province,
- 23 - cost allocation issues,
- 24 - allocation of net export revenue,
- 25 - how to deal with the NERA report,

- 1 - risk quantification and appropriate levels
2 of reserves,
3 - financial targets,
4 - DSM programs,
5 - capital expenditures,
6 - outstanding reports from Order 154 of 03,
7 - rate design issues including inverted rates
8 and demand charges,
9 - capitalization of costs as related to plan
10 generation and transmission projects,
11 - an update on the 2003/04 loss development
12 with implications, if any, for future
13 forecasts and also on general accounting
14 policy issues.

15 Mr. Chairman, Members of the Board, that
16 completes my opening comments and introductions and I would
17 suggest that you now call upon the other parties, that
18 includes Manitoba Hydro and the interveners to make their
19 opening comments after which I would be pleased to go over
20 the draft procedures and exhibits. Thank you, sir.

21 THE CHAIRPERSON: Thank you, Mr. Peters. Now
22 we will proceed to ask Manitoba Hydro and the intervenors to
23 provide introductions respect to those in their parties as
24 well as make general opening remarks. I would begin with
25 Manitoba Hydro. Ms. Ramage if you don't mind making your

1 introductions, if you could cover off the other members of
2 your team.

3 MS. PATTI RAMAGE: Certainly. Thank you, Mr.
4 Chair, Members of the Panel and good morning. My name is
5 Patti Ramage and I am counsel for Manitoba Hydro at this
6 General Rate Application. I will be -- begin by introducing
7 the front row who will be our witnesses on the Revenue
8 Requirement Panel.

9 To my immediate right is Vince Warden who is
10 our Vice-President of Finance and Administration and Chief
11 Financial Officer. Then to his right is Willie Derksen who
12 is the Manager of Management Accounting and Budgeting and
13 down the lane -- line is Lyn Wray who is Manitoba Hydro's
14 Treasurer and Division Manager of Business Analysis.

15 I just have to look down the line myself to
16 see -- we have Harold Surminski who's the Section Head of
17 Generating System Studies in the Resource Planning and Market
18 Analysis Department and finally, David Cormie who is division
19 manager of Power Sales and Operations.

20 Now, if I can stretch back to our back row, at
21 the far right is Halina Zbigniewicz, manager of Operations
22 Planning and I'll just move on down the line to the left.

23 We have Mike Saxton who is manager of Resource
24 Planning and Market Analysis, Ian Page who actually told me
25 his title is Sir Ian Page, who is manager of Financial

1 Planning, Nancy Willms who is supervisor of Management
2 Accounting and next to Nancy is Tony Robins, Capital Plans
3 Officer.

4 And then assisting me as Counsel during this
5 application is Odette Fernandes who is in Manitoba Hydro's
6 law department.

7 Next to Odette, and I think we're going to
8 have trouble seeing back here. We've never had a back row
9 this big before, is Robin Weins. Robin is unaccustomed to
10 the back row. He's usually up in the front with us, but he
11 is not typically part of the Revenue Requirement Panel and
12 space is tight, so we relegated him to the back row for now.

13 Around the corner is Stan Matwischuck who a
14 financial analyst and his purpose here is to provide daily
15 summaries back to Hydro at 820 Taylor to the couple of
16 employees we left behind who couldn't be with us today.

17 Next to Stan is Shane Gross who is an
18 Articling student who's just joined Manitoba Hydro. He'll be
19 assisting Odette and myself with keeping track of exhibits
20 and undertakings during the hearing.

21 Finally we have, and I think Darren Rainkie
22 didn't even make the back table. He's around the corner and
23 he's manager of Regulatory Services and that represents all
24 of Manitoba Hydro's staff with us today.

25 We'll be bringing more in once the cost of

1 service comes around, but we'll be sending some home, so
2 hopefully ...

3 THE CHAIRPERSON: I think you've got more in
4 the back room, too.

5 MS. PATTI RAMAGE: Mr. Warden has just
6 pointed out we actually have more in the audience. Jim
7 Melvin (phonetic) is here who is -- and Mack Kast who are
8 here today to assist with bringing our Albanian visitors to
9 observe the Hearings and -- and to act as their guides during
10 their time with us.

11 Chic Thomas is here who also -- back there,
12 who's with our cost of service. I was -- Chick will be
13 joining us on the panel when we get to cost of service.

14 So, I believe that is everyone with Manitoba
15 Hydro and if I've missed anyone, my apologies.

16 In terms of opening comments, it -- it's not
17 typically my custom to provide opening comments because we --
18 I leave that to our witnesses.

19 They'll have plenty of time to speak and put
20 Manitoba Hydro's position and -- and as you alluded to, Mr.
21 Lane, we're all on the clock, so I didn't believe it
22 necessary except to say I have three (3) little ones at home
23 who greatly appreciate your interest in getting this done in
24 a timely manner, because school ends on June the 30th. Thank
25 you.

1 THE CHAIRPERSON: Thank you, Ms. Ramage.
2 Now, I will move on to each of the intervenors, asking them
3 to introduce themselves and if they wish, make a few brief
4 remarks.

5 To start with, Mr. Jurgen Feldschmid for the
6 Canadian Centre for Energy Policy.

7 MR. JURGEN FELDSCHMID: Thank you, Mr. Chair.
8 My name is Jurgen Feldschmid. I am Counsel for the Canadian
9 Centre for Energy Policy Inc. As the Panel and the
10 participants this morning are aware, CCEP represents the
11 interests of small and medium commercial and non-residential
12 ratepayers, focused particularly on the interests of -- from
13 -- from a hydro cost of service perspective, those ratepayers
14 who fall within the general service small and to some degree,
15 a general service medium ratepayer classes.

16 Unfortunately, none of our Board members, and
17 in particular Mr. Paul Costas our Chair, was unable to be
18 here this morning, although hopefully he will be attending
19 from time to time in the future during these proceedings.

20 The -- in terms of the interests of CCEP, we
21 already have two (2) major intervenors looking at revenue
22 requirement and so therefore our -- our involvement is
23 minimal and fairly supplementary to theirs. We will be
24 present and monitoring the situation in the sense that it
25 feeds in to the cost of service and rate design matters later

1 on.

2 But that's not our primary focus. By and
3 large we generally agree with the positions that have been
4 taken by the other major intervenors, particularly MIPUG and
5 CAC. In terms of the revenue requirement all the rate payers
6 want to see Hydro run as effectively and efficiently as
7 possible, therefore requiring a smaller amount overall from
8 the domestic ratepayers.

9 On the cost of service side, we of course will
10 be somewhat divergent perhaps from some of our colleagues
11 representing the other intervenors. In our interest of
12 supporting the smaller non-commercial and non-residential
13 rate payers we will be particularly looking at the position
14 of revenue to cost coverage for those classes.

15 And also particularly seeking to perhaps look
16 at some alternate ideas some of which, in the record perhaps
17 Hydro has some idea -- some agreement that might be
18 appropriate to sort of supplement the normal -- the normal
19 analysis that -- that they undertake and perhaps not we'll
20 certainly see that during cross-examination.

21 But, certainly our position is that general
22 service small and general service medium continues to over
23 contribute and we're here before the Panel in this process to
24 try and have that dealt with to the extent possible. Subject
25 to any questions, Mr. Chairman, those are my comments, thank

1 you.

2 THE CHAIRPERSON: Thank you, sir. Mr. Byron
3 Williams would be next. Mr. Williams, do you have any
4 introductions to make and general specific remarks?

5 MR. BYRON WILLIAMS: Yes, I do, Mr. Chairman,
6 and good morning to you and to the vice-chair again, I've
7 seen a lot of him lately and good morning as well to Board
8 Member Evans.

9 Usually -- as you know I'm Byron Williams and
10 I'm the attorney with the Public Interest Law Centre. To my
11 left is a new addition to the Public Interest Law Centre
12 team, Ms. Aimee Craft is an articling student and who will be
13 looking forward, no doubt, with some trepidation to the weird
14 and wonderful world of the Public Utilities Board.

15 And as you are well aware, usually I'm
16 accompanied at these hearings and their dil -- diligent
17 observers, Ms. Gloria Desorcy and Mr. Chuck Cruden it may be
18 that Mr. Cruden and Ms. Desorcy are a bit weary from
19 Wuskwatim. I -- I would expect you would see them a great
20 deal during this Hearing and they'll certainly be watching
21 these proceedings and giving us instructions with great
22 interest.

23 And, Mr. Chairman, mindful of your notes about
24 brief, I do have some brief introductory remarks which I -- I
25 think will assist the Panel in understanding the perspective

1 that my clients will bring to this proceeding. And in
2 particular I would like to talk to you about prudence and
3 about mysteries and about policy and about anger and about
4 perfect storms.

5 And I want to start on behalf of my clients by
6 talking about prudence. For its Hydro's claim that the rate
7 increases that it -- it has sought are the minimum increases
8 that prudence would require. And as we embark on this
9 Hearing, I want to sure -- assure you that my clients are
10 extremely prudent organizations.

11 And as evidence of that I would remind you
12 that during the recent Manitoba Public Insurance General Rate
13 application my clients opposed the rate increase sought by
14 Hydro.

15 Not because they thought Hydro was seeking too
16 much -- excuse me. Let me try that again. At the recent
17 Manitoba Public Insurance rate increases, that was just to
18 get -- to see if you guys were listening -- my clients
19 opposed the rate increases sought by Manitoba Public
20 Insurance. Not because they thought Public Insurance was
21 seeking too much but because they thought it was seeking too
22 little in terms of rate increases.

23 And they thought that was imprudent and
24 inconsistent with the objective of breaking even over the
25 long term. So while my clients, like Mr. Feldschmid's

1 clients, want to ensure that they do not pay one cent more
2 than is just and reasonable.

3 They understand as well the balancing act that
4 you referred to, Mr. Chairman, in your opening remarks in
5 terms of ensuring that rates are just and equitable. But
6 also that we have a healthy Corporation with a healthy
7 financial balance sheet.

8 Being prudent -- being a prudent
9 organizations, my clients are particularly interested in this
10 Hearing because they know the Board's role in encouraging
11 Manitoba Hydro to operate efficiently, effectively and in a
12 manner that its decision making is driven by a rig --
13 rigorous anal analytical process.

14 And so my clients believe in this Hearing it
15 is incumbent upon Hydro, first of all, to demonstrate that
16 their rates are just and reasonable, second to -- secondly,
17 to demonstrate that the Corporation is stretching itself in
18 terms of maximizing operational efficiency and thirdly, to
19 demonstrate that its financial targets which drive, to a
20 large degree, its revenue requirements are well justified

21 And one of the concerns my clients will be
22 bringing to this Panel in this proceeding, my clients those
23 paragons of prudence will be bringing to this Panel is that
24 relate to Manitoba Hydro's operational maintenance and
25 administration costs because from my client's perspective,

1 and they will advance this during the Hearing, it does not
2 appear that Manitoba Hydro is truly stretching itself in
3 terms of cost controls.

4 My clients are also far from confident in
5 terms of Manitoba Hydro's financial targets and in
6 particular, its debt equity target and they're not confident
7 in terms of the analytical rigour that underlies the
8 seventy-five (75) twenty-five (25) debt equity target and
9 again, my client's draw upon their experience from the
10 Manitoba Public Insurance experience where that Corporation
11 has gone through a much more rigorous and detailed analysis
12 of the risks it face, the correlation between those risks and
13 the appropriate quantification of reserves necessary to meet
14 those risks.

15 So, my clients will be arguing in this
16 Hearing, with respect to Hydro, that it has a long way to go
17 in demonstrating that it is -- it has complied with the
18 Board's directive in the Status Update Hearing that it
19 quantifies specific reserve pro -- provisions required to
20 cover the major risk and contingencies that it faces.

21 I said that it's -- my clients wished me to
22 talk about mysteries and I do, as well, because as I reviewed
23 the expert evidence in this Hearing, whether from the eager
24 minds of the -- of the consultants retained by MIPUG, the
25 Intergroup team, or the grisled veteran, Mr. Harper, retained

1 by CAC/MSOS, it seems to me and to my clients that both the
2 Intergroup witnesses and Mr. Harper were grappling with a
3 couple of questions that, in their view, had not been fully
4 addressed or answered in the Hydro Applications.

5 The first question is what were and are the
6 driving forces behind the dramatic change in the rate
7 forecast since the last inter -- integrated financial
8 forecast reviewed by this Board in detail, the 2001 financial
9 forecast?

10 And secondly, is it merely the impact of the
11 drought that is driving the rate increases sought by Manitoba
12 Hydro. And while I can't speak for the witnesses from
13 Intergroup, I do know that Mr. Harper will suggest that it is
14 too simplistic to characterize the rate increases sought by
15 Hydro as purely drought-driven.

16 He will posit that the answer to these
17 mysteries of the dramatic change in the revenue requirement
18 and the dramatic increase -- or the rates being sought by
19 Manitoba Hydro are a number -- is the untimely combination of
20 a number of factors including the \$200 million dollar special
21 payment to the province, the purchase of Winnipeg Hydro, the
22 ex -- and the capital expenditures associated with new
23 generation and that this untimely co -- combination of
24 factors, combined with the drought, has led both to the
25 deterioration of the Hydro's debt equity level and the

1 increased pressure upon the rates being sought from Manitoba
2 consumers.

3 In effect, while Mr. Harper, unlike myself, is
4 not prone to hyperbole, he will be suggesting that the answer
5 to the mystery of the dra -- dramatic deterioration of
6 Hydro's position is the result of a perfect storm, an
7 untimely combination of events, some of them beyond Manitoba
8 Hydro's control and some of them the consequence of conscious
9 decisions either by Hydro or Manitoba -- or the province of
10 Manitoba and the answer to this mystery also leads us to the
11 theme -- third theme of my clients, which is policy.

12 For an understanding what drives this rate
13 increase, we must understand the impact that the special
14 payment to the Province is having and that that impact is
15 enduring and that that impact is negative, both in terms of
16 Hydro's debt equity situation and in terms of the revenue
17 increase being sought, in terms of net income, excuse me.

18 So, one of the policy questions my clients
19 will pose to this Panel is whether and how its -- the Panel's
20 deliberations should take into account the commitment made by
21 the Province that the special dividend would not result in
22 rate increases to consumers.

23 A second and similar policy question that my
24 client -- my clients will present to the Panel relates to the
25 impacts of the uniform rate policy. In particular, its

1 impacts on residential customer rates in this application.

2 For my clients are quite confident that it was
3 never the intention of the Province that the uniform rate
4 policy would place upward pressure on residential rates in
5 the former Zone 1 and Zone 2 areas.

6 But as Mr. Harper's evidence will demonstrate
7 the perverse effect of the uniform rate policy as applied by
8 Hydro is to place upward pressure and unjustified pressure,
9 in their submission, on residential rates.

10 So, an important question from my client's
11 perspective policy question is: how does -- how does this
12 panel realize the government's true intention in terms of
13 uniform rates?

14 And a final key policy question that is likely
15 to arise in this and perhaps future hearings relates to the
16 ongoing issue of how we appropriately allocate net export
17 revenues.

18 And before the Panel in this proceeding as Mr.
19 Peter's suggested is the NERA paper which recommends a number
20 of fundamental changes in the way Hydro allocates and
21 classifies generation and transmission costs as well as
22 export revenues.

23 And my clients characterise this issue as a
24 policy issue advisedly, because they note the enthusiastic
25 witnesses of My Friends from MIPUG and how they have waxed

1 rhetorically about how the NERA approach is a abandonment of
2 long-standing principle, and how those witnesses have
3 bemoaned the existence and I use quotation marks, of a
4 continuing subsidy from large industrials to other classes.

5 I use the word "policy" advisedly, because my
6 clients, being prudent people are disinclined to employ
7 rhetoric. And they find it a little ironic, more than
8 ironic, that in using words such as "subsidy" when we look to
9 the actual revenue cost coverage ratios prior to the
10 allocation of export revenues, we see that our -- my clients'
11 friends from MIPUG, in terms of where they are percentage
12 wise, are ver close to the residential class prior to the
13 allocation of export revenues.

14 And I want to make it clear that my clients
15 believe that it is fully appropriate the allocate the benefit
16 of ex -- export profits to consumers, because it's those same
17 consumers who bear the risks in the -- in the event of
18 unlikely events or droughts. But my clients would caution
19 against the rhetoric associated with the -- this issue.

20 They favour a rigorous analysis of the best
21 means to allocate export revenues, but they recognize that
22 there can be a variety of policy options by which that
23 determination can be made, all of which are consistent with
24 sound theory, sound practice and regulatory precedent.

25 And as my clients move forward on this debate,

1 and a last point on this issue, they will also do so with due
2 respect to the fact that the Status Update was the first
3 major hearing in half a decade on hydro and they recognize
4 that given the nature and complexity of the hearing, it's
5 understandable that the Board may have reached a preliminary
6 opinion on issues such as the allocation of export revenues
7 that it might refine, given additional information such as
8 the NERA report that it be -- that it has before it.

9 And it looks forward to a refinement of this
10 -- of that position to reflect the modern realities of
11 Manitoba Hydro.

12 Mr. Chairman, finally, I wish to speak about
13 anger and specifically residential customer anger. Because
14 as you will recall, from Mr. Harper's evidence, in the case
15 of the residential class, implementation of the August 1st,
16 2004 rate increase sought by Manitoba Hydro would result in a
17 5.5 percent increase in the revenue required from the
18 residential customer class; and that's for the period between
19 August 1, 2004 and March 31, 2005.

20 Now I described my clients at the onset of my
21 comments and we're coming to an end as a prudent -- as
22 prudent organizations who in the past have endorsed
23 substantial rate increases when they are justified. And if I
24 can interpret my client's motivations, I believe that it's
25 because of the balancing act that they referred to previously

1 and they believe that they can sell to their membership and
2 to the public prudent rate increases when they are justified.

3 But my clients being prudent organizations
4 also recognize the potential for anger from customers when
5 they feel that a rat -- rate increase of a certain magnitude
6 is not justified. And I want to advise this Panel that this
7 rate increase is currently framed, is not one that my clients
8 will be prepared to endorse.

9 Because it is their firm belief that when
10 residential customers see their bills, if this rate
11 application is framed, is approved and see a 5.5 percent
12 increase and the revenue being sought from their class. And
13 when they understand that it is not just the drought that is
14 driving this rate increase, when they understand the perfect
15 storm of factors that is impacting upon Hydro's debt equity
16 ratio and the upward pressure on -- on rates, when they make
17 the connection between the special dividend to the Province
18 and the pressure on rates, and when they make the connection
19 between the misapplication of the uniform rate policy and the
20 upward pressure on residential rates, and when they make the
21 connection between the distorting affects of the current
22 allocation of export revenues, they will conclude my client's
23 belief is that the rate increase being sought is not
24 justified and is not reasonable.

25 My clients certainly aren't predicting a per

1 -- perfect storm of residential customer anger but they are
2 more than confident that when the Board fully explores this
3 rate application, it will confirm that the rate application
4 is currently fra -- framed is unjust, unreasonable and
5 inconsistent with sound policy. And subject to any
6 questions, those are my client's submissions.

7 THE CHAIRPERSON: Thank you, Mr. Williams.
8 Mr. Garner Boyd is not with us today so we will move on to
9 Ms. Tamara McCaffrey for MIPUG.

10 MS. TAMARA McCAFFREY: Good morning, Mr.
11 Chair, and the Members of the Board. I do represent Manitoba
12 Industrial Power Users' Group today. With me on my left are
13 consultants from InterGroup Consultants, Mr. John Osler and
14 Mr. Patrick Bowman on my right.

15 As this Board is likely aware and familiar
16 with MIPUG, it is an association of several major industrial
17 companies that operate throughout Manitoba, most notably in
18 Brandon, Thompson, The Pas, Flin Flon, Winnipeg and Hargrave
19 and they work together on issues of common concern that
20 relate to electricity supply and rates in this Province.

21 Now, MIPUG has actively participated in each
22 of Hydro's rate reviews starting with the 1987 review and to
23 the previous legislation. Now there's some issues that have
24 changed and developed over time but there are some that
25 remain surprisingly the same and relevant to this day. I

1 would just like to make a few opening comments to assist the
2 Board with understanding where MIPUG's intervention is coming
3 from.

4 MIPUG's previous interventions and this one
5 will be no different, will rest on a few consistent
6 perspectives that form the foundation for each of MIPUG's
7 interventions. And there are five (5) of them.

8 The first is that reviews of this nature
9 should have a long term perspective and consider the impact
10 of current proposals in the context of what is proposed and
11 forecast to be occurring over the longer term. And that's
12 relevant to the second premise and that is of course that
13 rates should be stable and changes should be predictable for
14 customers.

15 Third; rate changes need to focus on achieving
16 the lowest rates for Manitoba customers that are consistent
17 with a healthy financial utility. Four; rates should reflect
18 the cost to serve each customer class from the Manitoba
19 system. And five; industrial rates should provide
20 flexibility such as optional programs for those customers
21 that are able to manage their load to the benefit of the
22 entire system.

23 Now, this Hearing is a little bit unusual to
24 previous Hydro Hearings and it raises three (3) mysteries
25 that we don't feel, to date, have been well addressed by

1 Hydro but hopefully throughout the Hearing we'll have an
2 opportunity to illuminate the answers to these mysteries.

3 Now, the first thing that's quite unusual
4 about what Hydro's doing with respect to the revenue
5 requirement is that this is the first Application ever where
6 Hydro has applied for rate increases that exceed the rate of
7 inflation. I shouldn't say ever, since 1989.

8 Prior to 1989 there was a different regulatory
9 process in place and it was only in 1989 that the full
10 regulatory role that exists today was established for the
11 Public Utility Board.

12 So, what happened, essentially, historically
13 was in the 1970s and '80s, Hydro used to routinely apply for
14 increases that were above inflation for much of the '70s and
15 '80s. There was a short rate-freeze for a couple of years in
16 there but generally rates did exceed inflation but in 1989
17 the full regulatory role was established for this Board and
18 in that Application, Hydro applied for the last time since
19 -- up until the present Application for one more rate
20 increase that exceeded inflation.

21 Now, it was denied by this Board and the Board
22 ended up giving an increase that was basically equal to
23 inflation in 1989. Now, every Application since then up
24 until now Hydro has asked for rate increases that were below
25 inflation.

1 Now, in 1989, Hydro, when they sought that
2 last increase that exceeded inflation, they at least had some
3 longer term forecast that suggested that increases below
4 inflation would be required and that reflected their
5 intention to control costs and manage the impacts of bringing
6 Limestone online.

7 We don't think the Board today should depart
8 from the precedent that was established in 1989. It's a
9 strong precedent that rates will not increase faster than the
10 inflation of Manitoba. There's just no justification to take
11 this unprecedented approach to rate increases.

12 Compared to the 2002 Hearing where many of us
13 sat in this room and considered what a favourable financial
14 position Hydro was in, what we see today is a dramatic shift
15 highlighted again in your comments, Mr. Chairman, and -- and
16 those of Mr. Peters, and despite our attempts to get a simple
17 numerical answer to the question, the first mystery remains:
18 What happened between 2002 and the present time to justify
19 such a dramatic increase in rates and such -- such a dramatic
20 shift in Hydro's financial position?

21 Again, there's some comments of drought and
22 the impact of that but in agreement with My Friends from
23 CAC/MSOS, in our view, this -- this -- there's no explanation
24 that's been provided. There's no credible, solid numerical
25 explanation to answer this simple question. And unless that

1 question can be answered in a credible and believable way and
2 persuade this Board, in our view, Hydro should not be granted
3 the level of rate increases that it seeks.

4 With respect to cost of service, in 2002 Hydro
5 tried to bring some changes to the cost of service approach
6 that they had historically taken. And the cost of service
7 approach is, of course, the study that Hydro uses to allocate
8 its costs to the various customer groups like residential or
9 industrial classes. Now, the proposed changes were based on
10 all sorts of rationales that were designed to shift costs
11 from other classes to the general service or industrial
12 classes.

13 Now, this filed at a period of almost fifteen
14 (15) years where the industrial class have been consistently
15 identified as paying rates that exceed their cost to the
16 system and Hydro has been repeatedly ordered by the Board to
17 address this problem. I'm talking, of course, about rates
18 that exceed the zone of reasonableness. MIPUG at that time
19 characterized the new cost of service approach as proposed by
20 Hydro as a mathematical solution; that is Hydro was doing
21 nothing to change the rates but they were only trying to
22 revise the math to justify the existing rates.

23 And the Board in that Hearing basically
24 rejected Hydro's proposed revision and ordered an
25 unprecedented 2 percent rate decrease for industrial

1 customers and 1 percent for other general service classes.

2 Again, a movement towards trying to bring
3 those classes closer to the zone of reasonableness.

4 Now this time, Hydro's complied with the
5 Board's directions from 2002 and we commend that, in their
6 Cost of Service study that they've filed. Now, however,
7 Hydro's also filed some new studies and dropped some
8 suggestions that they intend to basically try this again in
9 the -- in the future, what was already rejected in 2002.

10 And the imperative Hydro suggests in doing
11 that is to ensure that it can better send the right price
12 signals to customers which brings us to mystery number two
13 (2).

14 If Hydro wants to improve price signals, why
15 try to use a questionable cost of service adjustments that in
16 the end do nothing more than attempt to justify today's rates
17 and thus not improve anything?

18 Why, if price signals are the concern, why
19 isn't a solution developed in the rate design with respect to
20 these classes, not cost of service?

21 For it is rate design that sends signals with
22 respect to what energy is worth, versus demand peaks or
23 interruptible lows or winter versus summer usage.

24 But Hydro's proposed nothing materially new
25 with respect to rate design and even though the Board has

1 been asking them to work with customer groups to try and
2 develop some new approaches, at least as far back as 1996.

3 The big mystery here is where is this
4 comprehensive rate policy that they were ordered to produce
5 in consultation with customers? Why try to repeatedly fight
6 cost of service here before the Board rather than co-operate
7 with customer groups and, in this case, of course we're here
8 on behalf of the industrial groups, MIPUG, on developing some
9 new, balanced, rate designs.

10 We don't agree that there is any detrimental
11 impact occurring on the system today, as a result of some
12 alleged poor price signal to industrial customers.
13 Industrials are still aggressively pursuing demand-side
14 management and are certainly not flocking to Manitoba to over
15 exploit these alleged poor price signals and so on.

16 But the key point is that if this is the
17 problem Hydro's worried about, why aren't there any solutions
18 proposed and when will the consultation that they will
19 undertake begin?

20 With respect to the rate design, the current
21 cost of service indicates that certain customer classes,
22 including most notably industrials, are well outside the zone
23 of reasonableness.

24 Now, it's improved somewhat since 2002, but
25 the gap remains very large. Hydro says it has a policy to

1 try to address this to get all customer classes within the
2 zone of reasonableness for even all the way to 100 percent
3 within five (5) to seven (7) years.

4 But as of today, industrials have been well
5 above reasonable as reviewed and defined by this Board for
6 more than fifteen (15) years and despite Hydro's own policy,
7 their proposed rate changes in the application are not
8 consistent with what it calculates are needed to actually
9 achieve this policy objective, Hydro's policy objective.

10 And there we have mystery number three (3).
11 Why the proposed rate changes aren't finally working to meet
12 this long-term objective. I said earlier that MIPUG has an
13 interest in stable and predictable changes to rates, but
14 needing over twenty (20) years to solve this problem is
15 taking that a little far.

16 We have a number of other things you will hear
17 us address during the hearing, such as DSM or demand side
18 management, the proposed August implementation of catch-up
19 rates and others. But at the end of the day, in our
20 submission, there is no merit demonstrated with respect to
21 Hydro's proposals to raise rates for large industrial
22 customers and we appreciate the opportunity to address you
23 today.

24 We're interested in arranging a suitable time
25 for some of the MIPUG members to attend to give the Board a

1 short presentation on their operations and the importance of
2 power cost issues to their industries. Thank you, very much.

3 THE CHAIRPERSON: Thank you. Next I have
4 slated Mr. Michael Anderson for MKO. He's not here though,
5 is he? Do we have anyone else representing MKO, Bob?

6 MR. BOB PETERS: No, no one has come forward
7 on behalf of MKO at this time, sir. I'll make a call at the
8 break and find out Mr. Anderson's intentions.

9 THE CHAIRPERSON: Thank you. Then we will
10 move on to the group that's known as a Time to Respect
11 Earth's Eco-systems Inc., Tree, and Resource conversation
12 Manitoba MCM. I'll call on Professor Peter Miller to give us
13 other introductions and brief remarks.

14 MR. PETER MILLER: Thank you, very much. I
15 did prepare a handout, but maybe I can wait till the break
16 time to -- to give that to you because we're coming at this
17 from a very different perspective than the ones that you have
18 just heard and I thought it was important to have the two-
19 thirds of the Panel who are not familiar with our positions
20 briefed on that.

21 We are environmental non-government
22 organizations, NGOs, and we believe that on the basis of the
23 sustainability of our society, we have to implement
24 conservation measures and the notion of eco-don't efficiency.
25 We heard a lot about economic efficiency and efficiency in

1 the operations of Hydro not controlling its costs and so on
2 so that the -- there's little or no impact on rates but far
3 more significant than that is the efficiency related to how
4 we can squeeze benefits for our society with the least
5 footprint, the least cost, the least harm environmentally and
6 so that's the -- the general perspective that we bring to
7 these Hearings.

8 You've heard the refrain from each of the
9 preceding that we have to keep rates low in general and for
10 their particular class, subject to considerations of
11 prudence. We don't want the -- the Corporation to fail in
12 such way that there may be some kind of serious impact down
13 the road. So, prudence is long term but it's essentially a
14 financial prudence or fiscal prudence that's been discussed
15 here.

16 We think we have to look outside the
17 operations of the Corporation to the -- what's happening
18 globally and we know the Corporation does that in -- in some
19 ways with its commitment to greenhouse gas emission
20 reductions and so on but we believe that much more can be
21 done.

22 We're disturbed at the -- Canada's standing in
23 the advanced industrial economies, being second most
24 inefficient. We are about one-third more inefficient than --
25 than the US, our major trading partner and we don't like that

1 standing.

2 There are certain explanations in terms of our
3 climate and geography and -- and so on but we are looking at
4 the -- the policy, the social and the economic factors that
5 aggravate rather than reduce that and I think we have a
6 perfect illustration in terms of the presentations that have
7 been made to this point.

8 When we look at our high levels of energy
9 consumption, what has the response been; lower the rates,
10 keep the rates down. That's the response you've heard from
11 each of the previous intervenors.

12 There's another way to lower costs and that is
13 to promote efficiency, that's demand-side management and the
14 whole dynamic of these Hearings traditionally have been
15 basically how to lower those -- those -- those costs that
16 impact on -- on rates in the short run.

17 And their -- although the Corp -- Corporation
18 has a DSM policy, unfortunately there haven't been
19 intervenors prior to our 2002 intervention who have called
20 for augmentation of that rather than maybe cutting back
21 because it adds to the operating costs and that disturbs us
22 greatly.

23 We pointed out in the last set of Hearings and
24 again, in Wuskwatim that there is a powerful legal bandaid in
25 the Hydro Act, the Corporation is mandated to promote end use

1 efficiency; that's part of the legislated mandate of the
2 Corporation. And the Corporation and -- and this Board are
3 also subject to the Sustainable Development Act which speaks
4 of matters of efficiency as well as many other matters.

5 And, so I would ask you in -- in the
6 deliberations that you will make during and following these
7 presentations, that besides all the economic matters that are
8 under consideration, that you consider our mandate for
9 sustainability and creating a more sustainable society.

10 We have -- well, let me just give you one (1)
11 illustration of -- of what we find to be the current perverse
12 set of incentives. The more electricity is valued in the
13 market, which means in the export market, the lower
14 Manitobans pay for it, simply because that increase is the
15 export dividends and what do we do with them? We apply them
16 immediately back to reduce the cost of domestic customers.

17 I think that's a perfect illustration of a
18 perverse subsidy and we hope that this -- this type of thing
19 can be addressed.

20 Now, there may be policy reasons for trying to
21 keep the cost of energy down and whether it's residential
22 anger or making things attractive for business and so on, but
23 I guess I would echo Tamara's comments that some of this can
24 be handled through price structure.

25 And Mr. Lazar has made proposals for an

1 inverted rate structure which is intended to provide those
2 economic incentives at the -- I guess the -- the brunt of it
3 would be if you're going to -- you do have a policy question
4 as to whether you're going to subsidize and how much you're
5 going to subsidize and frankly, I don't see anything wrong
6 with the owners of a Corporation taking a dividend from the
7 Corporation.

8 This is one -- if -- if you will, one of the
9 perverse features of a Crown Corporation is that it -- it
10 doesn't provide that dividend and hence relative to other
11 goods and services on the market, lowers the price of the
12 particular commodity that is delivered by the Crown
13 Corporation.

14 It's just one in a quite a number of -- of
15 different subsidies that face the rates.

16 But there -- there has to be a decision as to
17 what degree of subsidy to provide overall, and then if you're
18 going to subsidize I say subsidize conservation. That can
19 lower the cost that -- that customers pay and subsidize the
20 fixed portions of the rates and the early consumption blocks
21 of the rates so that the tail block of the rates better
22 reflect the true value of the commodity that people are
23 buying.

24 So those are the positions that we'll be
25 advancing here.

1 MR. ROBERT MAYER: Mr. Miller, we've heard of
2 another proposed agency called "Efficiency Manitoba". Do you
3 have any knowledge of that, and how would that affect Hydro's
4 responsibility for demand side management?

5 MR. PETER MILLER: I probably don't have any
6 more information than -- than you do. It -- it is a
7 government initiative. They've been shopping it around with
8 PowerPoint presentations.

9 I guess one (1) issue that -- that would arise
10 is -- I mean there are obviously transitional issues if the
11 idea is to take the personnel from -- from Power Smart and
12 put them in a new -- new agency, but there -- there are other
13 things like the integration of -- of economic considerations
14 and rate setting considerations, too.

15 So, I mean they say that they -- that they
16 want to build on and add to what is currently being done.
17 But I -- I think it would have to be some delicate dealing
18 with -- with that.

19 THE CHAIRPERSON: Thank you, Professor
20 Miller. Okay. We have now received opening comments and
21 introductions by Manitoba Hydro and all registered
22 Intervenors that are present. So I turn the proceedings back
23 now to Mr. Peters. Mr. Peters would you kindly review the
24 draft outline of procedures that I believe were circulated
25 with the accompanying Intervenors, seek any questions or

1 suggestions for changes related thereto and begin with the
2 process of introducing necessary exhibits.

3 MR. BOB PETERS: Yes, and thank you, Mr.
4 Chairman. The representatives of the Utility as well as the
5 Intervenors should have a copy of an outline of procedures.
6 A copy has been circulated and I do have additional copies
7 with me if someone still needs one.

8 The outline of procedures, Mr. Chairman, and
9 Board Members, is an effort to try to keep the proceedings
10 moving and to allow parties to know what's expected of them
11 and the approximate time lines. You've indicated that the
12 Hearing will sit Monday, Tuesday, Wednesday of this week,
13 next week and the week following.

14 And to that end if we look at the outline of
15 procedures I would like to draw your attention to the second
16 page in terms of the orders of matters to be heard. We have
17 heard from Ms. Ramage that she intends to call a panel of
18 witnesses seated beside her on revenue requirement issues.
19 She also has indicated she has a panel of witnesses to be
20 called on cost of service and rate design matters and demand
21 side management matters.

22 It is proposed, Mr. Chairman, and Board
23 Members, that the revenue requirement panel testify first.
24 They will be asked questions by their counsel, they will be
25 cross-examined by Board counsel as well as Intervenors and if

1 members would like to make a presentation and I'll work with
2 Ms. McCaffrey to schedule a time convenient for the Board for
3 that to occur. Following the evidence and of course we may
4 have to inter-leaf the presentations as it suits the Board
5 and the -- and the Intervenors, we would get to the
6 Intervenor witnesses.

7 Mr. Williams has indicated his witness will be
8 Mr. Harper from Econalysis Consulting Services. He will be
9 asked questions by Mr. Williams, cross-examined by the other
10 intervenors, by Manitoba Hydro and lastly by Board counsel
11 and any re-examination by Mr. Williams if requested.

12 On page 3 of the outline of procedures we
13 indicate that the MIPUG witnesses, Messrs. Osler and Bowman
14 from InterGroup Consulting would be next. The direct
15 examination would be by Ms. McCaffrey and then cross-examined
16 again in the -- in the usual order that Intervenors,
17 witnesses are cross-examined, that is by fellow Intervenors
18 then by Manitoba Hydro counsel and lastly by Board counsel.

19 Mr. Lazar will be appearing on behalf of TREE
20 and RCM and through an exchange of communications, this
21 matter has tentatively been scheduled for Monday, June 28th
22 and/or the morning of Tuesday, June 29th. I see January in
23 my notes and I hope -- I'm hoping yes, June 28th and June
24 29th are -- are what we have committed to and we're -- we're
25 endeavouring to make that happen for Mr. Miller and his

1 witness.

2 The closing comments always pose a timing
3 challenge to the Board and to the parties. Mr. Chairman,
4 you've indicated you would like those to follow closely after
5 the close of evidence and that's a matter that the parties
6 should be aware that they could be working on their closing
7 comments throughout the proceedings so that those closing
8 comments can come right after the close of the evidentiary
9 portion of the Hearing and I would be pleased to lead those
10 closing comments when they occur, followed by the intervenors
11 and then lastly by Manitoba Hydro Counsel.

12 In -- I would -- after my comments, Mr.
13 Chairman, it might be appropriate for you to just canvas
14 again the parties to see if they have any suggestions or
15 revisions to what I have put forward as proposed outline of
16 procedures and to -- to also ask them if they have any
17 changes to the proposed exhibits. There has been a draft
18 exhibit list prepared or a proposed exhibit list prepared.

19 And let me say at the outset, Mr. Chairman,
20 the entering and the keeping track of exhibits is a challenge
21 for some of us, myself particularly, and I will invite my
22 colleagues who use the microphone to assist the Board and
23 particularly the Chair in keeping track numerically of
24 exhibit numbers. It does create an accurate record if we do
25 it properly and we will endeavour to assist the Board in

1 keeping those exhibits in proper numerical order.

2 What is seen on the exhibit list that has been
3 handed out, and I believe additional copies are available if
4 needed, is we've taken the liberty of assigning exhibit
5 numbers predicated by the prefix of either the PUB or the
6 Intervenor's prefix or the utility, as -- as the case may be
7 and then the exhibit numbers will have sometimes many sub-
8 exhibits.

9 But as examples, we have PUB Exhibit 1 being
10 the Application, Exhibit PUB-2 is the reminder notice, PUB-3
11 is the procedural order and then we get to PUB Exhibit 4
12 which contains the Information Requests of Manitoba Hydro and
13 Manitoba Hydro's responses.

14 So if it becomes particularly important to
15 locate an exhibit, that would be considered as PUB Exhibit 4
16 and then dash and the dash would then follow by the number of
17 the Information Request. It could be anywhere from 4-1 to 4-
18 88. Likewise, PUB Exhibit 5 could be anywhere from PUB-5-1
19 to 5-63 depending on the Information Request in the second
20 round.

21 Also on the exhibit list on page 3 are
22 exhibits proposed on behalf of Manitoba Hydro and included
23 will be PUB -- I'm sorry, Manitoba, MH Exhibit 1 which is
24 their letter dated January 29th to the Board with respect to
25 their filing of an Application.

1 We have Exhibit 2, Manitoba Hydro rebuttal
2 evidence and then reserved as Exhibit 3 will be the various
3 CVs of the witnesses. To that end, Ms. Ramage has provided
4 copies of the witness CVs and that can be entered as
5 exhibits. The CVs that are provided are for both this panel
6 as well as for the next panel, so parties will have them all
7 at hand.

8 Manitoba Hydro has also filed Manitoba Hydro
9 Exhibit 4 in terms of affidavits of service and Ms. Ramage
10 has provided two (2) copies -- I'm sorry, she's provided two
11 (2) affidavits of service to the Executive Director of the
12 Board for recording. Then in similar fashion we have entered
13 Manitoba Hydro Exhibits 5 through 11 and I believe on
14 Manitoba Hydro 11, the -- the letter referenced in the small
15 Roman numeral number II refers to the NERA report forming
16 part of the Hearing.

17 On page 5 we've taken the liberty of
18 recording and assigning numbers to CAC/MSOS Exhibits. Number
19 1 would be the evidence of Mr. Harper; number 2 would be the
20 first round information requests and answers; and CAC/MSOS
21 Exhibit 3 would be the second round Information Requests and
22 answers.

23 Similarly, when we deal with Information
24 Requests, the Exhibit would be, in this case as an example, a
25 second round Information Request from CAC/MSOS would be

1 Exhibit CAC/MSOS-3 dash and that would be something between
2 one (1) and sixty-one (61) depending on the Information
3 Requests.

4 We have followed a similar procedure for the
5 MIPUG Exhibits starting with MIPUG Exhibit 1 which would be
6 the evidence of Messrs. Osler and Bowman, MIPUG-2, would be
7 the information requests for the first round, MIPUG-3 would
8 be the second round information requests.

9 MIPUG-4 will be the questions MIPUG posed to
10 CAC/MSOS witness and MIPUG would be the questions that MIPUG
11 has asked of TREE's expert witness.

12 We have assigned an exhibit to MKO's
13 interrogatories and they are filed as MKO-1 and they would be
14 anywhere from 1-1 to 1-3.

15 For TREE, we have used Exhibit TREE-1 for the
16 evidence of Mr. Lazar, TREE-2 to be the questions on the
17 first round of information requests and the answers. TREE
18 Exhibit 3 would be the second round information requests and
19 then TREE Exhibit 4 would be the information requests posed
20 by TREE to MIPUG.

21 In terms of the exhibits for the Canadian
22 Centre for Energy Policy, we have CCEP Exhibit 1 as being the
23 first found information requests and responses and CCEP
24 Number 2 being the second round information and responses.

25 That is a rather lengthy review of the plan

1 for the proposed outline of procedures and the exhibits, Mr.
2 Chairman, but it would be appropriate to find out at this
3 time, if anyone has any suggested revisions or if the matter
4 is satisfactory as presented. Thank you.

5 THE CHAIRPERSON: Thank you, Mr. Peters.
6 Before confirming them, we'll just go around the room. Ms.
7 Ramage, for Hydro, do you have any comments, suggestions and
8 concerns?

9 MS. PATTI RAMAGE: No, I don't. Mr. Warden
10 has pointed out, however, that on the -- on Page 2 of the
11 outline of procedures, Page 2, Number 2, Willie Derksen is
12 listed as being on the Cost of Service panel. Mr. Derksen
13 won't be part of that panel.

14 I would also note that because I saw My
15 Learned Friend's eyebrows rise when we discussed CV's, I have
16 a package of CV's to distribute to the parties in the room.
17 I was going to do that prior to the witnesses being sworn.

18 THE CHAIRPERSON: Thank you. Mr.
19 Feldschmid...?

20 MR. JURGEN FELDSCHMID: None, Mr. Chairman,
21 thank you.

22 THE CHAIRPERSON: Thank you. Mr.
23 Williams...?

24 MR. BYRON WILLIAMS: Mr. Chairman, the only
25 comment I have besides expressing my appreciation to Mr.

1 Peters' thoroughness, in terms of the exhibit is just to
2 reiterate a -- a concern we noted at the time that we filed
3 Mr. Harper's evidence.

4 It -- which is that due to the never-ending
5 Wuskwatim saga, and our clients' increased involvement on the
6 EIS side of that Hearing as well, we are struggling to get up
7 to speed.

8 My witnesses are up to speed, but their
9 Learned Counsel is still struggling to get up to speed on the
10 revenue requirement side of the issue, so we were
11 endeavouring to be prepared in the order that is set out in
12 the -- the outline of procedures, but that's still an ongoing
13 issue for us.

14 So, I -- if it becomes a concern as we observe
15 the Hearing progress, I will bring that to the attention of
16 Mr. Peters and seek the co-operation of the other funded part
17 -- or the other Intervenors and see if they can accommodate
18 our order in the schedule.

19 THE CHAIRPERSON: Thank you, and noted. Ms.
20 McCaffrey, for MIPUG...?

21 MS. TAMARA MCCAFFERY: We have no other
22 concerns or comments, Mr. Chairman, thank you.

23 THE CHAIRPERSON: Professor Miller...?

24 MR. PETER MILLER: Thanks for accommodating
25 our witness.

1 MR. ROBERT MEYER: On election day.

2 THE CHAIRPERSON: We -- we're getting close
3 to our break period. I think it might be something that we
4 could do that might be useful. So we will accept the outline
5 of procedures and the proposed numbering of the various
6 exhibits and thank you, Mr. Peters.

7 And I think what we'll do now is proceed to
8 prepare ourselves for the beginning of the presentation by
9 the Corporation. So, before we break, Mr. Baron, would you
10 kindly have Manitoba Hydro's panel sworn or affirmed.

11

12 --- PUB-1 Notice of Application dated
13 February 25, 2004

14

15 --- PUB-2 Reminder Notice of Application
16 dated April 29, 2004

17

18 --- PUB-3 Order No. 43/04 dated March 24
19 2004 - Procedural Order

20

21 --- PUB-4 The Public Utilities Board's
22 Information Requests of
23 Manitoba Hydro and responses
24 (PUB-MH-1-88) First Round

25

1 --- PUB-5 The Public Utilities Board's
2 Information Requests of Manitoba
3 Hydro and responses (PUB/MH-1
4 to 63) Second round
5
6 --- PUB-6 The Public Utilities Board's
7 Information Requests of
8 Consumers' Association of Canada
9 (Manitoba) Inc./Manitoba Society
10 of Seniors and responses
11 (PUB-CAC/MSOS-1 to 7)
12
13 --- PUB-7 The Public Utilities Board's
14 Information Requests of Manitoba
15 Industrial Power Users Group and
16 responses (PUB-MIPUG-1 to 8)
17
18 --- PUB-8 The Public Utilities Board's
19 Information Requests of Time
20 to Respect Earth's Ecosystem Inc.
21 And Resource Conservation
22 Manitoba and responses
23 (PUB/TREE/RCM-1 to 4)
24
25 --- MH-1 Letter dated January 29, 2004

1 from Manitoba Hydro to the
2 Board - Application (Volume 1,
3 2 and 3)
4
5 --- MH-2 Rebuttal Evidence
6
7 --- MH-3-1 CV of Vince Warden
8
9 --- MH-3-2 CV of Lyn Wray
10
11 --- MH-3-3 CV of Willie Derksen
12
13 --- MH-3-4 CV of Harold Surminski
14
15 --- MH-3-5 CV of David Cormie
16
17 --- MH-3-6 CV of Robin Wiens
18
19 --- MH-3-7 CV of Chic Thomas
20
21 --- MH-3-8 CV of Lloyd Kuzcek
22
23 --- MH-4 Affidavit of Publication
24
25 --- MH-4-1 Affidavit of Suzette Charles

1 (phonetic), sworn April 21st
2
3 --- MH-4-2 Affidavit of Suzette Charles
4 sworn June 9th
5
6 --- MH-5 Manitoba Hydro's Information
7 Requests of Consumers Association
8 of Canada (Manitoba) Inc./
9 Manitoba Society of Seniors
10 and responses (MH/CAC/MSOS-
11 1 to 3)
12
13 --- MH-6 Manitoba Hydro's Information
14 Requests of Manitoba Industrial
15 Power Users Group and responses
16 (MH-MIPUG-1 to 7)
17
18 --- MH-7 Manitoba Hydro's Information
19 Requests of Time to Respect
20 Earth's Ecosystem Inc. and
21 Resource Conservation Manitoba
22 and responses (MH-TREE-RCM-1
23 to 10)
24
25 --- MH-8 List of Interim Ex Parte Orders

1 issued by the Board subject to
2 confirmation or otherwise in
3 these proceedings (as of the
4 date the Hearing commenced)
5

6 --- MH-9 I) Letter dated March 18,
7 2004 from Manitoba Hydro to
8 The Public Utilities Board
9 re: Application for approval
10 of General Service Flat Rate
11 Water;
12 ii) Order No. 66/04 dated April
13 21, 2004 approving rates for
14 Flat Rate Water Heater Service
15 on an Interim Ex Parte basis.

16 --- MH-10 Letter dated February 17, 2004
17 from Manitoba Hydro to The Public
18 Utilities Board re: deleting
19 references in Application to
20 discontinuance of Short
21 Duration, Intermittent Rate
22

23 --- MH-11 I) Letter dated April 1, 2004
24 from Manitoba Hydro to The
25 Public Utilities Board re:

1 Responses to Directive in
2 Order Nos. 7/03 and 154/03
3 namely: Order No. 7/03
4 Directive No. 6(e)(g),
5 Directive No. 9
6 Directive No. 10
7 ii) The Public Utilities
8 Board's letter to all parties
9 of record dated April 21, 2004
10 advising MH-10(I) will form
11 part of the GRA proceeding.
12
13 --- CAC/MSOS-1 Evidence of William Harper of
14 Econalysis Consulting Services
15 dated May 28, 2004
16
17 --- CAC/MSOS-2 Consumers' Association of Canada
18 (Manitoba) Inc./Manitoba Society
19 of Seniors of Manitoba Hydro and
20 response (CAC/MSOS/MH-1 to 124)
21 First Round
22
23 --- CAC/MSOS-3 Consumers' Association of Canada
24 (Manitoba) Inc./Manitoba Society
25 of Seniors of Manitoba Hydro

1 (CAC/MSOS/MH-1 to 61) Second
2 Round
3
4 MIPUG-1 Evidence of J. Osler and P.
5 Bowman, InterGroup Consultants,
6 Ltd. Dated May 28, 2004
7
8 MIPUG-2 Manitoba Industrial Power
9 Users' Group's Information
10 Requests of Manitoba Hydro
11 and responses (MIPUG/MH-1 to
12 30) First Round
13
14 --- MIPUG-3 Manitoba Industrial Power
15 Users' Group's Information
16 Requests of Manitoba Hydro
17 and responses (MIPUG/MH-1 to
18 41) Second Round
19
20 --- MIPUG-4 Manitoba Industrial Power Users'
21 Group's Information Requests of
22 Consumers' Association of
23 Canada (Manitoba) Inc./Manitoba
24 Society of Seniors and responses
25 (MIPUG/CAC/MSOS 1 to 2)

1 --- MIPUB-5 Manitoba Industrial Power Users'
2 Group's Information Requests of
3 Time to Respect Earth's Ecosystem
4 Inc. And Resource Conservation
5 Manitoba and responses
6 (MIPUG-TREE-1 to 3)
7
8 --- MKO-1 Manitoba Keewatinook Ininew
9 Okimowin's Information Requests
10 of Manitoba Hydro and responses
11 - Pre-Asked Questions (MKO-MH-
12 1 to 3)
13 --- TREE-1 Evidence of Jim Lazar, Consulting
14 Economist
15
16 --- TREE-2 Time to Respect Earth's Ecosystem
17 Inc. And Resource Conservation
18 Manitoba's Information Requests of
19 Manitoba Hydro and responses
20 (TREE/MH-1 to 41) First Round
21
22 --- TREE-3 Time to Respect Earth's Ecosystem
23 Inc. And Resource Conservation
24 Manitoba's Information Requests of
25 Manitoba Hydro and responses

1 (TREE/MH-1 to 13) Second Round
2
3 --- TREE-4 Time to Respect Earth's Ecosystem
4 Inc. And Resource Conservation
5 Manitoba's Information Requests of
6 Manitoba Industrial Power Users
7 Group and responses (TREE/MH-1
8 to 2)
9
10 --- CCEP-1 Canadian Centre for Energy
11 Policy, Inc.'s Information
12 Requests of Manitoba Hydro
13 and responses (CCEP-MH-1 to
14 17) First Round
15 --- CCEP-2 Canadian Centre for Energy
16 Policy, Inc.'s Information
17 Requests of Manitoba Hydro
18 and responses (CCEP/MH-1 to
19 18) Second Round
20
21 VINCE WARDEN, Sworn:
22 LYN WRAY, Sworn:
23 HAROLD SURMINSKI, Sworn:
24 DAVID CORMIE, Sworn:
25 WILLIE DERKSEN, Sworn:

1 THE CHAIRPERSON: Thank you, Mr. Barron. I
2 think now we will have our break and when we come back we'll
3 start the Corporation's presentation. Professor Miller, you
4 could distribute your briefing during the break if you'd
5 like. Thank you. So we stand adjourned. We'll -- we'll
6 come back at, we might as well get underway, we'll see
7 whether -- how far we can get before lunch. How about we
8 return here for 10:45.

9

10 --- Upon recessing at 10:30 a.m.

11 --- Upon resuming at 10:50 a.m.

12

13 THE CHAIRPERSON: Whenever you're ready, Ms.
14 Ramage. I should mention, by the way, that our schedule's
15 already altered. It turns out that the presenters are -- are
16 going to begin at 1:15 today so we'll return to the other
17 schedule tomorrow after lunch at 2:00, so our lunch break is
18 condensed today.

19 MS. PATTI RAMAGE: Mr. Chair, before I begin,
20 I would just note that at the break Manitoba Hydro
21 distributed the CV's of its witnesses to the Intervenors, the
22 Board had been provided copies earlier this morning and I
23 thought for the record, I would just note that Mr. Warden's
24 CV will be noted as 3-1, Ms. Wray's as 3-2, Mr. Derksen's
25 3-3, and this is all Manitoba Hydro, yeah.

1 Manitoba Hydro 3-4 is Mr. Surminski's, 3-5 is
2 Mr. Cormie's, 3-6 is Mr. Wiens, 3-7 is Mr. Thomas', and 3-8
3 is Mr. Kuzcek's.

4 Also the Manitoba Hydro exhibit 4 is indicated
5 on the distributed list as Affidavit of Service. In fact
6 it's the Affidavit of Publication and there were two (2)
7 affidavits submitted in that regard.

8 Both the affidavits of Suzette Charles
9 (phonetic), one sworn April 21st, which is Exhibit 4-1 and
10 the other sworn June 9th, which is Exhibit 4-2.

11 It's not our custom to distribute that
12 affidavit. It's simply -- provides the Board with a record
13 that the Board's notice was published in accordance with the
14 instructions of the Board.

15 THE CHAIRPERSON: All noted and accepted.

16 MS. PATTI RAMAGE: And with that, Mr. Chair,
17 I'm prepared to present Manitoba Hydro's direct evidence.

18 THE CHAIRPERSON: Please begin, thank you.

19

20 EXAMINATION IN-CHIEF BY MS. PATTI RAMAGE:

21 MS. PATTI RAMAGE: Beginning with Mr. Warden,
22 could you please outline your qualifications and areas of
23 responsibility with respect to this Filing?

24 MR. VINCE WARDEN: Yes, good morning Mr.
25 Chairman, members of the Board, ladies and gentlemen. I am

1 Certified Management Accountant and this past year I was
2 awarded a fellowship from the Society of Management
3 Accountants of Canada.

4 My entire professional career has been at
5 Manitoba Hydro. My present position is as vice-president
6 Finance Administration and Chief Financial Officer.

7 The divisions that report to me include
8 treasury and business analysis, rates and regulatory affairs,
9 corporate controller, human resources, information
10 technology, gas supply and corporate facilities.

11 My areas of responsibility with respect to
12 this Filing relate mainly to policy issues and general
13 oversight of the Filing and related materials.

14 MS. PATTI RAMAGE: What approvals are being
15 sought by Manitoba Hydro in this Filing?

16 MR. VINCE WARDEN: Manitoba Hydro is applying
17 to the Public Utilities Board for approval of average
18 increases and general consumer electricity rates of 3 percent
19 effective April the 1st, 2004 and 2.5 percent effective April
20 the 1st, 2005.

21 Manitoba Hydro is also seeking final approval
22 of various ex parte orders relating to the curtailable rates
23 program, the surplus energy program in Order 153-03 which
24 dealt with various Manitoba Hydro sales rate matters
25 including approval water heater rates, which had been offered

1 by Winnipeg Hydro but not Manitoba Hydro and were not
2 contained in Manitoba Hydro's rate schedules.

3 Finally, in Order 153-04 -- or was it 03 --
4 the PUB approved on an ex parte basis the extension of the
5 surplus energy program to March 31st, 2005.

6 In addition to obtaining final approval Order
7 153-04, Manitoba Hydro is seeking to extend the surplus
8 energy program an additional two (2) years to March 31st,
9 2007.

10 Just a correction. I referred to 153-04, that
11 should be Order 153-03.

12 MS. PATTI RAMAGE: Now you indicated you
13 wished the 3 percent increase to be effective April 1st,
14 2004. Obviously this date is not achievable. How is
15 Manitoba Hydro proposing to implement this increase?

16 MR. VINCE WARDEN: Manitoba Hydro is
17 proposing to implement rate increases to the respective
18 customer classes so as to generate the identical incremental
19 revenue to what would have been generated if the rate
20 increases had been implemented April the 1st, 2004.

21 So, for example, if the PUB order is issued in
22 time for an August the 1st, 2004 implementation and if
23 Hydro's application is approved as submitted, instead of an
24 average 3 percent rate increase the average increase would be
25 approximately 4.3 percent.

1 A rate increase of 4.3 percent effective April
2 1, 2004 would generate \$28 million of additional revenue in
3 the fiscal year 2004/05 which is the amount requested in
4 Manitoba Hydro's application. I should also point out that
5 if averaged out since the last rate increase, Manitoba
6 Hydro's proposed rate increases are well below the rates of
7 inflation.

8 This is clearly set out in Manitoba Hydro's
9 rebuttal evidence in which the cumulative CPI since 1992 up
10 to and including 2005/06 is 37.2 percent compared to Manitoba
11 Hydro's overall change in rates of 15.1 percent over that
12 period of time.

13 Further, if we compare rate changes to
14 industrial customers over that same fifteen (15) year period
15 of time, the cumulative rate changes are only 6.6 percent
16 compared to CPI of 37.2 percent. So how anyone can suggest
17 that Manitoba Hydro's proposed rate increases are higher than
18 inflation is indeed a mystery.

19 MS. PATTI RAMAGE: Mr. Warden, as Manitoba
20 Hydro's Chief -- Chief Financial Officer, could you comment
21 on the state of Manitoba Hydro's finances at this time?

22 MR. VINCE WARDEN: Yes, I would like to
23 answer this question in two (2) parts. First in a general
24 way and then more specifically. In general, Manitoba Hydro
25 is exceptionally well positioned as one of the leading energy

1 providers in North America.

2 Manitoba Hydro's vision as stated in its
3 Corporate Strategic Plan, is to be the best utility in North
4 America with respect to safety, rates, reliability, customer
5 satisfaction and environmental management. By all those
6 measures Manitoba Hydro is very close to attaining its vision
7 of being the number 1 utility.

8 Certainly in terms of electricity rates, we
9 are the lowest cost provider in North America and even with
10 our proposed rate increases we will retain that status.
11 Similarly, in terms of customer satisfaction, we are ranked
12 the best utility in Canada according to surveys conducted by
13 the Canadian Electrical Association.

14 Having said that, we are coming off the most
15 difficult year financially in the Corporation's history. Our
16 net losses which are still subject to final audit, will
17 exceed \$400 million for 2003/04. This dwarfs the previous
18 highest net loss of \$26 million incurred in 1989. Also
19 2003/04 marked the first year since 1989 that Manitoba Hydro
20 was a net importer of power. That is we bought more power on
21 extra-provincial markets and we sold on those markets.

22 The good news is that Manitoba Hydro is able
23 to absorb the huge financial loss of last year because it had
24 been gradually building its -- its financial reserves or
25 retained earnings over the past decade. From a low of \$92

1 million in 1989, retained earnings reached a high of \$1.3
2 billion in 2002. And this was achieved mainly through sales
3 of surplus energy on the export market and with minimal rate
4 increases to domestic customers.

5 With the losses of 2003/04 retained earnings
6 will be reduced to approximately \$750 million which is
7 definitely too low to absorb another drought or some other
8 major negative event. Fortunately, precipitation has been
9 favourable to Manitoba Hydro over the late winter and spring
10 of 2004. But if last year's drought had continued into
11 2004/05, Manitoba Hydro could have been faced with further
12 financial losses exceeding \$550 million this year.

13 Clearly, retained earnings of \$750 million
14 would not be adequate to deal with this situation and
15 Manitoba Hydro could have been in a precarious financial
16 position. So while Manitoba Hydro is a strong and successful
17 utility in many ways, it is very important to again rebuild
18 retained earnings in preparation for another drought or some
19 other major event that will inevitably occur.

20 MS. PATTI RAMAGE: Mr. Warden, if you are
21 able to build retained earnings in the past mainly through
22 export sales, why can't you do that again?

23 MR. VINCE WARDEN: To the extent possible, we
24 will do that; however, the growth in the Manitoba domestic
25 load over the past number of years -- with the growth in the

1 domestic load over the past number of years, Manitoba Hydro
2 doesn't have as much surplus energy for sale on the export
3 markets as it did in the past.

4 To put that into perspective, the capability
5 of Manitoba Hydro's hydraulic generation system under average
6 system flow conditions is about twenty-nine thousand (29,000)
7 gigawatt hours per year. Manitoba Hydro sales within
8 Manitoba last year were just under twenty thousand (20,000)
9 gigawatt hours which is approximately 22 percent higher than
10 just ten (10) years ago.

11 So until Manitoba Hydro adds more generation,
12 we will have to rely more on domestic customers to rebuild
13 retained earnings than we -- than we did in the past.

14 I should also point out that Manitoba Hydro
15 encountered exceptional circumstances over the past decade.
16 Not only do we have much higher than average water flow
17 conditions but we were selling into an export market in which
18 there were record high prices. The combination of these
19 factors allowed us to attain record high earnings which
20 peaked in 2001 at \$270 million.

21 While we are optimistic about the future, it
22 is very unlikely that we'll achieve the record earnings of
23 the past, at least not within the next few years.

24 MS. PATTI RAMAGE: Mr. Warden, are you
25 concerned about the level of Manitoba Hydro's debt?

1 MR. VINCE WARDEN: No. No, I'm not concerned
2 and I'd like to explain why. Unlike investor owned companies
3 who raise capital through equity markets to fund their
4 growth, Manitoba Hydro as a Crown Corporation doesn't have
5 share capital as issu -- as a source of funding. For
6 Manitoba Hydro to grow, it relies on debt financing which is
7 the lowest cost of capital available and thanks to that
8 source of debt financing, Manitoba Hydro has grown
9 tremendously since it's formation in 1961.

10 The important point is that while debt has
11 grown to 6.4 billion at March 31st, 2004, investments and
12 fixed assets have grown at a faster pace to stand at a pre --
13 at a depreciated value of \$7.5 billion at the end of last
14 year and if those same assets were to be replaced today,
15 their value would be many times greater than \$7.5 billion.

16 Of course it's important to minimize the
17 carrying costs of Manitoba Hydro's debt and Lyn Wray and the
18 people in Treasury -- Treasury work very hard to do that. In
19 fact, interest rates are at an all time low and for the first
20 time in the Corporation's history short term borrowing is
21 being trac -- transacted at rates below 1 percent.

22 In order for Manitoba Hydro to continue to
23 borrow at very attractive interest rates, it's essential that
24 investors continue to view our debt as self-sustaining. For
25 this reason, Manitoba Hydro places a great deal of emphasis

1 on attaining its financial targets as set out in this
2 Application.

3 MS. PATTI RAMAGE: You mentioned that debt is
4 being used to fuel growth and that growth is in the form of
5 capital expenditures. Have all of Manitoba Hydro's capital
6 expenditures been prudently incurred?

7 MR. VINCE WARDEN: In Manitoba Hydro's
8 Application, we described the rigorous control environment
9 that exists for all capital expenditures. Further, the Crown
10 Corporation Counsel conducts a comprehensive annual review of
11 Manitoba Hydro's proposed capital expenditures in preparation
12 for the on -- Loan Act submission to Treasury Board.

13 In its review of Manitoba Hydro's 2003 capital
14 expenditure program, the Crown Corporation's Counsel
15 commented as follows and I'll quote:

16 "The program is consistent with Manitoba
17 Hydro's mandate and strategic plan.
18 Projects and expenditure levels addr --
19 address and reflect risk management, rate
20 considerations, high system reliability,
21 public safety, environmental sensitivity,
22 sustainable development principles, service
23 and power quality and export commitments.
24 Projects and expenditures included in the
25 2004 and subsequent years forecast are

1 those deemed necessary to provide a safe
2 and reliable supply of energy in an -- an
3 efficient and sustainable development
4 manner."

5 And finally, from the Crown Corporation's
6 review, they state that:

7 "The Board and management have appropriate
8 capital budgeting approval and monitoring
9 -- monitoring processes in place."

10 MS. PATTI RAMAGE: Mr. Warden, can you comment
11 on the increases to Manitoba Hydro's operating and
12 administrative expenses, and the measures which have been
13 used to control operating costs?

14 MR. VINCE WARDEN: Yes, first I'd like to
15 comment briefly on the emphasis which Intervenors appear to
16 be placing on the operating cost per customer.

17 Well, operating cost per customer is one high
18 level indicator performance. It is not relied upon
19 extensively as a short term measure across the business units
20 at Manitoba Hydro.

21 For example, this measure is virtually
22 meaningless to the people in power supply who make
23 expenditure decisions based on optimal operating efficiencies
24 of generating units or on opportunities to realize
25 incremental revenues on export markets.

1 Similarly, in transmission and distribution
2 expenditure decisions are focussed on maintaining system
3 reliability or restoring -- or restoring service after a
4 major ice or wind storm.

5 Nevertheless, at executive committee we do
6 review operating costs per customer along with other measures
7 on a monthly basis and if there are major deviations from the
8 overall corporate target we investigate the reasons as to why
9 this has occurred.

10 But the real control over operating and
11 administrative expenses takes place through the budgeting
12 process and the very stringent controls we have over budgets.

13 I know that Manitoba Hydro operates a very
14 lean utility and to demonstrate this, consider that over the
15 past year -- five (5) years, operating, maintenance,
16 administrative expenses have increased at an average annual
17 of 1.9 percent per year.

18 This rate of increase is identical to the
19 average annual increase in the Manitoba Consumer Price Index
20 over the same five (5) year period.

21 So despite the tremendous growth in the
22 Utility that I referenced earlier, Manitoba Hydro was able to
23 hold its year over year increase in operating costs to the
24 rate of inflation.

25 By way of comparison, the two (2) other major

1 hydraulic generation utilities in Canada, Hydro Quebec and BC
2 Hydro had average increases in their operating maintenance
3 and administrative costs of 6 percent and 6.9 percent
4 respectively per year, over the past five (5) years.

5 I should add that this comparison is based
6 strictly on information contained in the annual reports of
7 those two (2) utilities and there's probably very good
8 reasons why their operating and administrative costs were so
9 much higher than Manitoba Hydro's. However, I think the
10 comparison helps to demonstrate the effectiveness of Manitoba
11 Hydro's cost control efforts for the benefit of all rate
12 payers.

13 MS. PATTI RAMAGE: And finally, Mr. Warden,
14 as a housekeeping manner, can you confirm that the pre-filed
15 written evidence that is the application -- Manitoba Hydro's
16 application, its answers to information requests and rebuttal
17 evidence was prepared under your direction and is accurate to
18 the best of your knowledge and belief?

19 MR. VINCE WARDEN: Yes, I can confirm that.

20 MS. PATTI RAMAGE: And now, I'll direct my
21 questions to Ms. Wray.

22 Ms. Wray, could you please outline your
23 qualifications and areas of responsibility with respect to
24 this Filing?

25 MS. LYN WRAY: Yes, good morning Mr Chairman,

1 members of the Board. I'm a Chartered Accountant and a
2 Certified Financial Planner with ME Degrees from Queen's
3 University, Kingston, Ontario and the University of St.
4 Andrew's in Scotland.

5 Since 1986, I've been employed at Manitoba
6 Hydro in a variety of senior financial management positions,
7 most recent being my appointment to that of Treasurer in
8 December 2002.

9 I'm also responsible for business analysis
10 within Hydro as carried out by the financial planning
11 department and management services unit.

12 My main area of testimony at this hearing
13 relates to the integrated financial forecast and our
14 projections of how various scenarios and sensitivities may
15 affect rates and/or progress towards financial targets.

16 I've been testifying at PUB hearings since the
17 late 1980's.

18 MS. PATTI RAMAGE: The latest integrated
19 financial forecast which, for those who aren't familiar will
20 be referred to as "IFFs", is IFF-03 is the latest, it was
21 submitted in Appendix 4.1 of Manitoba Hydro's application.

22 Ms. Wray, can you comment on its relevance to
23 the application before us?

24 MS. LYN WRAY: The integrated financial
25 forecast, or IFF, usually forms part of Manitoba Hydro's

1 submissions to the PUB because it provides a strategic
2 context in which to review the financial results for the test
3 years, that is the period in which the requested rate
4 increases would commence.

5 The electric operations component of the IFF,
6 here's another acronym, it's labelled MH-03 and it's a sub-
7 component of the -- the whole IFF, pulls together the
8 financial implications of all of the updated forecasts which
9 effect electricity operations including the domestic load
10 forecast, Power Smart plan, power resource plan, capital
11 forecast, net export revenue forecast and so on.

12 Based on these inputs, projected financial
13 statements are prepared for the next ten (10) years. This
14 forecast then serves as a base case against which to test the
15 financial impacts of various sensitivities for decision
16 making.

17 In this Application, the IFF provides a big
18 picture perspective of how the proposed rate increases affect
19 Manitoba Hydro's financial results, not just for 2004/05 and
20 2005/06 but also directionally in future years; however, it's
21 important to note that the annual rate increases of 2.5
22 percent which are assumed for the years after 2005/06 are
23 simply assumptions. Actual rate applications, if any, made
24 for those years will depend on the conditions of the day.

25 MS. PATTI RAMAGE: The evidence filed on

1 behalf of MIPUG and CAC/MSOS spends considerable time
2 challenging Manitoba Hydro's financial targets.

3 What's your assessment of their conclusions?

4 MS. LYN WRAY: First of all, I should comment
5 that Manitoba Hydro's financial targets have been the subject
6 of considerable in-depth review at previous PUB Hearings
7 since the early 1990s.

8 The current targets allow a reasonable degree
9 of flexibility in terms of customer rate requirements and
10 appear to be accepted by credit rating agencies. They are to
11 achieve a debt equity ratio of seventy-five (75) twenty-five
12 (25) by 2011/12, a minimum interest coverage of 1.10 each
13 year and a minimum capital coverage of one (1) except for
14 when new major generation or transmissions facilities are
15 being brought into service.

16 The witnesses for both CAC/MSOS and MIPUG
17 argue against the proposed rate increases in part on the
18 basis that Manitoba Hydro's long term debt equity target of
19 seventy-five (75) twenty-five (25) in Mr. Harper's words,
20 quote:

21 "May not be needed in order to provide a
22 cushion in the event of adverse
23 circumstances."

24 Close quote. It's curious that Intervenors
25 are emphasizing the Corporation's debt equity target in the

1 current GRA Hearing as the financial projections in IFF03-1
2 indicate that the achievement of all three (3) of Manitoba
3 Hydro's financial targets will be delayed due to the drought.

4 In this Application, the long term debt equity
5 ratio target is only tangentially relevant to the request for
6 rate increases in 2004/05 and 2005/06; rather, it's the need
7 to recover from the financial loss due to the recent drought
8 that's the primary driver of Manitoba Hydro's proposed
9 increase in revenue requirements.

10 The Intervenors hardly mention the financial
11 target of interest coverage which in 2004/05 and 2005/06 is
12 forecast at only 1.07 and 1.06. This is below Manitoba
13 Hydro's minimum target of 1.1 and is barely sufficient to
14 meet interest payment obligations with a very small cushion
15 for unforeseen contingencies.

16 The reason that rate increases are not being
17 proposed to meet the 1.1 minimum target is entirely due to
18 Manitoba Hydro's desire to keep customer rates as reasonable
19 as possible.

20 MS. PATTI RAMAGE: Should Manitoba Hydro also
21 be adopting the target of reducing its debt levels?

22 MS. LYN WRAY: The witnesses from MIPUG argue
23 that the PUB's endorsement of Manitoba Hydro's current
24 financial targets in PUB Order 7/03 and that, by the way,
25 included our previous 1.2 interest coverage target level.

1 They argue that that endorsement was conditional on the
2 Corporation reducing its total debt levels; however, on the
3 same page of that Order, page 87, the PUB noted, quote:

4 "That the IFF does not reflect any future
5 major generation projects within the
6 planning period, nor the impact of the
7 acquisition of Winnipeg Hydro, both of
8 which may significantly impact the
9 financial forecast and plans of Hydro."

10 Close quotes. Manitoba Hydro infers from
11 these comments that the PUB in endorsing a seventy-five (75)
12 twenty-five (25) debt equity target was aware that the
13 Corporation's debt levels would rise significantly from those
14 reflected in its previous integrated financial forecast.

15 The PUB's statement that, quote:

16 "The Board encourages Hydro to consider
17 appropriate debt minimization
18 strategies."close quote.

19 -- is a direction which Manitoba Hydro has
20 always embraced by undertaking incremental expenditures only
21 where there's a strong business case to do so. And Mr.
22 Warden has alluded to the cost controls in place for capital
23 and operating expenditures.

24 Without an influx of shareholder equity, sale
25 of major assets, neither of which are authorized by the

1 Manitoba Hydro Act or rate increases which are opposed by the
2 intervenors, there are limits to what can be achieved towards
3 reducing debt levels in a company with a growing customer
4 base.

5 Some action such as moving large amounts of
6 fixed interest rate debt to floating rates are permanently
7 cutting programs may reduce int -- may reduce interest or
8 operating expense and consequently reduce growth in debt.

9 But in Manitoba Hydro's opinion they would
10 increase the level of financial or business risk that
11 actually tend to necessitate more stringent financial targets
12 over time.

13 MS. PATTI RAMAGE: What about the
14 Intervenor's contention that it can't be known whether the
15 requested rate increases are reasonable unless financial
16 targets are developed based on detailed analysis of the
17 financial reserves that were -- would be required for each of
18 Hydro's main risks?

19 MS. LYN WRAY: This approach would take us
20 back to the type of retained earnings target favoured by
21 Hydro in the 1980's rather than the debt equity and interest
22 coverage targets which were adopted by Manitoba Hydro in 1990
23 and reviewed done at least two (2) occasions since then with
24 expert witnesses at PUB hearings.

25 Debt equity and interest coverage targets are

1 utilized by most -- most other utilities and are relied upon
2 by credit rating agencies to assess companies' financial
3 health.

4 Quantification of risk is found in numerous
5 places in the Filing. The Corporate Risk Management Report
6 in Appendix 11.1 of the Filing provides a corporate risk map
7 on page 4 which in combination with the financial parameters
8 indicated on page 15, provide the magnitude of the financial
9 exposure associated with each risk.

10 Forecasts of the rate and financial impacts of
11 several other risks are provided in integrated financial
12 forecast IFF-03-1 and related interrogatory responses.
13 However, most tellingly Manitoba Hydro's 2003/04 financial
14 results clearly demonstrate how much retained earnings can be
15 eroded by drought and high import prices in just a single
16 year.

17 Mr. Surminski will be commenting shortly on
18 how much this could increase if low water flows and high
19 import prices were to continue for several years. This will
20 demonstrate that it does not require an MPI type
21 comprehensive risk study to show that the 25 percent equity
22 ratio may still be insufficient to withstand a worse case
23 combination of just two (2) of Manitoba Hydro's major risks.

24 Indeed, the \$830 million dollars forecast for
25 retained earnings for 2006 could be virtually depleted by

1 just a repeat of last year's drought in combination with the
2 25 percent increase in import costs. And the reference for
3 that is Interrogatory PUB-1-63(c).

4 In summary, Manitoba Hydro does not believe
5 that the long term financial targets per se are particularly
6 relevant to this year's rate application. Instead the focus
7 should be on what rate increases are required in the next two
8 (2) years to begin the journey of recovery from the
9 overwhelming impact of the recent drought.

10 MS. PATTI RAMAGE: Thank you, Ms. Wray. I'll
11 now turn my -- I have a brief question for Mr. Derksen. Mr.
12 Derksen, could you please outline your qualifications and
13 areas of responsibility with respect to this Filing.

14 MR. WILLIE DERKSEN: Yes. Good morning, Mr.
15 Chairman and Members of the Board. My name is Willie Derksen
16 and I hold the position of manager of Management Accounting
17 and Budgeting at Manitoba Hydro. I'm a certified general
18 accountant and have appeared several time previously before
19 the Manitoba Public Utilities Board in proceedings relating
20 to both Manitoba Hydro and Centra Gas.

21 I've held my current position at Manitoba
22 Hydro since 2000 and in that position my responsibilities
23 include corporate functions related to management accounting,
24 budgeting, financial systems and fixed asset accounting.
25 Prior to assuming my current position, I held various senior

1 and managerial financial positions at Centra Gas and its
2 predecessor companies.

3 My main responsibilities relative to this
4 Filing refer the preparation of the actual and budgeted
5 financial statements along with a detailed support
6 information that accompanies them.

7 MS. PATTI RAMAGE: Thank you, Mr. Derksen,
8 you're getting off easy on this one. I'll now turn my
9 questions to Mr. Cormie. Mr. Cormie, would you please
10 outline your qualifications and areas of responsibility with
11 respect to this Filing?

12 MR. DAVID CORMIE: Good morning Mr. Chairman
13 and members of the Board. I am a professional engineer
14 registered with the Association of Professional Engineers and
15 Geo-Scientists of the province of Manitoba. I've a Bachelor
16 of Science Degree in Civil Engineering from the University of
17 Manitoba, and I have been with Manitoba Hydro for twenty-five
18 (25) years.

19 My present position is that of Division
20 Manager Power Sales and Operations Division, Power Supply
21 Business Unit. I have been in this position since 2001,
22 prior to which I was manger of Energy Supply and Sales for
23 five (5) years, and manager of Reservoir and Energy Resources
24 for three (3) years.

25 I have previously testified before the Public

1 Utility Board of Manitoba, the last of which was at the
2 Status Update Filing in 2002.

3 My division is responsible for the management
4 of Manitoba Hydro's energy and capacity resources, including
5 the scheduling of water releases from reservoirs to ensure
6 the reliable and economic supply of electricity to our
7 customers and fuel management activities associated with the
8 Corporation's gas and coal fired stations.

9 In addition, my division is responsible for
10 Manitoba Hydro's marketing and sales activities in the
11 external markets, including the negotiation of all power --
12 power purchase and sales agreements.

13 As well, my division is responsible for the
14 forecast of export revenues, power purchases and generation
15 costs in the IFF in the short term.

16 During this hearing, my testimony will be on
17 the operational aspects of the power system including the
18 operational aspects of Hydro's innovative rate programs, such
19 as the surplus and curtailable service rate programs.

20 MS. PATTI RAMAGE: Mr. Cormie, would you
21 please review the recent drought conditions experienced by
22 Manitoba Hydro?

23 MR. DAVID CORMIE: Water supplies to Manitoba
24 Hydro's system of rivers and reservoirs were the third lowest
25 on record in 2003/2004 since comprehensive flows records

1 began in 1912.

2 The drought conditions began in the summer of
3 2002 and extended the fall and winter of 2003. There was an
4 almost complete failure of the 2003 spring snow melt and
5 rainfall run-off with inflows in -- in June of 2003 at near
6 record lows.

7 New lows for energy and reservoir storage were
8 set in the summer of 2003 in the eighteen (18) major
9 reservoirs in Western Canada, of which Manitoba Hydro
10 depends.

11 At mid-summer energy and storage refill was
12 only 25 percent of the long term average, down 8 1/2 million
13 megawatt hours from the long term average, necessitating
14 concerted conservation to ensure that there would be adequate
15 supplies for the future should the drought conditions
16 continue.

17 MS. PATTI RAMAGE: Could you please indicate
18 how these drought conditions affected Manitoba Hydro's
19 hydraulic generation and result in thermal and power purchase
20 requirements?

21 MR. DAVID CORMIE: Hydraulic generation
22 during the year was 18 1/2 million megawatt hours which was
23 only 63 percent of the supply assumed available, had median
24 water supply conditions occurred during the year.

25 This reduction in hydraulic generation

1 required the purchase and generation of 10 1/2 million
2 megawatt hours of fossil fuel power to serve both Manitoba
3 domestic and firm export obligations.

4 Over 91 percent of this amount was purchased
5 outside the province, with the majority purchased in the
6 United States.

7 MS. PATTI RAMAGE: So, Mr. Cormie, is the
8 drought over?

9 MR. DAVID CORMIE: The drought in Manitoba
10 Hydro's eastern and southern watersheds is over, as a result
11 of the above normal snow melt run-off this spring, combined
12 with the much -- with much above average -- much above normal
13 spring rains.

14 River flows on the Winnipeg Red and local
15 tributaries to Lake Winnipeg are now much above normal.
16 However, flows in the Churchill and Saskatchewan Rivers
17 remain much below normal.

18 Energy and reservoir storage at the end of
19 March 2004 was 2 million megawatt hours below average. As a
20 result of favourable inflows since then, this shortfall has
21 been made up and storage levels are now average for this time
22 of year and more than 7 million megawatt hours greater than
23 at this time last year.

24 MS. PATTI RAMAGE: Is Manitoba Hydro likely
25 to achieve its forecast of next -- of export revenues in the

1 fiscal year 2004/05?

2 MR. DAVID CORMIE: With normal weather
3 conditions for the balance of the year, it is very likely
4 that Hydro will achieve the level of net export revenues for
5 04/05 as forecast in the IFF-03.

6 However, net export revenues are highly
7 dependent on water conditions and although they have been
8 favourable so far this year, there remains considerable
9 uncertainty for the balance of fiscal 04/05.

10 The current wet conditions could cease in this
11 eastern watersheds with river flows declining to below
12 average values over the next several months as did occur in
13 the summer of 2002.

14 Under this scenario, hydraulic generation
15 could be as low as 85 percent of that forecast in IFF-03.
16 This would require an increase in power purchases resulting
17 in a decrease in forecast and in expert revenue.

18 On the other extreme, the wet weather could
19 continue with river flows remaining high, resulting in
20 increased hydraulic generation and an associated increase in
21 net export revenues. Either outcome is still possible.
22 Manitoba Hydro believes that the one that is most likely at
23 this point remains that assumed in IFF-03.

24 In addition, Hydro is confident that with the
25 current water conditions and overall reservoir storages that

1 there is no chance that hydraulic generation will decline to
2 63 percent of median as occurred last year with such dramatic
3 financial result.

4 MS. PATTI RAMAGE: Thank you, Mr. Cormie.

5 And finally, Mr. Surminski, could you please
6 outline your qualifications and areas of responsibility with
7 respect to this Filing?

8 MR. HAROLD SURMINSKI: Yes, and good morning,
9 Mr. Chairman and Members of the Board. I'm a professional
10 engineer registered with the Association of Professional
11 Engineers and Geoscientists of the Province of Manitoba.

12 I have a Bachelor of Science in civil
13 engineering from the University of Manitoba and a Master of
14 Applied Science degree in civil engineering from the
15 University of Waterloo. I have been with Manitoba Hydro for
16 twenty-nine (29) years and previous to that, I was employed
17 by the Province of Manitoba Water Resources Branch for nearly
18 four (4) years.

19 My present position is that of section head,
20 generation system studies and resource planning and market
21 analysis department of the power supply business unit. I
22 have worked in the resource planning area during my entire
23 career at Manitoba Hydro.

24 I have previously testified before the Public
25 Utilities Board in the Hearings of surplus energy program in

1 '97, curtable capacity rate in '98, Status Update Filing in
2 2002. In addition, I have been involved in providing
3 background support to most of Manitoba Hydro Public Utility
4 Board Hearings on electricity rates since 1990.

5 My section is responsible for the analysis of
6 the operation of the generating system into long term using
7 computer simulation models which consider the range of
8 hydrologic conditions. Included in this consideration is the
9 export and the import of energy in order to ensure system
10 firmness while maximizing export revenue.

11 In my current role, I am responsible for
12 analysis of the export market and Manitoba Hydro's forecast
13 of export revenues in the long term. My section provides the
14 forecast of generation costs and interchange revenue that are
15 used in the integrated financial forecast. I am also
16 responsible for developing the marginal costs used in
17 evaluating resource options and evaluating system efficiency
18 improvements throughout the Corporation.

19 My section has responsibility for analysing
20 the cost of severe drought and the development of planning
21 criteria related to the risk of drought. During this
22 testimony -- during this Hearing, my testimony will be on
23 issues related to Manitoba Hydro's plans for future resource
24 development, the determination of export revenues and
25 generation costs in the long term and the expected cost of

1 drought in the future.

2 MS. PATTI RAMAGE: And on the topic of
3 expected cost of drought, could you advise what the expected
4 cost of a five (5) year drought would be?

5 MR. HAROLD SURMINSKI: First of all, what we
6 mean by five (5) year drought is -- is a drought similar to
7 the event that occurred between 1987 and 1992, for example.
8 This type of drought consists of two (2) or three (3) years
9 of severely low flows surrounded by less extreme flows over
10 this five (5) year period.

11 The expected cost of such a five (5) year
12 drought beginning in 2005 -- that is if it were to repeat in
13 two thou -- beginning in 2005, the estimated cost is at least
14 \$1.1 billion dollars as provided in our response to
15 Interrogatory PUB-MH-I-63. We have also analysed the cost of
16 similar droughts but beginning at one (1) and two (2) years
17 later; say beginning in 2006 and also beginning in 2007. The
18 cost of such droughts would increase slightly to about 1.2 to
19 \$1.3 billion dollars as provided in our response to
20 Interrogatory MIPUG-II-22.

21 It is likely that these costs were
22 underestimated since a shortage premium for the price of
23 import power has not been incorporated into these estimates.
24 The shortage premium results in higher purchase prices
25 whenever Manitoba Hydro requires large quantities of import

1 power from the market.

2 Such high prices were experienced over the
3 past year during the recent drought, therefore, it -- it is
4 expected that future estimates of drought costs will utilize
5 higher purchase costs and -- and future estimates, as a
6 result, will be higher.

7 It is noted -- it should be noted that these
8 estimates for cost of drought are based on a number of
9 factors that are variable and uncertain in the long term.
10 These estimates for the cost of severe drought utilize the
11 best estimate or forecast conditions for factors such as
12 natural gas prices, market prices for energy, weather effects
13 and currency exchange rates for US purchases and sales.

14 MS. PATTI RAMAGE: Well, how much higher can
15 the cost of drought be if the factors that you just mentioned
16 were not as forecast but turned out to be adverse in terms of
17 increasing drought costs further?

18 MR. HAROLD SURMINSKI: Manitoba Hydro is
19 currently developing a methodology on how to consider the
20 variability and the uncertainty in factors that may influence
21 the cost of drought, therefore, I do not have a quantitative
22 analysis of how high drought costs could be under a set of
23 adverse circumstances.

24 However, we have estimated that there is a
25 reasonable possibility that the cost of a five (5) year

1 drought could increase from the \$1.1 billion dollars to as
2 high as \$2 billion dollars. This is based on a set of
3 judgements on the coincidence of factors such as the high
4 natural gas prices, the high market prices for energy, the
5 possibility of adve -- adverse weather conditions and the
6 possibility of adverse currency exchange rates.

7 Furthermore, as was noted in the 2002 Status
8 Update Filing, drought costs would be further increased by
9 \$200 million dollars over a five (5) year period due to
10 increased interest costs as a result of five (5) years of
11 losses.

12 MS. PATTI RAMAGE: Thank you, Mr. Surminski.
13 And with that, Mr. Chair, that concludes Manitoba Hydro's
14 direct examination of its witnesses and I will turn them over
15 to Mr. Peters for his examination.

16 MR. ROBERT MAYER: Before I forget, a couple
17 of questions I have, Mr. Peters.

18 Mr. Cormie, as a result of what we just heard,
19 has Manitoba Hydro adjusted its definition of dependable
20 flows? It sounds to me like you got lower than you ever
21 called dependable before.

22 MR. DAVID CORMIE: There -- there are two (2)
23 issues, Mr. Mayer. One -- one is the dependable capability
24 of the power system and one is what dependable flows are.
25 Dependable flows is the period in the historic record during

1 which the lowest flows occurred and I think they believe -- I
2 believe they started in the -- in the summer of 1939 and they
3 extend through the fall of '39 and going through 1940. So,
4 there's about a eighteen (18) month period which defines the
5 dependable flow period.

6 The dependable capability is the capability of
7 the power system to produce electricity during that period of
8 time with those flow conditions assuming that the rese -- all
9 reservoirs are filled at the start of the drought and that
10 reservoirs are drained during the -- the -- are drained
11 during the period.

12 So that's the difference between dependable
13 capability and dependable flows and we haven't changed that
14 definition. What we -- what happened this year was that we
15 did not drain reservoirs. We -- we weren't -- we weren't
16 forced to drain reservoirs to serve load and so as a result,
17 hydraulic generation was less than the dependable capability.

18 MR. ROBERT MAYER: But you paid a pile of
19 money to import power rather than draining the reservoirs.
20 Why was that?

21 MR. DAVID CORMIE: In order to ensure that if
22 drought conditions continued, that there would be a supply
23 available to serve Manitoba load.

24 MR. ROBERT MAYER: Thank you.

25 THE CHAIRPERSON: Mr. Peters, is there a line

1 of questioning that you could pursue now or do you wish to
2 break and begin again after their presenters?

3 MR. BOB PETERS: No, I'd be pleased to start
4 at this time, Mr. Chairman, if that suits the panel.

5

6 CROSS-EXAMINATION BY MR. BOB PETERS:

7 MR. BOB PETERS: Good morning, panel. I would
8 indicate, Mr. Chairman and Board Members, that just when you
9 thought you had enough paper material filed by the
10 Corporation in support of this Application, I've left a
11 booklet of documents entitled 'Book of Documents PUB Counsel'
12 with various parties in the room and I do have some extra
13 copies if more are needed.

14 I would indicate that I'm not looking for this
15 to be marked as any exhibit and I would indicate that the
16 documents contained in here are all from the Filing with I
17 believe, the exception of Document 21 that had been forwarded
18 last week to Ms. Ramage. And it was simply a mathematical
19 presentation -- of comparison of two (2) integrated financial
20 forecasts that have been done by the Corporation.

21 I would indicate, Mr. Chairman, and Board
22 Members and Panel Members that this is not a memory test as
23 the Chairman indicated in his opening comments. The Board
24 wants to get the best information possible and answer to the
25 questions so that they can make the best decision possible

1 from the evidence. And as always, Mr. Chairman, and Board
2 Members, at your pleasure questions from the Board are -- are
3 welcomed.

4 With that background Panel, let me start by
5 going over briefly a -- the history that has been mentioned.
6 Am I correct, Mr. Warden, that the last time Manitoba Hydro
7 was before the Board was when it filed its Status Update
8 Application back in 2001?

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

10 MR. BOB PETERS: And in that Status Update
11 Application, Manitoba Hydro didn't ask for any rate increases
12 did it?

13 MR. VINCE WARDEN: It did not.

14 MR. BOB PETERS: And -- and nor did it ask
15 for any rate decreases?

16 MR. VINCE WARDEN: It certainly did not, no.

17 MR. BOB PETERS: Well, then on that point, it
18 didn't ask to do any type of revenue neutral rate
19 re-balancing either?

20 MR. VINCE WARDEN: No it didn't.

21 MR. BOB PETERS: So, if you can help take
22 this Panel back to that point in time, in terms of the
23 operations of Manitoba Hydro that existed back in 2001 and
24 2002. You've already told the Board you weren't looking rate
25 increases and we've heard an opening comment that no rate

1 increases were requested since approximately 1996 and 1997.
2 Is that correct?

3 MR. VINCE WARDEN: Yes. The last rate
4 increase for residential customers was April 1st of 1997.

5 MR. BOB PETERS: All right. And you're
6 focussing on residential customers, Mr. Warden, and you can
7 indicate then to the Board that there had been no rate
8 increases for industrial customers for approximately eleven
9 (11) years.

10 MR. VINCE WARDEN: Since April the 1st of
11 1992, that's correct, yes.

12 MR. BOB PETERS: The uniform rates
13 legislation was enacted in November of 2001 if I recall. Do
14 you agree with that?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: And at that time in essence
17 the zone differential for rates was -- was removed in the
18 rates charged?

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

20 MR. BOB PETERS: And what that -- your --
21 your zone -- your zone rates that you did have in existence
22 had higher rates in zones that -- in zones 2 and 3 than it --
23 than they did primarily in zone 1 which was Winnipeg?

24 MR. VINCE WARDEN: Generally speaking that's
25 correct. Although there were exceptions to that for the

1 general service customers.

2 MR. BOB PETERS: All right. And the -- the
3 rationale used by Manitoba Hydro to charge higher rates in
4 zones 2 and 3 was to reflect that there was a higher cost to
5 serve customers in those zones. Would that be correct?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: But after the uniform rates
8 legislation was enacted, zones 2 and 3 customers then were --
9 were charged the zone 1 rate.

10 MR. VINCE WARDEN: Yes. All -- all zones
11 were -- were collapsed into one -- one zone.

12 MR. BOB PETERS: And by collapsing them there
13 was no rate adjustment at that time. It was simply they were
14 charged the zone 1 rate?

15 MR. VINCE WARDEN: Yes. Manitoba Hydro
16 absorbed the -- the cost of doing so which I think you
17 indicated earlier, was approximately \$14 million dollars per
18 year.

19 MR. BOB PETERS: Right. Also back in the
20 2001/2002 time frame, there were record exports -- record
21 export sales; is that correct?

22

23 MR. VINCE WARDEN: Yes. We had six (6)
24 successive years in which year over year increases and export
25 sales set all time records, yes.

1 MR. BOB PETERS: And that culminated in 2002
2 fiscal year where there was \$628 million dollars of export
3 revenues?

4 MR. VINCE WARDEN: I just have to double
5 check that number, but the year is correct. That is the --
6 that is the record high.

7 MR. BOB PETERS: Would you agree with me, Mr.
8 Warden, that net of fuel and power purchases and water
9 rentals that export revenue record number was -- was recorded
10 as \$404 million dollars?

11 MR. VINCE WARDEN: Yes, I agree with that.
12 It was submitted in our -- in our Filing, yes, as part of the
13 -- our application.

14 MR. BOB PETERS: All right. And while we're
15 at it, then maybe you could turn to Document Number 1 in the
16 Book of Documents that's been provided to you.

17 And Document Number 1, Mr. Warden, you
18 recognise as part of the -- the Filing by Manitoba Hydro?

19 MR. VINCE WARDEN: Yes, I do.

20 MR. BOB PETERS: And under the 2002 in the
21 column in the chart, you're indicating that extra provincial
22 revenue net of fuel power purchases and water rentals for
23 2002 was in the \$404 million dollar range?

24 MR. VINCE WARDEN: Correct.

25 MR. BOB PETERS: And you've also just now

1 told the Board that in years prior to that, the gross
2 receipts were also record years but 2002 was the -- the
3 highest record?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: Back in 2001 and 2002,
6 Manitoba Hydro was also a member of the Mid-America Power
7 Pool. Have I got that right?

8 MR. DAVID CORMIE: That's the Mid-Continent
9 Area Power Pool.

10 MR. BOB PETERS: That was a -- can you just
11 briefly explain that organisation to the Board, Mr. Cormie?

12 MR. DAVID CORMIE: The Mid-Continent Area
13 Power Pool is an organisation of electric utilities and other
14 organ -- organisations in -- in the United States and in
15 Canada including Manitoba Hydro responsible for -- for three
16 (3) functions - a regional transmission organisation, a
17 regional reliability organisation and a power energy market.

18 And the Manitoba Hydro was a member of all
19 three (3) legs of that organisation.

20 In, I think -- I believe it was in 2001, we
21 withdrew as a member of the regional transmission
22 organisation and joined the MISO -- and adopted the -- under
23 a co-ordination agreement with MISO.

24 MR. BOB PETERS: And the acronym "MISO"?

25 MR. DAVID CORMIE: It's the Midwest

1 Independent System Operator.

2 MR. BOB PETERS: So, do you have any --
3 longer any affiliation with the M-A-P-P or MAPP?

4 MR. DAVID CORMIE: Yes, we do. Manitoba
5 Hydro is still a member of the Regional Reliability
6 Organisation. It's the -- it's the organisation that is
7 responsible for maintaining adequacy of generation supply,
8 ensuring that there are enough -- there's enough generation
9 available to serve the load and -- and reserve requirements
10 of the -- of the organisation.

11 MR. BOB PETERS: That's a voluntary
12 arrangement you have, Mr. Cormie?

13 MR. DAVID CORMIE: It -- it's voluntary, but
14 we are a member under contract.

15 MR. BOB PETERS: Ms. Wray, back to the
16 2001/02 time frame, Manitoba Hydro had a stronger capital
17 coverage ratio; would you agree with that?

18 MS. LYN WRAY: Yes.

19 MR. BOB PETERS: Could you briefly explain to
20 the Board what does the capital coverage ratio measure?

21 MS. LYN WRAY: It measures the relationship
22 between internally generated funds and capital construction
23 expenditures. So, it's a ratio of -- the numerator would be
24 the internally generated funds, the denominator would be the
25 capital construction expenditures.

1 MR. BOB PETERS: And when you say "capital
2 construction expenditures", you're talking about the expenses
3 the Corporation makes for its primarily generation and
4 transmission facilities?

5 MS. LYN WRAY: Well, virtually all capital
6 expenditures but we have a caveat in terms of our target
7 which is that if new major generation or transmission's being
8 brought into service, that would not count in terms of our
9 target of one (1).

10 The reason for that is that obviously that
11 would drive the target down and it would be unfair, in our
12 view, to try to seek rate increases, for example, to -- to
13 get it back up to one (1), when in essence, you're investing
14 in a -- a long term asset with long term benefits.

15 MR. BOB PETERS: That capital coverage ratio,
16 Ms. Wray, was greater than one point zero (1.0) back in 2001
17 and '02?

18 MS. LYN WRAY: Yes.

19 MR. BOB PETERS: And it had been greater than
20 one point zero (1.0) at least since 1995 as you recall?

21 MS. LYN WRAY: Yes.

22 MR. BOB PETERS: And Ms. Wray, also back in
23 2001/02 the Corporation used a financial target measure of
24 the interest covered ratio; is that correct?

25 MS. LYN WRAY: Yes.

1 MR. BOB PETERS: And can you just briefly
2 explain to the Board what that ratio measures?

3 MS. LYN WRAY: In that ratio the numerator
4 would be the net income plus non-cash items such as
5 depreciation, in other words cash generated by operations
6 plus the gross interest payments that are paid out and then
7 the denominator would just be the net income plus
8 depreciation on to the non-cash items.

9 So, what that ratio demonstrates is the -- to
10 the degree that it exceeds one (1) it shows the amount in
11 addition to what is required simply to pay interest payments.

12 MR. BOB PETERS: It shows you how much, I
13 guess, cash flow you have available to pay the debts or the
14 debt costs?

15 MS. LYN WRAY: Yes.

16 MR. BOB PETERS: And your target back in
17 2001/02 was in the range -- it was one point two (1.2); is
18 that correct?

19 MS. LYN WRAY: Yes.

20 MR. BOB PETERS: And at that time in 2001/02
21 it was relatively strong interest covered ratio and by all
22 measures it was -- it was improving?

23 MS. LYN WRAY: Yes, back in 2002 it was one
24 point four two (1.42).

25 MR. BOB PETERS: And back in 2001 it was one

1 point six six (1.66)?

2 MS. LYN WRAY: I have one point six two
3 (1.62) but yes in that order of magnitude.

4 MR. BOB PETERS: All right. And, Ms. Wray,
5 back in 2001/02 the debt equity ratio was also getting
6 stronger; is that correct?

7 MS. LYN WRAY: Yes it was around about 77
8 percent in 2001/02.

9 MR. BOB PETERS: And what the debt equity
10 ratio measures is simply that that is the ratio of the debt
11 of the Corporation to its equity?

12 MS. LYN WRAY: It's the measure of debt over
13 debt plus equity.

14 MR. BOB PETERS: And in -- you said in 2002
15 it was seventy seven twenty three (77.23), is that correct?

16 MS. LYN WRAY: Yes.

17 MR. BOB PETERS: And the year before that was
18 eighty twenty (80.20)?

19 MS. LYN WRAY: That's correct.

20 MR. BOB PETERS: And that was improving as
21 you've told us towards a target debt equity ratio of seventy
22 five twenty five (75.25); is that also correct?

23 MS. LYN WRAY: That was our target and still
24 is.

25 MR. BOB PETERS: And while that was your

1 target, you had hoped to achieve it in 2008, if I recall?

2 MS. LYN WRAY: I think it was 2005 by my
3 recollection.

4 MR. BOB PETERS: It was 2005 and then revised
5 to 2008?

6 MS. LYN WRAY: It -- it -- our -- our target
7 date was in I believe around about 2005 and then we
8 subsequently revised that to achieving that by 2011/12.

9 MR. BOB PETERS: And, Ms. Wray, back at the
10 Status Update Hearing, I believe the IFF and the -- the
11 acronym and the number put before the Board was that of IFF-
12 01-1?

13 MS. LYN WRAY: That's correct.

14 MR. BOB PETERS: And Mr. Warden or Ms. Wray,
15 would you agree that the IFF put before the Board at that
16 time showed what could be considered a favourable outlook at
17 that time?

18 MS. LYN WRAY: Yes. They're obviously all
19 with some ups and downs but certainly more favourable than
20 that.

21 MR. BOB PETERS: And it was favourable enough
22 that no rate relief was sought at that time?

23 MS. LYN WRAY: That's correct.

24 MR. BOB PETERS: Now, as an overview and
25 moving forward, Mr. Cormie, you've told the Board that the

1 Board -- I'm sorry, that the Manitoba Hydro has sustained,
2 did I understand you correctly, the third worst drought on
3 record?

4 MR. DAVID CORMIE: Yes, the -- as measured by
5 the in-flows available for hydraulic generation we've --
6 we've reviewed the records and this is the third -- third
7 worst since 1912.

8 MR. BOB PETERS: While this is the third
9 worst drought that you've -- you have on your records, you've
10 ended up using significant inventory of your water for
11 exports?

12 MR. DAVID CORMIE: During the year we did not
13 draw energy from reservoir storage. We actually put water
14 into storage over the year due to our concern for continued
15 drought and for concern over the financial effects of
16 continued drought and our presence in the market place as a
17 major purchaser of power.

18 MR. BOB PETERS: So, in meeting your
19 requirements, are you saying that you never drew out of your
20 inventory or that whatever you drew out of inventory was
21 replaced by the in-flows?

22 MR. DAVID CORMIE: During this summer of
23 2003, approximately 2 million megawatt hours was put in
24 storage and -- and a portion of that was drawn out through
25 the fall and the winter of 2003/4.

1 In addition to that, we passed the in-flows
2 that came from -- from upstream.

3 MR. BOB PETERS: That last comment, Mr.
4 Cormie, when you "passed the in-flows that came from
5 upstream", means that you used those inflows from upstream to
6 generate electricity?

7 MR. DAVID CORMIE: That's correct.

8 MR. BOB PETERS: And not keep them in invent
9 -- keep them in storage in the reservoir?

10 MR. DAVID CORMIE: Correct.

11 MR. BOB PETERS: And on top of that, you also
12 used significant amounts of imported power, I think was your
13 evidence to Ms. Ramage?

14 MR. DAVID CORMIE: Yes, we -- we imported
15 power and also purchased power in the United States to serve
16 our export obligations. Power that was imported was imported
17 to serve the domestic load in Manitoba and there was power
18 purchased in the United States to serve our US obligations.

19 MR. ROBERT MAYER: Mr. Cormie, you now have
20 -- I'm amazed here. You've -- we heard evidence from the
21 panel earlier that you had a -- virtually a record drought,
22 or near close to a record drought.

23 We also heard that that was combined with
24 incredibly high costs of importing power. And yet with those
25 two (2) combinations, Manitoba Hydro chose to import the very

1 high cost power rather than running down its reservoirs; am I
2 correct so far?

3 MR. DAVID CORMIE: Yes, that -- that's
4 correct. Mr. Mayer, the -- the problem in operating a power
5 system is that once the drought has started, it's not obvious
6 how severe the drought will be and it's only -- its severity
7 is only known after the fact.

8 And we -- we cannot take the risk of draining
9 reservoirs on the hope that it will rain this year. We
10 operate the -- the power system knowing that it -- it may not
11 rain and that we need to have adequate water in reservoir
12 storage at the end of -- of 2003/4 so that if the drought
13 were to continue, that -- that we have -- we have sufficient
14 resources available to serve the Manitoba load.

15 It's unacceptable for us to go our customers
16 and say, well, we drew the reservoirs down and the drought
17 continued and -- and now we have to curtail supplies to US
18 customers.

19 So, it's very important to us to ensure that
20 there is adequate supplies under the worst reasonable set of
21 circumstances that can be imagined, that -- that the load
22 will be served.

23 The water that was held in reservoirs is still
24 there and -- and can be used to -- in the future. It -- it
25 is not a lost opportunity.

1 And the cost of the drought may be exacerbated
2 slightly to the extent that water was not taken out of
3 storage in that year, but it is available for the next year.
4 So over a period of several years, the -- it -- it's more of
5 a cash flow issue than a -- a cost issue.

6 MR. ROBERT MAYER: Mr. Cormie, that's all
7 very well except that I also heard from the Panel that
8 combined with the drought was an extraordinarily high cost of
9 importing power.

10 And I was led to believe from what I heard
11 just less than an hour ago, that that is a very unusual
12 circumstance. If that was such an unusual circumstance, why
13 didn't you use your reservoir until one (1) of those two (2)
14 unusual circumstances moderated?

15 MR. DAVID CORMIE: Mr. Mayer, the -- the cost
16 of power is continuing to go up, driven mainly by the costs
17 of natural gas. In retrospect, the power that we purchased
18 last year was a bargain compared to the prices in the market
19 today and so the -- the drought has got better, the water
20 conditions but the price of power has actually got worse and
21 -- and had the drought continued, power prices would even be
22 higher than they -- than they were as the market realizes the
23 extent to which Manitoba Hydro had an impact on power prices.

24 And -- and so although we did spend a
25 tremendous amount of money purchasing power, the cost of the

1 drought if it had continued, as -- as indicated by Ms. Wray,
2 a repeat of last year's drought this year would have
3 significantly more financial consequences for Manitoba Hydro.

4 MR. ROBERT MAYER: Thank you very much. That
5 clarifies my concern.

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: The financial cost to
9 Manitoba Hydro was a net loss on extra provincial revenue of
10 165 million according to the document at Tab 1 of the -- the
11 book.

12 Have I read that correctly?

13 MR. VINCE WARDEN: That's correct.

14 MR. BOB PETERS: And on top of that -- or that
15 contributed to the -- a net loss we see there on the net
16 income of electrical operations of \$355 million dollar total?

17 MR. VINCE WARDEN: According to the forecast
18 at that time, yes.

19 MR. BOB PETERS: All right. And you've
20 mentioned in your opening comments, Mr. Warden, and I was
21 going to come to this later and I'll try not to repeat it
22 when I do come to it in my notes but you said in your opening
23 comments that that \$355 million dollar number of a loss looks
24 a lot more like more than four hundred thousand dollars
25 (\$400,000) if I recorded your comments properly?

1 MR. VINCE WARDEN: I wish it was four hundred
2 thousand (400,000) --

3 MR. BOB PETERS: Million -- sorry.

4 MR. VINCE WARDEN: -- but --

5 MR. BOB PETERS: All right.

6 MR. VINCE WARDEN: It --

7 MR. BOB PETERS: Magnify that by -- let's go
8 up to \$400 million dollars?

9 MR. VINCE WARDEN: Yes, the net loss
10 attributable to electric operations will exceed \$400 million
11 dollars for 03/04.

12 MR. BOB PETERS: Well, and -- and you haven't
13 given me a precise number yet and I'm not sure if you're able
14 to give it precise but you've refined it some \$45 million
15 dollars more than what's in the materials filed in January of
16 this year.

17 Can you be more precise than greater than \$400
18 million dollars for the Board?

19 MR. VINCE WARDEN: No, I'm sorry, I can't at
20 this time. The -- that information hasn't been publicly
21 released and will not be released to the Minister responsible
22 for Manitoba Hydro -- or at least the Minister responsible
23 for Manitoba Hydro will not release that until around the end
24 of July.

25 MR. BOB PETERS: What is your understanding as

1 to why that won't be released until the end of July?

2 MR. VINCE WARDEN: Well, for one thing the --
3 the final audit has not been completed. They're -- we're
4 still going through the process of auditing the final
5 results. But I thought it was important to inform this Board
6 that the \$355 million dollars loss that was predic --
7 predicted earlier will actually turn out to be worse than
8 that.

9 MR. ROBERT MAYER: Well, Mr. Warden, I'm glad
10 that at least Manitoba Hydro has learned that much because
11 when you didn't keep us updated last time, we reduced your
12 rates by 3 percent. We'd like not to do that -- or to be
13 left with that information yet again.

14 MR. VINCE WARDEN: Well, if there's any stone
15 unturned this time, Mr. Mayer, I certainly want to make sure
16 you're aware of it.

17 MR. BOB PETERS: Mr. Warden --

18 THE CHAIRPERSON: Mr. Peters, do you have a
19 point in which you'll be able to pause?

20 MR. BOB PETERS: This would be fine, sir. A
21 fine time.

22 THE CHAIRPERSON: Okay. We'll recommence at
23 1:15 and return to this after we've heard from the
24 presenters.
25

1 --- Upon Recessing at 12:00 p.m.

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

3

4 THE CHAIRPERSON: Good afternoon. We have
5 five (5) presenters and we're going to hear from each one of
6 them in -- in order. To the presenters, first of all,
7 welcome to the Public Utilities Board. The hearing began
8 this morning with a presentation from the Corporation and we
9 basically adjourned that to hear from your presentations.

10 So without any further ado, I would call on
11 the Manitoba League of Persons with Disabilities.

12 Ms. Ternette, do you want to start?

13 MS. EMILY TERNETTE: My name is Emily Ternett
14 and I'm the communications and program assistant with the
15 Manitoba League of Persons with Disabilities. With me today
16 are -- is the co-chair person, Teresa Swettick (phonetic) of
17 our income security ad hoc committee. She's with the
18 interpreter back there.

19 And we're here today on behalf of the MLPD to
20 voice our opposition to the proposed increase in Manitoba
21 Hydro rates.

22 The MLPD, as it's known, is a provincial
23 non-profit membership driver cross-disability advocacy
24 organization which was formed in 1974 and has rural branches
25 in Souris, Brandon, Le Pas, and Steinbach.

1 I think it's important to note here that for
2 people with disabilities living in rural -- rural areas, the
3 cost of housing, food and transportation is higher, putting
4 greater stress on that community of individuals.

5 The MLPD's mandate is to provide a united
6 voice of people with disabilities and their supporters that
7 promotes equal rights, full participation in society and
8 facilitates positive change through advocacy and public
9 education.

10 In the past thirty (30) years, the MLPD's
11 staff and the membership have worked very hard to close the
12 gaps that exist between the disabled and non-disabled
13 communities. There is still much work to be done.

14 Some of our successes include initiating the
15 formation of the handy transit system, so that persons with
16 disabilities could participate in their community.

17 This bus service still exists today and the
18 Manitoba League of Persons with Disabilities has been
19 instrumental in encouraging the City of Winnipeg to build
20 low-floor buses so that some people with disabilities would
21 have the option of using the regular transit bus system.

22 We have also done a great deal of work on the
23 inclusion of students with disabilities in the school system
24 and since we began our work in this area, a number of schools
25 in Manitoba are completely inclusive.

1 Safe and affordable housing is important to
2 everyone and especially for persons with disabilities. The
3 majority of people with disabilities are low-income which
4 doesn't allow them a lot of opportunity to find safe and
5 affordable housing.

6 The MLPD believes that it is our right to live
7 and -- live -- our right to live in safe, affordable housing
8 and our housing committee has done much work to ensure that
9 this is a reality for our community.

10 And one of the more significant recent
11 accomplishments was the successful lo -- was to successfully
12 lobby the Provincial Government to assign a Minister
13 responsible for persons with disabilities.

14 The firs -- the first Minister with that
15 portfolio was Tim Sale and he along with his staff and input
16 from the disability community produced a document called
17 'Full Citizenship, a Manitoba Provincial Strategy on
18 Disability'. Since this document's publication in 2000 some
19 of the recommendations have already been acted upon.

20 Approximately 75 percent of Manitobans with
21 disabilities who are considered to be participating in the
22 workforce, are unemployed or underemployed. And only about
23 28.8 percent of Manitobans with disabilities participated in
24 the workforce at all.

25 The unemployment rate for Manitobans with

1 disabilities is 14.3 percent compared to 7.5 percent for the
2 general labour force. During the Provincial Government's
3 fiscal year of 2000 -- 2002/2003 there was a monthly average
4 of fifteen thousand four hundred and three (15,403) persons
5 with disabilities on the Income Assistance Disability
6 Program.

7 In this -- in this Provincial Program people
8 with disabilities are given a mere eighty dollars (\$80) per
9 month extra to meet their needs that might be related to
10 their disability. And because of the -- of a recommendation
11 the Province's Full Citizenship document that I mentioned
12 earlier, persons with disabilities on Income Assistance
13 Disability are allowed to make fifty dollars (\$50) per month
14 over and above their Income Assistance Allowance without
15 being penalized.

16 While this is a positive step forward, it is
17 still not enough to bring many people with disabilities out
18 of the abject poverty that they experience. Increasing
19 Manitoba Hydro rates will have a profoundly negative effect
20 on Manitobans with disabilities. For example, those who are
21 -- are employed are entirely responsible for their healthcare
22 costs including prescription drugs.

23 The cost of healthcare including prescriptions
24 is often very high for people with disabilities and the
25 majority of those who are employed are not paid well and are

1 considered low income. For these individuals paying an
2 increase in hydro will constitute a great hardship.

3 For those persons on Income Assistance
4 Disability, the monthly rate allowed for hydro services is
5 fifteen dollars (\$15). Perhaps you may think that everyone
6 on Income Assistance and Income Assistance Disability lives
7 in subsidized housing where hydro is covered along with the
8 rent.

9 This is a misnomer. There are not enough
10 subsidized housing units available in the province so many
11 people with disabilities on Income Assistance and Income
12 Assistance Disability live in low rental or non-profit
13 housing. In this case the individual is given a certain
14 amount of money monthly to cover their costs.

15 If hydro rates are more than the fifteen
16 dollars (\$15) budgeted by the Income Assistance Program, the
17 individual must take the extra money from their household
18 allowance to pay the balance. Manitoba was one of -- has one
19 of the highest poverty rates in Canada. Our employees are
20 also the lowest paid.

21 Meanwhile, our taxes are increasing and the
22 cost of living also continues to rise. We acknowledge that
23 the Manitoba Hydro feels the need to increase hydro rates due
24 to losses in the past couple of years. However, by doing so
25 you will be jeopardizing the right of people with

1 disabilities to live independently.

2 On behalf of the members of the Manitoba
3 League of Persons with Disabilities, I would like to thank
4 you for allowing us to voice our concerns today. Thank you.

5 THE CHAIRPERSON: Thank you, very much. Ms.
6 Ramage, do you have any comments; Manitoba Hydro or
7 questions? In advance Mr. Evans, another Panel Member has
8 something.

9 MR. LEN EVANS: Just as a matter of interest
10 and I know we don't live in a perfect world, but those people
11 who do receive Income Security Allowances, I think you said
12 fifteen dollars (\$15) a month would not the Department take
13 into account any increase whether it be gas or electricity or
14 whatever, would they not take that into account in their
15 allowance and therefore increase that allowance by whatever
16 is an appropriate amount?

17 MS. EMILY TERNETTE: Sometimes. It would
18 have to be negotiated and sometimes that -- that becomes an
19 inconsistency depending on your -- on your social worker,
20 actually.

21 MR. LEN EVANS: So, if they were fair and to
22 be realistic, they should realize if hydro rates do go up and
23 what the costs are on average and make that allowance.

24 MS. EMILY TERNETTE: Yes, they should.

25 MR. VINCE WARDEN: I just would like to say,

1 first of all thank you for your presentation. We certainly
2 appreciate the plight of those on low income -- incomes in
3 Manitoba. The rates, and I'm sure it doesn't give you much
4 comfort to know that the rates Manitoba Hydro charge are the
5 lowest in North America. We -- we do our very best to keep
6 the rates as low as possible, but I certainly appreciate the
7 fifteen dollars (\$15) per month won't go very far towards
8 paying electricity bills. So, I thank you for your
9 presentation.

10 MS. EMILY TERNETTE: Thank you.

11 THE CHAIRPERSON: Mr. Williams, do you have
12 any comment?

13 MR. BYRON WILLIAMS: No, Mr. Chairman.

14 THE CHAIRPERSON: Does any of the other
15 intervenors have anything they want to say at this point?

16 MS. PATTI RAMAGE: No, thank you.

17 THE CHAIRPERSON: Then, Ms. Ternette, for you
18 and -- and your group and those that are with you right now,
19 thank you very much for your participation and your comments.

20 And we will definitely take them under
21 advisement when we come to consider the case.

22 MS. EMILY TERNETTE: Thank you, very much.

23 THE CHAIRPERSON: The next presenter we have
24 is a Mr. Walter Naherny. Is he here?

25 MR. BYRON WILLIAMS: No, Mr. Chairman.

1 THE CHAIRPERSON: Then we will move to Mr.
2 Cyril Cartwright. Mr. Cartwright...?

3 MR. CYRIL CARTWRIGHT: Is it on? Okay. Good
4 afternoon, Mr. Chairman. Thank you, for giving me the
5 opportunity to address the Board at this rate hearing.

6 I retired from Manitoba Hydro in 1991. From
7 1989 to 1991 I was tariff planning advisor on the Manitoba
8 Hydro CIDA funded project to the Zimbabwe Electrical Supply
9 Authority, ZESA for short, in Harare, Zimbabwe.

10 As it turned out, I actually became the act --
11 acting tariff planner, a staff position, as well as the
12 tariff planning advisor.

13 Prior to that I was manager of Manitoba
14 Hydro's rates department for thirteen (13) years.

15 I would like to present to the Board for their
16 consideration, my views of rate concepts for the 21st
17 century.

18 First of all, I suggest that the cost of
19 providing the necessary plant to serve the customer should
20 determine what the group pays, not the end use. Rate
21 categories by end use from a cost of service point of view,
22 are and were never, and cannot today in my opinion, be
23 justified.

24 In my opinion, there is no justification on a
25 cost to provide service basis for charging a small, general

1 service customer more than for a residential customer. The
2 natural gas rate schedule certainly doesn't seem to
3 discriminate in regard to end use.

4 The second rate concept I would like you to
5 consider is an environmentally friendly rate concept
6 approach. The present concept in our province with a
7 declining block price is the more you use, the cheaper it
8 gets.

9 This concept worked well in the 60's and 70's
10 when new hydro generation projects were brought on line at a
11 time when there were no major interconnections to absorb the
12 new plants generating capability.

13 It therefore became necessary at that time, to
14 promote every means possible to absorb the new plant
15 capacities.

16 The company vehicles at that time had signs on
17 their side doors which read "Hydro is yours, use it". One
18 hundred (100) watt light bulbs were given out at sales
19 promotions to replace lower wattage bulbs.

20 Today these concepts are not, in my opinion,
21 environmentally friendly concepts.

22 The Canadian Electrical Association and all
23 their utility members are to be congratulated for their eff -
24 - efforts over the years to reduce energy consumption by
25 encouraging manufacturers to produce more efficient

1 electrical appliances and general contractors to build more
2 energy efficient new buildings and retrofitting older
3 buildings.

4 The Smart program is no doubt very successful.
5 However, another source for energy conservation is the
6 customer. The question is, how can the customer be
7 encouraged to accept the concept to turn off the lights when
8 you leave the room. I would not suggest that customers be
9 forced to curtail their usage but instead there should be a
10 reward for those customers who turn off the lights when they
11 leave the room and for those who do not, there should be a
12 consequence.

13 The rate concept that achieves this is the
14 inverted rate form. This is sometimes called the 'lifeline'
15 or 'balloon rate' whereby the first block for the customer
16 group is lower in price than the second block or succeeding
17 blocks. This is not a new concept. The American Public
18 Power Association's Design Manual for publicly owned
19 electrical systems dated 1984 discusses this in more detail.

20 I believe Hydro Quebec for one used this
21 concept at one time and I remember seeing an old Manitoba
22 Hydro contract for a large industrial user whereby all energy
23 above 80 percent monthly load factor was charged an extra two
24 (2) mills per kilowatt hour. I had the opportunity to
25 introduce and have the balloon lane conce -- balloon concept

1 approved by ZESA Management in 1991.

2 It was tested in 1992 when a severe drought
3 dramatically reduced ZESA's hydraulic generation capability.
4 And with no electrical interconnections to speak of, ZESA was
5 forced to impose rotating power outages and high balloon
6 rates to maintain the integrity of their system both from the
7 means to supply the system demand and at the same time
8 provide adequate revenues to maintain their financial
9 stability. In 1993 I received a handwritten letter from the
10 CEO of ZESA thanking me for introducing the balloon concept
11 rate.

12 My third and last concept -- my third and last
13 rate concept for the 21st century is the need to introduce a
14 rate stabilization fund into Manitoba Hydro's balance sheet
15 whereby a share of any annual surplus funds be put into this
16 fund to alleviate to some degree future electricity rate
17 increases.

18 This will be tougher sell because in all
19 likelihood it will require a change to the Electricity Act so
20 that removal from the fund would require approval of the
21 Public Utility Board.

22 This concludes my presentation. Thank you,
23 for your time and patience.

24 THE CHAIRPERSON: Thank you, very much, Mr.
25 Cartwright. You'd be probably doubly pleased to know that

1 one of the intervenors to this process has been pursuing this
2 invert -- inverted approach to rate setting. And the matter
3 again will be under consideration through this Hearing.

4 It's very interesting also to hear about your
5 experiences in Zimbabwe and areas of the world which are
6 considerably less advantaged than this one. Does any --

7 MR. ROBERT MAYER: Sir, I read with interest
8 your suggestion regarding the inverted rates and this Board
9 will now hear for the second time in two (2) successive
10 hearings from a Mr. Lazar on the inverted rate concept.
11 CEC/MSOS generally argues against that concept arguing that
12 -- that electricity is not all that price sensitive.

13 I -- I'm getting the impression from your
14 comments about your use of this concept that in fact it is
15 price sensitive and if the tail block were higher you could
16 expect real conservation measures or real cutback in the use
17 of electricity?

18 MR. CYRIL CARTWRIGHT: It would be an option
19 of the customer. I think there should be a consequence for
20 anybody that ignores conservation. My experience goes back
21 to my childhood, if I can say that, which is a long time ago.

22 And my mother took me into my bedroom and
23 there was a sixty (60) watt bulb hanging from a cord. And
24 she said, if you stand on the bed you can reach the toggle
25 switch. She says, now when you leave the room, turn the

1 switch off because there's a consequence. Come out here to
2 the dining room.

3 She says, above the door is a switch -- stick.
4 And if you don't turn the light out, you'll get a crack with
5 it. Well, my mother was a very loving mother and I was a
6 quick learner and so I don't want you to worry that I was
7 beaten to death.

8 And I remember that. So, while many people
9 may ignore the -- an inverted rate or the higher second
10 block, at least they'll be contributing something to the
11 surplus which I think should go into some form of rate
12 stabilization and that way, whatever you do, you'll be
13 helping reducing rate increases for the future.

14 MR. ROBERT MAYER: Just one follow up
15 question, well not follow up, actually another question. You
16 -- you've indicated you -- you see no justification for --
17 for rate -- rate setting or rate differentiation according to
18 end use. So you're suggesting there only be one rate?

19 MR. CYRIL CARTWRIGHT: Hmm.

20 MR. ROBERT MAYER: That if it's six dollars
21 and twenty-one cents (\$6.21) a kilowatt hour, that that's --
22 that applies to the physically handicapped people on fixed
23 income and to INCO Limited? Am I correct --

24 MR. CYRIL CARTWRIGHT: To INCO?

25 MR. ROBERT MAYER: Yeah.

1 MR. CYRIL CARTWRIGHT: Now wait a minute,
2 but --

3 MR. ROBERT MAYER: Well INCO's a large -- one
4 of the largest power users in the province.

5 MR. CYRIL CARTWRIGHT: Well that --
6 they're -- they're on a different rate schedule than the
7 residential and general service.

8 MR. ROBERT MAYER: Okay. So, you wouldn't
9 carry that -- you wouldn't carry that concept, then, right
10 through to the industrial --

11 MR. CYRIL CARTWRIGHT: Oh yes, yeah. They --
12 I think they should be charged depending on what service they
13 take, whether it's at two hundred (200) amps, or whether it's
14 at a hundred and fifty thousand (150,000) or a hundred and
15 fifty (150) KVA or whatever it is.

16 MR. ROBERT MAYER: So, how --

17 MR. CYRIL CARTWRIGHT: Should de -- depend on
18 the cost to provide the service. The small -- what I'm
19 referring to is, if I can put it this way, when I was the
20 business manager at Manitoba Hydro some of my staff would
21 come in and say, you know, we've got a complaint from that
22 small store owner down there.

23 And he says that when he works in -- in the
24 store, he pays a higher rate than when he closes the door and
25 walks in the back -- back of the store where he lives and

1 there's another meter there. He pays a lesser rate when he's
2 in his house than he does in the store.

3 And yet he says he looks out and it comes from
4 the same transformer from the same pole, the only thing is
5 they put two (2) meters in; split the service and it's the
6 same service yet when I'm in the store I pay more money for
7 it that when I'm living in the house. Why is that?

8 MR. ROBERT MAYER: I certainly understand
9 that concept. I just wanted to know how far you were going
10 to carry this?

11 The -- the small store owner with his
12 residency either in back of or on top of the store makes
13 perfect sense. How far do we carry this?

14 We've got -- we've got general service small,
15 we've got general service medium, we've got general service
16 large, we have general service in excess of X number of
17 kilovolts and I can't remember all the different classes.

18 So, I'm assuming you're not -- I understand
19 your -- your general service, your resident -- and compare
20 your resident -- residential rate with your general service
21 small, but I'm wondering how far you carry this through?

22 MR. CYRIL CARTWRIGHT: You carry it through
23 at every level. Distribution, voltage level, medium voltage
24 level, high voltage level. All of those cost less as you go
25 higher along, and the higher the voltage you take from the

1 service, the less cost you have because there's no
2 distribution lines beyond that.

3 So, there should be differences as --
4 depending upon the size of your service.

5 MR. ROBERT MAYER: Okay, I understand.

6 THE CHAIRPERSON: Ms. Ramage, are any of the
7 intervenors -- do you have any questions or comments?

8 MS. PATTI RAMAGE: No, Mr. Chair, although I
9 would say that Mr. Cartwright's mother could bring in a whole
10 new program to DSM by the sounds of it.

11 THE CHAIRPERSON: It would probably be quite
12 effective, I think. Well, thank you very much, Mr.
13 Cartwright. We appreciate you coming down -- oh, excuse me.

14 Yes?

15 MS. MARLENE VENO: Yes, I would like to
16 intervene --

17

18 (BRIEF PAUSE)

19

20 MS. MARLENE VENO: Good afternoon. My name is
21 Marlene Veno. I am co-Chair of the Manitoba League of
22 Persons with Disabilities. Our community -- communications
23 coordinator, and that, I believe, gave a presentation. I
24 apologize, I was late in coming but I'm here and I'm glad
25 that I got here and I'm just in time to hear what Mr.

1 Cartwright had to say because on behalf of the disability
2 community and when I say disability, I -- we are speaking of
3 an a cross disability.

4 Now, when he said -- made the comment that of
5 rent -- customers who leave their lights on must pay the
6 consequences, I would like to ask Mr. Cart -- Cartwright and
7 everyone in this room if anybody has ever acknowledged or is
8 aware that there are persons who are visually impaired who
9 require such service they cannot leave their apartments or
10 homes without having some light on otherwise they have an --
11 one of two (2) things, they can either fall and get hurt as
12 they enter in that darkness or in that -- they can also in
13 that -- cause property and in that -- both in that -- can
14 happen.

15 So, my question is that I think there's a lot
16 more that meets the eye than what has been presented so far
17 and on behalf of the disability community, that is something
18 that I believe and that needs to be acknowledge because more
19 than -- an average of 75 to 80 percent of citizens across the
20 province of Manitoba who have a disability are on a low
21 income.

22 There are people who require and that
23 respiratorial and that -- and that machinery that requires
24 electric services. They cannot afford that because of their
25 income, particularly if they are an -- an -- on old age

1 security and if that is their only income and again, and that
2 -- together with the league and as a long time volunteer
3 community advocate, I'm dealing with cases that face these
4 pre -- exactly these problems today.

5 Myself, I'm already fifty-five (55) and I do
6 have a lung disease. I may be required and that -- a -- a
7 resp -- respirator in my home in the next twelve (12) to
8 thirteen (13) -- twelve (12) to thirty-six (36) months.

9 My question is to everyone, where do I come up
10 with that money because of my disability forty (40) years ago
11 I was denied an education and I was denied an employment
12 opportunity because of a stereotype stigmati -- stigma minded
13 community and society and stigma discrimination and racism
14 still runs rampant and these are things that -- these are
15 major stumbling blocks that we must overcome and it can only
16 be done providing we come together.

17 Together we stand, apart we fall and on behalf
18 of the disability community, I'm not just rep -- speaking on
19 behalf of the Manitoba League of Persons with Disabilities,
20 I'm also -- we -- we are also advocating for every Manitoba
21 citizen in this province who has any kind of disability,
22 whether they're working or on low income. Thank you.

23 THE CHAIRPERSON: Thank you, for your
24 comments. I'm -- I'm certain that Mr. Cartwright was -- and
25 his comments weren't referring to people that require a

1 different level of service than the others.

2 I -- I think what the comment was, was with
3 respect to people who -- who are quite -- who do not need the
4 lights on at all times, are not using respirators, just leave
5 lights on and things of that particular nature. I don't
6 think he had taken your type of situation into account at all
7 but I think you've added a different dimension to the
8 Hearings and thank you, very much.

9 MS. MARLENE VENO: Thank you.

10 THE CHAIRPERSON: And, Mr. Cartwright, again
11 thank you very much for attending.

12 Mr. -- I'm trying to pronounce this
13 properly -- Ciekiewicz?

14 MR. ALAN CIEKIEWICZ: That's good.

15 THE CHAIRPERSON: Okay.

16 MR. ALAN CIEKIEWICZ: Thanks. First of all,
17 Mr. Mayer, I have copies of my presentation. I'm not sure
18 who should get them, so I'll give them to you and you can
19 distribute them, I guess.

20 THE CHAIRPERSON: Please proceed.

21 MR. ALAN CIEKIEWICZ: Okay. Mr. Chairman,
22 Members of the Public Utilities Board, Manitoba Hydro
23 representatives and general public, good afternoon. My name
24 is Alan Ciekiewicz, I'm a lifelong Manitoban. I make this
25 presentation independ -- independently of any group,

1 organization, company, et cetera.

2 As I go through my presentation I will name
3 the sources from which I obtained my information in order to
4 arrive at my conclusions and recommendations. I have
5 labelled my presentation into sections.

6 Section A, Manitoba Hydros List of Goals,
7 state that one of Manitoba Hydro's goals is to provide
8 customers with exceptional value with reference to rates,
9 service, public safety -- safety, reliability and power
10 quality. I consider that goal to be one of the functions of
11 Manitoba Hydro, that is to keep electricity rates low which
12 is today's focus.

13 Therefore if rates have not increased for the
14 past seven (7) years that indic -- indicates to me that
15 Manitoba Hydro is apparently succeeding and its job
16 performance is apparently confirmed in its function.
17 However, to be constantly reminded by way of newspaper
18 articles, comments made during meetings of the Standing
19 Committee of Public Utilities and Natural Resources now known
20 as Standing Committee on Crown Corporations.

21 And Manitoba Hydro's annual reports that the
22 residential rates, hydro rates have been frozen for the last
23 seven (7) years is inappropriate. In fact it is so
24 inappropriate that the issue of frozen rates for the past
25 seven (7) years appears -- appears to have become the real

1 excuse for increasing hydro rates.

2 This is not an -- an acceptable valid reason
3 to raise hydro rates. As mentioned earlier, it is Manitoba
4 Hydro's function to keep hydro rates low. They, Manitoba
5 Hydro employees are paid to do that. Fine, they have done
6 that but the cannot you -- you cannot now use low hydro rates
7 as an excuse to raise hydro rates.

8 Section B. During the years of frozen
9 residential rates, Manitoba Hydro managed increases in its
10 costs in the absence of rate increases and still was able to
11 accumul -- accumulate retained earnings of one billion, three
12 hundred and seventy-three million dollars (\$1,373,000,000) as
13 written in Manitoba Hydro's Annual Report of March 31, 2003.

14 Later in this presentation I will address the
15 dividend of \$203 million dollars extracted from those
16 retained earnings by the Manitoba government. One of the
17 main functions of the retained earnings is that it is to be
18 available when Manitoba experiences low water flows as had
19 been the recent condition. In the Winnipeg Free Press, June
20 6, 2003, on page A15 in a letter to the Editor from Mr. Tim
21 Sale, Minister Responsible for Manitoba Hydro, Mr. Sale --
22 Mr. Sale stated:

23 "Manitoba Hydro builds equity during the
24 years of average or better than average
25 water flow conditions. This allows

1 Manitoba Hydro to absorb the financial
2 impact of low flow years which occur
3 approximately one or two times out of every
4 ten (10) years.

5 Manitoba Hydro does not -- does not intend
6 to increase rates for low flow conditions
7 but instead use its reserves, retained
8 earnings for this purpose. The last rate
9 increase for large industrial customers was
10 in 1992 and the last for residential
11 customers was in April 1997."

12 Noti -- notice that the seven (7) year freeze on rates was
13 conveniently mentioned by Mr. Sale. What is of importance is
14 the statement is a straightforward admission that rates will
15 not increase due to low flows.

16 However this is a contradiction to what is
17 written in Manitoba Hydro's application for a rate increase.
18 In Volume 1, Tab 1, page 1 of that Application it states:

19 "In the years 2004, 2005 and 2005, 2006 due
20 to the unusually severe impact of the
21 current drought, Manitoba Hydro is no
22 longer able to achieve its proj --
23 projected revenue requirements without --
24 without requesting rate increases."

25 That statement not only contradicts Mr. Sale's

1 comments but it also contradicts Mr. Brennan's comments that
2 were made before and after the application for a rate
3 increase was submitted to the Public Utilities Board.

4 Mr. Brennan's comments are presented later in
5 this -- in this presentation. It also mentions on page 1 of
6 Volume 1, Tab 1, that the general consumer rates were
7 approved in 1996 and 1997. Once again a freeze on rates for
8 however long is not a prerequisite to increase rates at any
9 time.

10 Section C. Mr. Bob Brennan during his
11 presentation to the Standing Committee and Public Utilities
12 and Natural Resources, on Monday, July 8, 2002, stated:

13 "The distribution, the dividend, to the
14 Province of Manitoba will be a charge
15 earnings of Manitoba Hydro. It has
16 considered a distribution of export profits
17 and certainly will not result in higher
18 domestic rates. For the longest time it
19 has been stated that export profits have
20 kept domestic rates low. The retained
21 earnings do not exist as a help yourself
22 money pot for the Manitoba Government to
23 use as a veiled tax grab."

24 Section D, in an article on Page B1 of the
25 Winnipeg Free Press, April 12th, 2003 it was stated:

1 "After nearly seven (7) years without an
2 increase in electricity rates, Manitoba
3 Hydro is facing the possibility of boosting
4 rates in 2005 to make up for a shortfall in
5 export energy sales."

6 And in the same article, Mr. Brennan stated:

7 "the rate forecast has been changed to
8 reflect ongoing concerns about low water
9 levels in northern rivers which are
10 generating less electricity for export."

11 Mr. Brennan said the utility is also carrying
12 higher debt costs as a result of the NDP's government's
13 decision to tap hydro profits. At this point in time, the
14 low flow conditions and the dividend paid to the Doer
15 government, will be the cause of a rate increase.

16 In the same article, the seven (7) year rate
17 freeze is mentioned again. Section E. In an article on page
18 1 of the Winnipeg Free Press; this is September 3rd, 2003,
19 regard -- regarding the draw it stated:

20 "Despite the losses rates for Manitoba
21 consumers are not expected to rise.

22 President and CEO, Bob Brennan, said the
23 utility has \$1.4 billion in retained
24 earnings to keep rates stable".

25 And in the same article:

1 "Flow levels through Manitoba Hydro's
2 generating stations are at their lowest
3 levels since 1988, which is the worst
4 drought on record for the utility."

5 And in the same article:

6 "Hydro's bottom-line is further compounded
7 by the fact that it has to pay the Doer
8 government a special dividend".

9 Section F. Mr. Tim Sale, Minister responsible
10 for ma -- responsible for Manitoba Hydro; during his
11 appearance at the meeting of the Standing Committee on Crown
12 Corporations on Wednesday, September 24th, 2003 stated with
13 regards to the dividend paid to the Doer government:

14 "The bottom line is that out of the
15 earnings in a given year, the Corporation
16 paid a dividend to its shareholders".

17 That is an unacceptable statement as the
18 application for a rate increase, if granted, is telling
19 Manitoba shareholder -- shareholders that they have to repay
20 the dividend. That is just preposterous.

21 Section G. Mr. Brennan, during his
22 presentation to the Standing Committee on Crown Corporations
23 on Wednesday, September 24th, 2003, stated:

24 "We did not indicate at any time that we
25 should have a rate decrease. We allowed

1 the equity be -- the equity to be there for
2 situations such as low flow. We knew that
3 at some point in time, low flows were going
4 to come. We didn't know when they would
5 come but we knew for sure they were going
6 to come. We treated the withdrawal, the
7 dividend, of funds the same way as the low
8 flow condition."

9 To treat -- my comment -- to treat the
10 dividend as low -- as a low flow condition is preposterous.
11 It is -- was nothing more than a confiscation of funds from
12 retained earnings or a Doer governments's tax grab from
13 Manitoba Hydro share -- shareholders.

14 Section H. In an article on Page A3 of the
15 Winnipeg Free Press, September 26th, 2003, Mr. Brennan
16 stated:

17 "The utility expects to lose between \$200
18 million dollars and \$350 million dollars
19 for the current year and Hydro will cover
20 all its losses in the current year by
21 tapping into \$1 billion two hundred million
22 dollars of retained earnings.
23 As a result, the utility will not have to
24 go to the Public Utilities Board this fall
25 to ask for a rate increase to cover losses

1 from low water levels. We will not have a
2 rate increase in any way related to the
3 drought.

4 The Hydro Board of directors will consider
5 a number of other factors including labour
6 costs, interest rates, currency exchange
7 rates before making a final decision on the
8 rate increase -- on a rate increase.

9 The utility has not suffered any other
10 significant expenses -- significant
11 expenses in the last year."

12 And in the same article:

13 "for the year 2004/2005 Hydro is
14 forecasting a return to normal water flows
15 and a \$54 million dollar profit."

16 Therefore, if we have survived the worst
17 drought since 1988 as mentioned in Section E, also the
18 forecast of a profit contradicts the rate applications which
19 states that:

20 "due to the unusual severe impact of the
21 current drought Manitoba Hydro is no longer
22 able to achieve its projected revenue
23 requirements without requesting rate
24 increases, also the retained earnings at
25 the end of March 31st, 2004 for a

1 substantial \$805 million dollars."

2 Section I, Regarding the dividend paid out to
3 the Doer Government. Manitoba Hydro's annual report for the
4 year ending March 31st, 2003 stated the dividend was \$203
5 million dollars.

6 If the Rate Application is granted as
7 requested, the first year with an increase of 3 percent would
8 yield \$27,600,000. The next year including a further
9 increase of 2.5 percent would yield approximately
10 \$51,400,000.

11 The \$51,400,000 amount would be the
12 approximate amount of increased yield for each successive
13 year. Therefore, if the Rate Application is granted, it
14 would take approximately four and a half (4 1/2) years for
15 Manitoba Hydro's shareholders to pay back the dividend
16 distributed to the Manitoba government.

17 As I stated earlier, the dividend paid to the
18 Doer Government was nothing more than a veiled tax grab. If
19 the Doer Government wants to raise taxes, they must find a
20 more acceptable method of doing so and suffer the
21 consequences. The method they -- they chose was devious and
22 unacceptable.

23 Section J. Mr. Bob Brennan, during his
24 presentation to the Standing Committee on Crown -- Crown
25 Corporations on Wednesday, September 24th, 2003 stated:

1 "We do have a guideline we use for rate
2 increases and that guideline -- the guideline is
3 basically we like to manage our affairs
4 such that we have rate increases that are
5 below the rate of inflation."

6 My comment: How does that statement justify
7 an attempt to increase residential rates by 4 percent as
8 stated in their Application for a rate increase? It doesn't.
9 The rate of inflation, the last time I checked the sta -- on
10 the Statistics Canada website was below 2 percent.

11 Also, Manitoba Hydro's constant use of
12 averaging is not an accurate method of indicating changes,
13 whether it be rate changes or anything else. Manitoba Hydro
14 frequently uses averaging of figures and in some cases, it is
15 more misleading than informative. There is a big difference
16 between a residential rate increase equal to 4.01 percent and
17 the average of the rate increase is equal to 3 percent.

18 Section K. The retained earnings for the year
19 ending March 31st, 2004 are \$805 million dollars. If the
20 dividend had not been confiscated from the retained earnings
21 by the Manitoba Government, the retained earnings should have
22 been over \$1 billion as of March 31st, 2004.

23 Whether the retained earnings at the end of
24 March 31st, 2004 are \$805 million or \$1 billion 8 million, it
25 is a substantial amount of dollars. The retained earnings

1 are there to be used during low flow conditions so that rates
2 remain stable, therefore, use it has been -- use it as has
3 been done for low flows and no doubt it will be replenished
4 in the very near future.

5 Section L. On page A-3 of the Winnipeg Free
6 Press, November 1st, 2003 regarding an Order by the Public
7 Utility Boards to lower business rates it states:

8 "Hydro had asked for a stay in the Order
9 which would see the utilities business
10 revenues fall by \$7 million dollars."

11 And in the same article, the PUB ordered Man
12 Hydro to reduce their rates retroactive to April 1st, 2003.
13 That left Mani -- that left Hydro President Bob Brennan livid
14 and in the same article, Mr. Brennan states:

15 "It's ludicrous to me. It means that we
16 have to reduce our rates at a time when
17 we're losing money. The Order raises the
18 risk that Hydro will have to raise rates
19 for all customers next year which it hasn't
20 done in at least seven (7) years. At some
21 point in time -- at some point we are going
22 to have to recover that money."

23 My comment: It's difficult to understand how
24 Mr. Brennan considers such an order to be an excuse for a
25 rate increase for all customers. It isn't and again, the

1 rate freeze is mentioned.

2 Section M. My conclusions and
3 recommendations. Mr. Tim Sale, during his appearance at the
4 meeting of the Standing Committee on Crown -- Crown
5 Corporation on Wednesday, September 24th, 2003 with respect
6 to rates stated:

7 "Hydro proposes and the PUB disposes."

8 With that comment in mind, I make these
9 conclusions and recommendations to the Public Utilities
10 Board. Up to this point, in my reco -- in my presen --

11 Number 1. Up to this point in my
12 presentation, I have made six (6) references by way of
13 Winnipeg Free Press articles to the fact that the seven (7)
14 year rate freeze is constantly referenced when discussing
15 rates. To me it appears that Manitoba Hydro is expecting the
16 people of Manitoba to accept a rate increase based on the
17 cost and mention of a rate freeze.

18 If six (6) references to the rate freeze
19 doesn't seem sufficient to make my point, the rate freeze is
20 also referenced in other articles of the Winnipeg Free Press
21 in the following editions, July 30th, 2002; May 27th,
22 December 24th, 2003; January 9th, January 16th, June 3rd of
23 2004.

24 Also, in the minutes of Standing Committee
25 meetings and Manitoba Hydro annual reports.

1 As I stated earlier, it is Manitoba Hydro's
2 function to keep rates low. Their function is not to play
3 psychological games with the public. No rate -- rate
4 increase can be based on the fact that a Crown Corporation is
5 doing the job that is required of it.

6 (2) A thaw of the rate freeze does not
7 necessarily mean a rate increase. I would like to have the
8 rate freeze thawed and followed by regular rate decreases.
9 The rate decreases could be a very small percentage of
10 profits, if profits exist in any particular year.

11 The rate decrease could occur on an annual
12 basis or other time interval and it could be between .5
13 percent or -- and 1 percent or lower or higher, or the rate
14 decrease could be determined by the amount of profit --
15 profit for any particular year.

16 That would be in keeping with one of Manitoba
17 Hydro's goals to keep electricity rates low.

18 (3) Our rate decrease can be determined by
19 the rate of inflation as was mentioned by Mr. Brennan with
20 respect to rate increases.

21 (4) In an article in the Winnipeg Free
22 Press, February 3rd, 2004, page 83, Mr. Brennan stated:
23 "The increase in the forecast rate hike is
24 minimal and may not come pass".

25 And in the same article:

1 "for at least the last seven (7) years, all
2 years when Hydro rates remained frozen".

3 Now, it doesn't matter whether a rate increase
4 is minimal or otherwise. The seven (7) year rate freeze is
5 mentioned again. Based on the statements in this -- on -- in
6 previous pages from a variety of sources and the amount of
7 retained earnings a rate increase at this point in time is
8 not necessary and not justified.

9 In fact, the retained earnings are sufficient
10 to such an extent that it negates the need for any rate
11 increase for the years 2004/2005 and 2005/2006.

12 Any rate increase beyond 2005/2006 would be
13 negated by a return to what is considered a normal water
14 flow. If the water flow is beyond what is considered a
15 normal water flow, then that would be great for the retained
16 earnings and a rate decrease.

17 (5) Instead of the public being told that
18 Manitoba water systems are experiencing low flows, I
19 recommend to the Public Utility Boards that they order
20 Manitoba Hydro to publish or make readily available without a
21 person having to make application for information through the
22 Freedom of Information and Privacy Act, the actual megawatt
23 production of the individual generating facilities up north.

24 This could be made available on a weekly or
25 monthly basis so that what they generate can be compared to

1 what they are capable of generating and/or what was generated
2 in previous years.

3 I couldn't find this information in Manitoba
4 Hydro's application for a rate increase.

5 (6) Instead of the public being told that
6 water systems are experiencing low flows, I recommend to the
7 Public Utilities Board that they order Manitoba Hydro to
8 publish and make readily available without using Fippa
9 (phonetic) again, the actual water levels of the reservoirs
10 for the northern generating stations, and this could be made
11 available on a weekly or a monthly basis so that water levels
12 can be compared to previous years high, medium or low
13 generation rates.

14 Note, both recommendations (5) and (6) must
15 already exist so it would not be any hardship for Manitoba
16 Hydro to place that information on their website.

17 (7) Regarding export sales, if Manitoba
18 Hydro expects -- predicts low flows -- excuse me, once or
19 twice every ten (10) years as mentioned earlier in this
20 presentation, the length of their firm contracts for exports
21 should be of such a duration that the likelihood of a low --
22 low water flow and a firm contract occurrence simultaneously
23 is kept to a minimum.

24 The duration of firm contracts should be
25 staggered so that there is not simultaneous commencement

1 dates of firm contracts.

2 Or it might be wiser to have fewer firm
3 contracts or more interruptible contracts.

4 If these recommendations cause a decrease in
5 revenue, is it not possible that such a decrease in revenue
6 could be offset by eliminating another potential loss of \$350
7 million dollars due to the fact that Manitoba Hydro had to
8 import power just so that they could export it?

9 Maybe Manitoba Hydro's already doing this.

10 (8) Mr. Chairman, and members of the Public
11 Utilities Board, there is no justification for a rate
12 increase for the time period as stated in Manitoba Hydro's
13 application for rate increases.

14 My recommendation to you, the Manitoba Public
15 Utilities Board members, is to dispose of Manitoba Hydro's
16 application for rate increases by rejecting Manitoba Hydro's
17 application for rate increases in the years 2004/2005,
18 2005/2006.

19 Besides rejecting Manitoba Hydro's application
20 for a rate increase please give serious consideration to my
21 other recommendations. Thank you for giving me the
22 opportunity to make my presentation.

23 THE CHAIRPERSON: Thank you, sir, for the
24 time that you put into this -- in putting this paper together
25 for the research and the monitoring of the various statements

1 made by officials related to this issue. We appreciate the
2 report and will take it under advisement.

3 MR. ALAN CIEKIEWICZ: Thanks.

4 THE CHAIRPERSON: Thank you again. The next
5 presenter we have is Mr. Ted Mathers. Mr. Mathers.

6 MR. TED MATHERS: Thank you, Mr. Chairman,
7 Panel Members of the Board, Manitoba Hydro Representatives,
8 and the public. I'm appearing basically as a citizen, a
9 consumer and a tax payer of Manitoba to object to the general
10 rate increase that Hydro is asking on residential and others.

11 I referred to being a tax payer and the reason
12 being is that Manitoba Hydro is now a source of revenue for
13 the Provincial Government, therefore our hard -- our hydro
14 payments will now become a hidden tax for the Provincial
15 Government.

16 This rate increase for a home that uses
17 approximately two thousand dollars (\$2000) a year of hydro
18 will amount to about a hundred and fifty dollars (\$150) a
19 year.

20 This increase is unacceptable for the majority
21 of residents. This increase amounts to nothing more than a
22 straight tax grab by the government but from another source.

23 For Manitoba Hydro to come to the Public
24 Utilities Board for a rate increase because of a two (2) year
25 drought is ludicrous to say the least. The amount of revenue

1 generated by this increase will amount to approximately fifty
2 dollars (\$50) over the -- \$50 million over the two (2) year
3 period.

4 This is equal to the increase in water rental
5 rates charged by the government. This taxation -- this is a
6 taxation of another source. This increase is unwarranted at
7 this time. The past period of drought conditions can be
8 likened to a family having to replace the engine in the
9 family car.

10 Does the owner go and ask his boss for a
11 raise because of unexpected repairs? No. He would adjust
12 his lifestyle to accommodate this added temporary cost. He
13 -- he may, like Manitoba Hydro, have a reserve to fall back
14 on if he is fortunate.

15 The April 25/04 edition of the Winnipeg Free
16 Press featured an article indicating a \$400 million recoup
17 of money after the two (2) year drought. Any organization
18 or utility, in this case, that has the ability to recoup
19 this kind of revenue loss does not, in my mind, require a
20 rate increase.

21 The 2003 Annual Report shows that Manitoba
22 Hydro revenues have increased in 19 -- from 1994 of \$923
23 million to \$1.354 billion. And that is just the electrical
24 side of it, I left the gas off of that. This increase
25 amounts to approximately 46.5 percent or a little better

1 than 4.5 percent per annum increase.

2 Expenses have increased the same period from
3 \$853 million to \$1.406 billion or approximately 64.8 percent
4 or just under 6.4 per annum.

5 The population of Manitoba in a ten (10) year
6 period from 1991 to 2001 increased only 27,641 people, a
7 little less than a quarter of a percent per year. The rate
8 of inflation has been running around 1.6 percent lately, yet
9 Manitoba Hydro is asking for a raise of approximately 3.5
10 percent per annum for the residential sector.

11 Some of this increase can be attributed to
12 our present Provincial Government who have found a way of
13 balancing their increased expenditures. The idea in the
14 past and present by our Provincial Government has always
15 been to increase revenues to meet their expenses. There has
16 never been a program whereby you limit revenue taxation and
17 expenditures.

18 Revenue and expenditures should be --
19 expenditures should be limited which would be tied to
20 population growth and the inflationary rate. This idea of
21 increasing revenues just because you want more money has to
22 stop. These extravagant ideas of, we can do it, have to
23 change.

24 I would like to draw your attention to an
25 April 1997 publication, titled 'Preparing Manitoba Hydro for

1 a Powerful Future' where it states:

2 "The electrical industry is in the midst of
3 a revolution that is rapidly changing it
4 from a highly regulated industry to a more
5 competitive one. It is the last major
6 regulated industry to undergo profound
7 changes, following, for example, the
8 airline, telecommunications, and natural
9 gas industries."

10 Yes, some of these have been deregulated but
11 look at the problems and the horrendous costs associated
12 with these changes. Can we as a society today absorb these
13 added costs? I personally do not think we can. These
14 problems do not have to be described here as they are always
15 in the news.

16 This publication goes on to say in bold print
17 which today hearing and wanting -- Hydro wanting a rate
18 increase worries me because this publication states:

19 "High prices encourage competition; low
20 prices discourage it."

21 What is the thinking here? Raise the price
22 so you can have competition and then they can lower it a
23 little making it look good and the consumer will be happy?
24 No, I don't think so. Not today.

25 This Board has an opportunity at this time to

1 eject this General Rate increase and put the onus on the
2 management team of Hydro and the Provincial Government to
3 adopt principles that will curtail revenue increases thus
4 expenditure increases when not needed.

5 This rate increase when approved will, in
6 essence, amount to nothing more than a taps -- tax grab by
7 our Provincial Government in the future. This has to stop
8 and this Board is the only way it can.

9 Since 1992, Manitoba Hydro has had the
10 ability to increase their retained earnings from 183 million
11 to a high of 1.302 billion, dropping during this period of
12 drought to 1.17 billion.

13 It would appear to me that any Corporation
14 that is capable of increasing their retained earnings,
15 defined as net income over the life of a company, to the
16 extent that Manitoba Hydro has should surely have no problem
17 themselves coping for the short term drought losses.

18 Again, I have to say to this Board that you
19 have a duty to the taxpayer resident of Manitoba to reject
20 this Application for a General Rate increase.

21 We have always been told we have one of the
22 lowest rates in North America. These low rates have not
23 really been a drawing card for industry and therefore, any
24 increase will not do us any good in trying to get industry
25 here in the future.

1 I'll just allow my colleagues a few minutes to set up their
2 -- their materials then I'll proceed.

3

4

(BRIEF PAUSE)

5

6

THE CHAIRPERSON: Proceed, Mr. Peters.

7

MR. BOB PETERS: Yes, thank you, Mr.

8 Chairman. I would like to just resume from where I was
9 before lunch and My Friend opposite correctly advised me that
10 when I referred to this Book of Documents, PUB Counsel, I
11 sometimes neglect to provide the reference and that makes it
12 difficult on those who are going right back -- right back to
13 the materials that were filed in this proceeding, so I will
14 endeavour to use the source of the material so that will
15 allow people who are not using this booklet but going right
16 to their binders, to find it.

17

18 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

19

MR. BOB PETERS: Now, Mr. Warden, I think

20 before the lunch recess, we were talking about the actual and
21 forecast net income and retained earnings chart that's found
22 at Volume 1, Tab 1, Page 2 of 4 of your Filing and I put it
23 in Tab 1 of the Book of Documents. Do you have that with
24 you?

25

MR. VINCE WARDEN: I do, yes.

1 MR. BOB PETERS: And from what I gathered in
2 our discussion before lunch, under the 2004 column, the net
3 income from electricity operations of a loss of 355 million,
4 you're now telling the Board that that number is incorrect?

5 MR. VINCE WARDEN: Well, it was a -- it was a
6 forecast at the time and it's been updated.

7 MR. BOB PETERS: Correct, I'm -- I'm not
8 trying to affix any responsibility or blame for that, Mr.
9 Warden, but what you're saying is the forecast has -- has
10 been at least -- has been updated at this point in time?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: And you'd go -- would you go
13 further with me, sir, as I try to push you along here, that
14 not only has that forecast been updated, it's been awfully
15 close to being audited, to get an actual number?

16 MR. VINCE WARDEN: Yes, it went to the audit
17 committee of the Board last week.

18 MR. BOB PETERS: You're going to have to help
19 me because I don't get there very often, but does the audit
20 committee of the Board have the audited financial statements
21 from your external auditors in front of them?

22 MR. VINCE WARDEN: They do.

23 MR. BOB PETERS: All right. So the -- so I
24 gather from that answer that your external auditors have
25 completed their work and they have a number that they would

1 put on that line item based on their audit?

2 MR. VINCE WARDEN: There's a -- a few odds
3 and ends to clean up yet, but essentially, yes, that's
4 correct. They've completed their work.

5 MR. BOB PETERS: Okay. And then just help --
6 help the Board understand that while the external -- external
7 auditors have done their work and have come up with a number
8 and there's some odds and ends to sort out, what is the --
9 what is the process right now as to where that number sits?

10 MR. VINCE WARDEN: Well, as I mentioned it
11 went to the Audit Committee of the Board, actually, on Friday
12 of last week and from there, the Audit Committee would make a
13 recommendation to the Board of Manitoba Hydro whether or not
14 to accept or reject the results as -- as presented to them.

15 MR. BOB PETERS: Can you tell the Board
16 whether the Board of Directors of Manitoba Hydro has ever
17 rejected the recommendation of the Audit Committee with
18 respect to audited financial statements?

19 MR. VINCE WARDEN: Not as far as the bottom
20 line is concerned. There are some issues around those
21 statements that they have discussions on from time to time
22 but no, not as far as the -- as the final results are
23 concerned.

24 MR. BOB PETERS: Okay. And when -- when can
25 you tell this Board that it's goi -- going to -- the Audit

1 Committee report is going to the full Board of Directors of
2 Manitoba Hydro?

3 MR. VINCE WARDEN: Yes, the Board meeting of
4 Manitoba Hydro is on the 24th of June.

5 MR. BOB PETERS: And just to follow that
6 along, sir, if the Board of Directors of Manitoba Hydro
7 accepts the Audit Committee report on the 24th of June, 2004,
8 is that information then publicly available?

9 MR. VINCE WARDEN: No, from there it's
10 communicated to the -- to the Minister responsible for
11 Manitoba -- for Manitoba Hydro and the Minister releases
12 those results to the -- to the legislature and at that -- at
13 that point in time, it's public information.

14 MR. BOB PETERS: And if we can assume the
15 Board of Directors of Manitoba Hydro on June the 24th of this
16 year approves the recommendation from the Audit Committee,
17 when would the Board of Directors report go to the Minister
18 responsible for Manitoba Hydro?

19 MR. VINCE WARDEN: Immediately thereafter.

20 MR. BOB PETERS: And do you have any idea,
21 sir, as to when the Minister responsible for Manitoba Hydro
22 would then release the information to the legislature?

23 MR. VINCE WARDEN: Well, it -- it must be
24 released prior to July 31st.

25 MR. ROBERT MAYER: Assuming, of course,

1 legislature is sitting, I trust?

2 MR. VINCE WARDEN: There is a mechanism for
3 communicating that information to members of the legislature.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Perhaps Mr. Mayer had his
7 question answered but mine is, if the legislature is not
8 sitting do I understand your answer to him to mean that there
9 is a mechanism to release it even if the legislature is not
10 sitting?

11 MR. VINCE WARDEN: Well, no, the -- the
12 Minister would communicate that information to members of the
13 legislature and from there -- subsequent to that it would be
14 released to the public.

15 MR. BOB PETERS: Okay. Is that communication
16 to members of the legislature whether or not it is in
17 session?

18 MR. VINCE WARDEN: Yes, it is.

19 MR. BOB PETERS: Now, I take it from my
20 questions before lunch you are reluctant at this point --
21 perhaps a stronger word is refusing at this point to provide
22 an actual number for the net income for 2004 because you
23 wanted to follow the process that you've now outlined with
24 me?

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

1 MR. BOB PETERS: Is it possible, sir, that
2 you're able to make a request of the parties involved to find
3 out if that information could be released quicker than the
4 time line that you have now put before this Board?

5 MR. VINCE WARDEN: I could -- I could
6 certainly make that request.

7 MR. BOB PETERS: Would you be prepared to do
8 that?

9 MR. VINCE WARDEN: Yes, I can do that.

10 MR. BOB PETERS: All right and would you be --
11 then report back to -- to the Board through your Counsel as
12 to the results of that request to release that information to
13 this Board as soon as possible?

14 MS. PATTI RAMAGE: Yes, Mr. Peters, you have
15 that undertaking.

16
17 --- UNDERTAKING NO. 1: Request for information released
18 from Board of Directors of
19 Manitoba Hydro to be returned
20 through Counsel as soon as
21 possible regarding actual
22 numbers.

23
24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Okay. Let's not -- let me

1 just approach it this way, Mr. Warden, the number you have
2 given to the Board is to make them aware that the number
3 related to the net income exceeds a loss of 400 million if
4 I've understood your answers?

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

6 MR. BOB PETERS: And does Manitoba Hydro want
7 this Board to consider the actual number in its deliberations
8 on your Application before it?

9 MR. VINCE WARDEN: Well, I think what we have
10 submitted in our Application is a forecast of net income for
11 04/05 and 05/06 which, at this point in time, although the
12 actual number for 03/04 is less favourable than we had
13 earlier anticipated, we're still forecasting a number of
14 approximately \$40 million net income for 04/05 with the
15 requested rate increase amounting to \$28 million.

16 So the -- the \$40 million as indicated on the
17 schedule under Tab 1 is still our best estimate of net income
18 for 04/05 with the \$28 million increase in -- in revenue
19 associated with the rate application.

20 The \$31 million for 05/06 is still our best
21 estimate of net income with an additional revenue of \$51
22 million for that year.

23 MR. BOB PETERS: Do I take from your last
24 answer, sir, that whether the number for the net income for
25 2004 is 355 million or 400 million or some number larger than

1 that, that's not important to Manitoba Hydro's application
2 before the Board for this rate increase you would rather the
3 Board not consider the actual number and just turn to the
4 forecast for the next two (2) years?

5 MR. VINCE WARDEN: Yes, it's a -- certainly
6 important to Manitoba Hydro in terms of our retained earnings
7 and it's going to make it that much more difficult to achieve
8 the targets we set out.

9 Nevertheless, yes, I -- I agree with your last
10 statement that we would prefer the Board be aware that
11 2003/04 actual results are worse than we originally
12 anticipated but not to give that undue consideration for the
13 test years of 04/05 and 05/06.

14 MR. ROBERT MAYER: Mr. Warden, if your -- if
15 your retained earnings have gone down half a million, or half
16 a billion dollars, because that 500 million is over four
17 hundred (400), as is 600 million, how can you expect this
18 Board to make a decision if you're only going to tell us --
19 if you're not even going to give us a range?

20 MR. VINCE WARDEN: Well, Mr. Mayer, I
21 appreciate the difficulty with that. It's just the timing of
22 the release of information as we've just reviewed makes it --
23 makes it somewhat awkward for me to give you a number.

24 I can tell you it's not 500 million. It's
25 greater than 400 million. It's not greater than 10 percent

1 of that number, if that helps.

2 MR. ROBERT MAYER: That does. That gives me
3 some comfort in any event.

4

5 (BRIEF PAUSE)

6

7 MS. PATTI RAMAGE: Mr. Chair and Mr. Peters,
8 this may be of some assistance or may be of little
9 assistance, actually, but as you were speaking, something
10 clicked inside in terms of the Crown Corporations Act and I
11 thought I just might bring it to your attention that with
12 respect to the quarterly financial statements of Crown
13 Corporations, the Crown Corporations Act provides at Section
14 20(4) that no financial statements shall be made available
15 for inspection by the public pursuant to Subsection 2, until
16 they have been sent to each member of the legislative
17 assembly.

18 And I think that's part of the process that we
19 are -- we are discussing here. So I only bring -- I bring
20 that to your attention just because I wanted to make it clear
21 that this isn't some sort of internal Hydro process that's --
22 that's road blocking us. This is actually written in the
23 Crown Corporations Public Review and Accountability Act.

24 THE CHAIRPERSON: I -- I think we appreciate
25 that, but I think our comment basically is, is we are

1 accustomed to receiving forecasts and we're not assuming that
2 we need to read the entire annual report, but having the
3 forecast updated would probably help us a great deal.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Well, with that comment, Mr.
7 Warden, is Manitoba Hydro prepared to put forward a revised
8 forecast for 2004, based on the numbers that you can disclose
9 at this point in time?

10 MR. VINCE WARDEN: Well, no, I really can't
11 go any further than what I've already put on the record. We
12 do have an undertaking and I will -- I will certainly pursue
13 that.

14 MR. BOB PETERS: Okay, I appreciate that.
15 Can you indicate to the Board whether you -- whether Manitoba
16 Hydro believes that a -- a larger loss on the net income
17 line; is -- is it helpful to your application before the
18 Board? Is it neutral? Or is it a hindrance to your
19 application to this Board?

20 MR. VINCE WARDEN: Well the forecast of the
21 \$355 million is -- is a very big number and as I indicated
22 that's so much larger than any loss we've ever experienced in
23 the history of Manitoba Hydro. 400 million is even a bigger
24 number but it's still the same issue for us.

25 We have to gradually rebuild our retained

1 earnings now so that we're prepared for another event --
2 another negative event that could occur. And we've -- we
3 filed with this application, our risk management report, it
4 indicates that the Corporation does face a variety of risks,
5 and drought is just one of those risks albeit one of the
6 larger ones.

7 So our retained earnings is vitally important
8 to us to have a level of retained earnings that can with --
9 withstand such an event occurring in the future.

10 MR. BOB PETERS: All right. Am I correct
11 that your Board of Directors has not then considered the full
12 magnitude of the loss for 2004?

13 MR. VINCE WARDEN: The audited financial
14 statements have not been presented to the Board of Manitoba
15 Hydro until later this month.

16 MR. BOB PETERS: I'm not sure if that was
17 responsive or not, Mr. Warden, but has the Board of Directors
18 considered the full magnitude of the loss for 2004?

19 MR. VINCE WARDEN: Well, the Board of course
20 at their monthly meetings has been receiving updates at to
21 what the financial condition of the Corporation is. They --
22 they know what the potential range of losses or gains may be
23 depending on water conditions. It's such a variable number
24 depending on -- on what the water conditions might be in the
25 future.

1 So, yes, the Board -- this -- the number that
2 will be presented to the Board at their next meeting will not
3 be surprise to them.

4 MR. BOB PETERS: And by that answer then Mr.
5 Warden, I take it that even though your Board of Directors
6 won't be surprised by the net income figure for 2004, your
7 Board of Directors has not requested Manitoba Hydro's
8 management to revise its application for a rate increase
9 before this Board seeking greater increases than those filed?

10 MR. VINCE WARDEN: No. There has certainly
11 been -- as we've proceeded there certainly have been
12 discussion internally within the Corporation as to whether
13 that in fact would be a wise and prudent move to -- to ask
14 for more than we had requested, but in the final analysis,
15 no. Our application is as it st -- stands as it is.

16 MR. BOB PETERS: All right, thank you, sir.
17 I was trying, before lunch, I'm not sure what the degree of
18 success, but just how to set the table here as to what was
19 the existing situation before and where we are now. And in
20 -- in keeping with that and looking at where we are now you
21 mentioned, Mr. Warden, that the net income for '05 and '06
22 which are the test years, are still forecast to be \$40
23 million and \$31 million respectively?

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

25 MR. BOB PETERS: And both of those figures

1 have embedded in them an assumption that your rate
2 application before this Board will be 100 percent successful?

3 MR. VINCE WARDEN: That is also correct.

4 MR. BOB PETERS: And Mr. Surminski or Ms.
5 Wray, can you just help me with my understanding of this
6 forecast? Would this -- would this forecast of -- of net
7 income be premised on median flows occurring in those test
8 years?

9 MR. DAVID CORMIE: For 2005, it's based on
10 median flows. For 2006 and thereafter, it's the weighted
11 average revenue and expenses assuming each of the historical
12 flow years can occur in every -- in -- in that year. So it's
13 the weighted average condition.

14 MR. BOB PETERS: I guess it's too late for me
15 to withdraw that question. Just help us out here. Median
16 flows, that's -- we're going to get into this a little bit
17 later, but maybe explain to the Board what you mean by median
18 flows?

19 MR. VINCE WARDEN: Median flows assumes
20 hydraulic generation of around 29,000 gigawatt hours. If you
21 were to choose a level of hydraulic generation the choice of
22 29,000 is the most -- is -- is the amount of generation that
23 -- it will be closest to the final outcome.

24 Water conditions can be higher than median or
25 lower than median. Median is if you were to choose one of

1 those events is the most likely -- is the event that's
2 most -- is going to be closest to the final result.

3 And so for the -- for the first year of the
4 forecast, we -- we choose median because it is -- it's
5 probably going to be the closest outcome.

6 MR. BOB PETERS: What I -- if I could
7 interrupt you, Mr. -- or sorry, if I could just interrupt you
8 on that --

9 MR. DAVID CORMIE: Hmm hmm.

10 MR. BOB PETERS: -- that -- that question, the
11 assumption that you're basing that on is that 50 percent of
12 the time you're going to be too high and 50 percent of the
13 time you're going to be too low --

14 MR. DAVID CORMIE: Right.

15 MR. BOB PETERS: -- in your forecast?

16 MR. DAVID CORMIE: Yes.

17 MR. BOB PETERS: All right and that's your
18 median flow?

19 MR. DAVID CORMIE: That's the median case,
20 yes.

21 MR. BOB PETERS: What I then saw was a
22 calculation of a weighted average. Can you just briefly
23 explain to the Board how and why you weight that in your --
24 in your subsequent forecasts?

25 MR. DAVID CORMIE: In -- in -- in -- in the

1 third year of the forecast and thereafter, we want to -- we
2 recognize that any of the possible historic flow conditions
3 can occur and some will be drought flows and some will be
4 flood flows.

5 And we calculate the cost of drought in the
6 drought years and we calculate the extra revenue the occurs
7 in the high flow years and we average out all the revenues
8 and all the expenses that can occur over all the flow
9 conditions and -- and that's the basis of forecasting our
10 export revenues and our thermal and power purchase costs.

11 MR. BOB PETERS: So the weighting is done by
12 the revenue in those possible years?

13 MR. DAVID CORMIE: Well, each -- each flow
14 condition is assumed to have one -- contribute one eighty-
15 fifth of the -- to the total.

16 MR. BOB PETERS: Thank you for that, Mr.
17 Cormie.

18 Mr. Warden, back to you. In looking at the
19 overview as to where we are now and I'm still looking at this
20 chart that we've identified from page 2 of 4 of your Filing
21 and it's also found at Tab 1 of the book of documents, what
22 you're telling me is that the information under 2004 will be
23 -- will be incorrect and that retained earnings will now be
24 lower than presented and likewise, the debt ratio will be
25 lower than -- or higher, I suppose, than presented?

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

2 MR. BOB PETERS: And the amount that that
3 changes will be a function of whatever number then comes out
4 of the net income line?

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: Can you advise the Board as
7 to, again and I -- just the source of the additional loss of
8 net income? Is it tied strictly to the -- the power
9 purchases or is it tied to other factors?

10 MR. VINCE WARDEN: Yes, just very simply the
11 -- the inter-provincial line of \$165 million negative was
12 greater than what was estimated at that time. So the
13 variance is -- is the net of revenue minus fuel, power
14 purchase and water rentals.

15 MR. BOB PETERS: So you're telling the Board
16 that the variance is going to come off that -- is -- is going
17 to be on that line and not other lines?

18 MR. VINCE WARDEN: That's right.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: Just a question because of
23 the -- the magnitude of the numbers, Mr. Warden and I'm not
24 trying to get at -- get at the -- the net income number from
25 the -- from the back door here but in the order of magnitude

1 that you've told the Board that the net income number will
2 change, is that going to have a significant impact on the
3 debt ratio figure of 86 percent?

4 MR. VINCE WARDEN: No, it -- it takes a fairly
5 large number to move that debt ratio. It will, however, move
6 from 86 to 87 in the final -- final analysis.

7 MR. BOB PETERS: Ms. Wray, while we're talking
8 about that debt equity ratio and it was forecast to be
9 approximately 86 percent or 85 percent for 2004, it used to
10 be forecast -- at the Status Update Hearing, the last time we
11 came to this review, it was approximately 78 percent, was it
12 not?

13 MS. LYN WRAY: That sounds about right.

14 MR. BOB PETERS: And Ms. Wray, this debt
15 equity ratio, as I understand your integrated financial
16 forecast is forecast to deteriorate further towards the year
17 2010, as opposed to improve?

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

19 MR. VINCE WARDEN: Excuse me, I just wanted
20 to say that I indicated that it would move to 87.13 so that
21 would be the debt equity ratio and it will stay flat there
22 for a few years. So it won't deteriorate -- it isn't
23 expected to deteriorate further from that, assuming that our
24 rate application is approved as -- as submitted.

25 MR. BOB PETERS: So the qualification, Mr.

1 Warden, that you've made to Ms. Wray's answer is that the way
2 it's presented in IFF-03 of -1 there is a deterioration up
3 until 2010 but if -- if in the 2004 year it -- it drops to 87
4 percent debt, you expect that to hold flat until
5 approximately 2010?

6 MR. VINCE WARDEN: That's correct.

7 MR. BOB PETERS: All right, thank you for
8 that. And in dealing with ratios, Ms. Wray, you explained to
9 the Board previously in your evidence the capital coverage
10 ratio that you were targeting of one point zero (1.0), is
11 that correct?

12 MS. LYN WRAY: Yes.

13 MR. BOB PETERS: And what I see on your IFF
14 and I'll draw the attention of the Board members and those
15 who have a copy of the Book of Documents to the extract of
16 the IFF found at Tab 2 of the Book of Documents, and for
17 those not following in the booklet, that reference would come
18 out of your Volume 2, Appendix 4.1, and it's Pages 32 to 34.
19 Do you recognize that, Ms. Wray?

20 MS. LYN WRAY: Yes.

21 MR. BOB PETERS: And the IFF that's put
22 forward on Tab 2, is that dealing with the electrical
23 operations only of the Corporation and not the combined?

24 MS. LYN WRAY: That's correct.

25 MR. BOB PETERS: And what I was suggesting to

1 you, Ms. Wray, is you've told the Board that one of the
2 financial targets that Manitoba Hydro was -- was establishing
3 was a capital coverage ratio of approximately one point zero
4 (1.0) if I understood your evidence earlier today correctly?

5 MS. LYN WRAY: Yes.

6 MR. BOB PETERS: And we see from this IFF,
7 the capital coverage ratio is in the current year forecast to
8 be negative. Is that right? Negative decimal two one (-
9 .21)?

10 MS. LYN WRAY: I'm looking -- oh, sorry.
11 Okay, on your Tab 2? Yes, that's correct.

12 MR. BOB PETERS: Can you explain to the Board
13 members what a -- what a negative capital coverage ratio
14 means?

15 MS. LYN WRAY: It's just simply reflecting
16 the fact that we have a loss. It's probably not even a
17 legitimate ratio. It's just a mathematical consequence of
18 having a -- a loss in the numerator.

19 MR. BOB PETERS: And even though your target
20 is one point zero (1.0), from what I see on IFF-03-1, up
21 until at least 2011, you're not going to -- you're not
22 forecasting that you'll achieve your target?

23 MS. LYN WRAY: That's correct.

24 MR. ROBERT MAYER: Am I correct in assuming
25 that these 2010 and 2011 dates assume a Wuskwatim in-service?

1 MS. LYN WRAY: Yes, in IFF-03 they do.

2 MR. BOB PETERS: And the in-service date is
3 what, Ms. Wray?

4 MR. ROBERT MAYER: That was 2010.

5 MR. BOB PETERS: I won't swear Mr. Mayer in.

6 MS. LYN WRAY: I think it's 2009/10. No, I'm
7 sorry. It's 2010/11.

8 MR. BOB PETERS: Could I just ask you to
9 check that and get back to me if your answer's incorrect, Ms.
10 Wray?

11 MS. LYN WRAY: Actually, I'm just looking at
12 Page 9 of the forecast and it -- it does confirm it's
13 2010/11. The engineers, by the way, talk about -- when they
14 talk about 2010, it's the year beginning 2010, April 1.

15 Whereas when the financial people head up
16 their columns, it's the opposite, so we always put down the
17 two (2) numbers to prevent confusion.

18 MR. BOB PETERS: All right, still keeping
19 with the current view of Manitoba Hydro's situation, it's
20 been indicated in the opening comments that you now have
21 purchased Winnipeg Hydro and have integrated Winnipeg Hydro
22 into the operations of Manitoba Hydro. Is that correct?

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

24 MR. BOB PETERS: And that process began
25 September of 2002, if I recall the -- the date of the

1 transactions?

2 MR. VINCE WARDEN: September the 3rd was the
3 -- the actual date. Yeah, September 3, 2002.

4 MR. BOB PETERS: And in my opening comments,
5 I referred to some of the payments, the capital or the
6 financial payments involved and that includes \$25 million a
7 year from 2002 to 2006?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: So, you've already made a
10 couple of those payments; is that correct?

11 MR. VINCE WARDEN: We have, yes.

12 MR. BOB PETERS: And then starting in 2007 to
13 2010 it will be at \$20 million dollars a year?

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: And \$16 million dollars with
16 no end date on that in perpetuity?

17 MR. VINCE WARDEN: Right.

18 MR. BOB PETERS: Is that information, Ms.
19 Wray, also reflected in the IFF 03-1.

20 MS. LYN WRAY: Yes it is. In fact, I think
21 it was also in the previous IFF 02-1.

22 MR. BOB PETERS: Can you tell the Board where
23 those numbers would be reflected in your IFF?

24 MS. LYN WRAY: Yes, they're embodied in the
25 -- line items pretty well all through the forecast. General

1 Consumers Revenue; it includes revenue from Winnipeg Hydro
2 customers, finance expensed, depreciation, cost of
3 operations, water rentals, tax expense, fuel and power
4 purchase, every line of the forecast.

5 MR. BOB PETERS: There was also an indication
6 is some of the materials filed that there was \$9 million
7 dollars in direct costs for the -- the transactions related
8 to the acquisition of Winnipeg Hydro. Is that approximately
9 correct?

10 MR. WILLIE DERKSEN: Yes, that's correct.

11 MR. BOB PETERS: Thank you, Mr. Derksen.

12 Can you -- can you advise the Board as to whether or not that
13 process of integration has now been completed?

14 MR. WILLIE DERKSEN: They're operating as one
15 utility now. I would say that there's still steps that have
16 to be taken for it to be operating at a completely integrated
17 manner.

18 MR. VINCE WARDEN: We still have some issues
19 with respect to sorting out bargaining unit jurisdictions,
20 but aside from that, we're pretty much totally integrated.

21 MR. BOB PETERS: And also under this
22 arrangement to acquire Winnipeg Hydro, there's a commitment
23 to build an office tower in downtown Winnipeg?

24 MR. VINCE WARDEN: Yes.

25 MR. BOB PETERS: And just because I remember

1 it now, Mr. Warden, I remember reading in the materials that
2 the number attributed to that new office tower is \$75 million
3 dollars; is that correct?

4 MR. VINCE WARDEN: That's the amount we have
5 in our capital expenditure forecast, yes.

6 MR. BOB PETERS: And when some of the
7 answers, the interrogatories were provided that \$75 million
8 dollars was -- was indicated to be a -- was it a -- it was --
9 there's a funny term you used. I was going to say page
10 marker but it was a place marker? Ms. Wray, is that one of
11 your terms? Or Mr. Derksen?

12 MR. VINCE WARDEN: Well we -- regardless of
13 the label we understand that it's likely somewhat
14 understated. We will be updating that number in the -- the
15 -- fall revision to the integrated financial forecast.

16 MR. BOB PETERS: Are you able to indicate
17 what that revised number will be at this time, Mr. Warden?

18 MR. VINCE WARDEN: No. No, we don't have a
19 number at this point in time.

20 MR. BOB PETERS: But if I understood your
21 second last answer correctly, the number will be larger than
22 the \$75 million dollar place marker that's now in your IFF on
23 that account?

24 MR. VINCE WARDEN: Yes. Place marker, I
25 guess, is a good way to describe it. It -- it's recognizing

1 the fact that there will be a capital cost of course. And
2 the time we put it in the forecast we didn't know what that
3 number was so we put it in an amount of \$75 million.

4 MR. BOB PETERS: Is there any order of
5 magnitude that you have for that revision at this time, Mr.
6 Warden?

7 MR. VINCE WARDEN: No. No, I -- I really
8 don't have a better number at this time.

9 MR. BOB PETERS: And in terms of your present
10 scenarios of Manitoba Hydro, I understand from the materials
11 that there's been a relatively recent renegotiation of
12 contracts with your bargaining units?

13 MR. VINCE WARDEN: Yes, we concluded
14 negotiations with our -- our bargaining units early this year
15 and yes, all -- all agreements are now in effect.

16 MR. BOB PETERS: That was with -- with five
17 (5) bargaining units, Mr. Warden?

18 MR. VINCE WARDEN: Yes, it was.

19 MR. BOB PETERS: And can you tell the Board
20 what was the impact in general terms of the renegotiations?

21 MR. VINCE WARDEN: Well, in general terms and
22 perhaps I should be more specific on this but it was a three
23 (3) year contract for all bargaining units with a 3 percent
24 salary increase in each of the first two (2) years and the
25 cost of living in -- increase for the third year of the

1 contract. There was also some minor ben -- benefit
2 improvements that were associated with that.

3 MR. BOB PETERS: Ms. Wray, were those -- the
4 results of those negotiations embedded in IFF 03 of -1?

5 MS. LYN WRAY: Yes.

6

7

(BRIEF PAUSE)

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9 MR. BOB PETERS: Ms. Wray, going forward on
10 the IFF; after the three (3) year term runs out of this
11 renegotiation that Mr. Warden told us about, what assumption
12 did you embed in the IFF as to the wage and salary costs?

13 MR. VINCE WARDEN: Basical -- maybe I'll
14 answer that. Basically, in the IFF we -- we simply include
15 an inflationary increase for operating and administrative
16 expenses and the -- the rate of inflation for those years, I
17 believe -- subject to check, I believe was two (2) and a half
18 percent per year.

19

20

(BRIEF PAUSE)

21

22 MR. VINCE WARDEN: I'm informed it's 2 percent
23 per year.

24

25 MR. BOB PETERS: Okay, thank you. Mr. Cormie,
in your evidence and some of the questions you've answered to

1 the Board Members with the wet spring, as I'll call it, that
2 has led the Corporation to believe that it's forecast of net
3 income is going to be met in -- in the test years that are
4 before the Board in this Application?

5 MR. DAVID CORMIE: Our -- our best estimate is
6 it remains what was in the IFF 03. The wet spring has
7 reduced the uncertainty associated with -- with that number.

8 MR. BOB PETERS: And just so we know, that
9 number you're talking about, in terms of extra-provincial
10 sales, is approximately \$240 million dollars for both '05 and
11 for '06?

12 MR. VINCE WARDEN: Mr. Peters, that's on -- on
13 a net basis, the extra-provincial revenues are -- are
14 considerably higher than that but the net amount as indicated
15 on the schedule is \$240 million dollars per year, yes, that's
16 correct.

17 MR. BOB PETERS: I'm sorry, if I -- if I refer
18 then to the IFF that perhaps Mr. Cormie had in front of him,
19 we can find the gross figure under the extra-provincial
20 revenue line on that chart.

21 Is that correct, Mr. Cormie?

22 MR. DAVID CORMIE: Yes, that's correct.

23 MR. BOB PETERS: So, in 2005, you're
24 suggesting to the Board that the extra-provincial revenues on
25 a gross basis will be in the order of magnitude of \$451

1 million dollars?

2 MR. DAVID CORMIE: Mr. Peters, I -- I was
3 indicating that our net export revenues will be in the order
4 of \$241 million dollars. The export revenues may be higher
5 than that but we anticipate, as well, that our power
6 purchases cost will be higher.

7 So, although the net will be higher -- I mean,
8 the net will be on forecast. There may be some adjustments
9 to what their gross revenues are and their gross fuel and
10 power purchase are.

11 MS. LYN WRAY: Mr. Peters, I think if you're
12 just trying to reconcile the two-forty (240) number that was
13 in our summary, the net number to the numbers on IFF, I think
14 they are fairly reconcilable. What you've got is gross extra
15 provincial revenue of 451 million and then down below, water
16 rentals of 104 million and fuel and power purchase of 106
17 million. So roughly speaking, you're in that two-forty (240)
18 range.

19 MR. BOB PETERS: Okay. Thank you, Ms. Wray.

20

21 (BRIEF PAUSE)

22

23 MR. ROBERT MAYER: So, the only two (2) items
24 that you subtract from your gross export revenue in order to
25 get your net export revenue are fuel and power purchases and

1 water rentals?

2 MS. LYN WRAY: Yes, that's right.

3 MR. ROBERT MAYER: And no allowance is made
4 for any -- for attributing any oth -- any of the other costs
5 to exports?

6 MS. LYN WRAY: Well, there's a more precise
7 calculation that's done in the cost of service study, but in
8 terms of order of magnitude, I think what we're talking about
9 here captures most of the associated costs.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: If I could, I'd like to turn
13 now, with the Panel, to some of the matters that will help
14 the Board understand what else is forthcoming to the Board
15 from Manitoba Hydro that stems from previous Board Orders.

16 And I believe in general terms, this was dealt
17 with in Tab 11 of Volume 1 of the Application. And, Ms.
18 Ramage, I'm just -- want to be sure that your panel members
19 here can -- can perhaps help the Board and, if not, we'll
20 defer it to the next panel.

21 But let me just hit on a few that I wanted to
22 -- that I wanted to bring to the Board's attention. Mr.
23 Warden, in my opening comments, I'd indicated that the Board
24 had issued Order 7 of 03 to deal with your Status Update
25 Application and you recall that?

1 MR. VINCE WARDEN: Yes.

2 MR. BOB PETERS: And that was followed by
3 Order 154 of 03 which also dealt with issues raised at the
4 Status Update Hearing in the review and vary requests from
5 Manitoba Hydro?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And stemming from those
8 orders, sir, there was -- there was a directive to address
9 the limited use billing demand by way of a study. Is that
10 something panel members are familiar with?

11 MR. VINCE WARDEN: Would you ask a more
12 specific question, perhaps or...

13 MR. BOB PETERS: All right, sure. The -- the
14 Board asked the company to basically consider whether they
15 wanted to propose to keep the limited use billing demand or
16 rates or improve on it, or eliminate it altogether.

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: And Manitoba Hydro is
19 studying that, and if I recall correctly, has until June the
20 30th of '04 to file a report on that?

21 MR. VINCE WARDEN: There is -- appears to be
22 some issues around that schedule but it might be best to --
23 to defer that question until the next panel.

24

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(BRIEF PAUSE)

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MR. BOB PETERS: Would you be able, Mr. Warden, to comfortably explain that limited use billing demand rate to the Board, or is that something you want to defer to the next panel as well?

MR. VINCE WARDEN: Well, it's -- it's a -- a rate that as the name implies, as being applied to those customers that have very limited use.

We very much favour retaining that -- that rate, because we think it does have an application for the long term and that will be our proposal, but there'll -- there'll be a lot of information behind that that Mr. Weins can speak to much more directly than I can, so it would be best to perhaps wait until Mr. Weins is available for cross-examination.

MR. BOB PETERS: I -- I can do that but are you in a position to advise the Board as to whether the report from the utility is on track to be filed on or before June 30th of this year?

MR. VINCE WARDEN: I -- I don't expect it will be, no. No, I think we -- we'll need a bit more time in order to get that report before the -- before the Board.

MR. BOB PETERS: All right. Still on a high level then, Mr. Warden, turning to the winter ratchet issue, there's a question that was been raised in the previous

1 Orders as to whether or not that should be eliminated
2 completely; am I correct?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: And this was where the
5 demand rates for customers is determined over the winter
6 months and charged to them throughout the whole calendar --
7 or throughout the twelve (12) month period?

8 MR. VINCE WARDEN: 80 percent of the maximum
9 during the winter months, yes.

10 MR. BOB PETERS: And that's now been reduced,
11 I believe, to 70 percent?

12 MR. VINCE WARDEN: That's correct.

13 MR. BOB PETERS: And the question is whether
14 or not it should be phased out or eliminated entirely, and
15 that's also to be reviewed by the Corporation?

16 MR. VINCE WARDEN: That's correct.

17 MR. BOB PETERS: And again, I'd understood
18 that that report was due on June 30th, and can you indicate
19 to the Board whether that report should be filed -- is
20 expected to be filed on or about that date?

21 MR. VINCE WARDEN: It is another report that
22 we -- we're going to require -- request more time to file.

23 MR. BOB PETERS: There was also a -- a
24 directive dealing with transmission tariffs to be filed for
25 Board approval and in respect of that Mr. Warden, Manitoba

1 Hydro, has -- has applied to the Court of Appeal for leave to
2 have the Court review that decision by the Public Utilities
3 Board. Is that your understanding?

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

5 MR. BOB PETERS: And would it also be correct
6 that in the proceedings that we're now in, there will be an
7 opportunity for Manitoba Hydro to present some information to
8 this Panel in respect of the transmission tariff in an effort
9 to assist this Board in gaining a better understanding of the
10 issue?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: And I don't want to come at
13 it from a legal perspective, but maybe one of a more
14 pragmatic approach, would it be correct to suggest that
15 Manitoba Hydro is hoping that the Public Utilities Board will
16 consider that additional information and then assess the
17 Board's position -- the Public Utilities Board's position on
18 whether or not to continue with the legal action?

19 MR. VINCE WARDEN: That would be our hope,
20 yes.

21 MR. ROBERT MAYER: It's not our legal action,
22 Mr. Peters, it's theirs.

23 MR. BOB PETERS: And, in terms of the status
24 of that legal action, Mr. Warden, is it your understanding
25 from your counsel that the matter remains adjourned sine die

1 at this time?

2 MR. VINCE WARDEN: Yes, I believe that's a
3 correct term.

4 MR. BOB PETERS: All right. It would be
5 available to be either advanced or requested to be advanced
6 by either party, or I suppose, there could be -- excuse me --
7 there could be a joint request to discontinue the matter?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: One (1) of the directives
10 that was also asked of Manitoba Hydro was to file a detailed
11 debt management strategy. Do you recall that, Mr. Warden?

12 MR. VINCE WARDEN: Yes, I do.

13 MR. BOB PETERS: Would it be correct to say
14 that there's not a detailed policy in place on that -- on a
15 debt management at this point in time?

16 MR. VINCE WARDEN: We don't have a detailed
17 policy per say. There's nothing really complicated about
18 managing our debt as I -- as I think I mentioned -- alluded
19 to in my opening remarks. But we don't have the paper that I
20 can put before the Board at this time just describing that
21 process.

22 MR. BOB PETERS: I gathered from the
23 materials filed, Mr. Warden, that there was going to be an
24 effort to present a policy, or at least a report or paper, to
25 the Manitoba Hydro Board in early 2004 on the subject of debt

1 management.

2 MR. VINCE WARDEN: It's certainly been
3 discussed with the Board but there hasn't been a document
4 that I can bring from the -- from the Board to the -- to this
5 proceeding at this point in time.

6 MR. BOB PETERS: Can you advise the Board at
7 this time as to what is the status of the Manitoba Hydro's
8 review of the debt management strategy?

9 MR. VINCE WARDEN: It's, I guess best
10 described as a work in progress. But I -- it's just one of
11 those things that has not been completed because of other
12 priorities. It's -- it's not a huge task to -- to complete
13 it by any means. I wouldn't want to leave that impression.

14 So, I will endeavour to provide an update be
15 -- on the status of that within the next few days.

16 MR. BOB PETERS: Okay, that -- that's really
17 where I was -- was going Mr. Warden. My recollection is that
18 the PUB had suggested Hydro consider being more aggressive in
19 reducing its debt and wanted Hydro to look at that as part of
20 it's review. Is that your understanding?

21 MR. VINCE WARDEN: Well, that was certainly
22 the -- one (1) of the recommendations in -- in the Public
23 Utilities Board Order, of course reducing -- there's all
24 kinds of implications as Ms. Wray indicated earlier.
25 Reducing debt means that we have to do things that would

1 incur other risks that may not be desirable. So, reducing
2 debt, in itself is probably not a isolated objective.

3 MR. ROBERT MAYER: Mr. Warden, reduce -- we
4 talked about reducing debt. We -- we've already brought into
5 this Hearing, at least once, that a part of the IFF is
6 predicated upon advancing Wuskwatim to an in-service date;
7 and we'll still use 2010 because I've been listening to that
8 date for four (4) months now.

9 I -- I am assuming that when we're talking
10 about increasing debt, we're talking -- or decreasing debt,
11 we're talking about that decreasing that debt other than the
12 extraordinary debt which Hydro is has always assumed would
13 occur when you are talking of construc -- constructing new
14 generation facilities.

15 Am I correct in that assumption?

16 MR. VINCE WARDEN: Well, Mr. Mayer, if I can
17 -- I'm not sure I'm going to answer your question quite as
18 directly as you might like, but, if we -- anytime we're
19 expanding as we are with -- expect to be with Wuskwatim then,
20 of course, reducing debt is -- is not possible, nor is it
21 desirable because debt is good; that's where we get our
22 source of funds. So borrowing for purposes of growth, as I
23 indicated earlier, is a good thing to do. It's good for
24 Manitoba Hydro; good for its ratepayers.

25 So reducing debt is -- is contrary to the

1 whole concept of growth and in itself is not -- is not a good
2 objective for Manitoba Hydro.

3 So in the absence, though, of a major project
4 like Wuskwatim or a major transmission line, then reducing
5 debt should normally occur as long as our capital coverage
6 ratio that we talked about earlier exceeds one. So we're --
7 we're generating funds over and above the funds needed to
8 fund capital construction, and therefore, any excess of funds
9 can be used to reduce debt.

10 MR. ROBERT MAYER: Okay. Then what you're
11 telling me sounds like doing this reducing debt plan in a
12 period of projected expansion because I'm having a little
13 trouble forgetting what I've heard for the last four (4)
14 months. I mean, we have talked about Wuskwatim. We've
15 talked about Bi-Pole 3 and we talked about the possibility of
16 Gull and/or Conawapa over the next number of years depending
17 upon certain other things happening.

18 Are we asking you to do an exercise in
19 futility by preparing this report?

20 MR. VINCE WARDEN: Somewhat, I would agree
21 with that. Yes, it's a difficult concept to explain but I
22 understand that it's one that we should do. We should just
23 explain what the debt management strategy is of Manitoba
24 Hydro because I think there is a concern -- an unfounded
25 concern, I would say, that Manitoba Hydro's debt is too high

1 and that is definitely not the case, as I indicated in my
2 opening remarks.

3 As long as the fixed assets exceed the debt,
4 then that's a good thing. So we're investing in assets for
5 the growth of -- of the Utility and that's been the approach
6 of Manitoba Hydro ever since we -- we were formed in -- in
7 1961.

8 So the debt has gone up each and every year
9 since that date and as long as we're growing, that's good and
10 I would encourage that. Somehow I'll have to put that into a
11 paragraph or two (2) that I can file with this proceeding so
12 everybody can understand that.

13 THE CHAIRPERSON: Debt management isn't
14 necessarily a plan for absolute aggregate debt reduction. It
15 presumably could be a description of -- of managing within
16 all of the various financial ratios.

17 MR. VINCE WARDEN: And perhaps, Mr. Chairman,
18 that's probably the best approach we can take. We can
19 probably file a paper that details our debt management
20 strategy for the next year or so which Treasury prepares on
21 an ongoing basis and that just indicates the -- the
22 borrowings we will undertake, from where, from what source,
23 whether it be Hydro bonds, short term, long term.

24 So that debt management is something we do
25 every day and that's probably what should be filed in these

1 proceedings.

2

3 --- UNDERTAKING NO. 2: Provide Board with details of
4 debt management strategy.

5

6 THE CHAIRPERSON: I agree. Mr. Peters, could
7 we take five (5) minutes and we'll come back and then we're
8 going to close at 4:00 today.

9 MR. BOB PETERS: Yes, sir.

10 THE CHAIRPERSON: Thanks, we'll be back in
11 five (5) minutes.

12

13 --- Upon Recessing at 3:10 p.m.

14 --- Upon resuming at 3:20 p.m.

15

16 THE CHAIRPERSON: Mr. Peters, do you want to
17 continue?

18 MR. BOB PETERS: Yes, I do and thank you. As
19 I --

20 MS. PATTI RAMAGE: Perhaps -- oh, Mr. Peters,
21 before you begin, something that Mr. Peters and I had
22 discussed at the break was perhaps we would have Mr. Wiens
23 sworn in at this point because he can -- he has more direct
24 knowledge as to Mr. Peters' current line of questioning.
25 Hence, we've sent Mr. Surminski to the bench and brought Mr.

1 Peters up.

2 THE CHAIRPERSON: Mr. Barron, if we can call
3 on you again?

4

5 KURT ROBIN WIENS SWORN:

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Thank you, sir.

9 Mr. Wiens, this is not meant to be a
10 consequence for not staying in the office, but having --
11 having you here, sir, I would like you to help me explain to
12 the Board what matters they can expect from the Corporation
13 in the next -- in the next short while.

14 And these are matters that are flowing
15 predominantly from Orders 7 of 03 and 154 of 03 with which
16 you are familiar, is that correct?

17 MR. ROBIN WIENS: I expect I will be as we go
18 through them, yes.

19 MR. BOB PETERS: All right. On limited use
20 billing demand, sir, can you just explain in a high level way
21 to the Board what that rate is designed to -- to accomplish?

22 MR. ROBIN WIENS: The limited use billing
23 demand rate raises a rate that we brought before this Board a
24 few years back principally to assist customers of Manitoba
25 Hydro who found it difficult to deal with the demand energy

1 rate structure. These would typically be general service
2 medium or general service large customers, perhaps some
3 general service small demand customers.

4 Because of the fact that their -- their load
5 factors and particularly their billing load factors were very
6 low. So, these are the customers who might have had relative
7 to their average usage a very high peak usage and they were
8 particularly affected by the -- by the demand charges.

9 And to both assist these customers and to,
10 while at the same time, recognizing the cost to serve these
11 customers, we brought in a rate we called the limited use of
12 billing demand rate which effectively allows a customer whose
13 billing load factor is 18 percent or below, to have a -- a
14 lower, slightly lower or perhaps quite a bit lower depending
15 on how far below 18 percent their -- their billing load
16 factor was by having a much lower demand rate and a
17 significantly higher energy rate designed to be revenue
18 neutral at about 18 percent load factor.

19 MR. ROBERT MAYER: This is the rate that is
20 designed for golf clubs, arenas, ski clubs and the like; am I
21 correct?

22 MR. ROBIN WIENS: I think we have some
23 representatives of all of those groups that are using that
24 rate, yes.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: And, Mr. Wiens, just to
3 bring it down a little -- a little bit in altitude. The
4 billing load factor, can you explain what you mean by that
5 and maybe give an example partly of which Mr. -- the Vice
6 Chair has maybe given you an idea on?

7 MR. ROBIN WIENS: Well from month to month
8 these -- these customers will have a specific demand that may
9 -- may be constant or it may be variable. And their billing
10 demand is based on a number of factors which I -- I'm not
11 sure I want to get into, but, it is the greater of their
12 actual billing demand which was recorded in that particular
13 month or some relationship to their previous winter demand or
14 their contract demand; if that amount is greater.

15 If their bill demand over the course of a
16 year, I believe we measured revenue neutrality over the
17 course of a year, relative to their energy usage is such that
18 if you take the energy they use, divided by the maximum
19 possible energy they could have used if they had operated at
20 a 100 load factor.

21 If that amount was below -- at or below 18
22 percent, they could benefit by opting for the limited use of
23 billing demand rate.

24 MR. BOB PETERS: When I was asking these
25 questions earlier, I wanted an indication as to whether the

1 Corporation has taken a position as to whether this rate
2 offering should continue or be improved or eliminated.

3 What -- have you any position on that at this
4 point that you can provide to the Board?

5 MR. ROBIN WIENS: Well, Mr. Peters, our
6 position has not changed since the 2002 status update
7 proceeding. And some of the discussion and interchange we
8 had subsequent to that, we believe that the limited use of
9 billing demand rate is beneficial to a select number of
10 customers and we would like to continue to offer it.

11 MR. BOB PETERS: All right. The winter
12 ratchet was also a mechanism that was going to be studied
13 further by Hydro. Is that correct?

14 MR. ROBIN WIENS: That is correct.

15 MR. BOB PETERS: And can you explain briefly
16 to the Board what this winter ratchet connotes?

17 MR. ROBIN WIENS: What we have commonly
18 referred to as the winter ratchet is this provision that I
19 referred to earlier. Whereby a demand billed customer, that
20 would be general service, small, medium, or large, is billed
21 on the basis of either their current demand or if it happened
22 to be higher, the demand they established in the previous
23 winter. Taken at a -- a percentage of 80 percent of that
24 demand previously now as mentioned earlier by Mr. Peters, 70
25 percent of the previous winter's highest peak.

1 If the customer established a peak in the
2 previous winter, 70 percent of which was higher than the
3 current month, then that customer would be billed on the 70
4 percent of the previous winter peak, rather than the current
5 -- the current recorded demand for the month -- for the
6 billing month.

7 MR. BOB PETERS: And in terms of the report
8 of Manitoba Hydro related to that, is it -- can you indicate
9 to the Board when it might expect that report?

10 MR. ROBIN WIENS: Well, Mr. Chairman, that
11 report is substantively drafted now, but we haven't had the
12 ability to put it through it's internal paces prior to
13 filing.

14 That means we haven't had the -- the ability
15 yet to have it referred to our rates review committee, our
16 executive and -- and possibly our Board, before filing.

17 So, we will do that at the earliest
18 opportunity and -- and file it as soon as we've had that
19 internal review completed.

20 MR. BOB PETERS: And what about the status of
21 the limited use billing demand study, as well?

22 MR. ROBIN WIENS: We would take them through
23 in tandem.

24 MR. BOB PETERS: Mr. Warden, back to you on
25 this debt management strategy study that we were talking

1 about before the coffee break.

2 One (1) of your comments, if I wrote it down
3 correctly is that if you reduce your debt, you take on other
4 risks. Did I accurately -- did I accurately record your
5 thought on that point?

6 MR. VINCE WARDEN: Well, I think I was trying
7 to paraphrase Ms. Wray's earlier testimony in which it -- she
8 was trying to convey the thought that, yes, there are ways of
9 reducing debt but that would be an unwise thing to do because
10 there's trade-offs in terms of risks that would be faced by
11 the Corporation.

12 MR. BOB PETERS: And could you enumerate some
13 of those risks for the Board.

14 MS. LYN WRAY: What I was referring to
15 earlier was strategies such as moving a large portion of our
16 debt into floating rate debt.

17 That would reduce the interest rate,
18 certainly, quite substantially in the current environment but
19 it would expose the Corporation to risk when those rates go
20 back up again.

21 Another example would be not just simply to
22 try and do what we've done during this last drought and --
23 you know, cut what we can, but defer other things, but -- but
24 to go beyond that and wholesale slash programs for the sake
25 of just getting the debt down.

1 If you do that indiscriminately then I think
2 you're exposing yourself to business risk which will come
3 back to haunt you and ultimately require -- you know, even
4 more stringent financial targets at a later date to
5 accommodate that increased risk.

6 MR. BOB PETERS: Perhaps you can be more
7 specific, Ms. Wray, as to what would be one (1) of those --
8 some examples of business risks through -- through debt
9 reduction that may come back to be ill-advised with -- in
10 hindsight.

11 MR. VINCE WARDEN: Well, we have a capital
12 program of approximately \$500 million per year. You can go
13 through that capital program and pick any one (1) and say,
14 we're simply just not going to do this, but the consequences
15 of not spending money on capital is the system will
16 deteriorate, customers will not be served and the long term
17 consequences would be negative for rate payers.

18 MR. ROBERT MAYER: Are you talking about the
19 supply side enhancements of your generating facilities?

20 MR. VINCE WARDEN: That, amongst other
21 capital programs, yes.

22

23 (BRIEF PAUSE)

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Mr. Warden, can you indicate
2 to the Board what percent of the Province of Manitoba's debt
3 is represented by Manitoba Hydro's debt?

4 MR. VINCE WARDEN: I don't have the precise
5 number but it's very close to 50 percent. I can certainly
6 get the -- precise number if you -- if you require that.

7 MR. BOB PETERS: No, that's approximately --
8 the approximation is sufficient for -- for my questioning.

9 Ms. Wray, in the IFF that is included in the
10 materials that we've referred to, is it possible for you to
11 provide the Board with an update of that IFF, but add columns
12 representing the years -- the fiscal years that end in 2002
13 as well as 2003?

14 So, that would bring two (2) more columns on
15 the left side of the -- of the numbers.

16 MS. LYN WRAY: Yes, you're not asking for a
17 -- a modelling run, you're just asking for that additional
18 information?

19 MR. BOB PETERS: Just as additional
20 information to have it on one (1) page would be -- would be
21 appreciated.

22 MS. LYN WRAY: Yes, we can do that.

23 MR. BOB PETERS: Thank you.

24

25 --- UNDERTAKING NO. 3: Provide the Board with update of IMF

1 including fiscal years 2002 and
2 2003.
3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: There was one (1) other
6 area, Mr. Warden, that I can maybe talk with you about and
7 that was - there was a request that Manitoba Hydro quantify
8 specific -- reserve provisions that would be used to cover
9 off major risks of contingencies that the corporation faced.

10 And as I gathered from that risk management
11 program, it's Manitoba Hydro's preference not to quantify
12 risks and I think you eluded to that in your direct evidence
13 to Ms. Ramage today. Is that right?

14 MR. VINCE WARDEN: Well, I think the risk
15 management program is in the process of evolution. We -- we
16 prepared our first risk management report which was presented
17 to our -- our Board a year ago and was filed with the -- in
18 these proceedings.

19 We've -- as a matter of fact in the process of
20 updating that report, and included in that report will be
21 risk tolerances. That is, for every -- every risk the
22 corporation faces, we will be quantifying what amount of risk
23 we're prepared to take and if it goes beyond that limit, then
24 we'll do things to -- to counter that.

25 So, in answer to your question, yes, every

1 risk will in fact ultimately be quantified. But at this
2 point in time, we haven't reached that stage of maturity with
3 a risk management program.

4 MR. BOB PETERS: And you indicate that you're
5 -- you're updating your report to do that?

6 MR. VINCE WARDEN: Yes, we are.

7 MR. BOB PETERS: And can you advise the Board
8 of the time-line for your updating of that report?

9 MR. VINCE WARDEN: Well, as a matter of fact,
10 the updated risk management report is being filed with the
11 Board of Manitoba Hydro on June 24, I believe the date I
12 indicated earlier.

13 MR. BOB PETERS: Yes.

14 MR. VINCE WARDEN: So, the updated report
15 will be filed on that date.

16 Still though, not -- it doesn't give a --
17 quantification of each risk. It's the next step along the
18 way in terms of getting to that, but it's still not there
19 yet.

20 MR. BOB PETERS: Would you be prepared to
21 file a copy of that updated risk management report, including
22 the tolerances that you've talked about with this Board?

23 MR. VINCE WARDEN: Certainly.

24 MR. BOB PETERS: And, so the Board would
25 expect that, if approved by the Manitoba Hydro Board,

1 sometime after -- or shortly after June 24th?

2 MR. VINCE WARDEN: Yes.

3 MR. BOB PETERS: You say that you don't
4 quantify the risks. And I remember the direct evidence of
5 the Panel today, you prefer to use financial targets and not
6 -- not dollar amount quantifications of the various risks.
7 Is that your present position?

8 MR. VINCE WARDEN: Well, no. We -- we do, in
9 fact, quantify risk. But we haven't got all of our risk --
10 individual risks quantified at this point in time.

11 We've -- as indicated by Mr. Surminski
12 earlier, we've quantified the drought risk, which is the --
13 single largest risk the corporation faces.

14 MR. BOB PETERS: That drought risk was the
15 \$1.1 billion number?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: All right, I'll come to that
18 tomorrow. But, Mr. Weins, while you're here today, can you
19 tell the Board about the inverted rate study that Manitoba
20 Hydro was requested to provide to the Board.

21 MR. ROBIN WIENS: Both the inverted rate and
22 the time of use issues are under study now and we expect that
23 we will be filing by December the 31st as directed in Order
24 154-03.

25 MR. BOB PETERS: And we had a presenter

1 today, as well as an intervener today, make reference to
2 inverted rates. And can you just briefly explain that to the
3 Board from Manitoba Hydro's perspective as to what's
4 included?

5 MR. ROBIN WIENS: I think that the presenter
6 described -- describe them accurately. It is a situation in
7 which instead of as the current rate; and we'll use the
8 residential rate as an example, but the general service small
9 rate could be used as well.

10 Both of those are what we call declining block
11 rates. That means, as you move -- as your consumption
12 increases and you pass the threshold of each block, that the
13 rate goes down.

14 And the case of the residential rate, the
15 current structure is, we have a basic charge of \$6.25. We
16 have a first block charge which covers the first hundred and
17 seventy-five (175) kilowatt hours per month, at five point
18 seven eight (5.78) cents per kilowatt hour. And then we have
19 the remainder of consumption at five point one six (5.16)
20 cents per kilowatt hour.

21 In the application, I think you will note that
22 the rate proposal in the -- application -- the rate design
23 proposal for the residential class is such that if -- if the
24 application is approved effective April the 1st, 2005, we
25 will then have what is called a flat rate for the residential

1 class; a single basic charge. Along with a single energy
2 charge for all kilowatt hours.

3 For the residential class, the declining block
4 will then be a thing of the past. Again, assuming that it's
5 approved.

6 An inverted rate takes that one (1) step
7 beyond. Whereby after some defined first block of
8 consumption, the rate will go up for additional consumption.

9 And that could be a hundred and seventy-five
10 (175) kilowatt block like we have -- kilowatt hour block like
11 we have now. Or two hundred and fifty (250) kilowatt hours
12 as appears to be recommended by one (1) of the interveners.
13 Or some other number, nine hundred (900) kilowatt hours as is
14 practised by Hydro Quebec.

15 But the distinction is that beyond, in the
16 case of Hydro Quebec, beyond the first nine hundred (900)
17 kilowatt hours a month, or thirty (30) kilowatt hours a day,
18 I believe as they described it in their tariff, the rate goes
19 higher, rather than lower; which is still the case for most
20 Canadian utilities -- electric utilities.

21 MR. BOB PETERS: From your answer, Mr. Wiens,
22 can the Board infer one (1) way or the other as to which way
23 the corporation is leaning on inverted rates?

24 MR. ROBIN WIENS: I think the corporation
25 would prefer to hold off on which direction it's leaning. I

1 think we have said in the past that the -- the relationship
2 of marginal costs of supply in Manitoba Hydro, to the
3 embedded average cost, is such that the marginal cost is
4 higher. And that's certainly one (1) of the pre-conditions
5 for at least considering an inverted rate.

6 And so, certainly Manitoba Hydro is -- is
7 willing and eager to take a look at whether or not that would
8 be applicable and what are some of the issues related to
9 implementation.

10 MR. BOB PETERS: So the Board can stay tuned
11 for that report and that's -- that's when we'll find out the
12 official position of the corporation?

13 MR. ROBIN WIENS: That's correct.

14 MR. BOB PETERS: All right. Mr. Wiens --

15 MR. ROBERT MAYER: Mr. Wiens, isn't volume
16 sales of energy -- volume discounts for energy kind of passe
17 these days? The more you use, the less you pay?

18 MR. ROBIN WIENS: In jurisdictions like
19 Manitoba Hydro where we are looking at, as I stated, a
20 marginal cost that's higher than our average embedded cost,
21 arguably, yes, it's -- it's passe.

22 But there's still a lot of jurisdictions in
23 Canada and in the United States where, for small consumers,
24 general service and residential, there is a declining block
25 structure.

1 MR. ROBERT MAYER: My concern is not only
2 financially but -- but ecologically people are starting to
3 discuss how we're energy pigs already, why would be
4 encouraging more of that?

5 MR. ROBIN WIENS: Well, this is the reason
6 why we're taking a serious look at inverted rates.

7 THE CHAIRPERSON: Not to carry on the
8 discussion, but I would imagine that there's -- with the
9 other jurisdictions not having gone there, presumably there's
10 some risks associated with adopting inverted rates for large
11 commercial operations and things of that nature, where power
12 rates and -- and access thereto could be a -- a factor in
13 locating or expanding or things of that nature. I imagine
14 you have to take that into account as well.

15 MR. ROBIN WIENS: Well, there -- there are
16 always considerations like that, that need to be taken into
17 account when you're looking at this type of a -- this type of
18 a change.

19 It -- it has -- it has its apparent benefits
20 in terms of sending a correct price signal, in terms of the
21 conservation issues. But you also have to consider the --
22 the other objectives for which you make supply available.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Mr. Wiens, one of the other

1 requests made of Manitoba Hydro was to study the decreasing
2 of the demand charge and increasing the tail block of energy
3 charge. Do you recall that?

4 MR. ROBIN WIENS: I do.

5 MR. BOB PETERS: And although not a direct
6 analogy to the -- to the raising the tail block rate, it does
7 go to rebalancing certain costs in the -- in the rate design
8 process?

9 MR. ROBIN WIENS: Yes.

10 MR. BOB PETERS: And has Manitoba Hydro done
11 that study?

12 MR. ROBIN WIENS: We believe -- we made a
13 filing on April the 1st which included a study prepared by a
14 consultant and which also included a -- a subsidiary document
15 prepared by Manitoba Hydro on the rebalancing of energy and
16 demand charges.

17 MR. BOB PETERS: And would I be correct in
18 saying that the reports that were prepared have not been
19 adopted or included in this General Rate Application?

20 MR. ROBIN WIENS: No, they have not.

21 MR. BOB PETERS: Why is that?

22 MR. ROBIN WIENS: The General Rate
23 Application was filed, I believe, around January the 30th and
24 we had not had those -- we did not have those documents
25 available to file as part of the General Rate Application.

1 We filed them at the earliest date we could,
2 and we filed them to be in compliance with the directive from
3 -- from 153/03.

4 MR. BOB PETERS: Do I take from your answer,
5 sir, that if you would have had these reports, as they are
6 now prepared earlier, it would have changed the General Rate
7 Application before this Board?

8 MR. ROBIN WIENS: It would have had to have
9 been quite a bit earlier, Mr. Peters. The -- the cost of
10 service studies that went into this Application we began
11 preparing those substantially prior to the filing of the
12 application.

13 So, it would have had to have been in the
14 order of six (6) -- six (6) months or so earlier.

15 MR. BOB PETERS: All right. Does that
16 suggest to the Board, Mr. Wiens, that the next time Manitoba
17 Hydro comes in with a rate filing it can expect to see a
18 decrease in the demand charge for those general service
19 customers and increasing of the tail block energy charge?

20 MR. ROBIN WIENS: That would depend on the
21 timing of the next General Rate Application. I think we -- I
22 think we would want to also consider the results and
23 recommendations of the studies in the area of inverted rates
24 and time of use as well.

25 MR. BOB PETERS: Okay, just to move it along

1 then, Mr. Wiens, recognizing we'll chat again in -- in a
2 while, I suppose. Manitoba Hydro was going to review the
3 generation cost classification methodology and the options
4 that existed and to that end, engaged a consultant out of, I
5 think, Los Angeles, correct?

6 MR. ROBIN WIENS: Correct.

7 MR. BOB PETERS: And that we've called the
8 National -- sorry, I think it's National Economic Research
9 Associate's report?

10 MR. ROBIN WIENS: Correct.

11 MR. BOB PETERS: And that NERA report was
12 also filed, I believe, April 1st?

13 MR. ROBIN WIENS: Also correct.

14 MR. BOB PETERS: And is it also correct that
15 the reports made by NERA were not incorporated or included in
16 the Manitoba Hydro report?

17 MR. ROBIN WIENS: No, we did not, for
18 example, prepare the cost of service study that was submitted
19 with the application in accordance with the recommendations
20 of that report.

21 MR. BOB PETERS: And you've -- and we'll talk
22 about it later, but you reserved to Manitoba Hydro's
23 discretion the opportunity to do it next time?

24 MR. ROBIN WIENS: Yes.

25 MR. BOB PETERS: In terms of other matters

1 that the Board had expected to see from Manitoba Hydro, Mr.
2 Wiens, there were various requests made on the cost of
3 service study to show some methodological changes and am I
4 correct that Manitoba Hydro has -- has made a number of those
5 changes?

6 MR. ROBIN WIENS: Yes, certainly to the
7 extent that we were able to do so, we've made all of them.

8 MR. BOB PETERS: And the extent to which you
9 were able to do so did not include a -- setting up a pro
10 forma or creation of an export class for discussion purposes?

11 MR. ROBIN WIENS: We have not done that in
12 the -- in the General Rate Application, although that is one
13 of the recommendations that is contained in the NERA report.

14 MR. BOB PETERS: And it's -- it's a
15 recommendation that Manitoba Hydro is supporting at this
16 point in time?

17 MR. ROBIN WIENS: Yes.

18 MR. BOB PETERS: But nothing in the
19 application before this Board at this time deals with or
20 incorporates the methodology that NERA suggested be used on
21 the creation of --

22 MR. ROBIN WIENS: Nothing in the General Rate
23 Application in the cost of service study with the General
24 Rate Application supports any of the changes that were
25 recommended in the NERA report, that -- that's correct.

1 MR. BOB PETERS: Can you tell the Board
2 whether in the cost of service study all of the information
3 from Winnipeg Hydro has now been included?

4 MR. ROBIN WIENS: We do not have separate
5 load research information on the customer base formerly
6 served by Winnipeg Hydro.

7 We are working to have that capability. I
8 expect that some time at the end -- following the current
9 calender year we will be able to produce a peak load
10 responsibility study which incorporates those customers.

11 To date we have not been able to do that,
12 because we have not had the infrastructure in place to
13 support that.

14 MR. BOB PETERS: All right, Mr. Warden, back
15 to you on the -- on the request made by the Public Utilities
16 Board of the Corporation, previous orders, there was also a
17 request to re-examine the DSM or demand side management
18 programs and report that back to the Board.

19 Do you recall that?

20

21 (BRIEF PAUSE)

22

23 MR. VINCE WARDEN: Again it appears, Mr.
24 Peters, we don't have the panel member that can speak
25 directly to that and that will be on -- on our next pan --

1 that person will be on our next panel.

2 MR. BOB PETERS: That's fair, Mr. Warden. I
3 just -- I think it's best then we'll leave it.

4 Maybe for you, Mr. Wiens, there was also a
5 directive on the street lighting cost of service study to be
6 prepared along with the confirmation of rates for that class.

7 Do you recall that?

8 MR. ROBIN WIENS: That would have been --
9 would that have been in -- that was not in 703, I don't
10 believe --

11 MR. BOB PETERS: In 153/03.

12 MR. ROBIN WIENS: It was in 153/03. I do
13 recall it, yes.

14 MR. BOB PETERS: As I recall, the target date
15 for that report would be December 31 of '04?

16 MR. ROBIN WIENS: I don't have the
17 recollection but I will take that, subject to check.

18 MR. BOB PETERS: All right. Do you recall
19 what the issue was with the street light rates and class in
20 the cost of service methodology used?

21 MR. ROBIN WIENS: Well I believe that the --
22 the directive was filed or was -- was issued subsequent to
23 Manitoba Hydro's filing for interim rates for specific and
24 fairly limited number of street light applications in the
25 former Winnipeg Hydro territory, and that the Board approved

1 those while asking Manitoba Hydro to produce a full street
2 light cost of service study.

3 MR. BOB PETERS: And that full study is going
4 to be done for approximately December 31st of 2004?

5 MR. ROBIN WIENS: We -- we're looking to be
6 able to do that, yes.

7 MR. BOB PETERS: All right. Mr. Warden,
8 perhaps the last question to you, sir.

9 In terms of the diesel rates, one of the Board
10 members and the Vice-Chair was involved in the matter dealing
11 with diesel rates, but there was a -- there was evidence led
12 and the dispute -- of disputes that existed between and
13 amongst the various parties at that Hearing.

14 Do you recall that?

15 MR. VINCE WARDEN: I do.

16 MR. BOB PETERS: And I've included as Tab 36
17 of my Book of Documents, reference to PUB Manitoba Hydro
18 first round Question 69.

19

20

(BRIEF PAUSE)

21

22

23 MR. BOB PETERS: Have you located that tab,
24 sir?

24

MR. VINCE WARDEN: Yes, I have, thank you.

25

MR. BOB PETERS: And this inter -- sorry,

1 this information request wanted a summary of the issues that
2 I guess were -- could be reduced to a financial terms in
3 dispute and it appears that it includes approximately \$18
4 million of -- of a deficit that is presently unrecovered.

5 Is that correct?

6 MR. VINCE WARDEN: That is correct, yes.

7 MR. BOB PETERS: And there's also a dispute
8 over an approximate \$2.8 million surcharge that appears to
9 have grown to closer to \$3 million dollars at this point in
10 time?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: Is that inclusive of
13 interest or excluding interest? Do you know?

14 MR. VINCE WARDEN: The -- it's exclusive of
15 interest.

16 MR. BOB PETERS: And, can you just again
17 update the Board as to where that matter sits in the dispute
18 resolution process, to the extent you're able to at this
19 time?

20 MR. VINCE WARDEN: Well, it -- we were in the
21 midst of mediation. We have a mediator that is working with
22 the parties, the three (3) parties. And, further meetings
23 are scheduled for July. We are very hopeful to have a
24 resolution of this matter shortly thereafter.

25 MR. BOB PETERS: Is it envisioned by the

1 parties that the resolution will come back and be either --
2 be subject to the Public Utilities Board approval?

3 MR. VINCE WARDEN: Well, we have a commitment
4 to return to the Public Utilities Board with a report on the
5 -- on the progress and I believe we have a commitment to file
6 something by the end of July.

7 If the Government of Canada decides to
8 contribute by means other than rates, it probably does not
9 have to come back to this Board for approval. Nevertheless,
10 we will certainly bring back whatever that resolution is from
11 those proceedings.

12 MR. ROBERT MAYER: Mr. Warden, it has to come
13 back, you only have an interim order. So somebody's got to
14 come back with something.

15 MR. VINCE WARDEN: Yes, I'm just saying there
16 is a -- well, we'll definitely come back, no question. It
17 will come back for approval to have the order confirmed or
18 otherwise.

19 MR. ROBERT MAYER: Well, can you just very
20 briefly explain to me what effect these general -- assuming
21 approval of your application in this GRA, assuming approval
22 as applied for.

23 What effect would that have on the Diesel
24 communities?

25 MR. VINCE WARDEN: Well, the Diesel

1 communities pay the same rates as do consumers in other parts
2 of the province up to 200 kilowatt hours per month.

3 MR. ROBERT MAYER: That's residential?

4 MR. VINCE WARDEN: Residential and general
5 service. Same rates as elsewhere in the province up to 2000
6 kilowatt hours per month.

7 So, whatever rate increase is awarded through
8 these proceedings will also affect those communities to that
9 -- to that limit.

10 MR. ROBERT MAYER: And would it affect any of
11 the other classes?

12 MR. VINCE WARDEN: Yes. General service as
13 well.

14 MR. ROBIN WIENS: I might just add, Mr.
15 Chairman, although they -- the rates to residential and
16 general service customers in the Diesel communities would
17 increase by the same amount that's approved in this
18 proceeding, it's a relatively small proportion of the
19 outstanding issues between Manitoba Hydro and the other
20 parties.

21 MR. BOB PETERS: Mr. Chairman, it's
22 approaching the hour of four o'clock, and this would be a
23 convenient time in my line of questioning to adjourn for the
24 day. And I'll pick it up at nine o'clock tomorrow morning.

25 I would just, perhaps, use the opportunity to

1 ask of Mr. Wiens, since he's here, to just check those Diesel
2 rate schedules that are in the filing for accuracy in light
3 of they may have been filed prior to the Diesel orders being
4 issued by the Board and there may be some need to revise
5 those and I'll give him a heads up of an issue that we'll
6 take up with him later.

7 MR. ROBIN WIENS: Mr. Peters, perhaps after
8 we adjourn you could advise us of the particular schedules or
9 the particular Information Request responses that -- that
10 you're directing us to.

11 MR. BOB PETERS: I'd be pleased to. And with
12 that, Mr. Chairman, I'm prepared to stand down for the day.

13 THE CHAIRPERSON: Thank you, Mr. Peters.
14 Thank you everyone else. We stand adjourned.

15

16 --- Upon Adjourning at 3:55 p.m.

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19 Certified Correct,

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23 _____
Wendy Warnock, Ms.

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