



“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 19th, 2023

Pages 4151 to 4252

1
2
3
4
5
6
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1	Table of Contents	
2		Page No.
3	List of Exhibits	4155
4		
5		
6		
7	Closing Submissions by Manitoba Hydro	4156
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18	Certificate of Transcript	4252
19		
20		
21		
22		
23		
24		
25		

1	LIST OF EXHIBITS	
2	EXHIBIT NO.	PAGE NO.
3	MH-53	Undertakings 27, 30, 33, 42, 54, 56,
4		63 and page 33532 responses -
5		June 9, 2023 4156
6	MH-54	Undertakings 25, 28, 40, 55 and 57-62
7		responses - June 16, 2023. 4157
8	MH-55	CSI Undertakings 1-3 responses -
9		public, redacted - June 16 2023. 4157
10	MH-56	MH Final Oral Submission presentation -
11		June 19, 2003 4157
12	MH-57	MH Final written argument - June 19,
13		2023. 4157
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 --- Upon commencing at 9:15 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone. My apologies. Technology is wonderful when
5 it works.

6 Anyways, we're here for the closing
7 submission by Manitoba Hydro. I'm not sure who will
8 be -- okay. Good morning, Ms. Fernandes. It's all
9 yours.

10

11 CLOSING SUBMISSIONS BY MANITOBA HYDRO:

12 MS. ODETTE FERNANDES: Thank you, Mr.
13 Chairman. Good morning. Good morning, Madam Vice-
14 Chair, Board members Sy, Bellringer, and Bass.

15 Just for purposes of the record,
16 Manitoba Hydro did file an oral submission
17 presentation which I understand has been marked as
18 Manitoba Hydro Exhibit 56.

19 And then this morning, you will also
20 have received a very extensive written submission, and
21 that one has been marked as Manitoba Hydro Exhibit
22 Number 57.

23

24 --- EXHIBIT NO. MH-53: Undertakings 27, 30, 33,
25 42, 54, 56, 63 and page

1 33532 responses - June 9,
2 2023

3

4 --- EXHIBIT NO. MH-54: Undertakings 25, 28, 40,
5 55 and 57-62 responses -
6 June 16, 2023.

7

8 --- EXHIBIT NO. MH-55: CSI Undertakings 1-3
9 responses - public,
10 redacted - June 16 2023.

11

12 --- EXHIBIT NO. MH-56: MH Final Oral Submission
13 presentation - June 19,
14 2003

15

16 --- EXHIBIT NO. MH-57: MH Final written argument
17 - June 19, 2023.

18

19 CONTINUED BY MS. ODETTE FERNANDES:

20 MS. ODETTE FERNANDES: So it's been
21 apparent as we've gone through this process that the
22 Panel members have had a very good handle on the
23 arguments of the parties in this proceeding. The
24 Panel has been engaged and it has asked some very
25 important questions, and we will attempt to do our

1 best this morning to answer some of those questions
2 for you.

3 And the rest of the evidence and
4 certain questions will be responded to in that written
5 document that was filed this morning. So we would ask
6 that you would just, please, take a read through that
7 document and take some time to consider and process
8 what has been included in there.

9 So for purposes of our oral submission,
10 we have provided just a -- a roadmap here for you in
11 terms of areas that we feel is important for this
12 Board to consider when it's making its rate requests.
13 I won't go through it, but it's right there in front
14 of you.

15 Now, at Manitoba Hydro, we would submit
16 and we believe and we hope that you would agree that
17 what you have before you is a good news story.
18 Manitoba Hydro's Amended Application of December 9th
19 is good news.

20 If we go back to the original
21 Application at MFR-18, filed at tab 10, there's a
22 schedule of rate increases in there that go back to
23 1999/2000. So when you look at that schedule that has
24 been provided, the Application, the Amended
25 Application before you, is -- contains the lowest rate

1 increases proposed since about 2004/2005.

2 If we proceed a decade forward from
3 2004/'05 to the Needs For Alternatives To hearing, or
4 the NFAT, the rate path contemplated in that
5 proceeding was 3.95 percent rate requests.

6 And if we go back to the 2017/'18 GRA
7 and the forecast relied upon by the Board at that
8 time, which was Manitoba Hydro Exhibit Number 93, the
9 forecast rate path in that exhibit was 3.57. And even
10 in Manitoba Hydro's filing of November 15th, it also
11 reflected a rate path of 3 1/2 percent.

12 Now, with the Province of Manitoba
13 reducing water -- the water rental rate and provincial
14 debt guarantee fees paid by -- payable by Manitoba
15 Hydro, the Amended Application was reduced from 3 1/2
16 percent being requested to an average of 2 percent.

17 Now, I -- I hope I'm not misquoting Mr.
18 Bowman, and he's not in the room here today, but in
19 his words:

20 "We are at a place no one dreamed.
21 What we have is spectacular
22 performance."

23 And we submit that what we need to do
24 is to follow a credible and reasonable plan. Manitoba
25 Hydro submits that the Amended Plan it has proposed is

1 in the best interests of all customers.

2 It offers stable and predictable rates;
3 it ensures that safe and reliable service is provided
4 to customers; it helps smooth the impact of what we
5 all know is the variability that is common a
6 hydrological system; it also addresses what we see
7 coming in the near future.

8 As noted by Manitoba Hydro's president
9 and CEO Ms. Grewal during her opening comments -- and
10 you'll see her slide at slide 4 -- she indicated that,
11 like many utilities around the world, Manitoba Hydro
12 is in a period of unprecedented change, and it's
13 spurred by external forces.

14 What we know today is that demand for
15 electricity is growing, and indications are that the
16 demand in Canada is expected to grow by two (2) to
17 three (3) times what it is today.

18 Federal energy and climate policy are
19 accelerating the pace of change. And Manitoba Hydro
20 is very closely monitoring those changes and taking
21 proactive steps to ensure the Corporation is
22 positioned to respond to emerging needs and
23 expectations of customers.

24 As you have heard throughout this
25 proceeding, Manitoba Hydro started the process to

1 develop an Integrated Resource Plan almost two (2)
2 years ago, and it is now near in completion.

3 The future scenarios developed in the
4 IRP are broad enough to incorporate public policy and
5 will continue to inform on the energy transition
6 underway.

7 As noted by Ms. Grewal, what we know
8 for certain is that the future will be very different
9 than the past.

10 And on the next slide you see Manitoba
11 Hydro 2026 aspirations. And while you have heard over
12 the last couple of years about Strategy 2040 and how
13 the strategy will assist in managing the future
14 challenges, minimizing risk, proactively managing
15 supply and demand, and maximizing the value of
16 existing assets while minimizing costs, there is a
17 directional and, in fact, a three (3) year
18 aspirational view, and that depicts the prioritization
19 of the portfolio of initiatives and direction for the
20 next three (3) years, taking Manitoba to 2026.

21 The three (3) year aspiration deals
22 with the need to optimize and improve the efficiency
23 of the business and setting the foundation and
24 capabilities to accelerate Manitoba Hydro's
25 transformation.

1 And on the left-hand side you see the
2 prioritized strategic pillars, and those pillars are
3 effectively Manitoba Hydro's core business. That has
4 not changed. Those have always been core to Manitoba
5 Hydro.

6 Now, for my next comments I want to
7 focus on pillar number 1, which is providing safe and
8 reliable energy that responsibly meets the evolving
9 needs of Manitobans.

10 Now, you have heard through this
11 process that Manitoba Hydro considers customer
12 perspectives to better understand customers' needs and
13 how Manitoba Hydro can best achieve those needs.
14 Customers' perspectives, however, do not displace
15 Manitoba Hydro's legislative mandate.

16 As you heard throughout this Hearing,
17 each customer group has a different perspective on
18 reliability. And those perspectives, as commented on
19 by the chairman, may change depending on customers'
20 experiences and their current circumstances.

21 What you have before you on the slide
22 is Manitoba Hydro's mandate. And if we take a look at
23 the first part of Section 2(1), it says that:

24 "The purposes and objects of this
25 Act are to provide for the

1 continuance of a supply of power
2 adequate for the needs of the
3 Province."

4 That is Manitoba Hydro's primary
5 objective. That is why Manitoba Hydro exists.

6 On the next slide you will see Manitoba
7 Hydro's mission statement. It incorporates what is
8 set forth in the mandate.

9 You heard Ms. Grewal speak to this new
10 mission statement and how it focussed on providing
11 customers with safe, clean, reliable energy which is
12 core to Hydro, but it also focusses on assisting
13 Hydro's customers in navigating the future so they can
14 best make the decisions for themselves while Hydro
15 continues to fulfil its mandate.

16 Now, this Board has listened intently
17 over four (4) weeks of oral evidence from six (6)
18 panels consisting of seventeen (17) experienced
19 Manitoba Hydro employees.

20 Through some of the Panel members that
21 have been here for a number of hearings, you have seen
22 some new faces and you've heard some new voices, but
23 while the faces and the voices may be new, their
24 collective experience and expertise, I submit to you,
25 came through.

1 In the next couple of slides we have
2 set out before you the collective years of experience
3 of each panel as there have been some suggestions
4 during this Hearing that Manitoba Hydro has lost a
5 number of individuals, and that somehow suggests that
6 Manitoba Hydro is somehow not capable or experienced
7 enough.

8 And if you go through the panels, you
9 will see that the policy panel, although they've been
10 here seven (7) years, they have forty-five (45)
11 collective years of leadership and management
12 experience.

13 The Export Hydrology and Drought Panel
14 has eighty (80) collective years of experience.

15 The Asset Management Panel has a
16 hundred-and-twenty-six (126) years of collective
17 experience at Hydro.

18 The Revenue Requirement Panel has
19 ninety-three (93) years.

20 The Rates and Cost of Service Panel has
21 seventy-one (71) years.

22 And the Depreciation Panel has forty-
23 one (41) collective years of experience.

24 So while these individuals may not have
25 been the face of the Corporation appearing before you,

1 the individuals who appeared before you have been
2 doing the work in the background. So they are
3 intimately familiar with Manitoba Hydro and its
4 operations.

5 Despite what you may hear, Manitoba
6 Hydro does not lack experience in any way. Its
7 employees have extensive experience, knowledge,
8 insight, and expertise to allow Hydro to address the
9 changes we currently see and will continue to see.

10 You should feel confident in management
11 of the Corporation from the day-to-day operations to
12 complex decision making like asset management, capital
13 expenditures, and drought management.

14 But at the end of the day, if you want
15 to have a truly independent view on Manitoba Hydro's
16 expertise, one would only have to look at the comments
17 of Daymark, the PUB's retained independent expert.

18 At slides 10 and 11 -- and I won't go
19 through them in any detail -- but we thought it was
20 important to at least compile some of their comments
21 and perspectives for you in these slides. We would
22 ask that you would take time to read some of the
23 quotes and to go back to their evidence.

24 Now, if we move on to slide 12, we
25 thought we'd have a brief discussion on the

1 legislative framework as there has been a lot of
2 discussion in terms of that during this Hearing.

3 We note that the explanatory note under
4 Bill 36 specifically stated that the existing
5 legislative framework continues to apply to the
6 determination of electricity rates until March 31st of
7 2025.

8 Now, all parties are familiar that the
9 PUB must set electricity rates for Hydro customers
10 that are just and reasonable and in the public
11 interest.

12 And in doing so, that's been confirmed
13 by the Court of Appeal. And that is on the following
14 slide, at the top quote, which says that the PUB has
15 two (2) concerns when dealing with the Rate
16 Application: the interests of the Utility's
17 ratepayers, and the financial health of the Utility.
18 Together and in the broadest interpretation, these
19 interests represent the general public interest.

20 And just a side comment here, we really
21 don't think that this perspective changes under the
22 new legislative framework that comes into place under
23 -- on April 1st of 2025. We still think that the
24 Board will need to ensure rates are just and
25 reasonable, and that they need to balance the interest

1 of ratepayers with the financial health of the
2 Utility.

3 The only caveat to that will be -- is
4 that the Board will be required to follow additional
5 and important guidelines as set out in the new
6 legislation.

7 Now, if we flip to slide 13, the
8 current legislative framework includes Section 2(5),
9 which deals with the application of the Public
10 Utilities Board Act to Manitoba Hydro. And it says
11 that:

12 "Subject to Part 4 [and a few other
13 sections] the Public Utilities Board
14 Act does not applied to Manitoba
15 Hydro and the Board has no
16 jurisdiction or authority over
17 Hydro."

18 And if we move to slide 14, we have set
19 out the excerpt of the Part 4 of the Crown
20 Corporations and Governance and Accountability Act.

21 Now, what you don't see here is Section
22 25(5) because that section deals specifically with
23 MPI. So we've excluded that section and just put the
24 first four (4) subparts on -- on this slide for you.

25 Now, it is clear under the -- the

1 framework that there can be no change in rates without
2 the approval of this Board. And "rates for service"
3 is a defined term and it is the price payable for
4 power.

5 If we move down to Part (25)(4), it
6 provides the factors that this Board can consider in
7 determining the prices charged with respect to the
8 provision of power.

9 Now, Manitoba Hydro submits that the
10 Board has a broad discretion of factors that can be
11 reviewed in approving rates, this discretion, however,
12 is limited to fulfilling a narrow mandate. And that
13 mandate is setting the price charged with respect to
14 power.

15 And on this slide, we've also
16 highlighted Section 25(4), (8) and (9), which speaks to
17 compelling policy consideration and other factors that
18 this Board may consider. And we ask you to keep those
19 in mind as we move forward with our discussion this
20 morning.

21 So, if we move on to the new
22 legislative framework, while many parties, and I
23 believe Manitoba Hydro has, as well, has referred to
24 the new legislative framework as Bill 36. Let's be
25 clear, this is no longer a Bill.

1 A number of sections are in force and
2 they are already reflected in the legislation, subject
3 to the transitional period and certain sections only
4 being in force April 1st, of 2025.

5 The most relevant parts, however,
6 related to electricity rates are in force. There's a
7 transitional period, but there is nothing further
8 that needs to be done by the legislature in order to
9 have them apply as of April 1st, of 2025.

10 Now, as you are aware, and as Mr.
11 Czarnecki will be speaking to this in greater detail,
12 Manitoba Hydro has looked at the targets and the
13 policies in development of its amended rate
14 application.

15 It has been clear that some parties
16 will ask you to just simply ignore the policies and
17 the targets because of the transitional period.
18 However, Manitoba Hydro submits that this is not
19 prudent and, in fact, those targets and policies
20 cannot be simply ignored.

21 And this is where I take you back to
22 Section 25(4) and then (8) and (9), where the existing
23 legislative framework asked this Board and indicates
24 that the Board may consider compelling policy
25 considerations and other factors that the Board

1 considers relevant.

2 So, if we move on to slide 16, we have
3 here the excerpt of Section 39.1. And it starts off
4 by saying:

5 "It is hereby declared to be the
6 policy of the government. The
7 policy of the government, which is
8 enshrined in legislation, includes
9 the achievement of targets."

10 From Manitoba Hydro's perspective, when
11 its owner declares it to be policy, it's not something
12 to be ignored.

13 In addition to this, in November of
14 2022, the province went so far as to reduce the water
15 rental rate and provincial debt guarantee fee, payable
16 by Manitoba Hydro, so that their policy declaration
17 could be implemented.

18 And, I won't take you there, but if you
19 look at Manitoba Hydro Exhibit No.2, Manitoba Hydro
20 attached a letter from the minister -- or, from the --
21 sorry, from the minister to Manitoba Hydro, where it
22 outlined the reduction to the debt guarantee fee and
23 to the water rental rate. And part of that letter
24 indicates that, in reaching Bill 36 debt/equity
25 targets, that will be challenging with a 3 1/2 percent

1 GRA's. And then they went ahead and they implemented
2 the reduction to those -- those fees.

3 So, from the Board's perspective, we
4 would submit that there is nothing more compelling to
5 be taken into consideration by this Board than the
6 policy considerations enshrined by government in
7 legislation and followed up by action, in terms of
8 reduction to the fees payable by Manitoba Hydro.

9 Regardless of the transitional period,
10 we submit that the policies and targets set forth in
11 the new legislative framework are very compelling
12 policy considerations and factors that this Board
13 should consider extremely relevant.

14 On slide 17, we've also included a
15 couple of other sections of the new legislative
16 framework that the government has enshrined in
17 legislation. One (1) of them deals with the
18 classification of grid customers and includes a
19 statement that all residential grid customers are to
20 constitute a single class of customers.

21 And another compelling consideration
22 for this Board, which we submit cannot be ignored, is
23 the impact that the cap on maximum general rate
24 increases will have on achieving financial targets.

25 Manitoba Hydro submits that all of

1 these, together, should not be ignored and that they
2 should be considered as part of the review of this
3 Application.

4 As we move on, on slide 18, we've
5 outlined the approvals that were requested by Manitoba
6 Hydro and were discussed or raised as part of the oral
7 hearing. And we've outlined those there for you.
8 You're very familiar with them, so I won't -- I won't
9 go through reading them for you.

10 On slide 19 we also have additional
11 approvals requested that were ruled out of scope for
12 the oral evidence. So, what Manitoba Hydro has done
13 is you will find our positions on those in the written
14 argument. I believe it's the last -- last section of
15 the argument, so around page 229 of that argument.
16 So, you can read that following the conclusion of our
17 submissions.

18 So, now that we've gone through some
19 overarching perspectives and comments, we think that
20 the best -- best place to start in terms of reviewing
21 Hydro's Application is right at the beginning or, in
22 this case, the 3.6 percent awarded in the interim
23 Orders of 137/21, with reasons provided in Order 9/22.

24 You will recall that Manitoba Hydro in
25 that interim application requested a 5 percent rate

1 increase and this Board approved a 3 percent -- 3.6
2 percent rate increase instead.

3 Now, at page 5 of the PUB's Order, the
4 PUB set out the substantive reasons for the PUB's
5 decision. Those were: the drought, with its
6 forecasted 398 million reduction in net export
7 revenues, and the \$709 million increase since
8 2018/'19, and fixed annual expenses related directly
9 to a number of projects.

10 Now, I would note that at page 12 of
11 that Order the PUB made a finding that the 3.6 percent
12 increase was just and reasonable, and that the
13 increase recognized the financial consequences of the
14 drought and the PUB's objective to avoid rate shock by
15 smoothing rate increases required to address the cost
16 of major capital projects entering service.

17 Now, you found at that time that the 3
18 per -- 3.6 percent was just and reasonable. So, we
19 submit to you that the Board would now have to
20 determine that that 3.6 percent, based on all the
21 information before it, was not just and reasonable.

22 And when I reference all of the
23 information before it, I know there's been a lot of
24 focus on the '20, '22, '23 fiscal year and its record
25 water. And Mr. Czarnecki will speak a bit further to

1 that later on.

2 But I -- I think that's something
3 that's been overlooked, and we would ask you not to
4 lose sight of, is the 2021/'22 fiscal year, which is
5 the year of the drought and the year in which Manitoba
6 Hydro filed its interim application.

7 When filing its application, Manitoba
8 Hydro was forecasting a lost of \$190 million. And if
9 we move to Appendix 3.1 of Hydro's Application, which
10 is the annual report for fiscal 21/22. And it's at
11 page 36 if you want to jot that down to look at it
12 later on. It says that:

13 "The actual net loss attributable to
14 Manitoba Hydro in the electric
15 segment was \$249 million. And that
16 included an offset by higher
17 domestic electricity revenue
18 attributable to that 3.6 percent
19 rate increase."

20 So, there was a net loss that year of
21 \$249 million. In addition to that, when we move to
22 '22/'23, there was no rate increase in that year. So,
23 in light of all of those factors, we submit that the
24 3.6 percent interim rate is still just and reasonable
25 and the PUB can confidently finalize that rate.

1 On this next slide, we've put a number
2 of quotes from Mr. Bowman who was asked a number of
3 questions and was asked to provide comments on the
4 interim rate increase and whether the Board should
5 consider rolling back that rate increase.

6 We note that Mr. Bowman's position was,
7 no, that it shouldn't be rolled back. And we also
8 note that Mr. Rainkie and Mr. Colaiacovo also agreed
9 that the 3.6 should be finalized.

10 We included in the third bullet point,
11 and we agree with Mr. Bowman, that in terms of
12 Manitoba Hydro, it is like steering a super tanker.
13 You don't over react to any specific situation.

14 The Board didn't over react in -- to
15 the drought. It knew Manitoba Hydro was going to
16 suffer a loss, and it still awarded less than what was
17 being requested in that year.

18 We did have an unprecedented swing in
19 2022/'23 as a result of record water. However, this
20 fiscal year, you've heard evidence of how we are
21 swinging back. And I think we have all noticed how
22 dry it's been outside.

23 We need to follow a reasonable plan
24 that offers stable and predictable rates and smooths
25 the impact of variability that is common in Hydro's

1 system.

2 If ultimately this Board does decide
3 that the 3.6 is not just and reasonable, then the
4 practicality of retroactive ratemaking would be
5 difficult. And that was noted by Mr. Bowman in that
6 second bullet point there.

7 And Manitoba Hydro has also included
8 some comments in its written argument at page 34 where
9 its view is that any rollback of the 3.6 would be
10 administrat -- administratively difficult and would
11 take considerable time and effort to implement it.

12 It would also be difficult, in our
13 view, for customers to understand, in terms of either
14 a bill credit or a rate rider when you implement
15 those, and then all of a sudden those expire,
16 customers' bills again increase.

17 So, those are just some considerations
18 for this Board as well.

19 And those are my preliminary comments
20 on the 3.6. Mr. Czarnecki will be speaking further to
21 Hydro's position in terms of confirming it from a
22 revenue requirement perspective.

23 Now, as part of my previous comments
24 regarding the variability in the system, I won't be
25 spending a lot of time on these slides. But I thought

1 we would bring this up for you as Mr. Gawne took you
2 through I believe what he referred to as a spaghetti
3 chart, which is here in front of you.

4 And this -- this chart really does do a
5 good job of depicting the extreme water flows that can
6 change from one extreme to the other. The '20/'21
7 year, which is in purple at the bottom, was a
8 significant event with flows being the lowest in over
9 forty (40) years.

10 When you move to the 2022/'23 fiscal
11 year, which is that dark blue, that goes up. That was
12 also another significant event with new peak flow
13 records being set.

14 And then we go back again, as I
15 commented earlier, to the 2023/'24 fiscal year which
16 we are in now, and that plots what was happening up to
17 the start of the oral hearing. And Mr. Gawne noted
18 that while this type of turn-around in flow conditions
19 is extreme, it's not unexpected.

20 And if we move on to the next slide,
21 Mr. Gawne testified as to the storage and inflows at
22 the time of the commencement of the hearing, that they
23 were close to average although the precipitation was
24 below average.

25 Mr. Gawne indicated that there is still

1 uncertainty in terms of the inflows this year as it is
2 largely dependent on the amount of rainfall over the
3 summer and fall. And you will recall Mr. Gawne
4 testifying that May through August tend to be the
5 wettest months of the year, and the rainfall through
6 these months contributes significantly to the overall
7 volume of water received for the year.

8 And I think we can all take note of how
9 dry May and June have been this year, and so that
10 again is -- in terms of that picture of the super
11 tanker, you have extreme shifts and extreme swings
12 from one event to another but that is why you don't
13 over-correct. You just keep a slow and steady pace,
14 and you slightly correct, as needed.

15 In terms of this slide, you heard
16 Manitoba Hydro discuss their system approach and
17 issues around balancing supply and demand. Mr.
18 Karanwal testified that Manitoba Hydro plans to
19 reliably supply firm customers in the long term, and
20 it does so in accordance with the energy and capacity
21 planning criteria which were provided in Appendix 5.5.

22 Mr. Karanwal also discussed that,
23 consistent with industry practice, Manitoba Hydro must
24 plan to have sufficient capacity to supply peak load -
25 - peak total load.

1 Now, the chart on the left illustrates
2 capacity supply and demand, where the blue shaded area
3 is Manitoba -- Manitoba's customer demand at the peak
4 time in winter, plus a planning reserve margin.

5 And then the green shaded area there is
6 the capacity export obligations, and the solid red
7 line is the total capacity supply. And as you can
8 see, Manitoba Hydro is projecting capacity falling
9 below demand in the 2030/'31 time frame, indicating a
10 need for capacity at that time.

11 Now, the chart on the right-hand side
12 of the screen addresses energy. And given the
13 dependency on water supply, Manitoba Hydro also has an
14 energy planning criteria where the Corporation plans
15 to have enough dependable energy to supply Manitoba
16 customer load and firm export contract obligations.
17 And as highlighted in the chart on the right, Manitoba
18 Hydro anticipates the need for new energy resources in
19 2033/'34.

20 Now, there are a number of other
21 matters that were addressed by the Drought, Export,
22 and Hydrology Panel, and in the time we have today I
23 won't be speaking to them during our oral submission.

24 You've heard Manitoba Hydro's evidence,
25 and they are addressed in detail in writing at

1 sections 6, 7, 8, and 9 of the written argument. And
2 we would ask you to refer to that document for further
3 details on Hydro's submission.

4 Now, having said that, there were a
5 number of issues related to exports, drought
6 operations, forecasting, and energy modelling that
7 this Board felt were important enough that it required
8 the retention of the services of Daymark Industries.

9 And if we move to slide 26, this is a
10 slide from Daymark's presentation. And we thought,
11 instead of having you jump around from document to
12 document, we would just insert their slide here as it
13 speaks to their objectives and specific review
14 requirements, and it provides a high-level summary of
15 the scope of work that they did and what they were
16 asked to review.

17 If we move on to slide 27, this is
18 again a slide from Daymark's presentation. And this
19 is where Daymark summarized their approach and some of
20 the materials they reviewed. And one (1) of the
21 bullets that I'd like to just spend a couple of
22 minutes speaking about is the fourth bullet on the
23 left-hand side where it indicates that Daymark met
24 with Manitoba Hydro staff, in person and virtually,
25 and received supplemental follow-up information.

1 Now, their detailed comments are at
2 pages 12 and 13 of their report, and in that report
3 they indicated that they structured their
4 investigation to develop a thorough understanding of
5 the pertinent areas of Hydro's planning, operations,
6 and forecasting that related to their scope of work.

7 They indicated that some of their scope
8 items were not directly addressed in the GRA filing.
9 They, therefore, supplanted their review with multiple
10 conversations with Hydro personnel. They had multiple
11 virtual meetings with Hydro, including five (5)
12 extensive virtual meetings with subject-matter experts
13 from both Daymark and Hydro.

14 They travelled to Winnipeg for full-day
15 onsite meetings with Hydro from February 21st to 23rd.
16 During those in-person meetings, Daymark requested
17 specific information and files supporting various
18 element of Hydro's GRA filing and other documents
19 related to Daymark's scope.

20 And I believe you will recall that
21 Daymark indicated that Hydro was very responsive to
22 those requests and provided nearly one thousand five
23 hundred (1,500) individual electronic files. We do
24 think that is important to note because it shows just
25 how extensive Daymark's review was.

1 If we move on to the next slide, these
2 are the three (3) key questions that Daymark posed
3 that they indicated would have an impact on the
4 General Rate Application.

5 And so what we've done is we've taken
6 Daymark's slide, and on the right-hand side we've
7 included Daymark's oral responses to those questions
8 at the transcript just so that you've got -- you've
9 got the responses right alongside the questions there.
10 And you will see and you will recall that Daymark
11 confirmed that Hydro's assumptions were reasonable.

12 If we move on to slide 29, we've taken
13 some -- some of Daymark's other findings that were
14 scattered throughout their report and summarized them
15 here for your review.

16 In our submission, these findings are
17 overwhelmingly positive, and where there have been
18 suggestions for improvements, Manitoba Hydro will
19 seriously take those into consideration as it
20 continues to move forward and improve its operations.

21 Now, an area of concern -- or an area
22 that seemed to be of concern and did result in a bit
23 of discussion during the oral hearing was Daymark's
24 findings related to governance during the drought.
25 And they went extensively in their report and in their

1 oral testimony on this topic.

2 And so what we've done is we've again
3 just summarized Daymark's findings with respect to
4 Hydro's operations during the drought. And we submit
5 that after the extensive review by Daymark, this Board
6 can take confidence in Manitoba Hydro's procedures and
7 in the management of its operations during drought
8 periods.

9 Finally, on slide 31, we have outlined
10 what we think the Board can rely upon in terms of its
11 review of Manitoba Hydro's operations. And those are
12 that Manitoba Hydro has robust operations planning
13 processes, technology, and depth of experience.

14 Manitoba Hydro's operations are guided
15 by long-established priorities. Manitoba Hydro has
16 implemented improvements related to energy operations
17 and long-term planning, and that Manitoba Hydro has
18 made improvements in its near-term inflow forecasting
19 system. And Manitoba Hydro is committed to continuing
20 to improve its system as we move forward.

21 I will now pass it on to Mr. Czarnecki
22 so he can take us through the next couple of sections.

23 MR. BRENT CZARNECKI: Thank you.
24 Excuse me. Thank you, Ms. Fernandes. Good morning,
25 Mr. Chairman, Panel members, ladies and gentlemen.

1 Just by way of a pulse check, I will be
2 addressing asset management and capital matters. I
3 will then turn to revenue requirement matters. And
4 then I will pass the baton back to Ms. Fernandes who
5 will address cost of service and rate matters and
6 Manitoba Hydro's conclusion.

7 Now, before I get started, you know, in
8 the morning chaos at my house it's often, if not
9 always, accompanied by sports highlights in the
10 morning.

11 And why do I bring this up now? Well,
12 I think you, Panel, have witnessed the main event, or
13 the main sporting event, throughout this entire
14 proceeding. You've seen all the witnesses. You've
15 read the evidence.

16 And now it's up to Ms. Fernandes and
17 myself and learned counsel that will follow to
18 summarize and provide you what I think are the most
19 important clips of the entire sporting event, or the
20 PUB Hearing, in this case.

21 And I mention that because what you're
22 going to see from the slides from -- that are
23 following are repetitive. You've seen them before.
24 The witnesses have spoken to them. But from our
25 perspective, they're very important and very worthy of

1 the reminder or, in this case of the sports desk, the
2 -- the key moments of the Hearing for you to make your
3 decision upon.

4 And I will just say to conclude on that
5 point that, from Manitoba Hydro's perspective, not a
6 lot has changed from our position from when we
7 originally filed on November 15th to when we amended
8 the application on December 9th to when we got to this
9 point, meaning, that we still believe that the 2
10 percent rate path that's before you does result in
11 just and reasonable rates and that are in the public
12 interest.

13 So, it's a bit of a spoiler alert
14 before we get going here, so bear with me as -- as
15 you've seen these slides before.

16 I'll start with some of the obvious
17 basics of asset management. Of course, Manitoba Hydro
18 is an asset-intensive organization with assets that
19 are located throughout the province of Manitoba. And
20 the mix of assets are incredibly varied in age and
21 complexity and are core to Manitoba Hydro's purpose of
22 providing power. Ms. Fernandes spoke of that
23 legislative purpose.

24 It is imperative that Manitoba Hydro's
25 assets are available to serve the needs of all of

1 Manitobans. Next slide, please.

2 Now, this slide depicts the wide range
3 of the age of Hydro's assets. Some are over a hundred
4 years old and are still in use, like the Pointe du
5 Bois generating station. And you can see the
6 prominence of rural and farm electrification in the
7 post-World War I and World War II eras.

8 The performance of Manitoba Hydro's
9 assets are declining, and the age of the assets are
10 contributing to this decline. Increasing investments
11 in Manitoba Hydro's assets is essential to maintain
12 the reliable level of service that Manitobans have
13 come to expect and to help avoid costly and lengthy
14 outages in the future. Turning to slide 35.

15 You'll also know that Manitoba's assets
16 are located throughout the Keystone province.
17 Seventy-five percent of Manitoba's generated
18 electricity is in northern Manitoba and delivered to
19 major customer centres in southern Manitoba via
20 transmission systems linked to Saskatchewan, Ontario,
21 and United States, using the high-voltage direct
22 current system that comprised of Bipole I, II, and
23 III. And those are the blue lines that you're seeing
24 in front of you on the slide.

25 Unquestionably, Bipoles I, II, and III

1 are the transmission backbones for the functioning of
2 the entire electrical system. They are vitally
3 important for the delivery of reliable energy to serve
4 domestic demand of Manitobans and for the export
5 markets which, of course, generates revenue to help in
6 keeping rates low for all Manitobans. Next slide.

7 Now, Mr. Pawluk reviewed this slide
8 with you in his testimony. And what it is showing is
9 that the availability of Bipole I, and particularly,
10 Bipole II has significantly in recent years. This is
11 attributed to assets reaching their end of life.

12 As you heard directly from Mr. Pawluk
13 and other Manitoba Hydro witnesses, investments are
14 required in order to sustain these critical
15 transmission backbones for the delivery of energy we
16 all know about.

17 Mr. Pawluk explained the increasing
18 number of major forced outages that were caused by
19 asset deterioration. These outages ranged from days
20 to several months, impacting reliability and having
21 serious safety issues for Manitoba Hydro's site staff.

22 A very concerning trend for those at
23 Manitoba Hydro who are legislatively responsible and
24 charged with the safe and reliable operation of the
25 entire electrical system in Manitoba.

1 It was extremely difficult and,
2 frankly, troubling for those at Hydro to comprehend
3 how two (2) Coalition consultants from outside of
4 Manitoba could even suggest that sustaining these
5 assets should not be a top priority. Perhaps they
6 didn't understand or appreciate that the functioning
7 of the entire Manitoba Hydro system is dependent upon
8 Bipoles I, II, and III.

9 Thankfully though, Mr. Helland, of
10 Midgard, ultimately conceded that, and I quote:

11 "The best party to decide what role
12 assets should play in the system and
13 how best to use those assets is
14 Manitoba Hydro."

15 And that's found at transcript page
16 1,791. And Mr. Helland had -- had said that:

17 "The best situated entity to
18 quantify how much it should -- how
19 much it should spend on operation
20 staff compared to capital
21 expenditures to reduce outage
22 duration rests with Manitoba Hydro,
23 as well."

24 And that's at transcript page 1,897.

25 Next slide, please.

1 This slide is showing distribution
2 repair work notifications created and those completed
3 between 2015 to 2023. Again, the important and
4 concerning trend that is demonstrated is the widening
5 gap between the orange plotted line, that's the work
6 that needs to be completed, and the blue plotted line,
7 work that has been completed.

8 Now, you heard that Manitoba Hydro can
9 only complete approximately 75 percent of planned or
10 preventative maintenance, which is expected to decline
11 further without appropriate levels of asset renewal
12 and trained maintenance resources.

13 The reactive workload on Manitoba
14 Hydro's aging assets is increasing. It's creating a
15 significant backlog of necessary work to address. And
16 the gap that you're seeing between the orange and the
17 blue lines, the backlog, it does not magically
18 disappear. More, not less, resources are required to
19 reverse or at least stabilize this trend. Slide 38,
20 please.

21 Now, as you heard from Mr. Pawluk and
22 Ms. Halayko, Manitoba Hydro applies the principles of
23 asset management in both its short and long-term
24 planning and decision making.

25 Manitoba Hydro has well defined short-

1 term planning processes that includes the use of the
2 corporate value framework and the Copperleaf asset
3 investment planning software. These decisions are
4 asset specific and are used to populate the capital
5 plan with specific capital investments to address
6 identified needs that are within the three (3) to five
7 (5) year time frame.

8 Manitoba Hydro's long-term planning
9 processes look at the whole population of an asset
10 class, as an example, all generators. And they assess
11 whether current intervention rates are adequate.

12 Now, as a specific asset moves closer
13 to the short-term horizon, a more detailed analysis
14 and assessment is completed, including a review of the
15 condition of that specific asset. Next slide.

16 As you also heard, capital expenditures
17 are anticipated to increase over the twenty (20) year
18 forecast scenario predominantly because of an
19 increasing need for expenditures to simply sustain the
20 existing and aging fleet of assets to -- to maintain
21 system reliability.

22 These sustaining investments are
23 required for Manitoba Hydro again to satisfy its
24 legislative mandate within the Manitoba Hydro Act to
25 continue to provide reliable service to Manitobans.

1 Next slide.

2 This graphic provides additional detail
3 that sustainment of Manitoba Hydro's existing assets
4 remains the primary focus of business operating
5 capital, or what we call BOC, and the spending and the
6 projected need for Manitoba Hydro to increase spending
7 in the sustainment category as time progresses.

8 A reflection of the fact that the fleet
9 of Hydro's assets that I spoke of on slide 34, such as
10 those from the post-World War eras, continue to age,
11 which brings increased reliability concerns.

12 From this slide you can see that the
13 sustainment portion represents 58 percent of total BOC
14 in '22/'23. By 2032, sustainment is projected to
15 represent 64 percent of total projected business
16 operations capital expenditures.

17 The prioritization, or ranking, of
18 these BOC expenditures by Manitoba Hydro occurs across
19 all generation, transmission, and distribution assets.
20 Corporate facilities and IT investments are also
21 considered. Slide 41.

22 Now, shifting gears slightly to the
23 required funding for asset management. You will
24 recall that Mr. Fogg testified that Manitoba Hydro
25 seeks to make BOC investment primarily using cash from

1 operations or internally generated funds.

2 And that has been a longstanding
3 financial objective for Manitoba Hydro, and that's
4 because BOC investments are considered to be
5 reoccurring and part of core operations. So, the
6 ability to self-fund them is an important indicator
7 that Manitoba Hydro is self-supporting or, in other
8 words, that Manitoba Hydro can support its own core
9 operations.

10 The graph on the slide shows Manitoba
11 Hydro's self-financing ratio, the solid line, and
12 either an increase or decrease in net debt, the bars.
13 A self-financing ratio of 100 percent or greater means
14 that Manitoba Hydro can fund its system investments
15 from cash from operations. If the self-financing
16 ratio is below 100 percent, then debt is required.

17 And what the graph demonstrates is that
18 the proposed 2 percent rate path meets this important
19 financial goal. The 2 percent rate path ensures that
20 BOC investments are primarily made using cash from
21 operations. Slide 42, please.

22 Now, we heard lots of discussion
23 throughout this proceeding on the maturity of Manitoba
24 Hydro's Strategic Asset Management Plan, or SAMP.

25 The PUB directed Manitoba Hydro to

1 perform an external asset management assessment as a
2 follow-up to the 2016 assessment that was completed by
3 an asset management consultant known as UMS.

4 So, Manitoba Hydro hired the expertise
5 of AMCL to perform another assessment, which was filed
6 with the Application. And Ms. Sarah Vine, on behalf
7 of AMCL, provided candid oral testimony before you
8 with respect to the findings of AMCL.

9 This slide in front of you is produced
10 my AMCL, which depicts the results of their maturity
11 assessment and the expected maturity going forward for
12 Manitoba Hydro.

13 Notably, significant progress has been
14 made by Manitoba Hydro since 2016, when Manitoba Hydro
15 was assessed a score of one-point-five (1.5) by UMS to
16 a score of one-point-eight-one (1.81) by AMCL in 2022.

17 Mr. Pawluk spoke about the asset
18 management that Manitoba Hydro is currently doing at
19 pages 1503 to 1504 of the transcript. And I'm going
20 to quote him:

21 "I mean, we're doing it. When you
22 look at the scoring of our maturity,
23 it's across the enterprise and it's
24 linking all the different energy
25 streams together. It's not that

1 we're not doing asset management.
2 We are. We are making good
3 decisions. We are using the data.
4 We do have data. I think it's been
5 mischaracterized that we have no
6 data and all of our data is bad.
7 That's not true. So we are doing
8 asset management and we are making
9 decisions. But what we can do is
10 optimize even further and take it to
11 another level. And that's where
12 we're going on the journey of asset
13 management."

14 And as noted by Manitoba Hydro
15 witnesses and by Ms. Vine, advancing progress on this
16 asset management journey was hindered by the
17 challenges posed by COVID and the significant
18 corporate reorganization that Manitoba Hydro undertook
19 for which Ms. Vine observed that the corporate re-
20 organization better positions Manitoba Hydro to
21 progress with its asset management maturity in the
22 future.

23 And the words from Mr. Turner and Ms.
24 Halayko are very important, that there remains a clear
25 and strong commitment for Manitoba Hydro to progress

1 on the asset management journey towards more refined
2 optimization.

3 And at transcript pages 1474 to 1476,
4 I'll quote Mr. Turner:

5 "So, you know, maybe for the Board's
6 benefit, the restructuring was very
7 consuming. So we would -- I have
8 paused our specific work on
9 advancing some of asset management
10 maturity while we work through the
11 process to try and identify the best
12 business model and organizational
13 structure. You know, we also tried
14 to do this in parallel with a global
15 pandemic, so that made things a
16 little bit more challenging. I am
17 very optimistic that this new
18 structure is going to yield an
19 improvement in our rate of maturing
20 our asset management system. We are
21 joined by some very bright minds
22 behind me and over to my left here
23 that are -- is the future of asset
24 management at Manitoba Hydro. And
25 I'm very confident they're going to

1 move things forward in an expedited
2 manner."

3 Ms. Halayko added:

4 "I think it might be worth restating
5 too that our reorganization was
6 around an asset management model, so
7 it may have slowed down progress
8 somewhat, but it really is
9 positioning us to do more with asset
10 management going forward. Like,
11 that was one (1) of the goals of the
12 reorganization that Mr. Turner
13 mentioned."

14 And last, before I move on from this
15 topic area, more evidence of Manitoba Hydro's
16 commitment in progressing asset management is found in
17 the response to the undertaking provided at transcript
18 page 1516, wherein Manitoba Hydro provided its
19 comprehensive asset information strategy for the next
20 three (3) years. And I encourage you to review that
21 document, as it clearly demonstrates the path that
22 Manitoba Hydro is choosing for maturing its asset
23 management practices.

24 So that's asset management. Now we
25 will turn to revenue requirement.

1 As you've heard -- and I think we're
2 all well aware -- on November 23rd of 2022, Hydro was
3 provided with direction that the Province of Manitoba
4 -- Province of Manitoba would be reducing the
5 provincial guarantee fee and water rental fee by 50
6 percent. The reduction of the fees is retroactive to
7 April 1 of 2022.

8 The savings are to be applied to debt
9 reduction and minimizing new debt to help financially
10 stabilize Manitoba Hydro and help keep rates low for
11 customers.

12 For the fiscal year '22/'23, the
13 savings are estimated at \$185 million. The
14 spectacular news for Manitobans, as shown on this
15 slide, the reduction of these payments to Government
16 had a material impact on Manitoba Hydro's finances and
17 the proposed rate path.

18 The result was a change from a 3.5
19 percent rate path, originally filed on November 15th
20 of 2022, to the 2 percent rate path. That results in
21 3.8 billion less revenue to be collected from
22 customers. This is shown in the top graph on this
23 slide.

24 And with these savings, Manitoba Hydro
25 still meets the rate cap and debt ratio targets that

1 are outlined in the Manitoba Hydro Act.

2 It's important to note that these
3 reduced payments also result in debt avoidance.
4 Keeping the rate path consistent at 2 percent,
5 Manitoba Hydro will avoid approximately 2 billion in
6 finance expense over the forecast. This is shown in
7 the bottom graph on this slide.

8 To put it differently, as Mr. Fogg
9 testified, under a 2 percent rate path, net debt is
10 5.7 billion lower by 2041/42 as a result of the
11 reduced payments to Government versus a scenario where
12 those payments are not reduced -- are not reduced.
13 Next slide, please.

14 THE CHAIRPERSON: Mr. Czarnecki, I
15 apologize. But I think we're going to take the
16 morning break right now.

17 MR. BRENT CZARNECKI: Not a problem,
18 Mr. Chairman.

19 THE CHAIRPERSON: Okay. Thank you.
20 We're going to break for -- we'll break until -- we'll
21 break until 10:30. Thank you.

22

23 --- Upon recessing at 10:12 a.m.

24 --- Upon resuming at 10:30 a.m.

25

1 THE CHAIRPERSON: Mr. Czarnecki...?

2 MR. BRENT CZARNECKI: Thank you, Mr.
3 Chairman. I think we had left off, just at slide 45,
4 the one that's in front of us. And this is a -- just
5 a quick reminder of the impacts of reduced payments to
6 the government.

7 So, in the amended financial forecast
8 scenario, the 3.7 billion combined reduction to net
9 finance expense and water rentals, is effectively
10 matched by a \$3.8 billion reduction to additional rate
11 revenue by adjusting to the 2 percent rate path.

12 So, that just -- just showing you the
13 adjustment that was made and the graph that
14 illustrates that. Next slide please.

15 So, Ms. Fernandes spoke about this a
16 little earlier, but although the rate cap and the debt
17 ratio targets do not become operative until April 1st,
18 2025, as the stated policy of Manitoba Hydro's owner,
19 the Manitoba Government, Manitoba Hydro prudently
20 considered the implications of both determining the
21 proposed rate path for the future.

22 And, as demonstrated on this slide, the
23 2 percent rate path complies with the rate cap and the
24 date -- the debt ratio targets within the legislation,
25 they are achieved. Slide 47.

1 So, it -- there was some discussion in
2 the hearing about the use of a twenty (20) year
3 financial forecast. So, just as a reminder for the
4 Panel, Directive 4 of Order 9/22, required Manitoba
5 Hydro to include in its '22/'23 General Rate
6 Application, it's long term financial forecast of at
7 least twenty (20) years, together with its underlying
8 assumptions.

9 And I just wanted to remind you,
10 perhaps, of why you made that directive, is because in
11 Order 137 of '21, at page 12, you recognized that a
12 long-term financial forecast was important when
13 considering concepts of rate smoothing and reasonable
14 rate trajectories when balancing the interest of
15 ratepayers, with the financial health of Manitoba
16 Hydro. The next slide, please.

17 So, Manitoba hydro's financial forecast
18 scenario is not unlike any other long-term financial
19 projections. It provides directional financial
20 information over the planning horizon, based on
21 planning information that is available at the time the
22 forecast is developed.

23 The proposed 2 percent rate path is
24 representative of current assumptions and best
25 information. As part of the forecast assumptions,

1 Manitoba Hydro included cost for potential projects
2 that are considered likely to proceed, but are not yet
3 approved; that is, they're still in the business case
4 phase.

5 And we did hear in the hearing that
6 this included costs related to the potential SAP S/4
7 project and the AMI project.

8 Manitoba Hydro viewed it as appropriate
9 and prudent to include these potential costs in the
10 forecast, in order to provide a more accurate view of
11 potential expenses in future years, for your
12 consideration.

13 Now, before closing on that slide, I
14 will conclude with some remarks from Mr. Tess on the
15 opening day of the proceeding at transcript page 211
16 Mr. Tess stated that:

17 "The forecast contains all of our
18 traditional inputs that go into the
19 forecast. I'm really pressed to try
20 to find something that's not
21 included in here. As Jay (phonetic)
22 mentioned, there's uncertainty with
23 regard to the evolving energy
24 landscape and what we, you know,
25 we'll know when the IRP is

1 finalized. But apart from that,
2 this represents a traditional
3 financial forecast with all of the
4 traditional inputs that the PUB has
5 seen in the past.
6 So, in terms of the financial
7 forecast, as you well know, any
8 financial forecast that we put
9 forward, has degrees of assumptions
10 and uncertainty built into it. But
11 we feel -- feel, this is -- has very
12 solid assumptions that the PUB can
13 rely on at this particular time.
14 But there's always the caveat of the
15 uncertainty that we just talked
16 about. And, you know, those are
17 things that we don't have
18 necessarily perfect insight into in
19 the future, like some energy policy
20 framework at some point this
21 summer."

22 Next slide please.

23 So, as this slide indicates, the
24 proposed 2 percent rate path is a smoothed rate path
25 to achieve the 70 percent debt ratio target and

1 complies with the rate cap. It's based on a balancing
2 of the identified priorities, considers multiple
3 financial metrics and is based on average conditions.

4 The proposed 2 percent rate path is not
5 simply a mechanistic goal seek, or is not overly
6 focused on one priority for rate-setting purposes and
7 a rate path.

8 Now, as expected, Manitobans continue
9 to voice the importance of low rates in Manitoba. At
10 the same time, Manitobans are also voicing that
11 reliability of products and services is equally or
12 more important to low rates.

13 You have heard directly from the
14 industrial customers in Manitoba Hydro in this
15 proceeding. They highly value and desire reliability
16 in service, even if this means paying more for their
17 power and related services.

18 In summary, on this slide, the 2
19 percent rate path is a reasonable and balanced
20 approach to achieve these fundamental priorities and
21 is entirely consistent with what Manitoba Hydro has
22 heard directly from its customers. Slide 50.

23 This slide provides you with a
24 historical view of CPI in Manitoba. It clearly
25 demonstrates the recent spike we are all feeling from

1 '21/'22 to '22/'23.

2 As you heard from Ms. Amorim-Dew,
3 Manitoba Hydro's O&A costs are not immune to these
4 inflationary pressures. And I further note the fact
5 that during this high inflationary period, since
6 receiving the interim increase from this Board on
7 January 1st of 2020/'22, Manitoba Hydro did not
8 request an additional rate increase, leaving customers
9 with a twenty (20) month grace period of time without
10 additional electric rate increases before the proposed
11 date for the first 2 percent rate increase is to be
12 effective on September 1 of 2023.

13 And I remind the Board Panel of
14 Manitoba Hydro's response to Undertaking No. 22, which
15 contained the data showing that since 2000, cumulative
16 Manitoba Hydro rate increases are slightly less at
17 75.6 percent than cumulative CPI in Manitoba at 78.08
18 percent, during which period of time, significant
19 major expansion projects were undertaken and
20 successfully completed by Manitoba Hydro. A pretty
21 impressive track record, I would submit. Slide 51.

22 So, now looking forward. As Mr. Epp
23 testified, Manitoba Hydro is required to gradually
24 improve its financial health over time progressing
25 towards the legislated financial targets.

1 In order to hit the debt ratio targets,
2 Manitoba Hydro will need to increase its equity, or
3 its retained earnings, and decrease its level of
4 absolute net debt over the forecast period.

5 To achieve this necessary increase to
6 retained earnings and reduction in net debt, the level
7 of net income and cash generated from operations needs
8 to increase.

9 For additional detail on this slide 15
10 of Exhibit Manitoba Hydro 42, from the Revenue
11 Requirement Direct Evidence presentation, contains a
12 bar chart showing the annual amounts which comprise
13 the overall net dent -- net debt balance, depicted by
14 the picture in this slide under the 2 percent rate
15 path. Next slide.

16 Mr. Epp also reminded us of the
17 importance of cash flow for Manitoba Hydro. There
18 needs to be a surplus of cash, after investments, in
19 order to reduce net debt. In years where there is a
20 deficit instead of surplus, debt grows.

21 What's important is the inflow versus
22 outflow of cash; that is what the cash flow surplus
23 deficit and the cell financing ratio measure.

24 Now, Manitoba Hydro is monitoring the
25 cell financing ratio, which considers the ability to

1 fund investments from cash from operations. And what
2 I mentioned earlier, Manitoba Hydro has a long
3 standing financial objective to fund business
4 operation -- operating capital with internally
5 generated funds. That is cash from operations.

6 And, Mr. Chairman, I remind you of your
7 question to Mr. Bowman, when he testified. You asked
8 at transcript page 4,029, "How should we view retained
9 earnings?"

10 And Mr. Bowman recognized that retained
11 earnings are not cash. And he warned that retained
12 earnings were not the holy grail of your reserves or
13 for measuring targets. And he stated that, I quote:

14 "I think we can look to both Hydro's
15 net income and its cashflow over
16 time as indicating effectively the
17 financial strength of Manitoba
18 Hydro."

19 Next slide. Notwithstanding the debt
20 ratio targets is now prescribed in Manitoba law, as
21 show in the figure on the right side of this slide,
22 the previous longstanding 75/25 debt-to-capitalization
23 target is achieved in 2035/'36 under both the current
24 financial forecast scenario and under the Manitoba
25 Hydro Exhibit Number 93 financial forecast that was

1 presented in the 2017/'18 GRA.

2 To recall, Exhibit 93 was a scenario
3 that was based on Manitoba Hydro's '16 update that was
4 requested by MIPUG and, as noted in Order 59/'18, was
5 considered by the PUB in determining the approved rate
6 increases in the 2017/'18 and 2018/'19 GRA.

7 Achievement of the 75/25 debt ratio in
8 the same year, being 2036, under both forecasts
9 confirms that, even if the targets -- targets
10 established in Manitoba law are not considered as
11 relevant by the PUB for this Application because of
12 the transitional period, the 2 percent rate path
13 provides a reasonable and stable long-term rate path
14 for Manitobans landing in the same spot as was
15 envisioned in Manitoba Hydro Exhibit Number 93.

16 Notably, however, the cumulative rate
17 increases under the 2 percent rate path included in
18 the current financial forecast scenario are
19 significantly less than those forecasted in Exhibit
20 93. This is shown in the middle figure.

21 The noticeable gap between the red and
22 the blue line, a cumulative rate difference or
23 reduction of 43 percent to 2035/'36 from what was
24 forecasted in Exhibit 93. Once again, spectacular
25 news for Manitoba Hydro's customers. Slide 54.

1 Now, as part of this Application,
2 Manitoba Hydro is seeking confirmation of the 3.6
3 percent rate increase approved by the PUB on an
4 interim basis in Orders 137/'21 and 140/'21.

5 The 3.6 percent interim increase which
6 is currently in customer rates has a significant
7 impact on Manitoba Hydro's long-term financial results
8 and is a key part of the proposed long-term smoothed
9 rate path.

10 Compared to the amended financial
11 forecast scenario, a scenario without confirming the
12 3.6 percent interim rate increase resulted in an
13 additional 1.2 billion in finance expense and a \$3.7
14 billion reduction in retained earnings over the twenty
15 (20) year forecast period. That is the importance of
16 confirming the interim -- 3.6 interim rate granted on
17 January 1st of 2022. Next slide.

18 Now, you will recall that Mr. Fogg
19 presented this information to you. Recognizing the
20 forecasted decrease in net export revenue, coupled
21 with other factors, both net income and the debt ratio
22 are impacted without the 2 percent rate increases in
23 '23/'24 and '24/'25.

24 Without the 2 percent rate increases,
25 Manitoba Hydro would be forecasting near breakeven net

1 income and, in some cases, losses between '25/'26 to
2 2030/'31. Also, the 70 percent debt ratio target in
3 2039/'40 would not be achieved under this scenario.

4 Finance expense also remains at
5 elevated levels throughout the forecast period with
6 the 2 percent rate increases in the test years,
7 resulting in an additional cumulative 800 million in
8 finance expense over the forecast period.

9 Importantly, reducing finance expense
10 allows Manitoba to use more of the rate revenue to
11 fund items that add value to customers, like improving
12 service levels and maintaining system reliability,
13 versus simply paying additional interest costs.

14 As such, confirmation of the 3.6
15 percent interim rate increase and the requested 2
16 percent increases in '23/'24 and '24/'25 are
17 fundamental and vitally important to Manitoba Hydro's
18 health while reasonably balancing the interest of
19 Manitoba Hydro's customers.

20 Now switching gears to Manitoba Hydro's
21 budgeting processes. As Ms. Amorim-Dew testified,
22 Manitoba Hydro leverages top-down and bottom-up
23 budgeting for both O&A and capital to validate that
24 plans are in place to meet the needs of the business
25 while keeping the financial health and impact on

1 customers in focus at an enterprise level.

2 Ms. Amorim-Dew provided extensive
3 details on Hydro's budgeting processes for both O&A
4 and capital, and that's found at pages 2008 to 2012 of
5 the transcript.

6 In short, though, for the budgets
7 included in the test years included in this
8 Application, a top-down and bottom-up approach was
9 utilized. Business units were still realigning based
10 on the business model review, and inflationary
11 pressures had to also be considered.

12 While Manitoba Hydro knew that large
13 decrease in FTEs experienced was impacting operations,
14 it also recognized that it had to take a paced
15 approach to building up the additional FTEs and
16 related cost increases. A balanced approach was
17 considered and utilized.

18 Following all of these reviews, senior
19 management conducted a final review and approval of
20 bottom-up detailed budgets and targets. Approvals
21 were then received by the Manitoba Hydro Electric
22 Board and the provincial Treasury Board. Next slide,
23 please.

24 On this slide, Ms. Amorim-Dew
25 highlighted the main categories driving the O&A

1 increases. The waterfall chart on the right shows the
2 percent increase and dollar increase in the two (2)
3 fiscal years both for the total O&A budget and the
4 main categories contributing to the increases.

5 I won't go through each of these in
6 detail as Ms. Amorim-Dew did. And that's found at
7 transcript pages 1,993 to 2,000.

8 Ms. Amorim-Dew addressed the suggestion
9 through Intervener evidence that O&A should only be
10 increased by 2 percent, and that is approximately 12
11 million in the first year. She directed you to the
12 waterfall graph and went through what 12 million gets
13 us, which isn't much.

14 If you look at the increases from
15 '22/'23, you see that 2 percent would equate to the
16 merit and general wage increases only.

17 That means that, if we only allowed for
18 a 2 percent increase in O&A from '22/'23, which
19 Manitoba Hydro has limited or no control over given
20 the nature of these costs, Manitoba Hydro couldn't
21 allow for any of the other necessary increases, such
22 as cloud computing costs, Zebra muscle mitigation,
23 vegetation management, and gradually increasing
24 operational FTEs, to name a few.

25 Now, perhaps a gentle reminder of what

1 Ms. Fernandes spoke of and the fact that Manitoba
2 Hydro is regulated on a cost-of-service basis.
3 Manitoba Hydro is entitled to reasonable increases to
4 O&A such that it has sufficient O&A to meet its
5 legislated mandate of providing safe, clean, reliable
6 energy while operating as efficiently and effectively
7 as possible.

8 Budgeted O&A increases are eminently
9 reasonable and are necessary. Arbitrarily depriving
10 Manitoba Hydro of recovering reasonably required
11 operating costs through the form of a disallowance or
12 otherwise in rates is not in the public interest.

13 Slide 58, please.

14 Now, on the opening day of the hearing,
15 Ms. Grewal addressed what Manitoba Hydro is hearing
16 from its customers in terms of Manitoba Hydro's
17 responsiveness. She stated at pages 184 to 185 of the
18 transcript -- and I'll quote:

19 "What we know from the service
20 levels we track is that our
21 performance has deteriorated over
22 the last number of years."

23 And, quote:

24 "Reliability and responsiveness are
25 critical to our customers."

1 Now, this -- the responsiveness, I
2 won't go through it in detail, but it's -- the trend
3 is obvious that our responsiveness and -- you know,
4 for our customers has declined. And, importantly,
5 Manitoba Hydro wants to significantly improve on these
6 customer-specific metrics that are displayed on this
7 slide. Once again, though, that requires resourcing.
8 Slide 59.

9 Ms. Grewal also testified at page 184
10 that, as outlined in the Application:

11 "Manitoba Hydro is gradually
12 increasing FTE levels to ensure we
13 can continue to provide safe and
14 reliable service and be responsive
15 to customers' current needs and
16 future expectations."

17 As Ms. Amorim Dew testified at
18 transcript pages 2000 to 2002:

19 "There has been a significant
20 reduction in FTE at Manitoba Hydro.
21 Manitoba Hydro has experienced
22 almost a 25 percent reduction in
23 FTEs from 2016/'17 year through
24 2021/'22, and that includes a 15
25 percent reduction through the

1 Voluntary Departure Program that
2 started in 2017; the '20/'21 hiring
3 freeze to support government cost-
4 saving -- savings initiatives
5 related to COVID-19 which included
6 three (3) unpaid days to most
7 employees; and the high levels of
8 attrition that Manitoba Hydro has
9 faced.
10 The one (1) time hiring freeze put
11 in place during the pandemic stalled
12 hiring into our trainee programs
13 which -- which occurred coincident
14 with higher attrition levels for
15 very experienced employees."

16 The evidence you heard from Manitoba
17 Hydro was abundantly clear: that reliability and
18 customer service levels have been impacted negatively
19 because of these significant FTE reductions, and, that
20 the plan is to gradually rebuild FTE to pre-pandemic
21 levels while maintaining the significant 15 percent
22 VDP reduction. Next slide.

23 You've also heard that the focus of
24 Manitoba Hydro is on rebuilding the core workforce
25 essential to our operations. So you will see the

1 decline in 2017 and 2018, then the obvious voids for
2 2019 and 2020 and into 2021 for trades and
3 professional trainees.

4 Now to remind you, trainees include
5 essential workers for the work at Manitoba Hydro such
6 as power line technicians, power electricians,
7 mechanical technicians, gas service persons, tele-
8 control technicians, engineering professionals,
9 chartered professional accountant -- accountants,
10 human resources, and digital and -- digital and
11 technology, which is -- formerly would be referred to
12 as Information Technology.

13 Manitoba Hydro is a training utility.
14 You heard that. Specialized learning and on-the-job
15 training is required for most trades employees which
16 takes two (2) to four (4) years for trainees to be
17 deemed qualified.

18 Recruitment in the trades and technical
19 and professional trainee programs slowed down and/or
20 was halted following VDP and due to years of cost
21 reductions.

22 FTE increases in test years is required
23 to rebound to sustainable levels to fill the gap that
24 was created from previous years which was worsened
25 with attribution. Those are the bar charts in front

1 of you.

2 Fundamentally, this increase is
3 necessary to ensure reliability, improve customer
4 response times, and to catch up on maintenance of
5 Manitoba Hydro's assets.

6 In addition to an increase in FTE,
7 which is predominantly focussed on rebuilding
8 operational capability through a reinstatement of
9 necessary trainee programs, there are increases in
10 maintenance work required on Manitoba Hydro's assets.

11 Mr. Cyril Patterson testified to the
12 importance of replenishing trades trainees for Hydro's
13 operations at pages 1310 to 1311 of the transcript.

14 Next slide, please.

15 Now shifting gears to the interest rate
16 risk that Manitoba Hydro is faced with. Ms. Stephen
17 testified that, during the past decade, there was a
18 significant exposure for Manitoba Hydro to interest
19 rate risk on new borrowings to fund capital
20 investments.

21 Though new borrowings have abated,
22 Manitoba Hydro has on average 1.1 billion in debt
23 maturities potentially requiring refinancing every
24 year over the next decade. These debt maturities will
25 place upward pressure on finance expense as maturing

1 -- as maturing debt is currently projected to be
2 refinanced at higher interest rates.

3 Higher interest rates and the uncertain
4 interest rate environment keep interest rate risk
5 elevated for Hydro. And I think it's fair for the
6 Board to take judicial notice of the fact that, on
7 June 7th of 2023, just recently, the Bank of Canada
8 raised the target overnight rate by twenty-five (25)
9 basis points to 4.75 percent.

10 My point here is that this hike serves
11 to further increase Manitoba Hydro's interest rate
12 risk. Limited rate increases also reduce Hydro's
13 capacity to absorb interest rate risk volatility.

14 Ms. Stephen was puzzled by Mr.
15 Rainkie's assertion that interest rate risk for
16 Manitoba Hydro has decreased in comparison to
17 forecasts at prior GRAs.

18 To be clear, Manitoba Hydro's exposure
19 to interest rate risk has never been more elevated.
20 Currently, Manitoba Hydro has high risk exposure as a
21 result of both the level of debt which needs to be
22 serviced and limited cashflow with which to service
23 the debt as is evidenced by a weak cashflow-to-debt
24 ratio.

25 And I won't belabour everything debt

1 management because there is an extensive and
2 comprehensive section within the final written
3 argument, and it's contained at section 16 for your
4 review.

5 On this slide, I will simply repeat the
6 testimony of Mr. Tess. Confirmation of the 3.6
7 percent increase and the 2 percent rate increases in
8 '23/'24 and '24/'25 by the PUB play a critical role as
9 follows.

10 With respect to debt and interest
11 payments, the requested final rates minimize increases
12 to finance expense and allows debt retirement that
13 provides us -- provides use of the revenues for
14 Manitoba Hydro operations, thereby providing better
15 value for money for our customers.

16 With respect to export revenues, the
17 requested final rates addresses the increased risk we
18 anticipate in export prices as dependable contracts
19 expire in '25/'26 and are not immediately replaced
20 with domestic revenue.

21 And for capital expenditures, the
22 requested final rates will provides sufficient cash
23 from operations to fund the needle -- needed capital
24 investments needed for Manitoba Hydro to better serve
25 our customers and minimize new borrowing and help

1 mitigate the impact of imposed risks. Next slide.

2 Now, as you've seen this slide before,
3 it shows some of the increases to electricity rates
4 that have recently been approved for Manitoba Hydro's
5 peer electric utilities in other Canadian
6 jurisdictions.

7 Similar to Manitoba Hydro -- and,
8 frankly, not unexpectedly -- other utilities are
9 facing the same inflationary pressures, rising
10 interest rates, and the need to make increased
11 investments to sustain aging infrastructure to provide
12 safe and reliable service to their respective
13 customers.

14 They too needed to seek rate increases
15 from their respective regulators as a result. And
16 again, the good -- or, using Mr. Bowman's words, the
17 spec -- spectacular news -- relatively speaking,
18 Manitoba Hydro's proposed 2 percent rate increase is
19 the lowest among the utilities, in line with BC Hydro.

20 And the graph on the right side of this
21 slide demonstrates that, even after factoring in the 2
22 percent rate increases proposed for September 1, '23,
23 and April 1, '24, and comparing that with the rates of
24 other peer electric utilities in Canada at their April
25 1, '22 levels, without these known increases that were

1 recently approved, Manitobans will continue to have
2 electricity rates amongst the lowest in Canada. Slide
3 64.

4 Now, even with the benefit that
5 Manitobans have of being amongst the lowest electric
6 rates in Canada, Ms. Grewal and Ms. Brako spoke to the
7 fact that Manitoba Hydro recognizes that some of its
8 customers continue to struggle with their ability to
9 pay.

10 And in efforts to assist these
11 customers, as -- and as depicted on this very busy
12 slide, Manitoba Hydro offers a holistic approach to
13 asset with bill affordability through bundling of
14 programs, as well as referrals depending on the
15 specific needs of particular customers.

16 And what 'building' means is stacking
17 multiple Manitoba Hydro programs to maximize customer
18 benefit; for example, flexible payment arrangements,
19 the Neighbours Helping Neighbours Program, Customer
20 Arrears Assistance Program, and the equal payment
21 plan.

22 Referrals; they mean that through
23 listening to customers, referrals to various programs
24 and existing supports offered within our communities,
25 for example, Efficiency Manitoba programs, Winnipeg

1 Harvest, and the North End -- North End Community
2 Renewal Corporation are made.

3 Ms. Brako also indicated that it was
4 evident to Manitoba Hydro that some Manitobans are not
5 aware of the existing resources and tools that
6 Manitoba Hydro has in place to assist with
7 affordability issues.

8 So, Ms. Brako advised that Hydro will
9 be reaching out further so these customers are aware,
10 and for Manitoba Hydro to provide additional support
11 to them. Ms. Brako's testimony on all matters on bill
12 affordability and Hydro's approach is contained at
13 pages 1,191 to 1,195 of the transcript.

14 So, now turning to depreciation.
15 First, the key objective: resolution of the
16 depreciation matters in this proceeding as there is
17 sufficient information on record for the PUB to once
18 and for all opine on depreciation matters.

19 All parties agree on this key
20 objective. We need the PUB to cross the -- cross the
21 finish line with the baton on depreciation matters.
22 You do so by resolving these matters by way of your
23 Order resulting from this GRA.

24 There is one (1) potential exception to
25 this agreement and we all still await the answer to

1 the mystery position of Mr. Williams on behalf of the
2 Consumers' Coalition on depreciation matters and
3 whether he will endorse the outlier Alternatives 3 or
4 4 as recommended by Mr. Rainkie which, of course, only
5 serve to defer the important resolution of these
6 matters to some future date.

7 Manitoba Hydro recommends IFRS ELG, or
8 Alternative 1. Manitoba Hydro recognizes that IFRS
9 ASL is viable but not preferred. That's Alternative
10 2. And Alternatives 3 and 4 are not recommended.
11 Next slide.

12 So, as Ms. -- Mr. Fogg and Ms. Hooper
13 articulated in testimony, Manitoba Hydro recommends
14 ELG methodology because its immediate implementation.
15 There is no material financial impact to the proposed
16 rate path or differential rates; ELG is acceptable for
17 rate setting purposes; and it offers a phased-in
18 approach, meaning increased depreciation expense is
19 phased in over time to smooth the impact to revenue
20 requirement. Next slide, please.

21 Now, Manitoba Hydro submits that there
22 is sufficient information on the record for the PUB to
23 rule, not defer, on depreciation matters and resolve
24 the outstanding depreciation directives. This is
25 supported by the information filed on the record that

1 includes -- includes the work conducted as part of the
2 depreciational -- depreciation technical conferences
3 that were led by Mr. Innis.

4 Alternative 3 and 4 should be dismissed
5 outright by this Board. Depreciation allows for the
6 recovery of the cost of Manitoba Hydro's assets from
7 customers over time. Depreciation, however, is an
8 estimate and requires regular depreciation studies to
9 update its calculation due to asset service lives
10 continuously changing as a result of asset health, new
11 technology, and maintenance programs.

12 Manitoba Hydro considers an IFRS
13 compliant ALG methodology to be a viable alternative
14 that would resolve the depreciation issues and
15 outstanding directives.

16 However, based on the current analysis,
17 there is no material benefit to customers that would
18 result from a change to ALG from ELG. Changing to ALG
19 from ELG would, however, require a significant amount
20 of effort across all of Manitoba Hydro, not just the
21 accounting area, to implement and maintain.

22 As such, although possible, ALG is not
23 preferred by Manitoba Hydro. Manitoba Hydro continues
24 to support the recommendation to use ELG for rate
25 setting purposes. And it has already transitioned its

1 systems and has fully implemented ELG across the
2 Corporation. And, again, there would not be a
3 negative impact to customers in proceeding with ELG as
4 compared to ALG.

5 I will end depreciation there but note
6 that there is a comprehensive section within Manitoba
7 Hydro's final written argument that it -- that it
8 further addresses depreciation matters. And I
9 recommend for you now perhaps for your summer reading
10 pleasure to take a look at it.

11 Now, Mr. Chairman and Panel members,
12 I'll turn the microphone back over to Ms. Fernandes to
13 address rates and cost of services and to conclude our
14 oral -- oral argument, but I would like to thank you
15 for your attention and patience throughout this
16 morning.

17 MS. ODETTE FERNANDES: Thank you, Mr.
18 Czarnecki. We are in the home stretch. If we can
19 turn to slide 70. Thank you.

20 So, you heard the Rates and Cost of
21 Service Panel speak extensively about cost allocation
22 and rate design phases. I won't go through them, but
23 we'll simply review some of the important information
24 the Panel presented.

25 Manitoba Hydro submits that it has

1 shown that it has followed a principled approach to
2 rate setting on behalf of customers. Proposed rates
3 closely recover the underlying costs incurred to
4 provide service to each customer class.

5 Manitoba Hydro has followed the Public
6 Utility Board direction in its Orders and designed the
7 rates to balance the achievement of various
8 objectives. And we submit that the rate proposals by
9 Manitoba Hydro reflects just and reasonable rates for
10 all customer classes. Next slide, please.

11 So, as you heard, export revenues
12 reduce the total revenue requirement that needs to be
13 recovered from domestic customers. Out of the full \$3
14 billion, 1.1 billion are covered by export revenues,
15 and domestic covers -- domestic customers cover 1.9
16 billion.

17 Net export revenues offset the exact
18 same portion of generation and transmission cost for
19 each class, and that's 49 percent. And that is
20 consistent with the PUB's direction in Order 164/'16,
21 where it found that export revenues should be credited
22 to the domestic classes based only on each class's
23 share of total generation and transmission costs.

24 The Board, and I quote, stated:

25 "This approach is consistent with

1 the principle of cost/causation as
2 Manitoba Hydro's generation and
3 transmission assets are the only
4 functions utilized to affect export
5 sales and, thus, export revenues."

6 The Board concludes that export
7 revenues are not a dividend that can be assigned or
8 based on considerations other than cost/causation.
9 And those can be found at pages 36 to 38 of Board
10 Order 164/'16.

11 As you heard from Ms. Van Hussen, the
12 primary output of the Cost of Service study are
13 revenue cost coverage ratios, or RCCs. The current
14 Cost of Service study uses the RCC calculation
15 methodology directed by the PUB in Order 59/'18, which
16 is that net export revenues are treated as a reduction
17 of class costs.

18 So, the costs used in the RCC
19 calculation are actually the net costs which have been
20 reduced by the customer's share of net export
21 revenues.

22 And what you see here on this slide is
23 the comparison of the net cost to serve the customer
24 classes depicted, which are -- is the light blue
25 vertical rectangle, compared to the revenue collected

1 from the class, which is the orange vertical
2 rectangle.

3 And you will see that the dotted line
4 there represents the zone of reasonableness which was
5 also confirmed by the PUB in Order 59/'18, and that is
6 between 95 and 105.

7 And there you see for those three (3)
8 customer classes depicted the revenue being collected
9 for each class and whether that revenue is actually,
10 in fact, covering the allocated costs to those
11 classes.

12 This slide here is the basis for the
13 proposed rate increases. And it shows you the RCCs
14 arising from PCOSS24 for each customer class. It
15 identifies which customers are in, above, or below the
16 zone of reasonableness. And it also shows the
17 differentiated rates for all customer classes for
18 September 1st, 2023, and April 1st, 2024, as being
19 proposed by Manitoba Hydro.

20 Now, there's been a suggestion that
21 Manitoba Hydro has only considered the results of the
22 Cost of Service with respect to the proposed
23 differentiated rate proposal and that these results
24 have been mechanistic and ignored any other
25 objectives.

1 The evidence in this proceeding, in
2 fact, shows you that this is not the case.

3 Manitoba Hydro's evidence is that it
4 not only considered the underlying costs incurred to
5 provide service to each customer class, it also
6 followed PUB direction provided in its Orders and
7 balanced various objectives.

8 Had Manitoba Hydro been mechanistic in
9 its approach, only applying the results of the Cost of
10 Service Study and moving customers mechanically into a
11 zone of reasonableness within the remaining five (5)
12 years of the ten (10) year time frame outlined in
13 Order 15/18, all you would have to do is look at the
14 response to PUB-MH 1st Round 141B.

15 And based on that response, you would
16 see that based on a mechanistic approach, the
17 residential, general service non-demand, general
18 service demand, general service medium, and general
19 service zero (0) to thirty (30) kV classes would
20 actually require higher increases than what has been
21 proposed here.

22 And the GSL thirty (30) to a hundred
23 (100) kV and GSL greater than a hundred (100) kV would
24 be receiving -- or would -- we would be recommending
25 substantially lower rate increases than what you see

1 on this -- on this chart.

2 Now, at this point, when we look at the
3 evidence related to Cost of Service and rates, this
4 Board will have to make its own determination. But
5 Manitoba Hydro submits that little or no weight be
6 given to the evidence of Ms. Kelly Derksen on behalf
7 of the Coalition.

8 In our view, Ms. Derksen was evasive in
9 her responses and, during her oral evidence, clearly
10 assumed the role of an advocate for the Consumers
11 Coalition as opposed to being independent, objective,
12 and not partisan.

13 Now, before concluding, Mr. Chairman,
14 you posed a question to Manitoba Hydro during the
15 Rates and Cost of Service Panel as to whether the new
16 Section 39.1 of the Manitoba Hydro Amendment and
17 Public Utilities Board Amendment Act -- whether that
18 section would require all customers to be within the
19 zone of reasonableness when the PUB sets rates as of
20 April 1st of 2025.

21 So slide 16 of our presentation set out
22 Section 39.1. And (a) of that section indicates that
23 the rates charged by the Corporation to each class of
24 grid customers in Manitoba are to be based on the
25 revenue requirements properly allocated to that class.

1 Now, the legislation includes the
2 definition of revenue requirement and the rate period.
3 So that revenue requirement is in relation to the rate
4 period.

5 But as we all know, statutory
6 interpretation principles require you to read the
7 words of legislation in their entire context, in their
8 ordinary sense, harmonious with the scheme and objects
9 of the Act.

10 And so, what I've asked Ms. Schubert to
11 do is also pull up subsections 39(5) and point 4
12 there. And then, I will take you to Section 39(6).

13 Section 39(5) states that:

14 "Subject to the policies set out in
15 39.1, the Corporation may propose
16 changes to its cost allocation
17 method or rate design. And the
18 regulator may approve or disallow
19 those changes or require the
20 Corporation to make other changes to
21 them."

22 And then, if you scroll to Section
23 39(6) of the Act -- that's a little bit further --
24 there it is, thank you -- it:

25 "Permits the PUB to review the cost

1 allocation method or rate design to
2 be used in approving or varying
3 rates for a rate period, whether it
4 be initiated by Hydro or initiated
5 by this Board."

6 Now, reading all of those sections
7 together, Manitoba Hydro submits that for each class
8 of customers, they need to be based on the revenue
9 requirement of the utility properly allocated to the
10 class. But those sections provide this Board with a
11 discretion for the PUB to determine what the cost
12 allocation methodology will be in each rate period and
13 what they think, in our view, what the PUB thinks is
14 reasonable in terms of a zone of reasonableness.

15 And this is all keeping in mind that
16 Section 39.1(d) indicates that:

17 "To the extent practicable, rates or
18 changes in rates should be stable
19 and predictable."

20 So I hope that responds to your
21 question, Mr. Chairman.

22 Now, in conclusion, in developing its
23 application, Manitoba Hydro has focussed on being
24 open, transparent, and helpful, aiming to build trust
25 and confidence in the face of uncertainty.

1 We feel that Manitoba Hydro's witnesses
2 have honoured these principles throughout the entire
3 process.

4 After listening to Manitoba Hydro, we
5 submit that the PUB has more than enough evidence to
6 finalize the 3.6 percent interim rate increase and
7 provide a rate increase on January -- sorry, September
8 1st of 2023 of 2 percent and a further 2 percent on
9 April 1st of 2024.

10 And we would submit that those rate
11 proposals are just and reasonable and in the public
12 interest.

13 At this time, I'd like to thank you,
14 Mr. Chairman, Madam Vice-Chair, panel members, Board
15 counsel, and Board advisors, and Intervener counsel,
16 and your consultants as well for your participation in
17 this process. And thank you for your attention and
18 patience.

19 THE CHAIRPERSON: Thank you very much
20 to both of you. I suspect the Panel may have some
21 questions. Ms. Kapitany, do you have any questions?

22 VICE-CHAIR KAPITANY: One of the
23 question I have is, on your slide 15 -- and you make a
24 distinction there about the -- the Act, the -- that
25 you're operating under.

1 Can you -- you distinguish between the
2 transitional period and the proclamation of certain
3 sections. But you only spoke to the transitional
4 period, so I was wondering if you could expand on
5 that?

6 MS. ODETTE FERNANDES: Certainly. I
7 focussed on the transitional period because the
8 electricity rates section is already in force. And
9 that is subject to the transitional period.

10 Some of -- the entire Bill isn't in --
11 there are certain sections in that Bill that still
12 need to be proclaimed by Government. But I just
13 wanted to distinguish that the electricity rates'
14 piece is in force. But the other -- the other
15 sections that need to be proclaimed, I don't think,
16 are -- apply to this Application before you.

17 VICE-CHAIR KAPITANY: Okay. Thank
18 you. And then, on your slide 21, you had referred to
19 the fact that when we -- when we finalized the -- when
20 we did the three-point-six (3.6) interim back in
21 December of 2020, that it was just and reasonable.
22 And your view is that it remains just and reasonable.

23 So the fact that things changed fairly
24 significantly after that, you don't think that that
25 makes a difference to whether that rate should still

1 be deemed just and reasonable?

2 MS. ODETTE FERNANDES: No, I don't.

3 And I -- and that goes -- and that's why we included
4 Mr. Bowman's quote here about the super tanker is
5 because you're always going to get some type of
6 extreme shift one way or the other. You saw the
7 drought in 2021, then we kind of moved all the way
8 into that extreme water flow. And now, back this
9 year, we are shifting now into a drier period.

10 So from Hydro's perspective, as a
11 result of the drought, you found that the three-point-
12 six (3.6) was just and reasonable and simply because,
13 the following year, there was an extreme event, you
14 don't -- in our respectful submission, you don't take
15 that away because you know sort of what we're in
16 today. And I think you've got to look at everything
17 in the overall context, instead of simply reacting to
18 a change in circumstances from one year to the next.

19 VICE-CHAIR KAPITANY: Okay. My last
20 question is on your slide -- I believe it's 58. And
21 this is the impact on customer service levels.

22 And we've talked quite a bit during
23 this procedure, about reliability and about what
24 customers have said to Manitoba Hydro about
25 reliability and -- and what they were looking for from

1 you.

2 And, so, I follow Manitoba Hydro on
3 Twitter. And I found that the notifications that you
4 do whenever there's an outage, I -- I think that's a
5 really good system.

6 I have two (2) questions about it, one
7 is, sometimes in those notifications you say what the
8 reason is. So, for example, if there was, you know,
9 there was a -- a grass fire or there was the -- on
10 Doodle Road the situation where there was a farm
11 implement that had the boom up, sometimes you say line
12 down, sometimes you don't say anything. And I'm just,
13 in terms -- in terms of informing your customers, is
14 there a reason for that?

15 And my second question is, like not
16 everybody's on Twitter, so is there another way that
17 you get that information out in terms of informing
18 customers so that they can make the best choice
19 possible in terms of what they're looking for -- from
20 -- for reliability from the Corporation?

21 MR. AUREL TESS: So, thanks for the
22 question, Ms. Kapitany.

23 So, in terms of the informing
24 customers, there -- there is an outage map that we
25 have on our website and that provides that information

1 as well. You mentioned Twitter is another quick way
2 to get the information out.

3 I would subscribe that they don't
4 always know what the cause is of some of the outages,
5 so -- the -- the process they follow, I believe, is to
6 inform customers when they know the information at the
7 earliest point in time, so.

8 VICE-CHAIR KAPITANY: Okay. I just
9 think it would be useful for customers to know what
10 those -- what the issues are, what's causing the
11 outage, in terms of their decisions in the future.
12 So, something you might want to consider.

13 MR. AUREL TESS: Fully agreed, yeah.

14 VICE-CHAIR KAPITANY: Thank you.

15 MR. BRENT CZARNECKI: If I could just
16 add quickly, Vice-Chair Kapitany.

17 I think in some cases we just don't
18 know what the cause of the -- the issue is. And I
19 know through some of my litigation work that it can
20 take a while to actually pinpoint what the cause
21 really was.

22 THE CHAIRPERSON: Mr. Sy...?

23 BOARD MEMBER SY: Thank you very much.
24 I just wanted to go back to Daymark findings regarding
25 your forecasting model. Page 29 of the deck.

1 Is there -- is there a way to have
2 detailed information of the exact model that you guys
3 are using forecast load?

4 MS. ODETTE FERNANDES: The model is
5 actually proprietary.

6 BOARD MEMBER SY: Is it? Okay.
7 Because I -- sorry, I remember back when Daymark was
8 here, I asked them about the reference that they made
9 going back to the GRA of 2018/'19 where they did
10 mention some issues that you guys were using at the
11 time, in terms of the forecasting accuracy of the
12 model that you used.

13 And I asked them that question and
14 they say wasn't part of, I guess, their -- what --
15 what do -- it wasn't part of the scope to quote them.
16 And I'm -- I'm going back to under -- trying to
17 understand, have you guys made some changes based on
18 the GRA of 2018/'19 and, if so, is there a way to
19 double-check to see actually the model does reflect
20 what was suggested by Daymark back then. And how
21 accurate it is. I'm just questioning that.

22

23 (BRIEF PAUSE)

24

25 MR. BRENT CZARNECKI: I'll -- I'll

1 take a -- a shot at it Member Sy, to say that -- what
2 we do know is that our folks are always looking at the
3 actual inputs, the actual information as they know it
4 and that they also would be -- there's a statistical
5 model within the model that they would be looking at.
6 You know, how it is working, so I -- I think they --
7 they're alive to all of that stuff and are constantly
8 looking at it.

9 Now, I can't answer if they go back and
10 retrospectively test the model with current
11 information. I'm not sure they go so far, because
12 there's limitations that are on that but I -- I -- I
13 feel like I'm providing evidence right now, so I'm
14 being very careful in whether -- whether into what
15 level they back test the model. If I think that -- if
16 I understand your question.

17 BOARD MEMBER SY: Okay.

18 THE CHAIRPERSON: Ms. Bellringer...?

19 BOARD MEMBER BELLRINGER: Good morning
20 and thank you. I just -- I have two (2) questions,
21 one on the summary of matters that impact the deferral
22 account.

23 So it -- it didn't come up specifically
24 in your presentation this morning, but is it in the
25 written document? I mean, obviously, in all of the

1 presentations to date, so there's lots of information
2 there, but just on that summary basis, can we see that
3 in the written document?

4 MR. BRENT CZARNECKI: Yes, you can and
5 I'm just waiting to refer you to the appropriate
6 section within the written argument.

7 BOARD MEMBER BELLRINGER: Well,
8 obviously, I'll be reading the whole thing so it
9 doesn't --

10 MR. BRENT CZARNECKI: Okay. It's
11 there --

12 BOARD MEMBER BELLRINGER: -- doesn't
13 really matter.

14 MR. BRENT CZARNECKI: -- but, yeah.

15 BOARD MEMBER BELLRINGER: -- but --
16 but nevertheless, thank you. Okay, and -- and I'm --
17 again on that assuming there's nothing in particular
18 you'd like to draw out this morning that -- I mean it
19 impacts a number of areas, in particular, the
20 depreciation around the various choices that are
21 before us.

22 And -- and, again, just I will assume,
23 unless you say otherwise, that it's all consistent
24 with everything's that's been presented throughout the
25 entire hearing. So, okay, fine. Thank you.

1 The only -- the other -- the other
2 question I had is, in terms of -- you've -- you've
3 pointed out a number of areas within the existing and
4 potential -- and -- and -- not potential legislation,
5 but legislation which has recently come into play.

6 I -- I'm -- I -- would you -- would you
7 agree there's a -- there's a difference between
8 something that's gone through the entire parliamentary
9 process, so legislative process that's -- that's been
10 debated in -- in -- by the legislature, that now is
11 now entrenched in legislation. As contrasted with
12 government decisions that are -- that are also, must
13 be followed, but aren't in legislation. They're --
14 they're government decisions, such as the reduction in
15 the various fees.

16 Do you treat them differently in your
17 fore -- I guess I'm -- I'm thinking, you know, what
18 would the implications of those differences be, and
19 I'm seeing it could impact differently how you
20 forecast for them. Because if you're -- if there's a
21 requirement -- and we touched on the difference
22 between the -- there was a -- a -- the, you know, the
23 rate -- elements of -- of previously Bill 36 and how
24 it talks -- talks about rates versus the targets
25 around the -- what it has to reach by 2035/2040. And

1 that the rate trumps the achievement of the target on
2 debt/equity.

3 So, sorry, I'm pulling together a whole
4 pile of matters that have significant shifts in
5 numbers when you look at them. And then when you look
6 at something like the decrease in the -- the fees, and
7 how those impact things.

8 Do you treat it differently or you just
9 assume the whole thing is going to be in play for the
10 whole time period?

11 MR. AUREL TESS: So, Ms. Bellringer,
12 are you trying -- just to clarify, are you trying to
13 get to the heart of policy decisions by government and
14 how we take them into account in our forecast versus
15 what's in the statute, just so I understand?

16 BOARD MEMBER BELLRINGER: So, partly,
17 and I mean, appreciating even within the context of if
18 -- if something's in legislation, it's a policy call
19 that you're required to follow. But you also need to
20 take into account whether or not there are aspects of
21 that that you're unable to follow.

22 So, what are the implications of those
23 and I think there's a responsibility on both our parts
24 to point that out where there is an implication. And
25 -- and just to be clear about the -- the differences.

1 So, I -- and I -- I believe at one of
2 the -- one of the previous meetings, we did talk about
3 -- I -- and I was asking about whether the decisions
4 of Government not in legislation -- so the fee
5 reductions -- were forecasted for the entire period.

6 And I believe the answer is, yes, they
7 are. So -- so I mean, maybe that -- that's really the
8 only major implication at this point.

9 MR. AUREL TESS: Yeah, I can confirm
10 that they -- the reductions have been forecasted and
11 it results in a significant impact on financial
12 expense and debt avoidance that we talked about.

13 But to your point about policy
14 discussions that do occur, one example I can think
15 about is -- I'm thinking about, rather -- is the
16 crypto currency example. Where, you know, we've had
17 discussions with Government about the resource
18 implications of what we're seeing in terms of that
19 customer demand. And -- and, you know, trying to
20 provide sufficient data for -- for them to make a
21 decision on a directive, so.

22 Those kinds of discussions do occur and
23 they do ultimately impact the financial forecast.

24 And the Government's priorities
25 regarding economic development may -- may have -- have

1 some impact going forward as well, so.

2 These are things that are ongoing, but
3 it -- it's hard to quantify in some cases. But we do
4 take all that into account when we do our financial
5 forecasting and -- and expenditure forecasting as
6 well.

7 THE CHAIRPERSON: I have a few
8 questions. Ms. Fernandes, I want to go back to a
9 question that Ms. Kapitany asked, but sort of come
10 from a different angle.

11 The interim rate was granted on an
12 emergency basis, I believe, from the time that
13 Manitoba Hydro filed to the time that we gave an
14 interim Order without reasons was approximately four
15 (4) weeks.

16 The Interveners had a very limited role
17 in the process and the Order states that it will be
18 reviewed at the next GRA. Is that correct?

19 MS. ODETTE FERNANDES: Yes, that's
20 correct.

21 THE CHAIRPERSON: Okay. Your comment
22 was that the PUB findings were just and reasonable.
23 As I remember, the findings were just and reasonable
24 based on the limited evidence we had at that time.

25 Your position now appears to be that

1 notwithstanding the evidence that we have now -- which
2 is certainly more significant than we had, then --
3 then the -- the finding of just and reasonable
4 continues. Am I correct in that?

5 MS. ODETTE FERNANDES: Yes, it is, Mr.
6 Chairman.

7 THE CHAIRPERSON: Okay. So at the
8 time we made the finding at the interim rate, we
9 didn't know that the following year we would have the
10 highest water level in, I believe, Manitoba history.

11 We also didn't know that Manitoba
12 Hydro, the following year, would not file for a rate.

13 So when we reviewed the interim rate
14 now at this Hearing, should we be looking at factors
15 that led to the interim rate at that time? Or do we
16 consider factors that occurred after the interim rate
17 was granted?

18 MS. ODETTE FERNANDES: I think you
19 look at both factors.

20 But I think what has happened in this
21 Hearing is we have limited our review to what happened
22 in 2022/23. At the time of the Application, Manitoba
23 Hydro was in the period of a drought. And on that
24 basis, you found that it was just and reasonable on
25 the evidence that you had at that time.

1 Now, what's happened in this Hearing
2 is, in my respectful submission, we've ignored what
3 happened in 2021/'22 and we want to focus solely on
4 what happened after.

5 And so, my comments are I think you
6 still need to look at everything. You still need to
7 go back and look at what happened in 2021. You can
8 look at what happened in 2022/'23. And in the entire
9 context, I still think you can find that the 3.6
10 percent is just and reasonable.

11 THE CHAIRPERSON: But then, is the
12 three-point-six (3.6) -- is it a confirmation that the
13 three-point-six (3.6) applies to '21/'22? Or is it
14 for the period '21/'22 to now?

15 MS. ODETTE FERNANDES: It would be for
16 the period '21/'22 to now.

17 THE CHAIRPERSON: To now. Okay. I
18 just want to follow up on something that my friend Ms.
19 Bellringer just -- just raised. I'll put this in the
20 way she did, although I didn't like one (1) word:
21 "rates trump target levels." I didn't like the word
22 'trump', but is that correct?

23 Rates -- so the formula trumps the
24 debt/equity target. Is that correct?

25 MR. BRETT CZARNECKI: That's been out

1 position throughout, you are correct.

2 THE CHAIRPERSON: Okay. So I'm going
3 to raise the question again, and you may have done it
4 in your written argument. You're going on the basis
5 of 2 percent. The rate formula says we can't grant a
6 rate higher than CPI.

7 What happens if CPI is less than 2
8 percent?

9

10 (BRIEF PAUSE)

11

12 MR. BRETT CZARNECKI: Mr. Chairman, I
13 think we spoke of in evidence that if those
14 circumstances arise in the future, that there are some
15 levers, mainly being that Hydro will approach its
16 owner and -- and try and resolve those issues at that
17 time.

18 But I think your question speaks to the
19 importance of the rate increases that are before you
20 now. That it's best that we -- I think someone used
21 the words 'cushion', like to create the cushion now,
22 or some form of cushion, so that if it happens, we can
23 absorb it within our own structure.

24 And I think, as you go forward and we
25 move towards the targets that are legislated or

1 otherwise provided, on that journey we will have more
2 ability to absorb, as a corporation, those types of
3 risks, not just that risk or government or legal --
4 that change risk, all risks so that, you know,
5 presumably the -- the nature of an interim rate may
6 become out of -- out of the toolbox for us because
7 that's the beauty of the rates is I think, once you
8 get to those types of structures, you can roll with
9 those types of risks better than where we're at today.

10 So I -- I think that's part and parcel
11 with what the legislation achieves.

12 The next few years, yes, if we were to
13 face let's say a five (5) or seven (7) year drought,
14 we'd have to go to our owner. We'd have to go to the
15 PUB and I think work together to -- to find out how we
16 could manage those risks.

17 THE CHAIRPERSON: Ms. Fernandes, you
18 referred to the -- to the -- the rate formula and
19 debt/equity targets as guidelines.

20 Are they -- are they really guidelines,
21 or are they directives?

22 MS. ODETTE FERNANDES: My apologies if
23 I used the term 'guidelines'. They are not
24 guidelines. They are directives enshrined in the
25 legislation.

1 THE CHAIRPERSON: Okay. Mr.
2 Czarnecki, you're asking for 2 percent September '23
3 and 2 percent April 1st, '24. And throughout, you've
4 been talking about a 2 percent annual increase, but
5 that's not a 2 percent annual increase, is it?

6 I mean, I guess the question is: the -
7 - the proposed rate increases in this Application
8 aren't annual increases. The -- the September '23
9 rate increase would actually be more than 2 percent as
10 an annual increase, correct?

11 MR. BRETT CZARNECKI: I referred to
12 them as annual rate increases. I misspoke. They're
13 rate increases for our fiscal '23/'24, which will
14 commence on September 1st. That's our request. And
15 then for '24/'25, it aligns with our fiscal as of
16 April 1.

17 THE CHAIRPERSON: Yeah. Secondly, can
18 you -- Ms. Schubert, can you pull up screen 64.
19 You've got the Customer Bill Affordability Programs,
20 if I can call it that.

21 Is there evidence on the record of what
22 the results are from these in terms of -- in terms of
23 the savings to customers? And -- and, if so, is it in
24 your -- your written -- written submission?

25 MR. BRETT CZARNECKI: The -- the

1 evidentiary record does contain a variety of measures
2 as to how successful the uptake on these programs are.
3 I don't have them in my hands, but they are there.

4 THE CHAIRPERSON: Yeah. I think the
5 uptake, though, is in percentages of people. I'm just
6 trying to figure out -- and I -- and I apologize. I
7 don't have my notes here. I'm just trying to figure
8 out what they are in terms of savings for customers.

9

10 (BRIEF PAUSE)

11

12 MR. BRETT CZARNECKI: So I think we
13 don't offer savings, but one (1) of the things you
14 could look to, Mr. Chair, is the increase in our
15 accounts receivable when we --

16 THE CHAIRPERSON: Okay.

17 MR. BRETT CZARNECKI: -- took
18 different measures during pandemic. So I think the
19 increase you're seeing there would be a direct impact
20 of, or a savings, if you will, of what Hydro did not
21 collect that it may otherwise would have.

22 And I think in -- there is a few
23 numbers I know of from Neighbours Helping Neighbours
24 where it speaks to the amount of dollars that have
25 been granted, but, you're right, there isn't -- it's

1 more percentage based, I believe.

2 THE CHAIRPERSON: Okay. No. We'll --
3 we'll go through it.

4 Finally, this is for you, Ms.
5 Fernandes, and this may be tough, but can you go to
6 page 69. You're going to need to convince me that's
7 the right proportion of lemon -- lemon to meringue.
8 So -- oh, well. Now we have -- now we're picking on
9 crust.

10 Anyways, I don't know if you -- Mr. Sy
11 has one (1) more questions.

12 BOARD MEMBER SY: Sorry. I'm --
13 I'm having a hard time taking this in.

14 I go back again to page 29 regarding
15 Daymark findings, and -- and back on the report that I
16 saw -- it was interesting because it was actually the
17 first report I read from -- from Daymark regarding the
18 model. So I go back to the model again. I promise
19 this going to be the last time.

20 And, you know, they talked about --
21 they identified a multi-corollary issue of the model,
22 and here is what happens when you have a statistical
23 model that has multi-corollary issues: it reduce
24 precision of the forecast. It inflate standard
25 errors, unreliable coefficient, unstable model,

1 difficult in identifying important predictors.

2 The predictors are the variables that
3 will have an impact if changed on the dependent
4 variable, the 'Y' variable or the load forecast, i.e.,
5 if you were to take income, population, you know,
6 whatever changes will have an impact on the load, what
7 it says is, difficulty in identifying important
8 predictors.

9 So I just want to hear -- even though
10 you guys indicated that we cannot have access to the
11 model, it's -- it's your, is there a way to get
12 confirmation that you guys took into consideration
13 that multi-corollary issues that was highlighted by
14 Daymark that that model is now stable for the record?
15 That's what -- the word I'm looking for. Thank you.

16

17 (BRIEF PAUSE)

18

19 MR. BRENT CZARNECKI: I'll -- I'll try
20 again. And I wish you could maybe, if it were
21 permitted, go for a coffee with Mr. Gawne to have this
22 conversation, but I know that's not permitted.

23 I don't think, sir, that Daymark
24 suggested that our model was instable or unstable. I
25 think they were satisfied with our model. It includes

1 all of the predictive values of -- of the best
2 information that we have at the time.

3 And I think the only thing I could add
4 to that is, from the testimony of Mr. Gawne and
5 others, that the observations made by Daymark, the
6 ones that -- some of the ones that I think you're
7 referencing right now, will be taken into account to
8 look to continuously improve our modelling as we go
9 forward.

10 So, I hope that helps some, but beyond
11 that, I'm -- I'm just not comfortable answering.

12 BOARD MEMBER SY: Thank you.

13 THE CHAIRPERSON: Thank you very much
14 to Manitoba Hydro. This concludes today's session.

15 We'll adjourn until Thursday morning,
16 when the Interveners will be providing their
17 submissions. Thank you very much.

18

19 --- Upon adjourning at 11:46 a.m.

20

21 Certified Correct,

22

23 _____

24 Wendy Woodworth, Ms.

25