



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2019/20

ELECTRIC RATE APPLICATION

Before Board Panel:

|                  |                     |
|------------------|---------------------|
| Robert Gabor     | - Board Chairperson |
| Marilyn Kapitany | - Board Vice Chair  |
| Larry Ring, QC   | - Board Member      |
| Shawn McCutcheon | - Board Member      |
| Hugh Grant       | - Board Member      |

HELD AT:

Public Utilities Board  
400, 330 Portage Avenue

Winnipeg, Manitoba

April 29, 2019

Pages 693 to 982

1 explained that to the Public Utilities Board. That's  
2 always on my role.

3 MR. MATTHEW GHIKAS: Well, don't --  
4 don't get me wrong, Mr. Rainkie, I'm just reading your  
5 words back to you. And you say you're a chi -- you  
6 were the chief regulatory strategist. So you were in  
7 fact the chief regulatory strategist in that  
8 application?

9 MR. DARREN RAINKIE: As -- as the CFO  
10 is, Mr. Ghikas. Sorry, I'm not sure what your point  
11 is on that. I took the policy of the MHEB and the  
12 forecasts that were approved by it, and I came here  
13 and explained to the Board -- Public Utilities Board,  
14 the perspective of the Manitoba Hydro Electric Board.

15 I -- I don't see an inconsistency there  
16 whatsoever now.

17 MR. MATTHEW GHIKAS: Now, the -- the  
18 other aspect that I wanted to pursue from this  
19 morning, Mr. Rainkie, was that you -- you indicated  
20 that now, as an independent expert, your role is to --  
21 to balance the interests.

22 And I took from that that you seemed --  
23 you felt liberated from your role of -- at Manitoba  
24 Hydro and that you could now balance the interests.  
25 And -- and that surprised me given what you said in

1 your CV, that your approach in 2014 was to balance the  
2 interests of ratepayers and the financial integrity of  
3 the Corporation. Can you explain that?

4 MR. DARREN RAINKIE: Well, in 2015,  
5 Mr. Ghikas, I mean, I -- I come from a background of  
6 an equity ratio, worked big four (4) accounting firm.  
7 I'm chartered business evaluator. I've worked for  
8 Centra Gas where we used a rate base rate of return  
9 methodology for decades.

10 So I guess it wasn't that hard for me  
11 to pick up on and use a equity ratio target in  
12 Manitoba Hydro that had been established ni -- in  
13 1995.

14 But as I said earlier, I -- I've looked  
15 at that since and looked at the development since and  
16 looked at the Board's directive -- directives in Order  
17 59/'18 since, and I think there's a better way to do  
18 it. And I -- you know, I think it's a free country.

19 I think we all have the ability to look  
20 back and make changes in that perspective, so.

21 MR. MATTHEW GHIKAS: And --

22 MR. DARREN RAINKIE: And that's my  
23 perspective. I don't think there's an inconsistency  
24 there at all.

25 MR. MATTHEW GHIKAS: And so, Mr.

1 Rainkie, just to clarify, you never put forward when  
2 you're testifying previously that there was a better  
3 way to do it, correct?

4 MR. DARREN RAINKIE: Well, Mr. Ghikas,  
5 at that application I didn't know that there was a  
6 better way to -- to do it. The uncertainty analysis  
7 that I think is a good tool right now was in its  
8 initial development in NFAT, but it hadn't kind of  
9 migrated.

10 It was -- it was a way at NFAT of  
11 explaining differential rate increases, but it hadn't  
12 quite migrated to being useful for looking at  
13 financial reserves and such.

14 MR. MATTHEW GHIKAS: Okay. If we can  
15 turn, Kristen, to page 26 of the Exhibit 30, that book  
16 of documents. So, Mr. Rainkie, this is one (1) of the  
17 documents that we provided to Mr. Williams and Ms. --  
18 Ms. Dilay on Sunday.

19 This is a Manitoba Hydro 2015 GRA  
20 overview and reasons for the application with your  
21 name on it, sir?

22 MR. DARREN RAINKIE: Yes, I -- I  
23 presented this.

24 MR. MATTHEW GHIKAS: Okay. Now, just  
25 if we go to slide 3 which is on page 28 of 118, you'd

1 agree with me that what this slide is saying is that  
2 the approach that you were putting forward in this  
3 presentation on behalf of Manitoba Hydro was balancing  
4 the need for investment and stable and predictable  
5 rates?

6 MR. DARREN RAINKIE: Yes, that's what  
7 it says.

8 MR. MATTHEW GHIKAS: Okay. And you'd  
9 also agree with me, sir, that when you spoke to the  
10 slide, you indicated that, had you been -- well, let  
11 me just get the words here -- had you been considering  
12 rate increases from a strictly financial point of  
13 view, it would -- Manitoba Hydro would be requesting  
14 rate increases in the order of 5 1/2 to 6 percent. We  
15 have maintained the proposed rate increases of 3.9  
16 percent with the consideration of customer sensitivity  
17 and mind.

18 Does that sound familiar, sir?

19 MR. DARREN RAINKIE: Yes, sir. That  
20 was the position of -- of the Board and the executive  
21 Manitoba Hydro.

22 MR. MATTHEW GHIKAS: And you?

23 MR. DARREN RAINKIE: Yeah, and myself.  
24 Yeah.

25

1 (BRIEF PAUSE)

2

3 MR. DARREN RAINKIE: Based on the --  
4 the financial targets that were established at the  
5 time, Mr. Ghikas, of course. I mean, you don't make  
6 rate applications just out of thin air. You have a  
7 forecast. You have a certain target, and -- and  
8 that's what you use to make recommendations.

9 I don't -- I'm not sure what else you  
10 would do.

11 MR. MATTHEW GHIKAS: So, Mr. Rainkie,  
12 is it your position now that Manitoba Hydro doesn't  
13 need any equity in its capital structure?

14 MR. DARREN RAINKIE: No, sir. My  
15 position is that, if you -- if Manitoba Hydro does a  
16 better job of cost control as well as a 1.5 percent  
17 rate increase, it can get pretty much back to what  
18 it's seeking in this application. That's the balancing  
19 that I'm purporting, Mr. Ghikas.

20 MR. MATTHEW GHIKAS: Okay. And -- but  
21 Mr. Rainkie, let's just be clear on this. You regard  
22 it as important for Manitoba Hydro to have equity in  
23 its capital structure, right?

24 MR. DARREN RAINKIE: Sure. And it --  
25 it looks like, based on the forecast, that its

1 MR. MATTHEW GHIKAS: Okay. Now, I  
2 just want to compare your comments there to what you  
3 said in 2015. So, if we can go to the loose version -  
4 - the loose document, which is appendix -- sorry,  
5 Exhibit 31.

6

7 (BRIEF PAUSE)

8

9 MR. MATTHEW GHIKAS: So, this is a  
10 transcript, as well, from the 2015 GRA, right?

11 MR. DARREN RAINKIE: By the document  
12 tag at the top, yes, sir.

13 MR. MATTHEW GHIKAS: Okay. So, if we  
14 go to page 3,796, please.

15

16 (BRIEF PAUSE)

17

18 MR. MATTHEW GHIKAS: Actually, 3,795,  
19 sorry. So, here, just for context, Mr. Rainkie, the  
20 chair at line 14 is asking you about a scenario that  
21 Manitoba Hydro did as an undertaking that increased in  
22 the short-term above 3.95 percent, right?

23 MR. DARREN RAINKIE: Yes, sir. I'm --  
24 I'm trying to remember the context to -- to it because  
25 it's important. If -- if I recall, the chair asked me

1 to think about a specific question, I don't know if it  
2 was over the weekend or over -- overnight, because of  
3 the \$900 million of losses that has crept into the  
4 forecast, I think, if I remember correctly, asked me  
5 that question, so that was a response to that.

6 MR. MATTHEW GHIKAS: Okay. Thank you  
7 for that clarification. So let's just look at your  
8 answers.

9 MR. DARREN RAINKIE: I hope I -- my  
10 memory is correct.

11 MR. MATTHEW GHIKAS: Let's look at  
12 your answer starting at line 20. You say:

13 "Well, sir, what you see  
14 demonstrated here is the power of  
15 early rate increases. I mean, it's  
16 just the time value of money. I  
17 mean, it's just -- you know, it's --  
18 as your parents probably told you,  
19 invest early. Invest a little bit  
20 early versus waiting until the end  
21 of your life to build a retirement  
22 fund, and it will come much easier.  
23 And that's -- our forecast is -- is  
24 just like that. If we -- if we kick  
25 things down the road, it will --



1 very quickly can spiral out of  
2 control. I don't think it has to.  
3 I think we can accomplish all the  
4 investments that we have to make on  
5 behalf of customers.  
6 I think we just need to ask  
7 customers to invest a little bit  
8 more up front, and -- and we can  
9 maintain that reliable safe power  
10 system that they've enjoyed for  
11 decades. But if we try to find ways  
12 of kicking it down the road, we are  
13 -- we are risking that finance  
14 expense line, you know increase.  
15 And, as I said, it's a bit of a  
16 truth serum in this -- in this whole  
17 equation."

18 So that was your evidence at the time,  
19 sir?

20 MR. DARREN RAINKIE: Yes, in the face  
21 of \$900 million of -- of losses, sir. As I explained  
22 this morning, the current forecast has financial  
23 reserves of Manitoba Hydro stabilizing at \$3 billion  
24 and increasing.

25 In the context, which is important, I

1 think, for the Board to understand of this 2015  
2 hearing, that forecast, as we said, was the worst that  
3 Manitoba Hydro, I think, had probably in its history,  
4 I -- I'm not sure.

5                   But certainly, in the time I was  
6 involved with the Company, re -- the reserves were  
7 forecasted to grind down from, I think it was 2.8  
8 billion to 1.9 billion, sir, so a much different  
9 circumstance.

10                   If we want to pull up Manitoba Hydro  
11 14, we can do it right now and look at it from one (1)  
12 of the past GRAs, sir, if it's that --

13                   MR. MATTHEW GHIKAS:    I -- I --

14                   MR. DARREN RAINKIE:    -- a matter of  
15 issues.

16                   MR. MATTHEW GHIKAS:    I -- yeah, I  
17 don't think there's a dispute that it -- it -- that MH  
18 14 was -- was worse. Now, your focus in this passage  
19 was on the benefits of investing earlier to avoid  
20 higher financing costs in the future, correct?

21                   MR. DARREN RAINKIE:    Yes. As I  
22 outlined on -- on figure 2 of your rebuttal, a rate  
23 increase accumulates over time and a cost saving  
24 accumulates over time, it's just the -- the time value  
25 of money.

1 MR. MATTHEW GHIKAS: Okay. And the  
2 reference to, "asking customers to invest a little bit  
3 more up-front," that little bit more was your way of  
4 describing a succession of 3.95 percent rate  
5 increases?

6 MR. DARREN RAINKIE: I can't remember  
7 if it was the succession of them or -- I think the --  
8 I think the request, to be fair, of the Chair of the  
9 PUB at this point in time was, is 3.95 enough for  
10 2015/'16, if I remember correctly, sir.

11 So I'm not sure it was a string of  
12 increases or the one (1) that was before the Public  
13 Utilities Board at the time.

14 MR. MATTHEW GHIKAS: So in that  
15 application you were seeking 3.95 percent, right?

16 MR. DARREN RAINKIE: Yes, for  
17 2015/'16, as I recall.

18 MR. MATTHEW GHIKAS: And you were  
19 using a indicative rate increase trajectory of 3.95  
20 percent for twenty (20) years?

21 MR. DARREN RAINKIE: Yes. But this  
22 passage, I think, was talking about a specific  
23 question of the chair at the time about, what are your  
24 thoughts on 2015/'16, Mr. Rainkie.

25 We might have to go back to the earlier

1 transcript to find the context here if it becomes  
2 important, but --

3 MR. MATTHEW GHIKAS: And that's --  
4 that's why I included so many changes, so we have that  
5 on there. The -- now, Mr. Rainkie, obviously, I -- I  
6 don't want to minimize, you know, the impact of the  
7 3.5 percent increase on some people, but the entire  
8 time you were vice-president of finance and regulatory  
9 and CFO, you never once argued that 3.5 percent was  
10 too significant for customers to absorb, did you?

11 MR. DARREN RAINKIE: No, not that I  
12 can recall, sir.

13 MR. MATTHEW GHIKAS: And you never  
14 advocated for a rate increase less than 3.5 percent,  
15 did you?

16 MR. DARREN RAINKIE: No, sir. I -- I  
17 think I've explained what the policy was of the MHEB  
18 and the -- and --

19 MR. MATTHEW GHIKAS: Okay.

20 MR. DARREN RAINKIE: -- and -- and how  
21 the equity ratio affects the rate increases we were  
22 projecting.

23 MR. MATTHEW GHIKAS: Okay. So let's -  
24 - if we can turn to page 1 -- back to the book of  
25 documents, page 104.

1 (BRIEF PAUSE)

2

3 MR. MATTHEW GHIKAS: So, sir, you  
4 testified at -- at the NFAT, correct --

5 MR. DARREN RAINKIE: Yes, sir.

6 MR. MATTHEW GHIKAS: -- as a -- as a  
7 policy witness on the finance panel?

8 MR. DARREN RAINKIE: That's correct.

9 MR. MATTHEW GHIKAS: Okay. And you  
10 recognize this as a transcript from the NFAT?

11 MR. DARREN RAINKIE: Yes, sir.

12 MR. MATTHEW GHIKAS: Okay. Now, if we  
13 look at page 3063. So -- actually 3062, my apologies.

14 So just for context here, we have at  
15 line 6 to 15, essentially, the chairperson is asking  
16 about a succession of 20-year rate increases of 3.95  
17 percent, and then your -- you respond to that. And if  
18 you go down to line 10 on page 3063, that's where I  
19 want to start. You say:

20 "The other thing is, I think we have  
21 came to the realization over the  
22 year -- over the years because there  
23 was a period -- and boy Mr. --  
24 Mr. Barnlund probably could help my  
25 memory here -- but there was a