



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

Re:

MANITOBA HYDRO
NEEDS FOR AND ALTERNATIVES TO
REVIEW OF MANITOBA HYDRO'S
PREFERRED DEVELOPMENT PLAN

- Regis Gosselin - Chairperson
- Marilyn Kapitany - Board Member
- Larry Soldier - Board Member
- Richard Bel - Board Member
- Hugh Grant - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
March 20, 2014
Pages 2981 to 3223

1 Intervenor, in all of our discussions, we reach a
2 position where we get rate increases, and -- and they
3 would see that to be supportive.

4 In addition, of course, in those
5 situations where -- in that drought situation in
6 '03/'04, I think that the regulators -- or the -- the
7 credit rating agencies would consider that to be
8 another example of being supportive of Manitoba Hydro.

9 MR. BOB PETERS: Maybe to bring the
10 point a little closer visually, on page 140 of Board
11 counsel's book of documents, back at Tab 15 of Exhibit
12 58-4, is -- is a document that Mr. Rainkie spoke to
13 yesterday, albeit briefly. And if we can look to the
14 part of the chart that's shown on the screen now.

15 Talking about the 'rate increases
16 granted' line. This is the line item that you just
17 referred to, Mr. Schulz, and that the last drought the
18 Corporation may have come in requesting 3 percent, but
19 it was awarded 5 percent, as well as some additional
20 rate increases that were ultimately awarded to Manitoba
21 Hydro?

22 MR. GREG BARNLUND: Mr. Peters, if I
23 may. To be clear, in 2004 we made a rate application
24 where we were requesting 3 percent for April of 2004
25 and an additional 2 1/2 percent of April 2005. What we

1 were awarded was slightly different. We received a 5
2 percent increase on August 1, and approval for a
3 further 2 1/4 percent for April of 2005 and an
4 additional 2 1/4 percent for October of 2005.

5 However, we chose to forego the October
6 2005 rate increase, because we had improved export
7 conditions and we were recovering rather quickly from
8 the debt of that -- from the drought at that point in
9 time.

10 MR. BOB PETERS: Although, you came
11 back, subsequently, to get it, if I recall, Mr.
12 Barnlund?

13 MR. GREG BARNLUND: At a later point,
14 yes.

15 MR. BOB PETERS: And on the same chart,
16 Mr. Schulz, your credit rating agencies would know --
17 halfway up the page in the far right-hand column,
18 there's a number of \$267 million, two sixty-seven six
19 seventy-five (267,675,000). Do you see that, sir?

20 MR. MANFRED SCHULZ: I do see that.

21 MR. BOB PETERS: That's the cumulative
22 effect of the rate increases the Board has granted
23 since '04/'05?

24

25

(BRIEF PAUSE)

1 MR. MANFRED SCHULZ: That's my
2 understanding, yes, sir.

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: Just an observation,
7 Mr. Rainkie, it just kind of disproves what you and I
8 were talking about in terms of smooth rate increases.
9 I mean, it looks like your -- the request we get from
10 PUB -- got from Hydro it's kind of lumpy, and what you
11 got from PUB as a rate increase is lumpy as well. But
12 I'm not sure that's what we're talking about here so
13 much as addressing the issue of twenty-one (21) years
14 of rate increases of three point nine five (3.95); is
15 really what we're talking about.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: Mr. Schulz -- unless
19 Mr. Rainkie had a comment?

20 MR. DARREN RAINKIE: I don't want to
21 leave it -- you open-handed, Mr. Chair, hanging or
22 whatever.

23 I -- I think the -- just -- sorry, maybe
24 a couple observations. I think the hearing -- or this
25 proceeding is more about twenty-one (21) years of

1 3.95s. I think this proceeding is about something much
2 grander, about the next fifty (50) to a hundred years,
3 in fact; decisions that will -- that will be made that
4 will effect the long-term of the -- the company, the
5 customers, and the province.

6 So, in fact, I hope I can convince you
7 to look past the -- the first twenty (20) years,
8 because that's -- that's, I think, where the promise of
9 the Development plan lies.

10 The other thing is I think we have come
11 to the realization over year -- over the years, because
12 there was a period -- and boy, Mr. -- Mr. Barnlund
13 probably could help my memory here -- but there was a
14 period of about seven (7) years where Manitoba Hydro
15 did not seek a rate increase in -- in the '90s. And --
16 and there has been periods where results were good and
17 so we pulled back a rate increase and then results went
18 poor and we came back.

19 And I think what we've learned through
20 all of that period is that having reasonable and
21 regular rate increases is a better regime than kind of
22 just pandering, if you like, to good results or bad
23 results. And, you know, for instance, we had a
24 relatively -- or we're having a rele -- relatively
25 decent year in 2013/'14, and it's a -- it's a case in

1 point in front of you right now in terms of our interim
2 rate application.

3 The tendency would be to say, Well, why
4 do you need anything, because you had a decent year?
5 The fact of the matter is is that in our system we're -
6 - we're projecting rate increases based on average
7 water flows. We know we'll have good years, we know
8 we'll have bad years. If we draw -- put a straight
9 line through it I think that's the most responsible
10 thing to do for customers.

11 If we have a decent year and suddenly we
12 give that back then we're going to need to go back the
13 3.95s when we have a bad year to make up for that. And
14 -- and so I think we came to the realization in the
15 last few years that it's better to -- we always have
16 been a rate smoother in our history, but from time to
17 time it's been this gyration back and forth just
18 because of the short-term financial results, I think.
19 We think now it's better to look over the long -- the
20 long run, so.

21 THE CHAIRPERSON: One (1) of the -- one
22 (1) of the underlying issues though is that, you know,
23 we are talking about benefits that will flow to future
24 gener -- generations in some respects. And there is a
25 lumpiness at the front end in terms of rate increases

1 and costs, and so on. And so we're basically asking
2 ratepayers -- today's ratepayers, to pay for something
3 that will benefit -- largely benefit the future
4 generations, if you look at it from a net present value
5 perspective.

6 And so smoothing out the benefits that
7 will flow to multiple generations is -- is obviously
8 something we need to think about, because, you know,
9 there -- there are people that are quite concerned
10 about the nearby effect of -- of these plan -- of -- of
11 the construction plans, and thinking about how -- how
12 to spread out the benefits so that it's a win-win for
13 all the generations, as opposed to a lose-win for the
14 first generation as opposed to the next generation, so.

15 MR. DARREN RAINKIE: Yes, sir. And --
16 and I think we talked about this on day number 1. I
17 think you have to have the broad intergenerational
18 perspective on this, because at seven (7) cents a
19 kilowatt hour right now the current customers are
20 benefiting from past investments. So I don't think
21 it's a -- a win-lose for anybody, because it's a win-
22 win. The glass is not half empty in Manitoba; the
23 glass is 95 percent full, as far as I'm concerned, when
24 you look at neighbouring jurisdictions at thirteen (13)
25 cents, twelve (12), thirteen (13) cents a kilowatt hour

1 for power.

2 The other thing is, is that the rate
3 increases in the near term, the next five (5) to seven
4 (7) years, are not driven by the development plans, but
5 they're driven by the need to replace our
6 infrastructure. We are part of the public
7 infrastructure deficit, just like water systems, any
8 other -- roads.

9 And so the fact of the matter is that
10 when we put expenditures in, like Bipole III, and -- or
11 we refurbish a distribution system, or whatever the
12 asset is, current customers are benefiting from that.
13 That's not something that a future generation -- that's
14 not a asset that a future generation is using. That's
15 an asset that you and I are using when those assets go
16 into service. So I don't think there's an in --
17 intergenerational issue there.

18 The other point that perhaps was covered
19 better on -- on the other panels, or maybe is the panel
20 coming up, is that in terms of the development plan
21 there is certainly lots of good socioeconomic benefits
22 to the province as a whole, in terms of the -- building
23 the -- the electric generating station. So there will
24 be lots -- lots of benefits to share for the current
25 generation.

1 So I -- I don't think it's a -- if you -
2 - if you think -- if you expand the rubber band in
3 terms of looking at the intergenerational company that
4 we have in terms of a continual reinvestment cycle, and
5 you think about where we sit relative to other
6 provinces, and you think about the benefits, not just,
7 you know, in terms of the ratepayer account, the
8 company account, but of the -- the broader provincial
9 account, I think we -- we see that there's -- there is
10 no win-lose here: there's a win-win. And the glass is
11 not half empty, it's mostly full, as far as I'm
12 concerned.

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: So close to St.
16 Patrick's Day with that glass 95 percent full, Mr.
17 Rainkie. I'm not sure, but let's debate that some
18 other time.

19 Back to you, Mr. Schulz. How frequently
20 does Manitoba Hydro communicate with the credit rating
21 -- credit rating agencies?

22 MR. MANFRED SCHULZ: It depends on when
23 they want to do credit ratings on Manitoba, as well as
24 on Manitoba Hydro. So typically the cycle would be
25 once a year. We would do presentations for them that