



“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 8th, 2023

Pages 3754 to 3939

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

2

3 THE CHAIRPERSON: Morning, everyone.

4 Mr. Hombach, do you want to start us off?

5 MR. SVEN HOMBACH: Morning, everyone.

6 Today is reserved for a presentation by and the
7 examination of Ms. Kelly Derksen who is the expert
8 witness of the Consumers Coalition on matters of cost
9 of service and rate design.

10 We also have half an hour reserved at
11 the end of the day for examination on undertakings, if
12 necessary, and I would ask counsel in the hearing room
13 to approach me during the morning break to confirm
14 whether or not they have any examination on
15 undertakings so that the right people can make their
16 way over from 360 Portage in the afternoon.

17 Mr. Chair, Ms. Derksen has not been
18 sworn in yet. I would suggest we take a moment to
19 swear her in and then turn the microphone over to Dr.
20 Williams to establish her credentials.

21 THE CHAIRPERSON: Thank you. And --
22 and I would indicate we have a tight time frame today,
23 so I'll be looking closely at -- at the time.

24 DR. BYRON WILLIAMS: Yes. And just
25 while -- if -- if Ms. McMillin can approach, please.

1 You threw me off, Mr. Chair, but good morning, Mr.
2 Chair and members of the Panel.

3 I'll briefly lead Ms. Derksen through
4 her qualifications, and then we'll get right into it.

5 THE CHAIRPERSON: Yeah.

6

7 CONSUMERS COALITION PANEL:

8 KELLY DERKSEN, Sworn

9

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

11 DR. BYRON WILLIAMS: Good morning, Ms.
12 Derksen.

13 MS. KELLY DERKSEN: Good morning.

14 DR. BYRON WILLIAMS: You are a
15 chartered professional accountant and were designated
16 as a certified management accountant in 2004, agreed?

17 MS. KELLY DERKSEN: Yes.

18 DR. BYRON WILLIAMS: And you have over
19 twenty-five (25) years of experience in regula --
20 regulated utility rate making including a
21 specialization in matters of cost of service and rate
22 design?

23 MS. KELLY DERKSEN: Yes, I do.

24 DR. BYRON WILLIAMS: And you began
25 officially at Centra Gas in the regulatory affairs

1 department around '97, but unofficially, you were
2 seconded there on various rates and regulatory
3 projects, agreed?

4 MS. KELLY DERKSEN: Yes, since 1994.

5 DR. BYRON WILLIAMS: And obviously
6 from there you spent time as an analyst and senior
7 analyst for gas rates, then manager of gas rates and
8 regulatory affairs. And following that, you spent
9 eight (8) years as manager of cost of service and
10 rates for Manitoba Hydro. Agreed?

11 MS. KELLY DERKSEN: Agreed, yes.

12 DR. BYRON WILLIAMS: And in that role,
13 you exercised oversight of and were directly involved
14 in the preparation of multiple cost-of-service
15 studies, as well as several cost of service and rate
16 design methodological reviews, agreed?

17 MS. KELLY DERKSEN: Agreed, yes.

18 DR. BYRON WILLIAMS: And at various
19 times in your cost-of-service career at Hydro and at
20 Centra, you were actively engaged in the development
21 of Hydro's zone of reasonableness policy, treatment of
22 demand-side management costs, treatment of significant
23 export revenues, divergence between embedded and
24 marginal costs, appropriateness and level of monthly
25 basic charges, and general improvements in cost of

1 service and rate design methodology over time, agreed?

2 MS. KELLY DERKSEN: Agreed, yes.

3 DR. BYRON WILLIAMS: And you were

4 relied upon by Manitoba Hydro to provide evidence

5 before this Board on numerous occasions over seventeen

6 (17) years on matters of cost of service and rate

7 design?

8 MS. KELLY DERKSEN: Yes. I've been

9 here a few times.

10 DR. BYRON WILLIAMS: And you had

11 significant roles in Manitoba Hydro's preparation for

12 and participation in the Public Utilities Board's 2016

13 cost-of-service methodology review?

14 MS. KELLY DERKSEN: Yes, that's

15 correct.

16 DR. BYRON WILLIAMS: And since 208

17 (sic), you have been working as an independent

18 consultant supporting regulators, regulated entities,

19 and public-interest stakeholders in -- in utility rate

20 set -- setting and other regulatory matters?

21 MS. KELLY DERKSEN: Yes, that's

22 correct.

23 DR. BYRON WILLIAMS: And that's

24 included in jurisdictions in BC, Manitoba, New

25 Brunswick, Nova Scotia, and more recently Alberta?

1 MS. KELLY DERKSEN: Yes. Yes, sir.

2 DR. BYRON WILLIAMS: And just -- Ms.
3 Derksen, just to -- in terms of the material that has
4 been prepared under your care and control, it included
5 your written evidence in this proceeding, Consumer
6 Coalition Exhibit 10, as well as your responses to
7 Exhibits Manitoba Hydro-19, AMC-4, MIPUG-8, PUB-14, as
8 well as a PowerPoint which has not yet been entered as
9 an exhibit.

10 Is that correct?

11 MS. KELLY DERKSEN: I believe that's
12 fair, yes.

13 DR. BYRON WILLIAMS: And those
14 materials were prepared under your direction and
15 control and are accurate to the best of your knowledge
16 and ability?

17 MS. KELLY DERKSEN: They are. They
18 were prepared under my direction and control. I will
19 note, Dr. Williams, that I did make a couple of
20 blunders in response to a couple of Information
21 Requests that don't affect my -- my conclusions at the
22 end of the day, in my view are not material, but I
23 wanted to draw that to your attention.

24 If it becomes important, I will
25 certainly correct those errors for the record.

1 DR. BYRON WILLIAMS: Okay. Thank you.
2 Mr. Chair, if we could enter Ms. Derksen's PowerPoint
3 as Consumer Coalition Exhibit 27.

4

5 --- EXHIBIT NO. CC-27: PowerPoint of Kelly
6 Derksen

7

8 DR. BYRON WILLIAMS: And then, Ms.
9 Derksen, I'll ask you to take us through your
10 evidence, your written -- or your oral evidence,
11 please.

12

13 (BRIEF PAUSE)

14

15 MS. KELLY DERKSEN: Good morning, Mr.
16 Chair, Vice -- Vice-chair, Ms. Kapitany, members of
17 the Public Utilities Board. My name is Kelly Derksen.
18 I've been here a few times. I'm going to walk you
19 through my presentation as quickly as I can. I won't
20 get through all the slides. I have more slides than I
21 am able -- that I have time to get through, so I will
22 leave some at the end for your review and
23 consideration.

24

25 In terms of an outline of my
presentation on page -- on slide 3, I've broken my

1 presentation down into about four (4) different parts,
2 or five (5) parts, if you include the appendices.

3 First, we're going to talk about
4 generally accepted rate-making principles for rate
5 design purposes which are underpinning Order 164/'16.

6 We're going to talk about then how to
7 deal with net export revenue, as well as uniform rates
8 in the context of rate design. There are some other
9 policy considerations that are important also for rate
10 design purposes.

11 I will move on to the zone of
12 reasonableness. And I offer up some of my
13 perspectives about the use of the zone of
14 reasonableness. And I will end then with what I
15 recommend to the -- to the Public Utilities Board. If
16 I can move to slide 4.

17 So, here we're going to talk about the
18 seminal work of -- of Dr. Bonbright with respect to
19 generally accepted rate-making principles. Those are
20 also the principles that the Board -- that unpinned
21 the Board's Order 164/'16, as well.

22 In this slide, what I'm trying to -- to
23 depict for the Board is what I interpreted that the
24 Board telling us in Order 164/'16 -- what I -- what I
25 think I heard the Board tell us. My interpretation is

1 keep cost of service phase II clean from rate-making
2 objectives other than cost/causation, which is one (1)
3 consideration of fairness and equity.

4 And all other rate-making objectives,
5 fairness and equity, rate stability and
6 predictability, efficiency, simplicity, you see them,
7 are to be dealt with as part of rate design in
8 establishing rate differentiation by class and, also,
9 rate form, the individual rates within a customer
10 class. Moving on to slide 6.

11 This is my interpretation of what I see
12 in Manitoba Hydro's proposals, as all -- as well as
13 some of MIPUG's proposals, and that it really lacks
14 balance in weighting between what we just looked at,
15 which was cost/causation equals cost of service, and
16 everything else, all rate-making objectives for rate
17 design purposes.

18 And it results in a weighting, in my
19 view, that is unfairly shifting costs or rate
20 differentiation toward the residential class. I've
21 listed a number of -- of the reasons for that, or the
22 issues. And I will come back to that.

23 I've had some -- I've been doing some
24 thinking, some contemplation, about what I think that
25 means. And I will try and pull that together for you

1 right at the very end. Move to slide 7, please.

2 So, the next series of slides are
3 looking at, okay, well, what specific direction policy
4 did the Board find in a number of Board Orders,
5 including most recently the Centra Gas Board Order of
6 109/'22 with respect to cost allocation and rate
7 design.

8 And again, it's this idea -- at least
9 this is my interpretation. It's this idea that you
10 keep cost of service clean from rate-making principles
11 other than cost/causation, keep that divorced from
12 everything else in rate making.

13 And so, see -- these are some of the
14 excerpts that I found that are suggestive of that.

15 On slide 8, the Board also found in --
16 in several Board Orders that there are many factors to
17 be considered in establishing rates that are deemed
18 fair and equitable and in the public interest in -- at
19 the end of the day, beyond cost/causation that flows
20 out of a cost allocation study. We can move to slide
21 9, please.

22 And again, I think there's a consistent
23 messaging of the Board and this is keeping in that
24 spirit that says, We are prepared to look at things
25 other than cost/causation in the ultimate

1 determination of rate differentiation and rates for
2 customers. And one of those things is considering
3 that you don't need to look at a zone of
4 reasonableness as tight as ninety-five (95) to one-o-
5 five (105). That there were -- that the PUB was
6 prepared to accept that RCCs that flow out of a Cost
7 of Service study could be outside of the zone of
8 reasonableness.

9 And if I can just stop and pause for a
10 moment because I'm going to move to Manitoba Hydro --
11 my interpretation of Manitoba Hydro's evidence, and
12 just find my concluding thoughts here.

13 And my concluding thoughts are that the
14 spirit and intent of Order 164/16, as well as 59/18
15 and 109/22, is really that -- not to rigidly adhere to
16 the results of the Cost of Service study or to a zone
17 of reasonableness of ninety-five (95) to one-o-five
18 (105).

19 There are a number of factors that the
20 Board must consider in arriving at rates that are
21 deemed fair and equitable for consumers of Manitoba at
22 the end of the day. And with that, I'm going to then
23 move on to slide 10.

24 My interpretation of Manitoba Hydro's
25 rate differentiation proposals to you are that rate --

1 the rate design objectives that they say that have
2 influenced or factored in to their decisions are
3 really amounting to ascribing 100 percent of weight
4 given to the results flowing out of cost of service.

5 And in my mind, that conflicts with
6 what the Board's vision of rate making is and what the
7 Board's policy direction was flowing out of those
8 Orders.

9 If you look at the responses to
10 Manitoba Hydro's Information Requests, one in
11 particular, Coalition/MH-142, what Manitoba Hydro is
12 saying is that it's giving primary weight to cost --
13 cost of service. It's also giving weight to
14 efficiency.

15 And if you look to see how they defined
16 'efficiency', it means embedded cost to serve, which
17 means cost/causation and rate stability.

18 And what that means is they're
19 implementing the mechanical results of PCOSS24, but
20 implementing them over time.

21 So effectively, what we've got here is
22 -- is -- is a wolf in sheepskin. It's cost/causation
23 in disguise. And I would submit to you that that was
24 not the spirit and intent of what the Board envisioned
25 for rate making flowing out of those Orders. I'll

1 move to slide 11.

2 So now we're going to talk about some
3 of the specifics that are driving the outcome of the
4 current -- of the current rate differentiation
5 including net export revenue and uniform rates. If we
6 can move, please, to slide 12.

7 So, I put this chart together and this
8 gives you an appreciation of where in the zone of
9 reasonableness that rates were flowing out of the last
10 Cost of Service study PCOSS21.

11 And, if you look at that chart, you'll
12 see that -- that for one class the -- the GSS non-
13 demand class, all other classes are within the zone of
14 reasonableness and that's despite adding Bipole III
15 and that's despite adding Keeyask, which was partially
16 online, in that particular test year.

17 DR. BYRON WILLIAMS: Just before you
18 leave this slide --

19 MS. KELLY DERKSEN: Sure.

20 DR. BYRON WILLIAMS: -- in terms of
21 PCOSS21, those are in green? Is that --

22 MS. KELLY DERKSEN: Yeah, correct, so
23 this is a comparison between what we saw in PCOSS18
24 and green is PCOSS21. So that was the last Cost of
25 Service study prepared by the Corporation.

1 Let's now move to slide 13. They say a
2 picture is worth a thousand words, to me, this tells
3 me everything I need to know. So, the cost of service
4 '24, is a -- is based on an anomalous record level of
5 net export revenue.

6 If you can look at the PCOSS24 and the
7 red arrow that goes up, net export revenues are at
8 about 1.1 billion, that's far greater than what the
9 Corporation has ever experience -- ever experienced
10 from -- from a cost of service perspective -- from a
11 rate setting perspective.

12 And it is this record level of net
13 export revenue that is underpinning PCOSS24. In my --
14 in my view, this is net export revenue on steroids and
15 it's being used to drive the rates flowing out of this
16 application. We can move to slide 14 please.

17 So, what happens when you incorporate
18 such a large level of net export revenue into your
19 Cost of Service study?

20 So, just a couple of slides ago, we
21 looked at PCOSS21 and we said, but for one class, all
22 other classes are in the zone of reasonableness and
23 when you add in -- when you layer in a very high
24 level, an anomalous level of net export revenue, you
25 get very dramatic changes in RCCs.

1 And, according to Manitoba Hydro's own
2 evidence, particularly for the GSL thirty (30) to a
3 hundred (100) and greater than a hundred (100) class,
4 on account of net export revenue, their RCCs are
5 changing by 9 percent and 12 percent respectively.
6 That is in one test year. We can move then to slide
7 15 please.

8 This slide is flowing from an
9 Information Request that the Coalition had in Manitoba
10 Hydro and Manitoba Hydro was good enough to provide
11 what the RCC outcome would be -- which is the green
12 now that I'm focused on, in this slide, what the RCC
13 outcome will be in five (5) years, assuming whatever
14 level of net export revenue is being assumed -- or
15 very close to at least, in their financial forecast,
16 their IFF.

17 And what we see by doing that is, in
18 the absence of doing anything at all, the RCCs are
19 very close to and within the -- the -- the zone of
20 reasonableness, with no rate differentiation.

21 In other words, Manitoba Hydro is
22 targeting its rate differentiation, in this
23 application, based on something that's not going to be
24 there.

25 And my question of you is: Is that a

1 reasonable basis on which to establish rates? Would
2 you really do that?

3 In my professional opinion, you would
4 never do that -- that, you know, that's -- that's one
5 view, but this is what we have, this is what we are
6 dealing with in this Application.

7 The solution is to normalize the level
8 of net export revenue and not to accept this anomalous
9 level of net export revenue, not for purposes of cost
10 allocation, not for purposes of the financial forecast
11 of the Corporation, but for rate design purposes,
12 which is what the spirit and intent of Board Order
13 164/16 is.

14 It's saying -- saying, look beyond
15 cost/causation and the mechanical output of your Cost
16 to Service study and say, what other factors, what
17 other weight, and what other considerations ought I be
18 giving in establishing rates that I -- that are
19 determined to be just and reasonable at the end of the
20 day.

21 So, things like fairness and equity,
22 rate stability, public acceptability are all factors
23 that ought to be considered and are in -- are exactly
24 intending -- consistent with the intent and spirit of
25 Order 164/16.

1 DR. BYRON WILLIAMS: Ms. Derksen,
2 before you leave this page, what does "normalize"
3 mean?

4 MS. KELLY DERKSEN: It means, look out
5 over a period of time for purposes of rate design and
6 see over that. Manitoba Hydro wants to implement
7 rates to get all classes in a zone of reasonableness
8 in a five-year period.

9 "Normalizing" means look over that
10 five-year period and what you anticipate and use that
11 as your basis, then, to in -- to inform your rate
12 decisions, in the current test year.

13 DR. BYRON WILLIAMS: And just to be
14 clear, you're -- you're focussing on net export
15 revenues, as compared to the anomalous year, to how
16 they are forecast over time?

17 MS. KELLY DERKSEN: I -- yes, that's
18 correct. Moving along now to Slide 16.

19 A similar kind of issue, less
20 significant, but nev -- nevertheless, an issue that's
21 flows out of Order 164/16, and that has to do with
22 uniform rates.

23 Uniform rates were implemented by
24 legislation in this province in about 2001 and, at the
25 time, the government of the day advised it was

1 understood that the implementation of uniform rates
2 would not have a negative impact on the rates for the
3 rest of the customer classes that were being affected
4 and, primarily, the residential class.

5 And so the -- the solution at the time
6 was to take uni -- the cost of uniform rates, which
7 was order of magnitude of about \$20 million -- it was
8 slightly less at the time -- and it was to assign that
9 as a first charge against export revenue.

10 And in 164/16, the Board found that
11 that was not an appropriate assignment of costs
12 against export revenue, but it was a policy
13 consideration that ought to be deal with as part of
14 rate -- as part of rate design purposes, and Manitoba
15 Hydro has -- has ignored that direction. They haven't
16 factored that consideration at all in its rate
17 differentiation proposals.

18 What I have here is a slide -- is an
19 excerpt from the Cost of Service study in 2016 that
20 directionally shows you what the impact is, by
21 customer class, on account of uniform rates and, so,
22 the solution, again, is not to ignore it. That's not
23 what the Board said in 164/16.

24 What the Board did say is, let's look
25 at this from a policy perspective in arriving at

1 rates, at the end of the day, for which Manitoba Hydro
2 hasn't done and I'm suggesting to you, again, that
3 that is something that should be normalized for
4 purposes of rate design.

5 And before I move off that particular
6 slide, I'd like to just bring these two (2) things
7 together, if I could. And that is, if we look at two
8 (2) factors alone and not as the anomalous net export
9 revenue that we just talked about, number 1, and
10 number 2 uni -- the uniform rates adjustments.

11 That if you factor in those two (2)
12 things, most customer classes will be either in the
13 zone of reasonableness or very close to it, with the
14 exception of the GSS non-demand class, and it supports
15 an across-the-board rate proposal if any rate increase
16 is approved by this Board flowing from this
17 application.

18 DR. BYRON WILLIAMS: And just on that
19 point, and we'll get your recommendations at the end,
20 you said that the non-demand class was -- was -- would
21 still not be within or -- or close to the zone of
22 reasonableness.

23 Are you -- are you saying that it
24 should be uniform across, or would you propose a
25 differentiated rate for that one (1) class?

1 MS. KELLY DERKSEN: Just to be clear,
2 my proposal to you is, an across the board. This
3 analysis supports the -- the conclusion that you can
4 implement an across-the-board rate change for all
5 classes with the exception of the GSS non-demand
6 class, which -- which means -- which ultimately,
7 technically means it's not quite across -- across the
8 board, but it -- it's pretty close.

9 It's that one (1) class that would not
10 be something lesser than average. Rate increase would
11 be implemented for that one (1) class alone.

12 DR. BYRON WILLIAMS: Thank you.

13 MS. KELLY DERKSEN: Moving on to slide
14 17. Actually, we'll move right to slide 18, please.

15 These are some other policy
16 considerations that the Board can consider in
17 evaluating Manitoba Hydro's rate differentiation
18 proposals flowing out of this Application.

19 And one of them is, let's look at the
20 revenue-to-cost ratios by class, excluding net export
21 revenue. Now, Manitoba Hydro will say that that's not
22 a valid consideration because the Board in Order
23 164/16 concluded that -- that it would conflict with
24 the Board's conclusions flowing from Board Order
25 164/16.

1 And what Board Order 164/16 said, don't
2 ignore this. It's rightfully considered. It's not
3 rightfully considered as part of cost allocation, but
4 it is rightfully considered as part of rate design and
5 as part of the overall rate-making objectives that the
6 -- the Board wishes to consider in -- in determining
7 rates at the end of the day.

8 And if we look at that, based on
9 Manitoba Hydro's evidence, I'll focus on the right-
10 hand slide. This comes from Manitoba Hydro's rebuttal
11 evidence.

12 If you look to the GSL greater than a
13 hundred (100) class, as well as the GSL zero (0) to
14 thirty (30) class, what this is suggestive of is that
15 those two (2) classes that -- that lower than average
16 rate increase is -- are not supportable if you look at
17 this as an interpretation tool for evaluating Manitoba
18 Hydro's proposals.

19 DR. BYRON WILLIAMS: And just to be
20 clear on this table, you're looking at the
21 contribution of customers before net export revenue is
22 on the left-hand side and then the insights from that
23 isn't normalized to the zone of reasonableness on the
24 right-hand side.

25 Is that what's happening on this page?

1 MS. KELLY DERKSEN: Yeah, Manitoba
2 Hydro took me to task a little bit and sat -- because
3 I put this particular information on the left-hand
4 side as part of my evidence.

5 And probably rightly so, they said, you
6 know, you can't really look at the left-hand chart.
7 You have to scale -- scale it up to include -- if you
8 only looked at the left-hand side, you'd have revenue
9 requirement that was insufficient to generate the
10 amount of -- of costs that you need to pay for the
11 ongoing annualized revenue requirement.

12 So if we bring it up to 100 percent of
13 revenue requirement, which is what they're -- what
14 they're arguing, the left -- the right-hand chart is
15 what you get.

16 So, assuming that Manitoba Hydro
17 collects the revenue requirement that it is proposing,
18 this is the outcome if you exclude net export revenue.
19 In other words, if you don't have net export revenue,
20 you have to have greater levels of net income in order
21 to support your overall revenue requirement.

22 So -- and this is the outcome by class
23 of what happens when you do that. I'm not saying to
24 use this for cost allocation purposes. I'm saying
25 that this is a valid and appropriate tool used to

1 evaluate the rate proposals that are -- that are
2 before you. Slide 19, please.

3 As I say at the top of this particular
4 slide, there is a perverse outcome, if you will, to
5 the residential RCCs as a result of the government
6 payment reductions for provincial guarantee fee and
7 water rental fee.

8 So what happens in the context of cost
9 allocation is that you have lesser cost even though --
10 and that lesser cost, all else being equal, translates
11 into a needed rate increase for the residential class.

12 Let me say that again. The windfall
13 payment coming from the government, on account of the
14 provincial guarantee fee and the water rental fee,
15 which is -- which was put in place to reduce the debt
16 load on account of the major generation and
17 transmission investment that Manitoba Hydro has just
18 put in place, that reduction in the payment from
19 government means, from a cost-allocation perspective,
20 that residential's rates, all else being equal, would
21 have to increase.

22 How would you explain that to a
23 residential customer? There's something -- there's
24 something not right about that outcome. I'm not
25 saying that it's a cost-allocation problem. It is

1 not. I'm accepting those results.

2 What I am saying is: Let's think about
3 the spirit and intent of what your vision for rate
4 making was in Order 164/'16. And it was accept the
5 cost/causation outcome of your cost of service for
6 that purpose, but let's look at some of these factors
7 for purposes of rate design.

8 And I'm saying to you that this would
9 be a consideration, if I was sitting in your seat, in
10 evaluating Manitoba Hydro's rate proposals. To me,
11 there -- there has to be a reasonability check, and I
12 don't think that was done and -- because this is --
13 this is the result of it. Moving on to slide 20.

14 Manitoba Hydro concedes that it has not
15 dealt with issues of marginal cost -- not for cost-
16 allocation purposes, but for purposes of rate
17 differentiation.

18 And my recommendation to you is, this
19 is another tool in the tool chest that you have
20 available to you to interpret the results of the rate
21 differentiation proposals of Manitoba Hydro. And what
22 this suggests to you is that the revenue-to-marginal
23 cost ratio of the GSL greater than a hundred (100)
24 class is still below a hundred (100).

25 And so that would suggest, again, that

1 you might not want to implement rate differentiation
2 lesser than average to that class if you factor in
3 considerations of marginal cost which the Board found
4 appropriate to do as part of rate design purposes in
5 its Order.

6 In this next part, we're going to talk
7 about zone of reasonableness. So this chart is
8 intended to depict that -- the sheer magnitude of the
9 cost increase on account of generation and
10 transmission that has occurred in Manitoba Hydro's
11 operations since, you know, approximately 2018, with
12 the addition of Bipole and Keeyask and -- and the US -
13 - the US infrastruc -- US transmission infrastructure.

14 And what this is showing on the right-
15 hand side is generation and transmission used to
16 represent, of the Corporation's annualized revenue
17 requirement, about \$1.3 billion. It has increased by
18 about 77 percent. It's now at about \$2.3 billion out
19 of a total of about \$3 billion of annualized revenue
20 requirement.

21 On the right-hand side, we're looking
22 at it strictly from an asset-based perspective. So as
23 the -- the costs sit on the accounting records of
24 Manitoba Hydro from an asset-based perspective, assets
25 of G&T have increased 146 percent, or about \$13

1 billion, since the issuance of Order 59/'18.

2 So the question becomes: Why are you
3 telling me this? So if we can move to the next slide.

4 DR. BYRON WILLIAMS: I'd like you to
5 just go back to that slide --

6 MS. KELLY DERKSEN: Sure.

7 DR. BYRON WILLIAMS: -- just to
8 correct an inadvertent misstatement.

9 MS. KELLY DERKSEN: Sorry.

10 DR. BYRON WILLIAMS: In terms of the -
11 - the depiction of the increase in -- in G&T revenue
12 requirement, that 77 percent increase, that's on the
13 left-hand side of slide 22, not the right-hand side?

14 MS. KELLY DERKSEN: Correct. Revenue
15 requirement is the left side; rate-base assets
16 investment in the right-hand side chart.

17 DR. BYRON WILLIAMS: Thank you.

18 MS. KELLY DERKSEN: So why is this
19 important? Why am I telling you this?

20 I'm telling you this because the most
21 judgmental aspect of a vertically integrated electric
22 utility's cost allocation is related to joint and
23 common costs, in other words, generation and
24 transmission which has increased 150 percent
25 approximately.

1 And what I'm saying to you is that
2 there are a multitude of different ways to allocate
3 those costs. There is not one (1) right answer on how
4 to do that, and the -- the cost of generation and
5 transmission has increased by almost 150 percent.

6 I can put this into context for you.
7 There's also -- Manitoba Hydro also owns and operates
8 a natural gas utility called Centra Gas.
9 Approximately 50 percent of Centra's annualized
10 revenue requirement is -- are commodity costs. They
11 are the cost of the molecules that they procure,
12 primarily from Alberta.

13 The cost of those molecules are based -
14 - are driven by the market for natural gas. They are
15 allocated on a volumetric basis. So nearly 50 percent
16 of Centra's revenue requirement is not controversial,
17 and you've got this strong benchmark by which to
18 measure those costs called the natural gas market,
19 NYMEX, et cetera.

20 Conversely, with Manitoba Hydro, it
21 generates its own commodity through the massive
22 investment in generation and transmission that has now
23 increased nearly 150 percent.

24 DR. BYRON WILLIAMS: And --

25 MS. KELLY DERKSEN: And so --

1 DR. BYRON WILLIAMS: Sorry, just --
2 and generation -- sorry to interrupt. And generation
3 transmission would be about 84 percent of the rate
4 base?

5 MS. KELLY DERKSEN: Correct. So, from
6 a rate base perspective, generation and transmission,
7 excluding net export revenue, has moved from about
8 order of magnitude 70 percent to more than 80 percent.

9 And so, it is entirely reasonable that
10 the level of accuracy that we are placing on the
11 results of the Cost of Service study have not gotten
12 better. They have deteriorated because you've got
13 this big pool of costs that everyone shares, that
14 everyone uses, and it's now increased very
15 dramatically in terms of magnitude of cost. If I can
16 move on now to slide 24.

17 A different way to look at the zone of
18 reasonableness is, well, let's see what happened
19 between PCOSS21 and PCOSS24. And PCOSS -- between
20 those two (2) test years -- one (1) test year, the
21 RCCs of the largest industrial class increased by 12
22 percent in one (1) test year.

23 I'm suggesting to you that a zone of
24 reasonableness of plus or minus 5 percent is simply
25 too tight. It is -- it is inadequate to deal with a

1 12 percent RCC change in one (1) test year. It is
2 more than the entire zone of reasonableness of 10
3 percent.

4 How can 10 percent possibly accommodate
5 that kind of swing in RCCs and allow the Board
6 flexibility to include other policy considerations of
7 fairness and equity and -- and public acceptability
8 and bill affordability and all of those things that
9 the Board must consider in arriving at rates that are
10 deemed to be fair and equitable? It can't.

11 There's not enough scope for the Board
12 here to do that when you have RCCs changing to that
13 degree. If I can move to slide 25.

14 This sort of looks like my brain, but
15 it's actually what the RCCs have been over numerous
16 conditions for each of the customer classes going back
17 to 1995 under a variety of different cost allocation
18 methodologies, under a variety of different net export
19 levels, under a variety of different data sets, loads,
20 energy demand, and so on.

21 And so, you've got a zone of
22 reasonableness, which is the black line in the middle
23 of that table, between 95 and 105. And if we move
24 then to the next -- and sorry, I'll -- I'll stay on
25 this slide for a moment.

1 What I'm suggesting to is, based on all
2 of those conditions that face Manitoba Hydro and all
3 of the different plausible methodologies that one
4 could use to generate cost/causation and a Cost of
5 Service study, that 95 to 105 is -- is too tight to
6 accommodate all of those conditions.

7 And if we move to slide 26, it still
8 doesn't accommodate them all, but it's certainly
9 better.

10 And just a side note. And,
11 unfortunately, this never found its way into evidence
12 as part of the cost of service review, or -- or even
13 subsequent to that time, but I had numerous
14 conversations with Manitoba Hydro's expert consultant
15 that it had hired to support it as part of the 2016
16 cost of service review. That was Christianson and
17 Associates (phonetic).

18 And they had been advocating to me at
19 the time that they felt that even 110 -- sorry, 90 to
20 110 was too tight for Manitoba Hydro's operations and
21 that something in the order of magnitude of 85 to 115,
22 in their -- in their opinion, would be more supportive
23 and realistic considering Manitoba Hydro's large scale
24 vertically integrated electric operations.

25 MR. ANTOINE HACAULT: Mr. Chair, I'll

1 thank Ms. Derksen for that double hearsay, but I just
2 want to put my note on that record for that.

3 THE CHAIRPERSON: That I was -- I was
4 waiting to see if somebody was going to do it, but
5 it's understood.

6

7 CONTINUED BY DR. BYRON WILLIAMS:

8 MS. KELLY DERKSEN: I had those
9 conversations with -- with the consultant. And I will
10 move on to slide 26.

11 So, if those conversations were -- are
12 insufficient, then let's look at what's happening in
13 other jurisdictions that are most comparable to
14 Manitoba Hydro's operations. I'm on slide 27. Yes.

15 So, in other jurisdictions there is
16 legislation in place that prohibits -- or direction
17 certainly in place that prohibits both BC Hydro and
18 Hydro Quebec from implementing rate changes to
19 differentiate rates by customer class in those
20 jurisdictions.

21 In fact, both BC Hydro -- I know Mr.
22 Hacault will -- will bring us through what's going on
23 at BC Hydro, to some extent. What I can say with
24 certainty is that in both of those jurisdictions rate
25 differentiation between customer classes has not

1 occurred in at last twenty (20) years. It's been
2 longer -- it's been longer for Hydro Quebec.

3 And so, the purpose of the slide is to
4 say, even if you were to accept the RCC outcome
5 flowing from PCOSS24 very narrowly, Manitoba Hydro is
6 comparing very favourably in terms of an implicit zone
7 of reasonableness in other jurisdictions.

8 In other jurisdictions, their implicit
9 zone of reasonableness ranges from, you know, less
10 than 85 percent -- I think it's even gotten worse over
11 time -- to 135 percent. I'll compare and contrast
12 that to Manitoba Hydro which has a zone of
13 reasonableness of 10 percent, plus or minus 5 percent
14 of 95 to 105.

15 THE CHAIRPERSON: Ms. Derksen, can I
16 just ask you. In -- in terms of -- I just want to
17 make sure I have this correct.

18 In terms of BC Hydro and Hydro Quebec,
19 is this because of legislation? I just want to -- I
20 just want to understand the impact of the legislative
21 aspect versus a regulatory aspect --

22 MS. KELLY DERKSEN: Yeah, certainly.
23 Sorry. Certainly, that -- that's my understanding, is
24 that there is explicit legislation in place at Hydro
25 Quebec. There was until recently direction through --

1 in the form of regulations at BC Hydro. It's been
2 codified in legislation now.

3 Now, there will be some degree of
4 interpretation differences that will arise. That does
5 not exist here in Manitoba, as -- as you well know.

6 All I'm saying is, if you want to look
7 at a benchmark in terms of assessing how well or not
8 Manitoba Hydro is doing in terms of RCCs within a zone
9 of reasonableness, what you can take from this
10 particular graph is that Manitoba Hydro is doing
11 pretty darn good. If I can move to the next slide,
12 please.

13 This picture or this graph is intended
14 to show that if you were to widen the zone of
15 reasonableness here's what the outcome would be.

16 There would still be a requirement for
17 a slight below average rate increase for the GSS non-
18 demand class. But with the exception of that
19 particular class, all customer classes would currently
20 be in the zone of reasonableness. And that's despite
21 the record level of net export revenue that is
22 sizeably impacting the RCCs of the industrial classes
23 and that is underpinning the current Cost of Service
24 study.

25

1 CONTINUED BY DR. BYRON WILLIAMS:

2 DR. BYRON WILLIAMS: Ms. Derksen, just
3 in terms of this slide, this looks at a state, I'll
4 suggest to you, with more normalized net export
5 revenue in '28/'29. Is that correct?

6 MS. KELLY DERKSEN: Yes, that's
7 correct. I may have misspoken previously. And if I
8 did, I apologize. But that is correct. So moving on,
9 if I could, to slide 30 as my time is -- is coming to
10 a close.

11 My professional opinion to you, Mr.
12 Chair and members of the Public Utility (sic) Board,
13 would be to seriously give consideration to an across-
14 the-board rate increase, except for -- for all
15 classes, with the exception of the GSS non-demand.

16 As I've shown you in previous slides,
17 by looking at net export revenue in a slightly
18 different way than what flows out of the Cost of
19 Service study, as well as attending to the matter of
20 uniform rates, it gets you there.

21 Secondly, it would be my professional
22 advice to you if I was sitting in your -- in your
23 chair, I would be seriously giving consideration to
24 expanding the zone of reasonableness here in Manitoba
25 from the current 95/105 to 90/110.

1 I don't believe that the current -- the
2 tightness of the ZOR gives you the flexibility
3 considerations that you envision flowing out of
4 164/16.

5 It also, by the way, would address
6 Manitoba Hydro's flexibility objective. Because,
7 inherently, a zone of reasonableness is a flexibility
8 tool. And so, that is another way that you can
9 accommodate Manitoba Hydro's request for a flexibility
10 objective.

11 If the Board found it not desirable to
12 expand the zone of reasonableness, again, once you
13 normalize for net export revenue and for uniform
14 rates, all classes, by the end of the five (5) year
15 rate differentiation period that Manitoba Hydro is
16 proposing to you has all classes in the -- in the zone
17 of reasonableness or very close to it, but for the GSS
18 non-demand class, and -- and you could look at it from
19 that perspective as well.

20 And then, if you layer on top of that
21 qualitatively considering RCC impacts, excluding net
22 export revenue, the reduction in the payments to
23 Government, as well as marginal cost, which you will
24 have to do each and every General Rate Application in
25 the absence of expanding the zone of reasonableness.

1 You could do that. And that would be the outcome.

2 That is what I'm recommending to you on
3 how that you can implement what you envisioned flowing
4 out of Order 164/16.

5 If I can just take two (2) minutes of
6 time, Mr. Chair. I had one final thought that I'd
7 like to leave with you and the Board Panel.

8 And that's this. I've been -- there is
9 a discomfort that I have. And I'm not entirely sure
10 how to articulate it, so, I'll do it as best as I can
11 in terms of rate setting in this jurisdiction.

12 And I'll call it the catch basin for
13 the residential class. The residential class is the
14 captive customer. They're always there. When things
15 are -- financial conditions are favourable, like high
16 net export revenue, high net income, a windfall
17 payment from the Government in terms of reduction in
18 the Provincial guarantee fee, the Residentials pay
19 more.

20 When things are not so good, like the
21 closing of a mine, which lowers the industrials'
22 loads, residentials -- because of the teeter-totter
23 that they sit on between them and the industrial
24 customers -- residentials have to pay more. And
25 there's just something intuitively not quite right, in

1 my mind, about -- about that.

2 And I want to leave you with those --
3 that concern -- that lingering concern that I have
4 about this catch basin called the residential class
5 that is left to pay -- you know, that is already half
6 of -- half of the costs of Manitoba Hydro, but is left
7 paying for when mines close down, when RCCs are
8 outside the zone of reasonableness, and so on.

9 Thank you for your time.

10 DR. BYRON WILLIAMS: Mr. Chair, just
11 before we close, I just -- and we do have a couple
12 minutes. And I -- Ms. Derksen, just in terms of the
13 appendices, I don't need you to discuss them, but what
14 you discuss in there, you do respond to certain Cost
15 of Service proposals from another witness in this
16 proceeding. Is that fair?

17 MS. KELLY DERKSEN: Yes, that's
18 correct.

19 DR. BYRON WILLIAMS: And you're able
20 to respond to that, if asked?

21 MS. KELLY DERKSEN: Absolutely. Yes.

22 DR. BYRON WILLIAMS: And then, if Ms.
23 Schubert can just, as we finish, take us back to slide
24 18 for one (1) second, please.

25 And Ms. Derksen, this is the normalized

1 approach of RCC before net export revenue provided to
2 you by Manitoba Hydro in the rebuttal evidence?

3 MS. KELLY DERKSEN: The right-hand
4 side chart is, yes.

5 DR. BYRON WILLIAMS: And in terms of
6 being within the ZOR, can you comment on where
7 residential end up in terms on the right-hand side?

8 MS. KELLY DERKSEN: If you look at
9 RCCs excluding net export revenue, the residential
10 class is in the ZOR. And if that was the only
11 consideration in terms of rate differentiation, you
12 would say they're good to go, average rate increase is
13 reasonable.

14 DR. BYRON WILLIAMS: Okay. Thank you.
15 And Mr. Chair, members of the panel, we thank the
16 panel for --

17 THE CHAIRPERSON: Thank you. I'm
18 going to ask the panel if they have any initial
19 questions then. Ms. Kapitany...?

20 BOARD MEMBER KAPITANY: Thank you, Ms.
21 Derksen. Could I take you back to your slide 10.

22 And this is related to your conclusion
23 that Manitoba Hydro is looking really only at
24 cost/causation in the rates that they're presenting
25 for consideration.

1 And I expect that you saw their
2 presentation. It's Manitoba Hydro 51. And I'm
3 looking specifically at their slide 7, where they look
4 at the different objectives that they balanced in
5 their consideration of putting the rates forward.

6 And I just wondered if you could
7 elaborate on how you reached your conclusion that it
8 was only on the bar that says, 'Reflect the cost of
9 providing service', and the bar that says,
10 'Efficiency'. How you reached your conclusion that
11 those were the only two (2) issues that Manitoba Hydro
12 considered.

13 MS. KELLY DERKSEN: It's Manitoba
14 Hydro's evidence, they actually state that explicitly
15 in response to an Information Request that we posed of
16 them.

17 It is the Coalition/MH Round 1 142H.
18 And in that response, they say cost -- cost of service
19 is the primary consideration. That they also
20 considered efficiency and if you look at their
21 definition of 'efficiency', it means embedded cost and
22 then rate stability was the third consideration and
23 that is implementing the results of PCOSS24 over time.
24 And on that basis, I conclude that cost/causation is
25 their sole driver.

1 VICE-CHAIR KAPITANY: So, then in your
2 view, the flexibility and the affordability that was
3 spoken to on this slide 7 from MH-51 were not
4 considered?

5 MS. KELLY DERKSEN: That's what they
6 state, actually in their evidence as part of their
7 response to that Information Request. So, yes, that -
8 - that's not my evidence, that's theirs.

9 VICE-CHAIR KAPITANY: And then on your
10 argument of normalizing net export revenue, I noticed
11 that on slide 18 you looked at PCOSS24 and the
12 implications that would -- that the normalized NER
13 would have on rate design, and then you spoke to it
14 again on 28 about what would happen at the end of the
15 five (5) year period.

16 Did you do, you know, a walk-through of
17 the years between now and the five (5) year period
18 that would -- was -- that we set up in -- in 59 of '18
19 to bring all the customer classes within the zone of
20 reasonableness?

21 I'm just wondering if there is a walk-
22 through. My colleague, Mr. Bass, asked this to Hydro
23 yesterday and so they did point to an Information
24 Request on that.

25 I wondered if you had done that and, if

1 not, if you could and then you also spoke about
2 uniform rates and normalizing those.

3 And I wondered -- I'm assuming because
4 you didn't address that more directly in your
5 evidence, that you think that would have a smaller
6 impact, but it -- could you say more about would --
7 how you see the -- the impact of that affecting where
8 we would be the five (5) years from now and, if
9 possible, if you could do something that would show
10 both of those normalized effects between now and five
11 (5) years from now, that would be helpful.

12 DR. BYRON WILLIAMS: Madam Vice-Chair,
13 just so I'm clear, are you -- and we'll -- we'll be
14 happy, if you want Ms. Derksen to take this away, but
15 are you asking her to comment on whether there is, on
16 the record, kind of a -- a walk-through on these -- on
17 -- on the next few years or -- of -- of the dual
18 impacts of normal -- normalizing for net export
19 revenues and making some adjustment for uniform rates?

20 Is that -- or -- you're asking if it's
21 on the record or if you'd like her to do that as an
22 undertaking. I'm just trying to make sure I
23 understand your question.

24 VICE-CHAIR KAPITANY: I'd like you to
25 do that as an undertaking. Those -- the -- the impact

1 of those two (2) factors on where we would be going
2 over the next five (5) years and -- and you also --
3 oh, sorry.

4 You also had mentioned that when you
5 looked at, I think this was on slide 18, the
6 normalized net export revenue, all the classes except
7 GSS non-demand were within the zone.

8 And so, that -- that would be the only
9 class that you would say that we wouldn't necessarily
10 want to do a -- an across-the-board increase in rates,
11 should we decide to increase rates.

12 What -- what would you recommend then,
13 that we do with that class because, you know as well
14 as anybody, that cost of service is zero sum. And so,
15 if somebody's rates are lower than somewhere else, it
16 has to -- we have to make up that amount in order to
17 keep the Corporation whole.

18 So, what would you recommend on that
19 point?

20 MS. KELLY DERKSEN: First, I just want
21 to address your first comment. If I lead you to
22 believe that the only class, in this particular
23 analysis, on slide 18, was -- that is outside of the
24 ZOR was the GSS non-demand class, I apologize.

25 What this is actually depicting -- this

1 -- if you look at this in isolation of everything
2 else, the GSS non-demand class would receive a lesser
3 than average rate increase.

4 I'll -- I'll get to your other comment
5 in a moment, but the GSS -- GSL zero (0) to thirty
6 (30) and the GSL greater than a hundred (100) in this
7 analysis alone is below the ZOR, and in that case, on
8 account of this issue alone, you would increase the
9 GSL's rates and you would get that -- collect that
10 revenue or you would -- that -- that revenue would
11 come from the GSL customers in order to bring the GSS
12 non-demand class below the -- the upper end of the
13 ZOR. If you were solely looking at this analysis.

14 VICE-CHAIR KAPITANY: Okay, thanks for
15 that clarification. I probably mis-heard you then
16 when you -- when you presented this. Thank you.

17 THE CHAIRPERSON: Ms. Bellringer...?

18 BOARD MEMBER BELLRINGER: Thank you.

19 DR. BYRON WILLIAMS: I -- I apologize
20 very much, Ms. Bellringer.

21 I just want to confirm, I think there
22 was an undertaking and I just want to -- I believe
23 that Ms. Derksen is undertaking to do an assessment of
24 the impact of normalizing the combined effects of net
25 export -- normalizing that export revenues in

1 combination with uniform rates over -- over the --
2 kind of -- the next five (5) year time period.

3 VICE-CHAIR KAPITANY: If you could
4 show them separately and then obviously the -- the --

5 DR. BYRON WILLIAMS: Okay.

6 VICE-CHAIR KAPITANY: -- combined
7 effect would -- would fall out of that.

8 DR. BYRON WILLIAMS: Thank you and
9 I'll -- I'll just check with Board counsel afterwards,
10 just to make sure I have it perfect. And I apologize
11 very much for that.

12

13 --- UNDERTAKING NO. 64: Ms. Derksen to do an
14 assessment of the impact
15 of normalizing the
16 combined effects of net
17 export revenues in
18 combination with uniform
19 rates over the next five
20 (5) year time period and
21 then separately.

22

23 THE CHAIRPERSON: It's yours.

24 BOARD MEMBER BELLRINGER: Thank you.

25 I just -- I have a question on -- it -- it's slides 25

1 and 26. Doesn't matter which one we look at, it's the
2 same -- same question.

3 And it's -- where does the -- where
4 does the methodology switch over? Is it PCOSS18 --
5 would be under the current methodology?

6 MS. KELLY DERKSEN: The most recent
7 pronouncement of the Board on cost of service
8 methodology is in 2016, so.

9 BOARD MEMBER BELLRINGER: So, the
10 shift from --

11 MS. KELLY DERKSEN: That would have
12 been reflective of PCOSS14 at the time.

13 BOARD MEMBER BELLRINGER: Okay, okay,
14 and I -- I guess what I'm -- my question around it is
15 whether you see a different pattern prior to and then
16 subsequent to the change?

17 You know, I mean I can -- when -- when
18 I say, can you see a different pattern, I'm asking
19 from a -- a -- an educated professional perspective as
20 opposed to I can see all kinds of things on this piece
21 of paper because it's quite wild.

22 But is there something that stands out
23 as a systemic change?

24 MS. KELLY DERKSEN: That's an
25 interesting question. I hadn't looked -- I hadn't

1 thought about it in that way. I'm not sure that I
2 could really conclude anything. I -- I'm not sure
3 that, you know, that we've got sort of an equal
4 setting of -- of cost of service results in here.

5 You know, just off the cuff here, you
6 have more change in the -- in the earlier years,
7 compared to the latter years. Perhaps the latter
8 years of this particular chart are more volatile
9 potentially.

10 So, I'm not sure that I could -- I'd
11 have to think about it more, but I'm not sure that I
12 could offer you anything -- any wisdom in that regard.
13 I would comment to you and it's -- it's been in the
14 back of my mind, just based on the number of comments
15 and observations of Manitoba Hydro.

16 And that is, you know, there -- there's
17 this subtle -- subtle inference that certain classes
18 are at the bottom of the ZOR and certain classes are
19 above the ZOR or even within the ZOR and that there's
20 a need to correct the past wrongs in order to make it
21 right.

22 And in my view, what the regulator
23 determined in each particular rate application, it
24 deemed to be just and reasonable at that time. And so
25 this subtle inference that they're -- they're -- were

1 trying to correct for past mistakes, I don't -- I -- I
2 don't believe to be true, because the rate -- the --
3 the rates are correct.

4 The regulator has adjudicated that
5 those are fair and equitable at the time that they
6 were adjudicated. So, I don't accept this idea that
7 there's somehow some past indiscretions of certain
8 classes that need to be made up for in the current
9 circumstances.

10 BOARD MEMBER BELLRINGER: Thank you.
11 And just to clarify, I wasn't looking for any
12 follow-up to that. Thank you.

13 THE CHAIRPERSON: Ms. Derksen, I have
14 a question -- actually, an Undertaking. Ms. Schubert,
15 can you go to 27.

16 Ms. -- Ms. Derksen, I'm just wondering
17 if you could go back to 2016 for BC Hydro and Quebec
18 Hydro and indicate what the -- what their zone of
19 reasonableness is for those periods -- it's -- those
20 periods of time?

21 I -- what I'd be interested in is I see
22 BC Hydro is between 85 and 135. What I'd like to know
23 is since 2016 if -- if that changed. If there was
24 some sort of legislative change or whatever change or
25 has it -- has it being consistent, since 2016, at

1 those levels, and the same for Quebec Hydro?

2 DR. BYRON WILLIAMS: And, Mr. Chair,
3 just so I'm understanding, you're looking for the
4 levels of RCCs for BC Hydro --

5 THE CHAIRPERSON: -- and Quebec.

6 DR. BYRON WILLIAMS: -- and Hydro
7 Quebec, from 2016, forward --

8 THE CHAIRPERSON: Right.

9 DR. BYRON WILLIAMS: -- as well as
10 you're asking if -- what, if any, legislative,
11 regulatory --

12 THE CHAIRPERSON: Correct.

13 DR. BYRON WILLIAMS: -- or policy
14 changes were implemented that might be related --

15 THE CHAIRPERSON: You're phrasing it
16 so much better than I did, but that -- that's right, I
17 mean, this is current. I know where we were in 2016
18 and have an idea of the path we took. I'd -- I'd like
19 to -- to just to do a comparison of two (2) other
20 integrated entities.

21 MS. KELLY DERKSEN: I -- I can do
22 that. I may struggle with Hydro Quebec a little --

23 DR. BYRON WILLIAMS: Of course.

24 MS. KELLY DERKSEN: -- just 'cause of
25 the language barriers, but I will endeavour to do

1 that.

2 THE CHAIRPERSON: Sure.

3

4 --- UNDERTAKING NUMBER 65: For Ms. Derksen to
5 provide the levels
6 of RCCs for BC Hydro
7 and Hydro Quebec,
8 from 2016 forward,
9 as well as what, if
10 any, legislative,
11 regulatory or policy
12 changes were
13 implemented that
14 might be related.

15

16 MS. KELLY DERKSEN: But just a
17 comment, maybe, to -- to satisfy you, at least, until
18 that is prepared and that is, most definitely the RCCs
19 will have changed --

20 THE CHAIRPERSON: Yeah.

21 MS. KELLY DERKSEN: -- since 2016. I
22 can also confirm to you, though, that the -- the
23 changes in RCCs did not result in any rate
24 differentiation.

25 So -- so, if they did, like, they did,

1 it didn't translate into doing anything with it.

2 THE CHAIRPERSON: Okay. Thank you.

3

4 CONTINUED BY DR. BYRON WILLIAMS:

5 DR. BYRON WILLIAMS: Mr. -- Mr. Chair,
6 before we open for cross and, with your permission,
7 only, does Board Member Bellringer's question, in
8 terms of changes in methodology, would it be fair to
9 say that in terms of the treatment of net ex -- ex --
10 export revenue, there's been a -- a couple of changes
11 in methodology over the last decade -- two (2)
12 decades?

13 MS. KELLY DERKSEN: Many changes.
14 Yes.

15 DR. BYRON WILLIAMS: And some of those
16 are captured in an Information Response, which is
17 already on -- on the record, which Board counsel can
18 bring -- bring to your attention. Would that be fair?

19 MS. KELLY DERKSEN: Yes. That's true.

20 DR. BYRON WILLIAMS: Thank you for
21 your indulgence, Mr. Chair.

22 THE CHAIRPERSON: Okay. Mr.
23 Walichnowski, would you like to --

24 MR. ROBERT WALICHNOWSKI: I'm in --

25 THE CHAIRPERSON: -- start your cross-

1 examination.

2 MR. ROBERT WALICHNOWSKI: I'm in your
3 -- your hands, Mr. Chair. I -- I expect I'll be my
4 full 30 minutes.

5 THE CHAIRPERSON: Yes. That's fine.
6 You might as well proceed.

7 MR. ROBERT WALICHNOWSKI: Okay. Thank
8 you. Good morning, Mr. Chair. Good morning, Madam
9 Vice-Chair. Good morning, Members of the Panel.

10 MR. SVEN HOMBACH: Mr. Walichnowski,
11 just I note it -- it's 20 past 10:00. Is there an
12 opportune time to break at around 10:30 or would it
13 be, perhaps, appropriate to take --

14 THE CHAIRPERSON: You know what,
15 let's take the break now. I don't -- I don't want to
16 -- I would rather not -- yeah, I'd rather not
17 interfere in your cross-examination.

18 MR. ROBERT WALICHNOWSKI: And that
19 would be my preference as well, Mr. Chair. Thank you.

20 THE CHAIRPERSON: Sorry. We'll break
21 for 15 minutes.

22

23 --- Upon recessing at 10:19 a.m.

24 --- Upon resuming at 10:38 a.m.

25

1 THE CHAIRPERSON: Welcome back. Mr.
2 Walichnowski, would you like to start?

3 MR. ROBERT WALICHNOWSKI: Thank you,
4 Mr. Chair.

5

6 CROSS-EXAMINATION BY MR. ROBERT WALICHNOWSKI:

7 MR. ROBERT WALICHNOWSKI: Good
8 morning, Ms. Derksen. For the record, my name is
9 Robert Walichnowski. I am counsel to the GSS/GSM
10 representatives.

11 At the beginning of my exam today, I'm
12 going to ask you some -- some background questions
13 kind of just to set the kind of historical context for
14 the last few -- or the historical context for this --
15 for this GRA.

16 Would you agree with me that, in Order
17 164/'16, this Board directed that cost/causation was
18 to be the paramount consideration with respect to a
19 Cost of Service study?

20 MS. KELLY DERKSEN: I agree that they
21 concluded it should be paramount, but not the sole.

22 MR. ROBERT WALICHNOWSKI: And you
23 would agree with me that the first GRA after -- that
24 is, General Rate Application -- after Order 164/'16
25 was the GRA that resulted in Order 59/'18?

1 MS. KELLY DERKSEN: Yes.

2 MR. ROBERT WALICHNOWSKI: And you'll
3 agree with me that, in Order 59/'18, this Board
4 confirmed that the zone of reason -- reasonableness
5 was to be between 95 and 105 percent of the revenue-
6 to-cost coverage ratio?

7 MS. KELLY DERKSEN: Explicitly, yes.
8 They went, further, though, and the Board also
9 concluded...

10

11 (BRIEF PAUSE)

12

13 MS. KELLY DERKSEN: If you can bring
14 up slide 9, please.

15 The Board did explicitly conclude on a
16 95 to 105 zone of reasonableness, but that was not the
17 end of the story.

18 They went further to say:

19 "Rate-making principles may justify
20 accepting an RCC ratio that is
21 outside of the ZOR."

22 So I -- I view it as a two (2) pronged
23 conclusion.

24 MR. ROBERT WALICHNOWSKI: So, Ms.
25 Derksen, my question was: The zone of reasonableness

1 that this Board confirmed -- the zone -- zone
2 reasonableness was between 95 and 105. Your answer to
3 that would be "yes." Am I right about that?

4

5 (BRIEF PAUSE)

6

7 MS. KELLY DERKSEN: I don't think I'm
8 with you on that. I'd say there's a caveat there, and
9 that is, we'll accept 95 to 105 but there are
10 circumstances when a broader ZOR is reasonable -- in
11 other words, accepting of RCCs that are outside of the
12 ZOR in -- in ultimate determination of -- of rates.

13 MR. ROBERT WALICHNOWSKI: Ms.
14 Schubert, can you bring up Board Order 59/'18, please?

15

16 (BRIEF PAUSE)

17

18 MR. ROBERT WALICHNOWSKI: And, Ms.
19 Schubert, if you could go to page 197, at the very
20 bottom of the page.

21 Ms. Derksen, I'm going to suggest to
22 you that this Board recognized the -- the 95 to 105
23 percent range was -- or one (1) of the reasons the
24 Board accepted that range was because of the
25 sophistication of Manitoba Hydro's Cost of Service

1 study.

2 Would you agree with that?

3 MS. KELLY DERKSEN: I agree with
4 that. That was one (1) of the -- one (1) of their
5 rationales for concluding on a 95/105.

6 MR. ROBERT WALICHNOWSKI: And the
7 method used in this proceeding for cost -- for the
8 Cost of Service study is -- has the same level of
9 sophistication.

10 Would you agree with that? It's the
11 same -- it's the same study, the same --

12 MS. KELLY DERKSEN: Yeah. No, I --
13 I'm not that I'm with you on that either. When you
14 double the size of your asset base to suggest that
15 just because the methodology that you employ is the
16 same, that somehow you're going to result in the same
17 level of accuracy, like I -- I can't get there.
18 Sorry.

19 MR. ROBERT WALICHNOWSKI: No, that's
20 okay. Thank you.

21 Is my -- is my understanding correct
22 that your recommendation to this Board -- or among
23 your recommendations to this Board is that it ought to
24 expand the zone of reasonableness from 95 to 105
25 expand it to 90 to 110 percent?

1 Am I understanding that correctly?

2 MS. KELLY DERKSEN: Yes.

3 MR. ROBERT WALICHNOWSKI: And correct
4 me if I'm wrong, but that recommendation was not found
5 in your written -- in your pre-filed written evidence.

6 Am I right about that?

7 MS. KELLY DERKSEN: I do talk about
8 the concerns I have about the -- the zone of
9 reasonableness, but he didn't come explicitly to the
10 conclusion that -- to recommend an expansion of it.

11 It was subsequent, you know, to the
12 filing of other parties' evidence and reviewing the
13 totality of the record that we have in -- in this
14 Application that has led me to that conclusion.

15 MR. ROBERT WALICHNOWSKI: And
16 returning back to Order 59/'18, you're aware that this
17 Board directed Manitoba Hydro to assume a ten (10)
18 year time frame to move all classes into the zone of
19 reasonableness.

20 You're -- you're aware of that
21 directive?

22 MS. KELLY DERKSEN: Can you bring me
23 to the specific language? Because I think there was a
24 nuance there that --

25 MR. ROBERT WALICHNOWSKI: Ms.

1 Schubert, it's page 198. And I believe it's at the
2 very bottom of that page, and it's the first sentence
3 of that paragraph.

4

5 (BRIEF PAUSE)

6

7 MS. KELLY DERKSEN: Okay. I'm with
8 you so far, yes.

9

10 MR. ROBERT WALICHNOWSKI: And I'm
11 going to suggest to you that this Board directed
12 Manitoba Hydro to implement differential rates in this
13 Order.

14 And -- and, Ms. Schubert, if you scroll
15 up the page, I believe it's -- if you keep going, I
16 believe it's this paragraph in the middle of the
17 screen.

18 So, Ms. Derksen, would you agree with
19 me that the Board directed Hydro to implement
20 differential rates?

21

22 (BRIEF PAUSE)

23

24 MS. KELLY DERKSEN: For that
25 particular Application, that's probably a fair
statement. There's lots of qualifying factors,

1 though, that is suggestive to me that that wasn't, you
2 know, from now until forever more.

3 MR. ROBERT WALICHNOWSKI: Fair. And
4 as I understand it -- and would you agree with me that
5 at least part of the reason why that -- that
6 differential rates were to be implemented was because
7 certain classes were overpaying costs to a significant
8 degree outside the zone of reasonableness?

9 And -- and to assist you, Ms. Derksen,
10 I -- I was just simply reading the paragraph in front
11 of you.

12 MS. KELLY DERKSEN: I see what you're
13 saying. It appears that's what the Board's conclusion
14 was.

15 I would offer up, like I said to Ms.
16 Bellringer, that implicit in the decision to approve
17 rates, which may be in the zone of reasonableness,
18 which may be outside the zone of reasonableness, the
19 Board in -- in the lead-up to that Application found
20 that those rates were -- were fair and equitable and
21 just and reasonable.

22 So, you know, the statement that large
23 general service classes have been overpaying almost
24 every year since 1996 I'm not sure is the case, number
25 1.

1 And number 2, if you accept that the
2 Board has implemented rates that are just and
3 reasonable in the lead-up to that, then I'm not sure
4 how one could conclude that they've been overpaying.

5 MR. ROBERT WALICHNOWSKI: Okay. Ms.
6 Schubert, can you go to page 197 of this Order.

7 And, Ms. Derksen, the -- the table in
8 the -- in the middle of the screen I'm going to
9 suggest to you is the results of PCOSS18 after
10 implementing the -- the Board's direction from Order
11 159 -- or, sorry, Order 59/'18 with respect to the
12 treatment of export revenue.

13 Would you have any reason to disagree
14 with that characterization of this table?

15 MS. KELLY DERKSEN: I don't.

16 MR. ROBERT WALICHNOWSKI: And do you
17 have any reason to question the accuracy of the
18 numbers in this table?

19

20 (BRIEF PAUSE)

21

22 MS. KELLY DERKSEN: There's two (2)
23 ways you could look at accuracy. I mean, are the
24 numbers what's spit out of the Cost of Service study
25 at the time? I have no reason to -- to conclude that

1 they're wrong.

2 Now, the level of accuracy that's
3 underpinning what gave rise to those numbers, that is
4 a significant issue to me.

5 MR. ROBERT WALICHNOWSKI: Thank you.
6 If -- if we -- if -- can I ask you to just look at --
7 at this table and just confirm my understanding that
8 the residential class would have a revenue-to-cost
9 ratio of 93.5 percent, which would be below the zone
10 of reasonableness in the PCOSS study.

11 Am I -- am I right about that?

12 MS. KELLY DERKSEN: Looking very
13 narrowly at the -- the mathematical output, yes,
14 you're right.

15 MR. ROBERT WALICHNOWSKI: And they're
16 the only class below?

17 MS. KELLY DERKSEN: It -- it appears
18 that way, yes.

19 MR. ROBERT WALICHNOWSKI: And you'll
20 notice that -- the next line down, General Service
21 Small non-demand, is at 115.7 and that -- you would
22 agree with me that's above the zone of reasonableness?

23 MS. KELLY DERKSEN: Mathematically
24 speaking, yes. That doesn't look at other factors,
25 which is what we talked about to a large degree this

1 morning. But the mechanistic output of the Cost of
2 Service study generated a -- an RCC for that class of
3 that amount, yes.

4 MR. ROBERT WALICHNOWSKI: Ms.
5 Schubert, can you pull up -- Ms. -- Ms. Schubert, can
6 I ask you to keep this document on the screen and can
7 you also pull up tab 8 of the Application,
8 specifically page 9, and it'll be figure 8.3.

9 So, Ms. -- Ms. Derksen, I'm -- I'm
10 bringing these up so -- so that we can kind of have a
11 -- a historical comparison, if you will.

12 And -- and you'll agree with me that
13 the -- the table on the right, the second column -- or
14 the second and third columns deal with the results of
15 PCOSS21.

16 Am I -- am I describing that correctly?

17 MS. KELLY DERKSEN: As far as I'm
18 aware, yes.

19 MR. ROBERT WALICHNOWSKI: And then the
20 final two (2) columns deal with the results of
21 PCOSS24?

22 MS. KELLY DERKSEN: The -- the
23 mechanistic output of the Cost of Service study in 24,
24 yes.

25 MR. ROBERT WALICHNOWSKI: And if we

1 look at PCOSS21, the residential customers are at 96.2
2 percent. And so, they moved into the zone of
3 reasonableness from PCOSS18.

4 Would you agree with that?

5 MS. KELLY DERKSEN: Well, in fact, all
6 customer classes with the exception -- all the major
7 customer classes with the exception of the GSS non-
8 demand are in the zone of reasonableness in PCOSS21,
9 which is consistent with the slide that I provided
10 this morning.

11 MR. ROBERT WALICHNOWSKI: Thank you.
12 And so, as -- as I asked, the residential moved into
13 the zone of reasonableness. So, I would suggest to
14 you that was a directionally appropriate move.

15 Would you agree with that?

16 They were outside the zone of
17 reasonableness before and they moved into the zone of
18 rea -- reasonableness, and closer to unity, would you
19 agree with my characterization that it -- that is a
20 directionally appropriate move?

21 MS. KELLY DERKSEN: Well, I think it
22 depends on what your goals are. So, I'm not sure that
23 I could say "yes" or "no" unless I understand, you
24 know, what the goals that gave rise to that number
25 are.

1 It -- it's just a number, and so other
2 than that, like, it doesn't tell you -- it's sort of a
3 meaningless number. If you -- if you want to look at
4 it very mechanistically, is it in the ZOR, yes. But
5 that's not what rate setting is about.

6 MR. ROBERT WALICHNOWSKI: I understand
7 that. I'm asking you about the results of a Cost of
8 Service study.

9 With respect to General Service Small
10 non-demand, you'll agree that between PCOSS18 and
11 PCOSS21 there was an improvement -- or rather -- let
12 me put it this way, it -- the class moved closer to
13 the zone of reasonableness, but didn't quite get there
14 by PCOSS21.

15 MS. KELLY DERKSEN: There was
16 directional movement in the RCC toward the zone of
17 reasonableness between PCOSS18 and PCOSS21.

18 Is that what you were asking me?

19 MR. ROBERT WALICHNOWSKI: Yes, that --
20 that was.

21 MS. KELLY DERKSEN: Okay.

22 MR. ROBERT WALICHNOWSKI: Sorry, the
23 question was a little -- a little garbled there.

24 Can I ask you, with respect to PCOSS24,
25 you'll just confirm that the residential class at 94.4

1 percent is -- is the only class below the zone of
2 reasonableness after the output from this -- or
3 showing -- as shown by the output of this PCOSS24?

4 MS. KELLY DERKSEN: Yes, the mechanical
5 output of PCOSS24 shows the residential class, you
6 know, a smidgen outside of -- of the ZOR.

7 MR. ROBERT WALICHNOWSKI: And so,
8 they've gone from in the ZOR to outside the ZOR
9 between the last PCOSS and this PCOSS?

10 MS. KELLY DERKSEN: Yes, and -- and
11 that's despite a record level of net -- of net export
12 revenue and windfall payments, Provincial guarantee
13 fee.

14 MR. ROBERT WALICHNOWSKI: And just to
15 confirm, GSS non-demand, while moving towards the zone
16 of reasonableness is still above it at 109.7 percent?

17 MS. KELLY DERKSEN: Yeah. It -- yeah,
18 they have persistently been above the ZOR.

19 MR. ROBERT WALICHNOWSKI: Thank you.
20 Can you -- am I correct that, if all classes were to
21 receive the same rate increase, if -- if the rate
22 increase was, for example, just to use a round number,
23 2 percent across the board, that the RCCs for those
24 classes during the test years would not change from
25 the numbers we see here?

1 MS. KELLY DERKSEN: Mathematically,
2 that's true. But there are lots of cost changes that
3 occur in-between those periods, so it's -- it's a
4 point in time calculation, sir.

5 MR. ROBERT WALICHNOWSKI: Thank you.
6 Ms. Derksen, I'm going to move to a slightly different
7 area now.

8 As I understand your evidence, it's
9 your opinion that, subject to certain assumptions, and
10 -- and we'll talk about those assumptions in a moment
11 -- but subject to -- to certain assumptions, that the
12 RCCs of most of the customer classes will self-correct
13 within the next five (5) years.

14 Am I understanding your -- your larger
15 point on that correctly?

16 MS. KELLY DERKSEN: With the exception
17 of the GSS non-demand class, yes, that's fair.

18 MR. ROBERT WALICHNOWSKI: Thank you.
19 And I believe -- Ms. Schubert, if we can bring up Ms.
20 Derksen's --

21 MS. KELLY DERKSEN: Sorry, sir. Just
22 to add to the last thought. That's in the absence of
23 doing anything at all.

24 MR. ROBERT WALICHNOWSKI: Yes. And --
25 and thank you for confirming that.

1 MS. KELLY DERKSEN: Yes.

2 MR. ROBERT WALICHNOWSKI: And if you
3 could go to page 53. And, Ms. Derksen, I'm -- I'm
4 just -- I'm going to -- I just want to just confirm
5 that, specifically, your -- your opinion is that the
6 RCCs would naturally come into a fairly tight range
7 reasonably aligned with the 95 to 105 percent ZOR
8 without the -- without the need for rate
9 differentiation.

10 Am I -- am I understanding your -- your
11 evidence correctly?

12 MS. KELLY DERKSEN: Right, because the
13 nature of net export revenue is so volatile that it
14 has a whole lot of impact to RCCs by customer class.
15 And on that basis, I draw that conclusion.

16 MR. ROBERT WALICHNOWSKI: Thank you.
17 And -- and that conclusion relies on certain
18 assumptions, including assuming average water flow.

19 Am I right about that?

20 MS. KELLY DERKSEN: By '28/'29, yes,
21 it's -- it's average water flow forty (40) year
22 average.

23 MR. ROBERT WALICHNOWSKI: And -- and
24 your -- your statement here also assumes a continued
25 forecast decline of net -- net export revenue.

1 Am I right about that?

2 MS. KELLY DERKSEN: It's not my
3 assumption. It's the -- the Company's assumption.
4 So, I accepted that evidence, and -- and that's what
5 they've told us, so, yes.

6 MR. ROBERT WALICHNOWSKI: I -- I
7 understand that. But your conclusion is based on the
8 -- is based on those projections.

9 Am I right about that?

10 MS. KELLY DERKSEN: Yes.

11 MR. ROBERT WALICHNOWSKI: Ms. -- Ms.
12 Schubert, if we could just scroll down to the next
13 page, Table 17.

14 Ms. Derksen, I'm -- I'm -- I just -- as
15 I understand this table, this reflects what you say
16 would be the outcome if -- if there was -- or rather,
17 this is what you say would -- would be the result of
18 that five (5) years of the -- let me -- let me restart
19 the question. I'm sorry, I kind of muddled it there.

20 I previously asked you about your
21 opinion that RCCs will naturally come back to the zone
22 of reasonableness.

23 Is the blue column in this table the
24 kind of mathematical reflection of that?

25 MS. KELLY DERKSEN: Yes. And that's

1 based on an Information Request prepared by Manitoba
2 Hydro. And that export revenue level is consistent
3 with what -- directionally consistent -- it's not for
4 the dollar exact, but directionally consistent with
5 what the Company is forecasting in that -- in that
6 test year as part of its -- its IFF scenario.

7 MR. ROBERT WALICHNOWSKI: Thank you.
8 And -- and just if we could scroll down a little bit,
9 Ms. Schubert.

10 The first sentence under this table, I
11 just -- I just want to clarify with respect to what
12 you meant by Manitoba Hydro's proposed rate
13 differentiation period.

14 Now, I understand that to mean the ten
15 (10) year period that the Board's mentioned in Order
16 58 -- 59/'18 that we talked about earlier today.

17 Is -- is that your -- is that what you
18 meant by that phrase?

19 MS. KELLY DERKSEN: Yeah, my -- my
20 interpretation of Manitoba Hydro's evidence -- how
21 about if we put it that way -- is that they said,
22 okay, the Board told us to do this in 59/'18, which
23 was move certain customer classes in the ZOR over a
24 ten (10) period.

25 They came in this -- into this

1 application and their evidence is that, okay, well,
2 there's five (5) years left of that period which it
3 directed in 59/'18, and so, yes, that's what that
4 statement is intending to depict.

5 MR. ROBERT WALICHNOWSKI: Thank you.
6 That -- that was my -- my understanding, as well. Ms.
7 Schubert, if you could just scroll back to Table --
8 the full Table 17.

9 Am -- am I right in understanding that,
10 in effect, this table would show the RCC results that
11 you expect would emerge at the end of that period if
12 the Board follows your recommendations about not
13 implementing a differential rate design?

14 Am I -- am I understanding that
15 correctly?

16 MS. KELLY DERKSEN: I can't comment on
17 -- on net export revenue levels. That's not my area
18 of expertise. What I can comment on is that I looked
19 at Manitoba Hydro's Application, and I said, why on
20 earth would we be setting rates based on \$1.1 billion
21 of net export revenue that the Company forecasts won't
22 be there by the end of -- of this five (5) year
23 period.

24 So, it was -- that's the method --
25 that's the method to my madness.

1 MR. ROBERT WALICHNOWSKI: Okay. Is it
2 -- is it fair to say -- and -- and I believe we've --
3 we've touched on this already -- that your -- your
4 conclusions with respect to this are -- are -- rely on
5 the accuracy of Manitoba Hydro's forecasting?

6 Am I -- am I understanding that
7 correctly?

8 MS. KELLY DERKSEN: I think what I'm
9 really saying is, you cannot rely on an anomalous
10 level -- or it is inappropriate, in my professional
11 opinion, to rely on an anomalous level of net export
12 revenue in the current test year for purposes of
13 setting rates.

14 There should be something else. There
15 should be some normalization of it. And because of
16 the five (5) year period in which Manitoba Hydro is
17 interested in moving is its target, it seemed
18 reasonable to me to look at what net export revenues
19 would be based on Manitoba Hydro's own forecast at
20 that time.

21 MR. ROBERT WALICHNOWSKI: Thank you.
22 Ms. Derksen, just to confirm.

23 If the RCCs -- assuming moving the RCCs
24 into -- into the zone of reasonableness is a desirable
25 objective, and I understand we may have a different --

1 difference of opinion on that point, but if the RCCs
2 do not self-correct, as you seem to be suggesting they
3 do, but instead, they either stay the same or worsen
4 for some classes in the next few years, would you
5 agree with me that in order to meet the -- in order to
6 meet -- or in order to move those classes back into
7 the zone of reasonableness by a specific date, that
8 may require larger differential rate changes in the
9 future?

10 MS. KELLY DERKSEN: I would say that
11 moving classes into a zone of reasonableness in of
12 itself is not the -- the goal. The -- the goal is,
13 let's assess the reasonability of the RCCs and -- and
14 assess against that benchmark whether it's even
15 reasonable to move the RCCs in that direction.

16 I think that's what the spirit of
17 164/'16 is telling us.

18 MR. ROBERT WALICHNOWSKI: Thank you.
19 My -- my question was a little bit more mathematical
20 than that. It's -- and -- and let me rephrase it this
21 way.

22 At a general level, if there's less --
23 if -- if classes that are outside the zone of
24 reasonableness for whatever reason need to be brought
25 within the zone of reasonableness within a certain

1 amount of time, the smaller that time, the potential
2 need for larger differential rate increases.

3 Am I right about that?

4 MS. KELLY DERKSEN: As a statement in
5 and of itself, there -- there's nothing wrong with
6 what you said.

7 MR. ROBERT WALICHNOWSKI: Returning to
8 Table 17. Again, you'll -- you'll agree with me that
9 in this scenario, the GSS non-demand are still outside
10 the zone of reasonableness?

11 MS. KELLY DERKSEN: Are you talking
12 for the blue column?

13 MR. ROBERT WALICHNOWSKI: Yes.

14 MS. KELLY DERKSEN: Yes, sir.

15 MR. ROBERT WALICHNOWSKI: Yes. And --
16 and, in fact, it's 5.5 percent over?

17 MS. KELLY DERKSEN: The math works,
18 yes.

19 MR. ROBERT WALICHNOWSKI: Thank you.
20 And -- and you -- I'll -- I'll suggest to you that in
21 -- in the figure we saw in PCOSS24 previously had GSS
22 non-demand at 109.7 percent.

23 Subject to check, would you -- would
24 you -- first of all, subject to check, would you agree
25 with that?

1 MS. KELLY DERKSEN: Yeah. It's on
2 this table, sir.

3 MR. ROBERT WALICHNOWSKI: Oh, it is.

4 MS. KELLY DERKSEN: Yes.

5 MR. ROBERT WALICHNOWSKI: You're
6 absolutely right. Thank you.

7 And so, you'll agree with me that, with
8 -- following -- you'll agree with me that, between
9 PCOSS24 and -- or the difference between PCOSS24 on
10 the left and the blue column on the right would see
11 GSS actually move further -- GSS non-demand actually
12 move further away from the zone of reasonableness?

13 MS. KELLY DERKSEN: Yeah. You know,
14 I'll go with you mathematically. But, you know, to --
15 to have -- to -- I just don't -- I just can't accept
16 that that is what the regulator's role is, is to look
17 at a number, is it going up or is it down, in -- you
18 know, in light of the circumstances of -- of the
19 operations.

20 I mean, like, let's -- let's make this
21 real here. Like, Manitoba Hydro just added \$13
22 billion of generation and investment. That's --
23 that's a number I can't even fathom from a personal
24 perspective.

25 Net export revenue is 1.1 billion.

1 It's up 170 percent since PCOSS18. So, I think that
2 it -- it's troubling to me, you know, to go down this
3 path and say is this number up, is it down. You're
4 not wrong from a mathematical perspective.

5 MR. ROBERT WALICHNOWSKI: Thank you.

6 MS. KELLY DERKSEN: But rate setting
7 is not a mathematical exercise.

8 MR. ROBERT WALICHNOWSKI: Thank you.
9 Mr. Chair, I'm rapidly approaching the end of my half
10 hour. I have probably another ten (10) minutes or so
11 with the Board's indulgence.

12 THE CHAIRPERSON: I actually have you
13 until 11:20, so.

14 MR. ROBERT WALICHNOWSKI: Delightful.
15 Thank you.

16 THE CHAIRPERSON: Okay.

17 MR. ROBERT WALICHNOWSKI: I will -- I
18 will try to keep that within 11:20.

19

20 CONTINUED BY MR. ROBERT WALICHNOWSKI:

21 MR. ROBERT WALICHNOWSKI: So, Ms.
22 Derksen, with respect to the General Service Small
23 non-demand classes, am I correct in understanding the
24 content of your -- of your filed report, that the
25 Public Utilities Board may wish to consider rate

1 differentiation for that class for, among other
2 reasons, it's continued position above the zone of
3 reasonableness?

4 MS. KELLY DERKSEN: Yeah. You know,
5 from -- the -- the reason I came to that conclusion,
6 sir, it was the same conclusion that I had in a
7 previous Manitoba Hydro rate application, as well, is
8 that, no matter what happens in terms of net export
9 revenue, adding significant levels of generation and
10 transmission, a variety of cost allocation
11 methodologies, which are all valid and appropriate,
12 just different perspectives, nothing seems to move
13 them.

14 And the reason that's happening is
15 because they're -- you know, we talked about this
16 teeter-totter this morning. There's one end of it,
17 which is the residential. There's another end of it,
18 which is generally the -- the industrial customers.
19 Well, this class kind of sits where the fulcrum is.

20 So it -- they're depicting the average
21 cost to serve. So they're never really going to move
22 unless you explicitly do something through rate
23 differentiation. They move to some degree, but not
24 the wild swings that we see in other customer classes.

25 MR. ROBERT WALICHNOWSKI: So with that

1 -- with that explanation said, where, despite -- as
2 you said, nothing seems to move them, other -- as I
3 understood it, absent rate differentiation, why did
4 you feel the need to qualify your -- your comments
5 with respect to GSS-ND in your report?

6 Why should the Board -- why -- why
7 would the Board may wish to consider -- if there's --
8 if there's no other way to get them into the zone of
9 reasonableness, shouldn't the Board implement
10 differential rates for GSS non-demand?

11 MS. KELLY DERKSEN: I don't know how
12 they farrow in the wash of, let's say, uniform rates,
13 for example. So they're on -- and if you were to
14 expand the zone of reasonableness, you know, they're
15 right there. So it's -- it's hard to say. It's hard
16 to draw that conclusion explicitly.

17 And so, it was for that reason I felt
18 it necessary to qualify it.

19 MR. ROBERT WALICHNOWSKI: And so,
20 despite the fact that GSS non-demand will continue to
21 be above the zone of reasonableness, your evidence
22 contained no specific proposal or calculation
23 suggesting how they could be moved into the zone of
24 reasonableness.

25 Am I -- am I remembering your report

1 correctly?

2 MS. KELLY DERKSEN: Typically -- it
3 did not, you're right.

4 Typically what occurs is that any --
5 any customer classes whom are either below the zone of
6 reasonableness or within the zone of reasonableness on
7 either side of unity, typically, would have rate
8 increases that are slightly higher than average in
9 order to accommodate that.

10 MR. ROBERT WALICHNOWSKI: And just to
11 confirm that we're on the same page, the cost
12 allocation component of a Cost of Service study, I
13 think you described it as a zero (0) sum gain.

14 Am I -- am I recalling that correctly?

15 MS. KELLY DERKSEN: Yes.

16 MR. ROBERT WALICHNOWSKI: And I
17 understand that to mean that if some class's
18 proportionate shares of costs rise, then other class's
19 proportionate shares of costs have to go down.

20 Am I -- am I describing that correctly?
21 If some people go up, at least some people have to go
22 down.

23 MS. KELLY DERKSEN: That's one way to
24 look at it. At the end of the day, it's about the
25 utility collecting its approved revenue requirement.

1 And you can collect it a number -- a number of
2 different ways from different customer classes.

3 If you collect more from one class,
4 then mathematically you'd collect a little bit lesser
5 from somebody else.

6 MR. ROBERT WALICHNOWSKI: And if you
7 collect more from one class, that means you're
8 collecting revenue from that class that is more than
9 is needed to recover all their costs as allocated to
10 them by PCOSS -- by the PCOSS. Am I right about that?

11 MS. KELLY DERKSEN: Can you -- can you
12 ask me that again, please?

13 MR. ROBERT WALICHNOWSKI: I'll ask it
14 slightly differently because I can't remember the
15 exact words I used. Let's -- let's just jump back.

16 You'll agree with me that if a class
17 has an RCC above the zone of reasonableness, that
18 means that the revenue collected from that class is
19 more than is needed for the -- is more than the
20 utility would need to recover from that class based
21 solely on allocated costs.

22 MS. KELLY DERKSEN: Solely on
23 allocated costs. Fair.

24 MR. ROBERT WALICHNOWSKI: And Ms.
25 Derksen, you've been put forward by the

1 representatives of the residential customer class as
2 an expert witness in this proceeding.

3 Am I -- am I describing that -- your
4 role -- correctly?

5 MS. KELLY DERKSEN: Yes.

6 MR. ROBERT WALICHNOWSKI: And I'd just
7 like you to confirm that you understand your role as
8 an expert witness is to provide the Board with your
9 opinion on issues that are within your -- your
10 qualifications, within the scope of your expertise.

11 MS. KELLY DERKSEN: I think that's
12 fair.

13 MR. ROBERT WALICHNOWSKI: And you
14 understand as an expert your -- your evidence is
15 supposed to be objective?

16 MS. KELLY DERKSEN: Yes.

17 MR. ROBERT WALICHNOWSKI: And it's not
18 supposed to be partisan?

19 MS. KELLY DERKSEN: I -- I understand
20 that, yes.

21 MR. ROBERT WALICHNOWSKI: You're not
22 to advocate or argue in favour of any class, any
23 specific class? Would that not flow from being non-
24 partisan?

25 MS. KELLY DERKSEN: Likely fair, yes.

1 MR. ROBERT WALICHNOWSKI: And would
2 your evidence be the same if you were hired by my
3 clients?

4 MS. KELLY DERKSEN: Yes.

5 MR. ROBERT WALICHNOWSKI: And you -- I
6 believe you agreed with me previously that
7 mathematically if there's no change to the -- if there
8 are -- mathematically if there is -- if all classes
9 are given the same rate increase, the RCCs would not
10 change during the test years.

11 I believe -- I believe we had that
12 discussion briefly. And I believe -- as I remember --
13 and please correct me if I'm wrong -- we ended at the
14 point where mathematically that would be the case.

15 Am I remembering that correctly?

16 MS. KELLY DERKSEN: Yes. What I said
17 is it's a point-in-time calculation. So as soon as --
18 as soon as you calculate that, you know, it's going to
19 change. But at that moment in time, that's true.

20 MR. ROBERT WALICHNOWSKI: And so, just
21 remembering, as you said, your evidence would be the
22 same if you were hired by -- by my clients, you would
23 agree with me that you've recommended a course of
24 action that will see the General Service Small non-
25 demand classes remain above the zone of

1 reasonableness, as it is currently defined by the
2 Board?

3 MS. KELLY DERKSEN: Are you asking me
4 implicitly whether there would be enough scope to move
5 the GSS non-demand class to 105 percent in one (1)
6 Application?

7 MR. ROBERT WALICHNOWSKI: What I'm
8 asking, Ms. Derksen, is whether or not you would agree
9 that your recommended course of action, as set out in
10 your report and in your evidence, would see the
11 General Service Small non-demand class remain above
12 the zone of reasonableness?

13

14 (BRIEF PAUSE)

15

16 MS. KELLY DERKSEN: I don't think I've
17 said that explicitly.

18 What I've said is it's reasonable that
19 the General Service non-demand class receive a lesser
20 than average rate increase in light of the fact that
21 Manitoba Hydro is proposing a 2 percent overall rate
22 increase and this class has, you know, order of
23 magnitude of a hundred-and-ten (110) RCC, you would
24 need -- mathematically speaking -- a 5 percent
25 reduction in order to do that.

1 Sorry. Yeah, a 5 percent reduction in
2 order to do that. Is -- is that answering your
3 question?

4 MR. ROBERT WALICHNOWSKI: I think it's
5 probably as close as we're going to get on that point.

6 Mathematically, you would agree with me
7 that you're recommending a course of action that would
8 see the residential customer class remain below the
9 zone of reasonableness, as it's currently defined, for
10 the test period. Would you agree with me on that?

11 MS. KELLY DERKSEN: No, I don't agree
12 with you. Because I think once you factor in a
13 normalized level of net export revenue and the
14 allocation of that that flows, as well as, at a
15 minimum, considering the uniform rate adjustments, I -
16 - I think the residential class is in the ZOR.

17 MR. ROBERT WALICHNOWSKI:
18 Hypothetically, if net export ratios are not treated,
19 as you suggest they should be treated, would you agree
20 that you've recommended a course of action that would
21 see only one (1) class -- the residential class --
22 remain below the zone of reasonableness?

23

24 (BRIEF PAUSE)

25

1 MS. KELLY DERKSEN: Again, sir, I
2 think that if you look at the other interpretation
3 tools that the -- that I'm suggesting that the Board
4 has, in addition to net export revenue, which you said
5 -- you caveated your question to say, if the Board
6 doesn't accept that, there are still other tools that
7 are available for the Board to implicitly have the
8 Residential class at the -- at the level of zone of
9 reasonableness in the absence of net export revenue.

10 MR. ROBERT WALICHNOWSKI: I believe I
11 was asking you to -- to -- I'll move on from that.

12 THE CHAIRPERSON: You know, you'd
13 better -- you're at your time.

14 MR. ROBERT WALICHNOWSKI: I've got two
15 (2) more questions, Mr. Chair.

16 THE CHAIRPERSON: Okay, get it
17 quickly.

18

19 CONTINUED BY MR. ROBERT WALICHNOWSKI:

20 MR. ROBERT WALICHNOWSKI: Actually,
21 I've -- I've got -- I've got -- and -- and Ms.
22 Derksen, I'm going to challenge on -- on one point and
23 this will be my last question.

24 I'm going to suggest to you you would
25 not be making the recommendations that you were, if

1 you were retained to provide evidence on behalf of
2 either the General Service Small and Medium classes,
3 or the General Service Large classes.

4 What would you say to that?

5 MS. KELLY DERKSEN: I'm not sure on
6 what basis you could conclude that. I -- I'm not
7 sure.

8 MR. ROBERT WALICHNOWSKI: Okay. Thank
9 you. Mr. Chair, those are my questions.

10 THE CHAIRPERSON: Thank you. Mr.
11 Hacaault, I -- I understand you're -- been allocated an
12 hour and a half so I -- I would ask you to pick a time
13 around noon where it would fit within your case and
14 we'll adjourn for the lunch hour. Okay?

15 MR. ANTOINE HACAULT: Certainly, Mr.
16 Chair. I'll try and do that.

17

18 CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

19 Good morning, Ms. Derksen, good to see
20 you again. I'm going to start at your slide 6.
21 There's bullets on there. One is partially erased by
22 this wonderful depiction of a -- a balance. It
23 references a consideration of level increase of
24 generation and transmission.

25 My question to you is: You agree that

1 we've completed a decade of investment in generation
2 and transmission. Correct?

3 MS. KELLY DERKSEN: We have.

4 MR. ANTOINE HACAULT: And you'll agree
5 that in the financial forecast scenario, as we now
6 call them. It used to be IFS when you were at Hydro.
7 There's no major generation and transmission projected
8 in the next twenty (20) years?

9 MS. KELLY DERKSEN: I -- I'm not sure
10 how you define 'transmission', sir, so if we're
11 talking another Bipole or, you know, another
12 hydroelectric dam, I agree with that.

13 MR. ANTOINE HACAULT: And you have the
14 next bullet industrial load loss. There's no evidence
15 from Manitoba Hydro to suggest that this load loss is
16 also not stable in the short term, test years?

17 MS. KELLY DERKSEN: It is in the test
18 years between approximately PCOSS18 to PCOSS24.
19 There's been about a 30 percent decline in load in the
20 GSL greater than a hundred (100) class, subject to
21 check.

22 MR. ANTOINE HACAULT: Okay, thank you.
23 I'm going to move to your slide 13.

24 You'll agree with me that this
25 depiction focuses slowly on the variable, which is net

1 export revenue?

2 MS. KELLY DERKSEN: This is only net
3 export revenue as defined through cost of service
4 rather through -- than through the integrated
5 financial forecast.

6 MR. ANTOINE HACAULT: And, for
7 clarification, there isn't a fulsome analysis and
8 evidence to support a PCOSS28. Correct?

9 MS. KELLY DERKSEN: Correct, there --
10 there -- there were scenarios run, assuming PCOSS24
11 under a number of different conditions to attempt to
12 replicate that, but there's not a full study. We're
13 not there yet.

14 MR. ANTOINE HACAULT: And, if we go to
15 Coalition/Manitoba Hydro 155. I'll first, before
16 going to this particular evidence -- or piece of
17 evidence, on your graph, or -- sorry, your slide 13.

18 Am I right in interpreting this slide
19 that by 2028/2029 your assumption is that -- that net
20 export revenue will be about seven hundred (700)
21 million?

22 MS. KELLY DERKSEN: Roughly and I went
23 back then to the IFF and confirmed that that order of
24 magnitude is -- is consistent.

25 MR. ANTOINE HACAULT: And, thank you

1 for that. If we go back on the screen, sorry to make
2 you back -- go back and forth.

3 This was a scenario, 'cause it's
4 Coalition/Manitoba Hydro 155, that's at page 11 of 19,
5 for the record, which you asked Hydro to run on an
6 assumption of -- just a little bit short of seven
7 hundred (700) million, being precisely \$692 million in
8 export. Correct?

9 MS. KELLY DERKSEN: That was their
10 calculation. I asked them to provide to me a number
11 of scenarios based on varying levels of export revenue
12 on a percentage basis. So, this was their
13 representation of -- of that.

14 MR. ANTOINE HACAULT: And, if we go
15 under that particular scenario which you asked them to
16 run, and I'm not going to go through all the numbers,
17 only the Residential.

18 It does bring the Residential
19 marginally into the zone of reasonableness at 95.5
20 percent. Correct?

21 You've used the word "mathematically,"
22 isn't that the mathematical conclusion of this
23 scenario?

24 MS. KELLY DERKSEN: There's a couple
25 of things that are sort of dancing in my head, like

1 number -- number 1 is exactly that -- you read my
2 mind. Number 2 is that once that you are in the zone
3 of reasonableness, in my professional view, that there
4 is no distinction to be drawn.

5 So, whether it's in the low end or the
6 high end, it's in -- it's in the zone of
7 reasonableness. Not a -- a probability exercise
8 looking for some true value. 'Cause -- because in my
9 view, a true value doesn't exist. So, those are sort
10 of some of the things that are running in my head.

11 MR. ANTOINE HACAULT: Yeah, I -- I
12 understand your view that we target the 95 and the
13 105, we do not target parity at one hundred (100) and
14 then see how it evolves between that zone. That's
15 your views.

16 We should target getting into 95 or
17 105, correct?

18 MS. KELLY DERKSEN: The zone of
19 reasonableness is -- is -- is one benchmark by which
20 to evaluate. There are other considerations and the
21 ultimate determination of rates that, as the Board
22 concluded, may warrant that a class may not sit in
23 that zone of reasonableness and still result in rates
24 that are deemed, by the Board, to be fair and
25 equitable.

1 MR. ANTOINE HACAULT: Now, you asked
2 another run to be done by Manitoba Hydro on another
3 assumption of exports.

4 If we go to page 14 of 19 of
5 Coalition/MH-155. That was an assumption that we'd go
6 below the I -- the financial forecast scenario and go
7 down to \$577 million of exports. Correct?

8 MS. KELLY DERKSEN: I -- I didn't ask
9 them that question from that perspective -- from that
10 perspective. I said, if your net export revenue
11 declined by 50 percent, just as a hypothetical, what
12 happens. And so, this is what is the mathematical
13 output of that.

14 MR. ANTOINE HACAULT: Okay. And under
15 that mathematical output, Residentials go from 95.8 or
16 -- four (4) -- 95.5, in that previous scenario to now
17 95.8 mathematically. Correct?

18 MS. KELLY DERKSEN: Yes.

19 MR. ANTOINE HACAULT: Now, I think
20 this continues in this theme, slide 15 please.

21 Again, this scenario foc -- focusses
22 only on one (1) variable, which is the forecasted net
23 export revenue in a five-year rate differentiation
24 period. Correct?

25 MS. KELLY DERKSEN: Yes and, you know,

1 Manitoba Hydro has stated -- so -- so, first off, it -
2 - under the scenario, the residential cla -- class is
3 in the zone of reasonableness and -- and, secondly, it
4 is Manitoba Hydro's evid -- my -- my interpretation of
5 Manitoba Hydro's evidence that net export revenue is -
6 - is, you know, by far, the most -- the issue that
7 causes most volatility to RCCs, if I could depict it
8 that way.

9 MR. ANTOINE HACAULT: And this is a
10 visual dic -- depiction of the data that we looked at,
11 with an assumption of about \$700 million net export
12 revenue. Correct?

13 MS. KELLY DERKSEN: Correct.

14 MR. ANTOINE HACAULT: And sorry, just
15 to complete that question, the green bar's is in --

16 MS. KELLY DERKSEN: Sorry. The green
17 bars. So, what this is showing is, from PCOSS21, when
18 most classes are in the zone of reasonableness,
19 there's a -- a very dramatic change in RCCs for
20 several customer classes in PCOSS24 and, then, if you
21 were to assume a \$700 million level of net export
22 revenue, which is what Manitoba Hydro's forecasting,
23 in '28/'29, the green bar is -- is the mathematical
24 result of that.

25 MR. ANTOINE HACAULT: I -- I

1 understand that and -- and your statement applies for
2 all classes, except for residential. Right? There
3 isn't much movement in residential. They consist --
4 they continue to be in or out, about 95 percent of
5 revenue costs coverage --

6 MS. KELLY DERKSEN: There's actually a
7 move -- movement upward. It -- it -- you can't -- it
8 is hard to see. It takes a lot to move them, but they
9 are in the zone of reasonableness and, like I
10 mentioned before, once you're in the zone of
11 reasonableness, it doesn't matter where you are in
12 that zone.

13 MR. ANTOINE HACAULT: Thank you for
14 that view. Now, would you agree with me that, in your
15 report, it did not analyze the impact of the variable
16 which would be adding distribution investments over
17 the test period?

18 MS. KELLY DERKSEN: Sure. I went down
19 this path because Manitoba Hydro said that -- in their
20 -- their evidence is -- is that net export revenue is,
21 by far, the most volatile variable.

22 And, so, from that perspective, I went
23 down this path but, you're right, it assumes no other
24 changes to any costs, other than export revenue, in
25 this depiction.

1 MR. ANTOINE HACAULT: And I'll put to
2 you that future PCOSS would take into account all
3 investments, including distribution investments which
4 largely affect Residentials, compared to General
5 Service Large.

6 MS. KELLY DERKSEN: Distribution, as
7 well as transmission, as -- as -- as you well know,
8 that there's plans for the Corporation to invest in
9 transmission levels that will have the opposite
10 impact, probably moving -- all else equal, moving the
11 Residentials into the ZOR and --

12 MR. ANTOINE HACAULT: Do you have data
13 on that? Sorry. I -- I was with you and letting you
14 answer but saying that you -- do you have evidence,
15 without having run a full scenario, that what you're
16 saying -- is there evidence on the record?

17 MS. KELLY DERKSEN: I think it's
18 generally understood, sir, that when you add
19 transmission level investment, that the RCCs for the
20 Residential improve slightly and the GSL classes
21 decline slightly. I -- I think it's just a matter of
22 fact of -- it's known, all else equal, no --

23 MR. ANTOINE HACAULT: And you say that
24 that --

25 MS. KELLY DERKSEN: And -- and --

1 MR. ANTOINE HACAULT: -- happened in
2 PCOSS24, when we have Keeyask and Bipole III fully in
3 effect, and MNP fully in effect. That was the result?

4 MS. KELLY DERKSEN: I'm sorry. Can
5 you ask me that again? I'm not sure whether I
6 understand your question.

7 MR. ANTOINE HACAULT: You're making a
8 general statement, Ms. Derksen, without reference to
9 specific evidence, that adding generation and major
10 transmission moves Residentials into the zone of
11 reasonableness. And it has a positive impact also in
12 moving General Service Large towards the zone of
13 reasonableness.

14 MS. KELLY DERKSEN: I never said if
15 they would be in or out. I just said, as -- as a
16 statement of fact -- and if you want to go back to
17 Manitoba Hydro's evidence in PCOSS18 where they
18 confirmed that -- that -- and we're talking
19 transmission now. We're not talking Bipoles. Bipoles
20 are generation.

21 We're talking about transmission, that
22 when you add transmission, that tends to be the
23 outcome. That's all that I'm saying.

24 MR. ANTOINE HACAULT: Can we go to
25 Appendix 8.1, page 20 of 63. If we go to the top of

1 that table, and there's two (2) points I'd like to
2 draw your attention to, Ms. Derksen.

3 Firstly, can we go to the top of the
4 table and we go into the two (2) last headings,
5 'Distribution Customer Service' and 'Distribution
6 Plant Cost', on that top line, 'Residential'.

7 Are you following me so far?

8 MS. KELLY DERKSEN: Yes, I am.

9 MR. ANTOINE HACAULT: Okay. First,
10 with respect to 'Distribution Customer Service',
11 there's 79.5 million, and we go down to the bottom of
12 the table, of the 120 million total allocation towards
13 Residentials, correct?

14 MS. KELLY DERKSEN: That's correct,
15 and what's missing from here is there's actually
16 significant decline in the allocation of -- of that
17 cost to the General Service class between I believe
18 '21 and -- and '24.

19 But your -- your point is correct. You
20 know, it represent -- I can't do the math off the top
21 of my head, but let's say 80 percent of -- of the
22 total distribution service cost.

23 MR. ANTOINE HACAULT: And if we go one
24 (1) column further to the right under the heading
25 'Distribution Plant Cost', we've got 251 million

1 allocated to Residential consumers, correct?

2 MS. KELLY DERKSEN: Right. A lesser
3 degree is allocated from a -- from a percentage
4 perspective compared to -- to customer service. It's,
5 you know, more order of magnitude of, what, 50
6 percent.

7 MR. ANTOINE HACAULT: So when you're
8 arriving at the 50 percent, just so the record's clear
9 and I'm following and everybody's following, what
10 you're doing is you're looking at the bottom line
11 under the heading 'Distribution Plant Costs', you find
12 the number \$449.9 million.

13 That's the first step, correct?

14 MS. KELLY DERKSEN: Correct.

15 MR. ANTOINE HACAULT: And then what
16 you do is you look at the 251 million at the top of
17 the table along 'Residential', and it's at 251
18 million. And then you do a mathematical calculation
19 to come to your conclusion that it's less than 50
20 percent of the total cost, correct?

21 MS. KELLY DERKSEN: Yes, allocated to
22 the residential class, yes.

23 MR. ANTOINE HACAULT: And if we look
24 at General Service Large, 30 to 100 kV, and General
25 Service Large, over 100 kVs under those same columns,

1 we see that there is not much distribution allocated
2 to either of those two (2) classes, correct?

3 MS. KELLY DERKSEN: As a proportion of
4 the total, agreed. As a proportion of their total
5 cost, likely a little bit more. And again, the -- the
6 1.6 million -- I think it's actually the 2.5 million,
7 that was allocated to the GSL greater than a hundred
8 (100) class for distribution service.

9 I think there was like about a 55
10 percent decline in that allocation from PCOSS21. If -
11 - if it is important, I -- I can do -- you know, I can
12 provide the calculation.

13 MR. ANTOINE HACAULT: And just from a
14 percentage perspective, if we look at the two (2)
15 distribution columns under 'Residential', we see that
16 under 'Distribution Customer Service', there's a 9
17 percent amount there of the total cost, correct?

18 Do you see that?

19 MS. KELLY DERKSEN: Yes, I do. Sorry.
20 Yes, I do.

21 MR. ANTOINE HACAULT: And then if we
22 move two (2) columns to the right, we see 28.5 percent
23 of the 'Distribution Plant Cost' as a percentage of
24 the total costs for residentials, correct?

25 MS. KELLY DERKSEN: That's correct on

1 a -- on a percentage basis, but bear in mind, Mr.
2 Hacault, that in -- in contrast to generation and
3 major transmission like Bipoles, the cost sitting on
4 the records of Manitoba Hydro for distribution plant
5 are much more current.

6 They're -- it's continually being
7 churned, so, you know, the impact of that particular
8 cost, when it does, increase will be less impactful
9 because that cost is more reflective -- distribution
10 costs, that is -- is more reflective of current cost
11 than, say, generation or -- or major transmission.

12 MR. ANTOINE HACAULT: And is your
13 point that this continues to change, but at least on
14 PCOSS24 we totalled 9 percent plus 28.5 percent to get
15 a total of 37.5 percent relevance to the total costs
16 when we talk about distribution?

17 MS. KELLY DERKSEN: Well, I think your
18 point and where you're going is that you have -- that
19 I have failed to include any future distribution costs
20 as part of the analysis, this net export revenue
21 analysis and ultimate RCCs.

22 And I'm saying to you that, well,
23 number 1, we don't know what those percentages that
24 will be allocated to the residential class will be,
25 but just as important is that the cost impact is not

1 as sizeable because those costs are sitting at current
2 cost to a much greater degree than generation, for
3 example.

4 MR. ANTOINE HACAULT: Am I correct in
5 understanding this long answer that you've said that
6 distribution costs for Residentials are generally
7 stable?

8 Is that your evidence?

9 MS. KELLY DERKSEN: No, I'm -- I'm not
10 saying that. I'm saying that, as you add cost, the
11 impact is lesser because you're not adding a current
12 cost to something that's very historical.

13 Like if you accept that a generation
14 plant was putting -- put in place in 1950 and been
15 depreciated over time, and then all of a sudden,
16 thump, you add Keeyask on there at current cost,
17 you're -- you know, it's going to explode in terms of
18 impact, whereas distribution is continually being
19 churned.

20 And so you're just going to have a
21 lesser impact because of the addition of distribution
22 than you would see with the addition of generation and
23 net export revenue as well 'cause, of course, it's not
24 -- it's tied to the mark -- a marketplace unrelated to
25 this.

1 The point is is that you'll -- there's
2 just a lesser impact to Residential RCCs by adding
3 distribution plant because that cost is relatively --
4 at least in comparison to generation -- current.

5 There will undoubtedly be impacts, but
6 you won't see the -- the magnitude of it to the same
7 degree.

8 MR. ANTOINE HACAULT: I'm going to
9 come to my question again. Are you saying that
10 distribution, and now with a decade of investment,
11 major generation, and major transmission are stable?

12 Is that what you're saying?

13 DR. BYRON WILLIAMS: Mr. Hacault, just
14 so I understand, that sounded to me like a compound
15 question. Are you asking about distribution,
16 generation, and transmission separately or
17 individually? Just -- just to make sure the witness -
18 -

19 MR. ANTOINE HACAULT: Yeah. I --

20 DR. BYRON WILLIAMS: -- knows what
21 you're asking her.

22

23 CONTINUED BY MR. ANTOINE HACAULT:

24 MR. ANTOINE HACAULT: Okay. I had
25 asked my previous question with respect to

1 distribution.

2 Are you saying your study assumes that
3 distribution is stable?

4 MS. KELLY DERKSEN: If we go back to
5 the chart that we -- that started this line of
6 questioning, you -- it's with respect to net export
7 revenue.

8 And I'm saying to you there is no other
9 changes in that slide other than net export revenue.

10 MR. ANTOINE HACAULT: I -- I think my
11 question is pretty simple.

12 Is your assumption in all your
13 calculations is that distribution remains stable? It
14 seems to me you can say 'yes' or 'no'.

15 MS. KELLY DERKSEN: Distribution is
16 continually being added. So, if that -- it's
17 continually being added at current -- it will be less
18 impactful than generation. I'm not sure how better to
19 answer that.

20 MR. ANTOINE HACAULT: That's fine.
21 I'll move on.

22

23 (BRIEF PAUSE)

24

25 MR. ANTOINE HACAULT: Now I'm going to

1 move to your slide -- unfortunately, it doesn't have a
2 number, but I think it's slide number 20. I have it
3 between your slide 19 and 21. Yes, that's the slide.

4 And to -- I'll start firstly -- it's my
5 understanding that your graphical description on the
6 right-hand side of the figure has taken figures from
7 page 40 of the Board book of documents, Volume 6.
8 It's -- that's where we have one (1) of the extracts,
9 so Board book, Volume 6, page 40.

10 And we see in the bottom of your table,
11 Ms. Derksen, that you had referenced the source was
12 Coalition/Manitoba Hydro 2nd Round 57(d). And we see
13 that's what we brought up on the screen.

14 So, am I right to think that that's
15 where you sourced your information?

16 MS. KELLY DERKSEN: Yeah, I -- I put
17 it on the table, in fact, also.

18 MR. ANTOINE HACAULT: And the source
19 of the information is the second table on this
20 particular page, correct?

21 MS. KELLY DERKSEN: Can you scroll up
22 on -- on that answer, please? I just -- to the other
23 table, please. Yeah, right there.

24 MR. ANTOINE HACAULT: Now, we're at
25 the top table on this particular page --

1 MS. KELLY DERKSEN: I know. I was --

2 MR. ANTOINE HACAULT: -- just for the
3 record so we can follow it.

4 MS. KELLY DERKSEN: I believe --
5 subject to check, I believe that's correct.

6 MR. ANTOINE HACAULT: So, it's the
7 second table that we -- you sourced your data from,
8 correct?

9 MS. KELLY DERKSEN: Part of the data.
10 Like, part of it's from 2017/'18.

11 MR. ANTOINE HACAULT: I'm asking for
12 the 2023/'24 GRA --

13 MS. KELLY DERKSEN: Okay. Then fair.

14 MR. ANTOINE HACAULT: -- portion of
15 the table. What's the source of the left-hand side of
16 your graph on slide 20?

17 MS. KELLY DERKSEN: I should have
18 known. It was the '17/'18 GRA. Does that help? I
19 can get back to you, sir.

20 DR. BYRON WILLIAMS: We'll undertake
21 either at noon or as soon as possible, M. Hacault, to
22 provide the source for the 2017/'18 GRA revenue to
23 marginal cost calculation, if that's satisfactory.

24 MS. KELLY DERKSEN: Actually, I -- I
25 think it's in either -- it's in Manitoba Hydro's

1 rebuttal evidence possibly, or their --

2 MR. ANTOINE HACAULT: That's okay.

3 MS. KELLY DERKSEN: Anyway, we'll get
4 back to you.

5 MR. ANTOINE HACAULT: We'll -- we'll
6 go with the undertaking so I can move on.

7

8 --- UNDERTAKING NO. 66: Ms. Derksen to provide the
9 source for the 2017/'18
10 GRA revenue to marginal
11 cost calculation.

12

13 MR. ANTOINE HACAULT: I think, Mr.
14 Chairman, that when I cover this -- finish covering
15 this area it'll be an appropriate time to break.

16

17 CONTINUED BY MR. ANTOINE HACAULT:

18 MR. ANTOINE HACAULT: I'll move back
19 to the Board book of documents, page 40, that bottom
20 table.

21 And just to understand this table, on
22 the left-hand side, we have the heading 'Marginal cost
23 sets per kilowatt hour at a hundred percent LF'.

24 What is LF?

25 MS. KELLY DERKSEN: Load factor --

1 MR. ANTOINE HACAULT: Okay.

2 MS. KELLY DERKSEN: -- which is
3 average use divided by use at peak demand, at peak
4 period.

5 MR. ANTOINE HACAULT: And what you're
6 explaining describes what we see in the heading,
7 "Class CP," which would be coincident peak, "LF," load
8 factor, "from PCOSS24." Is that correct?

9 MS. KELLY DERKSEN: Correct, yes.

10 MR. ANTOINE HACAULT: And
11 mathematically, as you say, the Residential class has
12 a load factor of some 50.9 percent, correct?

13 MS. KELLY DERKSEN: I think that's
14 fair.

15 MR. ANTOINE HACAULT: Okay. And if we
16 go down to the end of the table, we see that there are
17 higher load factors for General Service Large 30 to
18 100 and General Service Large over a hundred, correct?

19 MS. KELLY DERKSEN: Yes.

20 MR. ANTOINE HACAULT: They're over the
21 90 percent load factor in both cases, correct?

22 MS. KELLY DERKSEN: Yes.

23 MR. ANTOINE HACAULT: Now, the next
24 set of lines actually adjusts two (2) parts with
25 respect to load factor, being transmission and

1 distribution, correct?

2 MS. KELLY DERKSEN: Yes.

3 MR. ANTOINE HACAULT: It does not
4 include or adjust for load factor under the heading,
5 'Generation', correct?

6 MS. KELLY DERKSEN: Correct, yes.

7 MR. ANTOINE HACAULT: Well, let's move
8 back to the previous page in Board book of documents,
9 page 39 of the Board book of documents, which is the
10 response to the question but the narrative given by
11 Manitoba Hydro.

12 Now -- have you found it, Ms. Derksen?
13 I'll wait to ask my question until you've found it.

14 MS. KELLY DERKSEN: I'll just rely on
15 the screen. Thank you.

16 MR. ANTOINE HACAULT: You'll agree
17 with me that Manitoba Hydro, in the second line of
18 this response, is explaining what we've just looked at
19 in the table, that class coincident peak load factors
20 vary from a low of some 51 percent to a high of 97
21 percent in PCOSS24, correct?

22 MS. KELLY DERKSEN: Yes.

23 MR. ANTOINE HACAULT: And you'll agree
24 with me that the only adjustment made in the table to
25 give us an idea of what the effect of a load factor is

1 relates to transmission and distribution, correct?

2 MS. KELLY DERKSEN: That's my
3 understanding, yes.

4 MR. ANTOINE HACAULT: Where in your
5 evidence did you account for the load factor
6 generation?

7 MS. KELLY DERKSEN: I did not account.
8 I -- I used this information as directional guidance.
9 It was nothing more sophisticated than that, sir.

10 I mean, the calculations done at all
11 levels are a directional indication. It's not
12 professing to be precise, so if I could caveat --
13 caveat it with that.

14 MR. ANTOINE HACAULT: Now, the bullets
15 on the screen, if we just go back up to the
16 introductory paragraph, is Manitoba Hydro indicating
17 that there's a number of things that need to be
18 considered between the figure that shows no adjustment
19 for load factor and other adjustments which are
20 required, including an adjustment to load factor,
21 correct?

22 MS. KELLY DERKSEN: I think that's a
23 fair statement. This is not suggesting that there is
24 -- it's a directional indicator, sir. It's not
25 professing to be a precise calculation.

1 MR. ANTOINE HACAULT: Now, if we go to
2 the third bullet, one of the caveats that Manitoba
3 Hydro is putting with respect to this directional
4 table that's been provided is that operating costs are
5 not included in the calculation of levelized costs,
6 but are one of the costs that must be recovered via
7 domestic rates. Correct?

8 MS. KELLY DERKSEN: Sure. Yeah.

9 MR. ANTOINE HACAULT: Do you agree
10 with that statement?

11 MS. KELLY DERKSEN: In terms -- from a
12 marginal cost calculation perspective?

13 MR. ANTOINE HACAULT: Yes.

14 MS. KELLY DERKSEN: It's -- it's
15 likely fair. Again, like I said before, it's a
16 directional indicator.

17 Manitoba Hydro doesn't prepare a Cost
18 of Service study. It -- it -- and so, this has been
19 sort of provided in past applications for years. I
20 don't know how far back we -- we go, but years.
21 Recognizing that some inherent, you know, flaws about
22 it -- but was accepted on the -- sort of on the face
23 that it's a directional indicator.

24 MR. ANTOINE HACAULT: You'll agree
25 with me, Ms. Derksen, that nowhere in your report or

1 your analysis did you actually put a number to these
2 operating costs and how they affect the marginal
3 value?

4 MS. KELLY DERKSEN: I did not, sir.
5 No.

6 MR. ANTOINE HACAULT: And the next
7 bullet explains that levelized marginal values exclude
8 any customer service costs. And these costs vary by
9 customer class, but are proportionally higher for
10 smaller customers than large customers. And are
11 another cost that must be recovered via domestic
12 rates. Do you agree with that statement generally?

13 MS. KELLY DERKSEN: Generally.

14 MR. ANTOINE HACAULT: And you did not
15 do an analysis with respect to your marginal cost as
16 to how these proportionately higher costs for smaller
17 customers affect the directional analysis shown in the
18 table that you've used?

19 MS. KELLY DERKSEN: It's -- that's for
20 Manitoba Hydro to prepare. It's not for me to
21 prepare.

22 I've -- I've used it as a directional
23 indicator and I've suggested to the Board that it's
24 simply another interpretation tool that can be used in
25 -- in assessing -- in assessing rates.

1 But I recognize that it is not a Cost
2 of Service study. It's not attempting to be 100
3 percent precise.

4 MR. ANTOINE HACAULT: So is that -- do
5 I take that long answer to mean, Yes, Mr. Hacault, I
6 did not do a calculation of what the additional
7 customer costs for smaller customers does to your --
8 to my analysis?

9 MS. KELLY DERKSEN: I did not. That's
10 for Manitoba Hydro to undertake.

11 MR. ANTOINE HACAULT: And the next
12 bullet talks about:

13 "Levelized marginal values for
14 generation and transmission do not
15 incorporate the additional losses
16 that are incurred in serving a
17 distribution level class nor the
18 differential losses that vary with
19 the specific voltage for the class."

20 Do you agree with that statement?

21 MS. KELLY DERKSEN: Yeah. Yes, I do.

22 MR. ANTOINE HACAULT: And am I right
23 in understanding that there would be more line losses
24 by the time you get to a house?

25 MS. KELLY DERKSEN: Sure. It makes

1 sense.

2 MR. ANTOINE HACAULT: And again, that
3 calculation has not been done by you in your
4 directional table that you've put in your slide,
5 correct?

6 MS. KELLY DERKSEN: Correct. This is
7 similar to what has been prepared in the past and used
8 as a directional indicator.

9 I'm not sure how well some -- the Board
10 will evaluate marginal cost analysis as it found
11 important to do in the -- with nothing at all. And
12 so, this is -- provides some directional indication.
13 And so, I'll leave it at that.

14 MR. ANTOINE HACAULT: Mr. Chair, she
15 timed her answer just right so I could finish just
16 before noon.

17 THE CHAIRPERSON: We don't have to
18 wait the last ten (10) seconds though.

19 Thank you very much. We'll break an
20 hour for lunch. Thank you.

21

22 --- Upon recessing at 12:00 p.m.

23 --- Upon resuming at 1:00 p.m.

24

25 THE CHAIRPERSON: Dr. Williams, I

1 understand you're -- you've got some, I don't know,
2 responses to undertakings or something. I was told to
3 call on you.

4 DR. BYRON WILLIAMS: Thank you for
5 bringing order to the room, Mr. Chair.

6 In terms of -- we took a undertaking
7 from M. Hacault -- just before lunch with regard to
8 slide 20 of Ms. Derksen's PowerPoint. And the
9 question was: On the left-hand side, what was the
10 source of the information for the 2017/'18 GRA revenue
11 to marginal costs?

12 And the source for that is in
13 PUB/Consumer Coalition-1-16(a), and it's -- and then
14 there's a cite to the 2017 General Rate Application,
15 Consumer Coalition-20, page 86.

16 So I hope that satisfies the
17 undertaking. Thank you.

18 MR. ANTOINE HACAULT: Thank you, Dr.
19 Williams.

20

21 CONTINUED BY MR. ANTOINE HACAULT:

22 MR. ANTOINE HACAULT: Ms. Derksen,
23 I'll take you to slide 22, please.

24 Now, you've made a note, correctly so,
25 that there's been major investment in generation and

1 transmission since Order 59/'18, correct?

2 MS. KELLY DERKSEN: Correct. Correct,
3 yes.

4 MR. ANTOINE HACAULT: And you'll agree
5 with me that with this increased investment in
6 generation and transmission came additional export
7 revenues, correct?

8 MS. KELLY DERKSEN: In the current
9 year end and -- and the test year, that's -- that's
10 fair to say.

11 MR. ANTOINE HACAULT: Good to know I
12 ask some fair questions sometimes. I'll bring you
13 next -- I'm going to skip ahead to slide 25.

14 I had trouble following all the
15 colours, but my question is: Firstly, you use the
16 word in the heading 'Valid Methodologies'.

17 I gather that doesn't mean it was an
18 approved PCOSS by this Board?

19 MS. KELLY DERKSEN: PCOSS by this
20 Board, historically speaking, have not been approved
21 by this Board. The outcome of that analysis in terms
22 of rates is what the Board reviews. It's my
23 understanding that -- that's -- that's my
24 understanding, sir.

25 MR. ANTOINE HACAULT: Okay. So

1 reframing my question then, you -- you're not
2 suggesting that the six (6) PCOSS14s were all PCOSSes
3 that were used for outcomes by this Board?

4 MS. KELLY DERKSEN: Well, in fact,
5 that's a bad example in one (1) way because that Cost
6 of Service study never precipitated any rate -- rate
7 changes, based on my recollection.

8 But from the perspective of -- those
9 were different scenarios, including different
10 methodologies, different data that were reviewed
11 before the -- the regulator.

12 MR. ANTOINE HACAULT: And you'll agree
13 with me that only one (1) was used by the regulator?

14

15 (BRIEF PAUSE)

16

17 MR. ANTOINE HACAULT: It may be that
18 none were used.

19 MS. KELLY DERKSEN: For purposes of
20 setting rates in that year, you're right. None of
21 them were used.

22 The -- the guidance and direct -- and
23 guidance provided by the Board in terms of cost-of-
24 service methodology didn't find its way in a cost-of-
25 service study until PCOSS18.

1 MR. ANTOINE HACAULT: So I count eight
2 (8) PCOSS18s, which one of them is valid?

3 MS. KELLY DERKSEN: I'll just give you
4 a for -- an example. Manitoba Hydro would have filed
5 an initial application, so this would have been the
6 '17/'18 General Rate Application that proposed a 7.9
7 percent rate increase, of which the Board denied.

8 And so, you know, the methodology
9 underpinning that particular application was
10 consistent with the Board's Order in 164/'16, so a
11 second Cost of Service study in PCOSS18 was then run
12 to reflect the rate outcomes as directed by the Board
13 in that year.

14 So there were a number of them run, so
15 I'm not sure what to make -- okay. I'm not sure what
16 to make of your question, sir.

17 MR. ANTOINE HACAULT: So you're not
18 able to answer my question: Which of the eight (8)
19 PCOSS18s is the valid one?

20 MS. KELLY DERKSEN: How do you define
21 'valid', sir? Like --

22 MR. ANTOINE HACAULT: It's your word.

23 MS. KELLY DERKSEN: They're all valid.

24 MR. ANTOINE HACAULT: And all
25 hypotheticals chosen by you for this particular --

1 MS. KELLY DERKSEN: If -- if you want

2 --

3 MR. ANTOINE HACAULT: -- illustration?

4 MS. KELLY DERKSEN: -- there were many

5 more of them. I could have put them on here and I

6 would be fully prepared to do that if -- if you wish.

7 I'd certainly do that.

8 I didn't use these for any particular

9 reason other than it fit on the graph. That was it.

10 MR. ANTOINE HACAULT: Thank you. I'll

11 move to slide 27.

12 Now, just to make sure I've got your

13 graph right, on the left-hand side, the green bars,

14 are they PCOSS24?

15 MS. KELLY DERKSEN: I'm sorry, I

16 should have put that in here, but yes.

17 MR. ANTOINE HACAULT: Okay. And --

18 pardon me, Ms. Schubert. I hadn't put this on my list

19 'cause -- but Ms. Derksen's evidence, page 15-16.

20 But firstly, the next illustration on

21 this graph is BC Hydro's RCCs with the lower number

22 being around 85 percent and the higher number being

23 around 135 percent, correct?

24 MS. KELLY DERKSEN: Correct, and that

25 comes from my -- my evidence, so that was the source

1 of the information. And the source of the information
2 ultimately was BC Hydro's website, which I think I
3 cite in my evidence.

4 MR. ANTOINE HACAULT: And you're aware
5 that website annually updates the RCC studies?

6 MS. KELLY DERKSEN: This particular
7 period of time -- I am aware of that. BC -- my
8 understanding is that BC Hydro files an actual Cost of
9 Service study, which means on a historical basis,
10 reflecting actual weather conditions and financial
11 circumstances with its regulator on an annual basis at
12 some point during the year it's required to do so.
13 And it does that, so I am aware.

14 This does not reflect that. This
15 reflects my understanding of their last forecasted or
16 prospective Cost of Service study that would have been
17 filed as part of its rate design proceeding in about
18 2015.

19 MR. ANTOINE HACAULT: Let's look at
20 page 15 and 16 of your evidence, Ms. Derksen, so that
21 we know exactly what you're referring to.

22 You've footnoted BC Hydro to a footnote
23 3, if we can go to that footnote. And you indicate in
24 that footnote that it was a 2015 Rate Design
25 Application. That's what you're referring to?

1 MS. KELLY DERKSEN: I am, yes.

2 MR. ANTOINE HACAULT: Okay. And in
3 the table, the information you provided that went up
4 to 2016 was sourced from that rate design application,
5 correct?

6 MS. KELLY DERKSEN: Yes.

7 MR. ANTOINE HACAULT: Now, you know
8 that yesterday we actually had pulled up one (1) of
9 the annual updates from the BC website and marked it
10 as Exhibit 17, and that's a May 29, 2023, letter?

11 MS. KELLY DERKSEN: I'm aware of that,
12 yes.

13 MR. ANTOINE HACAULT: Let's just go
14 back just for one (1) minute, Ms. Schubert, to your
15 table. And you'll recall that on the graph I had
16 said, well, you started down at about 85.

17 If we can - - that would have been the
18 ratio for irrigation that you used for 2016?

19 MS. KELLY DERKSEN: Correct.

20 MR. ANTOINE HACAULT: Okay. And you
21 showed an upper bound of about -- it's hard to see
22 from the graph, but around 135 percent.

23 And that would have been street
24 lighting that you used?

25 MS. KELLY DERKSEN: Yes.

1 MR. ANTOINE HACAULT: And all the
2 other categories listed in your Table number 2 on page
3 15 of your evidence would be somewhere between those
4 two (2) extremes, correct?

5 MS. KELLY DERKSEN: Correct. So, for
6 example, residential in that year were at 93.6
7 percent. And -- yes, so, correct.

8 MR. ANTOINE HACAULT: Now, let's go to
9 Manitoba Hydro -- or MIPUG Exhibit 17, please, which
10 is an example of those annual postings.

11 If we go down to the bottom of the
12 table -- that's good -- we see that irrigation is now,
13 as of 2022, actuals at 75.3. Do you see that?

14 MS. KELLY DERKSEN: Yeah, correct.
15 Sorry, correct, sir. Their -- their implicit zone of
16 reasonableness based on actual -- an actual Cost of
17 Service study 2022 has deteriorated to 75 to 204.

18 MR. ANTOINE HACAULT: So, with the --
19 this statutory hamstring that we'll be talking about,
20 we see that now the range is 75.3 to the lighting at
21 204.3?

22 MS. KELLY DERKSEN: Correct. The
23 utility in -- in that jurisdiction is unable to -- in
24 my language, from a legal perspective you will argue
25 how you see -- how you see fit.

1 From -- from vantage point, the utility
2 is unable to differentiate rates between customer
3 classes.

4 MR. ANTOINE HACAULT: Thank you for
5 that. I looked pretty hard, but could you confirm
6 that you have not referenced or considered Bill 36 in
7 your evidence? It's a simple question, "yes" or "no"?

8 MS. KELLY DERKSEN: Is there a
9 specific reference in that bill to rate
10 differentiation?

11 MR. ANTOINE HACAULT: I'm just asking
12 the question, whether or not you considered Bill 36 in
13 your evidence, just, "yes" or "no".

14 DR. BYRON WILLIAMS: Subject to check?
15 You're -- you're asking if, subject to check, she's
16 referenced Bill 36 in her evidence?

17 MS. KELLY DERKSEN: I have -- I have
18 not.

19

20 CONTINUED BY MR. ANTOINE HACAULT:

21 MR. ANTOINE HACAULT: Okay. And can
22 we pull up PUB/MH 141. I think it's Round 1. This
23 was a table I think that was brought up yesterday when
24 Board Member Bass was asking questions.

25 Again, can you confirm that in your

1 evidence you did not show this table and the
2 perspective that it shows?

3 MS. KELLY DERKSEN: I'm sorry, in
4 which table, please?

5 MR. ANTOINE HACAULT: The table that's
6 in front of you. It's in PUB/MH 141 you see Ms.
7 Schubert has put on. It's page 3 of 3 of that under -
8 - undertaking.

9 And my question is: Could you please
10 confirm that you didn't show this perspective in your
11 evidence?

12

13 (BRIEF PAUSE)

14

15 MS. KELLY DERKSEN: I certainly
16 identify PCOSS21 and PCOSS24. What I did do is
17 reflect the RCCs at the end of the -- the five (5)
18 year differentiation period because that is the basis
19 of Manitoba Hydro's overall rate ask of 2 percent in
20 this Application.

21 MR. ANTOINE HACAULT: Maybe my
22 question wasn't clear. I wanted to know if you showed
23 the perspective in your evidence shown on this table.
24 And Board Member Bass asked about this, the two (2)
25 years differentiation in rates and the five (5) year

1 differentiation rates.

2 Did you show this perspective in your
3 evidence?

4 MS. KELLY DERKSEN: Oh, I'm sorry, I
5 was not understanding you. Just a minute, please.

6 So, we're back to the -- the graph that
7 I had prepared with all the squiggly lines and the
8 multiple of Cost of Service studies. That's the graph
9 that you are referring to?

10 MR. ANTOINE HACAULT: So, you're
11 saying that the graph with multiple different lines
12 showed the rate adjustment required in the heading,
13 "V", as in Victor, required annual rate adjustment for
14 two (2) years differentiation.

15 You showed that in your graph or where
16 did you show it?

17 MS. KELLY DERKSEN: I'm looking on
18 slide 26 in particular. I'd have to get back to you
19 about the specific representations that I have there.
20 I've got one (1), two (2), three (3) -- I've got seven
21 (7) of them there, so I'd have to identify
22 specifically for you if -- if that particular column
23 is in that graph.

24 I can certainly update this graph to
25 include them all if -- if that is your wish.

1 MR. ANTOINE HACAULT: My question was:
2 I didn't see -- and -- and this may be your answer --
3 I didn't see anywhere in your evidence that you showed
4 the perspective that I've just mentioned. And if we
5 go back to PUB 141, under column little v, or under
6 column little vi.

7 DR. BYRON WILLIAMS: So, M. Hacault,
8 just so I understand, you're asking the witness to
9 review slide 26 to see if the perspectives respected -
10 - reflected in Roman Numeral V or Roman Numeral VI are
11 in that? Is that what you're asking, sir?

12 MR. ANTOINE HACAULT: My question was
13 more broad. But if that's the only place in which
14 it's found in this squiggly graph, then it can be
15 restricted to that.

16 DR. BYRON WILLIAMS: Sorry. So,
17 you're asking whether it's in her evidence or in slide
18 26. Thank you.

19 MR. ANTOINE HACAULT: Correct. Thank
20 you very much, Ms. Derksen. Those are all my
21 questions, Mr. Chair.

22 DR. BYRON WILLIAMS: And, M. Hacault,
23 just so -- the witness will -- will go back and check
24 on that, those -- those two (2), and we'll take that
25 as an undertaking, to see whether it's referred to in

1 slide 26 or into her evidence, referring to PUB
2 Manitoba Hydro 1-141 (a) to (b) and the scenarios of
3 the two (2) year differentiation Roman Numeral V and
4 the five (5) year differentiation, if that's
5 satisfactory, sir.

6 MR. ANTOINE HACAULT: Yes, that is,
7 sir. Thank you.

8

9 --- UNDERTAKING NO. 67: Ms. Derksen to advise
10 whether it's referred to
11 in slide 26 or into her
12 evidence, referring to PUB
13 Manitoba Hydro 1-141 (a)
14 to (b) and the scenarios
15 of the two (2) year
16 differentiation Roman
17 Numeral V and the five (5)
18 year differentiation

19

20 THE CHAIRPERSON: Ms. Fernandes...?

21 MS. ODETTE FERNANDES: Thank you, Mr.
22 Chair.

23

24 CROSS-EXAMINATION BY MS. ODETTE FERNANDES:

25 MS. ODETTE FERNANDES: Good afternoon,

1 Panel. Good afternoon, Ms. Derksen.

2 Now, Ms. Derksen, you're familiar with
3 Manitoba Hydro's initial application that was filed on
4 November 15th of 2022 with this Board?

5 MS. KELLY DERKSEN: Generally, yes.

6 MS. ODETTE FERNANDES: And you're
7 familiar that, at that time, Manitoba Hydro was asking
8 for a 3.5 percent rate increase?

9 MS. KELLY DERKSEN: I'm aware of that,
10 yeah.

11 MS. ODETTE FERNANDES: And -- and I
12 believe this morning you opined on the impact of -- I
13 believe you called it a windfall payment from
14 government of the water rental fee and provincial
15 guarantee fee.

16 Do you recall that?

17 MS. KELLY DERKSEN: Yeah. It's
18 approximately \$180 million, which represents an order
19 of magnitude of about 7 percent.

20 MS. ODETTE FERNANDES: And if I
21 understand your evidence correctly, you indicated that
22 that windfall payment would mean that residential
23 rates would have to increase from a cost allocation
24 perspective of .4 percent?

25 MS. KELLY DERKSEN: And I caveated by

1 saying all else equal. So if you were just to take
2 the mechanical output of cost allocation and say, What
3 does the provincial guarantee fee and water rental fee
4 do to each of the classes' RCCs on account of the
5 reduction in -- in those payments?

6 The result is that there is a
7 deterioration in the RCCs for the residential class.
8 And in -- and there is another customer class as well.

9 Conversely, there's actually a positive
10 increase to the RCCs of the -- of the industrial
11 customers.

12 MS. ODETTE FERNANDES: And I do
13 appreciate that, but I'm going to take us a lot
14 further back than that.

15 And ask you to agree with me that the
16 reduction of those payments resulted in an amended
17 application being filed by Manitoba Hydro.

18 You're aware of that?

19 MS. KELLY DERKSEN: It went from 3.5
20 percent down to 2 percent. So I'm aware of that, yes.

21 MS. ODETTE FERNANDES: And that's 1.5
22 percent less than what was being asked in the original
23 application?

24 MS. KELLY DERKSEN: In totality,
25 that's true. There was never any information filed on

1 behalf of the Corporation with respect to the impact
2 of that 1 1/2 percent reduction to each of the
3 customer classes.

4 So how that washes out at the end of
5 the day, I don't know.

6 MS. ODETTE FERNANDES: But from a
7 mathematical perspective, Ms. Derksen, when you take
8 3.5 percent and you reduce it to 2 percent, that's 1.5
9 percent less. Correct?

10 MS. KELLY DERKSEN: Mathematically,
11 that makes sense. I did go to school.

12 MS. ODETTE FERNANDES: And so, if you
13 take that 1.5 percent reduction and you add the .4
14 percent higher than average rate increase for the
15 Residential class, you would agree with me that that
16 still results in a 1.1 percent reduction to the
17 Residential class.

18 MS. KELLY DERKSEN: I don't know that.
19 That's what I said before. That's why I caveated it
20 to say, there is no information on the record to
21 understand that had Manitoba Hydro actually proceeded
22 with a cost allocation study that reflected the 3 1/2
23 percent what -- how that would have washed out in
24 terms of the impacts between customer classes.

25 MS. ODETTE FERNANDES: Ms. Derksen, if

1 you take 3.5 percent and you deduct 2.4 percent,
2 that's a reduction of 1.1 percent.

3 MS. KELLY DERKSEN: I can't -- I can't
4 accept your -- the premise of your question because we
5 just don't know.

6 MS. ODETTE FERNANDES: Ms. Schubert,
7 can I please have you pull up Coalition 142H, please.

8 THE CHAIRPERSON: Ms. Fernandes, can
9 you pull the mic a little closer to you? Thank you.

10

11 CONTINUED BY MS. ODETTE FERNANDES:

12 MS. ODETTE FERNANDES: Now, Ms.
13 Derksen, you had a discussion with Vice-Chair Kapitany
14 this morning regarding Hydro's rate objectives.

15 Do you recall that?

16 MS. KELLY DERKSEN: I do, yes.

17 MS. ODETTE FERNANDES: And you
18 indicated that it was Manitoba Hydro's evidence that
19 flexibility and affordability were not considered by
20 Manitoba Hydro. Do you recall saying that?

21 MS. KELLY DERKSEN: No, that's not
22 what I said.

23 MS. ODETTE FERNANDES: Can you please
24 clarify then what you said?

25 MS. KELLY DERKSEN: I said for

1 purposes of rate differentiation, Manitoba Hydro said
2 its primary consideration was cost to serve. Its
3 other consideration was efficiency and its third
4 consideration was stability.

5 Now, if you go and look to see how
6 Manitoba Hydro defines "efficiency," which is in, I
7 believe, tab 8, it defines "efficiency" to be embedded
8 cost. In other words, cost/causation.

9 So we're left with stability, which
10 means cost to serve equals implement over the -- the
11 spit out of PCOSS24 over a period of five (5) years.

12 MS. ODETTE FERNANDES: So if I take
13 you to the last sentence there in 'H', you would agree
14 that Manitoba Hydro's evidence is that the objectives
15 of flexibility, efficiency, and affordability were the
16 primary considerations for the changes to the
17 individual class rate components.

18 MS. KELLY DERKSEN: Rate forms is what
19 I understand that to say.

20 MS. ODETTE FERNANDES: But those were
21 considerations of those objectives by Manitoba Hydro?

22 MS. KELLY DERKSEN: Yes. And again, I
23 never said ever that Manitoba Hydro didn't consider
24 those objectives in its rate forms.

25 What I did say is that its evidence is,

1 from a rate differentiation perspective, which is
2 between customer classes, those are the three (3)
3 considerations identified in that response.

4 MS. ODETTE FERNANDES: Thank you, Ms.
5 Derksen. Mr. Chairman, I have no further questions.

6 THE CHAIRPERSON: Thank you. Mr.
7 Hombach...?

8 MR. SVEN HOMBACH: Thank you, Mr.
9 Chair. I will note at the outset that Ms. Fernandes
10 generously bequeathed me some of her time on the
11 schedule. And I'm reluctant to advise the panel that
12 I may need to use it and I may be a bit more than the
13 thirty (30) minutes. But I'll try to exercise that
14 privilege judiciously.

15 MR. ANTOINE HACAULT: I'll give you
16 some of mine too. I did finish early. Mr. Hacault
17 here.

18 MR. SVEN HOMBACH: There we go.

19

20 CROSS-EXAMINATION BY MR. SVEN HOMBACH:

21 MR. SVEN HOMBACH: Good afternoon, Ms.
22 Derksen.

23 MS. KELLY DERKSEN: Hello.

24 MR. SVEN HOMBACH: Now, you mentioned
25 you went to school and I believe you actually have a

1 mathematics degree, do you not?

2 MS. KELLY DERKSEN: Apparently. Yes,
3 that was long ago. But yes.

4 MR. SVEN HOMBACH: So if you agree
5 with me that mathematically I'm correct, I'll take
6 that as a compliment in advance. But -- but that's not
7 what I wanted to discuss.

8 Your first job out of school, in fact,
9 was with Centra Gas, was it not?

10 MS. KELLY DERKSEN: Correct. Yes.

11 MR. SVEN HOMBACH: And -- and the way
12 you ended up at Manitoba Hydro is you were with Centra
13 when Manitoba Hydro bought that utility?

14 MS. KELLY DERKSEN: Correct.

15 MR. SVEN HOMBACH: So -- so you're no
16 doubt aware that Centra does not use the concept of a
17 zone of reasonableness.

18 MS. KELLY DERKSEN: Explicitly, not
19 today. In past years, in 1995 and prior to that,
20 explicitly.

21 Implicitly today, though, because
22 Centra does not change its rates each and every year
23 through a General Rate Application, implicit in that
24 decision means they are not adhering -- that they are
25 adhering to some kind of zone of reasonableness.

1 MR. SVEN HOMBACH: So on this concept
2 of a zone of reasonableness, do you accept that for
3 one class to be below 100 percent, another class has
4 to be above it?

5 MS. KELLY DERKSEN: I accept that,
6 yes.

7 MR. SVEN HOMBACH: And would it be
8 fair for me to say that, broadly speaking, there are
9 four (4) classes of customers: residential,
10 commercial, industrial, and street lighting?

11 MS. KELLY DERKSEN: At a high level,
12 that's fair.

13 MR. SVEN HOMBACH: I'd like to turn to
14 Manitoba Hydro Exhibit 51, which is the presentation
15 by the Cost of Service panel. And let's stay on this
16 slide, please, Ms. Schubert. It's slide 7.

17 We talked about the concept of
18 stability this morning. Is it your understanding, Ms.
19 Derksen, that gradualism or the concept of gradual
20 rate increase, that's something that would fall under
21 the header of 'stability'?

22 MS. KELLY DERKSEN: I tend to view it
23 myself that way, yes.

24 MR. SVEN HOMBACH: In your view, does
25 affordability play a role in rate design?

1 MS. KELLY DERKSEN: It can and it
2 does, yes.

3 MR. SVEN HOMBACH: So I -- I search --

4 MS. KELLY DERKSEN: Sorry. I'm not
5 saying in this Application. I'm talking from a
6 conceptual perspective, yes.

7 MR. SVEN HOMBACH: And I searched for
8 the word 'affordability' in your report, but I -- I
9 don't think you approached your evidence from an
10 affordability perspective.

11 MS. KELLY DERKSEN: That's fair.

12 MR. SVEN HOMBACH: So -- so in
13 providing your evidence then, you were not concerned
14 about affordability issues -- competing affordability
15 issues between different classes of customers?

16

17 (BRIEF PAUSE)

18

19 MS. KELLY DERKSEN: I would tend to
20 look at it from the perspective that the proposals
21 that I've made to the regulator allow implicitly for
22 that consideration.

23 MR. SVEN HOMBACH: Do you accept
24 that's all of those four (4) customer classes that I
25 referenced, face cost pressures?

1 MS. KELLY DERKSEN: That very well may
2 be the case, yes.

3 MR. SVEN HOMBACH: And, in your view
4 does the Public Utilities Board have to balance the
5 mathematics with those competing cost pressures?

6 MS. KELLY DERKSEN: The regulator has
7 quite a big job actually, that it extends beyond that,
8 but it's balancing the mathematics with affordability,
9 fairness, public acceptability -- a whole number of
10 issues.

11 MR. SVEN HOMBACH: So, let's go to
12 page 7 of your presentation from this morning please,
13 where you quote the PUB's Order 164 of '16.

14 And it -- we've discussed stability,
15 right?

16 MS. KELLY DERKSEN: Correct.

17 MR. SVEN HOMBACH: We've discussed the
18 concept of gradualism?

19 MS. KELLY DERKSEN: Yes.

20 MR. SVEN HOMBACH: So, let's take a
21 moment to deal with fairness and equity.

22 In your view would the best outcome be
23 for classes to pay their -- the cost that can be
24 attributed to that?

25 MS. KELLY DERKSEN: You'd have to

1 define for me, in that case, what "cost" means. There
2 are different definitions of "cost." One of them is
3 embedded cost, which the regulator has defined in
4 terms of its expectations of cost of service.

5 But that is not the only definition of
6 cost and that is a consideration that the Board, in my
7 view, intended through its Orders.

8 MR. SVEN HOMBACH: So, your concern
9 then isn't primarily with classes being above or below
10 a hundred (100), it's with the judgment that flows
11 into how you determine costs or how you determine cost
12 allocation?

13 MS. KELLY DERKSEN: No, I -- my -- my
14 evidence -- the spirit of my evidence, if I could say
15 that is -- I am okay with cost allocation. The Board
16 has prescribed its vision of what that should look
17 like.

18 The Board went further to say, but
19 that's not the only consideration. And said, we will
20 deal with that at the next GRA and this is that next
21 GRA effectively.

22 And so, I'm saying, cost allocation is
23 good; that's only one consideration. We have to look
24 at a number of things over and above that definition
25 of cost/causation that flows out of a cost allocation

1 study.

2 MR. SVEN HOMBACH: And, we'll get back
3 to that in a few moments, Ms. Derksen. The one (1)
4 thing that nobody has mentioned so far is,
5 competitiveness of rates. It's one of the bolded
6 words on page 7 of your slide.

7 In your view, is that a principle that
8 is relevant to residential ratepayers or is that
9 relevant only to commercial and industrial ratepayers?

10 MS. KELLY DERKSEN: In my view, it's -
11 - it's relevant to all and it's kind of -- it's --
12 it's not explicit in Dr. Bonbright's book, but I think
13 it's -- it can be attached to this idea of public
14 acceptability.

15 MR. SVEN HOMBACH: So -- so on that
16 issue, you've -- you've referred repeatedly to the
17 cases of British Columbia and Quebec. Correct?

18 MS. KELLY DERKSEN: I'm not sure that
19 I've referred -- referred repeatedly to them. What I
20 did say is that is one benchmark that the Board may
21 wish to consider in assessing rates flowing from this
22 application.

23 MR. SVEN HOMBACH: I would like to
24 explore this with you a bit further, specifically in
25 the context of gradualism and rate stability.

1 So, if you'll bear with me for a
2 moment, I would like to pull up a document that I
3 provided you this morning. It's PUB Exhibit 29; that
4 has some legislative excerpts from the British
5 Columbia statutes, the Quebec statutes and the
6 Manitoba Hydro Act.

7 So, if we, Ms. Schubert, if we could go
8 to page 2 -- there we go.

9 So, Ms. Derksen, this is an excerpt
10 from British Columbia's Utilities Commission Act and
11 do you see the highlighted provision that states that
12 the Commission may not set rates for a public utility
13 for the purpose of changing the revenue cost ratio for
14 a class of customers, except on application by the
15 public utility?

16 MS. KELLY DERKSEN: I see that, yes.

17 MR. SVEN HOMBACH: Do you accept that
18 regulators, such as Manitoba's Public Utilities Board
19 have to take into account the statutory guidance
20 provided by government?

21 MS. KELLY DERKSEN: Absolutely, yeah,
22 I think that's fair.

23 MR. SVEN HOMBACH: So -- so is it your
24 understanding -- and I accept that you're not a lawyer
25 -- that -- that this means the BCUC cannot on its own

1 volition equalize the RCC ratios of British Columbia's
2 utility customers?

3 MS. KELLY DERKSEN: That would be my
4 understanding, yes.

5 MR. SVEN HOMBACH: And, let's scroll
6 down a bit in the document, please, Ms. Schubert.
7 There we go.

8 The -- the second document is an
9 excerpt from Quebec's (FRENCH SPOKEN), and Ms.
10 Derksen, I don't know if you speak French, so you --
11 so I'm asking you to accept this subject to check.

12 But will you accept, subject to check,
13 that Quebec's statute similarly has a provision that
14 prevents Quebec's Regis (phonetic) from changing the
15 RCC ratios of utilities?

16 MS. KELLY DERKSEN: I -- I can't read
17 this myself. But, my -- my general understanding from
18 working in this industry for a lot more years than I
19 can count, is that that -- the idea that the -- the
20 utility, the regulator cannot differentiate rates, has
21 been in place I think since the late 1990's, is my
22 understanding.

23 MR. SVEN HOMBACH: Let's scroll on a
24 bit further, page 4 of the PDF contains the new
25 section of 39.1 of the Manitoba Hydro Act that was

1 added by Bill 36.

2 And do you recall Mr. Hacault asking
3 you about Bill 36 earlier today?

4 MS. KELLY DERKSEN: I do, yes.

5 MR. SVEN HOMBACH: So, do you see the
6 provision that is clause 39.1, (1) (a) of the Act,
7 that states, "It is hereby stated --", sorry, if we
8 could scroll up a bit please.

9 "It is hereby declared to be the
10 policy of the government that the
11 rates charged by the Corporation to
12 each class of grid customers in
13 Manitoba are to be based on the
14 revenue requirements properly
15 allocated to that class."

16 DR. BYRON WILLIAMS: We have no
17 problem with the question being answered, I'm just --
18 I'm presuming you're stipulating that this law is not
19 operative till April 1st of 2025?

20 MR. SVEN HOMBACH: I -- I do plan to
21 get there, Mr. -- Dr. Williams and I'll -- I'll make
22 that clear.

23 MS. KELLY DERKSEN: I'm reading that,
24 but nothing in there suggests to me that rates can't
25 or must be differentiated, number 1 and -- and number

1 2, you know, this is a bit Bonbright like to me,
2 "properly allocated," please define what that means.

3 So, I -- I'm just not -- from a
4 pragmatic non-legal perspective, this suggests to me
5 that there's a great degree of latitude being provided
6 to the regulator in this statement. That's simply my
7 business take on it.

8

9 CONTINUED BY MR. SVEN HOMBACH:

10 MR. SVEN HOMBACH: Dr. Williams, quite
11 rightly, interjected and -- and -- and clarified that
12 this provision does not yet apply to the current GRA,
13 but I'd like you to think forward to the next GRA,
14 assuming that this provision will still exist.

15 I asked you earlier about the concept
16 of stability and gradualism. Do you recall that?

17 MS. KELLY DERKSEN: Yes, I do.

18 MR. SVEN HOMBACH: So, so first of
19 all, does this suggest to you that the statutory
20 guidance in Manitoba is different than what applies in
21 BC and Quebec?

22 DR. BYRON WILLIAMS: Mr. Chair, I'm
23 going to object to the question as phrased and invite
24 My Friend to rephrase it, and I do this based on
25 guidance from our Court of Appeal, whether it's in the

1 context of Manitoba Public Insurance or Manitoba
2 Hydro, that when we're interpreting the statutory and
3 rate making regime, we have to look at three (3)
4 pieces of intertwined legislation in the Hydro Act,
5 the Public Utilities Board Act, and the Crown
6 Corporations Governance and Accountability Act.

7 And, as My Learned Friend is well
8 aware, Section 82 of the Public Utilities Act
9 expressing incorporates language such as, "unduly
10 discriminatory."

11 So, I'll -- I'm going to offer that
12 caution. I believe there's an unfairness here in
13 taking one slice of three (3) interconnected pieces of
14 legislation and trying to stretch a meaning to it that
15 our Court of Appeal has cautioned against.

16 So, that will be the caution I'll offer
17 to My Friend and invite him to rephrase his questions.

18

19 CONTINUED BY MR. SVEN HOMBACH:

20 MR. SVEN HOMBACH: Thank you, Dr.
21 Williams, I'll -- I'll accept that caution and what I
22 will suggest is -- Ms. Derksen, I'm -- I'm simply
23 trying to get your view because you used British
24 Columbia and Quebec as precedents to suggest that the
25 -- the RCCs for the Residential class tend to be lower

1 than a hundred.

2 In -- in your view, is the guidance in
3 Manitoba different than Quebec or is it similar?

4 And I'll invite Dr. Williams to -- to
5 speak up, if he still believes that question is
6 inappropriate.

7 THE CHAIRPERSON: Sorry. I just want
8 to ask Mr. Hombach, are you saying, under the current
9 state of the law or the law that is contemplated if
10 this provision becomes law?

11 MR. SVEN HOMBACH: Under the law that
12 is -- that would apply to the next GRA, if this
13 provision remains on the books.

14 DR. BYRON WILLIAMS: And, Mr. Hombach,
15 I -- I have the utmost of respect and I invite you --
16 I just don't -- I don't want to be obstructive, but,
17 if you're -- I -- I believe you're asking, taking into
18 account this language, as well as the language from
19 the Public Utilities Board Act about unduly
20 discriminatory, you're asking Ms. Derksen if she has
21 an opinion on whether that future state of law will be
22 different from the current state of law in BC and
23 Quebec, which is a pretty complex question, Mr.
24 Hombach. We could accept a hypothetical.

25 MR. SVEN HOMBACH: Perhaps, Dr.

1 Williams, I'll -- perhaps, I've belaboured this point
2 enough. We will move on to a different issue.

3 MS. KELLY DERKSEN: I just wanted to
4 comment that, the reason that I put that information
5 with respect to BC Hydro and Hydro Quebec in my
6 evidence and -- and PowerPoint presentation to begin
7 with was not to incite a -- a legal debate about
8 whether, you know, that statutory obligation exists
9 there -- and or if it exists here.

10 It was simply to say -- it was not more
11 complicated than, look, we have only two (2) other
12 vertically-integrated, hydraulic electric utilities
13 similar to Manitoba Hydro in this country, and those
14 being BC Hydro and Hydro Quebec.

15 How do our RCCs stack up against
16 theirs? It was -- and -- and it's just another tool -
17 - interpretation tool that is available to the
18 regulator in assessing, in my view, how well Manitoba
19 Hydro's actually doing in -- in that regard. It was
20 nothing more than that.

21

22 CONTINUED BY MR. SVEN HOMBACH:

23 MR. SVEN HOMBACH: At the risk of Dr.
24 Williams having his finger on the button again, I do
25 have one other question on this issue and, then, I'll

1 promise to move on.

2 Ms. Derksen, keeping into -- keeping in
3 account the issue of stability and granualism, are you
4 concerned that if this Board were to award an across-
5 the-board rate increase, as you recommend, subject to
6 your caveat about the General Service Small on-demand
7 class, that there might be an issue of rate shock in
8 the future, if the Board were -- have to be bound by
9 Section 39.1 of the Manitoba Hydro Act?

10 MS. KELLY DERKSEN: In my rate-making
11 perspective, there is a fair degree of latitude being
12 provided here, in this legislation, such that I am not
13 concerned, from a rate-making perspective, about that
14 potential outcome.

15 MR. SVEN HOMBACH: Let's move on to
16 the issue of efficiency and I'll refer you to page 10
17 of your presentation. You made an interesting comment
18 this morning.

19 I believe you called it a wolf in
20 sheep's clothing and I simply wanted to get your
21 clarification as to what you think "efficiency" means,
22 as far as rate design goes?

23 MS. KELLY DERKSEN: I think it's clear
24 from -- at least from an economic perspective, that
25 efficiency is the consideration of marginal cost, in

1 the short one -- in the short run, is theoretically
2 viewed to be superior.

3 Others tend to view in the long run
4 because of the complexities and inherent instability
5 that short-run marginal cost provide. Efficiency is,
6 thus, connected to marginal cost, more so than it is
7 connected to imbedded cost, from that perspective,
8 and, in any event, marginal cost was a consideration
9 that the Board found important and relevant in the
10 consideration of rate -- for rate design purposes.

11 MR. SVEN HOMBACH: So, let's pick up
12 on that comment of marginal costs and I'd refer you to
13 page 41 of your report. If we could scroll down to
14 the bottom of the page, Table 12.

15 Ms. Derksen, on page 41 of your report,
16 you contrasted the marginal costs, as you calculated -
17 - as you calculated them, from the 2017/'18 GRA, with
18 the marginal costs of the 2023/'24 GRA. Correct?

19 MS. KELLY DERKSEN: This is actually a
20 calculation prepared on behalf -- or by Manitoba
21 Hydro. I did not prepare this, sir.

22 MR. SVEN HOMBACH: So, correct my
23 understanding if I'm wrong but, right now, in terms of
24 the marginal cost, the only customer class that is
25 below the marginal cost is GSL above 100 kilowatts?

1 MS. KELLY DERKSEN: That's correct and
2 subject to the caveats that Mr. Hacault posed to me
3 that -- this morning -- it's one tool by which the
4 Board can evaluate -- can use to evaluate rate
5 differentiation.

6 It's not just, though, Mr. Hombach, the
7 fact that the GSL greater than 100 class is below 100
8 for marginal costs purposes, it's the degree of
9 variability amongst the customer classes; that's also
10 a consideration, in -- in my mind.

11 MR. SVEN HOMBACH: So -- so, we get
12 back to the --

13 MS. KELLY DERKSEN: In -- in -- sorry
14 -- in the absence of export revenue, which is derived,
15 based on -- on market -- based on a competitive
16 market, and sets the marginal costs for the
17 Corporation, but for that fact, I would not expect to
18 see such a degree of variability that exists among the
19 customer classes.

20 MR. SVEN HOMBACH: If you contrast the
21 current numbers with those of the 2017/'18 GRA, in
22 that GRA, all of the rates were below the marginal
23 costs?

24 MS. KELLY DERKSEN: That's what this
25 is saying. Yes and, of course, the circumstances are

1 so dramatically different because you're now adding
2 significant generation and transmission at current
3 cost.

4 You also have -- yes -- so, you've
5 added significant current cost generation and
6 transmission and so, naturally, that will push these
7 marginal costs, very significantly, in the opposite
8 direction.

9 MR. SVEN HOMBACH: So, your primary
10 concern with respect to that portion of your report,
11 then, isn't that the GSL above 100 kilovolts class is
12 below 97.5, it's that the Residentials are at 155 and
13 that range -- you think that range is too high?

14 MS. KELLY DERKSEN: I think that's
15 fair. I point out the 97.5 because for the GSL,
16 recognizing the -- the caveats that Mr. Hacault put to
17 me this morning, that that might not, you know -- it's
18 a directional indicator.

19 I -- I offered it up, from a
20 theoretical perspective. One, the economists -- I'm
21 not an economist, but the economists would tell me
22 that you never want to set your imbedded rates below
23 marginal costs which, in this case, for that class
24 still exists.

25 MR. SVEN HOMBACH: Let's deal then

1 with the issue of export revenue, that you've referred
2 to repeatedly, and I'll refer you to Board Counsel
3 Book of Documents, Volume 6, page 18.

4 Ms. Derksen, you were involved with the
5 Cost of Service proceeding in Manitoba Hydro -- with
6 Manitoba Hydro in 2016, correct?

7 MS. KELLY DERKSEN: Yes, I was.

8 MR. SVEN HOMBACH: So, you're familiar
9 with the Order of the Board that net export revenue
10 should be considered as a reduction to generation and
11 transmission costs?

12 MS. KELLY DERKSEN: I'm not sure that
13 that was pursuant to 164/16. I suspect it was
14 pursuant to 59/18. I could be wrong though.

15 MR. SVEN HOMBACH: So --

16 MS. KELLY DERKSEN: But, yes,
17 generally I understand that.

18 MR. SVEN HOMBACH: -- I'm going to try
19 to go out on a limb and use a mathematical term.

20 Is it -- would you agree that this was
21 basically a switch from the nominator to the
22 denominator?

23 MS. KELLY DERKSEN: It -- in very
24 simple terms, that's exactly what this is.

25 MR. SVEN HOMBACH: And if you look at

1 figure 8.2 from Manitoba Hydro's Application, tab 8,
2 does it indicate that the biggest impact of Directive
3 27, which is the net export revenue directive, is to
4 those classes further out -- furthest away from unity?

5 MS. KELLY DERKSEN: I'm sorry, can you
6 ask me that again, please?

7 MR. SVEN HOMBACH: Does Directive 27
8 primarily impact those classes whose RCC is furthest
9 away from a hundred (100), either below a hundred
10 (100) or above a hundred (100)?

11 MS. KELLY DERKSEN: I think
12 mathematically that's what happens. The reality is --
13 is that, you know, we're talking about a sizeable net
14 export revenue and when you have a customer class like
15 the Residential, that have significant cost in
16 addition to generation and transmission, it's going to
17 get buried in the result to some -- to some extent.

18 Certainly much greater than the -- the
19 larger industrial customers, whose vast majority, as
20 Mr. Hacault also took me through this morning, the
21 vast majority of the GLS classes allocated costs
22 relate to generation and transmission.

23 So, by virtue of that fact also, you'll
24 -- you'll have a very sizeable impact. And just by
25 moving, like you said, from the nominator to the

1 denominator, you're causing a 6 percent RCC impact to
2 the GLS class that, number 1, is greater than a 5
3 percent zone of reasonableness can accommodate.

4 And number 2, simply because you made a
5 mathematical adjustment from the numerator to the
6 denominator, implicitly would result in a 6 percent
7 reduction in rates, all else being equal for -- for
8 that class.

9 So, you know, that's another
10 consideration beyond cost allocation and cost/
11 causation that is appropriately dress -- addressed and
12 -- and -- for rate design purposes.

13 MR. SVEN HOMBACH: Let's illustrate
14 that point. And I'll refer you to Manitoba Hydro's
15 presentation. It's Manitoba Hydro Exhibit 51, page
16 12. And, Ms. Derksen, this was a slide from Manitoba
17 Hydro's Cost of Service panel.

18 And you see that this is a chart that
19 illustrates how net export revenue is used to reduce
20 generation and transmission costs?

21 MS. KELLY DERKSEN: I haven't looked
22 at this per se but I -- I see that, yes.

23 MR. SVEN HOMBACH: Looking at that
24 chart now, do you think it's a -- it's a fair
25 representation of how the process currently works?

1 MS. KELLY DERKSEN: I think the
2 outcome is okay. I'm not sure that I would, myself,
3 have depicted it in that way but, you know, the net
4 results I think is okay. At least it conforms from --
5 it conforms to PCOSS20 -- PCOSS24, yes

6 MR. SVEN HOMBACH: So -- so based on
7 the high network -- high net export revenue year that
8 we've had, net export revenue currently reduces
9 generation and transmission costs by 49 percent?

10 MS. KELLY DERKSEN: That was
11 approximately what I calculated as well, yes.

12 MR. SVEN HOMBACH: Are you familiar
13 with the Board's finding on Order 164 of '16, that net
14 export revenue should not be treated as a dividend?

15 MS. KELLY DERKSEN: For purposes of
16 the mathematical calculation of RCCs and the
17 determination of Cost of Service, yes, I -- I'm aware
18 of that.

19 MR. SVEN HOMBACH: So -- so just to be
20 clear, are -- are you suggesting that the Board
21 establish rates by not taking into account net export
22 revenue or are you suggesting that it should apply net
23 export revenue to total class costs as opposed to just
24 generation and transmission?

25 MS. KELLY DERKSEN: I suggest neither

1 of those things. My -- my recommendation to the Board
2 is 164/16 had a vision for rate setting. Part 1 is
3 cost allocation. Cost allocation includes using net
4 export revenue -- or allocating net export revenue as
5 a function of allocated generation and transmission
6 costs. I am not taking issue with that.

7 What I'm saying is, okay, in the world
8 of setting rates that are in the public interest,
9 those kinds of decisions that factor into the
10 mathematical output of cost of service are
11 appropriately dealt with as part of rate design, which
12 is consistent with what I believe the Board found in
13 its Order.

14 So, my ans -- that's a long-winded way
15 of saying, I am not recommending either of those
16 things. I am simply saying that that consideration be
17 factored in assessing the reasonability of the rate
18 differentials that the -- Manitoba Hydro is proposing.

19 MR. SVEN HOMBACH: If I may attempt to
20 paraphrase, you are not suggesting the Board change
21 the cost of service methodology, you're suggesting the
22 Board look beyond cost of service?

23 MS. KELLY DERKSEN: That was very
24 eloquent. That's exactly what I'm saying.

25 MR. SVEN HOMBACH: Let's discuss your

1 evidence on the issue of the treatment of net export
2 revenue and normalization. I'd like to take you to
3 page 54 of your report.

4 Table 12 in your report contrast the
5 various RCC ratios between Manitoba Hydro's
6 perspective Cost of Service study, as filed, with an
7 average water in 2024 scenario based on a Public
8 Utilities Board Information Request, and a 60 percent
9 of net export revenue scenario based on a Consumers
10 Coalition request, correct?

11 MS. KELLY DERKSEN: Yes, I see that,
12 yes.

13 MR. SVEN HOMBACH: And in Consumer
14 Coalition's Information Request 155, you asked the
15 Utility to provide several export scenarios with
16 different percentages, correct?

17 MS. KELLY DERKSEN: Yes.

18 MR. SVEN HOMBACH: What made you chose
19 60 percent, and specifically, did you think that was a
20 reasonable proxy for normalized net export revenue?

21 MS. KELLY DERKSEN: What I did is I
22 went to the Corporation's integrated financial
23 forecast and I looked to see what Manitoba Hydro was
24 projecting by '28/'29, and other years also in terms
25 of net export revenue.

1 And -- and '28/'29, in particular,
2 because that is -- that is the end game of Manitoba
3 Hydro's recommendations with respect to rate
4 differentiation over a five (5) year rate period.

5 And so, that was -- became -- that --
6 that was the method to my madness. That's why I asked
7 for that information. Manitoba Hydro is anticipating
8 export revenue at that time to be 60 percent of what
9 is being reflected in the current Cost of Service
10 study, which has been used to differentiate rates in
11 this Application.

12 MR. SVEN HOMBACH: Let's go back to
13 page 14 of your presentation, please.

14

15 (BRIEF PAUSE)

16

17 MR. SVEN HOMBACH: Did you suggest
18 that the change to RCCs is exclusively due to net
19 export revenue?

20 MS. KELLY DERKSEN: I did not.
21 Manitoba Hydro -- and I could find the reference I
22 think in one (1) of the Information Requests -- said,
23 at least for the GSL classes, that that outcome that
24 we see in front of us here is driven by net export
25 revenue.

1 And in particular with respect to GSL
2 greater than a hundred (100), between PCOSS21 and
3 PCOSS24, their allocated costs which are primarily
4 generation and transmission were flat. In fact, they
5 were slightly less in PCOSS24.

6 So I believe that's the basis on which
7 Manitoba Hydro concluded that much of what you're
8 seeing in this -- in this volatility with respect to
9 RCCs for that class is on account of net export
10 revenue alone.

11 MR. SVEN HOMBACH: I would like to
12 contrast that slide with slide 22 where you
13 illustrated that there has been a -- a fairly
14 significant increase to overall rate base between
15 PCOSS21 and PCOSS24.

16 And you indicated that PCOSS20 on the
17 left table -- that PCOSS24 had a 77 percent increase
18 in generation and transmission revenue requirement,
19 correct?

20 MS. KELLY DERKSEN: Since the issuance
21 of Order 59/'18, which would have been PCOSS18.

22 MR. SVEN HOMBACH: So you're using
23 PCOSS18 as a base line?

24 MS. KELLY DERKSEN: In that
25 calculation, yes.

1 MR. SVEN HOMBACH: Is it fair to say
2 that there has also been an increase in distribution?

3 MS. KELLY DERKSEN: Without question
4 there are, but it gets dwarfed. It's almost
5 negligible when you add that kind of generation and
6 transmission.

7 MR. SVEN HOMBACH: Have you had an
8 opportunity to review Manitoba Hydro's rebuttal
9 evidence?

10 MS. KELLY DERKSEN: Yes, sir.

11 MR. SVEN HOMBACH: I'd like to take
12 you to an excerpt from that. It's page 108 of the
13 rebuttal.

14

15 (BRIEF PAUSE)

16

17 MR. SVEN HOMBACH: Page 108. At the
18 bottom of the document, Ms. Derksen, Manitoba Hydro
19 indicated that class loads have changed and,
20 specifically, Manitoba Hydro indicated that there was
21 a reduction in load in the mining sector.

22 Do you recall reading that?

23 MS. KELLY DERKSEN: Yes, and I spoke
24 to it this morning. My understanding is -- I'm not
25 sure if it's specifically only on account of the

1 mining sector, but there's been about a 30 percent
2 reduction in load from that class since about -- since
3 PCOSS18.

4 MR. SVEN HOMBACH: In your view, is
5 that an effect that could significantly shift the RCC
6 ratio for that class?

7 MS. KELLY DERKSEN: Apparently not.
8 That's not the outcome that we're seeing. We are
9 seeing -- you know, it just is hard -- it's hard to
10 see with -- with net export revenue.

11 What I do know is between PCOSS21 and
12 PCOSS24 despite adding \$500 million of -- of
13 generation in that -- between those years, the
14 allocated G&T costs to that class was flat.

15 Let me say that again. We added \$500
16 million of G&T and the allocation to the GSL class
17 that is typically most impacted by that, their
18 allocated cost went from 283 million to 282 million.
19 There was actually a reduction in their allocated
20 cost.

21 MR. SVEN HOMBACH: But do you accept
22 Manitoba Hydro's position that that is because that
23 class's load went down?

24 MS. KELLY DERKSEN: It's -- it's
25 possible. There may be other factors. I'm not sure.

1 It's -- it's highly -- it's highly possible.

2 MR. SVEN HOMBACH: Still on the
3 subject of net export revenue, is it your
4 understanding that the reason net export revenue has
5 gone up significantly is because of the addition to
6 generation and transmission plant?

7 MS. KELLY DERKSEN: You know, I -- I
8 really -- I don't know that for certain. We also had
9 fortuitous water conditions at the same time, so maybe
10 it's a bit of both.

11 MR. SVEN HOMBACH: I'm going to take
12 Dr. Williams up on the invitation to put a
13 hypothetical to you, and this will be my only
14 hypothetical this afternoon.

15 Ms. Derksen, if -- if Manitoba Hydro
16 had chosen to not build a dam like Keeyask and instead
17 had chosen to build a gas turbine, would we have this
18 level of export revenue?

19 MS. KELLY DERKSEN: You know, I -- I
20 can't say that. Presumably not. Presumably there
21 would be still some, but I'm not sure. And -- and
22 your cost allocation may be very different also. So
23 there's a number of factors. I'm not sure that --
24 that you could conclude any one (1) thing from -- from
25 that hypothetical.

1 MR. SVEN HOMBACH: So -- so you see
2 what I'm getting at, Ms. Derksen. If -- if the Board
3 found previously that net export revenue should be
4 used to resolve generation and transmission costs, do
5 you take issue with that approach?

6 MS. KELLY DERKSEN: No, I don't. What
7 I -- what I've said and I will repeat is, okay, that's
8 -- you've kept cost allocation clean, which is what
9 the Board envisioned coming out of Order 164/'16.

10 Those issues are still prevalent,
11 though, and the Board expected to deal with them as
12 part of rate -- rate design purposes, and that is the
13 space in which I offer my comments.

14 MR. SVEN HOMBACH: Let's slightly
15 change topics, and I'll refer you to page 23 of your
16 presentation. I recall you making a comment this
17 morning, Ms. Derksen, that generation and transmission
18 are common goods.

19 Do you recall that?

20 MS. KELLY DERKSEN: Yes, they are,
21 yeah.

22 MR. SVEN HOMBACH: So -- or common
23 costs I believe you referred to.

24 MS. KELLY DERKSEN: They're common in
25 joint services that are -- you know, there's a number

1 of different services that one (1) generator will
2 provide. And those services are provided to hundreds
3 of thousands of customers, and thus they're considered
4 both common and joint costs.

5 MR. SVEN HOMBACH: Are distribution
6 and customer service costs also common costs?

7 MS. KELLY DERKSEN: I would -- yes,
8 they certainly are. They're -- they're much lesser in
9 Manitoba Hydro's operations because of, you know, the
10 dominance, the prevalence of -- of G&T.

11 You just don't see that on the Centra
12 side of the operations to anywhere near the same --
13 same degree. And it's because of this big thing
14 called generation and transmission.

15 MR. SVEN HOMBACH: But conceptually,
16 Ms. Derksen, all costs that are not directly assigned
17 are common costs?

18

19 (BRIEF PAUSE)

20

21 MS. KELLY DERKSEN: Not necessarily.
22 For example, distribution is a common cost, as we just
23 agreed, but it is not allocated to some of the
24 industrial customers who take service only from the
25 transmission system.

1 MR. SVEN HOMBACH: Let's stay on the
2 issue of common costs but change to the allocation of
3 the debt guarantee fee and water rental payments.

4 Now, you indicated that the reduction
5 created a windfall to the industrial classes.

6 Am I paraphrasing you correctly?

7 MS. KELLY DERKSEN: I'm not sure that
8 I said it in that way. What I did say is there were -
9 - there was a windfall payment reduction from
10 government that benefited -- benefits the Industrial
11 customer class from a cost allocation perspective to a
12 greater degree than other classes.

13 MR. SVEN HOMBACH: So, let's take a
14 minute or two (2) to delve into those mechanics. And
15 I'll refer you to page 53 of Board counsel book of
16 documents, Volume 6. And let's go to the middle of
17 the page.

18 Ms. Derksen, water rentals are
19 functionalized as generation, correct?

20 MS. KELLY DERKSEN: Yes, that's my
21 understanding.

22 MR. SVEN HOMBACH: And is it your
23 understanding as a cost of service expert that that is
24 because the water is used to generate electricity?

25 MS. KELLY DERKSEN: Yes.

1 MR. SVEN HOMBACH: And let's contrast
2 that with the debt guarantee fee which is rolled into
3 finance expense, is it not? Let's scroll up on the
4 page a bit, Ms. Schubert, please, top of page 53.

5 MS. KELLY DERKSEN: Technically
6 speaking, I think you're correct. I believe the
7 spirit of why the government issued that payment
8 reduction from a provincial guarantee fee perspective
9 was to reduce the debt loads associated with the large
10 addition due to Keeyask and Bipole and US
11 infrastructure, et cetera.

12 MR. SVEN HOMBACH: But the debt
13 guarantee fee applies to all of Manitoba Hydro's debt?

14 MS. KELLY DERKSEN: I believe that's
15 how it's been treated from a cost allocation
16 perspective.

17 MR. SVEN HOMBACH: And that debt is
18 not broken down into debt incurred for the purpose of
19 generation, transmission, or other -- other functions?

20 MS. KELLY DERKSEN: From a cost
21 allocation perspective, it is allocated on the basis
22 of -- of total investment, which includes
23 distribution, also.

24 MR. SVEN HOMBACH: So, My Friend Ms.
25 Fernandes asked you about your -- your comment about

1 the disproportionate impact to -- or the perverse
2 negative impact, as you called it, to the residential
3 class.

4 And I -- I believe you acknowledged
5 that, overall, the rate increase that the residential
6 class is facing is less than what it would have been
7 had there not been the reduction in transfer payments,
8 correct?

9 MS. KELLY DERKSEN: It's plausible. I
10 just -- I don't know how it would have otherwise all
11 washed out because the analysis wasn't -- wasn't done,
12 so it's plausible, but can I say with certainty? No.

13 MR. SVEN HOMBACH: Are you suggesting
14 that this Board should treat the reduction and
15 transfer payments as a social good as opposed to a
16 cost of service factor?

17

18 (BRIEF PAUSE)

19

20 MS. KELLY DERKSEN: I think the way
21 that I tend to look at it myself is that you have this
22 benefit that is coming from the provincial government
23 intending to reduce the debt -- the additional debt
24 load that the Corporation has taken on on account of
25 generation and transmission.

1 The outcome of -- of taking that money
2 from the taxpayers and giving it to the ratepayers is
3 that the Residentials lose in that scen -- in that
4 hypothetical.

5 And I'm saying how on earth would you
6 explain that to your Residential customer? If -- if
7 the Chair gets a call upon the conclusion of this --
8 of this Hearing and was asked by a Residential
9 customer to explain that, what would you say?

10 Because I now have to pay more taxes,
11 all else equal, and I'm going to get a rate increase
12 from Manitoba Hydro, all else equal.

13 MR. SVEN HOMBACH: Are you suggest --

14 MS. KELLY DERKSEN: Rationalize that.

15 And -- and so, I'm not saying change the cost
16 allocation. It is what it is, you know, it -- it's
17 not unreasonable.

18 MR. SVEN HOMBACH: Are you suggest --

19 MS. KELLY DERKSEN: But it is a
20 consideration in terms of assessing the reasonability
21 of the rate differentials that the Corporation has
22 proposed.

23 MR. SVEN HOMBACH: Perhaps I should
24 clarify. Are you suggesting that ratepayers would
25 have faced an increase of more than 2.4 percent at the

1 -- oh, sorry, of less than 2.4 percent if the
2 reduction and transfer payments not occurred?

3 MS. KELLY DERKSEN: Say that again to
4 me, please.

5 MR. SVEN HOMBACH: Are -- are you
6 suggesting that Residential ratepayers would have
7 faced an increase of less than 2.4 percent had the
8 reduction and transfer payments not occurred?

9 MS. KELLY DERKSEN: Something less
10 than the 2.4 percent that the Company is proposing for
11 the Residential class.

12 MR. SVEN HOMBACH: Let's turn to page
13 16 of your presentation and deal with the uniform
14 rates policy.

15 Ms. Derksen, just to clarify, is it
16 your understanding that the uniform rate policy was
17 legislated into existence by the government?

18 MS. KELLY DERKSEN: November 1st,
19 2001, yes.

20 MR. SVEN HOMBACH: So -- so, you
21 accept that currently the -- the Board is bound by --
22 by uniform rates legislation?

23 MS. KELLY DERKSEN: That's my
24 understanding, yes.

25 MR. SVEN HOMBACH: And I just want to

1 clarify on what it is you're asking the Board to do in
2 this part of your proposal.

3 Is -- is what you're suggesting that
4 the Board should look at the differential cost to
5 serve rural customers and attribute that differential
6 cost to export revenue?

7 MS. KELLY DERKSEN: Not at all, no.

8 MR. SVEN HOMBACH: Clarify.

9 MS. KELLY DERKSEN: Sure. So,
10 initially, when this legislation was introduced, there
11 were three (3) zones in Manitoba: one (1) in the city
12 of Winnipeg, one (1) outside the city of Winnipeg, and
13 one (1) in the rural locations of Manitoba.

14 And the -- because of the -- the
15 implementation of that legislation, that meant the
16 Corporation would reduce its rates to those in the
17 city of Winnipeg because the rural rates were higher.
18 And it wasn't necessarily just in Residential class,
19 it was in other classes, as well.

20 And the result of that was that, in
21 absence of a rate change from the Residential class,
22 the Corporation would have lost order of magnitude of
23 \$20 million by lowering rates for all customers on
24 account of that legislation.

25 And so -- and my understanding was that

1 the government of the day did not intend that rates be
2 increased on account of implementing uniform rates.
3 And so, eventually, not in -- at that time, but a
4 couple of years later, it was agreed to by this Board
5 that the cost of that uniform rates would be assigned
6 against exports.

7 Fast forward sixteen (16) years later,
8 the regulator decided in 164/16 that it was not
9 appropriate to assign that cost against exports for
10 purposes of cost allocation and that that cost was
11 appropriately -- was a policy consideration and
12 appropriately dealt with as part of rate design.

13 So, what I am suggesting to you is,
14 okay, let's do that. Let's look at considering the
15 impact of implementing that change by customer classes
16 in terms of rate differentiation.

17 And I'm saying that something lesser
18 than 2.4 to the residential class, based on this
19 analysis that we have in front of us, it will have
20 changed undoubtedly from that time because this is
21 now, you know, five (5) or six (6) years ago.

22 That order of magnitude, let's consider
23 this impact as part of rate differentiation. And --
24 and normalize it over time.

25 MR. SVEN HOMBACH: Ms. Derksen, we're

1 almost done, but I do have two (2) other brief lines
2 of questions.

3 First of all, I refer you to page 25 of
4 your presentation. You recall that My Friend Mr.
5 Hacault took you through this chart and asked about
6 the various PCOSSes that are listed on the 'X' axis.

7 MS. KELLY DERKSEN: Yes.

8 MR. SVEN HOMBACH: I will ask an
9 undertaking from you to file a revised version of this
10 chart that shows which Cost of Service study each
11 point is referring to and what the major assumption
12 are.

13 And to make it easier for you, I'll
14 refer you to the PUB/Coalition Information Requests --
15 if I could ask Ms. Schubert to bring that up and go to
16 Information Request 15. Scroll down.

17 Sorry, the -- the PUB/Coalition
18 Information Request; not the PUB-/Manitoba Hydro
19 Request. That's good. Thank you, Ms. Schubert.

20 In response to PUB/Coalition
21 Information Request 15, you provided a chart that
22 included a description of each of the PCOSS scenarios.

23 Do you see that?

24 MS. KELLY DERKSEN: Yes, I see that.

25 MR. SVEN HOMBACH: So I'm asking you

1 to refile the chart on page 25 of your application on
2 a similar basis with a similar description.

3 MS. KELLY DERKSEN: Sure. Yeah, I
4 understand.

5 MR. SVEN HOMBACH: Thank you.

6 DR. BYRON WILLIAMS: That undertaking
7 is confirmed.

8

9 --- UNDERTAKING NO. 68: Ms. Derksen to refile the
10 chart on page 25 of her
11 application on a similar
12 basis with a similar
13 description.

14

15 CONTINUED BY MR. SVEN HOMBACH:

16 MR. SVEN HOMBACH: Perhaps we'll ask
17 for that same undertaking with respect to slide 26.

18 MS. KELLY DERKSEN: Sure.

19

20 --- UNDERTAKING NO. 69: Ms. Derksen to refile the
21 chart on page 26 of her
22 application on a similar
23 basis with a similar
24 description.

25

1 CONTINUED BY MR. SVEN HOMBACH:

2 MR. SVEN HOMBACH: Ms. Derksen, you
3 made a comment that jumped out at me earlier. You
4 referred to the Residential class as a captive
5 customer. Do you recall that?

6 MS. KELLY DERKSEN: I do, yes.

7 MR. SVEN HOMBACH: Aren't all classes
8 captive customers?

9 MS. KELLY DERKSEN: No, I -- I don't
10 view it that way, sir.

11 We just had a conversation ten (10)
12 minutes ago about the loss of load in the mining
13 sector. You know, businesses come and go.
14 Residential are -- are pretty much there all the time
15 in some way, shape, or form. So I view them in a
16 different light for that reason.

17 MR. SVEN HOMBACH: But people,
18 individual members of that class, can move into
19 Manitoba or out of Manitoba.

20 MS. KELLY DERKSEN: Technically,
21 that's true. But the residential consumption is still
22 there.

23 MR. SVEN HOMBACH: Just one other
24 question, Ms. Derksen.

25 Your recommendation is an across-the-

1 board rate increase to -- to all classes except
2 General Service Small non-demand, correct?

3 MS. KELLY DERKSEN: That's correct.

4 MR. SVEN HOMBACH: So if that happens,
5 if the General Service Small non-demand class does not
6 receive a rate increase, you'll acknowledge that that
7 differential has to be paid for by one (1) or more of
8 the other classes?

9 MS. KELLY DERKSEN: Yes, I acknowledge
10 that.

11 MR. SVEN HOMBACH: Now, what is your
12 recommendation, if any, as to how that is to be
13 allocated between the other classes?

14 MS. KELLY DERKSEN: Well, I -- I -- it
15 depends, sir, if the Board were to find favour with my
16 recommendation to expand the zone of reasonableness,
17 number 1, there's very little differentiation that
18 would actually have to occur, assuming this level of
19 net export revenue of about \$700 million.

20 MR. SVEN HOMBACH: I have been
21 replaced by artificial intelligence.

22 MS. KELLY DERKSEN: My husband tells
23 me the same thing, by the way.

24 We were talking the GSS non-demand and
25 how that should be distributed among the other

1 customer classes. And I suppose it depends, number 1,
2 on whether the Board were to find favour with an
3 expansion of the zone of reasonableness. And in that
4 case, there's very little to be -- the average rate
5 increase would be a little bit lesser, but not by
6 much, for the GSS non-demand.

7 And in that case, because all of the
8 classes in that scenario would be within the zone of
9 reasonableness, you would apply it to all customer
10 classes.

11 In the event that the Board did not
12 find favour with -- with that recommendation, the
13 alternative, in my view, would be to collect it from
14 all customers. Assuming again, the five (5) year
15 projection of net export revenue by year 5 in 2028/29
16 from all customer classes that are within -- within
17 the zone of reasonableness under those conditions.

18 MR. SVEN HOMBACH: Thank you, Ms.
19 Derksen. That concludes my questions for you. The
20 panel may have some additional questions though.

21 THE CHAIRPERSON: I'll ask the panel
22 if they or their devices have any questions for Ms.
23 Derksen. No, nothing? Okay.

24 Dr. Williams, any re-examination?

25 DR. BYRON WILLIAMS: We have no re-

1 examination. Thank you.

2 THE CHAIRPERSON: Thank you. Thank
3 you very much, Ms. Derksen.

4 Mr. Hombach, I'm going to throw it to
5 you in terms of the procedure. The last thing we have
6 here is the examinations of Manitoba Hydro
7 undertakings.

8 And I understand that you have spoken
9 to counsel and maybe you can outline the procedure and
10 if we should be taking a break now.

11

12 (PANEL STANDS DOWN)

13

14 MR. SVEN HOMBACH: I have, Mr. Chair.
15 I would suggest we take a fifteen (15) minute break.
16 I will canvass with Dr. Williams and with Odette
17 Fernandes. It's my understanding that Dr. Williams
18 does have some questions and we need to arrange for a
19 Manitoba Hydro witness to take the stand.

20 THE CHAIRPERSON: Okay.

21 MR. SVEN HOMBACH: And I'll confirm
22 during the break.

23 THE CHAIRPERSON: Thank you. Okay.
24 We'll take fifteen (15) minutes then.

25 DR. BYRON WILLIAMS: And I'll just

1 indicate it will be ten (10) minutes probably in terms
2 of questions.

3 THE CHAIRPERSON: That's fine. Thank
4 you.

5

6 --- Upon recessing at 2:28 p.m.

7 --- Upon resuming at 2:44 p.m.

8

9 THE CHAIRPERSON: Mr. Hombach...?

10 MR. SVEN HOMBACH: Thank you, Mr.

11 Chair. We're reconvening for some brief examination

12 on undertakings. I have had an opportunity to canvass

13 all counsel and I can advise that counsel for the

14 Consumers Coalition is the only party that has

15 additional questions and undertakings.

16 It should not take much more than ten

17 (10) minutes, or so I've been told. And I would

18 suggest we turn it over to Dr. Williams.

19 THE CHAIRPERSON: Thank you. Dr.

20 Williams...?

21

22 MANITOBA HYDRO PANEL ON UNDERTAKINGS:

23 TANIS BRAKO, Resumed

24

25 EXAMINATION BY DR. BYRON WILLIAMS:

1 DR. BYRON WILLIAMS: Thank you. And I
2 do appreciate the courtesy of Manitoba Hydro making
3 Ms. Brako and her back row available. And I apologize
4 for interrupting your day, but these are questions
5 that are important to our -- our client. So we
6 appreciate your courtesy.

7 Ms. Brako, it must seem so long ago,
8 but send your mind back to May 24th, 2023, subject to
9 check.

10 And you remember having a chat with me
11 on behalf of our clients about Hydro's customer
12 satisfaction and perceptions report from September of
13 2022? You've got it. You've got your --

14 MS. TANIA BRAKO: I've got it. Great.
15 Got to remember how to turn that on. Yes, I do.
16 Thank you.

17 DR. BYRON WILLIAMS: Thank you. And
18 again, at a high level, that's a quarterly survey that
19 asks the same series of questions to Hydro customers
20 four (4) times a year for the purpose of tracking
21 trends in the responses over time. Is that correct?

22 MS. TANIA BRAKO: Yeah. So that's our
23 customer satisfaction and perception study, which you
24 would also see referred to as our CSTS study,
25 throughout some of our Application.

1 So I just wanted to clarify that the
2 name of the study did change in Q2 of 2022. But yes,
3 this a quarterly customer research that we conduct
4 that asks a random sample of our customers a broad
5 range of questions. And really, the purpose is to
6 get, you know, a broader understanding of what our
7 customer sentiments are for a range of topics.

8 And, you know, these customers may or
9 may not have recently experienced a recent outage.
10 May or may not have recently contacted Manitoba Hydro.
11 So that's -- that's essentially the purpose and the
12 context of this research.

13 DR. BYRON WILLIAMS: Thank you for
14 that. And what you have before you, you will accept
15 subject to check, is a response from Manitoba Hydro to
16 undertaking 16, in which we asked you to provide a
17 more recent version of that -- of that survey.

18 Agreed?

19 MS. TANIA BRAKO: Correct. Yes, this
20 is for Q3 2022.

21 DR. BYRON WILLIAMS: So -- and this
22 report itself -- so Q3 would end in December of 2022,
23 right?

24 MS. TANIA BRAKO: Correct.

25 DR. BYRON WILLIAMS: And so this

1 report, of course, is from January of 2023, but it
2 reflects the third quarter of the '22/'23 fiscal year.
3 Agreed?

4 MS. TANIA BRAKO: Correct.

5 DR. BYRON WILLIAMS: And Ms. Schubert
6 has been, as always, anticipating my -- my intentions.

7 You'll understand, Ms. Brako, that
8 we're at PDF page 19 of Attachment 1 to this
9 undertaking. Agreed?

10 MS. TANIA BRAKO: Yes, I'm with you.

11 DR. BYRON WILLIAMS: And again, Ms.
12 Brako, this table is familiar to you as it represents,
13 on the left-hand side, various measures that Manitoba
14 Hydro surveys with its customers over time and then
15 presents data as we move to right from those measures.

16 Agreed?

17 MS. TANIA BRAKO: Agreed.

18 DR. BYRON WILLIAMS: And just
19 directing your attention to -- to the second measure,
20 being electric power reliability, you see that the
21 results for the most recent information available to
22 Hydro, the third quarter of '22/'23, suggest a score
23 of eight-point-seven-three (8.73). Agreed?

24 MS. TANIA BRAKO: Agreed.

25 DR. BYRON WILLIAMS: And that was up a

1 little bit from the second quarter, where the score
2 was eight-point-two-nine (8.29). Correct?

3 MS. TANIA BRAKO: Correct. Yeah, up a
4 little bit, but within range of our five (5) year
5 typical mean.

6 DR. BYRON WILLIAMS: And I misspoke --
7 I misspoke. That's eight-point-six-nine (8.69). I
8 apologize.

9 MS. TANIA BRAKO: Eight-point-seven-
10 three (8.73) for the Q3 results and eight-point-six-
11 nine (8.69) for --

12 DR. BYRON WILLIAMS: The previous.

13 MS. TANIA BRAKO: -- previous year.
14 Yes, correct.

15 DR. BYRON WILLIAMS: And I had
16 misspoke not you and I apologize for that.

17 MS. TANIA BRAKO: No problem.

18 DR. BYRON WILLIAMS: And then, over
19 one more column to the -- to the right, we have the
20 five (5) year mean and typical range. Agreed?

21 MS. TANIA BRAKO: Agreed.

22 DR. BYRON WILLIAMS: And the -- the
23 typical range for electric power reliability over the
24 last five (5) years has been eight-point-four-eight
25 (8.48) to eight-point-eight-eight (8.88). Agreed?

1 MS. TANIA BRAKO: Agreed.

2 DR. BYRON WILLIAMS: And the -- the
3 average for that five (5) year period had -- has been
4 eight-point-six-eight (8.68). Correct?

5 MS. TANIA BRAKO: Correct.

6 DR. BYRON WILLIAMS: And again, the
7 score in the third quarter was a bit above the five
8 (5) year average, being eight-point-seven-three
9 (8.73).

10 MS. TANIA BRAKO: Yes. A little bit
11 above, yes.

12 DR. BYRON WILLIAMS: And just one last
13 reference on this page, going down to the second-last
14 measure, you'll see the price of electricity.

15 And I'll suggest -- suggest to you that
16 the score for the third quarter of fiscal year '22/'23
17 was six-point-zero-six (6.06). Agreed?

18 MS. TANIA BRAKO: Agreed.

19 DR. BYRON WILLIAMS: Ms. Brako, again,
20 thanking you for your courtesy and in sticking with
21 me, I'd ask you to go -- Ms. Schubert to take us to
22 page 6 of Manitoba Hydro's undertaking 16, Attachment
23 1.

24 And in terms of what you'll see on the
25 right-hand side of this slide, Ms. Brako, is a

1 presentation of overall service, as well as other
2 indicators, including reliability of electricity.

3 MS. TANIA BRAKO: Correct.

4 DR. BYRON WILLIAMS: Yeah. And the
5 observations of those who conducted the survey was
6 that very high satisfaction continues to be reported
7 for electric power reliability, power quality, and
8 speed of restoring electricity after an outage.

9 Would that be fair?

10 MS. TANIA BRAKO: Yes. That would be
11 fair. And, you know, if I could add as well, this is
12 certainly an important piece of research that we
13 conduct on a quarterly basis.

14 But I'd also like to add that there has
15 been other evidence provided related to transactional
16 surveys that we do with our customers based on
17 specific services that they do with Manitoba Hydro.
18 So such as calling our customer engagement centre.
19 And we'd said previously, in 2022, that 60 percent of
20 our customers are not satisfied with the length of
21 time they're waiting online.

22 So just -- just want to point that out
23 as well, that this is representative, certainly, of
24 random customers that have different types of
25 experiences with Manitoba Hydro, different touch

1 points. But when we see the transactional results,
2 that we are seeing dissatisfaction.

3 DR. BYRON WILLIAMS: Okay. And thank
4 you. And I appreciate you and your team joining us
5 this afternoon to share this most recent update to the
6 record. And we have no further questions of the
7 panel.

8 MS. TANIA BRAKO: Thank you.

9 THE CHAIRPERSON: Thank you, Mr.
10 Williams. Thank you, Ms. Brako and the team.

11 That concludes the Hearing for today.
12 So we'll adjourn until 9:00 tomorrow morning. Thank
13 you.

14 (PANEL STANDS DOWN)

15

16 --- Upon adjourning at 2:51 p.m.

17

18

19 Certified Correct,

20

21

22 _____

23 Wendy Woodworth, Ms.

24

25