



“When You Talk - We Listen!”



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 2nd, 2023

Pages 2854 to 2998

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2

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21

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23

24 Thomas Reimer ) GSS and GSM

25 Robert Walichnowski ) customer classes

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15		whether the definition of "revenue	
16		requirement" in sections 39(1) of the	
17		Manitoba Hydro Act is sufficiently	
18		inclusive and focussed on the	
19		appropriate items (e.g., Capital	
20		Expenditures versus Depreciation; debt	
21		servicing costs versus interest), or	
22		whether it is cause for concerns or	
23		concern in terms of the PUB's ability	
24		to set just and reasonable rates.	2996
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1 --- Upon commencing at 9:04 a.m.

2

3 THE CHAIRPERSON: Good morning.

4 Mr. Hombach...?

5 MR. SVEN HOMBACH: Yes. Good morning,  
6 Mr. Chair, members of the Panel, and everybody in  
7 attendance. It's day 13 of the hearing, and the item  
8 on the agenda today is the examination of Mr. Dustin  
9 Madsen of Emrydia on behalf of the GSS and GSM  
10 representative.

11 I have canvassed with my friend, Mr.  
12 Czarnecki. He advised that at this time there are no  
13 undertakings to file. So I would suggest that we turn  
14 the microphone over to Mr. Reimer and that we get Mr.  
15 Madsen sworn in as a witness.

16 THE CHAIRPERSON: Thank you.

17 Mr. Reimer...?

18 MR. THOMAS REIMER: Good morning, Mr.  
19 Chair, Madam Vice-Chair, and members of the Panel. As  
20 you know, I'm Thomas Reimer, counsel for the GSS/GSM  
21 Intervener group.

22 To my left is Dustin Madsen, the  
23 president of Emrydia Consulting Corporation, and he's  
24 our witness for today, as Mr. Hombach just mentioned.  
25 Beside me on my right is Mr. Robert Walichnowski who

1 you know.

2 I've spoken to My Friends and I don't  
3 believe that there is any objection to Mr. Madsen's  
4 qualifications. But for the benefit of the Board, I  
5 think it would be helpful if I briefly walk through in  
6 a -- in a short, direct examination, his  
7 qualifications and expertise as it relates to this  
8 hearing. And then, maybe before I do that, it would  
9 be appropriate to have him sworn.

10

11 GSS/GSM PANEL:

12 DUSTIN MADSEN, Sworn

13

14 EXAMINATION-IN-CHIEF BY MR. THOMAS REIMER:

15 MR. THOMAS REIMER: And just by way of  
16 a final housekeeping matter, we have circulated a  
17 slide presentation, and I believe it is to be marked  
18 as our Exhibit 7. I'm getting a nod there.

19

20 --- EXHIBIT NO. GSS/GSM-7: GSS/GSM Presentation

21

22 CONTINUED BY MR. THOMAS REIMER:

23 MR. THOMAS REIMER: So, Mr. Madsen,  
24 you are the president of Emrydia Consulting  
25 Corporation, correct?



1 MR. DUSTIN MADSEN: Yes, I am.

2 MR. THOMAS REIMER: And Emrydia  
3 provides expert consulting and teaching services to  
4 clients in energy -- in the energy sector in Canada  
5 and the United States.

6 Is that right?

7 MR. DUSTIN MADSEN: That's correct.

8 MR. THOMAS REIMER: And I'd get Ms.  
9 Schubert to turn to slide 3, please. And this is a  
10 visual representation of your qualifications.

11 So, sir, you have a bachelor of  
12 commerce from the Edwards School of Business at the  
13 University of Saskatchewan?

14 MR. DUSTIN MADSEN: That is correct.

15 MR. THOMAS REIMER: And you're a  
16 Canadian chartered accountant, a Canadian chartered  
17 professional accountant, and a US-certified public  
18 accountant.

19 Is that correct?

20 MR. DUSTIN MADSEN: That's correct.

21 That's my accounting background.

22 MR. THOMAS REIMER: And then, in  
23 addition to those certifications, you also are a  
24 certified depreciation professional and a certified  
25 rate-of-return analyst?

1 MR. DUSTIN MADSEN: Yes, I am.

2 MR. THOMAS REIMER: Ms. Schubert, if  
3 you could go to the next slide, please.

4 And I won't go through the whole thing,  
5 and Mr. Madsen's CV is appended to his report, members  
6 of the Panel, so there is more detail on -- on all of  
7 this stuff, but I am going to highlight a few things  
8 for the benefit of the record and of the Panel.

9 So, Mr. Madsen, you've been a senior  
10 auditor with Deloitte?

11 MR. DUSTIN MADSEN: I was, yes.

12 MR. THOMAS REIMER: And you've also  
13 occupied a number of different positions within  
14 utilities in Alberta.

15 Is that correct?

16 MR. DUSTIN MADSEN: That is correct.

17 MR. THOMAS REIMER: And in those  
18 roles, you've had the responsibility for preparing and  
19 tracking budgets at the department and the enterprise  
20 level of the utilities?

21 MR. DUSTIN MADSEN: I did, yes.

22 MR. THOMAS REIMER: And you prepared  
23 and reviewed regulatory filings and financial  
24 statements that were submitted to the Alberta  
25 Utilities Commission?

1 MR. DUSTIN MADSEN: Yes, I did.

2 MR. THOMAS REIMER: You were also the  
3 project manager and the sponsor for the conversion of  
4 Fortis Alberta to IFRS.

5 Is that right?

6 MR. DUSTIN MADSEN: Yes, I was.

7 MR. THOMAS REIMER: And perhaps just -  
8 - this will be more relevant on Monday, but we're not  
9 going to sort of run through your qualifications in  
10 the same way on Monday.

11 So perhaps for the sake of -- of D-day,  
12 as -- as we're calling it, you could just give a short  
13 explanation of IFRS and the transition that's been  
14 happening in the utility environment or publicly-  
15 regulated bodies' environment in -- in Canada over the  
16 last ten (10) or fifteen (15) years.

17 MR. DUSTIN MADSEN: Certainly. So  
18 IFRS has been transitioned over time in Canada from  
19 Canadian GAAP. That transition's been kind of an  
20 ongoing process, especially for utility companies with  
21 a little bit of pain given the rate-regulated standard  
22 is still being refined and updated in the IFRS  
23 standards.

24 That whole transition, I -- I've had  
25 multiple different viewpoints on it, including as a

1 teacher. The experience here listed is the  
2 experienced online facilitator. I taught over four  
3 hundred (400) I think different chartered accountant  
4 students on all the different modules in the Chartered  
5 Accountants School of Business, as well as I also  
6 taught utility-specific course on IFRS.

7                   So kind of the whole transition to IFRS  
8 is -- is unique. There's a lot of judgment and a lot  
9 of I guess -- I guess 'judgment' is the best word.  
10 There's a lot of judgment that's required to  
11 understand how to implement the standards, and I think  
12 all utilities in Canada are still transitioning, to  
13 some extent, as they understand the -- the full  
14 effects of that transition.

15                   MR. THOMAS REIMER: Thank you, sir.  
16 And so just a few more items on that. So you were the  
17 project manager and sponsor when Fortis Alberta  
18 converted to IFRS?

19                   MR. DUSTIN MADSEN: I was, yes. So as  
20 the project manager, I coordinated, essentially, the  
21 IFRS transition for Fortis from Canadian GAAP, but at  
22 the same time, I was also at the -- the vice-chair of  
23 the Canadian Electrical Association, which is now  
24 Electricity Canada, in their accounting and finance  
25 sub-committee.

1                   So in that role, I also assisted in  
2 kind of bringing a lot of collaboration and  
3 consistency in the industry across numerous utilities,  
4 getting into boardrooms with all of the big four (4)  
5 accounting firm representatives, their partners,  
6 trying to get resolution on significant issues under  
7 IFRS.

8                   So it was a -- it was a role that had  
9 me travelling a lot. But it was also a very  
10 interesting role and a challenging role.

11                   MR. THOMAS REIMER: And sir, you also  
12 have experience with this SAP enterprises resource  
13 platform, is that right?

14                   MR. DUSTIN MADSEN: I do. Both at  
15 Fortis Alberta and at AltaLink, I was assisting in  
16 various matters on their SAP system -- systems, as  
17 well as transitional issues and implementation of new  
18 systems and -- and modifications to those systems.

19                   The IFRS project sponsor was the role  
20 that I held as the IT -- so information technology --  
21 sponsor in that role. And transitioning to IFRS, as I  
22 think Manitoba Hydro would agree, requires some  
23 significant modifications to the IT system and -- to  
24 just track and further desegregate systems and assets  
25 and -- it's a lot of work.

1                   So I've got a lot of experience in  
2 that. And since leaving the utility industry, I've  
3 also testified on IT matters in numerous instances.

4                   MR. THOMAS REIMER:   And you also have  
5 experience dealing with deferral accounts within the  
6 utilities, is that right?

7                   MR. DUSTIN MADSEN:   Yes, actually  
8 quite a deal -- quite a great deal of experience. I  
9 think I did that -- I've looked at every type of  
10 deferral account filed, hundreds of thousands of pages  
11 of applications to defend (INDISCERNIBLE)  
12 applications. It's been a significant amount of  
13 involvement in that area.

14                  MR. THOMAS REIMER:   And -- and then,  
15 lastly, you have extensive experience both inside and  
16 outside utilities dealing with depreciation matters,  
17 both as an instructor for other accountants and also  
18 as a practical application within the utilities, is  
19 that right?

20                  MR. DUSTIN MADSEN:   That's correct.  
21 And depreciation is actually quite a passion of mine.

22                               This last summer, when I was -- I had a  
23 -- like, a couple months off, we started working on  
24 developing our own depreciation model and calculations  
25 that run all of those various fantastic -- what they

1 call -- Iowa curves. So we did that. Going through  
2 all those detailed books from the 1940s and 1950s and  
3 building out all that information.

4 So it was actually quite enjoyable.  
5 Rather than being outside on a beach, I was doing  
6 that. So I love it and just have a passion for it.

7 MR. THOMAS REIMER: And as a  
8 consultant, I understand you've given written and oral  
9 testimony as an expert witness to several Canadian  
10 regulators, including in New Brunswick, Alberta, and  
11 the Northwest Territories. Is that right?

12 MR. DUSTIN MADSEN: That is correct.

13 MR. THOMAS REIMER: Sir, you  
14 understand that your duty as an independent expert in  
15 this proceeding is to assist the Board with objective  
16 and non-partisan opinions that are within your areas  
17 of expertise?

18 MR. DUSTIN MADSEN: Yes, I do.

19 MR. THOMAS REIMER: And you understand  
20 that you are to avoid assuming the role of an advocate  
21 for the GSS/GSM Intervener group?

22 MR. DUSTIN MADSEN: Yes, I do.

23 MR. THOMAS REIMER: The evidence you  
24 have provided to the Board in writing and that you'll  
25 provide orally today has been prepared by you, is that

1 right?

2 MR. DUSTIN MADSEN: Yes, it has.

3 MR. THOMAS REIMER: And it is -- it is  
4 true, accurate, and fair to the best of your  
5 knowledge?

6 MR. DUSTIN MADSEN: Yes, it is.

7 MR. THOMAS REIMER: And sir, would  
8 your evidence have been different had you been  
9 retained by another party in this proceeding?

10 MR. DUSTIN MADSEN: No, it would not  
11 have.

12 MR. THOMAS REIMER: Okay. Mr. Chair,  
13 with that, I'm going to turn it over to Mr. Madsen and  
14 he will walk us through his presentation.

15 We invite any questions or comments  
16 that the Panel may have as they occur. Or if you want  
17 to hold it until the end, that's fine as well.

18 There may be one (1) or two (2)  
19 occasions when I interject, but mostly it will be Mr.  
20 Madsen from here for the next thirty (30) to forty-  
21 five (45) minutes.

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

24

25 CONTINUED BY MR. THOMAS REIMER:



1 MR. DUSTIN MADSEN: Excellent. Well,  
2 thank you in advance for having me here to the Board  
3 and good morning, everyone.

4 So the scope of my presentation will be  
5 focusing largely on the areas here on this slide. So  
6 I'm going to go briefly through -- well, maybe not so  
7 briefly through -- but operating administrative costs.

8 I'll discuss the overall increase in  
9 costs and expected evidentiary standard, the zero (0)  
10 base budgeting, labour costs, consulting costs, and  
11 digital and technology costs.

12 And then, next, I will briefly touch on  
13 the SAP S/4HANA transition and cloud computing  
14 arrangement costs. And then, finally, quite briefly  
15 on part 2 rate design matters.

16 So, when we're speaking to O&A costs,  
17 operating administrative costs, there's certain  
18 information that I believe could assist this Board in  
19 determining the reasonableness of the applied for  
20 forecast for Manitoba Hydro.

21 And -- and this is not to suggest that  
22 some of this information is not being provided by  
23 Manitoba Hydro, it's to provide some context for what  
24 I think is valuable at a -- a detailed level for --  
25 for many costs.

1                   So, the first would be detailed cost  
2 benefit analysis to support incremental costs, so  
3 you're looking at business cases, bringing in new  
4 staff, and needs assessments for consulting projects.  
5 I think that type of detailed information is  
6 important.

7                   Reconciliation of activity levels, so  
8 volumes. This is something that I've seen in many  
9 other jurisdictions, where and -- and rates where you  
10 can actually get down to a more granular level of  
11 detail when assessing a forecast against actual costs  
12 because you can understand how the original, actual  
13 costs were built up.

14                   And -- and how they are forecast to  
15 transition, not only at a dollar amount to say, you  
16 know ten (10) million went to fifteen (15) million,  
17 but you can say ten (10) million went to \$15 million  
18 because now we are using a lot more, as well as there  
19 was a rate increase for this consultant or this  
20 contract by 5 percent. So, it -- it builds it down --  
21 it breaks down to a better level of detail.

22                   Benchmarking studies, they're helpful  
23 in every jurisdiction. Benchmarking, you need to be  
24 careful with it because whenever you benchmark an  
25 entity, you're benchmarking it against someone else,

1 or something else, that is not going to be perfectly  
2 identical to that entity.

3           But, they can give you significant  
4 information to identify potential problems and -- and  
5 identify areas of concern, which is I think of  
6 significant benefit.

7           Tracking and reconciliation of position  
8 and full-time equivalent changes, which FTE changes  
9 across periods is also very important.

10           I -- I've seen Excel schedules that are  
11 thousands of rows long, where and -- a single  
12 individual is broken out into literally every  
13 department that they work in and their FTE is  
14 fractioned out to that extent, as well as fractioned  
15 out into the elements that are capitalized versus  
16 expensed.

17           And it's -- it's quite detailed and  
18 that's tracked and explained year after year after  
19 year and into the forecast at the same level of  
20 detail.

21           And, finally, detailed zero based  
22 budgets to trace the forecast costs to the base level  
23 of work required to support the business. When you do  
24 a zero based budget, you get down to a -- the level of  
25 detail that is, I think, essential to allowing you to

1 confirm that the costs are the optimal level of costs  
2 to provide the level of service you require, because  
3 you start by first identifying the work you need to  
4 do, and then you assign resources, as opposed to the  
5 opposite, which is to identify your resources and then  
6 have them do the work.

7           And so some general principles around  
8 operating administrative costs. Utilities generally  
9 they have a significant degree of control over  
10 forecast, O&A costs, such as monthly budgeting and  
11 scrutiny of actual and forecast costs at the line item  
12 and transaction level in detail by department.

13           When I was at Fortis Alberta, I had  
14 monthly meetings with the CFO and I was called in to  
15 answer questions regarding why one cost center was  
16 \$20,000 over budget, yeah, \$20,000 over budget and  
17 this is an entity that has thousands of employees and  
18 billion of dollars in rate base.

19           And, I would be expected to explain  
20 that in the budget, making up names, Karen and Tom,  
21 were not expected to do this training in the United  
22 States, but it was -- it was moved forward from the  
23 next year, or the future year, because it was optimal  
24 because we had cost savings and this and this and this  
25 and this and that's why the costs were up.

1                   It was to that level of detail being  
2 grilled by the CFO and -- and that's how these costs  
3 are controlled in some entities, as an example. And,  
4 AltaLink was much the same.

5                   There's an expectation, as well, with  
6 operating costs, that efficiency gains from prior  
7 periods should be maintained as long as possible,  
8 where sustainable.

9                   And, I won't read in the quote, but in  
10 Order No. 9, 2022, the PUB stated effectively the same  
11 expectation.

12                   So, another expectation or general  
13 principle is changes are not driven -- changes that  
14 are not driven by inflationary pressures, should be  
15 isolated and explained when material, including both  
16 increases and decreases.

17                   So, there's -- there's a bit of an  
18 acceptance that operating costs will, to some extent,  
19 vary by inflationary pressures. The inflationary  
20 pressures for a utility will not necessarily align  
21 with CPI. They could be different, higher or lower in  
22 a year, but, when you have a change that is  
23 significantly greater or lesser than what you're  
24 expecting for your level of inflation, you should  
25 explain that change.

1                   And I think that's, in my experience,  
2 the -- the focus of most tariff applications is, one,  
3 what is the level of inflation, is that reasonable and  
4 reflective of the utility; and, two, what are all  
5 these other things and are those also reasonable.

6                   And kind of the final point, and this  
7 applies mostly to Manitoba Hydro, although I have seen  
8 it applied with other entities as well, like New  
9 Brunswick Power, but Manitoba Hydro controls its own  
10 costs and should support and manage its costs.

11                   Again, I apologize. I've been  
12 testifying quite a bit this week. So, my things got  
13 moved back. So, I think I'm about to lose my voice.  
14 So, I apologize for the cough.

15                   So, I'd just like to go through three  
16 (3) key findings in the Operating and Administrative  
17 costs. The first key finding is, obviously, that  
18 costs are rising significantly. Eleven point six  
19 percent increases from 2023 and in 2023/2024, 4  
20 percent, 4.6 percent in 2024/2025, and this is in the  
21 context if it was rather flat and declining from about  
22 2016/'17 to 2019/'20.

23                   And I -- and I appreciate that the  
24 Board and parties have been through these types of  
25 numbers, and it just gives some background and context

1 for some of my other recommendations.

2                   But I would also like caveat that we've  
3 asked some information -- for some information from  
4 Manitoba Hydro which will assist in -- in refining  
5 this type of a figure here on the right, Figure 11, to  
6 better understand which amounts of the costs relate to  
7 cloud computing arrangement costs, as well as SAP,  
8 because, in -- in my mind, when you want to look at  
9 the true level of an increase in costs, you want to  
10 try and back out any amounts that are abnormal or  
11 unusual, to get to a kind of base level, so you can  
12 isolate what is clearly explainable, in this case, say  
13 cloud computing arrangement or SAP and, then, figure  
14 out what else is happening, what's driving  
15 inflationary pressures and is there something above  
16 that, and that gives you a more of a discrete level of  
17 detail and -- and scrutiny over the costs.

18                   So key finding Number 2, on the next  
19 slide, Ms. Schubert. So, there's generally what I  
20 would classify or -- or characterize as a -- a lack of  
21 detailed evidence to support the rising costs and this  
22 is based on the -- the statements made by Manitoba  
23 Hydro, throughout its application, and as referenced  
24 in my evidence. There -- there's no head count  
25 information.

1 Manitoba Hydro does not report or track  
2 information by position and, on that point, it's --  
3 it's unusual for me, in -- in any other jurisdiction.  
4 In --in my mind, it's -- it's really difficult to go  
5 to an FTE calculation, a Full Time Equivalent  
6 calculation, without understanding and having a  
7 detailed understanding of positions, because FTEs are,  
8 quite frankly, positions less something or plus  
9 something. It -- it can happen, plus something, but,  
10 most often, it's less something, less a vacancy  
11 factor, less -- less an amount that, you know, the --  
12 where the position is not filled. So, it's unusual to  
13 not have that position data.

14 Rolling forward of budgets from prior  
15 years, so, when you're starting with an opening amount  
16 of salaries for employees, when you're -- when you  
17 begin to prepare the budgets that, again, is kind of  
18 different than -- or -- or quite different than the  
19 approach used under zero-based budgeting, that ology  
20 which I will talk to you momentarily.

21 There is no activity-based information,  
22 which is that volume and rate analysis that I spoke to  
23 earlier, and, for Table 3 of my evidence, some of the  
24 increases are significant, such as a 91 percent  
25 increase in consulting and professional fees that is



1 not commonly seen in other applications that I've been  
2 involved in.

3                   And, finally, many cost increases by  
4 cost element exceed the inflation expectations. So,  
5 as I noted earlier, when -- when that is occurring,  
6 when the costs are escalating by a rate that is above  
7 inflation, it is best to identify why that is, and get  
8 detailed explanations for that.

9                   Just very quickly, my third key finding  
10 is that the -- some of the simplified practices for  
11 Manitoba Hydro -- and I'm -- I'm not trying to be  
12 critical in -- in that sense, but it's -- it's a  
13 practice that I think some of what Manitoba Hydro has  
14 done results in, potentially -- well, it does create  
15 inaccurate forecasts that are difficult to manage too.

16                   And one example relates to the -- the  
17 broad-based vacancy factor application. So, vacancy,  
18 in my mind, is generally attributable to individuals  
19 not being in a position, but applying a -- a more  
20 higher level vacancy adjustment to positions tends to  
21 result, in my mind, in inaccuracies.

22                   As I view it, if you have a position  
23 that you require to be staffed, you -- you plan for  
24 that position, i.e., I need that position in three (3)  
25 months and I know it's going to take me three (3)

1 months to fill it, and it's going to take me some  
2 time.

3                   And -- and then you go out and you fill  
4 that position and it's to fill a -- a present need,  
5 and I think that's the key point. I -- it's unusual  
6 to budget for an expected need due to, for example,  
7 Strategy 2040 or some other broader picture need that  
8 results in -- in escalation in FTEs -- or sorry,  
9 positions, as well as an escalation in the amount of  
10 vacancy here, forecasting, that's quite unusual.

11                   As well as the -- another example would  
12 be the general wage increase escalation amount not  
13 being included in 2022/2023. That -- in -- in my  
14 mind, I think it would be reasonable to expect some  
15 escalation would have been paid, and I appreciate the  
16 reasons we've been -- we've received from Manitoba  
17 Hydro as to why they did not include that.

18                   But rolling it into, as opposed to the  
19 general wage increase amount in the future year,  
20 rolling it into kind of an FTE adjustment, again, is -  
21 - is kind of a high-level simplistic way of  
22 forecasting a cost that reduces transparency. Go to  
23 the next slide, Ms. Schubert.

24                   In my evidence I -- I briefly  
25 summarized zero-based budgeting in, I think, roughly

1 seven (7) pages and I've tried now to boil that down  
2 to six (6) squares. So, some of that will be lost in  
3 these six (6) squares, but I'm -- I'm doing my best  
4 here to keep this simplified.

5 So, zero-based budgeting first starts  
6 with defining the key areas of activity for reporting  
7 actual and forecast amounts. And -- and by that I  
8 mean -- I can use an example.

9 In the United Kingdom they've kind of  
10 almost perfected this. They've started to track at  
11 such a granular level of detail for all of their  
12 utilities, the actual cost in buckets. We're talking,  
13 you know, by the party, the consultant doing the work.

14 It's -- it's thousands of line items of  
15 transactions for both capital and operating costs for  
16 all utilities so they can benchmark each utility  
17 against each other and have a great level of detail of  
18 information. And they can explain variances from  
19 historical to actual, and forecast, pardon me, on that  
20 level of detail.

21 And when you define that reporting  
22 structure as to where you're tracking to, and you'll  
23 see it on the next slide, it's -- it's what's not --  
24 what's not tracked is not managed.

25 So, if you don't know where your costs

1 are on an actual basis, it's very difficult to be able  
2 to understand and manage those costs on a forecast or  
3 actual basis.

4                   So, the second step is to begin  
5 tracking actual results to a detailed level -- at a  
6 detailed level, pardon me, to support identification  
7 of activities driving those costs. And that's the --  
8 kind of the -- the point that I'm making, that it's --  
9 it's defining the activities and assigning staff to  
10 them.

11                   You commence a bottom-up exercise that  
12 aligns the defined activities with the quantities and  
13 rates. So, we've talked about quantities and rates.  
14 I've -- and I'll go through an example of what I've  
15 seen in -- in other utilities here momentarily to give  
16 some more colour to that.

17                   The next step is you review the  
18 forecast against actual costs and identify further  
19 known and expected efficiencies. You track those  
20 efficiencies, revise the forecasts for newly  
21 identified deficiencies, and that is an iterative  
22 process.

23                   So, you continue to refine your budgets  
24 to build in more and more known and expected  
25 efficiencies, not just -- that -- I think it's a key

1 point, it's not just actual efficiencies you're  
2 getting, it's expected efficiencies that you should  
3 also achieve and obtain. And then you rinse, repeat,  
4 and you refine. And you continue this process year  
5 after year to come to a more refined budget and  
6 sometimes you get it wrong, sometimes you get it  
7 right.

8 MR. THOMAS REIMER: Mr. Madsen, could  
9 I just interrupt you before you move to the next  
10 slide? We've heard evidence, and I believe you're  
11 read in the transcript about Manitoba Hydro and what -  
12 - what Manitoba Hydro has described as a bottom-up  
13 exercise that it has done in its -- in its budgeting.

14 Perhaps you could comment on whether  
15 that bottom up, as described by Manitoba Hydro, is the  
16 same as the bottom up that you're describing in Box  
17 Number 3?

18 MR. DUSTIN MADSEN: So, I would  
19 suggest it's not. And that's based on the evidence  
20 that I have reviewed. So, what -- what I understand  
21 from Manitoba Hydro's evidence is that they -- they do  
22 a bottom-up exercise, but there's not a lot of detail  
23 to understand what the results of that exercise are.

24 So, for example, I haven't seen the  
25 business cases related to the FTE additions. I think

1 it's understood that that could be provided, but it  
2 would be a significant level of effort to do.

3 In -- in other applications I've been  
4 involved in, it's just a -- it's just provided as a  
5 matter of fact. It's the -- getting and seeking more  
6 detailed explanations for the changes in, say,  
7 consulting costs, changes in -- consulting costs,  
8 FTEs, computer costs, computer services, there --  
9 there doesn't seem to be a lot of detail.

10 And -- and when you do a true bottom-up  
11 exercise, you know down to -- and -- and I'll go  
12 through an example -- you'll -- you'll know down to a  
13 level of detail that is actually quite incredible how  
14 your costs are built up, and you can report them quite  
15 quickly, in my experience.

16 So I think there is a difference in the  
17 -- in the way the bottom-up exercise is contemplated  
18 under zero-based budgeting versus what Manitoba Hydro  
19 performs. And again, that is based on the evidence I  
20 have seen, excepting that Manitoba Hydro does have  
21 some other evidence that we have not seen.

22 So, this is a practical application of  
23 zero-based budgeting. I apologize. There's a bit on  
24 this slide here. So giving you an example of labour  
25 costs, and this is my experience -- this is -- this is

1 real experience that I have seen when I was at, in  
2 this example, Fortis Alberta, but in -- in other  
3 places as well.

4                   So you start first with an Excel  
5 spreadsheet. And I say that you start with position-  
6 based forecast, but what's first in this spreadsheet  
7 which I kind of left out on this tab, unfortunately,  
8 is the activities, the work that must be done.

9                   So let's -- let's give an example of  
10 the financial reporting department. There's an  
11 activity, which is the financial year-end close,  
12 right? And there's a financial year-end close which  
13 requires a lot of different process steps to develop  
14 the annual financial statements.

15                   In that work, you will define what  
16 needs to be done in that group and what that group  
17 does, and then you will start to assign individual  
18 employees and positions to do that work based on your  
19 actual expectation of the number of hours that it  
20 would take to do that.

21                   So if you suggest that it will take six  
22 thousand (6,000) hours to do one (1) element of that  
23 work, you will then start assigning say one (1) FTE  
24 for the first two thousand (2,000), a second FTE for  
25 the next two thousand (2,000), and so on and so forth.

1 And then you start to build that up to the actual  
2 expected level of work as opposed to just saying, we  
3 have people and we have work to do.

4                   You have work to do and no way to  
5 assign people to it, which gets to the second point  
6 which is: each position is aligned to planned  
7 activities to support the need for the full FTE. And  
8 if it's not a full FTE, a partial FTE. And the detail  
9 gets even down to a more detailed level where a person  
10 can actually be in multiple different budgets across  
11 departments.

12                   So in my case, when I was at Fortis  
13 Alberta, I -- fortunately or unfortunately, I think I  
14 crossed about four (4) or five (5) different budgets  
15 in the company. And so you would see my name in these  
16 Excel spreadsheets crossing multiple companies, (sic)  
17 suggesting that the work that I was doing was covering  
18 this percent -- potential area.

19                   Work performed by the FTE for assigned  
20 business unit -- by the FTE for the assigned business  
21 unit, and all their business units is defined by the  
22 hours of effort. Sorry, I think I just covered that.

23                   All specific employee-related costs are  
24 detailed as well, including specific training costs,  
25 benefits, et cetera. So when I was doing this work



1 with my staff, a typical interaction you have with  
2 individuals that you work with is to understand what  
3 their aspirations are for training, for example. It's  
4 an easier example.

5                   So my -- someone who would report to me  
6 would say, I would like to do this training in this  
7 location next year. We would have within that  
8 spreadsheet the estimated cost and effort for that  
9 training to be performed for that individual employee  
10 based on Google searches and -- and what have you of  
11 the airline costs at that date.

12                   And we would -- it would be at that  
13 level of detail by employee. We would also forecast  
14 in the level of meals and -- and everything else that  
15 -- by that individual employee.

16                   All new and removed positions are  
17 supported by a detailed business case, and it's not  
18 just, again, additions. If something is removed, you  
19 understand why so that in the future, if someone comes  
20 back to you and says, this engineering support staff  
21 that we removed, we need to fill that position again,  
22 well, you told us that you didn't need it and now  
23 you're suggesting that you do. How do these reasons  
24 line up with the original business case to remove that  
25 position?

1                   And then the vacancy rate is also,  
2 quite frankly, informed by this spreadsheet because it  
3 also will track -- if there's paternity leave or  
4 maternity leave for an individual, that would actually  
5 be built into the spreadsheet as well. You would  
6 actually plan for that specific FTE to be vacant, and  
7 you would go down to that level of detail where you  
8 would then come and estimate your backfill costs.

9                   So what is -- who's going to do that  
10 work when this person is not there? Is it filled by  
11 another FTE in another business unit, the same  
12 business unit? Do you have to hire a temporary  
13 employee, or are you using an external services type  
14 cost?

15                   For consulting costs, again you went  
16 through the same level of detail. We would have a  
17 comprehensive list of consulting costs by vendor, by  
18 year, and by activity level. So, quite frankly, you'd  
19 say Emrydia Consulting is doing depreciation-related  
20 work historically, and going forward they know that  
21 depreciation project has concluded. There's no work  
22 for that, but now they're doing cost-of-service-  
23 related work for us.

24                   So you'd have it at that level of  
25 detail both on an actual and forecast basis so that if

1 someone asks, why are your costs going up, you could  
2 say to that level of detail, well, we're doing this  
3 and that with this new consultant to address this  
4 specific need as opposed to seeing a generalized  
5 number.

6                   And again, for consulting costs, the  
7 level of scrutiny on consulting costs was extensive  
8 because there -- consulting costs by their very nature  
9 are expensive, and especially when there might be the  
10 ability to use an internal resource.

11                   So explanations and business cases for  
12 all new or incremental costs, as well as a cost-  
13 benefit analysis where consultants are used in place  
14 of internal resources was the -- the standard at the  
15 utilities that I worked for, at least.

16                   So zero-based budgeting: what is not  
17 tracked is not managed, and what is not managed is not  
18 tracked. I think that's kind of a key point. So if  
19 you -- if you don't have the detail, it's in my mind  
20 very difficult to be able to explain to the CFO or --  
21 or this Board, for example, why something is changing,  
22 why you need more money, why you spent less money,  
23 both of which I think are important subjects of  
24 discussion.

25                   Zero-based budgeting is -- is

1 fundamentally a concept that can be implemented in its  
2 entirety or certain discrete elements of the process  
3 can be adopted. It is both fundamentally a budgeting  
4 and a tracking tool.

5           The primary budget -- or primary  
6 benefits of a zero-based budget are enhanced detail,  
7 transparency, and support for the forecast costs.

8           Better ability to manage and track  
9 actual costs against the budget, and that's helpful  
10 because it can help employees explain why things are  
11 changing to their managers, and it provides for an  
12 opportunity to scrutinize areas of the business to  
13 better identify efficiency gains and work and -- and  
14 work optimization efforts.

15           The primary downside of a zero-based  
16 budget is the increased level of effort and costs to  
17 implement the process.

18           Before I speak to Manitoba Hydro, I'd  
19 just like to clarify something maybe. What -- what I  
20 outlined in that example a couple of slides ago  
21 relating to my experience with some other utilities,  
22 and in particular Fortis Alberta, it sounded quite  
23 detailed. But, in my professional opinion, what  
24 Fortis Alberta -- while it sounds detailed, it sounds  
25 quite nice -- did, I wouldn't even clarify -- I

1 wouldn't classify that as a pure zero-based budget.

2                   They did some -- they had some really  
3 good elements in there, but they could have actually  
4 gone to a different level of detail on an annual basis  
5 to really refine those activity levels.

6                   So it was -- it was really good, but  
7 they weren't all the way there, and I think they would  
8 have even acknowledge that themselves when I was there  
9 and present. But it's -- just to give you the  
10 perspective, there's -- there's ranges as to where you  
11 can fall within this realm that are still reasonable.

12                   So -- just going to take some tea here.

13                   MR. THOMAS REIMER: Mr. Chair, I  
14 didn't -- I'll just take this chance to -- to say I  
15 didn't actually look at the clock when Mr. Madsen  
16 began. Do we have about -- until about ten o'clock?

17                   THE CHAIRPERSON: Yeah. I mean, if  
18 you -- if you need to go a little over, that's fine.

19

20 CONTINUED BY MR. THOMAS REIMER:

21                   MR. THOMAS REIMER: Okay. Thank you.

22                   MR. DUSTIN MADSEN: I can speed up  
23 here. Sorry. So some observations. This is specific  
24 to Manitoba Hydro.

25                   Given the lack of detail supporting

1 many of the increases in costs, a zero-based budgeting  
2 approach would provide enhanced transparency and  
3 accountability to the future of Manitoba Hydro  
4 forecasts.

5                   Simplified adjustments to the process  
6 including tracking actual and reporting forecast costs  
7 at a greater level of detail would provide progressive  
8 adjustments and improvements to build upon over time.  
9 That's just tracking and managing.

10                   My specific recommendations would be  
11 for Manitoba Hydro -- would be that Manitoba Hydro  
12 would benefit from at least a focused adoption of  
13 elements of zero-based budgeting methodology at this  
14 time.

15                   A full transition to zero-based  
16 budgeting methodology should also be adopted over a  
17 transitory period, three (3) to five (5) years.

18                   In the short term, I recommend  
19 reporting enhancements including tracking and  
20 reporting actual and fore -- forecast costs at a  
21 greater level of detail.

22                   For example, consulting fees should be  
23 tracked and forecast at a program or activity level of  
24 detail such as audit fees, regulatory legal fees,  
25 corporate legal fees, depreciation consulting fees, et

1 cetera. This level of detail will provide for  
2 increased transparency into the drivers of cost  
3 increases or decreases going forward.

4           Position based forecasting should also  
5 be adopted in addition to FTE forecasting so that the  
6 two can be reconciled.

7           So labour costs. We'll keep this at,  
8 again, a high level. FTEs are forecast to increase  
9 from 2021/2022 to 2024/2025 by four-hundred-and-forty-  
10 seven (447) FTEs or 9 percent.

11           No business units are forecast to  
12 remain stable, as shown by the figure on the right.  
13 And a key driver of increased FTEs is operations.  
14 Next slide, please.

15           Care must be taken to ensure Manitoba  
16 Hydro has sufficient resources to provide safe and  
17 reliable services to customers; that's, in my mind, a  
18 given. That said, costs must also be controlled and  
19 necessary, which is another given.

20           This is particularly the case for  
21 labour costs. Once staff are hired, the costs to  
22 remove those staff, if not necessary, can be  
23 significant.

24           Labour costs escalation. So forecast  
25 salary increases in the test periods, in my mind,

1 appear reasonable and supported. And largely because  
2 those increases -- including merit increases -- are  
3 generally in line with inflation.

4 In -- there's a concept that for  
5 employees over the long period of time -- the amount  
6 over a long period of time, the amount of salary  
7 escalation should largely mimic inflation so that an  
8 employee can keep up with the cost of living. It's  
9 just a -- a principle.

10 I've presented figures. I don't think  
11 it was in this evidence, but -- where banks have  
12 tracked that and it's actually been very close. Even  
13 including the most recent uptick in inflation.

14 Labour costs are potentially misstated.  
15 However, due to the exclusion of any general wage  
16 increase in 2022/23 as highlighted in this box.

17 And I'll briefly comment on that. I  
18 did, to some extent, earlier. But I think ideally  
19 what we would -- what I would like to see is, going  
20 forward, a forecast for prior years that I think would  
21 be realistic.

22 In my mind, from an accounting  
23 perspective, it would be difficult to suggest that the  
24 estimate of -- of the general wage increase is zero  
25 (0) when it's really rarely been zero (0) across all



1 fo the various entities that -- and -- and subgroups  
2 that are within the labour costs for Manitoba Hydro.

3 So, I think going forward that would be  
4 ideal so that this -- this red box isn't moved to the  
5 line item, the \$34.3 million that is in the 2023/2024  
6 budget. It would be preferable to have that amount  
7 correctly stated within that box so that there's  
8 clarity and transparency around the forecast costs.

9 MR. THOMAS REIMER: Mr. Madsen, can I  
10 just pause you there for one second.

11 So when we look at that box, it's in  
12 the 2022/23 year, and that's a forecast. And so, in  
13 your view -- perhaps you could comment on whether any  
14 of the FTE normal operating changes in Other that are  
15 in the preliminary budget of the thirty-four-three-  
16 two-six (34326) could have been put back into that red  
17 box as a forecast, even if the actuals have not been  
18 finalized and won't be until the summer.

19 MR. DUSTIN MADSEN: Of course. I -- I  
20 would suggest that that type of a change to move the  
21 costs that are currently included in 2023/2024 FTE  
22 changes to 2022/2023 would be entirely appropriate.  
23 Certainly, on a forecast basis and likely on an actual  
24 basis.

25 Labour costs vacancy. Forecast vacancy

1 rates are high relative to historical levels and  
2 peers. Quite honest, I've not seen a vacancy rate as  
3 high as this, with one exception, and that was when an  
4 entity unexpectedly terminated 30 percent of their  
5 staff in a year. Absent that one, I have not seen a  
6 vacancy rate this high.

7           A higher base level of positions  
8 relative to the level of FTEs will naturally result in  
9 a higher vacancy rate.

10           FTEs and positions should only be  
11 forecast when they are needed and expected to be  
12 filled. And the high vacancy rates suggest this is  
13 not what Manitoba Hydro has done.

14           So what am I recommending? I accept  
15 the applied for merit and progression increases as  
16 well as the general wage increase that Manitoba Hydro  
17 has applied for. There should be some reasonable  
18 level of costs. An increase related to the existing  
19 complement of staff that -- that supports Manitoba  
20 Hydro's ongoing ability to perform and provide safe  
21 and reliable service.

22           I'm also accepting of a net increase in  
23 FTEs of a further 1 percent to provide further support  
24 primarily for Manitoba Hydro's identified operational  
25 needs, which I think are, to some extent, supported.

1                   And then, I would also consider  
2 adjusting -- so the table 9 on the right is my  
3 existing recommendation. This recommendation may need  
4 to be adjusted for what we just discussed, which is  
5 that the 2022/2023 general wage increase is not  
6 factored into these forecasts.

7                   When you move that into the prior year  
8 balance, this will have an adjustment to what I'm  
9 recommending as the overall difference. And I think,  
10 practically, there would be a wage increase for  
11 Manitoba Hydro.

12                   So once we have that information, I  
13 think the counsel will probably address that in  
14 argument -- in written argument.

15                   Consulting costs. So there's three (3)  
16 slides here where I'm going to address three (3)  
17 areas. And in my mind, they're interlinked. There's  
18 consulting costs, there's digital and technology  
19 costs, and there's computer services costs.

20                   There's an overriding issue in this  
21 application where SAP S/4HANA is driving both cloud  
22 computing and consulting costs. And there are also  
23 other cloud computing costs.

24                   So two (2) areas -- three (3) areas  
25 really that are -- are -- you'll see increases in are

1 consulting costs related to SAP S/4HANA and other  
2 matters. Digital and technology costs, which are  
3 increasing quite significantly on an O&A basis, and  
4 that includes not only consulting costs but FTEs and  
5 licensing fees, a whole host of other costs.

6 And then, computer services costs,  
7 which is going to be your -- typically your licensing  
8 fees and other support costs for computer services.

9 So the first slide here, actual  
10 consulting costs have increased on average 0.83  
11 percent per year from 2012/13 to 2020/21. You can --  
12 you can get that by averaging the orange line, but  
13 trust my math on that one potentially.

14 The actual costs, however, in 2021/2022  
15 increased by nearly 60 percent. And partially due to  
16 inflationary pressures but, obviously, if you're  
17 thinking of a rate volume analysis, 60 percent  
18 increase is -- is not simply rate. There's an  
19 increase in volume. And the other issue being,  
20 obviously, the SAP S/4HANA and related costs. As well  
21 as, I think there was an IRP and some other work that  
22 Manitoba Hydro was beginning to do.

23 Increases in 2022/23 didn't moderate  
24 the 30 percent going to the next year, which is 138.45  
25 percent. And finally, maybe even the most shocking,

1 is increasing from -- maybe I shouldn't say shocking -  
2 - but surprising -- is going from about \$47 million  
3 and still finding a way to increase them by about 6  
4 percent in the final year, which is still quite  
5 significant.

6                   Costs are forecast to steadily rise,  
7 essentially, from 2022/2023, with a portion of that  
8 increase due to SAP S/4HANA.

9                   Digital and technology costs. So the  
10 figure on the right shows the costs per FTE of digital  
11 and technology costs.

12                   So, to give some context for this, the  
13 blue line is the O&A digital and technology costs.  
14 And in 2020/2021, if Manitoba Hydro had an FTE in its  
15 business and that FTE was paid \$80,000 a year, that  
16 FTE would -- FTE would also trigger an additional  
17 \$9,000 of digital and technology costs.

18                   So all else being equal, and  
19 appreciating that not all digital and technology costs  
20 are driven by FTEs, that FTE would go from costing  
21 \$80,000 to \$89,000.

22                   Now, in 2024/2025, things have changed.  
23 So again, assume there's some escalation in salaries  
24 and that employee is now making, say, \$88,000. In  
25 addition to the \$88,000 you have to pay the employee,

1 digital and technology costs have nearly doubled from  
2 \$9,000 per FTE to \$16,000 per FTE.

3                   So you add in -- you start with eighty-  
4 eight (88), and you had another \$16,000. And you get  
5 to roughly, by my math, \$104,000, which is a  
6 significant cost. It's an incremental cost that  
7 layers on to FTEs.

8                   Both -- and then, the orange line  
9 simply depicts -- depicts, pardon me -- the capital  
10 per corporate FTE. So capital costs have come down  
11 slightly from 2022/2023, but not by the same magnitude  
12 as the increase in O&A costs in the same period of  
13 time.

14                   So, to put it another way if it was  
15 costing \$10 million in a capital cost to do something  
16 previously, it's -- it -- it appears to be costing,  
17 just making up numbers, twenty (20) million or \$30  
18 million to do that work now in an operating cost  
19 manner. And I think Manitoba Hydro has testified that  
20 the volume of work has increased.

21                   So both consulting and D&T costs are  
22 increasing, and that's due largely to cloud computing  
23 and SAP S4/HANA. Cloud computing or computer services  
24 costs, which I'll address on the next slide a bit  
25 more, have increased from six point seven (6.7)

1 million to fifteen point 2 (15.2) million. In total,  
2 D&T costs for FT are increasing.

3 MR. THOMAS REIMER: Mr. Madsen, before  
4 we flip this slide, could you just comment on what you  
5 might have expected before you plotted this graph?

6 What you might have expected the  
7 relationship between the capital costs per corporate  
8 FTE and the D&T O&A costs, and how you might have  
9 expected them to be related and then contrast that,  
10 perhaps, with what you actually see when you -- when  
11 you plot it out.

12 MR. DUSTIN MADSEN: Certainly. So,  
13 fundamentally what has happened is certain costs  
14 Manitoba Hydro is incurring are now being expensed  
15 under IFRS. And those are the cloud-computing  
16 arrangement costs.

17 So, whereas, previously those costs  
18 were being capitalized. If -- if efficiency gains are  
19 being achieved for -- from the transition to cloud-  
20 computing arrangement costs, I would expect that, on  
21 the whole, the reduction in capital per FTE costs  
22 would equal the increase in operating for FTE costs.  
23 So they should be generally consistent. They,  
24 unfortunately, are not.

25 MR. THOMAS REIMER: Thank you.

1 MR. DUSTIN MADSEN: So, as I said, the  
2 -- I think the key -- one of the key take-aways from  
3 this slide is that, as FTE's are increasing, going  
4 forward, in a more cloud-based environment with  
5 licensing fees as opposed to a fixed system, one could  
6 also reasonably expect that D&T costs will also begin  
7 to increase as well. Next slide, please.

8 So, computer services, actual computer  
9 services costs increased, on average, 23.13 percent  
10 per year. It doesn't look like it's changed very much  
11 -- sorry, that's from 2012/'13 to 2020/2021. You'll  
12 see the -- the blue bars on the right figure there --  
13 it doesn't seem to have changed too greatly. It -- it  
14 all seemed low relative to where it is currently,  
15 however, that's where it changes.

16 So, the actual costs increased by 115.6  
17 percent in 2021/2022, again, due in part to  
18 inflationary pressures. So, I accept that, but there  
19 wasn't 115.6 percent increase in rates.

20 Increases in 2022/2023 were 24.3  
21 percent, increasing to 48.98 percent and then 23.21  
22 percent. So, quite significant increases as shown in  
23 this figure.

24 And, I appreciate that part of this  
25 increase is due to the cloud-computing arrangement



1 costs and licensing fees for the same -- but it  
2 provides context, certainly. Certainly inline with  
3 the previous graph where I showed that D&T costs,  
4 overall, are increasing relative to the -- at -- at a  
5 level greater than the decrease in the capital D&T  
6 costs.

7                   So, my recommendation for consulting in  
8 computer services costs or -- or just D&T costs, for  
9 these areas, are inter-linked as both are driven by  
10 cloud-computing costs as well as SAP.

11                   Fundamentally, my recommendation for  
12 these costs is to adjust for the removal of cloud base  
13 computing costs, and that includes the SAP costs that  
14 are being proposed to be deferred. And, then using  
15 2021/2022 actuals, the starting point, the proven  
16 incremental increase in costs per year of 4 percent,  
17 or less.

18                   The -- a 4 percent is above inflation,  
19 but what that will allow for is a -- at least an  
20 adjustment to account for the growing -- somewhat  
21 growing size of the business, as well as some more of  
22 the complexities around cyber security and, what have  
23 you, that Manitoba Hydro is facing.

24                   These recommendations, in my mind,  
25 provide a reasonable level of base costs and including

1 the consulting costs, should allow for funding of  
2 initiatives, such as the IRP and other projects.

3           And, I should just note that removal of  
4 the cloud-based computing costs, does not imply that I  
5 suggest those costs are reasonable. I -- I do have  
6 concerns for the digital and technology costs as a  
7 whole, as I noted in my evidence.

8           There's little evidence to truly assess  
9 how those costs have increased and -- and why, so I --  
10 and I also agree with Mr. Rainkie's testimony that  
11 increasing IT costs should result in cost savings to  
12 that regard. So, it needs -- if you're going to spend  
13 money, you should have a benefit.

14           So, just an overall summary on  
15 operating and administrative costs. Manitoba Hydro  
16 manages its budgets, but direction from the PUB is  
17 unlikely to be ignored.

18           Clear direction on cost restraint is  
19 important at a discreet, rather than high level, as  
20 once certain costs begin to be incurred, it becomes  
21 difficult and costly, for example, severance, to back  
22 track.

23           Small O&A increases today will snowball  
24 and grow into the future. The inverse is also true,  
25 as small savings today can grow into larger savings in

1 the future.

2 We need a win-win around optimization  
3 of costs and maintaining improving reliability. This  
4 begins with evidence to support the decision on  
5 tradeoffs between costs and reliability.

6 My overall recommended increase in  
7 labour is 3.5 percent. If you add up the numbers, in  
8 2023/2024 and 4 percent in 2024/2025, which in my mind  
9 is generous, given the forecast moderation in  
10 inflation, by the end of 2023, it's expected to be  
11 roughly 3 percent and by 2024 the Bank of Canada is  
12 hoping it to be back on 2 percent and continuing  
13 thereafter.

14 MR. THOMAS REIMER: And, Mr. Madsen,  
15 could you just explain what is included in the 3.5  
16 percent so that would be the GWI -- or the General  
17 Wage Increase. What else goes into that 3.5 percent  
18 and 4 percent?

19 MR. DUSTIN MADSEN: Thank you. That  
20 would be the general wage increase, the merit  
21 increases and the 1 percent increase in FTEs that I've  
22 accepted as a -- kind of a middle ground between for  
23 what Manitoba Hydro's proposing.

24 Consulting and D&T increases by 4  
25 percent from 2021/2022 levels after excluding cloud-

1 computing and SAP costs. And then again, I consider a  
2 4 percent increase to be quite reasonable and -- and  
3 above inflation forecasts for the latter half of 2023  
4 and 2024.

5 I -- I -- as I noted, in the previous  
6 slide, I would accept less than that, but I think that  
7 gives some amount of funding for some of the  
8 identified costs that Manitoba Hydro has outlined.

9 MR. THOMAS REIMER: And, Mr. Madsen,  
10 based on the evidence that we've received since you  
11 filed your report, I understand that we may need to  
12 make some adjustments to deal with backing out of  
13 cloud-computing and SAP and that's something that we  
14 intend to do in our written argument. Right?

15 MR. DUSTIN MADSEN: That is correct.  
16 I -- I stipulated in my evidence some caveats around  
17 some of my recommendations. We have received some  
18 clarification on that through the oral hearing, so  
19 there might be some minor modifications, but as my  
20 counsel suggested I think those will be made in  
21 argument.

22 Just a couple more slides here. SAP  
23 S/4/HANA, whether to proceed with SAP S/4HANA is a  
24 major and I haven't highlighted or underlined any  
25 words in my presentation yet, but I really wanted to

1 underline this one. It's a major business decision.  
2 And it will be transformative and disruptive for  
3 Manitoba Hydro.

4 It is highly probable that the adoption  
5 of a new enterprise resource planning system will be  
6 over budget.

7 When I was previously working with some  
8 of the utilities in my past role, we were looking at  
9 SAP transitions. We're looking at our own SAP  
10 transition and trying to identify other challenges,  
11 other parties were experiencing.

12 One entity, which was relatively --  
13 slightly maybe -- slightly larger than what Manitoba  
14 Hydro is currently, people and asset wise, went  
15 through a transition, I think, roughly, eight (8)  
16 years ago.

17 Their original budget was for about  
18 \$150 million to spend. They went well in excess of  
19 \$300 million. This was an entity that was not a  
20 regulated entity, according to its shareholders, and  
21 it was floored by the challenges it experienced, based  
22 on its initial estimates.

23 I haven't been involved in a single IT  
24 related project that was not over budget. Maybe that  
25 means that I did something wrong, but a detailed plan,

1 a realistic plan and a business case is critical  
2 before a decision is made.

3           So, I can't emphasize that enough.  
4 Before proceeding to a new ERP system, if that's the  
5 ultimate decision, there needs to be some concrete  
6 evidence to support that decision and a true and  
7 realistic business case as to what it's going to cost.

8           Other Canadian -- sorry, alternatives  
9 to SAP S/4HANA exists, including the status quo and a  
10 lot of entities do continue to operate Legacy SAP  
11 systems well past their expiry, call it that.

12           Other Canadian regulators have  
13 expressed concerns regarding similar proposals. I --  
14 I've recommended in -- in other matters that other  
15 regulators deny similar requests and even in those  
16 cases, there were detailed business cases to support a  
17 transition to a new SAP system or a new ERP system,  
18 and the regulators accepted my recommendations. It's  
19 costly and not necessarily supported or needed.

20           My recommendations on SAP S/4HANA are  
21 that all costs should be ny -- denied, until a full  
22 business case is completed.

23           Deferral account treatment should be  
24 approved, in principle, for all potential solutions,  
25 including the status quo, transition to a new on

1 premise system or adoption of SAP S/4HANA, if that is  
2 ultimately the course of action.

3           And I also would accept that some of  
4 the Stage 0 costs, which are, essentially, the costs  
5 to evaluate the alternatives, should be included as  
6 actuals, within the deferrals, and reviewed at a later  
7 date.

8           MR. THOMAS REIMER:   Mr. Madsen, before  
9 we flip from this slide to your last point of -- of --  
10 of evidence, I wonder if you can -- we spoke yesterday  
11 about the SAP system and the ERP system as being,  
12 essentially, the central nervous system of an  
13 enterprise.

14           And, perhaps, you could just, in  
15 practical terms, describe what the SAP system does and  
16 why the transition would be so difficult and disrupt --  
17 and disruptive for Manitoba Hydro?

18           MR. DUSTIN MADSEN:   Certainly.  So, if  
19 I'm an employee at Manitoba Hydro or -- or any utility  
20 or any company, for that matter, the SAP system is --  
21 is my interface into how I perform a lot of my work,  
22 if not all of my work.

23           When you start to change the interface,  
24 an employee needs to be retrained and re-taught, and I  
25 think the -- there's some employees, you know, when

1 they get a bit older or even when they're younger,  
2 they -- they simply -- they don't want to go back to  
3 school, they're done, they want to just work, and they  
4 don't want a whole lot of change. So, change is  
5 resisted.

6 Another complication with SAP is that -  
7 - and any ERP system, is that the legacy system is  
8 going to include a significant amount of  
9 customization. If I'm a user of the system and I need  
10 SAP to do something that is not out of the box, I will  
11 request the generation of a report, and you pay a very  
12 high paid consultant significant money at a very high  
13 rate to code and generate said report in the legacy  
14 system.

15 When you move to the new system, you  
16 have thousands of different customizations, some of  
17 which can cost millions of dollars to implement in the  
18 original system and some of them are customizations  
19 that interface the existing system with other  
20 applications.

21 Moving to the new system, you have the  
22 complication of not just transitioning those  
23 customizations but, also, encouraging employees to  
24 actually adopt them, use them, and implement them,  
25 and, as they go through that, they identify issues



1 with the customizations, issues with how the system is  
2 no longer working as they intended, and, then, you do  
3 new rebuilds, new work-arounds.

4 A training portion of the costs is  
5 always much greater than is initially estimated and,  
6 as is the level of complexity around moving in all of  
7 those customizations. It's not -- it's not simply a  
8 movement from one system to a new out-of-box system in  
9 any entity.

10 MR. THOMAS REIMER: Thank you.

11 MR. DUSTIN MADSEN: Just -- oh, sorry.  
12 Two more slides here. Deferral of small computing --  
13 small cloud computing arrangement costs, and you see  
14 the duck on the right that left the line.

15 If it quacks like a duck and looks like  
16 a duck, then it is a duck, right? The consistency in  
17 my mind -- so, what we -- what we have here is  
18 Manitoba Hydro is proposing to defer SAP S/4HANA costs  
19 on the basis that those costs would have traditionally  
20 been capitalized, if they weren't cloud-computing  
21 arrangement costs.

22 I -- I see no reason, fundamentally, to  
23 not also defer costs related to other smaller systems.  
24 It's the same thing. It aligns from a principle  
25 perspective all of the costs in one bucket, as a

1 deferred cost, and mimics the capital -- capital  
2 treatment.

3 Capital cloud-computing costs, other  
4 than SAP are forecast to be relatively minor, but  
5 could increase, particularly as FTEs are forecast to  
6 increase, more systems are moved to the cloud and more  
7 licensing fees are paid per FTE or position.

8 So, having a generalized treatment can  
9 maybe avoid unexpected cost increases for Manitoba  
10 Hydro that would be flowing through O&A costs as  
11 opposed to capital costs in the short and long-term.

12 That's the final point on that slide.  
13 So, moving to the last and final slide. And I thank  
14 the Board for it's leave to go a bit over.

15 Rate design, so briefly, I am  
16 supportive of Manitoba Hydro's Cost-of-Service  
17 proposals related to GSS/GSM rate classes. Manitoba  
18 Hydro has proposed potential future improvements to  
19 the design of GSS-ND, GSS and GSM rate classes.

20 I'm also supportive of pursuing  
21 innovations in the future to address the balance of  
22 fixed and variable costs, including further  
23 consideration of the declining block energy structure.  
24 Such design changes are complex and warrant a detailed  
25 discussion and assessment over time.

1                   Collaboration between Manitoba Hydro  
2 and the GSS/GSM rate class representatives is strongly  
3 encouraged.

4                   In order to continue to support  
5 bringing the GSS-ND rate class into the zone of  
6 reasonableness, I also support active management of  
7 revenue to cost coverage ratios as proposed by  
8 Manitoba Hydro. Thank you.

9                   THE CHAIRPERSON: Thank you, Mr.  
10 Madsen. Before we go to Mr. Williams, I'll -- I'll  
11 ask the Panel if they have any questions.

12                   Ms. Kapitany...?

13                   VICE-CHAIR KAPITANY: There's a lot in  
14 there and so I apologize if I missed, in your answer,  
15 the question that I'm going to pose. I'm on slide 21  
16 and page 87 of your evidence.

17                   So, I'm having a hard time translating  
18 this slide -- the -- the graph that's in slide 21.  
19 And it says it's from table 13 on your evidence. And  
20 I'm having a hard time translating from that table to  
21 here.

22                   And then my second question is, you  
23 said in there:

24                   "Despite these pressures, most  
25 Canadian utilities are attempting to

1 take a more pragmatic and  
2 incremental approach to IT costs."  
3 And I wonder if you could elaborate on  
4 that a bit?

5 MR. DUSTIN MADSEN: Certainly I can.  
6 So, if you look at first reconciling the figure in the  
7 table, the number, for example, in 2020/2021 of nine  
8 thousand (9,000) is equal to the number in the row  
9 titled, 'O&A Per Corporate FTE', right there, that's  
10 0.009. That -- that would be rounded to nine thousand  
11 (9,000), and then there is eleven thousand (11,000),  
12 ten thousand (10,000), fifteen thousand (15,000), and  
13 sixteen thousand (16,000).

14 Similarly, the line below that for  
15 capital, per corporate FTE of three thousand (3,000),  
16 four thousand (4,000), five thousand (5,000), and so  
17 forth.

18 VICE-CHAIR KAPITANY: Okay. Great.  
19 Thanks, got it.

20 MR. DUSTIN MADSEN: Excellent. And  
21 then, sorry, could you go to the -- the quote?

22 VICE-CHAIR KAPITANY: Yes, it's on  
23 page 87 of your --

24 MR. DUSTIN MADSEN: Ah, just above  
25 there. Thank you.

1 (BRIEF PAUSE)

2

3 MR. DUSTIN MADSEN: Yes, so there are  
4 a number of pressures that Alberta -- sorry, not  
5 Alberta, sorry, all utilities. This is to Alberta. I  
6 was just in Alberta testifying, so I apologize.

7 There are a number of pressures that  
8 all utilities are facing, cyber security, work from  
9 home, transition to the Cloud. The -- the one (1)  
10 thing that I think some utilities are attempting to  
11 adopt is a more staged and pragmatic approach to the  
12 transition to all of these costs.

13 You can have, what I would call, a  
14 gold-plated cyber security system, a gold-plated IT  
15 system, but it comes at a significant cost and a --  
16 and a lot of pain to adopt.

17 So the -- the better approach,  
18 especially where capital is constrained, so you do not  
19 have an infinite amount of capital, and an infinite --  
20 infinite amount of operating dollars. You make the  
21 best decisions and you chose to prioritize which  
22 projects you would implement, what you're going to  
23 bring from, for example, capital to the cloud, when  
24 you're going to do that, when you're going to  
25 implement a full ERP system.

1 VICE-CHAIR KAPITANY: ERP being?

2 MR. DUSTIN MADSEN: Sorry, Enterprise  
3 Resource Planning. That's the SAP system.

4 VICE-CHAIR KAPITANY: Okay.

5 MR. DUSTIN MADSEN: So, when you do  
6 all of that work is being more pragmatically phased in  
7 because, again, capital is not infinite. You can't,  
8 and you shouldn't, in my mind, do everything at once.

9 Does that help?

10 VICE-CHAIR KAPITANY: Yes.

11 THE CHAIRPERSON: Mr. Sy...?

12 BOARD MEMBER SY: Thank you, Mr.  
13 Madsen. Yeah, I just wanted to go back to your deck  
14 on page 23. In your last note you said:

15 "I agree with -- with Mr. Rainkie  
16 that increasing IT costs should  
17 result in cost savings."

18 And it's -- I -- I agree also with you,  
19 because I see increased productivity that should  
20 result in lowering the head count. And yet on the  
21 next page, on page 24, you talk about recommended  
22 increase to labour. I'm assuming -- I don't know if  
23 it's labour head count or -- or salary and wages, but  
24 you talk about like a 3 percent increase, 3.5 percent  
25 increase, to be exact.

1                   So -- so I -- I asked the same question  
2 to Manitoba Hydro, and response was: We have not  
3 budgeted, you know, that -- that aspect of -- of --  
4 what is it called of -- of increased productivity,  
5 meaning that they have the costs for the IT but not,  
6 as is stated, cost saving.

7                   And my question is to you is that:  
8 what do you think the cost saving is going to be in  
9 terms of head count?

10                   MR. DUSTIN MADSEN: That's an  
11 excellent question, Board Member Sy.

12                   So it's -- it's quite difficult to  
13 estimate without having Manitoba Hydro's detailed  
14 business cases for the projects that it is intending  
15 to implement.

16                   I would suggest that, in my experience,  
17 whenever I was part of an IT project, there was very  
18 clear and delineated savings. So, for example -- and  
19 -- and a net present value calculation embedded within  
20 that to show that the overall cost of the project  
21 relative to the expected savings would be positive.

22                   As an example, there was an invoice  
23 automation project that I've done in several different  
24 companies. They can cost several millions of dollars,  
25 but it would reduce the amount of staff required in

1 the accounts payable department, and that would be  
2 forecasted as savings and be actually realized and  
3 built into the budget.

4           What would be the actual savings for  
5 Manitoba Hydro? So they should have savings. As I've  
6 noted previously, when you -- when you add FTEs and  
7 you add personnel to your business, you've got to be  
8 very cautious because, as you see with my  
9 recommendation here, roughly 2.5 and 3 percent of the  
10 increase in those two (2) years relates to just  
11 supporting existing complement of staff, so people  
12 that have already been hired, right?

13           It's -- it's almost -- I hate to  
14 clarify it -- classify it as an unavoidable cost, but  
15 if you don't pay -- you -- you have to pay salary  
16 increases as they are approved and directed. So  
17 you're -- it's unavoidable.

18           You can save by improving and -- and  
19 obtaining efficiencies and removing FTEs naturally as  
20 those roles are no longer required. But  
21 unfortunately, with the evidence that's on the record,  
22 it's difficult to quantify what the realized savings  
23 would be.

24           They should be over the long term at  
25 least equal to the cost if it's a prudent project.



1 However, absent that point, unfortunately, I -- I  
2 can't directly quantify it, so I apologize.

3 BOARD MEMBER SY: Thank you.

4 THE CHAIRPERSON: Ms. Bellringer...?

5 BOARD MEMBER BELLRINGER: Thank you.

6 Thank you, Mr. Madsen.

7 On SAP, do you know of any other  
8 jurisdictions that have already made a decision, that  
9 is, whether to proceed with SAP S/4HANA or stay with  
10 the soon-to-be-unsupported SAP version or move to  
11 another solution?

12 MR. DUSTIN MADSEN: Just trying to  
13 think here. I know it is something that's being  
14 contemplated in New Brunswick. I don't believe it's  
15 actually been as of yet finalized.

16 In -- I'm aware --

17 MR. THOMAS REIMER: To clarify that,  
18 you mean the move to the SAP S/4HANA system?

19 MR. DUSTIN MADSEN: Yes. It's -- it's  
20 been suggested -- thank you. It's been suggested to  
21 move to SAP S/4HANA. I -- I don't believe it's been  
22 necessarily approved at this point yet.

23 No party otherwise that I'm aware of,  
24 based on my knowledge, has been approved to move to  
25 SAP S/4HANA.

1 SAP S/4HANA has some benefits,  
2 arguably, in -- in how it's designed. That said, in -  
3 - in my mind, a lot of those benefits are, to some  
4 extent, diminished because a lot of the customization  
5 you can do within the existing SAP system can,  
6 generally speaking, get to what you require in a  
7 cloud-based system.

8 Maybe the -- the most significant  
9 benefit to SAP S/4HANA is improved cyber security, but  
10 there are also other ways of getting around that. And  
11 again, you don't have to necessarily gold plate the  
12 system to get there.

13 And so long -- long answer, but I --  
14 I'm not aware of anybody having been approved yet to  
15 do it.

16 BOARD MEMBER BELLRINGER: On -- on  
17 those that you've seen that have not yet made a  
18 decision, or at the -- well, since they haven't, did  
19 they set up deferral accounts for the stage zero  
20 costs?

21 MR. DUSTIN MADSEN: So in -- I believe  
22 Epcor is one (1) utility that has asked for funding to  
23 look at -- and that's in Alberta. And they've  
24 requested -- so to look at funding to I believe look  
25 at this solution, look at this option and whether or

1 not to move to SAP S/4HANA, and they've requested  
2 deferral account treatment for those -- those costs  
3 that would otherwise be expensed, yes.

4 I'm not sure at this point if the  
5 Commission has approved it -- the Alberta Utilities  
6 Commission, my apologies.

7 THE CHAIRPERSON: Mr. Madsen, I  
8 believe the evidence here is that the existing SAP  
9 system won't be supported after 2027, and so that was  
10 one (1) of the reasons Manitoba Hydro's looking at it.

11 If that's the case, do you know of how  
12 other utilities are handling that? Because anyone  
13 using SAP is going to be in the same situation.

14 MR. DUSTIN MADSEN: Certainly. So  
15 'not supported' is an interesting term. Not supported  
16 by SAP. I think that's the key distinction. The  
17 system can continue to be supported.

18 A lot of parties -- a lot of entities  
19 and companies continue to operate on legacy SAP  
20 systems, older versions, older than the SAP, what they  
21 call ECC and -- and other older versions, because they  
22 can get third-party support for the system.

23 Fundamentally, what SAP is is it's a  
24 bunch of code, right? And on -- I don't know if it's  
25 January 1st, 2027, that code isn't going to suddenly

1 fail. It's going to continue to be code, and it can  
2 continue to be maintained, and it's going to continue  
3 to do what it does.

4           It continues to be supported. It can  
5 be managed, external third-party companies and -- and  
6 internally a lot of companies just manage their legacy  
7 systems internally. But you can -- you can run with a  
8 support services externally or bring in the -- the  
9 support SAP experts internally to do that work.

10           Simply what it means is SAP's general  
11 updates and changes for -- you know, for example,  
12 cyber security, what they would normally provide is  
13 support, aren't going to come through anymore. You  
14 can do that yourself. The support ends from one  
15 party. It can be obtained in another way.

16           THE CHAIRPERSON: So there are no  
17 restrictions then for third parties to update on an  
18 SAP system?

19           MR. DUSTIN MADSEN: No. They -- they  
20 own the system. They own the SAP system, and you  
21 can't -- you can't go and change the fundamental code,  
22 but you can continue to update your system on the --  
23 on the periphery because SAP owns the code. But  
24 nothing prevents an SAP consultant from making  
25 modifications to adjust the system to continue to be

1 update, secure and providing the services that the  
2 Company needs.

3                   You certainly do not need to transition  
4 to a -- a new SAP system, but you -- you made a point:  
5 Can you specifically change the code? No. That --  
6 that's owned by SAP.

7                   THE CHAIRPERSON:    Okay. Thank you.  
8 Mr. Williams, I'm just wondering if we could take the  
9 morning break rather than interrupt you in the middle  
10 of your cross-examination.

11                   DR. BYRON WILLIAMS:    Your wonderings  
12 are also your orders, Mr. Chair. No problem.

13

14 --- Upon recessing at 10:18 a.m.

15 --- Upon resuming at 10:37 a.m.

16

17                   THE CHAIRPERSON:    Dr. Williams...?

18                   DR. BYRON WILLIAMS:    Thank you. And  
19 good morning, Mr. Chair and members of the Board.

20                   Just in terms of -- we do have a couple  
21 of housekeeping matters. We have a letter dated May  
22 19th to Minister Cullen, from the Canadian Federation  
23 of Independent Business, along with a document that  
24 was linked to it. That, with the consent of our  
25 friends from General Service Small and Medium, we'd

1 like to introduce as Exhibit Consumer Coalition 21.

2

3 --- EXHIBIT NO. CC-21: May 19th letter to  
4 Minister Cullen, from the  
5 Canadian Federation of  
6 Independent Business, with  
7 attached document

8

9 DR. BYRON WILLIAMS: And more on the  
10 electronic exhibit side, we are, pursuant to a couple  
11 of questions by Vice-Chair Kapitany during the Midgard  
12 cross-examination, we are -- are introducing their  
13 amended PowerPoint as Consumer Coalition number 15.

14 And it addresses the -- the issue in  
15 terms of the Canada and SAIDI and SAIFI without major  
16 events. So that's, I think, amended slide 12.

17

18 --- EXHIBIT NO. CC-15: Amended Midgard PowerPoint

19

20 DR. BYRON WILLIAMS: And then,  
21 finally, quite some time ago, I -- our client  
22 submitted a letter regarding the AMCL rebuttal  
23 evidence, which Ms. Schubert has kindly reminded me  
24 that we didn't introduce as an exhibit.

25

So we'd -- we'd ask that that be marked

1 as Consumer Coalition 22. So those would be  
2 electronically filed, sir.

3

4 --- EXHIBIT NO. CC-22: Letter regarding AMCL  
5 rebuttal evidence

6

7 CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

8 DR. BYRON WILLIAMS: With that, Mr.  
9 Madsen, good morning, and -- and on behalf of our  
10 clients, I want to thank you for your evidence. Thank  
11 you very much.

12 MR. DUSTIN MADSEN: Good morning.  
13 Thank you, Dr. Williams.

14 DR. BYRON WILLIAMS: And I don't need  
15 to take you there, I don't think, but you do recall  
16 receiving an Information Request from Manitoba Hydro,  
17 there one and only to you, sir?

18 MR. DUSTIN MADSEN: Yes, I do.

19 DR. BYRON WILLIAMS: And in that  
20 Information Request, you'll recall you were -- you  
21 were asked whether or not you met with members or  
22 representative of the General Service Small and  
23 General Service Medium Class. You'll recall that  
24 question, sir?

25 MR. DUSTIN MADSEN: I do.

1 DR. BYRON WILLIAMS: Yeah. And -- and  
2 your answer was you had not had that opportunity?

3 MR. DUSTIN MADSEN: That is correct,  
4 sir.

5 DR. BYRON WILLIAMS: And you were also  
6 asked, sir, to determine what issues -- how you  
7 determined what issues were important to the members  
8 or representatives of the class.

9 Do you recall that question?

10 MR. DUSTIN MADSEN: I do.

11 DR. BYRON WILLIAMS: And at a high  
12 level, your answer was that your identification of  
13 issues important to members of the class was based on  
14 your review of the evidence. Agreed?

15 MR. DUSTIN MADSEN: That's correct.

16 DR. BYRON WILLIAMS: And it would be  
17 fair to say that in preparing your evidence, you were  
18 not provided with any survey information, expressing  
19 the concerns or views of the members of the -- of the  
20 General Service Small or General Service Medium Class.

21 Would that be fair?

22 MR. DUSTIN MADSEN: That's fair.

23 DR. BYRON WILLIAMS: And it'd also be  
24 fair to say that in your review of the evidence of  
25 Manitoba Hydro, you could not identify any survey



1 information seeking or expressing the views of the  
2 General Service Medium or General Service Small Class.

3 Agreed?

4 MR. DUSTIN MADSEN: That's correct. I  
5 don't recall there being anything in the Manitoba  
6 Hydro evidence to that effect.

7 DR. BYRON WILLIAMS: Okay. Now, you  
8 served, sir, as a manager for Fortis Alberta in terms  
9 of forecasting and budgets between January 2010 and  
10 November 2011. Agreed?

11 MR. DUSTIN MADSEN: That's correct.

12 DR. BYRON WILLIAMS: And you also  
13 served as a consulting regulatory specialist with  
14 AltaLink between 2012 and 2015. Agreed?

15 MR. DUSTIN MADSEN: That's correct.  
16 In those roles, I effectively was developing and  
17 creating all of the regulatory filings, the  
18 applications and assisting in the defence of those  
19 applications, retention of experts, and -- and what  
20 have you.

21 DR. BYRON WILLIAMS: And sir, in those  
22 roles, you would have come to understand the  
23 importance of seeking the views of ratepayers on  
24 issues related to the affordability, quality, and  
25 reliability of service. Would that be fair?

1 MR. DUSTIN MADSEN: Yes.

2 DR. BYRON WILLIAMS: Now, sir, in  
3 undertaking your evidence in this proceeding, it would  
4 be accurate to say you did not, yourself, undertake  
5 any independent inquiries or initiate any surveys  
6 seeking to obtain the views of the General Service  
7 Medium or General Service Small Class in Manitoba.  
8 Agreed?

9 MR. DUSTIN MADSEN: That is correct.  
10 I didn't undertake to specifically understand the --  
11 what the GSS/GSM customers required.

12 As an independent expert, my -- my role  
13 is to review the evidence and provide my opinion on  
14 that evidence. And that evidence wouldn't change  
15 based on the party that retained me.

16 So, while it would be informative to  
17 understand, it -- it wouldn't -- wouldn't have changed  
18 any of my conclusions or recommendations, sir.

19 DR. BYRON WILLIAMS: Might have  
20 informed you about the different priorities and the  
21 trade-offs from your clients -- not your clients, but  
22 the Class's perspective.

23 MR. DUSTIN MADSEN: That's correct.  
24 It would have informed me on the trade-offs and -- for  
25 sure, it would have provided that information.

1 DR. BYRON WILLIAMS: In -- directing  
2 your attention to Consumer Coalition Exhibit 21, Mr.  
3 Madsen, the letter of May 19th from the -- the CFIB to  
4 Minister Cullen.

5 That letter was brought to your  
6 attention by your legal counsel?

7 MR. DUSTIN MADSEN: It was, sir.

8 DR. BYRON WILLIAMS: Okay. And you've  
9 had an opportunity to review the letter, as well as  
10 the survey information linked to the letter, sir?

11 MR. DUSTIN MADSEN: I'm looking at  
12 this letter, sir. It's fourteen (14) pages. For some  
13 reason --

14 DR. BYRON WILLIAMS: Okay.

15 MR. DUSTIN MADSEN: I believe that the  
16 letter that I had reviewed was shorter. But I'm happy  
17 to take a look through it.

18 DR. BYRON WILLIAMS: Let's -- let's  
19 back up. So you've reviewed the letter.

20 And I'll suggest to you -- and you can  
21 accept subject to check -- that there was survey  
22 information linked to the letter.

23 You'll accept that subject to check?

24 MR. DUSTIN MADSEN: I do. Yes.

25 DR. BYRON WILLIAMS: And what I'm

1 hearing from you is that you've had a chance to review  
2 the letter, but not the survey information?

3 MR. DUSTIN MADSEN: That is correct,  
4 sir.

5 DR. BYRON WILLIAMS: And fair enough.  
6 So we'll just restrict ourselves to the letter itself,  
7 okay?

8 MR. DUSTIN MADSEN: Certainly. That'd  
9 be fine.

10 DR. BYRON WILLIAMS: Thank you. In  
11 terms of the -- the Canadian Federation of Independent  
12 Business, and at a very high level, you're generally  
13 aware of their existence and their role, sir?

14 MR. DUSTIN MADSEN: I am.

15 DR. BYRON WILLIAMS: And it would be  
16 fair to say that many small business owners would be  
17 part of the General Service Small or General Service  
18 Medium Class?

19 MR. DUSTIN MADSEN: I think that'd be  
20 a fair assumption, sir.

21 DR. BYRON WILLIAMS: And obviously,  
22 sir, without asking you to comment, you're aware that  
23 they're expressing some reservations about the  
24 proposed rate increase on -- in paragraph 1 of this  
25 letter?

1 MR. DUSTIN MADSEN: I do see that,  
2 sir.

3 DR. BYRON WILLIAMS: I just want to  
4 direct your attention to the bottom of page 1.

5 You'll see that they're suggesting  
6 that, over the past twelve (12) months, they've  
7 consistently identified fuel and energy costs as some  
8 of the top cost constraints preventing their business  
9 from -- from growing. Do you see that, sir?

10 MR. DUSTIN MADSEN: I do.

11 DR. BYRON WILLIAMS: And indeed,  
12 there's reference on this same -- in this same letter  
13 to Canadian Federation of Independent Business survey  
14 data from January of 2023. Agreed?

15 MR. DUSTIN MADSEN: Agreed.

16 DR. BYRON WILLIAMS: And I think we  
17 have confirmed this, sir, but I take it that in  
18 preparing your evidence, you did not make inquiries of  
19 the Canadian Federation of Independent Business in  
20 terms of any recent surveys they had conducted in  
21 terms of electricity costs, reliability, or other  
22 issues related to that. Would that be fair?

23 MR. DUSTIN MADSEN: That's fair.

24 DR. BYRON WILLIAMS: Mr. Madsen, we've  
25 certainly reviewed your impressive accounting

1 designations and experience. It's accurate to suggest  
2 that you do not hold a P. Eng. designation?

3 MR. DUSTIN MADSEN: No. All my  
4 brothers do, but that's one that I have not yet had a  
5 chance to obtain.

6 DR. BYRON WILLIAMS: So you're the  
7 black sheep of the family, sir?

8 MR. DUSTIN MADSEN: I am the black  
9 sheep accountant, yes.

10 DR. BYRON WILLIAMS: And you do not  
11 hold an undergraduate degree in engineering, unlike  
12 the rest of your siblings apparently?

13 MR. DUSTIN MADSEN: I do not.

14 DR. BYRON WILLIAMS: And sir, you've  
15 never been reasonable for the operations of a  
16 generation, transmission or distribution system for  
17 any hydro electricity utility?

18 MR. DUSTIN MADSEN: No, never  
19 responsible for the operations. I'm -- I'm informed  
20 and familiar with them, but certainly not responsible  
21 for operating them.

22 DR. BYRON WILLIAMS: Okay. And you do  
23 not purport to have expertise in the operations and  
24 management of utility generation, transmission, or  
25 distribution systems?

1 MR. DUSTIN MADSEN: No, I do not.

2 DR. BYRON WILLIAMS: And certainly,  
3 sir, you did not prepare evidence regarding the  
4 prudence and reasonableness of Manitoba Hydro's  
5 capital expenditures relating to generation,  
6 transmission, and distribution. Agreed?

7 MR. DUSTIN MADSEN: I have not filed  
8 evidence on Manitoba Hydro's -- the prudence of their  
9 costs.

10 I have filed evidence in other  
11 jurisdiction on the prudence of other costs. But not  
12 in this case.

13 DR. BYRON WILLIAMS: So that's not  
14 something that you examined for the purposes of your  
15 evidence here?

16 MR. DUSTIN MADSEN: No, sir.

17 DR. BYRON WILLIAMS: Okay. Thank you.  
18 Subject to check, Mr. Madsen, would you agree that  
19 you've prepared over ninety (90) pages of evidence in  
20 your written report?

21 MR. DUSTIN MADSEN: Subject to check.  
22 I think a lot of that was on depreciation expense,  
23 which is on D day next week.

24 DR. BYRON WILLIAMS: Yeah. And  
25 apparently depreciation is quite the passion of yours.

1 Is that right, sir?

2 MR. DUSTIN MADSEN: I'm one of those  
3 people, yes.

4 DR. BYRON WILLIAMS: Okay. At a high  
5 level, your evidence addresses four (4) subjects,  
6 namely, depreciation, operating costs, information  
7 technology costs, and part 2 rate design pertaining to  
8 General Service Small/General Service Medium  
9 customers. Agreed?

10 MR. DUSTIN MADSEN: Agreed.

11 DR. BYRON WILLIAMS: And you would  
12 accept, sir, subject to check, that the totality of  
13 your evidence in your written report on rate design  
14 matters is less than one (1) page.

15 MR. DUSTIN MADSEN: That is correct,  
16 sir.

17 DR. BYRON WILLIAMS: And sir, you have  
18 never been an employee of a predominantly  
19 hydroelectric utility, such as BC Hydro, Hydro Quebec,  
20 or Manitoba Hydro?

21 MR. DUSTIN MADSEN: No, I have not.

22 DR. BYRON WILLIAMS: Now, sir, your  
23 curriculum vitae is relatively up to date, I take it?

24 MR. DUSTIN MADSEN: Yeah. It's  
25 primarily up to date. I think the only thing excluded



1 from there is the listing of the various proceedings  
2 I've been involved in. But yes, it's up to date, sir.

3 DR. BYRON WILLIAMS: And you do note  
4 there that you have prepared a cost of service study  
5 for an Alberta distribution utility, sir?

6 MR. DUSTIN MADSEN: I do.

7 DR. BYRON WILLIAMS: Would it be  
8 accurate to suggest that you've never prepared a cost  
9 of service study for a transmission utility?

10 MR. DUSTIN MADSEN: Yes, it would be  
11 accurate.

12 My experience prior to becoming a  
13 consultant was focused in Alberta. And in Alberta,  
14 the transmission utilities flow their costs straight  
15 through to the Alberta electric system operator. So  
16 they have no direct customers. So they would not  
17 perform a cost of service study.

18 So I would have no familiarity, just  
19 for context.

20 DR. BYRON WILLIAMS: And sir, there's  
21 no reference to having prepared a cost of service  
22 study for a generational utility as well on your  
23 curriculum vitae?

24 MR. DUSTIN MADSEN: That's correct.

25 DR. BYRON WILLIAMS: And that's not

1 something you've performed?

2 MR. DUSTIN MADSEN: A cost of service  
3 study for generation utility, that's correct, sir.

4 DR. BYRON WILLIAMS: And sir, you have  
5 not prepared for an integrated utility a cost of  
6 service study -- and by 'integrated utility', I'm  
7 defining it as including generation, transmission, and  
8 distribution. Would that be accurate, sir?

9 MR. DUSTIN MADSEN: I've prepared --  
10 no, I have not prepared a cost of service study.  
11 That's correct.

12 DR. BYRON WILLIAMS: And certainly,  
13 you have never produced or prepared a cost of service  
14 study for Manitoba Hydro. Agreed?

15 MR. DUSTIN MADSEN: Agreed.

16 DR. BYRON WILLIAMS: And you're aware  
17 that, prior to this General Rate Application, there  
18 have been previous proceedings of the Manitoba Public  
19 Utilities Board relating to the costs of service study  
20 for Manitoba Hydro?

21 MR. DUSTIN MADSEN: Yeah. I -- I  
22 understand they have been quite extensive as well.

23 DR. BYRON WILLIAMS: And it would be  
24 accurate to suggest that you've never participated in  
25 any prior cost of service study proceeding related to

1 Manitoba Hydro. Agreed?

2 MR. DUSTIN MADSEN: That is correct.

3 Yes.

4 DR. BYRON WILLIAMS: Sir, I just want  
5 to direct your attention to slide 27 -- slide 25,  
6 excuse me, of your Powerpoint.

7 And, this may followup on questions  
8 asked by Board member Bellringer, but the 5th bullet  
9 there, sir, or 5th arrow, you see reference to:

10 "Other Canadian regulators have  
11 expressed concerns regarding similar  
12 proposals."

13 Do you see that, sir?

14 MR. DUSTIN MADSEN: I do.

15 DR. BYRON WILLIAMS: And, sir, subject  
16 to check, that reference to other Canadian regulators  
17 having expressed concerns, regarding SAP S/4HANA, does  
18 not appear in your -- your written evidence.

19 MR. DUSTIN MADSEN: It does not.

20 DR. BYRON WILLIAMS: Sir, you can  
21 either do this orally or if you prefer by way of  
22 undertaking, could you provide a summary of the  
23 decisions from Canadian regulators, in which they --  
24 that you rely upon for the statement that they have  
25 expressed concerns regarding similar proposals.

1                   You -- would you be able to do that,  
2 sir, by way of undertaking?

3                   MR. DUSTIN MADSEN:    I -- I can  
4 potentially do it orally and we'll see if we -- if  
5 that's sufficient.

6                   The -- the primary one and that's most  
7 recent, that I'm referring to, would have been  
8 probably two (2), but the -- the first one would have  
9 been in Alberta.  It would have been for an entity  
10 called AltaLink.  It's a -- a larger transmission  
11 utility requesting a -- a transition to a new ERP  
12 system for -- and it was to go to the cloud.

13                   They reviewed a number of alternatives,  
14 based on their existing SAP system, which is very  
15 similar -- it's an SAP ECC.  Filed a comprehensive  
16 business case and reviewed the status quo as one  
17 option.  They reviewed the adoption of SAP S/4HANA, as  
18 another option.  They reviewed an adoption to go to a  
19 cloud based form of Oracle, as another option.

20                   The costs were spread similar to  
21 Manitoba Hydro over a relatively similar period of  
22 time.

23                   Ultimately, the AUC, Alberta Utilities  
24 Commission, in that case, denied the business case and  
25 costs in full, on the basis -- and this is just at --

1 at a high level, on the basis that the utility hadn't  
2 demonstrated that it had chosen the proper option,  
3 and/or defended the alternatives based on the evidence  
4 it had provided.

5 And, again, there was a -- a relatively  
6 detailed business case in that case.

7 I'm also aware in New Brunswick, the  
8 issue of a transition to SAP S/4HANA is being  
9 considered for New Brunswick Power. And, in that  
10 case, I believe it is still under deliberation at this  
11 point. So, it has not been decided but the applicant  
12 has looked at seeking it and there were significant  
13 questions, in relation to that request at the hearing.

14 DR. BYRON WILLIAMS: Okay. Let's just  
15 go back to the Alberta Utilities Commission decision  
16 with regard to Alta -- AltaLink, A-L-T-A-L-I-N-K, I'm  
17 presuming.

18 And, sir, what year was that decision?

19 MR. DUSTIN MADSEN: That would have  
20 been, I think, the decision came out last year, sir.

21 DR. BYRON WILLIAMS: So, by -- by that  
22 you mean --

23 MR. DUSTIN MADSEN: 2022, sorry.

24 DR. BYRON WILLIAMS: Thank you, Mr.

25 Madsen. Mr. Chair and members of the panel, I have no

1 further questions.

2 MR. DUSTIN MADSEN: Thank you, sir.

3 THE CHAIRPERSON: Thank you, Dr.

4 Williams.

5 Mr. Czarnecki...?

6 MR. BRENT CZARNECKI: Thank you, Mr.

7 Chairman. Before I commence the -- my cross-

8 examination of Mr. Madsen, just a housekeeping matter.

9 Just after the break we electronically  
10 filed answers to Undertakings 10 to 13, 16 to 18, 24,  
11 26, 29, 31, 34 to 38 and the undertaking accepted at  
12 page 15-16 of the transcript.

13 And, I believe, they should be marked  
14 as Exhibit Manitoba Hydro 47, please.

15

16 --- EXHIBIT MH NO. 47: Answer to Undertakings 10-  
17 13, 16-18, 24, 26, 29, 31,  
18 34-38 and Page 15-16 of  
19 transcript

20

21 MR. BRENT CZARNECKI: And, I'll just  
22 add that, with respect to the undertakings we provided  
23 yesterday to Mr. Reimer, maybe it was the day before -  
24 - would have been the day before, two (2) -- the only  
25 -- there's only one (1) that remains outstanding and

1 we're working on it. Ms. Amorim Dew and her staff  
2 worked late to try to get the other ones completed so  
3 Mr. Madsen would have them today.

4 THE CHAIRPERSON: Mr. Czarnecki,  
5 nothing like getting undertakings done that -- to have  
6 a nice hot, sunny weekend.

7 MR. BRENT CZARNECKI: Once again, I  
8 agree, Mr. Chairman.

9

10 CROSS-EXAMINATION BY MR. BRENT CZARNECKI:

11 MR. BRENT CZARNECKI: Good morning,  
12 Mr. Madsen. Nice to meet you. I'm Brent Czarnecki,  
13 I'm counsel for Manitoba Hydro and I'll have a few  
14 questions for you.

15 MR. DUSTIN MADSEN: Good morning, Mr.  
16 Czarnecki.

17 MR. BRENT CZARNECKI: I'll -- I'll  
18 start with your qualifications and followup a little  
19 of the questioning that my friend Mr. Williams had  
20 this morning.

21 And I don't want to tread to where  
22 Monday goes, but I'll ask it. So, you're a certified  
23 depreciation professional?

24 MR. DUSTIN MADSEN: I am, sir.

25 MR. BRENT CZARNECKI: And my

1 understanding of reaching that designation involves a  
2 series of courses, a test and work experience.

3 Correct?

4 MR. DUSTIN MADSEN: That is correct.

5 MR. BRENT CZARNECKI: And how long  
6 does it take, generally speaking, to become a  
7 certified depreciation expert?

8 MR. DUSTIN MADSEN: I'm not -- not  
9 entirely sure what the -- I -- I can't recall what the  
10 time requirements are. I know it -- it often takes  
11 some time. The -- the exam, I -- I would -- I would  
12 admit, it was the hardest exam I ever wrote and I was  
13 nervous because I thought it would be the first one I  
14 ever failed. But I didn't.

15 So, it -- it was a -- a difficult  
16 process. And it's a rigorous process. A lot of  
17 courses, as you suggested, that you go through with  
18 the Society of Depreciation Professionals. You need  
19 to have testified and/or presented on depreciation  
20 studies and -- and the like in order to achieve the  
21 designation.

22 MR. BRENT CZARNECKI: That's helpful  
23 and congratulations on passing.

24 MR. DUSTIN MADSEN: Thank you, sir.

25 MR. BRENT CZARNECKI: The other area I



1 will not venture into is on rate design matters that  
2 you've opined on. We'd appreciate your support in  
3 that regard and I'll leave it at that.

4 You also have on slide -- one of your  
5 slides that you're a Certified Rate of Return Analyst.

6 MR. DUSTIN MADSEN: Yes, sir.

7 MR. BRENT CZARNECKI: And, can you  
8 tell me a little bit more about what that entails?

9 MR. DUSTIN MADSEN: The Certified,  
10 sorry, the Certified Rate of Return Analyst  
11 designation is, and I'm going to get this wrong, going  
12 on the fly, it's awarded or issued by the Society of  
13 the Utility Regulatory Financial Analysts and the --  
14 the scope of the designation is on cost of capital.

15 So measuring the cost of equity, cost  
16 of debt, equity thickness and -- and debt rates of an  
17 -- of an entity, any entity, but mostly focused around  
18 utilities in -- in this institute.

19 And it -- it's awarded by having  
20 requisite experience, as well as completing an exam  
21 and -- and passing that exam and then you become --  
22 you will receive designation thereafter.

23 The -- again, the focus is on cost of  
24 capital related matters.

25 MR. BRENT CZARNECKI: And would I be

1 correct in suggesting that that is particularly useful  
2 for you because it's consistent with your work in  
3 jurisdictions that involve rate base rate of return  
4 and cost of capital proceedings?

5 MR. DUSTIN MADSEN: To -- to some  
6 extent, yes. I -- I'm presenting at the Society of  
7 Depreciation Professionals Conference in September in  
8 Ohio, on the subject of how depreciation and cost of  
9 capital are interlinked.

10 It will be, actually, I think there's a  
11 panel of several of us and I think it will be a very  
12 interesting topic, but the -- the reason I attained  
13 both designations was because, in my mind, the return  
14 of investment, which is depreciation, and the return  
15 on investment, which is the cost of capital, are --  
16 are interlinked and very inter-dependent.

17 MR. BRENT CZARNECKI: Understood.  
18 And, sir, do you appreciate that this Public Utilities  
19 Board is not regulated on a rate base rate of return  
20 basis?

21 MR. DUSTIN MADSEN: I do, sir.

22 MR. BRENT CZARNECKI: And we do not  
23 have cost of capital proceedings per se.

24 MR. DUSTIN MADSEN: That's correct,  
25 sir.

1 MR. BRENT CZARNECKI: And, to your  
2 experience, Mr. Madsen, I understand you worked for  
3 Atco Electric.

4 MR. DUSTIN MADSEN: I worked for  
5 Fortis Alberta and AltaLink. I have not worked for  
6 Atco Electric.

7 MR. BRENT CZARNECKI: Perhaps I mis-  
8 read, but you participated in a proceeding with Atco  
9 Electric?

10 MR. DUSTIN MADSEN: Participated in  
11 multiple proceedings, yes.

12 MR. BRENT CZARNECKI: And Atco  
13 Electric is ultimately owned by an entity known as  
14 Canadian Utilities?

15 MR. DUSTIN MADSEN: That is correct,  
16 sir.

17 MR. BRENT CZARNECKI: And AltaLink, I  
18 understand is ultimately owned by the Berkshire  
19 Hathaway Energy Group?

20 MR. DUSTIN MADSEN: That is correct,  
21 yes. I also provided services for Berkshire Hathaway  
22 Energy at a time, too.

23 MR. BRENT CZARNECKI: And Fortis  
24 Alberta is ultimately owned by Fortis Inc.?

25 MR. DUSTIN MADSEN: That is correct,

1 sir.

2 MR. BRENT CZARNECKI: And all of those  
3 entities are obviously shareholder owned?

4 MR. DUSTIN MADSEN: That is correct.  
5 They are investor-owned utilities, sir.

6 MR. BRENT CZARNECKI: And they would  
7 naturally be regulated differently than a Crown  
8 utility, I'm -- maybe you can confirm that they use  
9 the rate base rate of return methodology.

10 MR. DUSTIN MADSEN: Those utilities do  
11 use the rate base rate of return methodology that  
12 you've listed. Yes.

13 MR. BRENT CZARNECKI: Now --

14 MR. DUSTIN MADSEN: I -- oh, sorry. I  
15 -- I would just like to add. I -- I have also  
16 testified and provided evidence in -- before the New  
17 Brunswick or -- sorry -- yes, the New Brunswick Energy  
18 Utilities Board for New Brunswick Power, a Crown-owned  
19 entity, and in the Northwest Territories, for  
20 Northwest Territories Power Corporation, which is also  
21 a Crown-owned entity. So, they operate on a similar  
22 basis to Manitoba Hydro.

23 MR. BRENT CZARNECKI: You beat me to  
24 my punch on those two (2). I did notice that as well.

25 You'd confirmed that those are

1 significantly smaller utilities than Manitoba Hydro.

2 MR. DUSTIN MADSEN: New Brunswick  
3 Power's not a small utility and -- but it is smaller  
4 than New Bruns -- or -- than Manitoba Hydro, for sure.  
5 Yes. Manitoba Hydro's quite a large entity with a  
6 significant asset profile.

7 MR. BRENT CZARNECKI: And my  
8 understanding, with respect to Northwest Territories  
9 Power Corporation, they employ approximately 200  
10 people?

11 MR. DUSTIN MADSEN: Yes. It is quite  
12 a small entity, for sure.

13 MR. BRENT CZARNECKI: And my  
14 understanding, as well, is that Fortis Alberta employs  
15 approximately 1,100 employees?

16 MR. DUSTIN MADSEN: That is correct.

17 MR. BRENT CZARNECKI: And -- and - and  
18 I think I heard you confirm with Mr. Williams this  
19 morning that you have no direct experience working  
20 with a Crown-owned utility, do you?

21 MR. DUSTIN MADSEN: I have never  
22 worked for or with a Crown-owned utility; that is  
23 correct, sir.

24 MR. BRENT CZARNECKI: Sir, I'm going  
25 to ask you an open-ended question, like how aware are

1 you of the interplay between the Crown-owned utility  
2 and the dynamics of having the province being your  
3 owner, with respect to policy and other direction?

4 MR. DUSTIN MADSEN: So, how aware am I  
5 of an entity like Manitoba Hydro and its interaction  
6 with government?

7 MR. BRENT CZARNECKI: Yes.

8 MR. DUSTIN MADSEN: I'm aware of the -  
9 the -- the nature of the interaction and the roles  
10 that Manitoba Hydro has within the government as a  
11 Crown Corporation.

12 Certainly, at a -- at a -- at a high  
13 level, I -- I think that, fundamentally, in my mind,  
14 whether a utility is investor-owned or a Crown  
15 Corporation, publicly owned, the -- I think the  
16 standard is unchanged, largely.

17 The expectation of any utility that is  
18 a monopoly utility is that they operate in a safe and  
19 reliable manner at the lowest reasonable cost possible  
20 and that they balance all of their decisions to -- to  
21 balance that cost optimization relationship,  
22 regardless of the ultimate owner.

23 I appreciate that there are differences  
24 in how that relationship works, between being an  
25 investor-owned and a Crown-owned utility, certainly,

1 but, as far as the expectations of the utility,  
2 itself, and from its -- from customers, I don't think  
3 the expectation changes significantly.

4 MR. BRENT CZARNECKI: One of the major  
5 differences I would put to you, Mr. Madsen, is that,  
6 with investor-owned utilities any income or profit,  
7 may I say, resides with the shareholders, and could be  
8 paid out by way of dividend, for example.

9 MR. DUSTIN MADSEN: That is correct.

10 MR. BRENT CZARNECKI: And the other --  
11 contrasting that with Manitoba Hydro, any income is  
12 retained by way of retained earnings, on behalf of all  
13 Manitobans. Would you agree?

14 MR. DUSTIN MADSEN: That is correct.

15 MR. BRENT CZARNECKI: I -- just  
16 transitioning to one question, before I forget it,  
17 from this morning.

18 I -- I recognize you -- when you were  
19 discussing wages and salaries, were you aware that, in  
20 2020 -- were you aware of the reasons why there was  
21 zeros put into place for certain of Manitoba Hydro's  
22 escalations in terms of wage -- wages and salaries?

23 MR. DUSTIN MADSEN: In 2022/2023, I  
24 understand that there were a number of agreements  
25 being -- well, there was several agreements that

1 hadn't been reached for a period of time.

2 I -- I believe that, after -- I saw a  
3 date and I -- I can't remember the exact source but it  
4 was something after January -- there was a slide that  
5 depicted the various agreements that, eventually, went  
6 into place, effective after January 1, 2014, or  
7 something along those lines.

8 But, I understand that the reason why  
9 the amounts weren't reflected was that there was  
10 ongoing arbitration and -- and discussion and  
11 negotiation with some entities and parties.

12 MR. BRENT CZARNECKI: Were you aware  
13 of the direction from the Province to freeze salaries?

14 MR. DUSTIN MADSEN: For 2022/2023?

15 MR. BRENT CZARNECKI: I think it would  
16 have been while Manitoba Hydro -- Hydro was doing  
17 budgets for 2022/'23?

18 MR. DUSTIN MADSEN: Could -- is that  
19 on the record? Sorry, I'm not sure.

20 MR. BRENT CZARNECKI: It may not be.  
21 I'm advised that it is on the transcript through  
22 evidence, but we can -- we can move on.

23 MR. DUSTIN MADSEN: Sure. So, I mean,  
24 had it been on the record, I would have seen it in the  
25 Application. Otherwise, I would not have been aware



1 of that, sir.

2 MR. BRENT CZARNECKI: And -- and are  
3 you aware that -- well, have you been monitoring the  
4 evidence of this proceeding?

5 MR. DUSTIN MADSEN: I have.

6 MR. BRENT CZARNECKI: Okay. So you're  
7 aware then that 80 percent of Manitoba Hydro's  
8 workforce is unionized?

9 MR. DUSTIN MADSEN: I am.

10 MR. BRENT CZARNECKI: And that one (1)  
11 of the largest unions, IBEW, is still bargaining?

12 MR. DUSTIN MADSEN: Yes.

13 MR. BRENT CZARNECKI: And so I'm going  
14 to put to you that, as a result of that bargaining,  
15 there's really (2) options: they -- they reach an  
16 agreement or it is settled by way of the Labour Board  
17 or -- or a private arbitrator who's appointed by the  
18 parties.

19 MR. DUSTIN MADSEN: Yeah, I accept  
20 that. On that point, sir, so regarding the  
21 accounting, so maybe too much experience -- no, maybe  
22 the wrong experience in the accounting departments --  
23 but when I worked for the utilities, we also had  
24 unions. Unions are common across Canada.

25 And when we were bargaining -- just to

1 give you an example, when -- when we were bargaining  
2 with the unions we worked with, that didn't -- from an  
3 accounting perspective, we were still required to  
4 provide for a reasonable estimate of what we expected  
5 to have happen within the financial records.

6                   And -- and I appreciate -- as I've  
7 said, I appreciate the -- the justification Manitoba  
8 Hydro has provided for it, for why it did not include  
9 a general wage increase. But in my practice and my  
10 experience, we would have ourselves included something  
11 in there if there was some reasonable oppor -- or  
12 expectation of it being paid.

13                   Maybe that didn't exist for Manitoba  
14 Hydro. I'm just giving some context.

15                   MR. BRENT CZARNECKI: That -- that's  
16 fine. Thank you for your answer.

17                   I also noticed on your slide and within  
18 your evidence that you were a senior auditor at  
19 Deloitte in your previous past?

20                   MR. DUSTIN MADSEN: Quite some time  
21 ago, yes.

22                   MR. BRENT CZARNECKI: And I confess  
23 that, when I was listening to you this morning, the  
24 numerous references to detail or the lack of detail  
25 reminded me more of a conversation that we may have

1 with an auditor.

2 Would you agree?

3 MR. DUSTIN MADSEN: As an auditor, you  
4 look at -- you -- you're auditing the information that  
5 is available to you or that is produced by management.  
6 I wouldn't interpret audits as being at a -- at a  
7 necessarily detailed level. There's a significant  
8 amount of sampling and establishing a population upon  
9 which you base your assumptions on.

10 You certainly wouldn't look at every  
11 transaction unless you're doing a forensic audit, but  
12 an audit does ultimately need to look at the detail of  
13 a transaction to understand the nature of the  
14 transaction.

15 But I suppose if you're suggesting  
16 there's a tangent between the detailed level of  
17 reporting versus what is required from an audit  
18 perspective, I think they're different, certainly  
19 different roles.

20 MR. BRENT CZARNECKI: I wasn't  
21 suggesting that, but would you agree with me that the  
22 role of this Board in determining rates for Manitoba  
23 Hydro is not akin to an audit process?

24 MR. DUSTIN MADSEN: I would not  
25 suggest that the Board is here to audit Manitoba

1 Hydro. I would suggest the Board requires sufficient  
2 evidence to obtain comfort that the costs being  
3 forecast by Manitoba Hydro are supported and  
4 reasonably included within the revenue requirement.

5 MR. BRENT CZARNECKI: And of course,  
6 sir, you're aware, like any other entity, that  
7 Manitoba Hydro's financial statements are subject to  
8 an annual audit by most recently KPMG?

9 MR. DUSTIN MADSEN: Yes, I am, sir.

10 MR. BRENT CZARNECKI: So back to  
11 details, do I have -- could I characterize your issue  
12 with the details that they're just not on this public  
13 record, but you're not -- maybe I'll back up.

14 You're not suggesting, sir, that the  
15 details that you spoke of this morning don't reside  
16 within Manitoba Hydro, are you?

17 MR. DUSTIN MADSEN: Let's go back to  
18 my audit role. If -- if I -- if I can't see  
19 something, then I -- I don't know.

20 MR. BRENT CZARNECKI: Fair enough.

21 MR. DUSTIN MADSEN: I -- I can -- I  
22 can understand the -- the evidence, and -- and I've  
23 listened to the testimony of Manitoba Hydro's  
24 witnesses.

25 That said, I've been in cases where

1 I've been told that one (1) thing is being done, and  
2 then, when you actually look at the detail, there --  
3 there can be something lost sometimes in the  
4 translation as far as what is actually being done or  
5 what I would expect or think or recommend should be  
6 done.

7                   So I -- I think what you can take from  
8 my presentation is I understand Manitoba Hydro has  
9 evidence that is above the evidence that it has  
10 presented here. Some of that evidence would be  
11 difficult to provide. I don't know what that is until  
12 I would see it.

13                   MR. BRENT CZARNECKI: Right. And I  
14 mean, we're -- we're getting down to perhaps a level  
15 of granularity that may not be necessary for this  
16 Board to arrive at its determination of just and  
17 reasonable rates, that it resides within the Utility.

18                   But we can't have everyone in the room  
19 shadow Manitoba Hydro, for example, while they're  
20 doing the work and -- and doing their monthly budget -  
21 - budgets.

22                   MR. DUSTIN MADSEN: The -- the PUB  
23 shouldn't manage Manitoba Hydro, nor should any Board  
24 or commission manage a utility. The obligation on  
25 managing a utility, or the -- the requirement to

1 manage a utility, rests with the utility.

2                   That said, it's -- it's not as though  
3 Manitoba Hydro is seeking approval of a 1 percent  
4 escalation in O&A costs or, you know, that's kind of  
5 incon -- that's consistent with the trend in inflation  
6 less a productivity adjustment or expectation.

7                   What we're seeing here is in many cases  
8 significant escalations, some of which are explainable  
9 and some of which are not. And when you're faced with  
10 significant changes, I think -- and -- and this is  
11 just my opinion -- the Board should have an equivalent  
12 amount of information and data to support the nature  
13 of the change to be able to comfort itself with the  
14 revenue its approving.

15                   MR. BRENT CZARNECKI:   And are you  
16 aware, sir, that Manitoba Hydro provides quarterly O&A  
17 actuals versus budgeted reports to the Public  
18 Utilities Board?

19                   MR. DUSTIN MADSEN:   I am aware of  
20 that. Were any of those reports on the record, sir,  
21 in this proceeding, though?

22                   MR. BRENT CZARNECKI:   I am told they  
23 are. I don't have the reference immediately to them.

24                   MR. DUSTIN MADSEN:   I don't know if  
25 you want to bring one up so we can walk through it,

1 but -- as far as the detail, but I am aware at a -- at  
2 a high level that it -- they are filed.

3 MR. BRENT CZARNECKI: I -- I don't  
4 want to go there because I don't have time to go  
5 there, but I'll move -- I'm going to move on.

6 THE CHAIRPERSON: About five (5)  
7 minutes, Mr. Czarnecki.

8

9 CONTINUED BY MR. BRENT CZARNECKI:

10 MR. BRENT CZARNECKI: Okay. I'm going  
11 to move on to budgeting, Mr. Madsen. Now, again, I --  
12 I take it you were listening to the evidence of the  
13 Revenue Requirement Panel?

14 MR. DUSTIN MADSEN: I was, yes.

15 MR. BRENT CZARNECKI: And did you hear  
16 the testimony of Manitoba Hydro witnesses that in  
17 2020/'21, that Manitoba Hydro was essentially at the  
18 lowest point in spending that we could get in the O&A  
19 budget for certain cost categories?

20 MR. DUSTIN MADSEN: I did hear that  
21 testimony, sir.

22 MR. BRENT CZARNECKI: And were you  
23 also aware of the evidence that Manitoba Hydro has  
24 dipped to a historic low -- or had dipped to a  
25 historic low from approximately sixty-four hundred

1 (6,400) employees to roughly five thousand (5,000)?

2 MR. DUSTIN MADSEN: I did hear that  
3 evidence, sir.

4 MR. BRENT CZARNECKI: And, Ms.  
5 Schubert, if you could pull up transcript page 2414.

6

7 (BRIEF PAUSE)

8

9 MR. BRENT CZARNECKI: And if you just  
10 scroll down to -- yeah, right there is good.

11 So, Mr. Madsen, did you hear Ms. Amorim  
12 Dew testify where she said:

13 "And so we're getting very granular  
14 and we budget every single position,  
15 and every position is we know what  
16 it is for -- for and what the  
17 requirements are. And some of the  
18 decision that management has to take  
19 is whether we have an immediate need  
20 for those positions that are not  
21 currently filled or how we pace  
22 that, and we are going to provide  
23 that information."

24 So again, sir, just back to  
25 granularity, it's -- there's no doubt in your mind



1 Hydro is budgeting. It's just the -- to the level of  
2 granularity that you're seeing in this proceeding.

3 MR. DUSTIN MADSEN: I think -- so I --  
4 I read this. I don't think I actually heard it.

5 Yes, I -- I see the testimony here as  
6 it's stated. I do have some issues with it. The  
7 statement there it says:

8 "And some of the decisions that  
9 management has to take is whether we  
10 have an immediate need for those  
11 positions that are not currently  
12 filled or how we pace that."

13 And I think that might be the best  
14 summary of where my contention lies with what Manitoba  
15 Hydro is requesting, is that -- and I highlighted it  
16 in my presentation.

17 My -- in my past experience when I  
18 managed the groups that I managed and when we budgeted  
19 for other groups, the way you address staffing levels  
20 is to identify a present need. So, I need somebody  
21 soon for a -- a new reason, or someone else is  
22 expected to leave.

23 You identify positions that are  
24 required imminently and you fill on that basis. The -  
25 - the statement here seems that there's -- what

1 Manitoba Hydro has done is -- is identified, as -- as  
2 you rightly pointed out, that it's hit a low point in  
3 its FTE compliment and it's decided that it needs to  
4 bring that back up to another level.

5 MR. BRENT CZARNECKI: Yeah.

6 MR. DUSTIN MADSEN: And I appreciate  
7 that's Manitoba Hydro's evidence, but it may be the  
8 pace of how Manitoba Hydro gets to that point is where  
9 the contention lies.

10 MR. BRENT CZARNECKI: Yeah, I'm -- I'm  
11 just short of time here, so I'm going to try to boil  
12 that down.

13 So ultimately though, sir, that's a  
14 management decision of Manitoba Hydro, correct?

15 MR. DUSTIN MADSEN: Certainly how they  
16 pace that is a management decision for Manitoba Hydro.

17 MR. BRENT CZARNECKI: And -- and  
18 you're aware that those management positions go from  
19 the bottom up and they eventually make their way to  
20 the Manitoba Hydroelectric Board and the make it --  
21 make their way to the Treasury Board of the Province  
22 of Manitoba Hydro?

23 MR. DUSTIN MADSEN: I'm aware of the -  
24 - the processes. Manitoba Hydro has stated it, yes,  
25 sir.

1 MR. BRENT CZARNECKI: I quickly can  
2 turn to SAP S/4HANA.

3 Mr. Madsen, you have no idea how  
4 Manitoba Hydro's current SAP is configured, customised  
5 or operated, do you?

6 MR. DUSTIN MADSEN: I would love to  
7 see a business case, but no, I do not.

8 MR. BRENT CZARNECKI: Well, we'll --  
9 we'll keep a -- well, on -- on that note, you're aware  
10 of the phase zero work that is being done by Manitoba  
11 Hydro?

12 MR. DUSTIN MADSEN: I am aware of it.

13 MR. BRENT CZARNECKI: And are you  
14 aware at a high level that that will assess all the  
15 costs and benefits, maybe perhaps to Mr. -- Member  
16 Sy's question earlier, that work is under way and will  
17 be completed?

18 MR. DUSTIN MADSEN: I -- I -- yes. I  
19 have not seen the work, but I understand that is the  
20 plan.

21 MR. BRENT CZARNECKI: So there's a  
22 reason why you don't see it in this application, is  
23 because the work is undergoing -- is underway.

24 MR. DUSTIN MADSEN: Yes, I understand  
25 that, sir.

1 MR. BRENT CZARNECKI: We might be  
2 getting ahead of ourselves just a tad, sir, correct?

3 MR. DUSTIN MADSEN: Correct.

4 MR. BRENT CZARNECKI: Now Member --  
5 Chairperson Gabor had, I think, asked you a question  
6 with respect to slide 25 of your presentation on  
7 alternatives to SAP S/4 that exist.

8 And you described those alternative --  
9 alternatives briefly, but would you agree with me that  
10 some of those alternatives would come up with certain  
11 costs?

12 MR. DUSTIN MADSEN: Yes. So, if you  
13 maintain the status quo, it is not without costs. And  
14 then if you change now without costs and there's  
15 benefits to all alternatives -- the -- the point of  
16 doing the business case is to assess the -- the costs  
17 and benefits of all alternatives and develop -- and  
18 provide the best recommendation.

19 But certainly, all alternatives have  
20 costs.

21 MR. BRENT CZARNECKI: Right. And --  
22 and those costs would be operating and administrative  
23 expenses?

24 MR. DUSTIN MADSEN: Certainly  
25 potentially some capital if it's sticking with a -- a

1 legacy type solution but, yes, there are -- there are  
2 costs.

3 MR. BRENT CZARNECKI: And would you --  
4 would you hear, sir, that Manitoba Hydro testified  
5 that the costs for SAP S/4 were included in the  
6 forecast, and I'll quote:

7 "To ensure an accurate  
8 representation of potential future  
9 costs?"

10 MR. DUSTIN MADSEN: I am aware of that  
11 testimony, yes, sir.

12 MR. BRENT CZARNECKI: Mr. Chair, if I  
13 could have just a few more minutes?

14 THE CHAIRPERSON: Yes.

15

16 CONTINUED BY MR. BRENT CZARNECKI:

17 MR. BRENT CZARNECKI: Now, I believe  
18 Member Bellringer asked you about regulatory decisions  
19 and Mr. Williams inquired this morning with respect to  
20 cloud-computing arrangements.

21 Were you aware of the BCUC decision  
22 issued on April 18th of 2023?

23 MR. DUSTIN MADSEN: No, I'm not aware.  
24 Is that -- which -- which entity is that for? I might  
25 be aware if you give me some more context.

1 MR. BRENT CZARNECKI: It was for BC  
2 Hydro, sir.

3 MR. DUSTIN MADSEN: BC Hydro, okay.  
4 No, I --

5 MR. BRENT CZARNECKI: And I'll just  
6 suggest to you -- because you're not aware -- that  
7 they -- within that order, they established a cloud  
8 cost regulatory account for because Hydro.

9 MR. DUSTIN MADSEN: Cloud cost  
10 regulatory account, okay. Yeah.

11 MR. BRENT CZARNECKI: Now, my last  
12 area of questioning, Mr. Chairman -- and thank you for  
13 the indulgence.

14 On zero-based budgeting, sir, you'd  
15 agree that it would be a significant effort on behalf  
16 of Manitoba Hydro to undertake?

17 MR. DUSTIN MADSEN: So the level of  
18 effort that it would require for Manitoba Hydro is --  
19 is, quite frankly, unclear to me at this time.

20 As you've said, Manitoba Hydro has --  
21 or as Manitoba Hydro has testified to, they have other  
22 information. I -- I can't assess what the  
23 sophistication of Manitoba Hydro's forecasting and  
24 budgeting process is at this time without  
25 understanding what underlying detail they currently

1 track.

2                   If it is a -- as significant as maybe  
3 has been suggested, but not shared, it may not be as  
4 significant of an effort.

5                   But again, it's impossible for me to  
6 make that assessment at this point.

7                   MR. BRENT CZARNECKI:   Naturally, Mr.  
8 Madsen -- and again, I'd suggest to you that that's  
9 the role and function of the management at Manitoba  
10 Hydro to -- to know and understand that better than  
11 yourself.

12                   MR. DUSTIN MADSEN:   Well, I -- I think  
13 that Manitoba Hydro would certainly understand their  
14 forecasting processes better than me.

15                   MR. BRENT CZARNECKI:   And -- and just  
16 because I'm running short of time, I also believe you  
17 mentioned, at slide 13 of your presentation, that the  
18 level of effort is potential main downside to the  
19 approach of zero-cost budgeting.

20                   MR. DUSTIN MADSEN:   Correct.  So the  
21 full implementation of a zero-based budget for an  
22 entity that is budgeting at a very high level -- and  
23 let's say that they are taking the historical number  
24 and adding 10 percent, and that's all that they do for  
25 a budget perspective.

1                   If you're at that level, to move to a  
2 more detailed level of zero-based budgeting would be  
3 an extraordinary effort.

4                   Now, if you're an entity that budgets  
5 at a position and an FTE level and you understand the  
6 underlying nature of the costs you're incurring for  
7 consulting costs, materials costs, on an actual basis  
8 at a very low level of detail, the transition and the  
9 cost to implement a true zero-based budgeting approach  
10 wouldn't be as great.

11                   But there -- there can be, but it's  
12 subject to, one, how far you want to go, and, two,  
13 where you are currently.

14                   MR. BRENT CZARNECKI:   Certainly.  And  
15 there's a range, obviously.  But there's no  
16 information on this public record as what potentially  
17 those costs could be?

18                   MR. DUSTIN MADSEN:   That's correct.

19                   MR. BRENT CZARNECKI:   And just again  
20 quickly because I'm running short of time, you'd agree  
21 that we could see an increase in the number of  
22 accountants that may be required to implement such an  
23 approach?

24                   MR. DUSTIN MADSEN:   You may see an  
25 increase.  But the intent behind implementing it would



1 be to also see and achieve further efficiencies.

2                   You may have a short-term increase to  
3 implement, but again, the -- the purpose is to get  
4 down to the base level of core costs.

5                   MR. BRENT CZARNECKI:    And you may --  
6 using your words -- need additional consultants to --  
7 to weigh in?

8                   MR. DUSTIN MADSEN:    I suppose.  
9 Depending upon how complex you want to implement.  
10 Potentially, yes.

11                   MR. BRENT CZARNECKI:    And would it  
12 make sense, sir, if Manitoba Hydro was -- the  
13 management at Manitoba Hydro was considering such an  
14 approach to wait until its software was implemented in  
15 the future? Like, an SAP S/4HANA, instead of, I  
16 think, the approach you were speaking of of working  
17 with Excel spreadsheets.

18                   Would there be a benefit if they were  
19 to move to that?

20                   MR. DUSTIN MADSEN:    Assuming -- so I  
21 consider the decisions to be not dependant upon one  
22 another.

23                   If -- if there are additional  
24 efficiencies to be obtained by converting to an SAP  
25 S/4HANA system, for example, to get off of

1 spreadsheets and the cost of doing so has a longer  
2 term benefit relative to the cost savings, that, I  
3 think, would continue to inform the efficiency gains  
4 that become now achievable in the future. It would  
5 inform the zero-based budgeting process.

6 But I -- I don't see them as being --  
7 one being dependant upon the other.

8 MR. BRENT CZARNECKI: Right. You're  
9 also aware of the legacy SAP is 1997, correct?

10 MR. DUSTIN MADSEN: I'm aware of that,  
11 yes.

12 MR. BRENT CZARNECKI: So whatever the  
13 end product that may be or tweaks that Hydro makes,  
14 we're transitioning to something other than that  
15 before embarking on a zero-based budgeting exercise.

16 It may be prudent to wait until that's  
17 in place, would you agree?

18 MR. DUSTIN MADSEN: Again, not  
19 necessarily. I think the evidence that I've put  
20 forward in my report is that it might actually be  
21 beneficial to go through a zero-based budgeting  
22 exercise first.

23 The -- one of the major complications  
24 with doing new ERP -- sorry, enterprise resource plan  
25 upgrade -- whichever solution Manitoba Hydro selects,

1 is the training and the -- and the modifications.

2           And having the zero-based budgeting  
3 exercise where employees can identify efficiencies,  
4 how they can better perform the roles that they're  
5 performing them, I think in advance of trying to  
6 implement a new system would be helpful.

7           One example, if it's helpful for the  
8 Board, is some employees would request, within the  
9 original Legacy SAP system, a customization, a  
10 specific report that they require that essentially  
11 presents data that SAP does automatically in a  
12 slightly different manner.

13           Questions in the zero-based budgeting  
14 approach could be asked, Do you truly require this  
15 slightly different perception of the information to do  
16 your job? Or can you alter it?

17           And if you can admit that customization  
18 before you transition to SAP, you may be able to  
19 obtain savings. Because moving a lot of those  
20 customization over is, my experience, draw for the  
21 significant of cost overruns.

22           MR. BRENT CZARNECKI: Sure. And --  
23 and that, of course, would require a business case, if  
24 someone were to -- to go down that path. Right?

25           MR. DUSTIN MADSEN: Yes.

1 MR. BRENT CZARNECKI: Thank you, Mr.  
2 Chairman. Those are my questions.

3 THE CHAIRPERSON: Thank you, Mr.  
4 Czarnecki. Mr. Hombach...?

5

6 CROSS-EXAMINATION BY MR. SVEN HOMBACH:

7 MR. SVEN HOMBACH: Yes. Thank you,  
8 Mr. Chair, and good morning, Mr. Madsen.

9 Somewhat unconventionally, I will start  
10 with an apology. I heard you say this morning -- and  
11 I think I quote -- 'Depreciation is quite a passion of  
12 mine'. I won't be asking you any Questions on  
13 depreciation today. I will reserve all of those for  
14 Monday, so I -- I'm sorry to disappoint.

15 MR. DUSTIN MADSEN: Is it a passion of  
16 yours as well, sir?

17 MR. SVEN HOMBACH: It's -- I don't  
18 think I can compete with you in that arena.

19 But I will be asking you about O&A.  
20 But Mr. Madsen, before we get there, I would like an  
21 undertaking for the convenience of the Panel.

22 This morning you referred to a decision  
23 of the Alberta Utilities Commission with respect to  
24 AltaLink from 2022.

25 Could you please file a record of that

1 order in this proceeding?

2 MR. DUSTIN MADSEN: I can. I believe  
3 it was a lengthy decision. Would you like the entire  
4 decision, sir? That might be easy from a electronic  
5 perspective. Or did you want the portion --

6 MR. SVEN HOMBACH: Electronic  
7 document. So a copy of the entire decision filed  
8 electronically would -- would be okay.

9 MR. DUSTIN MADSEN: Happy to.

10 THE CHAIRPERSON: I would suggest that  
11 Mr. Hombach is excited -- as excited about long  
12 decisions as you are about depreciation.

13 MR. DUSTIN MADSEN: The number -- they  
14 often come out late at night, sir. And the number of  
15 nights that I've spent up late with my wife saying,  
16 What are you doing? I'm reading this decision. I  
17 can't -- I can't stop until I get to the end. But ...

18 MR. THOMAS REIMER: We'll provide  
19 that.

20

21 --- UNDERTAKING NO. 47: Provide copy of the  
22 Alberta Utilities  
23 Commission decision with  
24 respect to AltaLink from  
25 2022

1

2 CONTINUED BY MR. SVEN HOMBACH:

3 MR. SVEN HOMBACH: I also wanted to  
4 follow up on a question that my friend, Mr. Czarnecki,  
5 asked you about at BC Hydro. And if I could ask Ms.  
6 Schubert to put the link up on screen.

7 Mr. Madsen, I believe Mr. Czarnecki was  
8 referring to the BCUC's order on cloud cost regulatory  
9 accounts, which, for the record, is Order G-85-23.

10 For the convenience of the Board, I'd  
11 also like you to file a copy of that order on the  
12 record of this proceeding.

13 MR. DUSTIN MADSEN: Happy to.

14

15 --- UNDERTAKING NO. 48: Provide copy of BCUC'S  
16 Order G-85-23

17

18 CONTINUED BY MR. SVEN HOMBACH:

19 MR. SVEN HOMBACH: Thank you. Now,  
20 before we get into some details, you were asked some  
21 questions about your experience today. And I believe  
22 you indicated to the panel that you were there for  
23 Fortis' transition to IFRS. Do I have that right?

24 MR. DUSTIN MADSEN: I was.

25 MR. SVEN HOMBACH: Okay. Now, as Mr.

1 Czarnecki established, Fortis is a privately owned  
2 utility?

3 MR. DUSTIN MADSEN: They are.

4 MR. SVEN HOMBACH: And your experience  
5 is primarily -- if not exclusively -- in privately  
6 owned utilities?

7 MR. DUSTIN MADSEN: That's correct.  
8 My employment experience is with privately owned  
9 utilities.

10 MR. SVEN HOMBACH: In two (2) minutes  
11 or less, could you provide the -- the Panel with some  
12 explanation on where you see the -- the differences in  
13 terms of IFRS transition between privately owned  
14 utilities and Crown owned utilities?

15 MR. DUSTIN MADSEN: Two (2) minutes or  
16 less. Okay. I'll do my best.

17 MR. SVEN HOMBACH: Let's do it four  
18 (4) minutes or less.

19 MR. DUSTIN MADSEN: I should be able  
20 to do it in two (2) minutes or less.

21 There are some broad-based differences  
22 between how Crown owned entities have transitioned to  
23 IFRS and how investor-owned utilities have  
24 transitioned to IFRS.

25 That said, there's no clear bright line

1 as far as how one group is interpreting the standards  
2 versus the other.

3                   It -- it all ultimately comes down to  
4 interpretation. The -- the fundamental -- the -- the  
5 biggest issue faced with any utility, whether Crown or  
6 investor owned, is capital, and the accounting for  
7 capital.

8                   So, in -- in -- I described in the past  
9 my experience working with the Canadian Electricity  
10 Association getting a bunch of the various utilities  
11 into one room, or representatives of them from across  
12 Canada, with the firms and discussion was always  
13 focused on capital. And -- and what -- and how to  
14 account for depreciation expense and what have you.

15                   I -- I'd say, as far as the differences  
16 in the interpretation the -- the actual transition  
17 isn't -- isn't very much different. I would say  
18 between the -- an investor-owned versus a government-  
19 owned utility, but it's the interpretation of the  
20 standards which can cause complexities.

21                   Most of the investor-owned utilities  
22 have interpreted depreciation and the treatment of  
23 capital costs, as I outlined in my evidence and we can  
24 potentially go there, but in -- in a manner that is --  
25 I would consider to be pragmatic and -- and practical



1 and relatively less inconsistent with Canadian GAAP.

2                   Whereas, I have seen other -- it -- it  
3 -- typically what I see in New Brunswick Power and in  
4 the case of NTPC, for example, more -- decisions that  
5 interpret IFRS very literally and result in more  
6 deferral accounts. More balances that exist that need  
7 to be addressed through the regulatory process, as  
8 opposed to be within capital -- that's your -- your  
9 normal property planning equipment accounts.

10                   I would say that would be the major  
11 difference. Again, I caveat that by saying that --  
12 that's not a bright line. There are some investor-  
13 owned utilities have more of those, as well, more  
14 deferral accounts, pardon me, as well, and others do  
15 not.

16                   MR. SVEN HOMBACH:     Thank you, Mr.  
17 Madsen. I'd like to turn now to the issue of  
18 employment expenses where you provided evidence in  
19 your report.

20                   And, I understand that you're the black  
21 sheep in your family. I'm the black sheep in mine as  
22 well. There's an -- there's an adage that -- that  
23 came to mind that the absence of evidence should not  
24 be conflated with evidence of absence.

25                   And I just wanted to ask you, is your

1 opinion primarily based on there being insufficient  
2 evidence in -- in your opinion, to support Manitoba  
3 Hydro's employment expenses? Or do you believe the  
4 evidence actually suggests that there shouldn't be as  
5 many employees?

6 MR. DUSTIN MADSEN: The former, sir.  
7 It's a -- a lack of evidence. So, as -- as I've  
8 stated, today, I would have expected to see more  
9 evidence outlining in detail the FTE additions, the  
10 need for the additional positions, or the business  
11 risk of not adding them, detailed reconciliations of  
12 the FTEs by business unit over time to show a  
13 transition, having a better understanding of what  
14 positions were removed from the VDP program, going  
15 forward to what are being added.

16 A -- a lot of, I guess, missing  
17 information for me to draw a really strong conclusion  
18 that what Manitoba Hydro is requesting is -- is  
19 reasonable. So, it's -- it's a lack of evidence, sir.

20 MR. SVEN HOMBACH: I'd like to refer  
21 you to a chart that Manitoba Hydro produced on day 1  
22 of this hearing, when Manitoba Hydro CEO presented it  
23 and I'd ask Ms. Schubert to open Manitoba Hydro  
24 Exhibit 28 and go to page 19 of the document.

25 Mr. Madsen, I'm not sure if you've --

1 you've seen this slide before, so I will explain what  
2 the slide is about.

3                   There is a chart on the top right that  
4 shows Manitoba Hydro's FTE count on an annual basis  
5 dating back to the 2016/'17 fiscal year.

6                   Do you see that?

7                   MR. DUSTIN MADSEN:    I do.

8                   MR. SVEN HOMBACH:    And there's a red  
9 line, Ms. Grewal, Manitoba Hydro, CEO, testified that  
10 the gray -- that the red line signifies the FTE count  
11 at the end of what Manitoba Hydro called the Voluntary  
12 Departure Program.

13                   Are you familiar with that program?

14                   MR. DUSTIN MADSEN:    I am, sir.

15                   MR. SVEN HOMBACH:    Okay.  And Ms.  
16 Grewal made the point in -- in the policy presentation  
17 that by the end of the '24/'25 fiscal year, the total  
18 FTE count would still be less than what it was after  
19 the end of the Voluntary Departure Program.

20                   MR. DUSTIN MADSEN:    I see that.  
21 Pretty close, but slightly below that red line, yes.

22                   MR. SVEN HOMBACH:    Okay.  First of  
23 all, do -- do you agree with that statement on a  
24 factual basis?

25                   MR. DUSTIN MADSEN:    I -- I agree that

1 they are below the red line from the VDP program. I  
2 do not agree that simply because they are below that  
3 line, that that is a line that they should be  
4 targeting.

5                   And, again, getting back to our  
6 discussion around a lack of evidence, the Manitoba  
7 Hydro in 2020/'21 and -- and 2021/2022 operated at  
8 levels that were below, well below that red line.

9                   And, I think the -- the key question is  
10 -- is you operated for two (2) years, and you being  
11 Manitoba Hydro for two (2) years at a level below, so  
12 what's changed? Right?

13                   And -- and I think that's always the  
14 question that a -- a regulator should ask in -- in  
15 assessing revenue requirement, is why is that status  
16 quo no longer sustainable? Why is that no longer  
17 achievable?

18                   And, while I appreciate that where  
19 they're going to is to meet up to that red line, I --  
20 it does not necessarily imply that that is the  
21 reasonable goal to achieve.

22                   MR. SVEN HOMBACH: In your view,  
23 though, does it change the burden of proof that the  
24 Utility would have to justify its FTE count?

25                   MR. DUSTIN MADSEN: The burden of

1 proof. Sorry, sir, if I could just get you to  
2 clarify. So, as far as --

3 MR. SVEN HOMBACH: So there -- should  
4 the -- should this Board give the utility the benefit  
5 of the doubt, considering that the FTE count in the  
6 past few years actually was less than it was at the  
7 end of the VDP program?

8 MR. DUSTIN MADSEN: No. No, and --  
9 and the reason why is, again, I think that the Board  
10 should make decisions based on information. And when  
11 there is a lack of information, I think high level  
12 projections to suggest that we're targeting a -- to  
13 get back to a -- a certain level, based on a -- a  
14 broader based strategy, say Strategy 2040, that --  
15 that wouldn't be appropriate in -- in my mind.

16 I think that, when you're looking at  
17 the increases that we're seeing here, you -- it would  
18 be preferable to have substantial evidence to support  
19 those changes, rather than simply suggest that it is  
20 reasonable to go back to a specific level.

21 MR. SVEN HOMBACH: I'd like to take  
22 the -- the questioning to a slightly higher level and  
23 deal with O&A costs, generally, and I'd ask Ms.  
24 Schubert to pull up Manitoba Hydro Exhibit 43 please,  
25 and go to the last page of the document.

1 I -- I'll start by asking you, Mr.  
2 Madsen, have you had a chance to see this chart  
3 before?

4 MR. DUSTIN MADSEN: This is -- if I'm  
5 correct and understanding, this is the Manitoba CPI  
6 versus and comparing -- so the average change, over  
7 time, relative to where it has been recently. Is that  
8 correct? I -- I think I did see this quickly, I'm  
9 just trying to familiar myself -- familiarize.

10 MR. SVEN HOMBACH: That's -- it's my  
11 understanding, Mr. Madsen, that this shows the year  
12 over year CPI at specific points in time.

13 MR. DUSTIN MADSEN: Okay. Thank you.

14 MR. SVEN HOMBACH: So -- so, Mr.  
15 Madsen, would you agree that pre-COVID, CPI generally  
16 hovered about 2 to 2.2 percent?

17 MR. DUSTIN MADSEN: Yes.

18 MR. SVEN HOMBACH: And, it's now,  
19 basically, more than double that, perhaps, triple  
20 that?

21 MR. DUSTIN MADSEN: Yes.

22 MR. SVEN HOMBACH: Okay. So, so you  
23 indicated that there would have to be some account for  
24 inflation in Manitoba Hydro's O&A costs. Correct?

25 MR. DUSTIN MADSEN: That's correct.

1 And -- and to clarify, the -- in -- in my opinion, the  
2 2022/2023 forecast is the period of time where you're  
3 going to see this -- I call it peak -- the 6.2  
4 percent.

5                   That's when the majority of this  
6 increase in CPI is going to be reflected. So, the --  
7 the Bank of Canada is -- is forecasting through to the  
8 end of 2023 and I appreciate this graph appears to go  
9 to April 1st of 2023, but through to the end of 2023,  
10 the Bank of Canada is forecasting that line to  
11 continue downwards, obviously due to the increases in  
12 interest rates. The unprecedented increases in  
13 interest rates.

14                   So the -- the costs that are being  
15 forecast in the application, beginning from 2023 to  
16 2024 and 2024 to 2025, will be less impacted by this  
17 peak.

18                   MR. SVEN HOMBACH: On that note, Mr.  
19 Madsen, I would like to take you a -- a chart that  
20 shows the -- the updated consensus CPI forecast and  
21 I'd ask Ms. Schubert to pull up Manitoba Hydro Exhibit  
22 42 and go to page 12 of that document.

23                   Mr. Madsen, I'll ask you again, have  
24 you had a chance to -- to see this slide before?

25                   MR. DUSTIN MADSEN: I believe I've

1 read this slide, yes.

2 MR. SVEN HOMBACH: So, so it's my  
3 understanding that the consensus CPI forecast has now  
4 been revised to show a CPI of about 3.5 percent for  
5 2023/'24?

6 MR. DUSTIN MADSEN: That is the  
7 consensus forecast. Yes.

8 MR. SVEN HOMBACH: And that's Year 1  
9 of the two test years?

10 MR. DUSTIN MADSEN: That is correct.

11 MR. SVEN HOMBACH: Does that impact  
12 your recommendation on assuming a 1 percent escalator?

13 MR. DUSTIN MADSEN: No, because, when  
14 you add in the 1 percent escalator with the general  
15 wage increase and the merit increases, in 2023/'24,  
16 for FTEs, I am -- or for labour costs, I am  
17 recommending a 3.5 percent increase, which is  
18 relatively aligned with what is being proposed here in  
19 the CPI. So -- pardon me.

20 MR. SVEN HOMBACH: So -- so, I'd like  
21 to follow up on that just a little bit more and,  
22 perhaps, let's go to your presentation from this  
23 morning and move to Slide 24.

24 MR. DUSTIN MADSEN: I might -- I might  
25 want to just mention, however, though, regarding the



1 consensus forecasts, just briefly.

2 My review of the forecasts for CPI for  
3 the major Canadian banks, and I appreciate that there  
4 are more than just the major Canadian banks that go  
5 into the forecast for inflation, but the -- the major  
6 Canadian banks are forecasting it to be slightly below  
7 that level that is being forecast that is being  
8 forecast by the consensus forecast.

9 There's -- the consensus forecast is an  
10 aggregate of a number of different parties providing  
11 forecasts into that, but, just strictly the Canadian  
12 banks are -- are trending a bit lower. Historically -  
13 - so, it's just as far as another data point that's  
14 available --

15 MR. SVEN HOMBACH: Right.

16 MR. DUSTIN MADSEN: -- but...

17 MR. SVEN HOMBACH: So -- so, correct  
18 me if I'm wrong, Mr. Madsen, but your fifth bullet on  
19 Slide 24 of your presentation, where you recommend an  
20 increase to labour costs of 3.5 percent in '23/'24,  
21 that assumes a 1 percent increase to the FTE count.

22 Correct?

23 MR. DUSTIN MADSEN: That is correct.  
24 One percent increase to the FTE count. That is --  
25 that is correct, sir.

1 MR. SVEN HOMBACH: So -- so, if the  
2 consensus forecast were to be correct, that your 3.5  
3 percent recommendation would not allow for any  
4 increase in FTE count?

5 MR. DUSTIN MADSEN: No. So, it -- it  
6 would. So, the 3.5 percent includes -- and this is  
7 going to be ball park numbers, so I apologize -- a  
8 roughly 1.5 percent increase related to merit  
9 increases, 1.3, I think about 1.2, 1.4 percent  
10 increase related to general wage increases.

11 Those two, again, I'm probably messing  
12 up the numbers, add up to about 2.5 percent for  
13 general wage increases and merit increases. And,  
14 then, there's a further 1 percent increase added in  
15 for just -- in FTEs.

16 I -- I wouldn't expect FTEs to grow by  
17 -- by inflation. The -- the 3.5 percent, overall,  
18 means that the labour costs would increase, in total,  
19 by 3.5 percent, inclusive of my 1 percent escalation.

20 MR. SVEN HOMBACH: Thank you, Mr.  
21 Madsen. I'd like to switch topics to the issue of  
22 zero-based budgeting, where you -- where you provided  
23 some evidence this morning.

24 Now, did I hear you correctly that you  
25 indicated that this approach is common in the United

1 Kingdom?

2 MR. DUSTIN MADSEN: This -- this  
3 approach is used in the United Kingdom, but -- sorry -  
4 - let me step back.

5 Zero-based budgeting -- I -- I can't  
6 say that zero-based budgeting is used in the United  
7 Kingdom, 'cause it's -- I don't know that for sure.

8 The United Kingdom, for its electric  
9 utilities, has developed a system. It's called RIIOED  
10 2 and ET 2, which is RIIO. It's a -- it's a -- a very  
11 complex system.

12 What it, effectively, gets down to  
13 doing is requiring, first and foremost, the utilities  
14 to track costs at a very, very detailed level --  
15 actual costs, and report those costs. Those costs  
16 are, then, aggregated into a group of spreadsheets for  
17 all of the utilities. The utilities are benchmarked  
18 against each other and that allows for the Board to  
19 set rates, going forward, based on historical amounts,  
20 informing the Board amounts, and they escalate those  
21 costs forward, typically, based on a number of  
22 parameters, that I -- I won't probably intend to get  
23 into today.

24 But they -- they do not use -- or they  
25 may use -- some utilities may, certainly, use zero-

1 based budgeting, but what I was describing was the --  
2 the tracking and the reporting of costs at a -- at a  
3 very detailed level for every utility being mandatory,  
4 and, when you -- it's my point -- what is not tracked  
5 is not managed. If you don't know where your costs  
6 are, it's very difficult to control your costs.

7 MR. SVEN HOMBACH: Is my understanding  
8 correct that the U.K. has a competitive market and  
9 doesn't have vertically-integrated utilities?

10 MR. DUSTIN MADSEN: That's correct.  
11 Yes.

12 MR. SVEN HOMBACH: Mr. Madsen, we  
13 asked you an Information Request on the issue of zero-  
14 based budgeting, and I'd ask Ms. Schubert to pull it  
15 up. It's PUB/GSS/GSM Information Request 6, and you  
16 referred to the Alberta Utilities Commission.

17 Am I correct that the AUC doesn't refer  
18 to it as zero-cost budgeting or --

19 MR. DUSTIN MADSEN: They do. It's in  
20 the paragraph 163, cited here below, they state -- let  
21 me just count that: one, two, three, four, five, six -  
22 - roughly at the fifth line, starting with -- or  
23 fourth line, it says:

24 "The Commission considers that,  
25 regardless of the organizational

1 structure, ATCO Electric would be  
2 best to develop its forecasts from a  
3 -- from an assumed zero base which  
4 seeks to reassess the resources and  
5 costs required to fulfil its  
6 statutory duties on an annual basis  
7 without assuming that costs are  
8 simply incremental."

9 So the -- they don't refer to it as  
10 zero-based budgeting, but the -- the implication is  
11 that it is intended to be very much that.

12 MR. SVEN HOMBACH: Prove your costs,  
13 basically.

14 MR. DUSTIN MADSEN: Prove your costs.  
15 Don't just simply come in and say, last year they were  
16 \$10 million, I've applied 2 percent, and now I need 10  
17 million plus 2 percent.

18 MR. SVEN HOMBACH: Are you -- are you  
19 aware as to whether any Canadian Crown or vertically  
20 integrated utility has used a formal zero-based  
21 budgeting approach?

22 MR. DUSTIN MADSEN: Formal? That's a  
23 good question. So the sophistication of budgeting  
24 process for some of the Crowns is -- is quite -- as I  
25 understand it quite significant, quite sophisticated.

1                   Do they -- do they call it a zero-based  
2 budgeting approach? I'm not sure, but the  
3 sophistication does vary, as I understand it, from  
4 entity to entity.

5                   Zero-based budgeting is -- maybe to be  
6 of assistance, it's -- it's a concept. It's -- the  
7 concept, as -- as I noted, that's both intended to  
8 assist with forecasting and tracking costs.

9                   So, an entity can be using and  
10 implementing the principles of zero-based budgeting,  
11 or many of them, without even intending to because  
12 it's essentially a description of best practices for  
13 how you would manage your business and forecast your  
14 efforts, if that's helpful.

15                   So I can't strictly say whether one (1)  
16 of the Crown utilities is using it or not, but I  
17 understand there is some sophistication.

18                   MR. SVEN HOMBACH: Thank you, Mr.  
19 Madsen. I'd like to move on to the issue of  
20 consulting costs. But before we do that, I would like  
21 to request one (1) more undertaking from you for the  
22 convenience of the Panel.

23                   I'd like to refer you to page 19 of  
24 your presentation this morning. You included Table 9  
25 from page 83 of your report in this presentation.

1                   You see that?

2                   MR. DUSTIN MADSEN:    I do.

3                   MR. SVEN HOMBACH:    Would it be  
4 possible for you to undertake to refile that table and  
5 include two (2) things: first of all, to include 2022  
6 and '23 as a baseline.

7                   MR. DUSTIN MADSEN:    I can.

8                   MR. SVEN HOMBACH:    But -- but also  
9 include separate columns that show Manitoba Hydro's  
10 projection of these amounts and what Manitoba Hydro is  
11 asking so that it's easier to contrast?

12                   MR. DUSTIN MADSEN:    I can.

13                   MR. SVEN HOMBACH:    Thank you.

14

15 --- UNDERTAKING NO. 49:    Mr. Madsen to refile Table  
16                                   9 to include 2022/'23 as a  
17                                   baseline, and to include  
18                                   separate columns to show  
19                                   Manitoba Hydro's  
20                                   projection of these  
21                                   amounts and what Manitoba  
22                                   Hydro is asking

23

24 CONTINUED BY MR. SVEN HOMBACH:

25                   MR. SVEN HOMBACH:    So then let's move

1 on to the issue of cloud computing, and I'd like to  
2 refer you to page 84 of your report.

3

4 (BRIEF PAUSE)

5

6 MR. SVEN HOMBACH: So you acknowledge  
7 that, on the cloud computing issue, the -- the change  
8 to having these costs hit the O&A budget, that's  
9 primarily due to the accounting change, right? These  
10 costs cannot be capitalized any more?

11 MR. DUSTIN MADSEN: I do.

12 MR. SVEN HOMBACH: And -- and your  
13 recommendation was to limit those cost increases to 4  
14 percent per year?

15 MR. DUSTIN MADSEN: No. That's a --  
16 that's a good clarifying point.

17 So my recommendation for consulting  
18 costs, including computer services costs, is to limit  
19 costs to the twenty (20) -- just finding the -- I  
20 don't want to misstate this -- 2021/2022 actuals  
21 multiplied by 4 percent per year. So grow those costs  
22 by 4 percent per year after removing the cloud-based  
23 computing costs. So --

24 MR. SVEN HOMBACH: So subtract out the  
25 cloud computing costs --



1 MR. DUSTIN MADSEN: And the DSA --

2 MR. SVEN HOMBACH: -- (INDISCERNIBLE)

3 separately. Thank you.

4 MR. DUSTIN MADSEN: Correct.

5 MR. SVEN HOMBACH: That was a helpful  
6 clarification.

7 You also indicated this morning that,  
8 in your view, the consulting costs were fairly high.

9 Is that correct?

10 MR. DUSTIN MADSEN: That is correct.

11 MR. SVEN HOMBACH: Having now had the  
12 benefit of -- of seeing the post-VDP chart that shows  
13 Manitoba Hydro's actual employee count, does it matter  
14 to you as to whether some of those consulting costs  
15 are people that used to be on the employee payroll  
16 that are now -- and are now providing services as --  
17 as independent contractors?

18 MR. DUSTIN MADSEN: It does. It does  
19 matter to me. When I'm managing -- when I used to  
20 manage departments within a utility and aware of just  
21 managing the broader budgets, consulting resources are  
22 reviewed -- or viewed, at least in -- from my lens --  
23 as a substitute for internal resources.

24 It's -- it's substituting either work  
25 that cannot be done internally or can't be filled

1 internally. It's backfilling the resources. So I  
2 view consulting costs, quite frankly, as essentially a  
3 type of an internal resource, just retained  
4 externally.

5                   To the extent staff is moving from an  
6 internal position to an external position, you -- and  
7 that's the way that that work is now being done and  
8 they're rolling it into a consulting role, that can  
9 become quite costly.

10                   Consulting resources are typically not  
11 -- they -- they can be the most economical solution  
12 where there is no other alternative. But often, in my  
13 experience, I've not found them to be the most  
14 economical where there is an alternative solution.

15                   So it is a relevant situation or -- or  
16 issue to assess. I -- I'm aware that there was an  
17 undertaking given to I believe yourself, Mr. Hombach,  
18 or -- or somebody regarding identifying -- or to some  
19 other party identifying which positions might have  
20 been moved into a consulting capacity going forward.

21                   So I'd be interested to see that  
22 response, but I have not yet.

23                   MR. SVEN HOMBACH: Mr. Madsen, I'd --  
24 I'd like to then move from consulting costs generally  
25 to the SAP S/4HANA costs specifically, if I may.

1                   Now, correct me if I'm wrong, but you  
2 recommend disallowing the 2023/'24 and 2024/'25 costs  
3 entirely?

4                   MR. DUSTIN MADSEN:    I do, and -- and  
5 the reason is is because we do not really know what's  
6 being incurred.  I -- I appreciate there was an in  
7 camera session around the phase zero costs, I -- I  
8 believe -- I might be misspeaking -- but there might  
9 be some more detail around what those phase zero costs  
10 are in relation to Ernst & Young.

11                   I -- I'm not entirely familiar with  
12 what that is, but I -- from -- from a practical  
13 perspective, Manitoba Hydro is forecasting to do a  
14 significant amount of work that is -- it is unclear as  
15 of this point what the benefit of that work will be.

16                   And for that reason, I think removing  
17 the costs is prudent in allowing whatever actual costs  
18 to be incurred being included in that deferral account  
19 for future review would be of benefit.

20                   MR. SVEN HOMBACH:    Now, would you  
21 acknowledge that there are some costs involved in  
22 performing a business analysis on a project of this  
23 magnitude?

24                   MR. DUSTIN MADSEN:    There would be,  
25 and I believe those are the phase zero costs.  So I --

1 I have stipulated that I would accept that those costs  
2 could be included within the deferral account.

3 MR. SVEN HOMBACH: So I'd like to  
4 follow up on a line of questioning I asked Manitoba  
5 Hydro's controller, Mr. Fogg, a few days ago.

6 And if I could ask Ms. Schubert to pull  
7 up the transcript from May 29th, please, and go to  
8 page 2186. Let's go to the bottom of the page. It  
9 starts on line 21.

10 Mr. Madsen, I -- I'd asked Manitoba  
11 Hydro's controller what would happen if the Board were  
12 to defer a decision on whether or not to approve the  
13 SAP S/4HANA deferral account, and whether or not  
14 Manitoba Hydro would be in a position to set it up on  
15 spec.

16 And I'd like to refer you to Mr. Fogg's  
17 response to that question on page 2187. And he  
18 indicated -- and I'm paraphrasing -- that Manitoba  
19 Hydro's assessment was that it wouldn't be able to  
20 create such an account without direction from the  
21 Board, but that there might be a grey area if the  
22 Board indicated that it was a -- that it was deferring  
23 the decision on that issue specifically.

24 As an accountant, do you agree with  
25 that assessment?

1 MR. DUSTIN MADSEN: Yes, I do. So,  
2 the -- in order to establish a deferral account under  
3 IFRS, there needs to be some sort of a -- a future  
4 value, an expectation that the asset will have a  
5 recovery period.

6 So, for Manitoba Hydro to establish an  
7 amount within a deferral account and to defer a cost,  
8 it needs at least some indication from the Board that  
9 it will have an opportunity to recover those costs in  
10 order to show that to his auditors, because absent  
11 that evidence, Manitoba Hydro would be faced with  
12 capitalizing an amount that may simply need to be  
13 written off.

14

15 (BRIEF PAUSE)

16

17 MR. SVEN HOMBACH: Thank you, Mr.  
18 Madsen. I just wanted to confirm the -- the  
19 preplanning, the phase zero costs. I appreciate that  
20 we can't get into what those costs are on the public  
21 record.

22 Just to confirm, you would like to see  
23 those rolled into the deferral account as well?

24 MR. DUSTIN MADSEN: Yes. It gives the  
25 Board additional time, in a future process, to assess

1 in the full context, the reasonableness of those costs  
2 at a later date.

3                   Again, absent a business case,  
4 understanding in detail the nature of the costs, which  
5 I -- I don't, my recommendation would be to defer that  
6 decision to a later date, to use the wording from Mr.  
7 Fogg, so that it gives additional time in the future  
8 for the Board to assess.

9                   MR. SVEN HOMBACH:    Thank you, Mr.  
10 Madsen.   Those are my questions.

11                  MR. DUSTIN MADSEN:    Thank you, sir.

12                  THE CHAIRPERSON:    Thank you very much,  
13 Mr. Madsen.   Mr. Reimer, do you have redirect?

14                  MR. THOMAS REIMER:    We do not, Mr.  
15 Chair.

16                  THE CHAIRPERSON:    Okay.   Thank you  
17 very much.   That concludes --

18                  MR. SVEN HOMBACH:    Mr. Chair, Mr.  
19 Hacault, I believe, has to speak to some housekeeping  
20 matters.

21                  THE CHAIRPERSON:    Okay.   Certainly.  
22 Mr. Hacault...?

23                  MR. ANTOINE HACAULT:    Sorry about that  
24 and sorry about keeping everybody.

25                                   At the end of the cross-examination

1 yesterday with Mr. Rainkie, you may recall that we had  
2 to talk and finalize about what -- what the  
3 undertaking would be and how it would read. And we've  
4 had an opportunity to have that discussion.

5                   So, what I would propose to put on --  
6 on the record is the wording that -- the request for  
7 undertaking would be and it reads as follows:

8                   "Commentary drawing on your  
9 expertise in utility regulation on  
10 whether the definition of "revenue  
11 requirement" in sections 39(1) of  
12 the Manitoba Hydro Act is  
13 sufficiently inclusive and focussed  
14 on the appropriate items (e.g.,  
15 Capital Expenditures versus  
16 Depreciation; debt serving --  
17 servicing costs versus interest), or  
18 whether it is cause for concerns or  
19 concern in terms of the PUB's  
20 ability to set just and reasonable  
21 rates."

22                   End of request for undertaking.

23

24 --- UNDERTAKING NO. 50:        Commentary drawing on Mr.  
25                                    Rainkie's expertise in

1 utility regulation on  
2 whether the definition of  
3 "revenue requirement" in  
4 sections 39(1) of the  
5 Manitoba Hydro Act is  
6 sufficiently inclusive and  
7 focussed on the  
8 appropriate items (e.g.,  
9 Capital Expenditures  
10 versus Depreciation; debt  
11 servicing costs versus  
12 interest), or whether it  
13 is cause for concerns or  
14 concern in terms of the  
15 PUB's ability to set just  
16 and reasonable rates.

17  
18 MR. ANTOINE HACAULT: There's one (1)  
19 other point of clarification and it relates to the --  
20 something -- and this is a transcript issue. I've had  
21 some discussion with Board secretary.

22 In the proceedings at the beginning on  
23 transcript page number 879 Hydro did file, by way of  
24 Exhibit 35, an answer to an undertaking, which is  
25 marked answer to undertaking no. 7. There was



1 actually an answer to undertaking number 6 on marginal  
2 values.

3                   So it may just erroneously numbered,  
4 but also there were two (2) questions that were sought  
5 as far as answers to undertakings and that's not  
6 recorded in the transcript.

7                   So, I just want to put on the record  
8 that I've communicated with Manitoba Hydro on that and  
9 we're trying to make some progress to clarify all  
10 these little things. Thank you.

11                   THE CHAIRPERSON: Thank you. Mr.  
12 Czarnecki, did you have anything to add or are we  
13 okay? Okay. Thank you, Mr. Hacault.

14                   Gee, it's 12:00 noon. We're going to  
15 adjourn for the day. Thank you very much. We will  
16 reconvene on Monday morning, which I believe is D-day.  
17 Have a good weekend, all. Thank you.

18

19                   (PANEL STANDS DOWN)

20 --- Upon adjourning at 12:00 p.m.

21

22 Certified Correct,

23

24 \_\_\_\_\_

25 Wendy Woodworth, Ms.