MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2023/24 and 2024/25

GENERAL RATE APPLICATION

Hearing

Before Board Panel:

Robert Gabor, KC	- Board Chairperson
Marilyn Kapitany	- Board Vice Chair
Carol Bellringer	- Board Member
Hamath Sy	- Board Member
George Bass, KC	- Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

June 1st, 2023

Pages 2576 to 2853

APPEARANCES

Bob Peters	)Board Counsel
Sven Hombach	)
Brent Czarnecki	)Manitoba Hydro
Odette Fernandes (np)	)
Deanna Hiebert	)
Gwen Muirhead (np)	)
Matthew Ghikas	)
Byron Williams	)Consumers Coalition
Chris Klassen	)
Hannah Taylor	
Antoine Hacault	)MIPUG
Melissa Beaumont	)
Carly Fox (np)	)Assembly of
Emily Guglielmin (by TEAMS)	)Manitoba Chiefs
Markus Buchart	) MKO
Thomas Reimer	) GSS and GSM
Robert Walichnowski (np)	) customer classes

APPEARANCES

William Haight (np)) Daymark Energy
Bradley McClelland (np)) Advisors

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--- Upon commencing at 9:02 a.m.

THE CHAIRPERSON: Morning, everyone. Morning, Mr. Rainkie.

Mr. Hombach...?

MR. SVEN HOMBACH: Yes. Thank you, Mr. Chair, and good morning to the Panel and to all the people in the hearing room.

Today on the agenda is the presentation by and examination of Mr. Darren Rainkie who is an expert witness on revenue requirement issues, retained by the Consumers Coalition.

Before we get started, I wanted to address a few housekeeping matters for today. The first is I've confirmed with Mr. Czarnecki that there are no undertaking responses to put on the record today.

The second is, in front of you on the screen is a schedule that was circulated yesterday. We were able to accommodate the original asks of all the parties by moving some of the timing around.

That means Manitoba -- sorry, that means Mr. Rainkie will have two (2) hours and Manitoba Hydro will have two (2) hours as well. What that means, though, is the -- the presentation will be a little longer than originally anticipated this morning.

It's day 12 of the hearing. We all still have unlimited energy, but there are capacity -- there are capacity constraints in the plumbing systems of some of the people in attendance in the hearing room. So we will take a break during Mr. Rainkie's presentation, and I would ask that around 10:30 he'll indicate where there's a natural time to -- to take such a break.

The other thing I wanted to point out is the Panel has a hard deadline of 4:30 today, so while we will try to accommodate the original asks, we may have to condense lunch a little bit, and we will have to stop at 4:30 sharp.

Mr. Chair, with that, I would ask to turn it over to Mr. Rainkie. He still has to be sworn in as a witness this morning, but perhaps I'll let Mr. Williams or Mr. Klassen speak to his qualifications first.

THE CHAIRPERSON: Mr. Klassen, I just want to say I didn't think it would be prudent to run you over this morning at the parking lot. Mr. Klassen was waving me to drive in, and I was waving him to -- to cross.

MR. CHRIS KLASSEN: Ms. Taylor and I thank you for your patience --

THE CHAIRPERSON: Yes.

MR. CHRIS KLASSEN: -- at the entrance to the -- to the parkade.

Good morning, Mr. Chair. Good morning, members of the Panel. As Mr. Hombach has introduced, we're joined today by Mr. Darren Rainkie who's one (1) of the independent experts who filed evidence on behalf of the Consumers Coalition in this proceeding.

And I'll note as well that Mr. Rainkie is joined in back-row support by Ms. Kelly Derksen, and we welcome her as well.

Immediately to Ms. Derksen's right, I'll introduce Ms. Victoria Kludis (phonetic) who is a new articling student with us at the Public Interest Law Centre. We welcome her.

And immediately to Ms. Kludis's right is Ms. Hannah Taylor who is the Public Interest Law Centre's outgoing articling student who has only one (1) day left with us in her term. And so we thank her for joining us as well.

By way of outline, and subject to our direction, Mr. Chair, I'll propose first to ask that Mr. Rainkie be sworn in as a witness, following which

I can briefly lead him through a review of his qualifications, after which we can invite him to begin his presentation.

THE CHAIRPERSON: Thank you.

Ms. McMillin...?

CONSUMERS COALITION PANEL:

DARREN RAINKIE, Sworn

MR. CHRIS KLASSEN: Thank you, Ms. McMillin.

EXAMINATION-IN-CHIEF BY MR. CHRIS KLASSEN:

MR. CHRIS KLASSEN: Mr. Rainkie, to begin, can you please confirm that your curriculum vitae is entered on the record of this proceeding both as an appendix to your report, which is Exhibit CC-7, as well as an -- as an attachment to Exhibit CC-1?

MR. DARREN RAINKIE: That's correct, Mr. Klassen.

MR. CHRIS KLASSEN: And I believe Ms. Schubert actually has already turned us to your report over here on page 12 -- 13, I see, of Exhibit CC-7.

And actually, Ms. Schubert, if we could go back to page 12 briefly, that would be appreciated.

Thank you very much.

Mr. Rainkie, you are a chartered professional accountant, correct?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And you first obtained your CA designation in 1991?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And so you have thirty-three (33) years experience in general and financial management related to public utilities and rate regulation, correct?

MR. DARREN RAINKIE: By my calculations, yes, Mr. Klassen.

MR. CHRIS KLASSEN: And you began your accounting career at Price Waterhouse, and -- and while there, it's my understanding that one (1) of your assignments was as an advisor to the Manitoba Public Utilities Board, correct?

MR. DARREN RAINKIE: That's correct. In 1990, I took an assignment. I think the first one was around MPI, and I didn't know that for thirty-three (33) years after that pretty much every position I had would have been involving the Public Utilities Board in some way, shape, or form.

MR. BOB PETERS: And it was in that

role that you were first exposed to a Manitoba Hydro General Rate Application?

MR. DARREN RAINKIE: Yeah. I think it was in '90 -- it was in 1993 for a 1994 Application.

MR. CHRIS KLASSEN: And so then soon after, with your interest piqued, you joined Centra Gas first and then Manitoba Hydro in regulatory affairs and then later in increasingly senior management roles, and ultimately, finding yourself on Manitoba Hydro's executive -- executive team?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And from 2013 to '17, Mr. Rainkie, you were Manitoba Hydro's Vice-president of finance and regulatory affairs, as well as the Corporation's chief financial officer?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And in that role, Mr. Rainkie, it's my understanding that you were a key member of the executive team responsible for the management, direction, and strategic planning of Manitoba Hydro and that you oversaw all of the Corporation's activities related to finance, regulatory affairs, and Manitoba Hydro international.

Is that accurate?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And in particular, sir, this included direct supervision of Manitoba Hydro's financial planning, controller, and treasury function, correct?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And that made you ultimately responsible for the Corporation's actions relating to debt management, financial planning, and prudent budgeting?

MR. DARREN RAINKIE: That's correct. I -- I was also the treasurer for two (2) years previous to being a controller for five (5) years.

MR. CHRIS KLASSEN: Thank you. And upon reflection on that period of time, Mr. Rainkie, is it fair to characterize your more material contributions to the Corporation as including, for example, the development of corporate financial targets and long-term forecasting methodologies?

MR. DARREN RAINKIE: Yes.

MR. CHRIS KLASSEN: Development of multi-year strategy to substantially reduce growth -- growth in operating costs?

MR. DARREN RAINKIE: Correct.

MR. CHRIS KLASSEN: Identification and implementation of corporate strategic plans?

MR. DARREN RAINKIE: Yes, as a member of the executive committee.

MR. CHRIS KLASSEN: Management and direction of the Corporation's corporate risk management?

MR. DARREN RAINKIE: Yes, that was under my responsibility.

MR. CHRIS KLASSEN: You championed the initial establishment of an overall corporate asset management framework, correct?

MR. DARREN RAINKIE: That's correct. Mr. Williams had been beating us up on that for a number of years. And I saw the light in about 2016, I think it was.

MR. CHRIS KLASSEN: You also oversaw the Corporation's transition to IFRS accounting standards?

MR. DARREN RAINKIE: Yes, I was executive responsible.

MR. CHRIS KLASSEN: And you were also responsible ultimately for the preparation and hearing of multiple rate applications and other regulatory filings, including before this Board, correct?

MR. DARREN RAINKIE: Correct, more than I could count.

MR. CHRIS KLASSEN: And while you sat on Manitoba Hydro's executive leadership team, you also had a stint in 2015 during which you were acting president and chief executive officer, correct?

MR. DARREN RAINKIE: That's correct. There was a leadership change, and I was acting CEO for about four (4) months.

MR. CHRIS KLASSEN: And since leaving Manitoba Hydro in 2017, Mr. Rainkie, you've been principal of Darren Rainkie Consulting?

MR. DARREN RAINKIE: Yes. It's a very catchy name.

MR. CHRIS KLASSEN: Original, at least. And in this role, sir, you've provided rate regulation advisory services to industry, public utilities commissions, and public interest stakeholders in proceedings in Manitoba, New Brunswick, Nova Scotia, British Columbia, Alberta, and the Northwest Territories?

MR. DARREN RAINKIE: Yes, that's correct. I -- it's changing every day with new files, but I don't think the Alberta file that we just took on was on my CV, but Alberta as well, yes.

MR. CHRIS KLASSEN: Thank you for that clarification. And your tally is at eighteen (18) regulatory proceedings and counting now as a consultant, correct?

MR. DARREN RAINKIE: Yes, sir, I'll -- I'll take your math. I hadn't counted it myself, but that seems about right.

MR. CHRIS KLASSEN: Right. Thank you. And it might have been your math first, but I appreciate that.

And in addition to your -- your work supporting participants in proceedings, you've also filed independent expert evidence in proceedings before, both the Nova Scotia Utility and Review Board, as well as the Manitoba Public Utilities Board, correct?

MR. DARREN RAINKIE: And -- yeah, correct, and more recently, in front of the Alberta's Utilities Commission.

MR. CHRIS KLASSEN: And in Alberta. Thank you for that clarification.

And that evidence, sir, has pertained to matters including Corporation's revenue requirement, risk management, long-term financial forecasting, operational cost budgeting, financial targets, depreciation, capital cost budgeting, debt management, corporate strategy and more?

MR. DARREN RAINKIE: That's a fair summation.

MR. CHRIS KLASSEN: Ms. Schubert, if I could ask you to take us to the last paragraph in section 2.2 on page 13.

Mr. Rainkie, in this proceeding, you've been retained by the Consumers' Coalition as an independent expert, correct?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And as such, you understand that you have a duty to provide evidence that is fair, objective, and nonpartisan and related only to matters within your area of expertise?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And you'll confirm, sir, that this duty is owed to the Public Utilities Board to assist it in determining the matters before it and that that duty overrides any obligation owed to any other party, including the Consumers' Coalition?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And making reference to your report generally, Mr. Rainkie, I'll ask you to confirm that the document before us on the screen is your report and that it's entered on the record of this proceeding as Exhibit CC-7?

MR. DARREN RAINKIE: I can confirm that.

MR. CHRIS KLASSEN: And I'll ask you to confirm as well, sir, that this report was prepared under your direction and control and that it's accurate to the best of your knowledge and belief?

MR. DARREN RAINKIE: That's correct. There was a couple corrections in the Information Requests that were noted. I transposed a number or two (2) in terms of CPI.

I also noted, Mr. Klassen, when I was going through it, the report in the last couple days, that I have this habit of referring to equity ratios one time and debt ratios another. And I prefer to use, like, equity ratio targets of 30 percent. I like equity ratios because I like to move towards something as opposed to away from something.

So, I think I slipped up a couple of times and referred to it as a debt or an equity. I can do an errata if, you know, that would be -- after my appearance if that would be helpful to the Board, but I did note one (1) or two (2) places in the hundred thirty (130) page report where -- where I -- I slipped that up.

MR. CHRIS KLASSEN: We appreciate that clarification, Mr. Rainkie. And we note the comments made in your responses to Information Requests.

And with respect to those requests, I'll ask you to confirm as well that your responses to Information Requests from other parties on the contents of your report were also prepared under your sole direction and control and, again, are accurate to the best of your knowledge and belief?

MR. DARREN RAINKIE: That's correct.

MR. CHRIS KLASSEN: And those responses, sir, are also on the record of this proceeding included in Exhibits MH-19 and PUB-14, correct?

MR. DARREN RAINKIE: Correct.

MR. CHRIS KLASSEN: And finally, sir, I understand that you've prepared a slide presentation to accompany your oral evidence this morning?

MR. DARREN RAINKIE: Yes, I have.

MR. CHRIS KLASSEN: And I'll ask you to confirm as well that this, too, was prepared under your direction and control, that it's accurate to the best of your knowledge and belief and that you adopt it as forming part of your evidence.

MR. DARREN RAINKIE: I do.

MR. CHRIS KLASSEN: Thank you, sir. With that, Mr. Chair, we propose to file these slides as Exhibit CC-20. And I'll invite Mr. Rainkie to begin his presentation.

And one further comment for your benefit, Mr. Chair, there may be questions for Mr. Rainkie during his presentation on behalf of the legal team for the Consumers Coalition. And if that's the case, they'll come from Mr. Williams.

THE CHAIRPERSON: Please proceed, Mr. Rainkie.

--- EXHIBIT NO. CC-20: Mr. Rainkie's presentation

EXAMINATION-IN-CHIEF BY DR. BYRON WILLIAMS:

MR. DARREN RAINKIE: Good morning, Mr. Chairman, Vice-Chair Kapitany, and members of the Board, Hearing participants, and -- and anybody watching, I guess, on the -- on the screen.

It's great to be back in front of the Board. It's been a while. I think 2019. And as I said earlier, I spent most of my career, in one way or another, in front of the Board, so it's great to -- to be back.

I think I'll pass the qualifications slide -- thanks, Ms. Schubert. You're always ahead of -- ahead of the curve. If there are any questions, certainly, of the Board for the new panel members that don't know me, I'd be more than happy to entertain them.

You know, I thought I'd start this morning just by kind of summarizing my overall thoughts on the case, as I tend to do. I tend to ruminate a day or two before I present on what is my report really getting at.

You know, and so, I'll wax philosophical for a couple minutes and then I'll get back into the -- into the detail.

But, you know, what I see in my practice these days is a lot of, what I would call, fear entering the utility applications. You know, fear of the energy transition, fear of interest rates, fear of inflation. And -- and what I would call, you know, trickle-down economics. You know, if we have more and more money, the bigger and bigger revenue requirements, all those fears will go away.

So, you know, in my consultancy, I -- I tend to -- to look at it quite differently.

You know, and there's a heavy undertone

in this Application with respect to strategies. So I -- I went to the guru of strategy, Jim Collins from "Good to Great". Probably a lot of people have read that book. It's one of the best books, I think, that I've ever -- ever read. And what would the guru say about -- about this type of circumstance.

He would say that:

> "That those that stay true to these fundamentals and maintain their balance, even in times of great change and disruption, will accumulate the momentum that creates breakthrough momentum."

So I think those are really great words to start off my presentation.

You know, I -- I guess, I -- to put a point on it, I -- I choose the fundamentals versus fear. And I think that's really what is at the heart of my -- my report. Slide 3, please -- 4, please.

I won't go into it in detail now, so you don't have to ask me questions right now. But I thought I'd just start out by saying my overall recommendations are to confirm the 3.6 percent interim rate increase. And I understand that the Board is concerned about that and I will come back to that at the end of the presentation in more detail. And to approve a single 1.3 percent rate increase on April 1, 2024.

And there's lots of slides here that will take you through the various incarnations of my thinking and my analysis to get to that. So I'll -- I think we can move to slide 5.

I broke my presentation down into five (5) parts. The bulk of it is part 2. So being a chartered business evaluator, I -- I tend to come at financial things from a couple different ways. When you're a chartered business evaluator and you're tyring to understand the valuation of a company, you usually look at things from a number of different methodologies and then try to reconcile them. So I use -- I use all parts of my skill set in -- in trying to derive my report.

But, there will be three (3) perspectives that's in my report and that will be part 1, part 2, part 3. In part 4, I'll talk about the overall rate increase recommendation in more detail. And then, time permitting, we can talk about regulatory deferral accounts. I think it's fairly straightforward, if -- if we don't get to that.

So the -- the first analytical

perspective is to look at the test years only. This is my -- my normal approach in these types of hearings, particularly for Manitoba Hydro.

And in doing that -- and I think the Board is probably familiar with all these metrics. So I -- I defined them here, but I'm -- I'm not going to go into it.

There's typically been six (6), you know, metrics that the Board's used to guide it: Net income, retained earnings or financial reserves -- we use those interchangeably -- net debt, equity ratio -- I like to think of it as equity ratio otherwise I get mixed up about debt ratios -- interest coverage and capital coverage.

And so, of those six (6) metrics, you know, I think in -- in Order 59 of '18, five (5) of them were, you know, sustained by the Board as being what they typically look at to judge rate applications.

There was some question about the use of a equity ratio back in that decision, and I'll deal with that a bit later in the -- in -- in the presentation.

But, sorry, you know, I -- I -- I think Manitoba Hydro agrees, I asked them in Information

Requests and they said that, you know, the -- those -- these financial metrics represent all the financial statements. They're -- they allow for consistent review of these things over time and they demonstrate similar trends to any of the other financial metrics that Manitoba Hydro is monitoring. Next slide please.

So, the -- the test years' only perspective, and I -- I don't think this is controversial, would indicate that there's really no justification for the 2 percent rate increases in the test years themselves.

I'm not going to go through all the details, but, you know, even without the rate increases, the accumulative net income in the four (4) test years that are under review is $1.168 billion, so that's a very healthy net income for Manitoba Hydro.

All of the other metrics that I talked about on slide 7 are either above target or improving. You know, the equity ratio at the end of the second test year, even without a rate increase, is 18 percent. So, it's far better than we were looking at in the last couple hearings where it was hovering around 10 percent or so. Next slide please.

Sorry, so that was a very short -- short introduction on that one because the bulk of my work was around what I call part 2 in our analytical perspective 2.

A -- a twenty (20) year rate smoothing approach and the first section on this slide 10, please, is just the framework around that.

So, the Board advisors were kind enough to ask a few rate scenarios in the minimum filing requirements, which got us all going on -- in terms of, you know, testing Manitoba Hydro's proposed 2 percent rate path.

The Board had indicated, I think in Order 70/22 that Interveners would have a chance to have some limited financial scenarios as well, so I was very judicious. I asked for about eleven (11) I think in -- in terms of the few rounds of Information Requests to test the Manitoba Hydro rate path.

We have nicknames for these things. I call my -- mine CC-1 to CC-11 so there's eleven (11) scenarios. 'CC', of course, being the Consumers Coalition, Mr. Williams.

You know, so the approach here was somewhat analogous to what happened at the 2018/'19 General Rate Application where the Board I -- I guess focused, maybe as a word, on a particular rate scenario to generate the 3.6 percent rate increase that came out of that proceeding.

So, I thought it would be helpful to the Board to be able to -- to use that approach. If we're going to look out twenty (20) years, you know, and we're going to look at alternate rate paths to test the Hydro 2 percent rate path, then, I think that's, in my -- my humble opinion, what we'll assist the Board in considering these issues.

And, of course, they all use judgment, trial and iteration. You know, just -- just like any -- any scenario would.

But the focus of my report is on the 1.25 -- sorry, 1.2 to 1.5, the scenarios that include, you know, fiscal prudence. And I call those CC-10 and CC-11 for short, so, I will -- I will be taking you through the results of those later on in the -- in the -- in the presentation. Next slide, please.

You know, and just before we move much further, I wanted to clear the air on -- on, you know, what these rate smoothing scenarios are, both from Manitoba Hydro and -- and from the Interveners.

Yeah, Manitoba Hydro's twenty (20) year rate path is a directional scenario. It -- it -- it makes that very clear. It's a scenario. It's -- it's not even a -- a -- an approved forecast of the MHEB.

You know, and it's riddled with extrapolations, placeholders, contingencies, cost flow adjustments, you know, that are in the billions. You know, there's lots of assumptions about extrapolating twenty (20) -- O&A costs out twenty (20) years using CPI. You know, forecasts on benefit discount rates, which are highly sensitive. There's SAP's placeholder of $156 million.

You know the -- the actual business capital program, which I call CEP-22 for -- for short has $8.9 billion of portfolio adjustments. Another name for placeholders. $6.2 billion or 38 percent of it is programs which are really extrapolations.

There really is only 8 percent of the -- of the -- of the CEP-22 that is -- is executing projects.

There's $480 million of placeholders for the Grid Modernization Project and for AMIs, you know, and -- and finance expense is projected out 20 years, I think. I think there's forecast -- consensus forecasts out to 2029 and then projections out. So -- so, we're all dealing with judgment analysis.

We -- there is no, you know, budgets cuts -- like referring to these as budget cuts is -- it doesn't make sense to me. It's clear that the --

the -- the Public Utilities Board role is to provide the overall revenue needs of the Corporation, but Manitoba Hydro decides its budgets.

In nine (9) years as Controller or -- or -- and CFO, I don't think I had one question during that that said, well, what's -- what's in the 20-year scenario that the Board approved and should we not spend money because of what the scenario actually, you know, said.

Obviously, Man -- the Manitoba Hydro Electric Board and its Executive decide what the program expenditures of the Company are. Next slide.

So, that kind of sets up my approach. Hopefully, it's understandable. Certainly, if there are questions, I am willing to entertain them.

Part 2(b), then, is -- is, you know, Strategy '40. Now, to be clear, the Manitoba Hydro Electric Board is responsible to set Manitoba Hydro's strategy, not me. I'm -- I'm not here purporting to set it. So, the purpose of my assessment was really -- was really how best to deal with it for rate-setting purposes. Hopefully, that was clear in my report.

So, just with that segue into it, on Slide 13, one (1) of my key concerns with Strategy '40 for rate-setting purposes is that it contributes to upward pressure on rates, obviously. If you compare, at page 22, which is what I call the -- the Hydro forecast, with MH-16, which is the -- the long-term forecast from the last General Rate Application.

You'll see that there's a $2.3 billion in -- in cumulative increase in total operating costs, O&A, and business operations, capital, BOC.

So, if you extrapolate that 2.3 billion, because we only had 14 years of comparable data out to Year 20, you'll find that that number is, I think, more like a $3.6 billion differential between these two (2) forecasts. It's just not sustainable.

So -- and -- and -- and there was a -- a PUB question on IR that the advisors were kind enough to give me on this and they -- I think Manitoba Hydro was self-imposing its own financial risks. It's concerned about earnings. It's concerned about cash flow, et cetera, but -- but, yet, it approves forecasts that will, over 20 years, be $3.6 billion higher than previous forecasts.

So, I mean, that's where I'm coming from in terms of Strategy 2040 for rate-setting. Next slide, please. Hopefully, am I moving at a decent pace.

So, another concern was kind of the

weak underpinning of customer preferences, you know. So, we -- we took a look at this in our -- in -- in my report. So, Manitoba Hydro's own quarterly tracking study that it's done religiously, I think, each quarter for years, if not decades, demonstrates high customer satisfaction with service and reliability. Scores of 8.14 out of 10 and 8.62 out of 10, and 89 percent of customers rate power reliability as 7 plus. That's -- that's at the bottom, the talk -- the top box scores.

You know, it's kind of rare to see -- in -- in today's world, a divisive world, to see 8 or more people out of 10 agree on anything these days. So, I think that's a pretty -- a pretty important statistic, coming from Manitoba Hydro's own tru -- tracking study.

But if we flip the page to Slide 15, we see that things aren't so good on -- on the price of electricity. Customers give Manitoba Hydro a -- a ranking of 6.29 out of 10 on price satisfaction.

So -- so -- so, that's the backdrop to some of the, you know, concerns expressed in my -- in my report and if -- and if -- if we flip to the next slide and I -- and I'm going through this pretty quickly, but, you know, Manitoba Hydro seemed to, in the information, place quite a bit of emphasis or weight on two (2) questions in a 2009 Customer Perception Study to justify, you know, that $3.6 billion increase in -- in -- in costs.

And I think caution should be exercised in -- in -- in the interpretation of this, because I think they're leading questions.

So, you know, if we -- you don't have to go back. But if we go back to the last two (2) slides, customers say, more than happy with service, we're concerned about price. And that's also in the -- in the 2019 customer survey at the front end.

But then we kind of push that to the side and say, but, okay, I'm going to specify a question for you, a leading question. Now that question is going to be, you know, if you wanted to reduce outages, even though you're not that concerned about them, or as concerned as -- as Hydro perhaps is, what would you do?

And then, well, of course, customers say, you know, spend the money. Of course, you want reliable power. I mean -- but even with that leading question, customers really come in on the median. They come in at a -- you know, a 5 out of 10.

So, I don't know. You know, I don't

know if this is a big -- a big deal or not in the Hearing or for the Board, but I just express caution on -- on interpreting those kinds of leading questions.

And, you know, I'm concerned at this kind of a solution searching for a problem, quite frankly. So, I'll just leave it at that.

DR. BYRON WILLIAMS: Ms. Schubert, before you leave this slide, and just for the benefit of the record, Mr. Rainkie, just directing your attention to bullet 1, I believe you said it was the 2009 customer perception study.

And were you referring to the 2019 customer perception study, sir?

MR. DARREN RAINKIE: Thanks. Thanks, Mr. Williams. Sorry. Sometimes I trail off on the mic, and then -- but, yeah, 2019.

DR. BYRON WILLIAMS: Thank you.

BOARD MEMBER BASS: Mr. Rainkie, on the third bullet on that slide were -- was there any data in the question? Like, if one satisfaction with -- with price is under consideration, were there any parameters on that? Like, what the price would be would obviously influence how people thought about it, wouldn't it?

MR. DARREN RAINKIE: You would think so, sir. And, no, this -- this was -- as I understand it, the -- the question itself, what's in bold, was the -- was the total question. I don't think there was any context around it.

BOARD MEMBER BASS: Thank you.

CONTINUED BY DR. BYRON WILLIAMS:

MR. DARREN RAINKIE: So, as I -- as I said earlier, my -- my conundrum I think in going through this, because Strategy '40 is driving a lot of the expenditures, was -- was what to do with it for rate-setting purposes.

And I came to the conclusion in the ends there's just too many concerns and unknowns at this point for the PUB to fully accept Strategy 2040 for rate-setting purposes and let in all of the costs into its rate-setting thinking.

You know, so that -- that is my recommendation to the Board with respect to -- to Strategy 2040. You know, Strategy 2040, it's -- it's kind of in -- in some ways premature. It's ahead of the Manitoba energy policy and -- and the IRP that -- that is yet to be, you know, completed.

And -- and there's a lot of work to do,

by the way, after those two (2) things are completed. It's not like, you know, there's an energy policy and an IRP, you know, comes out in the fall or whatever the current schedule is. And -- and we all know the path forward.

Obviously, there's -- just like you read every day in the newspaper, you know, you've got independent power supervisors trying to decide how they're actually going to implement government policy, so there's a lot of work to do even after that.

Clearly, the Strategy is a work in progress. And there's a bit of a state of analysis paralysis, I think, at Manitoba Hydro. There's -- there's -- you know, there's the old saying -- how does it go -- sometimes you're too busy chasing cows to mend the fence.

And hopefully, over -- over time and with these, you know, energy policy from the province and analysis of the IRP, that analysis paralysis will narrow down into focus because I think, like, if you're -- if you're going to go through a transition and you're going to look at spending, you need focus. You need -- you need focus. You need to understand, you know, what -- what your competitive advantages are, and you need to seize on those, so.

Anyways, that -- I think I'll just leave Strategy 2040 at -- at that. That was the purpose for me going through it, for rate-setting purposes.

The next one, everybody's favourite topic, O&A. So current levels of O&A for rate-setting purposes. And I'll try to go through these at a -- at a high level. If I tried to read everything on this slide, I would be here probably until Friday.

So, you know, firstly, it's hard to see 175 million -- so, first of all, all of these slides have a five (5) year analysis period, from 2020 to 2025. And the purpose of that is, the last time that the PUB reviewed Manitoba Hydro's operating cost targets was in the 2019/'20 Rate Application.

So my comparative point is to evaluate, well, how have we done since the last hearing that -- that the Board looked into operating costs. So the -- the next three (3) slides will have that comparable -- that same five (5) year period, if that makes sense.

So it's hard to fathom that, from an analytical perspective, that $175 million, or 34 percent, increase in operating costs with, you know, an average annual growth rate of 6.1 percent demonstrates a commitment to prudent and fiscal restraint. It's just hard on the face of it to -- to accept that.

The problem to me is that Manitoba Hydro has seemed to revert back. After six (6) or seven (7) years of Manitoba Hydro having strategies around managing operating costs, it -- it seems to have reverted back to what I call an incremental budgeting approach. There may be other names for it, but that's what I call it.

You know, and -- and that -- that approach is, you know, take last year's costs plus general wage increases plus merit plus strategic initiatives funding plus other cost pressures, fuel and things like that and, you know, 'A' plus 'B' plus 'C' plus 'D' is -- is your operating cost target.

And -- and of course, I mean -- and then -- and I see this all over, you know, the country when I do this kind of work. Utilities talk about that as being we constrained operating costs, you know, taking last year plus four (4) increases.

I'm not sure how that's constraining operating costs. I -- I haven't figured that code out in the industry quite yet. To me, that's just following the cost curve upward. That's not a plan; that's just an equation, an Excel spreadsheet. So --

so that's the reasons for my -- my concern.

And, quite frankly, vacancy factors are not top-down strategic operating costs budgeting. They're part of the bottom-up process, right? I mean, if you have a department of a hundred (100) people and you only expect ninety-five (95) to -- warm bodies in the seats, then you have a 5 percent vacancy rate. That's not strategic management of operating costs, that's simply part of the Excel spreadsheet to get to the incremental budgeting.

So I think the top-down portion of Manitoba Hydro's operating budgeting is missing because I think there's two (2) things missing in that equation, you know, the last year plus four (4) factors. And that is productivity savings. We're investing a lot in IT, as you see in the material.

And why do people get merit increases? Because they go up in their -- not just because they've been at Manitoba Hydro for twenty (20) or thirty (30) years, they're more productive. There should be an expectation as people get those merit increases that there's some offset for -- on behalf of customers, some balance.

The other thing is reprioritization, you know, through stop doing. So if there is energy transition and other strategic issues coming up, presumably -- you know, that are here, presumably something's coming off the bottom, right?

Like, you know, it might have been a great program ten (10) years ago, but if you've got all these things staring you in the -- in the face coming up, then something comes off the back.

Most companies try to fund strategic initiatives through finding cuts in other areas that are of now low risk because there's bigger risks coming forward.

So that's -- that's my version. That's what I call top-down budgeting, not sticking vacancy factors in -- in Excel spreadsheets.

You know, and in my humble opinion, what -- what Manitoba Hydro badly needs is a -- is a multi-year priority-based O&A budgeting approach, you know, that looks at identifying and ranking services or programs rather than organizational budget, taking last year's budget plus, plus, plus, plus, plus. Slide number 20.

DR. BYRON WILLIAMS: Could we go back to slide 19? I have two (2) questions here if -- if I might, Mr. Rainkie.

MR. DARREN RAINKIE: Sure.

DR. BYRON WILLIAMS: I see that you've divided the table between changes in operational-related expenses on the top half versus operational non-employee on the bottom half.

Do you have any comments on the trends for that, sir?

MR. DARREN RAINKIE: Not so much in terms of the trends, although, you know, this might be a convenient point to talk about the fear of inflation a bit.

You know -- you know, I see that the -- you know, the CPI indexes are going up, and -- but -- but I think one has to put that in context, right? As -- as the Manitoba Hydro panel testified, 80 -- 80 percent of its costs in operating costs are tied to employee-related costs.

And we couldn't see the CSI part of this, but from what I could see in terms of, you know, general wage increases and that, it was in the -- you know, it'd have been in the 1 1/2 to 2 percent range for a number of years. So 80 percent of Manitoba Hydro's operating costs are moving, you know, in that range of -- of, you know, the Bank of Canada's targeted inflation of 2 percent or lower.

So 20 percent of $600 million O&A costs

-- expense might be $120 million, you know. So if -- if there is some temporary inflation increases of 3 or 4 percent, that might bring pressures of $3 or $4 million to Manitoba Hydro in, you know, this -- this year, 2023.

But Manitoba Hydro's forecasting a $751 million, you know, net income. So it -- you know, it's got $3.6 billion of retained earnings and I would expect that the winter that we had and the cool spring, that that number might even be higher.

So I think it's well within Manitoba Hydro's capacity to absorb some -- some short-term blips in inflation.

DR. BYRON WILLIAMS: Thank you. And, Ms. Schubert, just before we leave, Mr. Rainkie, I don't know if you have anything further you wish to say about pension discount rates.

MR. DARREN RAINKIE: Well, yeah. That's -- that's a good point because, you know, we talk about safe and reliable service, that -- that kind of adjusting, you know, Manitoba Hydro's O&A trajectories would denigrate safe and reliable service.

But, you know, pension discount rates I think are probably understated by 1 to 2 percent.

Once again, utilities across the country tend to use pension discount rates that are from their actuals, from their last financial statements.

And when interest rates are increasing, those pension discount rates are increasing because they are -- the indexes that are used run off of double A bonds, double A rated bonds, right?

So if interest rates are increasing, the pension discount rate is increasing. And there's an inverse relationship: the higher the discount rate, the lower the -- the costs, right? So I think, you know, the -- the O&A number of six hundred (600) and -- well, I guess five hundred eighty-nine (589) right now may be as much as 37 million to -- to 74 million overstated.

I also noted that, you know, there's a -- there was a forecast of -- of EFTs that are eighty-nine (89), you know, under in February of 2023. So I don't know. You know, like, I think -- part of the -- the calculation escapes me, but that could be another under -- under-cost expenditure of around, you know, $11 million at a hundred and twenty-five thousand dollars ($125,000) for an EFT plus benefits plus ancillary expenses, so.

DR. BYRON WILLIAMS: Thank you. And I

apologize for the interruption.

MR. DARREN RAINKIE: No, that's -- that's good. I'm going through this at a fast clip to make my time, so I appreciate you slowing me down once in a while.

You know, in terms of the FTEs, so the same five (5) year analysis would say that there's been a hundred and sixteen (116) increase in what I call governance and service business units. Manitoba Hydro may have a different term, but it's the non-operational business units. And there's actually been a -- a nineteen (19) EFT -- or FTE decrease in the operational, you know, business units.

So -- so Manitoba Hydro says that its strategy positions it, you know, to be an agile company, but -- but is it really moving in that direction? I -- I'd say no.

You know, it won't become an agile company by increasing levels of staff in the governance and services business units by that much. You know, there are also three (3) increases in senior management and -- and directors and twenty-one (21) increases in management positions since 2002 built into these forecasts.

So, you know, Manitoba Hydro won't

become an agile company by adding back layers of executive and senior management that were delayered during the VDP.

I mean, that was one (1) of the -- do you remember Boston Consulting coming in and -- you know, in the last rate hearing, reducing management was -- was one (1) of the key planks of the -- of the Voluntary Deparchment -- Departure Program. So I don't know. I think Manitoba Hydro's actually backsliding from the VDP, building up those layers of management once again.

DR. BYRON WILLIAMS: And just to make sure I heard you correctly, in terms of those changes in management, were those since 2002 or 2022?

MR. DARREN RAINKIE: Okay. I'm going to have to slow down here, Mr. --

DR. BYRON WILLIAMS: Okay.

MR. DARREN RAINKIE: -- too cranked up, and I guess my coffee should have been a -- a decaf this morning. Since 2022. I appreciate that --

DR. BYRON WILLIAMS: Thank you.

MR. DARREN RAINKIE: -- Mr. Williams. Next slide.

This -- so this one could -- this slide then takes the other view of operating costs by business unit. So further to my last point, I would say that almost 50 percent of the $175 million increase in operating costs, you know, since 2020 is in the governance and -- and services business units areas.

So if you look at the -- at the one seventy-five (175) increase, it breaks down to 72 million in the governance and service areas, about 58 million in the operational business units, which totals 130 million. And then there's 45 million non-business unit adjustments. A big chunk of that would be -- would be increased employee benefits.

So, you know, if you notionally allocated a part of the 45 million to the governance and services business units, maybe a third of it, you know, that would be probably around, you know, $87 million out of that $175 million increases in the governance and services business units, so almost 50 percent. So, I think this, you know, accentuates my concerns on the previous -- previous slide. Next slide.

But, you know, it's just not my concerns. The Board had concerns in this area, as well. I mean, it -- it provided consistent regulatory signalling to Manitoba Hydro in the last three (3) major Orders, 59/'19, 69/'19, and -- and 9/'22, on the need to reduce operating costs.

The Board's perspective last time, at the last review -- last major GRA was, you know, there was a further opportunity. They called it an opportunity, not a risk, to reduce staffing levels after the VDP was completed.

You know, and there was concern that the -- the savings from the VDP would be eroded through escalation in operating costs, which I think is -- I think is what we're seeing right now.

I won't go through all of it, but the last one in Order 69/'19, the Board was so concerned that it found that Manitoba Hydro's 2020 O&A target was not acceptable for rate-setting purposes. It reduced it, you know, by $22 million, from 511 million to 489 million, and set -- set a strong signal that it expected escalation in the range of 1 percent versus the 2 percent that Manitoba Hydro had planned into its forecast. Next slide.

So -- so, what's in -- what's in scenarios that -- that I put on the record, or -- or asked Manitoba Hydro to put on the record? They're not my calculations. I specified the -- the parameters and Hydro made the calculations.

So -- so, I think pictures are worth a thousand words, and certainly this one is. I think it's fair to say that Manitoba Hydro did not respond to the regulatory signalling. You know, back between 2015 and 2019, Manitoba Hydro had an actual plan to keep operating costs -- to keep that trajectory flat or -- or decreasing.

And -- and if you look at the -- the green and the blue, there was actual reduction through the attrition strategy and the VDP strategy of $26 million, or 4.8 percent, between 2015 and 2019.

So, you know, in contrast, now we have kind of Manitoba Hydro's vacancy management approach, which, if you -- if you look at the -- the black line there which is -- would be extrapolating the Board's decision in Order 69/'19, plus 1 percent escalation, so if you look at the end of the black line at 2025 and you then take the distance between that and the Strategy 2040 Hydro forecast, that difference is $173 million, or 34 percent, higher.

So, I think I'll leave -- unless you have something else in this, Mr. Williams, I would leave this.

DR. BYRON WILLIAMS: I just want to confirm for the record, Mr. Rainkie, that you're referring to slide 23. And the black line, Order 69/'19, plus 1 percent escalation, is in the -- the graph on the left side of that?

MR. DARREN RAINKIE: That's -- that's right. The left graph kind of says how well did the -- Hydro do in responding to the Board's direction. And the right side compares the current forecast to MH-16, which was Hydro's forecast at the -- at the last General -- major General Rate Application.

And so, I mean, the other point I guess on the right side, while we're there, of the -- of the slide is that the Board said it did not like the -- the cost curve on MH-16, please bring that down, you know, and -- and it hasn't worked out that way.

DR. BYRON WILLIAMS: Thank you.

MR. DARREN RAINKIE: Slide 24. So, what's in CC-10 and CC-11, which I think are more balanced and -- and consistent with the regulatory signalling of the Board in the last major decisions.

So, it starts with the 2023 forecast as a base, and it extrapolates it out twenty (20) years based on Manitoba Hydro -- sorry, Manitoba CPI much like -- at around 2 percent, much like the -- the Manitoba Hydro approach.

You know, this -- this results in a 46

percent increase in O&A levels to 2042, which compares to Manitoba Hydro's extrapolation of 59 percent.

So, you know, it's -- I think it's fairly generous and ample in terms of, you know, allowing for cost pressures, inflation, accounting changes, those types of things.

In fact, when we were doing a run through of this a couple nights ago, Mr. Williams said, why have you been so generous, Mr. Rainkie? I do recognize there are pressures out there and -- and, you know, this is -- this is one (1) scenario.

I mean, obviously, that -- that blue line would be much lower if I was to take in Order 69/'19 and extrapolated it out, but -- but I didn't. I think I'm trying to be balanced and -- and fair in this regard.

Okay. You'll be happy to know that's what I have to say about O&A because I'm sure you've heard more than enough about it in the last two (2) or three (3) days.

On to business operations capital. So, business operations capital is -- within the fourteen (14) year period is increasing by .8 billion since the last GRA. Of course, that number would be higher if, once again, we extrapolated it out for the full twenty

(20) years.

And most of this increase is due to placeholders related to AMI and grid modernization which total 480 million. So -- so, if you look at the fourteen (14) year increase, you have to go way down to the bottom where one (1) of the red arrows is.

The -- the total increase between the current capital forecast and the one at the last 2018/'19 General Rate Application is $769 million or around 800 million, and $480 million of that's related to placeholders' AMI and grid modernization.

If we actually focus in on sustain -- sustainment line that is, you know, in -- in red across the -- across the screen there, you'll see that -- that in the -- in the test years, there's a fairly significant decrease in every year of sustainment capital, which is consistent with past trends.

I've seen this for -- you know, as my time of controller, CFO, and the last hearing in 2019/'20, you know, 60 million or more -- 60 to $70 million lower.

So -- so, if you accumulate that over the -- a ten (10) period, there's actually lower sustainment spending of about $133 million.

Curiously enough, in the rebuttal

evidence, because I didn't have -- I couldn't fill this table in originally in -- in my evidence, but Manitoba Hydro was kind enough to fill in the columns in its rebuttal evidence.

Over the fourteen (14) period of comparison, sustainment is pretty flat at $4 million, although I'm kind of perplexed at how they're actually going to move from a negative 133 to a plus 4 in that -- in that time period because the trend of underspending is there. If you went back, it's there for a long time.

Not -- not to -- not to be disrespectful to my engineering friends because I love them dearly. And just like the lawyers, I work with them lots on these cases. But my -- my wife would call it eyes too big for the stomach, you know, tend to over plan.

And -- and I think back to my evidence at the -- at the last hearing. You know, I -- I summarized Hydro's position was that -- that there's just too many execution risks on these types of projects.

There's not much that pushes the capital project earlier. There's a lot that pushes it back. You got to organize materials and engineering drawings and contractors and permits.

So, Hydro's own last evidence for the last GRA was -- or sorry, the last rate application in '19/'20 was that there was a propensity for underspending; that's their own words. You know, if we have to, we can turn that up.

So, anyway, the -- the increase in -- in the -- in the business operation capital is not to replace aging assets. Let's just, you know, make -- make that clear, right. It -- it's placeholders on other projects. Slide 27.

So the -- the PUB regulatory signalling to Manitoba Hydro on business operations capital is fairly consistent with O&A. You need to sharpen your pencil. There's a need for fiscal discipline.

But -- and you heard about this last week, so I'm not going to talk about this much more. But I mean, there was one added part on that -- was a very specific direction, right?

It said -- it said a strong message. That, you know, you can't keep spending these levels of business operation capital until you get your house in order and get a mature asset management process in place.

So you know, that's -- that is really

the -- a real strong message, I think, from the Board.

So as I mentioned, like, you'll -- you'll see the, kind of, eyes-bigger-than-stomach phenomenon in this -- this graph here that -- that shows that, you know, MH '22 spending is down in the first number of years of the forecast from 2023 to 2027. That's the red line. Versus the blue line, which is the forecast at the last General Rate Application. So you'll -- you'll see that phenomenon. That propensity to under spend.

You know, and I don't know -- you know, I'm not an asset management expert like Midgard, but I've been around a long time and I was controller and CFO for Manitoba Hydro of nine (9) years. And I've, you know, read a hundred-and-eight (108) monthly reports, and twenty-seven (27) quarterly reports, and nine (9) -- nine (9) annual reports. And I understand the trends in the spending here.

It makes me wonder if they'll ever get to the billion. I mean, if you -- if you under spend at the front end and you keep putting it to the back, is there enough resources to do that? Is it just about money? Is it just more money and everything will be great?

I would say no, from a policy and

executive perspective. I would say that, you know, mature asset management is required. Like, if you're chasing too many cows and you need to build a fence, you need to know which fences to build, right? Where they need to be built and, you know, that -- I come from rural Manitoba. My dad was a poor farmer.

But, you know, you got a lot of fences around the property. You need to know which ones to fix or the cows are going to get out, right? You can't be running around all over the place. So -- anyways, that's my views on -- on capital.

And as well, you know, in this Hearing and in the 2019/20 Rate Application, Manitoba Hydro's own evidence, I think, is that, you know, 90 percent of projects tend to be in flight and, you know, 10 percent tend to be not in flight, right? I mean, there's -- there's a lot of variability around the capital spending.

DR. BYRON WILLIAMS: Just before we leave this slide, being slide 27, and focussing on the MH '22 line in red, in that first decade, is the 300 million associated with the AMI placeholder in there, sir?

MR. DARREN RAINKIE: Yeah. I -- it was very confusing in the material. We asked for breakdowns, but the -- just Hydro would not provide it. But I think they did ultimately confirm in second round, after a little squabbling that Mr. Klassen did with Manitoba Hydro, that -- that both the AMI and the grid modernization was in the first ten (10) years or so of the forecast.

DR. BYRON WILLIAMS: Thank you.

MR. DARREN RAINKIE: Next slide, please.

So -- so what BOC levels are in CC-10 and CC-11? So, you know, following Manitoba Hydro's own evidence, they're 10 percent lower than those that are forecast in -- in the Hydro's forecast.

And following the trends, I went back to my evidence from 2019/20 Rate Application, and I'd analyzed that from 2013 to 2018, Manitoba Hydro had been 9.2 percent under spent on its BOC over that -- over that period of time.

So, you know, CC-10, CC-11, the levels in there are a 96 percent increase in the spending that you would see at the front end of the -- of the -- of the forecast, versus Manitoba Hydro's, which I think is 111 percent.

So once again, I think I've been generous here. I don't think I've been -- there's no budget cuts to reduce safe and reliable services. It's just trying to extrapolate things out twenty (20) years and -- and also trying to be consistent with the Board's regulatory signalling on -- on business operation capital.

That management strategy, I call it DMS for short. Not to be mixed up with DSM, which is demand side management. So Mr. -- in our run through a couple of nights ago, Mr. Williams told me to be careful on that and I'm sure he'll correct me if I -- if I transgress.

This is a -- so I'm going to spend a couple of minutes on this. It's a more technical issue, I think, I need to -- to go through.

But you know, when I -- when I was reviewing the application, I thought, Once we're through the era of major capital projects where Manitoba Hydro was borrowing $3 or $4 billion a year in refinancing and financing, and going back down to levels of a billion, you know, dollars -- which is a return to normal.

You know, before the big capital projects. You know, the -- the time when I was treasurer and a few years after, you know, the spending -- sorry, the refinancing programs might have been six (6), seven (7), eight hundred (800), a billion dollars.

So I thought if we're returning to that, you know, era after the major capital projects that we would see that the debt guidelines actually kind of take on a bit more risk, you know, in terms of risk reward relationship.

But -- but actually it went the other way. There's actually reduced risk tolerances.

Now, what I have in these bullets -- and I don't want to go through all of them as I've put the new policy in and then in the bracket I've put what the former policy is. And you'll see that each one of the policies is -- is going down, reflecting a reduced risk tolerance.

The one I really want to zone in on is the interplay of the third bullet point and the fourth bullet point because it's very important to this topic.

So the third bullet point is the interest rate risk policy, and the fourth one is the debt management guidelines.

And I'm familiar with these. I was treasurer. I was CFO. I've read these guidelines many times. And they're meant to work together because, otherwise, they don't make sense.

So I'm just going to use the former policies to demonstrate how these were set up for many years.

So the interest rate risk policy, the former one, was that the aggregate of floating rate debt, short-term debt, and fixed rate debt, to be refinanced in the next twelve (12) months was supposed to be a maximum of 35 percent.

And so, the guideline that fits into that policy was that, you know, we would maintain short-term and floating rate debt between 15 percent and 25 percent. Now that would average 20 percent. That was what Manitoba Hydro used to target years ago. And then, have net long-term debt refinanced into the next twelve (12) months, to be 15 percent.

So the debt management guideline was additive. You would take the first part, which averaged 20 percent, and you would add the 15 percent on to get to 35 percent.

The policy and the guideline have to work together or else you don't know what you're doing. You don't know what you're managing.

So I don't know, I'm confused by Manitoba Hydro's -- and maybe -- maybe, you know, I was preparing my presentation and I was listening to the -- the Board questioning and the -- Manitoba Hydro in the background and it's some -- I'm getting old. It's hard to do two (2) things at once.

But I thought I heard Ms. Stephen say that the debt management guideline was an additive. That -- that the aggregate of short-term floating rate debt and long-term debt to refinance was now less than 10 percent in total. Like, both of those things are no longer additive.

So it doesn't make any sense to me. Then why would you have a 25 percent interest rate policy risk? They don't -- they don't work together.

Now, maybe I misheard that. And, you know, maybe there's some clarification in argument. But these things work. I know. I was the treasurer. I was the CFO. These policies are not new to me. And that's the way they worked before. I -- I don't know, if they -- if they don't work this way now, I don't really understand what Manitoba Hydro's trying to get at in its policy. Anyway, next slide, please.

So with that understanding that the -- that the -- a policy and the guidelines work together, what do we have?

So in Manitoba Hydro's scenario --

planning scenario, if you -- if you took the blue, the green, and the purple and you averaged that over the twenty (20) year period, that -- that would average about 8.1 percent.

So, that -- that is what the guideline should be, and the policy is -- should have probably said 25 percent policy there, rather than guideline, sorry, that's a bit of a misnomer.

But, the conclusion I -- I take from this, in terms of how the policy and the guidelines should work together, is that Manitoba Hydro is well within its interest rate risk policy guidance when they -- when they're properly working together.

DR. BYRON WILLIAMS: And, can I just be clear. On slide 31, I believe, I heard you say, 25 percent, the word 'guideline' should be struck out and the policy should be --

MR. DARREN RAINKIE: Yeah. Sorry, sorry for that -- sorry for that. I -- I -- another correction. Slide 32.

So, if you don't believe me, maybe we can believe Manitoba Hydro's own -- own words and own calculations.

So, Manitoba Hydro's own calculations -- risk calculations, are on the left side of this slide. And what this does, is this -- is this quantifies the reduction in retained earnings over -- based on a what -- the high interest rate sensitivity.

And I think in the -- in the current incarnation, Hydro actually added 2 percent; 1 percent for the long term and 2 percent for short term rates in the high interest sensitivity.

And, so what this chart does is shows the progressive reduction in retained earnings, if that sensitivity came to fruition as compared to the Hydro based forecast, if you like.

So, two (2) hearings ago, that high sensitivity would have produced a $1 billion -- $1 billion reduction in retained earnings.

At the last hearing that would have produced around the $750 million reduction in retained earnings.

At this hearing, it produces about a $460 million reduction in -- in retained earnings.

So, Manitoba Hydro's own interest rate risk calculations show a 56 percent reduction from two (2) GRA's ago and a 38 percent reduction from the last GRA. Their own calculations.

Now, what about their own words. Well, let's look at the two (2) bullet points at the bottom of slide 32.

And -- and I've put it in quotes:

"Manitoba Hydro views debt maturities per year of approximately 5 percent to be a reasonable level of risk. Average interest rate risk each year remains at the lower end of its interest rate risk guidelines."

So, maybe I mis-heard a couple days ago that -- that that policy wasn't -- or that guideline wasn't added. Because, certainly, Manitoba Hydro's own words, and I asked them a very direct question, in -- in -- in Information Requests, is that they're at the lower end of that. Just like my previous slide demonstrated. But maybe I mis-heard.

And then, Manitoba Hydro also said, their own words, that it does not anticipate high levels of concentration risk as a result of financing activities.

They're going to issue predominantly ten (10) and thirty (30) year benchmarks, that will -- so -- so, if there's a billion dollars a year in the first ten (10) years of refinancing, they're going to hop over that by trying to go to tens and thirties, so that they reduce their concentration risk.

And that's what they end with in this quote saying, reducing the concentration risks. So, yeah, I -- I think I'll -- I'll leave it at that, Mr. Williams.

Now, Manitoba Hydro has cash concerns. Don't we all? Today's inflations. But let's remember that Manitoba Hydro has multiple effective layers of liquidity protection. You know, I've listed them here.

The cash flow it generates from operations. A short term borrowing program. It was half a billion dollars, which is 50 percent, by the way of maturities that are expected of the billion.

I -- I don't know that was supposed to go up to 1.5 billion, I don't know. Manitoba Hydro's panel implied maybe it won't go up as far as 1.5 billion, I'm -- I -- I'm not sure.

But, I -- I think -- I understood there was some discussions with the government to increase that. So if it got increased to 1.5 billion, it would be higher than the maturities each year.

Of course, they have long term borrowings through -- that are fully guaranteed by the Province of Manitoba, a sovereign, like the best credit rating is the federal government, followed by the provinces, right? So, long term borrowing through a highly rated entity, the government.

Of course, it can maintain cash reserves if it wants to and it can maintain sinking funds if it wants to, although I understand it's no longer a requirement in the revised -- revisions to the Hydro Act, though.

But, my concern here is that there's a -- there's a cost to ratepayers of these multiple layers of protection.

You know, I -- I think, Ms. Stephens (sic) said, well, there's an inverted yield curve so there's no cost, but that'll be a temporary -- you know, inverted yield curves are temporary, right.

What are harboraging (sic)? They -- they predict recessions. What happens during recessions? Interest rates comes down, inflation abates, you know, the yield curve goes back to a normal upward sloping yield curve.

So, like these scenarios of Manitoba Hydro's are minor, based on consensus forecasts, not on some temporary thing that might happen in the marketplace today or tomorrow.

And -- and I think we've all seen that

the central banks have been quite adamant that they are prepared to go into a recession to -- to -- to slay inflation. Like, the extraordinary policy changes that the central banks have made across the world does not show me something that's going to, you know, run away from trouble, so.

Anyways, that's my concern. Manitoba Hydro should be careful. Like it -- it is used to now having a billion dollars of cash on its balance sheet, because it was -- had a -- a borrowing program of three (3) to four (4) billion dollars a year. I understand that. I was part of that.

When Mr. Schultz (phonetic) was treasurer and now we're going back to a normal level of -- of -- of financing and we need to maintain $400 million of cash on the balance sheet? I -- I don't know, because in a normal upward sloping yield curve, there's a cost to carry of that, right. If you're borrowing money to -- to fund that sinking fund and you're only investing it at a short term rate, then there -- there's -- there's a cost to customers.

That's my point. I didn't make any adjustments in CC-10 and CC-11 for this, but I just wanted to bring to the Board's attention debt management strategy because its been something that really hasn't been talked about much for a long time in these hearings.

And, you know, when you have a -- a finance expense that's getting to be one of the higher expenses or is the highest expense now and the highest revenue requirement, I think, you know, the Board has to pay attention to debt management strategies.

Debt doesn't just happen. I used to say to the engineers, money doesn't fall from the sky. It's very carefully managed by -- by Manitoba Hydro and you can influence the cost by the selection of your policies. It's -- it's not just something you take. Next slide.

So what's in CC-10 and CC-11? I mean they -- they contain modest increases in a floating rate debt levels, compared to the Hydro forecast.

Because we're trying to balance for customers here, right? Like, we're trying to get, you know, a -- a twenty (20) year projection that -- that balances the interest of customers and -- and costs concerns and rate concerns with -- with Hydro's financial integrity.

So, the differences here, if you look on the left graph, Manitoba Hydro scenario averages about $1.3 billion of loading rate debt over that twenty (20) year period, and -- and my CC-10 and CC-11 scenarios average about 1.7 billion. So it -- it's an extra .4 billion over that time on a $23 billion debt portfolio.

It -- it's not a -- a risky scenario. And if you look on the right graph, the Hydro projections out twenty (20) years, would average about 5.7 percent floating rate debt. Whereas, the CC-10 and CC-11, average about 7.5 percent so it -- it's a modest increase.

DR. BYRON WILLIAMS: And just for the record, just because we're looking at one of those dual slides, you're referring to slide 34?

MR. DARREN RAINKIE: I'm referring to slide 34. Yeah.

DR. BYRON WILLIAMS: Thank you.

MR. DARREN RAINKIE: You know, this is -- the levels in CC -- CC-10 and CC-11, are also comparable with updated National Bank financial on -- an analytical tool that it left with Manitoba Hydro back in 2008 or '09, when there was an independent study on -- on appropriate levels of fixed versus floating rate debt.

So, you know, there's -- there's further independent support for the scenario that I've put in CC-10 and CC-11.

I -- I, you know, I wouldn't recommend that -- that the Board direct Hydro to undertake a more current update on this. I think it would be a very valuable assessment for the purposes of the -- these hearings and rate setting.

DR. BYRON WILLIAMS: Mr. Chair, we -- we've been going for about an hour. I'll leave this up to you, but I'm -- I think we're at a good pace so that we could -- I -- I think there's some value in the Board having a -- a break now. We -- we could go on and finish this section though, section 2, but I think we will be less than two (2) hours on the -- on the pace that we're going.

THE CHAIRPERSON: Yeah, I -- I think -- I think it's a good idea to break now. We'll break for fifteen (15) minutes now. Thank you.

DR. BYRON WILLIAMS: Thank you.

--- Upon recessing at 10:15 a.m.

--- Upon resuming at 10:32 a.m.

THE CHAIRPERSON: Are we waiting for Mr. Kla -- oh, Mr. Klassen's in the back row. Sorry. Yeah. No. I -- I -- you were blocked by -- by Mr.

Williams' shirt so.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: I'm just going to stay silent and turn it over to Mr. Rainkie. Slide 36, I believe we're on.

MR. DARREN RAINKIE: I'm going to pull the mic a little bit closer. I -- I tend to trail off. I -- I recognize that. Just stop me, Board Members, if -- if -- if something's not clear.

How to deal with risk assessment? I think I'm being gracious when I -- I say that Manitoba Hydro's higher -- level of risk assessment is incomplete, not balanced, and inconsistent with its own enterprise planning priorities.

It's really not a -- a risk assessment. It's a -- it's a top 10 list, you know, it doesn't have any analysis that you would -- you would typically see in risk assessments, like likelihoods, probab -- impacts, risk treatments, residual risk, those types of things. I think Ms. Grewal talked about that on Day 1. It's just a -- it's just a top 10 list, you know.

Yeah. So, obviously, their -- their ERM Program is in the early stages of development and

-- and -- and it's not quite there yet. So, it's not really what I would typically see and -- and for rate-setting purposes. Typically, Manitoba Hydro would have seen, you know, a 50- or 60-page detailed Risk Assessment Report and -- and, you know, there's al -- al -- also several inconsistencies, I think, between the planning priorities and -- and -- and that risk assessment.

So, we have this top 10 list that says that these are biggest thing on our -- on our radar but, once again, you know, we're increasing operating costs and -- and -- and base cap -- our BOC spending in the billions, but we're concerned about financial risk. You've got multi-year journeys on ERMs and -- and -- and we've stopped doing the uncertainty analysis, which is a much more advanced risk analysis than -- than just doing simple one-off sensitivities.

Manitoba Hydro had been progressing down the uncertainty analysis that would allow you to look at the impacts of compounding risks and, perhaps, off-setting risks, and inter-connectivity of risks. It would -- that would allow you to -- to determine, well, does Manitoba Hydro really need that level of retained earnings, right, like, what are the -- what are the -- what are the -- and you'd -- you'd see this in the insurance industry, under what MPI used to do, what was called a DCAT Analysis and, maybe, they still do, internally, but -- but, you know, that type of internal risk-driven analysis that looks at some of your key risks, runs scenarios, I mean, the Manitoba Hydro was running 15,000 scenarios -- financial scenarios. It's much more powerful than one-off risk sensitivity.

So, we're concerned about risk but we've stopped doing that. Now, we're concerned about ass -- aging asset risk, but we've got this multi-year journey now, and -- and I must say, I'm disappointed, because I was one of the early champions of asset management back in 2016.

I thought this would be implemented throughout the company by now and I was disappointed to hear that this is now a 15-year journey or a 14-year journey, with seven (7) more to go, and I'm a little, you know, it's -- there's a little kind of inconsistency for me, I, you know, I've heard the word "siloed" in the last number of days, you know.

In the old org structure and that, you know, the new org structure is much better, but -- so, we put Asset Management Planning together. So, we took all of the asset management people from G -

generation, T - transmission, and D - distribution, we put them under one hood and that's, somehow, has resulted in a delay of this. Like, did anybody else take a look at that and say, that doesn't make sense to me. Like, if they're all together under one vice-president, shouldn't it be a force to try to accelerate that not -- not -- not push it back, you know, technology risk is a big issue, but there's no -- there's no IT strategy.

A one-page graphic is not a strategy, like I think, you know, the Board Members are senior people, you've seen IC -- IT strategies that would be a hundred (100) pages long and the -- they would be a typical SWOT Analysis and -- and, you know, and the same kind of strategic analysis you would have at the corporate level, but, you know, as it pertains to I -- IT but, yet, we had a Hydro witness saying there was a one-page graphic was a -- was a strategy.

So, it just isn't and -- and there's no business cases and going back to the O&A costs and that, like, there's no benefits, like, the placeholders are all costs. There's no benefits. Why isn't there some ben -- if -- if they can estimate the costs at high level, maybe it's -- why isn't there some benefits off-setting that?

So, you know, sorry, I -- I just see several inconsistencies between what Hy -- between this risk assessment and, then, why -- how Hydro is like, you know, doing its planning priorities, and -- and you can put the word "enterprise" in front of anything. It doesn't mean it's better, like, there's enterprise this and enterprise that but, I mean, the question is, is it better, is it working better? I'm not sure. Next slide.

This is a, you know, just another slide, talking about Order 59/18 in the -- in the PUB's policy decisions and that, in terms of, you know, taking regulatory action, when and if risks actually materialize and...

So, I -- I -- I mean I always took the essence of this as that, you know, we're -- we're not going to build in rate increases into the risks that are actually upon us. We're not going to build up -- build in rate increases and build up rate retained earnings for every single risk that, you know, a person can identify. So, I think -- think that's the essence of this slide. This -- these are the Board's words. I -- I -- I assume the new Board Members are -- are briefed on the -- on the priory policy decisions of the Board.

So, I -- Mr. Williams, unless there was something else, I think I would move on.

Just one last slide on risk, to just try to provide a bit more of balance than the top 10 Hydro issues list -- risk list. You know, it -- it -- and I'll focus on a couple here that -- that really wasn't in there and -- and, I mean, obviously, the huge one is the completion of the major capital projects.

Substantial material reduction in Manitoba Hydro's financial and business reputational and contractual risks and -- and, you know, Vice-Chair Kapitany, you've been in that Chair I think for maybe 10 years now. You -- you've been here through -- through a successive set of Hydro witnesses that -- that -- that told you about the huge risks that the two (2) Bipoles being close together, you know, pose, you -- you know, one converter station, Dorsey, one converter station, 70 percent of the energy coming down.

Well, now, we have, you know, two additional converter stations. We have a -- a Bipole that's separated, you know, at NFAT discussion about the U.S. transmission line reducing drought risk. Where is that in this? Where is that? We've got a

top 10 list of increased risks, but where's that?
And -- and, you know, I've talked a bit about interest rate risk, and there's some other points here from other experts that, you know, I just -- I summarized. But, you know, the other one is the overall financial risk. Huge improvement.
As I go through the graphs of the financial metrics that is coming up in the next section, you'll -- you'll see -- you'll see the Manitoba Hydro 16. You'll see how poor the financial forecast was back at the last GRA, and how every scenario in this GRA is hugely better.
I note a few things there. I mean, the equity ratio's projected to be 18 percent by the second test year, even without a rate increase. That was lagging back in the last GRA at 12 percent and -- and in the previous GRA at -- at 10 percent. So we're on a far better financial footing right now than we were just five (5) years ago, and thankfully so.
You know, net debt is $2.4 billion lower than the last GRA, so. My time is getting short, so I'll move on from this. But I just wanted to provide something that is a bit -- bit more balanced than -- than Manitoba Hydro's assessment.
Targets and metrics. I think I covered

this, you know, upfront that, you know, the PUB in Order 59/'18 questioned whether a debt-to-equity ratio was -- was an appropriate metric for Manitoba Hydro for, you know, a government business enterprise, a Crown monopoly, with a provincial guarantee.

You know, I think the directive or -- or the -- or the policy from that is that -- that this metric would not dictate the pace of rate increases.

Obviously, Manitoba Hydro's 2 percent rate path is -- is a -- is a goal seek to the 2040 debt-to-equity ratio target from Bill 36. I mean, I think the evidence proves it.

We -- we asked Manitoba Hydro, well, like what -- what's driving the bus? Is it the earlier 20 percent? And they said no. I mean, you know, it was clear that in the calculations that that was what was -- the 2 percent rate path is what takes you there. I mean -- so, I mean, Manitoba Hydro's pretty much putting 100 percent weight on -- on that.

You know, I think I'll -- I think I'll move on to the next slide.

I also noted in -- in -- that -- that Manitoba Hydro's positioning of the 2 percent rate path, you know, as -- as a requirement under Bill 36, if -- I think we're calling that as the shorthand here

-- I heard you -- I heard you say -- refer to that once, Mr. Chairman, so hopefully I can use that shorthand -- is -- is an overstatement.

You know, the -- the debt-to-equity targets are described right in the framework as -- as a policy, and 'policy' is, you know, a broad -- a broad guideline. It's clear that the rate cap provisions would prevail if there was a conflict between that and the -- and the debt ratio targets. And I think Manitoba Hydro agreed with that in the Information Request.

I don't have it at -- at my -- at my hand, but the other thing is that the framework allows Cabinet to make regulations respecting the very framework for setting rates or varying rates. They can change it if they want to.

And, you know, it gives them the ability to make regulations that modifies either the -- the ratio target itself or the achievement date in response to unforeseen or extending -- extenuating circumstances.

So, I mean, the province has built-in safeguards itself. You know, the -- the province owns Manitoba Hydro. It's consolidated into its financial results. It provides a parental guarantee for almost all of its -- its debt.

Why would the province starve Manitoba Hydro for cash? Like why would it do that? Why would it impair its own credit rating? Obviously it's given itself the ability to build in safeguards and -- and take a common-sense approach to this.

And I'm not a lawyer, but I can read. You know, I can -- I can read, and I think -- I think there's been a lot on the -- on the record with respect to the interpretation of -- of Bill 36. And -- and as I said, Manitoba Hydro agreed with the assessment.

One (1) of the other concerns is that a 2 percent rate path exceeds the debt ratio targets and results in a capital structure approaching an -- an IOU or an investor-owned utility. So if you look carefully at -- at the forecast MH-22, the debt-to-equity ratio gets to be 34 percent by the end of the forecast based on the rate path.

And if you do a quick calculation of that -- so it gets to 34 percent versus the last target which is 30 percent. Well, that 4 percent difference, it creates to an over-collection of $1.1 billion from customers.

That's easy to calculate. All you do

is take -- take what the 30 percent target delivers in terms of retained earnings and compare that to what a 34 percent equity ratio would -- would deliver. So that's the 8.6 billion minus 7.5 billion there, a little note to myself.

And that's a common issue with these goals -- these equity goal-seeking financial scenarios. I'm going to talk about this in a couple of minutes, but I wish we had not gone down that path in the first place, quite frankly. They tend to overshoot.

The other concern I have is that the -- the equity ratio is increasing by 2 percent per year at that point, and equity ratios just don't move at that pace. Like equity ratios move at half percent a year. That -- that's a pretty good achievement.

But like a movement of 2 percent is galloping. Like -- and you'll see it in the slide. You'll see the -- you'll see the slope of that line is like this. And, you know, it's -- there's no way to -- to kind of curtail that.

I mean, Hydro says, well, we'll -- we'll cut it off at the back end, but by that time the damage is done. You've over-collected $1.1 billion. It's like a curling rock, you throw it down the ice.

You know, once it's going down there, it's -- it's hard to corral it back in.

You know, and -- and at that pace of improvement, 2 percent per year, you know, it would hit a 40 percent equity ratio, which is like an investor-owned utility, regulated utility. I mean, and -- and those utilities need that kind of a capital structure because they issue debt on their own financial metrics, right?

They're stand alone. They don't issue debt. They don't have the -- the -- and pay for the ability of issuing debt through the Province of Manitoba. So, you know, if you're going to have that kind of a capital structure, you're going to lose one (1) of the benefits of Manitoba Hydro, you know, financing, right?

You're -- if you have to move to an equity ratio like an investor-owned, then what's the benefit of, you know, Manitobans actually owning the asset in the first place and taking advantage of the credit rating of the province?

So, I mean, these kinds of concerns cast doubt for me on whether the -- the MH 2 percent rate path represents an appropriate balancing between customer interests and Manitoba Hydro's financial health.

Slide -- there's all kinds of relationships -- sorry. There's all kinds of relationships in these slides, and I'm getting down to ten (10) minutes, so I -- I won't -- I won't --

DR. BYRON WILLIAMS: You know, Mr. Rainkie, just -- I don't think you are down to ten (10) minutes. You've got -- you've got time, so unless the Chair advised other wards (sic), we broke after about an hour, and then we've got another -- a little bit of time. We're not going to take two (2) hours, sir.

THE CHAIRPERSON: Quite frankly, the question is whether Mr. Klassen's opening is part of the two (2) hours or not. So -- but I would -- I would say you've certainly got more than -- you've certainly got more than ten (10) minutes. I'd say you've got till about -- you've probably got twenty-five (25) minutes.

MR. DARREN RAINKIE: Thanks for that, Mr. Chair. Thanks for that clarification.

THE CHAIRPERSON: Now, the -- the only problem is the longer you take, there'll be questions from the Panel again. If you can do it in a shorter time, that's fine, but you certainly have more than ten (10) minutes.

MR. DARREN RAINKIE: Yeah. I --

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: And just for the record, I just want to note that we're on slide 43. Again, this is one (1) of those dole graphs.

MR. DARREN RAINKIE: Yeah. You know, I'm not going to go through all the relationships. You know, I -- I -- I'll leave it -- I'll leave the visuals with you because I think they're -- hopefully, you know, it's on your bed stand at night reading as you make your decision, so.

So I'm just going to focus in these on what -- the scenario CC-10 really -- really provides because I think that's the most balanced rate path between customers and -- and Manitoba Hydro's financial integrity.

Like, CC-10 projects significant growth in the financial reserves to -- to $6.4 billion by 2042. So, if you take that green line, that's about $6.4 billion. I think that's consistent with a cost recovery type of utility like Manitoba Hydro versus, you know, an investor owned utility that would be regulated on a rate base rate of return basis.

You know, the -- the cost of a five (5) year drought, Manitoba Hydro's largest quantified risk, is 1.7 billion. So, $6.4 billion worth of retained earnings or financial reserves is about 3.8 times that risk.

In contrast, the Manitoba Hydro forecast, MH-22, is up to 8 -- no, sorry, $8.6 billion of retained earnings, which is a $5 billion increase from now. And that -- that would represent five (5) times a five (5) year drought.

So, I think there's the question: What is Manitoba Hydro, particularly in the absence of the uncertainty analysis, need $8.6 billion worth of retained earnings for? Next slide, please, 44.

This one's important, so I'm going to linger on this one for a couple minutes. So, once again, the green lines, CC-10, what is -- it has a flat level of net debt over the -- over the forecast period.

And I think that's appropriate because -- I didn't put a slide in on this, or a graphic on this -- but Manitoba Hydro's balance sheet is growing by $5 billion -- is projected to grow by $5 billion over the forecast period.

So, I think, you know, maintaining --

the trouble is Bill 36 requires two (2) things, as Mr. Epp said. It requires reducing debt and increasing equity. It's a little strange to be reducing debt when your balance sheet's increasing.

I understand the first part, trying to get to a better capital structure by increasing equity, but, the second part seems a little suspect to me, so I think it's -- it's stable. As Hydro's balance sheet is -- is growing, we have a stable level of net -- net debt.

And then, you know, the -- the right chart is the -- the 25 percent target and -- and the equity ratio. And you can see -- you can see how CC-10 kind of get -- gets -- it -- it's good progression. It -- it gets to the -- the 20 percent -- the 20 percent first target in Bill 26 one (1) year earlier than -- you can't see it on here, on the Manitoba Hydro 22, because of fiscal discipline, right.

The best way to meet these targets? Fiscal discipline as opposed to just coming for rate increases. So, I mean, that -- that would be achieved under this in 2028. And it also doesn't overshoot.

Like, look at MH-22. Look at the line. Look at the -- look at the slope of that curve. Is that rate smoothing? Is that balance? Like, I don't know what degrees is -- what degree that is, but, like, it's roaring at that point. I think CC-10 is -- is a much better reflection of balance.

And, as I said a few minutes ago, you know, there's a history to this. I mean, Manitoba Hydro always back in the '90s had a sensible approach to this; it -- it had a ten (10) year forecast. You know, it looked to directionally move towards financial targets over ten (10) years. It didn't look at them as goal seeks, precisely calculate something to the seventh decimal place. It was a sensible thing.

And then -- then what happened is the major capital projects came along, and you couldn't see the recovery of the ratios in the ten (10) years, so suddenly we had this twenty (20) year project, and -- and so, that was the next incarnation. Now, we're pretending we could go out twenty (20) years with certainty.

And then the real kicker came, I think, in IFF-12 when the Hydro Board said, well, let's goal seek to a 25 percent equity ratio by the end of year twenty (20). And that's where the 3.95 percents came from. That was simply one (1) of twenty (20) scenarios provided to the Board, and they -- they glued onto that one, the Hydro Board.

But the analogy I use of this is -- is like a curling rink, you know, the ten (10) year forecast, let's -- let's call it one (1) curling rink, 150 feet. You can see -- you can see the rings at the end. You can see somebody put the broom down, and you can guide it, you can sweep.

But then we extended the forecast twenty (20) years, and we put a goal seek at the end, so now we have a 300-foot curling rink, and somebody's putting down the broom on the button 300 feet away and saying, hit it. Well, you can't. It's a fool's errand; it just is.

The best way to do this is probably return to our history, and let's -- let's work towards the 20 percent target first, right. And then, as you get through that, the predictive value of the forecast will improve. There's no predictive value of a twenty (20) year forecast. I mean, most people accept it after five (5) years or three (3) years, and Hydro has a lot of volatility, it always had, in its financials.

So, I think the sensible thing -- common sense thing to do would be to work towards the first target in -- in Bill 36 if it exists after October, and -- you know, and then reassess and move.

In the end, I think CC-10 is providing a nice trajectory there. Manitoba Hydro says that I provide -- or I ignore Bill 26. No, I don't. I put it in its proper context. I weight it with other financial metrics that the Board has used over time.

I won't talk about curling again, Mr. Chairman.

I won't say much about interest and capital coverage ratios. I mean, they're -- CC-10 you'll see, you know, is -- it -- it covers the -- the old targets, or exceeds the old targets that -- that the Board has used and Manitoba Hydro used to have of -- that should be 1.8. There shouldn't be a percentage sign on that target -- in the left -- on the left part. I just noted that last night, too late to do anything about it.

But you'll -- you'll see that, that -- that CC-10 does cover the -- the interest coverage and the capital coverage ratios that the Board indicated are some of its metrics for -- for setting rates.

So, what -- so, what was my kind of conclusion on this? Next slide.

My conclusion -- this is a busy slide, so I'll just try to summarize it down -- is that CC-10 is the most congruent with traditional financial metrics used by the PUB to set rates.

As I said, if -- if Bill 36 is still operative after the -- after the fall -- if CC-10 allows Manitoba Hydro to achieve the first target date of 80/20, one (1) year in advance of -- of Hydro's forecast with some -- with some fiscal discipline, and -- and seven (7) years ahead of the actual target in the Bill, so I think that's pretty good progress. First things first.

You know, CC-11 has many of the same issues as the Manitoba Hydro forecast, MH-22, in exceeding targets but, you know, it is more balanced than MH-22. Its -- its trajectory is not quite as steep.

So, you know, out of this analysis, I said look at -- like, a rate path of 1.2 to 1.5 percent is -- is probably what would come out of this, you know, rate smoothing exercise.

I wish I had a third round of IRs. I would have asked for a 1.3 because, in my judgment, that's -- CC-10 -- a little bit better than CC-10 would be where I would -- I would put the trajectory of -- of the -- of the rates.

So, anyways, the 1.25 -- 1.2 to 1.5, but I think 1.2 percent is -- is the better of the two

(2). So, that -- that was part 2, which is the longest and coming into the stretch here.

I also looked at this. So, you know, it was interesting. Like I said, I'm a business -- chartered business evaluator. I look at things from different methodologies to try to reconcile in my mind; it's just part of my DNA.

So, you know, we looked at the test years. No justification for rate increases there. We looked in the twenty (20) year, said, well, you know, if you want a rate smooth, a balanced approach with some fiscal discipline, it's probably 1.2 percent.

I also thought about, well, what about -- what about a longer term perspective? What about going back ten (10) years and ahead twenty (20)? I think we can turn to the next slide.

Because there's -- there's a lot of talk about journeys in this -- in this application. But to me, one (1) of the most important journeys is the thirty (30) year journey of the -- of the customers of Manitoba Hydro, the people that actually had to pay for the major capital projects.

So, thus far, they've paid about 42 percent in terms of the rate smoothing over the last ten (10) or so years, which is accumulative average rates increases of around 3 percent.

Now, Manitoba Hydro's proposal is, well, you know, let's -- let's -- for the next twenty (20) years let's do 2 percent.

So keep in mind, like, the -- the 3 percent that customers have paid that exceeds inflation by about 17 percent, most of the time the actual major capital projects weren't in service. They were not receiving -- like, they were paying -- pre-paying for it, but they were not receiving the benefits of those -- of those projects.

And in the next twenty (20) years, the -- the -- now that the projects are fully in service, the customers in that 2 percent rate path are fully getting the benefit of those -- those assets.

So if we turn the page, it -- it does bring up a potential intergenerational inequity issue, you know, between ratepayers over the last twelve (12) years and -- and the next nineteen (19) years. It seems that we've overshot a bit and -- and that's fine.

I'm not suggesting retroactive rate setting or undoing what's done. But if you look at it, the Manitoba Hydro '22 path, the red path on this slide 50, it will never -- you know, the light blue is

-- is Manitoba CPI escalated over the whole thirty (30) year period.

In some ways, MH '22 will always overshoot CPI, right? Because it's already 17 percent higher and it -- and if Hydro is having inflationary rate increases, that -- you'll see that that difference between the dark red -- I guess there is only one red -- between the red and the light blue will never close, right? It -- it will always have a significant differential.

But you see how, you know, CC-10 and CC-11 kind of close that in.

So you know, an intergenerational equity perspective might suggest a midterm rate pause. There's only kind of -- there's two (2) ways to deal with this. As I said, we don't go back and retroactively change rate -- final rates.

But, you know, there's -- one way of doing it is having a smaller rate -- a lesser rate path. But that would take, kind of, eighteen (18) years to play itself out, as you -- as you see on this graph. And the other is to have a rate pause in the forward test years -- that I called 2024 and 2025, the forward test years -- to provide immediate and effective rate relief to ratepayers.

You know, so -- so there's -- there's always options open for the Board in rate setting. And this was just an attempt to, kind of -- to get an even broader perspective than twenty (20) years forward by going ten (10) years back and twenty (20) years forward. Next slide, please.

So what's my overall recommendation? Next slide, please, 52.

I told you what the recommendation is already; to confirm the three-point-six (3.6) interim is final and a single increase of 1.3 percent for 2025 -- April 1st, 2024.

You know, in coming to that recommendation, I give some weight to each of the three (3) analytical perspectives.

Analytical perspective 1, the test years says, don't give any further rate relief in the forward test years.

Analytical perspective number 2 says, Well, you know, maybe somewhere between one-point-two-five (1.25) -- one-point-two (1.2) and one-point-five (1.5), sorry, in the test years.

And analytical perspective number 3, intergenerational equity, thirty (30) years, says don't give any further rate increases.

So I -- so I look at that and I -- I say, Let's give the most weight to -- to fiscal -- the PUB's past policy of fiscally prudent rate smoothing.

And I focus on the lower end of the indicative range of that, the 1.2 percent, for the reasons I've articulated in terms of going through the -- the financial metrics and targets. It's just a more balanced approach.

I take a holistic view of the four (4) test years. So I -- I kind of think of it this way. I'm a simple farm boy.

The three-point-six (3.6) interim rate increase is sufficient to yield appropriate revenues for the first three (3) test years; '22, '23, and '24.

And the 1.3 percent increase for '25, gets me up to about, you know, a rate increase of 4.9 percent over this -- these four (4) test years, which is pretty close to 1.2 percent times four (4).

So that -- that's the method to my madness, so to speak, in terms of making this recommendation to the Board.

I -- I tried to deal with the -- with the 3.6 percent by looking at it a little bit more broadly; that it was sufficient to take us through the first three (3) test years and it should be confirmed that that's the basis of my recommendation.

Okay. I guess I do have time for the regulatory deferral accounts as part of this, Mr. Chairman. I'll zip through it. Slide 54, please.

So with respect to the non-depreciation regulatory deferral accounts -- and by the way, Mr. Hombach, I love your 'D' day analogy. Monday is the 'D' day, I guess, on deprecation. So this is the non-'D' day here in terms of regulatory deferral accounts.

So my recommendation is that the PUB not approve the establishment of an SAP regulatory deferral account; that that be left to Manitoba Hydro's own interpretation under IFRS-14 until it has justification for the associated expenditures.

It's just not appropriate regulatory practice to approve these things without some -- some underlying information. Like, placeholders.

In my mind, Manitoba Hydro can make a separate application to the PUB once -- once and if the business case does come through this fall. Or, you know, it can wait until the next General Rate Application. I guess, that's -- that's up to -- up to it.

Now, Hydro kind of oscillated back and forth on -- on regulatory deferral accounts. When it wants to set up a regulatory deferral account, the criteria seems to be, Well, will the Board approve it?

But when somebody else has a different thought, then the criteria seems to slip to, There's no precedent.

I would suggest there's both here. There is a precedent from the Centra Gas Board Order 152/19, where there was a -- an accounting change. Because remember the -- the SAP regulatory deferral account, it comes about as a result of an accounting change.

So there was an accounting change related to Centra meter exchange costs. It was actually a liability -- I think what Hydro's looking for is that asset. But I think the principle applies and there is a precedent if Manitoba Hydro wasn't to look close enough.

With respect to the Keeyask in-service deferral account, I -- I'm okay. I recommended that PUB endorse it and that one-hundred-and-six (106) year amortization period.

With respect to the major capital projects deferral account, I recommend the PUB approve a five (5) year amortization period. I think that is consistent with the purpose of that count -- account to rate smooth. I don't really understand the Manitoba Hydro position.

The revenue was conducted over two (2) years, so we're going to amortize it over two (2) years. What's the point of that? It -- the purpose of it was to smooth rates. If you're going to blow it through in two (2) years, how is that, you know, rate smoothing.

And it's -- that's also an amortization period that's consistent with the Bipole III regulatory deferral account, which had a -- had a similar purpose. Next slide.

But, you know, we did ponder, in the Information Requests, some options for the Board. You know, they -- what was modelled was a 50 percent and a 100 percent deferral of the proposed rate increases and the reduction in payments to Government from 2023 to 2025.

But it could -- could apply to abnormally high levels of export revenues or -- or if the Board wanted to place some of the interim rate revenues in a deferral account, I get -- you know, you could -- there's a suite of things you could pick here in terms of deferring more into that account. Trying to get its balance up. It's only -- it's only $100 million, so it won't rate smooth too much.

But -- so the 50 percent deferral option provided a $370 million balance. And so, if you were to amortize that over ten (10) years, outside of the test years, you'd get a pick up in net income of around $38 million a year. The 100 percent deferral option got that balance up to $640 million. If you amortize that over ten (10) years, it would be about a $66 million increase in -- in net income.

So if there are some lean net income years ahead of -- after the forward test years, you certainly could do some rate smoothing by -- by taking some of the fortuitous financial impacts of Manitoba Hydro that we currently have and deferring them and amortizing them.

DR. BYRON WILLIAMS: Mindful of the time, Mr. Rainkie. Just on interim rates, if there was a decision, you're suggesting that one option might be if the interim rate was -- was lowered, you -- you could take the revenues over and above that, and -- and enhance the MCPRRDA.

Is that what you were suggesting?

THE CHAIRPERSON: Sorry, Mr. Williams. I'm having trouble hearing you.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Oh, sorry. Mr. Rainkie, just in terms of the interim rate -- and my apologies, Mr. Chair -- could you just elaborate on that a little more, mindful of the time?

MR. DARREN RAINKIE: Certainly. I think what I was suggesting is, you know, whether it stays at three-point-five (3.5) or it's reduced, one of the options is to -- if it's not needed in the test years is to place some of those revenues in the deferral account.

So I think there's -- there's just a variety of options, Mr. -- Mr. Williams. I wasn't thinking of any one in particular.

DR. BYRON WILLIAMS: Thank you. And thank you for answering the question better than it was asked. Thank you.

MR. DARREN RAINKIE: Well, hopefully, some of that rubs off for this afternoon.

Okay. Let me take you back to the front. How do you get through -- going back to Mr. Jim McCullen's guru of strategy, how do you get past, you know, difficult times of disruption.

Fundamentals and balance. So -- so the -- the threads that run through my evidence here, just to put it down to six (6) points are, you know, focus, strategy and sound business cases. Otherwise, you're just spending money. You're chasing the cows, not building the fences.

A multi-year priority based O&A budgeting. You got to get away from last year, plus plus plus plus plus. You've got to be fair to customers and find the two (2) minuses productivity and -- and the stop doings.

Mature asset management practices, to prioritize BOC. You're not going to be able to keep a -- a safe and reliable system going if you don't, you know, know which assets to fix in the priority.

A debt management strategy with appropriate risk tolerance is post major capital projects.

Advance risk analysis and uncertainty analysis. I -- I -- I think stopping that uncertainty analysis was a step backward for Manitoba Hydro, because that is the very analysis that would allow you to look at number 6.

What are appropriate financial measures and metrics and targets for a cost recovery government business enterprise?

So, this is -- this is the six (6)

point plan here. That rule, it never goes out of style. If the companies and utilities are going to make it through this transition, they're going to have to do this. If they do it sooner than later, there will be a better balance between customer rate increases and the financial health of the companies.

I'll leave it there.

DR. BYRON WILLIAMS: Thank you. And Mr. Rainkie is now available for questions. Thank you members of the panel.

THE CHAIRPERSON: Thank you. And before we go to the Interveners, I believe that some panel members have questions. Ms. Kapitany...?

VICE-CHAIR KAPITANY: Thanks. Mr. Rainkie, I've got a couple questions.

On slide 30, I got lost in your explanation of how the interest rate policy and the debt management guidelines need to work together and they're not.

So, the math on that escaped me during the explanation. I was just wondering if you could elaborate on that a bit?

MR. DARREN RAINKIE: Sure. The policies work together. So the policy is that the aggregate -- aggregate of those three (3) things, I'm going to use the former one, 'cause it makes more sense, 'cause it actually lines up.

So, the aggregate of floating rate debt, short term debt and fixed rate debt, to be refinanced, is to be a maximum of 25 percent, right? Or, sorry, maximum of 35 percent, the old policy. That's additive, those three (3) things are additive; -- A plus B plus C is -- was to be 35 percent.

And so, the guidelines then, that's the policy. The guidelines for managing it said, let's try to have short -- the aggregate of short term debt and floating rate debt within 15 to 25 percent which -- which has an average of 20 percent, and that was Manitoba Hydro's target years ago, was to have 20 percent floating rate debt.

So, so of that -- of the policy that says have the -- the policy just says those three (3) things should be 35 percent.

The first two (2) things should be probably around 20 percent on average. And the third thing should be 15 percent. All right? Because if you add the 20 percent of the first two (2) items, plus the 15 percent of the third item, what do you get back to? The actual policy that is 35 percent.

Sorry, I -- I hope I'm being clear or -

- or at least getting you directionally there.

VICE-CHAIR KAPITANY: Closer. And so your conclusion that those two (2) aren't working together.

MR. DARREN RAINKIE: Well, it was something that Ms. Stephen said that -- that -- that the debt guideline would be 10 percent for all three (3) of those.

And I go, okay, if all three (3) of those, which is presently the guideline, only add up to 10 percent, then why would you have a policy that adds up to 25 percent. There just seems to be a disconnect to me. I -- I don't know how you would functionally work within that.

VICE-CHAIR KAPITANY: Okay. Thanks for that. My second question relates to your recommendation and, Ms. Schubert, could you go to page 131 of the C7, the original.

And it's -- so it's that -- the -- the middle paragraph there. The rolling back, the 3.6 percent increase, only to impose a larger rate increase in future years.

I just wondered if you could elaborate on your view of the purpose of an interim rate?

MR. DARREN RAINKIE: The -- the

purpose of interim rates is -- the lawyers have debated this for years. I don't know if it's an emergency situation, but it's an -- and it -- it's an urgent situation that requires immediate or reasonably immediate relief, you know, without a six (6) or eight (8) month hearing.

And, it's fully open. We used to call them on the -- in the old Center days, interim refundable, meaning if -- if -- if upon detailed review of the situation and the finances, yeah, we shouldn't have given, well -- I guess it could go both ways, we either shouldn't have given that rate increase and it could be lower or we should have give a higher rate increase than -- than the Board has the ability has to adjust it. So it's a -- I, you know, I don't want to use unkind terms, but a bit of a stop gap measure until a full review can occur.

That -- that's my, you know, general working description of it.

VICE-CHAIR KAPITANY: Thank you.

THE CHAIRPERSON: I have a -- a couple of questions and -- and one I think I asked you before when you were wearing a different hat. I -- I can't remember the answer so, you don't need to worry about it.

Retained earnings. You made reference to it today and I'm, you know, we see the -- the increase in retained earnings going forward to 2040.

What do you see the role of retained earnings? How do you relate it to equity? And, is there a level we should be focusing on?

MR. DARREN RAINKIE: I think the best term, because we tend to use accounting terms like equity and -- and -- and retained earnings, is probably financial reserves.

THE CHAIRPERSON: Yeah.

MR. DARREN RAINKIE: You know, if you think of the Hydro Act talked about financial reserves and -- and -- it's -- it's obviously there to -- to mitigate -- to mitigate risks, so that when those risks occur, you don't have to go for immediate rate increases.

So -- so I think -- I think it, you know, I think if you use that term 'financial reserves', it -- it's a little easier to think about it. It's not an accounting concept, it's a concept of, you know, you have that -- that -- that ability to absorb negative financial circumstances.

And so to -- how -- how to calculate it is the difficult part. You know, and -- and that's where the uncertainty analysis came in, because much like, I can't remember if you sit on the MPI panel or not but, you know, the -- the -- it's called the DCAT analysis, you know, would -- would look at three (3) or four (4) of the major risks -- look at the compounding of those risks, those types of things and -- and say, well, you know, kind of stress test. Do we have enough financial reserves for these major events?

But there's two (2) things in -- in that, by the way, as I understand it. One is management action and one is regulatory action.

And, so, like I'm suggesting a healthy dose of management action here, before regulatory action. But the uncertainty analysis could help you and that's why I -- I was really excited about that. That came together at the end of my tenure.

I'm really disappointed that it hasn't continued because, you know, the question always is, like the -- I'm going to be pejorative about it but -- but equity ratios are lazy targets, right? They're -- they're just, I'm -- might throw this out, particularly for a government business enterprise, like Manitoba Hydro.

Like, it -- it's much -- establishing

equity ratio targets for investor owned utilities and -- and companies, is -- is much easier because it is -- there's established, you know, thinking in the industry, right?

I mean, people are going to lend you money, you need -- you need to have that level of -- of -- of financial surety. It becomes fuzzier for government business enterprises. So what tends to happen is, we tend to take a discount off -- when you -- when you set a -- an equity ratio for a government business enterprise, you tend to take a discount off of a -- a private investor owned utility, a judgmental discount. So, maybe, you know, 40 percent is okay for a investor owned utility, but -- but a government business enterprise with a provincial guarantee can survive at twenty-five (25).

But it's -- it's just a -- it's just a number. I mean, it -- it's the -- it -- it -- it's -- it's like a business, sorry, I'm using business evaluation, but I'm just using things from my own experience.

When you do a valuation of a company, you do a discounted cashflow. That is the -- that is the best way to understand what the value of that company is, right? You look at its particular risk structure and you discount the cashflows, figure out the value.

But then you side check that with another methodology, and that might be looking into the marketplace, looking at price earning ratios, right, an external benchmark.

And that -- that secondary approach, if you like, of -- of looking at external benchmarks helps you to get confidence that what you've calculated in the particular risk-adjusted calculation -- much like a DCAT but just for Manitoba Hydro -- is -- is reasonable.

So -- I'm sorry. I'm starting to forget the original question, Mr. Chairman, but that -- but that is -- that is how I feel about it is -- and certainly analysis should tell you: Do you need $8.6 billion worth of retained earnings? And -- and what -- what for? Your biggest risk is 1.7 billion, a five (5) year drought.

So I think an uncertainty analysis could be the -- the primary analysis to get there, or it could be a secondary analysis, at the very least, to back check the kind of benchmarking of an equity ratio. There's a couple of ways -- different ways to come at it.

THE CHAIRPERSON: Okay. So here's my final question. You've got 1.7 billion, and let's say your second way hypothetically comes in at 4.7 billion, and you're looking at 8 billion.

What do you do with the retained -- what do you do with the difference in retained earnings?

MR. DARREN RAINKIE: I'm not sure -- sorry. I'm not sure -- I'm unclear what the question --

THE CHAIRPERSON: Well, no. Do you -- do you then have a lower rate increase so your retained earnings don't keep going up at the same level?

MR. DARREN RAINKIE: I would -- I would think so, yes. There has to be some -- some limit to it.

THE CHAIRPERSON: Because it seems -- it seems to me -- and this is certainly not my area -- it seems to me that retained earnings is sort of the result at the end, but it isn't part -- it doesn't seem to be one (1) of the factors that's going into the decision-making process in relation to rates.

There are a whole series of factors going in, and at the end you have retained earnings.

Is that -- am I looking at that the right way? It's the consequence of all other things happening.

MR. DARREN RAINKIE: Well, that -- that's the problem with an equity ratio, right? It falls out. You know, if you -- if you know the size of your balance sheet and you have a certain equity ratio, then you're, you know, quantifying a certain level of retained earnings, right?

That's an outcome --

THE CHAIRPERSON: Right.

MR. DARREN RAINKIE: -- you know, and -- and an uncertainty analysis would be trying to decide, well, do I -- do I need that? It would be a direct way.

Maybe -- maybe a better answer to your question, sir, is, that would be a direct way of trying to calculate appropriate levels of retained earnings as opposed to just an outcome. The size of my balance sheet goes up $5 billion. Boom, I need, you know -- at 30 percent, I need a billion and a half more of retained earnings. For what?

THE CHAIRPERSON: Okay. Thank you, Mr. Rainkie. I think we've concluded with the presentation. We're now going to move to cross-examination for the Interveners. I don't know. According to my list --

MR. SVEN HOMBACH: Yes, Mr. Chair. The AMC is going to examine remotely. Ms. Guglielmin is available on TEAMS, so we just need about thirty (30) seconds --

THE CHAIRPERSON: Right. Thank you.

MR. SVEN HOMBACH: -- for Ms. Schubert to put her on.

THE CHAIRPERSON: Good morning.

MS. EMILY GUGLIELMIN (by TEAMS): Good morning. This is Emily.

THE CHAIRPERSON: Yeah. We can see you just fine. So I've got you scheduled for about fifteen (15) minutes, so if you wanted to start your cross-examination.

MS. EMILY GUGLIELMIN (by TEAMS): That would be great. Thank you, Mr. Chair.

CROSS-EXAMINATION BY MS. EMILY GUGLIELMIN:

MS. EMILY GUGLIELMIN (by TEAMS): My name is Emily Guglielmin, and I represent the Assembly of Manitoba Chiefs for the purpose of this Application. I'd like to thank the Board for allowing me to attend remotely, and thank you, Mr. Rainkie, for your presentation. I just have a handful of follow-up questions for you.

At page 128 of your report in -- in the second last paragraph, you've identified that, in relation to analytical perspective number 3, a rate pause over the test years could result in slightly higher rates in future years.

Is that correct?

MR. DARREN RAINKIE: That's correct.

MS. EMILY GUGLIELMIN (by TEAMS): And in Exhibit PUB-14-28 -- that was the Public Utility (sic) Board/Coalition Information Request number 28 at subsection (b) -- I'll just give it a moment for Ms. Schubert to catch up with me.

Scrolling down there to page 105 of IRs -- there we go -- this response indicates that there's an element of double counting to have an export revenue forecast that is independently assessed as conservative on the one hand and then also build in residual risk into the rate increase as requested for the forward test years.

And I -- I believe I also heard you say in your presentation that we should not build in risks until those risks are actually upon us.

Is that right?

MR. DARREN RAINKIE: That's correct, and -- and I was in that instance reiterating the policy decision of the Board from Order 59/'18 --

MS. EMILY GUGLIELMIN (by TEAMS): And --

MR. DARREN RAINKIE: -- with respect to risks. Sorry.

MS. EMILY GUGLIELMIN (by TEAMS): And given these conclusions, do you agree that Manitoba Hydro has unnecessarily built a larger cushion into its forecast, both short term and long term, than is necessary or justified?

MR. DARREN RAINKIE: I'm not sure that it consciously has built in, you know, a cushion but, you know, just following up on the conversation with the Chair a few moments ago, what it's done is goal seek to -- for a 30 percent equity ratio which, of course, then does build up a huge level of retained earnings, 5 billion more over the next twenty (20) years.

So I -- I don't know that it was a conscious thing on their part -- I want to be fair about this -- but when you -- when you just -- when you use those kinds of ratios, that's what happens is that there's a lot of cushion. With every asset you put in place, there's more money to retained earnings or financial reserves.

MS. EMILY GUGLIELMIN (by TEAMS): So given this, the conclusion that you've made in analytical perspective number 3 about slightly higher rates in future years, that's not necessarily a given.

MR. DARREN RAINKIE: No. It -- it doesn't necessarily have to be that way. I was just trying to be fair that -- you know, that that's the way it could work out as you get future forecasts with -- with better information.

MS. EMILY GUGLIELMIN (by TEAMS): Thank you, sir. You've also highlighted significant uncertainty in Manitoba Hydro's long-term forecast, particularly, in light of the lack of uncertainty analysis.

Is that correct?

MR. DARREN RAINKIE: What I've -- sorry. I want to make sure I understand. May -- maybe I'll ask you to repeat the question just so I'm answering the right one.

MS. EMILY GUGLIELMIN (by TEAMS): Maybe I'll rephrase it.

In light of the lack of uncertainty analysis, does this mean that there is a significant amount of uncertainty in Manitoba Hydro's long-term forecast?

MR. DARREN RAINKIE: I think there's a -- a significant uncertainty as to whether it needs that level of retained earnings, as I just chatted with the Chair about. Like -- and -- and it's -- I mean, I guess it's -- it's two (2) things.

It's just not the level of retained earnings, but -- but, you know, advanced risk management says you should understand compounding risks, you should understand risk interconnectivity. And so I think the uncertainty analysis is a tool that helps you do both.

It helps you understand, is there two (2) or three (3) things that could come together that could cause a big concern? But it also then help -- helps you to set the level of financial reserves that you would need to protect against those risks.

MS. EMILY GUGLIELMIN (by TEAMS): And given what you said just there, should we be placing a limited weight on that long-term forecast?

MR. DARREN RAINKIE: Well, the -- the pre -- predictive value of forecast goes down after a few years, and that's what I said, perhaps what's warranted here is a more commonsense approach going back to the -- to the '90s, if you can believe it, in terms of, you know, looking out ten (10) years and -- and then, like I said, trying to hit -- trying to get close to the -- to the curling rinks in the first ten (10) years as opposed to thinking that we can hit the button, you know, two (2) curling rinks down the -- down the path.

MS. EMILY GUGLIELMIN (by TEAMS): Thank you. And I wanted to move on to page 129 of your report.

MR. MATTHEW GHIKAS: Mr. Chairman, before we -- before we go there -- it's Matt Ghikas speaking -- I just -- I just wanted to just raise a note of objection that this -- this really has veered almost immediately into friendly cross-examination, and it's -- it's only in my submission getting worse.

And so I would just like to register -- I think we've been patient with the questions, but I just wanted to sound that note.

THE CHAIRPERSON: That's fine. Thank you.

MR. MATTHEW GHIKAS: Thank you.

(BRIEF PAUSE)

MS. EMILY GUGLIELMIN (by TEAMS): Would you like me to stop, Mr. Chairman?

THE CHAIRPERSON: Yeah, please. No. Please continue.

CONTINUED BY MS. EMILY GUGLIELMIN:

MS. EMILY GUGLIELMIN (by TEAMS): So, right here, before the bolded heading, scrolling down, you've recognized that the former First Nations on reserve residential rate class has accumulated a 13.8 percent rate increase from 2020 to date. And this cumulative rate increase with rate differentiation will rise to 19.3 percent if Manitoba Hydro's application is confirmed.

And given your long tenure at Manitoba Hydro, are you aware of this Board's previous findings regarding energy poverty on First Nations reserves in Manitoba?

MR. DARREN RAINKIE: Yes, particularly the findings from Order 59/'18.

MS. EMILY GUGLIELMIN (by TEAMS): And do you agree that rate increases are likely to have a significant impact for First Nations on-reserve residential customers?

MR. DARREN RAINKIE: Of this

magnitude? I would expect that they're causing concern for -- for customers in general but, yes, for First Nations, as well, yes.

MS. EMILY GUGLIELMIN (by TEAMS): In light of the significant impacts of rate increases for First Nations on-reserve residential customers, as well as the uncertainty in the long-term forecast, could a rate pause over the test years, and that's analytical perspective number 3, have a stronger justification?

MR. DARREN RAINKIE: Sorry, for -- a rate pause for First Nations only on reserve or for all customers?

MS. EMILY GUGLIELMIN (by TEAMS): Just -- for all customers.

MR. DARREN RAINKIE: Yeah. I think when you look at, you know, cumulative rate increases of 42 percent versus inflation of -- of 27, or something like that, I think -- I think there is a case to be made.

As I said in my evidence, in think Interveners could argue a strong case for -- for a rate -- for a rate pause at this point.

MS. EMILY GUGLIELMIN (by TEAMS): Thank you. Those are all of my questions.

THE CHAIRPERSON: Thank you very much. Mr. Hacault...?

CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Thank you, Mr. Chairman. Good morning, Mr. Rainkie.

MR. DARREN RAINKIE: Good morning, Mr. Hacault.

MR. ANTOINE HACAULT: I will start my cross-examination with respect to a couple discrete issues. And then I'll be moving to the differing positions between our expert and -- and yourself, sir, on the approach to Bill 36. And then, also, the different metrics that you've set out, sir.

Starting with MIPUG Exhibit 6, which is Mr. Bowman's report, at page 9 of that report, you'll see, sir, that there was a table put together by Mr. Bowman. I've put this table to the Manitoba Hydro Panel, Revenue Panel.

Just to be clear, you were there for the NFAT proceedings and were involved in preparing the various scenarios, including the one shown on this table, correct?

MR. DARREN RAINKIE: Sorry, the -- the ones that are labelled from NFAT, sir?

MR. ANTOINE HACAULT: Yes, NFAT plan 5, high Keeyask, level 2 DSM.

MR. DARREN RAINKIE: Yes, sir.

MR. ANTOINE HACAULT: Okay. And that showed a total of $638 million in eight (8) years of consecutive losses when we'd be absorbing these big projects from 2015 to the '22/'23 year, correct?

MR. DARREN RAINKIE: I'll take it on faith that Mr. Bowman has transposed those numbers.

MR. ANTOINE HACAULT: And you would have also been there for what we referred to as MH-14 which was used in the 2015/'16 GRA, correct?

MR. DARREN RAINKIE: That's correct.

MR. ANTOINE HACAULT: And, sir, in light of the pressure to say, well, we can absorb Keeyask and all build out in NFAT, Manitoba Hydro came to this Board asking for 3.5 percent but knowing full well that its projections looked like nearly a billion dollars in losses over eight (8) years?

MR. DARREN RAINKIE: Sorry, I think 3.95 percent, sir, is what you meant to say?

MR. ANTOINE HACAULT: Yeah.

MR. DARREN RAINKIE: Okay. There was a billion dollars of losses even with the 3.95 percent in that forecast.

MR. ANTOINE HACAULT: Now, there's been some discussion about the twenty (20) years. When we were going through those processes, including the 2015/'16 GRA, everybody knew that we were in what we called the decade of investment and we'd have to swallow a really big pill in rates, correct?

MR. DARREN RAINKIE: I think that's a fair assessment, yes.

MR. ANTOINE HACAULT: And knowing that we were in a huge capital investment decade, we didn't want hit -- to have all those expenses hit the books because as soon as it was in service, it would hit the books, and have a rate shock to Manitobans.

Is that fair?

MR. DARREN RAINKIE: I think that was the policy underneath.

MR. ANTOINE HACAULT: And then I bring you to --

MR. DARREN RAINKIE: Sorry, sir. Just -- just maybe to elaborate. And maybe I -- I'm hoping I'm understanding your question. So, I'm elaborating just to make sure that we're on the same page.

The 3.95 I think served two (2) purposes, right. It was, yes, trying to smooth in rate increases over that twenty (20) year period, but it also served the purpose of keeping that loss from being more than a billion dollars, just so we're clear.

MR. ANTOINE HACAULT: Okay. Thank you for that clarification, sir.

MR. DARREN RAINKIE: Because the billion dollars was after the 3.95. Let's be very clear about that, right.

MR. ANTOINE HACAULT: Yeah. Sir, I want to bring you to your perspectives now which I think show up on your slide 4 of your presentation. I'm contrasting this to Mr. Bowman's recommendations.

You set out the first perspective of 3.6 percent over the four (4) year time period, which would be a little bit less than 1 percent per year on average, correct?

MR. DARREN RAINKIE: Correct.

MR. ANTOINE HACAULT: That's if we only look at the test years?

MR. DARREN RAINKIE: Yes, that was the parameters of that perspective.

MR. ANTOINE HACAULT: Okay. Then your perspective number 3, again, would lead us to an average rate increase of somewhat less than 1 percent per year over that four (4) year time period, correct?

MR. DARREN RAINKIE: Yes, it would. That's a mathematical outcome but, of course, the perspective has -- has been that the past generation has overpaid a bit and there's a need for a correction.

So, that's just -- like, you're giving me mathematical calculations, but you have to remember what the perspective is in each one of these analytical approaches.

MR. ANTOINE HACAULT: But as I understood your evidence, sir, you're not suggesting that in the next General Rate Application that we continue to have a rate increase pause?

We will look at that issue at the next General Rate Application based on better information as to how much of a rate increase is appropriate?

MR. DARREN RAINKIE: I think that's a fair assessment, sir, yes.

MR. ANTOINE HACAULT: Okay. Mr. Bowman has done what I think you refer to as a result-driven analysis using a 2 percent to get to the debt equity results.

Listening to you with respect to perspective number 2, you've raised significant current items of uncertainty, have you, sir?

MR. DARREN RAINKIE: Sorry, sir, could you be more specific?

MR. ANTOINE HACAULT: Well, for example, we've -- Manitoba Hydro Panel, when we were having cross-examination, discussed the -- the new computer system software which has not yet gone through a business case. And even that short-term expense doesn't have a business case. That's an example.

MR. DARREN RAINKIE: Yeah, I think those are the facts that are on the record.

MR. ANTOINE HACAULT: Now, I understand your CBV perspective. I'm not so sure contrasting Mr. Bowman's approach and your approach if I had looked at all the reasons you'd given for conservatism of your option number 2 that I really understand why you don't go with option number 3.

MR. DARREN RAINKIE: Well, sir, I mean, I think because I agree with the policy of prudent rate smoothing over time. I think I put the most weight to that -- that approach because I think I -- I believe in that.

I do understand that, from an Intervener perspective, for the people that actually pay the rates, they may have a different perspective on that. But you know, I think I gave it the most weight as I -- I believe that's the best approach.

But it's not just forecasting out the costs and saying, What's the rate? It's ensuring that there's a balance and -- and a, you know, prudent spending and prudent debt management strategies, et cetera.

MR. ANTOINE HACAULT: Thank you, sir. I'll take you to your slide 33.

You've listed multiple layers of liquidity risk protections. I'll suggest to you, sir, that -- one that you didn't include which Hydro used last year and which is a subject of significant debate as to whether it was justified, was the interim rate increase, which gave them immediate relief and was a liquidity risk protection also.

Do you agree or disagree?

MR. DARREN RAINKIE: Yeah, rate increases do provide cash. I -- I don't know. I don't necessarily think of rate increases as liquidity protections, but they do provide cash flow.

MR. ANTOINE HACAULT: I'll move now to your approach versus Mr. Bowman's approach as it relates to what to do with Bill 36, if anything.

And to start that discussion, I'll ask

to go to Board book of documents, volume 4, page 75, section 65. Just so we have some context.

And I'm not asking you to interest this, sir. But you are aware Mr. Bowman has prepared evidence addressing some similar matters to what you have reviewed, correct?

MR. DARREN RAINKIE: It seems like a distant memory now. Was it April 3rd? You might have a help me a couple places along the way. But yes.

MR. ANTOINE HACAULT: But Mr. Bowman's evidence takes a different interpretation of Bill 36 than what you have done in your three (3) approaches.

He's, essentially -- I'm going to summarize -- he said, Well, you can't ignore that there's going to be some debt-equity metrics that are going to apply after April 1 of 2025 if you're going to have a twenty (20) year outlook.

That's maybe a summary of his evidence. But he's -- it outlines his different approach, correct?

DR. BYRON WILLIAMS: We can accept that characterization subject to check.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: And in -- in -- sir, I'll put to you Board Order 70/22 at page 4 provides some context to my question on your instructions in this area.

We see, under the heading 'Manitoba Hydro's Request and this -- this is the way the Board frames it:

"In its May 13, 2022 communication, Manitoba Hydro requests that Directive 9 in Board Order 69/19 be set aside as Bill 36 includes debt-to-capitalization targets to be used for rate setting."

Do you see that, sir?

MR. DARREN RAINKIE: Yes, I do.

MR. ANTOINE HACAULT: And the context of that is that we were supposed to have some discussions to see -- and this relates to the Chairman's discussion -- the value of a debt-equity metric and what was supposed to be done with it.

And then, if we go to the bottom of the page 4 of this Order, I'm reading the comments of the Board in this Order:

"Bill 36 does not change the existing law in Manitoba until it is

passed and the provisions are either
proclaimed or receive Royal assent.
If enacted, the proposed transition
provisions in Section 65 of Bill 36
would not apply to the determination
of electricity rates for any period
ending before April 1, 2025."

Do you see that, sir?

MR. DARREN RAINKIE: I see it and I have read this Order before, sir.

MR. ANTOINE HACAULT: Yeah. And do you quote this order three (3) times in your evidence, sir? At least, the word search does that.

Would you accept that, subject to check?

MR. DARREN RAINKIE: Well, I tend to summarize my thoughts upfront in -- in an executive summary and in the section itself. So I think I probably mentioned it once and it was summarized three (3) times. But that's inconsequential, I suppose.

MR. ANTOINE HACAULT: Sir, were your instructions to provide an expert opinion based on the relevant legislation, which continues to apply to the determination of electricity rates for the periods prior to April 1, 2025? I want to know what your instructions were.

MR. DARREN RAINKIE: I'd have to go back to the retainer. I don't remember there being a specific instruction on that. Maybe we should turn up the retainer.

DR. BYRON WILLIAMS: That's in a response to Manitoba Hydro Information Request, perhaps, number 1 from Mr. Rainkie.

Mr. Klassen may help me get you to the number.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Manitoba Hydro to the Consumer Coalition number 21. Attachment 1. Thank you.

MR. DARREN RAINKIE: I -- I just quickly went through one in my -- in my book. So I quickly looked at it. I found it and looked at it.

I don't see a specific instruction in that regard.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Okay.

MR. DARREN RAINKIE: I mean, there's

nothing in Bill 36 that says that we have to run a twenty (20) -- that I know of that says we have to run a twenty (20) year forecast and -- and think we can hit the button in twenty (20) years.

Like, it -- it says it's a policy of the -- of the Government to move there. Does it say how it has to happen and when? Like, I -- I -- I think maybe that's the source of the difference between Mr. Bowman and I is he just kind of accepts it.

To me, the word 'policy' implies, you know, broad that we're moving toward that. But I mean, the twenty (20) year -- the goal seeking twenty (20) year forecast is not a creature of Bill 36 that I know of.

It -- it's something, like I said, we started ten (10), twelve (12) years ago. But, like, maybe I'm missing something and Mr. Williams can enlighten me.

But it doesn't say that, Thou shalt goal seek a twenty (20) year rate increase in Bill 36, to my knowledge.

MR. ANTOINE HACAULT: Sir, one of the -- another difference between you and Mr. Bowman then is you've pointed out in your evidence that the proper financial metrics, including whether a 75/25 equity target is appropriate continues to be an issue to be dealt with by the Board in this Hearing.

MR. DARREN RAINKIE: Yeah. I mean, it's -- it is one of the suite of the six (6) metrics that the Board has tended to look at to set rates.

But I think it's fair to say, in 59/18, it gives -- it gave less weight to that metric than the other five (5) that I mentioned.

MR. ANTOINE HACAULT: I'll move to another area. Board book of documents, volume 4, page 67. Again, a contrast to your evidence and Mr. Bowman's evidence.

Firstly, at Section 39(5)(1), the legislation indicates the regulatory must -- it's not discretionary -- base its order or decision about rates on the revenue requirements for the rate period.

Now, that provision is not in effect at this time, correct? Is that consistent with your understanding? We can move on.

MR. DARREN RAINKIE: My -- I think my understanding is that these provisions, all of them, are not operative until April 1st, 2025.

MR. ANTOINE HACAULT: And then number 2, it also indicates when reviewing the revenue requirements that's -- term is used again. It requires the regulatory or to -- regulator to take into account certain things.

Do you see that, sir?

MR. DARREN RAINKIE: Yeah, that's fairly general language take into account.

MR. ANTOINE HACAULT: If we go down to number 3 on this page, and I've referred to this in my cross-examination of the Hydro panel, the regulator may not reduce the rate setting -- for rate-setting purposes the amount required to support the capital expenditure program. Do you see that, sir?

MR. DARREN RAINKIE: I see that.

MR. ANTOINE HACAULT: Now, from slides 26 to 28 we don't need to go there, you conducted a high level summary of why a critical review of BOC spending is important in determining the revenue requirement for rate-setting purposes. Correct?

MR. DARREN RAINKIE: Sorry, what slides were that?

MR. ANTOINE HACAULT: It was 26 to 28.

MR. DARREN RAINKIE: If you could just turn those up. My memory is getting foggy. Okay. Sorry.

Ms. Schubert, once again, is ahead of

the pack on this. I'm there, sir.

MR. DARREN RAINKIE: I'm there, sir.

MR. ANTOINE HACAULT: Now, this legislation will be in effect after April 1, 2025, what we just looked at.

Are your -- contrast in your approach is you don't look at a future with respect to business operation capital and the restrictions that will be on the Board, you're providing your opinion even though it goes past 2025 on the reasonableness of business operation capital expenditures. Correct?

MR. DARREN RAINKIE: I'm providing a rate scenario for the purposes of setting rates before April 2025, which -- where the Bill is not in effect, sir, so I'm -- there'll be another hearing, I guess on here -- whatever, if Bill 36 stands, in a few years, there'll be another hearing and whatever the parameters are, I suppose, we'll look at them, then.

MR. ANTOINE HACAULT: And you're aware, sir, if we go back to volume --

DR. BYRON WILLIAMS: Mr. Chair, if I could just interrupt and --

MR. ANTOINE HACAULT: Yeah.

DR. BYRON WILLIAMS: -- and I'm -- I'm welcoming this continued enquiry, but I'm presuming

Mr. Hacault, that you're also presuming, in the post, April 1st, 2025, that there's been Treasury Board approval. Is that what you're asking?

MR. ANTOINE HACAULT: Well, that was the discussion we had with Manitoba Hydro panel on them presenting five (5) year plans to the Treasury Board for a high level review which would be totally different. I don't ---

THE CHAIRPERSON: Sir, Mr. Hacault, you've got ten (10) minutes. Okay.

MR. ANTOINE HACAULT: Okay. I should finish. Thank you very much, Mr. Chair.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: I'd also like to bring your attention, sir, to further this discussion and the contrast between you and Mr. Bowman.

Board Book of Documents, Volume 4, page 69, Section 39.7. Oh, I have the wrong reference. 39(7), maybe a bit before. Going back, further back it was very close to --

DR. BYRON WILLIAMS: 869 I believe.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Yes, at the top.

I had the right reference.

Sir, in your analysis, you're actually asking the Board to do something which it will not be able to do after April 1 of 2025, which is comment on the capital management in investments or expenditures of Manitoba Hydro. Correct?

MR. DARREN RAINKIE: Sorry, are you -- which section are you looking at, 39.7?

MR. ANTOINE HACAULT: Seven (7) -- or 39(7). I'll read it for the record:

> "Except as expressly permitted by this section, the regulator's mandate to approve or vary rates does not include the authority to issue an Order or Directive governing the Corporation's operations or its capital management investments or expenditures."

Do you see that, sir?

MR. DARREN RAINKIE: Yeah. I see that.

MR. ANTOINE HACAULT: And, my question to you was: Your -- your evidence is requesting that the Board exercise its discretion with respect to commenting on capital expenditures, although it will not have that discretion after April of 2025.

THE CHAIRPERSON: I -- I don't want to interrupt, Mr. Hacault, but I don't see the word 'comment' on here. It says we wouldn't be able to review and make recommendations -- sorry, issue an Order or Directive and we have to be authorized to review and make recommendations.

I don't know if 'comment' falls within making recommendations. So I -- I don't have a problem putting the question to him, but I don't know if 'comments' is the right -- is the right word.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: So, I'll rephrase that question.

You're asking the Board to give directions to Manitoba Hydro with respect to its capital operating budget approach and spending, when it will not have that authority after April of 2025.

Correct?

MR. DARREN RAINKIE: Well, let's be clear what I'm recommending the Board do.

I -- I'm recommending that the Board exercise its current jurisdiction to set the revenue requirements of Manitoba Hydro, which I understand.

I'm not a lawyer. Understand that it -- it allows the Board to go through all the various costs and -- and says compelling policy matters at the end of that long list of things.

I'm asking it to set the revenue requirements, based on its -- its views, as it always has on the judgment of -- of what prudent levels of costs are, in accordance with Board Order 5/12, I think.

That's what I'm asking it to do, sir. Like -- like the Order 70/22 that we just went through, said, I think the Board was clear, it was going to exercise its current existing jurisdiction in this proceeding, and that's exactly what I'm recommending the Board to do.

Is that -- I'm not sure if that's unclear or not, sir. I can --

MR. ANTOINE HACAULT: Okay. Well that leads me to the last couple questions that I have, sir.

You just mentioned the revenue requirement. Now, if we can look at Board Book of Documents 4, at page 66. You see a definition of this and the new legislation which is not yet applicable until after April of 2025.

The first part under A defines revenue requirement as being to pay the reasonable cost forecast by the Corporation for that fiscal year com -- including -- and then it lists three (3) or four (4) items actually.

Is -- this is a cash metric. It's not a metric that you have listed on your slide.

Correct, sir?

MR. DARREN RAINKIE: A cash metric. Sorry, revenue requirement is a cash metric -- or maybe I'm not following your question.

MR. ANTOINE HACAULT: As defined there. They have to have the cash to pay operating, maintenance and administrative expenses. The cash to -- to pay your capital expenditures, the cash to pay your debt service costs and the cash to pay power purchases: taxes, fees and other amounts.

There's nothing about other net income metrics in there. We've looked at net income. We'd have additional items we'd be looking at.

Correct, sir?

MR. DARREN RAINKIE: Well, once again, I'm asking the Board to exercise its current jurisdiction, which would allow it to look at all of the metrics that I've proposed.

MR. ANTOINE HACAULT: And you haven't proposed a cash flow metric?

MR. DARREN RAINKIE: Well, one of them, the capital coverage is a -- is a cash flow metric.

MR. ANTOINE HACAULT: Okay.

MR. DARREN RAINKIE: Is one of the -- like I said, six (6) metrics that the Board has traditionally used to set rates.

MR. ANTOINE HACAULT: You've discussed that capital expenditures can be relatively unstable, especially in the future.

As a regulatory expert, does this definition of revenue requirement cause you any concern?

MR. DARREN RAINKIE: You -- you know what, I'd -- I'd have to think about it, because is -- are all items of the revenue requirement in here?

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And, Mr. Hacault, just so I understand, you're not asking for a legal or interpretive opinion, you're asking in -- in a hypothetical, recognizing that this is not operative at this point in time.

Is this kind of comp -- understanding of revenue requirement cause for concern for -- for Mr. Rainkie is that the question that you're posing, sir?

MR. ANTOINE HACAULT: You reframed that a lot better than I had framed it.

DR. BYRON WILLIAMS: Yeah. Just -- I just want to make sure we're asking for the right question, that we're not stepping into legal interpretation, but I think I understand your question.

And, you know, certainly, Mr. Rainkie can give whatever answer he chooses now and -- and, if he wants more time to reflect, we would be prepared to also take that away as an Undertaking, Mr. Hacault.

MR. ANTOINE HACAULT: I would ask that, because I'm, basically, come to the end of my time, I believe Mr. Chair.

MR. DARREN RAINKIE: One it -- one item in this is -- is -- is export revenues considered in this at all, like it says "including". I'll leave it to the lawyers to argue whether that's -- it -- it has to be -- that's it, but --

MR. ANTOINE HACAULT: Oh, your

microphone, Mr. Williams.

DR. BYRON WILLIAMS: Sorry. My -- my apologies. What we do, if it's satisfactory to M. Hacault and the Board, recognizing you're not asking for a legal interpretation, you're asking for his insight as a regulatory expert, in terms of whether, from a rate-setting perspective, a hypothetical definition like this, is inclusive enough or whether it may be a cause for concern.

That's -- we would be prepared to reflect upon that and provide a written Undertaking, if that's what you're looking for, sir.

MR. ANTOINE HACAULT: That and also the -- the way the question was reframed prior and we can have a -- a discussion, if there's some lack of clarity on that, Mr. Rainkie.

DR. BYRON WILLIAMS: We'll work on the Undertaking, Mr. Chair and --

THE CHAIRPERSON: That's fine.

DR. BYRON WILLIAMS: -- Members of the Panel, but we just want to be responsive to the question.

THE CHAIRPERSON: Thank you.

MR. ANTOINE HACAULT: Thank you. I think that completes my time.

THE CHAIRPERSON: Yes. Thank you. Given the fact that we've got a hard deadline and I want to ensure that we have enough time for cross-examination, we're going to shorten the lunch break to 45 minutes.

So, we'll reconvene at -- at quarter to 1:00. Thank you.

--- Upon recessing 12:03 p.m.
--- Upon resuming at 12:48 p.m.

THE CHAIRPERSON: Okay. Good afternoon. Mr. Ghikas...?

CROSS-EXAMINATION BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Thank you. Good afternoon, Mr. Chairman and Vice-Chair Kapitany and Board members.

And good afternoon to you, Mr. Rainkie. It's nice to see you again?

MR. DARREN RAINKIE: Good afternoon, Mr. Ghikas. I think it's been a while: 2019 CAMPUT Calgary.

MR. MATTHEW GHIKAS: I wanted to start today, Mr. Rainkie, with your characterization of

Manitoba Hydro's projected 2 percent rate path as goal seeking or mechanistic goal seeking, as you put it, while indicating that your -- your approach was "not a goal seek." So I just want to explore that.

And if I can ask you to turn first of all, Ms. Schubert, if you wouldn't mind, the Coalition/MH Round I IR-43, please. All right. And if we could scroll down slightly till we hit the A-H. Right. Let's -- we can pause there for the time being. Thank you, Ms. Schubert.

So these are the -- the initial eight (8) scenarios that -- that you developed, correct?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And if -- let's just look at scenario 1 for a moment. A -- a specific debt ratio was an input parameter in this scenario, wasn't it?

MR. DARREN RAINKIE: Yes. That tends to be what you do. I mean, first you have to establish a base line. If you're going to use judgment, you're going to have to establish a base line and do a few seeks to understand what you're dealing with in terms of the numbers.

MR. MATTHEW GHIKAS: And in fact you dictated a specific debt ratio input parameter for every one of these scenarios 'A' to 'H', correct?

MR. DARREN RAINKIE: Yes, and then I layered on top of that cost containment in terms of judgment.

MR. MATTHEW GHIKAS: Not in this set, though, did you?

MR. DARREN RAINKIE: Sorry, sir?

MR. MATTHEW GHIKAS: Not -- not in this set of questions.

MR. DARREN RAINKIE: No. If you look above, they specified O&A parameters and business operations capital.

MR. MATTHEW GHIKAS: I -- I see what you mean. I see what you mean. Right, but in the scenarios with respect to the -- you haven't set -- the only parameters that changing among these scenarios, if you look at the 'A' to 'D', for example, is the debt ratio, right?

MR. DARREN RAINKIE: In those scenarios, yes.

MR. MATTHEW GHIKAS: And -- and there's no mention in these scenarios of a capital coverage ratio?

MR. DARREN RAINKIE: No, not in these, no.

MR. MATTHEW GHIKAS: And -- and no mention of an interest coverage ratio?

MR. DARREN RAINKIE: No.

MR. MATTHEW GHIKAS: And no mention of net income?

MR. DARREN RAINKIE: Well, sir, the formulation of these of course was based on two (2) things. The advisors had a number of forecast scenarios in the minimum filing requirements, and there was some significant variance analysis, like one-off sensitivities in Manitoba Hydro. First they had, I don't know, maybe five (5) or six (6) as I recall scenarios.

So obviously in -- in specifying these, I -- I had looked at the interest coverage, net income, et cetera of all the other scenarios that were on the -- on the table, if you like, before First Round IRs.

MR. MATTHEW GHIKAS: And if we can turn to the Second Round of IRs then, you asked another three (3) scenarios that were referred to as scenarios 9, 10, and 11. And this is Exhibit CC/MH -- or, sorry, IR CC/MH Round II 24(a) to (3) at PDF-69. PDF-69. That is not what I'm looking at here.

I'm looking for IR-24 -- there's the

one. Thank you, Ms. Schubert. Appreciate it. All right.

So this we're looking at here is the follow-up scenarios that you put forward to Manitoba Hydro to calculate for you, right?

MR. DARREN RAINKIE: Yes, these are the Second Round scenarios.

MR. MATTHEW GHIKAS: Okay. And these -- you indicated in -- in your evidence that these scenarios 10 and 11:

"appeared as reasonable alternative rate scenarios to the MH 2 percent rate path goal seek."

Right?

MR. DARREN RAINKIE: Correct, sir.

MR. MATTHEW GHIKAS: Now, if -- this is where it gets interesting, Mr. Rainkie. Let's focus in. Scenarios 9 and 10, you asked Manitoba Hydro to start off with scenario 1, right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And scenario 11, you asked Manitoba Hydro start with scenario 10 which in turn was based on scenario 1, right?

MR. DARREN RAINKIE: Yeah. Okay. I think so, Mr. Ghikas. I'll go with you because it's starting to get foggy in my mind, but, yeah, they did build -- they did build on -- on one another. I mean, the obvious thing here is it's -- it's not where you -- where you start, it's where you stop.

Manitoba Hydro goal seeked a scenario that's 2 percent to obtain the 30 percent equity ratio in 2040 and stopped there. I pursed the material, used my professional judgment and experience with Manitoba Hydro to find some alternate rate scenarios. And the issue is where do you -- where do you stop, not where you start. Manitoba Hydro stopped at the goal seek.

MR. MATTHEW GHIKAS: So --

MR. DARREN RAINKIE: These all have judgment involved in them.

MR. MATTHEW GHIKAS: So just bear with me. In 'C' there, you can see it says, "CC rate scenario number 10 with the assumption that," and it goes on from there.

So you're -- that -- that scenario 11 is built starting with scenario 10, and then you modified it, right?

MR. DARREN RAINKIE: Yeah, but I modified it to not have a goal seek, as you see in the "i.e." part of the question.

MR. MATTHEW GHIKAS: And if -- and -- and scenario 10 in turn was based -- started with scenario 1, right, and then you modified it?

MR. DARREN RAINKIE: Yeah. I mean, this is -- this is what I -- what we used to do to produce IFFs in -- in the days gone by. They used to accuse me of wearing a hole in the carpet going back and forth to Mr. Epp's office.

I mean, you go back and forth with scenarios and -- and vary it. You use your professional judgment to come up with something that you believe is balanced. That is how IFFs were done before we got into this goal seeking.

MR. MATTHEW GHIKAS: And as you noted to me earlier, you explicitly say in scenario 10:

> "i.e., no goal seeking to achieve a specified debt ratio of 20 -- 2041 -- by 2041/'42."

In the context of removing the -- the target debt ratio, right?

MR. DARREN RAINKIE: Yeah. I wanted to see where the scenario went, like -- like I said, just like we -- we would have in Manitoba Hydro years ago. I would have wanted to see where it -- it goes without specifying a goal seek.

MR. MATTHEW GHIKAS: Okay. And if we just look carefully at 'B' there, in the third line you'll see a reference to a very specific number for rate trajectory parameter, 1.21 percent.

So we've got two (2) decimal places there, right?

MR. DARREN RAINKIE: Yeah. That's what came back from the First Round of IRs, so I just used it.

MR. MATTHEW GHIKAS: Right. It's -- one point two one (1.21) is exactly the rate trajectory down to the hundredth of a percent that your scenario 1 parameters had produced, right?

MR. DARREN RAINKIE: Yeah. Subject to check, I think that's right, sir.

MR. MATTHEW GHIKAS: And is it your evidence today that -- that your use of 1.21 percent in scenario 10 was purely coincidental?

MR. DARREN RAINKIE: No. As I said, you know, I -- I looked at the -- I was cognizant of the Board's direction that there will be a limited number of scenarios, so I used the advisors' scenarios, I used scenarios that I ran and asked Hydro to run in -- in the First Round of IRs, and I layered my judgment on top of it.

So, sir, I'm not -- I'm not sure if that's unclear, but that's my approach.

MR. MATTHEW GHIKAS: And -- and your judgment was to pick the exact same number that was yielded by scenario 1 which assumed a 25 percent equity ratio?

MR. DARREN RAINKIE: Well, sir, I -- after Round One, I would have looked at all of the metrics that you just talked about, net income, and I suppose I liked the one point two (1.2), so I just kept -- kept on with it.

But -- but it's -- it's not where you start, it where you stop. And these stop at judgment-based scenarios.

MR. MATTHEW GHIKAS: Yeah, but, Mr. Rainkie, I'm going to suggest to you that you're a smart guy. I know you're a smart guy.

And -- and are you telling me that when you tweaked the assumptions in scenario 10, that you had no idea, no conception of the directional and order-of-magnitude impact that those few tweaks would be?

MR. DARREN RAINKIE: I might have had an -- an idea directionally where they were going, but I was interested in the outcome. If I had a third round, I probably would have asked for five (5) or six (6) more, but...

MR. MATTHEW GHIKAS: And the outcome of scenario 10 was to produce a -- an equity ratio that was only 2 percent different from scenario 1, right?

MR. DARREN RAINKIE: Sorry, sir, which one are you referring to? I just want to make sure I'm correct.

MR. MATTHEW GHIKAS: Your scenario 10 --

MR. DARREN RAINKIE: Yeah.

MR. MATTHEW GHIKAS: -- yielded 27 percent equity versus 25 in Round I, right?

MR. DARREN RAINKIE: I think -- yeah, I think that's right. The confluence of all the variables did that.

MR. MATTHEW GHIKAS: Okay. And I provided counsel for the Consumers Coalition with an ex -- excerpt of my cross-examination of you in 19 -- in 2019 for the 2019/2020 GRA, and it's been called up here.

Do you accept that this is a true excerpt of your transcript -- of transcript of your evidence from 2019/2020 GRA?

MR. DARREN RAINKIE: I assume so, sir, yeah. I have no reason not to.

MR. MATTHEW GHIKAS: Okay. I'd like to mark that as the next exhibit, please, which would be MH-44, please.

DR. BYRON WILLIAMS: We have no objection.

--- EXHIBIT NO. MH-44: Excerpt of transcript of Mr. Ghikas's cross-examination of Mr. Rainkie for the 2019/2020 GRA

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Now, for context, Mr. Rainkie, this excerpt was from my cross-examine -- cross-examination of you when you appeared at the request of the Consumers Coalition, right?

MR. DARREN RAINKIE: Yeah. This is the 2019/'20 Rate Application, sir, if I understand correctly.

MR. MATTHEW GHIKAS: It is, yeah. All right. And if we turn to page 801, you -- at line 14, for instance, you'll see that you and I were discussing some of your prior evidence from 2015 when you were an executive at Manitoba Hydro and the 3.95 percent rate trajectory at that time.

Do you see that?

MR. DARREN RAINKIE: Yes, I do, sir.

MR. MATTHEW GHIKAS: Okay. And then there in line 18, I -- just to benchmark here, I -- I asked you, does that sound familiar.

Can you see where that is?

MR. DARREN RAINKIE: Yeah, I see that.

MR. MATTHEW GHIKAS: Okay. So, I'm going read the exchange that follows here, and then ask you about it. You answered:

> "Yes, sir, that was the position of the Board and the executive Manitoba Hydro."

"And you," I said. And you said, "Yeah, and myself, yeah." And then you went on to say:

> "Based on the financial targets that were established at the time, Mr. Ghikas, of course. I mean, you don't make the rate applications just out of thin air. You have a forecast, and you have a certain target, and -- and that's what you

use to make the -- make
recommendations. I don't -- I'm not
sure what else you would do."

Now, stopping there, Mr. Rainkie, the target you were referencing on line 7 was a specific equity ratio, wasn't it?

MR. DARREN RAINKIE: Yeah. It's -- it's no secret that after IFF-12, sir, that the position of the Manitoba Hydro Electric Board was -- was 3.95 percent to get to a 25 percent equity ratio by the end of the forecast.

MR. MATTHEW GHIKAS: And -- and after you were no longer with Manitoba Hydro and as an independent expert retained on behalf of the Consumers' Coalition, you'd agree, sir, that you didn't know any -- any other way to do it?

MR. DARREN RAINKIE: Sir, I'm not sure I understand your question. Can you rephrase it.

MR. MATTHEW GHIKAS: Sure. When you -- when you said at line 9 of page 802, "I don't -- I'm not sure what else you would do," you were expressing that you were not sure what else you could do other than have a certain target and work towards it, correct?

(BRIEF PAUSE)

MR. DARREN RAINKIE: Sure, the whole context of this. But, I mean, that's what I said. I'm -- I'm not sure what else you would do.

MR. MATTHEW GHIKAS: Okay.

MR. DARREN RAINKIE: But I think we have to think about Manitoba Hydro forecast 14. I think we should pull it up because it keeps coming up in these -- in these cross-examinations.

Can we pull up Appendix 3.4 from the 2015/'16 General Rate Application.

MR. MATTHEW GHIKAS: Is this actually responsive to my question, Mr. Rainkie?

MR. DARREN RAINKIE: Yeah, I think it will be.

MR. MATTHEW GHIKAS: I'm not sure how it would be, sir, but I'll let you start. And then we can see what happens.

MR. DARREN RAINKIE: Because I remember this conversation. And maybe there's some ensuing ones in the -- in the other excerpts as we go on about what was the basis of the 3.95.

MR. MATTHEW GHIKAS: Oh, I'm not asking about the 3.95. I'm just asking you about what your evidence was in 2019 when you said you -- you weren't sure whether there was any other way. That's my question, so I think we can park the transcript search at this point.

I want to change topics, Mr. Rainkie, and move from goal seeking to customer research. So, if we could turn, Ms. Schubert, please, to page 21 of your written evidence, Mr. Rainkie.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: And I'm at page 21. And there's a section 3.6 there. Right. And it says -- it's called:

> "There is a weak underpinning for Manitoba Hydro's interpretation with respect to customer preferences involving tradeoffs between reliability and lower rates."

You see that?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And this is one (1) of your key points in your executive summary, and you mentioned it again today, right?

MR. DARREN RAINKIE: I addressed it

today, yes.

MR. MATTHEW GHIKAS: Yeah. And section 3.6 of your evidence addresses the content of the customer perception and values research, correct?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And that's -- that's research that was undertaken by a professional customer research firm called PRA Inc., correct?

MR. DARREN RAINKIE: Again, there -- there's -- there were two (2) of them on the record. And I -- I'll -- I'll accept that, sir, because I'm -- I'm sure you have that correct.

MR. MATTHEW GHIKAS: The other one was Lejay (phonetic), correct?

MR. DARREN RAINKIE: Yes. Yes.

MR. MATTHEW GHIKAS: All right. So, if we could just scroll two (2) pages ahead to page 23. And -- and you describe in the second full paragraph -- in the middle of the paragraph, you -- you describe your specific concerns with how PRI formulated the specific tradeoff questions.

And -- and we heard this again this morning, where you say:

> "In this regard, the tradeoff questions appear to be leading.

They don't provide the customer with
an option that improved reliability
is not needed and, instead,
presuppose the need to address
reliability."

So, that's the core of your concern about those questions, right?

MR. DARREN RAINKIE: That's the core of my concern. I mean, the other concern, just we're -- so we're clear, is that, in another section of that report they ask similar questions to the Manitoba Hydro quarterly tracking study and get similar results where customers say, you know, we're -- you know, we're 80 percent satisfied with reliability and 6 -- 6 -- sorry, we're 8 out of 10 on reliability and 6 out of 10 on -- on price.

So, I think you have to have that in this context. This is -- this -- this firm has already asked the earlier question, are you unhappy with reliability, and now is proposing a leading question in my mind, well, you're not unhappy, and what would you do about it.

So, you have to get -- you have to have that second part to understand my concern.

MR. MATTHEW GHIKAS: Okay. And if we

just scroll back up to page 22, the two (2) bullets at the bottom of the page 22, those in bold there, those -- those bullets are the -- the subject of your commentary and concern about the leading questions, right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. Now, in a moment, I'm going to take you to the actual PRA report. And I'm going to suggest to you that the description of the tradeoff options given to the individuals surveyed is described inaccurately in your evidence in a material respect.

So, what I want you to keep in mind when we go there is the words, quote, "Where zero was keeping power rates lower," unquote, which you repeat in both bullets and you've repeated on slide 16 this morning, okay.

So, let's go to the PRA report, Ms. Schubert, if you wouldn't mind. This is tab 10, MFR-12, PDF 98, which is slide 35. Thank you. Magic. Okay. All right.

Now, this is the slide that you were referring to, correct?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. Now, if we

go to the bottom left-hand corner there, it says:

"Zero, accept more power outages to help keep customer rates lower."

And then it says on the second one:

"Zero, accept longer power outages to help keep customer rates lower."

And you'd agree with me that that was one of the tradeoffs offered?

(BRIEF PAUSE)

MR. DARREN RAINKIE: This is a -- as I understand it, a reliability rates tradeoff.

MR. MATTHEW GHIKAS: Okay. And it's -- it -- it doesn't say on the left-hand side, as you said in your report and your slides, that the tradeoff was, quote, "keeping power rates lower," unquote, does it?

(BRIEF PAUSE)

MR. DARREN RAINKIE: It says, "Help keep customer rates lower on zero."

MR. MATTHEW GHIKAS: Yes. And there's a few words before that. Would you read those out, too?

MR. DARREN RAINKIE:

"Accept longer power outages to help keep customer rates lower."

MR. MATTHEW GHIKAS: Okay. And --

MR. DARREN RAINKIE: I mean, that -- that's saying -- that's saying we'd rather have lower rates, my understanding.

MR. MATTHEW GHIKAS: Okay. Well, the core of your -- your critique, sir, was, quote:

"Don't provide the customer with an option that improved reliability is not needed and, instead, presuppose the need to address reliability."

Unquote. And that description that I've just quoted, that's just plain wrong, isn't it?

MR. DARREN RAINKIE: No, sir, I'm not -- I'm not following your question.

MR. MATTHEW GHIKAS: Okay. Well, let's do it this way.

In -- in those two (2) questions, customers are, in fact, being specifically given the option of accepting more power outages and longer power outages, aren't they?

(BRIEF PAUSE)

MR. DARREN RAINKIE:

"Accepting more power outages to keep -- help keep customer rates lower."

All within the context of earlier questions that say we don't have concerns over reliability.

MR. MATTHEW GHIKAS: And a customer would be asking those questions with a good understanding of their own personal experience with the frequency and duration of outages, correct?

(BRIEF PAUSE)

MR. DARREN RAINKIE: I presume so. But the other end of the scale is -- is probably where I'm having the most trouble. Like, spend what is needed to reduce the number of power outages. I think it -- I think that's where it kind of skips over what the earlier results of these -- these studies indicate.

MR. MATTHEW GHIKAS: You're not an expert in designing and implementing customer research, I take it, Mr. Rainkie?

MR. DARREN RAINKIE: No, but I've read the -- as an executive, I -- we -- we would review the customer surveys every quarter.

MR. MATTHEW GHIKAS: You've got no formal training in surveying techniques?

MR. DARREN RAINKIE: Not in formal surveying techniques. But I do -- I've sat on the executive of Manitoba Hydro and made decisions around these types of things.

And quite frankly, you know, I guess I -- I make the point in my -- in my evidence that irregardless of this, it wouldn't be enough to spend hundreds of millions of dollars to improve reliability on an overall basis for Manitoba Hydro's system. I think that's the bigger point.

MR. MATTHEW GHIKAS: You alluded to this in one of your prior answers to my questions today, but the PRA customer perception and values research wasn't the only customer research that Manitoba Hydro filed in this proceeding, was it?

There was also a Lejay reputation study?

MR. DARREN RAINKIE: Yeah. I think it had similar results on an overall basis. Satisfied with reliability; not as satisfied with price.

MR. MATTHEW GHIKAS: You haven't mentioned that anywhere in your written evidence, have you?

MR. DARREN RAINKIE: No, it was -- I looked at the results as being consistent between this study and that study.

MR. MATTHEW GHIKAS: All right. Mr. Rainkie, just switching gears here, you've indicated this morning that you held a number of positions at Manitoba Hydro until 2017, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: If we could call up your evidence and turn to your CV, which is at PDF-138 of your evidence. And the part I'm interested in is under the heading 'Vice-President, Finance and Regulatory Affairs and Chief Financial Officer 2013 to 2017'. Do you see that?

MR. DARREN RAINKIE: I do, sir.

MR. MATTHEW GHIKAS: Okay. And what follows the heading accurately describes your role and responsibilities between the 2013 and 2017, I presume?

MR. DARREN RAINKIE: It does.

MR. MATTHEW GHIKAS: Okay. And two-thirds (2/3) of the way down the page, the bullet

'Chief Regulatory Officer' and the second sub-bullet under -- under there, you characterize yourself as having provided executive direction -- or sorry -- yes:

> "Provided executive direction with respect to regulatory affairs before the Manitoba Public Utilities Board, Manitoba Hydro, and Centra Gas, and the National Energy Board Minell Pipelines; represented the Corporation as executive policy witness and chief regulatory strategist for several significant electric and gas regulatory proceedings before the MPUB."

And that's an accurate assessment of your role, sir?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And so, you were -- you were the person primarily responsible for executive decision and regulatory -- sorry, executive direction and regulatory strategy for applications listed in the sub-bullets, which included GRA applications, correct?

MR. DARREN RAINKIE: Yes, that was

part of the CFO duties.

MR. MATTHEW GHIKAS: Okay. And as the chief regulatory strategist, you were ultimately responsible for compiling and presenting information in the applications, correct?

MR. DARREN RAINKIE: I'm not sure about compiling, but I was responsible for presenting the -- the views of the Manitoba Hydro Electric Board. Yeah.

MR. MATTHEW GHIKAS: And the applications were prepared under your direction and control, correct?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And when you sat as Manitoba Hydro's policy witness in PUB proceedings, you adopted the evidence prepared under your direction and control. Right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Now, I want to come back to the theme that there's a weak underpinning for Manitoba Hydro's interpretation with respect to customer preferences involving tradeoffs between reliability and lower rates.

And I'm going to suggest to you, sir, that there's more information on customer views in this current Application than in the GRA applications prepared under your direction and control.

Isn't that right?

MR. DARREN RAINKIE: You know, sir, I -- I don't know what was in the '25 -- 2015. I think we might have filed the customer tracking studies, but I don't remember.

MR. MATTHEW GHIKAS: Yeah. I saw -- I saw reference to an overall customer satisfaction result in those filings. But otherwise, I didn't see that Manitoba Hydro had included any customer survey evidence at all.

MR. DARREN RAINKIE: I don't know, sir. I -- I can't -- I can't recall. There was thousands of pages of material.

I mean, the -- the customer tracking study is done, as I said, quarterly, so it would be -- it would be more important perhaps than one-off -- one-off other studies.

MR. MATTHEW GHIKAS: Would you accept, subject to check, that there was no equivalent of the PRA customer perception and values research report in those filings?

MR. DARREN RAINKIE: Subject to check, sure.

MR. MATTHEW GHIKAS: And subject to check, would you accept that there's no Leger research report or equivalent?

MR. DARREN RAINKIE: I don't know about equivalent.

MR. MATTHEW GHIKAS: Subject to check.

DR. BYRON WILLIAMS: Mr. Ghikas, just for precision, are you referring to the 2015? Just so that we're clear.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Sure. Let's -- let's limit it to the 2015.

(BRIEF PAUSE)

MR. DARREN RAINKIE: You know, sir, I -- I don't recall. There's thousands of pages. This is a number of years ago.

MR. MATTHEW GHIKAS: All right. And you're not aware, at this point, of any polling related to trade-offs between reliability and lower rates, I assume?

MR. DARREN RAINKIE: No. But, you know, as I said, I think the most important information is, you know, the quarterly tracking studies that indicate consistently, you know, reliability around -- at the eight (8) or more level and price lower than that.

I think that's the real -- the real key information in this discussion.

MR. MATTHEW GHIKAS: All right. Yesterday, I provided Dr. Williams with excerpts from the GRA for 2014/15 and 2015/16. During which you testified on behalf of Manitoba Hydro.

And if we could call up those, Ms. Schubert, I would appreciate it. Thank you. Yes.

You had an opportunity to look at those, Mr. Rainkie?

MR. DARREN RAINKIE: Actually, no. You know, it would be helpful if -- in the future, if they were highlighted or something, so. It would be easy to get to. Sometimes sending twenty (20), forty (40) pages of transcript, it's hard to know where the issue is.

MR. MATTHEW GHIKAS: I felt the same way about your PowerPoint presentation, I must confess. All right.

MR. DARREN RAINKIE: I appreciate it, Mr. Ghikas.

MR. MATTHEW GHIKAS: You'll accept that this is a true copy of excerpts from the transcript from your evidence in 2015?

MR. DARREN RAINKIE: I will, sir.

MR. MATTHEW GHIKAS: Okay. And if we can mark those as the next exhibit, which I believe is Exhibit MH-45, please.

DR. BYRON WILLIAMS: We have no objection, Mr. Chair.

--- EXHIBIT NO. MH-45: Copy of transcript excerpts from Mr. Rainkie's evidence in 2015

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Now, if we scroll down to -- this is actually PDF page 8. So paragraph -- or sorry, page 1916 of the transcript. There we go. Starting at line 10.

And you'll see Mr. Peters is asking you and your co-witness about surveying customers for their rate increase tolerance. Do you see that?

(BRIEF PAUSE)

MR. DARREN RAINKIE: That -- you're -- you're talking about Ms. Carriere's response?

MR. MATTHEW GHIKAS: Yes. Then the question -- the question from Mr. Peters. I won't read all of that aloud, but the exchange carries over to -- to 1917. And maybe I'll start reading from page 1917, line 4, where you speak. There we go.

Okay. So you say:

"Mr. Peters, we don't have a survey of six-hundred-thousand (600,000) customers, but I think we, over the years, have seen the reaction to the actual requested rate increase is that you see here in the representatives of various Intervener groups. So I wouldn't say that we've had no information. But -- and we have, as we look back on this sched -- very schedule, we have been able to contain rate increases within the rate of inflation overall. And, in fact, some years before this chart, we actually had some more zeros. So, I think we actually have -- we -- we understand the history of where we've been, we get feedback every day from our customers in terms of our call center et cetera, but not a -- obviously not a survey of 600,000 customers. But, we have our own business sense and formed, as it is, by the factors that I just -- I just mentioned."

Stopping there. So, you'd agree with me that there you're -- you're talking about a survey -- having no survey of 600,000 customers, for example.

MR. DARREN RAINKIE: Well, it's -- perhaps I was just replying to the specific question that you -- it would be impractical to have a survey of 600,000 customers.

As I -- as I said, there is quarterly customer tracking studies that -- as we've seen on the -- the record of this proceeding that were done back then, so we would have had that same information back then. But not -- not one, of course, every customer.

MR. MATTHEW GHIKAS: I'm -- I'm not, yeah, I'm not suggesting that you want to have.

What -- what I'm more interested in is that you were content at this point, Mr. Rainkie, it seems, to rely first and foremost on your business sense, informed by the factors you mentioned. Like the past rate trajectory Intervener reaction and customer feedback through avenues like the call center. That -- that was your evidence at the time.

Right?

MR. DARREN RAINKIE: That's my response to the question, sir, but that doesn't mean that there wasn't other -- other information coming into the Company. As I said, like the quarter -- quarterly trackings.

MR. MATTHEW GHIKAS: And the forecast in the GRA incorporated indicative 3.95 percent increases for sixteen (16) straight years, subject to check.

MR. DARREN RAINKIE: Yes, it did.

MR. MATTHEW GHIKAS: And, you didn't at any point in your testimony in 2015, caution the PUB that in the absence of any survey evidence, there was a weak underpinning for your rate proposal when it came to understanding customer preferences regarding the trade-off between reliability and lower rates?

MR. DARREN RAINKIE: I -- I don't know, I don't have the entire transcript of the proceeding, sir, I mean I --

MR. MATTHEW GHIKAS: Do you expect that you would have said that, Mr. Rainkie?

MR. DARREN RAINKIE: I don't recall it being an issue back in the hearing -- that hearing.

MR. MATTHEW GHIKAS: You -- you never once suggested that a long term rate trajectory of 3.95 percent was too significant for customers to bear, did you?

MR. DARREN RAINKIE: Well, sir, this is where I was going to go to earlier, but I don't know if we need the exhibit. I think, Mr. Hacault, flashed it in front of me before lunch.

The forecast that was part of this hearing was the worst forecast in the history of Manitoba Hydro. There was a billion dollars of losses right after the test years and their retained earnings was grinding down to less -- about the same as a -- as one year -- a five (5) year drought.

So, the 3-9-5s, at that point, were a totally different financial situation than we have now. I mean, we -- that's why I wanted to pull up that earlier exhibit. I could show the Board, because there's many Board members that weren't here at that point.

But, the 3.95, even after in, you know,

having 3.95 for six (6) or eight (8) years, there was still a billion dollars of losses in that forecast. The worst forecast in the history of Manitoba Hydro.

So, you know, there's obviously a different balancing point between customers rate sensitivity and financial integrity when you're looking at a billion dollar losses and your retained earnings go down to 1.7 billion, than there is when you're looking net income -- an equity ratio that's close to 18 percent. You know, and retained earnings, you know, up about 4.2 billion.

So, like, if you're suggesting that there's an even-up, you know, trade-off, between my testimony at this hearing and the financial forecast -- sorry at -- at the prior hearing and this hearing, then it's going to be a long afternoon, sir.

And we can pull up exhibit 3.4 if the Board would like to go through and I can demonstrate what I just said, but...

MR. MATTHEW GHIKAS: I'm not disputing the -- I'm not going to get into that with you, Mr. Rainkie, and my only point was that you -- well, forget it. I think my point was clear.

Customers haven't experienced a final average rate increase as low as what Manitoba Hydro is proposing in this application for the second and third years, i.e., 2 percent in two (2) decades. Have they?

MR. DARREN RAINKIE: You know there were some 2.5 percents, as I recall, along the way. I -- I know there's a nice schedule that the advisors --

MR. MATTHEW GHIKAS: There is. Why don't we -- why don't we pull that up -- MH-43, the response to Undertaking 22. MH-43, that's the one. Thank you, Ms. Schubert.

All right. So, you'd agree with me that this shows, among other things, the rate requests and approved rates over the past many years.

MR. DARREN RAINKIE: Yes, it does, sir.

MR. MATTHEW GHIKAS: And if we -- if we look at the third column, so the -- and -- and we scan down that, we see that the PUB hasn't ordered a final average electric rate increase below 2 percent since 2003, has it?

MR. DARREN RAINKIE: Sorry, the -- the third column is CPI -- maybe ---

MR. MATTHEW GHIKAS: Sorry, the second column. Depends on where you start, I guess.

MR. DARREN RAINKIE: Sorry, sir, I -- I see a couple 2 percents in '10/11 and '11/12, and you were saying back to an earlier year?

MR. MATTHEW GHIKAS: Yeah. Less -- less -- less than that.

MR. DARREN RAINKIE: Sorry, can you rephrase the question, sir. I'm -- I'm flying at a -- at the wrong altitude with you, obviously.

MR. MATTHEW GHIKAS: Okay. The PUB has not ordered an average final rate increase, lower than what Manitoba Hydro is proposing in the second and third test years, 2 percent in two (2) decades.

MR. DARREN RAINKIE: Lower than, okay. Yeah, I see that, as opposed to high -- yeah, okay.

MR. MATTHEW GHIKAS: And will you accept my math, subject to check, that the simple average of the final rate increases between 2004/05 and 2021/22 was 2.94 percent annually?

MR. DARREN RAINKIE: I think the cumulative rate increases were around 3 percent, so that sounds about right.

MR. MATTHEW GHIKAS: Now --

MR. DARREN RAINKIE: Although, I -- you know, like -- just your question was about math, I will observe that, in my experience, setting rates is forward looking based on the financial outlook and not backward. Like, we don't set rates based on what the average was from the last ten (10), twenty (20), fifteen (15) years so.

It's called a future test year for a reason, Mr. Ghikas.

MR. MATTHEW GHIKAS: Yes. Yes, and that's why I was so intrigued by your -- your third approach that was, in your words, not retroactive ratemaking. So, we can get into that in final argument.

All right, if you can go over to the column that -- that says MB CPI. So, I guess it's the next column over and you'll see down in the last three (3) rows there, we have 7.8 percent, 3.5 percent and 2.2 percent.

MR. DARREN RAINKIE: Oh, is this the late breaking information in the 7.8? Is this a revised -- is this -- is this the Undertaking or the original --

MR. MATTHEW GHIKAS: This is the undertaking.

MR. DARREN RAINKIE: Okay. Sorry, I thought we were looking at the original IR.

MR. MATTHEW GHIKAS: Okay. So you see that and you see, if you go over further, the cumulative percent increase and the cumulative MB CPI increase, right at the bottom there you have -- 75.6 and 78.08.

MR. DARREN RAINKIE: Yeah, I mean when you -- when you go back to 19 -- I guess this was 2000, I'm not sure the 7.8 percent makes a big difference in this -- 'cause when you go back to as far as 2000, those two (2) lines tend to -- tend to line up.

MR. MATTHEW GHIKAS: Yeah. They're very close, aren't they?

MR. DARREN RAINKIE: Yeah, I think they have been in -- every time that this question has been asked.

MR. MATTHEW GHIKAS: Okay. So --

MR. DARREN RAINKIE: Of course 2000 is way before the major capital projects, so I mean it's -- these are different -- different time periods, but...

MR. MATTHEW GHIKAS: Now, this morning, you took us to -- yeah -- your presentation. If -- if we could just go to Slide 50 on that presentation.

MR. DARREN RAINKIE: Sorry. Fifty or --

MR. MATTHEW GHIKAS: 5-0.

MR. DARREN RAINKIE: 5-0.

MR. MATTHEW GHIKAS: Yeah. So, when you put this slide together and you report it on MB CPI there, that did not reflect the updated 7.8, 3.5, and 2.2, did it?

MR. DARREN RAINKIE: No. It would have -- I just received that Undertaking yesterday. So, this, I think, would have been -- is it 3.3 percent or something like that before?

MR. MATTHEW GHIKAS: And -- and putting those into your graph, would narrow the gap considerably between CPI and MH-22, wouldn't it, out to 2042?

MR. DARREN RAINKIE: Out to 2042?

MR. MATTHEW GHIKAS: Oh, sorry. Yeah. It would narrow the -- it would narrow the gap considerably.

MR. DARREN RAINKIE: I would have to think about that, Mr. Ghikas. With three or four --

MR. MATTHEW GHIKAS: That's -- I won't make you do the math in your head, but I -- I -- my understanding is it reduces it to about 5.79 percent and I'm going to leave you with an Undertaking, Mr. Rainkie. So, if -- if -- I'll -- I'll read out my Undertaking here.

To redo the figure on your Slide 50 to update it for the 7.8 percent, 3.5 percent, and 2.2 percent for the test period. That's my first Undertaking and the second one is prepare another figure that makes that same change and that goes back to 1999.

DR. BYRON WILLIAMS: One second, and I'll just con -- confer with the witness. I'm pretty confident in the first Undertaking. I just want to think about the second.

MR. MATTHEW GHIKAS: In the second one, I'm just trying to have it line up with the table on MH-43.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Sir, I know I can't ask you questions but I am curious as to, you know, why the 2000 starting point is -- is -- is relevant. I mean, I just -- maybe I should just point out to the Board this was -- this is looking at the rate increases since the major capital projects came into the forecast versus CPI going back to 2000 -- you know, perhaps, it's an interesting calculation but I'm -- I'm not really sure what the purpose is. I mean, we could mechanically do it, but --

MR. MATTHEW GHIKAS: Yeah. You're -- you're free not to like the answer, Mr. Rainkie. I think my -- my logic is so that it just aligns with MH-43, which Manitoba Hydro was asked to do, and, so, that's -- that's the logic of it, and -- and I think, if the test was whether you would liked -- liked or agreed with it, there wouldn't be many Undertakings if -- in a proceeding.

MR. DARREN RAINKIE: We -- sor -- sorry, can I just -- I'm not trying to be difficult sir, Mr. Chairman, but like -- I -- I did this analysis that's -- that over the time-frame for a particular reason and I put commentary around that.

So, if I understood what we were trying to achieve, going back to 2000, then I'd have the opportunity to put commentary around that as well. So, you know, that -- that was the purpose for me asking a question, which I can't do, but...

MR. MATTHEW GHIKAS: I'm fine, if you want to add commentary to it.

MR. DARREN RAINKIE: Well, I'm trying to understand what you're -- like, what the purpose of that comparison is, but --

DR. BYRON WILLIAMS: I'm going to jump

in here. We'll happily accept the first Undertaking, which we think is relevant.

The second Undertaking, which we question the relevance of, we will do, as a courtesy, but we will put in the appropriate caveats to it.

I -- I think there is a -- a real question whether it's -- it's -- it's relevant and material but, as a courtesy, and just to move the discussion along but we'll add some commentary.

THE CHAIRPERSON: That's -- that's fine. You can put the commentary in and you can argue in final submission. That's fine, but I think it's an appropriate Undertaking to match it to the -- as I understand it, it's to match it to the table that was already in so.

DR. BYRON WILLIAMS: And we've accepted those Undertakings.

THE CHAIRPERSON: Okay. Thank you.

--- UNDERTAKING NUMBER 45: To redo the figure on your Slide 50 to update it for the 7.8 percent, 3.5 percent, and 2.2 percent for the test period.

--- UNDERTAKING NUMBER 46: Prepare another figure
that makes that same
change and that goes back
to 1999.

MR. MATTHEW GHIKAS: Thank you, Mr. Chairman. Thank you, Dr. Williams. All right.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Now, returning to your -- to your evidence, you indicated, in the context of your second anal -- analytical perspective, that there are considerations of public acceptance of rate increases in a year when Manitoba Hydro expects to post recod -- record level of net income, and that's -- that's your view?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And the current strong financial results that you're referring to there, they are associated with high export prices and favourable water conditions, right?

MR. DARREN RAINKIE: That's my understanding, sir. Yes.

MR. MATTHEW GHIKAS: Now, you were the Vice-President of Finance and Regulatory and the CFO at the time of the NFAT Hearing in 2014. Right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And -- and that was one of the applications that you were an executive policy witness and chief strategy -- strategist for.

Correct?

MR. DARREN RAINKIE: I don't know if I was the chief strategist for that one. I was an executive policy witness on the -- on the Finance Panel.

MR. MATTHEW GHIKAS: Okay, and one of the transcripts -- I provided Dr. Williams with copies of transcript -- excerpts of the transcript from the NFAT proceeding and there -- there they are, already on the screen, thank you, Ms. Schubert, and they're pages 3060 to 3067, from the March 20, 2014 NFAT.

And those are excerpts from -- from testimony at the NFAT proceeding, including your testimony?

MR. DARREN RAINKIE: I'll accept that.

MR. MATTHEW GHIKAS: Thank you. If we can mark that as the next exhibit, please, MH-46.

DR. BYRON WILLIAMS: We have no objection, Mr. Chair.

--- EXHIBIT NO. MH-46: Excerpts of the transcript from the NFAT proceeding March 20, 2014, pages 3060 to 3067.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: All right. Now, if you can turn to page 3063 and, starting at Line 19, and -- and here we are, in the context, just to orient ourselves, Mr. Rainkie, we're addressing NFAT scenarios that show 21 years of a 3.95 percent increase.

And, at Line 19, I'll just read this -- read this out to you. You say:

"And I think what we've learned through all that period is that having reasonable and regular rate increases is better -- is a better regime than the kind of just pandering, if you like, to good results or bad results. And, you know, for instance, we had a relatively or we're having a relatively decent year in 2013/'14 and it's -- it's a case in point in front of you, right now, in terms of our interim rate application. The tendency would be to say, well, why do you need anything, because you had a decent year? The fact of the matter is, is that, in our system, we're -- we're projecting rate increases based on average water flows. We know we'll have good years. We know we'll have bad years. If we draw -- if we draw, put a straight line through it, I think that's the most responsible thing to do for customers."

Now, you'll accept that was your evidence at the time, sir?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay, and, in the context -- the context of your comments in the NFAT about not pandering to good results or bad results, that was favourable water conditions driving strong financial performance. Right?

MR. DARREN RAINKIE: I can't remember what the financial performance was, but it was nowhere near $751 million, sir. I mean, that would have been in context of maybe a couple hundred million dollars of net income.

MR. MATTHEW GHIKAS: Yeah. Yeah and, in the quote, you're talking about water -- water -- water flows -- average -- you're talking about water flows, in Line 7 there of 364 -- 3064?

MR. DARREN RAINKIE: Yes, sir, but I don't -- I mean, we could look back in the Manitoba Hydro Annual Report but I don't think there was a $751 million net income.

MR. MATTHEW GHIKAS: No. I -- I suspect that it's different. You've said it's -- it's a record, but you were cautioning, at that time, that there will certainly be adverse water conditions in a future year. Right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And -- and that's not a theoretical risk either and Manitoba Hydro experienced a severe drought in 2021, didn't it?

MR. DARREN RAINKIE: Yes. It did.

MR. MATTHEW GHIKAS: Okay. And -- and neither market -- water conditions nor market prices for exports are within Manitoba Hydro's control, are they?

MR. DARREN RAINKIE: No.

MR. MATTHEW GHIKAS: And -- and, when you indicated back in the NFAT proceeding that, quote, "The most responsible thing for customers" unquote is to, quote, "put a street line through it."

You meant having a steady rate trajectory over successive years, right?

MR. DARREN RAINKIE: And, yes, that's why that was -- that's my recommendation from -- in this hearing, and why I put the weight to the rate-smoothing perspective.

MR. MATTHEW GHIKAS: All right, just changing topics for a moment here very briefly.

Your scenario that we were looking at at the outset, your scenario CC-10, which assume a 1.21 percent rating -- rate trajectory, plus your recommended cost -- cost assumptions.

That would fall short of the pending legislative target of 30 percent equity in 2042, wouldn't it?

MR. DARREN RAINKIE: Based on the -- a twenty (20) year outlook.

MR. MATTHEW GHIKAS: I think --

MR. DARREN RAINKIE: Low predicted value...

MR. MATTHEW GHIKAS: -- the result

would take you to 27 percent, based on the information I've seen.

MR. DARREN RAINKIE: Yeah, that's what that scenario shows.

MR. MATTHEW GHIKAS: Okay. All right. Now, if we can turn back to your written evidence. This time I'm at PDF 46. And -- and I'm in section 5.5. I think there's a heading on that page. There we go. Thank you, Ms. Schubert.

So, this is the section that -- that is titled the 2 percent rate path proposed by MH results in a capital structure approaching that of an investor owned utility and significantly exceeds the debt ratio targets in the new legislative framework.

So let's -- let's break that down for a moment, Mr Rainkie, and just talk about the first part of that which is your comparison to investor owned utilities.

And if we can scroll forward to PDF 48 of your evidence, in the first paragraph, the very first line there you say:

"Manitoba Hydro is projected to attain a debt-to-equity ratio, which is approaching the allowed range of investor owned utilities of 65 to

35, to 60/40."

Do you see that?

MR. DARREN RAINKIE: Yes, I do, sir.

MR. MATTHEW GHIKAS: Okay. And just pausing there for a moment, the -- the range that you're describing there is between 5 and 10 percent more equity than the 30 percent target that's set in the legislation. The -- the legislation, correct?

MR. DARREN RAINKIE: Yes, it is.

MR. MATTHEW GHIKAS: Okay. And you'd agree with me -- well, let me -- let me put it this way.

A lot of ink has been spilled in this proceeding and a lot of talk about the 5 percent difference between 25 percent and 30 percent equity.

And are you suggesting that between 5 and 10 percent equity isn't material after all, here in this context?

MR. DARREN RAINKIE: Sir, I'm not -- I'm not understanding your question, sir. Sorry, can you reframe it?

MR. MATTHEW GHIKAS: Sure. So, the -- there -- the traditional target equity ratio has been 25 percent for Manitoba Hydro, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Okay. And -- and now the legislation is if it's -- if it's put into effect, 30 percent, right?

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: And there's been a lot of debate in this proceeding about whether it should be 30, or 25, or something else, right?

MR. DARREN RAINKIE: Right.

MR. MATTHEW GHIKAS: Okay. And so, I'm -- I'm asking you whether -- and -- and you seem to be more inclined to accept 25 percent than 30.

Is that fair?

MR. DARREN RAINKIE: I -- I think so. I don't -- I don't -- I think thirty (30) is a bit rich, yes.

MR. MATTHEW GHIKAS: Okay. And -- and what I'm -- what I'm wondering, is there's a 5 percent difference between 25 and 30 and -- and what I took from your description that -- that those -- that the range of IOUs was sort of within shouting distance of the 30 percent. And it's -- 5 to 10 percent.

So, I'm -- I'm asking you whether you'd agree isn't -- isn't that 5 to 10 percent pretty material?

MR. DARREN RAINKIE: 5 to 10 percent

is -- is material. As I -- it's 1.1 or more billion dollars as I quantified earlier.

MR. MATTHEW GHIKAS: Okay. Now you footnote that sentence at the bottom of the page to evidence that was filed in the BCUC generic cost of capital proceeding, right?

MR. DARREN RAINKIE: Oh, I guess I did.

MR. MATTHEW GHIKAS: Okay. And -- and as you know, Mr. Rainkie, I'm -- I am also familiar with the evidence in that proceeding and -- and your characterization of the allowed ranges being between 35 and 40 percent equity jumped out at me when I read your report.

And you'd agree with me that none of the utilities in the figures you referenced in your footnote had an equity ratio as low as 35 percent?

MR. DARREN RAINKIE: Yeah, and the ones that are in there, I think that's correct. I mean, I've been around the industry for a long time, so 35 to 40 has been standard, but -- but the research that Concentric Energy Advisors did -- it says what the range...

MR. MATTHEW GHIKAS: And -- and you'd agree with me that the -- the -- average for the electric utilities reported by Concentric is 39.42 percent equity?

MR. DARREN RAINKIE: Around 40, is that the average?

MR. MATTHEW GHIKAS: Let's -- let's actually call it up. I can -- I actually have it. If you could call it up, Ms. Schubert, please, and scroll down to figure 65. All right.

So this is the figure you were referring to, right, for the electric utilities?

MR. DARREN RAINKIE: Yeah, which is consistent with the -- the top end of the range that I quoted.

MR. MATTHEW GHIKAS: Okay. And there's -- there's -- it's not consistent with the bottom end though, is it?

MR. DARREN RAINKIE: Not for these -- for these companies, no.

MR. MATTHEW GHIKAS: No, there's no -- no company that has an equity ratio less than 37 percent, is there?

MR. DARREN RAINKIE: That appears to be the lowest here.

MR. MATTHEW GHIKAS: And the average is 39.42 percent?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: So, basically 10 percent higher than the legislated target for Manitoba Hydro in 2042, right?

MR. DARREN RAINKIE: Yeah, but I think you're miss -- well, I think you're missing my point though, sir, is that it's -- it's -- if you were stopping, if the 2 percent rate path did stop at -- at 30, but it doesn't. It goes to 34, so -- and it improving 2 points a year which is -- it's galloping at that point and you won't be able to shut that off, so you will get to 40 pretty soon.

I don't know what you're going to do at that point? Have a 10 percent rate decrease or something? Is that rate smoothing? Like -- so, I think you're missing my point.

MR. MATTHEW GHIKAS: Well, I think you may be missing mine, Mr. Rainkie. I'll come back to the point you just made, but my point here, sir, is that your description of the Concentric evidence was inaccurate, wasn't it?

MR. DARREN RAINKIE: No, it -- no, it wasn't. The 35 to 40 percent is my historic understanding in the -- in the history over the last thirty (30) years. There's so few, you know, rate of return proceedings that I tried to find something to solidify that and that's what this is.

MR. MATTHEW GHIKAS: And you were unable to find something?

MR. DARREN RAINKIE: Well, sir, the -- the Hydro (INDISCERNIBLE) will go to 40 percent under the 2 percent rate path. So, I don't think we have to worry about the 35. It's going to be at 34 by the end of the forecast, so.

MR. MATTHEW GHIKAS: We'll come back to that, Mr. Rainkie. I just want to focus on -- there is no utility here that is less than 37 percent and you're the one who footnoted this table. So, I'm -- I'm asking you to confirm that what you put in your report was inaccurate. It seems self-evident to me.

So, I'm wondering why you're not agreeing.

MR. DARREN RAINKIE: 30 -- just to be clear, 35 to 40 is my historic understanding. The -- the footnote on the table we'll just try to find something that, you know, gave the Board a -- a snapshot of it. The last time we had a rate of return hearing in Manitoba was like about 1993 or '94, or something like that.

So, there's no good information on the

record.

MR. MATTHEW GHIKAS: Okay. And the US electric average was 49.64 percent, so almost 50 percent equity, right?

MR. DARREN RAINKIE: Yeah, but Canadian regulators don't rely on -- rely on US proxies, otherwise, the two (2) would be the -- the same.

MR. MATTHEW GHIKAS: The Concentric evidence and the commission's own independent expert in the BCUC proceeding agreed that there should be weight put on US utilities, didn't they?

MR. DARREN RAINKIE: They might have. That might be their opinion. But those two (2) numbers wouldn't be 10 percent apart if that's what's actually happening. I mean, that's consistent.

I mean, like I remember going back twenty (20) years. I think the last decision of the Public Utilities Board, which I helped draft when I was an advisor put no weight to US utilities. They've always been higher than Canadian.

And those two (2) numbers would have converged if Canadian regulators started to use US proxies as -- as appropriate.

MR. MATTHEW GHIKAS: This -- this

figure is actually in -- in Manitoba Hydro's rebuttal evidence, so I don't think we actually have to mark this -- this document, Figure 65, as replicated in its entirety. So I won't clutter the record.

Now, Mr. Rainkie, you didn't refer at all in your evidence to any of the capital targets for -- sorry, the target capital structures for other Crown utilities, did you?

MR. DARREN RAINKIE: No. The research is poor and there's no context around it, so it's pretty much worthless, if you ask me.

MR. MATTHEW GHIKAS: Well, luckily -- luckily, Manitoba Hydro did the research for you and put it in its rebuttal evidence.

And SaskPower's target equity ratio is between 25 and 40 percent equity, isn't it?

MR. DARREN RAINKIE: Yeah. There's a 15 percent range. I'm not even sure how to take that. I mean, that's -- I mean, it's hardly even a target. It's...

MR. MATTHEW GHIKAS: And BC Hydro's target debt ratio is 40 percent? Sorry, target -- target equity ratio is 40 percent?

MR. DARREN RAINKIE: Yes, it is.

MR. MATTHEW GHIKAS: Now, if we can

turn to your evidence again.

MR. DARREN RAINKIE: But of course, sir, I mean, I think, you know, just -- just to be clear for the Board's clarity, I mean, I think there's two (2) realms here. One is the context of cost recovery government business enterprise, like Manitoba Hydro.

I think when you start looking at these ratios and just accept them -- I mean, the researchers just take them out of the annual report. There's no context around them. I think the Chair asked a question about this earlier, about just accepting benchmarks without, you know, any -- any context.

But I think you're getting into the realm of -- of policy, of government policy. Also, some of these utilities that are quoted in that would have been rated -- would have been regulated just like an investor-owned utility for -- for decades, so that's built into -- into their rate -- rate structure. So I think you have to be careful with just pulling something out of a -- out of an annual report.

In fact, what I kind of mused at in your rebuttal evidence is that, in one (1) section of the Manitoba Hydro rebuttal evidence, you know, they purport to use these equity ratios as -- as, you know, a good benchmark.

And then when we talk about floating rate debt in another part, they say, well, for these twenty (20) reasons, you know, we shouldn't use that -- that benchmark for the floating rate target. So I -- I don't know how to reconcile those two (2), but that's the trouble with research without any context, I suppose.

MR. MATTHEW GHIKAS: So -- or -- or no research at all, I suppose.

Now, once -- you -- you've mentioned a couple of times, Mr. Rainkie, and emphasized that the equity ratio that Manitoba Hydro's trajectory yields beyond 2042 continues to extend past -- sorry, that the -- the equity ratio based on the 2 percent trajectory continues past 30 percent, right? You'd mentioned that earlier.

MR. DARREN RAINKIE: Yeah. I think it goes to 34 percent.

MR. MATTHEW GHIKAS: Yeah. And at the time you wrote your evidence, I assume you knew that Manitoba Hydro had already confirmed that its intent was to maintain the target ratio and not to keep building equity?

MR. DARREN RAINKIE: Sorry. Where are you referring to, sir?

MR. MATTHEW GHIKAS: So, I mean, we don't -- we don't actually have to go there, but I can cite it for the record. It's MIPUG/MH Round I 25, IR-25, page 52, and AMC/MH Round I 23(a) and (b), page 38.

And I'm suggesting to you that Manitoba Hydro had already said that it wasn't intending to build equity beyond 30 percent.

Were you aware of that?

MR. DARREN RAINKIE: It says that, but then why doesn't the rate -- the rate path reflect that? Like the rate path -- rate path results in 34 percent, so if it doesn't intend on doing that, why doesn't it have a different rate path?

I mean, the answer is it's a goal seek and it overshoots. I mean, that's the answer but I'll answer my own rhetorical question.

MR. MATTHEW GHIKAS: All right. If we can look at your evidence, page 48, please, and this is, yeah, right -- that's right. So in -- in the paragraph that begins:

"MH's projection of an equity ratio of 34 percent by 2041/'42 under the proposed 2 percent rate path exceeds the new legislative target by 4 percent."

So that's what we were just talking about, and you then go on to say:

"Also, it's observed that the expectation of an improvement in the MH debt-to-equity ratio of 5 percent in the five (5) year period between 2034/'35 and 2039/'40 is quite aggressive.

This contrasts with the expectation of a 5 percent projected improvement over the twelve (12) year period between 2022/'23 and 2034/'35, which is more consistent with a policy objective of rate smoothing under the 'M' costs rate-setting methodology."

Do you see that?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. And you -- you discussed this earlier today as well.

And my question to you -- I want you to just help me understand this: Wouldn't a policy objective of rate smoothing be focussed on the rate trajectory rather than the pace that equity is built?

MR. DARREN RAINKIE: Well, sir, isn't the equity goal seeking driving the -- the rate increase?

MR. MATTHEW GHIKAS: Well, I -- I mean, I don't disagree with you that -- that equity is contributing to the rate, along with a whole bunch of other variables.

But you've linked it directly to rate smoothing, and I'm going to suggest to you that it doesn't get much smoother than a 2 percent rate increase every year.

MR. DARREN RAINKIE: Well, sir, I guess it's not just about the number. It's about balancing the interest of customers and the financial integrity of the company. So to me, rate smoothing is -- like I said, it's a policy objective, not a -- not a numbers game, not a decimal numbers game.

MR. MATTHEW GHIKAS: Mr. Chairman, would -- would now be a good time to break, or would you like me to keep going? I'm -- I'm fine with either.

THE CHAIRPERSON: Well, you're about halfway through your time, Mr. Ghikas. I don't know what your next area is or how long it will --

MR. MATTHEW GHIKAS: I can -- I can keep going.

THE CHAIRPERSON: Just let me ask.

MR. MATTHEW GHIKAS: Sure.

(BRIEF PAUSE)

THE CHAIRPERSON: Okay. Why don't you keep going.

MR. MATTHEW GHIKAS: Okay. Thank you.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Changing topics to -- to O&M, Mr. Rainkie. You have used the figure in your report of 8 percent in describing the average planned O&M increases in the test period, right?

MR. DARREN RAINKIE: Sorry, sir. The 8 percent?

MR. MATTHEW GHIKAS: Yeah. I'm -- I'm referring to page 61 of your -- of your report.

MR. DARREN RAINKIE: If we can go there. Sorry. I'm not --

MR. MATTHEW GHIKAS: Sure. Yeah. No, not at all. I know you can't remember every word. It is the paragraph that begins, "The vacancy management approach." Maybe above that.

MR. DARREN RAINKIE: I mean, I refer to the 6 percent annual growth rate, sir. Are you sure you're not...

MR. MATTHEW GHIKAS: Oh, the 6 percent in the last five (5) years. You know what? We can -- we can -- let's -- let me -- let me park that until -- until later and we'll come back to it.

The -- the recent inflation that Manitoba has been experiencing is going to affect many facets of Manitoba Hydro's O&M costs, isn't it?

MR. DARREN RAINKIE: Well, if it -- as I said earlier, if 80 percent of operating costs -- if -- your question's on operating costs, right, sir?

MR. MATTHEW GHIKAS: It is.

MR. DARREN RAINKIE: If 80 percent of operating costs is, you know, kind of at that 1 1/2 to 2 percent then I said, you know, maybe there's $120 million of operating costs that would be affected by inflation.

But -- but we've just got to remember with inflation, like inflation is a basket of goods, like an imaginary basket of goods. I mean, you'll have things like fresh fruit in it and -- and so does that track to Manitoba Hydro's costs one-on-one? Like we need to be careful with those -- those kinds of measures.

When I was doing my mental math in my -- in my direct evidence, I was saying, look, if there's $120 million of operating costs and it's all being affected by 4 percent, you're talking about maybe $4 million worth of -- of escalation.

But let's -- let's not take $600 million of operating costs and times it by, you know, the -- the current rate of inflation and create fear around that.

MR. MATTHEW GHIKAS: Okay. Let's -- let's get back to my question then.

So one of the -- one of the items that Manitoba Hydro is -- is -- has commented on is fuel.

And you'd agree with me that inflation affects the price of fuel?

MR. DARREN RAINKIE: Yes, it does.

MR. MATTHEW GHIKAS: And in terms of -- you'd expect that employee benefits costs -- dental, healthcare benefits, all those things that are procured from an outside source -- that they would be subject to inflationary pressures. Right?

MR. DARREN RAINKIE: They will, but

they're also heavily influenced by things like discount rate assumptions. So one must be careful, once again, just to take a number and times it by another number and say, Here's the result.

MR. MATTHEW GHIKAS: You're talking about pension costs? Or are you talking about -- I'm talking about dental plans --

MR. DARREN RAINKIE: Well, benefit costs as well. You know, benefit costs as well would be affected by discount rates. Hydro has, like, three (3) or four (4) different layers of discount rates. Some of them on pension, some of them on benefits, if I remember correctly.

MR. MATTHEW GHIKAS: Cloud computing costs, that's something that would also be affected by price pressure. Right?

MR. DARREN RAINKIE: One would expect so. But you'd think that there would be better information on this than just the -- you know, the late breaking CPI number.

Like, I -- I struggle how the Board, you know, picks those kinds of figures without Hydro saying, Look it, like, you know, this imaginary basket of goods that we have as CPI, how does it affect the line items in Manitoba Hydro's cost structure?

So I -- I just -- I guess it's a caution sign, Mr. Ghikas. A -- a yellow light that we just kind of broad brush, Everything is up 7.8 percent, if that's the premise of your question.

MR. MATTHEW GHIKAS: I don't think I'm going that far to say that everything is exactly driven by CPI per se.

What I'm saying is that CPI, the fact that it's going up is reflective of a general trend that everybody is experiencing right now with rising costs. Right?

MR. DARREN RAINKIE: It is. But -- but, you know, there are subcategories and I -- you know, Statistics Canada only, I guess, has so many different metrics.

But, you know, there's no real evidence about exactly how those components break down and what line items they're affecting. So I'm just -- I'm just throwing out caution, sir.

MR. MATTHEW GHIKAS: So in your description of O&M in your report -- you'd agree with me the accounting treatment with -- when it comes to computing costs is different if things are paid for as a service versus, you know, as a capitalized cost. There's -- there's been a change.

MR. DARREN RAINKIE: Yeah, there's an accounting change. Yes.

MR. MATTHEW GHIKAS: Yeah. And -- and you haven't backed out that change from your calculation of the percentages that you were giving me, the 6 percent and so on. Have you?

MR. DARREN RAINKIE: It's possible to do that. I -- I actually did that -- I think the 6 percent becomes a 5 percent annual growth rate or something on that line.

MR. MATTHEW GHIKAS: Now, you understand, Mr. Rainkie, that approximately 80 percent of Manitoba Hydro's staff are unionized?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And the wage increase for unionized labour has been -- has been set as part of collective agreements and -- or ordered by the Labour Relations Board and an arbitrator. Right?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: And in addition to just setting the overall average wage increases, the collective agreements also deal with -- with bands, right? Employee bands, salary bands, that sort of thing?

(BRIEF PAUSE)

MR. DARREN RAINKIE: That part, I'm not sure about. Sorry, I'm -- maybe I'm missing your question, but...

MR. MATTHEW GHIKAS: The -- let's just -- let's do it this way.

Overall wages and compensation paid by Manitoba Hydro is affected by existing employees progressing through salary bands, right?

MR. DARREN RAINKIE: Merit.

MR. MATTHEW GHIKAS: Merit, right. And when -- when I was reviewing your evidence from 2015, you made passing reference to overall wages tending to increase at 3 to 4 percent annually because of contracted wage settlements and progression and merit increases.

That was generally your experience when you were a CFO?

MR. DARREN RAINKIE: Yeah. The -- the general wage increases tended to be larger back then. Like, I think they were about a percent larger. I mean, Manitoba Hydro's evidence -- it was on my chart -- is that they -- they'd been around 2 percent. If you look at the five (5) year growth, it's around 10 percent. So 10 percent divided by five (5) is 2 percent.

MR. MATTHEW GHIKAS: Yeah, I won't -- I won't talk about the percentage because I'm not sure what is public and what isn't. So I'll -- I'll park that, Mr. -- Mr. Rainkie.

MR. DARREN RAINKIE: Well, sir, it's -- you know, there's a total salary number in the -- in that analysis. So I would just -- I was just saying that over the five (5) year period, salaries have gone up about 10 percent. So it -- it seemed to be consistent with Manitoba Hydro's evidence from earlier in the week. I think Ms. Amorim Dew said 2 percent escalation on those types of costs.

MR. MATTHEW GHIKAS: In the wage -- in the salaries?

MR. DARREN RAINKIE: Yeah. I think we're flying at the same altitude, as they say, on that.

MR. MATTHEW GHIKAS: Okay. Now, if we can turn to page 57 of your evidence, you have a Section 6.2 there, where you assert that there's a changing policy orientation when it comes to cost control.

And you say, under that 6.2:

"Manitoba Hydro asserts that it's committed to cost control, but has shifted its policy orientation away from cost savings to continuous improvement. And changed its position from prior regulatory proceedings to one in which it has little influence over O&A and BOC expenditures."

Do you see that?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: Okay. So if we can pop back to the 2015 transcript excerpts. Back in the days when you were the CFO. And this time, page 2511. Perfect. Thank you, Ms. Schubert.

And if we can scroll down a little bit more. Yes, right there. Thank you. Line 12.

You made the comment:

"Well, one of our key principles in Manitoba Hydro is continuous improvement. So, yes, we will -- we will always strive -- every person on every one of our panels will strive to do a better job with the information that we have."

So that was your evidence in 2015 when you were the CFO, sir?

MR. DARREN RAINKIE: Yes. In -- in an application where we actually had an -- an operating cost plan. We were constraining increases in operating costs to 1 percent when general wage increases and merit were at 4 percent, so.

The point isn't to talk about continuous improvement. That's Manitoba Hydro's word. Like, how it shifted its policy. But if you're going to take me back to 2015, let's remember -- you know, let's remember that there was a plan. There was 1 percent escalation in the first ten (10) years of that, you know, to try to constrain operating costs.

MR. MATTHEW GHIKAS: Yeah. Mr. -- Mr. Rainkie, your words in your evidence were that Manitoba Hydro has shifted its policy orientation away from cost savings to continuous improvement. That's -- that's what your report says, right?

MR. DARREN RAINKIE: Well, that's what Manitoba Hydro's evidence said, sir. Like, that -- I didn't make that up. There's an IR on this and God knows I can try to find it at the break if you want -- but that's Manitoba Hydro's evidence.

I asked them that specifically -- or -- it's either in the -- in the front of tab 6 or it's an Information Request. That's Hydro's words.

MR. MATTHEW GHIKAS: And continuous improvement was part of the framework you were operating by when you were CFO, right?

MR. DARREN RAINKIE: Yeah, but there's a difference between platitudes and plans, sir. And that's really what I'd like to talk about with the Board.

MR. MATTHEW GHIKAS: So were you issuing --

MR. DARREN RAINKIE: It's one thing saying you're committed to something and there's another thing of having a plan to deliver on it. And the difference between -- I'm glad you're taking me to the 2015 hearing because in the 2015 hearing, we had a plan to manage O&A. Manitoba Hydro doesn't now.

That's the -- that's the point. Fumbling around with words here or there that I might have -- might have said, you know, five (5) or seven (7) years ago -- I don't even know what the question is.

The point of the matter is, for rate-setting purposes, does Manitoba Hydro have an operating costs plan and the answer is no.

Back here -- and you can take me through a thousand (1,000) pages of transcript -- did we have a plan? Yes.

MR. MATTHEW GHIKAS: And -- and you'd agree with me, Mr. Rainkie, that back at that time there were sixty-five-hundred (6,500) employees at Manitoba Hydro?

MR. DARREN RAINKIE: Yes. And the forecasts that are inherent in that -- if -- if you had escalation at 3 or 4 percent, and you're holding operating costs to 1 percent, guess -- guess how that equation gets reduced? By reducing staff.

I mean, there was a conscious effort to do that through an attrition strategy for those three (3) years that was around this application, followed by a VDP.

MR. MATTHEW GHIKAS: Mr. Rainkie, maybe we can turn back to page 57 of your evidence and right after what we were just reading, yes, in the second paragraph there, after the heading, it says -- sorry, next paragraph, and -- and -- sorry, the next paragraph, the third paragraph after the heading, that's right.

It -- it reads:

"Manitoba Hydro also takes the
position that it currently has
limited influence over depreciation
and amortization expense, as the
current level of depreciation
expense is based on assets already
in service."

Stopping there, Mr. Rainkie, can you explain how Manitoba Hydro can influence depreciation and amortization expenses associated with assets already in service, apart from just changing the depreciation rates?

MR. DARREN RAINKIE: Well, I think the -- I -- the -- I asked them in an Information Request, why they thought they had little influence over depreciation, because depreciation relates to -- to expenditures and, I think it was clarified that they were talking, perhaps, about prior depreciation, although it was -- it was unclear to me.

Because Manitoba Hydro should have influence with respect to future expenditures.

MR. MATTHEW GHIKAS: But not past ones, right?

MR. DARREN RAINKIE: No, not past ones.

MR. MATTHEW GHIKAS: Yeah. How are we doing, Mr. Chairman?

THE CHAIRPERSON: I was just going to suggest maybe we should take the mid-afternoon break now. We'll be back in -- what time will we be back -- we'll be -- we'll be back in fifteen (15) minutes.

Thank you.

--- Upon recessing at 2:12 p.m.

--- Upon resuming at 1:31 p.m.

THE CHAIRPERSON: Mr. Ghikas, just to give you sort of an idea, I've got you down until about 3:05, around then for timing.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: All right. Mr. Rainkie, can we agree that as a general proposition delaying capital sustainment investments and aging assets can result in higher operating and maintenance expense?

MR. DARREN RAINKIE: Certainly, that can be the case.

MR. MATTHEW GHIKAS: And you -- you haven't made any specific allowance in your O&M

recommendations to account for any upward pressure on O&M that might result from your proposed cuts to business operations capital, have you?

MR. DARREN RAINKIE: Proposed cuts, sir? I'm -- I'm --

MR. MATTHEW GHIKAS: Your proposed recommendation.

MR. DARREN RAINKIE: All right. Just give -- can you repeat the question, sir?

MR. MATTHEW GHIKAS: Sure. You haven't made any allowance in your recommendation for O&M to account for any upward pressure on O&M that might result from your recommendations in respect of business operations capital.

MR. DARREN RAINKIE: I think I have, notionally because, as I said, Manitoba Hydro's incremental budget approach of last year plus, plus, plus, plus, plus, plus, there should be some offsets to that, in terms of productivity and stop doings, et cetera.

So, not explicit, sir, but I think in, you know, a conceptually -- that is the case.

MR. MATTHEW GHIKAS: The -- just as part of the catch-all. The catch-all productivity that you're talking about.

MR. DARREN RAINKIE: Well, it's part of proper top-down budgeting, yes.

MR. MATTHEW GHIKAS: Okay. Now, if we could turn to your report again. I'm at page 20. And there's a section there that starts 3. -- 3.5, and this section 3.5 is -- is your critique related to the steps that Manitoba Hydro's intending to take regarding Strategy 2040.

And it's a -- it's a short section, but maybe we can scroll down to the top of 2021, please.

And it -- yeah, second paragraph there, that begins, you say:

"While there is much discussion on the record of the current proceeding, in -- in -- of the current -- sorry, let me back up -- while there is much discussion on the record of the current proceeding, with respect to changes in the energy industry, it's useful to remember that the energy industry has been under a constant state of evolution for decades. MH has been successful in navigating these past energy industry evolutions and other significant business challenges. These include the purchase and integration of Centra Gas, Winnipeg Hydro and the planning and construction of major capital projects to strengthen the energy infrastructure, add generation capacity and exploit export opportunities."

Now, here you're talking about the energy transition effectively and I -- my question to you is whether you're seriously contending that the current Capital E, Capital T, energy transition is akin to the challenges of acquiring and incorporating a municipal utility or a gas subsidiary?

MR. DARREN RAINKIE: No, I -- I -- in -- in that, to be fair, that there's a longer sentence. I mean, I'm -- I'm -- I'm actually lumping in there -- well not lumping, but -- a construction of $15 billion of the energy infrastructure in the last ten (10), twelve (12) or more years is a pretty significant transition for Manitoba Hydro.

It -- it might not be as sexy as talking about an energy transition, but what Manitoba Hydro has gone through in terms of doubling its -- its assets and strengthening the system, having a new Bipole, two (2) new converter stations and two (2) new generation stations, the first built in a generation.

You know, it's a pretty big transition for the Company, to be fair. It's not just about municipal utilities, but -- you know, so I -- I think you got to look at both parts Mr. Ghikas.

MR. MATTHEW GHIKAS: Okay, so the -- the integration of Centra Gas and Winnipeg Hydro are not on the same plain as the energy transition, are they?

MR. DARREN RAINKIE: Probably when we get to -- when we actually know what the plans are and what the policies are, probably -- probably not, but they're not insignificant either, you know, I mean they're -- they're pretty big.

The purchase of those companies and the integration within the Company, you know, is -- it's not a small deal, so I -- I -- I don't want to really downplay those to a nothing, sir. Like that's not just another day at the office and...

MR. MATTHEW GHIKAS: You'd agree that in the space of a very short period of time there's been policy and legislative action at multiple levels of government in North America regarding the need to reduce carbon significantly.

MR. DARREN RAINKIE: Yes, there has.

MR. MATTHEW GHIKAS: International agreements and protocols addressing GHG emissions.

MR. DARREN RAINKIE: Yes, there has.

MR. MATTHEW GHIKAS: And entirely new load sources, live EV's.

MR. DARREN RAINKIE: Are you suggesting there's a -- an entirely new load source in the load forecast --

MR. MATTHEW GHIKAS: I'm suggesting -- there --

MR. DARREN RAINKIE: My understanding is it was fairly small, but --

MR. MATTHEW GHIKAS: In North America, EV's -- there's an EV revolution going on, if I can put it that way.

MR. DARREN RAINKIE: Yeah, but are we -- sorry, I just want to make sure are we transposing that, that that's happened at Manitoba Hydro right now or in the -- in the near future?

MR. MATTHEW GHIKAS: I'm not talking about Manitoba Hydro, I'm talking about, in general, in North America, there has been an evolution towards EVs. Right?

MR. DARREN RAINKIE: Yeah, I mean, I think the numbers are still relatively small, sir, so I'm not sure what 'evolution' means, but I mean that -- but that is -- that is occurring, yeah.

MR. MATTHEW GHIKAS: And there are -- there are actions being taken by legislators and jurisdictions around North America that would impose deadlines for moving away from internal combustion engine. Correct?

MR. DARREN RAINKIE: Yeah, that's correct.

MR. MATTHEW GHIKAS: And utilities in the US are shutting down coal plants?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: And there are policies pushing towards electrification in other provinces and US states, right?

MR. DARREN RAINKIE: Generally, sure.

MR. MATTHEW GHIKAS: And -- and Dr. Williams, in his cross of Manitoba Hydro, characterized it as a drastic change when he was -- and you'd agree with that characterization?

MR. DARREN RAINKIE: When it is understood and plays out, yes.

MR. MATTHEW GHIKAS: Okay. And, did

you attend this years' CAMPUT Conference, the conference of Canadian utility regulators?

MR. DARREN RAINKIE: No, sir, I think I was working on this application.

MR. MATTHEW GHIKAS: All right. I -- I'll just -- I'll just read you what their conference synopsis is from their brochure and we won't go into it in any more detail than that.

But the -- the conference was titled, 'Ambitious and --

DR. BYRON WILLIAMS: Excuse me, Mr. Ghikas, are you giving evidence?

MR. MATTHEW GHIKAS: I'm going to ask Mr. -- Mr. Rainkie about -- about his -- his -- his understanding of what -- what CAMPUT has gone on in the past.

DR. BYRON WILLIAMS: We'll see where it goes, sir.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Okay. So, the synopsis is Ambitious and Agile New Regulatory Pathways for a Just Energy Transition.

And it says:

"The pace of energy transition is

accelerating and along with other energy stakeholders, regulators need to be decisive and agile to respond to changing expectations. Join us as we challenge conventional wisdom regarding the role of energy regulators and explore bold and innovative ideas about how we can adapt and develop new pathways to adjust energy transition."

Is -- is that a -- a sentiment that you share, sir? That the pace of the energy transition is accelerating?

MR. DARREN RAINKIE: I think it will. I would observe, though, that -- that I think every -- every CAMPUT conference that I attended had a somewhat similar brochure.

Sir, it's always been energy markets and transition. They've been around since -- well, since I've been the industry, the industry has been in transition.

MR. MATTHEW GHIKAS: There hasn't been one that you can recall, I guess, that was devoted to discussing the integration of a municipal utility?

MR. DARREN RAINKIE: Is that a

question, sir, or are you just having some fun with me on the record?

MR. MATTHEW GHIKAS: Well, you can answer it.

MR. DARREN RAINKIE: Well, sir, I think it's getting late in the day. So hopefully the Board is entertained by some of this.

MR. MATTHEW GHIKAS: If you can turn to page 26 of your report. This is section 3.9, where -- that's titled 'There are too many concerns and unknowns for the PUB to fully accept Strategy 2040 for rate setting purposes at this time'. And -- and it's a fairly short section.

So let's start with paragraph 3 of the section. The sentence that begins:

> "There is a weak underpinning with respect to Manitoba Hydro's interpretation of customer preferences involving trade-offs between reliability and lower rates."

Is that a reference to what we were discussing earlier in the cross-examination, Dr. Rainkie?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Thank you. Now, going up a paragraph, you say:

"Strategy 2040 entails a corporate restructuring of Manitoba Hydro, which has been advanced with implementation of the strategy occurring before two (2) foundational precursors in the form of Manitoba Hydro energy policy and the new Manitoba Hydro IRP, and as such appears to be premature. The magnitude of the transformation envisioned in Strategy 2040 may be potentially unnecessary depending on the outcomes of these foundational precursors. And as such, the strategy appears to be unfocused and not providing sufficient strategic clarity."

Now, the -- the corporate restructuring that you're referring to involves, at a high level, moving away from an organization around functional segments, like generation, transmission and distribution, to one that is integrated and aligned along operations, managing assets, providing customer service, and supporting business units. Right?

MR. DARREN RAINKIE: I guess that's the tag line. I mean, it's how Manitoba Hydro would describe it. It's a different organization structure, yes.

MR. MATTHEW GHIKAS: Okay. If we can -- I just want to read something from the Midgard cross-examination and -- and ask you about it. It's on page 1885 of the transcript.

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: And you'll see, at the top of 1885, Mr. Helland is -- this is Mr. Helland talking. And he picks up with the -- the statement in line 1 there that says:

"The larger objective is to break down sort of the siloing between the -- the major groups -- generation, transmission, distribution -- so that you can say, Okay, let's balance O&M and capital across our business lines and -- and, you know, find the best value for ratepayers because there may be a group where you say, Look, we can -- we can move money from this group to another group and improve reliability outcomes and reduce costs."

Now, it -- would you agree with Mr. Helland's comment there that moving to a uniform -- or moving away from the siloed approach of generation, transmission, and distribution to one group would assist in -- let me rephrase that.

Grouping the management functions along the lines of what Manitoba Hydro is intending to do would assist in removing silos, wouldn't it?

MR. DARREN RAINKIE: It can. A large organization with over five thousand (5,000) people, regardless of the organizational structure can be siloed though. Like, it's -- and bureaucratic.

So you know, I heard that word 'siloed' lots, you know, over the last number of days. But as I observed, we -- we -- you know, I think Hydro has moved their asset management people into one group and the result of that was delaying that initiative.

So, you know, it makes you wonder.

MR. MATTHEW GHIKAS: Yeah. And we can debate the -- the pace of that another time, Mr. Rainkie. What -- what I'm putting toward -- to you is that the actual integration, in and of itself, is a good thing because it's removing silos.

MR. DARREN RAINKIE: It can be a good thing if managed appropriately, sir. But, like, you know -- you know what happens in organizations. New CEOs come in and out, and we centralize, we decentralize from time to time. So I -- you know, I'm not going to pass judgment on the effectiveness of it quite yet.

But just because it's a change doesn't mean it's better. So I think I understand the intent of it is to be better, but whether or not it is, I don't know, sir.

MR. MATTHEW GHIKAS: You'd agree with me that the -- the organization that Manitoba Hydro is intending to move towards mirrors the organization that BC Hydro moved to a few years ago?

MR. DARREN RAINKIE: You know, sir, I don't have a deep enough understanding of BC Hydro. I think so, sir. I think so.

MR. MATTHEW GHIKAS: Okay. And -- and they did that reorganization before their IRP as well, didn't they?

MR. DARREN RAINKIE: I'm not sure about that.

MR. MATTHEW GHIKAS: Okay.

MR. DARREN RAINKIE: They -- they have done IRPs for many, many years, so.

MR. MATTHEW GHIKAS: All right. Changing topics here, Mr. Rainkie.

When I asked Mr. Helland last week about the fact that both you and Midgard recommended a 10 percent cut in business operations capital -- or a 10 percent reduction in business operations capital, he said that he thought it was coincidental.

And I just wanted to ask you the same question. Was it coincidental from your perspective? Or did you get that percentage from Midgard?

MR. DARREN RAINKIE: No, it was -- it was coincidental.

MR. MATTHEW GHIKAS: All right. And if I could call up Manitoba Hydro's rebuttal evidence, please, at PDF 32. And there it is. It appears. And I'm looking at figure 13 there.

And, Mr. Rainkie, in your opening presentation, when you were speaking to slide 26 of your presentation, you appeared to downplay the importance of sustainment capital in the business operation capital investments. You said something to the effect, according to my notes, of, "The increase in BOC is not to replace aging assets."

And I'm -- do you accept that this is a correct breakdown in -- in figure 13 of -- of business operations capital?

MR. DARREN RAINKIE: I'm not sure, sir. Because, like, what was on slide 6 of my presentation was summarized from the Hydro material.

So I haven't quite reconciled the two. What I had -- of course, I was doing a fourteen (14) year comparison -- was an $800 million increase and almost 500 million being in AMI and grid modernization so.

MR. MATTHEW GHIKAS: Okay. So you --

MR. DARREN RAINKIE: These might align. I mean, I think it's -- it's going from 58 percent to 64 percent, if I understand this analysis.

MR. MATTHEW GHIKAS: That's correct.

MR. DARREN RAINKIE: Going up 6 percent.

MR. MATTHEW GHIKAS: Yeah, the relative proportions of sustainment to the other types of capital are increasing, right?

MR. DARREN RAINKIE: Yeah. But Manitoba Hydro's balance sheet is increasing too -- its asset base. So that may be a function of that as well.

MR. MATTHEW GHIKAS: All right.

DR. BYRON WILLIAMS: Mr. Ghikas, just for foundational purposes, is -- can you clarify whether AMI is in -- in those numbers?

(BRIEF PAUSE)

MR. MATTHEW GHIKAS: I'm -- I'm advised that there is -- yeah, potential investment on AMI in that. Yeah.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: All right So let's talk about capacity and growth for a minute, Mr. Rainkie.

Because as I understand it, that's the largest source of growth in business operation capital over the test period.

Now, that -- that capital is -- is aimed at serving new customers and customer additions and the load growth, correct?

MR. DARREN RAINKIE: In the classic definition of it, but Mr. Williams just alluded to it. I still am puzzled as to where AMI and grid modernization is in -- in this chart. Like I really -- I don't know where it is, so would AMI be adding, you know, revenues?

So, you know, that's the problem. Like with the CEF the way it is with a ten (10) year total, ten (10) detailed and fourteen (14) year totals, then twenty (20) year totals, I don't know why we don't have the -- the twenty (20) year forecast and why those other investments weren't discretely in that.

I find the CEF this year very poor -- very poorly put together. So that's the dif -- I -- the reason my BOC section in my report was fairly short -- well, number 1, Midgard was doing the detailed work on this, number 1, and I didn't want to duplicate that effort. And number 2, you know, it was -- it was just almost incomprehensible to understand exactly what was happening.

MR. MATTHEW GHIKAS: So, Mr. Rainkie, let's just back -- back up from Figure 13 for a moment. You seem to be struggling with it, so let's -- let's back away from that.

Capacity and growth investments, as Manitoba Hydro defines them and as you would be familiar with from your role there, it includes new customer additions and load growth, right?

MR. DARREN RAINKIE: Yes, it would.

MR. MATTHEW GHIKAS: Okay. And you'd agree with me that you haven't pointed to any deficiency in the load forecast over the test period?

MR. DARREN RAINKIE: No, I haven't.

MR. MATTHEW GHIKAS: And you'd agree with me that serving customer demand in Portage la Prairie or southwest Manitoba is an important and valid objective?

MR. DARREN RAINKIE: Sure, it is.

MR. MATTHEW GHIKAS: All right.

MR. DARREN RAINKIE: I mean, as long as expenditures are optimized. I guess there's always that footnote to any -- any type of investment, capital or operating.

MR. MATTHEW GHIKAS: Okay. Now, let's talk about business operations support.

So the -- you'd agree with me that, for vehicles, fleet that are used in the operation space for Manitoba Hydro, there's a finite life to those vehicles, right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: Okay. You can't -- you can't run a bucket truck forever. At some point you're going to have to replace it.

MR. DARREN RAINKIE: That's correct.

MR. MATTHEW GHIKAS: Okay. And you heard evidence I assume from Manitoba Hydro that the replacement cycle for vehicles was extended by COVID and by supply chain issues, right?

MR. DARREN RAINKIE: I don't think I heard that, sir.

MR. MATTHEW GHIKAS: Oh, okay. Okay. You haven't identified any specific items from business operations support that are unnecessary, have you?

MR. DARREN RAINKIE: No. What I've done is -- is looked at the actual history. I mean, let -- let's keep in mind, in this whole twenty (20) year forecast -- and Manitoba Hydro was kind enough to do this -- if we can go to page 22 of this rebuttal evidence, I'll just give you my answer. Down at the bottom I -- oh, no. Sorry. At the bottom, please. Like -- oh, yeah, that table right there.

So, I used the experience of underspending on BOC, as I said in my presentation, to fit a better line, you know, out into the twenty (20) year rate-setting scenarios. And you can see in this table there's only 1.3 billion out of 16.5 billion that's actually executing projects.

Programs and portfolio adjustments, which are kind of placeholders and extrapolations are 98 -- 92 percent of that CEF. So I -- I -- you know, that -- we're both dealing with judgment, and the competing scenarios here have judgment and placeholders and projections.

So, I wouldn't look at that as being a pristine personification of safe and reliable service, sir. I mean, that is a -- that is a twenty (20) year forecast. So I -- you know, I -- I haven't -- I haven't talked about an asset in Winkler or some place like that, but I've -- I've used the historic, if you like, spending patterns of Manitoba Hydro to -- to put I think a more balanced scenario together.

MR. MATTHEW GHIKAS: Would you mind, Ms. Schubert, scrolling up to the top of the page.

Sir, long-term investments are categorized under planning investments, aren't they?

MR. DARREN RAINKIE: In this, it's a slightly different categorization. I -- you know, sir, I'd have to go back to say what -- what the definition of that line is, planning investments.

MR. MATTHEW GHIKAS: Let's -- can -- can we bring up side 26 of -- of your presentation this morning, Mr. Rainkie.

So this -- this is comparing CEP '22, as you referred to it, and CEF '16, right, 2016?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: Okay. And so the 2016 forecast effectively versus the 2022 forecast?

MR. DARREN RAINKIE: Yes, sir.

MR. MATTHEW GHIKAS: So the -- the forecast in the 2016 forecast, you'd agree with me that the years 2023 to 2025 were seven (7) to ten (10) years out at that time?

MR. DARREN RAINKIE: They would have been, yes, sir.

MR. MATTHEW GHIKAS: Okay. And I believe you said earlier the predictive value of forecast goes down over time?

MR. DARREN RAINKIE: Yes, it does --

MR. MATTHEW GHIKAS: All right.

MR. DARREN RAINKIE: -- although I think it's -- you know, regard -- regardless, I think in the last Rate Application, 2019/'20, when I looked at, you know, forecasts that were closer together, forecast over forecast, there was usually about a 10 percent reduction in the early years.

So it's not just a matter of the fact that CEF '16 was five (5) or seven (7) years out of date.

MR. MATTHEW GHIKAS: Okay. Mr. Rainkie, you haven't made any attempt to link the 10 percent to specific projects or -- or expenditure programs, have you?

MR. DARREN RAINKIE: Not specific details, no.

MR. MATTHEW GHIKAS: You haven't referred to any specific business operations capital project in your evidence, have you?

MR. DARREN RAINKIE: Well, it's kind of hard to do that with placeholders and -- and extrapolations, sir. And that's my point is that I -- I wasn't making adjustments in the -- in the test years. I was trying to find an extrapolation to test a twenty (20) year rate scenario.

MR. MATTHEW GHIKAS: Sir, when you were the CFO, are you saying that you did not put in project placeholders in long-term forecasts, that you put a zero in there --

MR. DARREN RAINKIE: No, I --

MR. MATTHEW GHIKAS: -- or -- or didn't mention them at all?

MR. DARREN RAINKIE: No. Of course we did, but that -- that's the problem. That's the problem with trying to do twenty (20) year rate setting is you have to do that, and that -- that's what makes it subject to judgment and -- and placeholders and such.

So like I didn't set the table. Manitoba Hydro set the table with a twenty (20) year rate forecast. I'm just trying to follow it and test it the best I can.

MR. MATTHEW GHIKAS: And -- and, Mr. Rainkie, you didn't make any reference to the dozens of capital investment justification documents that Manitoba Hydro's filed in this proceeding?

MR. DARREN RAINKIE: Oh, please, sir, please. Like let's not bring the CPJs into this. I mean, they are very poor, and the reason there are dozens of them is that most of them are repeats of -- of, you know, the same project, just every second year there's an adjustment to the budget.

So your use of 'dozens', I don't know. I -- they are -- and -- and at one point they were referred to as business cases. I mean, the CPJ would be the -- the equivalent to perhaps looking at the index or the -- sorry, the executive summary of my report. You know, it's very short. I don't think that those CPJs prove much.

MR. MATTHEW GHIKAS: Ms. Schubert, if you wouldn't mind calling up the Midgard presentation, slide -- or Exhibit CC-15, slide 27.

THE CHAIRPERSON: Mr. Ghikas, you've got about five (5) minutes.

MR. MATTHEW GHIKAS: I'm just about done. Thank you.

CONTINUED BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Now, Mr. Rainkie, this -- this slide 27 is -- was prepared by Midgard, and you'd agree with me, if you take a look at that list there, that those factors are important considerations in asset planning and budgeting? I recognize you're not an engineer, but I think we can probably agree on that. Right?

MR. DARREN RAINKIE: Yes.

MR. MATTHEW GHIKAS: Okay. And you haven't addressed a single one of those factors in the context of your recommendation of a 10 percent cut or -- or 10 percent reduction in business operations capital, have you?

MR. DARREN RAINKIE: Well, sir, as I just said, there's 92 percent placeholders in the capital budget, going out 20 years. So, I -- I don't think Manitoba Hydro has addressed these as well in detail, so, it would be very difficult for the -- in seven years to do that.

MR. MATTHEW GHIKAS: So, the answer to that was, no, you have not. Correct?

MR. DARREN RAINKIE: Not specifically. Not in detail.

MR. MATTHEW GHIKAS: Thank you, Mr. Rainkie. I appreciate your time. Thank you, Mr. Chairman. That concludes my cross.

THE CHAIRPERSON: Thank you, Mr. Ghikas. Mr. Hombach...?

CROSS-EXAMINATION BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Thank you, Mr. Chair, and good afternoon, Mr. Rainkie. I'll try not to tread on too much ground that my friend, Mr. Ghikas, already covered. So, hopefully, I'll be able to cut some of these questions.

Mr. Rainkie, there's been repeated reference, when Mr. Ghikas examined you, to the 70/30 target.

Is it fair to say that you disagree with the government's decision to legislate a 70/30 decision for Manitoba Hydro?

MR. DARREN RAINKIE: It's -- it's not my position to disagree with the government, sir. My judgment would be that target is a bit rich but, for the purposes of this hearing, I was -- was providing advice to the Board under the current jur -- jurisdiction of the Board.

MR. SVEN HOMBACH: And, during your tenure at Manitoba Hydro, the long-term target of the Utility was 75/25?

MR. DARREN RAINKIE: Yes. It was.

MR. SVEN HOMBACH: And I noticed, Mr. Rainkie, that, when you asked Manitoba Hydro to do the various scenario runs, you started out with a long-term target of 75/25.

Does that mean you believe that that's an appropriate long-term ratio?

MR. DARREN RAINKIE: Well, I'm cogniz -- cognizant of the Board's decision in the last hearing that -- major hearing -- sorry -- that -- that's it's not an appropriate target.

I -- I think the Board could say that it is a -- something, perhaps, that could be a much longer term target. So, I was trying to give weight to other considerations, some of the other five (5) metrics, and some weight to the equity ratio as well in that -- in those scenarios and try to, you know, satisfy, I guess, everybody's -- everybody's want to move to a stronger balance sheet.

MR. SVEN HOMBACH: Do you accept that, after April 1 of 2025, 70/30 is a done deal, that the Board will be bound by?

MR. DARREN RAINKIE: Well, again, you know, we have a pretty pivotal event in October that may mean that it isn't and, as well, I -- I think noted some of the flexibility in the -- in my reading of Bill 36, as well, in terms of, you know, the govern -- the government putting in the 30 percent as a policy.

Describing that, the word is there, and having the ability to write regulations and change dates. So, I -- I -- I don't -- I'm not a lawyer, but I just -- I see some flexibility in there that -- that the word "done deal" would go too far for me, if that makes sense?

MR. SVEN HOMBACH: Okay. Now, your recommendation was to confirm and finalize the 3.6 percent and, then, have a single 1.3 percent rate increase?

MR. DARREN RAINKIE: That's correct.

MR. SVEN HOMBACH: Does it mean -- do

-- do you believe that, if this were to happen, within the constraints of Bill 36, Manitoba Hydro will be able to comply with the legislated target?

MR. DARREN RAINKIE: In a 20-year forecast, sir, who knows what is going to happen, because I think we're -- we're placing too much weight on the fact that that 20-year forecast is pristine, like, the predictive value of forecasts, after three to five years, goes almost down to zero.

So, a more sensible approach, to me, as I tried to indicate this morning and, hopefully, I was clear about it, was to work towards that first target of 80/20, keeping in mind other ratios too.

I'm -- I'm not suggesting putting a hundred percent weight on -- on -- on a debt/equity ratio, but keeping in mind the other five (5) metrics that I've described.

To me, it's, you know, I don't know, you get your -- you get your kids through grade school first and, then, you get -- you get them to university, but, do you pick their -- their vocation when they're in Kindergarten, you know, I mean, first things first.

I think, you know, my own view, from a common sense perspective, is that the Board, say it, you know, it -- that's it's complying with that Act.

There's nothing in that that I see that says we have to run a twenty (20) year scenario and pretend that that's a pristine scenario that will get us to the -- as I described in my curling analogy, the button.

So, I -- I hope my perspective is clear with the Board. I -- I mean, Hydro will cone back every couple years to the -- to the PUB for rate applications, we'll put a new forecast out.

CC-10 puts us on a trajectory, if you believe the forecast to '27 or more. In fact, I recommend a 1.3, which would probably get us to '28 or something like that if you really wanted to be technical.

So, we're in the neighbourhood. We're near the button. We might not be on the button, but we're -- you know, we're near the -- the rings, right. And -- and I think that is a common sense way to deal with this conundrum between the current, you know, legislative framework, and that which may be operative on April 1st of 2025.

MR. SVEN HOMBACH: So, I -- so, I do feel bad about picking my children's vocation while they were in grade school now, but that's not a subject of this examination.

I would like to pick up on your comments that there's a -- that -- that the forecast becomes less reliable going forward. And I'd like to take you to page 47 of your report.

One (1) of the arguments that -- or one (1) of the arguments you made in your report is that the rate plan that Manitoba Hydro proposed overshoots because it achieves 37 and 20/20, but then moves on to 34 percent by 2042. Do you see that?

MR. DARREN RAINKIE: Yes.

MR. SVEN HOMBACH: Now, does it matter what happens under this plan in 2041/2042? As you say, a long-time forecast just have diminishing utility?

MR. DARREN RAINKIE: Well, sir, I guess if we're trying to pick a twenty (20) year rate scenario or path trajectory, and if the mandate of the Board is to balance the interest of the customers and the financial health of the Utility, then I think, you know, an overage of 1.1 billion is a -- is a material consideration, sir.

MR. SVEN HOMBACH: But at this point in time you'd agree the Board is not setting rates for 2041/2042?

MR. DARREN RAINKIE: No, that's my point. That's my -- I'm going back to my earlier point. Common sense, move towards the first target first and don't pretend like you're moving towards the -- the second target until you get to the first one.

MR. SVEN HOMBACH: So -- so then on that note, Mr. Rainkie, I would like you to take you through that and I'll take you to the Board Counsels' Book of Documents, Volume IV, page 133.

One (1) of the Information Requests that the Public Utilities Board had asked the Utility is what the rate path would have to be to meet the first of the targets, 80 percent by 2035.

And if you look at the highlighted portion on the bottom of the page, it would lead to a rate path of about 1.43 percent. Do you see that?

MR. DARREN RAINKIE: 1.43, yes, I see that, sir.

MR. SVEN HOMBACH: So -- so, that is still higher than what you're suggesting. First of all, it -- it's higher than the potential ongoing rate path under your scenarios, but it also assumes that there's going to be 1.43 percent for 2023/'24.

MR. DARREN RAINKIE: It doesn't assume any -- it -- it just -- I think the scenario doesn't assume more prudent cost structure though, I think is the difference.

MR. SVEN HOMBACH: When you say "more prudent cost structure," you're talking among other things about reducing business operations capital by 10 percent?

MR. DARREN RAINKIE: Yes, and I'm talking about, you know, a more balanced approach where, you know, instead of 111 percent, and this is operation capital, there's 90 instead of a 60 percent increase in operating costs there's 50, for rate-setting purposes, for the purposes of a twenty (20) year projection.

MR. SVEN HOMBACH: So -- so let's deal then with the rate paths that you had suggested and -- and Mr. Ghikas took you through that a bit.

You repeatedly referred to the path that you called CC-10 and CC-11, do I have that right?

MR. DARREN RAINKIE: That's correct.

MR. SVEN HOMBACH: So, if we could go to the second round Coalition/Manitoba Hydro Information Requests. And have a look at the beginning of MH-2-24. 24 not 29, and let's scroll down a bit.

Just so that we're on the same page,

Mr. Rainkie, Clause B in that Information Request, that is CC-10?

MR. DARREN RAINKIE: Yes.

MR. SVEN HOMBACH: Okay. And -- and in that rate path, you are the one who prescribed the 1.21 percent per year?

MR. DARREN RAINKIE: Yes, based on earlier scenarios.

MR. SVEN HOMBACH: And there's a few assumptions that flow into that, and I'd like to discuss Assumption Number 2, which says that:

> "The additions of the depreciation method deferral account and losses of disposal of assets deferral account, continue for the twenty (20) year forecast."

Do you see that?

MR. DARREN RAINKIE: Yes, sir.

MR. SVEN HOMBACH: So, you refer to the depreciation evidence data that I previously, jokingly, called D-Day, on -- on Monday, we -- we haven't done that yet.

But I wanted to be clear, are you suggesting that this continue to be done based on the existing CGAP Average Service Life Methodology?

MR. DARREN RAINKIE: In this scenario, yes.

MR. SVEN HOMBACH: So -- so this would not account for any potential change or any depreciation expense that might be in excess of the existing CGAP methodology.

MR. DARREN RAINKIE: Well, this -- this would continue deferring the differences between the two (2) methodologies and amortizing them over these period of time, sir, if that helps.

MR. SVEN HOMBACH: It -- it -- it does, but at the risk of belaboring the point, if the Board were to choose to have the Utility remain with average service life or -- or average life group.

MR. DARREN RAINKIE: Right.

MR. SVEN HOMBACH: You -- this scenario would suggest to continue to defer the difference between an IFRS compliant methodology and the CGAP methodology?

MR. DARREN RAINKIE: Yes, I think we're at the -- on the same, but -- but -- but there's an amortization of it as well, sir, right? In this scenario, of -- of that difference?

MR. SVEN HOMBACH: Right. Mr. Rainkie, I -- I'd like to turn to the issue of the interim rate and I don't know to what extent you were monitoring the examination of Manitoba Hydro's revenue requirement panel, but -- but -- but you quoted myself and others, so I assume you're familiar with that examination?

MR. DARREN RAINKIE: I -- I was -- maybe my presentation here and listening to it on an I-Pad over here, so I -- I have a general gist, sir, but I don't know that I have your greatest hits in there.

MR. SVEN HOMBACH: So -- so, oh, there were no greatest hits, I assure you.

The -- the 3.6 percent, I take it you're aware of the context under which the -- the Public Utilities Board awarded that 3.6 percent interim rate increase?

MR. DARREN RAINKIE: Yes, I -- I advised Mr. Williams and company on that hearing, so I was involved with it.

MR. SVEN HOMBACH: So, is it your understanding that the drought conditions that existed when the Order was made started to dissipate fairly quickly and we actually moved into flooding conditions or -- or high water flow conditions?

MR. DARREN RAINKIE: Yes, and you know

what, in my -- it was badly needed because my water bill, that -- which my wife pays, was getting way out of control, so I did notice that.

MR. SVEN HOMBACH: So, one of the things the -- the Board indicated in Order 9 of '22, is that in this hearing it would look into what portion of the interim rate increase was required because of the drought and what portion was required as a result of operational considerations.

Are you familiar with that?

MR. DARREN RAINKIE: Sorry. What -- what's the source of that again, sir?

MR. SVEN HOMBACH: It is Order 9 of '22, but I -- I don't have the page reference in this one -- I can --

MR. DARREN RAINKIE: Sorry, why -- why don't we continue on, sir. I'm not trying to be difficult, I just want to make sure I understand your question.

MR. SVEN HOMBACH: So -- so, let's -- let's actually turn to tab 4 of Manitoba Hydro's application and go to page 7 of 52 in the document.

Mr. Rainkie, this -- this is an excerpt from Manitoba Hydro's financial forecast scenario and it indicated that the interim rate resulted in an

additional $65 million of revenue to the Utility.
Do you see that on line 2?
MR. DARREN RAINKIE: I see that, sir.
MR. SVEN HOMBACH: Okay. And, at the end of the year, if we scroll down the page a little bit, Manitoba Hydro had record net income in that year of 751 million?
MR. DARREN RAINKIE: That's a projected number, yeah.
MR. SVEN HOMBACH: Yeah. In -- in -- in your assessment, in retrospect, was a -- an interim rate increase for that test year necessary at all?
MR. DARREN RAINKIE: For the 2022/'23 test year?
MR. SVEN HOMBACH: Yes.
MR. DARREN RAINKIE: I would say not, based on that -- that information. I mean a $751 million net income.
MR. SVEN HOMBACH: So -- so is it fair then to say --
MR. DARREN RAINKIE: On its own, like, sorry, sir. Like if you were just -- if you were looking at that as a single test year with no other considerations, I would say it's a pretty good year.
MR. SVEN HOMBACH: So -- so is it fair

then to say that -- that your position to confirm and finalize the 3.6 percent is based on pragmatic considerations, where you're saying, the Board should look at the four (4) test years as -- as one period?

MR. DARREN RAINKIE: Yeah. I -- I -- you know, interim rate increases are difficult things, once they get in, they're very hard to get out and -- and I don't know, I think -- at least since I've been participating at these hearings, interim rate increases they're -- it -- people -- most parties tend to look at a perspective view of things and say, okay, unless something is egregious that's happening, let's accept that and -- and -- and move forward.

So, I will accept your characterization of that as a pragmatic approach.

MR. SVEN HOMBACH: So -- so I -- I -- I take it we're going way back now, Mr. Rainkie, but you -- you remember that a little over a decade ago, there was an Order of the Board to put a 1 percent portion of an interim rate increase into a deferral account?

MR. DARREN RAINKIE: Yes. I -- I -- I've lived all those years and I vaguely remember it, sir.

MR. SVEN HOMBACH: So, so, my question

to you, simply is this: If the Board were to decide that there should be a -- a whole impartial rollback of the 3.6 percent, what would your view be on appropriate mechanisms to do so?

MR. DARREN RAINKIE: Well, there's a number of options. I -- sorry, sir, I get -- the first thing we have to sort out is it -- is it going to reduce it or is it going to -- we talked about in my presentation, perhaps putting some of it in a deferral account to rate smooth into the future.

Or, are you talking about reducing it? Because if you reduce it then it just -- well it will reduce the revenues in -- in the financial results of Manitoba Hydro.

If you want to do something different with it, there's a -- probably, infinite number of options you could approach.

MR. SVEN HOMBACH: As far as you know, there's never been a -- a rate rider from Manitoba Hydro, like there's been for Centra in such situations?

MR. DARREN RAINKIE: No. I can't remember a rate rider situation.

Rate riders are -- are usually on the gas, that are mainly on the -- on the cost of gas side so there hasn't really been an equivalent one on the electric side that I can remember.

MR. SVEN HOMBACH: Mr. Rainkie, I'd like to switch topics and deal with a 1A expense now.

And, let's start by going to one of the slides in your presentation. It's slide 23.

Do you recall taking the Board through this slide this morning when you provided your direct testimony?

MR. DARREN RAINKIE: I'm getting a bit older, but if my memory is that -- is -- is good for the day, sir, yes, I do.

MR. SVEN HOMBACH: Now, you -- you contrasted the Strategy 2040 approach to the escalation based on Order 69 of '19?

MR. DARREN RAINKIE: Yes, I did.

MR. SVEN HOMBACH: And Order 69 of '19, that's the black line?

MR. DARREN RAINKIE: That is the black line. Yes.

MR. SVEN HOMBACH: So, so that assumes a 1 percent escalation year by year -- year over year.

MR. DARREN RAINKIE: Yes, it assumes two (2) things. That they're -- the numbers -- it's probably on this slide here, but for rate setting the

Board indicated to use a -- was it a four hundred and (400) -- I can't -- it's probably on this slide. If I could just get -- the Board found a $489 million O&A target, versus the 511 million that was put forward by Manitoba Hydro.

So, there's two (2) things. There's a lower starting point by $22 million, if -- and then there's 1 percent escalation on top of that, just to be clear.

MR. SVEN HOMBACH: I -- I'd like to go back to the lower starting point in -- in a little bit, but for now, I'd like to take you to Manitoba Hydro Exhibit 43, which is the undertaking that was filed yesterday. If we could scroll down a bit to the next page.

Now, Mr. Rainkie, I don't know if you've had a chance to -- to see this chart. But this was a year over year CPI chart that Manitoba Hydro filed on the record yesterday.

And I'll give you a few moments to look at it and let me know when you're ready, please.

(BRIEF PAUSE)

MR. DARREN RAINKIE: Let's proceed,

Mr. Hombach, please.

MR. SVEN HOMBACH: So Mr. Rainkie, the 20/'19 Order that was issued at a time when the year over year CPI would have been at about 2.0 to 2.2 percent?

MR. DARREN RAINKIE: Sounds within the range, sir, from that chart.

MR. SVEN HOMBACH: And -- and it's fair to say that there's been a significant increase in inflation in the past year or two (2) as shown on this chart, right?

MR. DARREN RAINKIE: Yes, there has been.

MR. SVEN HOMBACH: Could you comment whether, in light of inflation actually being quite a bit higher now than it was in 2019, that a 1 percent escalator is still appropriate?

MR. DARREN RAINKIE: Well, it -- I've gone through it a couple of times and hopefully it's clear, Mr. Hombach. And let me -- let me try again and you tell me if it's not clear.

Manitoba Hydro's evidence is 80 percent of its costs are going to move along the lines of wages and salaries, right? And the 20 percent of its costs will have more reference to the level of CPI.

So back-of-the-envelope calculation, if I take 20 percent of $600 million, that gives me $120 million of costs that might move in line with inflation.

You know, and so, if I say, Well, inflation is, you know, 4 percent higher, if I take 4 percent times $120 million, I might get $5 million, if I'm doing my math correctly.

And so, that would -- that could be the potential of the impact on Manitoba Hydro of that higher CPI. So we're not talking 30 million or 50 million -- like, you can't take $600 million of operating costs and times it by 6 percent, and say, Oh my God, you know, we should have a higher -- like, a $5 million higher -- and the other thing is -- I mentioned this morning is this is a -- would be -- if you're -- if you're going to rely on consensus forecasts for rate setting -- which we do -- a temporal thing, right?

I mean, you've noticed the extraordinary lengths that central banks have gone to to try to fight inflation. To the point where they're likely going to push a recession on us.

So, you know, I think even if you're going to use a consensus forecast, that curve should come back down. Maybe it doesn't come back down far enough, but then the Manitoba Hydro will be in front of the Board in a couple of years.

MR. SVEN HOMBACH: So I take your point, Mr. Rainkie. You did indicate that the Board should look at primarily the test years for the time being.

And do you agree that that's the gist of your position?

MR. DARREN RAINKIE: No, I think the Board should look at -- because I'm recommending the rate smoothing scenario, I think the Board should look out into the forecast but put more weight into, you know, the first five (5) to ten (10) years than -- than pretending we can -- we can understand with certainty what's going to happen in twenty (20).

MR. SVEN HOMBACH: So I -- I'd like to show you a slide from Manitoba Hydro's revenue requirement presentation a few days ago. It's Manitoba Hydro Exhibit 42, page 25.

Now, Mr. Rainkie, I don't recall who from Manitoba Hydro spoke to that slide. But it includes a waterfall chart that breaks down the budgeted operation and administration expenses. And it shows the impact of merit and GWI, which stands for

General Wage Increase. Do you see that?

MR. DARREN RAINKIE: Yeah.

MR. SVEN HOMBACH: So -- and I do believe you acknowledged in cross-examination by Mr. Ghikas that Manitoba Hydro has a limited control over merit increases and arbitrated wage increases.

Correct?

MR. DARREN RAINKIE: Perhaps if it's arbitrated. But I -- are they totally past negotiated settlements? Like, I mean, I -- it's a matter of degree. Like, I wouldn't say it's -- they have no control. But I think they would still try to bargain with their bargaining units before it goes to an arbitrator. I would assume that's a -- a policy goal of Manitoba Hydro.

MR. SVEN HOMBACH: So -- so what I'd like to point out on this chart is that for 2022/23, Manitoba Hydro projects a 2 percent increase to the O&A budget just as a result of merit and GWI. And for 2023/24, a further increase of 2.1 percent.

Do you agree that those are plausible numbers?

MR. DARREN RAINKIE: I agree that they're plausible. But what I -- what -- what's missing on the waterfall chart is the top-down approach to budgeting -- well, it's not just budgeting. It's not about spreadsheets; it's about management. Where are the offsets in there? Where is the efficiencies?

Anybody can add up, you know, last year, plus, plus, plus, plus, plus. And that's what this is.

Also, the 2022/23 number is overstated because of a pension discount rate that's probably 1 to 2 percent lower than what -- what it should be. So that number is -- is way too high.

MR. SVEN HOMBACH: So I -- I actually -- I would like to go down that rabbit hole just a little bit. But I'd like to hold it in abeyance for that.

If Manitoba Hydro is correct about these salary increases, doesn't that mean that a 1 percent escalator is akin to an actual cut in O&A expense?

MR. DARREN RAINKIE: It could be. I mean, that's -- that's essentially what the -- the previous forecasts of Manitoba Hydro have been.

As I said, like, going back to the 2015 Hearing, we had a 1 percent escalator. That was assuming a couple -- a 2 percent productivity that the

Company would deliver that year on year for ten (10) years.

MR. SVEN HOMBACH: Still on the subject of O&A, I'd like to address one other issue and that's the impact of the accounting changes from cloud computing.

And Mr. Rainkie, I'll refer you to Board counsel book of document, volume 4, page 263. I have no accounting credentials. It's one of my great regrets in life.

But you see that Manitoba Hydro attributes about $25 million in 2023/24 and $31 million in 2024/25 to the cloud computing issue?

MR. DARREN RAINKIE: Yes, I see that.

MR. SVEN HOMBACH: And do you agree with Manitoba Hydro's assertion that if there hadn't been a change to software as a service model, it would have been a capitalized expense?

MR. DARREN RAINKIE: Yes. Yes.

MR. SVEN HOMBACH: So this is, effectively, an accounting change that serves to increase O&A expense, right?

MR. DARREN RAINKIE: Yes, it does.

MR. SVEN HOMBACH: Now, does your suggested 1 percent escalator take this into account?

MR. DARREN RAINKIE: Sorry, my suggested 1 percent escalator? What -- what --

MR. SVEN HOMBACH: The concept of the 1 percent escalator from 2019, that wouldn't take this accounting change into account.

MR. DARREN RAINKIE: The -- the Board's decision from 2019?

MR. SVEN HOMBACH: Yes.

MR. DARREN RAINKIE: No, it wouldn't. But there's $174 million difference between there. So if you took the thirty-one (31) off, I guess you're -- you're at 130 million. Just for a frame of reference.

MR. SVEN HOMBACH: Now, Mr. Rainkie, while we're on the subject of the cloud computing issue, you indicated that you recommended the Board should not approve Manitoba Hydro's proposed SAP S/4HANA deferral account at this point, right?

MR. DARREN RAINKIE: Yes. I find that the information on the record doesn't -- doesn't meet an appropriate regulatory test in my -- my professional opinion.

MR. SVEN HOMBACH: So if the Board does not approve that and Manitoba Hydro incurs those expenditures, is it your understanding that those would hit the books as part of O&A expense in the test years?

MR. DARREN RAINKIE: That would be my understanding. But the other part of my recommendation is that when there is a business case, that Manitoba Hydro make application to the Board for, you know, approval of that -- that deferral account.

MR. SVEN HOMBACH: So -- so I appreciate you were listening to the examination of the revenue requirement panel with one ear. But in case you don't have an eidetic memory, I'll take you to the transcript. I'd like to explore this a bit more.

Ms. Schubert, if we could go to the May 29th transcript, please. And we'll begin at the bottom of page 2,186.

So Mr. Rainkie, I had asked Manitoba Hydro's controller, Mr. Fogg, on what would happen if the Board were to defer a decision on whether or not to approve the deferral account.

And I -- I asked if Manitoba Hydro effectively would be able to set it up on spec on the assumption that the Board would subsequently approve it.

And there was a response on the record from Mr. Fogg on page 2187, the next -- next page, saying that Manitoba Hydro's initial analysis is that it wouldn't be able to create it without direction from the Board at this time. But if the Board indicated that it were deferring the decision to a later point but not outright rejecting it, it might be a grey area.

Do you agree with that assessment by Manitoba Hydro?

MR. DARREN RAINKIE: Yes, but I think if -- it may be further down in this discussion. There was a suggestion that there wasn't any precedent for this to rely on, and I think there is precedent on the gas side of the business through the regulatory deferral account that was set up on the meter exchange costs.

It was an accounting change as well, and the Board ultimately approved that type of an arrangement. So I think -- I think the Board's -- I don't know if it's called direction, what -- whatever the right word would be that you and -- you and Mr. Fogg were talking about here, Mr. Hombach, like whatever the word -- the comfort words or whatever the right term is.

It's getting late in the day and I'm -- I'm not picking my words carefully as I was in the morning probably, but between that comfort and the precedent that's already here, I think Hydro could set that deferral account up itself, much like it did the Keeyask one.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Now, Mr. Rainkie, I indicated that, to everyone's delight, I would actually go down that rabbit hole of the pension discount rate for a few minutes. And I'll limit it because it's a shallow rabbit hole.

Let's go to page 19 of your presentation, please.

(BRIEF PAUSE)

MR. SVEN HOMBACH: So -- so your evidence was that Manitoba Hydro has likely understated the discount rate, and that would overstate the pension liability.

That's essentially the -- the summary of it, right?

MR. DARREN RAINKIE: That's right. There's an inverse relationship.

MR. SVEN HOMBACH: Because with a higher discount rate, the net present value of that liability shrinks?

MR. DARREN RAINKIE: That's right.

MR. SVEN HOMBACH: If we could go to -- to Appendix 3.1, please. Appendix 3.1 is Manitoba Hydro's last Annual Report, and let's go to page 97.

You might have to dig back in your memory from -- from when you were at Manitoba Hydro, but Manitoba Hydro's employees are part of the Civil Service Superannuation Plan, correct?

MR. DARREN RAINKIE: Correct.

MR. SVEN HOMBACH: And is my understanding correct that Manitoba Hydro is not a pre-funding employer? And -- and perhaps for the benefit of the Board, there is an employee contribution and an employer contribution.

MR. DARREN RAINKIE: Yeah.

MR. SVEN HOMBACH: Do I have that correct?

MR. DARREN RAINKIE: Yeah.

MR. SVEN HOMBACH: And -- and the provincial government does not pre-fund the employer contribution but pays the benefits out of current revenues?

MR. DARREN RAINKIE: Gees, I'm not sure about that, no. Sorry. I'm not sure how this is relating to the discount rate. Maybe it doesn't.

MR. SVEN HOMBACH: So -- so --

MR. DARREN RAINKIE: Like, Mr. Hombach, just -- just to be clear, there is a set of IRs on this in terms of what a 1 percent change in the discount rate would mean in terms of the -- the benefits.

So, I don't know if we're going a circular route around to try to find this, or we could go to a direct route. But may -- maybe I'm missing something.

MR. SVEN HOMBACH: So -- so the discount rate changes the -- the size of the liability on Manitoba Hydro's books, does it not?

MR. DARREN RAINKIE: That's right.

MR. SVEN HOMBACH: But does it change the actual expenditures that Manitoba Hydro has to make during the test years?

MR. DARREN RAINKIE: The cash, you mean?

MR. SVEN HOMBACH: Yes.

MR. DARREN RAINKIE: I'm not sure about that part. I was looking at the accounting because the -- the for -- the forecast in the Application is based on accrual accounting. It's not a cash --

MR. SVEN HOMBACH: Right.

MR. DARREN RAINKIE: -- cash basis. But, you know, if you -- if you track through -- and I'm sure your counterpart, Mr. Cathcart, did -- track through all of the various variance analysis that happened over the last five (5) or seven (7) years, you'll note that when the discount rate -- when it went the other way, the cost went up, right?

There's a variance analysis when benefit -- benefits went up. I -- I can't remember which year. It was likely around the COVID when interest rates collapsed. And so when interest rates go up again, one would expect that the opposite would happen, right?

MR. SVEN HOMBACH: But for the test years themselves, that would likely be limited, would it not, because those are current-year expenditures?

MR. DARREN RAINKIE: No, no. I mean, it's -- it's -- if -- if -- the -- the -- somebody's handing me the IR, that -- that's not the evidence that's on the record.

The evidence on the record is I asked

for a 1 percent change in the discount rate and it's not an inconsequential amount because I think the discount rates that are actually in the forecast are like I think they're in the 3 percent range or something that or are a little bit over, because they're based on maybe '20/'21 actuals or something like that.

And the index that Manitoba Hydro was -- that it was quoting that it uses to -- to -- to discount -- there's an index that it purchases, that it uses as the information to conform with accounting standards, was saying that the rate was -- I don't know -- I want to say 450 -- 4.50 to 5.25.

So, it -- it implied to me there is almost a 2 percent change in that discount rate, but tho -- the 37 to 74 is -- the 37 million has a 1 percent change and the 74 million has a 2 percent change, for clarity

THE CHAIRPERSON: Mr. Hombach, you're got about 10 minutes.

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Okay. And, Mr. Chair, this concludes this rabbit hole. So, let -- let's move on to the subject of interest rate risk, Mr. Rainkie.

Now, is it your understanding that Manitoba Hydro, in the next few years, is -- is planning to refinance about $1 billion per year?

MR. DARREN RAINKIE: Yes, sir.

MR. SVEN HOMBACH: And that's about, give or back, 5 percent annually?

MR. DARREN RAINKIE: Yes, sir.

MR. SVEN HOMBACH: Now, I'd like you to take you to a Board Counsel Book of Document, Volume 4, again, page 179.

That includes Manitoba Hydro's long-term interest rate projection and that's an excerpt from their application.

You see that?

MR. DARREN RAINKIE: Yes. I do.

MR. SVEN HOMBACH: And the gist of it is that the consensus long-term rate in that forecast is about 3.95 percent?

MR. DARREN RAINKIE: I've discovered from -- from this hearing process that I badly need a new pair of glasses and I think that that's my understanding, but I cannot read the legend.

MR. SVEN HOMBACH: Ms. Schubert, perhaps, we can zoom in a little bit?

MR. DARREN RAINKIE: Yep.

MR. SVEN HOMBACH: So, it's 3. It -- it wasn't intended as a trick question --

MR. DARREN RAINKIE: No. No. Sorry. I didn't take it as one.

MR. SVEN HOMBACH: -- but, Mr. Rainkie, as part of the IR process, in response to a PUB AR, Manitoba Hydro filed an updated forecast and that's at page 211 of the document.

MR. DARREN RAINKIE: Okay.

MR. SVEN HOMBACH: And, if we scroll down to the bottom of that page, it shows that, within the span of a few months, that consensus forecast has changed from a 3.95 percent to about 4.25.

Do you see that?

MR. DARREN RAINKIE: Yes.

MR. SVEN HOMBACH: Could you comment on whether that increases Manitoba Hydro's interest rate risk, in your view, and whether that should affect the rate decision the Board makes?

MR. DARREN RAINKIE: I guess. So, it's 4.25 percent. So, it's gone up, what, 30 basis points from the prior -- prior calculation that we looked at? So, the interest rate risk...

I -- well, I'm not sure how Hydro now

does the interest rate risk calculations, the 1 percent higher interest rate risks, would it -- would it put 1 percent on top of the 4.25 percent versus 1 percent on top of the 3.95, and if -- and if it did, it -- it would -- it would increase that, but I don't think it would make up for the 56 percent reduction since, you know, two GRAs ago, or a 38 percent reduction since the last GRA, but it would marginally take it up, yes.

MR. SVEN HOMBACH: And, Mr. Rainkie, the -- the last topic in which I have some questions for you is your evidence on floating inter -- floating debt compared to fixed rate debt and let's, perhaps, start with page 31 of your presentation.

Now, am I summarizing your evidence correctly, if -- if I say your view is that Manitoba Hydro should increase its proportion of -- of floating rate debt and that by not doing so, it may be overstating interest expense?

MR. DARREN RAINKIE: Well, Manitoba Hydro will do what it wants to do. I don't think the Board, or anybody, has the ability to direct them. But I'm saying, like in a balanced, you know, in terms of the Board's mandate of balancing the interests, I would think that a marginally higher floating rate would be appropriate, along the lines it -- was the scenario that I provided to --

MR. SVEN HOMBACH: And -- and Mr. Rainkie, a few days ago, I asked those questions of Manitoba Hydro's treasurer and Manitoba Hydro included some rebuttal evidence.

I'll take you to that evidence. Manitoba Hydro's rebuttal, page 67, and if we could scroll down to the -- the beginning of page 17. Sorry, line 17, that previous page.

Now, Manitoba Hydro indicated in its rebuttal and its treasurer confirmed that when the data is placed, floating day rate debt and fixed rate debt have the same yields.

Do you -- do you agree with that assessment in the rebuttal?

MR. DARREN RAINKIE: No.

MR. SVEN HOMBACH: Okay. Could you explain to the Board why you disagree?

MR. DARREN RAINKIE: Well, first -- first of all, I don't know, it's a -- it's a very theoretical perspective, but like, the forecasts that are embedded in the rate application are based on consensus forecasts. I think that's -- that's an accepted fact.

If you look at all the -- and there's a superlative word that Manitoba Hydro uses with respect to the -- the forecast. There's the preeminent financial institutions in Canada that they use for the consensus forecasts.

Those institutions forecast fixed rates being higher than floating rates. So, if we're going to use a consensus forecast -- and there's an IR that shows the differential and I have it here if we want to go to it, if it would help.

But, if you're going to use a consensus forecasting methodology, for rate applications, then why are we not using -- why are we second guessing those financial institutions. They don't see it that way, sir.

MR. SVEN HOMBACH: I -- I don't think we need to go to the IR, Mr. Rainkie, but just for the record, could you confirm which IR number you're referring to?

MR. DARREN RAINKIE: Sure. Sure. I -- it's 40 -- is it -- it's either -- First Round Coalition/Manitoba Hydro, I think it's 44I.

DR. BYRON WILLIAMS: Mr. Williams is checking that, so you can proceed Mr. Hombach and then we'll -- we'll go on.

MR. SVEN HOMBACH: Thank you, Mr. Rainkie. That actually concludes my questions, although I understand there may be some questions from the panel as well, and we'll offer Dr. Williams a chance to consider whether there should be any re-direct.

THE CHAIRPERSON: The panel has no questions. Mr. Williams, do you have any re-direct?

DR. BYRON WILLIAMS: There is no re-direct, although we would like the panel's permission to enquire of Mr. Hombach his students -- or his children's vocational plans. I think that would be a -- a very interesting discussion. So, if he'll exercise that discretion, we may have a few questions.

MR. SVEN HOMBACH: I -- I would be pleased to have an off-the-record discussion with you.

THE CHAIRPERSON: Okay. That concludes today. Thank you very much, Mr. Rainkie.

Before we go, I just want to note Mr. Williams said it this morning, tonight -- today is -- is Ms. Taylor's last day here and she is -- it's her last day with -- with Mr. Williams and the Public Interest Law Center and we wish you well in all your future endeavours.

Vice-Chair Kapitany, the mother of all

of us, has advised that you -- you're being called to the bar June 15th and we should all attend.

Mr. Ghikas, are you here tomorrow or you're -- okay, I was going to say safe travels then and you won't be here.

Okay. Thank you. We're adjourned until 9:00 tomorrow morning.

--- Upon adjourning at 3:40 p.m.

Certified Correct,

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Wendy Woodworth, Ms.