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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO
COST OF SERVICE STUDY

Before Board Panel:

- Graham Lane - Board Chairman
- Robert Mayer - Board Member
- Kathi Avery Kinew - Board Member
- Len Evans - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
May 4th, 2006
Volume I
Pages 1 to 246

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1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Good morning, ladies
4 and gentlemen. I see the usual cast of characters so
5 it's a good start. I would like to call the proceedings
6 to order.

7 My name is Graham Lane. I'm Chairman of
8 the Manitoba Public Utilities Board. My colleagues on
9 this panel are Board Members, Mr. Len Evans, Dr. Kathi
10 Avery-Kinew and Board Vice Chair, Bob Mayer.

11 The Board will be assisted in this matter
12 by Board Advisors and counsel. The Board Secretary, Mr.
13 Gerry Gaudreau, Associate Secretary, Mr. Hollis Singh,
14 who is not with us this morning, and Associate Secretary
15 Mr. Gerry Barron.

16 We anticipate a lengthy and complex
17 hearing. Transcripts of the proceedings will be posted
18 on the Board's website. If anyone has administrative
19 matters of concern at any point throughout these
20 proceedings please speak to a member of Board staff or
21 Mr. Peters.

22 This is a public hearing process to review
23 and examine Manitoba Hydro's cost of service methodology.
24 The process began with a pre-hearing conference and a
25 technical briefing by Manitoba Hydro followed by two (2)

1 rounds of IR's and filings of briefs.

2 The Application is a prospective cost of
3 service study based on Manitoba Hydro's fiscal year ended
4 March 31st, 2006.

5 Manitoba Hydro's proposed cost of service
6 methodology affects the allocation of costs among various
7 customer classes. It also affects how the net export
8 revenue benefit is shared among domestic customer
9 classes.

10 Manitoba Hydro has prepared cost of
11 service studies since the 1970's and issues, with respect
12 to Manitoba Hydro's cost of service methodology, have
13 been before the Board on many past occasions. However,
14 the current application results from specific board
15 directives set out in Orders 101/'04 and 143/'04.

16 In particular, the application addresses
17 specific concerns of Manitoba Hydro and the Board with
18 respect to increase -- the increasing significance of
19 export revenue. Issues related to what costs should be
20 assigned against export revenue and how the net export
21 revenue benefit should be shared by the domestic
22 customers are involved. No doubt we will hear extensive
23 evidence on these matters through this hearing.

24 The Application included four (4)
25 different cost of service studies being; (a) the

1 methodology currently approved by the Board, (b) the
2 methodology recommended by National Economic Research
3 Associates, NERA, engaged by Manitoba Hydro, (c) a
4 methodology based on generation vintaging, and (d) the
5 methodology recommended by Manitoba Hydro.

6 The Board understands that a fundamental
7 purpose of a cost of service study is to fairly allocate
8 costs among various customer classes based on cost
9 causation and ultimately to arrive at a fair sharing of
10 the Utility's revenue requirement among various customer
11 classes.

12 This said and recognizing that we are not
13 considering rate changes in this Hearing, Manitoba
14 Hydro's practice and general understanding favours cost
15 based rates although the governing legislation does not
16 require the Board to establish rates solely on the basis
17 of cost.

18 In general rate applications to date,
19 Manitoba Hydro has not proposed developing revenue
20 requirements on any other basis than by an approach
21 relying on financial statement defined costs, although
22 other methods are conceptually possible.

23 The determination of revenue requirement
24 by customer class pays no attention to market rates for
25 electricity, however, such market rates may be

1 determined. The Board notes a story in Monday's Winnipeg
2 Free Press suggesting that Manitoba Hydro may be
3 interested in surcharging certain large industrial
4 customers.

5 Manitoba Hydro's concern relates to a
6 differential between the rates charged such customers and
7 export prices. The Board notes that if such interest is
8 to be pursued the form would come in an application.
9 Prior to the story the Board was unaware of Manitoba
10 Hydro's interest in a surcharge.

11 And to the point, cost has been defined to
12 be cost as portrayed for financial statement purposes in
13 accordance with the accounting policies of the Utility.
14 It appears that one Intervenor, at least, would expand
15 the definition of cost to include certain imputed or
16 actual environmental costs, while most interested parties
17 to this Hearing have not been so inclined, to date.

18 And when considering amortization of plant
19 and equipment costs no consideration has been given to
20 this point to replacement or inflation adjusted market
21 costs. Reliance has been placed on historical cost as
22 recorded and amortized in the books of account of the
23 Utility.

24 Thus, costs incurred and reported with
25 respect to Winnipeg river generation, for example, are

1 based on amortized original costs, notwithstanding
2 general and specific inflation since.

3 Consideration has not been given to
4 developing costs for the purposes of determining revenue
5 requirement on the basis of replacement costs or any
6 inflated version of capital cost. The Board notes,
7 however, Manitoba Hydro's rebuttal evidence on page four
8 (4) where this matter is referred to.

9 Thus under the current system for all four
10 (4) models placed before the Board in this application,
11 cost used to develop revenue requirement are much lower
12 than would be the case if generation, transmission and
13 distribution plant and equipment values were updated to
14 reflect current replacement cost. And under the current
15 rate setting model the development of revenue requirement
16 by customer class accepts and acknowledges the
17 legislatively based uniform rate approach.

18 So far the determination of customer class
19 does not distinguish between current and future customers
20 or recognition of major electricity usage expansion by
21 existing customers. No use has been made to date of
22 concepts that distinguish between so called legacy
23 customers and new customers based on demand or some other
24 factor or factors.

25 The allocation of costs and revenues when

1 export sales objectives represent 40 percent total
2 generation needs to be explored. Hydro has suggested
3 that the allocation of net export benefit may require a
4 different approach to the historic allocation of
5 generation transmission and other costs.

6 Finally, under whatever cost of service
7 methodology that may in the end be accepted for us going
8 forward there is the concept of zone of reasonableness.

9 The concept of zone of reasonableness is
10 that the revenue to cost ratio of each customer class
11 should fall within a range, for example, plus or minus 5
12 percent associated with unity, being unity being one (1)
13 to one (1) ratio of class revenue to allocated costs by
14 customer class.

15 The review of the cost of service
16 methodology may also involve discussions and positions
17 with respect to whether a particular zone of
18 reasonableness should be confirmed and if so, how or if
19 all customer classes should move over a period of time to
20 be within the zone of reasonableness.

21 The challenge before the Board is to first
22 determine which of the four (4) cost of service
23 methodologies or perhaps some other variation best
24 accomplishes the objective of fairly allocating cost to
25 the various customer classes and whether the classes

1 adopted, rates may eventually be set or impacted
2 employing different methodologies than those used to
3 date.

4 I now call on Mr. Bob Peters, Board
5 Counsel, to make his opening comments, provide an outline
6 of proceedings, including expected hearing dates and
7 time, and introduce Board Advisors and provide some
8 preliminary exhibits.

9 Mr. Peters...?

10 MR. BOB PETERS: Good morning and thank
11 you, Mr. Chairman. Good morning, Board Member Mr. Vice-
12 Chairman Mayer, Board Member Dr. Avery-Kinew and Board
13 Member Dr. Evans.

14 Ladies and Gentlemen, for the record, my
15 name is Bob Peters and I will act as counsel to the
16 Public Utilities Board in this matter. I am assisted in
17 this cost of service methodology review for Manitoba
18 Hydro by Mr. Brent McLean, FCA, presently of Price
19 Waterhouse Coopers LLP, seated to my left, and Mr. Larry
20 Buhr, professional engineer of LAB Consulting, seated to
21 my right.

22 Mr. Chairman, Members of the Board, today
23 we are commencing a public hearing process to examine the
24 cost of service methodology proposed by Manitoba Hydro.
25 As you noted, Mr. Chairman, this is not a general rate

1 application and Manitoba Hydro is not requesting any
2 change to current sales rates as a result of this
3 process.

4 Ultimately, at the conclusion of this
5 Hearing, I expect the Board will issue an order or
6 perhaps orders directing Manitoba Hydro with respect to
7 cost of service methodology to use in future cost of
8 service studies.

9 The Board's decisions with respect to cost
10 of service methodology may or may not have an impact on
11 future rate applications and/or rate decisions. Specific
12 rates, if any, resulting from any changes in the cost of
13 service methodology will be dealt with in future general
14 rate hearings.

15 The evidence filed by Manitoba Hydro in
16 support of this application as well as the evidence filed
17 by Intervenors indicates that the purpose of a cost of
18 service study is to allocate the Utility's embedded costs
19 to classes of customers being served by the Utility and
20 to help determine a fair sharing of the Utility's revenue
21 requirement amongst those customer classes.

22 The central aim of this hearing process
23 may therefore be to determine if Manitoba Hydro's
24 proposed cost of service methodology or some variations
25 fairly allocate costs based on known customer

1 characteristics which reflect cost causation.

2 The evidence further indicates that
3 Manitoba Hydro's 2006 Prospective Cost of Service Study,
4 the subject of this hearing -- and I'll refer to it as
5 the PCOSS-06 or some other acronym that I'm sure everyone
6 will -- will soon learn, it's an embedded cost of service
7 study where the unit costs represent the average to serve
8 customer classes based on historic costs.

9 The costs allocated in the PCOSS 06 are
10 forecasted costs for the fiscal year ending March 31,
11 2006, taken from the integrated financial forecast, or
12 what we also call the IFF, which was prepared for the
13 fiscal years 2004/'05 to 2014/'15, and that was know as
14 the IFF 04. That was prepared in October of 2004, and
15 those costs are adjusted as required for cost of purp --
16 cost of service studies, and we'll deal with that in our
17 questions of the witness.

18 It should also be noted that Manitoba
19 Hydro has also filed an updated IFF, and that was IFF 05.
20 It was initially filed with GRA material, and that GRA
21 material was later withdrawn by Manitoba Hydro. But the
22 Cost of Service Study that we are going to be looking at
23 is based on IFF 04.

24 The end results of a cost of service study
25 indicate the degree to which individual customer classes

1 or subclasses pay for their allocated costs through
2 rates. The results of a cost of service study can be
3 used as one (1) tool in the design of rates and, as I
4 previously stated, rate changes, if any, are generally
5 considered separate and apart from cost of service
6 methodology processes.

7 The evidence filed by Manitoba Hydro
8 indicates that the allocation of costs is approximate and
9 that although the Cost of Service Study appears to be
10 exact, there is in, fact, much judgment involved. The
11 evidence also indicates that because every utility is
12 unique, cost allocation techniques can be different by
13 each utility.

14 Although some may hold that there is no
15 right or wrong way to allocate costs, the fundamental
16 objective appears to be to select a cost allocation
17 method that best reflects the cost causation and an
18 equitable sharing of the costs.

19 The primary objective of this Hearing will
20 be to test the evidence and determine if Manitoba Hydro's
21 recommended cost of service study methodology does, in
22 fact, reflect cost causation and does result in an
23 equitable sharing of costs between all customer classes.

24 By way of a brief -- a brief background,
25 Manitoba Hydro has conducted embedded cost of service

1 studies since the mid-1970's and although there have been
2 changes to allocation methodologies over those years
3 those changes have been related mostly to availability
4 and better information such as customer load data and
5 load factors.

6 The key features of Manitoba Hydro's cost
7 of service study -- the key features of Manitoba Hydro's
8 cost of service study methodology have remained
9 relatively constant over the years.

10 As you noted, Mr. Chairman, the key issue
11 that appears to be driving Manitoba Hydro's request to
12 change the current cost of service methodology is the
13 increasing significance of export revenue and the
14 resulting impact of allocating net export revenue to
15 domestic customer classes.

16 The Board will hear extensive evidence
17 with respect to how much and how export revenue has
18 increased over recent years. And it will hear evidence
19 around the key issues in this application which will
20 include the creation of one (1) or more export classes of
21 customer, how costs should be directly or indirectly
22 assigned to export class or classes and how the resulting
23 net export benefit; that is the net export revenue
24 benefit, should be allocated to the domestic customer
25 classes.

1 In terms of regulatory history, following
2 the Manitoba Hydro status update hearing in 2002 the
3 Board issued Order 7 of '03 which denied Manitoba Hydro's
4 then requested change in the method of allocating net
5 export revenue but directed Manitoba Hydro to carry out a
6 study of generation cost classification techniques.

7 To do that Manitoba Hydro engaged NERA,
8 the National Economic Research Associates firm you
9 referred to, Mr. Chairman, to conduct the study and that
10 was subsequently submitted to the Board as part of
11 Manitoba Hydro's 2004/'05 General Rate Application.

12 The NERA study recommended a number of
13 significant changes to Manitoba Hydro's cost of service
14 study. Most notably, one (1) was the generation costs
15 would be classified and allocated on the basis of time
16 differentiated marginal costs.

17 Secondly, line specific classification for
18 transmission costs.

19 Thirdly, costs were to be separately -- of
20 separately allocated to an export class.

21 Fourthly, net export revenue would be
22 credited to domestic customers based on total allocated
23 costs rather than only generation and transmission costs.

24 Well, during that 2004/'05 GRA it's my
25 recollection that Manitoba Hydro took the position that

1 the NERA report required more study and, therefore,
2 Manitoba Hydro did not recommend implementation of the
3 NERA recommendations at that time.

4 In Board Orders 101 of '04 and 143 of '04
5 which resulted from the 2004/2005 GRA the Board directed
6 that Manitoba Hydro file four (4) different cost of
7 service studies.

8 Those different cost of service studies
9 were; firstly, the current methodology used that was
10 currently approved by the board; secondly, the NERA
11 methodology, if I can refer to it as that; thirdly,
12 generation vintaging methodology; and fourthly the Board
13 wanted to see Manitoba Hydro's preferred or recommended
14 methodology.

15 In response to those directives Manitoba
16 Hydro filed the base summary information without any
17 detailed supporting information in February of '05. And
18 at that time it's my recollection Manitoba Hydro's
19 preference was to adopt the NERA approach.

20 We then go to November 1st of 2005 and
21 Manitoba Hydro filed a 2006/'07 and 2007/'08 general rate
22 application seeking approval of rate schedules that would
23 incorporate average increases in consumers' rates of
24 approximately 2.5 percent, effective April 1st of 2006,
25 and a further 2 1/2 percent, effective April 1st, 2007.

1 Manitoba Hydro had previously declined to
2 apply for a 2.25 percent conditional rate increase to be
3 effective October 1st, 2005 which arose out of the
4 2004/'05 GRA and which rate -- conditional rate matter
5 was directed by the Board in Order 104 of '04 and 143 of
6 '04.

7 The materials filed by Manitoba Hydro in
8 support of the recently -- most recently filed GRA,
9 included four (4) versions of the PCOSS-06 and that was
10 in response to the Board's directives from Order 101/'04.

11 It appears that the NERA recommended
12 methodology for the PCOSS-06 differed from the material
13 filed in 2004 in perhaps two (2) significant ways.

14 First, the first charge against net export
15 revenue was applied to fund the uniform rate adjustment
16 that was directed by the Board in Order 101/'04 and as
17 you noted Mr. Chairmen was put into place through
18 legislation. The uniform rate adjustment is quantified
19 at \$16.8 million and was applied similarly in all four
20 (4) scenarios.

21 The second modification appears to be the
22 source data used to calculate the marginal cost
23 indicators for generation costs. In PCOSS-04
24 commercially available Platts data was used and in PCOSS-
25 06 inflation adjusted surplus energy program information

1 for the period January 1, '99 to October 4th, 2005 was
2 used.

3 In 2004 Manitoba Hydro adopted the NERA
4 method as a preferred methodology, but, in the current
5 filing Manitoba Hydro's rec -- recommended method
6 modifies the NERA approach by creating two (2) classes of
7 export customers; one (1) for firm customer and one (1)
8 for what is defined as opportunity export customers.

9 And Manitoba Hydro directly assigns only
10 the variable costs or a portion of variable costs to the
11 opportunity export class with no direct assignment of
12 costs to the firm export class.

13 Now, subsequent to the November 2005
14 filing of the GRA which was later withdrawn by Manitoba
15 Hydro at a time when net income expectations for '05/'06
16 were rising, the Board determined that the cost of
17 service methodology should be considered separate and
18 apart from the GRA. And the Board directed a separate
19 public Hearing process which brings us here today to deal
20 with cost of service methodology issues.

21 Well, Mr. Chairman and Members of the
22 Panel, it is said by those that the devil is in the
23 detail and over the next several weeks you were hear
24 evidence and cross-examination with respect to a number
25 of complex issues which is, the very nature of the Cost

1 of Service Study.

2 Mr. Chairman, as you noted in your opening
3 comments at least on two (2) occasions this Hearing will
4 involve complex matters and I will take the liberty on
5 behalf of all counsel present and all representatives and
6 go so far as to say the witnesses that will appear before
7 you, that it is our hope that when the Board or Board
8 Panel Members require clarification at any time, it will
9 be requested.

10 I'm sure Counsel and the witnesses would
11 like to help make sure that the Panel Members understand
12 the points that are being described in the evidence and
13 if there are any -- any concerns they would like to
14 address them as soon as possible.

15 Now, there are a lot of numbers. There
16 are a lot of allocation methodologies and a lot of
17 detail. But, I'm going to suggest that at the end of the
18 day there are likely four (4) key issues for the Board to
19 consider.

20 And first would be, whether there should
21 be one (1) export customer class as utilized by NERA or
22 two (2) export customer classes as recommended by
23 Manitoba Hydro or perhaps some other number of export
24 classes recognizing that presently there is no defined
25 export class.

1 Secondly, what costs should be directly or
2 indirectly assigned or allocated to the export class or
3 classes, will be a matter of debate.

4 And thirdly, and not insignificantly, how
5 should the resulting net export revenue benefit be
6 credited or allocated to the domestic customer classes?
7 That is an issue that has been before the Board on a
8 number of occasions and it is going to be before the
9 Board in this Application, as well.

10 And then fourthly, to what degree should
11 the Cost of Service Study that results from this review
12 drive further rate decisions? And while this last issue
13 is of obvious interest to all Intervenors and consumers,
14 the final answer to this issue may have to wait for a
15 specific rate application by Manitoba Hydro.

16 And although these four (4) issues will
17 likely receive the greatest amount of air time and have
18 the potential to have the greatest effect on the cost of
19 service results, there are a number of other issues that
20 also need to be examined.

21 And I've prepared a bit of a laundry list
22 of those and, in no particular order of importance, those
23 would include:

24 The use of embedded costs versus marginal
25 costs.

1 The relevance, if any, on other cost
2 considerations such as replacement cost, inflation
3 adjusted cost.

4 Thirdly, other changes to the
5 functionalization, classification and allocation of
6 costs.

7 Fourthly, the key differences between the
8 NERA, the generation vintaging and the recommended
9 methodology.

10 Fifthly, the use of the surplus energy
11 program rates as a proxy for marginal costs.

12 Sixth, the treatment of deferred costs
13 such as planning studies and DSM and the impact those
14 have on the Cost of Service Study.

15 Seven, the treatment of mitigation costs.

16 Eighth, the impact both now and into the
17 future of Bill 11 and the uniform rate adjustment.

18 Ninthly, I've put down the water rental
19 calculations and the treatment of that cost.

20 Tenth, class consolidation considerations.

21 Eleven would be issues related to building
22 for export, both past, present and into the future.

23 Twelfth would be adjustment of demand and
24 energy charges.

25 Thirteen would include time of use rates.

1 Fourteen would be terms and conditions of
2 export contracts.

3 Fifteenth would be the treatment of costs
4 related to the Brandon and Selkirk thermal plants.

5 Sixteenth would be the treatment of
6 purchased power. And that would include wind, Wuskwatim
7 and imported power.

8 Seventeen would be the treatment of HVDC
9 transmission costs and losses.

10 And eighteenth, the power resource plan.

11 Those are matters that may be touched upon
12 and have some bearing and of interest to the Board.
13 Those will all be reviewed through the cross-examinations
14 and the evidence of the witnesses.

15 Mr. Chairman, one (1) of the points that
16 you asked me to bring forward were the exhibits and with
17 the able assistance of the Board staff a draft exhibit
18 list has been prepared. And I would like to take this
19 opportunity on behalf of all the parties here to suggest
20 that the exhibit list as drafted be accepted.

21 And, for the record, I would like to just
22 indicate that Exhibit 1, PUB-1, would be the application
23 by Manitoba Hydro dated November 10th.

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25 --- EXHIBIT NO. PUB-1: Notice of Application dated

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November 10, 2005.

MR. BOB PETERS: PUB-2 would be the draft time table.

--- EXHIBIT NO. PUB-2: Draft timetable.

MR. BOB PETERS: PUB-3 would be Order 160 of '05, which was a procedural order in this matter.

--- EXHIBIT NO. PUB-3: Order No. 160/'05 dated December 2, 2005 - procedural Order.

MR. BOB PETERS: PUB-4 was Order 172 of '05, again another procedural order and also one granting Intervenor status to CCEP.

--- EXHIBIT NO. PUB-4: Order No. 172/'05 dated December 22, 2005 establishing a Timetable and granting The Canadian Centre for Energy Policy Inc. (CCEP) Intervenor status.

1 MR. BOB PETERS: And Exhibits PUB/MH 5-1
2 through 5-47 would be the first round information
3 requests and responses asked by the Board to Manitoba
4 Hydro.

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6 --- EXHIBIT NO. PUB/MH-5-1 to 5-47: The Public Utilit
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23 MR. BOB PETERS: PUB/MH Exhibit 6-1
24 through 6-35 would be the second round information
25 requests posed on behalf of the Public Utilities Board

1 and the responses by Manitoba Hydro.

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3 --- EXHIBIT NO. PUB/MH-6-1 to 6-35: The Public Utilit
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18 Round.

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20 MR. BOB PETERS: PUB/CAC/MSOS 7-1 through
21 7-23 would -- would be to correspond with the questions
22 and -- the questions of CAC/MSOS's expert and the
23 responses provided to the IR's on behalf of the Board.

24

25 --- EXHIBIT NO. PUB/CAC/MSOS-7-1 to 7-23: The Public

1 Utilities Board's Information
2 Request and Consumers'
3 Association of Canada
4 (Manitoba) Inc./Manitoba
5 Society of Seniors' Response.
6

7 MR. BOB PETERS: Exhibit PUB/MIPUG 8.1 to
8 8.8, again would reflect questions posed on behalf of the
9 Board to the MIPUG witnesses.
10

11 --- EXHIBIT NO. PUB/MIPUG-8-1 to 8-16: The Public
12 Utilities Board's Information
13 Request and Manitoba
14 Industrial Power Users
15 Group's Response.
16

17 MR. BOB PETERS: And PUB/RCM/TREE 9-1 to
18 9-9 would reflect questions of behalf of the Board posed
19 to the witness on behalf of RCM and TREE.
20

21 --- EXHIBIT NO. PUB/RCM/TREE-9-1 to 9-8: The Public
22 Utilities Board's Information
23 Request and Earth's
24 Ecosystems and Resource
25 Conservation Manitoba's

1 Response.

2

3 MR. BOB PETERS: Taking the liberty of
4 going to Manitoba Hydro's exhibits, Exhibit MH-1 would be
5 the letter of application to the Board, which contain
6 Volumes 1, 2 and 3.

7

8 --- EXHIBIT NO. MH-1: Letter dated November 1, 2005
9 from Manitoba Hydro to the
10 Board - Application (Volume
11 1,2 and 3).

12

13 MR. BOB PETERS: MH-2 would be a letter
14 of November 14th, enclosing the volumes that were filed
15 with the Board.

16

17 --- EXHIBIT NO. MH-2: Letter dated November 14,
18 2005 from Manitoba Hydro to
19 Interested Parties enclosing
20 Volumes 1,2 and 3.

21

22 MR. BOB PETERS: Exhibit MH-3 would be
23 the affidavit of publication of November 10th notice.

24

25 --- EXHIBIT NO. MH-3: Affidavit of Publication of

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November 10, 2005 Notice.

MR. BOB PETERS: MH-4 would be rebuttal evidence.

--- EXHIBIT NO. MH-4: Rebuttal evidence.

MR. BOB PETERS: MH/CAC/MSOS 5-1 through 5-3 would be Manitoba Hydro's information requests and responses from CAC-MSOS witnesses.

--- EXHIBIT NO. MH-5-1 to 5-3: Manitoba Hydro's Information Request and Consumers' Association of Canada (Manitoba) /Manitoba Society of Seniors' Response.

MR. BOB PETERS: Exhibit MH/MIPUG 6-1 through 6-19 would reflect the questions posed by Manitoba Hydro and the answers provided by the MIPUG witnesses.

--- EXHIBIT NO. MH/MIPUG-6-1 to 6-19: Manitoba Hydro's Information Request and Manitoba Industrial Power

1 Users Group's Response.

2

3 MR. BOB PETERS: MH/RCM/TREE 7-1 to 7-8
4 would be Manitoba Hydro's information requests of that
5 Intervenor and the responses.

6

7 --- EXHIBIT NO. MH/RCM/TREE-7-1 to 7-8: Manitoba
8 Hydro's Information Request
9 and Earth's Ecosystems and
10 Resource Conservation
11 Manitoba's Response.

12

13 MR. BOB PETERS: And a new exhibit that I
14 don't think is on the draft exhibit list that will be
15 available to all parties, would be Manitoba Hydro Exhibit
16 8 which would contain the CV's provided by Hydro's
17 counsel yesterday respecting the witnesses. And extra
18 copies of those would be made available if they're needed
19 this morning.

20

21 --- EXHIBIT NO. MH-8 Resumes of Vince Warden,
22 Robin Wiens, Chic Thomas, and
23 Harold Surminski.

24

25 MR. BOB PETERS: In turning to exhibits

1 on behalf of CAC/MSOS briefly, the first exhibit for that
2 Intervenor would be the evidence of Mr. Harper, their
3 witness.

4

5 --- EXHIBIT NO. CAC/MSOS-1: Evidence of Mr. William
6 Harper, Econalysis Consulting
7 Services dated March 16,
8 2006.

9

10 MR. BOB PETERS: And Exhibit
11 CAC/MSOS/MH2-1 through 2-23 would be their first round
12 questions of Manitoba Hydro.

13

14 --- EXHIBIT NO. CAC/MSOS/MH-2-1 to 2-23: Consumers'
15 Association of Canada
16 (Manitoba) Inc./Manitoba
17 Society of Seniors of
18 Manitoba Hydro and response
19 First Round.

20

21 MR. BOB PETERS: Exhibit CAC/MSOS/MH 3-1
22 to 3-39 would be that Intervenor's questions of Manitoba
23 Hydro and the responses to the second round questions by
24 the Utility.

25

1 --- EXHIBIT NO. CAC/MSOS/MH-3-1 to 3-39: Consumers'
2 Association of Canada
3 (Manitoba) Inc./Manitoba
4 Society of Seniors of
5 Manitoba Hydro and response
6 Second Round.

7
8 MR. BOB PETERS: CAC/MSOS/MIPUG 4-1 to 4-
9 13 are the CAC/MSOS questions of their fellow Intervenor,
10 MIPUG, and the responses.

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12 --- EXHIBIT NO. CAC/MSOS/MIPUG-4-1 to 4-13: Consumers'
13 Association of Canada
14 (Manitoba) Inc./Manitoba
15 Society of Seniors of
16 Manitoba Industrial Power
17 User Group and response.

18
19 MR. BOB PETERS: CAC/MSOS/TREE/RCM would
20 be the Exhibit 5.1 to 5.10 to represent questions asked
21 on behalf of CAC/MSOS to RCM and TREE.

22
23 --- EXHIBIT NO. CAC/MSOS/TREE/RCM-5-1 to 5-10:
24 Consumers' Association of
25 Canada (Manitoba) Inc./

1 Manitoba Society of Seniors
2 of Resource Conservation
3 Manitoba/Time to Respect
4 Earth's Ecosystem Inc.
5

6 MR. BOB PETERS: Turning to the MIPUG
7 exhibits, the Exhibit MIPUG 1 would be the evidence of
8 Mr. Bowman and Mr. McLaren dated March 16th.
9

10 --- EXHIBIT NO. MIPUG-1: Evidence of P. Bowman and A.
11 McLaren dated March 16, 2006.
12

13 MR. BOB PETERS: Exhibit MIPUG/Manitoba
14 Hydro 2-1 through 2-16 would be the first round questions
15 asked by that Intervenor and the responses by Manitoba
16 Hydro.
17

18 --- EXHIBIT NO. MIPUG/MH-2-1 to 2-16: Manitoba
19 Industrial Power Users'
20 Group's Information Requests
21 of Manitoba Hydro and
22 responses First Round.
23

24 MR. BOB PETERS: Exhibit MIPUG/MH 3-1 to
25 3-7 would be the second round Information Requests posed

1 by that Intervenor and the responses by the Utility.

2

3 --- EXHIBIT NO. MIPUG/MH-3-1 to 3-7: Manitoba
4 Industrial Power Users'
5 Group's Information Requests
6 of Manitoba Hydro and
7 responses Second Round.

8

9 MR. BOB PETERS: MIPUG/CAC/MSOS 4-1
10 through 4-6 would be the questions posed by MIPUG of
11 CAC/MSOS and the responses by CAC/MSOS.

12

13 --- EXHIBIT NO. MIPUG/CAC/MSOS-4-1 to 4-6: Manitoba
14 Industrial Power Users'
15 Group's Information Requests
16 of Consumers' Association of
17 Canada (Manitoba)
18 Inc./Manitoba Society of
19 Seniors and responses.

20

21 MR. BOB PETERS: Exhibit MIPUG/RCM/TREE
22 5.1 to 5.7 would be the questions asked by MIPUG of the
23 TREE witness, Mr. Lazar, and his answers.

24

25 --- EXHIBIT NO. MIPUG/RCM/TREE-5-1 to 5-7: Manitoba

1 Industrial Power Users'
2 Group's Informational
3 Requests of Resource
4 Conservation Manitoba/Time to
5 Respect Earth's Ecosystem
6 Inc.'s and responses
7

8 MR. BOB PETERS: Turning to, I'll say
9 this once and Mr. Anderson will help me, Manitoba
10 Keewatinowi Okimakanak Inc. which heretofore will be MKO
11 and there exhibit -- MKO/MH 1-1 to 1-10 will be the
12 information asked by MKO of Manitoba Hydro and the
13 answers which came during the second round process.
14

15 --- EXHIBIT NO. MKO/MH 1-1 to 1-10: MKO/MH 1-1 to 1-10
16 Manitoba Keewatinook Ininew
17 Okimowin/Natural Resources
18 Secretariat's Information
19 Requests of Manitoba Hydro -
20 Second Round.
21

22 MR. BOB PETERS: Resource Conservation
23 Manitoba and Time to Respect Earth's Ecosystems Inc. have
24 as their first exhibit RCM/TREE 1 would be the evidence
25 of Mr. Jim Lazar dated March 15th.

1 --- EXHIBIT NO. RCM/TREE-1: Evidence of Jim Lazar dated
2 March 15, 2006.

3

4 MR. BOB PETERS: Their second exhibit
5 would be RCM/TREE/MH 2-1 to 2-23 representing the first
6 round questions posed to Manitoba Hydro and the
7 responses.

8

9 --- EXHIBIT NO. RCM/TREE/MH-2-1 to 2-23: Resource
10 Conservation Manitoba/ Time
11 to Respect Earth's Ecosystem
12 Inc.'s Information Request of
13 Manitoba Hydro and response
14 First Round.

15

16 MR. BOB PETERS: Exhibit RCM/TREE/MH 3-1
17 to 3-21 are the second round questions from this
18 Intervenor of the Utility and the Utility's answers.

19

20 --- EXHIBIT NO. RCM/TREE/MH-3-1 to 3-21: Resource
21 Conservation Manitoba/Time to
22 Respect Earth's Ecosystem
23 Inc.'s Information Request of
24 Manitoba Hydro and response
25 Second Round.

1 MR. BOB PETERS: I then have
2 RCM/TREE/MIPUG 4-1 to 4-6 representing questions of
3 RCM/TREE of the MIPUG witnesses and their responses.

4
5 --- EXHIBIT NO. RCM/TREE/MIPUG-4-1 to 4-6: Resource
6 Conservation Manitoba/Time to
7 Respect Earth's Ecosystem
8 Inc.'s Information Request
9 and Manitoba Industrial Power
10 Users Group's Response.

11
12 MR. BOB PETERS: And then
13 RCM/TREE/CAC/MSOS 5-1 would represent the questions posed
14 to CAC/MSOS.

15
16 --- EXHIBIT NO. RCM/TREE/CAC/MSOS-5-1: Resource
17 Conservation Manitoba/Time to
18 Respect Earth's Ecosystem
19 Inc.'s Information Requests
20 and Consumers' Association of
21 Canada (Manitoba)
22 Inc./Manitoba Society of
23 Seniors and response.

24
25 MR. BOB PETERS: Turning to the City of

1 Winnipeg's exhibits, Exhibit City/MH 1-1 through 1-9
2 would be first round information requests.

3

4 --- EXHIBIT NO. CITY/MH-1-1 to 1-9: City of Winnipeg's
5 Information Requests of
6 Manitoba Hydro and responses
7 First Round.

8

9 MR. BOB PETERS: And Exhibit City/MH 2-1
10 through 2-2 would be the second round information
11 requests by the City of Winnipeg to Manitoba Hydro and
12 their responses.

13

14 --- EXHIBIT NO. CITY/MH-2-1 to 2-2: City of Winnipeg's
15 Information Requests of
16 Manitoba Hydro and responses
17 Second Round.

18

19 MR. BOB PETERS: If I have missed any I'm
20 sure my colleagues will pick them up either during their
21 comments or later today.

22 THE CHAIRPERSON: Thank you, Mr. Peters.
23 The exhibits are entered.

24 MR. BOB PETERS: I appreciate that. I'd
25 like to turn, if I could, to the procedures that are

1 going to be proposed to be followed.

2 In terms of sitting times, Mr. Chairman
3 and Board Members and ladies and gentlemen, it's my
4 understanding the Board's intention is to from 9:00 a.m.
5 to approximately noon each day and then to resume at 1:30
6 to approximately four o'clock each afternoon, with the
7 appropriate mid-morning and mid-afternoon breaks.

8 Perhaps I should indicate that if the
9 sledding gets tough and more breaks are needed to digest
10 it, I'm sure Counsel would be willing and pleased to
11 cooperate as would the witnesses. And if there are any
12 questions that follow from the Board's breaks that need
13 clarification the witnesses again would be pleased to
14 hear from the Board.

15 The sitting days, Mr. Chairman and Board
16 Members, will be today and tomorrow, which is May 4th and
17 5th. We also plan to sit next week on Monday, Tuesday
18 and Wednesday that's May the 8th to 10th. Although on
19 Tuesday due to a prior commitment we will be adjourning
20 at approximately 3:00 in the afternoon.

21 And then following a week off, then we
22 would reassemble on Tuesday, Wednesday, Thursday and
23 Friday, that is May 23rd to 26th and then also on Monday,
24 May the 29th. We also need at least one more date and
25 we're attempting to finalize that Mr. Chairman, Board

1 Members, ladies and gentlemen, to make sure that we have
2 enough days set for not only the evidence but also the
3 closing arguments. And it's hoped that these dates will
4 afford us that opportunity.

5 Prior to today, I believe, I had
6 circulated to all the parties a copy of the outline of
7 procedures. And if people have that document at hand,
8 what is proposed is that following my opening comments,
9 the Intervenors would be asked for their opening
10 comments.

11 And in terms of welcomes before the Board,
12 I think Myfanwy Bowman is here, I know assisting with Mr.
13 Williams on behalf of CAC/MSOS and while she has made
14 cameo appearances before the Board previously, this would
15 be her first opportunity to appear on a longer period and
16 we welcome her here.

17 Mr. Buhr, although has been at the pre-
18 hearing conference but also likewise he is here on behalf
19 of the City of Winnipeg and we welcome him.

20 Following the list of Intervenors -- they
21 are put in a loose alphabetical order by myself, as a
22 suggested order in which we would proceed. It is not
23 uncommon for the Intervenors to talk amongst themselves
24 to find out how efficiently they can proceed and to
25 maximize the efficiency of the process so there may be a

1 slight alterations as we occur.

2 Following opening comments from the
3 Intervenor, I would suggest turning to Manitoba Hydro's
4 Counsel, Ms. Ramage and Ms. Fernandez for any opening
5 comments. They will want to introduce their panel of
6 witnesses this morning and they may have opening comments
7 from the witnesses. Once the witnesses have been sworn,
8 they would be open for direct examination by Hydro
9 Counsel and then cross-examination starting with myself
10 followed by the Intervenor.

11 We then envision CAC's witness providing
12 testimony, followed by the witness on behalf of RCM/TREE,
13 followed by the MIPUG witnesses.

14 In a perhaps ill-fated, as time will prove
15 effort, I have put on blue paper a calendar month of May
16 and it's blue only that people can find it and locate it.
17 Maybe it will be discarded quicker than it took to
18 prepare it.

19 But, in the time that the Board had
20 indicated availability and in speaking with Counsel, I've
21 attempted to reflect our best estimate as to how time
22 will unfold before the Board. And we will endeavour to
23 finish in the time allotted and to do that we have the
24 timeline set out on the calendar months, with the
25 exception of the closing argument date for Manitoba

1 Hydro.

2 The Board will recall that in prior
3 occasions Manitoba Hydro has requested an opportunity to
4 hear the Intervenors on one (1) day to then provide their
5 closing comments on a subsequent day, hopefully with some
6 time intervening so they can streamline their closing
7 comments, address the issues that they have to and be
8 more responsive to the issues; additional time does
9 afford them that.

10 So, we do need to fit Manitoba Hydro's
11 closing argument date in and we'll do that during the
12 course of the Hearing as availabilities become known. It
13 should be noted that on Tuesday, May the 9th there's a
14 tentative expectation that presenters from MIPUG will
15 attend and make a presentation to the Board at
16 approximately 1:30 p.m., that day; that is after the
17 lunch recess.

18 While we have slotted in the witnesses on
19 behalf of CAC on behalf of TREE and also MIPUG, there is
20 some flexibility, but less flexibility with the witness
21 from TREE/RCM who has a commitment on the 24th of May and
22 can be in Winnipeg and plans to be in Winnipeg on the
23 25th, and we're hoping to use that day and planning to
24 use that day for his evidence.

25

1 (BRIEF PAUSE)

2

3 Mr. Chairman, I think the --

4 MR. ROBERT MAYER: Excuse me, Bob.

5 MR. BOB PETERS: Yeah.

6 MR. ROBERT MAYER: You say MIPUG is
7 presenting when?

8 MR. BOB PETERS: May the 9th. Tuesday,
9 May the 9th, at 1:30.

10 MR. ROBERT MAYER: Thank you.

11 MR. BOB PETERS: Ms. McCaffrey may have
12 more details on that or they still may be tentative but
13 the expectation is that -- that that date will work the
14 best.

15 So with those comments and subject to any
16 further questions the Board or Board Members may have,
17 those will conclude my opening comments.

18 I will suggest, Mr. Chairman, that you
19 turn to the outline of procedures and seek opening
20 comments from the intervenors, followed by Manitoba
21 Hydro, followed by their witnesses to be sworn, and then
22 their direct evidence and cross-examination.

23 Thank you, Mr. Chairman.

24 THE CHAIRPERSON: Thank you, Mr. Peters.
25 So we'll move now to opening comments by the intervenors.

1 And we'll start with Mr. Williams and Ms. Bowman for
2 CMC/MSOS.

3

4 OPENING COMMENTS BY MR. BYRON WILLIAMS:

5 MR. BYRON WILLIAMS: Thank you. And good
6 morning, Mr. Chairman and Members of the Board. And I
7 want to thank Mr. Peters for his brief comments. And I
8 do appreciate the assistance that he provided in entering
9 our exhibits because that's often something that we
10 sometimes forget to do as Intervenors.

11 As you know, my name is Byron Williams.
12 I'm an attorney with the Public Interest Law Centre.
13 With me is my colleague Ms. Myfanwy Bowman who is waiting
14 with bated breath for her first opportunity to appear
15 before this Tribunal.

16 I want you to know, you can expect to see
17 during the course of this hearing Ms. Gloria Desorcy, the
18 Executive Director of the Consumers Association, as well
19 as Ms. Laurie Hunter (phonetic), the Executive Director
20 of the Society of Seniors.

21 I can assure you that we've spent the
22 better part of two (2) days already briefing them on the
23 complex issues that -- that are raised in this proceeding
24 and perhaps it was the fear of having them raised again
25 that led them not to appear this morning.

1 The -- my colleague Ms. Bowman, after
2 hearing Mr. Peters' brief laundry list of eighteen (18)
3 ancillary issues may also be having second thoughts about
4 her enthusiasm for appearing before this Tribunal.

5 I'm sure you're aware that the members of
6 CAC/MSOS are drawn in large proportion from the ranks of
7 the residential class of consumers. And I'm also sure
8 you're aware that that comprises some -- more than four
9 hundred thousand (400,000) consumers within Manitoba.

10 And that that class of consumers rivals
11 general service large in terms of being as a class the
12 largest user of energy in the Province, and in fact far
13 surpasses any other class in terms of the actual
14 contribution to the revenues of Manitoba Hydro; that
15 contribution being in the range 400 million.

16 What I'm not sure, whether or not you're
17 aware of, is the weight that is given to your decisions
18 and the fact that when your decisions are released, your
19 pronouncements are reviewed with almost religious fervour
20 by that small but select group of Canadians who consider
21 themselves Public Utility Board disciples or devotees.

22 When those decisions come out every one of
23 those words is carefully parsed. Every single nuance is
24 endlessly analysed by the Robin Wienses and the Bob
25 Peters and the Patrick Bowmans and the Bill Harpers of

1 the world. They're all looking for that special insight
2 into rate design or cost allocation that will turn the
3 regulatory world on its head.

4 It's with some regret that I have to tell
5 you that I do not rank myself among that elite cadre of
6 PUB devotees. While I am very supportive of the
7 important role that the Tribunal plays in maintaining a
8 principled and robust regulatory environment, I
9 respectfully decline to burn the midnight oil when those
10 PUB decisions arrive hot off the regulatory presses.

11 While I sometimes yearn for the wistful
12 fervour of my young friend, Mr. Bowman, I can tell you
13 that the one advantage of my regulatory sloth is that
14 when I do turn my belated attention to your decisions and
15 to the wise pronouncements of the Board, I do so with
16 fresh eyes; eyes unblemished by too many regulatory
17 bedtime stories.

18 And that's what I did last night when I at
19 least turned my attention to the Board's findings
20 regarding cost of service set out in Board Order 143/'04
21 from November of 2004.

22 And when I reviewed the Board's findings I
23 was struck by its forceful language. In the Board's
24 view, the cost of service methodology is in a current
25 state of flux and it was imperative that further analysis

1 be completed before a cost methodology -- COSS
2 methodology could be established.

3 In the Board's view this was a significant
4 matter to be completed before the next general rate
5 application. 'State of flux', 'significant',
6 'imperative'; these are strong words from a regulator.
7 And I want to tell you, on behalf of my clients, many of
8 whom struggle on a day-to-day to meet their and pay their
9 utility bills on a fixed income, that they could not
10 agree with you more in terms of the significance of the
11 issue before the Board.

12 In my clients' respectful view, the
13 central issue before you in this proceeding is how to
14 address the fact that the financial world of Manitoba
15 Hydro has fundamentally changed. And the fundamental
16 fact that has changed is the simple economics of the
17 export market as compared to the domestic market.

18 Gone are the days when we could
19 confidently say that an increase in domestic usage would
20 confer a net financial benefit on the system as a whole,
21 by replacing less lucrative export sales.

22 Today, the fact is, that from a financial
23 perspective the system benefits more, on average, from
24 the sale of a kilowatt hour for export than it does from
25 the sale of a kilowatt hour for domestic consumption.

1 Not all kilowatt hours are created equal.

2 And from a financial perspective the
3 system benefits, on average, more from the sale of an
4 export kilowatt hour. This simple but fundamental truth
5 does not change the mandate of the corporation as set out
6 in Section 2 of the act, what it does do is raise
7 fundamental questions about how we look at the questions
8 of costs and cost causality.

9 And it raises fundamental questions about
10 the analytical sustainability of our current cost of
11 service methodology. A current methodology which
12 effectively rewards those who increase domestic usage by
13 giving them a greater share of export revenues,
14 notwithstanding the fact that the increase in domestic
15 usage is effectively taking money out of the pockets of
16 other consumers by replacing more lucrative export sales.

17 So how does one address a fundamental
18 change in financial circumstances? How does one bring
19 order to a methodology currently in a state of flux?

20 One approach might be to hide from that
21 reality, to stick zealously to the status quo, and to
22 claim that any deviation from the status quo is
23 unprecedented or, worse, unprincipled.

24 And I suspect you'll hear the word
25 'unprecedented' and 'unprincipled' a lot during the

1 course of this Hearing as the defenders of the status quo
2 fight a rear guard action to defend the indefensible.

3 And I suspect you may hear some talk about
4 anger and disillusionment, as those who benefit most from
5 the current system fight to keep what they have; that
6 would be expected and that would be natural.

7 On the other hand, I think you'll hear
8 many parties in this room argue that the current method
9 can no longer stand, either because it's unfair in that
10 it sends perverse cost causation signals, or that it is
11 inefficient in that the costs associated with the
12 generation and transmission, incurred by certain classes,
13 are far removed from long run marginal costs, and in the
14 case of at least one (1) class, perhaps even below short
15 run marginal costs.

16 In this time of flux, I suspect you may
17 also hear from other parties who may be asking the Board
18 to offer its opinions on matters which, at first, second
19 or third glance, may be beyond the scope of this
20 proceeding.

21 You may hear from experts, who after their
22 bad math is clarified, may raise the novel suggestion
23 that Manitoban's should pay more for their hydro electric
24 rates because other jurisdictions are using more fossil
25 fuels.

1 Faced with the bewildering array of
2 options from zealous defenders of the status quo, to
3 novel suggestions which may be beyond the scope of this
4 proceeding, it would not be surprising if the Board
5 reacted with a certain degree of cynicism.

6 After all, the problem of allocating
7 costs, especially when you're dealing with joint costs in
8 a highly integrated system, is already highly judgmental.
9 And when the stakes are as high as they are, being \$400
10 to \$500 million in terms of export revenues, the process
11 may be one which would seem to invite cynicism.

12 So how is the idealistic regulator, faced
13 with the challenge of achieving and maintaining a robust
14 regulatory balance, to react?

15 I'll leave that for my closing. But, I
16 can tell you how my clients, the Gloria Desorcy's and the
17 Laurie Hunters and the CAC/MSOS customers or members in
18 this proceeding, I'll tell you how they'll approach this
19 proceeding.

20 They will not start from a ground zero of
21 cynicism, instead they'll start from a highly realistic
22 appraisal of where cost of service methodologies rank or
23 fit within the full regulatory framework.

24 They'll recognize that cost of service is
25 an important part, but only part of the process of

1 arriving at a just and reasonable rate. And they'll
2 start with the recognition that, in the past, the current
3 system has served Manitobans fairly well.

4 The Province benefits to the tune of \$200
5 million in revenues that it garners from this
6 Corporation. Although many residential customers are
7 faced with price stress, and certainly there are far too
8 many disconnections in this process, by and large, I
9 think most residential customers would say that rates are
10 affordable.

11 And certainly our industrial customers
12 enjoy a tremendous competitive advantage compared to
13 other jurisdictions.

14 So my clients will start from the premise
15 that the current system has, in the past, worked not too
16 badly. Their approach will be grounded in the values of
17 economy and efficiency which are set out in section two
18 (2) of the statute, the Hydro Act.

19 And while they value stability and
20 predictability, their approach will also be premised on
21 the understanding that something fundamental has changed
22 in the dynamics of the Corporation.

23 And that recognition of this fundamental
24 change must be accompanied by a change in how we consider
25 the issue of cost causation, if the objectives of

1 fairness, efficiency and economy are to be truly
2 honoured.

3 In particular, my clients will focus on
4 the big ticket items raised in this proceeding. And I
5 can assure you that their list of issues is materially
6 shorter than that presented by My Friend, Mr. Peters.

7 First, should an export class be created
8 for the purposes of attempting to transparently and
9 fairly allocate some portion of embedded and variable
10 costs against export revenues.

11 If so, should this class recognize the
12 fundamental and basic distinction between firm and
13 opportunity sales in the -- for example, in the proposal
14 of Manitoba Hydro to have two (2) subclasses.

15 Finally, to the extent that net export
16 revenues exist to be allocated after the -- after the
17 allocation of some embedded and variable costs, are these
18 revenues better allocated amongst generation,
19 transmission and distribution costs, or should the status
20 quo be preserved.

21 My client certainly will be responsive to
22 the -- the issues raised by Mr. Peters in -- in the
23 course of this -- this hearing. They'll speak to the
24 issue of marginal cost versus embedded cost, versus
25 replacement cost. They will look at other questions such

1 as the classification of generation cost, and the degree
2 to which one might legitimately, directly assign certain
3 costs to the export class, without creating the pandora's
4 box of double-counting certain costs.

5 But the big three (3) items are the --
6 from my client's perspective, are the first three (3)
7 that I mentioned.

8 At the end of this proceeding my clients
9 will ask this Board to consider how best to take a
10 measured response to a fundamental change. They will ask
11 the Board to build upon the current strengths of the
12 system, while recognizing that a change has occurred.

13 Finally, my clients will remind the Board,
14 and other interesting -- other interested parties, who
15 are also interesting, that this is not a general rate
16 application and is not a hearing before a standing
17 committee of the Manitoba Legislature.

18 The central question before this Tribunal
19 is not whether the statute should be changed, it's not
20 whether a rate increase should be achieved or whether an
21 appropriate -- what is an appropriate level of reserves
22 for the Corporation. Those are for different hearings or
23 different forums.

24 The central question is how to -- how best
25 to fairly allocate the costs and revenues of the

1 Corporation in a manner that respects the obligations of
2 the legislation and which recognizes that a fundamental
3 change has occurred.

4 Thank you, Mr. Chairman and Members of the
5 Board.

6 THE CHAIRPERSON: Thank you, Mr.
7 Williams. We look forward to your participation.

8 Next up is the Canadian Centre for Energy
9 Policy, CCEP, Mr. Feldschmid.

10

11 OPENING COMMENTS BY MR. JURGEN FELDSCHMID:

12 MR. JURGEN FELDSCHMID: Yes. Thank you
13 very much, Mr. Chairman. Good morning to you and to the
14 Members of the Board.

15 My name is Jurgen Feldschmid. I am a
16 partner with Duboff Edwards Haight and Schachter LLP, and
17 I am counsel appearing on behalf of the Canadian Centre
18 for Energy Policy Inc., otherwise known as CCEP.

19 Many people in this room, if not all the
20 people in this room, will recall that CCEP was originally
21 the brainchild of the late Professor Costas Nicholaou,
22 professor of economics at the University of Manitoba.
23 CCEP was incorporated in 2001.

24 Among the objectives of CCEP are the
25 development, explanation and advocacy of policies to

1 promote economic development in the mitigation and
2 control of energy price fluctuations, uncertainty and
3 instability, and as well to promote community involvement
4 and informed decision making in energy policy matters.

5 In line with those objectives CCEP has
6 intervened in Manitoba rate hearings since 2002,
7 advocating on behalf of small commercial and non
8 residential ratepayers falling within the general service
9 small classification and to some extent the general
10 service medium classification, the customer
11 classifications in which the majority of the members of
12 CCEP fall.

13 Looking beyond the membership of CCEP
14 alone, however, these categories of ratepayers, together,
15 constitute something in the order of sixty thousand
16 (60,000) ratepayers across those two (2) classes
17 including -- or the two (2) subclasses of general service
18 small and -- and the medium class.

19 This will be the third intervention by
20 CCEP in a hydro hearing before this Board, the Public
21 Utilities Board.

22 The Board and other Intervenors may have
23 noticed, and the Utility may have noticed, that our
24 involvement in this particular hearing to date has been
25 somewhat limited than in the past and perhaps some people

1 are wondering why.

2 And I think, in a nutshell, and generally
3 speaking, it is because we like what we see in terms of
4 the methodological changes proposed by the utility in the
5 recommended cost of service study -- the recommended
6 methodology proposed on behalf of the Utility, generally,
7 and subject to certain caveats which we will explore
8 during the course of this Hearing, no doubt.

9 As suggested by Manitoba Hydro or -- or
10 members of the witness panel on behalf of Manitoba Hydro,
11 I think back in the 2004 general rate application, it has
12 come to pass that the results of the Cost of Service
13 Study are being, and continue to be disordered by high
14 export revenues based on market prices, which are then
15 set against historical embedded costs.

16 CCEP takes the position that, as I've
17 said, subject to certain questions and concerns that we
18 do have, that the preferred or recommended methodology
19 presented by Manitoba Hydro does go a long way toward
20 dealing with those problems.

21 Having said that, we draw the Board's
22 attention to the circumstance which does continue, that
23 when one considers all of the cost methods that are
24 presented in the evidence before the Board for this
25 hearing, whether it's the currently approved methodology,

1 the recommended methodology, the historical vintaging
2 methodology, or the NERA -- the pure NERA methodology, if
3 I may refer to it in that way, that general service
4 small, both demand and non-demand, continue to be --
5 continue to be significantly above the zone of
6 reasonableness.

7 And, in fact, if one were to employ the
8 current -- currently recommended methodological changes
9 recommended by Manitoba Hydro, general service small, and
10 particularly non-demand, is -- is -- is the highest of
11 the major sub-classes above the value of unity.

12 And one need look no farther than Volume
13 I, Tab 11 at page 6, where that is summarized by the --
14 by the utility in its application documentation. And, in
15 fact, for general service small non-demand, the cost to
16 revenue ratio is, in fact, one hundred and seven point
17 four (107.4).

18 So we take the position that in general
19 terms the methodological changes being sought by the
20 Utility are sound and should be implemented. And looking
21 forward to possible future -- or not possible, certainly
22 at some point there will be, in the future, actual
23 requests for rate changes or rate adjustments by the
24 Utility, that that will serve as a basis to, once and for
25 all, deal with what has been an historical -- historical

1 imbalance or unfairness to general service small
2 customers.

3 And this brings me back then, again, to
4 the role of CCEP before the Board, both historically and
5 as intended in this hearing, and that is to give voice
6 and representation to an important group of customers
7 that historically have not been represented, as opposed
8 to the very large users who have been ably represented
9 over the years by MIPUG, and the residential class which
10 have been ably represented by CAC and MSOS.

11 And I think the fact -- or that -- that --
12 that absence of -- of an advocate, historically, until
13 very recent years, is reflected in the fact that, again
14 and again, time after time, general service small is
15 over-contributing in terms of revenue relative to their
16 costs. And hopefully we're on our way now, with this
17 hearing, and then put together with perhaps a future rate
18 adjusting hearing, on our way to dealing with that on a
19 final basis.

20 Thank you, Mr. Chairman. Those are my
21 comments.

22 THE CHAIRPERSON: Thank you, Mr.
23 Feldschmid.

24 We'll move now to the City of Winnipeg.
25 Mr. Buhr...?

1 OPENING COMMENTS BY MR. DOUG BUHR:

2 MR. DOUG BUHR: Thank you, Mr. Chairman
3 and members of the Panel.

4 Mr. Chairman, our focus in these hearings
5 is strictly in the area of street lighting. And I think
6 the starting point is that for at least the last thirty
7 (30) years the ratepayers of this city have been paying
8 far too much for street lighting. And this is a service
9 that benefits every customer class. It's a quality of
10 life issue.

11 The latest proposals do nothing to change
12 that. Our RCC stays virtually the same as it was, well
13 above one hundred (100), again. There does not appear to
14 be any will on my -- Manitoba Hydro's part to finally, or
15 ever, get it right.

16 So our challenge is very simple; why are
17 we continuing to pay much more than our fair share and
18 when is it going to end? Thank you.

19 THE CHAIRPERSON: Very succinct Mr. Buhr.
20 Thank you.

21 MIPUG, Ms. McCaffrey...?

22

23 OPENING COMMENTS BY MS. TAMARA MCCAFFREY:

24 MS. TAMARA MCCAFFREY: Good morning, Mr.
25 Chairman, Vice-Chairman Mayer and Members Dr. Avery-Kinew

1 and Dr. Evans, it's my pleasure once again to be here
2 again on behalf of MIPUG.

3 I am assisted by Mr. Bowman of Intergroup
4 Consultants and Andrew McLaren who is also with us
5 sitting in the gallery and we're happy to be here.

6 For the record, MIPUG is an association of
7 major industrial companies which operate in Manitoba.
8 MIPUG has intervened in each of the Board's review of
9 Hydro's rates since 1988, as well as other Hearings which
10 relevant for electrical customers.

11 Currently, MIPUG's membership includes the
12 following companies, Canexs Limited, based in Brandon.
13 INCO Manitoba Division in Thompson, Hudsons Bay Mining
14 and Smelting Company Limited in Flin Flon. Airco
15 Worldwide and Hargrave, Manitoba. Enbridge Incorporated
16 located in southern Manitoba. Toco Manitoba Craft
17 Papers, La Pas. Simplot Canada Limited, Brandon. Griffin
18 Canada Limited, Winnipeg. Gerdau MRM Steel, Selkirk and
19 Tembec, Pine Falls.

20 MIPUG's intervention will test the
21 proposed changes to the cost of service approaches that
22 have been put forward in this Hearing, with certain
23 guiding principles that we keep in mind in all of our
24 interventions.

25 Firstly, the need for strong regulatory

1 oversight and approval by the Public Utility Board of all
2 rates charged by Manitoba Hydro to ensure fairness and
3 transparency.

4 And secondly, of course, rates that are
5 stable and predictable over the long term, benefit all
6 ratepayers and a cost based approach based on normal,
7 regulatory rate making principles, is essential to
8 ensuring that stability and predictability over the long
9 term.

10 This is a challenging time for industrial
11 power in Canada, while other jurisdictions have faced
12 rate instability related to market based pricing and poor
13 utility planning and policies, Manitoba customers have
14 benefitted from stable and predictable rates and
15 regulatory frameworks and oversights for many years.

16 For these reasons, Manitoba remains one
17 (1) of the lowest centres for electrical rates. However,
18 today these Manitoba benefits are now at risk due to
19 uncertainty regarding the framework for supplying power
20 to industrials in Manitoba. It's a concern for MIPUG
21 members. This proceeding is but one (1) component of
22 that issue.

23 Manitoba Hydro's proposed cost of service
24 changes are troubling to MIPUG members. Clearly the
25 largest dollar value item in this proceeding is the

1 proposed change to allocate a portion of the export
2 revenues to the distribution component of the system.

3 However, all proposed cost of service
4 changes must be carefully considered and we are confident
5 will be carefully considered by the Board.

6 The concern we have is that the proposals
7 bear no relationship to normal rate making principles or
8 system planning and operation, either in Manitoba or in
9 any other regulated jurisdiction, enter the spectre of
10 unpredictability in rates.

11 Manitoba Hydro's proposals are a marked
12 departure to the approaches adopted in this jurisdiction
13 for nearly two (2) decades. The proposed changes are
14 clearly material to the future level of rates and for
15 industrial customers, in particular, will mean a
16 proportionately greater share of future rate increases.

17 The proposed export change alone means
18 that industrial customers will receive \$22 million less
19 in credits from net export revenue. Given the
20 precedential affect of any decisions made at this
21 Hearing, MIPUG customers or members, I should say, fear
22 that Manitoba Hydro is abandoning normal rate making
23 principles, which have lent stability, predictability and
24 fairness to rate and regulation. These fears are well
25 founded.

1 The cost causation approach that's
2 consistent with system planning and operation is being
3 displaced by a new method that appears to be result-based
4 in its application.

5 My good friend Mr. Williams has gently
6 poked a little fun at MIPUG's position with respect to
7 being staunch defenders of the status quo, hanging on to
8 a dinosaur and outdated method. We're going to take the
9 high road and -- and I won't talk about immediate
10 gratification, shortsightedness and irresponsibility in
11 terms of unhinging rate decisions from established
12 principles.

13 However, MIPUG urges the Board to keep
14 this in mind, cost of service principles are still valid,
15 have been valid since essentially the beginning of
16 regulation for over a century and have been refined in
17 jurisdictions in this and other countries.

18 You don't have to throw the baby out with
19 the bathwater because the value of exports has increased
20 substantially in recent years. Is it time for some
21 changes, modifications, refinements? Absolutely. But
22 MIPUG has never taken a position that's adverse to
23 change.

24 Their position here is that a lot of the -
25 - the problems that Manitoba Hydro seeks to solve are not

1 truly, when they're examined, cost of service issues, but
2 the rate design and revenue requirement issues. And
3 we'll be exploring that more in our evidence and also in
4 cross-examination.

5 Result based approaches are dangerous
6 because they will fluctuate unpredictably. You may --
7 Manitoba Hydro may want to discourage certain loads,
8 domestic loads, that it doesn't like in order to sell
9 them on the export market for a higher value, which is
10 good for Manitoba Hydro's bottom line but doesn't take
11 into account the other benefit to Manitoba that these
12 industries represent, including contribution to jobs,
13 over four thousand (4,000) jobs, mostly in -- virtually
14 all actually in -- in regional centres outside of
15 Winnipeg.

16 The activity to the -- to the market, to
17 construction, to the contribution to the grow -- to our
18 domestic product. All of these things benefit
19 Manitobans.

20 And Mr. Turner and other representatives
21 from MIPUG will be talking to you a little bit about that
22 on May 9th.

23 The conventional wisdom is that value
24 adding to local resources rather than exporting raw
25 products like electricity is an economically sensible

1 strategy for any jurisdiction. However, comments in
2 Hydro's evidence appear to be more focused on Hydro's
3 bottom line than what's best for Manitoba.

4 Hydro's stated approach favouring exports
5 over developing local industrial load, again is
6 shortsighted, it's narrowminded, it focuses on what may
7 be best for Hydro in the immediate term but it fails to
8 take into account the long-term benefits that these
9 industries provide to all Manitobans.

10 With current Hydro plans for growth in
11 northern hydro generation and southern wind generation,
12 there's no reason that Hydro's level of export sales
13 can't be maintained and expanded a -- cannot be
14 maintained and expanded along with local industrial use.
15 These are not competing objectives. We have to think
16 more broadly than that. They're not mutually exclusive.

17 With respect to the export revenues
18 Manitoba Hydro is arguing that the current method of
19 allocating net export revenues is no longer appropriate.
20 The hearing must assess the changes that underlie this
21 proposed wholesale revisions to the accepted approaches.

22 And on its face, if we're going to speak
23 frankly, the only thing that has changed is that export
24 revenues have been now considerably higher than they have
25 been in the past.

1 So in essence some threshold seems to have
2 been crossed, which makes the current approach no longer
3 reasonable, where it was a few years ago. Manitoba Hydro
4 has left this threshold undefined and hasn't provided any
5 basis for determining where it is, nor how to properly
6 assess options for export revenues in excess of that
7 threshold.

8 We think that this is a necessary first
9 step prior to determining how to allocate any net export
10 benefit, how do we determine the point at which there is
11 net export benefit; the point at which cost of service
12 approaches no longer are enough to address what to do
13 with the export revenues.

14 It doesn't mean that cost of service
15 approaches should be completely thrown out and they don't
16 need to be and they ought not to be.

17 MIPUG, through the evidence of Mr. Bowman
18 and Mr. McLaren of Intergroup Consultants, will explore
19 these issues. The proposals by MIPUG are straightforward
20 to the extent that there are export revenues that are in
21 excess of what can be allocated based on normal rate-
22 making principles within the Cost of Service Study.

23 And these revenues do not belong in the
24 Cost of Service Study, excess revenues are more properly
25 considered in terms of revenue requirement and rate

1 design.

2 Of course there will be some discussion
3 about that here in this hearing. MIPUG also notes there
4 is a clear and present issue with the risks related to
5 drought and the level of Hydro's debt. Hydro's debt is
6 quoted as being \$8.760 billion increasing to \$9.798
7 billion by 2009/'10 and then projected to increase to a
8 staggering 11.598 billion by 2015.

9 Manitoba Hydro's burgeoning debt has long
10 been a cause of concern for the Public Utility Board and
11 is continuing to grow rapidly. And MIPUG's evidence has
12 dealt with that in more detail beginning at page 17 and
13 referring to the IFF filed by Manitoba Hydro in this
14 proceeding.

15 This Board's also recognized that Manitoba
16 Hydro has a greater vulnerability to the risks of drought
17 as stated in this Board's Order 101/'04 as a result of
18 the expanding export market.

19 In light of these two (2) issues where the
20 Board's of the view that some proportion of revenues
21 beyond a determined threshold should be used to support a
22 non-cost related objective, MIPUG will recommend that any
23 revenues beyond this should be used to protect all
24 ratepayers.

25 If we're truly going to achieve a fair and

1 equitable long-term result that benefits all ratepayers
2 we would recommend that the excess be put in a reserve
3 fund to guard against these increased risks of drought
4 and any other risks related to Manitoba Hydro's
5 increasing capital investments, debts and so on.

6 In this way Manitoba Hydro's long-term
7 debt problem can begin to be addressed as directed by the
8 Public Utility Board for at least a decade, and in fact
9 longer and there is increased protection against rate
10 hikes in the face of drought and other risks.

11 It wasn't that long ago when Manitoba
12 Hydro was in this room seeking a rate increase as a
13 result of the adverse impacts of the drought and now,
14 given that we all have a greater awareness of the risks
15 that they face, it would be shortsighted, under the
16 circumstances, given the debt, given this enhanced risk,
17 simply to credit any exports back at this time. A long
18 term approach doesn't give immediate gratification but
19 sometimes it's what is best.

20 With respect to the balance of the changes
21 proposed by -- to Hydro's cost of service study they must
22 similarly be assessed in the proceeding on the basis
23 consistent with normal rate-making principles and with
24 reference to Hydro's system planning and operation and
25 established practice in this and other jurisdiction.

1 In conclusion, many of the issues raised
2 by Manitoba Hydro to justify the changes in its cost of
3 service approach are not really problems with the
4 established cost of service principles at all but rather
5 revenue requirement issues and, again, the result of
6 poorly designed rates failing to adopt updated rate
7 structures.

8 Something that MIPUG, again, has been
9 asking for quite sometime and something that's been done
10 in other jurisdictions, such as BC and the Yukon.

11 Rate structures that can achieve the goal
12 of conservation. Rate structures that offer industrial
13 customers to participate and make choices about their
14 electrical use. Rates can be designed to achieve these
15 objectives and to fairly ensure that all ratepayers share
16 in the benefits that increased exports have brought. You
17 can do this in a way that plans for the long-term,
18 maintains established rate-making principles but does not
19 discourage industrial growth in Manitoba.

20 MIPUG once again welcomes the opportunity
21 to participate in this process, both in terms of the
22 evidence prepared by Intergroup Consultants and in
23 testing the evidence of Manitoba Hydro and other
24 intervenors.

25 And MIPUG hopes again that its

1 participation will be of assistance to the Board in their
2 review of Manitoba Hydro's proposed changes to the Cost
3 of Service Study.

4 THE CHAIRPERSON: Thank you Ms.
5 McCaffrey.

6 Okay next up is MKO. Mr. Anderson...?
7

8 OPENING COMMENTS BY MR. MICHAEL ANDERSON:

9 MR. MICHAEL ANDERSON: Good morning, Mr.
10 Chair, Board Members, Mr. Peters, thank you. Manitoba
11 Hydro and to all the other Intervenors that are present
12 here this morning, I thank you and wish you good morning.

13 As a first matter, I'd like to clarify for
14 the record -- well firstly to indicate, my name is
15 Michael Anderson, I'm the Research Director of the
16 Natural Resources Secretariat of the Manitoba Keewatinook
17 Inineew Okimowin.

18 And you'll recall that in an earlier
19 proceeding, we described a change in the name of the
20 organization to Manitoba Keewatinook Inineew Okimowin
21 which roughly in Cree means the northern people's
22 government. The name that Mr. Peters referred to and I
23 thank Ms. Avery Kinew for correctly our pronunciation,
24 Manitoba Kewat -- Manitoba Keewatinowi Okimakanak Inc.,
25 that means the Northern Chiefs of Manitoba. And it's

1 the corporate body of MKO for our fiscal relations as
2 governments and others.

3 Manitoba Keewatinook Ininew Okimowin is
4 the representative authority of the citizens of the
5 thirty (30) MKO First Nations, whose traditional
6 territories encompass approximately three-quarters
7 (3/4's) of the Province of Manitoba. And so I'd like to
8 state that.

9 I note that in the outline of proceedings
10 that was circulated by Mr. Peters this morning, we are
11 correctly noted. And so just for the record of the Board
12 and participants and certainly for those keeping a
13 transcript, to have us correctly recognized.

14 Thank you for that housekeeping matter.
15 And I also want to thank Mr. Peters for entering our
16 Exhibit into the record this morning. I appreciate that.

17 As we noted in our preliminary comments
18 earlier in November that MKO has been long interested in
19 the cost of service approaches to correctly recognize the
20 costs and revenues of export operations and in the early
21 1990's, in fact, recommended the creation of an export
22 class.

23 So we've been keenly interested in the
24 development, of course, Hydro's proposals in response to
25 the NERA recommendations to the variance on those

1 proposals and to the evidence that have been presented by
2 intervenors and certainly to everyone's questions of each
3 others evidence. We're keenly interested in seeing how
4 this is working.

5 We mentioned in November, of course, with
6 cost of service that to some extent there is an art and a
7 science because we're dealing with the significant and
8 inherent differences in embedded costs and marginal costs
9 and in the calculation of them.

10 Embedded costs we have pretty much a
11 handle on, in terms of the Corporation's known
12 expenditures costs and how they're assessed within their
13 own methodologies. But, in respect of marginal costs
14 there are both the costs, but, the inherent relationship
15 to perceived values that have an effect on that.

16 We've discussed, whether or not, the
17 system -- whether the appropriate marginal cost would be
18 to use would be the opportunity cost in the marketplace
19 or whether there may be some other value and so forth.

20 So there are many points of view, many
21 details. Mr. -- The Chairman and Mr. Peters and all --
22 and Ms. McCaffrey, everyone has referred to these
23 differences. Mr. Williams has referred to his list.

24 And -- but, the key really is, is that the
25 MKO First Nations, although it may not be recognized that

1 MKO's customers who are those that we are interested in
2 representing, of course, are residential and general
3 service customers. We perhaps are one of the only
4 intervenors in the proceeding that have a span of
5 interest that covers those grounds. We're keenly in
6 CPP's evidence as well as Mr. Williams.

7 One (1) of the points that we had made
8 before as well, is that we have a keen interest in this
9 fundamental change that Mr. Williams had described in the
10 operations of the Utility. Particularly, in that we had
11 earlier discussed the relationship between the eighteen
12 (18) reservoirs, if that was the correct number today,
13 that provide energy resources, energy and storage to the
14 Manitoba Hydro system which are both within and without
15 Manitoba.

16 Historically, of course, all of MKO's
17 First Nations established themselves intentionally on
18 waterways for both the purposes of transportation, for
19 water supplies, fisheries and so forth.

20 So, we have a very close relationship and
21 a very close history in terms of the development of the
22 hydro-electric generating system that is really primarily
23 the subject of our discussions on net export revenues,
24 notwithstanding of course, the contributions that might
25 be made by the purchase of thermal energy from the United

1 States for opportunity sales and so forth, which we
2 explored considerably in an earlier proceeding.

3 And Ms. McCaffrey referred to some of the
4 relationships of looking at -- taking a priority for
5 maximizing export sales and the risk that that might
6 create in respect of the occurrences such as drought and
7 so forth.

8 One (1) of the issues that's also changed,
9 in terms of the value of export sales being greater than
10 the value of domestic sales and creating this interesting
11 conundrum as McCaffrey described about constraining the
12 loads of certain customers explicitly perhaps for the
13 purpose of increasing export sales because I mean -- a
14 determination that the values may be greater.

15 One (1) of the key things that's also
16 changed is our concept of justification for the operation
17 and development of projects. In this long history that
18 we've described, Mr. Peters, went through a very helpful
19 discussion of the history of the decisions and the
20 Board's considerations of these matters.

21 Previously, hydro-electric developments
22 and energy projects, in general, were recognized to have
23 in many cases irreversible environmental effects.
24 Justification for that was viewed as being in the public
25 interest or for the needs typically of the Province.

1 From an export perspective the National
2 Energy Board's view of exports was that exports were to
3 be surplus of domestic requirements in Canada that
4 exporting utilities had to, in fact, demonstrate same.
5 We've had some discussion, you recall previously we
6 submitted various tables from the National Energy Board
7 regarding their views.

8 But, this measurement of public interest
9 was the key reference point used by the regulatory
10 authorities in determining whether a project was
11 justified in the public interest, but, also the export
12 sales themselves.

13 In Manitoba we've had a view in earlier
14 times of prohibiting the export of sale from the Province
15 in very early times to use the power exclusively for
16 domestic requirements, recognizing that first priority.

17 To some extent the rationale and
18 justification for the irreversible environmental effects
19 of what we call, the project, and the various agreements
20 between Hydro and First Nations or the Lake Winnipeg
21 regulation, Churchill River diversion projects in
22 particular, as well as the Grand Rapid station, was that
23 these environmental impacts and effects were justified
24 for -- as a result and were necessary to provide power
25 for the Province of Manitoba.

1 To provide power for schools and hospitals
2 and for street lighting, for industry and for others. To
3 provide the basis of the economic engine of the Province.

4 And it's clear that our ample and
5 substantial hydro power resources are a significant if
6 not an essential foundation for our economic growth and
7 well-being.

8 So, another change is in looking at the
9 value of hydro power and its importance and this
10 distinction in the change between the value for domestic
11 sales and exports, are of great interest to us.

12 As I'd mentioned in the comments in
13 November and previously, it is the oral history of the
14 MKO First Nations and our view that the terms of treaty
15 establish a commitment to nation building that is founded
16 on the sharing of the development of natural resources,
17 within the traditional territories of each of the MKO
18 First Nations that are signatory to treaty.

19 That would -- although the treaties don't
20 explicitly refer to water and that's an issue that I
21 would raise in more detail in a different place, the
22 object is is that the development of the water resources
23 carries with it that promise to share the benefits
24 resulting from that development.

25 To some extent our recommendations in the

1 early 1990's to create an export customer class was to
2 assist in identifying both costs and benefits, to ensure
3 that there would be an equitable distribution of the net
4 benefits, the net revenues of these developments, to
5 those First Nations that are most directly effected by
6 Manitoba Hydro's operations.

7 So when Mr. Williams and Ms. McCaffrey
8 were discussing, of course, the rate making principles
9 that we have discussed at length in earlier proceedings,
10 the one (1) that we key on in these proceedings in this
11 context, is equity.

12 That is in addition to their basic rate
13 making principles of ensuring that rates are just and
14 reasonable and in the case of cost of service, that
15 there's an equitable distribution of costs and the
16 revenues to the various customer classes.

17 It's significant to MKO that there is an
18 equitable distribution that takes into account the
19 commitment and contribution of the MKO First Nations in
20 respect of the development of the hydro system in
21 Manitoba that is also equitable.

22 The rate making principles, purely and
23 simply, typically don't take these types of treaty-based
24 or social values into account. But in Manitoba they
25 necessarily remain and this relationship is certainly and

1 firmly established.

2 So as we proceed with looking at all of
3 these issues, one of the things that is key to us are
4 these changes, to ensure that there is an equitable
5 distribution of net export revenues, or the benefits of
6 the hydro production, to take into account these changes
7 in operation.

8 Before I briefly touched on the primary
9 impacts of hydro development as an aspect of cost, that
10 we're interested in receiving and equitable distribution
11 of benefits to, in effect, address. But one of the
12 features of this change in values between domestic sales
13 revenues and export revenues, is that it changes the
14 manner in which these eighteen (18) integrated reservoirs
15 are being operated.

16 And so there are now, in addition to the
17 direct effects of hydro development, most of which are --
18 us are very familiar with, or have studied or referred
19 to, we now have changes in reservoir operations
20 throughout the system that are also driven by this change
21 in value, which also have a continuing effect on
22 communities.

23 While it's -- it's available, for example,
24 on March 31st, flood forecast for Manitoba, issued by
25 Department of Water Stewardship, which I hope to at least

1 submit for information to the Board and parties, that
2 reservoir operations in Saskatchewan are recognized by
3 water stewardship as potentially having an effect on
4 water levels at the Pas, in the current flood event of
5 this year and so forth.

6 So while these are operational issues that
7 may be dealt with in another proceeding, in terms of
8 revenue requirement and so forth, they clearly are, in
9 the minds of the MKO citizens, is expectations in respect
10 of this equitable distribution of the revenues of the
11 operations of the Corporation.

12 So with that we had indicated in our
13 previous correspondence that in the event -- that due to
14 the timing of this proceeding our primary witness, Mr.
15 Hildebrand is not available to us, that we rely on our
16 ability to test both the applicant and Manitoba Hydro's
17 evidence, and those of all other intervenors, in order to
18 bring forward those specific details that we wish to
19 ensure are on the record for the Board and for others to
20 consider, and certainly to provide the foundation for our
21 final submission to the Board in this matter.

22 So with those comments I'd like to thank
23 the Chair and Manitoba Hydro and everyone present today
24 for this opportunity to share these words. Thank you.
25 Asu Somi (phonetic).

1 THE CHAIRPERSON: Thank you, Mr.
2 Anderson. I think before concluding with the
3 Intervenors, Mr. Miller, and then receiving Ms. Ramage's
4 comments from Manitoba Hydro, we'll have our short break
5 now. So we'll come back in ten (10) minutes. Thank you.

6

7 --- Upon recessing at 10:35 a.m.

8 --- Upon resuming at 10:51 a.m.

9

10 THE CHAIRPERSON: Mr. Anderson, I believe
11 there was a -- you wanted to indicate the availability of
12 some presenters?

13 MR. MICHAEL ANDERSON: I did Mr. Chair,
14 thank you. I had neglected to mention, in terms of just
15 a schedule item, that it's our hope to bring, further to
16 the discussion, opening remarks presenters.

17 These presenters would be elders from
18 several of our communities who wanted to recount their
19 recollection of the discussion of their power bills at
20 the time the projects were being proposed and developed.

21 So these are during the period of time
22 when, for example, Grand Rapids and Churchill River
23 diversion were being proposed. There were promises and
24 understandings that are recollected to us by many
25 community members, and we thought it might be of interest

1 to -- further to our comment about equitable distribution
2 of export revenues, hear the words of these individuals
3 from their own -- in their own way.

4 So elders that we'd like to bring from the
5 communities pre project development.

6 THE CHAIRPERSON: I suggest perhaps that
7 you could consult with Mr. Peters as to the -- the time
8 and then we could return to the subject when you sort it
9 out with him?

10 MR. MICHAEL ANDERSON: Yes, I'd be
11 pleased to do that as soon as we have the presenters
12 identified, then we can do that. We have -- we're just
13 checking availability with individuals that we have in
14 mind.

15 And as just one (1) final administrative
16 matter I wanted to thank the Board and all Manitoba Hydro
17 and all parties for their electronic filings and
18 circulation of material electronically, because I have
19 the entire filing here in my laptop instead of a couple
20 of backpacks that I brought in through the front door.

21 So for making that change I just wanted to
22 acknowledge and extend my appreciation to all parties for
23 doing so. Thank you, Mr. Chair.

24 THE CHAIRPERSON: Thank you, Mr.
25 Anderson.

1 we're particularly interested in various principles and
2 legislation and the Sustainable Development Act
3 specifically includes a -- a series of guidelines and
4 principles of sustainable development, which helps to
5 flesh out that notion, and we've been exploring the
6 implications of those principles.

7 In particular, in last year's Centra Gas
8 proceeding, and this proceeding, the concept of full cost
9 accounting. What does it look like and what might the
10 implications be, or what are the possible implications of
11 that concept?

12 And we were pleased to hear at the -- in
13 the closing of the Centra proceeding, that Manitoba Hydro
14 did indicate that they would pursue full cost accounting
15 as -- as far as feasible from such qualification.

16 So these are the matters that are at the
17 focus of our intervention. Another -- and -- and related
18 to that is the comment of the -- the Chair that these
19 proceedings are necessary for informed decisions. And
20 this issue came up at the pre-hearing conference when it
21 was questioned whether or not the -- the Panel should
22 hear the workshop presentation of Manitoba Hydro. And on
23 the principle of informed decision making, I -- I argued
24 for that.

25 And similarly, and this is the one (1)

1 point I'll advocate right at the outset, the rest will
2 wait 'til the -- the debate and the deliberation takes
3 place, that full cost accounting is presented in the
4 Sustainable Development Act as a principle of
5 knowledgeable decision making.

6 And we believe that whatever one makes of
7 it, whatever implications one draws from it, there should
8 be presented, integral with the financial presentations
9 of the Corporation and the cost of service, some form of
10 full cost accounting. And in the last two (2)
11 proceedings we indicated how that could be done on the
12 gas side and on the electricity side.

13 And so on the -- the basis of informed
14 decision making, that's what we'll advocate at the outset
15 and other things will emerge in the course of the
16 hearing.

17 So with that, thank you very much.

18 THE CHAIRPERSON: Thank you, Professor
19 Miller.

20 Ms. Ramage for Manitoba Hydro,
21 introductory remarks?

22

23 OPENING COMMENTS BY MS. PATTI RAMAGE:

24 MS. PATTI RAMAGE: Yes, Mr. Chairman.
25 Thank you and good morning. And good morning Vice

1 Chairman Mayer and Board Members, Dr. Evans and Dr.
2 Avery-Kinew.

3 I'd like to begin this morning by
4 introducing both Manitoba Hydro's Panel and its back row
5 supporters, who without which I think the proceeding
6 would move along a little slower, if we couldn't turn
7 around and get our answers -- or assistance with our
8 answers very quickly.

9 To my immediate right is Mr. Vince Warden,
10 Vice President of Finance and Administration and Chief
11 Financial Officer of Manitoba Hydro. Next to him is
12 Robin Wiens, Division Manager of Rates and Regulatory
13 Affairs. Mr. Wiens has seated next to him Mr. Chic
14 Thomas who is the Supervisor of the cost of service --
15 preparation of the Cost of Service Study. And Mr. Harold
16 Surminski is to my far right, who is the Section Head of
17 the Power Generation Systems studies.

18 I'm assisted today and throughout this
19 hearing by my colleague Ms. Odette Fernandez, who is
20 seated behind me. And today we also have with us from
21 the law department, Desiree Dorion, who is a law student
22 at the University of Manitoba who's joined us for the
23 summer, and I thought this would be an excellent
24 opportunity to introduce her to the administrative law
25 world, I think.

1 To -- behind Mr. Warden we'd like to
2 introduce Manitoba Hydro's new Corporate Controller, Mr.
3 Manny Schulz, he's joining us today. Louella Harms is
4 the retail electric rates supervisor. Next to Ms. Harms
5 is Michael Dust who is a cost of service accountant. And
6 then we have Bruce Hinton who is a generation systems
7 studies engineer.

8 And to the far right in the back row we
9 have Christine Foulkes who is assisting us in keeping
10 track of the -- the hearing process. She is in our rates
11 and regulatory affairs department.

12 In listening to the opening comments I can
13 simply say that I share Mr. Peters' sentiments regarding
14 the complexity of the issues, and I thank him for looking
15 after the housekeeping matters this morning.

16 When reviewing the various methodologies
17 and available options, I can tell the Board that Manitoba
18 Hydro was required to assess many of the issues outlined
19 by Mr. Peters in his opening comments.

20 Manitoba Hydro firmly believes that the
21 method adopted by its board and the method being
22 recommended for adoption by this Board, Manitoba Hydro
23 firmly believes that that recommended method establishes
24 a proper balance between the various competing interests
25 that have been referenced this morning and appropriately

1 addresses the issues outlined.

2 I'm not going to attempt to advocate
3 Manitoba Hydro's position in our opening comments but,
4 instead, I'm proposing to turn the mic over to our panel
5 right away, because these are the people at Manitoba
6 Hydro who deal with these issues on a -- on a daily basis
7 and they are the ones best able to speak to them.

8 So with that, I would ask that the Panel
9 be sworn.

10 THE CHAIRPERSON: Mr. Barron...?

11

12 MANITOBA HYDRO PANEL:

13 VINCE WARDEN, Sworn

14 ROBIN WIENS, Sworn

15 CHIC THOMAS, Sworn

16 HAROLD SURMINSKI, Sworn

17

18 THE CHAIRPERSON: Thank you, Mr. Barron.

19 Ms. Ramage, I guess we're underway.

20 MS. PATTI RAMAGE: Thank you, Mr.

21 Chairman.

22

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

24 MS. PATTI RAMAGE: I'll begin by

25 addressing my questions to Mr. Warden.

1 Mr. Warden, could you please outline your
2 qualifications and areas of responsibility with respect
3 to this filing?

4 MR. VINCE WARDEN: Yes. Good morning,
5 Mr. Chairman, members of the Board, ladies and gentlemen.
6 I'm a Certified Management Accountant and I have a
7 Fellowship from the Society of Management Accountants of
8 Canada. My entire professional career has been at
9 Manitoba Hydro.

10 Previous positions I have held include,
11 Assistant to the President and CEO, Corporate Controller,
12 Vice-President of Finance, and Vice-President of Customer
13 Service and Marketing.

14 My present position is Vice-President
15 Finance and Administration and Chief Financial Officer.
16 The divisions that report to me include rates and
17 regulatory affairs, corporate controller, treasury,
18 information technology, human resources, financial
19 planning, corporate risk management, and gas supply.

20 My areas of responsibility, with respect
21 to this filing, relate primarily to policy issues and
22 general oversight of the filing and related materials.

23 MS. PATTI RAMAGE: Could you please
24 indicate what Manitoba Hydro is seeking with its cost of
25 service filing?

1 MR. VINCE WARDEN: Manitoba Hydro is
2 seeking to have its updated cost of service methodology
3 referred to in the filing as a recommended method
4 accepted by this Board as being the most fair and
5 equitable way to allocate the Corporation's costs to its
6 various customer classes.

7 Other Members of the Panel will provide
8 details regarding Manitoba Hydro's recommended method in
9 their direct testimony. There are many potential
10 variations associated with any cost allocation
11 methodology.

12 From Manitoba Hydro's prospective,
13 however, the main issue that will arise from these
14 proceedings, as referenced by you earlier, Mr. Chairman,
15 and by Mr. Peters and the other Intervenors, will be the
16 methodology used to allocate net extra-provincial
17 revenues to the respective customer classes.

18 The previous method of allocating extra-
19 provincial revenues served us well during the years in
20 which export revenues were a relatively small proportion
21 of Manitoba Hydro's total cost of service.

22 And with respect, I don't agree that the
23 cost of service was, or is, in a state of flux. However,
24 since at least 1997, Manitoba Hydro has been concerned
25 that the traditional cost of service approach is no

1 longer appropriate for the determination of class revenue
2 requirements.

3 Our concern was mainly related to the
4 increasing significance of export revenues and the
5 serious distortions this was causing to our cost of
6 service methodology.

7 In 1992 net export revenue covered
8 approximately 15 percent of Manitoba Hydro's total cost
9 of service. By 1997 this had increased to 25 percent.
10 And by 2004, export revenue covered fully 33 percent of
11 Manitoba Hydro's costs.

12 On a kilowatt hour basis, export revenues
13 increase from 1.5 cents per kilowatt hour in 1992 to
14 approximately 4.9 cents per kilowatt hour last year.
15 Because the previous cost of service methodology credited
16 net export revenue back to customer classes on the basis
17 of their respective share of generation and transmission
18 costs, increases in export revenues were offsetting a
19 greater and greater percentage of generation and
20 transmission costs.

21 In 1992, export revenues covered
22 approximately 26 percent of generation and transmission
23 costs, while in 2004, net export revenues covered over 47
24 percent of generation and transmission costs.

25 For classes such as general service large,

1 for which generation and transmission represents the vast
2 majority of costs on which rates are based, the export
3 credit was covering almost half of their allocated costs.

4 For residential and general service small
5 customers, their credit was also substantial, but at 28
6 percent, much less than for general service large.

7 In an era in which export revenues were a
8 small portion of toll sales and export rates were a
9 fraction of domestic rates, the long standing method of
10 crediting export revenues to customer classes was
11 appropriate.

12 In the recent past and present, where
13 export transactions are taking place at prices well in
14 excess of Manitoba Hydro's embedded costs, assigning
15 benefits on the basis of customer class usage of
16 generation and transmission, is no longer fair or
17 rationale.

18 MS. PATTI RAMAGE: How significant is
19 Manitoba Hydro's proposed change in cost of service
20 methodology to the rates charged to customers?

21 MR. VINCE WARDEN: Because Manitoba
22 Hydro's rate increases throughout the decade of the 90's
23 were relatively modest, and because the only rate
24 increases so far in this decade have been across the
25 Board to all customer classes, the cost of service

1 methodology has not had a significant impact on customer
2 rates.

3 Nevertheless, because of the historically
4 low revenue cost coverages of the residential class
5 compared to the general service class, residential
6 customers did receive higher than average rate increases
7 between 1992 and 1997.

8 In fact, during the period of 1993 to
9 2004, large industrial customers received no rate
10 increases whatsoever. Over that period of time, the real
11 cost of electricity, after adjusting for inflation,
12 declined by some 29 percent for Manitoba Hydro's
13 industrial customers.

14 By comparison, the real cost of
15 electricity to the residential customers declined by 15
16 percent over that same period. Should Manitoba Hydro's
17 proposed methodology be accepted by this Board, the
18 relative magnitude of rate increases to each customer
19 class is expected to be more closely aligned with the
20 overall average rate increase contained within Hydro's
21 future rate applications.

22 MS. PATTI RAMAGE: Now, on the subject of
23 further rate applications, at the cost of service pre-
24 hearing conference on November 24th of 2005, you
25 indicated that it was Manitoba Hydro's intention to

1 reassess its requirements for a general rate increase,
2 following the finalization of financial results for the
3 2005/'06 fiscal year. Has this determination been made?

4 MR. VINCE WARDEN: We are still in the
5 process of finalizing financial results for the year
6 ended March 31st, 2006. However, as was reported in the
7 quarterly report of the Manitoba Hydro Electric Board for
8 December 31st, 2005, we are on track for achieving record
9 net income for 2005/'06, which is expected to exceed \$375
10 million.

11 On this basis, Manitoba Hydro will not be
12 pursuing a rate increase for fiscal 2006/'07. Despite
13 record net income, however, I should note that Manitoba
14 Hydro incurred a record net loss of \$436 million, just
15 two (2) years ago.

16 So while current financial results are
17 certainly positive, Manitoba Hydro is still a long ways
18 away from achieving its financial target of 75 percent
19 debt and 25 percent equity.

20 The debt equity ratio at March 31st, 2006
21 is expected to be in the range of 81 percent debt and 19
22 percent equity. Just comparing this to the other major
23 hydraulic utilities in Canada, Hydro Quebec currently has
24 an equity ratio of 34 percent, and BC Hydro has an equity
25 ratio of 32 percent.

1 So Manitoba Hydro's target to achieve an
2 equity ratio of 25 percent is still quite low compared to
3 our Canadian counterparts who are also Crown owned
4 utilities. To achieve our target of 25 percent equity by
5 the target date of 2011/'12, rate increases close to the
6 annual rates of inflation will be required.

7 The importance of achieving this target
8 and having an adequate level of equity cannot be
9 overstated. As Mr. Surminski indicated during Manitoba
10 Hydro's 2004 general rate application, a five (5) year
11 drought could cost the Corporation upwards of \$2 billion.

12 With our current ratio of 19 percent, or
13 total projected equity of just under \$1.3 billion at
14 March 31st of 2006, the Corporation is vulnerable to
15 slipping into a negative equity position, if a major
16 drought were to be incurred over the next several years.

17 It is also noteworthy that drought is not
18 the single largest risk faced by Manitoba Hydro. A
19 catastrophic loss of infrastructure could be many
20 multiples of the potential loss due the drought.

21 Given this circumstance, it could be
22 argued that there should be no sharing of export revenues
23 until target equity levels are obtained. This would mean
24 that for rate setting purposes we would only consider
25 revenue cost coverages before the net export revenue

1 calculation.

2 And this, by the way, would solve the City
3 of Winnipeg and CCEP's concern that they're over
4 contributing to Manitoba Hydro's revenue requirement,
5 because on that basis all customer classes are below
6 unity.

7 MS. PATTI RAMAGE: Mr. Warden, there was
8 also reference, in Manitoba Hydro's rebuttal evidence, to
9 a rate application to be filed with the PUB to address
10 the issue of new or expanded industrial load, displacing
11 profitable export sales. And I believe Mr. -- the
12 Chairman had referenced a Free Press article regarding
13 this.

14 Can you elaborate on this?

15 MR. VINCE WARDEN: This is a matter
16 that's currently under consideration by Manitoba Hydro's
17 board and I have no further information to offer at this
18 time.

19 MS. PATTI RAMAGE: And one final
20 housekeeping matter, Manitoba Hydro's pre-filed evidence
21 consists of its initial filing, described as Tab 11 and
22 Appendix 11.1 through 11.3, as well as -- as well as two
23 (2) rounds of responses to Information Requests and its
24 rebuttal evidence.

25 Was this pre-filed evidence prepared under

1 your direction and control?

2 MR. VINCE WARDEN: Yes, it was.

3 MS. PATTI RAMAGE: And do you have any
4 changes you wish to make?

5 MR. VINCE WARDEN: I don't.

6 MS. PATTI RAMAGE: And do you adopt this
7 evidence on behalf of the Corporation?

8 MR. VINCE WARDEN: Yes, I do.

9 MS. PATTI RAMAGE: I'll now turn my
10 attention to you, Mr. Wiens. Could you state your name
11 and responsibilities at Manitoba Hydro?

12 MR. ROBIN WIENS: Yes. Good morning, Mr.
13 Chairman, members of the Public Utilities Board,
14 Intervenors and colleagues. My name is Kurt Robin Wiens.
15 I've been employed at Manitoba Hydro since 1989, and for
16 most of that period I have been manager in the rates
17 department.

18 Since December of 2002 I have been
19 Division Manager of Rates and Regulatory Affairs. In
20 that position I have responsibility for electricity and
21 natural gas rates, for cost of service analysis, load
22 research and for service extension policy. I also have
23 overall responsibility for service and support of
24 Manitoba Hydro's regulatory filings and compliance.

25 I hold a Masters Degree in Economics from

1 the University of Manitoba. I have appeared before this
2 Board on numerous occasions since 1990 in support of both
3 general rate applications and specific rate proposals. I
4 most recently appeared to support Manitoba Hydro's diesel
5 rate applications in January and December of 2004, and
6 for Manitoba Hydro's 2004/'05 general rate application.

7 MS. PATTI RAMAGE: Mr. Wiens, which
8 aspects of Manitoba Hydro's cost of service filing were
9 prepared by you or under your direction?

10 MR. ROBIN WIENS: I had overall
11 responsibility for coordinating the preparation of the
12 filing and of all supporting documents, including
13 appendices, responses to all Information Requests of
14 Manitoba Hydro and Manitoba Hydro's rebuttal evidence.

15 The application documents were prepared by
16 Rates Department staff reporting to me. Responses to the
17 Information Requests and the rebuttal evidence were
18 prepared by these staff, as well as by staff in other
19 departments who were supporting the application.

20 I was responsible for the coordination and
21 review of all material filed.

22 MS. PATTI RAMAGE: Mr. Wiens, why is
23 Manitoba Hydro -- why has Manitoba Hydro proposed changes
24 to its long-standing cost of service methodology?

25 MR. ROBIN WIENS: All of the changes that

1 are being proposed and will be reviewed at this hearing,
2 impact the allocation of generation and transmission
3 costs of Manitoba Hydro. The treatment of the other
4 utility functions in the cost of service, sub-
5 transmission, distribution plant, distribution customer
6 service, are not affected.

7 However, generation and transmission
8 account for the majority of costs, approximately 70
9 percent, that are included in the study. The principal
10 concern, as noted by Mr. Warden, has been that the
11 longstanding method of allocating net export revenue to
12 domestic classes, based, in effect, on their use of the
13 generation and transmission functions, has not, for
14 sometime, provided appropriate and realistic cost
15 recognition for domestic classes of service.

16 Other changes are being proposed to
17 recognize the value of energy to Manitoba Hydro during
18 different seasons and time of day.

19 MS. PATTI RAMAGE: Can you describe the
20 main features of Manitoba Hydro's cost of service study?

21 MR. ROBIN WIENS: First, the study deals
22 with prospective embedded costs. The study forecasts
23 costs to own and to operate Utility functions in the test
24 year, which is the year following the year in which the
25 study is performed.

1 These costs, therefore, are based mainly
2 on the existing Utility plant, with only forecast
3 additions for the next year. This can be distinguished
4 from a marginal cost study, which examines the
5 prospective cost of serving additional customer load, and
6 is based on cost of current energy purchases or new
7 plant.

8 The study is carried out in three (3)
9 stages, which I think most of the parties here are
10 familiar, functionalization, classification and
11 allocation. In the functionalization stage, the
12 prospective costs of ownership, operation and maintenance
13 are organized into six (6) functions required to deliver
14 retail electricity service to customers.

15 And those are: Generation, which is the
16 product of energy and its delivery into the main grid.
17 It includes all generating stations, HVDC lines,
18 communication facilities associated with generation, and
19 a share of administration buildings and general
20 equipment.

21 Second, transmission, which deals with the
22 delivery of energy from its point of entry into the main
23 grid, and its movement throughout the integrated backbone
24 system, interconnecting the delivery points on the major
25 load centres.

1 It includes the Dorsey convertor station,
2 interconnections with neighbouring systems, the high
3 voltage portion of substations, communications facilities
4 associated with transmission, a share of administration
5 buildings, general equipment, and substation transformers
6 in stock.

7 Third, ancillary services, which are those
8 services produced by the generation and transmission
9 systems to support the transmission of capacity and
10 energy to the load and to maintain the reliable operation
11 of the system.

12 Fourth, sub-transmission, which is non-
13 grid radial transmission lines at voltages greater than
14 30 kilovolts. The low voltage portion of the
15 substations, a share of communication equipment,
16 administration buildings, general equipment and
17 substation transformers and stock.

18 Fifth, distribution plant, the low voltage
19 distribution lines, the low voltage portion of
20 substations, distribution transformers, metering
21 equipment, and also a share of administration buildings,
22 general equipment and substation transformers and stock.

23 Finally, what we refer to as distribution
24 customer service, which covers items such as, billing,
25 administration, service to customer after the delivery of

1 energy.

2 In the second stage of the process, the
3 classification stage, the functionalized costs are
4 separated into groups according to the customer usage
5 factors that cause the costs to be incurred: Energy use,
6 peak period use and number of customers.

7 For the generation and transmission
8 functions to which the proposed changes apply, the costs
9 have been classified, in the past, as either energy or
10 peak demand related.

11 In the final stage, the allocation stage,
12 the classified costs are allocated among the customer
13 classes according to the units of use. For the
14 generation and transmission functions these have been
15 energy use and use at the time of system peaks.

16 MS. PATTI RAMAGE: Can you briefly
17 describe the classification and allocation procedure for
18 generation and transmission costs in the longstanding
19 method of cost of service methodology?

20 MR. ROBIN WIENS: Yes. The sum of
21 transmission and generation costs has been classified in
22 the past according to the system load factor for domestic
23 use.

24 In 2005/'06 prospective year, this means
25 that the total cost of generation, which is approximately

1 \$1 billion, would be classified as 65.6 percent energy
2 related and 34.4 percent as demand or peak use related.

3 The transmission costs of about 200
4 million have been treated as 100 percent demand related.
5 That would leave about 150 million of demand related
6 costs as applying to the generation function, and
7 therefore the other approximately 650 million or 82
8 percent of generation costs, treated as energy related in
9 the current and longstanding methodology.

10 The generation energy related costs have
11 been allocated among domestic customer classes on the
12 basis of each classes forecast kilowatt hour usage,
13 including losses back to the generating stations. No
14 generation energy related costs, other than variable
15 costs, have been allocated to export customers.

16 Generation and transmission demand related
17 costs have been allocated on the basis of the domestic
18 class shares of both the winter peak, that being the top
19 fifty (50) coincident hours on the system, and the summer
20 peak, also the top fifty (50) coincident hours. No
21 demand related costs have been allocated to export
22 customers.

23 MS. PATTI RAMAGE: How were exports
24 treated in past cost of service studies?

25 MR. ROBIN WIENS: Past studies have not

1 defined an export class and have not allocated costs to
2 exports. Instead, these studies allocated a credit for
3 net export revenues to all domestic classes served by the
4 grid in proportion to each class' share of generation and
5 transmission cost.

6 Net export revenue has been defined as
7 total revenue received from export customers minus the
8 direct variable costs; water rentals, thermal fuel and
9 import which were associated with deliveries to export
10 customers.

11 The net export revenue allocations were
12 added to each class' revenue for the purpose of
13 calculating a revenue cost coverage ratio in the Cost of
14 Service Study.

15 MS. PATTI RAMAGE: How does Manitoba
16 Hydro's recommended cost of service methodology deal with
17 the concerns about distorting the impact of net export
18 revenues?

19 I misspoke. It's -- I wanted to know how
20 they deal with the concerns about the distorting impact
21 of net export revenues?

22 MR. ROBIN WIENS: Manitoba Hydro's
23 recommended method makes the following changes to the
24 treatment of export revenues. Two (2) export classes are
25 added to the study and they are directly assigned or

1 allocated costs of generation and transmission.

2 The opportunity class is directly
3 allocated the variable costs associated with these sales;
4 water rentals, thermal fuel and power purchases. The
5 firm class is allocated a share of generation and
6 transmission costs on the same basis as are the domestic
7 classes of service.

8 Once this has been done, any export
9 revenues over and above the costs which were assigned or
10 allocated to the export classes are credited to domestic
11 customer classes on the basis of the total costs
12 allocated to these classes other than costs which have
13 been directly assigned related to end use.

14 This mainly affects street lighting
15 equipment investment and -- and maintenance.

16 MS. PATTI RAMAGE: How effectively do the
17 recommended changes deal with the issue of fairness in
18 cost allocation to domestic classes?

19 MR. ROBIN WIENS: The intent of the
20 proposed changes is to deal first with the assurance that
21 a reasonable share of the embedded generation and
22 transmission cost is recovered from export sales. This
23 purpose is achieved by the creation of the two (2) export
24 classes and the direct assignment or allocation of
25 generation and transmission costs to them.

1 With a fair cost recovery assured there is
2 no longer any reasonable basis to consider class share of
3 generation and costs as the only reasonable allocator of
4 remaining net export revenue.

5 MS. PATTI RAMAGE: Why did Manitoba Hydro
6 choose to distribute the remaining net export revenue on
7 the basis of total cost allocated to domestic classes
8 rather than some other basis?

9 MR. ROBIN WIENS: Manitoba Hydro opted
10 for the recommended treatment of -- of export revenues as
11 a reasonable compromise among the options that were open
12 to Manitoba Hydro in a cost of service setting.

13 The options available in a cost of service
14 methodology; basically different approaches to returning
15 this revenue to the domestic customer classes. Manitoba
16 Hydro believes that the least efficient way to distribute
17 those revenues is to maintain the longstanding practice
18 of returning them in proportion to usage of the
19 generation and transmission function since this approach
20 subsidizes decisions to consume.

21 Another option, and one which would
22 substantially reduce the incentives to consume would be
23 to return an equal amount to each customer of Manitoba
24 Hydro with perhaps some weighting related to the size of
25 the service.

1 Manitoba Hydro has chosen to adopt a
2 recommendation that balances concerns about efficiency
3 and fair treatment for all customer types within the
4 Province and one which allows for gradualism in terms of
5 potential concomitant rate impacts on Manitoba customers.

6 MS. PATTI RAMAGE: Is Manitoba Hydro's
7 proposed treatment of export revenue sufficient to deal
8 with the issue of underpricing of energy relative to
9 marginal cost for all domestic classes of service?

10 MR. ROBIN WIENS: No, it's not. The
11 proposed treatment of export revenues moves toward
12 greater equality among domestic customer classes of the
13 gap between marginal cost and allocated embedded cost.
14 But in addition to this step, rate design methods will
15 also be required to address concerns related to
16 underpricing of energy.

17 MS. PATTI RAMAGE: The witnesses from
18 MIPUG have provided evidence that to secure efficient
19 prices it is only necessary to design rates so that
20 marginal consumption is priced at marginal cost, and that
21 this type of rate design, that is inverted rates, can be
22 implemented with Manitoba Hydro's existing cost of
23 service approach, without requiring the changes proposed
24 by Manitoba Hydro.

25 Why doesn't Manitoba Hydro simply

1 implement inverted rates and forget about trying to
2 change its cost of service study method?

3 MR. ROBIN WIENS: Manitoba Hydro agrees
4 that rate design, such as inverted rates, can be useful
5 in providing correct price signals to a wide range of
6 electricity customers and a significant portion of their
7 usage. However, the MIPUG witnesses' assertion that rate
8 design is sufficient to achieve this objective, in all
9 cases, regardless of the overall quantum of costs to be
10 recovered, is flawed.

11 Manitoba Hydro's rebuttal evidence, on
12 pages 19 through 22, demonstrates how, particularly in
13 the case where marginal costs significantly exceeds
14 embedded costs, efficient inverted rates are difficult
15 and perhaps even impossible to develop.

16 In particular, BC Hydro's step rates,
17 which the MIPUG witnesses appear to favour, have little
18 or no impact on the consumption decisions of the fastest
19 growing segment of Manitoba Hydro's customer base, namely
20 large energy intensive industry.

21 It is also important to note that the use
22 of inverted pricing can never compensate at all for an
23 unfair or unreasonable allocation of revenue requirement.
24 Maintaining the current method of allocating net export
25 revenues, on the basis of generation and transmission

1 usage only, is not in keeping with cost causation
2 principles, in a situation where the unit export revenues
3 so significantly exceed the embedded cost upon which the
4 domestic rates are based.

5 The MIPUG witnesses' position that rate
6 payers are entitled to all or most net export revenues
7 allocated on the basis of their current usage of
8 generation and transmission functions, essentially
9 amounts to saying that increases in the economic value of
10 these resources that have occurred over the last years,
11 should be credited to customers on the basis of their
12 current usage.

13 And this is neither sound economics, nor
14 sound public policy, and therefore not a sound basis for
15 cost allocation and recovery.

16 MS. PATTI RAMAGE: Thank you, Mr. Wiens.
17 I'd now like to turn my questions to Mr. Thomas.

18 Mr. Thomas, would you please outline your
19 areas of responsibility with respect to this filing?

20 MR. CHIC THOMAS: Good morning, Mr.
21 Chairman, Members of the Board.

22 My name is Chic Thomas, I have a Bachelor
23 of Arts Degree from the University of Manitoba, as well
24 as being a Certified Management Accountant.

25 I've worked at Manitoba Hydro since 1986

1 and have been directly involved with the preparation of
2 Manitoba Hydro's cost of service study since 1993.
3 Currently I'm the supervisor of the Cost of Service
4 Section of the Rates and Policies Department.

5 As such, I am responsible for the
6 preparation of electric and diesel cost of service
7 studies. I have participated in several regulatory
8 hearings and have appeared on the Manitoba Hydro panel
9 twice previously, the first time during the diesel rate
10 application heard January 2004 and again in the 2004/'05
11 GRA.

12 MS. PATTI RAMAGE: Could you please
13 outline the cost of service studies that have been
14 included in this filing?

15 MR. CHIC THOMAS: Included in this filing
16 is the prospective cost of service study for the fiscal
17 year ending March 31st, 2006. As directed in Board Order
18 143/'04, four (4) different methodologies of the peak
19 costs have been -- have been prepared and submitted.

20 These are Manitoba Hydro's current method,
21 similar to methodologies filed in the past which have
22 been referred to during this proceeding as current or
23 previous method; a version based on the NERA report
24 recommendations, Manitoba Hydro's recommended
25 methodology, which is similar to the NERA report method,

1 except with the creation of two (2) export subclasses
2 instead of only one (1). These subclasses include firm
3 export customers and opportunity export customers.

4 Lastly, is the generation vintaging
5 method, which is also similar to the NERA report method,
6 the difference being that low cost Winnipeg River
7 generation resources are dedicated only to domestic
8 customers.

9 The PUB also directed in that order that
10 the first application of net export revenue be used to
11 offset the impact of the uniform rates legislation. This
12 adjustment affects former Zone 2 and 3 customers of the
13 following classes; residential, general service small,
14 general service medium, and area and roadway lighting
15 customers.

16 This adjustment has been applied to all
17 the methods noted previously. For the '06 cost of
18 service study the amount is approximately \$17 million.

19 MS. PATTI RAMAGE: Apart from the
20 distribution of net export revenues, what are the other
21 significant revisions including -- included in Manitoba
22 Hydro's recommended cost of service methodology?

23 MR. CHIC THOMAS: The other major change
24 involves the classification and allocation of generation
25 and transmission costs. These changes are as follows.

1 Generation costs would no longer be
2 classified into demand and energy components based on the
3 system load factor and adjustment for transmission
4 classification to demand, as outlined by Mr. Wiens, but
5 rather on the basis of weighted marginal energy costs in
6 four (4) time of use periods based on season and time of
7 day.

8 Transmission costs are first sub-
9 functionalised into these relate -- sub-functionalised
10 into those related to export lines and those -- and --
11 and the remainder to the other transmission lines. The
12 cost of the export related lines are allocated to
13 domestic and firm export classes on the basis of class
14 energy use while the remainder continues to be allocated
15 on the basis of both summer and winter peak loads.

16 MS. PATTI RAMAGE: Do these changes have
17 much impact on cost of service results in the 2005/'06
18 study?

19 MR. CHIC THOMAS: Actually these changes
20 have limited impact on the cost of service results in the
21 '05/'06 study. Manitoba Hydro's rebuttal evidence, page
22 40, shows that class share of generation costs are not
23 significantly altered between the current method and the
24 recommend -- recommended method of classifying and
25 allocating generation costs.

1 On page -- on page 43 it is noted that
2 export related transmission represents only 3 percent of
3 the bulk power system cost to be allocated.

4 MS. PATTI RAMAGE: So if these changes
5 have so little impact why is Manitoba Hydro recommending
6 them?

7 MR. CHIC THOMAS: In the case of
8 classification of generation costs on the basis of time
9 differentiated marginal cost, the change is appropriate
10 for two (2) reasons.

11 First, because time differentiated energy
12 costing is the basis to which the wholesale market has
13 moved.

14 Secondly, it avoid the use of a more
15 approximate or arbitrary classification percentage. This
16 includes the use of the system load factor used to
17 classify the bulk power system into demand and energy
18 components.

19 Using marginal cost is more theoretically
20 correct and is more likely to properly track future
21 changes in the value of the power system during this
22 different seasons and time of day.

23 With regard to the sub-functionalization
24 of the transmission system into export and domestic
25 components subsequent internal review has led to the

1 conclusion that the purpose of the two components is
2 really not sufficiently distinct to warrant separate
3 treatment. And in future studies Manitoba Hydro will
4 likely abandon this change.

5 MS. PATTI RAMAGE: Mr. Thomas, what does
6 this for -- both MIPUG and CAC/MSOS have stated that it's
7 necessary to increase the number of time periods if the
8 methodology of time differentiated marginal cost
9 classification and allocation of generation cost is to be
10 reflective of cost causation; does Manitoba Hydro agree?

11 MR. CHIC THOMAS: Manitoba Hydro believes
12 that the use of four (4) periods captures most of the
13 variability of energy marginal cost values. It is -- it
14 is not difficult however to expand the number of periods
15 to respond to the concerns raised by these Intervenors.

16 Manitoba Hydro's rebuttal evidence, page
17 41, demonstrates the impact of adopting twelve (12)
18 periods for classifying and allocating generation costs.
19 The twelve (12) periods are four (4) seasons, and three
20 (3) times of day periods in each season. Peak, -- peak,
21 off-peak and shoulder hours.

22 As shown adoption of the twelve (12)
23 periods has little effect on the share of generation
24 costs allocated to each class. Manitoba Hydro would not
25 be opposed to increasing the number of periods in the

1 study if this change increases the confidence of the --
2 of the participating parties. Thank you.

3 MS. PATTI RAMAGE: Thank you, Mr. Thomas.
4 And now I'd like to turn my attention to Mr. Surminski.

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

8 MR. HAROLD SURMINSKI: Good morning, Mr.
9 Chairman, members of the Board, Intervenors and others in
10 this room.

11 I'm a professional engineer, registered
12 with the Association of Professional Engineers and Geo-
13 Scientists of the Province of Manitoba. I have a
14 Bachelor of Science Degree in Civil Engineering from the
15 University of Manitoba and a Master of Applied Science in
16 Civil Engineering from the University of Waterloo.

17 I have been with Manitoba Hydro for
18 thirty-one (31) years, and previous to that I was
19 employed with Province of Manitoba, Water Stewardship for
20 nearly four (4) years.

21 My present position is that of section
22 head, generation system studies, in the Resource Planning
23 and Market Analysis department of the Power Supply
24 Business Unit. I have worked in the area of resource
25 planning and system expansion during my entire career

1 with Manitoba Hydro.

2 I have previously testified before this
3 Public Utilities Board in several electricity rate
4 hearings, with the last being the general rate
5 application of 2004.

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

12 In my current role, my section is also
13 responsible for the analysis of export markets and
14 Manitoba Hydro's forecast of export revenues in the long
15 term. My section provides the forecast of generation
16 costs and interchange of revenues that are used in the
17 integrated financial forecast.

18 I am also responsible for developing
19 marginal costs used in evaluating resource options and
20 system efficiency improvements throughout the
21 Corporation. During this Hearing my testimony will be on
22 issues related to export sales, as well as
23 characteristics of the export market.

24 I will also testify on issues related to
25 planning of system operation, and operation of reservoirs

1 and generation facilities. In addition, my testimony may
2 include issues related to planning of future supply
3 resources, including integration of a wide range of
4 possible resource options into the Manitoba Hydro system.

5 My section also has responsibility for
6 analyzing the cost of severe drought, and the development
7 of planning criteria related to the risk of drought.

8 MS. PATTI RAMAGE: Mr. Surminski, we
9 heard Mr. Warden, earlier this morning, reference your
10 testimony at the 2004 general rate application regarding
11 the risk of drought. And I think we've also heard Ms.
12 McCaffrey raise drought as a concern.

13 So to give the Board some perspective,
14 could you advise what is the cost of a severe drought and
15 has that changed since the 2004 electric general rate
16 application?

17 MR. HAROLD SURMINSKI: The cost of a five
18 (5) year drought, beginning in 2007, has increased from
19 the \$1.3 billion provided in the 2004 general rate
20 application, to a current cost of about \$1.5 billion,
21 based on recent prices of electricity in the export
22 market.

23 It should be noted that this estimate for
24 the cost of drought is based on a number of factors that
25 are variable and uncertain in the long term. The

1 expected costs of \$1.5 billion is based on a best
2 estimate for factors such as natural gas prices, market
3 prices for energy, weather effects, the currency exchange
4 rates for US purchases and sales.

5 There is an additional risk that this
6 drought cost could be higher than the best estimate,
7 because it is possible that the cost of import power
8 will be higher than forecast -- higher than the forecast
9 since a shortage premium may increase the cost of import
10 during times of severe drought in the Manitoba Hydro
11 system.

12 It is also possible that natural gas
13 prices could be higher than forecast and this would
14 further add to the cost of drought. We experienced both
15 high import costs and high natural gas prices in the
16 recent drought of 2003 and 2004.

17 Furthermore, we experienced a period of
18 extremely high natural gas prices subsequent to the
19 hurricanes in the Gulf of Mexico. During the Hearing
20 associated with the 2004 general rate application, I
21 stated that there is a reasonable possibility that the
22 cost of a severe drought can be as high as \$2 billion.

23 This was based on a set of judgments on
24 the coincidence of factors such as high natural gas
25 prices, high market prices for energy, adverse weather

1 conditions and adverse currency exchange rates.

2 Based on further information since that
3 time, it has become even more clear that the cost of a
4 severe drought can be as high as \$2 billion.

5 Furthermore, it was noted, in the 2004 Electric General
6 Rate Application, that costs of droughts would increase
7 by a further \$200 million over a five (5) year period,
8 due to increased interest costs that result from five (5)
9 years of losses.

10 Thank you.

11 MS. PATTI RAMAGE: Thank you, Mr.
12 Surminski for providing that perspective. Mr. Chairman,
13 with that, that completes Manitoba Hydro's direct
14 evidence and I would turn the panel over to, I believe,
15 if I understand the proceedings correctly, to Board
16 counsel for cross-examination.

17 THE CHAIRPERSON: Thank you, Ms. Ramage.
18 Mr. Peters, are you inclined to begin now or would you
19 rather wait until, say, 1:15?

20 MR. BOB PETERS: At your pleasure.

21 THE CHAIRPERSON: Why don't we come back
22 at 1:15, since we're shutting it down fifteen (15)
23 minutes early. See you all at 1:15.

24

25 --- Upon recessing at 11:45 a.m.

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

2

3 THE CHAIRPERSON: Mr. Peters, are you in
4 good form?

5 MR. BOB PETERS: Thank you, Mr. Chairman.
6 I suppose you will be the ultimate judge of that.

7 But, I do want to say at the outset to the
8 Panel and to the Board and to all assembled that I hope
9 that at least my early questions will lay a foundation on
10 which either all can build or perhaps others may try to
11 renovate.

12 And with that in mind my questions are
13 addressed to the Panel and not to one individual in
14 particular. And all that I'm requesting is that the
15 Board receive the corporate response and not any -- any
16 other response.

17 So with that in mind, Mr. Chairman, I'll
18 start off by maybe seeking common ground.

19

20 CROSS-EXAMINATION BY MR. BOB PETERS:

21 MR. BOB PETERS: Would the Panel agree
22 that a cost of service study is a method of allocating
23 Manitoba Hydro's costs to the various customers that it
24 serves?

25 MR. CHIC THOMAS: Yes.

1 MR. BOB PETERS: And would you agree that
2 most, if not all utilities do that in some -- in some
3 way?

4 MR. CHIC THOMAS: Some way, shape or
5 form, yes.

6 MR. BOB PETERS: Would you also agree
7 that the purpose is to determine a fair sharing of
8 Manitoba Hydro's revenue requirement amongst its customer
9 classes?

10 MR. CHIC THOMAS: That's the intent.

11 MR. BOB PETERS: And that is Manitoba
12 Hydro's intent?

13 MR. CHIC THOMAS: Correct.

14 MR. BOB PETERS: That's always been
15 Manitoba Hydro's intent?

16 MR. CHIC THOMAS: Correct.

17 MR. BOB PETERS: And you would understand
18 that -- and agree with me that fair-sharing is a
19 subjective term?

20 MR. CHIC THOMAS: Yes.

21 MR. BOB PETERS: And you've perhaps even
22 heard, in the opening comments today, that other people
23 may take a different view as to what is perceived as
24 fair?

25 MR. CHIC THOMAS: Absolutely.

1 MR. BOB PETERS: And you will acknowledge
2 that there are many allocation methodologies, correct?

3 MR. CHIC THOMAS: Yes.

4 MR. BOB PETERS: Is it the central aim of
5 Manitoba Hydro to allocate the costs to customer classes
6 based on known customer characteristics?

7 MR. CHIC THOMAS: That's always our
8 intent and -- and look at the fairest way possible for
9 both our customers and -- and something that's applicable
10 to our system as well.

11 MR. BOB PETERS: I -- I take from that
12 answer, Mr. Thomas, that not only do you want to be fair
13 to your customers but fair to your system; would that
14 be --

15 MR. CHIC THOMAS: Well --

16 MR. BOB PETERS: Am I understanding
17 correct?

18 MR. CHIC THOMAS: -- fair to the system
19 in the sense that what you do for a thermal system as
20 opposed to a hydraulic system could be totally different,
21 but, on both cases, fair.

22 MR. BOB PETERS: All right. So what
23 you're saying is that you want to allocate your costs to
24 customer classes based on their known customer
25 characteristics, baring in mind that you are

1 predominantly a hydraulic utility?

2 MR. CHIC THOMAS: That's fair.

3 MR. BOB PETERS: Is the Cost of Service
4 Study a pricing exercise for Manitoba Hydro?

5 MR. ROBIN WIENS: I think it's fair to
6 say that the Cost of Service Study is something that we
7 take very close look at in terms of a pricing exercise,
8 but technically, no, it is not a pricing exercise.

9 MR. BOB PETERS: And it's -- it's clear,
10 is it, Mr. Wiens, that there are no rate changes sought
11 by Manitoba Hydro in the application that's presently
12 before the Board?

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

14 MR. BOB PETERS: When you said it was --
15 that the Cost of Service Study is something the company
16 looks at in terms of pricing, what type of pricing were
17 you referring to?

18 MR. ROBIN WIENS: The cost of service
19 study provides us with guidelines regarding the
20 appropriate amount of revenue to recover from each of our
21 customer classes, and it also provides us an indication
22 of the embedded cost of some of the items that we price,
23 including the embedded cost related to customers, related
24 to demand, and related to energy.

25 MR. BOB PETERS: The third -- the third

1 answer there, Mr. Wiens, was that it helps you determine
2 how to price demand as -- as compared to energy?

3 MR. ROBIN WIENS: It provides us with
4 guidance, both in terms of the revenue to be recovered
5 from each of the customer classes, and in terms of the
6 unit embedded cost of some of those factors that we
7 price, including cost per customer, cost per unit of
8 demand, and cost per unit of energy.

9 MR. BOB PETERS: All right. I'll come
10 back to some of that in my questioning. Mr. Wiens, in
11 your responsibility for filing the Cost of Service Study
12 with the Board, you're telling the Board that Manitoba
13 Hydro has been performing cost of service studies for
14 approximately thirty (30) years; would that be right?

15 MR. ROBIN WIENS: I would -- yeah, with
16 emphasis on the word "approximately." I -- I cannot be
17 sure exactly when the first cost of service study was
18 prepared, but I believe we have some that go back into
19 the 1970's in our archives.

20 MR. BOB PETERS: Does that mean, Mr.
21 Wiens, that you were setting rates before that without
22 the benefit of a cost of service study?

23 MR. ROBIN WIENS: You know, I am not
24 really in a position to answer that because I wasn't
25 there at that time.

1 MR. BOB PETERS: Well, then if it
2 follows, Mr. Wiens, that -- that there may have been
3 times when there was no cost of service study even
4 prepared by the company, wouldn't it also follow that
5 then the rates weren't dependent on the results of a cost
6 of service study?

7 MR. ROBIN WIENS: Again, there may have
8 been no formal cost of service study as we know it today,
9 but I would be surprised if there were not other
10 benchmark measures that would have been utilized prior to
11 the first formal cost of service study.

12 MR. BOB PETERS: All right. Fair enough.
13 If I want to get too far back I'll have to turn to my
14 left, I guess. At least -- at least in the next few
15 weeks that I'm able to.

16 Mr. Wiens, in 2006, would you suggest that
17 the Cost of Service Study principles used by the
18 corporation follow those that had been done for those
19 previous, approximate, thirty (30) years?

20 MR. ROBIN WIENS: With respect to what we
21 have described as the current method and broadly
22 speaking, yes.

23 MR. BOB PETERS: But over the years the
24 Board, some members may recall more times than others,
25 but there may be matters that come before the Board on

1 predominantly general rate applications, where Manitoba
2 Hydro is seeking to refine the cost of service
3 methodology; would that also be true?

4 MR. ROBIN WIENS: Yeah, without trying to
5 be too specific about recalling specific examples, yes,
6 that's true.

7 MR. BOB PETERS: And those refinements,
8 Mr. Wiens, have been primarily because your data
9 collection has been better, as opposed to prior years?

10 MR. ROBIN WIENS: In my recollection,
11 yes.

12 MR. BOB PETERS: And the better data is
13 sometimes as a result of additional technology, or new
14 technology, such things as metering and the like that
15 allows you to analyse to a more accurate degree?

16 MR. ROBIN WIENS: In part. And it's also
17 the result of having undertaken additional expenses in
18 order to understand the load shapes of our various
19 customer classes in a better way.

20 MR. BOB PETERS: And that spending of
21 more money means putting in more resources into your
22 department?

23 MR. ROBIN WIENS: My department or
24 others.

25 MR. BOB PETERS: In the evidence the

1 Board has heard so far from the Panel, you talk about the
2 use of an embedded cost of service study, and that really
3 just means that the unit costs represent the average to
4 serve all the customers in a class, based on historic
5 cost?

6 MR. ROBIN WIENS: Generally speaking,
7 yes.

8 MR. BOB PETERS: And when we talk about
9 historical costs, Mr. Wiens, that's as opposed to
10 something like replacement cost or other -- other
11 examples of cost that the Chairman used in his opening
12 comments?

13 MR. ROBIN WIENS: When we're talking
14 about capital related items, yes, that's what it means;
15 historically incurred cost to put in place generating
16 stations and transmission lines, and so forth, that are
17 in place today, and they're carried on the books of
18 Manitoba Hydro at historic costs and they're depreciated.
19 And the costs were incurred in the vintage of the --
20 dollar vintage of the year that they were put in place.

21 So, a good part of the costs in an
22 embedded study are indeed based on historic costs. But,
23 we also have operating and maintenance and administrative
24 expenses that in many cases are not related to capital
25 and they're -- those would be current costs.

1 We would -- we do our forecast of those
2 costs for the test year and those costs are today's
3 costs.

4 MR. BOB PETERS: When -- just let me
5 catch you on that historical cost when you're talking
6 about capital items, you're talking about the money that
7 the Corporation has previously invested in your plant
8 that's in service and, as you say, has been depreciated?

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

10 MR. BOB PETERS: All right.

11 MR. ROBIN WIENS: And, of course, in a
12 test year there are other investments that are made and
13 they will be in current dollars, as well.

14 MR. BOB PETERS: And in a test year, what
15 you're telling the Board, Mr. Wiens, is that the test
16 year is usually a forward -- a forward year, a
17 prospective year and therefore you would also include any
18 forecast capital expenditures and the resulting
19 depreciation and finance costs of those items?

20 MR. ROBIN WIENS: Yes.

21 MR. BOB PETERS: But as for the other
22 aspects and we'll see that on paper in a few minutes,
23 you're telling the Board that you're using current costs,
24 or at least no more outdated than one (1) year out of
25 date or however far off the test year is?

1 MR. ROBIN WIENS: Yes, that's correct.
2 They are costs incurred on the basis of current plant and
3 on the forecast of next years operating, maintenance and
4 administrative expense.

5 MR. BOB PETERS: The historic cost that
6 you talk about, primarily for capital expenditures, Mr.
7 Wiens, are not inflation adjusted, are they?

8 MR. ROBIN WIENS: They are included in
9 the books of Manitoba Hydro at their actual incurred cost
10 in the year that they were incurred, using Manitoba
11 Hydro's depreciation rates and therefore, no, they have
12 not been adjusted for the impact of inflation on the
13 value of those costs. Those are historic costs.

14 MR. BOB PETERS: And you don't do cost of
15 service studies using replacement costs of the capital
16 assets?

17 MR. ROBIN WIENS: No, we don't.

18 MR. BOB PETERS: Why is that?

19 MR. ROBIN WIENS: To date our cost
20 recovery has been based on the costs as actually incurred
21 or expected to be incurred in the test year. Our rates
22 have been designed to recover that revenue and that is
23 the approach that we have taken.

24 We haven't -- we haven't attempted to come
25 before this Board and ask for rates based on replacement

1 costs so we haven't gone through and done that particular
2 analysis.

3 MR. BOB PETERS: If you did that
4 particular analysis, Mr. Wiens, you would then have to
5 adjust your replacement costs down and somehow convert
6 those back or relate those back to a revenue requirement;
7 would that also be correct?

8 MR. ROBIN WIENS: If we did a replacement
9 cost study and we were intending on collecting revenue
10 that was based on some other basis, whatever that might
11 be, we would have to do the adjustment, yes.

12 MR. BOB PETERS: All right. The same on
13 marginal costs, we will have -- we have heard a little
14 bit and we'll hear more, but your cost of service study
15 that you performed is not -- is not based on any marginal
16 costs; would that be correct?

17 MR. ROBIN WIENS: We're not trying to
18 recover or incorporate directly into the study any
19 marginal costs. As we have discussed, we have used
20 marginal costs to assist us in classifying and allocating
21 generation costs, but the costs that are actually
22 classified and allocated are embedded costs.

23 MR. BOB PETERS: There are such animals
24 as marginal cost of service studies, correct?

25 MR. ROBIN WIENS: Some people call them

1 animals. It's not what I call them.

2 MR. BOB PETERS: That's not a -- that's
3 not an exercise that Manitoba Hydro has ever undertaken?

4 MR. ROBIN WIENS: Manitoba Hydro has
5 undertaken in the past and continues to undertake today,
6 marginal cost studies. But, we don't use them in our
7 Corporation cost of service study and we don't use them
8 in setting revenue requirements.

9 MR. BOB PETERS: For what do you use
10 them?

11 MR. ROBIN WIENS: Most typically they're
12 used to evaluate resource options because those are the
13 cost of pursuing different resource paths. They're used
14 to evaluate the economics of demand side management
15 programs, for example, and the economics of different
16 options for expanding the generation base within
17 Manitoba.

18 MR. BOB PETERS: Moving to the -- the
19 embedded cost of service study, you'd agree with me that
20 Manitoba Hydro's costs then depend on investment
21 decisions that have been made in the past?

22 MR. ROBIN WIENS: To a substantial degree
23 but not entirely.

24 MR. BOB PETERS: And the "not entirely"
25 means that there is some current or forecast year

1 included in the Cost of Service Study?

2 MR. ROBIN WIENS: Yeah, that is not
3 necessarily based on the value of an investment taken in
4 the past.

5 MR. BOB PETERS: Can you give me an
6 example, Mr. Wiens?

7 MR. ROBIN WIENS: Well, the example that
8 I've been using in the last few minutes has been
9 operating, maintenance and administration costs. Now,
10 it's fair to say that on a year to year basis the costs
11 associated with capital may change somewhat too, but it's
12 rather -- at a rather incremental pace.

13 Manitoba Hydro has to refinance debt, for
14 example, that'll be refinanced at today's interest rate.
15 But it's not, of course, the situation that a huge
16 portion of invest -- capital and debt is rolled over
17 every year. So those changes are gradual.

18 MR. BOB PETERS: Thanks for that. When
19 your work is all said and done, Mr. Wiens and Mr. Thomas,
20 would you agree that the allocation of costs is only
21 approximate?

22 MR. CHIC THOMAS: Yes, that's right.
23 That's why we established the -- what we call the Z-O-R
24 or ZOR, plus or minus 5 percent, that the Chairman had
25 mentioned.

1 MR. BOB PETERS: So the zone of
2 reasonableness is another tool that is used in perhaps in
3 rate design as opposed to cost of service?

4 MR. ROBIN WIENS: I guess it's correct to
5 say that it's used in setting class revenue requirements
6 in a particular year rather than rate design. Setting
7 the amount of revenue to be recovered from rates.

8 MR. BOB PETERS: I'm not sure if we're
9 splitting hairs on that, Mr. Wiens, but your -- your
10 point is when you use the Cost of Service Study you
11 accept that there will be some imprecision and that when
12 you set the revenue that you need to recover from a class
13 you build that imprecision in at that time?

14 MR. ROBIN WIENS: Well, we recognize the
15 imprecision in decisions about how much revenue to
16 recover from a class with a given, say, general rate
17 application; that's where we recognize the imprecision.

18 MR. BOB PETERS: Will Manitoba Hydro
19 agree that there is no absolute right or wrong way to
20 allocate these costs?

21 MR. ROBIN WIENS: You're dealing with --
22 when you're talking about a public utility plant, an
23 operation such as Manitoba Hydro, you're dealing with a
24 lot of costs which are common costs which are shared by a
25 whole group of customers, so there is no precisely right

1 way of carrying on a cost of service study.

2 We do try to, of course, use methods that
3 we believe are more appropriate to the type of system
4 that Manitoba Hydro has in place to serve its customers
5 but we will not say or make the claim that we can
6 allocate costs with complete precision.

7 MR. BOB PETERS: And from that answer,
8 Mr. Wiens, the Board can understand that each utility
9 will be unique because there's no other utility in the
10 whole world that's exactly the same as Manitoba Hydro
11 and, therefore, their allocation techniques can also be
12 different?

13 MR. ROBIN WIENS: That's correct. I
14 mean, every utility is unique and we do share some
15 features with some utilities more than we share with
16 others. But everyone is unique and -- and everyone --
17 well, they may or may not use the same techniques but
18 they use the techniques that they feel are most
19 appropriate to their situation.

20 MR. BOB PETERS: And reasonable people
21 can have different views on -- on that?

22 MR. ROBIN WIENS: I would say reasonable
23 people can have different views and usually do.

24 MR. BOB PETERS: Mr. Thomas, did you tell
25 me earlier that one of your objectives was to select a

1 method that best represents cost causation?

2 MR. CHIC THOMAS: I did.

3 MR. BOB PETERS: Is that different than a
4 method that equitably shares the costs?

5 MR. ROBIN WIENS: Cost causation is one
6 (1) dimension, and I would say a fairly significant
7 dimension of equitable sharing of costs.

8 MR. BOB PETERS: But there are more
9 factors that get into equitable sharing over and above
10 then, cost causation; is that what I hear you say, Mr.
11 Wiens?

12 MR. ROBIN WIENS: I -- I guess I would
13 say that the concept of fairness is usually tied to
14 concepts of -- of like customers, similar customers
15 should bear a similar share of the costs, dissimilar
16 customers should have dissimilar shares of the costs.

17 Cost is -- is a very large portion of it.
18 And where you're not talking about cost you may be
19 talking about things like maintenance of historic or
20 established relationships. You may be talking about
21 impact of -- of government policy or long-standing
22 practice that can cause something to vary from a pure
23 cost consideration.

24 But pure cost is a pretty significant part
25 of fairness and equity.

1 MR. BOB PETERS: You said "pure cost";
2 you meant cost causation?

3 MR. ROBIN WIENS: Cost causation, yes.

4 MR. BOB PETERS: Cost causation is a
5 significant part of equitable sharing of those costs?

6 MR. ROBIN WIENS: Yes.

7 MR. BOB PETERS: And when we talk about
8 cost causation and the equitable sharing of costs, is net
9 export revenue a cost in the Corporation's eyes?

10 MR. ROBIN WIENS: No, it's not.

11 MR. BOB PETERS: You don't -- so you --
12 you draw a distinction between the out-of-pocket costs or
13 expenses that the Corporation has and the receipts that
14 it has from the export program as two (2) distinct items?

15 MR. ROBIN WIENS: Yeah, one (1) is a
16 revenue, exports are a revenue, and -- and the other is a
17 cost, is the cost of the system. Historically we have
18 treated export revenue in a cost of service study because
19 it -- it is reasonable to conclude that -- that the
20 exports can be used to offset some share of the costs.

21 Exports, for -- for much of the history of
22 Manitoba Hydro, since we've been making exports, could be
23 reasonably viewed as a byproduct of having a system in
24 place to meet the needs of Manitoba's domestic customers.
25 And as a byproduct it's reasonable to assign that back

1 against the cost that's incurred to -- to share -- to
2 serve those customers.

3 MR. BOB PETERS: But the rules for the
4 equitable sharing of costs changes when it comes to what
5 is the equitable sharing of revenues; is that Manitoba
6 Hydro's position?

7 MR. ROBIN WIENS: I believe that's a
8 reasonable statement, yes.

9

10 (BRIEF PAUSE)

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12 MR. BOB PETERS: Trying to keep this
13 moving at a higher level, initially, Mr. Wiens, after all
14 of the effort to prepare a cost of service study you end
15 up with the results and the Board often sees those
16 results in the form of revenue-to-cost ratios; is that
17 correct?

18 MR. ROBIN WIENS: That's correct.

19 MR. BOB PETERS: And those revenue-to-
20 cost ratios are not adjusted before they are calculated
21 based on any zone of reasonableness, are they?

22 MR. ROBIN WIENS: The revenues are
23 forecast based on expected usage by each of the customer
24 classes and the rates that we expect to have them placed
25 in the test year. The costs are allocated among the

1 customers and -- and what -- what comes out, comes out.
2 We don't consider the zone of reasonableness in -- in
3 setting out the results of the Cost of Service Study.

4 MR. BOB PETERS: So those results are an
5 actual calculation as the Board will see and any impact
6 or a consideration of a zone of reasonableness takes
7 place after they're calculated; would that also be
8 correct?

9 MR. ROBIN WIENS: If we're presenting the
10 Cost of Service Study with a -- and it incorporates a
11 rate proposal in a general rate application the zone of
12 reasonableness will in all likelihood be one (1) of the
13 factors that is considered in the revenue.

14 If we're preparing a cost of service study
15 based on existing rates, it comes out what -- as it comes
16 out.

17 MR. BOB PETERS: All right. Fair enough
18 on that Mr. Wiens. The degree to which a customer class
19 or sub-class pays its allocated costs is compared by the
20 Utility to unity. Unity being, revenues recover all of
21 their allocated costs?

22 MR. ROBIN WIENS: That's right.

23 MR. BOB PETERS: And if something is
24 below Unity or revenue to cost ratio is less than one
25 point zero (1.0) it's an indication that, at least on

1 paper, and by way of the numbers as imprecise as they may
2 be that class or sub-class is not fully paying its
3 allocated costs?

4 MR. ROBIN WIENS: It's not -- it's
5 definitely not paying its costs as allocated in that
6 particular cost of service study.

7 MR. BOB PETERS: All right. And then the
8 -- it follows then, Mr. Wiens, that if the revenue to
9 cost ratio was greater than 1.0 that customer class or
10 sub-class is, in that cost of service study, paying more
11 than their fully allocated costs?

12 MR. ROBIN WIENS: Yes.

13 MR. BOB PETERS: Mr. Surminski, to bring
14 you into the discussion and I don't mean to leave Mr.
15 Warden out at any time, but does Manitoba Hydro use the
16 Cost of Service Study for general planning purposes?

17 MR. HAROLD SURMINSKI: No, it does not.

18 MR. BOB PETERS: Rather I would suspect,
19 Mr. Surminski, that Manitoba Hydro would use your total
20 resource plan to consider its generation steps and
21 options; would that be true?

22 MR. HAROLD SURMINSKI: Can you clarify
23 what you mean by total resource plan?

24 MR. BOB PETERS: The power generating or
25 the -- this will be easier, tell the Board what you do

1 use?

2

3

(BRIEF PAUSE)

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MR. HAROLD SURMINSKI: In planning our system, is that what you're --

7

MR. BOB PETERS: Yes, in planning your system you'd use the power resource plan, that's the document that has more weight than the Cost of Service Study, correct?

10

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MR. HAROLD SURMINSKI: Yes, certainly.

12

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MR. BOB PETERS: And I think your previous answer to the Board was that the Cost of Service Study isn't used at all in planning the future generation needs and options of the company?

16

17

MR. HAROLD SURMINSKI: Yes, that's correct.

18

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MR. BOB PETERS: Would you agree, Mr. Surminski, that even if the Cost of Service Study is, and I'll put in quotes, "wrong", however that it's wrong, it has no impact on your generation planning?

22

23

MR. HAROLD SURMINSKI: Yes, I would agree with that.

24

25

MR. BOB PETERS: Mr. Surminski, does Manitoba Hydro use the results of the Cost of Service

1 Study to price its export sales?

2 MR. HAROLD SURMINSKI: No, it does not.

3 MR. BOB PETERS: Can you tell the Board
4 how it does -- how Manitoba Hydro does price its export
5 sales?

6 MR. HAROLD SURMINSKI: Export sales are
7 derived from what the market can bear.

8 MR. ROBERT MAYER: Sort of like criminal
9 law, Bob.

10 MR. BOB PETERS: In terms of what the
11 market can bear then, Mr. Surminski, it will depend on
12 what other options are available to the person to whom
13 you're trying to export power, you'd agree with that?

14 MR. HAROLD SURMINSKI: Yes I would.

15 MR. BOB PETERS: And those other options
16 could include other fuel -- fuel supplied generation?

17 MR. HAROLD SURMINSKI: Yes, certainly.

18 MR. BOB PETERS: But, when you say "what
19 the market can bear," are you suggesting that regardless
20 of how a utility generates its electricity from whatever
21 source, Manitoba Hydro may be an export option for it, or
22 an import option for it, just based on price?

23 MR. HAROLD SURMINSKI: I'm not sure quite
24 what you mean by that.

25 MR. BOB PETERS: Is the only factor that

1 Manitoba Hydro concerns itself with when it enters into
2 export contracts is what the market price is for
3 electricity into the market in which you are trying to
4 sell?

5 MR. HAROLD SURMINSKI: Depends on -- on a
6 competitive market. We do undertake bilateral sales and
7 we mutually negotiate a --a fair price. But usually the
8 price is related to -- to market conditions.

9 MR. LEN EVANS: Mr. Chairman, I wonder if
10 I could interrupt with just a brief question, a
11 supplement; are we talking -- are we -- are you saying
12 then that really Manitoba Hydro is a price taker? A
13 price taker?

14 In other words, you -- you're not able to
15 get out in the market and negotiate prices; you pretty
16 well have to take what you can get at that particular
17 time?

18 MR. HAROLD SURMINSKI: Yes, I would agree
19 with that.

20 MR. LEN EVANS: Yeah. Thanks.

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: And if -- if in your
24 looking to price export sales, Mr. Surminski, you're
25 checking to see if your incremental cost compares to the

1 incremental revenues that it's going to bring in; would
2 that be true?

3 MR. HAROLD SURMINSKI: Yes. And we -- we
4 don't undertake sales if we don't expect to profit in the
5 transaction.

6 MR. BOB PETERS: And by definition those
7 incremental revenues have to exceed your incremental
8 costs otherwise there will be no profit?

9 MR. HAROLD SURMINSKI: That's correct.

10 MR. BOB PETERS: And does the Corporation
11 -- no, maybe Mr. Warden this one for you, I don't know,
12 but does Manitoba Hydro expect the cost of service
13 methodology that may or may not be approved as a result
14 of this hearing to apply when Wuskwatim generation is --
15 is on stream?

16 MR. VINCE WARDEN: No, Wuskwatim isn't
17 going to come in, at the earliest, until 2011, if then.
18 The method of allocating costs and revenues in the Cost
19 of Service Study will be modified to reflect the
20 conditions of -- of the agreements that are ultimately
21 negotiated with the First Nations.

22 So, no, I think the Cost of Service Study
23 we have before this Board is for rates that we anticipate
24 to put forward -- put before the Board in upcoming rate
25 applications in the next number of years before Wuskwatim

1 comes into service.

2 MR. BOB PETERS: And do I take from that
3 answer, Mr. Warden and Panel members, that when Wuskwatim
4 comes online the Corporation is envisioning that there
5 will need to be further revisions to the cost of service
6 methodology of the Corporation?

7 MR. VINCE WARDEN: I would expect that to
8 be the case, yes.

9 MR. BOB PETERS: Can you briefly explain
10 to the Board why you would expect there to be a need for
11 cost of service study revisions in, say, five (5) years
12 when Wuskwatim comes on at the earliest?

13 MR. VINCE WARDEN: Well, I think there's
14 -- there's always going to be refinements to our cost of
15 service study. This -- what we're talking about with
16 this filing is a fairly major change to our cost of
17 service methodology. Wuskwatim, the partnership that
18 we're entering into at Wuskwatim is -- is unique; has
19 never been done before in Manitoba and perhaps not in
20 Canada.

21 There will be implications on how those
22 costs affect our cost of service study and how they flow
23 through our cost of service study. We haven't, I must
24 admit, at Manitoba Hydro, put our minds yet to that and
25 haven't tried to model that in the Cost of Service Study

1 and at the appropriate time we'll do that but I would
2 expect there would be some -- some impacts.

3 MR. ROBERT MAYER: Before we go much
4 farther down this road it's my understanding, and correct
5 me if I'm wrong, sir, that, firstly, before Hydro will
6 build Wuskwatim it needs a positive vote on a referendum
7 from NCN; am I correct on that?

8 MR. VINCE WARDEN: You are correct, Mr.
9 Mayer.

10 MR. ROBERT MAYER: It's also my
11 understanding that if there's a negative vote Hydro has
12 undertaken that it will not attempt to build and will not
13 build in the face of a negative referendum vote.

14 MR. VINCE WARDEN: That's our position,
15 yes.

16 MR. ROBERT MAYER: So until we -- and if
17 and when you get a positive vote, and that positive vote
18 -- and I understand there's a positive vote based on an
19 existing proposal, there's also a possibility that if the
20 -- if NCN doesn't choose to buy into the project there
21 may still be a possibility that somebody could construct
22 on another term that would call for compensation to the
23 community as opposed to having them build into a
24 partnership.

25 Is that correct?

1 MR. VINCE WARDEN: I think if there's a
2 negative vote anything is possible.

3 MR. ROBERT MAYER: But without the advice
4 and consent of the NCN Band members, Wuskwatim will not
5 proceed, right?

6 MR. VINCE WARDEN: That is the position
7 of the Corporation, yes.

8 MR. ROBERT MAYER: And even if the
9 referendum vote is held in June, as it is presently
10 scheduled, and I think everyone will concede it has been
11 scheduled on a number of other occasions, so even if you
12 get a positive vote sometime in June, it's my
13 understanding that you need to build the access road in
14 winter.

15 So you can't start until you've got frost
16 on the ground, right?

17 MR. VINCE WARDEN: That's my
18 understanding as well, Mr. Mayer.

19 MR. ROBERT MAYER: So can you really,
20 conceivably look at an in-service date of 2011, from this
21 perspective?

22 MR. VINCE WARDEN: 2011 is still the
23 official in-service date for Wuskwatim. Whether that
24 will change in the future is up to people that are
25 responsible for -- for building that facility. At this

1 time, though, 2011 is the official date.

2 MR. ROBERT MAYER: Thank you, sir.

3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: Thank you.

6 MR. HAROLD SURMINSKI: I can --

7 MR. BOB PETERS: Certainly.

8 MR. HAROLD SURMINSKI: There's a couple
9 of things here. I believe it is 2012; our -- our date
10 has slipped. And -- and construction, actually for land
11 -- for the terrain being frozen, I think the intent is --
12 is to actually do some summer construction on -- on the
13 high areas, on the areas other than the swamp and muskeg
14 areas.

15 MR. ROBERT MAYER: I distinctly recall
16 being told in another place that we needed to have
17 certain orders out by January of a certain year because
18 it was absolutely essential that Hydro commence building
19 its winter road in the winter because otherwise, firstly,
20 it would do significantly more environmental damage if
21 they tried to operate in the summer.

22 And if you can only build parts of the
23 road, how would you -- unless you're going to do it with
24 helicopters, I have no idea how you would sort of build
25 on the high ground without getting across the low ground

1 first.

2 MR. HAROLD SURMINSKI: It is my
3 understanding that -- that there will be actual -- actual
4 construction in the -- and on in the frost season.

5 MR. VINCE WARDEN: I think the -- the
6 point of this discussion, though, is to what extent will
7 Wuskwatim have an impact on the Cost of Service Study.
8 And we're entering the realm of station where -- whereby
9 export revenues that -- that are derived from Wuskwatim
10 will be shared through a partnership.

11 The partnership arrangement will be
12 structured such that there will be a flow of revenues
13 back to Manitoba Hydro. What impact that will have on
14 the Cost of Service Study at this point, we have not
15 modelled.

16 MR. ROBERT MAYER: Mr. Warden, I think
17 the point I was trying to make, and I realize it's taken
18 a lot longer doing it than I intended to, is that quite
19 frankly we don't know where Wuskwatim is going at this
20 point in time. In any event, it's not coming on until
21 now 2012 and it's probably totally irrelevant to these
22 proceedings that we're dealing with over the next month
23 or so.

24 MR. VINCE WARDEN: I would agree with
25 that, yes.

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CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: At the risk of treading on to that ground with just a few more questions in light of those answers and questions, I -- I take it it's common ground then, Mr. Warden, that the pricing out of the Wuskwatim generation, that has already been negotiated, at least in principle?

MR. VINCE WARDEN: Well, there are assumptions about what revenues will be derived based on forecasts and market conditions when Wuskwatim comes into service in 2012, as we've just been told.

MR. BOB PETERS: And when you say there's a partnership being created, is it Manitoba Hydro that is in a partnership or is Manitoba Hydro creating a separate corporate entity to enter into a partnership?

MR. VINCE WARDEN: Well it's a rather complicated structure, but I guess in terms of in its simplest form, it would be a separate legal entity, yes.

MR. BOB PETERS: And is that information on the public record somewhere, that if a person was so inclined they could go and review it in greater detail?

MR. VINCE WARDEN: I believe that was presented at the hearings, the Wuskwatim hearings, yes.

MR. BOB PETERS: All right. So if it's a

1 separate corporate entity that's being formed and
2 entering into a partnership with NCN, that partnership
3 will own the generation; is that what you're telling the
4 Board?

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

7 MR. BOB PETERS: And if that partnership
8 owns the generation, it will then be, loosely put, an
9 independent power producer in the Province of Manitoba
10 that will sell electricity back to Manitoba Hydro?

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

13 MR. BOB PETERS: And I use the word,
14 independent power producer, and the 'independent' might
15 have to be in quotes because it is a separate corporate
16 entity, but it's set up by Manitoba Hydro?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: Now, you will purchase
19 power from Wuskwatim at prices that have been assumed in
20 the agreement that you're entering into with NCN, would
21 that also be true?

22 MR. VINCE WARDEN: Well, the power -- the
23 output of Wuskwatim will initially be sold on the export
24 market at prices that have been assumed for that purpose,
25 yes.

1 MR. BOB PETERS: I see. So -- so 100
2 percent of the Wuskwatim generation will be designated
3 for export and export only?

4 MR. VINCE WARDEN: Initially, yes.

5 MR. BOB PETERS: And initially means
6 until 2019, Mr. Surminski?

7 MR. HAROLD SURMINSKI: Yes. And when --
8 it's difficult to say 100 percent. It's taken -- the
9 power is taken into our system, and if we have a drought
10 year, we use the power in our system. So it's not --
11 it's not strictly for export in all years and all stream
12 flow conditions.

13 MR. BOB PETERS: Okay. With that
14 qualification, Mr. Surminski, you told the Board that
15 your export prices would be based on making sure that the
16 incremental revenue was greater than the incremental
17 cost.

18 Have I got that right?

19 MR. HAROLD SURMINSKI: Yes.

20 MR. BOB PETERS: What I hear you now
21 telling the Board is you can't always be assured that
22 that's going to happen with Wuskwatim generation.

23 MR. HAROLD SURMINSKI: Yes, the power
24 purchase agreement is based on the average and the long
25 term average of all possible flow conditions and

1 scenarios of high and low flows. So the pricing being
2 tied to the export market, works out in the long term, it
3 may not work out in any particular month or year.

4 MR. BOB PETERS: I hear from that answer
5 that in the drought year, whenever it occurs, and you're
6 confident it will occur but you're just not confident in
7 telling the Board when that will be, that you will --
8 it's quite possible you will have paid more to buy the
9 power from the Wuskwatim generating company than you can
10 charge your domestic consumers for it?

11 MR. HAROLD SURMINSKI: Yes, that
12 certainly is possible.

13 MR. BOB PETERS: And that will cause Mr.
14 Warden some problems because that will mean that you're
15 losing money?

16 MR. HAROLD SURMINSKI: Only in that year,
17 but in other years, when things are more favourable, we
18 get more than offsetting that. So in the power purchase
19 agreement this has all been factored in on probabilities
20 of all the possible events occurring and, on average, the
21 partnership and the purchase of power is advantageous to
22 Manitoba Hydro.

23 MR. BOB PETERS: I appreciate that, Mr.
24 Surminski, I was just trying to pick a worse case example
25 which certainly you've thought about before today.

1 MR. HAROLD SURMINSKI: Yes, and I agree
2 with your example.

3 MR. BOB PETERS: All right. Getting back
4 to the Cost of Service Study, I'm having a little
5 difficulty understanding why, I think I heard a possible
6 candidate for mother of the year say this morning, you
7 don't want to throw the baby out with the bathwater, and
8 if -- I'm not sure that she meant it in that fashion, but
9 why would you have to have a new cost of service study
10 methodology if an independent power producer is selling
11 you power some seven (7) years -- six (6) or seven (7)
12 years from now?

13 What would be the cause of having to
14 revamp the cost of service methodology? Mr. Wiens, I'm
15 not sure if that's something you can assist on?

16 MR. ROBIN WIENS: Yeah. I'm not -- I'm
17 not sure if it's entirely fair to ask Mr. Surminski to
18 respond to that question.

19 MR. BOB PETERS: We do want to be fair
20 and equitable here, Mr. Wiens, so.

21 MR. ROBIN WIENS: I -- and I know that.
22 It's -- I think what Mr. Warden said is correct. We
23 can't know, even if we would be required to make changes
24 into the Cost of Service Study, until we get a little
25 further down the road in terms of Wuskwatim.

1 Among other things that could influence
2 whether or not that would be a requirement, is whatever
3 decision comes out of these proceedings could influence
4 whether or not we need to examine something like
5 Wuskwatim in a different way than we do for the rest of
6 the generating system.

7 MR. BOB PETERS: I don't understand that
8 last answer, Mr. Wiens. I thought we had already reached
9 the point where this cost of service study is not used to
10 price electricity of the Corporation, certainly not used
11 to price the Wuskwatim electricity that is intended to be
12 purchased, so how can this cost of service study then
13 cause problems or concerns when Wuskwatim, if it ever
14 comes on stream, does come on stream?

15 MR. ROBIN WIENS: I'm not sure that it
16 causes concerns and problems. It -- it may create a
17 situation where we want to investigate to see if
18 Wuskwatim should be treated in a different way than other
19 generating resources on the system.

20 And the outcome of that examination might
21 be that no change is required.

22 MR. BOB PETERS: Is Wuskwatim going to be
23 considered a generating source, or is it going to be
24 simply purchase power as the -- as the line item on the
25 power resource plan?

1 MR. HAROLD SURMINSKI: Manitoba Hydro
2 will continue to operate the plant as -- as if it owned
3 it completely. We -- we do not intend to lose control of
4 operation; that's very specifically written into the
5 agreements. We want to operate it as part of our
6 integrated system so we have full control of operation.

7 MR. BOB PETERS: Okay. I appreciate that
8 but to that extent you might reflect it differently than
9 in your power resource plan. You may treat it as one of
10 your own generating stations even though you don't
11 legally own it but you do legally operate it. And I hope
12 the word "legally" didn't cause Ms. Ramage to jump up.

13 But what I'm saying is that there is a
14 distinction there.

15 MR. HAROLD SURMINSKI: A distinction only
16 in the way the revenues are coming back to the
17 Corporation. For a portion of the plant, it's only going
18 to be the portion, the partnership portion, the one third
19 (1/3) is the only portion that is -- will have revenues
20 coming back to the Corporation based on the power
21 purchase agreement price.

22 The remaining two thirds (2/3'S) is -- is
23 owned -- will be owned and operated by Hydro and we'll
24 get our normal value by selling on the export market at
25 whatever market is at the time.

1 MR. ROBERT MAYER: I would be careful, if
2 I were you, giving that kind of legal opinion. I'm
3 surprised Ms. Ramage hasn't shut you down at this point.
4 It's my understanding that you will own two-thirds
5 (2/3's) of the Corporation, which is basically a joint
6 venture that will -- that is proposed will own the
7 Wuskwatim generating station, that Manitoba Hydro will
8 have two-thirds (2/3's) of that corporation -- two-thirds
9 (2/3's) of the shares of that corporation.

10 Or is my -- did you in fact proceed by way
11 of the limited partnership we heard about? I'm not sure
12 where that came down; that was being discussed during the
13 course of the Clean Environment Commission hearings,
14 about a limited partnership, there might be some
15 advantage to proceeding that way in which Manitoba Hydro
16 would have two-thirds (2/3's) and NCN would have one
17 third (1/3).

18 I don't know whether that, in fact, is
19 what happened, or not?

20 MR. HAROLD SURMINSKI: I believe that's
21 right. That is a -- and I think it's a legal thing that
22 you're getting into which I'm -- I can't differentiate,
23 exactly.

24 MR. BOB PETERS: Let me move away from
25 that somewhat. There are no costs attributable to

1 Wuskwatim included in the 2006 cost of service study, are
2 there, Mr. Thomas?

3 MR. CHIC THOMAS: That's right.

4 MR. BOB PETERS: And likewise, for any
5 future generation, that is no costs for, say, Conawapa or
6 some other generation station?

7 MR. CHIC THOMAS: That's correct.

8 MR. BOB PETERS: And what about the
9 independent power producer that we do already have in
10 Manitoba, that is the wind generators?

11 MR. CHIC THOMAS: There are some costs
12 included in the cost of service.

13 MR. BOB PETERS: And the costs, how do
14 you categorize the costs for the wind generators that are
15 included in the Cost of Service Study, Mr. Thomas?

16 MR. CHIC THOMAS: It was a power
17 purchase. Just for sake of clarification, on the -- on
18 the capital related items and what's included in the cost
19 of service, if it's in -- if it's in service on the test
20 year it will be included in the cost of service.

21 So, for example, Wuskwatim, whose in-
22 service date is far out into the future, it would not
23 enter into it, but, for example, if there's something
24 major coming into service during the test year, that
25 would be included.

1 MR. BOB PETERS: Thank you, Mr. Thomas.
2 And if it's not in service in the test year but it's
3 being constructed, it goes into that file folder called
4 'capital expenditures?'

5 MR. CHIC THOMAS: That's correct.

6 MR. BOB PETERS: And those capital
7 expenditures will be brought out of that filing cabinet
8 only when it goes in service and then you'll start
9 charging that through to consumers by way of financing
10 costs and depreciation?

11 MR. CHIC THOMAS: That's when it finds
12 its way into the Cost of Service Study.

13 MR. BOB PETERS: Thank you. So I think
14 we all now understood that you're telling the Board that
15 the Cost of Service Study isn't used as a price-setting
16 tool, but it is a tool that helps in the designing of
17 rates or in proposing rate changes.

18 Are we agreed?

19 MR. ROBIN WIENS: We're agreed.

20 MR. BOB PETERS: And -- not to give away
21 the end of the movie, although I think we all know
22 Titanic and how that ends, the boat goes down, classes
23 that are less than unity, I think Mr. Warden indicated,
24 would -- in his direct evidence, could generally expect
25 more than the average rate increase in a general rate

1 application.

2 MR. ROBIN WIENS: That's correct.

3 MR. BOB PETERS: And classes that are
4 above unity, or a unity with the zone of reasonableness
5 built in, usually expect less of -- of a percentage rate
6 increase than the average.

7 MR. ROBIN WIENS: That would be the
8 usual.

9 MR. BOB PETERS: And is there any reason
10 for the Board to assume that the -- the usual rate design
11 principles of the Corporation will be altered if this
12 cost of service methodology is altered?

13 MR. ROBIN WIENS: No.

14 MR. BOB PETERS: Presently the zone of
15 reasonableness is plus or minus 5 percent; is that right?

16 MR. CHIC THOMAS: That's correct.

17 MR. BOB PETERS: It used to be more, it
18 used to be plus or minus 10 percent?

19 MR. CHIC THOMAS: Mr. Wiens would
20 probably have a better handle on the exact year but, yes,
21 that's correct.

22 MR. BOB PETERS: We won't -- we won't
23 make that part of the test. But as part of this
24 application before the Board, is there any suggestion on
25 behalf of the Utility that the zone of reasonableness

1 should change?

2 MR. ROBIN WIENS: We're not suggesting it
3 here. It -- it took us a long time to arrive at that
4 consensus and -- and we would have to have some pretty
5 strong reasons, I think, for moving away from it.

6 MR. BOB PETERS: That is moving away from
7 plus or minus 5 percent?

8 MR. ROBIN WIENS: That's correct. We --
9 we did go through a period, going back to 1989, 1990,
10 where we looked at plus or minus 15 percent as being
11 reasonable, that was before we had established the Load
12 Research Program. We -- we determined shortly after
13 that, that ten (10) -- plus or minus 10 percent was
14 reasonable.

15 And -- and I think eventually in 1996 this
16 Board gave us its judgment on what was a reasonable zone
17 of reasonableness, which was plus or minus 5 percent.

18 MR. BOB PETERS: Just before I leave that
19 Wuskwatim issue entirely, I just have a few more
20 questions.

21 Mr. Warden, certainly you, and some of
22 your colleagues perhaps, lived it closer than I did, but
23 the Wuskwatim proposal was reviewed by the Clean
24 Environment Commission together with its Panel members
25 and at least -- and two (2) Panel members from the Public

1 Utilities Board, correct?

2 MR. VINCE WARDEN: Correct.

3 MR. BOB PETERS: And that report from the
4 Clean Environment Commission expressed some concerns over
5 the -- over the project, in their report?

6

7 (BRIEF PAUSE)

8

9 MR. VINCE WARDEN: Could you be more
10 specific in that Mr. Peters, please?

11 MR. BOB PETERS: Well, in terms of the
12 ongoing economic aspects of it, the Clean Environment
13 Commission recommended that the PUB review the progress
14 from time to time?

15 MR. HAROLD SURMINSKI: Yes. We -- we
16 update the -- the economics and re-evaluate the situation
17 to Manitoba Hydro to have a -- a high enough internal
18 rate of return. So we do monitor it. In fact, we will
19 be reassessing it again just after the vote.

20 We don't -- we intend to -- we're set up
21 right now, immediately after the vote that we will,
22 again, do our best estimates of the capital cost of the
23 project, and the benefits, and that'll be our final
24 decision point whether it's profitable for Manitoba Hydro
25 to continue on with this project.

1 MR. BOB PETERS: Okay. And my questions
2 are -- are probably a little bit seen as not being fully
3 tuned in and not -- not being as intimate with the
4 process as you were, and certainly a couple of panel
5 members, if the vote is positive does Manitoba Hydro
6 still have a way to get out of the arrangement?

7 Is that part of the deal?

8 MR. HAROLD SURMINSKI: Yes, it is. It's
9 -- it's always we go to our board. We -- we will do that
10 assessment at that time and we go to our Manitoba Hydro
11 Board with a recommendation that the economics are still
12 favourable.

13 MR. BOB PETERS: And as I understand it,
14 the CEC report was 2004. And that's when it was issued,
15 correct?

16 MR. HAROLD SURMINSKI: Yes, the fall of
17 '04.

18 MR. BOB PETERS: And since then have you
19 re-examined the economics of it, or are you waiting for
20 the vote to do that?

21 MR. HAROLD SURMINSKI: We have. We have
22 several -- we've had two (2) or three (3) updates since
23 that time.

24 MR. BOB PETERS: And those updates would
25 not have been provided back to the Clean Environment

1 Commission, would they?

2 MR. HAROLD SURMINSKI: That's right.

3 MR. BOB PETERS: They were done for
4 internal purposes?

5 MR. HAROLD SURMINSKI: That's correct.

6 MR. BOB PETERS: And those are presently
7 confidential?

8 MR. HAROLD SURMINSKI: Yes, that's
9 correct.

10 MR. ROBERT MAYER: Except for those
11 portions of the them that hit the front page of the
12 Winnipeg Free Press, about the estimated costs of
13 actually constructing the Wuskwatim generating station on
14 today's dollars?

15 MR. HAROLD SURMINSKI: Yes, that's one
16 side of the equation. The benefits are always the other
17 side.

18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: But that update, Mr.
21 Surminski, deals with the capital costs and the pricing
22 arrangement, and the assumptions that have gone into both
23 of those?

24 MR. HAROLD SURMINSKI: We -- both sides,
25 the capital cost as well as the benefit side. Export

1 prices -- prices have been rising since the Clean
2 Environment Commission, so we evaluate the increase in
3 benefits and also consider the costs.

4 MR. BOB PETERS: And from what you've
5 taught me today, at least, is that over the long-term the
6 deal has to be positive for Manitoba Hydro to go forward?

7 MR. HAROLD SURMINSKI: Yes. Positive in
8 the sense that we have a -- a hurdle rate for an internal
9 rate of return. And we've talked about it at the CEC and
10 it will be recommended to our board whether the internal
11 rate of return is close enough or meets our hurdle rate
12 for the risks involved.

13 MR. BOB PETERS: And I may have not noted
14 it, Mr. Surminski, and if I didn't I apologize, but over
15 what is this long-term that you do the evaluation to see
16 if this hurdle rate is met?

17 MR. HAROLD SURMINSKI: We actually did it
18 from two perspectives. We did it for the advancement
19 period for the years that we advanced the plant, and I
20 think at the time was from 2020 to 2009, I think we
21 started, and then we went to 2010.

22 And -- and we also do it from -- from a
23 long-term perspective. But basically we use the
24 advancement period because we were justifying the plant
25 for -- for export purposes. So it's the advancement

1 period that is the primary focus of our analysis.

2 MR. BOB PETERS: All right. Mr. Warden,
3 I can try to end this up and give you the last word.
4 You're in agreement that the CEC recommended the PUB
5 review the progress of the Wuskwatim project from time to
6 time; would that be correct?

7 MR. VINCE WARDEN: I don't know that for
8 a fact.

9 MR. BOB PETERS: All right. I -- I
10 appreciate -- I don't have the document in front of me
11 and I know nor do you, and I don't want to put you on the
12 spot to that extent.

13 But if we -- if we can make the
14 assumption, and subject to your Counsel's agreeing to let
15 me put the question forward, if we assume the CEC
16 suggested or recommended that PUB review the progress of
17 Wuskwatim from time to time, is that PUB then something
18 that takes place in this hearing, or is it a matter for
19 another day?

20 MR. VINCE WARDEN: Well, we -- this Panel
21 certainly didn't anticipate it to be a part of this
22 hearing. If -- if, in fact, it is to be, I think we
23 would probably have different Panel members here.

24 MR. BOB PETERS: Okay. And not
25 unexpectedly, I -- I accept your answer, Mr. Warden, on

1 those capital projects on rates once they come into
2 service, but reviewing a program -- a capital program in
3 progress is something that has not been done by this
4 Board, to my knowledge. And I am not sure whether that's
5 something we would want to encourage, or not.

6 MR. BOB PETERS: Would it be beneficial
7 to review that prior to embarking or making a final
8 decision on whether to continue, Mr. Warden?

9 MR. VINCE WARDEN: To continue which?

10 MR. BOB PETERS: To continue with the
11 generating station. Maybe I can rephrase the question.
12 And I appreciate where --

13 MS. PATTI RAMAGE: Mr. Peters, I think
14 the concern, from our perspective here, is I think the
15 question you're asking is ultimately a decision of the
16 Manitoba Government, not Manitoba Hydro. So it -- it's
17 very difficult for this Panel to pontificate on -- on
18 what sort of role its regulator would have in the future.

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: Thank you, Ms. Ramage.
22 And -- and certainly I understand your comment.

23 I've been provided -- and I'd ask you to
24 take it subject to check, Mr. Warden, that from the
25 October 2004 report of the Manitoba Clean Environment

1 Commission, page 24, Recommendation 6.2:

2 "The Clean Environment Commission
3 recommends that the Government of
4 Manitoba grant the Public Utilities
5 Board jurisdiction to review, on an
6 ongoing basis, as part of Manitoba
7 Hydro's future general rate
8 applications, the actual revenues and
9 costs of the projects relative to
10 forecast, along with the impact of the
11 projects on Manitoba Hydro's financial
12 stability and its domestic rates."

13 And that ends the quote. I suspect you
14 have probably read that at some point; would that be
15 correct, Mr. Warden?

16 MR. VINCE WARDEN: Mr. Peters, I think --
17 and I'm going to have to go back and I'll -- I will
18 review the section you referenced. But I think my
19 interpretation of that was when the plant came into
20 service, not before the plant came into service.

21 If -- if I've misread that, I guess I'll
22 have to reconsider. But that's my view at this time,
23 that it's referring to the -- after the in service date.

24 MR. ROBERT MAYER: I think we should also
25 be clear that the Clean Environment Commission can only

1 recommend to the Minister, and unless the Minister
2 directs it doesn't go any farther. And I'm not sure --
3 and since there has been no application for license yet
4 the minister clearly hasn't directed anything.

5 We made a recommendation, if I recall
6 correctly, that certain licenses be granted. It's also
7 my understanding there was an undertaking those licenses
8 would not be applied for unless and until you've got the
9 agreement with NCN. So I'm assuming the licenses have
10 not yet been applied for.

11 So I'm assuming that the -- that the
12 recommendations sit on the Minister's desk as a
13 recommendation unless and until you apply for a license;
14 am I correct?

15 MR. HAROLD SURMINSKI: Yes, that is
16 correct. My information is our licenses are ready to go
17 and, as you state, they will be there when the vote is
18 positive.

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: Mr. Chairman, I'm going
22 to turn with this panel to another area and maybe try to
23 get the -- the altitude a little higher in the aeroplane
24 here.

25 In terms of the purpose of the Cost of

1 Service Study hearing, can we agree that we are before
2 the Board today to allow for some public debate and to
3 bring forward various ideas for the Board to consider as
4 to how to direct Manitoba Hydro to prepare further and
5 future cost of service studies?

6 MR. VINCE WARDEN: We have a recommended
7 method before this Board that we are seeking approval or
8 acceptance by this Board that we can use for future rate
9 applications.

10 MR. BOB PETERS: And you don't disagree,
11 Mr. Warden, that ultimately it's for the Board to
12 adjudicate which methodology or methodologies should be
13 used in future cost of service studies?

14 MR. VINCE WARDEN: For purposes of the
15 board determining whether our rate applications are
16 appropriate, I agree that the Board should be entitled to
17 base that on a cost of service methodology that it deems
18 appropriate.

19 MR. BOB PETERS: And that may not be the
20 recommended one that you've put before them; you'd accept
21 that as well?

22 MR. VINCE WARDEN: That's possible. Yes.

23 MR. BOB PETERS: Yeah. I suppose on that
24 point, Mr. Warden, does it ultimately make any difference
25 to Manitoba Hydro which methodology the PUB directs be

1 used in the future?

2 MR. VINCE WARDEN: Well, we're -- as
3 stated earlier, we believe that the cost of service
4 methodology should be fair and equitable. We think that
5 the recommended method is the most fair and equitable to
6 the circumstances before us today.

7 So, yes, it matters.

8 MR. BOB PETERS: Well, let me engage you
9 on that, Mr. Warden. You are telling the Board what
10 Manitoba Hydro says is fair and equitable, and when the
11 Board issues an order and says what its -- what it thinks
12 is fair and equitable, which one will you use?

13 MR. VINCE WARDEN: Well, hopefully they -
14 - we -- they won't be different. They'll be one and the
15 same.

16 MR. BOB PETERS: Fair comment, Mr.
17 Warden.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: But you will accept, as
22 you do most Board Orders, unless challenged, Mr. Warden,
23 that the orders of this Board are the orders that the
24 Corporation follows in terms of its methodology?

25 MR. VINCE WARDEN: We always respect the

1 orders of the Board, yes.

2 MR. BOB PETERS: Even if it means they
3 have to be upheld by a higher body? Mr. Warden, my -- my
4 -- my reason for asking that wasn't -- wasn't flippant.

5 In a general rate application I suspect
6 the Corporation has a lot of angst and some anxiety back
7 at the shop when they're preparing their rate
8 applications, because you're coming into the Board saying
9 you want a total revenue requirement of \$1.5 billion, or
10 something like that.

11 And to that end you will defend each and
12 every aspect of your revenue requirement request; would
13 that be the norm?

14 MR. VINCE WARDEN: Okay. I'll accept
15 that.

16 MR. BOB PETERS: Yeah. What -- what I'm
17 saying is that -- that generally the Board sees Manitoba
18 Hydro's general rate cases in two (2) phases. Phase 1 is
19 the revenue requirement and Phase 2 is your cost of
20 service/rate design part of the application.

21 Do you agree with that?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: And the revenue
24 requirement portion of it is the -- is the part where you
25 gird your loins and you -- you defend the Corporation's

1 position on any aspect of the revenue requirement that is
2 under review or attack by either the Board or
3 Intervenors.

4 That would be correct?

5 MR. VINCE WARDEN: We have to defend the
6 fact that the revenue requirement we -- we are asking for
7 is appropriate, yes.

8 MR. BOB PETERS: And once you have the
9 Board approve a revenue requirement, the Utility can
10 breathe a sigh of relief because it is assured that under
11 normal weather it will recover that revenue requirement
12 through rates.

13 MR. VINCE WARDEN: I don't know that
14 we're that blase about -- you know, we -- we have
15 customers to deal with on a daily basis and we want to --
16 relations with those customers to be as amicable as
17 possible, and therefore we want to treat them all fairly,
18 and we want to make sure that the rates they're paying
19 for the services they receive are appropriate.

20 MR. BOB PETERS: And -- and I absolutely
21 accept that it -- it's not a blase matter at the
22 Corporation, and my question wasn't meant to reflect that
23 it was, and I -- I didn't mean to imply that.

24 But on one hand I see the Corporation
25 coming in and scrapping tooth and nail to get the revenue

1 requirement approved, and once the Board approves the
2 revenue requirement, with respect, you turn to Mr. Wiens
3 and Mr. Thomas and say, Okay boys put the rates up that
4 are going to recover the revenue requirement, and away we
5 go, because that's not -- that's not as contested for the
6 Corporation as it is -- as it may be amongst the
7 intervenors.

8 Would you agree with that?

9 MR. VINCE WARDEN: Well, I -- I
10 personally have a tough time separating revenue
11 requirement from -- from the rate setting methodology.
12 So they -- in my view they -- they do go hand in hand.
13 But if I was just looking at the bottom line of the
14 Corporation, I would agree with you, but I don't think
15 it's quite that simple.

16 MR. BOB PETERS: Okay. Well, maybe I
17 should have had you put that hat on earlier, in terms of
18 being the CFO. But I -- but I was suggesting, in
19 relative terms, it doesn't matter to the Corporation who
20 pays, so long as collectively Manitoba Hydro gets its
21 costs covered through consumer revenue.

22 MR. VINCE WARDEN: And that's what I'm
23 having difficulty accepting. It does matter who pays.

24 MR. BOB PETERS: And it matters who pays
25 because you want to maintain good customer relations.

1 MR. VINCE WARDEN: And we want to be fair
2 in -- in those dealings with our customers.

3 MR. BOB PETERS: All right. And
4 ultimately you put forward what you believe are fair rate
5 proposals to recover the revenue requirement that the
6 Board will approve.

7 MR. VINCE WARDEN: Correct.

8 MR. BOB PETERS: And then the Board will
9 decide how fair you are or whether their version of fair
10 is different than your version of fair.

11 MR. VINCE WARDEN: I agree.

12 MR. BOB PETERS: All right. Mr. Warden,
13 since 1975, if -- if we can go back that far, maybe we
14 can't, has the Cost of Service Study prevented Manitoba
15 Hydro from doing anything that it has wanted to do?

16 MR. VINCE WARDEN: Anything we want to do
17 in terms of...?

18 MR. BOB PETERS: Let me rephrase the
19 question then. Since 19 -- I picked 1975 based on the
20 answers previously from the Panel.

21 Has the Cost of Service Study prevented
22 Manitoba Hydro from doing anything that it wants to do
23 related to the revenue requirement side of its business,
24 not from the rate design or side, but -- but from any
25 projects or aspects that it wants to embark on?

1 MR. VINCE WARDEN: Well, the Cost of
2 Service Study has not been a -- a barrier towards
3 expending funds on those projects that we deem are
4 appropriate to the ongoing well-being of the Corporation
5 and its customers.

6 MR. BOB PETERS: So you haven't been
7 hampered or restricted by a cost of service study from
8 any of your capital plans.

9 MR. VINCE WARDEN: We have not.

10 MR. BOB PETERS: And from your operating
11 and maintenance plans, likewise, you haven't had any
12 restrictions arise as a result of whatever cost of
13 service study methodology is -- is approved by the Board?

14 MR. VINCE WARDEN: No, we haven't.

15 MR. BOB PETERS: Would you agree with me,
16 Mr. Warden, that no matter what cost of service
17 methodology results from this hearing, there won't be
18 impediment to Manitoba in any of its plans, at least
19 until, I guess we'll now go to 2012?

20 MR. VINCE WARDEN: Well, if we're looking
21 at the Cost of Service Study methodology in isolation, I
22 would agree with that statement, yes.

23 MR. BOB PETERS: And the only time we
24 wouldn't look at it in isolation is if we had a rate case
25 in front of us and we had to decide on the merits of the

1 rate case and if meritorious which customer classes would
2 bear what portion of the rate increase being sought?

3 MR. VINCE WARDEN: Yes. Or possibly for
4 some reason our revenue requirement was not approved as -
5 - as applied for.

6 MR. BOB PETERS: And if your revenue
7 requirement was not approved as applied for, or adjusted
8 in some way by the Board, you would still expect to
9 recover whatever revenue requirement was approved by the
10 Board, through the rates that were ultimately approved by
11 the Board?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And the setting of those
14 rates may use the Cost of Service Study as a tool to
15 arrive at what is a fair and equitable rate?

16 MR. VINCE WARDEN: Yes, it would.

17 MR. BOB PETERS: Mr. Wiens and Mr.
18 Thomas, earlier I think you told the Board that the
19 changes that the Board and the Corporation has endured
20 since, maybe the 1970's, has been evolutions, if I could,
21 in the cost of service methodology, as opposed to
22 anything revolutionary?

23 MR. CHIC THOMAS: I think that's fair.

24 MR. BOB PETERS: And you understand
25 revolutionary to mean some dramatic change that

1 previously wasn't included in the cost of service
2 methodology?

3 MR. CHIC THOMAS: Yes.

4 MR. BOB PETERS: And so a lot of the
5 evolution that's taken place, you've told the Board, is
6 because you've just got better data of you've expended
7 greater resources to understand the load patterns and
8 consumption needs of your clients, your customers?

9 MR. CHIC THOMAS: Yes.

10 MR. BOB PETERS: Does Manitoba Hydro see
11 any of the proposals that are before this Board as not
12 evolutionary but more revolutionary?

13 MR. CHIC THOMAS: In terms of the four
14 (4) methodologies that we've put forward?

15 MR. BOB PETERS: Well, let's start with
16 the four (4) methodologies, yes. Are any of those four
17 (4) considered radical departures by the Corporation?

18 MR. CHIC THOMAS: I don't think any of
19 them would be considered radical departures for the
20 Corporation.

21 MR. BOB PETERS: You'd see them as -- as
22 refinements?

23 MR. CHIC THOMAS: Refinements based on
24 current market conditions, yes.

25 MR. BOB PETERS: Do you see any of the

1 suggestions put forward by any of the Intervenors as
2 being on the side of being revolutionary or radical, as
3 opposed to being evolutionary?

4 MR. CHIC THOMAS: I won't endeavour to
5 speak for any of the Intervenors.

6 MR. BOB PETERS: No, no. I -- I wanted
7 to get Manitoba Hydro's view of the Intervenors'
8 proposals, as you understand them, before the Board; are
9 any of them seen by the Corporation as being radical
10 departures from an evolutionary process?

11 MR. ROBIN WIENS: I think we would see
12 the proposals or suggestions of RCM/TREE as -- as being
13 somewhat radical if the intent is really as -- as I think
14 it has been mentioned in their evidence, to employ
15 marginal generation costs, adders for environmental
16 issues as a -- as a pure benchmark in setting class
17 revenue requirements.

18 We would agree that the evidence that TREE
19 has provided is -- is -- is an interesting and a useful
20 perspective to the exercise, but as a -- as a pure cost
21 benchmark we would see that as being radical.

22 MR. BOB PETERS: That's the only one that
23 you're prepared to single out, Mr. Wiens?

24 MR. ROBIN WIENS: Well, I think just as
25 we might see the proposals of TREE as being overly

1 radical, we might see the proposals of MIPUG as being
2 overly traditional.

3 MR. BOB PETERS: I think you and Ms.
4 McCaffrey are both on the high road, as she referred to
5 it.

6 Let me touch on just a couple of topics,
7 perhaps, before the afternoon break.

8 Inverted rates and time of use rates,
9 gentlemen. You filed some information as part of this
10 filing related to those matters, correct?

11 MR. ROBIN WIENS: We have filed some
12 information but I don't believe it's as part of this
13 filing.

14 MR. BOB PETERS: Well, in terms of the --
15 the GRA filing in the materials, I guess I should
16 rephrase that. And you've also filed an -- an inverted
17 rates study and time of use report with the Board,
18 previously, would that be correct?

19 MR. ROBIN WIENS: We have filed them
20 previously, but I don't believe it was part of this
21 filing.

22 MR. BOB PETERS: All right. And we hear,
23 at least in opening comments, that there is some
24 suggestion that these -- these or perhaps other rate
25 options can resolve some of the issues that are before

1 the Board.

2 And you've heard that as well, correct?

3 MR. ROBIN WIENS: Well, I think we've
4 stated quite clearly that they are -- these options are
5 of assistance to Manitoba Hydro in terms of sending the
6 correct price signals, but that they are not necessarily
7 capable of resolving the issues that we're -- we've come
8 here to discuss at this proceeding.

9 MR. BOB PETERS: And I think that was
10 your, or one of your colleagues' direct evidence to Ms.
11 Ramage. But is it the Corporation's intent on moving
12 before this Board with an application to deal with
13 inverted rates and/or time of use rates?

14

15 (BRIEF PAUSE)

16

17 MR. ROBIN WIENS: It -- it would be
18 something, of course, we would give consideration to in
19 the formulation of a general rate application, if that
20 was your question, Mr. Peters.

21 MR. BOB PETERS: All right. But you've
22 been considering inverted rates and time of use rates for
23 a number of years; would that also be correct?

24 MR. ROBIN WIENS: Yes.

25 MR. BOB PETERS: And if I re-read the

1 transcript from Mr. Warden of this morning, I think he's
2 going to be telling the Board and -- and perhaps
3 Manitoban's in general that the Corporation is not
4 planning on filing a general rate application before this
5 Board, to seek a consumer rate increase starting April
6 1st of 2007.

7 Have I got that right?

8 MR. VINCE WARDEN: No. Actually, I was
9 referring to April the 1st, 2006, so for the 2006 fiscal
10 year.

11 MR. BOB PETERS: Then I will re-read the
12 transcript. And what you are then saying is that the --
13 that portion of the GRA that's already been filed with
14 the Board and withdrawn for the 2006 fiscal year can
15 permanently be withdrawn because you're not intending on
16 -- on activating it.

17 MR. VINCE WARDEN: That's right.

18 MR. BOB PETERS: And in terms of what
19 happens for the fiscal 2007 year, that's still a matter
20 for decision by the Corporation.

21 MR. VINCE WARDEN: Yes. We'll go through
22 our normal cycle of presenting a -- our updated
23 integrated financial forecast to our Board in October of
24 this year. At that time a determination will be made as
25 to whether or not a rate increase will be sought for

1 April the 1st of 2007.

2 MR. BOB PETERS: So unless --

3 THE CHAIRPERSON: Mr. Warden, in your
4 preliminary remarks, I gathered exactly what you were
5 just saying there. You were saying that your debt equity
6 ratio, the debt portion was till considerably higher than
7 some of your sister Crowns in Quebec and in BC.

8 And that I think you speculated that it
9 would require rate increases going forward into the
10 future at or around the rate of inflation, to correct the
11 situation over time.

12 MR. VINCE WARDEN: Yes. That's what I
13 stated in my opening remarks.

14 THE CHAIRPERSON: And the exclusion of
15 the current fiscal year.

16 MR. VINCE WARDEN: Correct.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: So, Mr. Wiens, following
20 up with that welcomed clarification from Mr. Warden and
21 the Chair, the rate options of inverted rates and time of
22 use rates, you don't see those coming before the Board
23 until the fall of this year or the winter -- early winter
24 of next year, at the very earliest?

25 MR. ROBIN WIENS: That would be correct.

1 MR. BOB PETERS: In terms of another --
2 in terms of another aspect of the materials, and it was
3 in the materials, I think, Mr. Thomas, class
4 consolidation was at least mentioned by the Corporation,
5 correct?

6 MR. CHIC THOMAS: It was mentioned, yes.

7 MR. BOB PETERS: And what was mentioned
8 was that Manitoba Hydro is considering class
9 consolidations, but they're not seeking approval from the
10 Board in this hearing; that would also be correct?

11 MR. CHIC THOMAS: Not in this proceeding,
12 that's correct.

13 MR. BOB PETERS: And would you agree with
14 me that class consolidations do impact on the Cost of
15 Service Study?

16 MR. ROBIN WIENS: Certainly they'll
17 impact the way the results are perceived because the
18 classes will be defined differently.

19 MR. BOB PETERS: And they'll be defined
20 differently, and also, Mr. Wiens, they will have more
21 costs and revenues and customers if they are
22 consolidated?

23 MR. ROBIN WIENS: That's right.

24 MR. BOB PETERS: And that can lead to an
25 impact or a change in the resulting revenue-to-cost ratio

1 for the new class, or classes.

2 MR. ROBIN WIENS: Correct.

3 MR. BOB PETERS: Why is Manitoba Hydro
4 considering consolidating classes?

5 MR. ROBIN WIENS: We've -- we have a
6 longstanding issue with respect to the transition point
7 between the general service small demand class and the
8 general service medium class.

9 As -- as you're probably aware, the
10 general service small demand class pays a -- an energy
11 rate which is graduated downwards as the demand charge is
12 phased in. There is no demand charge applied to the
13 first 50 kVA of demand for the general service small
14 class. And the first pretty close to 20,000
15 kilowatt/hours is at -- the energy rate incorporates
16 those costs which would have been recovered in the demand
17 rate for larger customers on a progressively lower basis.

18 There's also the issue that the demand
19 ratchet, seasonal demand ratchet applies to the general
20 service medium class, but not to the general service
21 small demand class. As a result, there can be some
22 issues incurred when a customer traverses the 200 kVA
23 demarcation between those two (2) classes.

24 We have recently had an anomalous
25 situation where customers would undertake fairly

1 extensive demand side management measures and succeed in
2 reducing both their demand and energy requirements, such
3 that normally they would move from the general service
4 medium to the general service small class, and that
5 movement has actually caused their bills to increase.

6 So in the short run we can deal with that
7 situation by making an exception in terms of the class.
8 In the long run it would be preferable to have that
9 transition more seamless.

10 So that is the biggest issue that we were
11 considering with regard -- with respect to the question
12 of class consolidation. But once you open the door and
13 you begin asking those questions, then some -- some other
14 issues come to mind.

15 In terms of customer characteristics, for
16 example, there's often not a whole lot of difference
17 between one of the larger general service mediums and --
18 and the general service large served from the
19 distribution system, that is under 30 kVA.

20 We do have a situation with respect to
21 these classes where there's a fair divergence in the
22 revenue cost coverage ratio, but we expect that
23 divergence could be addressed significantly, anyway, in
24 terms of rate design rather than having to include them
25 or maintain them in a separate class.

1 So there may be some advantage to having
2 that consolidation cover all of the demand metered
3 customers that receive service below 30 kV system
4 voltage. And then we had considered, as well, that there
5 may be some advantage to the distinction between
6 customers -- the largest two (2) groups of customers,
7 those served between thirty (30) and sixty-six (66) and
8 those served at above -- or 30 and 100 kVA and those
9 served above 100 kVA.

10 It may also be possible to -- any relevant
11 distinctions could be captured in the rate design, rather
12 than in the class for cost of service purposes.

13 So it's not something that we've made a
14 commitment to, but it's something that has some obvious
15 appeal, and that we would like to investigate further
16 before bringing it back before this Board, probably as
17 well at a general rate application.

18 MR. ROBERT MAYER: Mr. Wiens, while we're
19 discussing that, I've often heard the discussion as to
20 how the residential rate and the general service small
21 interact when you have the mom-and-pop grocery store with
22 the residence above it.

23 How would -- would the service to the
24 store -- would there be two (2) meters? Would the
25 service to the store portion be different than the

1 service to the -- to the residence, which is in the same
2 building? Would there be two (2) meters?

3 MR. ROBIN WIENS: I think in some cases -
4 - and I'm -- I'm trying to go from memory, I may not have
5 this precisely correct, and it would be subject to check
6 -- but I think we have both situations. We have a
7 situation -- in these cases where you've got a
8 residential and a commercial use combined, you may have
9 separate meters in some cases.

10 In other cases the -- in most cases if --
11 if the non-residential load were of any degree
12 substantial, it would be served on the general service
13 rate.

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Just, Mr. Wiens, to
17 maybe allow the Board to review that at their leisure,
18 maybe even this afternoon's break, at the last tab in the
19 book of documents which I've circulated and I hope you
20 have a copy of, at Tab 22 is a -- intended to be a
21 Manitoba Hydro's current rate schedule as pulled off the
22 Internet.

23 MR. ROBIN WIENS: That's what it looks
24 like.

25 MR. BOB PETERS: And I'm not sure yours -

1 - mine -- the one that I think got circulated perhaps
2 isn't formatted quite the same way but on -- on page 2,
3 which again is not numbered and I'd ask you to have to do
4 that, but page 2 and page 4 of those documents, as I
5 understood what you just told the Board, and even in
6 answer to Vice-Chair's question, if you have a general
7 service small customer you could have them going along
8 not -- not incurring a demand charge, but paying
9 essentially higher energy charges for their first and
10 second block of energy.

11 And the problem that you've run into is
12 that on page 4 of -- of your rates, the general service
13 medium rates, a customer who wants to cut down on the
14 demand charge can -- can invoke some demand side
15 management and try to get down to a lower class, but they
16 ultimately end up paying a higher energy charge and
17 therefore their bill would be higher.

18 MR. ROBIN WIENS: Yes. That's what I
19 believe happened.

20 MR. BOB PETERS: And in the case of the -
21 - the mom-and-pop type operations, as I call them
22 colloquially, those are going to depend on how the
23 customer has chosen to take service and to -- and to have
24 the service metered.

25 MR. ROBIN WIENS: I can't say that's

1 exactly the case in every case. Some of it is simply
2 historical and it's the way the situation is.

3 MR. BOB PETERS: All right. Not to go
4 too far down this road, Mr. Wiens, but if -- if you
5 acknowledge that class consolidation is something that
6 the Corporation is looking at, you're telling the Board
7 the earliest they would hear from you would be at your
8 next general rate application, which may or may not be
9 for fiscal 2007.

10 MR. ROBIN WIENS: That's correct.

11 MR. BOB PETERS: And you wouldn't see
12 bringing in the -- the inverted rates, or the time of use
13 rates, or class consolidation outside of a general rate
14 application, you wouldn't bring that proposal forward.

15 MR. ROBIN WIENS: No, we would not.

16 MR. BOB PETERS: And why -- why wouldn't
17 you bring it forward for consideration, independent of a
18 general rate application?

19 MR. ROBIN WIENS: I think in -- in the
20 expectation that we would file a general rate application
21 for the 2007-08 fiscal year, we would probably not have
22 any proposals in this respect available before that
23 anyway.

24 In the circumstance where such a GRA might
25 be deferred beyond 2007 -- or its applicability to be

1 deferred beyond 2007/2008, that's something that we could
2 consider.

3

4

(BRIEF PAUSE)

5

6

7

THE CHAIRPERSON: Mr. Peters, would this
be a good time to have a short break?

8

9

CONTINUED BY MR. BOB PETERS:

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MR. BOB PETERS: Just to conclude on
that, and it would be an appropriate time, but just
wondering from the Corporation's perspective why it
wouldn't be beneficial to consider the Cost of Service
Study together with any class consolidations that may be
coming and why those shouldn't be more closely considered
in terms of time?

17

18

MR. ROBIN WIENS: Are you talking about
this proceeding?

19

20

21

22

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24

MR. BOB PETERS: Well, yes, I'm wondering
why if you're planning some class consolidation or new
rate changes would -- would those -- and those would have
an impact on the cost of the service study and the
methodologies why we wouldn't have those come hand in
hand?

25

MR. ROBIN WIENS: Manitoba Hydro isn't

1 currently ready to recommend with respect to class
2 consolidation. We don't have the full case prepared for
3 it. There are likely some other issues that we'll want
4 to consider simultaneously.

5 MR. BOB PETERS: All right. Thank you,
6 Mr. Chairman. This would be an appropriate time for the
7 afternoon break.

8 THE CHAIRPERSON: Okay. Thanks everyone.
9 We'll see you back in ten (10) minutes. Well, let's say
10 3:05, I'm urged.

11

12 --- Upon recessing at 2:50 p.m.

13 --- Upon resuming at 3:10 p.m.

14

15 THE CHAIRPERSON: Okay, folks, why don't
16 we get back at it. Mr. Peters, we were left hanging on
17 your very word there; do you want to begin again?

18 MR. BOB PETERS: I do and thank you.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: I'm hoping microphones
23 weren't on. Mr. Chairman, Board Members, Panel members
24 and ladies and gentlemen, I just wanted to make sure we
25 were clear as to what the Board was -- was being asked in

1 this application and what the ramifications of many
2 other, I'll call them, tangential matters are.

3 There was one (1) more that I didn't cover
4 before the afternoon recess and, Mr. Wiens and Mr.
5 Thomas, and that was the re-balancing of demand and
6 energy charges, and you're both familiar with that
7 request from the Board?

8 MR. ROBIN WIENS: Yes.

9 MR. BOB PETERS: And that -- that came,
10 Mr. Wiens from PUB Order 7 of '03 where there was a
11 directive from the Board for the company to consider and
12 investigate the re-balancing of demand and energy
13 charges, correct?

14 MR. ROBIN WIENS: That's right.

15 MR. BOB PETERS: I believe it's in the
16 materials and my marginal note here, Mr. Thomas, is at
17 Tab 11.3 if necessary but, there was an indication that
18 Manitoba Hydro was considering this rate design change;
19 is that so far correct?

20 MR. ROBIN WIENS: Well, we have been,
21 over time, in effect moving, toward that objective on a
22 gradual basis. The most recent rate increases that have
23 been applied to those customer classes that do have both
24 demand and energy charges have focussed, I think, almost
25 entirely on the energy charge.

1 So, yes, we've been moving in that
2 direction.

3 MR. BOB PETERS: But in terms of re-
4 balancing, Mr. Wiens, what I -- what I'm referring to is
5 -- is a revenue neutral re-balancing where you would
6 adjust the rate structure, adjust the demand component of
7 the rates and the energy component of the rates to -- to
8 perhaps align it more with the costs that are actually
9 incurred by the Corporation; that's not being considered?

10 MR. ROBIN WIENS: You're saying all at
11 once?

12 MR. BOB PETERS: No. I'm just saying
13 having a plan in terms of how to -- how to do some re-
14 balancing or where -- how you can get there on a revenue
15 neutral basis.

16 MR. ROBIN WIENS: Well, on a revenue
17 neutral basis is like saying, do it all at once, because
18 our revenue requirements do change over time.

19 MR. BOB PETERS: But you can also re-
20 balance in a stepped way where you -- where you adjust
21 them on a revenue neutral basis but not to 100 percent
22 reflective of the underlying costs, correct?

23 MR. ROBIN WIENS: I'm not sure what the
24 difference is between that and what we've actually been
25 doing.

1 MR. BOB PETERS: Up until the Board asked
2 you to reconsider re-balancing of energy and demand
3 charges you had no plan in how to re-balance those; would
4 that be correct?

5 MR. ROBIN WIENS: We did not have a
6 specific plan to re-balance.

7 MR. BOB PETERS: Let me -- let me try it
8 this way and hopefully engage the Board and yourself, Mr.
9 Wiens.

10 In the book of materials that you have, in
11 the last tab, 22, there's a -- a copy of your rate
12 schedule, and I know the Board has it in the book of
13 materials, they'll also have an extra copy I think
14 loosely provided.

15 But on page 5 -- and I again apologize
16 that they weren't numbered because I think they printed
17 out differently from whichever printer was used -- but on
18 page 5 you have some general service large rates on that
19 page.

20 Are you with me on that?

21 MR. ROBIN WIENS: I am.

22 MR. BOB PETERS: And on those general
23 service large rates we see that for at least the first
24 subclass there is an energy charge of two point two eight
25 four (2.284) cents a kilowatt hour as well as a demand

1 charge of seven dollars and eighty -- point zero eight
2 nine cents (\$7.089) for kVA.

3 MR. ROBIN WIENS: Yes, I see that.

4 MR. BOB PETERS: Then we're on the same
5 page. If -- if we're on page 5 of those rate schedules
6 and then if I flip back to Tab 2 -- keep -- keep that
7 rate schedule at hand but flip back to Tab 2, page 2.

8 And I know we were hoping to get to this
9 sooner, but in the middle column, the column of
10 classification, you're telling the Board that once you
11 functionalise your costs you then classify them and you
12 classify them as either customer demand or energy,
13 correct?

14 MR. ROBIN WIENS: Correct.

15 MR. BOB PETERS: And you're telling the
16 Board that in your classification, \$458 million of your
17 costs are considered demand costs.

18 Would that also be true?

19 MR. ROBIN WIENS: Subject to check.

20 MR. BOB PETERS: All right. And on the
21 demand charges that you charge not only general service
22 large but you charge all of your customer classes that
23 have demand rates in them, in the three (3) part rates.

24 Do those revenues received from the demand
25 charge equal or exceed the demand component of \$458

1 million shown on -- on page 2 of Tab 2?

2 MR. ROBIN WIENS: Offhand, Mr. Peters we
3 couldn't tell you.

4 MR. BOB PETERS: Is it the Corporation's
5 view that your demand charges that you charge consumers
6 recover less than the costs that are classified for
7 demand? Or are they more or you -- you just don't know?

8 MR. ROBIN WIENS: Mr. Peters, it might be
9 helpful to go to Schedule -- at least I can deal with it
10 more easily this way, to go to Schedule B2 on page 38 of
11 the Cost of Service Study.

12

13 (BRIEF PAUSE)

14

15 MR. ROBIN WIENS: And also -- and we'll -
16 - we'll also consider in this discussion, if that's all
17 right, Schedule B5 on page 41. But Schedule B2 reflects
18 the current method, and this is the method that's been in
19 play for most of the time that the current rate structure
20 has been developed, and that's why I -- I'm referencing
21 it.

22 And as you can see there is no one (1)
23 answer to your question. For the general service small
24 demand and medium customers, as well as for the general
25 service large less than 30 kV, in the current method the

1 -- the allocated unit demand costs are higher than the
2 rate that's applied to those classes.

3 Now in the case of -- of general service
4 small demand, that, in part, is going to be because we're
5 recovering some of the demand charges through -- or the
6 demand related costs through energy charges.

7 In the case of general service large, 30
8 to 100 kV, the demand charge is approximately the same as
9 the unit cost. And in the case of general service large
10 greater than 100 kV, the demand charge is higher than the
11 unit cost.

12 If you go to what the method that we are
13 recommending, what you will see is that in pretty much
14 all cases the demand charge is -- is higher than the unit
15 allocated demand cost. And the difference between what
16 we're recommending and -- and what is current shouldn't
17 be usually surprising because of the fact that in what is
18 recommended we are looking at treating virtually all the
19 generation cost as energy related, albeit with different
20 time of use waves.

21 MR. BOB PETERS: What also shouldn't be
22 lost sight of, Mr. Wiens, is that your figures that
23 you've just shown the Board in Schedule B2 and B5 are net
24 of export, not gross with export.

25 MR. CHIC THOMAS: That's correct.

1 MR. BOB PETERS: Having said that, Mr.
2 Wiens, and -- and keeping it at a little higher level
3 without being class specific, there are some classes who
4 are paying demand charges in their rates when those
5 charges exceed the unit cost of demand to that class.
6 You've said that in a different way just before; is that
7 correct?

8 MR. ROBIN WIENS: Yes, it is.

9 MR. BOB PETERS: And my question to you
10 was do -- do you have any intention of trying to re-
11 balance that, other than through general rate application
12 rate increases?

13 MR. ROBIN WIENS: I think we have
14 intention to recognize it in every cost of service study,
15 and to work towards that re-balancing over a period of
16 general rate applications, in other words, to bring this
17 in on a graduated basis.

18 MR. BOB PETERS: And when you say, To
19 bring it in, if I draw your and the Board's attention to
20 the tenth page of the rate schedule that's attached at
21 Tab 22 of the book of documents, the tenth page is
22 entitled, Limited Use Billing Demand Rate Option.

23 Have you located that, Mr. Wiens?

24 MR. ROBIN WIENS: I have.

25 MR. BOB PETERS: If I compare just, at

1 least notionally, and I recognize it's a different
2 program, but what you've done under the LUBD program is
3 you've really flipped it around where the energy charge
4 is considerably higher than it is regularly, but the
5 demand component has been slashed, if you might -- if I
6 might use those words, considerably.

7 MS. PATTI RAMAGE: Excuse me, Mr. Peters,
8 which tab were you on in your book?

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: I apologize. I was on
12 Tab 22, the rate schedule, and I was on page 10, although
13 it's not numbered on what was handed out this morning,
14 and I was looking at the limited use billing demand rate
15 of the Corporation.

16 Mr. Wiens, the -- the first -- the first
17 general service large sub-class has an energy charge of
18 six dollars and thirty-eight (6.38) -- sorry, six point
19 three, eight (6.38) cents a kilowatt hour and the demand
20 charge is a dollar, seventy-seven (\$1.77) per kVA?

21 MR. ROBIN WIENS: Yes.

22 MR. BOB PETERS: And I'm just looking at
23 that saying that is quite a difference from what we saw
24 on page 5 and I recognize it's a different program but
25 was the limited use billing demand rate option designed

1 to recover the actual demand costs incurred for that
2 program?

3 MR. ROBIN WIENS: The -- the limited use
4 of billing demand rate option was designed specifically
5 to recognize the different cost causation of customers
6 with extremely low load factors. I -- I -- I cannot -- I
7 cannot give evidence today that the demand rates that
8 appear here will definitively recover more or less than
9 the demand costs associated with this group.

10 I can tell you that the demand unit of
11 billing demand cost to this group is bound to be lower
12 and probably quite a bit lower than the average for the
13 entire class. This is because of the low load factor
14 associated with this class and often off-peak useage
15 associated with this class.

16 The -- the design of the rate and -- and I
17 should point out that there is approximately, in any
18 event, not much more than a hundred (100) customers who
19 are served under this rate. And the design of this rate
20 was -- was set to be revenue neutral to a customer
21 whether they choose this rate or the applicable main
22 general service rate at a load factor of 18 percent.

23 Below a load factor of 18 percent this
24 rate will provide a lower bill for the customer than the
25 main general service corresponding rate. Above 18

1 percent the customer would get a better deal by being on
2 the regular rate.

3 MR. BOB PETERS: What I take from your
4 answer, Mr. Wiens, is that it wasn't designed to recover
5 only the demand costs for the LUBD customers, it was
6 designed only to be revenue neutral compared to whether -
7 - if they were to have stayed as a general service
8 customer?

9 MR. ROBIN WIENS: At a load factor of 18
10 percent.

11 MR. BOB PETERS: Fair enough. And that's
12 -- that's how it was designed?

13 MR. ROBIN WIENS: Yes.

14 MR. BOB PETERS: And I also understand
15 from your answer that -- that any efforts by the -- by
16 Manitoba Hydro to do any rebalancing on demand and energy
17 charges would only come by way of rate increases approved
18 by the Board so that you could make decisions whether to
19 adjust the energy side of the formula or the demand side
20 of the formula?

21 MR. ROBIN WIENS: I think that's right.
22 Yes.

23 MR. BOB PETERS: And you -- would it be
24 correct that there are some -- some general service large
25 customers who are paying more on a monthly basis for

1 their demand than they would be for their energy; that
2 wouldn't be uncommon?

3 MR. ROBIN WIENS: It wouldn't be unheard
4 of. It would be uncommon.

5 MR. BOB PETERS: Does that imply that it
6 would be for the highest of the load factor customers?

7 MR. ROBIN WIENS: I believe your question
8 was that there are some general service large customers
9 who are paying more through a demand charge than they are
10 through an energy charge?

11 MR. BOB PETERS: On their monthly bills,
12 yes.

13 MR. ROBIN WIENS: On their monthly bills
14 and that would be for lower load factor customers.

15 MR. BOB PETERS: In moving to the
16 evolution, if I can, of the Manitoba Hydro's cost of
17 service study, Mr. Warden, is it -- have I got it correct
18 from your direct evidence that the key issue driving the
19 requirement for the change that's now before the Board is
20 because of the increased impact of the dollar value of
21 export revenue?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: Is it because the dollar
24 value of export revenue is so much greater than it used
25 to be, Mr. Warden, or is it because the marginal value of

1 the export energy is greater than it used to be?

2

3

(BRIEF PAUSE)

4

5 MR. VINCE WARDEN: I think we've agreed
6 it's both.

7 MR. BOB PETERS: All right. Let me ask
8 it this way. If the -- if the value you were getting per
9 kilowatt/hour of your exports through Mr. Surminski's
10 efforts was what it is today but on total your total
11 export revenue was what it was like back in 1996 to 2002,
12 would we even be here today with your recommended method?

13 MR. ROBIN WIENS: Could you repeat that,
14 I'm -- I'm not sure I got all of that.

15 MR. BOB PETERS: I was -- I was trying to
16 distance you, Mr. Wiens and Mr. Warden, from -- from your
17 last answer of -- of why -- how you see the key issue.

18 If the export -- let me try asking it this
19 way.

20 If the total export revenue of the
21 Corporation today was what it was in 1996 or some year
22 close to that, would you be here with your recommended
23 methodology?

24 MR. VINCE WARDEN: I think you'd have to
25 go back -- excuse me -- a little bit more than 1996. But

1 if the revenue had stayed at the level that it was back
2 in 1992 I think we referenced earlier, then no we
3 wouldn't be here because that methodology, the revenue
4 allocation based on that level of revenue which was
5 driven by -- partly by the unit rates, the methodology at
6 that time was appropriate.

7 MR. BOB PETERS: Mr. Warden, I was with
8 you until you -- you gave your last part of your answer.

9 And I want you then to take the Board back
10 to 1992, I want you to take the Board back to the total
11 amount of export revenue that the Corporation receives
12 but disregard what the price per kilowatt/hour is that
13 you're recovering from export.

14 You've just got some export revenue that
15 Mr. Surminski or his predecessor was able to derive for
16 the Corporation and you were happy with the Cost of
17 Service Study generally, that be correct?

18 MR. VINCE WARDEN: At that time we were
19 happy, yes.

20 MR. BOB PETERS: And -- and we fast-
21 forward it to today where you've expressed some concerns
22 and you have some recommended changes before the Board.

23 If the absolute dollar level of the net --
24 of the export revenue was the same today as it was back
25 in 1992, regardless of the value or the price of it,

1 would you be coming in here recommending a change to your
2 cost of service study?

3 MR. VINCE WARDEN: Probably not, no. In
4 that situation, no, I would say not.

5 MR. BOB PETERS: Does that then suggest
6 to the Board that the sheer magnitude of the -- of the
7 export revenue is what is really the driver and not the -
8 - not the underlying cost of it?

9 MR. VINCE WARDEN: Well, it is the -- the
10 cost -- you can't really separate the two (2). The cost
11 is what has driven the increase in the -- in the
12 magnitude of the export revenue.

13 MR. ROBIN WIENS: Mr. Peters, I would say
14 probably the biggest driver is the -- is the unit value.
15 If we were looking, say, today at the unit values that we
16 had back in 1992, export revenue would be less than a
17 third of what we're -- what we're looking at in
18 2005/2006.

19 If we were looking at the unit values that
20 we had back in 1992, there's no way we could build enough
21 generation or would build enough generation on an
22 economic basis to get the sum total of today's export
23 revenues.

24 So I -- I would say the prime driver is
25 the unit value. It would be a very exceptional

1 circumstance where you could get today's overall dollar
2 val -- dollar amount without having higher unit values.

3 MR. BOB PETERS: And that suggests to the
4 Board, Mr. Wiens, that the total export sales in gigawatt
5 hours hasn't increased significantly since 1996 to make
6 the difference that would otherwise bring you here?

7 MR. ROBINS WIENS: I think the numbers
8 are on the record but -- but without actually checking
9 them it -- it would be hard to -- the -- the magnitude in
10 kilowatt hours or gigawatt hours is probably higher in
11 '96.

12

13 (BRIEF PAUSE)

14

15 MR. ROBIN WIENS: Because our domestic
16 load was lower. That may not of actually been the case,
17 but if we assume that they were both similar flow years
18 '96 would of been higher than in terms of volume than --

19 MR. BOB PETERS: All right

20 MR. ROBIN WIENS: --- then 2006.

21 MR. BOB PETERS: So the -- so what --
22 what you're indicating is that the -- the unit value
23 relative to the -- the fixed costs if you will that
24 underlie it is what's given you the opportunity to have
25 this additional revenue?

1 MR. ROBIN WIENS: Primarily, yes.

2 MR. BOB PETERS: And, Mr. Warden, I
3 think you told the Board and it may even have been at the
4 pre-hearing conference stage for this hearing that in
5 2006 the export revenue is for the first time ever in the
6 Corporation's history greater than domestic revenues, do
7 I have that?

8 MR. VINCE WARDEN: Well, it was at the
9 time. I wasn't implying it would be for the full entire
10 year so no, it's -- export revenues for the entire year
11 would be lower than domestic revenues. We were -- I
12 think we were looking at six (6) or seven (7) months'
13 results at that time.

14 MR. BOB PETERS: In light of those
15 answers is Manitoba Hydro doing anything on a corporate
16 basis differently today than it was done five (5), ten
17 (10), fifteen (15), twenty (20) years ago to generate
18 export revenue?

19 MR. VINCE WARDEN: Well, the whole --
20 yeah, the market's changed significantly and Mr.
21 Surminski can certainly speak to that.

22 MR. BOB PETERS: But I -- but -- but
23 before he does and I -- he's welcome to do that but I
24 mean in general terms the -- the gigawatt hours for
25 export if anything, may be even lower without getting to

1 actual charts and numbers here and the biggest difference
2 has been that the unit price has increased?

3 MR. HAROLD SURMINSKI: Yes, but we have
4 above average stream flows for the last ten (10) year
5 period also in general. Stream flows have been
6 significantly above average except for the -- the drought
7 year. So the volume of -- of export sales is driven by
8 these good flows that we have had also and prices were
9 the second factor.

10 MR. BOB PETERS: And I accept that as an
11 operational activity, Mr. Surminski, but from a corporate
12 basis as the Corporation -- is it doing anything
13 differently or -- to generate more revenues than it --
14 than before? And I appreciate the good -- the good
15 fortune of the water flows.

16 MR. HAROLD SURMINSKI: Yes. The power
17 trading, the new market that we're participating in in
18 the US, the MISO market is definitely been an advantage
19 to us and it has significantly increased prices.

20 I think we've testified before that we are
21 no longer captive to five (5) customers that we were in
22 the past and the open access has -- has allowed us to
23 trade with more entities and so not being a captive to
24 certain to -- to the original five (5) we can get higher
25 prices.

1 MR. BOB PETERS: Well, Mr. Surminski, as
2 I sit here I recall in the materials, that you have told
3 the Board in your materials that you have five (5) firm
4 export counter parties and seven (7) opportunity export
5 counter parties.

6 Have I got that right?

7 MR. HAROLD SURMINSKI: Yes, that is
8 currently the case but three (3) or four (4) years ago
9 there were many more. There were many power traders in
10 the marketplace that weren't utilities, the Enron types
11 and that have disappeared to a great degree from several
12 years ago.

13 MR. BOB PETERS: All right. So we're
14 back to more like it was in the -- in the good old days
15 where -- where the unit value wasn't four point nine
16 (4.9) cents, it was closer to the one point five (1.5)
17 cents a kilowatt hour?

18 MR. HAROLD SURMINSKI: No, the
19 competitive marketplace has -- has countered that aspect
20 of it just -- just because we -- the remaining --
21 remaining five (5) have to be competitive so we do get
22 the higher prices just because it is a competitive
23 marketplace now.

24 MR. BOB PETERS: Of those -- of those
25 counter-parties that I've recalled, and you don't name

1 them in the materials, do you?

2 MR. HAROLD SURMINSKI: I believe not.
3 No, it's usually confidential.

4 MR. BOB PETERS: And -- and would it be
5 confidential to tell the Board whether or not some of the
6 firm counter-parties are also some of the interruptible
7 or opportunity counter-parties?

8 MR. HAROLD SURMINSKI: I can say that,
9 yeah, they're generally the same. Yeah.

10 MR. BOB PETERS: So in terms of exporting
11 more power today than -- than before, while that may not
12 be numerically the case but the marketplace has changed
13 where you have to do it differently, is what I'm hearing?

14 MR. HAROLD SURMINSKI: We choose to do it
15 differently. We saw an advantage to being members of --
16 of the MISO organization, trading organization. The way
17 it is organized. So we chose to go that way because we
18 deemed it to be an advantage to us.

19 MR. BOB PETERS: When you say "you deemed
20 to go the MISO way"; that just meant that you joined an
21 organization that allowed you to have access to
22 additional customers or different customers?

23 MR. HAROLD SURMINSKI: Yes, that's right.

24 MR. BOB PETERS: Was it different
25 customers or additional customers?

1 MR. HAROLD SURMINSKI: It's -- it's a
2 pool. So it's -- it's much wider ranging. We were able
3 to trade to -- with counter-parties that were farther
4 away. So there was a larger pool available.

5 MR. BOB PETERS: In that book of
6 documents that I referred to earlier at -- at Tab 1 there
7 are two (2) pieces of -- two (2) extracts from some
8 legislation that may or may not be familiar to the Panel.
9 I'm sure they're more familiar to Ms. Ramage but she's
10 not sworn in yet so I'll talk to the Panel members.

11 So Tab 1 of the book of documents and page
12 1 in -- in Section 2 talks about the intent, purpose and
13 object of the Act.

14 And will you agree with me, Mr. Warden,
15 that when Section 2 of the Manitoba Hydro Act, as found
16 on page 1 of Tab 1, was operative, the intent and purpose
17 was to provide an adequate supply of power for the needs
18 of the province?

19 MR. VINCE WARDEN: I'm not sure what you
20 need by "when it was operative"?

21 MR. BOB PETERS: Prior to 1997, at least
22 that was the wording of Section 2 prior to 1997 is what
23 you found on page 1 of the book of documents.

24

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(BRIEF PAUSE)

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MR. VINCE WARDEN: Okay, yes, I'll agree with that. I'll agree with that.

MS. PATTI RAMAGE: I have to jump in and just ask Mr. Peters where he's going because if he's going to be asking Mr. Warden for his opinion on the changes, I'm reasonably confident that we've got the wrong member of the executive here and the one who is able to provide that opinion I don't think would.

CONTINUED BY MR. BOB PETERS:

MR. BOB PETERS: Well, let me approach it this way, Ms. Ramage, and I appreciate I'm treading on eggshells here.

Mr. Warden, prior to 1997 when the Act had a provision for you to provide power adequate for the needs of the province, was the Corporation still interested in exporting power?

MR. VINCE WARDEN: Yes.

MR. BOB PETERS: And in exporting power before 1997 compared to what it did after 1997 do you believe the Corporation has done anything significantly different?

MR. VINCE WARDEN: Well, as Mr. Surminski has explained, there have been significant changes in the

1 way we export power and trade power. So there have been
2 significant changes, yes.

3 MR. BOB PETERS: But it hasn't changed
4 the fact that you -- that you still see exporting power
5 as within the object of Manitoba Hydro's corporate
6 ability?

7 MR. VINCE WARDEN: Yes, the -- the
8 changes that were made to the Act in 1997 confirmed that
9 we had the -- the Corporation had the ability to, in
10 fact, build generation specifically for export.

11 MR. BOB PETERS: So to the extent that
12 there would be any ambiguity or uncertainty with the way
13 Section 2 of the Hydro Act was constituted before 1997
14 for Manitoba Hydro to build and to export power, it was
15 clarified in your mind and the Corporation's mind by the
16 revisions in 1997?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: But that doesn't change
19 -- that didn't change anything that you did in terms of
20 wanting to export or not export?

21 MR. VINCE WARDEN: In terms of our desire
22 to export, no.

23 MR. BOB PETERS: And I appreciate Mr.
24 Surminski talked about some operational changes in terms
25 of trading and power trading and using MISO as a -- as a

1 partner, but that wasn't as a direct result of the
2 legislation, to your knowledge?

3 MR. VINCE WARDEN: Well, not specifically
4 as it relates to the MISO market, no. The changes that
5 we're referring to in Section 2 of the Act were, as I
6 stated earlier, to make absolutely certain that we -- the
7 Corporation had the authority to build new generation for
8 export, amongst other things which at the time we looking
9 at selling other products and services that we weren't
10 sure the -- the Act as it was previously worded gave us
11 that authority.

12 So the changes to the Act removed that --
13 that doubt.

14 MR. BOB PETERS: Those other services
15 you're talking about had more to do with the marketing of
16 some internal expertise to utilities or corporations
17 outside of Manitoba.

18 MR. VINCE WARDEN: That's correct.

19 MR. BOB PETERS: But in terms of
20 exporting power, as far as Manitoba Hydro conducted its
21 business, it was business as usual and the change in
22 legislation didn't change the business-as-usual aspect.

23 MR. VINCE WARDEN: As I pointed out
24 previously, Mr. Peters, it clarified -- it made certain
25 that Manitoba Hydro had the authority to construct new

1 generation for purposes of export.

2 MR. BOB PETERS: And -- and just to
3 finish that thought then, Mr. Warden, has Manitoba Hydro
4 constructed any generating stations for export?

5 MR. VINCE WARDEN: Not since the change
6 in the Act, no.

7 MR. BOB PETERS: Even before that?

8 MR. VINCE WARDEN: Well, we did --
9 Limestone Generating Station did come in earlier than --
10 than was needed for the Manitoba load. So there was an
11 element of that -- of that new generation that was
12 justified on the basis of export sales.

13 MR. BOB PETERS: And that Limestone was
14 all done pre-1997?

15 MR. VINCE WARDEN: It was.

16 MR. BOB PETERS: So the legislation
17 didn't affect the corporate decision on building or
18 advancing or sizing of Limestone?

19 MR. VINCE WARDEN: It didn't. But as I
20 mentioned earlier, it wasn't 100 percent clear whether we
21 had that authority through the Act.

22 MR. BOB PETERS: All right. And -- and
23 you've -- just so the Board is clear where you're going
24 as a corporation, is the Corporation taking the view that
25 it is building Wuskwatim for export?

1 MR. VINCE WARDEN: Yes.

2 MR. BOB PETERS: All right. And that is
3 different than what it has done in the past because it's
4 -- it's being advanced and sized to meet the export
5 market as opposed to needed for domestic load in the
6 foreseeable future thereafter?

7 MR. VINCE WARDEN: Well, not sized. It
8 is what it is in terms of size but it's being developed
9 for export purposes before, well before it's needed to
10 serve the Manitoba load.

11 MR. BOB PETERS: And so was Limestone,
12 was it not?

13 MR. VINCE WARDEN: Limestone was only
14 advanced by one (1) year.

15 MR. BOB PETERS: Before it was needed for
16 the domestic load?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: So from what I hear
19 you're telling the Board as a result of the 1997 change
20 in the legislation, Manitoba Hydro hasn't planned or done
21 anything different from a corporate basis, although it
22 has now clarified that it can build for export should it
23 determine that's appropriate?

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

25 MS. PATTI RAMAGE: If -- if I could just

1 add, Mr. Peters, just to clarify, and I'm not becoming
2 the witness here, but this was not the only amendment in
3 1997 that dealt with export market issues.

4 And so if we can -- if you're asking about
5 this particular section and building for export, I think
6 that's fair. But I don't think -- I don't think the --
7 the answer would deal with other -- other sections of the
8 Act, nor do I think the Panel is really in a position to
9 answer regarding what other sections were enacted in 1997
10 and their affect.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: All right. Thank you
14 for that, Ms. Ramage.

15 If -- I suppose I can only indicate if
16 there's anything on review that you might think needs to
17 be brought to the Board's attention you could perhaps do
18 that in re-examination of the Panel should you choose, if
19 there's other sections that you want them to -- to see
20 but for my purposes I -- I was relating it to the export
21 so I -- I'm prepared to conclude at that.

22 In terms of revisiting the key issues that
23 the Board is considering I'm concluding that your
24 evidence tells the Board that there's more export
25 revenues than ever before, at least that's -- that's

1 generally the case and that's thought to be the case
2 going forward?

3 MR. VINCE WARDEN: Well, there's more
4 export revenues than ever before largely due to good
5 water flow conditions and the good unit price that we're
6 getting today.

7 MR. BOB PETERS: And you project in your
8 materials that the Corporation will continue to receive
9 the benefits of the good water flows and the -- and the
10 higher prices?

11 MR. VINCE WARDEN: Well, higher prices we
12 do project, good water flows we -- we can only project so
13 far but -- but for -- our reservoir conditions are very
14 good at this time and we expect that to be so -- the case
15 for the balance of this fiscal year for sure.

16 MR. BOB PETERS: And -- and, Mr.
17 Surminski or Mr. Warden, if the Board is going to look at
18 your projections and say, Where is the drought year
19 upcoming they're not going to find it in the discreet
20 numbers, would that be correct?

21 MR. VINCE WARDEN: That's correct.

22 MR. BOB PETERS: And that's because you
23 don't -- you don't embed a discreet year in which a
24 drought will occur?

25 MR. VINCE WARDEN: Right. We don't know

1 where that drought will occur, of course.

2 MR. BOB PETERS: Yet the numbers that
3 you put before the Board based on your integrated
4 financial forecasts have embedded in them some median
5 expectations and included in that will be -- any drought
6 years in the past will -- will be at least implicitly
7 embedded in that IFF?

8 MR. VINCE WARDEN: That's correct.

9 MR. BOB PETERS: So when a drought
10 occurs as we saw in Manitoba it can cause a significant
11 impact on your corporate revenues which may lead to a
12 considerable impact on consumer rates but you can't
13 discreetly plan for that because you don't know when it's
14 going to happen?

15 MR. VINCE WARDEN: Yes, and if we have
16 the adequate level of retained earnings that we're
17 striving for then it wouldn't have an immediate impact on
18 consumer rates.

19 MR. BOB PETERS: Only to the extent that
20 you didn't come back to the Board and ask to build up
21 those depleted retained earnings?

22 MR. VINCE WARDEN: Well, correct. We
23 would want to maintain a certain level of -- of equity
24 over the long term and knowing the drought is going to
25 occur some time over that long term there would be an

1 expectation it would be replenished, yes.

2 MR. BOB PETERS: And again on one (1) of
3 the key issues in terms of how the net export revenue is
4 -- is credited to the consumer classes up until 2006, Mr.
5 Wiens, the best you can recollect is that it has been
6 always shared with the consumer classes based on their
7 share of the generation and transmission costs?

8 MR. ROBIN WIENS: In terms of what this
9 Board has approved that is correct but you will recall
10 and other participants will recall that Manitoba Hydro
11 did bring a proposal or include a proposal in one (1) of
12 its filings; that -- that is in 2002.

13 That would make that -- that would have
14 made a change not identical to what we are looking at
15 today or what we're recommending today but directionally
16 the same and that was as other parties have pointed out
17 rejected by the Board in 2002.

18 MR. BOB PETERS: What was rejected by
19 the Board in 2002 and that -- that was -- was that part
20 of the status update hearing, Mr. Wiens?

21 MR. ROBIN WIENS: That's what we called
22 it, yes.

23 MR. BOB PETERS: And what was rejected
24 by the Board was your request to allocate the -- or
25 credit the next export revenue on the basis of total

1 cost, not just generation and transmission costs?

2 MR. ROBIN WIENS: That's right.

3 MR. BOB PETERS: All right. There were
4 other aspects to it that aren't identical to what's here
5 today, is that also correct?

6 MR. ROBIN WIENS: It wasn't identical to
7 what we are recommending today, no.

8 MR. BOB PETERS: Is there any dispute
9 amongst any of the Intervenors that you can determine,
10 Mr. Wiens, that the generation and transmission assets
11 are the very assets used to create the export revenues?

12

13 (BRIEF PAUSE)

14

15 MR. ROBIN WIENS: Strictly speaking, in
16 terms of the functions that make it possible to export,
17 that is correct.

18 MR. BOB PETERS: So you're telling the
19 Board that the -- the assets that allow Manitoba Hydro to
20 export revenue are the generating plants and stations and
21 the transmission lines?

22 MR. ROBIN WIENS: These assets make it
23 possible to export. Other things are required to be in
24 place in order to achieve those export revenues as -- as
25 -- as I'm sure you can appreciate. Surplus energy being

1 one (1) of them. A willing market being another.

2 So the generating and transmission assets
3 are necessary but they're not sufficient to create the
4 volume of export revenues that we see today.

5 MR. BOB PETERS: From Manitoba Hydro's
6 abilities you can only control the use of the generating
7 and transmission assets to influence how much electricity
8 you have available for export, would that be correct, Mr.
9 Surminski?

10 MR. HAROLD SURMINSKI: Can you repeat the
11 question please?

12 MR. BOB PETERS: Certainly. It is
13 Manitoba Hydro's operations of its generating and
14 transmission assets that enable it and provide it with
15 the opportunity to enter into the export market?

16 MR. HAROLD SURMINSKI: Yes.

17 MR. BOB PETERS: And I think as Mr. Wiens
18 was trying to clarify for -- for Manitoba Hydro to, in
19 fact, consummate an export transaction you're going to
20 need a counter party?

21 MR. HAROLD SURMINSKI: Yes, that's
22 correct.

23 MR. BOB PETERS: And that counter party
24 will be determined if the market conditions are
25 acceptable to both parties?

1 MR. HAROLD SURMINSKI: Yes. I guess
2 earlier when I was answering to -- to questions along
3 that line there was -- there was two (2) ways one could
4 think of it. If you were -- if you already have the
5 resource and the energy in your system you become a price
6 taker as -- as Mr. Evans pointed out.

7 But if you're now going to be building for
8 a generation then you have a choice of -- of making sure
9 that you have a profit on that sale. So if you're just a
10 price taker well, you can't -- there is no -- you don't
11 have a choice on deciding whether you have a profit. You
12 just sell for whatever the market will provide.

13 MR. BOB PETERS: But if you build for
14 export your choice that you're talking about is a
15 contractual choice as to whether to enter into a contract
16 that'll under -- underpin the construction of a
17 generating station?

18 MR. HAROLD SURMINSKI: That is correct.

19 MR. BOB PETERS: In the -- in the
20 allocation of export revenues based on generation and
21 transmission it's your evidence, was it, Mr. Wiens, or
22 maybe it was even Mr. Warden who said in this morning's
23 evidence that those generation and transmission costs are
24 considered relatively stable even though there might be
25 some incremental movements up and down but in the long

1 term they're relatively flat in terms of what those costs
2 are?

3 MR. ROBIN WIENS: Well, I'm not sure that
4 either one of us would put it that way. I think there
5 may be something in evidence that we've either filed or
6 gave this morning that -- saying that for some time now
7 the embedded costs of that generation have been fairly
8 stable, if that's what you're referring to.

9 MR. BOB PETERS: And so these embedded
10 costs are stable or, at least, in any event, not
11 increasing at the rate that the net export credits are
12 increasing?

13 MR. ROBIN WIENS: Well, historically,
14 since the mid-'90's, yeah, they have been stable.
15 Whereas the net-- the returns from the export market
16 have -- have -- well, since 1992 approximately increased
17 three (3) -- threefold or more.

18 MR. BOB PETERS: And so the result that -
19 - that underpins Manitoba Hydro's recommended case before
20 this Board, or the recommended methodology, is that the
21 increases in export credits are offsetting a greater and
22 greater portion or percentage of the generation and
23 transmission costs?

24 MR. ROBIN WIENS: That's true.

25 MR. BOB PETERS: And that Manitoba Hydro

1 then suggests is a distortion because it subsidizes the
2 energy costs that are -- that are being utilized and
3 being charged to other consumers on a unit basis?

4 MR. ROBIN WIENS: Well, it's inefficient
5 in a broad sense in that in -- in effect results in all
6 domestic customers paying prices which are less, and in
7 some cases quite a bit less, than marginal cost, which is
8 the efficient price point. But it's distortive in a cost
9 of service sense, in -- in the fact that that gap is
10 larger for some classes than it is for others.

11 MR. BOB PETERS: And the reason it's
12 larger of a gap for some customers than others, is
13 because those classes in where it is larger, is because
14 those classes pay a proportionately higher share of the
15 generation and transmission costs through the Cost of
16 Service Study.

17 MR. VINCE WARDEN: Not necessarily. It's
18 because the rate that is charged to those classes is made
19 up almost entirely of generation and transmission costs,
20 with no additional costs for -- or very little additional
21 costs for sub-transmission, distribution, customer
22 service.

23 MR. BOB PETERS: And the result that the
24 Board is -- or that I'm hearing and perhaps the Board is,
25 is that electricity prices are -- are going to end up

1 being too inexpensive or too cheap.

2 MR. VINCE WARDEN: Well, if -- if you're
3 on the paying end they can never be too cheap. But from
4 the perspective of appropriately pricing a resource,
5 that's -- that's correct.

6 I mean, in -- in the limit, and I'm --
7 there's no suggestion that -- that we're there yet, but
8 one could conceive of a situation in which the export
9 revenue would wholly offset the embedded cost of
10 generation and transmission.

11 That makes it a little bit easier to see,
12 perhaps, that -- that, you know, the extent of the
13 distortion that's possible. But it's in place today with
14 being at close to 50 percent offset.

15 MR. BOB PETERS: And your example for --
16 for only illustrative purposes, I suppose, can be even
17 taken further, that with unbridled net export revenue,
18 using the same cost of service methodology could even
19 result in a -- a negative cost to those classes where --
20 where the generation and transmission costs have been
21 offset by -- by the revenue, by the export revenue.

22 MR. VINCE WARDEN: It's -- it's pretty
23 unlikely but I guess one could contemplate some
24 situations in which that could happen.

25 MR. BOB PETERS: And the effect that --

1 that results, Mr. Wiens, you'd agree with me that it
2 becomes a mathematical result due to the increase in
3 exports. That's really what -- what happens here, is
4 you're -- you're sharing the -- the wealth and
5 mathematically it turns out that it's a -- a benefit to
6 certain customer classes more than others.

7 MR. ROBIN WIENS: That's how it -- that's
8 right, that's how it turns out.

9 MR. BOB PETERS: And so the recommended
10 solution then is mathematically to increase the
11 denominator by adding customer class distribution cost
12 together with the generation and transmission costs.

13 MR. ROBIN WIENS: That's a tradeoff
14 solution that we've adopted and are recommending, it's
15 not the only.

16 MR. BOB PETERS: Well which other
17 solutions do you think the Board should consider?

18 MR. ROBIN WIENS: We think you should
19 consider our solution. Other parties will advance
20 theirs.

21 MR. BOB PETERS: All right. And -- and
22 assuming they're going to be considering yours, you
23 recognize that -- that Manitoba Hydro has had to use
24 judgment and perhaps compromise in reaching a decision as
25 to how to share the export credit?

1 MR. ROBIN WIENS: Yes, that's true. But
2 it's still -- it's still a measure that you can -- that
3 you can look at. It's -- the concept may be judgmental
4 but the measure is -- is there. It's -- we -- we have a
5 windfall situation, we have a situation in which a
6 resource that we've invested in has -- is producing
7 output that is valued much, much higher than it was at
8 the time that the investment decision was made.

9 And when we look at the range of
10 possibilities that are open to us on a cost of service
11 study, it comes down to how you return that to customers.

12 And on the basis of total cost, it seems
13 reasonable to us as -- as a way of dealing with this.

14 MR. BOB PETERS: And so even if the
15 distribution costs don't facilitate the export sales, the
16 end result is you've -- you've spread the wealth around a
17 bit more, and that creates a fair result in what you're
18 proposing to the Board.

19 MR. ROBIN WIENS: That's what we're
20 saying.

21 MR. BOB PETERS: And that's because the
22 result of what you do minimizes, I guess, the distortion
23 of the value of -- of the energy that --

24 MR. ROBIN WIENS: It reduces it.

25 MR. BOB PETERS: Well, I suppose,

1 ideally, in a world where you didn't have any export
2 revenue and charged everybody at -- at unity, I mean, we
3 don't have this debate, so to that extent there's always
4 going to be some benefit being given to the customer
5 classes by this cost of service methodology?

6 MR. ROBIN WIENS: Well, yeah. That --
7 that situation is only ideal in the sense of avoiding
8 this debate. It's not ideal in the sense of Manitoba
9 Hydro deriving the largest possible benefit from the
10 system.

11 MR. BOB PETERS: Maybe just to finish up
12 on a couple of quick thoughts, if I could. This
13 crediting of net export revenues on the basis of all
14 allocated costs -- and when I say, "all allocated costs,"
15 Mr. Wiens, you understand me to be referring to
16 generation, transmission, and distribution, those are
17 your -- your three (3) heads of costs?

18 MR. ROBIN WIENS: We have actually six
19 (6) functions, and in addition to generation and
20 transmission there are ancillary services which are
21 produced by generation and transmission. There is
22 distribution, there is sub-transmission and there is
23 customer service.

24 MR. BOB PETERS: The idea of sharing and
25 crediting the export revenues on the basis of all

1 allocated costs, rather than just generation and
2 transmission, isn't a new concept, is it?

3 MR. ROBIN WIENS: No, we've advanced this
4 concept previously.

5 MR. BOB PETERS: And before Manitoba
6 Hydro advanced it in 2002, CAC/MSOS advanced a -- a
7 concept very similar to that, probably in the mid '90's,
8 would that be true?

9 MR. ROBIN WIENS: I believe the mid
10 1990's, yes.

11 MR. BOB PETERS: And then after the mid
12 '90's, maybe in the late 1990's, when we first became
13 familiar with Mr. Williams, that concept again was
14 advanced to the Board, and that was to share the export
15 credits on the basis of all allocated costs?

16 MR. ROBIN WIENS: Well, I don't recall
17 that step, Mr. Peters, because Mr. Williams or his
18 predecessor would not have had an opportunity to do that
19 between 1996 and 2002.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: Do you recall CAC/MSOS
24 putting it forward twice for the Board to consider,
25 regardless of the -- the venue and the times?

1 MR. ROBIN WIENS: You -- you know it's
2 possible. If that -- that would probably have been in
3 1994 and then again in 1996, if -- if that did happen.

4 MR. BOB PETERS: And if it did happen,
5 or even if you recall it only happening once, can you
6 tell the Board why Manitoba Hydro was opposed to that
7 methodology at that time?

8 MR. ROBIN WIENS: At that time we still
9 had reasonable faith that the methodology we were using
10 was reasonable. We hadn't reached the point where --
11 that we reached not long after 1996, actually.

12 I mean the -- the reconsideration of that
13 occurred not very many months after the 1996 rate
14 hearings, and we were working internally on options as
15 early as 1997 or 1998.

16 MR. BOB PETERS: And even though you
17 were working internally on them, it never came to the
18 Board's attention until 2002 because you hadn't been --
19 you weren't back to the Board until that time; would that
20 be correct?

21 MR. ROBIN WIENS: That's correct.

22 MR. BOB PETERS: All right. Mr. Warden,
23 I want to end the day with my last line of questioning to
24 you, briefly.

25 This morning, I believe through your

1 counsel in direct evidence, you indicated that -- that
2 there was a movement afoot between the Corporation and
3 some of the industrial customers to talk about a -- a
4 surcharge or an additional cost to those customers for
5 incremental consumption.

6 Have I got that right?

7 MR. VINCE WARDEN: Yes, there is a
8 movement afoot, so to speak.

9 MR. BOB PETERS: And that was -- that was
10 reported in the newspaper article that the Chairman
11 referenced in his opening comments; that's your
12 understanding?

13 MR. VINCE WARDEN: Correct.

14 MR. BOB PETERS: And do I take from your
15 answers to Ms. Ramage that you're not disputing that the
16 Corporation sent a letter out to various customers to at
17 least broach the topic?

18 MR. VINCE WARDEN: A letter was sent out
19 to various customers advising them that the Corporation
20 was considering such a measure, yes.

21 MR. BOB PETERS: Is that a letter you're
22 prepared to file with Board?

23 MR. VINCE WARDEN: I don't see why not.
24 We could do that.

25 MR. BOB PETERS: Well, I'd appreciate if

1 you could undertake to do that then and provide it
2 through your counsel.

3 MR. BOB PETERS: Now, are -- are you
4 familiar --

5 MS. PATTI RAMAGE: If I could --

6 MR. BOB PETERS: I'm sorry.

7 MS. PATTI RAMAGE: Excuse me, Mr. Peters.
8 Mr. Warden has graciously offered to file the letter, but
9 I'm not quite sure why it's relevant to this proceeding.

10 Manitoba Hydro has made it clear that --
11 that there is not a rate increase coming out of this
12 proceeding and -- and that ultimately if a -- if it
13 adopts any sort of -- or once it makes a decision on
14 that, it will come forward to the Board.

15 So I'm not sure what relevance that letter
16 has to today's -- to the cost of service methodology
17 proceeding.

18 MR. ROBERT MAYER: Ms. Ramage, firstly,
19 it has some -- it has some relevance to the Board,
20 because our credibility now gets questioned when we read
21 in a newspaper that you are sending out a letter to your
22 customers telling them basically you're going to up the
23 rates without bothering telling us.

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: Well, and -- and let me
2 draw it also to Ms. Ramage, the Cost of Service Study,
3 and -- and you can reflect on it and maybe ultimately the
4 Board will have to determine whether or how badly they
5 want it and whether this is the forum.

6 But I want to know if -- if the concerns
7 being raised with those industrial customers, who I --
8 I'm just going by the newspaper article, are the same
9 concerns that the Corporation is raising today to justify
10 their recommended approach on the Cost of Service Study,
11 and that is that the electricity is not being reflective
12 of -- the rates that they're paying are not reflective of
13 the value that they're getting, and that the value has
14 been subsidised to, perhaps an excessive extent, by
15 virtue of the export revenue credits.

16 MR. VINCE WARDEN: Mr. Peters, I might
17 just say that I -- I think it's totally appropriate that
18 this Board be informed of what is being contemplated by
19 Manitoba Hydro on a fairly important issue. So I have no
20 qualms whatsoever in -- in filing that letter that was
21 issued earlier.

22 And it was certainly the intention of
23 Manitoba Hydro to, at the appropriate time, when we
24 developed our proposal, to file a rate application with
25 the Public Utilities Board. That proposal has not been -

1 - has not been fully developed yet or has not been -- at
2 least not been approved by the Manitoba Hydro Board.

3 But in -- in the interest of keeping this
4 Board informed, we can certainly file that -- that letter
5 that was provided to our customers.

6 The concerns that that issue is addressing
7 is not related to existing load. Existing load, you
8 know, we -- we supply that power at rates that we deem --
9 deem fair, customer deems fair when that -- when that
10 load was built and those customers constructed facilities
11 to take advantage of that.

12 It's new load -- new load that we have
13 some concerns about. New large load that will displace
14 export -- profitable export sales to the detriment of
15 other ratepayers in -- in Manitoba.

16 It's an issue for the future but we can
17 certainly provide the Board with information that is in
18 the public arena at this time.

19 MR. BOB PETERS: All right.

20 MR. LEN EVANS: We're pleased with that,
21 Mr. Warden. I might just add -- I could probably say
22 this better if I thought longer on it, but when we're
23 considering with everyone here the COSS and the design of
24 the COSS, and there's something, a potential future issue
25 that's in play, I think it will just help us in our

1 considerations of the wider issue. How exactly, I don't
2 know, because I haven't seen the letter, but we
3 appreciate your willingness.

4 Mr. Peters...?

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: Thank you. And -- and
8 I'm trying to keep comments for the benefit -- certainly
9 understanding Ms. Ramage's points, which I think are --
10 are correct, to how the Cost of Service Study could be
11 impacted.

12 But I hear that -- and as I'm
13 understanding from Mr. Warden that the -- the concern of
14 the Corporation is that more energy intensive industry
15 will displace electricity that could otherwise be
16 exported, and therefore a lower export credit, and
17 therefore a lower export credit to be allocated to all
18 customer classes, I think is the logical flow from where
19 I think Mr. Warden is -- is going with the concern of the
20 company; would you agree?

21 MR. VINCE WARDEN: Yes. And I -- well, I
22 don't, in any way, want to give the impression that we're
23 unfriendly, in any way, to industry in Manitoba. And
24 that's part of the issue I think we're dealing with here
25 today, is that when we only have part of the information,

1 that interpretation might be derived and I -- I certainly
2 don't want to leave that impression

3 We -- that's why the Corporation hasn't
4 filed an application to date, as it is a -- a difficult
5 issue. We certainly have always been receptive, of
6 course, with a -- and our rates speak for themselves, I
7 think, the lower rates that we have in Manitoba, the
8 lowest in Canada and, in fact, probably the lowest in the
9 world in Manitoba.

10 There's a point at which, though, it's
11 just not good business for us to be encouraging growth in
12 Manitoba of industrial load when it adds no value to the
13 economy of -- or little value to the economy of Manitoba,
14 which is possible for some load, not all, possible for
15 some, at the same time as we can export that power at
16 much higher rates.

17 So it's a dilemma we're struggling with,
18 and at the appropriate time we will bring forward this
19 issue to -- to the Board for consideration.

20 MR. BOB PETERS: All right. And that
21 appropriate time for consideration, at the earliest, is
22 going to be the next general rate application, which, in
23 itself, the earliest would be starting April 1st, 2007?

24 MR. VINCE WARDEN: Well, no, not really.
25 If -- if this matter is resolved by the board of Manitoba

1 Hydro, there will be an application filed immediately
2 thereafter.

3 MR. BOB PETERS: And I take it from your
4 answer it hasn't been totally resolved by the Manitoba
5 Hydro board yet?

6 MR. VINCE WARDEN: That's correct.

7 MR. BOB PETERS: And are you able to
8 share with the Board, this Board, any possible timeframe
9 in which that item will be addressed on a final basis by
10 the Manitoba Hydro board?

11 MR. VINCE WARDEN: No, I can't.

12 MR. BOB PETERS: Is it fair to conclude
13 that the largest growth -- load growth in Manitoba is
14 coming from industrial customers?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: Is that -- that's not
17 the only load growth; or is it?

18 MR. VINCE WARDEN: It's not the only, but
19 certainly the largest.

20 MR. BOB PETERS: And Manitoba Hydro is
21 not looking at what has been the historic or existing
22 load of different industries, but it's more focussed on
23 future additional loads -- incremental loads?

24 MR. VINCE WARDEN: Correct.

25 MR. BOB PETERS: And does that span all

1 customer classes or all of the LGS sub-classes, or is
2 that restricted to any -- any sub-class.

3 MR. VINCE WARDEN: Well, we're getting in
4 perhaps a little -- level of detail that I'm getting a
5 little uncomfortable with, but it would be looking at
6 large load.

7 MR. BOB PETERS: Okay. I think I'll
8 suggest, Mr. Chairman, this might be an appropriate time,
9 I know we've gone a little later than we intended today.
10 I'll pick it up here tomorrow morning and keep us moving.

11 THE CHAIRPERSON: Thank you, Mr. Peters.
12 We conclude definitely on an interesting note. So thank
13 you everyone, we'll see you tomorrow morning.

14

15 (PANEL RETIRES)

16

17 --- Upon adjourning at 4:15 p.m.

18

19 Certified Correct

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21

22 -----

23 Ryan Pickering

24

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