



“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 6th, 2023

Pages 3274 to 3536

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1 --- Upon commencing at 9:04 a.m.

2

3 THE CHAIRPERSON: Good morning. Mr.
4 Hombach...?

5 MR. SVEN HOMBACH: Yes. Good morning,
6 Chair, and good morning, members of the Panel. Today
7 is a somewhat ambitious agenda that extends into
8 tomorrow as well.

9 The first item on the agenda for
10 today's hearing day is the examination of Mr. Pelino
11 Colaiacovo on behalf of the Consumers Coalition. The
12 only party that have -- the only parties that have
13 expressed an intent to cross-examine Mr. Colaiacovo
14 are Manitoba Hydro and Board counsel. And I believe
15 Manitoba Hydro may not have questions, so we should be
16 able to finish his examination by the morning break.

17 I'll indicate that Mr. Colaiacovo is
18 joining us remotely by TEAMS. He was not able to
19 travel here from Toronto, so I'll welcome him to the
20 hearing room virtually.

21 After the morning break, we will begin
22 the direct examination of Manitoba Hydro's Rates and
23 Cost of Service Panel.

24 I would like to take a moment to
25 indicate that we've had some logistical challenges

1 with the schedule for this afternoon and tomorrow.
2 We've been able to condense what originally were to be
3 three (3) hearing days into two (2), and the Assembly
4 of Manitoba Chiefs is currently scheduled for cross-
5 examination this afternoon, but I've been advised that
6 Ms. Guglielmin will be on a plane to Winnipeg this
7 afternoon.

8 If any of the other Interveners that
9 are scheduled for tomorrow are in a position to switch
10 it up and conduct their cross-examination this
11 afternoon, that will make the schedule for Wednesday a
12 bit less ambitious. And I would ask people to please
13 approach me during the break or at lunch to work this
14 out offline.

15 Mr. Chair, Mr. Colaiacovo has not yet
16 been sworn in, so I would suggest that we take a
17 moment to allow Ms. McMillin to swear him in as a
18 witness, and then turn the microphone over to Dr.
19 Williams or to him.

20 THE CHAIRPERSON: Thank you. Ms.
21 McMillin?

22

23 CONSUMERS COALITION PANEL:

24 PELINO COLAIACOVO, Affirmed

25

1 EXAMINATION-IN-CHIEF BY DR. BYRON WILLIAMS:

2 DR. BYRON WILLIAMS: Good morning, Mr.
3 Chair and members of the Panel, and we thank Ms.
4 McMillin for affirming Mr. Colaiacovo.

5 I'm going to let Mr. Colaiacovo
6 introduce himself, but I am going to have a few
7 questions for him just prior to he begins his
8 presentation.

9 Mr. Colaiacovo, can you confirm that
10 you have been retained by the Consumers Coalition to
11 provide independent evidence to the Public Utilities
12 Board, sir?

13 MR. PELINO COLAIACOVO (by TEAMS): I
14 do confirm that, yes.

15 DR. BYRON WILLIAMS: And you
16 understand, sir, that you owe a duty to the Public
17 Utilities Board to provide evidence that is fair,
18 objective, and non-partisan related only to matters
19 within your expertise?

20 MR. PELINO COLAIACOVO (by TEAMS): I
21 do.

22 DR. BYRON WILLIAMS: And, sir, your
23 report dated April 3rd, 2023, review of certain
24 Manitoba Hydro financial issues, is on the record as -
25 - of the proceeding as Exhibit Consumer Coalition

1 number 9.

2 That's your understanding?

3 MR. PELINO COLAIACOVO (by TEAMS):

4 Yes, it is.

5 DR. BYRON WILLIAMS: And an errata to
6 your report filed April 28th, 2023, has been filed as
7 Consumer Coalition 9-1, sir?

8 MR. PELINO COLAIACOVO (by TEAMS):

9 That's correct.

10 DR. BYRON WILLIAMS: And, sir, these
11 documents were prepared under your direction and
12 control, agreed?

13 MR. PELINO COLAIACOVO (by TEAMS):

14 They were.

15 DR. BYRON WILLIAMS: And considering
16 both documents together, sir, they are accurate to the
17 best of your knowledge and belief?

18 MR. PELINO COLAIACOVO (by TEAMS):

19 Yes, they are.

20 DR. BYRON WILLIAMS: Okay. Just
21 turning to responses to the Information Requests asked
22 by other parties included in exhibits Manitoba Hydro
23 19 and PUB Exhibit 14, these also, sir, were prepared
24 under your direction and control and are accurate to
25 the best of your knowledge and belief?

1 MR. PELINO COLAIACOVO (by TEAMS):

2 They are.

3 DR. BYRON WILLIAMS: And finally, I
4 understand, sir, that you also have prepared a slide
5 presentation for this morning. Is that correct?

6 MR. PELINO COLAIACOVO (by TEAMS):

7 That's correct.

8 DR. BYRON WILLIAMS: And that too was
9 prepared under your direction and control and is
10 accurate to the best of your knowledge and belief --

11 MR. PELINO COLAIACOVO (by TEAMS):

12 Yes, it is.

13 DR. BYRON WILLIAMS: -- and you adopt
14 it as forming part of your evidence, sir?

15 MR. PELINO COLAIACOVO (by TEAMS):

16 Yes, I do.

17 DR. BYRON WILLIAMS: Okay. And, Mr.
18 Chair, we're going to ask that be marked -- the slides
19 be marked as Exhibit Consumer Coalition 23, and then
20 I'll invite Mr. Colaiacovo to begin his presentation.

21 THE CHAIRPERSON: Thank you.

22

23 --- EXHIBIT NO. CC-23: Slide presentation of
24 Pelino Colaiacovo

25

1 CONTINUED BY DR. BYRON WILLIAMS:

2 MR. PELINO COLAIACOVO (by TEAMS):

3 Thank you very much. The contents page of the
4 presentation just shows the order in which I'm going
5 to cover a few subjects.

6 First, an introduction of Morrison Park
7 Advisors and my own qualifications; then an
8 introductory section about this particular GRA; and
9 then three (3) sections that I've termed 'Recap'
10 because many of the issues that are addressed in -- in
11 those sections refer back to the previous GRA that I
12 was a witness for where there was extensive discussion
13 of equity, debt-to-equity ratios, and other financial
14 matters; and then a final section wrapping up the
15 presentation and -- and focussing on the immediate
16 decision, the -- the immediate series of decisions, I
17 believe, before the PUB. So, if we could turn to the
18 next slide, please.

19 Morrison Park Advisors is a independent
20 investment bank founded in Toronto in 2004 by two (2)
21 of my colleagues, David Santangeli and Brent Walker.
22 I joined the firm in 2005. I was the next person in
23 after the founders.

24 We are a firm that provides exclusively
25 financial advisory services. We provide clients with

1 assistance with mergers and acquisitions, with capital
2 raising of both debt and equity. We do evaluations
3 and financial opinions for corporate boards. We
4 provide litigation support on financial matters. And
5 we appear before regulators of various types on issues
6 concerning financial matters.

7 We -- in addition, we provide
8 assistance to companies going through restructurings
9 and special situations. We are completely
10 independent. We are partner owned. There are
11 currently eight (8) partners that own the firm.

12 We are free of conflicts of interest
13 from any other -- you know, we provide no services
14 outside of advisory services to our customers, so we
15 have no conflicts with respect to the services that we
16 are providing.

17 We operate in a number of sectors that
18 are broadly represented in the Canadian economy, but
19 we have a particular focus on three (3) areas: one is
20 mining; a second one is power utilities and
21 infrastructure; and a third is real estate. In
22 addition, we provide services in a few other sectors
23 but to a lesser degree.

24 I -- as I said, I joined Morrison Park
25 Advisors shortly after the firm was founded in 2005.

1 I'm the head of the power and infrastructure group for
2 the firm. I have been with the firm for eighteen (18)
3 years now.

4 Prior to that, I was chief of staff to
5 the Ontario Minister of Energy. And before that, I
6 spent ten (10) years consulting in highly regulated
7 industries. I -- I dealt with power. I dealt with
8 telecommunications. I dealt with a number of other
9 sectors that experiences significant degree of
10 government regulation.

11 I've had two (2) experiences before the
12 Manitoba PUB. I was an independent expert consultant
13 for the PUB during the NFAT process. And I was an
14 expert witness for the Consumers' Coalition and MIPUG
15 jointly in the 2017/'18 and 2018/2019 GRA.

16 In the earlier process in the NFAT, our
17 firm was tasked with doing extensive financial
18 analysis of the various alternatives that were being
19 examined during the NFAT.

20 We provided independent financial
21 modelling and an extensive amount of scenario testing
22 of the various choice options that were before the PUB
23 with respect to the NFAT at the time, different
24 combinations of types of generation and transmission
25 project spending that -- that was being reviewed and

1 considered.

2 In the 2017/'18 and 2018/'19 GRA, the
3 focus was -- for our work, and for my work, in
4 particular, was in the question of equity targets and
5 the justification for rate paths that were designed to
6 achieve certain equity targets.

7 We did an extensive amount of financial
8 analysis and, also, scenario testing, again with
9 respect to different potential rate increase paths and
10 the equity targets that might arise from those
11 different paths.

12 But we also did some primary research
13 into the bond markets. We met directly with a number
14 of institutional bond buyers who are active in
15 purchasing provincial Manitoba bonds to understand
16 better how they analyze Manitoba Hydro, how they
17 analyze the government of Manitoba in relation to
18 Manitoba Hydro and what sorts of decisions might
19 affect, you know, their perspectives on Manitoba's
20 bonds, credit spreads, and so on.

21 In addition to appearing before the
22 Manitoba PUB on two (2) occasions, I've appeared
23 before a number of other regulators and special
24 agencies, boards, and commissions; provided evidence
25 and also have -- have done special assignments for

1 various of these entities in a number of provinces
2 across Canada.

3 The vast majority of my work, however,
4 is spent in the private sector. I have a variety of
5 private sector clients and transactions that I've
6 worked on over the years; both for utilities, for
7 renewable energy companies, for natural gas companies,
8 and for green technology companies in many of the
9 emerging green technology sectors.

10 If we could turn to the next slide,
11 please. So -- there we go.

12 The -- I think it's important to set
13 this General Rate Application in context. Narrowly
14 speaking, this is a rate hearing that is about
15 confirmation of -- or confirmation or not of the
16 interim rate increase from the 1st of January, 2022,
17 plus a request for two (2) additional increases in
18 September of '23 and April of 2024.

19 There is a substantial amount of
20 discussion of twenty (20) year forecasts and about
21 long-term rate paths. But strictly speaking, this is
22 a Hearing about, you know, a small number of specific
23 rate decisions.

24 In a very uncertain context, there is a
25 new legislative regime that was proclaimed for rates,

1 but not in force until April 1st of 2025. And from a
2 legislative perspective, that means that existing
3 arrangements obtain until then.

4 At the same time, the Province of
5 Manitoba is working on a new energy policy framework.
6 A consulting firm by the name of Dunsky is doing a
7 tremendous amount of work out there that will
8 hopefully be leading up to some advice and decision
9 makings by Government with respect to, broadly
10 speaking, the energy transition and how Manitoba is
11 going to be addressing those issues.

12 Manitoba Hydro itself has told us that
13 they're working busily on an Integrated Resource Plan
14 that's going to have a very important impact in their
15 future capital spending plans and -- and how they
16 intend to manage load and generation going forward.

17 And there were outstanding regulatory
18 policy issues from previous GRAs that were never
19 settled by the PUB for a variety of reasons. And --
20 and we'll be touching on that a little bit through the
21 presentation.

22 Nonetheless, Manitoba Hydro ratepayers
23 have been significantly burdened over the past decade.
24 The Bipole III and Keeyask projects that were a very,
25 very significant feature of the past ten (10) years

1 were completed both late and over budget
2 significantly.

3 Wuskwatim, the smaller project that had
4 been completed some -- some years before was also over
5 budget. So this -- this was a pattern, unfortunately,
6 that was -- that had to be dealt with.

7 Rate increases -- and Manitoba Hydro
8 has acknowledged this through a series of IRs -- rate
9 increases over the past decade amounted to 42 percent.
10 Whereas CPI inflation in Manitoba was less than 25
11 percent.

12 So ratepayers have been burdened by
13 having to pay more increases than inflation warranted
14 over a substantial period of time.

15 The global energy transition, as -- as
16 it is so called, points to significant changes. But
17 as of yet, there is no clarity on how those changes
18 are going to affect Manitoba Hydro and its ratepayers.

19 Governments, in different parts of the
20 world and here in Canada and in the United States, at
21 the federal level, are spending a tremendous amount of
22 money supporting a variety of different technologies
23 that are expected to form a significant part of the
24 energy transition.

25 That includes renewable energy, but it

1 also includes nuclear power, and includes battery
2 storage, and includes new transmission spending.

3 Provinces, states, and cities across
4 North America are also, in many instances, pursuing
5 their own initiatives; not uniformly. Different
6 states, different provinces are pursuing different
7 initiatives.

8 Sometimes more in favour of renewable
9 energy, other times not. The same thing goes for
10 cities. And corporations are behaving in a variety of
11 different ways. Some very aggressively pursuing
12 renewable energy and green energy targets, and others
13 not.

14 All of this, in -- in a back drop that
15 has technology announcements almost daily with respect
16 to new renewable energy technologies or new battery
17 technologies or new storage technologies hitting
18 different levels efficiency.

19 It is not clear where all of this ends
20 up, but it is clear that this is having a profound
21 impact on energy markets and loads, with no stability
22 in sight.

23 The -- all of this may, in fact, amount
24 to great opportunities for Manitoba Hydro. All of it
25 may amount to opportunities for Manitoba Hydro to

1 export more or to export more valuable products and
2 services.

3 On the other hand, it could be a
4 challenge for Manitoba and Manitoba Hydro. It -- it
5 isn't clear. I don't think there should be an
6 assumption that it's necessarily going to be
7 problematic, however. That change may, in fact, be
8 positive.

9 Manitoba benefits from some significant
10 natural resources in its hydroelectric facilities and
11 those -- those resources are incredibly valuable.

12 Hydro Quebec is -- is one that has been
13 very purposely pursuing what it calls, you know, the -
14 - the battery of North America in its hydroelectric
15 system and is hoping to benefit significantly.

16 I mean, it remains to be seen how
17 Manitoba and Manitoba Hydro will operate in this newly
18 developing environment.

19 If we look forward to the -- the -- how
20 the -- the GRA application has been presented, it
21 relies on a twenty (20) year forecast, that is largely
22 incremental. It's a twenty (20) year forecast that
23 doesn't delve into a variety of scenario
24 possibilities. It doesn't present different potential
25 outcomes to the energy transition and -- and provide a

1 range of highs and lows that may and, you know, and
2 unfold over time.

3 In -- instead, the twenty (20) year
4 forecast that's presented is very much one that is
5 intended to be a reference case, a center line, a
6 consensus view point for a variety, a wide variety, of
7 different variables.

8 And not only for hydrological
9 production in Manitoba, but also a consensus view of
10 interest rates. A consensus view of inflation rates.
11 A consensus view of export and import prices and fuel
12 prices.

13 And, the twenty (20) year forecast is
14 also based on a number of assumptions of how Manitoba
15 Hydro intends to manage load, which may or may not
16 actually accord with the green transition, which may
17 or may not be a -- an accurate representation of how
18 things will actually unfold in the future.

19 And -- and -- and a single, for
20 example, in -- in Manitoba Hydro's presentation for
21 twenty (20) -- its twenty (20) year forecast, one of
22 the placeholder assumptions was new gas fired
23 generation in the late '20/'30's.

24 And yet, we know that the federal
25 government is pushing forward a policy that will ban

1 new gas facilities. So, that placeholder, you know,
2 may be one (1) possible scenario, but there are many
3 other scenarios in which that natural gas fired
4 facility is not going to be possible.

5 The twenty (20) year forecast doesn't
6 explore that range. It's simply giving us a reference
7 case.

8 There are many other issues that could
9 unfold which cause that, so called, reference case or
10 consensus case scenario to not really reflect reality
11 very well. If there is a faster transition to
12 electric heating, away from fossil fuel heating. If
13 there is a faster transition to electric vehicles from
14 fossil fuel driven vehicles, you know, will that
15 twenty (20) year forecast remain reasonable or not.

16 Part of the question, I believe that is
17 before the PUB, is whether to make decisions about
18 short term rates on the basis of a very long term
19 financial forecast that is presented as a reasonable
20 picture of the future, when in fact it may be far from
21 reasonable.

22 The -- and that doesn't even address
23 the fact that we know, from history, the -- the
24 variability of hydrological output in Manitoba means
25 that, you know, this -- this 20-year forecast really

1 is a notional average, where it's a series of very
2 notional averages that's not going to reflect reality.

3 I think it -- it, you know, my comments
4 should be tempered by the fact that there is no other
5 way to do 20-year forecasting. This is not a
6 criticism of Manitoba Hydro in the way the forecast
7 was done.

8 Doing a 20-year forecast requires
9 assumptions to be made, requires relying on consensus
10 forecasts for many different variables. I think the
11 critical issue is how you understand that forecast and
12 what you do with it. If we might go to the next
13 slide.

14 I -- I think there are two (2) critical
15 questions before the -- the PUB with respect to
16 Manitoba Hydro's rate application.

17 The first is: Do current circumstances
18 necessitate rate increases? A couple of years ago
19 there was a drought and that drought necessitated --
20 or at -- or at least that -- the -- that drought
21 caused Manitoba Hydro to apply to the PUB for an
22 immediate rate increase because of the financial
23 distress that that drought was causing.

24 Admittedly, there is no drought today.
25 So, there is no financial distress being caused by

1 drought. Is -- is there near term financial
2 challenges that are causing Manitoba Hydro to require
3 a rate increase? Is there evidence of debt market
4 unease with Manitoba Hydro that suggests that a rate
5 increase in the near term is actually required? Are
6 there other near-term circumstances that would justify
7 a -- a rate increase?

8 And I think much of the evidence that's
9 been heard already from other witnesses that have come
10 before the PUB speak to those short-term issues and --
11 and, frankly, the lack of a burning platform, so to
12 speak.

13 So, the second question is: If rate
14 increases are not justified in the near term by
15 current circumstances but, instead, those rate
16 increases are going to be justified because of longer-
17 term financial requirements, then, is there sufficient
18 evidence before the PUB to allow it to address some of
19 the unsettled questions that were left over from past
20 GRAs that are very much relevant to those long-term
21 financial targets?

22 We do know that the government has made
23 a decision about long-term targets, but the government
24 has chosen -- the Government of Manitoba has chosen,
25 to delay the enforce of those new legis -- legislative

1 requirements until April 1st of 2025.

2 So, what bearing does that, therefore,
3 have on the regulator's circumstances today and -- and
4 consideration about short-term rates that are going to
5 obtain before that new regime comes into force on
6 April 1st, 2025?

7 In -- in reality, the PUB, if it is to
8 make a decision about short-term rates on the basis of
9 long-term financial requirements, financial targets,
10 and forecasts, well, what targets and time-lines
11 should the PUB enforce and how would the PUB choose to
12 justify those targets and time lines?

13 Is there evidence before the PUB that
14 is different from past GRAs that is new and
15 substantial that, you know, makes clear the need for
16 these short-term increases in order to achieve those
17 long-term financial goals.

18 The -- the Order 59/18 raised a number
19 of issues and questions about Manitoba Hydro's long-
20 term targets and time lines and called for some
21 additional work, in -- in order to better address
22 those issues. That work, unfortunately, didn't
23 happen.

24 And so, the question, I believe, that
25 is before the PUB today is: Is there new evidence, is

1 there new information that can lead to a different
2 result? If we could go to the next slide, please.

3 So, one (1) of the issues that has come
4 up time and time again. It -- is came up in past GRAs
5 and it was reiterated in the current GRA, in the -- in
6 the application by Manitoba Hydro, is that other
7 utilities in Canada may have financial targets that
8 are -- that include a lower debt ratio than what
9 Manitoba Hydro certainly currently has.

10 But one (1) of the critical issues in
11 any financial evaluation that we do, as financial
12 advisors, is choosing proper comparators. Who are the
13 -- the, you know, analogous companies, analogous
14 enterprises to Manitoba Hydro? Who shares Manitoba
15 Hydro's features so that you are doing an apples-to-
16 apples comparison and can say, well, here is your peer
17 group, and your peer group, you know, has features
18 that are similar to you and, therefore, that your peer
19 groups' actions, your peer groups' targets, your peer
20 groups' activities can be relevant to your decision-
21 making.

22 The problem we find is that Manitoba
23 doesn't have much of a peer group. Manitoba Hydro
24 does not have much of a peer group. Manitoba Hydro, in
25 fact, is quite unique on a North American scale, not

1 just the Canadian scale.

2 Manitoba Hydro is a combination of
3 being a non-share capital corporation with no profits
4 paid out to equity investors, controlled by a
5 Provincial Government, producing power at cost with no
6 required return on equity to anyone, and crucially,
7 with an export mandate.

8 With a -- an explicit legislated
9 mandate to produce power for export purposes if that
10 power production for export purposes is able to
11 benefit or may benefit, or may likely benefit Manitoba
12 consumers.

13 That's a constellation of features that
14 no other utility in Canada, and frankly, no other
15 utility in the United States either, actually shares.
16 There are many public sectors controlled and
17 controlled enterprises.

18 There are some enterprises that produce
19 power at cost. There are a very, very small number of
20 enterprises, two (2), in fact, at the Provincial level
21 in Canada, Hydro Quebec and -- and Nalcor that have an
22 export mandate.

23 But none of them have the same
24 confluence of features, because those two (2)
25 utilities with an export mandate, Hydro Quebec and

1 Nalcor also pay equity to -- equity returns to their
2 government and have very different structures with
3 respect to their domestic customers.

4 In Nalcor's case the Government of
5 Newfoundland actually invested equity capital in the
6 business to support an ex -- construction of an export
7 project. Manitoba has never done that with Manitoba
8 Hydro.

9 In Hydro Quebec's case, they have split
10 the output of the company into a heritage pool of
11 power that is used to provide energy to domestic,
12 residential and small business consumers, whereas
13 exports are priced and treated very differently, as
14 are power for very large transmission connected
15 customers in Quebec.

16 The Province of Quebec uses Hydro
17 Quebec as an enticement for major investments into the
18 profits. But it has a set of economic arrangements
19 that are very different from those that apply in
20 Manitoba.

21 And in the case of other provincial
22 utilities, like BC Hydro, or SaskPower, or NV Power,
23 none of them have an export mandate. And -- and so
24 comparing Manitoba Hydro to those utilities doesn't
25 work very well.

1 The same question -- the same
2 comparison can be made with a number of publically
3 owned power-at-cost utilities in the United States,
4 like Bonneville Power and the Tennessee Valley
5 Authority, and the Long Island power authority. They
6 are all non-share capital corporations.

7 No equity dividends, but they don't
8 have export mandates. And -- and so, you're really at
9 a loss in looking for a peer group. You can look at
10 all of these, but none is a perfect comparison. I
11 factiously call it apples to pineapples as opposed --
12 as opposed to apples to apples.

13 But in making any of those comparisons,
14 those comparisons have to be nuanced. They have to
15 discuss why, in fact, these utilities are different
16 and why those different features bear on appropriate
17 financial targets, and financial management, and
18 timing of targets over time, and treatment of
19 customers and so on and so forth.

20 And -- and that's a level of analysis
21 that Manitoba Hydro has never presented; did not
22 present it in past GRAs and has not presented it
23 currently either.

24 There has been a very top level -- high
25 -- a high-level, macro-level comparison with other

1 provincial utilities, and -- and that has been the sum
2 of the comparison. If we can move to the next slide.
3 Thank you.

4 So why does a not-for-profit enterprise
5 like Manitoba Hydro actually have equity? What does
6 that even mean?

7 There are a number of other utilities
8 that are non-share capital corporations that don't use
9 the word 'equity'. You know, this was something that
10 I went into in -- in the last GRA, but there are a
11 number of -- of publicly-owned utilities in the United
12 States that just don't use the word 'equity' in their
13 financial statements because it confuses the issue.

14 They may call it 'net invested
15 capital', they may call it 'contributions'. They --
16 you know, they use a different -- different
17 terminology. But in the case of Manitoba Hydro, the
18 word 'equity' is used. So -- so what is that equity,
19 and -- and why is there equity?

20 In the private sector, we know that
21 utilities are typically capitalized by a combination
22 of debt and equity, and the dividing line between debt
23 and equity is sometimes fuzzy. There can be different
24 flavours of debt, not only senior debt, but there
25 could be subordinated debt and there could be

1 mezzanine debt and -- and a variety of other types.

2 But -- but there is traditionally a
3 fairly bright-line distinction between debt and equity
4 in that equity is the holder of all residual risks in
5 an enterprise; that debt takes a certain degree of
6 risk, but debt ranks ahead of equity in a variety of
7 different ways.

8 And that's true that that ranking of
9 capital is true both from a cashflow perspective and
10 from a residual perspective in the -- in the case of
11 enterprise failure. So debt always has a higher claim
12 on cashflows than equity does. Debt has a higher
13 claim on residual value of assets in the case of
14 enterprise failure than equity does.

15 And, crucially, if there is no equity
16 in an enterprise, then it's hard to justify that debt
17 is taking on any sort of limited risk. It may not, in
18 fact, qualify as debt if there is no equity in an
19 enterprise. So in -- in some ways, the existence of
20 equity is a requirement in order to provide comfort
21 for debt.

22 Now, that equity, loosely understood as
23 it is in the case of a not-for-profit enterprise, can
24 be internal to the enterprise or it in some instances
25 can be external, and external in the sense of provided

1 by a guarantor.

2 That -- that equity, that cushion of
3 comfort for lenders can be provided by the assets of
4 the enterprise itself or by a guarantor. And
5 depending on the nature of the business, different
6 amounts of equity are going to be required. Different
7 amounts or types of guarantee are going to be
8 required.

9 In the case of Manitoba Hydro, the
10 Province of Manitoba guarantees Manitoba Hydro's debt.
11 In actual fact, the Province of Manitoba issues debt
12 which is then on-lent to Manitoba Hydro. So it's --
13 it's actually a higher level of guarantee as compared
14 to what is traditionally done or has been done in
15 other provinces.

16 Quite famously, the old Ontario Hydro,
17 which ceased to exist in 1998, had debt which was
18 guaranteed by the Province of Ontario, but they were
19 actually Ontario Hydro bonds that were directly issued
20 to public-bond investors.

21 In the case of Manitoba, there are no
22 public bond that -- that have Manitoba Hydro's name on
23 them anymore. There were at one time. The Province
24 of Manitoba simply issues -- issues Province of
25 Manitoba debt, and some of that is then on-lent to

1 Manitoba Hydro.

2 And so the Province of Manitoba very
3 directly guarantees Manitoba Hydro's debt because all
4 of that debt passes through the hands of the Province
5 of Manitoba.

6 However, notwithstanding the fact that
7 that debt is on-lent, lenders do know and do
8 understand exactly what is happening with those funds.
9 They know that a significant portion of all the
10 Government of Manitoba's debt is actually debt of
11 Manitoba Hydro.

12 And so there is close analysis of what
13 Manitoba Hydro is doing with that capital -- close
14 analysis, but nonetheless analysis in light of the
15 fact that it is guaranteed by the Province of
16 Manitoba.

17 If we could go to the next slide,
18 please. So what is equity at Manitoba Hydro
19 specifically? Well, equity is retained earnings or
20 customer contributions, and those are contributions to
21 the Utility over and above the amounts required to pay
22 the annual operating costs of the business.

23 And in effect, they turn into net
24 investments and capital assets. Capital assets are
25 funded by mostly debt, but a portion of equity as

1 well. And another way to describe it would be that
2 equity is the retained earnings which is also
3 financial reserves.

4 You know, planning to regularly earn
5 and accumulate those retained earnings is -- is
6 another way for the Utility to have financial
7 resources that will help it weather difficult times.

8 In years in which profits cannot be
9 earned, there is the opportunity to accumulate greater
10 amounts of debt. In years when the -- the business
11 performs better, debt can be paid down in order to
12 provide that financial reserve, that financial cushion
13 for more difficult years. If we could go to the next
14 slide.

15 Now, how much equity is specifically
16 required in a not-for-profit enterprise like Manitoba
17 Hydro, unique as it is, operating in the circumstances
18 in which it does?

19 Well, that equity target can be
20 determined by legislation or regulations. And, in
21 fact, the Government of Manitoba has come forward with
22 Bill 36, and it has provided a set of targets and a
23 set of timing.

24 Governments are well within their
25 rights to do so. They can do so at any time. They

1 can make choices on any basis they wish, but
2 fundamentally, government's choices are political
3 choices.

4 They can be analysed from a variety of
5 perspectives, financial or economic or what have you,
6 but they are political choices.

7 And, importantly, governments can
8 change their opinion at any time. A new piece of
9 legislation can change the targets. They're not
10 beholden to or required to justify those targets
11 before anyone other than the voters of their
12 jurisdiction -- the Province of Manitoba in this case.

13 The targets can also be chosen by a
14 regulator in the absence of legislation. And, you
15 know, if a regulator is making those decisions, then
16 the regulator should make those decisions on the basis
17 of regulatory principles and practice: efficiency and
18 prudence and fairness.

19 And there's -- there are many different
20 formulations of regulatory principles, most famously
21 the Bonbright Principles, but many others. And
22 Manitoba -- the Manitoba PUB, in fact, has one (1)
23 particular formulation of regulatory principles
24 available on its own website.

25 In Order 59/'18, the PUB recommended

1 further issue into the specific question of equity
2 targets and timing for Manitoba Hydro.

3 Through that particular GRA and its
4 outcome, there was a determination that having equity
5 reserves, in fact, was appropriate to manage drought
6 risk, but potentially not appropriate to manage
7 several other risks such as inflation rates and
8 interest rates and foreign exchange rates and so on.

9 And therefore, having a follow-up
10 process after that GRA was intended to deepen the
11 understanding and allow for a sharpening of policies,
12 a sharpening of the regulatory policy decision on
13 exactly how much equity Manitoba Hydro should have
14 and, you know, the transition period in terms of
15 building that equity up over time. As mentioned
16 earlier, that process did not happen.

17 Another alternative in terms of
18 deciding how much equity is required and the timing
19 and targets and so on is to look at historical
20 precedent.

21 And in fact, Manitoba Hydro itself has
22 a history where there was a major export project
23 undertaken in the late 1980s that came into service in
24 1992, and that was, of course, the Limestone
25 Generating Station.

1 Interestingly, the debt ratio or the --
2 the inverse equity ratio of Manitoba Hydro was quite
3 challenged during the construction of Limestone. Debt
4 reached well over 90 percent of total assets for
5 Manitoba Hydro, and the number went up to 19 -- or 94
6 percent in 1992.

7 In 2012, prior to beginning the Keeyask
8 Project, twenty (20) years later, the debt ratio had
9 fallen a full 20 percent over twenty (20) years. But
10 it is also important to remember that the Limestone
11 station was built under budget in 1992 and was
12 immediately profitable from an export perspective.

13 It was an extremely successful project
14 and, in fact, is delivering value to this day for
15 Manitoba Hydro and Manitoba ratepayers.

16 Unfortunately, the Wuskwatim Project
17 early in the 2000s and the Keeyask and Bipole projects
18 in the 2010s did not, unfortunately, have that same
19 outcome. They were not under budget, and they are not
20 immediately profitable.

21 And yet, you know, if historical
22 precedent is to be a guide, you know, is the debt
23 ratio intended to fall the same 20 percent over twenty
24 (20) years after projects that had very, very
25 different outcomes?

1 This brings back to the, you know,
2 should comparisons be apples to apples or applies to
3 pineapples. If we could go to the next slide, please.

4 The other complicating factor, of
5 course, in -- in considering an equity requirement for
6 Manitoba Hydro is the fact that it has an export
7 mandate. And this goes back to the fact that there
8 are no direct comparisons for Manitoba Hydro in terms
9 of peer group.

10 The export mandate does complicate the
11 question of equity, of where that equity should come
12 from and -- and how that equity should be treated over
13 time, how much of it should there be, how quickly
14 should equity be built up.

15 Given that the government of Manitoba
16 makes all decisions with respect to export focussed
17 projects, you know, and yet Manitoba domestic
18 ratepayers are expected to make up any shortfalls and
19 provide equity through higher rates creates some
20 challenges.

21 And from the perspective of regulatory
22 policy, managing the fair distribution of these
23 burdens is not easy. It's a difficult choice to -- to
24 be made. It -- it does present some fairness issues
25 as between ratepayers and taxpayers, for example,

1 because the government benefits from increased water
2 rental fees, increased debt guaranteed fees, increased
3 capital taxes.

4 And in the case of an expensive export
5 project that increases the asset base of the Company,
6 it will also benefit from an increase in the equity
7 ratio over time, or a decrease in the debt ratio over
8 time, because since Manitoba Hydro is a government
9 business enterprise, all incremental retained earnings
10 are recorded as revenue by the government.

11 And so, over that twenty (20) year
12 period when the debt ratio is presumed to be falling,
13 revenues are, in effect, being recognized on the
14 government's books.

15 So, for the government, there is no
16 risk in pursuing an export project; but for
17 ratepayers, there absolutely is risk. Those -- those
18 export projects can turn out well like Limestone
19 certainly did. Those export projects can turn out
20 poorly like Keeyask did.

21 Those very different outcomes produce
22 very different pressures on ratepayers versus
23 taxpayers, and that's an important issue that has to
24 be taken into account if the regulator is being called
25 on to determine targets and timing for equity. If we

1 might go to the next slide, please.

2 This slide, it's a complicated looking
3 slide, and I have to pause for a moment to explain it.
4 On the left-hand side is a chart that is drawn from
5 Manitoba -- one (1) of Manitoba Hydro's own exhibits.
6 It's the -- from the hydrology presentation that was
7 made before the PUB a couple of weeks ago.

8 And what it shows is expected hydraulic
9 generation outcomes as those were forecasted, and then
10 actually delivered at different times.

11 The important fact on -- on that left
12 side chart is to see the height of the bars. And the
13 height of the bars represent the uncertainty range for
14 power production, with the -- the black line appearing
15 at a certain portion of the bar being the average
16 hydraulic generation that is forecasted at the time of
17 forecasting but uncertainty being higher and lower
18 because no one is sure exactly how much hydroelectric
19 energy gets produced until after it's already
20 produced.

21 On the right-hand side of this slide,
22 this is an excerpt from the presentation that I did in
23 the 2017/'18 GRA which tries to capture and represent
24 the potential range of the net export revenues that
25 might have resulted from the forecast, the power

1 generation forecast, the hydraulic forecasts at that
2 time.

3 Now, I did not produce one of these
4 charts for the current GRA. Unfortunately, that
5 information wasn't available to me, and nor was I
6 tasked with producing a new version of this. But
7 notionally speaking, and if you ignore the -- the
8 particular numbers, this has not changed.

9 If anything, there is a -- there would
10 be a slightly wider chart because there's ten (10)
11 more years of -- of hydrological record that can be,
12 you know, used in -- in analysis.

13 But what that shows is the range of
14 outcomes that might be expected in any given year for
15 net export revenues because hydrology is so uncertain.

16 So, in -- in some sense, the amount of
17 water that is -- that falls into the river systems
18 that -- that Manitoba Hydro uses to produce power will
19 determine which column any given year lands in. And
20 the height of those green bars is determined by things
21 like export prices, import prices, fuel prices, and so
22 on.

23 And so, water will determine where you
24 are from left to right and other variables will
25 determine how high those bars get, whether it's on the

1 low side or the high side.

2 And I think it's -- it's particularly
3 interesting to point out that the mean net export case
4 is not the same as the median case or the mean energy
5 case, and that happens for a variety of reasons.

6 But the way the math works, in -- in
7 approximately 60 percent of cases you would expect net
8 export revenues to be above average and in 40 percent
9 of cases you would expect net export revenues to be
10 below average.

11 But the likelihood is, if you are below
12 average, you are more below average than if you are
13 above average. There is a flattening, in effect, of
14 the curve to the right. It's not a normal
15 distribution curve. It is skewed to the left.

16 And so, colloquially, if you have a bad
17 year, it's probably a very bad year. If you have a
18 good year, it might only be modestly good, you know,
19 or it can be quite good, but good years are never as
20 good as bad years are bad.

21 And -- and so, on -- in that particular
22 analysis there, the range from an -- from the mean to
23 the worst possible case was approximately \$400
24 million, whereas the range from the mean to the best
25 possible case was only \$200 million, so to -- to give

1 you a sense.

2 That particular year is not relevant to
3 any years in the future, but the same kind of math
4 works now as it -- as did before. And so, when
5 Manitoba Hydro is presenting a twenty (20) year
6 forecast, all they've done is they've chosen that mean
7 net export revenue for each year estimated into the
8 future but, in fact, the range of outcomes is plus or
9 minus hundreds of millions of dollars in any given one
10 of those years.

11 And -- and hence my contention earlier
12 on, that Manitoba Hydro's presented a twenty (20) year
13 forecast that incrementalist and based -- you know,
14 should be understood as just a scenario model, not a
15 path, because when you have up to \$600 million of
16 variability in any given year, you know, it's not
17 actually going to look like a path in any traditional
18 sense of the word. If we could jump to the next
19 slide.

20 DR. BYRON WILLIAMS: Mr. Colaiacovo,
21 I'm just going to interrupt for one (1) second.

22 And Mr. Chair, we're running just
23 slightly behind schedule. I'm just -- we're okay with
24 time? Thank you very much.

25 Thank you. Sorry to interrupt.

1 MR. PELINO COLAIACOVO (by TEAMS): So
2 I think it's important to recognize that based on
3 hydrological risk, there is some level of equity that
4 is absolutely required in Manitoba Hydro.

5 I would completely agree -- and I think
6 any competent third-party observer would agree -- that
7 Manitoba Hydro requires some level of equity,
8 particularly, to manage hydrological variability and
9 hydrological risk. In my view, that's -- that's not
10 in contention.

11 The only question is what should that
12 equity reserve, what should that equity cushion be,
13 how big should it be, and how much should any given
14 cohort of ratepayers contribute to achieve that equity
15 target.

16 And that determination was not made in
17 -- in 59/18 and I believe it has not -- it's not made
18 now. The Government has put forward that target, but
19 it only applies in 2025. It does not apply today.

20 So as of today, there's still no
21 clarity on what that equity target should be from a
22 regulatory perspective; not from a legislative
23 perspective.

24 And if we could go to the next slide,
25 please. I'm cognizant of time. I'm going to try to

1 cover these last issues.

2 Manitoba Hydro has an interest coverage
3 ratio target. It is focussed on cash flow. It's an
4 important target. We can quibble about whether
5 they've chosen exactly the right cash flow target, but
6 there is no dispute that cash flow is important.

7 And I -- I think that if Manitoba Hydro
8 was at risk of breaching a critical cash flow target,
9 we would all agree that rates should rise as a result.
10 However, the reality is Manitoba Hydro is currently in
11 no danger of breaching its cash flow targets.

12 Even two (2) years ago, when it faced a
13 severe drought, operating cash flows were sufficient
14 to cover interest costs. Yes, net income was
15 negative. But net income was negative because of a
16 large non-cash charge, which is depreciation. But
17 operating cashflows were still sufficient to cover
18 finance charges.

19 And that was in a severe unprecedented
20 drought year. So Manitoba Hydro is not in any danger
21 of breaching cashflow targets.

22 And, you know, I think in -- in moving
23 forward and looking forward at rates in the near term,
24 those cashflow targets are very legitimate concerns,
25 but are certainly not significantly in danger at the

1 moment. Next slide, please.

2 Manitoba Hydro also tracks another
3 target, which is capital coverage ratio. It is
4 longstanding at Manitoba Hydro. It's said the capital
5 coverage ratio is at one-point-two (1.2) times
6 cashflow versus non-major capital spending.

7 I'm reiterating arguments that I made a
8 number of years ago in the previous GRA that I
9 participated in. But this is a non-standard measure.
10 It's questionable, the value of this -- what the value
11 of this measure is.

12 And -- and I think the -- the best
13 highlight for it would be to look forward to a point
14 where Manitoba Hydro has achieved the level of equity
15 that it should achieve; whether that's set by the
16 Government or set by the regulator.

17 Would you still want to achieve one-
18 point-two (1.2) times cashflow to non-major capital
19 spending when you have already achieved your -- your
20 equity target?

21 And I think the question -- the answer
22 you'd come to that question is no. It doesn't
23 actually make sense. And therefore, this target
24 appears to just be a re-statement of a desire to make
25 progress on -- on reducing a debt ratio. And I don't

1 think much more time has to be spent on it than that.

2 If we could turn to the next slide, please.

3 So what is the revenue requirement for
4 Manitoba Hydro domestic customers? And there's a
5 formula here that's -- that's written out in the style
6 of revenue requirement formulas that are used at other
7 utilities and other regimes.

8 But the domestic revenue requirement of
9 this -- in this formulation is operating expenses plus
10 interest costs plus depreciation plus capital taxes
11 and other charges, some of which relate to pensions
12 and so on and regulatory adjustments.

13 Minus net export revenues. And plus an
14 equity contribution by customers to Manitoba Hydro's
15 retained earnings.

16 Now, we know that the net export
17 revenues will not be known until after a financial
18 year is over. And yet, we're making -- we're choosing
19 the equity contribution in a twenty (20) year rate
20 path, for example, in advance.

21 And -- and they're -- this is
22 problematic because the actual course of Manitoba
23 Hydro's retained earnings are going to be powerfully
24 affected by how things work out in -- in a series of
25 years based on net export revenues.

1 And yet, we're trying to forecast a
2 rate path that is required to be smoothed out in
3 advance, when we don't know what's going to happen
4 with net export revenues. With the high variability
5 that results from next -- from the net export revenue
6 calculation. If we might move to the next slide,
7 we'll go into this a little bit more.

8 You know, if -- if you think about what
9 the twenty (20) year forecast actually is for Manitoba
10 Hydro, it's a -- an estimation of all of the variables
11 in that formula, except for equity contribution. And
12 once estimations for all the other formulas are done,
13 equity contribution is manipulated to achieve a
14 certain end.

15 And the end, in the case of Manitoba
16 Hydro's current application, appears to be rate
17 smoothing. The equity contribution for any given year
18 was manipulated so that rates would go up by 2 percent
19 a year.

20 But we know that actual financial
21 results are not going to be consistent with the rate
22 path because net export revenues will drive the actual
23 financial results up and down.

24 So why is it so important to smooth
25 that rate path for the purposes of applications? Why

1 is rate smoothing a critical issue that -- that needs
2 to be addressed in choosing near-term rates?

3 We know that rates are going to be
4 reset every two (2) or three (3) years; whether it's
5 under a regulatory process or under the future
6 legislative process defined by Bill 36, there will be
7 rate hearings every two (2) or three (3) years.

8 We know there is an opportunity to
9 adjust every two (2) or three (3) years based on what
10 actually happens with profits in the enterprise based
11 on net export revenues.

12 And yet, we're being told that the PUB
13 should accept a rate path -- effectively a
14 manipulation of customer equity contributions -- for a
15 twenty (20) year period because smoothing is that
16 important.

17 And yet, smoothing was not important
18 two (2) years ago when there was a drought. When
19 there was a drought, Manitoba Hydro asked for a 5
20 percent increase in response to the drought. So
21 clearly, smoothing was not important two (2) years
22 ago.

23 There has been discussion and testimony
24 about what might happen in the future if financial
25 results don't work out as planned. And it looks like

1 the equity targets are not going to be met.

2 Well, in that instance, apparently
3 there are to be some discussions with the Province to
4 determine what to do. Does that mean that the request
5 would be made to the Province to allow for higher than
6 2 percent increases?

7 In that case, is rate smoothing more
8 important than financial targets or less important
9 than financial targets?

10 But what about intergenerational equity
11 fairness for customers? What about prudence? What
12 about economic efficiency? What about all of the
13 other regulatory principles that have to be taken into
14 account?

15 Why is rate smoothing the primary
16 regulatory principle that -- that should underpin this
17 twenty (20) year forecast, which we know is notional.
18 It's a scenario, at best, to begin with. If we might
19 move to the next slide.

20 So, what is the case for near term rate
21 increases? You know, if -- there are some important
22 questions I think to get out of the way. First of
23 all, if increases in operating expenses are not all
24 just and reasonable, then it, you know, it's likely
25 that rates should not be increasing in the way that

1 the application requested.

2 Others have commented on operating
3 expenses, it's outside my scope. All of my
4 presentation has assumed that every -- every one of
5 the -- the figures that Manitoba Hydro has applied
6 for, are justified. But, if they are not, that lends
7 quite -- that raises questions about the applied for
8 rates.

9 The same thing can be said about
10 capital expenses. Others have provided testimony and
11 evidence with respect to asset management and capital
12 expenses, and if Manitoba Hydro's plans are not just
13 and reasonable, then should they be afforded the
14 benefit of rate increases.

15 Same thing applies to all of the
16 estimates and variables and forecasts, if load
17 forecasts or inflation or interest rates and so on,
18 you know, are not just and reasonable then should
19 rates be increased in the near term.

20 I have an enormous amount of sympathy
21 for Manitoba Hydro's position on all of these kinds of
22 variables, because they are outside of Manitoba
23 Hydro's controls and -- and I think forecasts whether
24 they are consensus forecasts or not, are only so
25 reliable. As we've seen in the last few years, when

1 inflation -- a spike in inflation, a spike in interest
2 rates took people by surprise.

3 So, I think, you know, all you can do
4 is rely on consensus forecasts, but don't rely on them
5 too much. If we might turn to the next slide.

6 We know that there are no pressing
7 short-term justifications for a rate increase. There
8 is no drought, there is no cash flow crisis, there is
9 no substantial pressure in debt mark -- debt markets
10 on -- on Manitoba's credit spreads that indicates that
11 debt markets are concerned about Manitoba Hydro's
12 situation.

13 There simply are -- there is no burning
14 platform for, you know, where -- that are -- that is
15 demanding that there be rate increases in the near
16 term. Maybe that was the case two (2) years ago when
17 there was a drought. It is not the case today.

18 It's also clear that customers over the
19 past decade have borne a significant burden in
20 supporting Manitoba Hydro's construction of an export
21 focused project in Keeyask and, arguably, Bipole III
22 as well.

23 You know, the ratepayers have seen
24 increases that have amounted to 42 percent, well ahead
25 of inflation for the past decade. And that has

1 directly been the result of, you know, an
2 entrepreneurial export plan to, you know, build a
3 facility that was going to be largely focused on
4 exports for a number of years, in the hopes that those
5 exports would be profitable. And, unfortunately, that
6 has not been the case.

7 Bill 36 is not operative until April
8 1st of 2025. The political decision with respect to
9 rates could have applied as of today. It could have
10 applied already. The government chose not to apply
11 it. The government did -- in its wisdom, decided that
12 -- that, you know, set of decisions would only come
13 into force on April 1st of 2025.

14 That leaves the regulator to decided
15 what to do. Is there enough evidence before the PUB,
16 in this hearing, to come to a set of decisions that
17 the PUB did not come to in Order 59/18, or in any
18 subsequent regulatory process after 59/18.

19 The PUB had not, at that time, made
20 determinations about what those long-term targets
21 should be. And so the question to be asked is, you
22 know, what should the PUB do in the current
23 circumstances? And if we could turn to the last slide
24 please.

25 So, there is one opportunity which, I

1 believe is to at least do no harm and -- and that
2 would suggest approving the interim rate increase.
3 It's already been accepted by customers, but to not
4 approve new increases over the next two (2) years.

5 That would, at least, reflect the
6 burdens that customers over the past ten (10) years
7 have had to bear already. If there were no increases
8 for two (2) years, then -- then the current cohort of
9 customers would at least, in some sense, be, you know,
10 facing a little bit less of a burden in aggregate over
11 time.

12 On the other hand, if rates are
13 increased with inflation from now forward, then, you
14 know, that cohort of ratepayers have accepted that
15 extraordinary burden and never gotten any benefit or
16 compensation or -- or relief from it.

17 The reality is that the government of
18 Manitoba is scheduled to be taking over rate policy as
19 of the April 1st, 2025. Governments have been known
20 to change their positions at any time and -- and I
21 think that that legislative reality should not drive
22 regulatory policy in the mean time.

23 And so, you know, if the PUB chooses to
24 enunciate a set of regulatory principles that could
25 guide Manitoba Hydro towards an equity target and

1 equity timing, I think that would be fantastic. If
2 the PUB has enough evidence before it to do so, or if
3 the PUB could set out a road map for doing that, that
4 might be useful, should the government ever choose to
5 return to this question.

6 If, for whatever reason, the targets
7 and timing that are outlined in Bill 36 do not work
8 out, then there may be, on the record, some useful
9 advice with respect to how to determine those targets
10 and timing. And -- and the validity and the
11 usefulness of those targets and timing.

12 But, you know, the -- based on the much
13 more extensive regulatory process a number of years
14 ago, that culminated in 59/18, it was clear that the
15 PUB at the time, thought that more work was required.

16 And in reviewing the application that
17 Manitoba Hydro put forward, it did not appear to me
18 that there was any significantly new information that
19 they had added, absent the Bill 36 legislation that
20 would provide the PUB the ability to -- to make that
21 determination.

22 It's something that I think still
23 requires additional work, additional testing,
24 additional scenario planning.

25 And, so with that, I would conclude.

1 Thank you very much for your time and attention.

2 THE CHAIRPERSON: Thank you very much,
3 sir.

4 DR. BYRON WILLIAMS: Mr. Chair, I have
5 no further questions. So, we'll invite questions from
6 the Panel or to -- or otherwise. Thank you.

7 THE CHAIRPERSON: Yeah. Kapitany...?

8 VICE-CHAIR KAPITANY: Thanks, Mr.
9 Colaiacovo. This is on the issue of the PUB's role in
10 setting the debt/equity target, which you've referred
11 to a number of different times, most recently on slide
12 20 where you said:

13 "If the PUB adopts as its own, the
14 financial targets of Bill 36."

15 Is it your view that the Public
16 Utilities Board has the jurisdiction and the
17 responsibility to set a debt/equity target for
18 Manitoba Hydro?

19 MR. PELINO COLAIACOVO (by TEAMS): I
20 think it -- for the purposes of setting rates, if
21 rates are being set in order to achieve a certain
22 debt/equity target, then yes. Under the current
23 regulatory regime that is going to continue to obtain
24 until April 1st of 2025.

25 The legislation, and this was an issue

1 that was addressed pretty extensively in the -- in the
2 2017/'18 GRA, the existing legislation talks about
3 financial reserves and says there is to be an
4 appropriate amount -- I'm paraphrasing, but an
5 appropriate amount of financial reserves and doesn't
6 define it.

7 And the -- effectively, it's up to the
8 PUB, for the purposes of rate setting, to decide what
9 an appropriate amount of financial reserves would be.

10 And that appropriate amount had not
11 ever been clearly defined by the PUB.

12 VICE-CHAIR KAPITANY: Okay. My next
13 question is, on your -- in your report, which is CC
14 Exhibit 9, on page 27. So in the middle paragraph --
15 I'll just wait for Ms. Schubert -- sorry, I didn't
16 like -- oh, yeah, it's frozen, okay?

17 So, it's on page 27 of your report, at
18 Line 21. I'll just read the line to you, then:

19 "It is hoped the PUB would consider
20 taking as strong a stand on this
21 issue as it did in Order 59 of '18
22 on Bipole III."

23 And the relate -- the reference to this
24 issue is promulgating of Bill 36. So --

25 MR. PELINO COLAIACOVO (by TEAMS):

1 Right.

2 VICE-CHAIR KAPITANY: -- do you see
3 these two (2) issues as the same?

4 MR. PELINO COLAIACOVO (by TEAMS):
5 Okay. I'm just going to pull up the report, 'cause I
6 want to make sure I'm referring to the right piece of
7 it. Sorry, here. So, page 27.

8 VICE-CHAIR KAPITANY: Yeah, the
9 paragraph starting at Line 18.

10 MR. PELINO COLAIACOVO (by TEAMS):
11 Right. Yeah. So, yes. The point that I'm making in
12 that section is that setting a debt/equity target, as
13 has been done by the government, in Bill 36, is going
14 to require rates to be high enough to generate an
15 accumulation of a substantial amount of retained
16 earnings over time, you know, and -- and this is
17 something that's already been discussed before the BUB
18 (sic).

19 Retained earnings are going to increase
20 by approximately \$5 billion over the next 18 years, in
21 order to try and achieve those debt-to-equity targets,
22 the -- the debt ratio target.

23 I do not believe that if the PUB had,
24 following the 2017/'18 GRA, if the PUB had gone
25 forward and held the workshop that had been proposed

1 and done additional scenario testing and -- and so on
2 and so forth, I don't believe that the PUB would have
3 arrived at a debt ratio target of 70 percent, and,
4 therefore, less equity would have been required to be
5 accumulated over time.

6 And -- and I think, in my view, based
7 on regul -- analyzing the regulatory principles, you
8 know, the Bill 36 requirement of a 70 percent
9 capitalization is excessive and I think, you know, the
10 -- the PUB would not have arrived there on its own
11 volition and, from that perspective, you know, the
12 government made a decision that was criticized in --
13 in Order 59/18.

14 The PUB took a very strong stand in
15 that case, because it was a decision that led to extra
16 costs for ratepayers and, I think, in this instance,
17 in Bill 36, setting a 70 percent target for the debt
18 to capital -- capitalization ratio is similarly going
19 to lead to excessive charges to ratepayers, if that
20 answers your question.

21 VICE-CHAIR KAPITANY: Sort of. Yeah.
22 You -- you would be aware, because you've been
23 involved as long as I have, since the NFAT, that
24 Manitoba Hydro, at that time, had said that they were
25 looking for a long-term goal to be a debt/equity ratio

1 of 75/25 --

2 MR. PELINO COLAIACOVO (by TEAMS):

3 Yes.

4 VICE-CHAIR KAPITANY: -- and, while
5 the Public Utilities Board didn't approve that, per
6 se, because I've -- that's not our responsibility, but
7 we did accept that.

8 MR. PELINO COLAIACOVO (by TEAMS): The
9 -- as I -- as I said earlier, my reading of the
10 existing legislation is that rates are to take into
11 account the need for financial reserves and, in order
12 to take into account financial reserves, the Board
13 needs to decide how much financial reserves there
14 should be, and equity and retained earnings is nothing
15 other than financial reserves in the Manitoba Hydro
16 context.

17 Therefore, the Board needs to take a
18 position on what that quantity should be, in my view,
19 and -- and, if the Board -- I -- I don't know how the
20 Board would justify setting rates to achieve a target,
21 if it didn't agree with the target. So, if -- if
22 rates -- if rate increases are -- are going to be
23 imposed, then -- then, I think the -- the Board really
24 does need to clarify which targets and timelines those
25 rates are related to.

1 VICE-CHAIR KAPITANY: Okay. Thank
2 you.

3 THE CHAIRPERSON: Sorry. Ms.
4 Bellringer?

5 BOARD MEMBER BELLRINGER: Sorry.
6 Thank you. Good morning. I have two (2) questions.

7 One is further exploring, if the Board
8 does go forward with some form of, let's just say,
9 examination of the -- of the target, what mechanisms
10 would you recommend?

11 I mean, the -- the reference has been
12 made to and from -- from the -- the previous Order
13 but, also, a workshop and additional scenario testing.

14 Is -- is there anything else that you
15 would recommend be done, in terms of format?

16 MR. PELINO COLAIACOVO (by TEAMS):
17 Well, the discussion, back at that previous GRA,
18 centered on drought risk and -- and there was
19 consideration of five-year droughts and seven-year
20 droughts and 10-year droughts as potential tests.

21 There was an -- also, an understanding
22 that other variables also contribute to risk and that
23 those other variables were including interest rates
24 and inflation and market prices for power and a whole
25 variety of -- of variables that are outside of

1 Manitoba Hydro's control.

2 And the discussion, at the time,
3 focussed on whether those were appropriate variables
4 to be addressed by financial reserves or whether those
5 were appropriate variables that should form part of
6 rate policy and -- and to try and, you know, use those
7 two (2) different mechanisms, financial reserves on
8 the one hand and rate policy on the other hand to
9 address the universe of risks.

10 Now, the PUB, at the time, came to a
11 tentative conclusion, that a number of those risks
12 should be addressed through rate policy but, you know,
13 I -- I -- I don't think that that conclusion was
14 final, if -- in any sense of the word. Even in -- in
15 reading 59/18, it appeared to be a tentative
16 conclusion.

17 So, you know, I -- I think it -- it's
18 legitimate to consider how many different risks should
19 be addressed by building up financial reserves,
20 building up retained earnings over time, how -- and
21 which kinds of risks should just be reflected in rate
22 policy.

23 Bill 36 absolutely does not do that.
24 Let's -- I mean, I'm -- I fully recognize that. Bill
25 36 sets a hard cap on rates and it sets a defined

1 target for reserves, for -- for the debt-to-
2 capitalization ratio, and it ignores variability
3 that's, you know, inherent, in the system.

4 Are the hard -- is the hard cap on
5 rates appropriate? Is it going to actually work over
6 time? I don't know. I think it remains to be seen
7 and that's something that the government is going to
8 have to grapple with and, potentially, they might have
9 to grapple with it through making legislative changes
10 in the future.

11 But I think, if -- if what we're
12 talking about is today and the existing regime, where
13 the regulator has authority over rates, you know, I --
14 I think that's a critical issue, is revisiting that
15 question of which risks should be managed by reserves
16 and which risks should be managed by rates.

17 Are rates going to be, for example,
18 automatically tied to inflation, plus something else?
19 You know, are -- are changes in export markets
20 something that should be appropriately managed through
21 rates or through reserves?

22 You know, I think there -- as I said, I
23 think there was some tentative decision-making in
24 59/18 on that question, but, subject to further
25 analysis and further review.

1 My own view, back then, and -- and, you
2 know, we did a lot of work back then on -- on these
3 issues, in terms of scenario testing and modelling and
4 all the rest, was that something like a seven (7) year
5 drought test should underpin the -- you know, the
6 amount of financial reserves, and that most of the
7 other long-term variables had to be addressed through
8 rate policy.

9 You know, in -- in the financial world
10 we talk about what's hedgeable and what's not
11 hedgeable and, you know, energy prices after --
12 anything longer than five (5) to seven (7) years is
13 pretty much unhedgeable.

14 Foreign exchange more than a --

15 BOARD MEMBER BELLRINGER: Sorry, can I
16 --

17 MR. PELINO COLAIACOVO (by TEAMS):
18 Sorry.

19 BOARD MEMBER BELLRINGER: Sorry to
20 interrupt you, but it's just -- sorry, and I was -- I
21 wasn't asking so much around the content, and -- but
22 having said that --

23 MR. PELINO COLAIACOVO (by TEAMS):
24 Right.

25 BOARD MEMBER BELLRINGER: -- I

1 appreciate the input. It was more around just
2 mechanisms, like what kind --

3 MR. PELINO COLAIACOVO (by TEAMS):

4 Right.

5 BOARD MEMBER BELLRINGER: -- of thing
6 -- you know, would we hold a forum, a big huge
7 conference, say, small meetings.

8 MR. PELINO COLAIACOVO (by TEAMS):

9 Right.

10 BOARD MEMBER BELLRINGER: That -- that
11 sort of thing. But, I mean, other than -- no need to
12 get into it if -- if --

13 MR. PELINO COLAIACOVO (by TEAMS):

14 Sure. And -- and --

15 BOARD MEMBER BELLRINGER: -- you don't
16 wish.

17 MR. PELINO COLAIACOVO (by TEAMS): --

18 on that front I -- I would suggest that there would --
19 there -- there be a process, but that there also be
20 discussions directly with the bond markets.

21 You know, Manitoba Hydro has focussed
22 on credit rating agencies as a proxy for bond markets
23 and they are just not the same thing.

24 So, were you to pursue this issue
25 because of the importance of questions around bond

1 market perceptions of Manitoba Hydro, actually having
2 a program where someone, you know, consults with
3 institutional bond market buyers directly, I think
4 would be valuable rather than trusting to credit
5 rating agencies.

6 BOARD MEMBER BELLRINGER: Thank you.
7 That's good. Thank you.

8 THE CHAIRPERSON: Mr. Sy...?

9 BOARD MEMBER SY: Thank you very much.
10 I guess I sort of maybe found an answer to a -- the
11 question that has been nagging me for a while, because
12 I never understood why, you know, Manitoba Hydro
13 looking for a work on a twenty (20) year forecast.
14 Why not five (5), why not ten (10), why not fifteen
15 (15), why twenty (20)?

16 But listening to you talk about
17 Limestone generation -- generating station with --
18 which was built in 1992. And, you know, with a debt
19 about 94 percent, and twenty (20) years later we're
20 down to 74, so almost basically twenty (20) years, you
21 know, we were able to bring down the debt by 20
22 percent.

23 So, you know, that's -- at least it
24 happened once. So, that was best case. Could we then
25 -- is it -- is it useful to use it as a model, even

1 though you do indicate that Keeyask and Bipole III are
2 different, you know, in this case versus what was back
3 then that Lime -- Limestone was a profitable project,
4 this one it's questionable.

5 Could we then use that as a base and
6 make some adjustment plus and minuses to be able to
7 come with something that, you know, would explain why,
8 I guess, we have this twenty (20) year forecast.

9 I'm just trying to get -- get you to
10 comment on that, if possible. Thank you.

11 MR. PELINO COLAIACOVO (by TEAMS): I -
12 - I think that is a reasonable perspective to take. I
13 -- I think the adjustments would be very important.
14 You know, the historical precedent is important,
15 absolutely.

16 And -- and, you know, if you look at
17 the record from 1992 to 2012, Manitoba Hydro did
18 suffer through a very significant drought during that
19 period. It had a few years of very bad, you know,
20 losses. Droughts caused losses, just as droughts
21 caused losses two (2) years ago.

22 And nevertheless, over the course of
23 twenty (20) years, the debt ratio came down, quite
24 significantly. But, Limestone was incredibly
25 profitable and it helped to drive that reduction. I

1 don't believe that, if you go back to the record of
2 rate increases that you would see the same type of
3 series of rain increases back then as we've seen in
4 the last ten (10) years.

5 And -- and so, you know, I think that's
6 a rather important issue as well, to be taken into
7 account. You know, in driving down that debt ratio,
8 should it be done because the assets actually perform
9 well, or should it be on the backs of ratepayers?

10 I think that's -- that also has to be
11 taken into consideration.

12 THE CHAIRPERSON: Sorry, I've got a --
13 I guess, a couple of comments and a couple of
14 questions. You know, historical precedence is a
15 really interesting thing because it's always done
16 after the fact and everybody is really smart later.

17 Limestone, if I remember correctly, at
18 the time was considered to be -- was challenged very
19 seriously and they thought Limestone cost too much.
20 They didn't think it was going to generate revenues,
21 and lo and behold years later it turned out to be this
22 -- this visionary project, much the same as the flood
23 way around Winnipeg, which at the time was only built
24 because of one (1) person. Everybody else thought it
25 was a huge waste of money.

1 So, I'm always concerned about
2 historical precedent twenty (20) years or forty (40)
3 years later, and as well, we didn't set rates when
4 Limestone was built. The Board only set rates at a
5 later time.

6 I -- Mr. Williams is -- when -- when --
7 Limestone was built before '88, wasn't it?

8 DR. BYRON WILLIAMS: No, I think it
9 was built in the -- I'm giving evidence --

10 THE CHAIRPERSON: Okay. Yes.

11 DR. BYRON WILLIAMS: -- but the -- the
12 PUB may take judicial notice --

13 THE CHAIRPERSON: Yes.

14 DR. BYRON WILLIAMS: -- of the fact
15 that it was built in the -- in the '90s --

16 THE CHAIRPERSON: Okay.

17 DR. BYRON WILLIAMS: -- finished in
18 the '90s, and certainly it could also take judicial
19 notice of the fact that there was a rate setting
20 authority there. And if you were going to test my
21 memory, Hydro didn't have rate increases for about --

22 THE CHAIRPERSON: Yeah.

23 DR. BYRON WILLIAMS: -- six (6) or
24 seven (7) years and then the Consumers Association
25 came in and --

1 THE CHAIRPERSON: Yeah.

2 DR. BYRON WILLIAMS: -- asked for --

3 THE CHAIRPERSON: And then all of a

4 sudden the trouble started, yeah.

5 DR. BYRON WILLIAMS: Yeah, that's when

6 things started.

7 THE CHAIRPERSON: Okay.

8 MR. PELINO COLAIACOVO (by TEAMS): The

9 -- the project was finished in 1992, but you're --

10 THE CHAIRPERSON: Yeah.

11 MR. PELINO COLAIACOVO (by TEAMS): --

12 you are right. It -- it dates -- initial construction

13 was in the early '80s and then construction stopped.

14 There was --

15 THE CHAIRPERSON: Yeah.

16 MR. PELINO COLAIACOVO (by TEAMS): --

17 there was lots of controversy for a period of time.

18 THE CHAIRPERSON: Yeah.

19 MR. PELINO COLAIACOVO (by TEAMS):

20 Then they finished the project and it turned out to be

21 a big success.

22 THE CHAIRPERSON: Yeah.

23 MR. PELINO COLAIACOVO (by TEAMS): I

24 completely agree with you.

25 THE CHAIRPERSON: We wouldn't be here

1 even looking at this if -- if bill 36 was proclaimed
2 and we were at April 1st of 2025, would we?

3 MR. PELINO COLAIACOVO (by TEAMS):

4 That's right.

5 THE CHAIRPERSON: I mean, the whole
6 issue of reserves and everything would be settled. We
7 have legislation in place. So, the issue is, what do
8 we do now?

9 I'm just wondering -- you -- you put
10 forward this -- this issue about discussion with the
11 bond market, as if the bond market was something we
12 could touch.

13 You know, in fact, we -- we in the
14 59/18 talked to someone who is an institutional
15 investor. How -- how do you get an institutional
16 investor to come to a meeting and tell you what
17 they're actually thinking and give them scenarios?

18 When -- when we sort of put it, it was
19 put on -- it was sort of on the basis of, Well, no,
20 that's not our job. Our job is, you come to us with
21 an investment and we'll tell you whether interested
22 and how much it's going to cost.

23 They're not advisors the way you're an
24 advisor. So how do we get them to -- to tell us, you
25 know, whether they think, you know, the equity --

1 debt/equity level needs to be at one level versus
2 another level?

3 MR. PELINO COLAIACOVO (by TEAMS): So,
4 there are about a hundred and fifty (150)
5 institutional bond buyers that make up the pool for
6 the Province of Manitoba. They are all very large
7 institutions, and they are part of the syndicate that
8 buys bonds --

9 THE CHAIRPERSON: M-hm.

10 MR. PELINO COLAIACOVO (by TEAMS): --
11 buys and sells bonds day in/day out, right. And so no
12 -- no individual member of that pool is representative
13 of the whole pool.

14 So I completely sympathize with your
15 concern about how -- how do you actually -- it's
16 easier to say the bond market, but -- but that's
17 actually a hundred and fifty (150) or more different
18 individual investors and they all have slightly
19 different opinions about stuff.

20 But, you can, you know -- more
21 realistically, you can hire someone to go out and do a
22 series of meetings with some representative sample of
23 those hundred and fifty (150) to two hundred (200)
24 bond buyers.

25 And to talk to their actual analysts,

1 because each of these institutions has hundreds of
2 employees and some of them are analysts who do nothing
3 but, you know, update ongoing models for all of the
4 issuers that they track 'cause, you know, the Province
5 of Manitoba is just one (1) of many issuers that they
6 pay attention to.

7 But then those analysts will tell you,
8 well, here are the criteria that we pay attention to,
9 and this is how we decide. It's -- and -- and they're
10 much more likely to do that on a, you know, one-on-one
11 basis with somebody who's doing it on your behalf
12 who's going to produce a report that says, well, I
13 talked to twenty (20) representative bond buyers, and
14 this is the average of what they all said.

15 These are -- and -- and some of them
16 were outliers. They said this, and some of them --
17 many of them agreed that this -- you know, these five
18 (5) things were most important to them.

19 Those are the kinds of efforts that you
20 can undertake to deepen your understanding. Is it
21 going to be perfect? No, it's not.

22 THE CHAIRPERSON: I guess, Mr.
23 Colaiacovo, if -- if Manitoba Hydro was still selling
24 bonds, I could see that. But you're talking about
25 going to the -- to these institutional investors who

1 are selling Manitoba -- Government of Manitoba bonds,
2 not Manitoba Hydro bonds.

3 So how do you get them to comment on
4 Manitoba Hydro versus the Government of Manitoba?

5 MR. PELINO COLAIACOVO (by TEAMS): Oh,
6 but they -- they do know that -- I mean, especially
7 now since Manitoba Hydro represents such a large
8 portion of the Government of Manitoba's total bond
9 portfolio, it's -- it's in the high 30 percent range
10 now.

11 So the entire market knows that, you
12 know, a very significant portion of Manitoba's issues
13 are actually for Manitoba Hydro.

14 And -- and there is attention paid to
15 Manitoba Hydro's performance as a result of that
16 because Manitoba's bonds are supported not just by
17 taxes, but they're also -- those bonds, because they
18 are on-lent to Manitoba Hydro, are supported by
19 Manitoba Hydro revenues. So -- so there is full
20 understanding of that in the market.

21 You're right, when they buy a bond
22 issue, it does not have Manitoba Hydro's name on it.
23 But when they are doing their analysis of, you know,
24 how much of this bond issue do we want to support and
25 what price are we going to demand, what's the credit

1 spread that we're looking for, you know, under --
2 under what Manitoba Hydro circumstances are they going
3 to -- like what -- it's -- it's almost a theoretical
4 question to say: What -- if there were an
5 announcement from Manitoba Hydro that caused you to
6 change your view on the credit spread, what would it
7 be, right?

8 That's -- that's what you're trying to
9 get at and, you know, it's -- it's not perfect, but if
10 you were going to be setting some long-term targets
11 and, you know, communicating with the market about how
12 Manitoba Hydro was going to behave as a creditworthy
13 entity, you know, you'd want to understand what those
14 drivers are.

15 THE CHAIRPERSON: Okay. My -- sorry.
16 My final question is: Do you know of any other board
17 or commission in Canada that communicates directly
18 with institutional investors?

19 MR. PELINO COLAIACOVO (by TEAMS): We
20 did similar work for another government entity, in
21 fact, a couple of them. The -- it's always
22 confidential --

23 THE CHAIRPERSON: Yeah. I -- I
24 appreciate that.

25 MR. PELINO COLAIACOVO (by TEAMS): --

1 when -- when you do that. The -- I think it should be
2 very clear that you will not get that kind of -- you
3 know, that sort of an institution will not put it on
4 the public record. They will not attend the
5 regulatory hearing and volunteer their opinions.

6 But that doesn't mean that information
7 can't be collected and put on the record in useful
8 ways.

9 THE CHAIRPERSON: Okay. Thank you
10 very much. We're going to take our morning break now
11 and come back in fifteen (15) minutes. Thank you very
12 much, sir.

13 MR. PELINO COLAIACOVO (by TEAMS):
14 Thank you.

15
16 --- Upon recessing at 10:39 a.m.

17 --- Upon resuming at 10:55 a.m.

18

19 THE CHAIRPERSON: Sorry. I'm getting
20 the eye, Mr. Hombach. Am I supposed to go to you, or
21 am I going to Mr. Czarnecki?

22 MR. SVEN HOMBACH: It was -- it was
23 not the eye, but I wanted to just --

24 THE CHAIRPERSON: Okay.

25 MR. SVEN HOMBACH: -- advise --

1 THE CHAIRPERSON: Was it the height?
2 Was it the height? Okay.

3 MR. SVEN HOMBACH: Maybe it was the
4 eye. Who knows? I just wanted to advise the Panel
5 that I've canvassed with other counsel during the
6 break. Mr. Czarnecki does have a few brief comments,
7 and Mr. Hacault has requested about five (5) minutes
8 of cross-examination with Mr. Colaiacovo as well. He
9 was not on the agenda --

10 THE CHAIRPERSON: Okay.

11 MR. SVEN HOMBACH: -- but I do believe
12 we can accommodate him.

13 THE CHAIRPERSON: Certainly. Okay.
14 Thank you. Mr. Czarnecki...?

15 MR. BRENT CZARNECKI: Thank you, Mr.
16 Chairman and Board members, and good -- good morning,
17 Mr. Colaiacovo.

18 On behalf of Manitoba Hydro, I can
19 indicate we do not have any cross-examination
20 questions. But for the record, I want it to be clear
21 that that is in no way an indication that we are in
22 agreement with Mr. Colaiacovo's observations and
23 musings within his pre-filed evidence and that have
24 occurred today.

25 Rather, we will take the time to

1 address them properly in written or oral final
2 argument, Mr. Chairman.

3 THE CHAIRPERSON: Understood.

4 MR. BRENT CZARNECKI: Thank you.

5 THE CHAIRPERSON: Thank you, sir.

6 M. Hacault...?

7

8 CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

9 MR. ANTOINE HACAULT: Yes, Mr.

10 Colaiacovo. I'd like to take you to slide 13 of your
11 presentation, and then I'll refer you to the current
12 evidence on file.

13 You see on the right-hand side that you
14 referred to a graph that you had prepared in 2017/'18
15 GRA, correct?

16 MR. PELINO COLAIACOVO (by TEAMS):

17 That's correct, yes.

18 MR. ANTOINE HACAULT: And as I
19 understood your testimony this morning, you thought
20 that there wasn't equivalent data on -- on the record
21 for this Application, correct?

22 MR. PELINO COLAIACOVO (by TEAMS): The

23 data may -- the raw data may be there to do the
24 calculation. I did not undertake to do that
25 calculation, but I'm certainly, you know -- it's not

1 something that I was looking for, let's put it that
2 way, in order to prepare a similar chart.

3 The only point of including the chart
4 was to say that I didn't believe that things have
5 changed from a conceptual perspective. The actual
6 figures obviously would be updated to today if -- if
7 those are in the record, and they may be in the
8 record.

9 MR. ANTOINE HACAULT: Okay. Thank
10 you. Just by way of factual background, you'll
11 acknowledge that, since your graph, we've had the MMTP
12 and Keeyask projects completed, correct?

13 MR. PELINO COLAIACOVO (by TEAMS):
14 Yes.

15 MR. ANTOINE HACAULT: Okay. Now, I'd
16 like you, Ms. Schubert, please to bring us to tab 10,
17 which is MFR-41 amended, page 6 of that document at
18 Figure 5, which is entitled '110 Year Net Export
19 Revenues and Net Income for 2024/'2025.'

20 Do you see that before you, sir?

21 MR. PELINO COLAIACOVO (by TEAMS): I
22 do.

23 MR. ANTOINE HACAULT: Okay. And this
24 I'll suggest to you is the updated data which is
25 similar to what's on your table. And if you can't

1 answer that now, we can deal with it by way of
2 undertaking.

3 MR. PELINO COLAIACOVO (by TEAMS): I
4 suspect it is. There's a graphic that appears on the
5 next couple of slides after -- on the next couple of
6 pages, as you can see, in the MFR --

7 MR. ANTOINE HACAULT: And I'll go --
8 I'll go to that --

9 MR. PELINO COLAIACOVO (by TEAMS):
10 Yeah.

11 MR. ANTOINE HACAULT: -- but I first
12 want to make a couple of observations about this data.

13 On your graph, if we go back to it,
14 we'll see that there was -- you attributed 15 percent
15 of I'm going to say drought or less where we had
16 several years of negative income. It looks like about
17 fifteen (15) on your graph.

18 Do you see that?

19 MR. PELINO COLAIACOVO (by TEAMS):
20 Yes.

21 MR. ANTOINE HACAULT: And now if we go
22 back to the data that I've just shown to you at page
23 6, Figure 5, we no longer have now that MMTP and
24 Keeyask are in place a total of fourteen (14) or
25 fifteen (15) years of negative income, but it's been

1 changed to a period of seven (7) years over the
2 hundred and ten (110) runs that have been made,
3 correct?

4 MR. PELINO COLAIACOVO (by TEAMS): So,
5 I will agree with you that in this set of data there's
6 only seven (7) or so negative net -- net export
7 revenue causing negative net income.

8 However, I'm not necessarily going to
9 agree with you without being able to look at all the
10 data in detail as to whether the reason for that was
11 Keeyask and MNTP.

12 My understanding of these calculations
13 is that the starting position for water in any given
14 year analyzed is relevant to these outcomes, as is the
15 assumptions made about import and export prices and
16 fuel prices.

17 And, of course, those assumptions would
18 have been different in the past from what they are
19 today, and -- and so those assumptions may also be
20 affecting which columns are negative and which columns
21 are positive.

22 So, I -- I think it requires going into
23 a lot more of the precursor data to these results of
24 calculations to understand what's driven the change.

25 MR. ANTOINE HACAULT: Thank you for

1 that, sir. And you'll acknowledge that this is a
2 prospective calculation for 2024/2025?

3 MR. PELINO COLAIACOVO (by TEAMS):

4 Yes. Yes.

5 MR. ANTOINE HACAULT: And the last
6 point is going to the figure which you did mention,
7 Figure 7 at page 8.

8 If we look at the graph, it provides a
9 visual of the data which was set out in Figure 5;
10 that's correct?

11 MR. PELINO COLAIACOVO (by TEAMS):

12 Yeah. And -- and I would note, similar to what I -- I
13 said when I was talking about the data from a number
14 of years ago, there are more -- like, if you look at
15 the point at which the blue line crosses the black
16 line, there is more space to the right than there is
17 to the left, but the depth of -- of the blue line as
18 it -- as it reaches its lowest flow is -- is a much
19 longer distance than it is on the right-hand side from
20 the average up to the top.

21 And -- and the comments that I made
22 were that that was true back then, in 2018, and I
23 believe it also to be true today based on the updated
24 information, and -- and I think in fact this chart
25 bears that out.

1 In fact, this is a bit more extreme
2 than it was back in 2018. But, you know, I was only
3 pointing to the fact that, because of the reality of
4 those challenges with hydrology, equity is required in
5 the business if for no other reason.

6 MR. ANTOINE HACAULT: I just have one
7 (1) final question. Could you undertake to update the
8 graph on slide 13 by using the current data which I
9 referred to you from MFR-41 amended at page 6?

10 MR. PELINO COLAIACOVO (by TEAMS):
11 Sure. I -- I may need to also use some -- some other
12 data. I'm going to have to see if it's also available
13 on the record. Because this is the net income
14 calculation.

15 I also needed to -- the corresponding
16 hydro power output, if there is a similar table in an
17 MFR that also has that in order to make the -- the two
18 (2) graphs, like, properly updated from the past to --
19 to current, but I'd be happy to do that.

20

21 ---UNDERTAKING NO. 53: To update the graph on
22 slide 13 by using the
23 current data referred to
24 you from MFR-41 amended at
25 page 6

1 MR. ANTOINE HACAULT: Thank you, sir.
2 Those are all my questions.

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

5

6 CROSS-EXAMINATION BY MR. SVEN HOMBACH:

7 MR. SVEN HOMBACH: Thank you. Good
8 morning, Mr. Colaiacovo. My name is Sven Hombach. I
9 don't think we have had the pleasure, but I'm counsel
10 to the Public Utilities Board in this Hearing.

11 MR. PELINO COLAIACOVO (by TEAMS):
12 Pleasure to meet you.

13 MR. SVEN HOMBACH: You're aware that
14 one (1) of the themes in this Hearing has been this
15 concept of a twenty (20) year rate path, correct?

16 MR. PELINO COLAIACOVO (by TEAMS):
17 Correct.

18 MR. SVEN HOMBACH: And I believe you
19 referred to that -- that concept of the rate path on
20 page 12.

21 I -- I heard you say this morning that
22 it's your view that long-term forecasts are almost
23 inherently wrong. Did I have that right?

24 MR. PELINO COLAIACOVO (by TEAMS):
25 That would be a good paraphrasing of my views, yes.

1 MR. SVEN HOMBACH: And I -- I believe
2 if I saw it right, on page 6 of your presentation, you
3 had three (3) exclamation marks after the potential
4 ban on gas turbines?

5 MR. PELINO COLAIACOVO (by TEAMS):
6 Yes.

7 MR. SVEN HOMBACH: Okay.

8 MR. PELINO COLAIACOVO (by TEAMS):
9 That's right.

10 MR. SVEN HOMBACH: So -- so, you
11 referenced the Bonbright criterial in your report.
12 And I'd like to take you to page 31 of your report,
13 please.

14 MR. PELINO COLAIACOVO (by TEAMS): M-
15 hm.

16 MR. SVEN HOMBACH: Now, the -- the
17 third of those criteria deals with stability and
18 predictability of the rates themselves with a minimum
19 of unexpected changes that are seriously adverse to
20 utility customers and that are intended to provide
21 historical continuity.

22 I -- I take it you agree that this is
23 one (1) of the criteria that the Board should take
24 into account?

25 MR. PELINO COLAIACOVO (by TEAMS):

1 Yes, absolutely.

2 MR. SVEN HOMBACH: So, as far as
3 you're concerned, does this mean that the Board should
4 aim for steady and even rate increases to the extent
5 that it can?

6 MR. PELINO COLAIACOVO (by TEAMS): I
7 think this is one (1) of the considerations that the
8 Board should be looking to. I think it is not the
9 only consideration, but it is one (1) of them, and it
10 is a very legitimate and important consideration.

11 And I think the Board has, in fact, in
12 the past in its record of rate increases over the
13 years, you know, grappled with this issue. And so,
14 yes, you know, stability and predictability is
15 important.

16 I think where I'm questioning is
17 whether a 2 percent rate path, if you will, is
18 artificial and taking that principle of stability too
19 far, that -- that sometimes there are other
20 considerations that should also enter into the
21 decision making and, in this particular instance, I
22 think there are.

23 I think, also, there's another issue,
24 is, you know, there is an MFR that includes a list of
25 all of the rate decisions over the past twenty (20)

1 years. And I think you can see that, in most
2 instances, those rate decisions varied anywhere from 2
3 percent to 3 1/2 percent or so.

4 And I think it's fair to question
5 whether differences of that magnitude can be called
6 instability or unpredictability. I think, in fact,
7 the PUB has done an admiral job of -- of being
8 predictable within the scope of what could be done at
9 the time based on the timing of applications and so
10 on.

11 I don't think that 2 percent every
12 single year is required in order to be predictable.
13 So, it -- probably added a bit too much, but there you
14 go.

15 MR. SVEN HOMBACH: So -- so, I'd
16 actually like to take you to that MFR in a bit, Mr.
17 Colaiacovo, but first, I wanted to -- to pick up on a
18 comment that you made in your report.

19 One (1) of the things you pointed out
20 was that when Manitoba Hydro initially came in with a
21 3.5 percent rate plan --

22 MR. PELINO COLAIACOVO (by TEAMS): M-
23 hm.

24 MR. SVEN HOMBACH: -- that plan would
25 have contravened the legislated rate cap.

1 You recall that?

2 MR. PELINO COLAIACOVO (by TEAMS):

3 yes.

4 MR. SVEN HOMBACH: So -- so, is it
5 fair to say that, in your mind, the original 3.5
6 percent plan was basically a fiction?

7 MR. PELINO COLAIACOVO (by TEAMS): I
8 think that's true. If -- if Bill 36 is to be taken
9 seriously and the assumption is that the -- on my
10 reading of Bill 36, the rate cap is very clear and
11 very firm that it is 5 percent or inflation, whichever
12 is less.

13 And I -- if you believe the Bank of
14 Canada statements, they will force the inflation rate
15 below 3 1/2 percent; therefore, the 3 1/2 percent rate
16 path had very little chance of becoming reality.

17 MR. SVEN HOMBACH: So -- so, Mr.
18 Colaiacovo, this morning the focus of your evidence
19 very much was the debt-to-equity target, but I'd like
20 to explore it from that issue of the rate cap.

21 If the Board were to go along with your
22 recommendation and establish a temporary rate freeze,
23 in your mind, what would that mean in terms of
24 potential rate shock in future hearings?

25 And -- and I don't want this to be a

1 trick question. Is it your understanding --

2 MR. PELINO COLAIACOVO (by TEAMS): No,
3 I hear you.

4 MR. SVEN HOMBACH: -- that the rate --
5 is it your understanding that the rate cap in the
6 legislation would trump the debt-to-equity target?

7 MR. PELINO COLAIACOVO (by TEAMS):
8 Yes. That's my reading of the legislation, is that
9 the rate cap absolutely trumps the debt/equity -- the
10 -- debt-to-capitalization ratios. Those are targets.
11 The rate cap is a requirement. I think that's very
12 clear from the legislation as it currently is written.

13 MR. SVEN HOMBACH: Do you recall, this
14 morning, that Vice-Chair Ms. Kapitany asked you about
15 the Board's previous ruling on the 75/25 target that
16 Manitoba Hydro is at?

17 MR. PELINO COLAIACOVO (by TEAMS):
18 Yes, I do recall.

19 MR. SVEN HOMBACH: So -- so I'd like
20 to take you to an excerpt from Board Order 59/18 if I
21 may -- sorry, actually let's deal with 69/19. Ms.
22 Schubert, if we could pull that up and go to page 28,
23 please. And let's scroll down a little bit.

24 There's a quote that the Board adopted,
25 again, in -- a little bit further up. Thank you.

1 That's good.

2 It -- it's the Board quoting itself
3 from Order 59/18, saying:

4 "As noted by Manitoba Hydro's
5 external consultant, KPMG, there's a
6 practical recognition that this
7 target will not be met during the
8 period of large capital expenditures
9 when newly constructed assets are
10 placed in service. Accordingly, the
11 75/25 could remain the long-term
12 objective. The Board supports this
13 view. As such, the Board is not
14 prepared to look at the issue of
15 pacing to achieve a particular
16 equity level target at least until
17 the current phase of major capital
18 construction is completed. Now
19 projected by Manitoba Hydro to be in
20 2024."

21 Mr. COLAIACOVO, would you acknowledged
22 that, at this point in time, the large capital
23 projects are effectively done?

24 MR. PELINO COLAIACOVO (by TEAMS):
25 Absolutely.

1 MR. SVEN HOMBACH: So with that being
2 the case, do you -- do you disagree that a 75/25
3 ratio is appropriate?

4 Do you think that ratio should be less?

5 MR. PELINO COLAIACOVO (by TEAMS): So
6 I would point out that the language says 75/25 could
7 remain the long-term objective. It could.

8 I don't believe that -- in my own view,
9 that an arbitrary number like 75/25 is the best
10 policy.

11 My own view is that the risks that are
12 being addressed through the retained earnings -- the
13 buildup of retained earnings should be identified.
14 And some effort should be made to relate the amount of
15 retained earnings to a specific benefit. Like
16 managing drought risk, for example.

17 It may include other risks. And -- and
18 if the Board's decision is to include other risks,
19 then so be it. But a 75/25 is an arbitrary number of
20 convenience, which comes out of history and some
21 historical decisions.

22 I don't think it's particularly related
23 to any facts on the ground in Manitoba Hydro's case.

24 MR. SVEN HOMBACH: So -- so let me
25 pick up on that suggestion of the retained earnings.

1 And Mr. COLAIACOVO, I'll -- I'm sure
2 you've reviewed the record to some extent but I don't
3 want to be unfair. And I'll put the document up on
4 screen. If we could go to Board counsel book of
5 documents, volume 4, please. And go to page 47 of
6 that document.

7 Mr. COLAIACOVO, this is Manitoba
8 Hydro's sensitivity analysis. I don't know if you've
9 had a change to look at the document in getting ready
10 for today.

11 MR. PELINO COLAIACOVO (by TEAMS): I
12 looked at it earlier in the process; not in the last
13 few days. But yes.

14 MR. SVEN HOMBACH: So -- so I simply
15 want to refer you to the top right of that page where
16 Manitoba Hydro deals with the impact on net income of
17 a five (5) year drought and a seven (7) year drought.
18 You see that in the 2042 line?

19 MR. PELINO COLAIACOVO (by TEAMS):
20 Yes.

21 MR. SVEN HOMBACH: So that suggests
22 that, according to Manitoba Hydro's assessment, a five
23 (5) year drought has an impact of about 2.8 to \$2.9
24 billion, and a seven (7) year drought has an impact of
25 about 3.7 billion.

1 MR. PELINO COLAIACOVO (by TEAMS):

2 Right.

3 MR. SVEN HOMBACH: You don't have any
4 reason to disagree with that assessment, I take it?

5 MR. PELINO COLAIACOVO (by TEAMS): No.

6 MR. SVEN HOMBACH: So will you accept,
7 subject to check, that Manitoba Hydro's retained
8 earnings at this point are approximately 4 billion?

9 MR. PELINO COLAIACOVO (by TEAMS): I
10 would accept that, sure.

11 MR. SVEN HOMBACH: So -- so correct me
12 if I'm wrong, but with your suggestion of a two (2)
13 year rate pause, under that plan, would Manitoba
14 Hydro's retained earnings actually go down?

15 MR. PELINO COLAIACOVO (by TEAMS): I'm
16 not 100 percent clear on the question.

17 So if there were a rate pause, retained
18 earnings would still be rising from today, based on
19 Manitoba Hydro's own expected profitability in their
20 reference case for the next two (2) years, which would
21 then achieve a certain level.

22 And if a five (5) or a seven (7) year
23 drought began in -- which are we talking about and,
24 you know, the five (5) year drought would last five
25 (5) years from that point onwards.

1 I think -- my reading of the analysis
2 that Manitoba Hydro did is that there is already
3 expected to be sufficient retained earnings to manage
4 a five (5) year drought, even without rate increases
5 over the next two (2) years.

6 As to a seven (7) year drought, I
7 believe that also is the case. But -- and I'm not
8 sure this sensitivity table is exactly answering the
9 question. But yeah, if we could clarify what's being
10 requested, then I could respond to it better.

11 Sorry if I'm being unhelpful.

12 MR. SVEN HOMBACH: No, you are being
13 quite helpful. Thank you.

14 I'd like to take you to page 123 of the
15 document, please. So in light of Orders 59/18 and
16 69/19, the Board advisors put a scenario to Manitoba
17 Hydro that basically said, Show us what even annual
18 rate increases would have to be to get to 75/25 over
19 twenty (20) years, as opposed to 70/30.

20 MR. PELINO COLAIACOVO (by TEAMS):
21 Right.

22 MR. SVEN HOMBACH: And the response
23 from Manitoba Hydro that you can see on the screen is
24 the rate path would be 1.59 percent annually, as
25 opposed to 2 percent.

1 MR. PELINO COLAIACOVO (by TEAMS):

2 Right.

3 MR. SVEN HOMBACH: Again, you don't
4 have any reason disagree with that math, I take it?

5 MR. PELINO COLAIACOVO (by TEAMS): No,
6 no. And that's always using the same set of reference
7 assumptions that underlie the application.

8 So yes, I completely agree with that.

9 MR. SVEN HOMBACH: So if that is the
10 case, Mr. COLAIACOVO, and you suggest a two (2) year
11 rate pause, is it your understanding that rates behind
12 the two (2) year rate pause would likely have to be
13 higher than 2 percent or higher than 1.59 percent to
14 make up for it?

15 MR. PELINO COLAIACOVO (by TEAMS):
16 That would likely be the case, yes. They would have
17 to be higher than one-point-five-nine (1.59).

18 If -- if the first two (2) years were
19 zero (0) and the subsequent eighteen (18) years then
20 over -- if the time horizon were twenty (20) years, in
21 order to achieve 75/25 it would have to be higher than
22 one-point-five-nine (1.59) certainly.

23 As to whether they would have to be
24 higher than two (2), I don't know. That -- that
25 actually requires doing the math.

1 MR. SVEN HOMBACH: And you'd accept
2 that this would likely mean that Manitoba Hydro would
3 not actually be able to make the -- to meet the 70/30
4 target that's currently in the legislation?

5 MR. PELINO COLAIACOVO (by TEAMS):
6 Well, this -- this analysis is for 75/25 as opposed to
7 70/30. I think Manitoba Hydro's own analysis is that
8 2 percent is required for 70/30.

9 You know, so that -- I'm not
10 disagreeing with their analysis. Based on the --
11 like, in the reference case, they would achieve that.

12 They, themselves, have pointed out that
13 there are many cases where they don't achieve it, even
14 with a 2 percent rate path. Just adverse water
15 conditions, lower prices, higher fuel costs, et
16 cetera, et cetera.

17 You know, there are many instances
18 where they would under achieve. There are other cases
19 where they would over achieve, in fact.

20 And -- and on a percentage basis, I
21 actually think it's something that has not been much
22 addressed, but if you look at that net export revenue
23 analysis, in 60 percent of cases, in any given year,
24 you're over achieving.

25 And -- and so if you do a Monte Carlo

1 analysis of, like a multi variant -- Monte Carlo
2 analysis, on the twenty (20) year time horizon, what
3 probability do you have of over achieving versus under
4 achieving because timing matters in -- in all of that.

5 And that's something that's never
6 really been addressed, because a 2 percent rate path
7 is just the center line of a cloud of -- of possible
8 outcomes. And some of them will be better and some of
9 them will be worse.

10 And -- and that goes -- that's true for
11 all of these different rate paths. I mean, if you
12 assume a 75/25 target or a 70/30 target or some other
13 target, actual reality will vary from whatever the,
14 you know, the -- the financial forecast is,
15 potentially by a significant amount.

16 And -- and the whole point of resetting
17 rates every two (2) years or three (3) years is to
18 reflect reality. So, if the primary objective is
19 hitting a target by a certain year, I can virtually
20 guarantee you that you will not have a smooth rate
21 path.

22 On the other hand, if the primary
23 target is having a smooth rate path, then I can pretty
24 much guarantee you you're not going to hit your
25 specific target. You're much more likely to be off

1 target. You might be higher or you might be lower,
2 but you're probably not going to be on target.

3 So -- so there is a ranking process
4 that's required. Is it more important to hit a
5 specific target in a specific year, in which case you
6 have to adjust rates over time, or is it -- more
7 important to have a smooth rate path, and -- and
8 therefore, you don't adjust rates, but the target goes
9 where it goes?

10 And, in my view, the history of the PUB
11 is to set rates every two (2) or three (3) years.
12 Bill 36 also has a requirement that -- that rates get
13 re-set every couple of years. And so, it's not a
14 smooth even annual rate path, it's -- it's going to be
15 a bumpy rate path, within limits. Right? With --
16 because the limits of what is reasonable and
17 predictable and -- and so on.

18 All of that is, of course, very
19 important. But it's never going to be a smooth rate
20 path to hit a specific target, just because of the
21 nature of the variability of the outcomes.

22 MR. SVEN HOMBACH: And -- and you drew
23 that distinction, Mr. Colaiacovo, I believe between a
24 -- a regulatory perspective and a legislative
25 perspective.

1 MR. PELINO COLAIACOVO (by TEAMS): M-
2 hm.

3 MR. SVEN HOMBACH: So, so I -- I
4 wanted to pick up on that issue. You -- you made an
5 interesting comment this morning, which is that,
6 legislatures can change their mind, I believe you
7 said.

8 MR. PELINO COLAIACOVO (by TEAMS):
9 That's right.

10 MR. SVEN HOMBACH: So -- so, in your
11 view, I take it, the legislature could change its mind
12 with respect to the target as well as the rate cap?

13 MR. PELINO COLAIACOVO (by TEAMS):
14 Sure.

15 MR. SVEN HOMBACH: So --

16 MR. PELINO COLAIACOVO (by TEAMS):
17 Absolutely. And -- and in fact, in the legislation, I
18 believe the targets can be amended -- the targets and
19 the timing, financial targets and timing can be
20 amended by regulation.

21 The rate cap, itself, I -- my reading
22 of it, and I am not a lawyer, I'm not a practicing
23 lawyer, et cetera. My reading of it, however, is that
24 in order to change the rate cap, they would have to
25 change the -- amend the legislation.

1 MR. SVEN HOMBACH: So, so your comment
2 was not intended to mean that if there is a change in
3 government, the rate cap might disappear.

4 It was simply to point out that there's
5 some flexibility?

6 MR. PELINO COLAIACOVO (by TEAMS): I -
7 -- I think if there was a change in government, you
8 know, you -- people in Manitoba who follow Government
9 of Manitoba issues, could tell me whether a change of
10 government is likely to affect this or not.

11 It -- changes in government often do
12 affect questions like this that are controversial in -
13 - in the public, but having said that, even without
14 changing government, governments change their minds.
15 It happens, in the face of circumstance, you know,
16 there's an unexpected outcome and government changes
17 its position. I -- I don't think that's unreasonable.
18 It happens all the time.

19 MR. SVEN HOMBACH: Okay. The -- the
20 last thing I wanted to ask you is about your concept
21 of inter-generational equity and the ten (10) year
22 path and ten (10) year history of rate increases.

23 Let's go to page 9 of the Board Counsel
24 Book of Documents, Volume 4. That is --

25 MR. PELINO COLAIACOVO (by TEAMS):

1 M-hm.

2 MR. SVEN HOMBACH: -- the IR, I
3 believe, that you're referring to when Manitoba Hydro
4 indicated that -- if you look back one decade,
5 Manitoba Hydro CPI was about 25 percent, while
6 cumulative rate increases were about 43 percent.

7 MR. PELINO COLAIACOVO (by TEAMS):
8 That's correct.

9 MR. SVEN HOMBACH: Okay. So I -- I
10 wanted to take a slightly different perspective and
11 turn your attention to Manitoba Hydro Exhibit 42,
12 second page of the document, I believe. There we go.

13 Mr. Colaiacovo, you probably haven't
14 seen this. This is an updated chart that rather than
15 looking back ten (10) years, looks back twenty (20)
16 years.

17 MR. PELINO COLAIACOVO (by TEAMS):
18 M-hm.

19 MR. SVEN HOMBACH: To -- to the
20 beginning of the millennium, and those numbers, if you
21 look at the very last row, middle of the column, would
22 show that over twenty (20) years cumulative rate
23 increases have actually been less than CPI.

24 MR. PELINO COLAIACOVO (by TEAMS):
25 Right.

1 MR. SVEN HOMBACH: So, I'd like to ask
2 you why you believe that the Board should be looking
3 back ten (10) years to, I believe what Manitoba Hydro
4 called the decade of investment as opposed to a little
5 bit longer in taking, perhaps, a twenty (20) year
6 view.

7 MR. PELINO COLAIACOVO (by TEAMS): So,
8 I think the critical decision point that -- the
9 critical point in time, that's relevant, is the
10 government's decision to embark on the Bipole and
11 Keeyask projects. And that occurred, I mean,
12 preliminary construction started on Keeyask in 2012.
13 Hence the decade. The -- before that, I mean, yes,
14 there was -- the Wuskwatim Project in early -- in the
15 early 2000's.

16 But, largely, the two (2) decades, from
17 1992 to 2012, were reaping the benefits of the
18 Limestone project, which we talked about briefly
19 earlier. The -- those two (2) decades were largely
20 driven by the infrastructure that was built which
21 culminated with Limestone.

22 In 2012 you begin kind of a new era,
23 which is Keeyask and Bipole and -- and -- the new
24 transmission lines for export purposes and -- and so
25 on and so forth. And -- and that's why I think it's -

1 - it's appropriate to take that as a bright line and
2 say, okay, you know, there were -- there -- there was
3 a cohort of ratepayers that benefitted from the
4 Limestone success.

5 Whether or not Limestone was considered
6 a success when it was being built, it -- it actually
7 turned out to be a success.

8 And now you're talking about ratepayers
9 who have been required to invest in Bipole and Keeyask
10 and the MMTP transmission line. And it's those ones
11 that I think, you know, we're looking at. Because
12 that was an important change in the nature of Manitoba
13 Hydro's asset base.

14 Manitoba Hydro has talked about the
15 fact that its asset base has grown so much over the
16 last ten (10) years and -- and that dividing line is
17 really 2012.

18 MR. SVEN HOMBACH: Thank you, Mr.
19 Colaiacovo. Those are all of my questions.

20 THE CHAIRPERSON: Thank you. Mr.
21 Williams...?

22 DR. BYRON WILLIAMS: No re-
23 examination. We -- we appreciate Mr. Colaiacovo's
24 time and unless there's any questions from the Board,
25 we'd -- we'd ask that he be excused.

1 THE CHAIRPERSON: Okay. Other
2 questions? No? No.

3 Thank you very much, Mr. Colaiacovo.

4 MR. PELINO COLAIACOVO (by TEAMS): It
5 was a pleasure, as always. Thank you.

6 THE CHAIRPERSON: It was a pleasure,
7 yes. Thank you.

8 MR. PELINO COLAIACOVO (by TEAMS):
9 Thanks. Bye-bye.

10

11 (PANEL STANDS DOWN)

12

13 MR. SVEN HOMBACH: So, Chair, I note
14 it's 11:30 --

15 THE CHAIRPERSON: Yeah.

16 MR. SVEN HOMBACH: --- the next item
17 on the agenda is the direct examination and
18 presentation by Manitoba Hydro's Rates and Cost of
19 Service Panel.

20 It would be helpful to have some
21 guidance from the Panel as to whether we should break
22 for lunch now and regroup after lunch or get that
23 panel started?

24 MR. BRENT CZARNECKI: If I can help
25 with respect to timing, I'm advised the direct

1 presentation of the panel will be approximately one
2 (1) hour.

3 THE CHAIRPERSON: Yeah, and I -- I
4 quite frankly would not want to break -- break it in
5 half. I'm just -- do we just -- give me two (2)
6 minutes. I just want to find out who we -- well the -
7 - I just want to see where lunch is at, otherwise,
8 we'll -- sorry, well...

9

10 (BRIEF PAUSE)

11

12 THE CHAIRPERSON: Yeah. We're --
13 sorry, we're going to break for an hour for lunch and
14 reconvene at 12:30.

15

16 --- Upon recessing at 11:33 a.m.

17 --- Upon resuming at 12:33 p.m.

18

19 THE CHAIRPERSON: Ms. Fernandes, it's
20 up to you to bring sanity back to the process.

21 Mr. Hombach, is it you or am I going to
22 Ms. Fernandes?

23 MR. SVEN HOMBACH: It is me for a
24 brief moment.

25 THE CHAIRPERSON: Okay.

1 MR. SVEN HOMBACH: I just wanted to
2 let you know that I appre -- that I appreciate Ms.
3 Bellringer's precision when it comes to time.

4 The -- the next item on the agenda, Mr.
5 Chair, is the direct-examination and presentation by
6 Manitoba Hydro's Rates and Cost of Service Panel.

7 And before we turn it over to Ms.
8 Fernandes, I would suggest that we take a moment to
9 swear in Ms. Van Hussen and Ms. Gregorashuk, who have
10 not testified before in this proceeding.

11

12 MANITOBA RATES AND COST OF SERVICE PANEL

13 SHANNON GREGORASHUK, Affirmed

14 MARNIE VAN HUSSEN, Affirmed

15 KEVIN GAWNE, Resumed

16

17 THE CHAIRPERSON: Ms. Fernandes...?

18

19 EXAMINATION-IN-CHIEF BY MS. ODETTE FERNANDES:

20 MS. ODETTE FERNANDES: Thank you.

21 Good afternoon, Mr. Chairman, Madam Vice Chair, and
22 Panel Members.

23 For the record, my name is Odette
24 Fernandes and I am legal counsel for Manitoba Hydro.
25 Seated directly behind me is Gwen Muirhead. She is

1 familiar to this Panel. She will also be acting as
2 legal counsel for Hydro.

3 Before we get into Manitoba Hydro's
4 direct presentation, I thought Ms. Gregorashuk and Ms.
5 Van Hussen could just take a couple of minutes to
6 introduce themselves to the Board, provide you with a
7 bit of background, and what they will be speaking to
8 as part of this panel.

9 MS. SHANNON GREGORASHUK: Thank you.
10 Good afternoon, Chairman Gabor, Vice Chair Kapitany,
11 Board Members Sy, Bellringer, and Bass. My name is
12 Shannon Gregorashuk and I'm the Director of Rates and
13 Regulatory for Manitoba Hydro.

14 I'm a chartered professional
15 accountant, have a masters in business administration,
16 and have been with Manitoba Hydro for over twenty-
17 seven (27) years. The mis -- majority of those years
18 were spent in various positions in Rates and
19 Regulatory of both Centra Gas and Manitoba Hydro.

20 I've also held positions in the
21 controller's division, treasury, corporate strategic
22 planning, and long-term export sales.

23 In my current role my responsibilities
24 include development, preparation and submission of
25 regulatory filings and applications, overseeing the

1 development of Cost of Service studies and Rate -- and
2 customer rates, as well as overseeing regulatory
3 compliance activities to this Board.

4 My responsibilities on this Panel
5 relate to Manitoba Hydro's overall approach to rate
6 setting that resulted in a specific rate design
7 proposals for each customer class. Thank you.

8 MS. MARNIE VAN HUSSEN: Good
9 afternoon, Board Chair, Vice Chair, Board Members,
10 Board Counsel, and Staff, Interveners, Counsel, and
11 members of the public.

12 My name is Marnie Van Hussen. I am a
13 chartered professional accountant and I have a
14 bachelor of commerce honours degree from the
15 University of Manitoba.

16 I've been employed with Manitoba Hydro
17 for nineteen (19) years. For the last sixteen (16)
18 years I have been employed in the Rates and Regulatory
19 Division holding positions as a cost of service
20 analyst, a senior rate analyst, and most recently I've
21 been the manager of the Rate Analysis and Design
22 Department since December of 2020.

23 In my current role I am responsible for
24 the development of Manitoba Hydro's perspective Cost
25 of Service studies and development of customer class

1 rates for both the gas and electric segments of the
2 business.

3 MS. ODETTE FERNANDES: Thank you. And
4 to Ms. Van Hussen's right is Mr. Kevin Gawne, who was
5 -- who was part of the Export and Hydrology Panel.
6 And just seated directly behind them for the record,
7 if we start at my furthest right, it is Mr. Kelly
8 Hunter and he is a Senior Market and Resource Adequacy
9 Engineer.

10 Then we have Michael Dust, who is a
11 Senior Cost of Service Analyst. Then, Natalia
12 Giraldo-Gomez, who's the Senior Rates Analyst. And
13 seated beside Ms. Geraldo Gomez is Ms. Ashley Jansen,
14 who's the Manager of Regulatory Strategy and Planning.

15 And finally, just before turning it
16 over to Ms. Gregorashuk, just some housekeeping
17 matters. The CVs for the Panel were sent yesterday
18 and I believe they are Exhibit Manitoba Hydro 50. And
19 the direct presentation we would have marked as
20 Manitoba Hydro Exhibit 51.

21

22 --- EXHIBIT NO. MH-50: CVs of Ms. Gregorashuk and
23 Ms. Marnie Van Hussen.

24

25 --- EXHIBIT NO. MH-51: Rates and Cost of Service

1 Panel presentation.

2

3 CONTINUED BY MS. ODETTE FERNANDES:

4 MS. SHANNON GREGORASHUK: Thank you,
5 Ms. Fernandes. I'm pleased to be here this afternoon
6 with my colleagues as part of Manitoba Hydro's final
7 witness panel for the current application.

8 In terms of the specific topics we will
9 cover as part of our opening comments, I'm going to
10 spend a few minutes summarizing the rate approvals
11 requested as part of this application, as well as the
12 steps involved in the rate development process.

13 I will also summarize the rate design
14 objectives Manitoba Hydro considered for this
15 application. And will then turn it over to Ms. Van
16 Hussen, who will take us through a much more detailed
17 discussion on cost allocation methodology, followed by
18 Manitoba Hydro, the results of the cost-of-service
19 study completed for this application, and the rate
20 proposals we have brought forward for approval by this
21 Board.

22 All of the approvals requested as part
23 of this Application have been set out in tab 1, the
24 letter of application. The Revenue Requirement Panel
25 addressed some of these approvals, including that

1 Manitoba Hydro is seeking final approval of rate
2 schedules that were previously approved by this Board
3 on an interim basis in Orders 137/'21 and 140/'21 that
4 incorporates an overall 3.6 percent increase effective
5 January 1, 2022, in general consumers' revenue.

6 That panel also addressed the proposed
7 overall general revenue increase of 2 percent
8 effective September 1 of '23 and April 1 of '24 that
9 Manitoba Hydro has requested as part of this
10 Application which is sufficient to generate additional
11 revenues of 24 million in '23/'24 and 38 million in
12 '24/'25.

13 Our panel today will speak to how we
14 are proposing to collect those additional revenues,
15 namely, through differentiated rate adjustments to
16 customer classes as shown in Figure 8.1 of tab 8 of
17 our Application and reflected in the rate schedules
18 included as Appendix 8.4 and 8.7.

19 Other rate approvals requested as part
20 of the Application are listed on this slide, including
21 final approval of light-emitting diode, or LED, rates
22 for the area and roadway lighting class approved on an
23 interim basis in Order 150 of 2020, and approval of
24 additional area and roadway lighting rates that are
25 also reflected in the rate schedules included in

1 Appendix 8.4 and 8.7.

2 Other approvals that Manitoba Hydro has
3 requested as part of its Application that were
4 identified by this Board in Order 42 of 2023 as issues
5 that are out of scope for oral evidence are shown on
6 this slide.

7 I won't go into any details on these,
8 but they are listed here just for completeness and
9 include: final approval of interim orders related to
10 our Surplus Energy Program and Curtailable Rates
11 Program summarized in Appendix 9.1;

12 As well as any interim Orders that have
13 been approved by this Board related to these programs
14 since we filed our Application last November;

15 Endorsement of modifications to the
16 terms and conditions of service for the Curtailable
17 Rates Program and the Surplus Energy Program to ensure
18 programs continue to provide value to customers;

19 Endorsement of the change in
20 methodology used for the allocation of the LED Roadway
21 Lighting Conversion Program costs in order to better
22 reflect cost causation;

23 And finally, approval to remove cooking
24 and heating rates from our rate schedules that are
25 outdated and no longer in use.

1 For an overview of the rate development
2 process, we can look to the National Association of
3 Regulatory Utility Commissioners' -- or NARUC's --
4 Electric Utility Cost Allocation Manual that describes
5 rate development in utilities as occurring in steps.

6 The NARUC manual explains that in order
7 for a utility to remain viable and continue to be able
8 to serve its customers, it must be given an
9 opportunity to recover its prudently incurred costs
10 through rates charged to customers.

11 So the first step in rate development
12 is for a utility to identify its revenue requirement
13 which is generally defined as the total cost incurred
14 for providing service to customers, including a
15 reasonable return, or net income.

16 The next step according to the NARUC
17 manual is to then attribute the revenue requirement to
18 various classes of customers in a manner that reflects
19 the cost of providing utility services to each class.
20 The cost allocation process consists of three (3)
21 major parts which Ms. Van Hussen will get -- will
22 discuss further in just a few moments.

23 And finally, the last step in the rate
24 development process is the design of rates, or the
25 prices charged to customer classes. This is primarily

1 done by using the costs incurred by each class as a
2 major determinant.

3 However, other non-cost attributes may
4 be considered by regulators in designing rates and
5 include revenue stability for the Company and rate
6 continuity for the customer, as well as such practical
7 criteria as simplicity and public acceptance.

8 Manitoba Hydro's approach to rate
9 development occurs in two (2) phases and in three (3)
10 sequential steps that closely follows the steps
11 outlined by NARUC.

12 Phase 1 focusses on defining revenue
13 requirement and includes step 1 of the rate
14 development process.

15 Phase 2 includes allocating revenue
16 requirement and designing rates by customer class, and
17 this phase includes step 3 -- 2 and 3 of the rate
18 development process.

19 So as analogies are often helpful when
20 discussing concepts related to our Applications, it
21 may be helpful to consider the steps in rate
22 development using a pie analogy.

23 As previously discussed, step 1 is
24 about determining revenue requirement for the utility
25 which also establishes the average rate increase

1 Manitoba Hydro will require, which for this
2 Application is 2 percent.

3 A determination of revenue requirement
4 and the 2 percent rate path has been the focus of the
5 hearing up to today and was specifically discussed as
6 part of the Revenue Requirement Panel, so I'm not
7 going to spend any additional time here.

8 However, for this analogy, I am going
9 to suggest that we think about step 1 as determining
10 how big of a pie Manitoba Hydro needs to serve all of
11 its customers safely, reliably, and efficiently.

12 Once the size of the pie is determined,
13 we can move on to step 2, which we discussed on a
14 previous slide is about allocating the revenue
15 requirement, or total costs of the utility, to
16 customer classes.

17 So continuing with the pie analogy,
18 cost allocation is about measuring how big a slice of
19 pie -- each customer class -- should receive, or
20 measuring the costs that each customer class is
21 responsible for. And this is done by completing a
22 cost-of-service study.

23 Given the integrated nature of a
24 utility's system and the significant number of
25 customers it serves, it is not possible to precisely

1 determine the cost of serving each customer or
2 customer class.

3 However, using well-established
4 principles and a methodology that is based on cost
5 causation, the Cost of Service study provides us with
6 a useful guide for identifying costs to serve each
7 customer class.

8 Manitoba Hydro's Cost of Service study
9 methodology was extensively reviewed and refined in
10 the public hearing process that led to the issuance of
11 Order 164 in 2016. Manitoba Hydro's rate proposals
12 are consistent with the PUB's direction in that Order.

13 So now that we've measured the cost
14 that each customer is responsible for through the Cost
15 of Service study, we can move on to the next step in
16 the rate development process, that being rate design.

17 So back to the pie analogy, rate design
18 is where we actually cut the pie into slices for each
19 customer class. In doing so, we give consideration as
20 to whether it is appropriate to cut the pie as
21 suggested by the measurements in step 2, or, after
22 considering other factors, whether we slice -- whether
23 each slice should be smaller or larger than the
24 measurements in the previous step.

25 And some of these other factors include

1 results from previous Cost of Service studies,
2 direction from this Board, and other rate objectives
3 which we will talk about in just a few moments.

4 Here is where we also have to keep in
5 mind that rate design does not change the size of the
6 pie that was determined in step 1, and this means that
7 if we cut a bigger or smaller piece for one class, we
8 also change the size of the pieces for another class
9 or multiple classes.

10 During this step is where we also
11 determine rate structures and components for each
12 class which can include fixed monthly charges, energy
13 charges, and demand charges.

14 So thank you for your indulgence as we
15 walked through the important steps associated with
16 developing rates for our customers using a simplified
17 pie analogy. Obviously, the actual data analysis and
18 considerations that go into rate development are much
19 more involved and complex, as will be discussed by Ms.
20 Van Hussen. Next slide, please. Thank you.

21 So on the previous slide, I mentioned
22 that proposed rate design changes are evaluated to
23 ensure they continue to be in alignment with Manitoba
24 Hydro's rate objectives.

25 A summary of the rate objectives that

1 have been prioritized for this application are
2 included on this slide. However, before I speak
3 briefly to each of these, I wanted to note that
4 prioritizing certain objectives in this application
5 does not mean that Manitoba Hydro has not considered
6 other traditional objectives of rate making.

7 On the contrary, Manitoba Hydro's rates
8 continue to be competitive compared to other
9 jurisdictions. They are understandable, and they
10 continue to ensure equitable treatment of customers
11 within and between customer classes.

12 So, starting with the cost of providing
13 service, this is a principle that is fundamental to
14 rate making that says rates should be designed to
15 ensure the utility is able to earn its revenue
16 requirement and are reflective of costs.

17 Our rate proposals are designed so
18 rates continue to reflect the cost to serve and to
19 give consideration to ensuring revenue to cost
20 coverage ratios for each customer class are within or
21 are moving toward the zone of reasonableness.

22 And both of these concepts will be
23 explained by Ms. Van Hussen in just a few moments.

24 Rate stability is another fundamental
25 objective that is important both for our customers and

1 for Manitoba Hydro. Stable and predictable rates was
2 identified as a priority in determining our overall
3 rate path, as was discussed with the Revenue
4 Requirement Panel.

5 Rate stability is also reflected in our
6 rate proposals as we've proposed a gradual movement of
7 customer classes outside the zone of reasonableness
8 into the zone, but the need to ensure customer rates
9 and bills continue to be stable and predictable as
10 possible.

11 In this Application, we've introduced
12 the objective of flexibility which we are also seeing
13 other utilities focus on given the evolving energy
14 landscape. Introduction of this objective considers
15 that there is uncertainty with respect to the pace of
16 change in government policies and the trends in the
17 evolving energy landscape.

18 So, we have considered the impact of
19 our proposals on the ability to respond to future
20 changes in the energy landscape.

21 Efficiency continues to be an important
22 rate objective for Manitoba Hydro and, as such, we
23 have considered the results of the cost of service
24 study and the indicative unit costs in determining
25 whether or not changes to rate components are required

1 to ensure rates continue to send appropriate price
2 signals.

3 Finally, affordability is an important
4 consideration for Manitoba Hydro. This was discussed
5 as part of previous panels, both in terms of our
6 commitment to maintain stable and predictable rates
7 for customers, keeping rates low compared to other
8 jurisdictions, as well as in the programs and services
9 Manitoba Hydro has developed to help customers manage
10 their energy bill.

11 And affordability has been specifically
12 incorporated into the rate development process through
13 consideration of the magnitude of bill impacts of each
14 of the proposed rate design changes.

15 So, as discussed throughout tab 8 of
16 our Application, Manitoba Hydro has followed a
17 principled approach to rate setting on behalf of our
18 customers.

19 Our proposed rates closely recover the
20 underlying costs incurred to provide service to each
21 customer class and are designed to balance the
22 achievement of various objectives, traditional and
23 new, related to cost causation, efficiency,
24 flexibility, stability, and affordability.

25 I will now turn it over to Ms. Van

1 Hussen who will provide further details and discussion
2 of how Manitoba Hydro's approach to cost allocation
3 and the consideration of rate objectives and policies
4 ensure that revenue requirement is being fairly
5 recovered from customers and results in just and
6 reasonable rates for all classes.

7 MS. MARNIE VAN HUSSEN: Thank you.

8 Ms. Gregorashuk gave us an overview of the three (3)
9 general rate making steps. And now I'm going to walk
10 us through in a bit -- the second and third phases of
11 cost allocation and rate design in a bit more detail.

12 We will focus on the key inputs and
13 results of the cost allocation study that was
14 completed for this application referred to as PCOSS24
15 and the specific rate proposals that have been
16 advanced.

17 When we talk about cost allocation, we
18 are talking about the mechanism we use to split costs
19 between customer classes in order to determine a fair
20 sharing of the Utility's revenue requirement.

21 While we use known customer
22 characteristics as the basis to split costs, cost of
23 service is still only able to provide an approximation
24 of the actual cost of serving a particular customer or
25 class of customers given the many judgments and

1 estimates that are required throughout the process.

2 Once all of the costs have been
3 allocated, they are compared to class revenue at
4 approved rates in order to determine whether rates are
5 sufficient to cover the costs that have been allocated
6 to the class.

7 Cost of service studies are fairly
8 unique to the utility industry and tend to serve a
9 fairly niche role. Given the passage of time since
10 cost of service has been discussed at a General Rate
11 Application and for the benefit of some of the new
12 Panel members, I wanted to review the process in a bit
13 more detail over the next few slides. Next slide,
14 please. Sorry, next slide, please.

15 Cost allocation follows three (3)
16 sequential steps: functionalise, classify, and
17 allocate. In step 1, costs are functionalised, which
18 means they are separated into broadly defined groups
19 which describe the purpose or function of the costs.

20 Manitoba Hydro has five (5) functions:
21 generation, transmission, sub-transmission,
22 distribution, and customer service. Consistent with
23 PUB direction, Manitoba Hydro uses net export revenue
24 to offset the costs of the generation and transmission
25 functions as these are the functions that allow

1 Manitoba Hydro to earn revenue in the export market.

2 Visually, you can see that marked as
3 the green box under the generation and transmission
4 function.

5 With the exception of customers in our
6 remote diesel communities, all Manitoba Hydro
7 customers make use of the generation function.
8 Manitoba Hydro has almost 15,000 kilometres of
9 transmission lines that account for 8 percent of its
10 revenue requirement. All customers use the
11 transmission system.

12 Sub-transmission and distribution
13 accounts for 29 percent of the revenue requirement and
14 includes over 75,000 kilometres of distribution lines.
15 Approximately 75 percent of consumption is served at
16 the distribution level.

17 The schematic also shows where some of
18 the different types of customers are attached to
19 Manitoba Hydro's system. There are three (3)
20 subclasses of general service large customers to
21 recognize that the general service greater than a
22 hundred kV industrial customers are served directly
23 off the transmission system.

24 Customers in the GSL30 to a hundred
25 subclass are served off the sub-transmission system,

1 and while the general service large less than 30 kV
2 customers are served off the distribution system at
3 primary distribution voltages.

4 In order to attach to the system at
5 primary voltages, all general service large customers
6 must own their own transformation. Residential
7 general service small and general service medium
8 customers are served off the distribution system at
9 secondary distribution voltages and use Manitoba Hydro
10 substations and transformers to reduce power to
11 useable voltage.

12 Once costs are functionalised, step 2
13 is to classify them according to the system design and
14 operating characteristics that cause the cost to be
15 incurred. These classifications are based on cost
16 drivers, namely, energy, demand, and customer.

17 A customer classification reflects that
18 some costs vary with the number of customers on our
19 system. As an example, the number of metres we have
20 will change as the number of customers we have
21 changes.

22 Energy is the amount of electricity
23 that is consumed over a period of time measured in
24 kilowatt hours and demand is the maximum -- maximum
25 amount of electricity that is consumed at any

1 particular time.

2 And when we talk specifically about
3 peak demand, it refers to the time that has the
4 greatest need for electricity.

5 Functions can be split into more than
6 one (1) classification. As an example, generation is
7 classified as both energy and demand to reflect that
8 its purpose is twofold. We need enough generation to
9 meet the energy needs of our customers over the course
10 of the year, but we also need it to have enough
11 capacity in the system to meet the peak simultaneous
12 demand of customers.

13 PCOSS24 continues to reflect the
14 direction on classification from Order 164/'16 and is
15 consistent with the classifications used in PCOSS21.

16 Once costs are functionalised and
17 classified, step 3 is to allocate them to customer
18 rate classes on the basis of the amount of energy
19 consumed, peak demand, or weighted customer count.

20 The weightings take into account that
21 some customers are more costly to serve. If we think
22 back to our meter example, meters for demand build
23 customers are more expensive than meters for
24 residential customers and, therefore, get a higher
25 weighting.

1 When we look at the table on the right-
2 hand side of the slide we see the specific costs that
3 are allocated to each customer class. The five (5)
4 functions have been broken down into a number of sub-
5 functions to allow a more granular allocation of
6 costs.

7 And what we see consistent with what we
8 would expect when we reflect on the graphic on the
9 left is that the largest GSL customer class does not
10 receive any costs related to the sub-transmission or
11 distribution system given they are served upstream of
12 these assets, while the less than 30 kV class of
13 general service large customers that are served at
14 primary voltage receives an allocation of the
15 distribution system for the same reason. Next slide,
16 please.

17 Manitoba Hydro completed a cost of
18 service study for fiscal year '23 -- 2023/2024. Some
19 of the notable inputs from revenue requirement of this
20 study include: reduced water rental and provincial
21 guarantee fees which were cut in half due to the
22 reduction in level of fees by the provincial
23 government; the full revenue requirement for Keeyask,
24 as it is now fully in service; and other major
25 generation and transmission projects that have

1 appeared in studies on a forecast basis over the past
2 decade, namely, Bipole III, GNTL, and MMTP are also
3 fully in service, providing cost certainty compared to
4 previous studies.

5 Over the previous three (3) weeks,
6 we've heard a lot of discussion about net export
7 revenue. But what we consider net export revenue for
8 the purposes of cost allocation is slightly different
9 than the definition described by previous panels.

10 Within the PCOSS, only the incremental
11 costs associated with exports, namely, variable,
12 hydraulic, O&M, and water rentals related to export
13 volumes only, as well as the cost of the affordable
14 energy fund are deducted from export revenue. This is
15 consistent with PUB direction from 164/16.

16 PCOSS24 includes export revenue of 1.15
17 billion, which results in a \$525 million increase in
18 net export revenue compared to the previous study.

19 And the last point on this slide is to
20 note that the methodology used in PCOSS24 is fully
21 compliant with PUB direction in Orders 164/16 and
22 59/18.

23 Between PCOSS02 and PCOSS14, a variety
24 of cost allocation methodologies were used as the
25 studies were modified to reflect divergent views on

1 cost causation.

2 This is -- this had the result of
3 limiting the amount of rate differentiation
4 implemented during this period.

5 Since Order 164/16 and 59/18, the
6 methodology is no longer in a state of flux and is an
7 appropriate basis to use for rate differentiation.

8 Export revenues reduce the total
9 revenue requirement that needs to be recovered from
10 domestic customers. In the 2023/24 test year, used in
11 PCOSS24, only 1.9 billion of the approximately \$3
12 billion revenue requirement needs to be recovered from
13 domestic customers since 1.15 billion is covered by
14 forecast export revenue.

15 As discussed earlier, net export
16 revenue is used to reduce the revenue requirement of
17 the generation and transmission functions that was
18 allocated to the domestic classes. This approach is
19 consistent with PUB direction in Order 164/16, which
20 discontinued the use of an export class and found that
21 exports should only be applied to the G&T assets that
22 facilitate export sales.

23 The chart on this slide is intended to
24 show how the allocation of net export revenue will
25 result in different net costs for customer classes.

1 The three (3) classes included on the
2 slide are the residential and general service large
3 greater than a hundred (100) kV classes, which are
4 generally at opposite ends of the spectrum in cost
5 allocation. As well as the general service medium
6 class that tends to fall in the middle.

7 The information contained in this chart
8 is the same information that can be found in tables A1
9 and A2 of the Cost of Service study. But shows the
10 calculation as a graphic, rather than just a bunch of
11 numbers.

12 The sizes of the classes have also been
13 normalized to make the comparison easier and the
14 differences more obvious.

15 The first blue column for each class
16 shows the total costs to serve the class. With the
17 costs broken into G&T at the top of the column, and
18 all other costs at the bottom. These other costs
19 include subtransmission, distribution, and customer
20 service costs.

21 The breakdown will vary for each class
22 based on the specific assets and services used by the
23 class. But it shows that distribution level
24 customers, such as residential and general service
25 medium, have considerable non-generation and

1 transmission costs that are not required to serve the
2 general service large grater than a hundred (100)
3 class. This is consistent with our earlier
4 discussion.

5 The green bar shows the amount of net
6 export revenue allocated to each class. The export
7 revenue offsets 35 percent of the total costs for the
8 residential class, 38 percent for general service
9 medium, and 48 percent for general service large.

10 The lower percentages for residential
11 and general service medium are due to the additional
12 non-generation and transmission requirements of the
13 class, which do not get a share of the export revenue.

14 However, the relevant comparison is
15 against the G&T costs that facilitated the export
16 sales, which shows that exports will offset the exact
17 same 49 percent portion of G&T costs for each class.

18 After the total costs are reduced by
19 the class's share of export revenue, we are left with
20 a net cost that we need to collect from the class
21 through rates. These net costs are shown as the
22 second shorter blue bar for each class.

23 On this slide, we have the same chart,
24 but it now includes the revenues for the three (3)
25 customer classes, which appear as green bars on the

1 right-hand side.

2 And we bring in revenues here because
3 the primary output of the Cost of Service study are
4 revenue cost coverage ratios for each customer class.

5 These ratios compare the revenue
6 collected from a class to the estimated cost to serve
7 that class and are called RCCs, for short.

8 The current study uses the RCC
9 calculation methodology directed by the PUB in Order
10 59/18. In this calculation, net export revenue is
11 treated as a reduction of class costs rather than as
12 an addition to class revenue, which was the approach
13 that was used in studies up to PCOSS18.

14 So the costs used in the RCC
15 calculation are actually the net costs, which have
16 been reduced by the class's share of net export
17 revenue.

18 For GSM, the RCC ratio for the class is
19 100.3 percent and the class revenues are almost
20 exactly equal to net costs.

21 The residential class revenues, shown
22 in the green bar, are not sufficient to cover their
23 share of allocated costs shown in blue. So the RCC
24 ratio is below 100 percent.

25 The revenues for the GSL greater than

1 100 kV class are greater than their allocated costs,
2 so their RCC is above a hundred (100).

3 Although the study has the appearance
4 of exactness, as I mentioned at the beginning of my
5 presentation, it only provides an estimate of the
6 actual costs of serving a customer class due to the
7 judgments required to functionalize, classify, and
8 allocate.

9 To recognize this uncertainty, Manitoba
10 Hydro uses a zone of reasonableness in the rate design
11 phase. If a class RCC falls within this range, then
12 class revenues are considered to be sufficiently
13 recovering allocated costs.

14 The zone of reasonableness has been
15 added to our graphic as a dashed line that is 5
16 percent above and below the net costs for each class.

17 You can see that GSM, at 100 percent,
18 is right in the middle of the zone of reasonableness,
19 residential is just below the lower bound of the zone,
20 while GSL is clearly above the upper bound.

21 And I want to take a quick minute to
22 discuss the zone of reasonableness. The 95/105
23 percent zone of reasonableness has been used since
24 1996. However, the RCC calculation most recently
25 directed for use by this Board -- to be used by the

1 Board, the plus or minus 5 percent is now applied as a
2 margin of error to the net costs for each customer
3 class, rather than the total costs.

4 So even though the zone of
5 reasonableness range is still plus or minus 5 percent,
6 it is effectively narrower than in the past since it
7 now applies to the smaller level of net costs, rather
8 than total costs.

9 This tolerance range must accommodate
10 the uncertainty in the initial allocation of costs to
11 the class, as well as any additional uncertainty that
12 accompanies the secondary step of allocating a share
13 of net export revenue to reduce the costs for each
14 class.

15 The graphic also illustrates how
16 influential the record level of export revenues has
17 been on class RCCs in this study and, particularly, on
18 the GSL greater than a hundred (100) kV class.

19 The amount of export revenues is
20 influenced by water flows and external market prices,
21 and is more volatile than embedded revenue
22 requirement.

23 We can reasonably expect that the total
24 costs will be similar in the next study, but we don't
25 have the same level of confidence that export revenues

1 are going to remain at the same elevated levels in the
2 future.

3 The RCC of the GSL greater than a
4 hundred (100) class is 8 percent above the upper bound
5 of the zone of reasonableness. But this image also
6 shows how significantly export revenues have
7 contributed to this elevated RCC.

8 And as a result, there is less
9 certainty in the RCC of the general service large
10 class, that has 48 percent of its costs offset by NER,
11 than there is for the distribution level customers
12 that receive relatively less export revenue.

13 The high level of export revenue in the
14 test year, the volatility of exports, and the class
15 specific impacts were considered when implementing the
16 results of cost of service in the rate design phase.
17 Next slide, please.

18 The chart on this slide shows the costs
19 allocated to each customer class in the outer ring.
20 And in the inner ring, we see each class's forecast
21 revenue at approved rates.

22 If we think back to the pie analogy
23 described by Ms. Gregorashuk, at this point, we've
24 essentially finished measuring how big the slice of
25 pie should be for each customer class.

1 And when we compare the costs to the
2 revenues, we can see that some classes have revenues
3 less than their allocated costs and others have
4 revenues that are greater than their allocated costs.
5 And a few are pretty close to being equal.

6 This pie chart also gives some context
7 about the significant difference in the sizes of our
8 customer classes. The class size isn't relevant in
9 the RCC calculation, but does come into play during
10 rate rebalancing.

11 If you look at the area in Roadway
12 Lighting Class, for example, the class represents
13 slightly more than 1 percent of net costs. You can
14 see them as the tiny sliver at the top of the pie. We
15 can differentiate rates for the Lighting Class, even
16 make dramatic adjustments and the offsetting changes
17 simply won't be noticeable for the other classes, due
18 to the difference in class size.

19 On the other hand, differentiating
20 rates for a larger class, such as General Service
21 Small Non-Demand, is more likely to have a noticeable
22 impact on the rate increase required for other
23 classes.

24 This chart also illustrates the size
25 and significance of the residential class, who are

1 responsible for almost one half of net costs.

2 Due to the difference in class sizes,
3 we can have multiple other classes above the upper
4 bound of the zone of reasonableness, while Residential
5 is the only class below the zone. Next slide please.

6 We're now moving into the final stage
7 of the ratemaking process, namely, the determination
8 of a pricing structure that will recover the utility's
9 revenue requirement for each class's share of costs.

10 We refer to this as the rate design
11 stage. Rate design is not a mechanistic exercise that
12 simply takes the results of the Cost of Service study.
13 It involves consideration of rate objectives and
14 policies to ensure that revenue requirement is fairly
15 being recovered from customers in a manner that
16 results in just and reasonable rates.

17 When it comes to rate design, we often
18 use the term 'revenue neutral'. What we mean by that,
19 is that changes to rate design may change the way
20 costs are recovered and the amount recovered from each
21 class, but they do not change the overall amount of
22 revenue that needs to be recovered.

23 So, if we go back to our pie example,
24 rate design can't change the size of the pie. And
25 this is an important concept that applies to both

1 parts of the rate design phase discussed by Ms.
2 Gregorashuk.

3 When we cut the pie and determine the
4 proposed rate differentiation for the class and also
5 when we determine how that rate increase is going to
6 be applied to each of the rate structure components,
7 we need to make sure our rate design changes are
8 revenue neutral and aren't trying to change the size
9 of the pie. Next slide, please.

10 Mentioned at the previous slide, that
11 rate design is not a mechanistic exercise, based
12 solely on the results of the Cost of Service study.

13 And, what that means is that Manitoba
14 Hydro do not just supply the results of PCOSS24
15 without considering numerous other factors before
16 determining our final rate proposals.

17 In coming to our proposal, we looked at
18 Manitoba Hydro's rate objectives, which Ms.
19 Gregorashuk walked us through, Bonbright's traditional
20 attributes of a sound rate structure, trends of RCCs
21 over previous studies, RCC results relative to the
22 zone of reasonableness, PUB direction in 59/18 to move
23 classes into the zone of reasonableness, with any
24 shortfall recovered from classes below or within the
25 zone of reasonableness.

1 And, we considered whether there were
2 any extenuating circumstances that required a
3 departure from recent Board direction, or from
4 previous practice. This included reflecting on
5 revenue requirement inputs into cost of service,
6 increasing importance of capacity, level of export
7 revenue and marginal versus embedded costs.

8 Overall, Manitoba Hydro has taken a
9 balanced approach, that is cost based, is consistent
10 with PUB direction in the past few rate cases, namely,
11 164/16, 59/18, 69/19 and 137/21, and appropriately
12 incorporates policy considerations, when necessary.

13 On this slide, we see the results of
14 PCOSS24Cost 24 and each class' position, being either
15 above, below, or within the zone of reasonableness.

16 In PCOSS24, five (5) customer class are
17 outside the zone. Based on the results of PCOSS24,
18 the RCCs for the General Service Small Non-demand,
19 General Service Large, thirty (30) to a hundred (100)
20 kV, General Service Large greater than a hundred (100)
21 kV and the Area and Roadway Lighting classes are above
22 the zone of reasonableness, while the RCC for the
23 Residential Class, is below the zone of
24 reasonableness, which suggests, these classes receive
25 rate increases that differ from the average.

1 The RCC for the General Service Small
2 Non-Demand Class has been persistently above the zone
3 of reasonableness. The RCC for the Area and Roadway
4 Lighting Class has also been above the zone of
5 reasonableness since 2018 and it is evident that
6 current rates are recovering more than their share of
7 allocated costs.

8 Manitoba Hydro is proposing a 1 percent
9 below average rate increase for both of these classes.

10 For General Service Large, thirty (30)
11 to a hundred (100) kV and greater than a hundred (100)
12 kV RCCs have trended above unity and towards the
13 higher end of the zone of reasonableness in studies
14 prepared since Order 164/16.

15 However, as discussed previously, it is
16 clear that RCC results for these two (2) classes, in
17 PCOSS24 are being -- being driven by record levels of
18 export revenue. Accordingly, Manitoba Hydro is
19 proposing that a smaller rate differential, relative
20 to General Service Small Non-Demand and Area and
21 Roadway Lighting, of .5 percent below the average
22 increase be applied to these classes.

23 Manitoba Hydro is proposing greater
24 than average increases for all remaining classes in
25 order to remain revenue neutral, consistent with PUB -

1 - previous PUB direction.

2 A .1 percent above average increase is
3 being proposed for the General Service Small demand,
4 General Service Medium, and General Service Large
5 under thirty (30) kV classes.

6 Manitoba Hydro is proposing that the
7 differential applied to the Residential class be
8 slightly larger than the other classes, to reflect
9 that their RCC is below the lower bound in PCOSS24 and
10 has trended toward the lower end of the zone of
11 reasonableness in previous studies.

12 This slide provides commentary on how
13 Manitoba Hydro's rate differentiation proposals line
14 up with the rate objectives laid out in Tab A and
15 discussed by Ms. Gregorashuk in her opening comments.

16 Overall, Manitoba Hydro's proposals are
17 consistent with PUB direction to move classes into the
18 zone of reasonableness. They do not impede Manitoba
19 Hydro's ability to respond to future changes. The
20 increased alignment with cost/causation and include
21 only modest bill impacts for those classes receiving
22 larger than average increases. Next slide, please.

23 So, once we've determined how big each
24 slice of pie should be and have actually cut it, the
25 size of the -- each slice is set. That part of the

1 process was discussed in the previous slides.

2 Now, if you can just indulge me for a
3 few more minutes, I'm going to finish off the pie
4 analogy, by focusing on the composition of the slice
5 of pie.

6 If we take a moment and just think of a
7 single slice of pie and specifically a piece of lemon
8 meringue pie, we can envision there's a layer of crust
9 and a layer of filling and a layer of meringue. And
10 those layers can be thought of analogous to the
11 individual rate components that together make up the
12 rate structure for each customer class.

13 Rate structures will generally include
14 some combination of energy charges which are applied
15 to energy consumption, customer charges which are
16 fixed dollar charge each month, as well as demand
17 charges for larger customer classes.

18 And we can adjust those components
19 equally, or we can determine that we might want to
20 look a little more meringue and a little less lemon,
21 or visa-versa, but we aren't changing the overall size
22 of the slice of pie. Once again, that is the concept
23 we talked about, about being revenue neutral.

24 Demand charges tend to be the least
25 well understood part of the rate structure, so I

1 wanted to provide a bit of extra context related to
2 demand rates, given some of the changes we're
3 proposing in this application.

4 Demand rates are intended to recover at
5 least a portion of those utility costs which do not
6 vary with a customer's consumption, but that are
7 incurred to be able to meet the maximum customer load
8 the Utility expects to serve.

9 Demand rates are applied to a
10 customer's monthly billing demand, which generally
11 refers to a customer's highest recorded fifteen (15)
12 minute demand rating in the month.

13 Utilities often use what are referred
14 to as demand ratchets. Ratchets are mechanisms that
15 tie a customer's demand charge in a current month, to
16 some pre-defined level.

17 As an example, Manitoba Hydro has a
18 ratchet in place that says if measured demand in the
19 current month is less than 25 percent of your overall
20 contract demand, you'll be charged based on 25 percent
21 of the contract amount, rather than the measured
22 demand.

23 And on the surface this may appear like
24 a penalty of sorts, but in actuality, it's in
25 recognition of the fixed nature of costs that demand

1 charges are intended to recover.

2 In essence, ratchets are incorporated
3 in the definition of billing demand, to ensure that
4 customers who have variable demand throughout the
5 year, still pay a reasonable share of the fixed
6 capacity costs associated with meeting their maximum
7 load requirements.

8 As discussed in Tab 8, Manitoba Hydro
9 is not proposing any major rate structure changes as
10 part of this application. For Residential customers,
11 Manitoba Hydro is proposing to apply the 2.4 percent
12 increase equally across the basic monthly charge and
13 the energy charge.

14 For the Area and Roadway Lighting
15 class, Manitoba Hydro is proposing to implement a 1
16 percent increase from the class as a whole, but is
17 proposing further differentiation among the various
18 types of street and sentinel lighting types.

19 All other customer classes will see a
20 slight re-balancing of rates or to use a pie theme, a
21 slight change in the meringue-to-filling crust ratios.
22 Next slide please.

23 The General Service Small and Medium
24 classes, Manitoba Hydro is seeking to continue with
25 the existing declining block structure.

1 As discussed in Tab 8, the -- the
2 declining block structure is an effective way of
3 recovering capacity costs from customer classes,
4 without a demand charge.

5 Collectively, the General Service
6 Small, non-demand -- General Service demand -- Small
7 demand and General Service Medium classes represent a
8 vast array of customers with very diverse
9 characteristics, which we see in the table on this
10 slide.

11 This fact -- this fact makes maintaining
12 a harmonized rate structure for the classes, while
13 attempting to ensure the RCC of each class makes
14 progress in the zone of reasonableness a very
15 difficult feat.

16 As a result, Manitoba Hydro is
17 proposing to deharmonize the rates of the General
18 Service Medium service from those of the General
19 Service Small classes. This approach will increase
20 Manitoba Hydro's ability to send price signals, using
21 the various rate components, provide better alignment
22 with costs to serve, improve rate stability for
23 customers in these classes, and increase Manitoba
24 Hydro's flexibility to deal with potential future
25 changes to customer class characteristics.

1 In this application, Manitoba Hydro is
2 applying to recover the revenue from the proposed rate
3 increases for the General Service Large customer
4 classes via the demand charge. This proposal is
5 intended to provide greater alignment with cost of
6 service results.

7 The graphs in the bottom left show the
8 difference of the energy and demand-related portions
9 of the allocated costs compared to rate revenues for
10 the General Service Large classes. Bringing greater
11 alignment will reduce inter-class cross-subsidization.

12 We're also proposing to amend the
13 definition of 'billing demand' to incorporate
14 consideration of the timing of the customer's greatest
15 demand on the system. The new definition is depicted
16 on the right-hand side of this slide, with the
17 additional time consideration shown in green.

18 The change in billing demand definition
19 is expected to result in approximate 1 percent
20 reduction in the forecast billing determinants and, as
21 a result, Manitoba Hydro is proposing to adjust the
22 billing rate by a 1 -- a 1 perc -- by 1 percent, to
23 remain revenue neutral.

24 To be clear, this isn't Manitoba Hydro
25 attempting to generate additional revenue, but it is

1 ensuring that the size of the overall pie is
2 maintained at the level established during the revenue
3 requirement phase.

4 The effect of the new billing demand
5 definition is two-fold. It recognizes that meeting a
6 customer peak demand is more costly if it coincides
7 with the time when the rest of the system is peaking.

8 So, customers that require less
9 capacity at peak times, compared to the rest of the
10 class, will see a re -- a slight reduction in their
11 bill; and, 2, it provides an opportunity for customers
12 to reduce their bills, if they are able to shift their
13 peak demand requirements to off-peak periods.

14 Manitoba Hydro noted, during the public
15 presentations, that there appears to be a bit of
16 confusion related to this proposal. So, to
17 demonstrate how the change in billing demand
18 definition will be applied and, hopefully, alleviate
19 some of the concerns we heard, we've included an
20 example on the next slide.

21 The table at the top of this slide
22 shows the customer's highest measured demand in each
23 of the peak hours for the current month, demand in the
24 non-peak hours of the current month, the highest
25 measured demand in the past 12 months, and the

1 customer's contract demands.

2 The table on the bottom left shows how
3 the current billing demand definition would be applied
4 to the customer's measured demand. Currently, billing
5 demand is defined as the greater -- greatest of the
6 highest measured demand in the month, 25 percent of
7 contract demands, or 25 percent of the highest
8 measured demand in the previous 12 months.

9 In this definition, the billing demand
10 would be 11,000 kVA, which is the highest measured
11 demand for a customer, even though it occurred during
12 the non-peak period -- non-peak hours.

13 In the proposed definition, the billing
14 demand is defined as the greatest of the measured
15 demand in peak hours in the month, 90 percent of the
16 measured demand in non-peak hours in the month, 25
17 percent of contract demands, or 25 percent of measured
18 demand in the previous 12 months.

19 Under this definition, the customer's
20 billing de -- billing demand for the month would be
21 based on 10,000 kVA, which is the measured demand in
22 non-peak hours, only.

23 The proposed change in billing demand
24 definition will result in the customer's monthly
25 billing demand being the same or less than the current

1 definition, which means there is no risk to customers.
2 The definition is not a new ratchet, but incorporates
3 a time-varying component to the measurement -- to the
4 measurement and has the benefits of providing
5 customers with an opportunity to reduce the demand
6 costs on their bill. Next slide, please.

7 This slide will look -- likely look a
8 little familiar, from previous panels, but that --
9 what this one is showing is that Manitoba Hydro's
10 rates continue to be the lowest, or second lowest,
11 across all customer segments, even with confirmation
12 of the 3.6 percent interim and the two 2 percent
13 average increases being proposed.

14 That concludes our direct presentation
15 this afternoon. Thank you.

16 THE CHAIRPERSON: Thank you. Mr.
17 Hombach...?

18 MR. SVEN HOMBACH: Are there any
19 questions from the Panel?

20 And, Mr. Chair, would you like me to
21 get started and possibly break after fifteen (15) or
22 twenty (20) minutes for the afternoon break, or would
23 you like to take a break now?

24 THE CHAIRPERSON: Yeah. No, I -- I
25 think you should -- how long -- you've got an hour and

1 a half?

2 MR. SVEN HOMBACH: I -- I don't expect
3 to be much more than an hour, so I can --

4 THE CHAIRPERSON: Okay. So why don't
5 we go about a half an hour.

6 MR. SVEN HOMBACH: That sounds good.

7

8 CROSS-EXAMINATION BY MR. SVEN HOMBACH:

9 MR. SVEN HOMBACH: Thank you, and good
10 afternoon, everybody. For those that haven't dealt
11 with me, my name is Sven Hombach. I'm counsel to the
12 Public Utilities Board.

13 I have not prepared any pie-related
14 references, but for what it's worth, I'll try to make
15 this examination a shortcake and not a pound cake, so.

16 I'd like to take you back to when the
17 Board last dealt with cost of service, although I
18 thought the -- the illustrations in the presentations
19 were quite intuitive and -- and very well done.

20 And I'd ask Ms. Schubert to pull up
21 page 5 of Board Counsel book of documents, volume 6,
22 please.

23

24 (BRIEF PAUSE)

25

1 MR. SVEN HOMBACH: Ms. Van Hussen,
2 that -- that diagram that we see on page 5, that's
3 from Board Order 164/'16. And if you could just
4 confirm that -- that that sets out the basic three (3)
5 part cost-of-service process of functionalizing costs
6 and allocating.

7 MS. MARNIE VAN HUSSEN: Confirmed.

8 MR. SVEN HOMBACH: So let -- let's go
9 back to some of the significant cost of service
10 changes that happened in that Order because some of
11 those themes are carrying over into this hearing. And
12 let's turn to page 6 of the book of documents. Lower
13 on the page, please.

14 So one (1) of the significant changes
15 dating back to 2016 is that generation, as well as the
16 Northern HVDC system is functionalized as generation,
17 correct?

18 MS. MARNIE VAN HUSSEN: I don't know
19 if I would say that was a major change, but it is
20 consistent with direction in the past, yes.

21 MR. SVEN HOMBACH: One (1) of the
22 findings was that generation should be classified as
23 both energy and demand, and you indicated that in your
24 presentation today?

25 MS. MARNIE VAN HUSSEN: So yes, that's

1 correct.

2 MR. SVEN HOMBACH: Okay. And one (1)
3 of the findings was that the winter demand should be
4 based on the top fifty (50) peak hours?

5 MS. MARNIE VAN HUSSEN: That's
6 correct.

7 MR. SVEN HOMBACH: And I -- I'd like
8 to turn you back to that in a little bit, but I take
9 it you're familiar with Mr. Bowman's evidence on that
10 issue?

11 MS. MARNIE VAN HUSSEN: Yes, I am.

12 MR. SVEN HOMBACH: Now, let's turn to
13 page 46 of the book of documents.

14 Ms. Van Hussen, that is the table from
15 tab 8 of Manitoba Hydro's Application that sets out
16 the proposal for differentiated rate increases.

17 MS. MARNIE VAN HUSSEN: Yes, it is.

18 MR. SVEN HOMBACH: And -- and you'd
19 agree with me that the highest increase would be to
20 the residential costs?

21 MS. MARNIE VAN HUSSEN: Yes, it is.

22 MR. SVEN HOMBACH: The lowest would be
23 to area and roadway lighting and General Service Small
24 non-demand?

25 MS. MARNIE VAN HUSSEN: Agreed.

1 MR. SVEN HOMBACH: So let's turn to
2 page 47, which is a table that Board advisors created
3 just for ease of reference. That contrasts the -- the
4 RCC ratios to the proposed rate increase.

5 So, Ms. Van Hussen, am I seeing it
6 correctly that currently the only two (2) classes that
7 are actually below 100 percent are residential and
8 General Service Large, 750 volts to 30 kilovolts?

9 MS. MARNIE VAN HUSSEN: I believe just
10 the residential class is below the zone of
11 reasonableness. Or, sorry, did you say 'unity'?

12 MR. SVEN HOMBACH: Unity --

13 MS. MARNIE VAN HUSSEN: Sorry. Yes.

14 MR. SVEN HOMBACH: -- at 100 percent.

15 MS. MARNIE VAN HUSSEN: Agree.

16 MR. SVEN HOMBACH: Yes.

17 MS. MARNIE VAN HUSSEN: Sorry. Yeah.

18 MR. SVEN HOMBACH: So but you did
19 raise one (1) interesting point. According to
20 PCOSS24, it's Hydro's position that Residential is
21 currently the only class below the zone of
22 reasonableness.

23 MS. MARNIE VAN HUSSEN: Correct.

24 MR. SVEN HOMBACH: Now, I take it
25 you're familiar with Ms. Derksen's evidence as well?

1 MS. MARNIE VAN HUSSEN: I am.

2 MR. SVEN HOMBACH: Would there be any
3 possibility for Manitoba Hydro to move the General
4 Service Large classes closer to the zone of
5 reasonableness without moving the RCC ratio for the
6 residential class up?

7 MS. MARNIE VAN HUSSEN: I believe in
8 one (1) of the IR responses, we have applied the rate
9 increase equally to all customer classes that are
10 below the upper bound of the zone of reasonableness.

11 There is certainly some additional
12 opportunity to lower the GSL customer class rates if
13 you increase the average increase being proposed for
14 the General Service Medium, General Service Small
15 demand, and General Service Large 0 to 30 kV classes.

16 MR. SVEN HOMBACH: Okay. Let's turn
17 to page 48 of the -- the book of documents.

18 That's a page from Mr. Bowman's
19 evidence, and the scenario that is presented here --
20 correct me if I'm wrong -- is that there is a lower
21 increase to the GSL classes, but it comes at the
22 expense of the GSS and GSM classes?

23 MS. MARNIE VAN HUSSEN: Correct.

24 MR. SVEN HOMBACH: So does that mean
25 that, if there were to be any finding that the -- the

1 increase for the GSL classes should be less than what
2 Manitoba Hydro applied for, that would have to come at
3 the expense of GSS and GSM?

4 MS. MARNIE VAN HUSSEN: It would have
5 to come at the expense of someone. So if the caveat
6 is that it cannot increase residential, then, yes,
7 those are your -- the levers that you have left.

8 If you don't have those caveats, the
9 rate increase could be made up in several pos --
10 possible ways.

11 MR. SVEN HOMBACH: So let's deal with
12 the famous Directive 27, which is the directive to use
13 net export revenue as a reduction to class costs. And
14 to -- to illustrate, I will refer you back to page 12
15 of your presentation.

16 For the benefit of the Panel, Ms. Van
17 Hussen, when net export revenue is used as a reduction
18 to class costs, it's applied equally to all generation
19 and transmission costs, right?

20 MS. MARNIE VAN HUSSEN: Correct.

21 MR. SVEN HOMBACH: So -- so what I'm
22 getting at is, according to this chart, it reduces
23 generation and transmission costs by 49 percent?

24 MS. MARNIE VAN HUSSEN: Correct.

25 MR. SVEN HOMBACH: And you're familiar

1 with the -- the evidence of Ms. Derksen who thought
2 that this created a disproportionate benefit to the
3 GSL classes?

4 MS. MARNIE VAN HUSSEN: Yes.

5 MR. SVEN HOMBACH: Okay. And is that
6 because the GSL classes proportionately have a bigger
7 chunk of their costs made up out of generation and
8 transmission costs?

9 MS. MARNIE VAN HUSSEN: That's
10 correct. So I believe her evidence was suggesting
11 that the disproportionate benefit was when you look at
12 total costs. So there's a greater proportion of total
13 costs being offset for the General Service Large
14 class.

15

16 (BRIEF PAUSE)

17

18 MR. SVEN HOMBACH: Let's turn to page
19 18 of the Board Counsel book of documents.

20 Ms. Van Hussen, this is also a chart
21 from tab 8 of Manitoba Hydro's Application, and it
22 illustrates the impact of Directive 27.

23 Now, it shows that -- it shows that the
24 -- the impact of Directive 27 is highest for
25 residential GSS non-demand and the GSL classes,

1 correct?

2 MS. MARNIE VAN HUSSEN: Correct.

3 MR. SVEN HOMBACH: And is it fair to
4 say that that is because the impact of moving the
5 costs from the nominator to the denominator is higher
6 the further you are away from unity in either
7 direction?

8 MS. MARNIE VAN HUSSEN: That's
9 correct.

10 MR. SVEN HOMBACH: Is Manitoba Hydro
11 taking a position as to whether the zone of
12 reasonableness should remain at plus/minus 5 percent
13 or some different amount?

14 MS. MARNIE VAN HUSSEN: I don't know
15 that we're taking a strong position. I certainly
16 think that there is merit in widening zone of
17 reasonableness to ninety-one ten (91-10), or rather,
18 not necessarily that there's merit, but it -- that it
19 would be reasonable to look at a zone of
20 reasonableness that's ninety-one ten (91-10) when you
21 have significant export revenue like we do in PCOSS24.

22 That being said, I think a ninety-five
23 one-o-five (95-105) zone of reasonableness continues
24 to be reasonable. I believe the Board in Order 59/'18
25 suggested that you don't necessarily need to change

1 the level of the zone of reasonableness if you take a
2 gradual approach to moving customer classes within.

3 So, I think the Board has the option of
4 increasing the size of the zone of reasonableness or
5 taking a look at the zone of reasonableness and the
6 level of export revenue and potentially making a
7 judgment call in the current application.

8 MR. SVEN HOMBACH: I'd like to pick
9 up on a comment that you made in relation to slide 13
10 of your presentation. You -- you made the comment
11 that by reducing -- or by -- by applying net export
12 revenue to net costs, it actually served to narrow the
13 zone of reasonableness.

14 Do you recall it?

15 MS. MARNIE VAN HUSSEN: That's
16 correct.

17 MR. SVEN HOMBACH: And so, that change
18 would arise because, previously, it was an addition to
19 revenue rather than a reduction to the overall costs.
20 But the Board in Order 146/'16 did not adjust the zone
21 of reasonableness when it issued Directive 27?

22 MS. MARNIE VAN HUSSEN: Correct. And
23 so, if you look at those -- those bars, the zone of
24 reasonableness would have been applied to the highest
25 of the blue bars and the green NER would have been

1 added -- added to the green revenue line.

2 So, effectively, that zone of
3 reasonableness was wider. It is magnified when you
4 have the level of export revenues that are included in
5 PCOSS24, certainly.

6 MR. SVEN HOMBACH: So -- so, you've
7 preempted my next question, Ms. Van Hussen, and -- and
8 that's the -- the impact to changes the -- the bigger
9 the export revenue is because you keep reducing your
10 overall costs?

11 MS. MARNIE VAN HUSSEN: Correct.

12 MR. SVEN HOMBACH: Right. I -- I'm
13 not aware as to whether there's any evidence on the
14 record where Manitoba Hydro has visualized the impact
15 of that effect on the zone of reasonableness.

16 MS. MARNIE VAN HUSSEN: I don't
17 believe there is.

18 MR. SVEN HOMBACH: Would it be
19 possible for Manitoba Hydro to provide an undertaking
20 to -- to provide a chart that shows the -- the impact
21 of Directive 27 on the narrowing of the zone of
22 reasonableness under normalized water flows and under
23 -- what happened under PCOSS24?

24 MS. MARNIE VAN HUSSEN: Well, I
25 believed -- and I'll -- I'll get Mr. Gawne to correct

1 me, but PCOSS24 does have normalized water flows, so
2 it's -- it's -- the level of export revenues is above
3 -- certainly above what we've seen recently, but I
4 don't know that you can attribute it to water flows.

5

6

(BRIEF PAUSE)

7

8

MR. SVEN HOMBACH: Perhaps I'll
9 address that -- the question to Mr. Gawne.

10

Would it be possible to provide that
11 chart based on the -- the higher starting conditions
12 for the '24 year as well as the -- the normal starting
13 conditions for the subsequent year?

14

MS. MARNIE VAN HUSSEN: Sorry. I
15 think maybe what I could suggest, we do have some
16 sensitivity analysis in -- through some of the IRs
17 that look at different net export revenue levels.

18

So, perhaps we could provide the
19 undertaking based on those to show what that zone of
20 reasonableness looks like using the level of net
21 export revenue in each of those sensitivities.

22

MR. SVEN HOMBACH: Thank you. That
23 would be helpful.

24

25 --- UNDERTAKING NO. 54: For Manitoba Hydro to show

1 Certainly, what -- you can see it in
2 PCOSS24. And you can see in PCOSS24 the volatility
3 that that RCC directive can have that wasn't evident
4 perhaps in PCOSS21 even though it was there.

5 So, I think it's reasonable given the
6 magnitude of variability to look at a ninety-one ten
7 (91-10) . I also think ninety-five one-o-five (95-
8 105) continues to be reasonableness. So, I don't know
9 if there is a line where you would say this has now
10 become too volatile and we need to move to ninety-one
11 ten (91-10).

12 I don't know if that's a great answer
13 to your question, but I would say I don't know that
14 there -- there is some level where it becomes too --
15 too much of a difference that you have to move and
16 expand the zone.

17 THE CHAIRPERSON: Okay. And -- and if
18 the issue is volatility which, to a large degree,
19 depends on water, and we're setting three (3) year
20 rates, do we do it on a year-by-year basis and make
21 adjustments or is it we set respectfully for three (3)
22 years based on the level in the test year?

23 I'm -- I'm just trying to figure out --
24 I -- I'm concerned that we just had -- we went from
25 drought to massive water. You know, how do we make

1 the adjustment at that point?

2 MS. MARNIE VAN HUSSEN: And I think we
3 do the PCOSS on the second test year to try to avoid
4 some of that variability. So, in year 1, we would
5 have above average water flows above starting
6 reservoir levels.

7 In the second test year, we start with
8 slightly above average --

9 THE CHAIRPERSON: Yeah.

10 MS. MARNIE VAN HUSSEN: -- reservoir
11 storage, but the average inflows -- or sorry, it is
12 using average inflows.

13 And so, in our -- when we came to our
14 proposals, we did sort of look at the trajectory of
15 where export revenues were going, saw that they were
16 declining a little bit and took that into
17 consideration when we came up with our rate proposals.

18 So, I don't think it necessarily
19 necessitates a change in the zone of reasonableness,
20 but I think you try to look at PCOSS24 and recognize
21 that it is a snapshot in time and -- and take it into
22 account from there.

23 But it does try to moderate those level
24 of export revenues to the extent that they can by
25 using average water.

1 THE CHAIRPERSON: Thank you. Thank
2 you, Mr. Hombach.

3 MR. KEVIN GAWNE: Maybe if I could
4 just add to that point so -- just so we're clear. In
5 the -- in the test year, we are reflecting carry
6 forward storage from -- from '22/'23 into the '23/'24
7 year.

8 And our hydro generation was projected
9 to be around 39 1/2 terawatt hours, so it's -- it's
10 about two (2) terawatt hours above the average. It's
11 not a massive amount. Certainly, if we use the
12 generation from the -- the flood we just went through,
13 the actual '22/'23 year.

14 But -- and as -- as Ms. Van Hussen
15 explained, that we're using a range of water -- water
16 level -- or pardon me -- water flow conditions in the
17 -- in that first test year.

18 So, yes, there was projected to be
19 above average storage carried forward into '23/'24,
20 but it was not, you know, a massive amount.

21 THE CHAIRPERSON: Okay. Thank you.

22

23 CONTINUED BY MR. SVEN HOMBACH:

24 MR. SVEN HOMBACH: Perhaps, Mr. Gawne
25 and Ms. Van Hussen, let's try to illustrate this. And

1 I will see if I can catch Ms. Schubert off-guard by
2 asking her to pull up Ms. Derksen's evidence.

3

4 (BRIEF PAUSE)

5

6 MR. SVEN HOMBACH: And go to page 27
7 of that report.

8 Ms. Van Hussen, I take it you're
9 familiar with this. This was a scenario that Ms.
10 Derksen has -- had asked you to run that compared the
11 PCOSS results as filed with a scenario that had 60
12 percent of net export revenue.

13 And it was underlying the -- it's based
14 on an Information Request, Consumer Coalition Request
15 Number 155.

16 MS. MARNIE VAN HUSSEN: Confirmed.

17 MR. SVEN HOMBACH: In your view, would
18 this be a -- a reasonable proxy for normalized water
19 flows -- or sorry, for normalized net export revenue,
20 the 60 percent scenario that Ms. Derksen presented?

21

22 (BRIEF PAUSE)

23

24 MR. SVEN HOMBACH: It's my
25 understanding that it's based on the 2028/29 net

1 export revenue numbers. That's where she got that
2 scenario from. But I haven't had an opportunity to
3 confirm that with her yet.

4

5 (BRIEF PAUSE)

6

7 MS. MARNIE VAN HUSSEN: '28/'29 is
8 post when the certain dependable contracts fall off.
9 So it may be sort of indicative of average conditions,
10 but it will not be representative of the current level
11 of exports that we see right now.

12 I believe there are multiple
13 sensitivities that were run at various levels of net
14 export revenue. So sort of looking at all of them
15 kind of give you the range. And I believe Ms.
16 Derksen's evidence has a chart that has multiple
17 levels of NER that sort of all show a varying range of
18 RCCs based on the level of net export revenue.

19 MR. SVEN HOMBACH: So the general
20 trend though would be that as you move towards
21 normalized net export revenue, all classes get a
22 little closer to the existing zone of reasonableness?

23 MS. MARNIE VAN HUSSEN: I'd say as you
24 lower net export revenue, all classes get to the zone
25 of reasonableness for sure.

1 MR. SVEN HOMBACH: So -- so --

2 MS. MARNIE VAN HUSSEN: Sorry, I will
3 step back. General Service Small non-demand stays
4 pretty consistently outside of the zone of
5 reasonableness, as does the area of roadway lighting,
6 despite what net export revenue is doing.

7 MR. SVEN HOMBACH: And that's because
8 their costs are -- have a relatively small generation
9 component, correct?

10 MS. MARNIE VAN HUSSEN: For area and
11 roadway lighting, that is correct.

12 General Service Small non-demand still
13 has a significant portion or a close to average
14 portion of generation and transmission. So it's just
15 indicative that their revenue to cost ratio is just
16 above and is not being affected by the level of net
17 export revenue.

18 That's not the driver, sorry, of why
19 the RCC is outside the zone of reasonableness.

20 MR. SVEN HOMBACH: So let's go back
21 and visualize some of the history of -- of where the
22 classes used to be. And I'll refer you to page 19 of
23 the book of documents that's a chart from Mr. Bowman's
24 evidence that shows the RCC ratios over time,
25 recognizing that -- if we go way back, things were

1 calculated on a different basis.

2 But I wanted to refer you to the
3 significant spike for the two (2) largest classes that
4 you see happening in 2016, when it looked like classes
5 were moving towards the zone of reasonableness and
6 then they were moving back out again.

7 You can see in the last inch of the
8 page, the dark blue line and the purple dotted line.

9 Now, that -- that jump in the RCC ratio
10 for the two (2) largest classes at the time, is that
11 primarily caused by the change to the net export
12 revenue calculation, or is it due to the significant
13 investment in generation and transmission costs in the
14 last few years?

15 MS. MARNIE VAN HUSSEN: The reason for
16 the -- the large spike is on account of the
17 methodology changes that would have been incorporated
18 into one-sixty-four-six -- or PCOSS14-16416.

19 So when we moved from -- to recognize
20 an allocation -- or sorry, a classification of
21 generation that reflected energy and demand and some
22 of the major methodology changes, and then in
23 addition, from there, yes, levels of net export
24 revenues have increased that have caused it to go
25 higher since then.

1 MR. SVEN HOMBACH: In Manitoba Hydro's
2 view, would it be appropriate to use a normalized net
3 export revenue to calculate RCC ratios? Again, that's
4 one of the arguments that Ms. Derksen is making.

5 MS. MARNIE VAN HUSSEN: Manitoba Hydro
6 prepared PCOSS24 based on the budget and the revenue
7 requirement for this Application, which include the
8 level of net export revenue that it had. We wanted to
9 have PCOSS24 be representative of the underlying
10 revenue requirement as -- as part of this Application.
11 As opposed to using some different level of export
12 revenue.

13 What we did though is, in our rate
14 proposals, took a look at all the sensitivities of
15 export revenue and the affect that that would have
16 RCCs in developing our rate proposals.

17 So I don't know that we want to start
18 changing certain components of revenue requirement
19 within PCOSS24. But certainly, you know, take a look
20 at what the impact that this one certain component of
21 revenue requirement can have on the RCCs when we're
22 finalizing our rate proposals.

23 MR. SVEN HOMBACH: This may be an
24 unfair question.

25

1 (BRIEF PAUSE)

2

3 MR. KEVIN GAWNE: Mr. Hombach, if it
4 would help the discussion, in Coalition -- maybe Ms.
5 Schubert can pull this up -- Coalition 155 -- sorry,
6 1-1-55, in part A, it's the number of sensitivities of
7 the RCC is based on various levels of net export
8 revenue.

9 If you go down, please, to the -- keep
10 going -- to page 5. Wrong one, sorry. Did I give the
11 wrong -- Coalition 1-1-55. Yeah. Page 5.

12 So in this -- if you scroll to the top,
13 just to see the heading of the table, this was the
14 sensitivity using '24/'25 net export revenue. And,
15 you know, we -- we saw in the export revenue and
16 drought panel an update on market conditions. And we
17 provided an update on water conditions to the Board
18 that day that panel sat.

19 So, you know, our -- our starting
20 storage conditions for this past year have been
21 closure to average. Not as -- not as optimistic as
22 the runs that were prepared back in September of '22.

23 And we also saw the price chart that
24 Ms. Sanclemente prepared. If you'll recall, that
25 chart with the gas prices and they had power prices.

1 You know, things have softened and that was explained
2 to the Board then.

3 So essentially, we're -- you know,
4 we're closer into this zone right here that we're
5 looking at, as opposed to the underlying forecast used
6 in the RCCs calculated for PCOSS24.

7 So the point I'm saying here -- why I
8 bring that up is, these things do move around year to
9 year as we know. Prices move and water conditions
10 change. But I think we're still seeing that the RCC
11 values here are, you know, still outside that zone of
12 reasonableness, if that helps.

13 MR. SVEN HOMBACH: It does. Thank
14 you, Mr. Gawne. Now, you're aware that in Order 59 of
15 18, there was an Order to bring classes into the zone
16 of reasonableness over a ten (10) year time frame.

17 Correct?

18 MS. MARNIE VAN HUSSEN: Correct.

19 MR. SVEN HOMBACH: And -- and Manitoba
20 Hydro in bringing the current application, assumed
21 that there was five (5) years left in that time frame?

22 MS. MARNIE VAN HUSSEN: We did.

23 MR. SVEN HOMBACH: Okay. Is it fair
24 to say that since that Order initially came out, there
25 has only been three (3) rate differentials -- sorry,

1 three (3) rate differentiated increases so far? 2018,
2 2019 and then 2022?

3 MS. MARNIE VAN HUSSEN: Correct.

4 MR. SVEN HOMBACH: Right. Let's go to
5 page 16 of the Book of Documents please.

6 That is the excerpt from Bittsa
7 (phonetic) in 2020 with the government legislated and
8 across the boards 2.9 percent rate increase.

9 Is it fair to say that in 2018 you
10 wouldn't have predicted that there would be a
11 legislated rate increase?

12 MS. MARNIE VAN HUSSEN: I think that's
13 fair.

14 MR. SVEN HOMBACH: So, I'd like to get
15 your perspective on -- on whether you think with truly
16 five (5) years into this process of whether we might
17 actually not be as far into the rate differentiation
18 process as originally envisioned, in light of there
19 having been only three (3) differentiated increases so
20 far and then legislated across the board increase.

21 MS. MARNIE VAN HUSSEN: When we
22 applied our -- or determined our rate proposals for
23 the current application, we definitely did look at the
24 original language in 59/18 to use a ten (10) year time
25 frame and did look at, you know, what rate increases

1 would look like with the remaining five (5) years.

2 However, in Tab 8 we also talked about,
3 you know, looking at that ten (10) year time frame and
4 how it might not be possible to continue to tick down
5 from the ten (10) years when we started in 59/18 all
6 the way to ten (10) years out from that.

7 So, I don't know that we considered the
8 language in 59/18 being in the next ten (10) times you
9 change rates, you will use a differentiated path such
10 that, you know, after ten (10) Board Orders we will be
11 in a zone of reasonableness.

12 We looked at it a little bit more from
13 a -- a calendar year basis to actually look at those
14 ten (10) years, but also recognize that going forward,
15 I don't think we want to sit here in 2026/'27 and --
16 and have to move customers into the zone of
17 reasonableness in one -- in one year. And I -- I
18 think that would go against our rate objectives,
19 specifically related to rate stability.

20 So, I -- I would agree to a certain
21 extent. I don't think we've had the opportunity to
22 adjust rates significantly enough, or as quickly as
23 perhaps we may have thought we would have been in the
24 year '23/'24 when 59/18 first came out.

25 That being said, when we looked at our

1 rate proposals in the current application, we did
2 consider that there may only be five (5) -- five (5)
3 years left.

4 MR. SVEN HOMBACH: And I believe you
5 indicated earlier that if the Residential class wasn't
6 moved closer to unity, then the only way to bring the
7 large industrial classes closer to unity, would be to
8 increase the ratio for the General Service Small and
9 General Service Medium classes. Correct?

10 MS. MARNIE VAN HUSSEN: Correct. And
11 the General Service Large is zero (0) to thirty (30)
12 kV class.

13 MR. SVEN HOMBACH: And -- and I take
14 it you're familiar with the letter from the Canadian
15 Federation of Independent Businesses that the
16 Consumers Coalition recently put on the record?

17 MS. MARNIE VAN HUSSEN: I am aware,
18 yes.

19 MR. SVEN HOMBACH: Would you just
20 comment on -- could you comment on the prospect of the
21 impact to the General Service Small and Medium classes
22 of a -- of a differential rate increase that would
23 increase the -- the rates disproportionately for those
24 classes.

25 MS. MARNIE VAN HUSSEN: I'm not sure I

1 fully understood your question. Are you looking for a
2 quantitative number or a --

3 MR. SVEN HOMBACH: In Manitoba Hydro's
4 view would it be feasible to -- to leave the
5 Residential class slightly below the zone of
6 reasonableness? While bringing in the industrials
7 closer to it and differentially increasing the GSS and
8 GSM rates instead.

9 MS. MARNIE VAN HUSSEN: I think doing
10 so is -- is not inconsistent with previous Board
11 direction to adjust all customer classes that were
12 within or below the upper bound of the zone of
13 reasonableness.

14 That being said, I do think that there
15 is a difference between customers with an RCC below
16 the zone versus customers that -- classes that are
17 above unity. And I don't think that someone above a
18 hundred (100) is the same -- providing the same level
19 of revenue sufficiency as someone below ninety-five
20 (95).

21 So, I do think you are getting into an
22 area of potential fairness considerations of whether
23 it's appropriate to adjust those to the same level.

24 That being said, I think all of the
25 rate proposals and rate differentiation in this

1 application are fairly moderate amongst all classes,
2 So, I think they would -- all of those
3 options are reasonable if you were to look at the -- I
4 believe it's the 2.4 percent increase that would be
5 coming -- being proposed for General Service Small and
6 Medium customers.

7 MR. SVEN HOMBACH: Mr. Chair, I'm
8 switching topics. I'd be happy to continue about
9 fifteen (15) minutes. I -- I -- I think I probably
10 have about twenty (20) to twenty-five (25) minutes
11 left total.

12 THE CHAIRPERSON: We'll take fifteen
13 (15) minutes now. Thank you.

14
15 --- Upon recessing at 2:02 p.m

16 --- Upon resuming at 2:18 p.m.

17

18 THE CHAIRPERSON: Okay. Mr. Hombach,
19 before you continue, Mr. Sy has a question.

20 BOARD MEMBER SY: Thank you. I am
21 going to try to -- it's all of the same line, but
22 having like a small economic touch onto it -- adding a
23 small economic touch to it.

24 So, we understand that elasticity is
25 crucial for policymakers, which is us, energy

1 suppliers, Manitoba Hydro, and consumers, residential
2 and industrial and so on and so forth.

3 Have you guys looked at the impact of a
4 change in price on change in demand over those three
5 (3) customers -- or three (3) group of customers?

6 MS. MARNIE VAN HUSSEN: So, there is
7 price elas -- elasticity built in to our load
8 forecast. So, to the extent that the rate increase is
9 factored in to the load forecast, there will be
10 changes to customer class demands. It is not,
11 specifically, looked at, when we're in the cost
12 allocation and rate design phase.

13 BOARD MEMBER SY: Okay. So, like a 2
14 percent increase, we don't know how it will impact the
15 demand? Is that what you are saying or...

16 MS. MARNIE VAN HUSSEN: It -- it's
17 done as part of our load forecasting and the annual
18 load forecasting, so I believe Mr. Gawne is just
19 looking for some additional information for you.

20 MR. KEVIN GAWNE: It would help,
21 perhaps, Ms. Schubert, you could pull up Appendix 5.1
22 and, I believe, page 54 of the pdf would address this.
23 If you could just scroll up to this here. That's
24 good.

25 Yeah. Sorry. I was thinking of a

1 different reference. We did do -- I believe an IR was
2 prepared where we looked at the impacts on load of the
3 2 percent -- the 2 percent rate increase versus the
4 3.5 percent that was in the original application.

5 And we'll get that -- maybe, get that
6 brought up for you in a second, if we could come back
7 to that topic, which -- which explains the, you know,
8 the outlook over the forecast scenario horizon of the
9 change in price impacts between the 3.5 percent
10 trajectory and the 2 percent and, again, that's a
11 general, across-the-board rate -- rate of 2 percent,
12 not -- not on a specific class.

13 People behind me are five (5) steps
14 ahead of me here. Ms. Schubert, if you could please
15 bring up PUB/MH-2-169? Sorry. Round 2 -- PUB Round
16 2, 169 Part B. No such thing. I'm sorry. We'll have
17 to come back to that. My apologies.

18

19 (BRIEF PAUSE)

20

21 MR. SVEN HOMBACH: Mr. Gawne, to the
22 extent that it's helpful, PUB/MH-1-39 it asked the
23 Utility about the impact of the reduction and the rate
24 path on the load forecast. Is that what you're
25 looking for?

1 MR. KEVIN GAWNE: That was the one I
2 was looking for. Thank you. PUB 1-39.

3

4 (BRIEF PAUSE)

5

6 MR. KEVIN GAWNE: So, here you look at
7 part A, future loa -- electric load for -- forecast
8 for the horizon of '22/'23 to '29/'30, with that rate
9 decrease from 3.5 percent to 2 percent, the electric
10 load forecast scenario changes. It estimates by
11 '29/'30, approximately 800 gigawatt hours more than
12 the general consumer sales, and then by '40/'41, 1350
13 gigawatt hours.

14 So, we are looking at these things, but
15 these are, again, on the aggregate rate increase
16 basis.

17 BOARD MEMBER SY: Okay. Thank you.

18

19 CONTINUED BY MR. SVEN HOMBACH:

20 MR. SVEN HOMBACH: Thank you, Ms. Van
21 Hussen. Before we move to something completely
22 different, on the issue of the differentiated rate
23 increase, I'd like to go back to page 47 of Board
24 Counsels' Book of Documents Volume V1, please. Page
25 47.

1 (BRIEF PAUSE)

2

3 MR. SVEN HOMBACH: Without wanting to
4 steal Mr. Hacault's thunder, and I'm sure he will be
5 delivering thunder, under -- under PCOSS24, the GSL 30
6 to 100 kilovolt and GSL above 100 kilovolt customers
7 are both above 110, correct?

8 MS. MARNIE VAN HUSSEN: Correct.

9 MR. SVEN HOMBACH: In contrast, area
10 and roadway lighting is below 110, that's about 108.2,
11 correct?

12 MS. MARNIE VAN HUSSEN: With the
13 assumption that the PUB accepts our proposed
14 methodology change for the LED/DSM costs, correct.

15 MR. SVEN HOMBACH: Direct allocation?

16 MS. MARNIE VAN HUSSEN: Yes.

17 MR. SVEN HOMBACH: Okay. Now, despite
18 that Manitoba Hydro is seeking a 1.5 percent increase
19 for the industrial classes and a 1 percent increase
20 for area and roadway lighting?

21 MS. MARNIE VAN HUSSEN: That's
22 correct. And when we look at the area in roadway
23 lighting class, because so little of their costs are
24 related to generation and transmission, or controversy
25 so much of their cost is related to dedicated plant.

1 They aren't affected by the level of
2 net export review to the extent that General Service
3 Large customer classes would be. So, a lot of --
4 their RCC being above average is just related to the
5 composition of their costs.

6 So, they have been above the zone of
7 reasonableness for some time. The DSM cost -- you
8 know, exacerbate that, so our proposal was based on
9 sort of that long-standing practice and the fact that
10 it is not as volatile in terms of being that export
11 revenue.

12 MR. SVEN HOMBACH: Let's -- let's
13 change topics and deal with the fifty (50) hour
14 coincidence peak issue that was raised in Mr. Bowman's
15 evidence. And I'll ask Ms. Schubert to turn to page
16 27 of the Book of Documents.

17 Page 27 is an expert from Board
18 Order/164 of 16, where the Board accepted that the
19 demand component of generation should be allocated by
20 the top fifty (50) hour coincident peak hours.

21 And that has been Manitoba Hydro's
22 procedure and all the Cost of Service studies since
23 that time?

24 MS. MARNIE VAN HUSSEN: Correct.

25 MR. SVEN HOMBACH: You're aware of Mr.

1 Bowman's suggestion that fifty (50) hours might
2 capture too many hours or it might be too -- too broad
3 of range?

4 MS. MARNIE VAN HUSSEN: I'm aware,
5 yes.

6 MR. SVEN HOMBACH: What's Manitoba
7 Hydro's purpose in choosing fifty (50) hours?

8 MS. MARNIE VAN HUSSEN: It's been a
9 long standing practice to use fifty (50) hours. It
10 first came about the late '90s, perhaps even sooner.
11 I can find that out. But it was really to deal with
12 the fact that area and roadway lighting may be on in
13 some hours and may be off in some hours.

14 So, if you use a single hour you may
15 have a class that either is entirely on and
16 contributing to that peak or they may be entirely off
17 and contributing to that peak.

18 So, it would have a -- a very big
19 impact on whether an entire class received any demand
20 costs. So, fifty (50) hours was to sort of attenuate
21 and average out whether certain classes would be on or
22 off.

23 And area and roadway lighting is sort
24 of the extreme example of that. They're either on or
25 off, but you also have individual classes where if you

1 -- if you chose a single peak hour, that single peak
2 hour can move.

3 It's not always at the same time in
4 Manitoba Hydro's system, but it may make the
5 difference on whether a commercial customer or
6 industrial customer was operating in those hours.

7 So it's also just to get a better sense
8 of the -- which classes are contributing to that peak
9 that -- that does sort of move around throughout the
10 day.

11 MR. KEVIN GAWNE: I could maybe add to
12 that. Using the -- I think Mr. Bowman was suggesting
13 the last eight (8) years of between four (4) to six
14 (6) hours, or even the single peak hour of the year.

15 And, you know, when you're using the
16 average of the top fifty (50) for eight years, you've
17 got four hundred (400) data points versus potentially
18 eight (8) if you're using that single -- single hour.

19 So, you know, there's some
20 considerations around the data and -- and how -- how
21 the system can actually be a little more stressed
22 outside of that single peak hour. So looking and
23 isolating your eight (8) year back window and looking
24 at just eight (8) data points can I think create some
25 -- I mean, you're look at -- really at the end of the

1 tail to -- to make this assessment. So that's --
2 that's part of the concern.

3 MR. SVEN HOMBACH: And on that note,
4 Mr. Gawne, the -- the eight (8) years, is that still
5 based on the 2007/'08 and 2014/'15 load research
6 studies?

7 MS. MARNIE VAN HUSSEN: It -- that's
8 correct.

9 MR. SVEN HOMBACH: When do you
10 anticipate that to be -- to -- sorry. When do you
11 anticipate updated load profiles to be completed for
12 the next cost of service study?

13 Do you anticipate to stay with the
14 2007/2008 and 2014/'15 data?

15 MS. MARNIE VAN HUSSEN: I believe it's
16 in tab 5 related to the load forecast. They discuss
17 using -- or working on updating hourly load profiles
18 that will be used in load forecast methodology in the
19 upcoming hearings.

20 Our intention is to use those hourly
21 load profiles to develop class NCPs and class CPs for
22 the use going forward in our cost of allocation
23 studies. So fingers --

24 MR. SVEN HOMBACH: The next General
25 Rate Application.

1 MS. MARNIE VAN HUSSEN: -- fingers
2 crossed, for the next General Rate Application.

3 MR. SVEN HOMBACH: And -- and, Mr.
4 Gawne, if we could turn to page 32 of the document,
5 please. This shows that the daily peaks looks
6 different in winter and in summer, correct?

7 Specifically in the winter, you have a
8 morning peak hour, you have an afternoon peak period,
9 while in the summer it tends to be in the early
10 afternoon when air conditioning loads are on?

11 MR. KEVIN GAWNE: Correct.

12 MR. SVEN HOMBACH: The -- the fifty
13 (50) coincident peak right now is only based on winter
14 peak, correct?

15 MR. KEVIN GAWNE: Correct.

16 MR. SVEN HOMBACH: Are there any
17 summer peak hours that are higher than those top fifty
18 (50) hours?

19 MR. KEVIN GAWNE: No.

20 MR. SVEN HOMBACH: Do you expect that
21 to change any time in the near future? I have a vague
22 recollection that there was some evidence that
23 Manitoba Hydro might be moving to a summer peak at
24 some point, but I could be misremembering.

25 MR. KEVIN GAWNE: I think a little

1 misremembering, and maybe optimistic. It's -- you got
2 it flipped. The -- the understanding is the -- the US
3 market may be moving to a winter peaking as opposed to
4 Manitoba summer peaking.

5 MR. SVEN HOMBACH: Let's move on to
6 the treatment of demand-side management.

7 Is it fair to say that in 2016, when
8 Board Order 164/'16 was issued, nobody was envisioning
9 the creation of Efficiency Manitoba?

10

11 (BRIEF PAUSE)

12

13 MR. KEVIN GAWNE: I understand it was
14 part of the -- perhaps part of the NFAT
15 recommendations, so that perhaps it was anticipated at
16 that time. I can't speak directly.

17 MR. SVEN HOMBACH: So -- yeah. It's a
18 fair point, Mr. -- touche, Mr. Gawne, touche.

19 So -- so under the current process, you
20 provide marginal values for electricity to Efficiency
21 Manitoba, correct?

22 MR. KEVIN GAWNE: That's correct.

23 MR. SVEN HOMBACH: And -- and I
24 appreciate that those are CSIs, so we're not going to
25 get into them, but what's your understanding on how

1 Efficiency Manitoba actually uses those to assess cost
2 effectiveness or to design DSM?

3 And it may be -- maybe that is too
4 broad a question, Mr. Gawne, so I'll specify it a
5 little bit.

6 Is it your understanding that, under
7 the Efficiency Manitoba Act, individual DSM measures
8 don't have to be cost effective, it's the portfolio as
9 a whole that has to be cost effective?

10 MR. KEVIN GAWNE: I'm sorry, I -- I
11 don't think I can speak to that --

12 MR. SVEN HOMBACH: Okay.

13 MR. KEVIN GAWNE: -- Mr. Hombach.

14 MR. SVEN HOMBACH: Will you accept it
15 subject to check?

16 MS. MARNIE VAN HUSSEN: Mr. Hombach, I
17 think that's a question better posed to Efficiency
18 Manitoba when they appear before this Board.

19 MR. SVEN HOMBACH: So, Mr. Gawne, was
20 it your understanding that Efficiency Manitoba
21 currently has no mandate to reduce demand, energy
22 only?

23

24 (BRIEF PAUSE)

25

1 MR. KEVIN GAWNE: Yeah. I believe the
2 legislation is based on an energy target.

3 MR. SVEN HOMBACH: Let's turn to page
4 37 of the book of documents. That beautiful black
5 box, that's the redacted marginal value.

6 So again, we -- we're not going to get
7 into them, but, Mr. Gawne, there is an energy portion
8 and a capacity portion attached to those marginal
9 values, right? And that's illustrated in the top line
10 that is not redacted?

11 MR. KEVIN GAWNE: That's correct.

12 MR. SVEN HOMBACH: So you're aware
13 that the -- the Conch (phonetic) treatment for demand-
14 side management in accordance with Order 164/'16 is
15 it's treated as an energy resource?

16 MS. MARNIE VAN HUSSEN: It's
17 functionalized as generation, so it's classified as
18 both energy and demand.

19

20 (BRIEF PAUSE)

21

22 MR. SVEN HOMBACH: Let's turn to page
23 41 of the book of documents. So Mr. Bowman had made
24 the argument that total marginal costs include
25 generation, transmission, as well as distribution.

1 You see that?

2 MS. MARNIE VAN HUSSEN: Yes.

3 MR. SVEN HOMBACH: And -- and he had
4 recommended a seventy-five ten fifteen (75-10-15)
5 split between generation, transmission, and
6 distribution?

7 MS. MARNIE VAN HUSSEN: Correct.

8 MR. SVEN HOMBACH: So correct me if
9 I'm wrong, but this would benefit industrial customers
10 by moving some of the costs to distribution.

11 MS. MARNIE VAN HUSSEN: That's
12 correct.

13 MR. SVEN HOMBACH: And I've read
14 Manitoba Hydro's rebuttal. We don't need to put it up
15 on screen, but is it fair to say that Manitoba Hydro's
16 position on that issue is neutral?

17 MS. MARNIE VAN HUSSEN: I think that's
18 fair. Our position in rebuttal was just identifying
19 that nothing had changed in terms of the marginal
20 values that Manitoba Hydro generates for the purposes
21 of DSM programming, whether that's done by Manitoba
22 Hydro or now done through Efficiency Manitoba.

23 So the facts haven't changed since the
24 Board made their decision in 164/'16, sorry, to
25 functionalize DSM as generation. So our position was

1 just stating that nothing had changed.

2 I would say that, you know, taking the
3 marginal values as a whole, that Manitoba Hydro
4 produces, isn't representative of the potential
5 savings by function that Efficiency Manitoba
6 programming may generate.

7 So I don't think you can just look at
8 the marginal costs and say that 15 percent is related
9 to distribution, therefore, 15 percent of DSM is
10 related to distribution.

11 MR. SVEN HOMBACH: At this point in
12 time, when Manitoba Hydro sees the approved Efficiency
13 Plans and then sees energy and capacity savings
14 projected in there, do those projections get taken
15 into Manitoba Hydro's own transmission and
16 distribution planning?

17 As in, do you take projected savings
18 into account in planning your transmission and
19 distribution investments?

20

21 (BRIEF PAUSE)

22

23 MS. MARNIE VAN HUSSEN: We don't have
24 anyone on this panel that can speak directly to that,
25 so we will have to take that as an undertaking.

1 MR. SVEN HOMBACH: If -- if you could,
2 please.

3

4 --- UNDERTAKING NO. 55: Manitoba Hydro to advise
5 if they take projected
6 savings into account in
7 planning your transmission
8 and distribution
9 investments

10

11 CONTINUED BY MR. SVEN HOMBACH:

12 MR. SVEN HOMBACH: Let's turn to page
13 32 of the book of documents.

14

15 (BRIEF PAUSE)

16

17 MR. SVEN HOMBACH: Sorry, I misspoke.
18 Page 53 of the book of documents, please.

19

20 Now, Ms. Van Hussen, when -- when the
21 government reduced transfer payments it reduced two
22 (2) types of payments, correct, first of all, the debt
23 guarantee fee and water rentals?

23

MS. MARNIE VAN HUSSEN: Correct.

24

25 MR. SVEN HOMBACH: And could you
confirm for me that the debt guarantee fee is

1 currently allocated based on rate base, meaning a
2 total value of assets allocated to a customer cost?

3 MS. MARNIE VAN HUSSEN: It's
4 functionalised according to rate base and then
5 allocated -- classified and allocated according to the
6 functional.

7 MR. SVEN HOMBACH: So -- so,
8 proportionately, the biggest benefit would be to the
9 Residential customer class because it has the largest
10 overall rate base of all the classes?

11 MS. MARNIE VAN HUSSEN: No. I'd say,
12 proportionately, the benefit is to the generation and
13 transmission functions, which on average are a greater
14 proportion for the General Service Large classes.

15 MR. SVEN HOMBACH: Sorry, I wasn't
16 asking about the water rentals, I was asking about the
17 debt guarantee fee.

18 MS. MARNIE VAN HUSSEN: And again, the
19 debt guarantee fee, it is functionalised in proportion
20 with rate base, which is primarily generation and
21 transmission.

22 The -- just one (1) second.

23

24 (BRIEF PAUSE)

25

1 MS. MARNIE VAN HUSSEN: Yeah, sorry.
2 So, it reduces -- it functionalises generation and
3 transmission primarily, and it's a reduction in those
4 costs. So, that will benefit the general service
5 large customers because it's a bigger proportion of
6 their -- their total cost.

7 MR. SVEN HOMBACH: And water rentals,
8 in contrast, are functionalised fully as generation,
9 correct?

10 MS. MARNIE VAN HUSSEN: That's
11 correct.

12 MR. SVEN HOMBACH: So, it would be the
13 same answer?

14 MS. MARNIE VAN HUSSEN: Essentially,
15 minus the transmission portion.

16 MR. SVEN HOMBACH: Could you comment
17 on Ms. Derksen's suggestion that this provides an
18 unfair -- I believe she used the word 'windfall' in
19 her reports to the large industrial classes?

20 MS. MARNIE VAN HUSSEN: I would agree
21 that they see the biggest proportionate benefit. I
22 wouldn't classify it as a windfall. Those classes pay
23 a bigger proportion of generation and transmission
24 costs.

25 So, to the extent that those costs get

1 reduced, I think it makes sense that the -- the costs
2 of those functions also get reduced.

3 MR. SVEN HOMBACH: So, you see it
4 effectively as a cost of service issue?

5 MS. MARNIE VAN HUSSEN: It's cost
6 causation, yeah.

7

8 (BRIEF PAUSE)

9

10 MR. SVEN HOMBACH: Let's briefly deal
11 with the issue of deharmonization. And I'll refer you
12 to page 57 of the book of documents. That's the same
13 chart we've seen earlier today just with General
14 Service non-demand, General Service Small demand, and
15 GSM highlighted.

16 So, correct me if I'm wrong but,
17 currently, the issue is that GSS non-demand is above
18 the zone of reasonableness while GSS demand and GSM
19 are in it?

20 MS. MARNIE VAN HUSSEN: That's
21 correct. I don't know if that in and of itself is a
22 problem, but coupled with the fact that the rates are
23 all harmonized then, yes, it becomes -- becomes the
24 issue.

25 MR. SVEN HOMBACH: So -- so, if the

1 rates were to continue to remain harmonized, you could
2 not move the GSS demand and GSM rates without moving
3 GSS non-demand further outside the zone of
4 reasonableness?

5 MS. MARNIE VAN HUSSEN: Correct. Or
6 alternatively, you can get the General Service Small
7 non-demand in the zone of reasonableness, but you're
8 taking the RCC ratio of the General Service Small and
9 General Service Medium down, as well, so they would
10 have to get below average increases.

11 MR. SVEN HOMBACH: So, let's briefly
12 deal with the rate design changes for the General
13 Service Large customers. And then I will relinquish
14 the microphone to -- to Mr. Buchart.

15 Let's turn to page 63 of the book of
16 documents, please. So, just -- just for the benefit
17 of the Panel, the General Service Large customers pay
18 an energy charge and a demand charge, correct?

19 MS. MARNIE VAN HUSSEN: Correct.

20 MR. SVEN HOMBACH: But unlike
21 Residential customers, for example, they don't pay a
22 basic monthly charge?

23 MS. MARNIE VAN HUSSEN: Correct.

24 MR. SVEN HOMBACH: Okay. And Manitoba
25 Hydro is suggesting that -- that currently, a

1 disproportionate amount of the revenue is recovered
2 through the energy charge and that does not align with
3 the actual cost structure?

4 MS. MARNIE VAN HUSSEN: Correct.

5 MR. SVEN HOMBACH: So, I will let Mr.
6 Hacault explore this -- this issue a bit further to
7 the extent that he would like to, but let's turn to
8 page 64 of the book of document that illustrates this.
9 And let's go to the bottom of the page.

10 So, Manitoba Hydro is proposing to
11 increase only the demand charge for these customers,
12 correct?

13 MS. MARNIE VAN HUSSEN: That's
14 correct.

15 MR. SVEN HOMBACH: And we'd asked by
16 way of an Information Request to the Utility on what
17 this would mean to individual customers. And it's not
18 in the book of documents, so I'll ask Ms. Schubert to
19 pull it up. It's PUB/MH 1st Round Information Request
20 145.

21 There we go. It's the -- the second
22 page in that document. And Manitoba Hydro provided a
23 range of bill impacts for those customers with the
24 lease affected customers being affected about 1.2 to
25 1.3 percent, correct?

1 MS. MARNIE VAN HUSSEN: Correct.

2 MR. SVEN HOMBACH: And the most
3 affected customers affected 2.2 to 2.3 percent?

4 MS. MARNIE VAN HUSSEN: Correct.

5 MR. SVEN HOMBACH: Is anybody affected
6 outside that range?

7 MS. MARNIE VAN HUSSEN: No.

8 MR. SVEN HOMBACH: So, the
9 differential impact on -- on customers would be about
10 plus/minus 1 percent?

11 MS. MARNIE VAN HUSSEN: Correct.

12 MR. SVEN HOMBACH: Okay. And for an
13 average customer in that class, what does that mean
14 per month?

15 MS. MARNIE VAN HUSSEN: I believe
16 these bill impacts range from the 30 to a hundred and
17 the greater than a hundred kV class, so the average
18 bill can be quite different.

19 If we look at our bill impact schedule,
20 which would be Appendix 8.6.

21

22 (BRIEF PAUSE)

23

24 MS. MARNIE VAN HUSSEN: You can -- if
25 you'd scroll down, Ms. Schubert, you can get a

1 representative idea of the level of bills for -- for
2 customers in these classes.

3

4 (BRIEF PAUSE)

5

6 MS. MARNIE VAN HUSSEN: If -- if
7 you're looking for the actual average usage, we could
8 provide that in an undertaking, but I don't know that
9 it would be representative of any one customer.

10 MR. SVEN HOMBACH: If -- if you could
11 still provide that by way of an undertaking then, yes,
12 please.

13 MS. MARNIE VAN HUSSEN: Sure. For
14 both the 30 to a hundred and greater than a hundred kV
15 classes?

16 MR. SVEN HOMBACH: Yes, please.

17

18 --- UNDERTAKING NO. 56: Manitoba Hydro to provide
19 the actual average usage
20 for both the 30 to 100 and
21 greater than 100 kV
22 classes.

23

24 CONTINUED BY MR. SVEN HOMBACH:

25 MR. SVEN HOMBACH: Let's turn back to

1 page 22 of your presentation, please. And we'll deal
2 with the last issue, which is the billing demand.

3 Page 22.

4 Now, Ms. Van Hussen, you've illustrated
5 the -- the 90 percent issue. And is it fair to say
6 that Manitoba Hydro is dipping its toes in the water
7 and wants to avoid aggressive load shifting? Is that
8 why you're setting the 90 percent limit?

9 MS. MARNIE VAN HUSSEN: I don't think
10 I would characterize it as we want to avoid aggressive
11 load shifting. But I do think it's fair to say we are
12 dipping our toe in the water.

13 We are mindful of the potential of new
14 customers coming in or, you know, load growth outside
15 of those peak hours. Those peak hours are, you know,
16 a good indication of when the -- the peak typically
17 happens.

18 There's nothing -- there's no magic
19 about that hour to say that if you peak in the next
20 hour, you're not going to set a new system peak.

21 So we're certainly mindful that we
22 don't want to have, sort of, unmitigated load growth
23 in those non-peak hours where customers are not paying
24 a share of capacity costs. That's ultimately what it
25 is, is we would have customers that are coming in,

1 using the system without paying a share of capacity
2 costs.

3 MR. SVEN HOMBACH: You're aware of Mr.
4 Bowman's evidence that it would be helpful to not have
5 the 90 percent limit, right?

6 MS. MARNIE VAN HUSSEN: I am aware.

7 MR. SVEN HOMBACH: Would it be
8 feasible for Manitoba Hydro to dip its feet into the
9 water just a little more deeply and move beyond 90
10 (ninety) to, let's say, eighty (80) or seventy-five
11 (75)?

12 MS. MARNIE VAN HUSSEN: I think that's
13 fair. They're certainly in our jurisdictional
14 analysis in Appendix 8.12. Thank you. We do see that
15 a couple of the other jurisdictions do have something
16 closer to a 75 or 80 percent non-peak hour definition.

17 So, you know, I don't think that that
18 would make or break our proposal for the -- the
19 billing demand definition change.

20 MR. SVEN HOMBACH: Let's briefly turn
21 back to the Information Request I showed you earlier,
22 PUB/MANITOBA HYDRO-1-1-45. And let's go to the bottom
23 of that chart.

24 Now, Ms. Van Hussen, this proposal too
25 would create some customers that would benefit and it

1 could create some customers that would incur higher
2 costs, correct?

3 MS. MARNIE VAN HUSSEN: Correct.

4 MR. SVEN HOMBACH: And the -- the
5 customers who could benefit the most could reduce
6 their bills by potentially more than half a percent?

7 MS. MARNIE VAN HUSSEN: Correct.

8 MR. SVEN HOMBACH: And the customers
9 that are unable to do so would face increases of up to
10 0.4 percent?

11 MS. MARNIE VAN HUSSEN: Correct.

12 MR. SVEN HOMBACH: I notice that there
13 is a smaller than sign on the first row, are there any
14 customers that can reduce their bill by significantly
15 more than half (1/2) a percent?

16

17 (BRIEF PAUSE)

18

19 MS. MARNIE VAN HUSSEN: There is one
20 (1) customer that is less than that, but it is not
21 less than 1 percent. So it's closer to the .6
22 percent.

23 MR. SVEN HOMBACH: Okay. Then two (2)
24 additional questions. First of all, this table is
25 prepared on historical loads, right? It doesn't take

1 into account changes in behaviour as a result of the
2 change to the definition?

3 MS. MARNIE VAN HUSSEN: Correct.

4 MR. SVEN HOMBACH: Okay. Secondly,
5 are you aware of any customers that might face a
6 double whammy being impacted by both this change and
7 the change to the demand charge?

8 Perhaps Ms. Schubert could go back up
9 in the table to show both of them. Sorry, actually,
10 scroll down to the third table on that.

11 MS. MARNIE VAN HUSSEN: I think
12 there's a table that -- yeah.

13

14 (BRIEF PAUSE)

15

16 MS. MARNIE VAN HUSSEN: So there are
17 certainly customers that have -- that are sort of
18 impacted by both the billing demand change and the
19 proposal to only increase the demand rate. But these
20 are the impacts that those customers will see.

21 MR. SVEN HOMBACH: And again, is there
22 anybody outside that range?

23 MS. MARNIE VAN HUSSEN: No.

24 MR. SVEN HOMBACH: Thank you. Those
25 are my questions to this panel.

1 MS. MARNIE VAN HUSSEN: Thank you.

2 THE CHAIRPERSON: Thank you.

3 Mr. Buchart...?

4

5 CROSS-EXAMINATION BY MR. MARKUS BUCHART

6 MR. MARKUS BUCHART: Good afternoon.

7 So our questions from MKO are going to be for any of
8 the panellists. I'm not asking for any specific
9 person, so you just decide. Okay.

10 So if we could turn first to first
11 visual. It's MH-28, slide 2 or page 2. It is the
12 land and territorial acknowledgment.

13 So now, this was the first piece of
14 evidence at the very beginning of this Hearing
15 described by your president and CEO, Ms. Grewal.

16 So my question is: Is the land and
17 territorial acknowledgement merely symbolic? Or is it
18 intended to have some practical effect?

19 MS. SHANNON GREGORASHUK: I don't know
20 that I can speak in detail in terms of what Manitoba
21 Hydro is doing with respect to, you know, sort of, the
22 -- the actual implementation of -- of recognition of
23 land and territorial acknowledgements and those types
24 of things.

25 But I do know that, you know, it is

1 important in everything we do. And I'm not sure that
2 I can speak much more than that. I know Ms. Grewal
3 spoke to that much better than I can.

4 MR. MARKUS BUCHART: And some of the
5 importance of the land and territorial acknowledgment
6 is stressed by the fact that it was the very first
7 piece of evidence in this oral Hearing, correct?

8 MS. SHANNON GREGORASHUK: Yes, I would
9 agree with that.

10 MR. MARKUS BUCHART: All right. And
11 you'll notice the word 'relationships' appears twice
12 in the land and territorial acknowledgement. It
13 appears in the beginning of the fourth line and the
14 end of the second-last line. Do you see that?

15 MS. SHANNON GREGORASHUK: Yes, I do.

16 MR. MARKUS BUCHART: Okay. So
17 Manitoba Hydro has all sorts of relationships with
18 Aboriginal people, Indigenous people, in Manitoba.
19 Correct?

20 MS. SHANNON GREGORASHUK: Yes,
21 correct.

22 MR. MARKUS BUCHART: But one (1) of
23 the relationships that it has with Indigenous people
24 is as customers. As a service supplier and a
25 customer, correct?

1 MS. SHANNON GREGORASHUK: Correct.

2 MR. MARKUS BUCHART: And probably
3 since virtually everybody -- or perhaps everybody uses
4 electricity, it's pretty fair to say that the most
5 important relationship Indigenous people have with
6 Manitoba Hydro is as electricity customers. Correct?

7 MS. SHANNON GREGORASHUK: I -- I think
8 all of our relationships are important. But yes, I
9 would agree, that is an important one.

10 MR. MARKUS BUCHART: I'm not talking
11 about importance. I'm talking about just prevalent.
12 Just that it affects the most number of people.

13 MS. SHANNON GREGORASHUK: Yes, I would
14 agree with that.

15 MR. MARKUS BUCHART: Not every
16 Indigenous person has a job working for Manitoba
17 Hydro, but virtually every Manitoba Indigenous person
18 uses electricity. Correct?

19 MS. SHANNON GREGORASHUK: Yes, I would
20 agree with that.

21 MR. MARKUS BUCHART: Now, does the
22 land and territorial acknowledgment mean that
23 Aboriginal people, Indigenous people, can be treated
24 differently to non-Aboriginal, non-Indigenous, people?

25

1 (BRIEF PAUSE)

2

3 MS. SHANNON GREGORASHUK: I'm sorry.

4 Could you just repeat the question for me, please?

5 MR. MARKUS BUCHART: Does the land and

6 territorial acknowledgement mean that Manitoba Hydro

7 can treat Indigenous people different to non-

8 Indigenous people?

9 MS. SHANNON GREGORASHUK: I -- I guess

10 I would look at it and say Manitoba Hydro treats all

11 of its customers equally and fairly. And to the

12 extent that it would be fair to treat certain

13 customers differently, then I -- I suppose that would

14 -- could occur.

15 I'm sorry. I don't know if that's very

16 helpful to your question.

17 MR. MARKUS BUCHART: I'm looking to --

18 really, whether this is purely a symbolic statement

19 tossed out at the beginning of a Hearing, or whether

20 it has practical implications, concrete real world

21 implications.

22 So is it possible that following the

23 land and territorial acknowledgement that Indigenous

24 people can be treated differently?

25 MS. SHANNON GREGORASHUK: I -- I -- I

1 think it's an acknowledgment for sure. I -- I do want
2 to just say that I definitely disagree that this is
3 just symbolic. I think it is absolutely important to
4 Manitoba Hydro the acknowledgment and -- and again I
5 wouldn't be the one to explain or speak to how -- how
6 precisely we are -- you know, representing that
7 importance to the Corporation, but I -- I certainly
8 know that it is, we do -- we acknowledge this as part
9 of, you know, most of our activities.

10 Ms. Grewal included it in her slide
11 deck as well, so it's very important, you know, all
12 the way up to our -- our executive level, so.

13 MR. MARKUS BUCHART: All right. So, if
14 it -- if it does mean that you can treat -- Manitoba
15 Hydro can treat Indigenous people differently --

16 MS. ODETTE FERNANDES: Sorry, Mr.
17 Buchart, I don't believe that was Ms. Gregorashuk's,
18 sorry, Gregorashuk's evidence.

19

20 CONTINUED BY MR. MARKUS BUCHART:

21 MR. MARKUS BUCHART: All right. So
22 does -- it does not mean that Indigenous people can be
23 treated worse.

24 MS. SHANNON GREGORASHUK: I -- I would
25 think Manitoba Hydro would never want to treat

1 Indigenous people worse. Yeah.

2 MR. MARKUS BUCHART: Okay. And does
3 it mean that you have to be treated the same? Or that
4 they can be treated better?

5 MS. SHANNON GREGORASHUK: So,
6 reflecting on that this is a Cost of Service and Rates
7 Panel, we have certain regulatory constructs for rate
8 setting that would require customers, you know, across
9 the province that, you know, whether they're
10 Indigenous or not, if -- to the extent that they're in
11 a -- the same customer rate class, we would treat them
12 the same.

13 But I'm -- I'm not sure of -- if there
14 are other differences. But in the context of rate
15 development, that's what we are here for today.

16 MR. MARKUS BUCHART: So, MKO's case is
17 going to try to convince the Panel to -- to recommend
18 changes to the legislation. So -- so our questions
19 will really be not limited to what the rate classes
20 are, but what they can be.

21 So, in -- in terms of -- does that
22 change your answer?

23 MS. SHANNON GREGORASHUK: I don't
24 think so.

25 MS. ODETTE FERNANDES: Mr. Buchart, I

1 think the legislation is what the legislation is and
2 you are free to make whatever recommendations you deem
3 are applicable to the clients that you represent and
4 this Board will take into consideration, I think, all
5 parties' perspectives in light of their jurisdiction
6 and any limitations that are within the legislation.

7 MR. MARKUS BUCHART: Right, but we'll
8 be seeking the position of the panel on legislative
9 changes. That's fine?

10 MS. ODETTE FERNANDES: I think you are
11 free to argue whatever you want before this Panel, but
12 Manitoba Hydro is limited to what is in its own
13 legislation and Bill 36, and that's the constraint
14 that we have to operate under.

15

16 CONTINUED BY MR. MARKUS BUCHART:

17 MR. MARKUS BUCHART: All right.
18 Moving on then. Ms. Schubert, if we could go to MKO-2
19 PDF 1. All right, so I want to frame the questions
20 that are going to be coming and with some definitions,
21 just so that we're all on the same page.

22 So, on PDF 1, you'll see a list of the
23 twenty-five (25) MKO Nations, First Nations, that are
24 in the Province of Manitoba. Do you see that?

25 MS. SHANNON GREGORASHUK: I do.

1 MR. MARKUS BUCHART: Okay. And on the
2 next page, up at -- near the top, you'll see that
3 there are four (4) First Nations that are listed that
4 are -- we define as the MKO Diesel Zone Nations.

5 Do you see those?

6 MS. SHANNON GREGORASHUK: Yes.

7 MR. MARKUS BUCHART: Okay. And the
8 rest of the definitions that the questioning will
9 follow -- follow on the rest of page 2 and on to page
10 3 of that PDF. See that?

11 MS. SHANNON GREGORASHUK: Yes.

12 MR. MARKUS BUCHART: All right, so,
13 Ms. Schubert please MKO 2 PDF 4.

14 So, the -- we asked Manitoba Hydro to
15 provide the number of customers in nine (9) classes of
16 customers. So we -- we sliced the pie nine (9)
17 different ways, okay, to stick with the pies.

18 And, you'll see that category A, All
19 Manitoba Residential Customers, there's a number
20 that's there. Correct?

21 MS. SHANNON GREGORASHUK: Yes.

22 MR. MARKUS BUCHART: And all of the
23 other classes are actually sub-sets of that number.
24 Correct?

25 MS. SHANNON GREGORASHUK: Yeah.

1 MR. MARKUS BUCHART: All right. And
2 so if you look at line E, Manitoba First Nation
3 Residential Customers, that is a sub-set of -- of the
4 -- of line A. Correct?

5 MS. SHANNON GREGORASHUK: Yes.

6 MR. MARKUS BUCHART: And if you do the
7 arithmetic, it works out to 3.67 percent of the total
8 number of customers. So line E is 3.67 percent of
9 line A, subject to correction.

10 MS. SHANNON GREGORASHUK: Okay. Yeah.

11 MR. MARKUS BUCHART: All right. And,
12 if you look at line G, it gives MKO Nations
13 Residential customers, so it gives just -- just the
14 MKO twenty-five (25) First Nations. Correct?

15 MS. SHANNON GREGORASHUK: Yes.

16 MR. MARKUS BUCHART: And that would be
17 a sub-set of E, Manitoba -- all of Manitoba First
18 Nation Residential customers. Correct?

19 MS. MARNIE VAN HUSSEN: I think I'm
20 following you, yes.

21 MR. MARKUS BUCHART: Yes. And just to
22 do the percentage, if you look at G-MKO Nations
23 Residential customers, the seven thousand seven
24 hundred forty-four (7,744) customers is divided by
25 line A, works out to 1.45 percent. Correct?

1 MS. MARNIE VAN HUSSEN: Subject to
2 check, yes.

3 MR. MARKUS BUCHART: Subject to check,
4 yes. And, in fact, if -- if Ms. Schubert, let's --
5 quickly to PDF 8 in the same Exhibit, and if you look
6 there's percentages. Line E says 3.67 percent.
7 Correct?

8 MS. MARNIE VAN HUSSEN: Correct.

9 MR. MARKUS BUCHART: And line G says
10 1.45 percent. Correct?

11 MS. MARNIE VAN HUSSEN: Correct.

12 MR. MARKUS BUCHART: And I'm going to
13 be referring to those percentages quite a bit so -- so
14 just keep them in your mind, if you can.

15 And then, if you look at line H and I,
16 I've broken down the twenty-five (25) First Nations of
17 MKO, so line H would be the Non-diesel Zone
18 Residential community, so that's the twenty-one (21)
19 of the twenty-five (25) that are -- that -- that are -
20 - get regular service. Understood? Correct?

21 MS. MARNIE VAN HUSSEN: Yes.

22 MR. MARKUS BUCHART: And then line I
23 is the -- is the diesel zone of the four (4) First
24 Nations that we refer to and those are listed at -- at
25 the bottom of the table. Correct?

1 MS. MARNIE VAN HUSSEN: Yes, okay,
2 correct.

3 MR. MARKUS BUCHART: And just to make
4 sure everything adds up, line H plus line I equals
5 line G, in other words, the two (2) types of MKO First
6 Nations added together gives you all of the First
7 Nations. Correct?

8 MS. MARNIE VAN HUSSEN: Yes, correct.
9 Thank you.

10 MR. MARKUS BUCHART: Okay. And so,
11 and just to talk about customers. Customers would be
12 the person who signed up with Manitoba Hydro who's
13 responsible for paying the bill?

14 MS. SHANNON GREGORASHUK: I -- I think
15 it would be defined -- customer has by premise and I'm
16 not necessarily sure that it -- that, you know, the
17 individual customers, the one who's paying the bill, I
18 don't -- I don't know how the households would work, but --

19 MR. MARKUS BUCHART: Understood. No
20 special magic in the question. What I'm getting at is
21 that somebody signs up with Manitoba Hydro, so let's
22 say -- let's say me, I sign up with Manitoba Hydro and
23 let's say there's only one other person in -- in -- in
24 the household, and it's my cat named Lizzy, but I
25 signed up, so I'm the customer. Correct?

1 MS. SHANNON GREGORASHUK: Yes,
2 correct.

3 MR. MARKUS BUCHART: And -- and if
4 there's more members of the household, let's say
5 there's a couple and three (3) children, there's one
6 (1) customer, but five (5) people. Correct?

7 MS. MARNIE VAN HUSSEN: Yes, if
8 Lizzy's included in there I'm not sure, but yes.

9 MR. MARKUS BUCHART: Yes, well she's -
10 - she's -- she's pretty tough, but so if you -- so
11 when you look -- talking about customers, you're
12 really not talking about number of people or
13 population, you're talking about effectively
14 households.

15 MS. MARNIE VAN HUSSEN: Yes, I think
16 that's fair.

17 MR. MARKUS BUCHART: In rough terms,
18 okay. All right. So, turning to PDF 6 please, so
19 here we have the same nine (9) categories that we've
20 defined in our questions, and -- and it shows the
21 aggregate build revenue of each of the nine (9)
22 classes. Correct?

23 MS. SHANNON GREGORASHUK: Correct.

24 MR. MARKUS BUCHART: All right. So,
25 if you look at line 'E', Manitoba First Nations

1 Residential customers, there's a number -- fifty-seven
2 thousand (57,000) and change. Do you see that?

3 MS. SHANNON GREGORASHUK: Fifty-seven
4 (57) million, I think.

5 MR. MARKUS BUCHART: Oh, sorry, fifty-
6 seven (57) million, 'cause it's in thousands, I get
7 it, yes. Correct, fifty-seven (57) million. Yes?

8 MS. SHANNON GREGORASHUK: Correct.

9 MR. MARKUS BUCHART: All right. So,
10 if you divide line E by line A, it would give the
11 share of that class of residential customers out of
12 all of Manitoba customers. Correct?

13 MS. SHANNON GREGORASHUK: Yes, I
14 believe so.

15 MR. MARKUS BUCHART: Okay, and my
16 arithmetic is that that ratio is 7.1 percent, subject
17 to correction. Check?

18 MS. SHANNON GREGORASHUK: Subject to
19 check. Yes.

20 MR. MARKUS BUCHART: All right. And,
21 if we look at Line G, Man -- MKO Nation's residential
22 customers, it is 24 million and change.

23 Do you see that?

24 MS. SHANNON GREGORASHUK: I do.

25 MR. MARKUS BUCHART: So, again, if we

1 divide that line Line G, by Line A, of all Manitoba
2 residential customers, the ratio works out to 3.0
3 percent, subject to check?

4 MS. SHANNON GREGORASHUK: Subject to
5 check. Yes.

6 MR. MARKUS BUCHART: All right. Now,
7 interestingly, if you look at Line E, we -- we've --
8 we've established that it's 7.1 percent of all
9 Manitoba customers, but the population share of that
10 class that we've established is 3.67 percent.
11 Correct?

12 MS. SHANNON GREGORASHUK: Yes.
13 Correct.

14 MR. MARKUS BUCHART: So, just -- just
15 sort of back of the envelope, the -- the amount billed
16 or the -- the aggregate billed revenue is just less
17 than double the 3.67 percent that that customer class
18 represents, in terms of number of accounts. Correct?

19 MS. SHANNON GREGORASHUK: I -- I think
20 we're with you, Mr. Buchart.

21 MR. MARKUS BUCHART: All right, and
22 same -- same sort of analysis on Line G. There's --
23 the amount is 24 million and change and if you -- if
24 you divide that by the top line, 'A', you get 3.0
25 percent, which is, roughly, double the 1.4. -- 1.45

1 percent that that customer class represents. Correct?

2 MS. SHANNON GREGORASHUK: Correct.

3 Subject to check. Yes.

4 MR. MARKUS BUCHART: So, what that's
5 saying is that, just to go back to 'E', that the
6 average customer of a Manitoba First Nation pays,
7 probably, around double what the average customer of a
8 non-First Nation pays?

9 MS. MARNIE VAN HUSSEN: I don't know
10 that -- I think we have to look at the fact that some
11 customers will have gas heat versus electric heat.
12 So, I think the -- the -- all Manitoba residential
13 customers' total revenue reflects the fact that a
14 large portion of our residential customers do not have
15 electric heat.

16 So, when you're comparing some of the
17 First Nations' customers that are predominantly
18 electric heat, they will have a bigger proportion,
19 compared to the Manitoba average.

20 MR. MARKUS BUCHART: Okay. And -- and
21 we're getting to that. Yes. Thank you, but just --
22 just looking at the raw numbers, Classes E and G on
23 that table seem to pay more than customers in the
24 other classes, the non-aboriginal classes.

25 MS. MARNIE VAN HUSSEN: You used more

1 and have higher bills, pay the same rate. Yes.

2 MR. MARKUS BUCHART: Well, yes. We --
3 we know that. Yes. If we could turn to pdf 8 next,
4 please.

5 All right. So, now we -- now we get
6 into the -- the -- the nitty-gritty. To be clear, the
7 -- the data in this table is the average revenue bill.

8 Correct?

9 MS. MARNIE VAN HUSSEN: Correct.

10 MR. MARKUS BUCHART: So, it -- it
11 doesn't take into effect -- into account collection.
12 This is just the raw billing data. Correct?

13 MS. MARNIE VAN HUSSEN: That's my
14 understanding. Correct.

15 MR. MARKUS BUCHART: All right. So,
16 let's break that down. The average, Line A, all
17 Manitoba residential customers, that's \$1,516 and
18 change. Correct?

19 MS. MARNIE VAN HUSSEN: Correct.

20 MR. MARKUS BUCHART: But, if you go to
21 Line E, Manitoba First Nation residential customers,
22 the amount is almost double, \$2,924 and change.

23 Correct?

24 MS. MARNIE VAN HUSSEN: I think that's
25 what the math is saying. Yes.

1 MR. MARKUS BUCHART: Good. All right.
2 And same with 'G', Manitoba -- MKO Nations residential
3 customers, the amount per customer is three thousand
4 one hundred thirty-three dollars (\$3,133) and change,
5 which is more than double the Manitoba average in line
6 A, correct?

7 MS. MARNIE VAN HUSSEN: I would agree.
8 That's what the math suggests --

9 MR. MARKUS BUCHART: All right. Now,
10 a short digression and then we get to the punch line.
11 So, let's talk about MKO diesel zone residential
12 customers at the bottom line I.

13 In the diesel zone the -- is it correct
14 that the customers cannot use electricity to heat?

15 MS. MARNIE VAN HUSSEN: That's
16 correct.

17 MR. MARKUS BUCHART: And the reason
18 for that would be just the amount of power that's
19 generated by the diesel generators, there's not enough
20 capacity to use it for heat, so there's a restriction
21 on -- on the use for heating, correct?

22 MS. MARNIE VAN HUSSEN: I think that's
23 fair, yes.

24 MR. MARKUS BUCHART: That's in my sort
25 of model lawyer thinking way of just talking about it.

1 MS. MARNIE VAN HUSSEN: That's fair.

2 MR. MARKUS BUCHART: And so, the other
3 thing to note about that is that those customers don't
4 really get the same level of service as everybody else
5 in the Province, because they're not allowed to heat,
6 whereas all the other customers are allowed to heat,
7 correct?

8

9 (BRIEF PAUSE)

10

11 MS. MARNIE VAN HUSSEN: I think they
12 get the same level of service as other customers on
13 our system. If you think of a non-electric heated gas
14 customer, they would have the same service as those
15 customer, those gas customers also do not use heat for
16 electricity.

17 MR. MARKUS BUCHART: But when it's
18 minus 20, they can't just walk up to the -- to the
19 thermostat and turn it up, elec -- the electrical
20 heat. They don't have that option, correct?

21 MS. MARNIE VAN HUSSEN: I assume they
22 have some form of heating in their homes that would --

23 MR. MARKUS BUCHART: The question, was
24 a thermostat hooked up to electric?

25 MS. MARNIE VAN HUSSEN: They do not

1 have a thermostat hooked up to electric heat, correct?

2 MR. MARKUS BUCHART: Okay. End of
3 digression. Now, compare line G and line I. So, we
4 know that 'I', the MPO diesel zone is a subset of MKO,
5 correct? It's for First Nations out of the twenty-
6 five (25) that I defined in -- in my pie example,
7 correct?

8 MS. MARNIE VAN HUSSEN: Correct.

9 MR. MARKUS BUCHART: And you'll notice
10 that the amount in 'I' is roughly half the amount in
11 G, correct?

12 MS. MARNIE VAN HUSSEN: Roughly half,
13 yes.

14 MR. MARKUS BUCHART: So, would the
15 explanation for that be -- could the -- do you -- do
16 you have an explanation? I'll go open-ended first.

17

18 (BRIEF PAUSE)

19

20 MS. MARNIE VAN HUSSEN: I think the
21 explanation is that they use less kilowatt hours
22 because they are not heating electrically.

23 MR. MARKUS BUCHART: Yes, correct. So
24 -- so if you look at it, 'G' and 'I' are in louf --
25 roughly the same geographic zone of the Province,

1 they're in the north, correct?

2 MS. MARNIE VAN HUSSEN: Correct.

3 MR. MARKUS BUCHART: And so the
4 heating requirements would probably be roughly the
5 same whether you're in The Pas and on the grid or in
6 Lac Brochet and off the grid.

7 The -- the amount you need to heat is
8 probably about the same, correct?

9 MS. MARNIE VAN HUSSEN: I think that's
10 probably fair.

11 MR. MARKUS BUCHART: And so the
12 difference in those -- in the electricity bills in
13 class 'G' is -- is quite probably just the heating?

14 MS. MARNIE VAN HUSSEN: I think that's
15 correct.

16

17 (BRIEF PAUSE)

18

19 MR. MARKUS BUCHART: And just to be
20 fair, (I), there's been a rate freeze since 2011 for
21 the diesel communities?

22 MS. MARNIE VAN HUSSEN: Since 2017,
23 August 1st, 2017.

24 MR. MARKUS BUCHART: I missed that one
25 -- okay.

1 (BRIEF PAUSE)

2

3 MR. MARKUS BUCHART: Okay, Ms.

4 Schubert, if we could jump now to PDF 12.

5 So, now -- now we're looking at not
6 what is billed, we're looking at what is not
7 collected, because that's the definition of arrears,
8 correct?

9 MS. MARNIE VAN HUSSEN: I think that's
10 fair.

11 MR. MARKUS BUCHART: In my modelled
12 lawyer's way of talking.

13 MS. MARNIE VAN HUSSEN: Sure.

14 MR. MARKUS BUCHART: Okay. Good. So,
15 looking at all Manitoba arrears, it's \$54 I think
16 that's million dollars, right?

17 MS. MARNIE VAN HUSSEN: Correct.

18 MR. MARKUS BUCHART: And if you look
19 at line 'E', it's \$28.8 million, correct?

20 MS. MARNIE VAN HUSSEN: Correct.

21 MR. MARKUS BUCHART: And so if you do
22 -- divide 28 million into 54 million, into all
23 Manitoba residential customers, it works out to -- and
24 I'm going to round -- 53 percent, subject to
25 correction.

1 MS. SHANNON GREGORASHUK: Subject to
2 check, yes.

3 MR. MARKUS BUCHART: Okay. So what
4 means is that that rate class of -- of Manitoba First
5 Nation customers who represent 3.67 percent of the
6 popu -- of the customers, are responsible for 53
7 percent of the arrears, correct?

8 MS. SHANNON GREGORASHUK: I think
9 that's fair -- or I wouldn't say fair. Let me correct
10 it. That's what I think these numbers show.

11 MR. MARKUS BUCHART: Yes. I
12 understand. I understand. So if you look at line
13 'G', do the same calculation. Line 'G' is \$20.4
14 million. Divide by line 'A', \$54.5 million, and you
15 get 37 percent of all of Manitoba customers, correct?

16 MS. SHANNON GREGORASHUK: Correct,
17 subject to check.

18 MR. MARKUS BUCHART: And actually, I
19 forgot to do one (1) -- one (1) calculation.

20

21 (BRIEF PAUSE)

22

23 MR. MARKUS BUCHART: If we could flip
24 back to table -- page 4 again, please, Ms. Schubert.
25 I just want to establish that, if you divide 'G', the

1 MKO customers, into 'E', all Manitoba First Nations --
2 so that would be seven thousand seven hundred forty-
3 four (7,744) -- divide -- divided by nineteen thousand
4 five hundred ninety-three (19,593), subject to check,
5 it's -- it's 40.0 percent.

6 MS. SHANNON GREGORASHUK: Subject to
7 check.

8 MR. MARKUS BUCHART: So to put that in
9 ordinary English, 40 percent of Manitoba First Nation
10 customers are MKO members, and the other 60 percent of
11 First Nation people are not MKO members.

12 MS. SHANNON GREGORASHUK: Okay.

13 MR. MARKUS BUCHART: Okay. I'm a
14 recovering economist, so I can still do a bit of math,
15 so -- but you never really recover.

16 So back again to PDF 8 -- sorry, 12.
17 I'm sorry.

18

19 (BRIEF PAUSE)

20

21 MR. MARKUS BUCHART: So looking again
22 at line 'I', the MKO diesel zone residential
23 customers, it's a considerably smaller number.
24 Scratch that.

25 Okay. So arrears. I'm going to say

1 good and bad. 'Good' means desirable, beneficial, and
2 'bad' means undesirable -- undesirable.

3 Are arrears good or bad for the general
4 customer? From the point of view of the customer, is
5 an arrear good or bad?

6 MS. SHANNON GREGORASHUK: I would
7 expect that an arrears means that they aren't able to
8 pay a current bill, and there might be all kinds of
9 reasons as to why. And I'm struggling to think of
10 what might be a favourable reason, so I would agree
11 with that.

12 MR. MARKUS BUCHART: And from the
13 point of view of Manitoba Hydro, arrears are bad.
14 They're -- they're not beneficial, not desirable?

15 MS. SHANNON GREGORASHUK: Okay. I
16 would agree with that.

17 MR. MARKUS BUCHART: All right. And
18 so the higher arrears are, the worse it is, the less
19 desirable it is, correct?

20 MS. SHANNON GREGORASHUK: Yes.

21 MR. MARKUS BUCHART: And so if it's
22 the case that First Nations Manitobans or MKO
23 Manitobans have higher arrears than other Manitobans,
24 that -- that's worse for them than being a ordina --
25 non-Aboriginal Manitoban, correct?

1 MS. SHANNON GREGORASHUK: I -- I think
2 any -- any customer that struggles and -- and has, you
3 know, an accumulation of arrears, is -- it's not --
4 it's not good for them.

5 MR. MARKUS BUCHART: It's stressful.

6 MS. SHANNON GREGORASHUK: It is,
7 absolutely.

8 MR. MARKUS BUCHART: At the very
9 least, it's that, right? Okay. And there's a phrase
10 that's been bandied about past hearings: 'energy
11 poverty'.

12 Would you accept that the -- the higher
13 arrears for First Nations people is -- is a sign of
14 energy poverty?

15

16 (BRIEF PAUSE)

17

18 MS. SHANNON GREGORASHUK: Sorry.
19 Could you repeat the question, please?

20 MR. MARKUS BUCHART: Probably not.
21 I'll -- I'll regroup from a different direction.

22 Does Manitoba Hydro know why the
23 arrears are higher for Aboriginal or MKP Aboriginal
24 members than the general average?

25 MS. SHANNON GREGORASHUK: You know,

1 certainly Manitoba Hydro corporate might. I don't
2 know that any of us on this panel could speak to that.

3 MR. MARKUS BUCHART: Well, there --
4 there's two (2) possibilities. There's unwillingness
5 to pay and inability to pay.

6 You'll agree with me that the likely
7 cause of the higher arrears in -- in the Indigenous
8 communities is inability to pay, correct?

9 MS. ODETTE FERNANDES: I think Ms.
10 Gregorashuk has already indicated this panel can't
11 speak to those issues.

12

13 (BRIEF PAUSE)

14

15 MS. SHANNON GREGORASHUK: Mr. Buchart,
16 if -- perhaps, to be helpful, we could take that away
17 as an undertaking and get you that information to the
18 best of our ability.

19 MR. MARKUS BUCHART: All right. Thank
20 you.

21

22 --- UNDERTAKING NO. 57: Manitoba Hydro to advise
23 why the arrears are higher
24 for Aboriginal or MKP
25 Aboriginal members than

1 the general average.

2

3 CONTINUED BY MR. MARKUS BUCHART:

4 MR. MARKUS BUCHART: All right. Let's
5 carry on to PDF 14, please.

6 So here, we've asked for the arrears
7 per customer, so -- so the average of -- in -- in each
8 of the nine (9) groups that we've sliced Manitoba
9 into, so that the Manitoba average is a hundred and
10 one dollars and ninety-nine cents (\$101.99), correct?

11 MS. SHANNON GREGORASHUK: Correct.

12 MR. MARKUS BUCHART: But the average
13 for Manitoba First Nation residential customers in
14 line 'E' is one thousand four hundred seventy-one
15 dollars and eleven cents (\$1,471.11), correct?

16 MS. SHANNON GREGORASHUK: Correct.

17 MR. MARKUS BUCHART: And the -- the
18 column, the right column basically gives the
19 percentage of the total arrears, and it works out to
20 52.9 percent, correct?

21 MS. SHANNON GREGORASHUK: Correct.

22 MR. MARKUS BUCHART: So that means
23 that the 3.67 percent of the population that are
24 Manitoba First Nation residential customers account
25 for 52.9 percent of the arrears, correct?

1 MS. SHANNON GREGORASHUK: Yes. I
2 think so, yes. Correct. I'd agree.

3 MR. MARKUS BUCHART: I was relieved.
4 Okay. Thank you. And looking at line 'G', same sort
5 of analysis: that the MKO residential customers have
6 arrears of two thousand six hundred thirty-eight
7 dollars and sixty-seven cents (\$2,638.67), correct?

8 MS. SHANNON GREGORASHUK: Correct.

9 MR. MARKUS BUCHART: And that
10 represents 37.5 percent of all of the arrears in -- in
11 Manitoba, correct?

12 MS. SHANNON GREGORASHUK: Yes,
13 correct.

14 MR. MARKUS BUCHART: And -- and so
15 what we're seeing is that the -- the customers that
16 represent 1.4 -- 1.45 percent of the customers
17 actually account for over a third, 37.5 percent of the
18 arrears, correct?

19 MS. SHANNON GREGORASHUK: That's what
20 this table shows, yes.

21 MR. MARKUS BUCHART: And the other
22 interesting thing is that the Manitoba -- the -- the
23 MKO arrears are considerably higher than the line E,
24 the all First Nation customers' arrears, correct?

25 MS. SHANNON GREGORASHUK: Sorry, could

1 you repeat that?

2 MR. MARKUS BUCHART: Okay. So --

3 MS. SHANNON GREGORASHUK: I'm trying
4 to follow.

5 MR. MARKUS BUCHART: -- the -- the MKO
6 Nation's residential customers, line 'G', their
7 arrears of two thousand six hundred dollars (\$2,600)
8 and change is considerably higher than line 'E', the
9 fourteen hundred seventy-one dollars (\$1,471) that all
10 Manitoba residential customers have in arrears.

11 MR. SHANNON GREGORASHUK: Line -- line
12 'G' is higher than line 'E', yes. Correct.

13 MR. MARKUS BUCHART: Right. And it's
14 -- it's not quite twice as high but almost twice as
15 high, correct?

16 MR. SHANNON GREGORASHUK: Subject to
17 check, yes, it looks like that.

18 MR. MARKUS BUCHART: Now, that's
19 interesting. Now, you should also say that the -- the
20 people in 'G', which we have established are 40
21 percent of -- of Manitoba Indigenous customers living
22 on reserve, they are also included in 'E', correct?

23 That's a muddled question. Let me try
24 that again. 'E' includes all Manitoba First Nation
25 residential customers, which is includes MKO

1 customers, correct?

2 MR. SHANNON GREGORASHUK: Okay, yes.

3 I'm with you, yes.

4 MR. MARKUS BUCHART: And we
5 established that 60 percent -- 40 percent of the First
6 Nation residential customers live in MKO communities
7 and the other 60 percent do not, correct?

8 MR. SHANNON GREGORASHUK: Okay. I
9 think that's what we said, yes.

10 MR. MARKUS BUCHART: So, if you were
11 actually to take out the -- the line 'G' people, the
12 MKO people, the -- the number 'E' would be
13 considerably lower because they -- they -- the 40
14 percent of them hold up the -- for all Manitoba First
15 Nation customers, correct?

16 MR. SHANNON GREGORASHUK: Okay. Yes,
17 I think we're with you.

18 MR. MARKUS BUCHART: I -- I think it's
19 simple. I think it's good math, so, okay.

20 MR. SHANNON GREGORASHUK: Okay.

21 MR. MARKUS BUCHART: So -- so, that
22 means that the disparity which I -- which we agreed
23 was roughly twice as serious, twice as high arrears in
24 MKO communities, it's actually probably greater than
25 that once you take the 40 percent of MKO members out

1 of line 'E', correct?

2 MR. SHANNON GREGORASHUK: Correct. It
3 seems that way.

4 MR. MARKUS BUCHART: Right. And --
5 and now, you'll accept that MKO First Nations are in
6 what you would broadly call Northern Manitoba,
7 correct?

8 MR. SHANNON GREGORASHUK: I think so.
9 That's how it's described, yes.

10 MR. MARKUS BUCHART: Right. And --
11 and just -- just to be clear, four (4) Manitoba
12 Northern communities are not members of MKO -- they
13 should join -- the four (4) communities at Highland
14 Lakes. Okay.

15 So -- so, there -- there are four (4)
16 Northern communities included in 'E' that are not in
17 'G'. Okay. But generally speaking, the MKO
18 communities are north, and the preponderance of
19 members of -- of the rest are -- of all the other 60
20 percent are in the south of Manitoba, correct?

21 MR. SHANNON GREGORASHUK: Okay.
22 Correct.

23 MR. MARKUS BUCHART: Okay. So, could
24 it be that the geographic location, like, the
25 latitude, has -- has an effect on why the arrears are

1 higher in MKO communities than in the general Manitoba
2 First Nations?

3

4 (BRIEF PAUSE)

5

6 MR. SHANNON GREGORASHUK: I'm not --
7 I'm not sure that we have the information to confirm
8 that or -- or the knowledge perhaps to confirm that
9 right now.

10 MR. MARKUS BUCHART: Okay. In -- in
11 general, I think we can take notice that it's colder
12 in the north than in the south?

13 MR. SHANNON GREGORASHUK: I would
14 agree with that.

15 MR. MARKUS BUCHART: And so, the
16 heating requirements are going to be higher in the
17 north than in the south, correct?

18 MR. SHANNON GREGORASHUK: That's
19 reasonable, yes.

20 MR. MARKUS BUCHART: And so, for
21 people that are in remoter areas that are heating
22 electrically, it stands to reason they're more likely
23 -- their -- their heating bills from electricity are
24 going to be higher than people who -- who are in a
25 warmer place in the south, correct?

1 MR. SHANNON GREGORASHUK: I think,
2 generally speaking, yes.

3 MR. MARKUS BUCHART: Is there any way
4 that you folks could on an undertaking determine what
5 the cause of the higher arrears in the MKO Nations is?
6 And the answer may be no. I understand.

7 MR. SHANNON GREGORASHUK: We -- we can
8 certainly try to see what we could find that might be
9 helpful, but I'm -- I'm not sure that we will be
10 successful.

11

12 --- UNDERTAKING NO. 57: Manitoba Hydro to advise
13 what the cause of the
14 higher arrears in the MKO
15 Nations is.

16

17 CONTINUED BY MR. MARKUS BUCHART:

18 MR. MARKUS BUCHART: Okay. And then
19 the other clue again is, if you look at (I), MKO
20 diesel zone residential customers, there the average
21 arrears per person is -- well, it's still considerably
22 higher than -- than the Manitoba average of one-o-one
23 (101) at five hundred seventy-one dollars (\$571), but
24 it's considerably lower than other MKO customers,
25 correct?

1 MR. SHANNON GREGORASHUK: Yes,
2 correct.

3 MR. MARKUS BUCHART: And again, it may
4 be possible that the fact that the MKO diesel
5 communities cannot heat electrically might explain the
6 difference in the averages between them and their --
7 their cousins and the other MKO First Nations?

8 MR. SHANNON GREGORASHUK: I think
9 might explain. I would agree with that. I'm not for,
10 you know, certain for sure.

11 MR. MARKUS BUCHART: Okay. All right,
12 Ms. Schubert, if we could go to 16, page 16.

13

14 (BRIEF PAUSE)

15

16 MR. MARKUS BUCHART: So, you'll see at
17 the top of the page in the preamble -- if you could
18 scroll up, please, Ms. Schubert. Yes. So, we quote
19 from Board Order 137/'21. And it says that:

20 "The Board expects Manitoba Hydro
21 and Interveners to bring meaningful
22 solutions to these concerns when
23 these interim rates are sought to be
24 finalized."

25 So -- so, there was an invitation to

1 the parties, like, MKO and to Manitoba Hydro, to come
2 up with meaningful solutions.

3 Manitoba Hydro, in answer to our
4 question, have they come up with any meaning --
5 meaningful solutions, listed three (3) programs,
6 correct?

7 And, Ms. Schubert, if you'd go up to
8 the previous page, (a) at the bottom. Thank you.

9 MR. SHANNON GREGORASHUK: I can see
10 the three (3) programs, yes.

11 MR. MARKUS BUCHART: So, there's three
12 (3) programs that are listed. And -- and then those
13 are described more fully on the -- the two (2) pages
14 that follow, correct?

15 MR. SHANNON GREGORASHUK: Correct.

16 MR. MARKUS BUCHART: And so, looking
17 at the first program, Customer Arrears Assistance
18 Program, CAAP, I'd like to know what year was that
19 program established?

20

21 (BRIEF PAUSE)

22

23 MR. SHANNON GREGORASHUK: I would have
24 to take that away and -- and get back to you on that,
25 Mr. Buchart. I'm not -- I'm not certain.

1 MR. MARKUS BUCHART: All right. Would
2 -- would you undertake to do so?

3 MR. SHANNON GREGORASHUK: Absolutely.
4 Yes.

5
6 --- UNDERTAKING NO. 59: Manitoba Hydro to advise
7 what year the Customer
8 Arrears Assistance Program
9 was established along with
10 Neighbours Helping
11 Neighbours

12

13 CONTINUED BY MR. MARKUS BUCHART:

14 MR. MARKUS BUCHART: Okay. And the
15 second program, Neighbours Helping Neighbours, NHN,
16 what year was that program established?

17 MR. SHANNON GREGORASHUK: I will add
18 that to the previous undertaking --

19 MR. MARKUS BUCHART: Okay.

20 MR. SHANNON GREGORASHUK: -- to
21 determine.

22 MR. MARKUS BUCHART: Okay. And I -- I
23 guess I should go back. The first program was an
24 interest-free repayment plan; that was the Customer
25 Arrears Assistance Program. And the second program

1 that you've now undertaken to tell me the year it was
2 created is a once in a lifetime grant of up to two (2)
3 -- up to four hundred dollars (\$400), correct?

4 MR. SHANNON GREGORASHUK: Correct.
5 But actually, Mr. Buchart, I think we can see in the
6 response to this question, second paragraph, that the
7 Neighbours Helping Neighbours Program began in 2004.

8 So, we will still just take away to
9 confirm the start date of the Customer Arrears
10 Assistance Program.

11 MR. MARKUS BUCHART: Okay. And you'll
12 agree with me that 2004 -- that this program already
13 existed at the time that the Board invited parties and
14 Manitoba Hydro to bring meaningful solutions, that
15 that program already existed in 2017?

16 MR. SHANNON GREGORASHUK: Yes, it did.
17 And I've just been advised that the Customer Arrears
18 System Program was created in 2018.

19 MR. MARKUS BUCHART: All right. So,
20 that one does postdate the -- the Board Order.

21

22 (BRIEF PAUSE)

23

24 MR. SHANNON GREGORASHUK: Oh, I'm --
25 I'm sorry, could you repeat that.

1 MR. MARKUS BUCHART: So -- so, the --
2 the CAAP does postdate the Board Order of 2017?

3 MR. SHANNON GREGORASHUK: Yes, that's
4 correct.

5 MR. MARKUS BUCHART: Okay. So,
6 turning the page to the next page, PDF 18, you
7 describe the -- the -- Manitoba Hydro describes the
8 Equal Payment Plan, the EPP. And it is described as
9 customers' average monthly payment scheme.

10 So it smooths over billing over twelve
11 (12) months, correct?

12 MR. SHANNON GREGORASHUK: That's my
13 understanding, yes.

14 MR. MARKUS BUCHART: And I -- I think
15 that's an old program. What year was that created?

16 MR. SHANNON GREGORASHUK: I'm not
17 sure. But I think if -- if you're trying to
18 understand what -- if it became before the 2017 Order,
19 I would agree with that -- or 2018, I would agree. It
20 was probably before that.

21 MR. MARKUS BUCHART: All right. That
22 -- that was in fact the point of my question.

23 So -- so, of the three (3) programs
24 that Manitoba Hydro listed in response to MKO's
25 Information Request, two (2) of them predate and one

1 (1) of the -- well, 2018 -- one (1) of them may
2 postdate the -- the Board Order, correct?

3 MR. SHANNON GREGORASHUK: Correct.

4 MR. MARKUS BUCHART: All right. So,
5 going back to page 16, Ms. Schubert, at the bottom.

6 Actually, no, (b) which is shown. We
7 asked the question:

8 "Does Manitoba Hydro now have any
9 recommendations to the Board for any
10 meaningful solutions?"

11 That's the question. And the answer is
12 on PDF 18, the bottom. And the answer is:

13 "Manitoba Hydro will continue to
14 ensure efforts are focussed."

15 Et cetera. You'll agree with me that
16 (b) doesn't actually say "yes" or "no."

17 MS. SHANNON GREGORASHUK: I think that
18 that's fair for part (b). But I do recall, when Ms.
19 Brako was here, she did speak at length to some of the
20 -- I think she called it holistic bill affordability
21 programs and also spoke to a number of improvements
22 and changes that we are looking at.

23 And it's -- it's sort of an ongoing
24 thing, from what I understand. The customer group is
25 always looking to find meaningful ways to help our

1 customers.

2 MR. MARKUS BUCHART: Fair enough. But
3 as far as this Information Request goes, there were
4 only three (3) programs mentioned.

5 MS. SHANNON GREGORASHUK: There were
6 three (3) programs mentioned in the Information
7 Request, which Ms. Brako expanded on in her direct
8 evidence as part of this process.

9

10 (BRIEF PAUSE)

11

12 MR. MARKUS BUCHART: All right.
13 We're going to be talking a bit more later about the
14 First Nation On-reserve Residential Rate, which is
15 always referred to as FNORR, F-N-O-R-R. Correct?
16 That's what FNORR is?

17 MS. SHANNON GREGORASHUK: Yes,
18 correct.

19 MR. MARKUS BUCHART: We were told to
20 define our acronyms, right? So -- okay.

21 So FNORR came and went. It was created
22 -- it became effective August 1st, 2017. And it ended
23 September 1st, 2020. Correct?

24 MS. SHANNON GREGORASHUK: Correct.
25 Sorry, came into effect June 1st of 2018. It was

1 through -- the 2017 regulatory process, I believe, is
2 what you're referring to.

3 MS. ODETTE FERNANDES: It came into
4 effect June 1st, 2018. And froze rates at the level
5 of August 1st, 2017.

6

7 CONTINUED BY MR. MARKUS BUCHART:

8 MR. MARKUS BUCHART: Yes. That's in
9 Order 59/18 at pages 66 to 67, I think.

10 Now, in answer to the Board's Order
11 where it asked for meaningful solutions to deal with
12 energy poverty, would Manitoba Hydro agree that the
13 now defunct FNORR rate class was a meaningful
14 solution?

15 MS. ODETTE FERNANDES: Mr. Buchart, I
16 think that matter's been settled by the Court of
17 Appeal.

18 MR. MARKUS BUCHART: We're getting to
19 that. But -- but it -- would that be -- if we could
20 convince the Board to recommend that the FNORR class -
21 - that the statute -- the Manitoba Hydro Act be
22 amended to permit the FNORR, my question is: Would
23 that be a meaningful solution to energy poverty?

24 MS. ODETTE FERNANDES: Mr. Chair, I
25 don't think the panel's in a position to respond to

1 that, considering it was ordered -- directed by this
2 Board and, ultimately, overturned by the Court of
3 Appeal of Manitoba.

4 THE CHAIRPERSON: Yeah. I guess the -
5 - the problem I have, Mr. Buchart, is Manitoba Hydro
6 took the position that we didn't have the jurisdiction
7 to do it. And the Court of Appeal agreed.

8 So I mean, I guess you can ask them,
9 but I suspect their position is that the Board
10 continues to not have the jurisdiction to do it.

11 MR. MARKUS BUCHART: I'm quite aware
12 of that. And I'm not asking the Board to do that.

13 But the Board does have the
14 jurisdiction to recommend changes to the Minister for
15 the amendment of the statute. And that -- that, the
16 Board could do.

17 THE CHAIRPERSON: Well, but that's a
18 matter for argument -- for final argument to us.

19 To go to Manitoba Hydro, I suspect that
20 the answer you're going to get from Manitoba Hydro
21 from Ms. Fernandes is, We don't think the Board has
22 the jurisdiction to do it, so -- I don't know what
23 more you're going to want from Manitoba Hydro on the -
24 - on the position.

25 MR. MARKUS BUCHART: I'd like them to

1 admit that it is a meaningful solution, but sadly,
2 it's ultra vires the Act.

3 THE CHAIRPERSON: Ask Ms. Fernandes
4 for her position.

5 MS. ODETTE FERNANDES: I think I agree
6 with you, Mr. Chairman. That the position is that the
7 Board does not have the jurisdiction. And if that's
8 an argument you would like to make in final argument
9 to this Board regarding a recommendation to be made,
10 that is within your purview to make whatever arguments
11 you deem you want this Board to hear.

12 But our position is that currently this
13 Board does not have the jurisdiction to issue that
14 First Nation On-Reserve Rate.

15 MR. MARKUS BUCHART: I know all that,
16 but they do have the jurisdiction to recommend. And
17 I'll move on.

18

19 (BRIEF PAUSE)

20

21 CONTINUED BY MR. MARKUS BUCHART"

22 MR. MARKUS BUCHART: All right.

23 Turning now to MKO Exhibit 3 PDF page 4.

24 Based on some questions that we saw
25 from our colleagues in AMC, we asked about late

1 payment charges. So if you look at the fifth line, it
2 says:

3 "Manitoba First Nation residential
4 customers."

5 Do you see that?

6 MS. SHANNON GREGORASHUK: Yes, I do.

7 MR. MARKUS BUCHART: And the
8 percentage rate to the right of that is 22.04 percent.
9 Correct?

10 MS. SHANNON GREGORASHUK: Correct.

11 MR. MARKUS BUCHART: And so, again,
12 we're saying that Manitoba First Nation residential
13 customers, who represent 3.67 percent of the customers
14 -- residential customers -- account for 22 percent of
15 the late charges. Correct?

16 MS. SHANNON GREGORASHUK: I believe
17 that's what we determined. Yes.

18 MR. MARKUS BUCHART: And so, they --
19 they are roughly seven (7) times -- their late payment
20 charges are roughly seven (7) times their number of
21 customers?

22 MS. SHANNON GREGORASHUK: Subject to
23 check, yes.

24 MR. MARKUS BUCHART: Thank you.
25 Subject to check.

1 And same with the third last line, is
2 the MKO Nations residential customers, you'll see the
3 amount there of three-hundred-forty-thousand-six-
4 hundred-eighty-four dollars (\$340,684). Correct?

5 MS. SHANNON GREGORASHUK: Correct.

6 MR. MARKUS BUCHART: And those are
7 thousands. That's not in millions. I'm not missing
8 the comma zero-zero-zero? No?

9 MS. SHANNON GREGORASHUK: That's
10 right.

11 MR. MARKUS BUCHART: Good. Okay. And
12 so, in there, those customers are responsible for 9.6
13 percent of the arrears. Correct? Not the arrears --
14 I'm sorry -- late payment charges, yes?

15 MS. SHANNON GREGORASHUK: MKO Nations
16 residential customers line is 9.6 percent. Is that
17 the one you were asking about?

18 MR. MARKUS BUCHART: Yes.

19 MS. SHANNON GREGORASHUK: Yes.

20 MR. MARKUS BUCHART: Yes. And again,
21 they represent, those customers, 1.45 percent of the
22 total number of customers. And are responsible for
23 9.6 percent. So just roughly, three (3) or four (4)
24 times their number of customers. Correct?

25 MS. SHANNON GREGORASHUK: Subject to

1 check, yes.

2 MR. MARKUS BUCHART: And turning to
3 the next page, we asked for the number of
4 disconnections. Again, inspired by questions from
5 AMC.

6 And looking at First Nation residential
7 customers, which is, I think, the fifth line, it shows
8 three-hundred-forty-nine (349) customers were
9 disconnected. And that they represent 16.3 -- 16.36
10 percent of the total customers, correct?

11 MS. SHANNON GREGORASHUK: I see that,
12 yes.

13 MR. MARKUS BUCHART: And so, again, we
14 have 3.67 percent of the customers responsible for,
15 let's call it, four (4) times the disconnections.

16 Correct?

17 MS. SHANNON GREGORASHUK: Correct.
18 Subject to check, yes.

19 MR. MARKUS BUCHART: And then, going
20 down two (2) more lines, we have the MKO Nation
21 residential customers, a hundred-and-twenty (120) in
22 number that were disconnected. And they represent
23 5.38 percent of the total customers. Correct?

24 MS. SHANNON GREGORASHUK: Correct.

25 MR. MARKUS BUCHART: And again,

1 comparing that to their share of the customer, 1.45
2 percent, just eyeballing it, it's, sort of, three (3)
3 times, let's say, higher than the 1.45 percent share
4 in the customers.

5 MS. SHANNON GREGORASHUK: Accept that,
6 subject to check. Yes.

7 MR. MARKUS BUCHART: Okay. I'd like
8 to flip at this point to AMC Exhibit 2, PDF page 56.
9 So, these are the AMC questions that inspired us.
10 Thank you.

11 Let's look at the second table. The
12 second table under -- under 'B', it gives five (5)
13 years of uncollectible accounts from First Nations.

14 Do you see that?

15 MS. SHANNON GREGORASHUK: Yes, I do.

16 MR. MARKUS BUCHART: And we know the
17 FNORR existed during all of 2018, all of 2019 and up
18 till September.

19 So, let's call that two-thirds (2/3) of
20 2020, correct?

21 MS. SHANNON GREGORASHUK: Correct.

22 MR. MARKUS BUCHART: So, because FNORR
23 existed it meant that the rate increase of 3.6 percent
24 that happened at the time did not apply to those FNORR
25 customers, correct?

1 MS. SHANNON GREGORASHUK: Correct.

2 MR. MARKUS BUCHART: And so, one would
3 expect, that the numbers would have been higher had
4 FNORR not existed.

5 MS. SHANNON GREGORASHUK: I guess
6 that's a hypothetical question. I'm not sure that I
7 can fully answer that.

8 MR. MARKUS BUCHART: Well, it's basic
9 economics that if something costs more than the people
10 at the margin, will not be able to afford it.

11 MS. SHANNON GREGORASHUK: I will
12 accept that as you're an economist, for sure. Yeah.

13 MR. MARKUS BUCHART: Well, okay.

14 MS. SHANNON GREGORASHUK: But I'm not
15 sure what you use to call yourself.

16 THE CHAIRPERSON: Mr. Buchart, I think
17 it would be fair to say to them that just to get them
18 to confirm that in the years that FNORR existed, the
19 numbers were lower. That -- that they could do, but
20 to -- to go behind the scenes and ask for the
21 rationale, I, you know, I -- I'm --

22 MR. MARKUS BUCHART: It -- it's ---

23 THE CHAIRPERSON: -- I'm not sure they
24 can definitively do that.

25 MR. MARKUS BUCHART: I thought they

1 might have some elasticity data, right? So,
2 elasticity, I was trying to work that in.

3 So, okay, I'll -- I'll ask it as the --
4 to Chair --

5 MS. SHANNON GREGORASHUK: Sorry, can
6 you scroll up a little bit, Ms. Schubert?

7 There is a revised response to that.
8 So I just want to make sure the Board's looking at the
9 revised response, just to make sure we're all working
10 with the same numbers.

11

12 CONTINUED BY MR. MARKUS BUCHART:

13 MR. MARKUS BUCHART: I -- okay the --
14 table 'B' looks the same as mine. It does look the
15 same.

16 MS. SHANNON GREGORASHUK: That -- not
17 necessarily that each table was revised, I just wanted
18 to make sure that we were working off of the --

19 MR. MARKUS BUCHART: Okay.

20 MS. SHANNON GREGORASHUK: -- the
21 correct version. Thank you.

22 MR. MARKUS BUCHART: All right. So,
23 to ask the question the way the Chair has suggested,
24 were the uncollectible accounts lower in 2018/2019 and
25 2022 as a result? Well, during the time FNORR was in

1 effect.

2 MS. SHANNON GREGORASHUK: It -- I'm
3 just wondering if this is the right table of -- like,
4 2018 looks higher than some of the other years so I'm
5 not sure that I can confirm what you just said.

6 You were asking if in '18, '19 and '20,
7 the uncollectible accounts were higher? Is that
8 right?

9 MR. MARKUS BUCHART: Yes.

10 MS. SHANNON GREGORASHUK: So, I see in
11 '21 it's five hundred (500) and that's higher than
12 2020.

13 MR. MARKUS BUCHART: Well, I was
14 getting to that, but compared to previous years to --
15 prior to 2018.

16 MS. SHANNON GREGORASHUK: Oh, I don't
17 have the 2018 prior years on this table, so I'm not
18 sure I can confirm that.

19 MR. MARKUS BUCHART: All right, when
20 your colleagues on the Revenue Requirement Panel
21 testified, AMC asked some questions and -- and there
22 was an explanation that during the pandemic that
23 policies on collectable accounts changed. Correct?

24 MS. SHANNON GREGORASHUK: I would
25 agree with -- yeah.

1 MR. MARKUS BUCHART: And -- and so
2 there was more leniency during the pandemic years.

3 Correct?

4 MS. SHANNON GREGORASHUK: I think
5 there was some consideration made there for that, yes.

6 MR. MARKUS BUCHART: Okay, and the
7 pandemic years would have been 2020, '21 and '22.
8 Correct?

9 MS. SHANNON GREGORASHUK: I believe
10 so, yes.

11 MR. MARKUS BUCHART: And, now that the
12 pandemic is over, are those leniencies still in effect
13 or are we back to the -- the rules that existed prior
14 to the pandemic?

15 MS. SHANNON GREGORASHUK: My -- our
16 understanding is that during the -- as a result of the
17 pandemic there was certain considerations made with
18 respect to non -- non-disconnects, and -- and that has
19 now reverted back to the -- Hydro's policy, prior to
20 the pandemic.

21 MR. MARKUS BUCHART: So, you would
22 expect the uncollectible accounts to revert back to
23 the levels pre-pandemic?

24 MS. SHANNON GREGORASHUK: I'm not sure
25 if I can say we would expect that. It's all based on,

1 I guess, behaviours of customers.

2 MR. MARKUS BUCHART: All right. And
3 then looking at the table below (c), the same pattern.
4 There was -- during the FNORR years, there was very
5 high disconnected accounts and they fell during the
6 pandemic, correct?

7 MS. SHANNON GREGORASHUK: Correct.
8 And I -- I actually think I have to correct my
9 previous comments because I was probably addressing
10 what we see in table -- or Part C here, as opposed to
11 Part B, although maybe the premise is the same.

12 MR. MARKUS BUCHART: Okay. Okay. I
13 think my hour has expired, Mr. Chair. I -- I would
14 like to be keep going but I don't want to --

15 THE CHAIRPERSON: Well, your -- your
16 hour has expired, but I -- I guess, the question is,
17 how much longer you would want?

18 MR. MARKUS BUCHART: Ten (10) minutes.

19 THE CHAIRPERSON: Sure. Go ahead.

20

21 CONTINUED BY MR. MARKUS BUCHART:

22 MR. MARKUS BUCHART: Thank you. Ms.
23 Schubert, if you could turn to MKO-2-PDF 19.

24 So, we -- we asked questions regarding
25 the Diesel Settlement Agreement. And, if you turn to

1 the next page PDF 20, the -- the explanation is that
2 the Diesel Settlement Agreement contained in Appendix
3 9.13 of the -- of Manitoba Hydro's Application, is the
4 fully executed Diesel Settlement Agreement. Correct?

5 MS. SHANNON GREGORASHUK: Correct.

6 MR. MARKUS BUCHART: You may not know
7 the answer to this, but how did Manitoba Hydro get it?
8 Is it -- is it that the document they had or did they
9 obtain it from somebody else?

10 MS. SHANNON GREGORASHUK: I believe
11 MKO provided it to Manitoba Hydro in 2017.

12 MR. MARKUS BUCHART: Okay. So, in --
13 turning to MKO-3 PDF 3, I'm sorry, PDF 1.

14 So, we asked four (4) questions about
15 the Diesel Settlement Agreement and the response at
16 the bottom of the page was, essentially, that -- that
17 you'd already answered it, but I -- I would like to
18 get on the record the -- an answer to questions 'A'
19 and 'C', a "yes" or "no."

20 Question A: Does Manitoba Hydro accept
21 the Diesel Settlement Agreement at Appendix 9.13 has
22 been executed by all seven (7) parties thereto.

23 MS. SHANNON GREGORASHUK: Yes, I think
24 we'd accept that, yes.

25 MR. MARKUS BUCHART: Okay. And then

1 on (c): Is it Manitoba Hydro's position that the
2 Diesel Settlement Agreement in Appendix 9.13 is valid
3 and enforceable?

4 MS. SHANNON GREGORASHUK: I think we
5 would agree that all parties agree that it is a valid
6 agreement; in terms of whether it's enforceable, I
7 think those are some legal considerations there.

8 MR. MARKUS BUCHART: Fair enough. I
9 just want to know, is there anything else MKO needs to
10 do 'cause the Board wanted it filed and it's filed.
11 It's -- it's -- that was the point.

12 So is there anything that -- anything
13 MKO needs to do still from Manitoba Hydro's point of
14 view?

15 MS. SHANNON GREGORASHUK: Not to our
16 knowledge. Thank you.

17 MR. MARKUS BUCHART: Good. Okay. So,
18 when somebody -- so, now I'm going to go off of the --
19 the videos and ask some sort of wildcard questions.

20 When somebody comes to Hydro for the
21 first time and they want to become a customer, they
22 have to produce identification, correct?

23 MR. SHANNON GREGORASHUK: That seems
24 like a reasonable thing. I'm not sure. I don't
25 really sign up new customers myself, so.

1 MR. MARKUS BUCHART: Okay. My cat and
2 I recently did it, so.

3 MR. SHANNON GREGORASHUK: Okay.

4 MR. MARKUS BUCHART: So --

5 MR. SHANNON GREGORASHUK: I believe
6 so, yes.

7 MR. MARKUS BUCHART: -- I think you --
8 you need to verify the customer the first time, not
9 the cat, but the customer.

10 MR. SHANNON GREGORASHUK: That seems
11 reasonable, yes.

12 MR. MARKUS BUCHART: Okay. And -- and
13 so, then when that customer moves, the -- they read
14 their meter, they pay it, and a new account is opened
15 under that customer for their new address, correct?
16 And it could be subject to check if you want.

17

18 (BRIEF PAUSE)

19

20 MR. SHANNON GREGORASHUK: I -- I think
21 that seems like it might be the process, but it could
22 also be just a transfer the -- I'm not -- we're not
23 sure entirely.

24 MR. MARKUS BUCHART: But my point is -
25 - sorry.

1 (BRIEF PAUSE)

2

3 MR. SHANNON GREGORASHUK: Thank you.
4 I just wanted to correct. Our understanding is we do
5 not require new customers to show identification when
6 they open up a new account.

7 MR. MARKUS BUCHART: Okay. I had
8 other questions, but that's probably a good place to
9 end.

10 So, I just wanted to thank the -- the
11 Panel, and particularly the -- the people who compile
12 all of the weird calculations that we asked for. I --
13 I can imagine it was labourious. And I thank the
14 staff who did that on behalf of MKO and myself.

15 THE CHAIRPERSON: Thank you. Thank
16 you, Mr. Buchart. I'm going to ask the Panel if --
17 Mr. Sy.

18 BOARD MEMBER SY: So, I -- I just
19 wanted to -- to get back on Mr. Buchart's question.
20 So, did I see \$54 million are on arrears for -- for
21 2021/2022?

22 MR. SHANNON GREGORASHUK: I don't see
23 the IR in front of me, but I think that number sounds
24 like one we looked at, yes.

25 BOARD MEMBER SY: Yeah, so. And in

1 terms of revenues, what does that represent,
2 percentage?

3

4 (BRIEF PAUSE)

5

6 MR. SHANNON GREGORASHUK: We're just
7 trying to see if we could get that calculation but,
8 otherwise, we could take it as an undertaking if you'd
9 prefer.

10 BOARD MEMBER SY: While -- while we
11 are waiting for that, when does one dollar (\$1) of
12 arrear becomes one dollar (\$1) of bad debt?

13 Last week, we heard 2021/2022 there was
14 \$6 million of bad debt, the following year, 2022/2023,
15 it was a jump of 50 percent increase. The bad debt
16 was 9 million.

17 So, when is a dollar of arrear becomes
18 a dollar of bad debt?

19

20 (BRIEF PAUSE)

21

22 MR. SHANNON GREGORASHUK: We'll have
23 to take that one as an undertaking if we could, Member
24 Sy.

25 THE CHAIRPERSON: So, I have a

1 question. I don't remember the number, but you had a
2 number of -- you had a table with eight (8)
3 categories, Winnipeg customers broken down by first
4 reserves and -- no, at the table.

5 Kristen, there was -- they did it --
6 there were a few tables. That one. Okay, just --
7 just leave it at that one.

8 I just want to make sure I have -- I
9 understand this correctly. When you have the
10 customers listed here, are these the people who are
11 listed as customers and pay the bills or are these
12 people who are customers but the bills may be paid by
13 someone else?

14

15 (BRIEF PAUSE)

16

17 MR. SHANNON GREGORASHUK: I believe
18 this would include both of those. Whether they're
19 customers are paying it themselves or on -- if there
20 is another agency that's paying it on their behalf,
21 this would be included in the customer number.

22 THE CHAIRPERSON: Okay. So, when --
23 when you have customers who are in default, could it
24 be that they're in default because the agencies
25 haven't paid it?

1 MR. SHANNON GREGORASHUK: I think
2 we're probably getting on the cusp of where I might --
3 my -- my knowledge or where I could comment on this.
4 But I think that seems like it could be a potential.

5 THE CHAIRPERSON: Okay.

6 MR. SHANNON GREGORASHUK: But we might
7 want to take this away and --

8 THE CHAIRPERSON: Yeah. So, here is
9 what I would like as an undertaking. There's a series
10 of tables here. And -- and I would like to know which
11 of these are the specific customers, how many of the
12 customers are you looking to a third party to pay, and
13 in terms of -- so, numbers of customers here.

14 And then in terms of the dollar numbers
15 where they're in default, I'd like to know whether
16 it's the customers who are supposed to be paying it
17 and they're in default or whether it's a third party
18 or a program that is supposed to be paying it and --
19 and they're in default.

20 Because, at the end of the day, you're
21 holding the customer responsible. They're down as the
22 number, but I'd -- I'd like to know if it's a third
23 party that is responsible. So, if you could provide
24 that, I'd appreciate it.

25 MR. SHANNON GREGORASHUK: We can

1 certainly do that. Thank you.

2

3 ---UNDERTAKING NO. 60: To provide which of the
4 series of tables are the
5 specific customers, how
6 many of the customers are
7 you looking to a third
8 party to pay, in terms of
9 the dollar numbers where
10 they're in default,
11 whether it's the customers
12 who are supposed to be
13 paying it and they're in
14 default or whether it's a
15 third party or a program
16 that is supposed to be
17 paying it and they're in
18 default.

19

20 THE CHAIRPERSON: Okay. Thank you.

21 Another long day. Thank you very much. We will
22 adjourn now. And we will reconvene at nine o'clock
23 tomorrow to continue cross-examination. Thank you,
24 all.

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1 --- Upon adjourning at 4:08 p.m.

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4 Certified Correct,

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8 Wendy Woodworth, Ms.

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