



“When You Talk - We Listen!”



MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2019/20

ELECTRIC RATE APPLICATION

Before Board Panel:

Robert Gabor	- Board Chairperson
Marilyn Kapitany	- Board Vice Chair
Larry Ring, QC	- Board Member
Shawn McCutcheon	- Board Member
Hugh Grant	- Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba

April 23, 2019

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APPEARANCES

Bob Peters) Board Counsel
Dayna Steinfeld)
Roger Cathcart) Consultant
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Brady Ryall) Consultant
Marla Boyd) Manitoba Hydro
Odette Fernandes)
Byron Williams) Consumers Coalition
Katrine Dilay)
Antoine Hacault) MIPUG
Jared Wheeler) MKO
Markus Buchart)
Corey Shefman (by phone)) Assembly of
Senwung Luk (by phone)) Manitoba Chiefs

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16	LIZ CARRIERE, Sworn	
17	SANDY BAUERLEIN, Sworn	
18	GREG EPP, Sworn	
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15		31, 2018	
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19	MH-13-4	PUB-MH-1-15. Quarterly OM&A report for	
20		third quarter of 2018/19.	
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7		percent of total domestic revenue.	
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13		person who worked on each of the	
14		conclusion and recommendations.	
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9		attributable to the 12-year WATM
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19		impact on O&A costs.
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17		Requests (1-2). Projected \$478 million	
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19		Capital spending for 2019/20	
20	MH-23-1	Manitoba Hydro letter re: Uprated	
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6	AMC-2-1 AMC-MH Round I Information Requests.
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8	increase for First Nations On-reserve
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10	AMC-2-2 AMC-MH Round I Information Requests.
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13	AMC-2-3 AMC-MH Round I Information Requests.
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16	AMC-2-4 AMC-MH Round I Information Requests.
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20	COSS - implications of First Nations
21	on-reserve rate on zone of
22	reasonableness calculations.
23	AMC-2-6 AMC-MH Round I Information Requests.
24	Rates - implications of First Nations
25	on-reserve rate freeze.

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2	AMC-2-7 AMC-MH Round I Information Requests.
3	Bill Affordability - 2014 REUS.
4	AMC-2-8 AMC-MH Round I Information Requests.
5	Proposed Rates - updated data for
6	average usage and average bills for
7	each First Nation community.
8	AMC-2-9 AMC-MH Round I Information Requests.
9	Consumption - updated data for average
10	annual consumption for each community.
11	AMC-2-10 AMC-MH Round I Information Requests.
12	Bill Affordability - Updates from the
13	2014 residential energy use survey.
14	AMC-2-11 AMC-MH Round I Information Requests.
15	Bill Affordability - on-reserve energy
16	bills and burdens, Indigenous Voices
17	Omnibus survey (IVOS)
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19	Bill Affordability - percentage of on-
20	reserve households with annual incomes
21	ranges based on 2014 REUS.
22	AMC-2-13 AMC-MH Round I Information Requests.
23	Consultations - First Nations on
24	reserve residential customer class -
25	consultations.

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4		Bill Affordability - weather adjusted	
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6		household income ranges for on-reserve	
7		residential accounts.	
8	AMC-2-15	AMC-MH Round I Information Requests.	
9		Bill Affordability - on-reserve	
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11		heat types by weather adjusted annual	
12		kWh ranges, based on 2014 REUS.	
13	AMC-2-16	AMC-MH Round I Information Requests.	
14		Bill Affordability - on-reserve	
15		residential accounts - across LICO-125	
16		by weather adjusted annual kWh ranges,	
17		based on 2014 REUS.	
18	AMC-2-17	AMC-MH Round I Information Requests.	
19		Bill Affordability - On-reserve	
20		residential accounts - across	
21		percentage electric heat burden by	
22		weather adjusted kWh ranges, based on	
23		2014 REUS.	
24			
25			

1	LIST OF EXHIBITS		
2	NO.	DESCRIPTION	PAGE NO.
3	AMC-2-18	AMC-MH Round I Information Requests.	
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5		residential accounts - across space	
6		heat types by weather adjusted annual	
7		kWh ranges for 2016/17.	
8	AMC-3	Energy poverty on First Nation reserves	
9		in Manitoba - Philip Raphals - expert	
10		evidence - March 29, 2019.	
11	CC-1	Intervenor application.	
12	CC-2	CC letter to PUB re Information	
13		Requests - February 8, 2019.	
14	CC-3	CC-MH Round I Information Requests.	
15	CC-3-1	CC-MH Round I Information Requests.	
16		Financial - reason for target net	
17		income and proposed rate increase.	
18	CC-3-2	CC-MH Round I Information Requests.	
19		Rate Change - analysis of customer	
20		bills average prices t other	
21		jurisdictions and other relevant	
22		factors.	
23	CC-3-3	CC-MH Round I Information Requests.	
24		Overview - Customer and stakeholder	
25		engagement sessions or consultation.	

1	LIST OF EXHIBITS		
2	NO.	DESCRIPTION	PAGE NO.
3	CC-3-4	CC-MH Round I Information Requests.	
4		Overview - filing of 2020/21 rate	
5		change.	
6	CC-3-5	CC-MH Round I Information Requests.	
7		Financial Overview - net present value	
8		of proposed annualized rate increase.	
9	CC-3-6	CC-MH Round I Information Requests.	
10		Financial Overview - rate increase and	
11		cash flow - WATM.	
12	CC-3-7	CC-MH Round I Information Requests.	
13		Interest Rate Forecast - changes in	
14		forecasts.	
15	CC-3-8	CC-MH Round I Information Requests.	
16		Hydrology and Weather - key variable	
17		sensitivity impacts on 2019/20 interim	
18		budget.	
19	CC-3-9	CC-MH Round I Information Requests.	
20		Finance Expense and Debt - debt	
21		management strategy changes since Order	
22		59/18.	
23	CC-3-10	CC-MH Round I Information Requests.	
24		Capital expenditures - major new	
25		capital.	

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2	NO.	DESCRIPTION	PAGE NO.
3	CC-3-11	CC-MH Round I Information Requests.	
4		Depreciation Expenses - revenue	
5		requirement changes.	
6	CC-3-12	CC-MH Round I Information Requests.	
7		OM&A - current outlook by cost element.	
8	CC-3-13	CC-MH Round I Information Requests.	
9		OM&A - VDP impacts.	
10	CC-3-14	CC-MH Round I Information Requests.	
11		OM&A - other O&A savings and PUB	
12		recommendation to MH No. 4 from Order	
13		59/18.	
14	CC-3-15	CC-MH Round I Information Requests.	
15		Q&A Quarterly Reports - budgeting and	
16		variance analysis.	
17	CC-3-16	CC-MH Round I Information Requests.	
18		Regulatory and Deferral Accounts -	
19		Changes in net movement from last GRA.	
20	CC-3-17	CC-MH Round I Information Requests.	
21		DSM Deferral Account - Disposition of	
22		DSM deferral account.	
23	CC-3-18	CC-MH Round I Information Requests.	
24		Export Revenue Forecast - changes in	
25		export revenues.	

1		LIST OF EXHIBITS
2	CC-3-19	CC-MH Round I Information Requests.
3		Export Revenue Forecast - export
4		revenue forecast.
5	CC-3-20	CC-MH Round I Information Requests.
6		Export Revenue Forecast - Basis for
7		export revenue forecast.
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10		revenues.
11	CC-3-22	CC-MH Round I Information Requests.
12		Load Forecast - changes since last GRA.
13	CC-3-23	CC-MH Round I Information Requests.
14		Load Forecast - Domestic revenue
15		forecast.
16	CC-3-24	CC-MH Round I Information Requests.
17		Load Forecast - DSM savings used.
18	CC-3-25	CC-MH Round I Information Requests.
19		Hydrology - update, energy in storage.
20	CC-3-26	CC-MH Round I Information Requests.
21		Hydrology - change in methodology -
22		hydraulic generation.
23	CC-3-27	CC-MH Round I Information Requests.
24		Hydrology - impact on generation
25		resources used.

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5		capital and capital spending.	
6	CC-3-29	CC-MH Round I Information Requests.	
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8		operations capital	
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10		Capital Expenditures - reduced spending	
11		on business operations.	
12	CC-3-31	CC-MH Round I Information Requests.	
13		DSM Spending and Savings - changes from	
14		past GRA.	
15	CC-3-32	CC-MH Round I Information Requests.	
16		DSM Spending and Savings - IFF16.	
17	CC-3-33	CC-MH Round I Information Requests.	
18		DSM Spending - PUB recommendation No. 9	
19		Order 59/18.	
20	CC-3-34	CC-MH Round I Information Requests.	
21		Current Financial Outlook - fuel and	
22		power purchases.	
23	CC-3-35	CC-MH Round I Information Requests.	
24		Rates - across-the-board rate increase.	
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1	LIST OF EXHIBITS		
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3	CC-3-36	CC-MH Round I Information Requests.	
4		Cost of Service - revenue shortfall	
5		with diesel rates.	
6	CC-3-37	CC-MH Round I Information Requests.	
7		Cost of Service - Final PCOSS18 results	
8		flowing from 68/18.	
9	CC-3-38	CC-MH Round I Information Requests.	
10		Cost of Service - differentiated rates	
11		and zone of reasonableness.	
12	CC-3-39	CC-MH Round I Information Requests.	
13		Cost of Service - Zone of	
14		reasonableness and differentiated	
15		rates.	
16	CC-3-40	CC-MH Round I Information Requests.	
17		Cost of Service - PCOSS20	
18	CC-3-41	CC-MH Round I Information Requests.	
19		Ratemaking Objectives - impact of cost	
20		of service methodology, ZOR, rate	
21		design and differentiated rates.	
22	CC-4	CC letter to PUB re Manitoba Hydro	
23		supplemental information - February 21,	
24		2019.	
25			

1	LIST OF EXHIBITS		
2	NO.	DESCRIPTION	PAGE NO.
3	CC-5	CC letter to PUB re revised Information	
4		Requests - February 22, 2019.	
5	CC-6	CC email to PUB re revised Information	
6		Requests - February 27, 2019.	
7	CC-7-1	Expert evidence - Darren Rainkie, Kelly	
8		Derksen and William Harper - March 29,	
9		2019.	
10	CC-7-2	Appendix A - Changes in Manitoba	
11		Hydro's financial outlook.	
12	CC-7-3	Appendix B - Darren Rainkie CV	
13	CC-7-4	Appendix C - Kelly Derksen CV	
14	CC-7-5	Appendix D - William Harper CV	
15	CC-8	Consumers Coalition Position on Oral	
16		Hearing - April 2, 2019	
17	CC-9	CC-MIPUG Intervenor Information	
18		Requests (1-5)	
19	CC-9-1	CC-MIPUG Intervenor Information	
20		Requests (1-5). Consideration of	
21		Drought Risk and Rate Setting	
22		Purposes	
23	CC-9-2	CC-MIPUG Intervenor Information	
24		Requests (1-5). Near term financial	
25		metrics - MH overall financial position	

1	LIST OF EXHIBITS		
2	NO.	DESCRIPTION	PAGE NO.
3	CC-9-3	CC-MIPUG Intervenor Information	
4		Requests (1-5). Long term financial	
5		trends or indications - operating and	
6		administrative costs.	
7	CC-9-4	CC-MIPUG Intervenor Information	
8		Requests (1-5). Rate increase	
9		considerations.	
10	CC-9-5	CC-MIPUG Intervenor Information	
11		Requests (1-5). Cost of service and	
12		rate design proposals for 2019/20	
13	MIPUG-1	Intervenor application.	
14	MIPUG-2	MIPUG letter to PUB re Information	
15		Requests - February 8, 2019.	
16	MIPUG-3	MIPUG-MH Round I Information Requests.	
17	MIPUG-3-1	MIPUG-MH Round I Information Requests.	
18		Load Forecast and DSM - Direction	
19		received from the province in	
20		accordance with the Energy Savings Act.	
21	MIPUG-3-2	MIPUG-MH Round I Information Requests.	
22		Load Forecast and DSM - residential	
23		conservation rates, commercial	
24		conservation rates and fuel choice	
25		programming.	

1	LIST OF EXHIBITS		
2	NO.	DESCRIPTION	PAGE NO.
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4		Capital Expenditure - Bipole III annual	
5		cost.	
6	MIPUG-3-4	MIPUG-MH Round I Information Requests.	
7		Hydrology and Weather - hydraulic	
8		energy and net revenue variation with	
9		historic flow year for 2019/20.	
10	MIPUG-3-5	MIPUG-MH Round I Information Requests.	
11		Finance Expense and Debt - current debt	
12		management strategy document.	
13	MIPUG-3-6	MIPUG-MH Round I Information Requests.	
14		Financial Overview - Major project	
15		spending - actual capital expenditures.	
16	MIPUG-3-7	MIPUG-MH Round I Information Requests.	
17		NO 3-7.	
18	MIPUG-3-8	MIPUG-MH Round I Information Requests.	
19		Financial Overview - payments to city	
20		and payments for ongoing mitigation.	
21	MIPUG-3-9	MIPUG-MH Round I Information Requests.	
22		Financial Overview - updated figures	
23		from PUB/MH 1-8.	
24	MIPUG-4	MIPUG letter to PUB re CC motion -	
25		February 22, 2019.	

1		LIST OF EXHIBITS
2	MIPUG-5-1	Pre-filed testimony of Patrick Bowman
3		in regards to Manitoba Hydro 2019/20
4		Electric Rate application - March 29,
5		2019.
6	MIPUG-5-2	Attachment A. Patrick Bowman CV.
7	MKO-1	Intervenor application - January 4,
8		2019.
9	MKO-2	MKO-MH Round I Information Requests.
10	MKO-2-1	MKO-MH Round I Information Requests.
11		Bill Consumption - First Nations on-
12		reserve residential customer forecast.
13	MKO-2-2	MKO-MH Round I Information Requests.
14		DSM - Directive from province to
15		maintain "status quo approach"
16		regarding DSM programs.
17	MKO-2-3	MKO-MH Round I Information Requests.
18		Financial Overview - additional
19		revenues by customer class for proposed
20		3.5 percent rate increase.
21	MKO-2-4	MKO-MH Round I Information Requests.
22		Bill Comparison - projected average
23		residential monthly bills, not
24		including taxes, Winnipeg vs. MKO
25		member First Nations.

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2	MKO-2-5 MKO-MH Round I Information Requests.
3	Consumption - residential diesel
4	customers forecast.
5	MKO-2-6 MKO-MH Round I Information Requests.
6	Consumption - general service diesel
7	customers forecast.
8	MKO-2-7 MKO-MH Round I Information Requests.
9	DSM - Indigenous Power Smart program
10	update.
11	MKO-2-8 MKO-MH Round I Information Requests.
12	OM&A - MKO First Nations electric
13	services - customer accounts in
14	arrears.
15	MKO-2-9 MKO-MH Round I Information Requests.
16	DSM - verify that 2017/18 and 2018/18
17	GRA MKO/MH 1-5 remains unchanged.
18	MKO-2-10 MKO-MH Round I Information Requests.
19	Overview - consultation and engagement
20	with MKO member First Nations.
21	MKO-2-11 MKO-MH Round I Information Requests.
22	Overview - methodology used to
23	calculate First Nations on-reserve
24	residential customers, and how many are
25	MKO members

1	LIST OF EXHIBITS		
2	NO.	DESCRIPTION	PAGE NO.
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4		Rate Change - diesel communities	
5		customer accounts in arrears.	
6	MKO-3	MKO letter to PUB re: comments on CC	
7		motion - February 22, 2019.	
8	MKO-4	MKO-CC Intervenor Information Requests.	
9	MKO-4-1	MKO-CC Intervenor Information Requests.	
10		First Nations On-Reserve residential	
11		and diesel residential customer classes	
12		- rate increase for customers.	
13	MH-25	Manitoba Hydro's Direct Presentation	49
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5	correspondence with respect to the	
6	technical conference, including	
7	Manitoba Hydro's position	140
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1 --- Upon commencing at 9:03 a.m.

2

3 OPENING COMMENTS BY CHAIRPERSON:

4 THE CHAIRPERSON: Good morning,
5 everyone. Welcome to the Public Utilities Board oral
6 evidentiary hearing for Manitoba Hydro's 2019/2020
7 General Rate Application.

8 This oral hearing was confirmed in
9 Board Order 30/19, issued following the April 3rd,
10 2019 second pre-hearing conference into this General
11 Rate Application.

12 My name is Robert Gabor. I'm the Chair
13 of the Public Utilities Board.

14 Joining me on the panel of Board
15 members to adjudicate Manitoba Hydro's application are
16 Vice Chair Marilyn Kapitany, Hugh Grant, Larry Ring,
17 and Shawn McCutcheon.

18 The panel is assisted in this hearing
19 by Board Secretary Kurt Simonsen and Judicial Hearing
20 Officer Kristin Schubert. Bob Peters and Dayna
21 Steinfeld will act as Board counsel. I would
22 introduce you to Michael McKenzie from Digi-Tran, who
23 will be the reporter for this hearing.

24 As in prior hearings, the Board is also
25 assisted by technical advisors from Ryall Engineering

1 and Cathcart Advisors.

2 On behalf of the panel, I would like to
3 welcome Manitoba Hydro and the Intervenors which are
4 approved and granted Intervenor status in Board orders
5 1-19 and 9-19.

6 I will -- I will remind all parties
7 that these proceedings are being live-streamed from
8 the Board's website, so we are also welcome -- we also
9 welcome those viewers.

10 The Board has scheduled April 23-26 and
11 April 29 for the oral evidence and an -- and an
12 additional three (3) days on May 1st to 3rd for
13 closing submissions and as required. I will call on
14 Board counsel shortly for introductions and to provide
15 an overview of the hearing schedule.

16 At -- at this time and on behalf of all
17 in attendance, the Board would like to acknowledge
18 that the Treaty 1 lands on which we now gather for
19 this hearing and the Treaty 2, 3, 4, and 5 lands
20 included in Manitoba Hydro's service territories are
21 the traditional territories of the Anishinaabe Cree,
22 Oji-Cree, Dakota, and Dene people's, as well as the
23 homeland of the Metis Nation.

24 Before starting today, I would like to
25 draw to everyone's attention that this is the last

1 hearing for Kurt Simonsen, our Associate Secretary.
2 He is the one with the big smile on his face. Mr.
3 Simonsen will be retiring at the end of June. I will
4 have more to say about his -- his dedication to the
5 PUB and to the people of Manitoba at the end of the
6 hearing.

7 I will now turn the microphone over to
8 Board counsel to discuss the procedure for today and
9 the hearing. Mr. Peters?

10

11 OPENING COMMENTS BY BOARD COUNSEL:

12 MR. BOB PETERS: Thank you. Good
13 morning, Board Chair, Board Vice Chair Kapitany, Board
14 Members Ring, McCutcheon, and Dr. Grant, and good
15 morning to all counsel and ladies and gentlemen
16 present in the hearing room and all those members of
17 the public who are viewing this proceeding on the live
18 stream.

19 For the record, my name is Bob Peters
20 and together with my colleague, Dayna Steinfeld, will
21 act as Board counsel in Manitoba Hydro's 2019/20
22 fiscal year General Rate Application.

23 Also assisting the Board in this
24 hearing are Roger Cathcart and Candace Martyszenko
25 from Cathcart Advisors, and Brady Ryall from Ryall

1 Engineering.

2 As mentioned by the Chair, the
3 Intervenors in this hearing have been approved in
4 prior orders and those orders approved the assembly of
5 Manitoba Chiefs. And I believe Mr. Senwung Luk and
6 Mr. Corey Shefman are monitoring the proceedings
7 through the live stream and also on the conference
8 line.

9 And perhaps, gentleman, if you could
10 just acknowledge that you are on the line at this
11 time.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: That didn't go well.
16 They've been invited in any event, and we'll -- we'll
17 send them a communication and see if there's a -- a
18 technical issue or whether they are in fact not yet on
19 -- on the line.

20 The Consumers Coalition is represented
21 by Byron Williams and Katrine Dilay, who are in the
22 hearing room.

23 The Manitoba Industrial Power Users
24 Group has as counsel Antoine Hacault. He too is
25 present.

1 Manitoba Keewatinowi Okimakanak is
2 represented by Jared Wheeler, Markus Buchart, and they
3 are both present in the hearing room.

4 The Applicant, Manitoba Hydro, is
5 represented by Odette Fernandes and Marla Boyd, both
6 of whom are also present in the hearing room.

7 I will momentarily ask the Board Chair
8 to call -- to call on the parties, starting with
9 Manitoba Hydro for any introductions and brief opening
10 comments before we turn to the swearing-in and the
11 testimony of Manitoba Hydro's witness panel.

12 But in terms of how we envision this
13 week and next unfolding, we have circulated a hearing
14 schedule and it is on the monitors in front of us. It
15 was revised yesterday to -- to make it parallel to how
16 we conducted the previous General Rate Application for
17 Manitoba Hydro.

18 But in terms of today, there will be
19 opening comments by the parties, Manitoba Hydro's
20 direct evidence, and then Board counsel will have
21 questions of the Manitoba Hydro witnesses.

22 Tomorrow, April 24th, will be the
23 Consumers Coalition's turn to ask questions of this
24 witness panel for Manitoba Hydro.

25 And then on Thursday, the balance of

1 the Intervenors, led by MIPUG, followed by the
2 Assembly of Manitoba Chiefs, and then MKO will be
3 asking questions of Manitoba Hydro's witnesses.

4 On Friday of this week, we anticipate
5 the evidence from MIPUG and then cross-examination by
6 first Intervenors, followed by Manitoba Hydro and
7 lastly by Board counsel.

8 And the schedule has us going into next
9 week, Mr. Chair, onto Monday for the direct evidence
10 from the Consumers Coalition. And after their direct
11 evidence they will be examined by other Intervenors,
12 followed by Manitoba Hydro, followed by the Board
13 counsel.

14 The next matter on the hearing schedule
15 are the closing submissions. And the parties are
16 aware that the Board has set May 1st and 2nd for oral
17 submissions. As indicated in Order 30/19, should any
18 party also want to provide the Board with written
19 submissions, those are to be made available
20 contemporaneous with that party's oral closing
21 submissions.

22 So I've heard somebody join the line
23 and I'm just wanting to know if that's Mr. Luk or Mr.
24 Shefman or both. Gentlemen, could you --

25 MR. COREY SHEFMAN (BY PHONE): It is

1 indeed Mr. Shefman. I apologize, Board members, for
2 being slightly delayed. I had to figure out the
3 technology, but it has now been figured out.

4 We will indeed be monitoring remotely.
5 Mr. Luk will be present in person for our cross-
6 examination, and I will be present in person for our
7 closing submissions.

8 MR. BOB PETERS: All right. Thank
9 you, Mr. Shefman.

10 MR. KURT SIMONSEN: Mr. Shefman, it's
11 Kurt Simonsen, could you make sure your phone is muted
12 so we don't hear all your e-mails coming in, et
13 cetera.

14 MR. COREY SHEFMAN (BY PHONE):
15 Absolutely.

16 MR. KURT SIMONSEN: Thank you.

17 MR. BOB PETERS: All right. Mr.
18 Chair, with that little anecdote, we'd like to thank
19 the Board Chair and Board members. Those are our
20 opening comments.

21 And we suggest you first call on
22 Manitoba Hydro, followed by the Intervenors for their
23 introductions and any brief opening comments they
24 have.

25 And lastly, should -- should there be

1 any questions throughout the hearing, please don't
2 hesitate to call on Board counsel. Thank you very
3 much.

4 THE CHAIRPERSON: Thank you, Mr.
5 Peters. Ms. Fernandes?

6

7 OPENING COMMENTS BY MANITOBA HYDRO:

8 MS. ODETTE FERNANDES: Good morning.
9 Thank you, Mr. Chairman. Good morning, Madam Vice
10 Chair, Board members McCutcheon, Ring, and Grant.

11 As indicated by Mr. Peters, my name is
12 Odette Fernandes. And seated behind me is Ms. Marla
13 Boyd. And we will be legal counsel for Manitoba Hydro
14 during these proceedings.

15 Appearing with me today are the
16 individuals who will be testifying on behalf of
17 Manitoba Hydro. And I will -- my intent is to just
18 quickly introduce them to you and then we can move on
19 to comments by Intervenors and then prior to the
20 direct evidence we can have the panel sworn in and
21 they can go through their qualifications if that's
22 suitable to the Board.

23 THE CHAIRPERSON: That's fine, Ms.
24 Fernandes. Can you move the mic a little closer.

25 MS. ODETTE FERNANDES: Sorry, is that

1 better?

2 THE CHAIRPERSON: I don't -- actually,
3 I don't think the problem is you, it's drifting in and
4 out and your -- your voice isn't changing, so I was
5 asked by Mr. McKenzie if everyone could speak directly
6 into the mic so that his job is a little easier, and
7 if you could identify yourself before speaking.

8 MS. ODETTE FERNANDES: Okay, we can do
9 that.

10 So seated immediately to my right is
11 Ms. Shawna Pachal, and she's the Acting Chief Finance
12 and Strategy Officer for Manitoba Hydro. Beside her
13 is Ms. Liz Carriere, and she is the Director of Rates
14 and Regulatory Affairs.

15 Then we have Ms. Sandy Bauerlein, who
16 is the Corporate Controller for Manitoba Hydro.
17 Seated beside Ms. Bauerlein is Mr. Greg Epp, who is
18 the financial planning department manager. And at the
19 end of the row here we have Ms. Susan Stephen, who is
20 Manitoba Hydro's treasurer.

21 And then in our back row, both
22 individuals are familiar to this Board, Ms. Lois
23 Morrison, who is the Director of Marketing and Sales.
24 In addition to now being the interim co-lead of the
25 Marketing and Customer Service Operating Group. And

1 Panel

2

3 THE CHAIRPERSON: Thank you very much.

4 Mr. Williams?

5

6 OPENING COMMENTS BY CONSUMERS COALITION:

7 DR. BYRON WILLIAMS: Good morning, Mr.

8 Chair and members of the panel.

9 My back row today consists of Ms.

10 Meaghan Erbus, the manager for Community Engagement

11 from Winnipeg Harvest, as well as Ms. Gloria Desorcy,

12 the Executive Director of CAC Manitoba. And to my

13 right, of course, is my colleague Ms. Katrine Dilay.

14 Just by way of brief introductory

15 remarks, relying upon a highly suspect initial

16 application, Manitoba Hydro came before you in

17 November 2018 seeking a material rate increase with an

18 annualized value of roughly \$58 million. It came

19 before you without bringing that fundamental element

20 of a Hydro General Rate Application, an integrated

21 financial forecast, or IFF, a tool which is essential

22 to assessing the long-term reasonableness of any rate

23 application. And throughout this process, Manitoba

24 Hydro has consistently opposed an oral public process

25 by which it may -- may be held accountable.

1 Taking no responsibility for past cost
2 overruns totaling billions of dollars, Manitoba Hydro
3 has presented a central message in this hearing that
4 many of the pressures that it is feeling are both out
5 of its control and highly variable. Flowing from this
6 theory of absence of control, Hydro seeks to build
7 multiple cushions into its 2019/20 rates in the matter
8 that disregards:

9 First, the guidance of this Board in
10 Order 59/18 regarding the appropriate treatment of
11 risk and rate applications;

12 Secondly, the \$92 million change in
13 circumstances flowing from the somewhat more reliable
14 update filed by Hydro in February of 2019 and;

15 Third, the guidance from the PUB in
16 Order 59/18 that at a time of high capital expenditure
17 there is a need for active management and ongoing
18 vigour in scrutinizing expenditures.

19 Our clients, the Consumers Coalition,
20 represent the interests of many residential
21 ratepayers, including the number who struggle on a
22 daily basis to balance multiple cost pressures with
23 incomes or salaries that never seem to quite keep up.
24 As captive customers of the hydro monopoly, our
25 clients do not accept that Manitoba Hydro has an

1 entitlement or a right to a 3.5 percent increase
2 merely because it asks.

3 Recognizing that this is not a typical
4 GRA guided by a long-term integrated financial
5 forecast, our clients, consistent with the guidance of
6 the Public Utilities Board, are focusing on the costs
7 and risks facing ratepayers in the 2019/2020 year, and
8 they note that even with regard to the 2019/20 year
9 there are notable details missing from the Hydro
10 application, including an operating, maintenance, and
11 administration budget.

12 Our clients rely on experts with more
13 than 60 years of experience in senior public utility
14 management. Experts who are mindful of the need to
15 balance the interests, of both of consumers and of the
16 utility.

17 Consistent with the direction of the
18 Order in 59/18 with regard to the treatment of risk,
19 the advice of our experts is that Manitoba Hydro has
20 not established that a rate increase of this magnitude
21 is appropriate given the risks it faces in the 2019/20
22 year.

23 These experts, with ample experience
24 and actively managing their own cult -- corporate
25 budgets, note that there is real opportunity for

1 Manitoba Hydro to better protect its bottom line and
2 its future through active rather than passive
3 management of growth in its day-to-day expenditures.

4 Our clients appreciate the opportunity
5 to appear before this Board and the commitment of the
6 PUB to a public oral process. They look forward to
7 bringing an evidence-based perspective, respectful of
8 past PUB decisions and consistent with the duties of
9 the Public Utilities Board to protect the public
10 interest. Thank you.

11 THE CHAIRPERSON: Thank you. Mr.
12 Hacaault?

13

14 OPENING COMMENTS BY MIPUG:

15 MR. ANTOINE HACAULT: Bonjour, Mr.
16 Chairperson, members of the Public Utility Board and
17 all present.

18 The members of Manitoba Industrial
19 Power Use User's Group is pleased to have an
20 opportunity to participate in this truncated hearing,
21 which -- in which no integrated financial forecast has
22 been filed.

23 I have one (1) minor point that arises
24 out of the rebuttal evidence. I just want to bring it
25 up in advance.

1 For the first time in Manitoba Hydro's
2 written evidence, at pages 4 and 5 of its rebuttal,
3 there is evidence on the issue of alleged concerns
4 from credit rating agencies as a ground for requesting
5 a 3.5 percent increase.

6 I have not been able to find a section
7 in Manitoba Hydro's direct evidence on credit rating
8 issues. I have not been able to find in Intervenor
9 evidence, issues that were raised on credit-rating
10 issues. It was at the forefront of the previous
11 hearing when the Intervenors hired Morrison Park, and
12 that issue was that held -- dealt with head on by the
13 parties.

14 It's our view that that's new evidence,
15 its not rebuttal evidence, and it should be excluded
16 or no weight given to it.

17 For ease of reference, the PUB dealt
18 with credit rating and financial metrics issues at
19 pages 55 to 69 of Order 59/18.

20 In concluding, we note again that the
21 foundation for seeking a truncated hearing with no
22 integrated financial forecast was an anticipated loss.
23 As we've indicated before in the pre-hearings, that
24 fundamental justification no longer exists.

25 We note, as we did in pre-hearings,

1 that Manitoba Hydro has the onus of proving its case.
2 It is a sophisticated litigant which has chosen not to
3 submit a twenty (20) year IFF or the critical
4 supporting components to that long-term forecast.
5 Yet, at least in the rebuttal and what we think is
6 coming up in the slides, it appears to attempt to
7 justify a 3.5 percent increase on allegedly weakened
8 long-term financial stability.

9 We submit that if the PUB is inclined
10 to give a rate increase with respect to undefined
11 future impacts, it ought to be cautious in doing so
12 without the proper record which had been properly
13 tested, and that key component is the IFF. Thank you.

14 THE CHAIRPERSON: Thank you. Mr.
15 Shefman?

16

17 OPENING COMMENTS BY ASSEMBLY OF MANITOBA CHIEFS:

18 MR. COREY SHEFMAN (BY PHONE): Thank
19 you, Mr. Chair. I -- I don't have much to say at this
20 point. I think we'll have our opportunity during
21 cross and closing, and so I don't -- I don't plan on
22 making an opening statement.

23 We look forward to the opportunity to
24 test Manitoba Hydro's evidence and I'm going to leave
25 it at that.

1 THE CHAIRPERSON: Thank you. Mr.
2 Wheeler?

3

4 OPENING COMMENTS BY MKO:

5 MR. JARED WHEELER: Good morning. My
6 name is Jared Wheeler. To my right is my colleague
7 and co-counsel Mr. Markus Buchart. Mr. Buchart and I
8 are counsel to Manitoba Keewatinowi Okimakanak Inc.,
9 or MKO at this hearing.

10 MKO is non-profit advocacy organization
11 that has been in existence for more than thirty-five
12 (35) years and provides a collective voice for more
13 than sixty-five thousand (65,000) Treaty First Nation
14 citizens in the northern part of the province now
15 called Manitoba. MKO is governed by the elected
16 chiefs of twenty-six (26) sovereign First Nations, and
17 receives its mandate by resolution of the MKO Chiefs
18 and General Assembly.

19 On behalf of MKO, we wish good morning
20 to you, Mr. Chair and Board members, Board counsel and
21 staff; good morning to Manitoba Hydro representatives
22 and legal counsel; good morning to legal counsel and
23 representatives of other Intervenors in this hearing;
24 and MKO would also like to thank anyone who may be
25 joining us this morning and monitoring online.

1 We would like to also acknowledge that
2 we are on Treaty 1 territory, the traditional
3 territory of the Anishinaabe Cree, and Dakota peoples,
4 and the homeland of the Metis Nation.

5 This is very important to always
6 acknowledge the traditional territories and treaty
7 lands on which we sit as the treaties including Treaty
8 1 set out a recognition of some of the reciprocal
9 responsibilities involved in an ongoing relationship
10 between multiple nations and peoples. Those treaties
11 have not always been upheld and those relationships
12 are not always easy.

13 The relationships between Manitoba
14 Hydro and Indigenous peoples in Manitoba are not
15 always smooth. First Nations in northern Manitoba
16 bear the brunt of the impacts of hydro development
17 during construction and throughout the ongoing
18 operation of hydroelectric facilities. All at the
19 same time, those same people suffer disproportionately
20 from energy poverty.

21 In the twenty-six (26) sovereign
22 northern First Nations that comprise MKO's member
23 First Nations, people live there, families live there,
24 Elders live there, children with there. MKO is
25 concerned that we don't always acknowledge that, that

1 people are impacted by the decisions of Manitoba Hydro
2 and decisions about Manitoba Hydro. Some of those
3 decisions are made in this room, and we should not
4 forget that decisions made in the public interest are
5 decisions that interest and impact the public.

6 Families and businesses operating on
7 First Nations in northern Manitoba face extreme
8 weather conditions. Families and businesses are faced
9 with higher prices and difficult and constant spending
10 decisions. There are many reasons for those high
11 costs, one (1) of which is the high price of accessing
12 energy.

13 One (1) way of course to manage energy
14 costs is to heat one's home with natural gas.
15 However, none of MKO's member First Nations have
16 access to that more economical option, instead relying
17 entirely on electricity. In harsh weather conditions
18 and often poor housing conditions in the north,
19 natural gas is not an option.

20 Four (4) of the MKO member First
21 Nations are also not connected to the Manitoba Hydro
22 grid for either natural gas or electricity, but
23 instead are serviced entirely by diesel supplied by
24 Manitoba Hydro. This brings a whole host of other
25 issues, some of which will be discussed in the days to

1 come in this hearing.

2 This Board has long been concerned
3 about bill affordability and has sought a way to
4 address energy poverty. As such, this Board has
5 already taken that monumental step of creating the
6 First Nations On-Reserve Residential Customer Class.
7 In the previous GRA, this Board assigned a zero
8 percent rate increase to that newly created class and
9 also applied that zero increase to the diesel
10 residential class.

11 Manitoba Hydro is seeking a rate
12 increase of 3.5 percent to be applied to all customer
13 classes including the First Nations On-Reserve
14 Residential Customer Class. We intend to show why
15 doing so is neither just nor reasonable.

16 Our client's position is that the First
17 Nations On-Reserve residential and diesel residential
18 rates should not increase, such that the rate for
19 these classes should be maintained at the August 1st,
20 2017, approved residential rate.

21 Our client recognizes that the cost of
22 doing business is not static; our client recognizes
23 that the cost of living is not static; and our client
24 recognizes that rates paid for hydroelectricity cannot
25 be forever static. But our client also recognizes

1 that the onus is on Manitoba Hydro to show that it
2 would be just and reasonable to increase rates paid by
3 the First Nations On-Reserve Residential Customer
4 Class.

5 We intend to show that Manitoba Hydro
6 has not discharged that onus. We intend to show that
7 Manitoba -- Manitoba Hydro has not and could not meet
8 the onus of justifying the requested increase to the
9 First Nations' class, because Manitoba Hydro does not
10 yet have the requisite information that might justify
11 an increase, even one which Manitoba Hydro calls
12 modest, but for a residential ratepayer in MKO First
13 Nations, will mean an extra seventy-five dollars and
14 sixty cents (\$75.60) in Hydro bills in the test year
15 alone.

16 We intend to show that it is neither
17 just nor reasonable to increase the levels of Manitoba
18 Hydro's financial reserves by disproportionately
19 impacting people living on reserve.

20 And with that on behalf of our client,
21 we thank you for welcome -- welcoming us here today
22 and we look forward to the days to come.

23 THE CHAIRPERSON: Thank you, Mr.
24 Wheeler.

25 Ms. Fernandes, if you'd like to start

1 with direct, I note the time is 9:30, it's not nine
2 o'clock as in the schedule, so --

3 MS. ODETTE FERNANDES: Yes.

4 THE CHAIRPERSON: -- there will be an
5 adjustment to the time in the schedule.

6 MS. ODETTE FERNANDES: That's fine. I
7 would just, I think, like some direction from
8 yourself, Mr. Chair. I'm not sure whether Mr.
9 Hacault's comments and our rebuttal was a motion that
10 required a decision by this Board or --

11 THE CHAIRPERSON: I did not take it
12 that way.

13 MS. ODETTE FERNANDES: Okay. All
14 right. Thank you.

15 Prior to the direct, I think that what
16 -- excuse me, what I will do is have each member of
17 our panel briefly just go through their
18 qualifications, years of service at Manitoba Hydro.

19 MS. SHAWNA PACHAL: Good morning.
20 I've been at Manitoba Hydro for thirty-five (35) years
21 and had the opportunity to work in all areas of the
22 company and the value chain generation, transmission,
23 distribution, and I have had the opportunity to work
24 in seventeen (17) different countries around the world
25 at thirty-five (35) different utilities. And prior to

1 being asked to come back in the CFO position about
2 seven (7) months ago during a leadership transition, I
3 was the Senior Managing Director at Manitoba Hydro
4 International and looking after our international
5 business activities.

6 I have a Master's Degree in Business in
7 Finance and a Bachelor of Science Degree.

8 MS. LIZ CARRIERE: Good morning
9 Chairman Gabor, members Kapitany, McCutcheon, Ring,
10 and Grant, and -- and legal counsels and advisors and
11 PUB staff and all Intervenors.

12 My name is Liz Carriere and I am
13 currently the Director of Rates and Regulatory
14 Affairs. I was appointed to this position in July of
15 '18. I have a Bachelor Degree from Commerce at the
16 University of Manitoba and I'm a Certified
17 Professional Accountant. I've been with Manitoba
18 Hydro for just over twenty-eight (28) years now.

19 As you are well aware, I was previously
20 in the role of Manager of Financial Planning. In my
21 current role, I'm responsible for all regulatory
22 matters related to the Public Utilities Board and
23 oversee, or will oversee production of cost of service
24 and rate design matters. Thank you.

25 MS. SANDY BAUERLEIN: Oh, sorry. Here

1 I was thinking the light wasn't on.

2 Good morning Mr. Chairman, fellow Board
3 members and as well as Board advisors, staff,
4 Intervenors, and public. My name is Sandy Bauerlein.
5 I'm the Corporate Controller with Manitoba Hydro.

6 I've been with Manitoba Hydro for over
7 thirty (30) years, working in a variety of financial
8 and business functions. Currently as Corporate
9 Controller I have responsibility for our financial
10 accounting and financial reporting areas, our
11 management accounting areas, asset accounting,
12 financial planning, long-term financial planning
13 functions, as well as our middle and back office
14 functions for our gas and -- and export trading
15 functions.

16 I'm a Chartered Professional Accountant
17 and I think that's everything.

18 MR. GREG EPP: Good morning Board
19 Chair, Vice-Chair, and Board members. Good morning to
20 Board advisors and all other parties here.

21 My name is Greg Epp. I'm the Manager
22 of the Financial Planning Department. I'm a Certified
23 Professional Accountant and I also have a Bachelor of
24 Commerce Degree from University of Manitoba. I've
25 been employed with Manitoba Hydro for twenty (20)

1 years.

2 My responsibilities as Manager of
3 Financial Planning entail the preparation and analysis
4 of Manitoba Hydro's financial budgets and forecasts.
5 I am also responsible for financial evaluation of
6 major projects and other strategic initiatives.

7 This will be my first time testifying
8 on behalf of Manitoba Hydro before a regulatory
9 proceeding. In prior proceedings I supported Manitoba
10 Hydro witnesses in preparing the application,
11 answering IRs, and supporting them in the back row.
12 Thank you.

13 MS. SUSAN STEPHEN: Good morning, Mr.
14 Chairman, and Board panel members. My name is Susan
15 Stephen, and I'm the Treasurer at Manitoba Hydro. I
16 am a Chartered Professional Accountant and I have also
17 completed Level 1 of the Chartered Financial Analyst
18 Program.

19 I have twenty-six (26) years of
20 experience at Manitoba Hydro, with twenty-two (22) of
21 those being in Treasury. Most of my career in
22 Treasury has been in financial markets. I have also
23 managed the Cash Management Department, as well as the
24 Financial Markets Department, and I was appointed
25 Treasurer in April of 2017.

1 In this hearing I will be answering
2 questions with respect to Manitoba Hydro's debt
3 management, strategy, finance expense, possibly credit
4 rating agencies, and interest rate forecasting as it
5 impacts finance expense. Thank you.

6 MR. DAVID CORMIE: Good morning. My
7 name is David Cormie. I'm a registered Professional
8 Engineer in Manitoba. I have forty (40) years of
9 experience with Manitoba Hydro and seventeen (17)
10 years in my current position as Director of Wholesale
11 Power and Operations.

12 I am responsible for Manitoba Hydro's
13 wholesale power activities in Manitoba and in the
14 export markets; I am responsible for the day-to-day
15 management of our rivers and reservoirs; and I am
16 responsible for the preparation of forecasts of export
17 revenues and generation costs.

18 MS. LOIS MORRISON: Good morning Mr.
19 Chairman, members of the Board, Intervenors, and all
20 others present. My name is Lois Morrison and I hold
21 the position of Director of Marketing and Sales.

22 In addition to being interim co-lead of
23 the Marketing Customer Service Operating Group, I'm a
24 graduate of the University of Manitoba, Faculty of
25 Commerce, and I've been working at Manitoba Hydro for

1 over twenty-nine (29) years, working in various
2 customer service and marketing areas. I've been
3 involved in several proceedings related to Manitoba
4 Hydro's electric and Centra Gas rate applications.

5 As part of the Manitoba Hydro panel, I
6 will be speaking to Manitoba Hydro's electric load
7 forecast and demand-side management initiatives.

8 Thank you.

9 MS. ODETTE FERNANDES: Thank you.
10 Prior to turning the microphone over to Ms. Carriere
11 to present Manitoba Hydro's direct evidence, I do have
12 a few questions for Ms. Pachal.

13

14 (BRIEF PAUSE)

15

16 MS. ODETTE FERNANDES: Yes, maybe we
17 can have the panel sworn.

18

19 MANITOBA HYDRO PANEL, Sworn:

20 SHAWNA PACHAL, Sworn

21 LIZ CARRIERE, Sworn

22 SANDY BAUERLEIN, Sworn

23 GREG EPP, Sworn

24 SUSAN STEPHEN, Sworn

25 LOIS MORRISON, Sworn

1 DAVID CORMIE, Sworn

2

3 THE CHAIRPERSON: Ms. Fernandes, now
4 that we know everyone's middle names, you can proceed.

5 MS. ODETTE FERNANDES: Thank you, Mr.
6 Chairman.

7

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

9 MS. ODETTE FERNANDES: Ms. Pachal, are
10 you familiar with the application, responses to
11 Information Requests, and evidence filed by Manitoba
12 Hydro in the current process before the Public
13 Utilities Board?

14 MS. SHAWNA PACHAL: Yes, I am.

15 MS. ODETTE FERNANDES: And, Ms.
16 Pachal, was the evidence prepared under your direction
17 and control?

18 MS. SHAWNA PACHAL: Yes, it was.

19 MS. ODETTE FERNANDES: And can you
20 confirm that on behalf of the Corporation you adopt
21 the evidence that has been filed by Manitoba Hydro in
22 this process?

23 MS. SHAWNA PACHAL: Yes, I can confirm
24 that.

25 MS. ODETTE FERNANDES: Thank you. I

1 will now turn it over to Ms. Carriere to begin our
2 direct presentation.

3 MS. LIZ CARRIERE: Thank you, Ms.
4 Fernandes. Manitoba Hydro has applied for a 3 1/2
5 percent rate increase effective June 1st, to be
6 applied to all components of electric rates on an
7 across-the-board basis. The only exception is for the
8 Diesel General Service Class for which we are
9 proposing the -- that the increase applies to the grid
10 portion of the rate only.

11 The proposed 3 1/2 percent is projected
12 to generate an additional \$50 million in revenue and
13 provide a modest contribution to the financial
14 reserves or net income of \$115 million in 2019/20.

15 If approved, the June 1st, 2019 rate
16 increase will result in approximately a three dollar
17 (\$3) increase for residential customers without
18 electric space heat and approximately six dollars (\$6)
19 for residential customers with space heat. Even with
20 the proposed rate increase, customers in Manitoba will
21 be paying among the lowest bills in the country.

22 I know this slide is a bit small and
23 difficult to read, but I'm only going to touch on --
24 on some highlights through here. This gives you the
25 time line, and I -- I went through this at the

1 December -- December 19th pre-hearing conference, but
2 gives you the time line of the path to where we are
3 today in this application.

4 Following the close of an extensive and
5 comprehensive 2017/18 and '18/'19 General Rate
6 Application, the Utility turned its mind to -- towards
7 preparing a Centra Gas General Rate Application. At
8 the same time through the summer, Manitoba Hydro
9 became quite concerned about the likelihood of -- of a
10 financial loss in 2019/20.

11 Mr. Cormie, in a short while, will
12 share with you the evolution of water-flow conditions
13 through this -- through that period up to -- up till
14 today. But the prospect of a financial loss was very
15 concerning as it -- as it meant further deterioration
16 in Manitoba Hydro's already weakened financial
17 position as we anticipate Keeyask coming into service.

18 Missing a rate increase in -- in
19 2019/20 was inpalatable for -- for the Utility.
20 Manitoba Hydro began preparing its application and
21 sought approval from its Manitoba Hydro Board of
22 Directors to proceed, based on readily available
23 information.

24 Manitoba Hydro finalize -- or sorry, to
25 step back a bit -- and we filed the November 30th

1 application. Manitoba Hydro finalized subsequently
2 its 2019/20 budget in February and that was filed on
3 February 14th, which also included the effects of
4 improved water-flow conditions.

5 So future rating -- indicative rate
6 increases are critically important to the forecast of
7 borrowing and finance expense. Manitoba Hydro's not
8 in a position to put forward a forecast reflecting a
9 rate plan that's been adopted by its current Board --
10 Board of Directors. That work is currently underway.

11 You've already heard this morning that
12 because Exhibit 93 and previous IFFs don't have
13 current assumptions that -- that those forecasts
14 shouldn't be relied upon, a new forecast with updated
15 assumptions doesn't give this Board any greater level
16 of precision in terms of what the future would -- will
17 produce.

18 Previous IFFs contemplated rate
19 increases -- annual rate increases in excess of
20 3.5 percent, and as we saw in the changes between MH-
21 13 and MH-14 and MH-15, those assumption changes can -
22 - can drive forecast results that can be significantly
23 different from year to year.

24 But the one thing that the Board can
25 rely on is that if a 3.5 percent rate is granted that

1 -- and actual forecast results turn out to be more
2 favourable than -- than what is planned, that revenue
3 carries forward into future years through retained
4 earnings and lower borrowing requirements and lower
5 finance expense to be passed through to customers.

6 At this point, I'm going to hand it
7 over to my colleague Ms. Bauerlein to walk through
8 some of the more detail -- more of the details of our
9 application.

10 MS. SANDY BAUERLEIN: Thank you,
11 Ms. Carriere.

12 So just to kind of reiterate some of
13 Ms. Carriere's points. So when we filed in November,
14 at the start of the year we were experiencing really
15 favourable water conditions. They were above-average
16 conditions. And you may recall, we had a very, very
17 hot dry summer. So by the end of the summer when we
18 were looking -- our financial results, the outlook
19 that we were looking at had significantly
20 deteriorated.

21 We were also looking at that time of an
22 expectation of a financial loss in the absence of a
23 3.5 percent rate increase. And if you look overall at
24 that time, we were looking at having lower than
25 expected financial results over the full three (3)

1 years over from '17/'18, '18/'19, as well as '19/'20.

2 We also recognize that there are
3 additional costs coming in associated with the
4 in-service of the Keeyask generating station and its
5 transmission, both the Manitoba-Minnesota transmission
6 line, as well as the Great Northern transmission line
7 in the US, and that would exacerbate the losses
8 projected in the future.

9 So we fast-forward a couple months,
10 September and October: heavy rains. So we now have a
11 situation where we're now providing you with an
12 update. We've gone through a budget process for
13 '19/'20 with our board, we're looking at the
14 improvements in our water conditions, and in -- in --
15 as a result of those improvements, we're seeing higher
16 net income in both '18/'19 and '19/'20.

17 I think one (1) of the key points that
18 we want to try and emphasize is that although the risk
19 of the financial loss has lessened -- and we all agree
20 it's lessened at this point -- the risk still remains.
21 It's just not the same level of degree; which kind of
22 ties to really the two (2) sort of fundamental reasons
23 behind our application: One (1) is the uncertainty
24 and net income that we have, and the second is the
25 impacts of Keeyask and its transmission as it comes

1 in-service.

2 So with respect to uncertainty of net
3 income, right now we have put together a forecast that
4 says we're going to have \$115 million worth of -- of
5 net income in '19/'20. The only thing I can tell you
6 is the likelihood of that happening is not very high.
7 We are exposed to wide variations in net income, and
8 you see it; you see it year-to-year.

9 You know, if you look at our past
10 results every year, if you look at what we forecast --
11 because forecasts assume averages based on averages
12 over long periods of time. And if you hit the average
13 that's great, but your chances are you're not hitting
14 that average, whether that average be water flow
15 conditions, whether it be normal temperatures.

16 So again, the biggest factors for us
17 are outside of our control, precipitation being one
18 (1) of the heaviest factors. We rely on precipitation
19 from April to October; we need the rains, and then we
20 need the snow and the snow-melt runoff in --
21 throughout the winter months. Temperature: are we
22 going to have a cold winter, a warm winter?

23 Given our debt levels, we're at
24 \$20 billion worth of debt and that debt is still
25 growing. We are exposed to interest-rate risk --

1 interest-rate risk on the debt that is going to be
2 refinanced, as well as the new borrowings that are
3 required over the next several -- next few years.

4 Yes, we sell to the export market. But
5 again, we're subject to -- to price changes, and we've
6 seen that over the last couple years. We've seen
7 prices have been up this last little bit. Prior to
8 that, they were down. You know, we -- we have that
9 exposure.

10 Construction schedules. You know,
11 right now we're going to talk a little bit about where
12 we see Keeyask is going, but we still have a lot of
13 risk with Keeyask. Risk in terms of what might happen
14 as a result of weather; again, weather, number 1. And
15 things like work stoppages can also impact that
16 construction schedule.

17 We also have impacts to our net income
18 on commodity prices for the procurement of goods and
19 services. You know, we -- we procure a lot of
20 material, and again, you can see significant shifts in
21 the prices of -- of those.

22 So each of these factors that we talk
23 about, they can change. They can change on a daily
24 basis. And, you know, we come forward and we're
25 providing you with -- with sort of new information as,

1 you know, we've done in our application. But -- and
2 Mr. Cormie's going to talk about -- those things
3 change.

4 So -- and they can change within a
5 couple weeks. So what we might be saying today, we
6 might have a different story tomorrow. And it's not
7 that we're -- we're bad at forecasting. It's simply
8 that these are factors that are outside of our control
9 and, you know, we -- we can't totally predict them.
10 So we try and do things like looking at averages.

11 So with that right now, I'm going to
12 turn it over to Mr. Cormie, and he's kind of -- as
13 Ms. Carriere said -- going to go through sort of the
14 evolution of our water conditions in '18/'19, and talk
15 a little bit about where we are today, and sort of
16 what -- what still remains from Manitoba Hydro for the
17 rest of the '19/'20.

18 MR. DAVID CORMIE: Thank you,
19 Ms. Bauerlein.

20 As Ms. Bauerlein has explained, panel,
21 weather is a significant source of variation in
22 Manitoba Hydro's net income, especially precipitation
23 and water flows.

24 In last year, 2018/19 was a great
25 example of how changing water flows can affect our

1 forecast of net income. To illustrate that, I'd like
2 to review with you this chart of total inflows or the
3 daily water supply to our reservoirs, and this is a --
4 a chart that's made up of a whole bunch of historical
5 information shown in -- in the background. We call
6 that the "Spaghetti Diagram." And for each year for
7 the last forty (40) years since 1977, there is a trace
8 that shows how the water supplies fluctuated daily
9 over the -- over that calendar year.

10 From those forty years historical
11 traces, we calculate the average, and that's the black
12 line shown on that chart. And that black line becomes
13 the basis for a comparison when we talk about being
14 higher or lower than average. That's the average of -
15 - it's compared to that -- that black line

16 So the blue line is the -- the trace of
17 events as it occurred last spring. Initially, we have
18 relatively low snow-melt runoff. At the end of April,
19 it jumped up a little bit above average. And then for
20 the rest of the summer until about the middle of
21 September, that blue line is -- is below average. And
22 that was about the time that we were preparing our --
23 our update for the -- for the forecast

24 In September, the rainfall started to
25 come down, especially out in the north -- in northwest

1 Ontario. And you can see that now the blue line is
2 above average for the remainder of the year until we
3 get to about February when it's just tracking along
4 the average line.

5 So last year was a good example of how
6 conditions can deviate for long periods from the
7 average and how quickly they can turn around, based on
8 a few weeks of -- of rainfall in September.

9 The second chart below at the bottom of
10 the line shows a similar chart for the Winnipeg River.
11 And the Winnipeg River is really important to us
12 because it represents 30 percent of the water supply.
13 That water that flows down the Winnipeg River flows
14 into Lake Winnipeg and then down the Nelson River.
15 And so it has the most -- the conditions there have
16 some -- has the biggest impact on us.

17 So similar to the -- to the overall
18 system as a whole, we had very low snow-melt and
19 record low rainfall during the summer that resulted in
20 low inflows to the reservoirs -- upstream reservoirs
21 in Ontario held back the water and essentially denied
22 Manitoba the access to that -- to that water during
23 that period.

24 But you can see early in September
25 inflows picked up and, essentially, they remained near

1 average over the rest of -- of the year.

2 At the time our application was
3 prepared, our expectation in the fall was that the
4 low-flow conditions that we had experienced all summer
5 would continue through the year. Statistically, that
6 was the likely outcome.

7 However, the rainfall was above
8 average. And by the -- as I said, by the time we get
9 into the second half of October, we were -- we were
10 just modestly above -- above average.

11 With regard to this year, we have
12 indicated on that top chart in red how inflows are
13 progressing compared to average, and you can see we're
14 slightly above average. Flows in this period of time
15 in April and May are a function of snow-melt runoff
16 conditions, the amount of coincident rainfall, and
17 temperatures during the melt.

18 And after that, as you can see in the
19 historical record, inflows are sustained in response
20 to major storm events. Each storm event causes
21 that -- those -- those traces to -- to peak and -- and
22 its subsequent rainfall after rainfall event that
23 sustains the average inflow over time.

24 I want to talk a little bit about the
25 Red River flood. News of the flood and the Red River

1 has led some to believe that Manitoba Hydro's water
2 risk for this year is diminished. Unfortunately,
3 that's not the case for a couple of reasons.

4 First, the Red River is just one (1) of
5 the many rivers in our system, and in an on -- and on
6 average provides less than 10 percent of our annual
7 water supply.

8 Secondly, although the snowpack in the
9 basin was above average, conditions over the past
10 month have been for very favourable to reduce flooding
11 due to a low -- to a slow melt and very little
12 rainfall.

13 The chart shows the initial forecast
14 that the province published on March the 28th showed
15 a -- a new record high flood was anticipated. That
16 was updated on a recently -- and you can see the
17 forecast shown in green significantly downgraded. And
18 you can compare that to the red line that shows the
19 actual river flows as they are occurring and being
20 recorded at Lockport.

21 The initial very large flood forecast
22 has been downgraded significantly over a short period
23 of only two and a half (2 1/2) weeks. As of now, it
24 appears that it will be a minor flood.

25 Initially, the province was forecasting

1 the Red River would be higher than experienced in
2 2009, but they're in the flood-forecasting business.
3 They want to make sure that people are prepared for
4 the worst and that is reflected in the -- in the
5 extreme event that that was possible.

6 Rather than stretching well into June,
7 as the initial flood had been indicated, water levels
8 are now expected to return to normal within a month or
9 so. This is a good example of the uncertainty we face
10 just in the short term -- in the short term, let alone
11 what will happen over the next eleven (11) months on
12 our other major river systems.

13 The most important contributor to water
14 supply is the spring and summer rainfall. And on
15 average, they contribute 80 percent of the annual
16 supply. Snow-melt runoff is only 20 percent. There
17 are no accurate twelve (12) month precipitation
18 forecasts.

19 As a result, Manitoba Hydro has
20 prepared its estimate of net revenue in the approved
21 budget, based upon the long-term flow record as
22 opposed to a single forecast. This method assumes
23 that any of the historical conditions that has an
24 equal probability of occurring this year and
25 recognizes that it is still too early to forecast

1 accurately a single outcome. And the Red River flood
2 forecast is an example of how a forecast can change
3 dramatically in a very short time.

4 It will only be after we're well into
5 mid-summer we'll be able to narrow down the range of
6 potential outcomes at a time well past the conclusion
7 of this process.

8 In summary, winter snowpack conditions
9 were favourable. However, that condition has rapidly
10 deteriorated due to unfavourable temperature
11 conditions and the lack of rainfall during the melt
12 period. For the last two months, we're at 80 percent
13 of average of precipitation across western Canada, an
14 event that occurs once in five years.

15 With regard to rainfall this spring and
16 summer, the rainy season is just beginning. As I said
17 before, there are no accurate long-range forecasts at
18 this time that indicate the year will be any wetter or
19 any drier than average.

20 As a result, we have no cause to move
21 away from our net -- from our average net revenue
22 drive from the -- all possible flow conditions. Thank
23 you. Back to you.

24 MS. SANDY BAUERLEIN: So the next sort
25 of primary, sort of reason for our application deals

1 with the impacts of Keeyask and its associated
2 transmission.

3 There is now a greater likelihood that
4 Keeyask will come into service earlier than scheduled.
5 The original first in-service date of the first unit
6 was August of 2021. It is now more likely that it may
7 come in as early as October of 2020.

8 So what that tells us is that the
9 period in which to smooth in the rate increases now
10 has been condensed. We've gone from a twenty-eight
11 (28) month period now down to eighteen (18) months.

12 So without that proposed -- the
13 proposed 3.5 percent rate increase in '19/'20, the
14 potential for losses following the in-service Keeyask
15 is exacerbated, and that the primary reason for that
16 is, again, that by giving us a rate increase in 1920,
17 it has a compounding benefit. It provides additional
18 revenue on an annualized basis in perpetuity, so it
19 helps to address if Keeyask comes in service in
20 October 20.

21 If it comes in earlier than that or if
22 it comes in slightly later than that. But, again, the
23 importance of the rate increase is -- is addressing
24 that -- that uncertainty that we have right now and as
25 well as the impacts of Keeyask.

1 We are putting in close to \$10 billion
2 worth of assets. Those assets will result in carrying
3 costs -- carrying cost primarily of the finance
4 expense, the interest to build those assets and the
5 depreciation associated with that, and that will be in
6 the range of somewhere between 6 to 700 million once
7 fully in service.

8 And I do note that all parties have
9 recognized that rate increases will be necessary to
10 help cover that level of incremental costs. And we've
11 added here some quotes from both the Public Utilities
12 Board as well as -- as coalition and MIPUG with
13 respect to the need for those rate increases.

14 So in discussing, you know, we
15 recognize that Keeyask is coming in and the
16 transmission is coming, so there's always this
17 question about, well, what has Manitoba Hydro done to
18 try and manage costs.

19 Well over the past couple years, we
20 have -- we -- we state over and over again we are
21 reducing our controllable costs. We have done an
22 accelerated workforce reduction program where we've
23 seen close to nine hundred (900) staff leave the
24 company.

25 If you look at the -- the table -- the

1 chart in this -- this slide, we're showing that in
2 2016/17, what we call straight time EFT, so that's not
3 overtime, was at six thousand two hundred and six
4 (6,206). We're now down eight hundred and seventy-two
5 (872) EFTs or equivalent of 14 percent.

6 And we really believe that further
7 reductions will significantly increase the risks, the
8 risk of public and employee safety, of system
9 reliability, and as well as our ability to provide
10 reasonable levels of customer service.

11 And this level of EFTs is comparable to
12 where they were fifteen (15) years ago. We're at
13 2004/05 levels. And this level of EFT savings has
14 been achieved despite since 2004/05 we've had
15 approximately a 15 percent growth in our customers
16 that we serve.

17 We've put in major infrastructure with
18 -- associated with Wuskwatim Generating Station, our
19 Riel and Keewatinohk converter stations, which then
20 require additional operation and maintenance costs.

21 We have aging infrastructure demands.
22 Again, you know, we've talked about this in past
23 hearings. Most of our infrastructure is been put in
24 post-World War II. This infrastructure is now fifteen
25 (15) years older, and yet we have the same number of

1 staff that we had around 2004/05.

2 As like most organizations, we also
3 have increased regulation. We've seen increased
4 regulation on the environmental front, increased
5 regulation from NERC, from NEB, as well as safety
6 regulations.

7 There's also been comments to, you
8 know, reduce our -- our business operations Capital.
9 And I just want to emphasize that the expenditures
10 that we have in our forecast for 1920, the 478
11 million, we believe are necessary. When we decide
12 when an investment is going to be executed, it -- it's
13 really a risk decision; it looks at the timing of
14 that. So it's always a question of really when you
15 going to make that investment and what are the trade-
16 offs if you decide to defer that investment.

17 So Manitoba Hydro believes that only
18 those investments with unacceptable consequences have
19 been advanced and are in that 478 million. Now, as
20 circumstances change, we -- we alter. If things -- we
21 get new information, there's changes, we will change
22 the schedule of those things, which is -- our --our
23 investments, which is why you see that we constantly -
24 - every year we're reevaluating what goes into our
25 capital portfolio, what -- what investments will be

1 making.

2 This graph also shows you that, of the
3 470 million that we've got, a third of it relates to
4 really serving our mandate, which is capacity and
5 growth. So capacity and growth again is addressing
6 capacity constraints in regional areas of the proble -
7 - province as well as our customer connections.

8 On the sustainment side, you see we've
9 also got some -- some cost associated with mandated
10 compliance as well as decommissioning. So, for
11 example, our -- our coal facility and Brandon is being
12 decommissioned, so again, we need to costs and work
13 investment to be able to decommission that.

14 So we're left with system renewal and
15 business operations capital. So, system renewal again
16 is really those investments addressing that aging
17 infrastructure, trying to make sure that -- that we're
18 making the investment so that we're not dealing with
19 the sudden, you know, emergency type situation because
20 we've got a failure of an asset.

21 And our business operations capital
22 really allows for the continuity of our operations and
23 our customer service, so it's -- it's, you know,
24 things like our -- our town sites at Gillam. It's our
25 IT costs, both software and hardware. It's the

1 vehicles that you see on the streets.

2 So, again, we just want to emphasize
3 that we feel that these investments are necessary and
4 that cuts are -- are not the -- the right thing to do.
5 Whoops, I went too fast. I'm finding this very
6 sensitive.

7 So with respect though, if we were to
8 do additional staffing reductions or there was
9 cutbacks on our capital program, I can't really
10 address that fundamental issue. Again, we're putting
11 Keeyask in service with costs of 6 to \$700 million.
12 We've got a significant revenue shortfall following
13 it.

14 A reduction of another hundred EFTs, so
15 it's a hundred more people, result in O&A savings of
16 only 7 million per year, and that would be in the year
17 following departure because in the year that you would
18 -- you would terminate these people, you'd have
19 severance costs.

20 If you were to reduce our business
21 operations capital by a hundred million, so that would
22 be like 20 percent of the -- those investments in
23 1920, that would reduce our reg -- revenue requirement
24 by only \$4 million.

25 So again, those -- those cuts we don't

1 believe are the right thing to do; and even if they
2 were, they will not address the problem.

3 Financial ratios. So in some of the
4 Intervenor arguments, we've seen that they've argued
5 that the proposed three and a half rate increase won't
6 make a material difference to any of our financial
7 ratios in 1920; we agree.

8 In a single year, a rate increase will
9 not, you know, move the dial on those. But the things
10 -- I think the key messages I'd like to leave you with
11 is that, 1) our EBITDA interest coverage ratio and our
12 equity ratio are well below their targets.

13 But, again, the key point is that,
14 while you don't change the -- the dial on these
15 metrics in one single year, it is that additional
16 revenue that we get on an annualized basis that has
17 that impact on the metrics, our financial metrics, as
18 well as our debt levels.

19 And you can see that without that 3 1/2
20 percent proposed rate increase, our earnings over the
21 next decade would reduce by 900 million. That means
22 900 million of borrowings. If you're not collecting
23 that from your customers, then you need to borrow
24 that.

25 It will result in an increase in the

1 death ratio by 3 percent in '28/'29. And the
2 financial stability of the utility will weaken further
3 when Keeyask is commissioned.

4 So, I'm now going to turn it over to
5 Ms. Stephens (sic) because, in addition to these, you
6 know, comments of -- of, you know, there's not a
7 change in -- in the financial ratios, Mr. Bowman has
8 suggested that negative net income is okay.

9 And in our rebuttal, you know, we've
10 kind of talked about trying to address that issue.
11 And one of things we want to talk about is the Moody's
12 report. So I will turn it over to Ms. Stephens (sic)
13 to discuss that.

14

15 (BRIEF PAUSE)

16

17 MS. SUSAN STEPHEN: Thank you. Yes.
18 So, in discussing the credit rating agencies, I just
19 wanted to mention that the rating agencies will be
20 looking at Manitoba Hydro's cash flow, our capital spe
21 -- expenditures, and our requested rate increases.

22 They also monitor Manitoba Hydro's
23 financial performance as indicated by financial ratios
24 such as interest coverage ratio, debt in your capital
25 structure, as well as cash flow to total debt.

1 In recent years, Manitoba Hydro's
2 weakening financial metrics have garnered additional
3 scrutiny from credit rating agencies. Manitoba
4 Hydro's financial metrics are weakening as a result of
5 minimal net income and cash flow and escalating debt
6 levels.

7 For example, S&P no longer considers
8 Manitoba Hydro to be self-supporting. And recently,
9 Moody's indicated in their latest report that they may
10 reassessment Manitoba Hydro's status, and that report
11 was dated December 24th, 2018.

12 So here are some quotes which we have
13 filed this report in confidence with the Board, a few
14 quotes from that report. They state:

15 "In recent years, rate increases
16 have not been keeping up with costs,
17 as evidenced by ongoing weak
18 financial metrics."

19 Given the company's ongoing weak
20 financial profile and limited rate increases, we maybe
21 reassess our view of Manitoba Hydro's self-
22 sufficiency.

23 And on a last twelve (12) month basis,
24 Moody's adjusted earnings before interest, tax,
25 depreciation and amortization to interest expense was

1 one point two (1.2) times. And earnings before
2 interest and tax to interest expense was point seven
3 (7) times and debt to book capitalization was 89
4 percent.

5 These financial metrics are among the
6 weakest, if not the weakest of any of Manitoba Hydro's
7 peers, including vertically integrated, provincially-
8 owned Crown corporations in Canada.

9

10 (BRIEF PAUSE)

11

12 MS. SUSAN STEPHEN: Okay. The ability
13 for Manitoba Hydro's cash from operations to fund its
14 operations, interest payments, and business operations
15 capital is key to maintaining Manitoba Hydro's self-
16 supporting status.

17 In order to be self-supporting,
18 Manitoba Hydro must generate enough sufficient funds
19 to fund its own operations and must not require any
20 assistance from government to avoid financial
21 distress.

22 Inclusion of Manitoba Hydro's financial
23 metrics with the provinces could trigger debt rating
24 downgrades and potentially increase the cost of
25 borrowing for both the province of Manitoba and

1 Manitoba Hydro and impact both ratepayers and
2 taxpayers.

3 Regardless of how Manitoba Hydro
4 calculates its own metrics, the rating agencies are
5 always been to calculate their metrics their way, and
6 they're going to rely on these for their opinions and
7 assessments.

8 So here we have Moody's earnings before
9 interest and tax interest coverage metric. Moody's
10 has expressed concern that Manitoba Hydro does not
11 have sufficient cash to make all of its interest
12 payments, including the interest payments made for
13 interest that's currently being capitalized.

14 This cash shortfall related to the
15 interest which is currently being capitalized and is
16 not part of the revenue requirement is causing rating
17 agency interest coverage ratios below 1.

18 So you can see here Moody's calculation
19 of earnings is 612 million. Their calculation of
20 gross interest is 886 million, showing a de -- a
21 deficiency of 274 million.

22 So they're saying, Manitoba Hydro --
23 Hydro, you don't have 274 million of cash to make your
24 interest payments, so your earnings before interest
25 and tax to gross interest coverage ratio is point

1 seven (.7). Ideally, we would want to see that at --
2 least 1 to make sure that we had enough cash to
3 satisfy her interest payments.

4 So, according to Moody's, the cash
5 shortfall of nearly 300 million means that we will be
6 unable to service approximately 30 percent of our
7 outstanding debt servicing costs with cash from
8 operations.

9 This cash -- this full amount of this
10 cash shortfall will hit the revenue requirement after
11 Keeyask comes in service in the very near term. Just
12 to highlight the magnitude of the situation, in order
13 to eliminate this cash shortfall, we would require a
14 rate increase in the area of about 18 percent. Thank
15 you.

16

17 (BRIEF PAUSE)

18

19 MS. ODETTE FERNANDES: Subject to any
20 questions from the panel, that concludes our direct.

21 THE CHAIRPERSON: Thank you. I've got
22 one (1) question for Ms. Carriere. I just want to
23 make sure the record's accurate. Page 4 -- Kristen,
24 can you go to page 4?

25 Ms. Carriere, when you were on the

1 screen, you talked about the increase in the monthly
2 bill, and you said about three dollars (\$3). And then
3 later, you said for residential customer with electric
4 space heater about six dollars (\$6). And I just -- I
5 just want to make sure for the record, are we talking
6 Three dollars and thirty cents (\$3.30) and six dollars
7 and thirty cents (\$6.30)?

8 MS. LIZ CARRIERE: You're correct. I
9 was just rounding when I spoke.

10 THE CHAIRPERSON: Yeah, that's fine.
11 Okay. That's fine. Any questions?

12 DR. HUGH GRANT: Ms. Bauerlein, I'm
13 just -- on page 9, I just wanted to make sure I
14 understand the logic of the argument here. You said
15 there were two (2) reasons for the application, and I
16 understand the second argument, the impact of Keeyask,
17 but it's really the first one I'm curious about.

18 I mean, net income is always uncertain.
19 So why would it necessarily mean that you would come
20 and ask for a rate increase greater than -- than may
21 be justified by the cost during the test period? Is
22 there some asymmetry in the nature of the risk score?

23 MS. ODETTE FERNANDES: The -- the risk
24 is not asymmetric, it's -- the water flow is not
25 asymmetric, but it's really the combination of the two

1 (2).

2 So you've got this uncertainty in 1920.
3 So if you just look at 1920 standalone, yes, that risk
4 has lessened, but it's still there. We still could
5 have a loss or we could have very, very low net
6 income, and then that -- what happens to that if you
7 have that type of year and you're combining that with
8 Keeyask coming in service, so it's -- it's a bit of
9 both.

10 It's trying to recognize that you've
11 got this uncertainty in 1920, and you've also got
12 Keeyask coming in, so it's trying to manage the -- the
13 -- marry sort of the two of them.

14 DR. HUGH GRANT: Thank you.

15 THE CHAIRPERSON: Mr. Peters, I'm
16 wondering if we should take the break now --

17 MR. BOB PETERS: Okay.

18 THE CHAIRPERSON: -- and then -- then
19 you can start with cross-examination.

20 MR. BOB PETERS: At your pleasure.

21 THE CHAIRPERSON: Okay. We'll take
22 fifteen (15) minutes now, and then we'll move to
23 cross-examination. Thank you.

24

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

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

2

3 THE CHAIRPERSON: Mr. Peters?

4 MR. BOB PETERS: Thank you. I'm going
5 to defer to my colleague, Ms. Fernandes, because Dr.
6 Grant asked a question and the student in the back of
7 the class may not have spoken clearly enough, so we'll
8 -- we'll take it over to Ms. Fernandes to see if we
9 can clarify that and see if Dr. Grant is satisfied
10 with the response.

11 MS. ODETTE FERNANDES: Yes, thank you,
12 Mr. Peters.

13 Just prior to the break Mr. Grant asked
14 Ms. Bauerlein a question and we just want to ensure
15 that the record is clear on what the evidence is, so I
16 will turn it over to Ms. Bauerlein.

17 MS. SANDY BAUERLEIN: I wasn't sure if
18 I said the word "asymmetric" or "symmetric"; it's
19 definitely asymmetric risk. So what that means is,
20 you know, the good is good, but the bad can be very
21 bad.

22 So you know, that's sort of the
23 difference with our water flows, and I just wanted to
24 just reemphasize the point then that Ms. Carriere made
25 on slide 6, where any over/under performance, so you

1 know, things turn out good, that's just carry forward
2 into retained earnings into future years.

3 So you know, it's -- I just wanted to
4 clarify that.

5 MR. BOB PETERS: Thank you. Good
6 morning, Manitoba Hydro, counsel, and witnesses.

7 Before we begin, Mr. Chair, I want to
8 remind the Board panel that at any time during my
9 questioning if there is a question that any member
10 has, to please interrupt and -- and deal with it when
11 it arises, that would be -- I would be most
12 appreciative of that.

13 And I'd like to remind Manitoba Hydro's
14 witnesses and counsel that the questions that are
15 asked by the Board members or by their counsel are not
16 intended to elicit responses that would place
17 information that Manitoba Hydro believes is
18 confidential or commercially sensitive on the public
19 record. And will that be acceptable?

20 MS. ODETTE FERNANDES: Yes, thank you,
21 Mr. Peters.

22 MR. BOB PETERS: And thank you, Ms.
23 Fernandes. But that said, should any witness believe
24 that to fully answer a question from this side of the
25 room or any side of the room and to assist the Board

1 in an -- in giving an answer, that that witness needs
2 to provide some confidential information, then the
3 procedure would be for you to speak to your counsel
4 and they will provide such confidential information to
5 the Board in a matter that doesn't place it on the
6 public record.

7 That's also acceptable, Ms. Fernandes?

8 MS. ODETTE FERNANDES: Yes, thank you,
9 Mr. Peters.

10 MR. BOB PETERS: And lastly I -- I
11 have a -- I'm not sure if it's a habit or an
12 idiosyncrasy, that if I use the pronoun "you", what
13 I'm really wanting you to understand is that the panel
14 wants Manitoba Hydro's best answer, not your
15 necessarily personal answer. And so it -- the
16 questions that I ask are open to any member on the
17 panel to answer. So I'll proceed on that basis.
18 That's also acceptable?

19 MS. ODETTE FERNANDES: Yes, thank you.

20

21 CROSS-EXAMINATION BY MR. BOB PETERS:

22 MR. BOB PETERS: Ms. Carriere, having
23 said it's open to all, I'm going to start picking on
24 you, and only because in your employment with Manitoba
25 Hydro you're familiar with what Manitoba Hydro calls

1 its Integrated Financial Forecast, correct?

2 MS. LIZ CARRIERE: That's correct.

3 MR. BOB PETERS: And it's the IFF by
4 way of abbreviation?

5 MS. LIZ CARRIERE: Yes.

6 MR. BOB PETERS: How does -- how does
7 -- and Ms. Carriere, you're free to hand off the
8 questions that I'm looking to you to answer, but how
9 does Manitoba Hydro summarize what an IFF is to the
10 Corporation?

11 MS. LIZ CARRIERE: The Integrated
12 Financial Forecast is -- is the culmination of a
13 number of assumptions that, when compiled together
14 allows us to determine longer-term borrowing
15 requirements, finance expense, cash flows, and
16 provides a directional impact of progress towards
17 achieving or maintaining financial targets, as it may
18 be.

19 MR. BOB PETERS: Ms. Carriere, you --
20 in this case you personally have constructed an IFF,
21 is that true?

22 MS. LIZ CARRIERE: It's been a while,
23 but I was in my previous role responsible for the
24 staff that prepared all the material an -- and
25 analysis. Yes.

1 MR. BOB PETERS: Is there anybody on
2 the witness panel that is more current on that than
3 you?

4 MS. LIZ CARRIERE: Mr. Epp.

5 MR. BOB PETERS: Blame it on the
6 rookie.

7 MS. LIZ CARRIERE: And who is led by
8 Ms. Bauerlein as well.

9 MR. BOB PETERS: Yes. And Mr. Epp,
10 welcome to the front row, as we say. And likewise,
11 Ms. Pachal. I should have welcomed you since your
12 NFAT testimony, but -- and you are a true rookie, Mr.
13 Epp?

14 MR. GREG EPP: That's correct.

15 MR. BOB PETERS: As I've mentioned,
16 Ms. Stephen volunteered to come back so it can't be
17 all that bad.

18 Now, Mr. Epp, what counsel put together
19 in book of documents that's been marked as PUB Exhibit
20 14, any parties free to use it or to supplement it
21 with whatever. But I wonder, sir, if I could start
22 with you, Ms. Carriere and also Ms. Bauerlein, and I'd
23 like to quickly run down on page 6, we have what I
24 call a standard form IFF from Manitoba Hydro.

25 And if we could enlarge -- I'm just

1 looking at the left-hand column with the revenues and
2 the expense wordings. I'm not looking at the numbers
3 at this point in time. So I'd like to start with you
4 there, Mr. Epp.

5 As we go down these items, the revenue
6 line for domestic revenue at approved rates is simply
7 -- it's not simply, it's Manitoba Hydro using a load
8 forecast multiplied by PUP approved rates?

9 MR. GREG EPP: That's correct. For
10 all the different customer classes.

11 MR. BOB PETERS: And in that instance,
12 the load forecast is one of the documents that Ms.
13 Carriere mentioned earlier, is compiled or in the
14 culmination of assumptions that's included in -- in
15 preparing the IFF?

16 MR. GREG EPP: That's correct.

17 MR. BOB PETERS: How current is
18 Manitoba Hydro's load forecast?

19 MR. GREG EPP: The load forecast that
20 is used in the 1920 test year is the most current
21 forecast, sir.

22 MR. BOB PETERS: It's the 2018 load
23 forecast?

24 MR. GREG EPP: That's correct.

25 MR. BOB PETERS: And this was done

1 after the last General Rate Application?

2 MR. GREG EPP: That's correct.

3 MR. BOB PETERS: When we go down this
4 list, the additional revenues is -- is the
5 multiplication of what Manitoba Hydro is asking
6 against the load forecast.

7 MR. GREG EPP: Yes. You would take
8 the cumulative rate increase, multiplied by the
9 revenue at approved rates.

10 MR. BOB PETERS: That would give us
11 the total domestic revenue at approved rates, correct?

12 MR. GREG EPP: That would get you the
13 total revenue at approved and plus the additional.

14 MR. BOB PETERS: All right. And the
15 additional is shown on here. This is to show the
16 Board what the rate increase request would mean in the
17 subsequent year?

18 MR. GREG EPP: So long as there is no
19 other rate increases in that subsequent year.

20 MR. BOB PETERS: And when there are
21 consecutive rate increases, then the -- the additional
22 revenues compound each other?

23 MR. GREG EPP: That's correct.

24 MR. BOB PETERS: When we talk about
25 extra-provincial revenue, this is really Mr. Cormie's

1 report card, right? It -- it shows what he's been
2 able to generate for the company in terms of export
3 sales?

4 MR. GREG EPP: That's a component of
5 it. Firm contract sales. There is also a full
6 related or opportunity sales.

7 MR. BOB PETERS: You're not giving him
8 credit for those.

9 MR. GREG EPP: He can have all the
10 credit, yes.

11 MR. BOB PETERS: And since -- since
12 the last General Rate Application, are you able to
13 tell the Board -- maybe Mr. Cormie should -- should
14 certainly speak on his own here.

15 Mr. Cormie, what additional sales have
16 contributed to the extra-provincial revenue going
17 forward for Manitoba Hydro?

18 MR. DAVID CORMIE: Of the most
19 significant one, Mr. Peters, is the term sheet that
20 we've signed with SaskPower that begins in fiscal year
21 2021 and -- and it goes for forty (40) years.

22 MR. BOB PETERS: Mr. Cormie, could you
23 verify the date on that contract coming into -- into
24 service? Is that 2022?

25 MR. DAVID CORMIE: Yes, June 1st,

1 2022. I'm sorry, I misspoke.

2 MR. BOB PETERS: So none of the
3 revenues from whatever has been arranged with
4 SaskPower are going to impact on the test year of
5 2019/2020, correct?

6 MR. DAVID CORMIE: That's correct.

7 MR. BOB PETERS: You said, Mr. Cormie,
8 that that was the most significant. Are there others
9 that since the GRA Manitoba Hydro has been able to
10 negotiate?

11 MR. DAVID CORMIE: Yes, I believe
12 there is some short-term sales to Basin Electric that
13 are in there, but there are of short duration and a
14 small quantity.

15 They are vastly outweighed by the --
16 the Saskatchewan sale.

17 MR. BOB PETERS: And the Basin
18 Electric sales, Mr. Cormie, do -- do any of those
19 revenues come into effect in the 2019/20 test year?

20 MR. DAVID CORMIE: No, they don't.

21 MR. BOB PETERS: While we're on this
22 page 6 from Exhibit 14, the O&M expense, Ms.
23 Bauerlein, that's an that you would be responsible for
24 providing to assemble the IFF?

25 MS. SANDY BAUERLEIN: Yes.

1 MR. BOB PETERS: And generally you
2 would have a forecast of OM&A expense, correct?

3 MS. SANDY BAUERLEIN: I'm not sure
4 what you mean by a forecast. We do have a forecasted
5 OM&A expense in 1920.

6 MR. BOB PETERS: And in terms of
7 individual budget for the test year, Manitoba Hydro
8 has taken a previous level and inflated it by 2
9 percent?

10 MS. SANDY BAUERLEIN: It might appear
11 that way, but every time we decide on what our
12 financial or OM&A targets are going to be, there is a
13 review and there is a discussion on those targets.

14 So well, the 511 million appears from -
15 - from a previous forecast, it has been re-validated
16 by looking at what our current staffing levels are and
17 our current business requirements.

18 MR. BOB PETERS: From that answer, Ms.
19 Bauerlein, does Manitoba Hydro have a current OM&A
20 budget for the test year?

21 MS. SANDY BAUERLEIN: It is in the
22 process of finalizing the details of that budget. So
23 we have a target of 511 million, and then the details
24 which support that, which gets down to very details by
25 individual departments, it's still being finalized.

1 It's in the process of being finalized.

2 We'll be using it for current year
3 reporting in the next little while.

4 MR. BOB PETERS: What's the timeline
5 for that, Ms. Bauerlein?

6 MS. SANDY BAUERLEIN: In -- what --
7 today is April 23rd. It would probably be within the
8 next four weeks, three to four weeks, it would be
9 finalized for April reporting.

10 MR. BOB PETERS: So at this point in
11 time, Manitoba Hydro is operating from a previous
12 budget that has a 2 percent increase?

13 MS. SANDY BAUERLEIN: No, well what
14 we're -- at the department level they would be that
15 way, but they are also working through and
16 understanding what their piece is of that 511 million.

17 And for areas that haven't changed in
18 terms of if I started with 10 people last year, I
19 still have 10 people this year, then they may be just
20 seeing a straight 2 percent increase, or there may be
21 adjustments, because maybe now they're gone from 10
22 people down to eight (8) people because staff have
23 been redeployed.

24 There is a variety of things that may
25 go into what they're trying to understand for April

1 and for this fiscal year, what their -- their
2 operating costs are. But they're working with finance
3 staff in trying to finalize those -- those numbers, so
4 that at the end of the day we have an overall budget
5 for the company of 511 million.

6 MR. BOB PETERS: And the individual
7 departments piece of that, you say, will be finalized
8 in the next month?

9 MS. SANDY BAUERLEIN: Yes, in the next
10 few weeks it will be finalized.

11 MR. BOB PETERS: When we move down the
12 IFF, down to the finance expense, Ms. Bauerlein or Mr.
13 Epp, this is Manitoba Hydro's forecast of what
14 Manitoba Hydro has to pay on its -- on its money that
15 it's borrowed?

16 MR. GREG EPP: Yes, that's correct.

17 MR. BOB PETERS: And this is as a
18 result of the capital program that the utility
19 undertakes, that -- that influences the amount?

20 MR. GREG EPP: That's correct.

21 MR. BOB PETERS: And likewise, the
22 amount is influenced by the rates that Ms. Stephen in
23 her -- her department are able to achieve when they
24 borrow the money?

25 MS. LIZ CARRIERE: Sorry, just to be

1 clear, that's not the finance expense we paid. That's
2 the amount that gets accrued to the income statement
3 there -- the capitalized interest comes off of that.

4 MR. BOB PETERS: We -- we'll be
5 talking about capitalized interest a little bit, so
6 thank you for that.

7 The -- the -- the point that Ms.
8 Carriere is getting to, as I understand it, Mr. Epp,
9 is that the amount shown here as finance expense
10 relates to what Manitoba Hydro has to pay on the debt
11 it already has on assets that are in service.

12 MS. GREG EPP: Yes, there -- that's
13 correct. The capitalized interest. The gross finance
14 expense would be higher than the line item there in
15 finance expense and it is reduced by the interest cap
16 on the plant that is currently under construction.

17 MS. SANDY BAUERLEIN: Just to add, if
18 we move to a cash flow statement, and I'm sure Mr.
19 Peters will be doing that, we'll see those costs on
20 the cash flow statement.

21 MR. BOB PETERS: But the point that we
22 should maybe emphasize for the panel is that on this
23 income statement shown in the IFF, those are the costs
24 of the assets that Manitoba Hydro claims to -- to be
25 our used useful prudently acquired an in-service.

1 MS. SANDY BAUERLEIN: It is the
2 financing costs of those assets that are in service
3 today, correct.

4 MR. BOB PETERS: So another point on
5 it, key ask costs are not on this statement?

6 MS. SANDY BAUERLEIN: Correct, they do
7 not come onto the statement until they're in-service.

8 MR. BOB PETERS: And then finance
9 income, can you briefly explain that, Mr. Epp?

10 MR. GREG EPP: We're currently pre-
11 financing the advancing or borrowing the debt in
12 advance of -- of the need to make sure we're meeting
13 our liquidity targets and Ms. Stephen can -- can speak
14 more to that.

15 But there is that -- that money sitting
16 there that is earning interest income.

17 MR. BOB PETERS: And -- and I do have
18 some questions later for Ms. Stephen on that, but
19 interrupt if you -- or please interject if you would,
20 Ms. Stephen.

21 The message that you're telling the
22 Board is that thinking one of the IRs, it was called
23 borrowing in advance of need and I don't know that
24 that sat well with Manitoba Hydro. You don't see it
25 that way?

1 MS. SANDY BAUERLEIN: No, at -- at
2 this stage in the game we really don't see it as in
3 advance of need. It's something that we feel we are
4 required to do, given our borrowing program. The
5 large amount of cash requirements that we have
6 upcoming, given what we've seen in the markets in
7 terms of uneven market tone and volatility,
8 particularly as we just saw in November and December
9 and early January, we went through a period where it
10 was very difficult to access the markets, such that we
11 depleted our pre-funded position to around 300
12 million at the end of December.

13 So this is a real risk for us, so I --
14 we don't see it as an advance of need. It's -- it's
15 to reduce risk.

16 MR. BOB PETERS: Right. You have a --
17 Manitoba Hydro wants to have essentially money in the
18 bank that it can use on its new borrowings or its
19 refinancing of old borrowings.

20 MS. SUSAN STEPHEN: We do keep the
21 pre-funded position to allow us flexibility in terms
22 of waiting for opportunities in the marketplace to
23 properly transact where there is investor demand. We
24 manage the program along with the Province of Manitoba
25 jointly, and it's in both of our interests to -- to be

1 pre-funded. The Province of Manitoba is very well
2 pre-funded at this point in time as well, and it's
3 something that's very common in other provinces as
4 well.

5 MR. BOB PETERS: What is Manitoba
6 Hydro's present pre-funded balance? Are you aware of
7 that or is that a matter that you can make public?

8 MS. SUSAN STEPHEN: Yes. We've
9 completed -- we just started a large five (5) year
10 borrowing, US borrowing with the Province of Manitoba,
11 so our cash position now is higher than we normally
12 target. US issuances, as you may be aware from prior
13 hearings, are large global issues, so it was a \$1
14 billion issue, five (5) year debt, which we took 350
15 million US of that particular issue. So if -- we're
16 very well pre-funded. If you give me a moment...

17

18 (BRIEF PAUSE)

19

20 MS. SUSAN STEPHEN: We are currently
21 sitting at 1.1 billion pre-funded.

22 MR. BOB PETERS: Can you indicate to
23 the panel what the rate is on that billion dollars
24 that you're sitting on?

25 MS. SUSAN STEPHEN: With respect to

1 the rate of investment?

2 MR. BOB PETERS: No. The -- the rate
3 that you have to pay.

4 MS. SUSAN STEPHEN: On the debt?

5 MR. BOB PETERS: Yes.

6 MS. SUSAN STEPHEN: The five (5) year
7 debt was borrowed at 2.19 percent and we're currently
8 investing at somewhere around 1.7 percent.

9 MR. BOB PETERS: And so that strategy
10 ends up costing consumers, does it not, because
11 they're paying the difference between what you have to
12 pay to those who loaned it to you and what you're
13 getting on deposit?

14 MS. SUSAN STEPHEN: There is a small
15 cost to carry but there is also a risk on the other
16 side if we don't have the cash. That's the liquidity
17 risk, the operational liquidity risk.

18 MR. BOB PETERS: Thank you. Has
19 Manitoba Hydro ever studied that liquidity risk to
20 determine whether it's -- it's in the consumers' --
21 the Corporation's best interest to do that or whether
22 it ends up costing the company?

23 MS. SUSAN STEPHEN: In terms of if --
24 are you -- are you indicating that if we were to not
25 maintain a -- a pre-funded position in the current

1 market environment, we would run the risk potentially
2 of not having cash to make vendor payments during this
3 period of large capital expenditure where we have
4 several million dollars of payments going out the door
5 every day, or we have interest payments that we owe to
6 the Government of Manitoba which we have to pay? The
7 risks there are -- are too great to not be prudent and
8 maintain a pre-funded position.

9 We realize that the province would
10 never allow for Manitoba Hydro to default on an
11 interest payment. They would take action. However,
12 any action they take would be viewed by credit rating
13 agencies as government assistance and further
14 contribute to the -- the credit rating agency's
15 assessment that we are no longer self-supporting.

16 MR. BOB PETERS: Ms. Stephen, I try
17 not to duplicate these questions later where I did
18 have them in my notes, but you told us 350 million of
19 that recent USA borrowings for five (5) years was at
20 2.19 percent.

21 MS. SUSAN STEPHEN: Correct.

22 MR. BOB PETERS: The balance of the
23 1.1 billion that currently is on deposit for Manitoba
24 Hydro is at approximately the same interest rate?

25 MS. SUSAN STEPHEN: Give me one (1)

1 moment, please.

2

3

(BRIEF PAUSE)

4

5

MS. SUSAN STEPHEN: The most recent
6 issues that we have completed, we've also completed
7 some ultra-long debt issuances which have forty-nine
8 (49) year terms. That particular issuances was at
9 2.91 percent, locked in for forty-nine (49) years.

10

We also -- the range -- we did a few
11 issues towards the end of the year. The range was
12 from about two thirty-three (233) to three ten (310).

13

MR. BOB PETERS: All right, thank you
14 for -- for now. We can come back to that.

15

I wanted to have Mr. Epp continue with
16 this IFF explanation to the panel. The depreciation
17 and amortization, Mr. Epp, is likewise depreciation
18 and amortization on assets that are in service?

19

MR. GREG EPP: That's correct.

20

MR. BOB PETERS: It doesn't include
21 Keeyask or Great Northern transmission line or the
22 Manitoba-Minnesota Transmission Project?

23

MR. GREG EPP: Not until they're
24 placed in service in the forecast.

25

MR. BOB PETERS: Thank you.

1 The -- the water rentals and
2 assessments represent Manitoba Hydro's obligations to
3 the Province of Manitoba on account of using the water
4 in Manitoba?

5 MR. GREG EPP: That's correct.

6 MR. BOB PETERS: Fuel and power
7 purchases is a line that will summarize what Manitoba
8 Hydro ends up purchasing, I suppose, to support its
9 export arrangements?

10 MR. GREG EPP: Yeah. Its import
11 purchases, wind purchases, and fuel costs for our
12 thermal generation and transmission charges.

13 MR. BOB PETERS: And the thermal
14 plants aren't -- aren't -- aren't being used?

15 MR. GREG EPP: When we do our average
16 net revenue calculation and we have low-flow
17 situations, the thermal units may be drawn upon.

18 MR. BOB PETERS: So you include them
19 in your planning but you have to wait and see whether
20 on operations day you need to fire them up.

21 MR. GREG EPP: Yeah. Just as a
22 reminder to -- to everyone, this is an average of when
23 you -- when you get out beyond the first two (2)
24 years, it's an average of the historical flow pattern,
25 so it includes that 40/'41 flow year, which is the

1 worst drought on record, and the system has to operate
2 under those conditions, and in those cases the thermal
3 units do run.

4 MR. BOB PETERS: Mr. Epp, the capital
5 and other taxes line, sticking with the capital tax,
6 that's what Manitoba Hydro again pays to the Province
7 of Manitoba as a tax on its invested capital?

8 MR. GREG EPP: That's correct.

9 MR. BOB PETERS: Does this line item
10 include Keeyask?

11 MR. GREG EPP: Yes, it does.

12 MR. BOB PETERS: So why would you
13 include Keeyask capital tax when Keeyask is not in
14 service yet?

15

16 (BRIEF PAUSE)

17

18 MR. GREG EPP: It'S not an item they
19 can capitalize. It's not like interest cap or
20 interest that's capitalized during construction.

21 MR. BOB PETERS: From an accounting
22 perspective you're not allowed to capitalize taxes?

23 MR. GREG EPP: That's correct.

24 MR. BOB PETERS: And remind us of the
25 -- what's included in other expenses.

1 MR. GREG EPP: Other expenses will
2 have our regulatory expenditures. The most notable
3 one would be DSM expenditures, and that's reversed
4 through the net movement. As for regulatory
5 accounting, we do not expense direct expense so it is
6 amortized. Those expenses are amortized over ten (10)
7 years.

8 So those expense items are all -- those
9 line items that you're going through all our IFRS
10 compliant and when you look at that net movement and
11 regulatory deferral line item, further down that --
12 that applies the regulatory accounting to the
13 statements.

14 MR. BOB PETERS: The point you're
15 making to the panel is that unless the PUB approved
16 the net -- sorry, the regulatory deferral accounts,
17 Manitoba Hydro wouldn't be able to record them under
18 IFRS?

19 MS. SANDY BAUERLEIN: We would expense
20 them. We would follow whatever the accounting under
21 IFRS is. So, for example, demand-side management
22 costs are expensed under IFRS, so they appear in other
23 expenses because the Board has approved a regulatory
24 deferral for those costs. They come out in that
25 movement and instead what you see in that movement is

1 the actual amortization of those expenditures.

2 So you have to, under IFRS, record them
3 where they would otherwise be recorded on the
4 financial statements and then they are removed in that
5 movement and then the amortization is then added in.

6 MR. BOB PETERS: Thank you. My -- my
7 question was to get at, Mr. Epp, that but for this
8 Board approving the DSM costs as a regulatory deferral
9 cost, they would have to a hundred percent be shown on
10 the operating statement as an expense item.

11 MR. GREG EPP: That's correct. Under
12 IFRS it's not considered an asset.

13 MR. BOB PETERS: And you've indicated
14 that DSM costs in particular are on a ten (10) year
15 amortization under Manitoba Hydro's current regulatory
16 deferral accounting.

17 MR. GREG EPP: That's correct.

18 MR. BOB PETERS: The corporate
19 allocation, Mr. Epp, can you just remind the panel of
20 that?

21 MR. GREG EPP: It's the allocation of
22 the acquisition of Centra Gas, financing cost, and a
23 component of depreciation expense.

24 MR. BOB PETERS: We've covered the net
25 movement in regulatory deferrals from a conceptual

1 basis. The non-recurring gain item that showed up in
2 the -- in one of the line items, do you recall what
3 that was for?

4 MS. SANDY BAUERLEIN: That was, I
5 believe again, on the sale of land. It was again on
6 the sale of land.

7 MR. BOB PETERS: And in addition to
8 then subtracting expenses from revenues to get net
9 income, Manitoba Hydro also has to account for a non-
10 controlling interest that -- that exists in some of
11 Manitoba Hydro's assets?

12 MR. GREG EPP: That's correct. It's
13 the equity component or the -- the minority interest
14 in the -- the Wuskwatim Power Limited partnership.

15 MR. BOB PETERS: Thank you, Mr. Epp,
16 for going through these.

17 Ms. Pachal, maybe Ms. Carriere, you've
18 told the Board in your slide deck that the Manitoba
19 Hydro Electric Board is the current impediment to
20 getting an IFF before this Board. Maybe I worded it
21 too negatively, but is -- is that -- is that where we
22 are?

23 MS. SHAWNA PACHAL: Yeah. I wouldn't
24 agree that it's an impediment. It's a new board
25 that's -- currently we also have a new CEO and

1 President, and they're undertaking the development of
2 a twenty (20) year corporate strategic plan, and from
3 that will develop financial targets and rate
4 strategies from that. And so they're currently in the
5 process of developing all of those pieces, and until
6 we have that it would be challenging to put together a
7 long-term IFF.

8 MR. BOB PETERS: And that's exactly
9 where I'd like you to go with the panel right now, is
10 Mr. Epp, Ms. Carriere, and Ms. Bauerlein have showed
11 us that the items that make up the components of the
12 IFF are relatively in hand and are probably
13 information that the Corporation has access to on a --
14 on a regular basis. Would you agree with that?

15 MS. SHAWNA PACHAL: Yes.

16 MR. BOB PETERS: So what appears to be
17 missing is, what input does Manitoba Hydro Electric
18 Board have to the preparation of this document?

19 MS. SHAWNA PACHAL: Well, we have it
20 in hand under the current scenario, but that scenario
21 might change as the -- as the new board and the -- and
22 the new leader develop with the executive team a long-
23 term strategic plan.

24 MR. BOB PETERS: And the strategic
25 plan to deal with what issues, any of these expense

1 issues?

2 MS. SHAWNA PACHAL: I don't believe
3 that's -- we just recently hired a consulting firm to
4 assist and guide the executive through the strategic
5 planning process and we only had our first meeting
6 last week, so I couldn't speak to what those issues
7 might be.

8 MR. BOB PETERS: Could you indicate,
9 Ms. Pachal, to the panel what type of direction would
10 influence the preparation of the IFF? And you can
11 make it hypothetical because we know we don't have any
12 specific at this point in time.

13 MS. SHAWNA PACHAL: I couldn't
14 speculate on that.

15 MR. BOB PETERS: Mr. Epp, the IFF has
16 an iterative feature such that a change in one (1)
17 assumption can result in changes in other assumptions?

18 MR. GREG EPP: Yes, that's possible.

19 MR. BOB PETERS: And in fact is that
20 what does happen when Manitoba Hydro runs IFFs, that
21 you change one variable to see what impact it has on
22 others -- other outcomes?

23 MR. GREG EPP: Yes, we do perform
24 sensitivity analysis.

25 MR. BOB PETERS: And can you give the

1 panel a quick example of what one of those might be?

2 MR. GREG EPP: An interest rate
3 sensitivity, varying, as -- as we all know, we don't
4 have a crystal ball to be able to determine what
5 interest rates will be next week or a year from now or
6 beyond, so we test the impacts on the revenue
7 requirement, specifically on finance expense, for a
8 change in interest rate, forecast interest rates.

9 MS. SANDY BAUERLEIN: I just wanted to
10 add one (1) more thing in terms of impacts of
11 different variables. So, for example, load forecasts,
12 if we require more domestic consumption, you will
13 potentially have less to export, so, I mean, even
14 outside of things like interest rates, you will have
15 variables within the forecast itself which will have
16 offsetting, potentially offsetting impacts.

17 MR. BOB PETERS: This is run on a
18 computer model, Mr. Epp?

19 MR. GREG EPP: That's correct.

20 MR. BOB PETERS: Is it Excel-based?

21 MR. GREG EPP: Nope.

22 MR. BOB PETERS: It's proprietary to
23 Manitoba Hydro?

24 MR. GREG EPP: Yes.

25 MR. BOB PETERS: And in terms of the

1 duration of the IFF, Manitoba Hydro has, for at least
2 I think the past decade, been able to extend them out
3 twenty (20) years for planning purposes, is that
4 correct?

5 MR. GREG EPP: That's correct.

6 MR. BOB PETERS: It can be done for
7 any length of time?

8 MR. GREG EPP: Not any length of time.
9 There might be a -- like a physical storage problem,
10 but we have run it out fifty (50) years.

11 MR. BOB PETERS: Is it also an
12 important feature, Mr. Epp, that the IFF can be used
13 to arrive at a predetermined result?

14 MR. GREG EPP: Could you be more
15 specific, please?

16 MR. BOB PETERS: Well, we've seen in
17 the past that the IFF can be constructed to achieve a
18 financial target on a certain time frame.

19 MR. GREG EPP: A goal-seeking --

20 MR. BOB PETERS: Is that -- we should
21 call it a goal-seeking run?

22 MR. GREG EPP: It's a -- it's a
23 seeking exercise, yes.

24 MR. BOB PETERS: And when Manitoba
25 Hydro runs the model to seek a goal, it then will

1 indicate which of the revenue and expense items change
2 as a result of landing on that -- on that desired
3 goal?

4 MR. GREG EPP: That's correct.

5 MR. BOB PETERS: And, Mr. Epp, does
6 that goal seeking have to be tied to financial targets
7 or could it -- could it be tied to -- to any other
8 targets?

9 MR. GREG EPP: Yeah. It could be tied
10 to anything that's been defined in the model.

11 MR. BOB PETERS: Net income as an
12 example?

13 MR. GREG EPP: That's correct.

14 MR. BOB PETERS: If Manitoba Hydro
15 wanted a specific net income, it would be worked
16 through the model and, in my words, it would spit out
17 a requested rate increase that would be needed to
18 arrive at that net income, correct?

19 MR. GREG EPP: That's correct.

20 MR. BOB PETERS: And that -- that may
21 be a positive or negative rate increase.

22 MR. GREG EPP: That's correct.

23 MR. BOB PETERS: As a pragmatic
24 question, Mr. Epp, once the model has been
25 crystallized into what Manitoba Hydro calls an

1 integrated financial forecast and given it a number
2 and has published it, how long does it take to
3 physically run changes in assumptions?

4 MR. GREG EPP: It all depends on the
5 changes in assumptions. If we use the example that
6 Ms. Bauerlein brought forward where you make a change
7 in load, the change in load can have a -- an effect on
8 when the need for new resources, whether it's for
9 capacity or for energy are needed, and so supply and
10 demand mix would have to be run and then we would not
11 only have to price the domestic revenue but we'd also
12 have to do a production costing run to reflect that
13 new load forecast in our export revenue.

14 MR. BOB PETERS: All right. And then
15 what if the interest rate was the -- was the variable
16 that was changing?

17 MR. GREG EPP: There is a component of
18 our existing debt that is under floating rates, so
19 those would have to be recalculated and then the rest
20 of the new debt and the refinancing of the debt out in
21 the forecast would -- would calculate quite quickly in
22 the model.

23 MR. BOB PETERS: When you say quickly
24 --

25 MR. GREG EPP: Instantaneously.

1 MR. BOB PETERS: Okay. And if the
2 model was to be run to achieve a specific rate
3 increase, what iterative effects are -- are as a
4 result of that goal seeking?

5 MR. GREG EPP: It all depends on what
6 you define. If it's in one (1) year or if it's over
7 multiple years, the time it takes is the same.

8 MR. BOB PETERS: What is that time?

9 MR. GREG EPP: Instantaneous. As
10 quickly as I can type Mr. Peters.

11 MR. BOB PETERS: Now --

12 MR. GREG EPP: Now, Mr. Peters, that's
13 just a calculation. There is an analytical period
14 that takes place to review the output of that and look
15 for reasonableness and make sure everything is working
16 correctly. It's standard procedure.

17 MR. BOB PETERS: Thank you for that,
18 Mr. Epp. What you're telling the panel is that just
19 because the computer can give you a number, it has to
20 be reviewed in some detail to see if it's -- if it's
21 logical or if it makes sense, what's come out of it,
22 or whether there's been some -- some problem.

23 MR. GREG EPP: Yeah, that it's
24 reasonable and it doesn't affect any other of our
25 financial metrics or targets or -- or things that

1 we're looking at.

2 MR. BOB PETERS: All right. After the
3 last General Rate Application, which -- which was
4 before this Board, did Manitoba Hydro start to build a
5 new integrated financial forecast?

6 MR. GREG EPP: We have a regular
7 planning process that takes place at Manitoba Hydro
8 and we plan annually.

9 MR. BOB PETERS: And that annual
10 planning includes getting the reports that allow all
11 these inputs that Ms. Carriere indicated needed to be
12 compiled?

13 MR. GREG EPP: That's correct.

14 MR. BOB PETERS: And that went on
15 business as usual after the last General Rate
16 Application?

17 MR. GREG EPP: That's correct.

18 MR. BOB PETERS: And would -- would
19 that allow us to conclude then, Mr. Epp, that -- that
20 a new IFF is -- is on the computer for Manitoba Hydro
21 somewhere but it hasn't yet been approved by Manitoba
22 Hydro's Board?

23 MR. GREG EPP: Hasn't been reviewed,
24 vetted, or approved, or tabled with our executive for
25 approval.

1 MR. BOB PETERS: So it's -- it's an
2 IFF that's run just using the raw input data, and it
3 hasn't yet been -- been tested or adjusted based on
4 assumptions by the management?

5 MR. GREG EPP: That's correct.

6 MR. BOB PETERS: And that would --

7 MS. SANDY BAUERLEIN: Or even the
8 inputs of the new amount to the Hydro Electric Board
9 have not been factored in.

10 MR. BOB PETERS: Sorry, Ms. Bauerlein,
11 I was -- I didn't hear that.

12 MS. SANDY BAUERLEIN: And it doesn't
13 reflect any of the inputs from the new amount to the
14 Hydro Electric Board.

15 MR. BOB PETERS: And --

16 MS. SANDY BAUERLEIN: Those will be
17 coming out of the CSP process.

18 MR. BOB PETERS: Okay. So I was going
19 to ask you what those inputs were, but Ms. Pachal told
20 us that at this point in time she won't even
21 speculate.

22 MS. SHAWNA PACHAL: I don't think this
23 is speculation on what -- I can't comment or speculate
24 what they will end up being but I can talk about the
25 categories. As Sandy -- Ms. Bauerlein indicated,

1 there's the issue of at what pace -- what are the
2 financial targets; what will they end up being; how
3 will we address the issues with the rating agencies;
4 what potentially is the rate at which we want to
5 address our -- our debt; what's the pace at which we
6 want to address that; and what, if any, new strategies
7 or undertakings that come out of the strategic
8 planning process change or alter the direction of the
9 company in a way that would change or alter inputs in
10 the IFF?

11 I can't speak to what those are, but it
12 is an issue of rates of -- of the pace and what those
13 targets are, and until we have those we can't really
14 provide an IFF to -- to test with -- with anybody
15 within our organization or our board.

16 MR. BOB PETERS: And so, Ms. Pachal,
17 the -- the raw data inputs that Mr. Epp and his
18 colleagues have access to just has to await further
19 direction from the Board. Is that the indication
20 you're giving this panel?

21 MS. SHAWNA PACHAL: That's correct.

22 MR. BOB PETERS: And that's on the
23 electric side, Ms. Pachal?

24 MS. SHAWNA PACHAL: That's correct.

25 MR. BOB PETERS: But on the gas side,

1 Manitoba Hydro does have a Centra Gas man -- Manitoba
2 Inc. 2018 IFF?

3 MS. SHAWNA PACHAL: I believe it's an
4 old one, but I'll let Ms. Bauerlein -- Mr. Epp address
5 that.

6 MR. GREG EPP: CGM-18 was filed as
7 part of the gas application or even the most recent.

8 MR. BOB PETERS: When was that
9 prepared?

10 MR. GREG EPP: That was prepared in
11 2018 -- 2017.

12 MR. BOB PETERS: Was it after the last
13 electric GRA?

14 MS. SANDY BAUERLEIN: It was before
15 the last electric GRA. So again, we don't have a more
16 recent long-term forecast for the gas side for the
17 same reasons, that they would require the inputs
18 coming from the Manitoba Electric Board as discussed
19 by Ms. Pachal.

20 MR. BOB PETERS: And, Ms. Bauerlein,
21 one of the things that I believe you said in your
22 direct evidence was that this Board should not rely on
23 IFF Exhibit 93 or any other IFFs that Manitoba Hydro
24 has prepared.

25 Did I recall your testimony correctly

1 on the think that?

2 MS. LIZ CARRIERE: I think that was
3 me, but I said they could rely on it because, even
4 though assumptions change from year-to-year, we've
5 seen great variation between the forecasts. And
6 although you can't expect precision in those
7 forecasts, they give a directional indication of the
8 change in the cost profile for the Corporation in
9 terms of Keeyask coming online.

10 And you can see the progression of that
11 over the last several forecasts, where we've
12 consistently had losses but have consistently had
13 three and a ha -- in excess of 3 1/2 percent rate
14 increases in those forecasts.

15 MR. BOB PETERS: All right. So I
16 identified the witness wrong and I misstated what you
17 said, but other than that, I was close. I'm sorry,
18 Ms. Carriere, I'm -- I -- I did write down, it was
19 you, that it was do not rely on MH93 or prior IFFs.
20 That's not what you meant to say or that's not what
21 you believe you said?

22 MS. LIZ CARRIERE: Well, if said that,
23 I did not mean that.

24 MR. BOB PETERS: No, I -- and I'm not
25 saying you did, but I -- I noted you did. So -- so

1 let's talk about that with the panel. Which IFF in
2 front of them -- and in the book of documents you have
3 a choice in tab 1 of the Exhibit 93 and in tab 2 you
4 have a choice of the MH15, as well as MH16.

5 Which IFF run is the most reliable for
6 this Board in terms of assessing where Manitoba Hydro
7 is going to be in the test year?

8 MS. LIZ CARRIERE: In the test year we
9 have our -- our final budget that was approved by our
10 board and filed on February 14th. In terms of
11 previous forecasts, I believe on -- in Coalition's
12 evidence on page 50, there it -- it shows the income
13 for each of the -- the preceding IFFs going from MH12
14 through MH15.

15 Now, as I said before, it's reliable to
16 the extent that it provides a directional in --
17 indication; it's not predictive. There's -- there is
18 uncertainty with all of these forecasts clearly.

19 But what it does clearly show is the
20 effects -- even with the variation between each of
21 these forecasts, the effects of Keeyask coming on --
22 in -- into service.

23 MR. BOB PETERS: Ms. Pachal, the
24 indication you gave this panel is that the Manitoba
25 Hydro Electric Board has yet to start on its review of

1 the IFF because it first wants to complete a twenty
2 (20) year strategic plan.

3 Have I got that correct?

4 MS. SHAWNA PACHAL: Yes, that's
5 correct. They want to get the strategic planning
6 process well underway and have accomplish significant
7 amounts of -- of that work prior to starting to
8 consider the -- the financial targets and the ultimate
9 rate strategy that would -- they would propose.

10 MR. BOB PETERS: On page 37 of Board
11 counsel's book of documents there's -- there's an
12 indication at line 16 that Manitoba Hydro's new board
13 of directors is under view -- or undertaking a review
14 of the operations of Manitoba Hydro, as well.

15 Is that a matter that's going to impact
16 the IFF, Ms. Pachal?

17

18 (BRIEF PAUSE)

19

20 MS. SHAWNA PACHAL: Mr. Peters, I'm
21 not quite clear on the question.

22 MR. BOB PETERS: I understood from Ms.
23 Pachal's previous answers that the financial targets
24 and the pace at which to achieve them were categories
25 or examples of categories that the Board may look at

1 in embedding into an IFF.

2 Have I got that right, Ms. Pachal?

3 MS. SHAWNA PACHAL: Correct.

4 MR. BOB PETERS: And so, I understand
5 from the financial forecast side of it. But then
6 there's a reference that Manitoba Hydro's board is
7 also reviewing the operations of the Corporation. And
8 I'm wondering whether that has any impact on the IFF
9 itself?

10 MS. SHAWNA PACHAL: I would say that
11 would be more of a reference to having primarily new
12 board members who don't understand the organization or
13 how -- how it -- it runs, and so there was significant
14 amounts of orientations provided, and for them to
15 review how the operations work.

16 I don't think that was a review in the
17 sense of, like, a process improvement review or an
18 organizational review, more a review of how does it
19 actually work, what are the forecasts and the
20 financial plans.

21 So myself and the finance team have
22 done, you know, a number of presentations for them
23 around financial -- financial plans, but that's sort
24 of part of the learning curve that they're
25 undertaking.

1 MR. BOB PETERS: Ms. Pachal, you say
2 the consultant has been engaged in the first planning
3 session was a week ago?

4 MS. SHAWNA PACHAL: It was last
5 Thursday. And that was the kickoff session with the
6 executive team.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: and then we see on
11 page 19 of the Board Counsel book of documents,
12 Exhibit Manito -- PUB 14, that this twenty (20) year
13 corporate strategic plan -- planning process is going
14 to occupy the Corporation's focus for much of this
15 current fiscal year, Ms. Pachal?

16 MS. SHAWNA PACHAL: Yes. I -- I
17 believe we are not -- we are currently working with a
18 consultant to identify a faster track to complete the
19 -- the work on the strategic plan. So that -- the
20 hope is, is that it wouldn't take the entire fiscal
21 year.

22 MR. BOB PETERS: And once the
23 strategic plan has been prepared, Ms. Pachal, how long
24 is it envisioned that it will take for Manitoba Hydro
25 to then prepare its next integrated financial

1 forecast?

2 MS. SHAWNA PACHAL: We have not
3 processed that through with -- with the Board or our -
4 -- with the new president and CEO.

5 MR. BOB PETERS: All right. Just
6 looking at the last paragraph on the screen in front
7 of you off the page 19 from Board counsel's book of
8 documents, are you able to tell this Board when
9 Manitoba Hydro intends next to -- to come for a rate
10 increase after this application?

11 MS. SHAWNA PACHAL: Yes. We're --
12 we're hoping to file our next application November or
13 December of 2019.

14 MR. BOB PETERS: Supported by an IFF?

15 MS. SHAWNA PACHAL: That is still
16 under discussion.

17 MR. BOB PETERS: As would be all the
18 financial targets and the rate increases that would be
19 embedded in the IFF?

20 MS. SHAWNA PACHAL: Again, I'm not
21 sure of the timing of that process, so I can't say.

22 MR. BOB PETERS: As you sit here, Ms.
23 Pachal, is it envisioned that Manitoba Hydro will be
24 seeking rate increases in each of the next several
25 years?

1 MS. SHAWNA PACHAL: That would be my
2 expectation.

3 MR. BOB PETERS: But that hasn't yet
4 been approved by the Board of Directors, and that's
5 still in the planning process?

6 MS. SHAWNA PACHAL: Correct. I would
7 just say that's my expectation given what -- that we
8 know that Keeyask is coming into service. And it's
9 coming in service likely early in October 2020, and so
10 there'll be a significant amount of costs, as Ms.
11 Bauerlein and Ms. Carriere pointed out in our direct
12 evidence.

13 MR. BOB PETERS: This is unfair to
14 you, Ms. Pachal, but the others in the panel who have
15 more involvement, can they indicate whether Manitoba
16 Hydro has ever, other than this application, appeared
17 before the Board on a general rate avenue -- a General
18 Rate Application request without an integrated
19 financial forecast?

20

21 (BRIEF PAUSE)

22

23 MS. SHAWNA PACHAL: So I was just
24 checking with Mr. Cormie because he's actually been at
25 Manitoba Hydro longer from -- longer than I have,

1 which is hard to believe. But Mr. Cormie's advising
2 me that we have not.

3 MR. BOB PETERS: I too took note of
4 his years of service when he was testifying in direct,
5 so -- but I thank, Mr. Cormie.

6 MS. LIZ CARRIERE: I would just
7 clarify for the record that on the gas side of the
8 business it was -- we didn't always -- well, Centra
9 Gas, prior to acquisition, didn't have a long-term
10 forecast.

11 MR. BOB PETERS: On Manitoba Hydro's
12 Exhibit 25 that was reviewed this morning, on slide 5,
13 there was a -- I think, Ms. Carriere, you called it
14 hard to read, but a timeline, correct?

15 MS. LIZ CARRIERE: Yes, that's
16 correct.

17 MR. BOB PETERS: And on the top row,
18 on September 18, 2018, you reference Order 126 of 18
19 of this Public Utilities Board that set aside
20 directive 9 for a minimum retained earnings technical
21 conference.

22 Do you see that?

23 MS. LIZ CARRIERE: That's correct.

24 MR. BOB PETERS: And likewise, in
25 Board counsel's book of documents, in tab 3, page 41,

1 we note the comments of Manitoba Hydro to the effect
2 that -- and this is on page 41 of Board counsel's book
3 of documents -- to the effect that the PUB no longer
4 plans to hold a technical conference on financial
5 targets, correct?

6 MS. LIZ CARRIERE: That's correct.

7 MR. BOB PETERS: And Manitoba Hydro
8 Electric Board will still establish the long-term
9 financial plan and targets for the utility presumably
10 prior to the next IFF, correct?

11 MS. LIZ CARRIERE: Yes, that's what it
12 says.

13 MR. BOB PETERS: And can you tell us,
14 Ms. Carriere, did Manitoba Hydro support a technical
15 conference as indicated by the Board in its Order 59
16 of 18?

17

18 (BRIEF PAUSE)

19

20 MS. LIZ CARRIERE: Subject to check, I
21 think in -- in the correspondence with the -- the
22 Board, I think we did.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: Perhaps your counsel
2 can -- can help us. Is that not one (1) of the
3 directives for which Manitoba Hydro filed a review and
4 variance application to set aside that directive?

5 MS. ODETTE FERNANDES: I'll have to go
6 back and check, Mr. Peters, because I know there's a
7 bit of a timeline. There was the Board's directive
8 and a review. And there was some correspondence
9 issued back and forth, so we'd have to go back and
10 check the time line on that.

11 MR. BOB PETERS: Then maybe for the
12 record, Ms. Ferne -- Ms. Fernandes, if -- if Manitoba
13 Hydro could undertake to provide the correspondence
14 with respect to -- to this technical conference, and
15 in it will be Manitoba Hydro's position? That should
16 answer the question.

17 Would you be satisfied to do -- to do
18 that?

19 MS. ODETTE FERNANDES: That's fine.
20 Thank you.

21

22 --- UNDERTAKING NO. 1: Manitoba Hydro to provide
23 the correspondence with
24 respect to the technical
25 conference, including

1 Manitoba Hydro's position

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Ms. Pachal, maybe
5 back to you. Regardless of what was said or not said
6 back in September 2018 when that directive was set
7 aside, does Manitoba Hydro now suggest that there
8 should be a technical conference on financial targets
9 involving the stakeholders that are involved in the
10 regulatory process?

11

12 (BRIEF PAUSE)

13

14 MS. LIZ CARRIERE: We haven't
15 discussed that with our -- our executive or board, no.

16 MR. BOB PETERS: So then maybe Ms.
17 Fernandes will build on that undertaking to have the
18 Corporation come back to the Board with a position as
19 to whether or not a technical conference on financial
20 targets would -- would be sought by the Corporation at
21 this point in time?

22 MS. ODETTE FERNANDES: Well, I think
23 it may be a bit premature given that we haven't worked
24 through the strategic plan and our own fi -- financial
25 targets yet.

1 Financial targets form a part of every
2 General Rate Application that we've filed that I've
3 been involved with, so I would fully expect that it
4 would be discussed at the next General Rate
5 Application.

6 MR. BOB PETERS: So should the Board
7 take from that answer, Ms. Carriere and Ms. Pachal,
8 that there's no benefit to the Manitoba Hydro Electric
9 Board for such a technical conference to happen with
10 the regulatory participants?

11 MS. ODETTE FERNANDES: Well, I -- I
12 think -- as Mr. Carriere indicated, I think it's a bit
13 premature because there would have to be discussions,
14 I'm assuming, at the executive level and with our
15 president and with our -- potentially our board even,
16 depending upon that plan and the pace at which we
17 achieve targets has -- that review has under -- been
18 undergone at Manitoba Hydro, so I think we'd have to
19 do that first. And then we could come back with a
20 position.

21 MR. BOB PETERS: And, Ms. Fernandes,
22 thank you. That undertaking isn't going to go
23 anywhere, so I'm not going to ask for it to be -- to
24 add it to what you've already undertaken.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: But -- but what --
3 the point that I would like the panel here to
4 understand is, is there any benefit to Manitoba Hydro
5 to having discussions about financial targets before
6 the Manitoba Hydro Electric Board puts it stake in the
7 ground and says here's what they're going to be and
8 give us their reasons?

9

10 (BRIEF PAUSE)

11

12 MS. LIZ CARRIERE: I think we need to
13 have that discussion internally and, I mean, with our
14 owners, as well. They'll have some put -- input into
15 our -- our financial targets, as well.

16 MR. BOB PETERS: All right. Ms.
17 Carriere and Ms. Pachal, I'm going to leave it on the
18 basis that, if Manitoba Hydro or Manitoba Hydro
19 Electric Board feels there's some benefit to
20 revisiting a technical conference, the Corporation
21 will -- will provide correspondence to the Board and
22 in that regard.

23 Is that satisfactory?

24 MS. SHAWNA PACHAL: That's fine.

25 Thank you. Thank you.

1 MR. BOB PETERS: All right. And thank
2 you.

3 THE CHAIRPERSON: Sorry, can I ask a
4 question on the point? Who makes the decision?
5 What's the decision-making process for you to decide
6 if you want to have a technical conference? Is it
7 senior management? Does it go to the Board?

8 I'm just trying to figure -- I -- I
9 understand sort of the machinations, but I'm trying to
10 figure out what -- what the actual decision-making
11 processes is.

12 MS. SHAWNA PACHAL: I would envision
13 it to be that we would have a discussion with our
14 president and CEO, and she would determine whether or
15 not she would take that decision to the Board or make
16 that decision herself.

17

18 (BRIEF PAUSE)

19

20 MR. DAVID CORMIE: Mr. Peters, I
21 wanted to jump in a little bit. And I haven't been
22 involved in the strategic planning process that Ms.
23 Pachal has talked about.

24 But you can imagine that by 2030 Canada
25 is trying to electrify the economy, get off the carbon

1 emissions, so there's a whole bunch of forces out
2 there that are beyond the business as usual that could
3 affect the direction that Manitoba Hydro takes.

4 And I think our -- our strategic
5 planning process to try -- to trying to search out
6 whether the -- any of those are threats or opportunity
7 for the company that could affect the -- the strategic
8 plans of the company.

9 So it's not just a business as usual
10 strategic planning process, it's more about looking at
11 the landscape, trying to find out what's coming in
12 twenty (20) years. Twenty (20) years is -- goes by
13 quickly, and -- and because we do long-term planning,
14 I think that's what were trying to identify and not to
15 just assume that we'll continue to run the company as
16 we have in the past.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Mr. Cormie, I
20 appreciate that. How might that affect what Manitoba
21 Hydro puts forward in terms of rate applications? Can
22 you connect that dot to where -- where we are before
23 the Board?

24 MR. DAVID CORMIE: Well, if there's
25 electrification of the Canadian economy, there would

1 be a bigger demand for electricity. That affects our
2 load forecast. That affects our -- you know, there's
3 a whole bunch of -- it's -- it's all driven by -- by
4 the low forecast in that scenario and -- and our
5 relationship with the other Canadian provinces and how
6 they deal with -- with decarbonization, firming up
7 export prices for opportunity energy, locking those in
8 under long-term arrangements.

9 There's -- they're all interrelated.
10 And -- and over twenty (20) years, it can have a huge
11 change. There could be if huge change to the
12 direction of the company.

13 MR. BOB PETERS: Thank you, Mr.
14 Cormie. Can you envision how that could have a
15 positive effect on consumer rates as well as a
16 negative effect on consumer rates?

17 MR. DAVID CORMIE: Well, there might be
18 a new source of income for the company. I'm not --
19 I'm not -- not prejudging the outcome, but -- but I
20 think what our president is trying to do is scan the
21 landscape. Our customer attitudes are changing. We
22 want to make sure that we're not just assuming
23 business as usual and that we're -- that we're -- that
24 we're looking for twenty (20) years and ide --
25 identifying those threats and opportunities and taking

1 advantage of those, and then managing our risks.

2 MR. BOB PETERS: All right. Thank
3 you, Mr. Cormie. In the time before lunch, I want to
4 move to a new topic. And is it acknowledged by
5 Manitoba Hydro that its motivation to seek a rate
6 increase for the 2019/20 test year was to avoid a \$28
7 million net loss for that fiscal year?

8 MS. SANDY BAUERLEIN: In the original
9 application, the November 30 application, yes, as
10 outlined in our direct evidence.

11 MR. BOB PETERS: And on page 48 --

12 MS. SANDY BAUERLEIN: Also mentioned
13 that Keeyask in our original application, as well,
14 which we also discussed in our direct evidence, the
15 impacts of Keeyask and the associated transmission, so
16 it was -- both were the reasons for the November 30th
17 filing.

18 MR. BOB PETERS: The November 12th
19 letter found that the tab thir -- sorry, tab 3, page
20 30, of Board counsel's book of documents -- that's,
21 Ms. Bauerlein, not talking about Keeyask, is it, or
22 have I missed it?

23 MS. SANDY BAUERLEIN: It doesn't
24 appear -- was in the letter.

25 MR. BOB PETERS: All right. But come

1 time for -- I guess we'll turn to page 38 of Board
2 counsel book of documents also at tab 3, Exhibit PUB-
3 14. This is the November 30 filing that you
4 referenced, Ms. Bauerlein?

5 MS. SANDY BAUERLEIN: That is correct.

6 MR. BOB PETERS: And if we can turn to
7 the tab 5, page 48, of Exhibit 14, what the Board will
8 see in front of them is what Manitoba Hydro's view was
9 when it filed the November 30 rate application,
10 correct?

11 MS. SANDY BAUERLEIN: These were the
12 projected financial statements, correct, at the time
13 of filing.

14 MR. BOB PETERS: You're qualifying
15 your answer, Ms. Bauerlein, to indicate that you've
16 subsequently revised this. Is that -- is that your
17 point?

18 MS. SANDY BAUERLEIN: Correct.

19 MR. BOB PETERS: Okay. So let's stay
20 with this one on November 30, 2018. This was the
21 original filing, correct?

22 MS. SANDY BAUERLEIN: That is correct.

23 MR. BOB PETERS: And if we look at the
24 middle column called "Interim Budget 0.00 Percent,"
25 that is the forecast that Manitoba Hydro was operating

1 under at the time it filed its General Rate
2 Application?

3 MS. SANDY BAUERLEIN: That is correct.

4 MR. BOB PETERS: And it shows the
5 Board that there be a \$28 million loss to the
6 Corporation in the test year of 2019/20.

7 MS. SANDY BAUERLEIN: That is correct.

8 MR. BOB PETERS: On the left-hand
9 column called "Interim Budget 3.5," you're
10 demonstrating to the Board what an injection of
11 3.5 percent would do, correct?

12 MS. SANDY BAUERLEIN: That's correct.

13 MR. BOB PETERS: It would turn the
14 \$28 million loss into a \$31 million profit.

15 MS. SANDY BAUERLEIN: You would have
16 net income, a modest net income, of 31 million.

17 MR. BOB PETERS: A \$31 million profit.

18 MS. SANDY BAUERLEIN: Correct. Net
19 income positive -- positive net income, keeping in
20 mind you've got \$2 billion worth of -- of revenues,
21 and you're only generating a profit of 30 million.

22 MR. BOB PETERS: Manitoba Hydro wanted
23 to go on a rate base rate of return methodology? No?

24 The -- the point -- and we're -- we're
25 not quibbling on this, Ms. Bauerlein -- is the initial

1 motivation was to avoid a loss and turn it into a
2 profit.

3 MS. SANDY BAUERLEIN: That is correct.
4 And we discussed that in our direct evidence that the
5 two drivers were really the loss. And as discussed on
6 page 4 of the application, it was the impacts of
7 Keeyask.

8 MR. BOB PETERS: And we'll come to
9 that. The revenue received as a result of a
10 3.5 percent rate increase is \$59 million on an
11 annualized basis?

12 MS. SANDY BAUERLEIN: Assuming
13 April 1, yes.

14 MR. BOB PETERS: Well, it would be
15 59 million on annualized basis regardless, would it
16 not? On -- on a twelve (12) month basis, it --

17 MS. SANDY BAUERLEIN: On a twelve (12)
18 month basis, correct. But just trying to reflect or
19 ensure the Board understands, that assumes from April
20 1st to March 31st. So for the full fiscal year.

21 MR. BOB PETERS: All right. And what
22 you're alerting the Board to is that that -- in some
23 of the numbers that we're going to see, that
24 \$59 million number shrinks to 50 million because
25 Manitoba Hydro assumes a June 1st readout in --

1 effective date rather than an April 1st effective
2 date.

3 MS. SANDY BAUERLEIN: That is correct.

4 MR. BOB PETERS: All right. Well,
5 we'll get there.

6 But before we do, back on slide 9 that
7 you've referred to, Ms. Bauerlein, of Manitoba Hydro
8 Exhibit 25, the two reasons that Manitoba Hydro cites
9 is the uncertainty in net income, is that uncertainty
10 in net income for the test year?

11 MS. SANDY BAUERLEIN: In filing the
12 rate application, the rate application is for the test
13 year. So yes, there is uncertainty in 2019/20. It's
14 early in the year. There's lots of uncertainty.

15 MR. BOB PETERS: And it doesn't then
16 relate to whatever the net income was going to be in
17 2018/19?

18 MS. SANDY BAUERLEIN: I'm not really
19 sure what your question is there, Mr. Peters.

20 MR. BOB PETERS: The uncertainty in
21 net income, Ms. Bauerlein, relates only to the test
22 year. That's what the Board should take away from
23 this -- from this application?

24 MS. SANDY BAUERLEIN: There's
25 uncertainty every year. But again, the application is

1 for the '19/'20 test year. And as we go further in
2 the year, there becomes more certainty.

3 So for example, even when you look at
4 '18/'19 in our original application versus when we
5 filed our supplement in February, we had a little bit
6 more certainty, a few more months of -- of, you know,
7 knowledge of what our water conditions were, what our
8 weather patterns are.

9 So as you progress through the year,
10 that's where you gain the certainty.

11 MR. BOB PETERS: All right. We'll --
12 we'll certainly catch up to your dates, but perhaps
13 not before lunch.

14 Staying with this November 30 filing,
15 Ms. Bauerlein, that was based on six months of actual
16 data, which would be from April 1 of 2018 to
17 September 30th of 2018?

18 MS. SANDY BAUERLEIN: That is correct.

19 MR. BOB PETERS: And for the balance
20 of the forecast, it was going to assume normal weather
21 and normal water for the balance of the period, the
22 test period?

23 MS. SANDY BAUERLEIN: That is correct.

24 MS. LIZ CARRIERE: Sorry. On the
25 screen, we're looking at Figure 2.9, which is the

1 2019/20 interim budget. There is no actual data
2 included in that. That's a pure forecast for twelve
3 (12) months. I think you're referring to '18/'19?

4 MS. SANDY BAUERLEIN: Sorry. My -- my
5 confusion, as well. I thought you were referring to
6 2018/19 when you talked about the six (6) months worth
7 of actuals.

8 MR. BOB PETERS: All right. Let's
9 stay with -- let's stay with the November 30th
10 application.

11 Back in tab 3 on page 33 of Board
12 counsel's book of documents in the middle of the page,
13 the Board agreed on November 21 to permit Hydro to
14 proceed with a General Rate Application for the test
15 year, even though there was going to be no integrated
16 financial forecast prepared for the hearing, correct?

17 MS. SANDY BAUERLEIN: That's correct.

18 MR. BOB PETERS: And in that same
19 decision by the Board of November 21 of 2018, also on
20 page 33, the Board indicated that Hydro was to provide
21 the most current financial information available.
22 Also correct?

23 MS. LIZ CARRIERE: Yes.

24 MR. BOB PETERS: And furthermore,
25 Hydro bears the onus to prove its rate increase

1 request is just and reasonable. And that's an onus
2 that the Corporation has in any rate application. Do
3 you agree with that?

4 MS. LIZ CARRIERE: That's correct.

5 MR. BOB PETERS: Back to page 48 of
6 Board counsel's book of documents and looking at the
7 projected operating statement, can you indicate who
8 decided that Manitoba Hydro -- that 3.5 percent rate
9 increase -- was just and reasonable?

10 MS. SHAWNA PACHAL: There is a
11 significant amount of discussion on what would be a
12 reasonable rate request in application, based on the
13 fact that we had just come out of a -- a significantly
14 long GRA and that the -- it was looking like there
15 would potentially be a loss, given the current
16 projections at that time on our water.

17 And so we decided that, based on what
18 historically the Board has provided and Exhibit 93,
19 that three point five (3.5) would be in the ballpark
20 of what would be acceptable, based on what had been
21 reviewed in the prior hearing and Exhibit 93, and what
22 would be reasonable to -- to offset the potential loss
23 and build a base for the fact that there were these
24 hundreds of millions of dollars of costs coming onto
25 our -- onto our books as a result of Keeyask.

1 MR. BOB PETERS: And, Ms. Pachal, that
2 request was approved by Manitoba Hydro Electric Board?

3 MS. SHAWNA PACHAL: It was.

4 MR. BOB PETERS: Ms. Pachal, is it
5 fair to characterize it as that the primary motivation
6 at that point in time was when this November 30th
7 application was approved was to avoid a net income
8 loss?

9 MS. SHAWNA PACHAL: No. It was
10 primarily recognizing that Keeyask was tracking more
11 quickly than we thought. It -- they were doing
12 significantly well in terms of the amount of concrete
13 they were pouring. We were starting to get rumblings
14 and indications that Keeyask might come online sooner.
15 We were the -- then we did a financial forecast that
16 showed a loss. And those things all combined.

17 And the recognition of the impacts onto
18 the income statement when Keeyask came into service
19 and when we would have to start identifying that onto
20 our income statement, that all of those things
21 combined said we need to -- we need to look for a rate
22 increase this year. We can't afford to not ask for a
23 rate -- apply for a rate increase in '19/'20.
24 Otherwise, we were going to create significant
25 pressure on our rate -- ratepayers the following

1 years.

2 MR. BOB PETERS: Ms. Pachal, is it
3 correct that Manitoba Hydro and Manitoba Hydro
4 Electric Board have approved integrated financial
5 forecasts that contain financial losses in multiple
6 fiscal years?

7 MS. SHAWNA PACHAL: I don't have
8 first-hand knowledge, but that's my understanding.
9 Yes.

10 MR. BOB PETERS: Ms. Carriere,
11 Ms. Bauerlein, you have first-hand knowledge of
12 perhaps post the IFF 14?

13 MS. LIZ CARRIERE: We -- when you look
14 at that -- the coalition's evidence on page 50, we can
15 see that there is financial losses projected. Those
16 all assume that, you know, they're -- that they're
17 under average conditions.

18 So Manitoba Hydro's concern is with
19 when you have low-water flows that under an already
20 weakened financial position that when you are actually
21 experiencing low-water flows that it's going to
22 further deteriorate the financial position.

23 The other thing to keep in mind is when
24 you look at longer-term forecasts under average flow
25 conditions and those forecast project 3 and a half

1 or -- or more percent rate increases that those rate
2 increases, in order to maintain that -- those average
3 financial results, that you have to continue to
4 implement those 3 and a half percent rate increases.
5 We can't just implement rate increases in -- in bad
6 years. We also have to do it in good years in -- in
7 order to take that -- those into consideration.

8 The other thing is that Keeyask is
9 simply moving closer. We have a very small window
10 now, between eighteen (18) and twenty-eight (28)
11 months, where we can put rate increases into effect to
12 smooth out rate increases for -- for customers. So
13 it's the urgency of -- of Keeyask coming online that
14 has contributed to -- to the rate request.

15 MR. BOB PETERS: Thank you,
16 Ms. Carriere. Can the Board take from that answer, as
17 well page 50 of the coalition -- I believe it's
18 Exhibit 7-1 of their evidence -- that following the
19 in-service of multibillion-dollar capital expansions,
20 it's not unusual for there to be losses in the net
21 income column?

22 MS. LIZ CARRIERE: There is potential
23 for losses to be incurred, but again, that's under
24 average water flow conditions. And when you combine
25 that with the concerns that are being expressed by

1 credit rating agencies, it makes sense to plan for a
2 reasonable level of income in the very near future.

3 When I think of a household budget, it
4 doesn't make sense to plan your household
5 expenditures, based on simply breaking even when you
6 could have an emergency that comes up and you're going
7 to have to cover that.

8 So that's a concern with Hydro is that
9 all of these forecasts are under average flows, and we
10 need to prudently plan for a reasonable level of net
11 income.

12 MR. BOB PETERS: The reason that there
13 are losses following the in-service of multibillion-
14 dollar projects is because Mr. Epp had told us that
15 that's when the associated costs that had been
16 previously capitalized need to now then be reflected
17 on the income statement, correct?

18 MS. LIZ CARRIERE: That's correct.

19 MR. BOB PETERS: And, Ms. Carriere, I
20 think you said it's not unusual for losses to result
21 following the in-service of multibillion-dollar
22 assets, but you qualified it to say that under average
23 conditions.

24 MS. LIZ CARRIERE: That's correct.

25 MR. BOB PETERS: And that's -- the IFF

1 plans for average conditions.

2 MS. LIZ CARRIERE: The IFF does plan
3 for average conditions, yes.

4 I'd just like to add that those --
5 those rate increases under average -- are under
6 average conditions. If -- if you have a low flow, we
7 might adjust for that in closer to the year or -- or
8 slightly thereafter.

9 MR. BOB PETERS: What you're saying to
10 the Board is that if the water conditions aren't
11 average, that may give the Corporation a reason for
12 seeking additional regulatory relief.

13 MS. LIZ CARRIERE: That's correct.

14 MR. BOB PETERS: If we follow through
15 the applications that Manitoba Hydro has made on
16 November the 14th -- sorry, on February the 14th,
17 Manitoba Hydro provided the Board with some more
18 updated information, correct?

19 MS. SANDY BAUERLEIN: That is correct.

20 MR. BOB PETERS: And that was in
21 response to the Board's request to be kept current and
22 provide as much current information as possible?

23 MS. SANDY BAUERLEIN: That is correct.

24 MR. BOB PETERS: And that
25 February 14th, 2019 update was an updated budget that

1 was approved by Manitoba Hydro's Board of Directors?

2 MS. SANDY BAUERLEIN: That is correct.

3 MR. BOB PETERS: And at that point in
4 time, both the 2018/19 fiscal year and the 2019/20
5 fiscal year were showing financial improvement.

6 MS. SANDY BAUERLEIN: That is correct,
7 primarily results of the change in the water
8 conditions.

9 MR. BOB PETERS: And on February 14th
10 of 2019, Manitoba Hydro was in its previous fiscal
11 year of 2018/19, correct?

12 MS. SANDY BAUERLEIN: That is correct.

13 MR. BOB PETERS: And on November 30th,
14 the net income was forecast at 51 million, and it
15 turned out -- if we turn to page 44 of Board counsel's
16 book of documents, we see in the top under 2018/19 on
17 November 30th, which is the date of this document,
18 Manitoba Hydro was forecasting a \$51 million net
19 income?

20 MS. SANDY BAUERLEIN: That is correct,
21 yes.

22 MR. BOB PETERS: And turning the page,
23 we see at the bottom of the February 14th update that
24 for 2018/19, there has been a \$44 million improvement
25 up to a \$95 million forecast or projected net income

1 for the 2018/19 test year, correct?

2 MS. SANDY BAUERLEIN: That is correct,
3 which just re-emphasizes again Mr. Cormie's comments
4 earlier today about the dramatic swings that we can
5 have in water conditions.

6 MR. BOB PETERS: All right. We'll
7 come to that.

8 Before we do in terms of the test year
9 update, if we go back to page 44, we see that for the
10 2019/20 test year, the Corporation and its application
11 was projecting \$31 million positive of net income,
12 correct?

13 MS. SANDY BAUERLEIN: The 31 million,
14 including the 3.5 percent.

15 MR. BOB PETERS: Right. And if there
16 was no 3.5 percent, it was going to be a negative
17 28 million.

18 MS. SANDY BAUERLEIN: That is correct.

19 MR. BOB PETERS: So the 3.5 percent
20 brought in that \$59 million and brought it up to a
21 positive net income number of 31 million.

22 MS. SANDY BAUERLEIN: That is correct.

23 MR. BOB PETERS: And then the February
24 update -- if we turn the page to page 45 of Board
25 counsel's Exhibit 14 -- and still assuming that

1 there's a 3 and a half percent rate increase, Manitoba
2 Hydro forecasts that they would have as much as
3 \$115 million of net income for the test year that's
4 under review today.

5 MS. SANDY BAUERLEIN: Yes. We are
6 projecting \$115 million of net income, based on -- on,
7 you know, where the water position was and our opening
8 storage levels. But again, as discussed, that can
9 change, given that we have a fair amount of
10 precipitation still between the months of May to
11 October. And I believe Mr. Cormie said that's, you
12 know, 80 percent of our -- our water flow.

13 MR. BOB PETERS: Without that 3 1/2
14 percent increase that's imbedded on the -- in the \$115
15 million, that 115 million drops down to 64 million.

16 Correct, Ms. Bauerlein?

17 MS. SANDY BAUERLEIN: That is correct.

18 MR. BOB PETERS: So with no rate
19 increase, the Corporation would expect \$64 million,
20 but with the rate increase, it'd be up to 115 million?

21 MS. SANDY BAUERLEIN: Assuming, again,
22 those average water flow conditions and the other
23 assumptions that are -- they're built in there, like
24 normal weather conditions.

25 MR. BOB PETERS: Now, leaving aside

1 the 3 1/2 percent rate increase request,
2 Ms. Bauerlein, there's been a \$92 million improvement
3 from the negative 28 million to the
4 positive 64 million dollars of net income that would
5 result without any rate increases.

6 Do you agree?

7 MS. SANDY BAUERLEIN: Correct. And
8 again, that's driven primarily by water flow.

9 MR. BOB PETERS: And so if we turn to
10 page 49 of Board counsel's Book of Documents, this is
11 the current view of Manitoba Hydro for the financial
12 results in the test year of 2019/20, as we're sitting
13 here today.

14 MS. SANDY BAUERLEIN: Can you repeat
15 the question?

16 MR. BOB PETERS: I'll rephrase it.
17 Looking on page 49, the middle column, with zero --
18 approved budget zero percent rate increase, this
19 reflects the February 14th update, assuming a
20 zero percent rate increase from this Board and
21 Manitoba Hydro would have \$64 million of net income.

22 MS. SANDY BAUERLEIN: That would be
23 correct.

24 MR. BOB PETERS: On the left column
25 called "Approved Budget 3.5 Percent," shows that with

1 the 3.5 percent rate increase, the net income rises to
2 \$115 million, correct?

3 MS. SANDY BAUERLEIN: Correct. Again,
4 both have the assumptions of the -- the water flow
5 conditions being average for the remainder.

6 MR. BOB PETERS: I take it from -- and
7 your qualification of your last several answers,
8 Ms. Bauerlein, is that Manitoba Hydro is in better
9 shape now than they were on November 30th, but there
10 could still be a drought. That's --

11 MS. SANDY BAUERLEIN: I don't know if
12 I characterize it as a drought, but I -- yes, things
13 have improved. But we're just saying that there is
14 also a risk that things can worsen. There's still
15 many months left.

16 And it was really evident last year.
17 You know, as we started, Mr. Cormie showed you the
18 '18/'19 in his direct. We started with above average
19 conditions, and by the end of August, we were below
20 average.

21 So I mean, those months can be -- these
22 next, you know, few months can be extremely critical
23 for us. And that's the point, I think, we're trying
24 to make with the Board.

25 MR. BOB PETERS: But when -- we'll

1 maybe leave it on this point before lunch recess,
2 Mr. Chair.

3 On tab -- or sorry -- on page 9 of
4 Manitoba Hydro Exhibit 25, we -- we get to the reasons
5 for the application. And we've talked in the last
6 half hour about the uncertainty of net income for the
7 test year.

8 Correct, Ms. Bauerlein?

9 MS. SANDY BAUERLEIN: Correct.

10 MR. BOB PETERS: And we will talk a
11 little bit more about that after lunch. But the
12 impacts of Keeyask in service, it is agreed that it
13 will be -- they will not be in service in the test
14 year.

15 MS. SANDY BAUERLEIN: Correct.
16 Keeyask gets -- will not be in service in the test
17 year. It's highly unlikely.

18 MR. BOB PETERS: All right. With
19 that, Mr. Chair, I do prepare to resume right after
20 the -- the lunch recess the Board wants to take.

21 THE CHAIRPERSON: Thank you. We'll
22 break until 1:00. Thank you.

23

24 --- Upon recessing at 12:03 p.m.

25 --- Upon resuming at 1:04 p.m.

1 THE CHAIRPERSON: Well, if we can
2 resume, as my wife would say -- we had three (3)
3 teenage boys -- well, it's good to see that you've all
4 eaten. So, Mr. Peters?

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: Thank you. Just tidy
8 up a few matters from this morning. Back to slide 9
9 of Manitoba Hydro's Exhibit number 25 was the reasons
10 -- the two (2) reasons for the rate application. The
11 first was the uncertainty in net income.

12 We left off on that, Ms. Carriere, Ms.
13 Bauerlein, Ms. Pachal, before lunch, and we had also
14 reviewed the effects of the rate increases. And it's
15 acknowledged by Manitoba Hydro that the November 30th
16 rate filing would bring Manitoba Hydro from a negative
17 28 million to a positive 31 million of net income,
18 correct?

19 MS. SANDY BAUERLEIN: That is correct.

20 MR. BOB PETERS: And, Ms. Pachal, that
21 -- that was acceptable to the Corporation at that time
22 to alleviate the uncertainty in net income?

23 MS. SHAWNA PACHAL: Well, as I
24 explained before, it was a combination of recognizing
25 that we were going to potentially have a loss,

1 recognizing about -- the whole issues that we've --
2 we've spoken to the extensively already this morning
3 with regards to the water. So the -- it -- it was the
4 acknowledgment of that combined with the fact that we
5 understood that Keeyask was tracking more quickly, and
6 was likely going to come into service in October 2020.

7 And if we didn't have an increase in
8 '19/'20, there would be a significant -- significant
9 loss in the -- in the following years that would
10 potentially require significantly large rate increases
11 to -- to deal with.

12 MR. BOB PETERS: So --

13 MS. SHAWNA PACHAL: And so we felt a -
14 - a responsibility to come forward and display all
15 that information out for the -- the PUB to consider
16 how they would want to handle that, given that -- that
17 situation.

18 MS. LIZ CARRIERE: I just -- I'd like
19 to add that a net income level of 31 million doesn't
20 provide a -- a level of comfort to the Corporation,
21 given that, you know, we have this -- this
22 uncertainty, and the risk that you're going to further
23 -- further deteriorate net income. Even 64 or 115
24 million doesn't provide a great level of comfort,
25 because as we had seen, these levels of income don't

1 really move the needle on -- on financial ratios and
2 things like that, but it is a -- it -- it's a step
3 towards making those improvements.

4 And at the time that we filed -- we
5 filed the -- the November -- November 30th
6 application, we really felt that three and a half (3
7 1/2) was probably at the maximum of what we could ask
8 for, given the, you know, the urgency of -- or the
9 expedited nature of -- of the process that we had
10 requested.

11 MR. BOB PETERS: So Manitoba Hydro
12 wanted to ask for more than three point five (3.5),
13 Ms. Carriere?

14 MS. LIZ CARRIERE: We wouldn't want to
15 ask for more than three and a half (3 1/2), but we do
16 -- would like to see higher levels of net income.

17 MR. BOB PETERS: And the only certain
18 way to do that, according to Manitoba Hydro, is
19 through rate increases?

20 MS. LIZ CARRIERE: It's one (1) of the
21 ways, but it's -- it's one (1) of the most impactful
22 ways. We've seen that, you know, we've reduced our
23 operating costs significantly over the last couple of
24 years, and it is one (1) of the -- the most impactful
25 ways we can -- we can address this -- this growing

1 debt and -- and finance expense.

2 MR. BOB PETERS: All of which is to
3 say that even with the new February 14th information,
4 the \$64 million isn't enough under that metric, then,
5 Ms. Carriere?

6 MS. LIZ CARRIERE: That's right. You
7 can see that financial targets are still well below
8 our -- our target levels, but the \$50 million in -- in
9 additional revenue works its magic over time through
10 compounding, and helps to offset those costs.

11 MR. BOB PETERS: And that compounding
12 over time, Ms. Carriere, has the inverse effect of
13 compounding the consumer's payment of that money year
14 after year after year, correct?

15

16 (BRIEF PAUSE)

17

18 MS. LIZ CARRIERE: Can you rephrase
19 that?

20 MR. BOB PETERS: Probably. While
21 Manitoba Hydro receives the additional revenue, the
22 consumers have to keep paying that additional revenue
23 year after year?

24 MS. LIZ CARRIERE: Well, it's
25 offsetting financing costs that if -- if you had to go

1 out and borrow, those financing costs would be
2 compounding over time. So it's offsetting those
3 costs.

4 MR. BOB PETERS: My -- no, my point
5 was somebody's paying that -- the amount of that rate
6 increase every year? Once it's -- let me ask it this
7 way, and Ms. Bauerlein -- and Ms. Carriere, once the
8 rate increase is embedded in Manitoba Hydro's rate
9 structure, the consumers pay it every month?

10 MS. LIZ CARRIERE: That's correct.

11 MR. BOB PETERS: And so while Manitoba
12 Hydro says there's a long-term benefit, from the
13 consumer's perspective, there's a long-term cost?

14 MS. LIZ CARRIERE: There's a long-term
15 cost, but the customer is paying for the service that
16 it gets.

17 MS. SANDY BAUERLEIN: The point in the
18 direct evidence was it's -- it's avoiding having to
19 borrow. We showed in our direct evidence that you
20 would have nine hundred (900) -- without that rate
21 increase, there's a loss in earnings of \$900 million.
22 So that means the Corporation is borrowing that \$900
23 million, and placing the risk of that borrowing onto
24 the ratepayer, because then we're adding to our debt
25 levels, we're adding to our refinancing risk.

1 MR. BOB PETERS: And the level of
2 comfort that Manitoba Hydro would have in terms of the
3 net income would -- would be somewhere around the 18
4 percent rate increase level which would be needed to
5 remove that -- the risk that Manitoba Hydro sees? I'm
6 not suggesting Manitoba Hydro would go that far, but
7 that's the number that you advanced this morning?

8 MS. LIZ CARRIERE: Now over -- over a
9 period of -- of the next two (2) to three (3) years,
10 that would -- would offset any potential net carrying
11 costs that Keeyask coming online would bring into
12 revenue requirement.

13 MR. BOB PETERS: Ms. Pachal, in terms
14 of the corporate strategic planning that the
15 Corporation is doing, is included in that ratepayer
16 consultations?

17 MS. SHAWNA PACHAL: There's definitely
18 a component of the corporate strategic planning that
19 has stakeholder consultations included in that. We've
20 just begun to create the list and have discussions of
21 which groups of stakeholders we would consult with in
22 what way. Deloitte's the firm that is doing the
23 strategic planning with Manitoba Hydro, and we're just
24 in the process of working with them on timing and
25 process for accessing though -- the various

1 stakeholder groups.

2 MR. BOB PETERS: So no decision has
3 been made yet as to...

4 MS. SHAWNA PACHAL: A final decision
5 hasn't been made in -- in terms of which groups, no.

6 MR. BOB PETERS: Last point to clear
7 up from this morning, Mr. Epp, when you and I were
8 talking about page 6 of Board counsel's book of
9 documents, we saw some of the -- the line items under
10 a typical integrated financial forecast. Do you
11 recall that?

12 MR. GREG EPP: Yes, I do.

13 MR. BOB PETERS: One (1) of the items
14 you explained to the Board was the finance expense
15 row, correct?

16 MR. GREG EPP: That's correct.

17 MR. BOB PETERS: And this finance
18 expense -- my recollection of your evidence was that
19 it reflects the interest payments that have to be made
20 by Manitoba Hydro on the debt for in-service capital
21 assets?

22 MR. GREG EPP: Yeah. It's the accrued
23 interest expense, right? This is the income
24 statement. It's based on an accrual basis. It's --
25 it's not the cash, it's the accrual, the accrued

1 interest on that. So it's the gross interest accrued
2 less the capitalized interest on the projects that are
3 not in service.

4 MR. BOB PETERS: And that gross
5 interest accrued would include the provincial debt
6 guarantee fee?

7 MR. GREG EPP: That is correct.

8 MR. BOB PETERS: It's on the same
9 line?

10 MR. GREG EPP: That is correct.

11 MR. BOB PETERS: What is the order of
12 magnitude of the provincial debt guarantee fee that's
13 embedded in the finance expense line?

14 MR. GREG EPP: In what year, sir?

15 MR. BOB PETERS: Well, let's take the
16 test year, 2020.

17 MR. GREG EPP: It's in the \$200
18 million range.

19 MR. BOB PETERS: Thank you. Before we
20 turn back to the test year, let's try to quickly walk
21 through the -- the year that ended March 31, 2018/19
22 of Manitoba Hydro. That year has now closed, has it,
23 Ms. Bauerlein?

24 MS. SANDY BAUERLEIN: The year is
25 finished, but we have not yet closed the books. There

1 are still final entries being made.

2 MR. BOB PETERS: What does that mean,
3 final entries?

4 MS. SANDY BAUERLEIN: So at year-end,
5 there's a lot of things that we need to look at in
6 terms of truing up. Examples would be our calculation
7 of how much our bad debt allowance needs to be,
8 mitigation liabilities versus what we book as
9 provisions.

10 So there's a number -- and I could go
11 on. There's a number of things that we look at at
12 year-end, and decide, and reflect how they -- they
13 need to be reflected in the financial statements of
14 the Corporation.

15 MR. BOB PETERS: All right. But those
16 are adjustments made once the revenues and expense
17 line books have been closed?

18 MS. SANDY BAUERLEIN: Well, they are
19 expenses. So, for example, when you true-up your
20 allowance, the offsetting entry is to bad debt
21 expense, which hits O&A. So they usually have an
22 expense impact to them, and there may be entries, too,
23 that impact the revenue side of the equation. So they
24 always impact the revenue and expenses.

25 MR. BOB PETERS: And how long do these

1 true-ups typically take?

2 MS. SANDY BAUERLEIN: We're in the
3 process of just finalizing those, and then in the
4 month of May, we will have auditors come in and be
5 reviewing. And as a result, sometimes there are
6 adjustments -- further adjustments to that.

7 MR. BOB PETERS: Would it be fair to
8 say that these adjustments are relatively minor?

9 MS. SANDY BAUERLEIN: They can vary.
10 It -- it really just depends.

11 MR. BOB PETERS: What's the largest
12 adjustment you recall in the last few years of
13 auditors making?

14 MS. SANDY BAUERLEIN: I can't recall
15 the amount, but it was -- it did not impact the
16 revenue and expense line. It was -- it impacted the
17 balance sheet, but it was for I believe a few million
18 --several million dollars. I'd have to go back and
19 look, actually.

20 MR. BOB PETERS: No, I'm -- I won't
21 ask for that, but it's common ground, and I think it
22 was a little clumsy, maybe, on my part, mostly before
23 the lunch break that the November 30th 2018 GRA filing
24 used data up to September 30th of 2018 for the 2018/19
25 year, plus assumed averages for the -- for the

1 balance, correct?

2 MS. SANDY BAUERLEIN: That is correct.
3 The November 30th filing had actuals up to September
4 30th.

5 MR. BOB PETERS: It had six (6) months
6 actual, six (6) months forecast?

7 MS. SANDY BAUERLEIN: Correct.

8 MR. BOB PETERS: And that yielded a
9 \$51 million profit, as we had discussed before lunch,
10 and we saw that on one (1) of slides in Board
11 counsel's book of documents?

12 MS. SANDY BAUERLEIN: Correct, 51
13 million net income.

14 MR. BOB PETERS: That's right. And on
15 February 14th, Manitoba Hydro was to up -- they
16 updated their material using nine (9) months of actual
17 and three (3) months of forecast, correct?

18 MS. SANDY BAUERLEIN: That is correct
19 --

20 MR. BOB PETERS: And --

21 MS. SANDY BAUERLEIN: -- corporate
22 actuals to the end of December.

23 MR. BOB PETERS: And the assumed nor -
24 - normal weather and average waters for the hundred
25 and twenty (120) day balance of the 2018/19 fiscal

1 year?

2 MS. SANDY BAUERLEIN: Right. But
3 keeping in mind that water flow conditions are less
4 impactful for those three (3) months, it's -- it's the
5 melt-off of the snow that feeds into the next water
6 year, but at this point, you've actually got most of
7 your water flow by December, right? You're looking at
8 now snowfall accumulation, and then impact will be the
9 melt of that snowfall.

10 MR. BOB PETERS: All right. I think
11 Mr. Cormie's going to show us that in a few minutes.
12 But the profit forecast for 2018/19 then essentially
13 doubled from 51 million to 95 million as a result of
14 that additional February 14th update?

15 MS. SANDY BAUERLEIN: Correct, based
16 on the improved water flow conditions pri -- in pri --
17 in the months of, really, September -- all through
18 September, and October, and November.

19 MR. BOB PETERS: And that \$95 million
20 profit for the 2018/19 fiscal year is still, as you
21 sit here today, a forecast, correct?

22 MS. SANDY BAUERLEIN: It was an
23 outlook of where we expected to be. And again, I
24 mean, there's still a few entries being made. We have
25 to go through the entire audit process over the, you

1 know, primarily in the month of May, we will be going
2 to our audit committee at the end of June, but I can
3 say that we're tracking, too, that \$95 million.

4 MR. BOB PETERS: I'll come back to
5 that, but does Manitoba Hydro acknowledge that the
6 last three (3) months of its 2018/19 fiscal year were
7 colder than the statistical normal?

8 MS. SANDY BAUERLEIN: Yes. All three
9 (3) months had colder weather. But you can see if you
10 looked at our results, even in January and February,
11 there was offsets in usage. So we may have -- we --
12 we actually look at our domestic revenue in terms of
13 what's driven by weather versus what's driven by
14 normal usage.

15 And so, yes, there were positive
16 weather impacts, but as I said, we're -- we're coming
17 to the year, and I can tell you that we're -- we're
18 still tracking towards that -- that \$95 million,
19 because there's always puts and takes.

20 MR. BOB PETERS: I didn't follow.
21 Even though it was colder than normal, that in and of
22 itself would suggest that Manitoba Hydro's net income
23 would be higher than normal, correct?

24 MS. SANDY BAUERLEIN: It can be, but
25 again, there's puts and takes. So you'll have higher

1 consumption usage -- or not use -- I'm not going to
2 use the word 'usage', because there's -- we use them
3 differently at Manitoba Hydro.

4 So you'll have higher consumption as a
5 result of weather, but you have other behaviours in
6 terms of how much usage you have of your electricity
7 that's independent of weather. So your use of your
8 television, your -- your turning on your lights, your
9 computer, your refrigerators, your -- everything else
10 that uses electricity that is independent of weather.

11 So we have sometimes situations where
12 we have offsets in -- in usage factors that, in some
13 cases, many cases, we can't predict or -- or fully
14 understand, because it's consumer behaviour.

15 MR. BOB PETERS: I'm still missing
16 your point, and I apologize to the Board.

17 MS. SANDY BAUERLEIN: So my point is,
18 is that while you may have higher net income, but you
19 think you're going to have higher net income because
20 it was colder, there will be offsets to that, or there
21 can be offsets to that.

22 MR. BOB PETERS: And Manitoba Hydro is
23 now in the process of determining whether there are
24 offsets to that?

25 MS. SANDY BAUERLEIN: Correct, and I'm

1 letting you know that we're tracking to that \$95
2 million.

3

4

(BRIEF PAUSE)

5

6 MR. BOB PETERS: Mr. Cormie, on slide
7 11 of Manitoba Hydro's Exhibit 25, we can see the --
8 we can see, just as an example, what has happened --
9 actually, I think it's slide 12 might be the better
10 slide; I apologize -- that what's happened in January,
11 February, and March -- and these are the months that
12 Ms. Bauerlein said that the Corporation doesn't expect
13 the water flows to have a great variation, because
14 that's the winter months, correct?

15 MR. DAVID CORMIE: That's correct.

16 MR. BOB PETERS: And that's what this
17 slide in front of you on the screen is showing, Mr.
18 Cormie, that's from slide 12 of your deck?

19 MR. DAVID CORMIE: Yes. What you see
20 in the chart is the -- the red, and the blue line, and
21 the black line are all relatively the same on the Red
22 River in the wintertime, because it just reflects the
23 base flow that's in the river. It doesn't really
24 matter how much snow is occurring on the basin. The -
25 - that snow stays up in the -- if you -- whether you

1 have a little snow or a lot of snow, it just sits on
2 the ground, and it doesn't flow into the river in the
3 winter. But -- so you get the very stable conditions.

4 What happens is when it starts to melt,
5 though, you end up having -- you end up seeing seen
6 the effects of a -- a lot of snow, or a little snow,
7 in how high the -- the initial rise is in the runoff.

8 MR. BOB PETERS: And while slide 12
9 focuses on the Red River, Mr. Cormie, is it correct
10 that from your assessment of the entire system, it's
11 relatively tracking the same way in terms of average?

12 MR. DAVID CORMIE: Well, if you go
13 back to the previous slide you can see that.

14 MR. BOB PETERS: Well, I see the --

15 MR. DAVID CORMIE: For -- for the --
16 the blue line and the black line, for the period of,
17 say, the 1st February of 2019 to the end of March,
18 they're about the same at -- on the extreme right-hand
19 side of the graph.

20 And then as you come into the spring of
21 2019, April, that's the red line on the extreme left
22 side of the graph, and you can see the left side, in
23 that case, it's -- it's just slightly higher than the
24 black line. The -- the red line is -- slight -- so
25 we're -- for the -- for the first couple of weeks of

1 April, inflows for the system as a whole were -- were
2 slightly better than average.

3 MR. BOB PETERS: When I look at the
4 top chart on that page, Mr. Cormie, and I go down to
5 approximately December 30th, which is what I
6 understand to be the end of the nine (9) months of
7 data that was used for the February 14th materials,
8 the next three (3) months of it, it's average or
9 slightly above average. Is that -- is that a fair
10 assessment?

11 MR. DAVID CORMIE: Yes, I agree with
12 that. Yes.

13 MR. BOB PETERS: All right. Does that
14 translate in Manitoba Hydro being able to increase its
15 export sales?

16 MR. DAVID CORMIE: We would have been
17 able to predict that, Mr. Peters. We would -- we --
18 we would predict a return to average over the winter,
19 and that would have resulted in -- in more water
20 flowing into the reservoirs.

21 It may not result in any more Hydro
22 generation, because we cannot increase the outflows
23 from Lake Winnipeg higher than the maximum that's
24 possible, and we were at maximum discharge. So it
25 would just have resulted in higher end of winter

1 levels in reservoir storage.

2 MR. BOB PETERS: All right. Mr.
3 Cormie, while I have you, and still focussing on the
4 2018/19 fiscal year, the extra-provincial revenues
5 that were forecast initially in the November 30th
6 filing were based on export forecasts that were then
7 twelve (12) months old?

8

9 (BRIEF PAUSE)

10

11 MR. DAVID CORMIE: So the '18/'19
12 forecast that was updated in the fall reflected the
13 actuals for six (6) months, and a forecast of six
14 months based on a forecast of -- of the water supply.

15 MR. BOB PETERS: All right. But the
16 export prices themselves as opposed to what you'd be
17 able to move by volume, were those export prices from
18 the fall of 2017?

19 MR. DAVID CORMIE: No. In the short
20 term, we -- we update the export price forecast every
21 month based on the price forecast we get in the short
22 term, so there -- every time we -- every time we
23 update the forecast, we get a -- we -- we update the
24 water supply forecast and we update the export price
25 forecast based on current market conditions.

1 MR. BOB PETERS: All right. While I'm
2 not sure I can relate that to the November 30th
3 filing, Mr. Cormie, is it correct that the original
4 November 30th filing used export price forecast which
5 was down 6 or 7 percent from the spring of 2017?

6 MR. GREG EPP: That would be in the
7 test year, Mr. Peters, '19/'20, not in '18/'19.
8 '18/'19 is an outlook, and it always uses short-term
9 price forecasts, like Mr. Cormie said.

10 MR. BOB PETERS: And that answer, Mr.
11 Epp, applied to the previous question, then, that for
12 the -- for the test year, not the preceding year, the
13 extra-provincial revenues were forecast based on
14 export prices that were from the fall of 2017?

15 MR. GREG EPP: That's correct.

16 MR. BOB PETERS: All right. I
17 appreciate the correction. Thank you.

18 In terms of Manitoba Hydro's update of
19 the short-term export prices, that occurs monthly? Is
20 that what I understand?

21 MR. GREG EPP: That is correct.

22 MR. BOB PETERS: And can you indicate
23 to this Board how do those prices compare to what
24 Hydro used in the interim budget, unless that's
25 subject to CSI.

1 MR. GREG EPP: Yes, it is.

2 MR. BOB PETERS: It is? So whether --
3 sorry, I -- and I'm not going to push this on the
4 public record, Mr. Epp, and I apologize if -- if I'm
5 getting close to that.

6 MR. GREG EPP: Do you want
7 directionally?

8 MR. BOB PETERS: I think it's better
9 for all the participants that if you are allowed to
10 put directionally whether it was higher or lower, and
11 whether or not -- I think what you're saying is, you
12 cannot give a number as to how many percent higher or
13 how many percent lower.

14 MR. GREG EPP: That's correct.

15 MR. BOB PETERS: All right. Do you
16 want to just take a minute with your counsel and just
17 make sure -- I would ask for a direction so that all
18 parties are aware.

19

20 (BRIEF PAUSE)

21

22 MR. GREG EPP: Mr. Peters, the on-peak
23 price was almost unchanged, and the off-peak price was
24 slightly lower.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Thank you, sir.

4

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: When does Manitoba
9 Hydro, Ms. Pachal, publish and publicly announce its
10 profits for the fiscal year of 2018/19?

11 MS. SHAWNA PACHAL: August. August.

12

13 (BRIEF PAUSE)

14

15 MS. SHAWNA PACHAL: And I think you --
16 you keep referring to profits. I think we would be --
17 we would be presenting our financial information for
18 the year, not necessarily profit.

19 MR. BOB PETERS: Okay. Fair comment.
20 And as we sit here today, you're expecting there to be
21 a positive net income?

22 MS. SHAWNA PACHAL: Yes.

23 MR. BOB PETERS: Thank you.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: Ms. Bauerlein, from
2 your previous answers to me, you're telling this Board
3 that you don't expect Manitoba Hydro's net income for
4 the fiscal year that ended three (3) weeks ago to be
5 materially different from what you've presented today?

6 MS. SANDY BAUERLEIN: That would be a
7 fair statement.

8 MR. BOB PETERS: Recognizing
9 materiality may mean different things to different
10 people, are you able to put a -- a range on
11 materiality?

12

13 (BRIEF PAUSE)

14

15 MS. SANDY BAUERLEIN: I think given
16 our -- our -- you know, we're still making a few final
17 entries, our auditors still have to review it. I
18 mean, I've indicated that we are tracking -- currently
19 tracking to that, but to -- put a -- a range, I'm --
20 I'm not quite comfortable doing right now, given that
21 we don't publicly, you know, provide this information
22 until after it's gone through an audit, gone through
23 our -- on audit committee of the Board in our own
24 board.

25 MR. BOB PETERS: Thank you, Ms.

1 Bauerlein. If in tracking towards Manitoba Hydro's
2 current view of the net income for the 2018/19 year,
3 there is what Manitoba Hydro considers a material
4 change, is Manitoba Hydro prepared to advise this
5 Board of there being a material change?

6

7 (BRIEF PAUSE)

8

9 MS. ODETTE FERNANDES: If there is a
10 material change prior to the end of this process
11 before the Board, we'd have to maybe take that under
12 advisement and discuss whether we could provide that
13 in confidence to the Board.

14 MR. BOB PETERS: All right. I -- I
15 wasn't searching for the exact dollar amount when I
16 was saying that, but if -- if the Board is proceeding,
17 that it's tracking towards a number that's been
18 provided, and there is a material change in that, is
19 Manitoba Hydro prepared to at least alert the Board
20 that there has been a material change?

21 MS. SHAWNA PACHAL: Absolutely we are
22 --

23 MR. BOB PETERS: All right.

24 MS. SHAWNA PACHAL: -- prepared to do
25 that.

1 MR. BOB PETERS: And, Ms. Pachal, that
2 would just simply be alerting the Board that there has
3 been a material change without disclosing what
4 necessary the number would be, or are you then
5 prepared to disclose what the number is expected then
6 to be?

7 MS. SHAWNA PACHAL: That I'd have to
8 take under advisement, but we would definitely alert
9 you to the fact that there would be a material change.

10 MR. BOB PETERS: All right.

11 THE CHAIRPERSON: I just want to
12 clarify the timeframe. Mr. Peters, are you talking
13 about between now and the time that this hearing ends?

14 MR. BOB PETERS: I would -- I'm sorry.
15 I didn't hear the question.

16 THE CHAIRPERSON: What timeframe are
17 you talking about?

18 MR. BOB PETERS: Well, I'm -- Mr.
19 Chairman, I hadn't quite finished the questioning,
20 because I understood the answer was that this
21 information is generally provided early August or in
22 August of 20 -- 2019, and I wanted to find out if
23 Manitoba Hydro was prepared to wait until after
24 releases its financial statements for this Board to
25 then release its rate decision.

1 MS. SHAWNA PACHAL: That -- that would
2 not be acceptable to Manitoba Hydro. We would leave
3 our application in front of you as it stands for
4 looking for a rate increase effective June 1st.

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: And if, Ms. Pachal,
8 that a factor in that rate decision is what the net
9 income of the Corporation is in the 2018/19 fiscal
10 year -- and I'm not saying that is a factor, but if it
11 was a factor to the Board, how would they then be able
12 to issue a decision without having an understanding of
13 what that number would be?

14 MS. SHAWNA PACHAL: Well, it's
15 perfectly reasonable that you'd want to have a good
16 understanding of where -- what '18/'19 looks like
17 before you make a decision for '19/'20, and that seems
18 perfectly reasonable to me. And our controllers
19 advise you that we're tracking to 95, the 95 million,
20 and beyond that, we can't -- and we don't anticipate
21 anything material.

22 But we're not comfortable prior to our
23 auditors, and taking it to our board, and to our
24 owner, and finalizing all that. But if there was
25 something material to change in the next number of

1 weeks before the Board provides their -- their order,
2 then we would certainly alert you to that, but we're
3 not anticipating something material.

4 MR. BOB PETERS: All right. Thank you
5 for that, Ms. Pachal. I think that answered my
6 question. I think it also incorporated an answer to
7 the Chairman's question.

8 I'd like to turn, if I could, to tab 7
9 and page 63 of the PUB Exhibit 14.

10 Am I correct in understanding that on
11 November 30th, when Manitoba Hydro filed its GRA,
12 there was a 50 percent chance Manitoba Hydro's water
13 flows would result in a loss, and 50 percent chance
14 that Manitoba Hydro's water flows would yield a -- a
15 positive net income for the 2008 -- '19/'20 test year?

16 MR. GREG EPP: That is correct.

17 MR. BOB PETERS: And...

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: We see that do we,
22 Mr. Epp, on this page 63 chart that's in front of you,
23 by looking at the red line that is Manitoba Hydro's
24 net income at a zero percent rate increase?

25 MR. GREG EPP: That's correct. That

1 red line, just to clarify for -- for the Board, is a
2 hundred and five (105) data points of all possible net
3 incomes under all flow cases, assuming average energy
4 and storage at the beginning of the year.

5 MR. BOB PETERS: And we are about
6 average energy and storage, if I understood some of
7 Mr. Cormie's evidence. Is -- is that correct?

8 MR. DAVID CORMIE: Yes, we're close
9 enough to the forecast.

10 MR. BOB PETERS: That is close enough
11 to average, which is the forecast, Mr. Cormie?

12

13 (BRIEF PAUSE)

14

15 MR. GREG EPP: Just to be clear, this
16 -- this graph here was produced in PUB/MH-1-29, the
17 original one, and this is not based on the -- on the
18 latest stuff -- on the latest material that -- that
19 the Board is before them. This assumed average, and
20 the update had slightly above average to be in the
21 year.

22 MR. BOB PETERS: All right. I
23 appreciate that. And we're going to turn the page as
24 we speak, Mr. Epp, and you can -- let's look at page
25 64, because this is the information that is -- that

1 you just referred to as being the updated information,
2 correct?

3 MR. GREG EPP: That is correct.

4 MR. BOB PETERS: So let's explain to
5 the Board what we're seeing on this sheet, Mr. Epp.
6 And would it be correct in a general way to say that
7 with this revised water condition, it is now less
8 likely that there will be a -- a financial loss, even
9 without a rate increase?

10 MR. GREG EPP: That is correct. And
11 the reason for that is the amount of energy and
12 storage to begin the season. So when you have more
13 energy and storage at the beginning of that
14 simulation, and you run the hundred and five (105)
15 flow cases, you have less chance of imports and
16 thermal purchases in those low flow cases. So that is
17 a direct result of water flow conditions.

18 MR. BOB PETERS: Okay.

19 MR. GREG EPP: When you flip back to
20 the other one, that is the average -- that's -- that's
21 what happens when your starting point is average.
22 Even though we're looking at the same hundred and five
23 (105) inflow cases, there's a different starting
24 point. Okay? There is no -- there's no mitigating
25 measure that Manitoba Hydro did on its own part. This

1 is a result of what's the energy sitting in storage to
2 begin that twelve (12) month period.

3 MR. BOB PETERS: Thank you, Mr. Epp.
4 Let's just -- just go back to page 61, please, of
5 Board counsel's book of documents. And I think if I
6 understood to Ms. Fernandes correctly, in her opening
7 comments, this document was extracted from Manitoba
8 Hydro Exhibit 23, which was an update provided last
9 week.

10 Can you confirm that? This is an
11 update to Appendix 9?

12 MR. GREG EPP: Okay. Yes.

13 MR. BOB PETERS: All right. And so
14 this shows the point you were trying to make, Mr. Epp
15 and Mr. Cormie, that the solid black line is the
16 average water flow conditions of those one hundred and
17 five (105) that Manitoba Hydro runs through their
18 splash model?

19 MR. DAVID CORMIE: No, Mr. Peters.
20 The black line is the average storage levels on any
21 day of the year based on the record from 1977 to 2017.

22 MR. BOB PETERS: All right. And --

23 MR. DAVID CORMIE: So this is just --
24 this is just comparing current conditions to the last
25 forty (40) years.

1 MR. BOB PETERS: All right. Thank
2 you. And when we look at the total energy in
3 reservoir storage from January and follow the red
4 line, that brings us to January 2019, Mr. Epp?

5 MR. GREG EPP: That's correct.

6 MR. BOB PETERS: and we see that in
7 the months of January, February, March, and maybe
8 right to April, that it's above average?

9 MR. GREG EPP: That's correct.

10 MR. BOB PETERS: If we now turn to
11 page 64, because it's above average and the reservoir
12 -- of the starting of the reservoir storage, all of
13 these lines on this graph have shifted over to the
14 right to some degree?

15 MR. GREG EPP: That's correct.

16 MR. BOB PETERS: And what you're now
17 saying to the Board is that if you look at the red
18 line and the one (1) red arrow, where it's focusing on
19 zero millions of dollars of net income, there is now
20 an -- 78 percent chance that net incomes will be
21 positive, even without a rate increase?

22 MR. GREG EPP: That's correct.

23 MR. BOB PETERS: Put another way,
24 there's a 22 percent chance the Corporation could
25 still lose money if the water flow conditions tur --

1 excuse me -- turned unfavourable?

2 MR. GREG EPP: That's correct.

3

4 (BRIEF PAUSE)

5

6 MR. GREG EPP: Like, I think if we
7 look at Coalition 8, it does a comparison. It might
8 help the Board if you bring up Coalition 8 --

9 MS. SANDY BAUERLEIN: Page 10.

10 MR. GREG EPP: -- 'G', it compares
11 these two (2) lines. It compares the net -- net
12 revenue lines. And it'll -- it'll kind of demonstrate
13 how the -- the net revenue has changed, as a result of
14 that.

15 MR. BOB PETERS: That information
16 request provided the numerical results, correct?

17 MR. GREG EPP: Yes, it does. Well, it
18 provides a graph that we'd like to bring up --

19 MR. BOB PETERS: Yeah.

20 MR. GREG EPP: -- on page -- no, keep
21 going.

22 MR. BOB PETERS: Thank you,
23 Ms. Schubert.

24 MR. GREG EPP: Right here. So the
25 blue line is the -- the original or -- or the interim

1 budget, and the green line is the approved budget.
2 And that green line -- again, this is net revenue that
3 we're looking at under the -- under the flow cases,
4 under all flow cases -- and that line is shifted up.
5 Okay?

6 So if you -- if you look at that table
7 below, net revenue increased from a hundred and
8 \$40 million dollars -- that's extra-provincial sales,
9 net of water rentals, and fuel and power -- up to a
10 174 million.

11 And our average pretty much runs along
12 that 40 percent line. So if you go on the graph and
13 you go vertically from the 40th percent line, you
14 should hit roughly a hundred and forty (140) under the
15 blue line and one hundred and seventy-four (174) under
16 the green line.

17 We've shaded that area, that grey area.
18 And this is where we're talking about this variability
19 in the net revenue or in our net income, as a result
20 of water flow conditions. Okay?

21 There's a P-20 to P-80. This is the
22 variability that we deal with all the time on our net
23 -- on our earnings. Okay? So that variability
24 still -- still is there regardless of that opening
25 storage. Okay?

1 So under the approved budget, that's a
2 \$73 million swing from average down to the P-20 or up
3 to the P-80. Okay? Our net income is \$115 million.
4 Okay? Previously, when we came with our interim
5 budget, we had a hundred and thirteen million dollar
6 swing on the bottom end. Okay? So our net revenue
7 went from one hundred and forty (140) down to twenty-
8 eight (28). Okay?

9 So that improvement from the interim
10 budget to the approved budget is simply good water and
11 runoff -- okay, that sitting in storage at the
12 beginning of the year. Okay?

13 That's what we're talking about here.
14 This is what we're trying to get across to the Board
15 that we don't have a mitigating strategy. We don't
16 have insurance. We are subject to this constantly,
17 and this has major effects on our -- on our net
18 income, and it can wipe it right out. And we're not
19 even going into the drought years.

20 Okay. We're leaving the bottom twenty
21 (20) percentile off where it goes vertically down. We
22 go into real red numbers. Okay?

23 So we're just talking about reasonable
24 changes that we deal with every year.

25

1 (BRIEF PAUSE)

2

3 MR. GREG EPP: If you want to go one
4 step further and look at what the impact is on net
5 income, all you have to do is go to PUB-29C and look
6 at that table. And you can look at the same thing
7 when you -- when you go across different rate
8 increases. You can -- if you bring that one up, Sir,
9 PUB 29 --

10 MR. BOB PETERS: That's page 64 of
11 Board counsel's book of documents, or are you looking
12 at the chart?

13 MR. GREG EPP: I got the actual --

14 MR. BOB PETERS: Okay, sir. Yeah.

15 MR. GREG EPP: But -- and we want --
16 we want the updated one, but I don't know if you have
17 the table in your book of documents.

18 MR. BOB PETERS: I -- I didn't put it
19 in.

20 MR. GREG EPP: But if -- if you go to
21 PUB-MH-129, it's 'C'. It's page 5 of 7 in the update.
22 Keep scrolling down. Now you can scroll up. What
23 page is that? Yeah, 5 or 7, so scroll up a little
24 bit.

25 Okay. So -- so if you look at the -- on

1 the -- on the second column, the thirty-sixth (36th)
2 and thirty-seventh (37th) percentile -- okay -- in
3 somewhere in between there is our average net revenue.
4 That third column is net revenue. That's the
5 174 million that we saw on the other page.

6 The next column beside that, that's
7 where you'll find that net income without a rate
8 increase. It's in there, that 64 million. Okay.
9 It's somewhere between the sixty (60) and the sixty-
10 five (65), sixty-six (66). And you scroll over to the
11 second last column, and there's a hundred and eleven
12 (111) and a hundred and seventeen (117), so our
13 hundred and fifteen (115) with the 3 1/2 percent rate
14 increase is in there.

15 So all you have to do is -- is move up,
16 and you can see the impact on net income as you go
17 from our average, which is around that P-40 line, and
18 you can see what happens when you go down just to the
19 P-25 when you have no rate increase: \$16 million in
20 net income. That's what happens when we don't have a
21 rate increase, and we are not mitigating this risk
22 that is always there, constantly there. Okay?

23 And even if we get that P-25 of the
24 3 and a half, we're down to \$67 million right around
25 the 65 you want without a rate increase.

1 MR. BOB PETERS: Mr. Epp, on page 64
2 of Board counsel's book of documents, the same IR but
3 using the -- the graph, is it correct for the Board to
4 read this and your chart as well that there would be a
5 50 percent probability that Manitoba Hydro's profit
6 would be a hundred and forty million dollars if the
7 3.5 percent rate increase was approved for the test
8 year?

9 MR. GREG EPP: I don't think the right
10 word is "probability". There's -- there's a hundred
11 and five (105) results or data points, and there's a
12 50 percent chance that that net income could fall
13 above that or below that. It has nothing to do with
14 chance.

15 MR. BOB PETERS: So instead of chance,
16 it's 50 percent probability.

17 MR. GREG EPP: Not probability.
18 Sorry. There's -- there's a hundred of five (105)
19 data points. We don't assign a probability to any one
20 of those flow cases occurring. So they equally --
21 they have an equal probability. So there's a 50
22 percent chance of being above or below.

23 MR. BOB PETERS: And at that -- that
24 P-50 level, you still call it that?

25 MR. GREG EPP: Yes. In this case,

1 it's a P-50, yeah.

2 MR. BOB PETERS: And what is the
3 expected net income if the Board approved a
4 3.5 percent rate increase?

5 MR. GREG EPP: Its -- our application,
6 a 115 million. The average of those hundred and five
7 (105) flow cases results in a hundred. That's what we
8 put in our forecast. It's the average of all that.

9 So the black line is net export
10 revenue. Okay. That's a hundred and five (105)
11 items. We just take the simple average of that.
12 Okay? It's a 174 million in net revenue, and that's
13 what we put in our forecast. So -- so it's more like
14 a P-39.

15 MR. BOB PETERS: It's a P-39 for the
16 \$115 million dollar net income.

17 MR. GREG EPP: That's correct. That's
18 correct.

19 MR. BOB PETERS: And at P-50, that's
20 when it goes up to a \$140 million dollars.

21 MR. GREG EPP: A hundred and forty-six
22 point seven (146.7), yes.

23 MR. BOB PETERS: Okay. And you're
24 saying that that P-38 number that you used is the
25 average of all of those hundred and five (105) flows.

1 MR. GREG EPP: Yeah. It has all the
2 floods and all the -- and the worst drought on record
3 in 1940/41.

4 MR. BOB PETERS: All right. Thank
5 you. I've got your points. Just help me with this
6 one.

7

8 (BRIEF PAUSE)

9

10 MR. BOB PETERS: Mr. Epp, when
11 Manitoba Hydro prepared its integrated financial
12 forecast, the first year is based on the current
13 actual reservoir levels, as well as Hydro's knowledge
14 of what actual conditions are expected to be?

15 MR. GREG EPP: Yeah. It depends on
16 when -- where we are in that process. If we're mid --
17 mid-year, we'll have actuals to that point. And then
18 our -- we have a -- Mr. Cormie can jump in anytime
19 when I misstep -- but it's more of a statistical
20 expectation of the water flow with what they know from
21 that point going forward.

22 MR. BOB PETERS: And then Manitoba
23 Hydro changes methodology a couple of years ago to
24 forecast the second year of the IFF, correct?

25 MR. GREG EPP: yeah. There wasn't a

1 carryforward of the -- the storage level into the
2 second year.

3 MR. BOB PETERS: Well, the -- the old
4 methodology, as I'll call it, had a projection of the
5 reservoir levels plus a median flow from there -- from
6 there on?

7 MR. GREG EPP: Well, what happened in
8 the situation is the original forecast we snapped in
9 '17/'18 took that process. We -- we had actuals to a
10 certain point, and then we took our expected flows to
11 that point. And then that -- the second year had the
12 carry over. And then the third year was the
13 longer-term planning.

14 So we closed '17/'18, we did an outlook
15 in '18/'19, and we left the reservoir levels in
16 '19/'20. That was the -- that was the minor
17 departure.

18 MR. BOB PETERS: Are you saying that
19 now the -- the second year, as well as the third year,
20 is based on a forecast of reservoir levels?

21 MR. GREG EPP: The second year has
22 the carry over of where we expect reservoir levels
23 will be at the end of '18/'19. And then going -- and
24 then taking -- taking off from there. So it's better
25 aligned with our -- our previous methodology.

1 MR. BOB PETERS: Is that methodology
2 for the second year of the IFF the same methodology
3 used for the third year of the IFF?

4 MR. GREG EPP: Yes. It's the closing
5 reservoir levels associated with each one of those
6 hundred and five (105) flow cases get carried forward.

7 So for example, if -- if -- in the --
8 in the second year or the third year -- whatever we're
9 talking about where we carry over -- if we have -- if
10 we're doing the 1987 flow case in that year, we will
11 take the 1986 reservoir level carry over from the
12 previous.

13 MR. BOB PETERS: Mr. Epp, on page 60
14 of Board counsel's book of documents, there's an
15 indication that in preparing the November 30th filing
16 was based on a single flow scenario. Is that -- is
17 that correct?

18 And it would be near the bottom of page
19 60 highlighted in yellow. We could scroll to see the
20 bottom of the page.

21 So I'm just wanting to confirm that the
22 November 30th filing was based on a single flow
23 scenario.

24 MR. GREG EPP: In '18/'19.

25 MR. BOB PETERS: But not for '19/'20.

1 MR. GREG EPP: No.

2 MS. SANDY BAUERLEIN: As indicated in
3 this second -- the last paragraph, '19/'20 was based
4 on the simulations using the hundred and five (105)
5 year flow record.

6 MR. BOB PETERS: And is the
7 probability of each of those hundred and five (105)
8 flow records equal?

9 MR. GREG EPP: Yeah. We don't assign
10 a probability.

11 MR. BOB PETERS: Does -- does that
12 mean that the -- the P-50 or whatever would be the
13 most likely outcome?

14 MR. GREG EPP: We use the average as
15 our -- as our planning -- for planning purposes. So
16 that's our -- that's what we use for planning. So
17 call it our expected case.

18 MR. BOB PETERS: So instead of using
19 the median, you use the average.

20 MR. GREG EPP: That's correct. We do
21 that because we are incorporating the entire hundred
22 and five flow case, which is not -- it's -- it's not
23 symmetrical, right? We -- we looked at that S-curve,
24 and we have that really low bottom and drought
25 possibility.

1 It's not -- it's not like a bell-shaped
2 curve. Okay? It's -- you have to -- if we're going
3 to incorporate all of the highs, we got to incorporate
4 all the lows. Okay.

5 So we include all of those when we take
6 the average. If it was symmetrical, the average and
7 the mean would mathematically equate, and they'd be
8 the same. But that's not the case here.

9 MR. BOB PETERS: Are the water flows a
10 bell-shaped curve?

11 MR. GREG EPP: I don't know what that
12 means.

13 MR. BOB PETERS: But when you plot
14 them, is there a -- do they come out with a -- a
15 bell shape that you were just referring to?

16 MR. GREG EPP: Plotting them, or do
17 you mean, does it have a normal distribution?

18 MR. BOB PETERS: The latter.

19 MR. GREG EPP: I can't answer that.

20 MR. BOB PETERS: That's not something
21 you've looked at?

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: All right. With the

1 2019 test year, Manitoba Hydro has run some
2 sensitivity impacts on some key risks, and we see that
3 under tab 8, page 66 of the book of documents. And at
4 that time, four (4) risks were identified: water
5 flows, weather, interest rates, and export prices.
6 Correct?

7 MR. GREG EPP: That's correct.

8 MR. BOB PETERS: Now, if we turn the
9 page to the update to see what those results look like
10 if those key risks materialize and we -- we go to the
11 column that says "no rate increase," and we see that
12 with no rate increase, Manitoba Hydro's approved
13 budget expect \$64 million of net income for the test
14 year, correct?

15 MR. GREG EPP: That's correct.

16 MR. BOB PETERS: And in terms of water
17 risk, we had looked at the probability at that point
18 was -- I think it was P-22, Mr. Epp, in terms of there
19 being a loss based on water?

20 MR. GREG EPP: Yeah. Yes. Yes, it
21 was. P-21, P-22, yeah.

22 MR. BOB PETERS: That means that to
23 lose money in 2019/'20, water would have to drop below
24 the 22nd lowest flow in the hundred and five year flow
25 record?

1 MR. GREG EPP: It is a sensitivity
2 holding everything else constant, that nothing else
3 will change.

4 MR. BOB PETERS: Right.

5 MR. GREG EPP: None of the other risks
6 that are outside of our control do not change.

7 MR. BOB PETERS: And so if we turn to
8 the weather risk, going down to warmer than normal
9 winter weather, is it correct to interpret this
10 sensitivity, Mr. Epp, that even with a zero percent
11 rate increase, Manitoba Hydro will not lose money in
12 2019/20, should Manitoba have the warmest year ever?

13 MR. GREG EPP: Holding everything else
14 constant, it's an extreme weather event, the most
15 extreme we've experienced since 1960/61, so it's to
16 demonstrate the effects of weather. And of -- and of
17 course weather has a -- it affects not only the
18 domestic revenue, it affects the load, but it also
19 affects the export, the volume that could be put into
20 the export market.

21 So there is a dampening effect of
22 weather any load effect, any -- any revenue gained or
23 lost domestically here in Manitoba is gained or lost
24 in the export market.

25 MR. BOB PETERS: And Manitoba Hydro

1 would expect to still have a \$15 million positive net
2 income?

3 MR. GREG EPP: Holding everything else
4 constant.

5 MR. BOB PETERS: Thank you. In terms
6 of export prices, even with no rate increase, this
7 shows us on a sensitivity basis that Manitoba Hydro
8 won't lose money in 2019/20, should export prices
9 unexpectedly drop to the low price level that's used
10 by Manitoba Hydro's forecasters?

11 MR. GREG EPP: That's correct. Again,
12 this is a sensitivity. It assumes that that low price
13 is in effect for the entire year.

14 Okay. Let's just be cautious when we
15 make these claims that we won't lose money as a result
16 of lower prices. Prices are constantly fluctuating
17 and this is a sensitivity that we've created. So just
18 be cautious. User beware.

19 MR. BOB PETERS: You've made your
20 point repeatedly, Mr. Epp.

21 MR. GREG EPP: Thank you.

22 MR. BOB PETERS: Even I've got it. So
23 on page 66 of the -- of the Board counsel book of
24 documents, I noted that interest rate, plus or minus 1
25 percent was one of the assumed risks at that time,

1 correct?

2 MR. GREG EPP: That's correct.

3 MR. BOB PETERS: When I turn the page
4 to page 67, the interest rate risk disappears,
5 correct?

6 MR. GREG EPP: Yes.

7 MR. BOB PETERS: Ms. Stephen, you've
8 reminded the Board about some of the borrowings that
9 have happened and for the test year, Manitoba Hydro
10 would need to spend about \$1 billion on Keeyask, is
11 that your recollection?

12 MR. GREG EPP: Mr. Peters, I can
13 perhaps shed some light on this.

14 MR. BOB PETERS: Sure.

15 MR. GREG EPP: Why -- when you said
16 why did the interest rate sensitivity disappear. When
17 we prepared the interest rate sensitivity on the -- on
18 the previous page, we had -- we had dead issues from
19 the previous year that were exposed to a hundred basis
20 point increase. And when you -- when you change
21 interest rates in the -- in the -- in the test year
22 you're looking at, there's a dampening effect because
23 you don't feel the full effect of that debt on your
24 books in that year. It's -- it's the second year
25 where you feel the full twelve (12) month impact of an

1 interest rate change.

2 As well, we have what -- what Ms.
3 Stephens (sic) alluded to earlier, that we -- we have
4 a cash position. We've -- we've raised the debt in
5 advance of the need and we're earning that interest
6 income on there.

7 So any time you change the interest
8 rate forecast, the debt issuances cost you more and
9 there is a dampening effect on the -- on the interest
10 income earned on that pre-financing position that
11 offsets that.

12 So it's in that year it's almost a nil
13 effect when your pre-borrowing is at a billion
14 dollars. So we have \$1 billion in an investment
15 position earning a short-term interest rate, that's --
16 that's offsetting your finance expense. It's in the
17 second year that you see that effect, where you borrow
18 more and you see a full year of those debt issuances,
19 and that pre-financing level, if we want to call it
20 that, stays around the same.

21 MR. BOB PETERS: And I interpret that
22 -- what I understood you to be telling us, Mr. Epp, is
23 that because Ms. Stephen's department has pre-borrowed
24 sufficient monies, that Manitoba Hydro doesn't expect
25 any interest rate volatility to affect the net income

1 in the test year.

2 MR. GREG EPP: It would be very minor.

3 MR. BOB PETERS: If there is an
4 impact, it would be very minor?

5 MR. GREG EPP: In the test year.

6 MR. BOB PETERS: And when you say
7 "very minor", is that plus or minus \$7 million?

8 MR. GREG EPP: It would be -- it would
9 be under \$7 million.

10 MR. BOB PETERS: Mr. Cormie, before I
11 move to debt management, there was -- I'll ask Ms.
12 Schubert if she could retrieve the direct evidence of
13 the MIPUG witness, Mr. Bowman, on pages 11 and 12.

14 And Mr. Bowman will speak for himself
15 when it comes time to it, but there's a suggestion
16 that because of where we are time-wise the risks for
17 the variation in net revenue have reduced in the
18 fiscal year of 2019/20, compared to what was seen at
19 the last GRA.

20 First of all, is that your
21 understanding of what Mr. Bowman is -- is getting at
22 here?

23 MR. DAVID CORMIE: Yes, this is --
24 supports the discussion that we had a few minutes ago
25 about knowing what the reservoir levels are in

1 advance.

2 And we note -- we noted from the chart
3 that there's 10 million megawatt hours of energy in
4 reservoir storage on April 1st. So when you -- when
5 you have that 10 million megawatt hours in reservoir
6 storage and you're hit with the drought, that 10
7 million megawatt hours of storage can be used to avoid
8 purchasing expensive energy.

9 If the reservoirs are lower than that,
10 then you have to buy more energy, so the cost of
11 drought goes up. If they're higher than the average,
12 then you -- you buy even less and -- and -- and the --
13 the drought risk goes down.

14 So the difference in these two (2)
15 charts is knowing what the reservoir levels are three
16 (3) and a -- three (3) months in the future, as
17 supposed to three and a half (3 1/2) years in the
18 future.

19 Three and a half (3 1/2) years in the
20 future, the reservoir levels can range over -- between
21 the minimum and the maximum, you can go into the
22 drought with the reservoirs empty or -- or you can --
23 or, conversely, you can go into the -- into the
24 drought with the reservoirs half full.

25 And this just shows that the

1 variability in net income is dampened because of
2 having that known position with water in reservoir
3 storage.

4 MR. BOB PETERS: I appreciate that to
5 Mr. Cormie. Thank you.

6 Ms. Stephen, in terms of debt
7 management, I believe that's an area that you've
8 indicated you would speak to today.

9 MS. SUSAN STEPHEN: That's correct.

10 MR. BOB PETERS: Thank you. And you
11 almost -- also commented in your direct evidence, as I
12 recorded it or noted it, Ms. Stephen, that there was
13 some concern that Manitoba Hydro had about the ability
14 to obtain debt was it in December of 2019 as well as
15 January and February of 2020?

16 MS. SUSAN STEPHEN: Well, we're not
17 there yet, but --

18 MR. BOB PETERS: Sorry, it was --

19 MS. SUSAN STEPHEN: It was actually in
20 November and December 2018.

21 MR. BOB PETERS: You mean November of
22 2019?

23 MS. SUSAN STEPHEN: That's in the
24 future.

25 MR. BOB PETERS: I -- I know it's in

1 the future. But -- so you're talking about --

2 MS. SUSAN STEPHEN: I'm not that --

3 MR. BOB PETERS: I'm not placing it in
4 the future, but you're talking about -- you're not
5 talking about placing it for future dates, you're
6 talking about getting it at the time?

7 MS. SUSAN STEPHEN: Yes. So when
8 we're actually looking at -- at doing an issue in the
9 fall, after October we saw a lot of volatility in the
10 markets. That's when there's a lot of concern about
11 trade issues, the US, China, Brexit, there was concern
12 about global growth and we saw a lot of volatility in
13 the equities market, and at that time, that's when
14 there was kind of a movement for the expectation was
15 that North American central banks would peel back
16 their -- their rate increases.

17 So that -- that really was kind of a
18 game changer in November and December, and it really
19 impacted our access to markets at that time.

20 MR. BOB PETERS: It had nothing to do
21 with the province of Manitoba or Manitoba Hydro
22 itself?

23 MS. SUSAN STEPHEN: No.

24 MR. BOB PETERS: It was a global
25 issue?

1 MS. SUSAN STEPHEN: It was a
2 provincial issue in Canada.

3 MR. BOB PETERS: Can you indicate what
4 part of your function is it -- would be affected by
5 the Manitoba Hydro Electric Board wanting to make
6 changes in debt management? What would that -- what
7 would that mean for you?

8 MS. SUSAN STEPHEN: For terms of how
9 the corporate strategic plan will set our long-term
10 plan?

11 MR. BOB PETERS: Yes.

12 MS. SUSAN STEPHEN: Yes. So in the
13 absence of a long-term plan, which really our debt
14 management strategy will fall out of that, our
15 corporate strategic planning process, like you've
16 heard, is just beginning now. It's going to be a
17 twenty (20) year plan, and out of that we will develop
18 our -- our long-term plan, we will develop our
19 potentially new financial targets, and our rate
20 strategy.

21 Once those are all knowns, then we can
22 look at developing a new debt management strategy. So
23 in the absence of that, we've made the decision to be
24 prudent and to continue to target longer dated debt to
25 reduce our risks, given that we do not know what is

1 going to be coming around the corner in the next
2 little while.

3 So we're targeting weighted average
4 term to maturities of twenty (20) year debt, we're
5 keeping, for liquidity purposes given we still do have
6 large -- program, we're keeping sufficient funds on
7 hand to ensure that we have cash on hand to make our
8 payments, and are also targeting to keep our floating-
9 rate debt below 10 percent.

10 MR. BOB PETERS: The twenty (20) year
11 weighted average term to maturity, that's been a long-
12 standing policy decision at the Corporation?

13 MS. SUSAN STEPHEN: Long-standing
14 since the interest rates have turned around, if you
15 look back in history we didn't always have -- we
16 didn't always target a twenty (20) year term. That
17 really came around probably -- I'd have to look back,
18 but subject to check, probably in the 2000s, sometime
19 around there.

20 MR. BOB PETERS: And the decision to
21 target longer term debt back then was because the
22 interest rate was more favourable?

23 MS. SUSAN STEPHEN: The interest rates
24 came down quite a bit post-1995. And I think we
25 addressed this -- this at the last GRA, with inflation

1 coming down and the bank targeting a certain interest
2 rate, we saw that interest rates were coming down and
3 I believe it was some time in the mid 2000's where we
4 actually took out rate locks to lock thirty (30) year
5 debt, we used derivatives for that. And that's really
6 when we started seeing change in our weighted average
7 term to maturity of our debt portfolio.

8 MR. BOB PETERS: And you said, I think
9 in your direct evidence, that you've placed what you
10 called ultra-long debt recently?

11 MS. SUSAN STEPHEN: Yes. That's any
12 debt that exceeds 30 years.

13 MR. BOB PETERS: And this one was --
14 ultra-long was forty-nine (49) years, was it?

15 MS. SUSAN STEPHEN: Correct.

16 MR. BOB PETERS: In order to balance
17 that with the twenty (20) year weighted average term
18 to maturity, does that mean that Manitoba Hydro now
19 has to expose itself to short-term money?

20 MS. SUSAN STEPHEN: Well, as I
21 indicated as well, we did do -- we did participate
22 with the province on a five (5) year US debt issue.

23 So the debt -- we will not always be
24 around the twenty (20) year mark, that's our goal for
25 the year. Right now for the issuances we have placed

1 this fiscal year, we have weighted average interest
2 rates on our debt issued at 2.4 percent, and a term of
3 twelve point six (12.6) years.

4 So we will be looking to target to
5 increase that weighted average term, but at this point
6 that's where we're sitting.

7 MR. BOB PETERS: That twelve point six
8 (12.6) is the current?

9 MS. SUSAN STEPHEN: That's correct.
10 Now, meaning -- keep in mind this is just for -- since
11 the beginning of the fiscal year, so just the last few
12 weeks. We still have a ways to go for this fiscal
13 year.

14 (BRIEF PAUSE)

15
16 MR. BOB PETERS: Your last answer
17 suggests that you're expecting to borrow more money
18 throughout the year, and you're going to be able to
19 stretch that term to maturity up closer to the twenty
20 (20) year mark.

21 MS. SUSAN STEPHEN: That's correct.
22 Currently when we -- when we forecast, we do target,
23 as I mentioned, a twenty (20) year weighted average
24 term to maturity. And with the issuance that we
25 undertook with the province and the five (5) year

1 term, we have pretty much completed all of our
2 issuance in that -- in that term to maturity bucket,
3 is the technical term.

4 So we will be targeting to -- to have
5 more tenure debt, more thirty (30) year debt, and more
6 ultra-long debt throughout the remainder of the year.

7 MR. BOB PETERS: Would it be correct,
8 Ms. Stephen, to categorize the current interest rate
9 environment as favourable to Manitoba Hydro?

10 MS. SUSAN STEPHEN: In terms of
11 issuance, in terms of the -- the rates that we can
12 secure, it is favourable to Manitoba Hydro.

13 MR. BOB PETERS: And if interest rates
14 remain at their current level, is that a -- that's a
15 positive for Manitoba Hydro?

16 MS. SUSAN STEPHEN: When we can secure
17 forty-nine (49) year debt at 2.91 percent, yes, I
18 think that's favourable for Manitoba Hydro and our
19 future ratepayers and our grandchildren.

20 MR. BOB PETERS: Which begs the
21 question, can you get more?

22 MS. SUSAN STEPHEN: I would love to
23 get more. Unfortunately, it's -- it's not something
24 that comes about regularly. These are re -- reverse
25 increase from investors and normally they're smaller

1 in volume. When the opportunities do present
2 themselves we normally do take them.

3 MR. BOB PETERS: The five (5) year
4 interest rate forecast for the Province of Manitoba is
5 around 3.30 percent? Do you recall that? I pulled it
6 out of an IR, if you need the reference, but does that
7 sound right?

8 MS. SUSAN STEPHEN: That was the
9 winter 2018 rates?

10 MR. BOB PETERS: Yes.

11 MS. SUSAN STEPHEN: For the Manitoba
12 Hydro? Yes, I -- yes, I see it, yes.

13 MR. BOB PETERS: The debt that you
14 mentioned this morning and told us about just now is
15 over a hundred basis points better than -- than what
16 the province is forecasting, correct?

17 MS. SUSAN STEPHEN: This is actually
18 Manitoba Hydro's consensus forecast.

19 MR. BOB PETERS: All right, but it's
20 still a hundred basis points better?

21 MS. SUSAN STEPHEN: It is quite a bit
22 better, yes.

23 MR. BOB PETERS: And has that benefit
24 been reflected in the filing that Ms. Bauerlein has
25 done?

1 MS. SUSAN STEPHEN: It won't have been
2 reflected, but as we were discussing, there's not
3 going to be a large impact on the revenue requirement.
4 And this is what we were trying to show in rebuttal
5 for Mr. Bowman, is that much of the interest -- much
6 of the debt that we're borrowing is going to be -- the
7 interest is going to be capitalized.

8 So there's very little that's actually
9 impacting the revenue requirement. So the amounts
10 that will impact revenue requirements are the small
11 amount of refinancing that we're going to do this
12 year, and there is a small amount of borrowing for
13 operations.

14 So, I believe that was somewhere under
15 500 million, which would impact revenue requirement.
16 And Mr. Epp also discussed that, since they are holding
17 cash balances any differential in the interest rate
18 forecast there will be reflected negatively.

19 So, when we look at an interest rate
20 sensitivity for the '19/'20 fiscal year, any movement
21 up or down in rates is pretty much a wash. So there's
22 very little impact to revenue requirement.

23 MR. BOB PETERS: Ms. Stephen, when
24 does Manitoba Hydro get new interest rate forecasts?

25 MS. SUSAN STEPHEN: We update our

1 interest rate forecast on a quarterly basis. We are
2 currently in the process right now of updating our
3 spring outlook.

4 MR. BOB PETERS: One (1) of the
5 Information Requests that I'll ask Ms. Schubert to
6 bring up is a PUB-MIPUG First Round Question 3.

7 And I believe there was a -- an updated
8 chart in there that followed the a response. Yes,
9 that's -- that's it.

10 I put, Ms. Stephen, into the book of
11 documents a response from Manitoba Hydro that was
12 updated and it appears that Mr. Bowman has updated it
13 perhaps even further.

14 Have you had a chance to look at this
15 graph that he has prepared?

16 MS. SUSAN STEPHEN: Yes.

17 MR. BOB PETERS: Do you believe it to
18 be accurate?

19 MS. SUSAN STEPHEN: I haven't looked
20 that closely, but it -- it looks to me that it is
21 close to being accurate.

22 MR. BOB PETERS: Can you explain to
23 the panel what this is now showing?

24 MS. SUSAN STEPHEN: What this is now
25 showing? So, Mr. Bowman, has indicated and extended

1 the graph that we originally had created. He has the
2 -- in green he has our Manitoba Hydro five (5) year
3 borrowing rate.

4 MR. BOB PETERS: And that would be the
5 -- the line drawn with the ruler, in terms of the
6 green line?

7 MS. SUSAN STEPHEN: I was actually
8 referring to the actual borrowing, so the --

9 MR. BOB PETERS: I'm sorry. I'm
10 sorry.

11 MS. SUSAN STEPHEN: The line that is
12 variable. The light green line would be the forecast
13 rates.

14 MR. BOB PETERS: That's the five (5)
15 year forecast rate.

16 MS. SUSAN STEPHEN: Correct.

17 MR. BOB PETERS: And the -- the darker
18 green not straight line is the actual numbers?

19 MS. SUSAN STEPHEN: Correct.

20 MR. BOB PETERS: Which indicates that
21 it's almost one hundred (100) basis points below what
22 the forecast is?

23 MS. SUSAN STEPHEN: Below the light
24 green straight line, correct. So it is quite a bit
25 below forecast.

1 MR. BOB PETERS: And then we see also
2 that on March 31 of 2019, you're expecting the -- the
3 bright green line drawn with the ruler is -- is
4 reflecting Manitoba Hydro's current forecast if the
5 rates were going to increase closer to 3.5 percent,
6 correct?

7 MS. SUSAN STEPHEN: Closer to three
8 point (3.) -- I can't confirm exactly, we'll say ---

9 MR. BOB PETERS: Three point four
10 (3.4)?

11 MS. SUSAN STEPHEN: Three point four
12 (3.4).

13 MR. BOB PETERS: Okay. And then
14 likewise, if we go to the -- to the longer-term, three
15 (3) year numbers, we see a similar, although maybe not
16 to the same degree, impact of what's happened in -- in
17 the recent interest rate market?

18 MS. SUSAN STEPHEN: Right. So these
19 forecasts that were prepared, these were prepared back
20 in December with early December forecast data. So, I
21 guess the thing with forecast is interest rates do
22 move. As I indicated in October, there were several
23 forecasters who anticipated further Bank of Canada
24 rate increases by the end of December, that was not
25 the case.

1 Most forecasters now don't believe that
2 there will be any interest rate hike -- hikes by the
3 Bank of Canada for the remainder of the year. There
4 are the odd forecaster out there who still -- still do
5 believe there -- there will be hikes. But that's
6 pretty much gone away.

7 But this -- this can change very, very,
8 very quickly, and while this interest rate forecast
9 was prepared in December and it's quite wrong, I'm
10 sure the interest rate forecast that we're preparing
11 now or that other forecasters are preparing now will
12 be wrong in three months.

13 In fact, most interest rate forecasts
14 are wrong. They don't have a very good -- good
15 history on them. And I think John Kenneth Galbraith,
16 and this is paraphrasing him and he was an economist
17 himself, he said that economic forecasting was created
18 to make astrology look respectable, and I think that's
19 a really good quote because it's -- it's very
20 difficult to get it right. And I think this is just
21 what it's showing.

22 MR. BOB PETERS: And what this shows
23 to this Board is -- what this shows to this Board is
24 that, if these rates continue at the level they
25 currently are, or even further downward progression,

1 that bodes well for the borrowing plans of Manitoba
2 Hydro going forward?

3 MS. SUSAN STEPHEN: Absolutely, it
4 bodes well for Manitoba Hydro and our projects. But I
5 just want to reinforce that for the 19/'20 test year,
6 we are essentially hedged in terms of movements in the
7 interest rates.

8 MR. BOB PETERS: And so any benefit
9 that's going to come of this will not be seen until
10 the subsequent GRA, for the '20/'21 year.

11 MS. SUSAN STEPHEN: And when Keeyask
12 comes in service. We'll see that benefit through
13 lower depreciation and finance.

14 MR. BOB PETERS: Does it follow from
15 those answers, Ms. Stephen, that the revenue
16 requirement impacts of Keeyask would be expected to go
17 down in light of the interest rate forecast -- or the
18 -- in light of the interest rates that we see today
19 regardless where the forecast is?

20 MS. SUSAN STEPHEN: I would say I -- I
21 wouldn't know to a degree, but to a certain degree,
22 they would.

23 MR. BOB PETERS: You're not prepared
24 to try to quantify what that -- what that impact would
25 --

1 MS. SUSAN STEPHEN: I don't have that
2 with me at this point.

3 MR. GREG EPP: Mr. Peters, like, if we
4 look at the -- the squiggly blue and green line, there
5 is definitely some variability within the year, okay.
6 So those actual results -- the thirty (30) year rate
7 varies fifty (50) basis points. The five (5) year
8 rate varies more than, you know, a hundred basis
9 points.

10 To take a forecast today and say that
11 it will be the same for the next twelve (12) months,
12 we all know that's not going to happen. There will be
13 natural fluctuations in that. It may not reach that,
14 but don't take that eighty (80) basis point difference
15 between the thirty (30) year rate in our forecast to
16 say that that eighty (80) basis point difference will
17 last the entire year. Okay, so -- and --

18 MR. BOB PETERS: You're -- you're
19 identifying that as a risk that could change, but the
20 impact of that change, Mr. Epp, isn't going to hit the
21 income statement until the following -- the year
22 following the test year?

23 MR. GREG EPP: The full effect.
24 That's correct.

25 MS. SUSAN STEPHEN: Yeah.

1 MR. BOB PETERS: I have your point.

2 MS. SUSAN STEPHEN: And that's
3 interesting, too, that he mentions that because a lot
4 of our borrowing program is actually weighted to the
5 back half of this year, so there still is a big risk
6 there.

7 MR. BOB PETERS: And does it have to
8 be weighted to the back of the year or can you pre-
9 borrow, if that's the -- the euphemism?

10 MS. SUSAN STEPHEN: Well, we -- we
11 could borrow ahead of need if required. A lot of the
12 requirements are -- it's -- we have refinancings which
13 are -- have fixed maturity dates, so we -- we could if
14 we wanted to pay the cost to carry on that.

15 MR. BOB PETERS: That's a matter
16 that's going to be considered?

17 MS. SUSAN STEPHEN: We've been
18 watching our upcoming cash requirements, and with
19 rates remaining so low, we've also been watching to
20 see what the Bank of Canada's saying, what other
21 forecasters are saying.

22 And it seems while bank is still
23 indicating that they think that this is going to be a
24 temporary slow down, it seems like rates keep going
25 down and staying in and around this strange.

1 So for now, we're keeping to our normal
2 plan of borrowing just for upcoming cash requirements
3 to ensure we have sufficient cash. There's no plan
4 right now to borrow eight (8) months out.

5 All right. Thank you. This might be
6 an opportune time to -- to go back to page 49 of Board
7 counsel's book of documents. And with the assistance
8 that we've just received from the Ms. Stephen and Mr.
9 Epp, on page 50, sorry, we see Manitoba Hydro's
10 interim budget versus approved budget and we see some
11 -- some impact as a result of increase or decrease in
12 -- in dollar amounts.

13 When we look at this amount and go down
14 this column, I'd like to go down the increase/decrease
15 column relative to what -- what's provided and find
16 out which one of these is a one (1) time only benefit
17 and which time -- which one, Ms. Bauerlein, would be
18 the one that is that perhaps sustainable and get your
19 comments on each of them.

20 In terms of domestic revenue, the
21 increase in domestic revenue, is that likely
22 sustainable as a result of Manitoba Hydro's update and
23 their approved budget?

24 MS. SANDY BAUERLEIN: Not quite sure
25 what you mean by the word 'sustainable'.

1 MR. BOB PETERS: In terms of going
2 forward passed the test year, is that a -- is that
3 again in revenues that -- that is more likely to
4 remain going forward or is it one that's going to be
5 lost following the test year?

6 MR. GREG EPP: Okay, so the \$12
7 million is made up of two (2) components, one (1)
8 being \$21 million for a difference in load forecast
9 largely due to a change in assumption on DSM. The
10 other offsetting effect is -- is the loss of the three
11 (3) months of additional revenue between an April
12 implementation and a June implementation, so.

13 MR. BOB PETERS: That was the \$9
14 million, Mr. Epp?

15 MR. GREG EPP: That's correct.

16 MS. SANDY BAUERLEIN: Whether that
17 change in the load forecast was a result of -- of the
18 change in the, you know, DSM savings, that's still to
19 be seen in terms of when efficiency Manitoba comes,
20 you know, into effect.

21 So this is the current -- this reflects
22 the current load forecast based on the assumptions of
23 demand-side management savings for the '19/'20 fiscal
24 year, not what the future might look like.

25 MR. BOB PETERS: Oh, I understand your

1 point. But the -- is -- is part of this \$21 million
2 related to the elasticity of the -- of the rate
3 increase that was previously assumed to be higher?

4 MR. GREG EPP: Yes, there might be a
5 little bit in their, yeah.

6 MR. BOB PETERS: Can you give an order
7 of magnitude?

8 MR. GREG EPP: I don't have that off
9 the top of my head. I think that was answered in one
10 (1) of the -- one (1) of the PUB IRs.

11 MR. BOB PETERS: We'll --
12 well that. In terms --

13 MR. GREG EPP: Well, I want to say it
14 was something in the order of, like, 43 gigawatt
15 hours, but that's just going off memory.

16 MR. BOB PETERS: Thank you. When we
17 look at the extra provincial revenue increase, is that
18 as a function of volume or is it price or is it
19 foreign exchange?

20

21 (BRIEF PAUSE)

22

23 MR. GREG EPP: I believe there's
24 probably all three (3) involved there.

25 MR. BOB PETERS: And while we are on

1 that export extra-provincial revenue's, we can see
2 that the fuel and power purchase line has a \$33
3 million decrease, correct?

4 MR. GREG EPP: Yeah. We spoke about
5 that earlier. That is the higher energy and storage
6 at the beginning of the year, and it offsets costly
7 fuel and power and thermal burn costs because you have
8 more energy and storage during those low-flow years.

9 Remember we run all hundred and five
10 (105), and we average them in some of those very low
11 flows. We have to rely on more imports and thermal
12 burn.

13 MR. BOB PETERS: And so because of the
14 -- I'll -- I'll call it returning to close to average
15 water levels, that fuel and power purchased line item
16 is -- is able to be decreased?

17 MR. GREG EPP: Both comparisons are
18 average. They're an average of a hundred and five
19 (105). It's -- it's the higher hydraulic generation
20 in the first column versus the second column.

21 MR. BOB PETERS: In terms of the net
22 finance expense, we've talked about that somewhat, but
23 the -- the new forecast that Ms. Stephen is working on
24 is not yet embedded into that amount, correct?

25 MR. GREG EPP: That's correct. But

1 this difference here has a lot to do more with
2 scheduling risk and scheduling changes largely driven
3 by Bipole III, not only a reduction in the spend, but
4 also a deferral of the spend.

5 So that is causing -- the majority of
6 that is volume. There are some -- some interest rate
7 is part of that variance, the lower interest rates,
8 but the bulk of that is different volumes.

9 MR. BOB PETERS: The net movement in
10 the regulatory deferral account is partially offset by
11 the other expenses?

12 MR. GREG EPP: Sorry, can you repeat
13 that?

14 MR. BOB PETERS: The -- the net
15 movement -- sorry, the -- the net movement in the
16 regulatory deferral account is reflective of the other
17 expenses that we talked about earlier?

18 MR. GREG EPP: Yes, the -- a good
19 chunk of the net movement is other expenses, but there
20 are other components that are in that movement, as
21 well.

22 MS. SANDY BAUERLEIN: For example,
23 like, in the other expenses, if you have lower demand-
24 side management expenditures, which you do in your
25 approved budget compared to your interim, you'll see

1 the corresponding offset to that in your net movement.

2

3

(BRIEF PAUSE)

4

5 MR. BOB PETERS: One (1) of the slides
6 listed your two (2) reasons, here it is on slide 9,
7 for the application, and it was the impacts of Keeyask
8 in service. So I'd like to turn to that reason right
9 now.

10 And, Ms. Bauerlein, you've put in the
11 difficult position of the saying that it may come in
12 service earlier. Is -- is there an official company
13 position on that or is there -- is there still
14 uncertainty?

15 MS. SANDY BAUERLEIN: At this time,
16 the official company position hasn't been finalized.
17 There was a discussion at our board meeting this month
18 about it potentially coming in in October 2020 and
19 that it's tracking towards that. But, at this point,
20 the control budget and everything else has stayed the
21 same.

22

23

(BRIEF PAUSE)

24

25 MS. SANDY BAUERLEIN: I think we're

1 just saying there's a greater likelihood of it coming
2 in service earlier.

3 MR. BOB PETERS: And when you talk
4 about the greater likelihood of it coming in service
5 earlier, are -- are you able to indicate how many
6 units would come in in the -- October 2020 if things
7 were tracking as favourably as they are now?

8 MS. SANDY BAUERLEIN: So first unit
9 would come in service in October 2020, followed by a
10 unit every -- every two (2) months after that, and
11 there's a total of seven (7) units. So every two (2)
12 months there would be another unit put in service.

13 MR. BOB PETERS: Can you indicate what
14 is the reason for the optimism of the generating
15 station coming in ten (10) months earlier?

16 MS. SANDY BAUERLEIN: Well, I'm not
17 the expert on this, but it's my understanding that
18 they -- they've been able to achieve some significant
19 pro -- productivity improvements than they had
20 originally anticipated.

21 And a number of the risks that they
22 were planning -- or preparing for did not materialize,
23 and so they are working on reorganizing the work and
24 the way they're approaching the last months of the
25 last year and half of the project.

1 And so they're anticipating, now that,
2 you know, all other things being equal, they should be
3 able to get the first unit in service on October 2020.
4 Having said that, there's still risks of work
5 stoppages, weather.

6 You know, some -- most the geotechnical
7 risks, as I understand, are no longer -- are no longer
8 putting the project at risk. So, for the most part,
9 they -- they're very optimistic that they should be
10 able to get in October 2020.

11 MR. BOB PETERS: And, Ms. Bauerlein,
12 when you talked about a new unit coming in every two
13 (2) months after the first one (1), that would make it
14 -- approximately three (3) units would come in service
15 in the 2020/2021 fiscal year?

16 MS. SANDY BAUERLEIN: That is correct.
17 Approximately three (3) units would come in the next
18 fis -- like, next fiscal year, '20/'21, followed by
19 the remaining four (4) in '21/'22.

20 MR. BOB PETERS: And the question
21 wanted to get at, Ms. Bauerlein, is when these units
22 come in service, does that mean that three sevenths of
23 the costs come to the operating statement at that
24 time, or is there a different formula used in the --
25 in the operating statement?

1 MS. SANDY BAUERLEIN: Well, it's
2 basically three sevenths.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: On page 69 of Board
7 counsel's book of documents we see that some of the
8 in-service costs of the Keeyask, for example, is shown
9 at the top of the page. And the \$502 million was a
10 number that was used by Manitoba Hydro in one (1) of
11 its applications and documents, correct?

12 MS. SANDY BAUERLEIN: That is correct.
13 I believe the reference is PUB-9. I'm sorry, Ms.
14 Bauerlein, I -- I didn't hear your answer?

15 MS. SANDY BAUERLEIN: I believe the IR
16 reference is PUB 9.

17 MR. BOB PETERS: Yes, up -- updated.
18 Yes. It's at the top of the page -- sorry, at page 69
19 of Board counsel's book of documents if you have it.
20 Can you remind us of the -- how current to this --
21 this vintage is of this material? I know when it was
22 filed, but what was the -- how -- how recently has it
23 been calculated?

24 MR. GREG EPP: It's the most current
25 we have available. And again, that is for an August

1 21 ISD (phonetic), but the total project cost is 8.7
2 billion.

3 MR. BOB PETERS: And being the most
4 current you have available, was this from IFF-16?

5 MR. GREG EPP: We received a updated
6 cash flow that updates for actuals to the end of '18
7 and an outlook for the -- the remaining forecast
8 years.

9 MR. BOB PETERS: That hasn't been
10 filed in these proceedings, has it, Mr. Epp?

11 MR. GREG EPP: We filed the annual
12 capital expenditures related to the projects in
13 '18/'19 and '19'/20, and those reflect the updated
14 cash flows.

15 MR. BOB PETERS: Now, on this answer
16 that's on the monitor in front of you, from what we've
17 just talked about, the suggestion, maybe it's the hope
18 or the -- the unofficial plan, is that, by October of
19 2020, Keeyask will be having at least one (1) unit in
20 service, and maybe in that fiscal year as many as
21 three (3), correct?

22 MS. SANDY BAUERLEIN: That is correct.

23 MR. BOB PETERS: And that's the 21 --
24 2021 year shown on this -- on this response on the
25 screen?

1 MS. SANDY BAUERLEIN: Correct. So in
2 this response on the screen there would be no units
3 going in service in 2021.

4 MR. BOB PETERS: And so what that
5 means is that the columns on the far right need to
6 migrate at least one (1) year to the left to make this
7 more likely to be the impact if -- if Keeyask does
8 come in service earlier?

9 MS. SANDY BAUERLEIN: Yes. I mean,
10 not the exact numbers that you're seeing on this. But
11 what you're seeing is there's going to be an
12 advancement of those costs.

13 MR. BOB PETERS: All right. And in
14 terms of the capital tax, I think someone told us
15 earlier today that the capital tax is -- is in the
16 current -- is in the current to operating statement of
17 Manitoba Hydro being recovered?

18 MS. SANDY BAUERLEIN: That is correct.

19 MR. BOB PETERS: Are there any changes
20 in terms of the MMTP, or the Manitoba-Minnesota
21 Transmission Project, or the Great Northern
22 transmission line in terms of their in-service dates
23 or their revenue requirements?

24 MR. DAVID CORMIE: Mr. Peters, both
25 those projects are still scheduled to come into

1 service in June OF 2020.

2 MR. BOB PETERS: Mr. Cormie, the MMTP
3 -- sorry, I'm abbreviating it again. But the
4 Manitoba-Minnesota transmission line project was
5 pending some -- some approvals that hadn't yet been
6 received?

7 MR. DAVID CORMIE: Two (2) weeks ago,
8 the Province of Manitoba issued Manitoba Hydro an
9 Environment Act license, so we are now permitted in --
10 in the provincial process in Manitoba.

11 We're still waiting for a Federal
12 Government decision to issue us a certificate, and
13 we're expecting that shortly.

14 MR. BOB PETERS: And the plan is for
15 Manitoba Hydro to construct that transmission line in
16 one (1) construction season rather than two (2)?

17 MR. DAVID CORMIE: Yes. Given the
18 delay in getting regulatory permits, we've had to
19 reschedule the work. And -- and we expect
20 construction to start in September and have the line
21 in service for the following spring.

22 MR. BOB PETERS: Doesn't that suggest
23 cost overruns, Mr. Cormie, to compress to construction
24 years into one (1)?

25 MR. DAVID CORMIE: Yes, there will be

1 additional costs. However, we have contracts in
2 place, so we know what the cost of contracting is
3 going to be. All the materials have been procured,
4 and so there's much less uncertainty associated with
5 those costs.

6 And that allows us to use that \$95
7 million contingency to help pay for the accelerated
8 construction schedule. So we still believe it's
9 achievable within the budget that's in the capital
10 expenditure forecast.

11 MR. BOB PETERS: And the -- the
12 construction, is it pending the Section 35
13 consultations that are to be undertaken?

14 MR. DAVID CORMIE: Yes. The National
15 Energy Board made a recommendation to the Federal
16 Cabinet that the line be permitted, and the Federal
17 Government is -- is engaged in those consultations.
18 And we expect that they will be in a position to
19 render their decision in mid-May.

20 MR. BOB PETERS: And the control
21 budget, Mr. Cormie, and even in light of that
22 construction schedule change, hasn't changed and you
23 don't believe it needs to change?

24 MR. DAVID CORMIE: As long as we get
25 the federal permit as -- as scheduled, there'll be no

1 need to change the -- the budget. But once -- and
2 once -- but once we do get the permit and we know the
3 -- the timelines, there's a potential for that
4 revision to occur once everything is lined up.

5 MR. BOB PETERS: And, Mr. Cormie,
6 refresh the Board's memory that the Manitoba-Minnesota
7 Transmission Project, if it's delayed beyond June the
8 1st of 2020, that will have repercussions related to
9 the Minnesota Power 250 megawatts sale?

10 MR. DAVID CORMIE: Yes. The -- the
11 power to be delivered to Minnesota Power is scheduled
12 to go over the new interconnection. And having that
13 interconnection in service by that date is a
14 requirement of the power purchase agreement.

15 MR. BOB PETERS: And if the
16 transmission line isn't available, Mr. Cormie, is
17 Manitoba Hydro still planning to service that
18 contract?

19 MR. DAVID CORMIE: Yes, Manitoba Hydro
20 is making alternate transmission service arrangements
21 in this -- in to -- to cover off the risk that there
22 will be a delay in the in-service and in order that we
23 can be in a position to deliver.

24 MR. BOB PETERS: And those alternative
25 arrangements come at a cost?

1 MR. DAVID CORMIE: Yes, there are --
2 are costs associated with that.

3 MR. BOB PETERS: To Manitoba Hydro?

4 MR. DAVID CORMIE: Yes, there are
5 costs that Manitoba Hydro's incurring in order to do
6 that.

7 MR. BOB PETERS: And I don't want you
8 to place anything you can't see on the public record,
9 and I'm sure you won't, but is that still the plan,
10 that the electrons will be delivered for Manitoba?

11 MR. DAVID CORMIE: Oh, yes, yes. And
12 given Ms. Bauerlein's statement on having Keeyask in
13 2020, we believe that we'll be able to deliver it out
14 of Keeyask. But there is no requirement in the
15 contract that it come from Keeyask, Mr. Peters. It --
16 it's a system power sale.

17 And we've arranged our supply portfolio
18 that, regardless of when Keeyask comes in service,
19 we're in a position to deliver.

20 MR. BOB PETERS: And one (1) point --
21 this one, Mr. Cormie, if you're able, but I recall
22 that Sagkeeng First Nation anticipated filing a
23 judicial review of that environmental license. Has --
24 do you know if that has happened?

25 MR. DAVID CORMIE: I believe that

1 issue has been put into abeyance until the provincial
2 and federal decisions are made.

3 MR. BOB PETERS: All right. And if
4 that judicial review continues, does that preclude
5 construction commencing?

6 MR. DAVID CORMIE: That's a legal
7 matter, Mr. Peters, and I don't really -- I'm not in a
8 position to answer that.

9 MR. BOB PETERS: Mr. Chairman, in
10 light of the hour, perhaps this would be a time for an
11 afternoon recess, if that suits the Board?

12 THE CHAIRPERSON: Thank you. We'll
13 take twenty (20) minutes.

14

15 --- Upon recessing at 2:48 p.m.

16 --- Upon resuming at 3:08 p.m.

17

18 THE CHAIRPERSON: Mr. Peters...?

19 MR. BOB PETERS: Thank you, Mr. Chair.
20 I'll continue.

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: On the screens in
24 front of us, we have the some indication from Board
25 counsel book of documents page 69 of some in-service

1 costs that have been estimated for Keeyask, and that
2 was one (1) of the reasons that Manitoba Hydro has
3 brought this application. So I wanted to start off
4 confirming that the cost of that are acknowledged to
5 be outside of the test year.

6 Correct, Ms. Bauerlein?

7 MS. SANDY BAUERLEIN: That is correct.

8 I'd assume --

9 MR. BOB PETERS: I guess the cost,
10 except for -- I'm sorry to interrupt, but except for
11 the capital costs -- or the capital tax, which is --

12 MS. SANDY BAUERLEIN: Correct. The
13 majority of the costs --

14 MR. BOB PETERS: Yeah.

15 MS. SANDY BAUERLEIN: -- would come
16 into revenue requirements in the year it goes in-
17 service where some of them will start to come in.

18 MR. BOB PETERS: And on page 70 of
19 Board counsel's book of documents, Manitoba Hydro
20 builds an illustrative hypothetical example to this
21 Board as to what would happen if Keeyask was to show
22 up in 2019/20 fully in-service, correct?

23 MS. SANDY BAUERLEIN: Correct.
24 Assuming in '19/'20. It was an illustrative example.

25 MR. BOB PETERS: And the illustrative

1 example was to show the Board that even whatever rate
2 increase is awarded this time, it's not going to fully
3 pay for all the expected in-service costs, correct?

4 MS. SANDY BAUERLEIN: Correct.

5 MR. BOB PETERS: And incurring losses
6 in the financial statements after the in-service of --
7 of a major asset is something that is now being
8 considered by Manitoba Hydro's Electric Board even in
9 light of previous IFF's, correct?

10 MS. SANDY BAUERLEIN: Or may -- I just
11 wanted to restate that this example here is without
12 the three and a half (3 1/2). It's not with. So,
13 it's still saying that without the three and half (3
14 1/2) there's cumulative losses. I wasn't sure on your
15 first, the question before that, if you had said
16 current or revenues meaning with.

17 MR. BOB PETERS: All right. Thank you
18 for that.

19 MS. SANDY BAUERLEIN: So, pardon me
20 for that. What was your question again?

21 MR. BOB PETERS: I'm going to change it
22 now. The -- the point that Manitoba Hydro is making
23 is that it'll need multiple rate increases to -- to
24 get to pay for the Keeyask in-service costs.

25 MS. SANDY BAUERLEIN: That's correct.

1 You're going to need cumulative rate increases to pay
2 for those carrying costs.

3 MR. BOB PETERS: And --

4 MS. SANDY BAUERLEIN: Again, you're
5 putting in \$10 billion, roughly worth of assets, so
6 the carrying costs associated with that will start to
7 hit your finance or your -- your statement of income
8 and as a result of that, you need cumulative rate
9 increases. And that's been sort of shown and
10 demonstrated in every IFF, previously.

11 MR. BOB PETERS: And many of those
12 IFFs have shown a loss of a net income in certain
13 years following the in-service of major assets.

14 MS. SANDY BAUERLEIN: As typically
15 when a major generating station goes into service,
16 there will be losses as the revenues aren't sufficient
17 when the -- when the -- when the asset first goes into
18 service to cover those costs.

19 MR. BOB PETERS: One (1) of the
20 features of Keeyask is that it will also generate
21 revenue for Manitoba Hydro, perhaps unlike some of the
22 transmission assets, correct?

23 MS. SANDY BAUERLEIN: That is correct.

24 MR. BOB PETERS: And it -- on page 70
25 of Board Counsel's Book of Documents, we see a line

1 item, the KHLP, the Keeyask Hydro Power Limited
2 Partnership, has some revenues that would flow to
3 Manitoba Hydro of \$262 million.

4 MS. SANDY BAUERLEIN: That's correct.
5 That was just showing from the 2017/'18 and '18/'19
6 General Rate Application the assumptions of revenues
7 to give an idea of approximation of what was on record
8 for revenues from Keeyask.

9 MR. BOB PETERS: Mr. Cormie, refresh
10 my memory. Manitoba Hydro has sold out the capacity
11 of Keeyask?

12 MR. DAVID CORMIE: Yes, until 2025, a
13 hundred (100) percent of Keeyask capacity has been
14 sold and a hundred (100) percent of its average energy
15 production has been sold. After 2025, we've sold 85
16 percent of Keeyask average energy until 2035, and much
17 less of the capacity has been sold after 2025.

18 MR. BOB PETERS: And on this
19 illustrative example on page 70, the revenues that are
20 assumed to come into this -- for this project are \$262
21 million in the first year in which it's all in-
22 service, Ms. Bauerlein?

23 MS. SANDY BAUERLEIN: That is correct.

24 MR. BOB PETERS: And why did Manitoba
25 Hydro use \$262 million for the Keeyask-related

1 revenues, when I believe Hydro told the Board, it
2 would be greater than that during the last General
3 Rate Application?

4 MS. SANDY BAUERLEIN: Absent a long-
5 term forecast, there is no other definitive number on
6 record, so we were using what was on record which is
7 the \$262 million.

8 MR. BOB PETERS: All right, and on --
9 on pages 76 and 77 of Board counsel's Book of
10 Documents, on the public record, are some numbers that
11 are higher than that with respect to the revenues that
12 would be received from Keeyask in its first year in-
13 service, which I think on page 76 which is the page we
14 have before us, that's assumed to be 2022/'23.

15 Are you with me, Ms. Bauerlein?

16 MS. SANDY BAUERLEIN: Yes.

17 MR. BOB PETERS: So is it -- one (1)
18 of the scenarios would be that instead of \$262
19 million, it could be \$357 million, or even on the next
20 page 77, it could be up to \$394 million.

21 MS. SANDY BAUERLEIN: Correct. But,
22 even making that assumption because again, if you look
23 at the -- this -- the case under, on page 77, the all
24 firm that's sort of a best case scenario. So, even if
25 you look at \$400 million, you're still \$160 million

1 difference from your 300. So, there still would be
2 significant losses even under this best-case scenario.

3 MR. BOB PETERS: No, I -- I have your
4 point, and the point is it could be as much as 50
5 percent of the \$308 million loss that was shown back
6 on page 70 of Board counsel's Book of Documents.

7 MS. SANDY BAUERLEIN: Can you repeat
8 the question?

9 MR. BOB PETERS: If we go back to page
10 70 of Board counsel's Book of Documents and instead of
11 using \$262 million, we inserted the \$400 million,
12 which we -- you call like the best-case scenario, then
13 that's going to have an impact of reducing that \$308
14 million to a number 55 --

15 MS. SANDY BAUERLEIN: Correct.

16 MR. BOB PETERS: -- or 60 percent of
17 that.

18 MS. SANDY BAUERLEIN: Correct. You
19 could be having now \$150 to \$160 million loss, which
20 would still require cumulate rate increases higher
21 than the 3.5 percent.

22 MR. BOB PETERS: Now, one of the
23 interveners has raised the prospect of a deferral
24 revenue account for Keeyask, should the Board award
25 any rate increase for '20 -- '19/'20.

1 You're aware of that?

2 MS. SANDY BAUERLEIN: Yes, Manitoba
3 Hydro is aware.

4 MR. BOB PETERS: And Manitoba Hydro
5 also has experience with the Bipole III deferral
6 account, correct?

7 MS. SANDY BAUERLEIN: That is correct.
8 We have approximately 11.6 percent cumulative rate
9 increases were put into the bi-pole deferral account
10 prior to in-service.

11 MR. BOB PETERS: And while that Bipole
12 III revenue was being deferred, Ms. Bauerlein, that
13 revenue from 11.6 of the rates, or what built up to
14 11.6 in rates, that was income that was still received
15 by Manitoba Hydro and spent by Manitoba Hydro?

16 MS. SANDY BAUERLEIN: It was cash
17 received by Manitoba Hydro and -- and yes spent by
18 Manitoba Hydro. It wasn't -- I -- I -- I
19 differentiate between income because I think of net
20 income, so it was never reflected as revenue, it was
21 always reflected as deferred revenue and that cash was
22 received.

23 Now that BiPole has gone in-service, we
24 start to recognize that revenue on our statement of
25 income over the five (5) year period, as directed by

1 the -- the Public Utilities Board.

2 MR. BOB PETERS: Back to page 6 of the
3 book of documents, and this is only for a second, so
4 don't get disappointed.

5 We see on this, and regardless of which
6 IFF this is, if we go up to the 2018 year and go down
7 that column, we see the Bipole III reserve account of
8 \$151 million, and you see that, Ms. Bauerlein?

9 MS. SANDY BAUERLEIN: I see that.

10 MR. BOB PETERS: What you're telling
11 the Board when you display it this way in the
12 operating statement is that \$151 million was cash from
13 customers that's already captured in the \$1.578
14 billion on the top line. Correct?

15 MS. SANDY BAUERLEIN: Correct.

16 MR. BOB PETERS: And Manitoba Hydro
17 backs it out, at this point, so that it never ends up
18 into the -- the net income of the Corporation because
19 it's a -- it's a deferred account.

20 MS. SANDY BAUERLEIN: Correct. In
21 2017/'18, you see it coming out and then you see it
22 coming in at the time that BiPole was coming in-
23 service. So, you see the amortization of that.
24 That's why you see the positive numbers in the out
25 years.

1 MR. BOB PETERS: What you're telling
2 the Board is that there was about \$392 million in that
3 deferral account that you are now starting to credit
4 back to consumers over, I think, sixty (60) months
5 spread over six (6) fiscal years.

6 MS. SANDY BAUERLEIN: That is correct.

7 MR. BOB PETERS: And when you say
8 you're going to credit it back to consumers, what that
9 really means is you have to go out and borrow that
10 money because you've already spent that cash.

11 MS. SANDY BAUERLEIN: Correct.

12 MR. BOB PETERS: Now...

13 MS. SANDY BAUERLEIN: But it did imply
14 that we -- we borrowed less in those years that we
15 received it.

16 MR. BOB PETERS: All right. So why --
17 why hasn't Manitoba Hydro sought a Keeyask deferral
18 account analogous to the Bipole III deferral account?

19 MS. SANDY BAUERLEIN: We're actually
20 really impartial. We need the cash. So whether we
21 decipher a financial statement purposes that were
22 going to put that cash into a deferral account and
23 recognize that later into revenue or we actually show
24 it as revenue today, the fact of the matter is that we
25 need that cash and it reduces the borrowing

1 requirement for today.

2 MR. BOB PETERS: Do I understand you
3 be saying to the Board that you need the cash not the
4 net income so it doesn't matter to Manitoba Hydro,
5 whether it's deferred revenue or not?

6 MS. SANDY BAUERLEIN: Now, I mean
7 we're always concerned about our net income, but we
8 also need to look at our cash position, so it's not so
9 black-and-white. So, we look at both.

10 So, again, you know, we would -- the
11 main point we want is we want the three -- we need the
12 3 1/2 percent rate increase and -- and whether the
13 decision of the panel is to put that into a deferral
14 account and to have lower net income in this fiscal
15 year, but then we'll have higher net income in -- in
16 the future, that is a decision of the Board. Again,
17 we try and balance both.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Is there any
22 conceptual difference, Ms. Bauerlein, that the asset
23 for which revenues are deferred is a revenue-
24 generating asset or -- or not a revenue-generating
25 asset?

1 MS. SANDY BAUERLEIN: I'm not quite
2 sure I follow your question, Mr. Peters.

3 MR. BOB PETERS: From a presentation
4 point of view and what Manitoba Hydro does with the
5 money and how it presents the money that it's received
6 as a deferral account, does it matter that the
7 deferral account is related to a revenue generating
8 asset like Keeyask, rather than a non-revenue
9 generating asset like Bipole III?

10 MS. SANDY BAUERLEIN: I don't think
11 the concept of a deferral account matters whether it's
12 -- it's revenue generating are not. I think the point
13 we were trying to make earlier is that the revenues
14 from Keeyask itself once the station's in-service,
15 will not be sufficient. And so as a result of that,
16 we need additional revenues.

17 MR. BOB PETERS: And that revenue
18 would be available from a deferral account, only
19 starting when the asset is in-service.

20 MS. SANDY BAUERLEIN: You would want
21 to probably recognize that at the time the asset went
22 in service because you're going to start seeing those
23 cost impacts on your statement of income. You're
24 going to start seeing your finance and depreciation
25 expense.

1 So, similar to Bipole, you've got those
2 costs if you look at the scenario that's in front of
3 you here, in 2020, it's showing you in '19/'20 that --
4 that Bipole III's in service, so you've got now the
5 financing costs included in your \$749 million. You've
6 got your depreciation on that asset in your \$515. And
7 so there's this additional revenue that's being
8 recognized of seventy-nine (79) to help off-set some
9 of those costs from a statement-of-income perspective.

10 MR. BOB PETERS: And from a cash flow
11 perspective, it doesn't make any difference
12 whatsoever, because you've already used it as cash for
13 your cash flow and you would continue to use it as
14 that, even when the deferral account was being
15 amortized.

16 MS. SANDY BAUERLEIN: And again, it's
17 a recognition that you got. You -- you received that
18 cash, so you had reduced borrowings in those years as
19 a result of receiving that cash. So there's still
20 that -- that benefit of you borrow less today, then
21 you would have had to otherwise, because you received
22 that cash.

23 MR. BOB PETERS: All right, I think I
24 have your point, Ms. Bauerlein. I want to change to a
25 new topic, one (1) of my remaining, I think, three.

1 Is it correct that in recent years
2 Manitoba Hydro has made two (2) changes to its cash
3 flow statement presentation?

4 MS. SANDY BAUERLEIN: That is correct.

5 MR. BOB PETERS: The first was a
6 methodology change going from what is called a direct
7 method to what is also called an indirect method.

8 Is that correct?

9 MS. SANDY BAUERLEIN: It is correct.
10 And both methods are accepted under international
11 financial reporting standards.

12 MR. BOB PETERS: The second of the two
13 (2) changes that Manitoba Hydro has made to its cash
14 flow statement is what I'll call a policy change in
15 the...

16

17 (BRIEF PAUSE)

18

19 MR. BOB PETERS: Ms. Bauerlein, we're
20 going to have a little bit of Groundhog Day, if that's
21 the movie. I was asking Manitoba Hydro, whether it
22 was correct that in recent years the Corporation has
23 made two (2) changes to its cash flow statement.

24 MS. SANDY BAUERLEIN: That is correct.

25 MR. BOB PETERS: And the first change

1 is from a direct to an indirect way of reporting cash
2 flow.

3 MS. SANDY BAUERLEIN: It's really
4 presentation changes. They're -- they're both going
5 to be presentation changes. At the end of the day,
6 your cash balances are the same, it's just how you
7 present them and show them on your cash flow
8 statement.

9 MR. BOB PETERS: And so the second
10 change is -- I called a policy change, but you're
11 saying it's the second presentation change, is to
12 record capitalized interest as an operating activity
13 and no longer recorded as an investing activity?

14 MS. SANDY BAUERLEIN: Correct. It's
15 being displayed or presented as an operating activity
16 versus an investing activity. At the end of the day,
17 it's just where it appears on the cash-flow statement.
18 You haven't changed. You're still making those
19 interest payments, it's just where they appear.

20 MR. BOB PETERS: Well, what changes is
21 how you present them, as either an operating activity
22 or as an investment activity?

23 MS. SANDY BAUERLEIN: Correct. It's
24 simply the presentation. The fact is you still have
25 to make those payments, so it's cash going out the

1 door.

2 MR. BOB PETERS: And those two (2)
3 changes operate independently of each other, so they,
4 Ms. Bauerlein?

5 MS. SANDY BAUERLEIN: Yes, they do.

6 MR. BOB PETERS: On page 96 of board
7 council's book of document is a cash flow statement.
8 And I'm going to focus for my questions on -- on this
9 page and the next page in my book of documents, but
10 I'm' going to also just focus now on this second
11 change where Manitoba Hydro records capitalized
12 interest as an operating activity and no longer
13 records capitalized interest as an investing activity.

14 And we see that on page 96 here, do we,
15 Mr. Bauerlein?

16 MS. SANDY BAUERLEIN: Correct. But I
17 -- I again would emphasize I don't view it as how we
18 record it, it's how we present it.

19 MR. BOB PETERS: All right. You'll
20 teach me yet. And we -- we'll -- when I -- when we
21 look at page 96 and look at the cash provided by
22 operating activities for the 2018 year, the actual
23 year that's -- that has closed, we see a negative
24 hundred and \$132 million, correct?

25 MS. SANDY BAUERLEIN: Correct.

1 MR. BOB PETERS: Am I -- is the Board
2 also correct in understanding that on the line item
3 above that that says interest paid of \$880 million,
4 that 880 million includes interest paid that is
5 capitalized by Manitoba Hydro?

6 MS. SANDY BAUERLEIN: Correct. It's
7 interest that's paid both for assets that are in
8 service, so that interest is an expense, and it's
9 interest that's paid for assets that are not yet in
10 service that are currently being capitalized. So,
11 it's the total amount of interest that we need to pay
12 to our bondholders.

13 MR. BOB PETERS: And to put a finer
14 point on that, Ms. Bauerlein, of that \$880 million,
15 three hundred and forty-three (343) relates to assets
16 that are not yet in service. Is that correct?

17 MS. SANDY BAUERLEIN: Subject to check
18 on the actual number, but it should be in that range.

19 MR. BOB PETERS: All right. And then
20 if we -- if we look to the current Outlook 2019,
21 Manitoba Hydro shows cash provided by operating
22 activities of \$326 million, correct?

23 MS. SANDY BAUERLEIN: That is correct.

24 MR. BOB PETERS: And that number would
25 be \$274 million higher if you removed the capitalized

1 interest from the operating activities and moved it
2 down to the investing activities?

3 MS. SANDY BAUERLEIN: Subject to
4 check, it would be in that range.

5 MR. BOB PETERS: All right. And then
6 just to complete the page, the \$331 million of cash
7 provided by operating activities shown on page 96,
8 that would be increased by \$311 million if the
9 capitalized interest was removed from the \$1.028
10 billion line item?

11 MS. SANDY BAUERLEIN: The three eleven
12 (311) I'm familiar with, so, yes that is correct.

13 MR. BOB PETERS: All right. And --

14 MS. SANDY BAUERLEIN: I just wanted to
15 just emphasize the Board, the reason why we made this
16 presentation change, it was actually at the direction
17 of -- of our execu -- audit committee, as well,
18 recognizing that these major assets were coming in
19 service.

20 And so what they were trying to
21 understand is how much are we totally -- are we paying
22 in total interest payments because the fact that
23 accounting allows you to capitalize those interest
24 costs while you're constructing the asset isn't
25 allowing them to see because those costs then were

1 buried in the investing activities.

2 They would not be able to understand
3 what total obligation, like, how much are we paying in
4 interest so that when those assets start coming in
5 service and they start appearing now as -- as -- on my
6 operating statement, I understand the magnitude of
7 that.

8 And so we tried to demonstrate that a
9 little bit if you can call up from our rebuttal
10 evidence page 9, Figure 6.

11 So if you look at the -- the column
12 right now on the right, what that's saying is our
13 interest paid is a billion dollars, but we're
14 capitalizing around 300 million.

15 So at the end of the day, what you're
16 seeing then is that net effect of only 700 million on
17 your operating statement of interest costs. But the
18 fact is that the -- the -- our -- our audit committee
19 or executive are aware that Keeyask was coming --
20 Bipole was coming in service and Keeyask was coming in
21 service, and when they do, then those interest
22 payments are going to hit, they're now going to be
23 part, so that 300 million roughly is going to
24 disappear down to twenty (20).

25 And so at the end of the day now, it

1 was identifying us that we're going to have a cash
2 deficit after we take out the payments that we need to
3 make to sustain -- for our sustaining capital, for our
4 business operations capital.

5 So it shows you now that, instead of
6 having \$571 million of cash provided by operating
7 activities, if you factor in that those payments are
8 now going to become part of your operating activities
9 in the very near future, you're now only going to have
10 \$281 million of cash provided by operating activities.

11 And when you deduct your capital
12 expenditures, you're left with a deficit, which is --
13 is the concerns that -- that Ms. Stephens (sic) was
14 trying to draw attention to that the credit rating
15 agencies have -- are concerned with.

16

17 (BRIEF PAUSE)

18

19 THE CHAIRPERSON: Sorry, Mr. Peters,
20 can I ask a question? The audit committee, this is
21 the current audit committee or the audit committee of
22 the former board?

23 MS. SANDY BAUERLEIN: The request was
24 made by the former audit committee of the Board.

25 THE CHAIRPERSON: Okay.

1 MS. SANDY BAUERLEIN: But to date,
2 there's been no changes recommended by the current
3 audit committee of the Board.

4 THE CHAIRPERSON: Okay. Do you know
5 if the current audit committee has considered this
6 matter of presentation.

7 MS. SANDY BAUERLEIN: They have not
8 raised it as an issue is all I can say. So I'm
9 understanding with it not being raised as an issue,
10 that they're accepting that presentation, again, with
11 the reflection that they understand that Keeyask is
12 coming into service.

13 THE CHAIRPERSON: As I -- as I see
14 this, it shows, by using indirect, your financial
15 position appears to be worse than if you were using
16 direct.

17 MS. SANDY BAUERLEIN: So, this isn't
18 the difference between direct and indirect. This is
19 simply the difference between are you reflecting your
20 interest payments in investing activities or operating
21 activities.

22 THE CHAIRPERSON: But the informa --
23 but the statements you are showing to the bond-rating
24 agencies, do they use indirect or direct?

25 MS. SANDY BAUERLEIN: So the -- this

1 is independent of that. So the direct method, if you
2 walk through -- let's just -- just -- so this is the
3 direct method. The direct method gets you cash
4 receipts from customers and cash paid to suppliers.
5 It's just a presentation.

6 In the indirect method, you start with
7 net income and you take out all your non-cash items,
8 so it's a different presentation. But the direct and
9 indirect are just different ways of -- of portraying
10 your operating activities.

11 I'm going to just try and find an IR
12 that can show you the difference. Okay.

13

14 (BRIEF PAUSE)

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: Yes. and I'll --
18 I'll go there right now, Ms. Bauerlein, with you.
19 Let's have a look on page 96 for the 2018 year actual.
20 And you see that the cash provided by operating
21 activities is recorded as a negative 132 million,
22 correct?

23 MS. SANDY BAUERLEIN: That is correct.

24 MR. BOB PETERS: Now, if we turn the
25 page and we look for that \$343 million that you

1 previously agreed with me, it now gets added to that,
2 and we see cash provided by operating activities of
3 positive 211 million, correct?

4 MS. SANDY BAUERLEIN: I'm just trying
5 to...

6

7 (BRIEF PAUSE)

8

9 MS. SANDY BAUERLEIN: Okay. This is
10 moving the capitalized interest. So this is the
11 difference between your -- your capitalized interest,
12 so the numbers are different because you've got a
13 different line in your interest paid. This is a
14 result of the direct versus indirect method.

15 MR. BOB PETERS: All right. So I'm
16 not arguing that point with you, Ms. Bauerlein. I
17 apologize if I confused you. But let's cross off the
18 direct method and indirect method on this
19 presentation.

20 MS. SANDY BAUERLEIN: Okay.

21 MR. BOB PETERS: Let's just ignore
22 whether it's direct or indirect. And let's just focus
23 on what we do with capitalized interest. And that's
24 what my questions were headed.

25 So what I think you agreed with me on

1 page 96 was that in the line item of \$880 million of
2 interest paid there was about \$343 million that was
3 capitalized?

4 MS. SANDY BAUERLEIN: Correct.

5 MR. BOB PETERS: And so if we remove
6 it, \$132 million negative, and we turn the page to --
7 to ninety-seven (97), it becomes \$211 million
8 positive?

9 MS. SANDY BAUERLEIN: Right. So it's
10 showing you a presentation difference. So it's
11 showing you in this situation that you have positive
12 cash from operating activities of 211 million. But
13 what that's not factoring in is the interest payments
14 that you're making on assets that aren't yet in
15 service.

16 MR. BOB PETERS: And --

17 MS. SANDY BAUERLEIN: And so our audit
18 committee wanted to understand how much are we still
19 paying cash out the door regardless of the fact that
20 the acid isn't in service.

21 So if you flip back to the other one,
22 that's where the eight hundred and eighty (880) comes.
23 So the eight hundred and eighty (880) now says, from a
24 cash perspective, we're actually in a negative because
25 we actually have to make those payments, so we're now

1 negative one hundred and thirty-two (132) not two
2 hundred and eleven (211).

3 And so that was the distinction they
4 were trying to make. They were trying to understand
5 financially are we in a good position are not a good
6 position because that 300 million, they weren't
7 understanding where it was in -- in relation here
8 because it was buried in your investing activities, in
9 your additions to property, plant and equipment.

10 So they -- they wanted to understand
11 how much are we actually paying an interest versus,
12 just from a financial statement perspective, how much
13 are you expensing versus capitalizing, and so that's
14 why we moved it, for presentation purposes.

15 That 300 million was always on the cash
16 statement, it was just previously in your additions to
17 property, plant and equipment.

18 MR. BOB PETERS: All right. Ms.
19 Bauerlein, let's take this in a little bit smaller
20 pieces and make sure that we're all on the same
21 understanding.

22 MS. SHAWNA PACHAL: Can I -- I just
23 wanted to add something in this discussion, is that it
24 was interesting. Last week, Susan and I were on a
25 call with one of the debt-rating agencies having a

1 discussion and asking us questions about Manitoba
2 Hydro. We do these calls on a quarterly basis, Susan,
3 with the province.

4 MS. SUSAN STEPHEN: Not on a
5 quarterly. I believe it's annually.

6 MS. SHAWNA PACHAL: Annually.

7 MS. SUSAN STEPHEN: Yeah.

8 MS. SHAWNA PACHAL: Okay, so annually.

9 And we -- one (1) of the thing -- one (1) of the
10 questions that was asked was about our interest
11 payments. And somebody asked about our -- you know,
12 is that your total capitalized interest as well as
13 your other interest.

14 So no matter how you present it, the
15 debt rating agencies, or anyone else, says that I need
16 to pay as a business -- my interest payments for this
17 year are 500 million or \$800 million.

18 It doesn't matter how I display or
19 present it on the statements, the reality is that
20 money has to get paid to bondholders. And so where
21 you put it on this list and -- and where you lay it
22 out, whether it's the bond rating agencies or the
23 financial people, they see that all the time, so they
24 say, well, whether you got it capitalized and you're
25 presenting it differently, what is the total amount of

1 interest you are paying to bondholders every year.

2 So you're presenting it in a way that
3 you could see it all in one spot. Otherwise, then the
4 debt rating agencies go, well, you've got some of it
5 here and some of it here and we add up, and then
6 that's your total.

7 So, you know, in the efforts of being
8 fully transparent, you're putting it all in one place
9 and you can see it and that's how much money every --
10 every year we need to pay in interest.

11 MR. BOB PETERS: And in the years
12 before the former audit committee's request to present
13 capitalized interest as part of operating activities
14 did Manitoba Hydro have the same issues that Ms.
15 Pachal is saying in terms of having the debt rating
16 agencies ask what is the total interest?

17 MS. SUSAN STEPHEN: We have always
18 presented our credit rating presentation -- in our
19 credit rating presentations cash flow from operations
20 which, I guess, would include capitalized interest
21 which would mean that we would show cash flow from
22 opera -- or we would show capitalized interest in
23 investing activities.

24 So it would essentially inflate our
25 cash from operations by the amount that we're

1 capitalizing the interest. The credit rating agencies
2 are well aware that this is simply a presentation
3 matter, and they have adjusted.

4 We have the exact spreadsheets from the
5 credit rating agencies which show us how they
6 calculate their ratios. And they deliberately make
7 that adjustment. They remove that interest
8 capitalized for their own purposes.

9 So they know exactly what's going on.
10 You can pull one over their eyes. They -- they will
11 do their own calculations and use their calculations
12 for their assessments.

13 MS. SANDY BAUERLEIN: So I think what
14 -- what Ms. Stephen is saying is that they take it out
15 of investing because they want to know what your total
16 interest is that's being paid.

17 So all we've done here is make it, as
18 Ms. Pachal has said, more transparent. It's more
19 transparent now to everybody what the total amount of
20 interest is that Manitoba Hydro's paying on its debt
21 given the size of its debt.

22 MR. BOB PETERS: And if the credit
23 rating agencies were doing the math before, why is
24 there a need to change the way it's presented so that
25 they can do the same math now?

1 MS. SUSAN STEPHEN: I don't believe
2 that we changed the presentation for the credit rating
3 agencies. We changed it for our prior audit
4 committee.

5 MR. BOB PETERS: In terms of your
6 public released financial statements?

7 MS. SUSAN STEPHEN: Correct.

8 MR. BOB PETERS: The point, Ms.
9 Bauerlein -- let's -- let's just conclude on the page
10 60 -- sorry, 96. If we go down to the cash used for
11 investing activities, we see 2.7 billion dollars,
12 correct?

13 MS. SANDY BAUERLEIN: That is correct.

14 MR. BOB PETERS: And as we've now
15 discussed, that does not include the interest that has
16 been capitalized?

17 MS. SANDY BAUERLEIN: Correct. So
18 that would be roughly \$300 million higher --

19 MR. BOB PETERS: And if we turn --

20 MS. SANDY BAUERLEIN: -- if it was
21 presented there versus if it's presented as operating
22 activities.

23 MR. BOB PETERS: And if we turn the
24 page to page 97, that's your \$343 million higher
25 showing on the cash used for investment activities on

1 page 97?

2 MS. SANDY BAUERLEIN: Correct.

3 MR. BOB PETERS: All right.

4 MS. SANDY BAUERLEIN: And, again,
5 keeping in mind that with -- with Keeyask coming in
6 service, you know, now even a greater likelihood it'll
7 be next fiscal year, it's even more important to
8 because those costs, that interest costs now, will
9 start hitting revenue requirement next year.

10 So we wanted to have an understanding
11 of how much that's going to be and providing more
12 transparency on what that -- that magnitude is going
13 to be because it's significant.

14 MR. BOB PETERS: Prior to two (2)
15 years ago, why wasn't Manitoba Hydro wanting to be
16 more transparent at that time in terms of how it
17 presented its cash flow statement to the public?

18 MS. SANDY BAUERLEIN: I think there's
19 always been discussions or there's been discussions
20 for a number of years on presentation on cash flow.
21 And, again, you know, those discussions have just
22 evolved over time.

23 But -- but I know even going back of a
24 number -- three (3) or four (4) years ago there was
25 discussions on cash flow statement and presentation of

1 the cash flow statement.

2 MR. BOB PETERS: And so is it correct
3 then that the when it comes time to pay the interest
4 on the projects that are not yet in service, Manitoba
5 Hydro would borrow the money to do that?

6 MS. SANDY BAUERLEIN: We'd have no
7 choice, yeah.

8 MR. BOB PETERS: And in terms of how
9 Manitoba Hydro presents the information, you made a
10 point earlier that the cash at the end of the year,
11 regardless of whether the interest is capitalized into
12 investing activities or into operating, the cash at
13 the end of year numbers will be the same?

14 MS. SANDY BAUERLEIN: Right. The cash
15 to the end of the year is always the same and your
16 financing activities never change. So your financing
17 activities are showing you here's the cash that you
18 get from operating activities. So that's your -- you
19 know, you're -- really your cash receipts from
20 customers less what you pay your suppliers, here's how
21 much you received from borrowings, and then here is
22 how much you're investing.

23 So at the end of the day, your cash at
24 the end of the year will stay the same, it's just what
25 bucket we're presenting it in.

1 MR. BOB PETERS: All right. Turning
2 to the cash flow but related to the -- the
3 presentation, whether it's direct or indirect, and
4 leaving aside the issue of whether the interest is
5 capitalize or not, you show on page 96 in the update
6 that when you do the indirect methodology you start
7 with net income, and then you start adding back items
8 that -- such as depreciation, amortization, and some
9 that finance expense, correct? You -- you --

10 MS. SANDY BAUERLEIN: Yes.

11 MR. BOB PETERS: You start at the net
12 income as opposed to, if we turn the page to page 97
13 and we look at what was formerly known -- or what is
14 still known as the direct methodology, you start with
15 the cash that's from customers, and then try to show
16 how much of it you spend on operating activities and
17 where the balance of the cash goes and how it's
18 raised?

19 MS. SANDY BAUERLEIN: Correct. And
20 that change in presentation was simply more a
21 reconciliation. Again, there's been discussions over
22 a number of years. IFRS allows you to do both
23 approaches. But if you start with net income, then --
24 then someone can actually follow that because they can
25 take our -- our statement of income and say, okay, I'm

1 starting with that number, whereas you don't see
2 anywhere our cash receipts from suppliers and cash --
3 or cash receipts from customers and our cash paid to
4 suppliers.

5 So it was more allowing sort of that
6 reconciliation process to happen. Again, it's -- it's
7 a presentation style. And -- and as we've done
8 throughout this application, we presented both views.

9 MR. BOB PETERS: Ms. Bauerlein, let's
10 -- let's -- help me with this hypothetical. If a
11 person is working on Keeyask today, that person is
12 paid by Manitoba Hydro on their regular pay cycle of
13 every two (2) weeks or every month. Is that correct?

14 MS. SANDY BAUERLEIN: Correct.

15 MR. BOB PETERS: And that person
16 working on Keeyask that's getting paid every two (2)
17 weeks in my example, are those wages capitalized to
18 the project or are they recorded as an operating
19 activity?

20 MS. SANDY BAUERLEIN: They would be in
21 investing activities.

22 MR. BOB PETERS: So the person that
23 you have to pay every two (2) weeks is categorized as
24 investing activities, but the cash paid to employees
25 does not include them?

1 MS. SANDY BAUERLEIN: What we're
2 showing here is that, you're right, the -- the person
3 who's actually working on the capital project is --
4 that person's in your additions to capital assets,
5 whereas what we're trying to show you is the total
6 interest again because finance is an important lar --
7 one (1) of the largest components of when an asset
8 goes in service.

9 So we're just trying to again make that
10 awareness here.

11 MR. BOB PETERS: So --

12 MS. SANDY BAUERLEIN: There's always
13 going to be recognition that the costs of the employee
14 when they're -- they're working on that project will
15 be built into depreciation expense and won't be
16 recognized, as well, until that asset is in service.

17 But there was a lot of concerns again
18 raised by our executive, by management, in trying to
19 understand the financing components and what's
20 happening, especially given the magnitude of our debt.

21

22 MR. BOB PETERS: And so if I ask you
23 the same question, that the Manitoba Hydro goes out
24 and purchases steel to build Keeyask, that steel will
25 be recorded -- you have pay for it this month,

1 correct? You have to -- you have to pay for it?

2 MS. SANDY BAUERLEIN: Correct. And so
3 you see that again in your additions to capital assets
4 in your investing activities. So the labour you pay,
5 the steel cost you pay, those are in investing
6 activities. Again, this was just a presentation view
7 to allow you to get some perspective on how much
8 interest -- in total interest we're paying.

9 MR. BOB PETERS: And at the top of
10 that, under, "Operating Activities," where it says,
11 "Cash Paid to Suppliers," that doesn't include the
12 steel supplier on Keeyask?

13 MS. SANDY BAUERLEIN: Correct. That
14 would be cash paid to suppliers and employees for
15 operating activities.

16 MR. BOB PETERS: And then -- but the
17 interest paid, when you go to your current
18 presentation of capitalizing interest -- showing
19 capitalized interest in the operating activities,
20 would also include only the interest related to
21 Keeyask and some of the other major projects, but not
22 the labour, not the supplies. Is that correct?

23 MS. SANDY BAUERLEIN: That's correct.

24 MR. BOB PETERS: And the inconsistency
25 between the two (2) is so that some of the information

1 can be -- be presented in one fashion because somebody
2 requested more clarity of that. Is that --

3 MS. SANDY BAUERLEIN: I think it's
4 trying to understand what our -- our -- it's to
5 provide some better perspectives and some more
6 transparency on that.

7 MR. BOB PETERS: Is it -- and I don't
8 know how to mess with these cash flow statements, Ms.
9 -- Ms. Bauerlein -- oh, sorry. Sorry.

10

11 (BRIEF PAUSE)

12

13 MS. SANDY BAUERLEIN: Sorry, my
14 apologies for that.

15 MR. BOB PETERS: No. Just on page 97,
16 I just want to conclude, Ms. Bauerlein, in terms of
17 your accounting presentation, 97, please, page 97 --

18 MS. SANDY BAUERLEIN: I think the other
19 point I want to make is that the cost of the steel and
20 the labour, those reviewed is really direct costs to
21 build an asset. And, I mean, I -- I understand that
22 the boring could be viewed as that, as well. But
23 again, it was is trying to get a perspective of where
24 that is.

25 So again, this is simply a

1 presentation. It's not changing the fact that you
2 have to pay the cash. It's just allowing you a
3 different view in terms of how much is -- interest is
4 going out the door. It doesn't change. It's just
5 simply a presentation style that many of us in finance
6 find, especially given that Keeyask is -- is coming
7 into service, that we're trying to understand how much
8 is our total interest payment.

9 VICE CHAIR KAPITANY: Mr. Peters,
10 could I just ask one (1) question?

11 MR. BOB PETERS: Please.

12 VICE CHAIR KAPITANY: So, Ms.
13 Bauerlein, I understand what you're saying, that it's
14 just a presentation issue, but it seems to me that
15 this is related to what the bond rating agencies care
16 about.

17 So when the bond rating agencies look
18 at either this statement on page 96 or on 97, are they
19 looking at that line that says, "Cash Provided by
20 Operating Activities," on page 96 or on cash at year-
21 end?

22 MS. SANDY BAUERLEIN: They are looking
23 at cash provided by operating activities, but they'll
24 factor in that you have interest payments. They -- as
25 Ms. Stephens (sic) has talked about, they want to make

1 sure that you have enough cash to make all your
2 operating costs, which includes your interest
3 payments, all your interest payments. That's the way
4 the bond rating agencies look at this.

5 VICE CHAIR KAPITANY: And have always
6 looked at it?

7 MS. SANDY BAUERLEIN: Yes.

8 VICE CHAIR KAPITANY: So on either
9 page 96 and 97 they'd be looking at cash provided by
10 operating activities on on either of those two (2)?

11 MS. SANDY BAUERLEIN: Correct. But
12 they would really look at it.

13 VICE CHAIR KAPITANY: They would just
14 be -- sorry the second one they would be taking the
15 interest out of the additions to capital assets and
16 adding them into the interest paid?

17 MS. SANDY BAUERLEIN: Right. Their
18 view is more consistent with the view here that's
19 showing the negative one hundred and thirty-two (132)
20 that's on your screen. That would be the view that
21 the credit rating agencies would have.

22 VICE CHAIR KAPITANY: Thank you.

23 MS. SANDY BAUERLEIN: They want to
24 understand what your total interest is paid, and they
25 take that out of cash provided by operating

1 activities.

2 Because at the end of the day, your
3 cash at year-end, that's really as a result of you
4 boring, so they're more concerned with what do you
5 have so that you're not having to borrow.

6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Ms. Bauerlein and Ms.
9 Carriere, at the last general rate application,
10 Manitoba Hydro's chief financial officer included the
11 interest from Bipole III in the cash flow presentation
12 but did not include the interest from Keeyask in the
13 cash flow presentation. Is that correct?

14 MS. SANDY BAUERLEIN: That was not in
15 the cash flow statement. That was in a calculation.
16 What did we -- what do we call it? CFO to CapEx, I
17 believe was -- so it wasn't the cash flow statement.
18 This is the actual financial cash flow statement.
19 That was a different metric, I believe, that the --
20 was brought up at the previous GRA

21 MR. BOB PETERS: All right. And, Ms.
22 Bauerlein, in terms of capital coverage ratio, is it
23 correct that when Manitoba Hydro calculates its
24 capital coverage ratio it removes capitalized interest
25 from its cash flow from operations to determine what

1 the internally generated funds are when it -- when it
2 calculates that cash -- capital coverage ratio?

3 MS. SANDY BAUERLEIN: That is correct,
4 which is again one (1) of the reasons that, you know,
5 our -- our financial metrics -- we need to look at our
6 financial metrics and decide whether or not they're --
7 they're, you know, something we -- we want to change
8 or want to review.

9 The capital coverage ratio metric has
10 been in place for -- I think since the 1990s. And so,
11 you know, I think this is talked about at the last
12 GRA, that there's some limitations with the
13 calculation and the metric itself when you're in
14 periods of major capital expansion and your borrowing
15 at the levels that we're borrowing today.

16 You know, when you only have \$20
17 million of interest that's been capitalized, it's very
18 different then when you're having, you know, \$300
19 million of interest that's being capitalized.

20 MR. BOB PETERS: Ms. Bauerlein, and I
21 correct in saying then that there's an inconsistency
22 that Manitoba Hydro removes capitalized interest when
23 it -- from its cash flow from operations when it's
24 calculating the capital coverage ratio but it leaves
25 it in when you're -- when you're looking at the

1 interest coverage?

2 MS. LIZ CARRIERE: I think when the
3 cash flow capital coverage ratio was established the
4 intent was such that -- to ensure that we're
5 generating enough revenue and cash to be able to
6 sustain the system.

7 Now that we're in a major expansion
8 mode -- and it was to make sure that we weren't -- we
9 were maintaining control of the overall level of
10 borrowing so that we weren't borrowing to sta -- to
11 sustain our system.

12 Now that we're in a major expansion
13 mode, that has changed, obviously, and this metric
14 isn't really useful during that period of time.

15 MR. BOB PETERS: Ms. Carriere, you're
16 acknowledging that it's inconsistently calculated
17 without how it's now presented on the cash flow
18 statement, but there may be a reason to revisit that,
19 and that's something that you're expecting Manitoba
20 Hydro's board to be looking at?

21 MS. LIZ CARRIERE: It's not -- I
22 wouldn't say it's inconsistently calculated. It was
23 established at a time when -- when we weren't in an
24 expansion.

25 So the intent was to make sure that we

1 were not increasing our borrowing for sustaining
2 capital. I think we were consistently calculating it
3 on the same basis to maintain that level of -- to make
4 sure that we're still not borrowing for our sustaining
5 capital; however, it's not telling the full picture is
6 what I'm trying to say.

7 MR. BOB PETERS: All right. I think
8 we have your point. I want to turn to a new topic,
9 exciting to some. And I'll try to be as enthusiastic
10 as would Ms. Steinfeld if she was asking questions on
11 cost of service and class revenue requirements.

12 But with Bipole III entering into
13 service, the portion of revenue requirement
14 functionalized as generation has now increased
15 significantly, correct?

16 MS. LIZ CARRIERE: That's correct.

17 MR. BOB PETERS: And those classes
18 whose allocated costs have a higher proportion of
19 generation costs than the average will see their
20 revenue to cost coverage ratios drop?

21 MS. LIZ CARRIERE: Yes, that's
22 correct.

23 MR. BOB PETERS: And it follows then
24 that inversely, that those that have a lower than the
25 average allocation of generation costs will see their

1 revenue cost coverage ratios rise?

2 MS. LIZ CARRIERE: Yes.

3 MR. BOB PETERS: And on page 86 of or
4 counsel's book of documents, the RCCs in this
5 information request response are based on the
6 Prospective Cost of Service 18 (phonetic) and the 2016
7 load forecast. Would that be correct?

8 MS. LIZ CARRIERE: Subject check, I
9 believe it is, yes.

10 MR. BOB PETERS: And while the loads
11 have changed, these RCCs will now be different, but we
12 won't know that until Manitoba Hydro prepares its next
13 prospective cost of service study, correct?

14 MS. LIZ CARRIERE: That's correct.

15 MR. BOB PETERS: This can be taken,
16 Ms. Carriere, as a current estimate, and it's showing
17 that the General Service Small Mon-demand is at a
18 revenue to cost coverage of one hundred and sixteen
19 point seven (116.7), correct?

20 MS. LIZ CARRIERE: Correct.

21 MR. BOB PETERS: And the area and
22 roadway lighting is the also above the zone of
23 reasonableness, at a hundred and eighteen point seven
24 (118.7)?

25 MS. LIZ CARRIERE: That's correct.

1 MR. BOB PETERS: What's changed on
2 page 86, as presented in the Figure 2, compared to
3 page 85, if we can go back to 85 -- and the table on
4 85 is we can see that the table on page 85 has not yet
5 included the costs of Bipole III?

6 MS. LIZ CARRIERE: That's correct.

7 MR. BOB PETERS: And so this is giving
8 the Board an idea as to what impact Bipole III coming
9 to service has had on the class RCCs?

10 MS. LIZ CARRIERE: That's correct.

11 MR. BOB PETERS: Now, there is no
12 Prospective Cost of Service Study 2020, is there?

13 MS. LIZ CARRIERE: No.

14 MR. BOB PETERS: So is it correct that
15 on page 85, that figure 1 is the best update we have
16 based on the methodology the Board prescribed in Board
17 Order 59 of 18?

18 MS. LIZ CARRIERE: That's correct.
19 That's the most current.

20 MR. BOB PETERS: And Manitoba Hydro
21 did is it took the starting point of the pro --
22 Prospective Cost of Service Study 18 and it made
23 adjustments based on the Board directives to come up
24 with an end review to cost coverage ratio?

25 MS. LIZ CARRIERE: That's correct.

1 MR. BOB PETERS: And from that ending
2 PCOSS1859/18 revenue to cost coverage ratio we can
3 jump over to page 86 and see what's happened in terms
4 of introducing Bipole III costs Manitoba Hydro's cost
5 structure?

6 MS. LIZ CARRIERE: Agreed.

7 MR. BOB PETERS: Two (2) classes are
8 still outside the zone of reasonableness. And I've
9 identify those as the General Service Small Non-demand
10 as well as the area roadway lighting, correct?

11 MS. LIZ CARRIERE: That's correct.

12 MR. BOB PETERS: Does Manitoba Hydro
13 accept that, because these classes are outside the
14 zone of reasonableness, that is justification for
15 continuing the rate rebalancing that the Board started
16 in Board Order 59 of 18?

17

18 (BRIEF PAUSE)

19

20 MS. LIZ CARRIERE: So you -- you can --
21 -- you can continue the -- the direction from the last
22 order; however, you'd have to give a higher increase --
23 -- higher than average increase to the general service
24 demand and a reduction to -- a lower than average
25 increase to the non-demand in order to maintain

1 able to do that depending on the magnitude of the
2 adjustment for a year or two (2), but you might have
3 to correct that in a subsequent order.

4 MR. BOB PETERS: You -- you're saying
5 you might have to reverse that?

6 MS. LIZ CARRIERE: Yeah.

7 MR. BOB PETERS: Is this a matter that
8 Manitoba Hydro is actively studying?

9 MS. LIZ CARRIERE: So that's an out --
10 outstanding directive from the last -- from Order
11 59/'18, just given that, you know, we're also looking
12 at time of use rates; we're looking at in terms of --
13 on the gas side, we're looking at the rate structure
14 on the gas side and the fact that were into two
15 hearings. It's on the list of things to tackle, but
16 we just haven't gotten to it yet.

17 MR. BOB PETERS: All right. Thank
18 you.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: Just continuing to
23 page, I suppose, 93 of the book of documents. And
24 I'll -- I know my friends opposite will have some more
25 questions and better questions than I related to

1 First Nations Energy Poverty and the updated results.

2 Does Manitoba Hydro consider the 2014
3 residential end-use survey for First Nation customers
4 to be statistically valid? That's not something the
5 panel's able to talk about at this time?

6 MS. ODETTE FERNANDES: No, sorry.
7 That -- that would be a -- a question better posed to
8 Ms. Morrison. I believe she'll be here tomorrow, so.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: As well my friends
12 opposite.

13 Let me -- let me go to page 92 of the
14 book of documents. I think it's the -- the question
15 that I want Manitoba Hydro to tell the Board -- and
16 Ms. Fernandes, if I'm gone too far, you'll certainly
17 tell me -- in the 'B' part of this at the top of the
18 page, this is telling the Board that their last
19 decision had an estimated \$1.9 million effect as
20 foregone revenue from First Nations on reserve
21 residential customers that was made up by other
22 customers.

23 Is that how the Board should understand
24 this answer?

25 MS. LIZ CARRIERE: Yeah. That's the

1 one year effect in 2019/20.

2 MR. BOB PETERS: And if -- if the
3 Board was to grant the 3.5 percent but impose a rate
4 freeze on this new class as well, the foregone revenue
5 would -- would be the \$3.6 million in the test year?

6 MS. LIZ CARRIERE: Yes. The response
7 to Part C indicates that it would be a \$3.6 million
8 impact.

9 MR. BOB PETERS: And in terms of other
10 customer classes that are picking up that additional
11 cost, that amounts to a 0.13 percent increase in
12 2018/19, and it would -- it would be an additional
13 0.10 percent if that was continued into the test year.

14 Manitoba Hydro agrees with that?

15 MS. LIZ CARRIERE: Yes.

16 MR. BOB PETERS: All right.

17 MS. LIZ CARRIERE: That's true.

18 MR. BOB PETERS: And then turning the
19 page, in terms of who's making up the foregone revenue
20 from a -- from a freeze on this class in -- in the
21 last order, that \$1.9 million resulted in a
22 1,000 kilowatt per month user having to pay an extra
23 zero point twelve dollars (\$0.12) a month, correct?

24 Page 93, sorry.

25 MS. LIZ CARRIERE: Page 93?

1 MR. BOB PETERS: I'm sorry. Yeah.

2 MS. LIZ CARRIERE: Yes, that's true.

3 MR. BOB PETERS: Okay. And if we go
4 over to page 94 and the 'C' part, if this Board was to
5 grant 3.5 percent rate increase but put a -- put a
6 freeze on the First Nations On-reserve Residential
7 Customer Class, a 1,000 kilowatt power user per month
8 would now face an additional zero point twenty two
9 dollars (\$0.22) on their bill, based on the last two
10 (2) rate freezes from the Board?

11 MS. LIZ CARRIERE: Yes. I believe
12 Part C to that question -- Part C?

13 MR. BOB PETERS: Yes.

14 MS. LIZ CARRIERE: -- yeah --
15 indicates that for a thousand, that's zero point
16 twenty two dollars (\$0.22), correct.

17 MR. BOB PETERS: And that's for -- for
18 two rate freezes. Is that my understanding?

19 MS. LIZ CARRIERE: That's my
20 understanding, yes.

21 MR. BOB PETERS: Okay. Thank you. I
22 want to turn back to the rebuttal and the
23 presentations. There was a presentation this morning.
24 But on slide -- I should have remembered it by now --
25 slide 9, Manitoba Hydro's reasons for the rate

1 application are listed, Ms. Pachal -- I'm sorry --
2 Ms. Pachal -- just don't talk to your colleague,
3 Ms. Stephen about that. I've got a history I'm not
4 proud of.

5 But Ms. Pachal -- Ms. Pachal, if I -- I
6 apologize for pronouncing names-- can you confirm to
7 this Board that maintaining a bond rating is not a
8 reason for the 3.5 percent rate increase sought in the
9 test year?

10 MS. SHAWNA PACHAL: Well, I think the
11 idea of maintaining a bond rating is inherent in the
12 uncertainty piece, given that a downgrade in the bond
13 rating will cost -- potentially cost us significantly
14 more money in borrowing.

15 We were already -- when we started to
16 put this application together, we were already
17 concerned with some comments that were being made by
18 the bond rating agencies about the ongoing certainty
19 in securing the rate increase as we were requesting,
20 based on -- on Keeyask coming into service.

21 So that was definitely in the
22 background, and part of the discussions and motivation
23 for saying we can't forgo an '18/'19 rate ask. For a
24 '19/'20 rate ask, we need to get -- even though our
25 team had just come off -- what is it -- 17 or

1 18 months of hearing process, that we needed to
2 regroup and start preparing an application for the
3 '19/'20 year, because we couldn't afford to forgo a
4 year because there were starting to be concerns with
5 the -- with the agent -- with the debt rating
6 agencies.

7 And that was certainly in the
8 background of the discussions we had at the -- at the
9 executive and at the Board level around pursuing
10 another rate increase right after we just finished one
11 application.

12 MR. BOB PETERS: What I take from your
13 answer, Ms. Pacha, is Manitoba Hydro doesn't know
14 whether a rate increase, whether it's 3.5 or some
15 other number, is going to cause the debt rating
16 agencies to take any action or what action they would
17 take. Would you agree with that?

18 MS. SHAWNA PACHAL: I can't predict
19 what action they're going to take, no

20 MR. BOB PETERS: All right. So you do
21 agree with what I said. Manitoba Hydro can't -- can't
22 determine what, if any, action will happen as a result
23 of any rate increase.

24 MS. SHAWNA PACHAL: Well, we do know
25 that they've -- they I'm going to let Susan answer

1 this. I'm going to pass this over to Susan. She'll
2 be much more articulate than me on this one.

3 MS. SUSAN STEPHEN: Thanks, Shawna.
4 Sorry. Ms. Pachal.

5 UNIDENTIFIED SPEAKER: It's late.

6 MS. SUSAN STEPHEN: Just to indicate,
7 I think we did file in confidence the new Moody's
8 report on the Manitoba Hydro Electric Board with the
9 Board, and in that report from December 24th, I did
10 read some -- read some quotes this morning in our
11 direct evidence.

12 They are very concerned. One of the
13 quotes indicated -- and I'm paraphrasing -- is that
14 rates have not been keeping up with costs. And that's
15 been with the level of rate increase that we've seen
16 in the past around 3.5, 3.6 percent range.

17 So I think an award of 3.5 percent,
18 while it would be generally helpful in terms of
19 getting cash in the door and -- and having that
20 ability for that cash to accumulate over time and
21 to -- and to make its way into -- into rates -- or
22 into our revenue base would be helpful, I think
23 they're looking for something in the order that's a
24 little higher than 3 and a half in order to see that
25 trend change.

1 It's not clear to me and they don't
2 make it clear in terms of how patient they are in
3 terms of how quickly we should recover. They have
4 pointed out now that they may reassess us --
5 Moody's -- at this point in time. S&P never gave us
6 that privilege of letting us know that they were --
7 they were thinking that. They just simply did it.

8 So I'm thinking the fact that Moody's
9 has actually come out and said we may reassess you is
10 concerning. And I think they would need to see a
11 change in trend in order to -- to change their minds.

12 I'd also like to point out that DBRS in
13 their last report on the Manitoba Hydro Electric Board
14 had indicated a similar -- similar line of reasoning.
15 We have not filed that report though.

16 MR. BOB PETERS: Ms. Stephen, when --
17 when you suggest that rates are not keeping up with
18 costs, you're aware that there's 11.6 percent in
19 Manitoba Hydro's rates that come from a Bipole III
20 deferral account that weren't needed for Manitoba
21 Hydro's operating costs?

22 MS. SUSAN STEPHEN: Yes.

23 MR. BOB PETERS: So when you say that
24 bond rating agencies are saying rates are not keeping
25 up with costs, what I'm understanding you to be saying

1 what they're saying is that rates are not keeping up
2 with capitalized costs.

3 MS. SUSAN STEPHEN: That's correct.
4 So I know we -- we discussed different rating agency
5 meetings. The fact that the Bipole III deferral
6 account had been set up, and they liked the idea that
7 we were getting cash in the door, even though we were
8 not to be recognizing that revenue until the asset
9 actually came in service. They thought that was a
10 positive, and they noted that.

11 MR. BOB PETERS: On slide 19,
12 Ms. Stephen, the financial ratios for the test year
13 are shown with and without a rate increase. You see
14 them?

15 MS. SUSAN STEPHEN: Yes, I do.

16 MR. BOB PETERS: And so my question
17 again is if we look at the EBIT interest coverage
18 ratio, I think one of your colleagues or perhaps you
19 said that the 3 and a half percent really doesn't move
20 the needle on a lot of these ratios, correct?

21 MS. SUSAN STEPHEN: Well, it -- it
22 definitely won't move the ratio on the equity ratio.
23 The balance sheet will take a long time to recover. A
24 rate increase of 3 1/2 percent though in this -- how
25 we calculate the metric will move that by five -- five

1 points, which is not insignificant. That a positive
2 trend.

3 MR. BOB PETERS: And when you say that
4 the past trends of the rating agencies in terms of
5 rate awards, Manitoba Hydro has been on a rate
6 trajectory since -- more in the 3 1/2 to 4 percent
7 range, correct?

8 MS. SUSAN STEPHEN: Correct.

9 MR. BOB PETERS: Last year, the
10 8 percent or 7.9 percent rate request was an outlier
11 in terms of trends for Manitoba Hydro.

12 MS. SUSAN STEPHEN: Correct.

13 MR. BOB PETERS: And in terms of the
14 equity ratio, Ms. Stephen, Manitoba Hydro's equity is
15 not decreasing. Is that correct?

16 MS. SUSAN STEPHEN: Manitoba Hydro's
17 equity will -- are you looking at this particular
18 comparison?

19 MR. BOB PETERS: No. I'm asking if
20 Manitoba -- is Manitoba Hydro's equity decreasing?

21 MS. SUSAN STEPHEN: The equity ratio
22 is decreasing --

23 MR. BOB PETERS: That wasn't my
24 question. My question was: Is the equity decreasing?

25 MS. SUSAN STEPHEN: The equity itself

1 is -- provided we do not have a loss this year, the
2 equity itself will not decrease.

3 MR. BOB PETERS: And it's now forecast
4 whatever equity you came into this hearing at, it's
5 now forecast to be up \$64 million without a rate
6 increase and maybe as much as a hundred and fifteen
7 (115) with a rate increase.

8 MS. SUSAN STEPHEN: Correct.

9 MR. BOB PETERS: So the equity of
10 Manitoba Hydro was nosing in on \$3 billion?

11 MS. SUSAN STEPHEN: Correct.

12 MR. BOB PETERS: That's the highest
13 it's ever been in the Corporation's history?

14 MS. SUSAN STEPHEN: Correct. The --
15 the issue that the rating agencies are pointing out is
16 not so much the level of equity. They are more
17 concerned about the fact that we cannot make our
18 interest payments.

19 MR. BOB PETERS: And Manitoba Hydro
20 hasn't been able to make those interest payments on
21 their capital projects for many years now.

22 MS. SUSAN STEPHEN: Correct. I think
23 it's reaching an issue where it's -- it's become
24 elevated simply because we have now passed the peak of
25 our -- our capital expenditures.

1 We have never -- this is -- this is --
2 we've never seen anything like this in our history.
3 They never had such a large build-out. We've never
4 been through this before, and the rating agencies are
5 now saying, look at this \$300 million cash fall --
6 cash shortfall. You can't make 30 percent of your
7 interest payments, regardless of whether they're
8 capitalized or not. And that is the issue.

9 And while we did have the BiPole
10 deferral account, if we had something similar on the
11 Keeyask side where we could put aside rate increases
12 and have the cash come in the door ahead of time and
13 reverse that trend, I think that would be something
14 that the rating agencies would look upon favourably.

15 MR. BOB PETERS: And so this equity
16 ratio that's shown in front of us on slide 19 for
17 Manitoba Hydro's Exhibit 25, the fact that the equity
18 ratio in here -- it's not moving from 13 percent, at
19 least rounded to zero decimal points -- is a function
20 of the debt increasing, not the equity decreasing;
21 correct?

22 MS. SUSAN STEPHEN: Correct.

23 MR. BOB PETERS: So that's a
24 mathematical result --

25 MS. SUSAN STEPHEN: It is. On the --

1 I apologize.

2 MR. BOB PETERS: It's a mathematical
3 result of Manitoba Hydro building a \$5 billion
4 Bipole III, a \$9 billion approximate Keeyask, and a
5 billion dollars for whatever other transmission lines
6 that are presently under construction. That's the
7 massive bill that you talk about.

8 MS. SUSAN STEPHEN: Yes, that's
9 correct. And the rating agencies have indicated that
10 they are concerned about the growth in the debt
11 levels, and they do expect that we will have debt
12 reduction after Keeyask comes in service, and they
13 have indicated that in their rating reports.

14 MR. BOB PETERS: And their concern
15 about the debt level is not a surprise to them because
16 Manitoba Hydro has disclosed to the bond rating
17 agencies that you've embarked on the largest capital
18 programs in the Corporation's history that will double
19 the asset size of Manitoba Hydro.

20 MS. SANDY BAUERLEIN: I just -- I just
21 wanted to add one (1) comment here, that it's really -
22 - and Ms. Stephens (sic) could add to it -- but it's
23 really that that 3 1/2 percent as that bottom
24 statement makes here, it talks about that we get that
25 additional revenue on an annualized basis.

1 So if you go to the next slide, we
2 talked earlier this morning about that 900 million, so
3 you -- without that three and a half (3 1/2), you're
4 adding 900 million more of debt. That's what you're
5 doing.

6 So, again, I think that would be part
7 of the concerns is that you're not trying to show a
8 trend of reducing your debt or dealing with your debt,
9 you're simply adding to your debt.

10 MR. BOB PETERS: And, Ms. Bauerlein, I
11 appreciate your re-stating or stating again that --
12 that point, but we don't have an IFF in front of the
13 Board to show them if there is \$900 million of cost
14 reductions over the next decade, do we?

15 MS. SANDY BAUERLEIN: As discussed in
16 my controllable costs, to get \$900 million worth of
17 cost reductions, we had to take out a hundred people,
18 and that was only giving us 700 --- 7 million in -- in
19 O&A costs. So we would not be able to cut our way out
20 of \$900 million.

21 MS. LIZ CARRIERE: 900 million exceeds
22 the -- we'd have to eliminate everybody in the
23 Corporation to get that kind of a reduction.

24 MR. BOB PETERS: And if there was some
25 interest rate relief on the massive debt that

1 Ms. Stephen has told us, that may contribute to that
2 \$900 million?

3 MS. SUSAN STEPHEN: Interest rate
4 relief in what capacity?

5 MR. BOB PETERS: Going forward, that
6 the -- that the finance expense of the Corporation may
7 be lower than what we are thinking it may be today?

8 MS. SUSAN STEPHEN: In terms of the
9 savings that we discussed earlier?

10 MR. BOB PETERS: No. In terms of
11 long-term impact on the Corporation. We don't have
12 that in front of us.

13 MS. SUSAN STEPHEN: No.

14 MR. BOB PETERS: Okay. Ms. Stephen,
15 you have indicated in your testimony, both in direct
16 and now, that Manitoba Hydro has filed with the Board
17 copies of a December 24th Moody's Investors Service
18 report?

19 MS. SUSAN STEPHEN: Correct.

20 MR. BOB PETERS: And did Manitoba
21 Hydro also file with the Board, as requested, in
22 November 26th, 2018, Moody's Investors Service Report
23 on the Province of Manitoba?

24 MS. SUSAN STEPHEN: I believe so.

25 MR. BOB PETERS: All right. Is it

1 possible, Mr. Simonsen, for the Board to have those
2 blue paper copies in front of them?

3 Ms. Fernandez, you're looking at me as
4 if I called you a name.

5 MS. ODETTE FERNANDES: Sorry, if --
6 those were filed in confidence with the Board. We
7 received consent to file a copy with our regulator,
8 but we were advised that they are not to be disclosed
9 publicly.

10 MR. BOB PETERS: Well, let's -- let's
11 -- I'm not asking the Board to hand them out around
12 the room, but I want to ask Ms. Stephen some specific
13 questions from both the December 24th, 2018 credit
14 opinion and the November 26th, 2018 credit opinion.

15 Am I permitted to do that?

16

17 (BRIEF PAUSE)

18

19 DR. BYRON WILLIAMS: Mr. Peters, Byron
20 Williams of the Consumers Coalition...

21

22 (BRIEF PAUSE)

23

24 DR. BYRON WILLIAMS: Mr...

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: If I could just ask -
4 - if I could just ask for a one (1) minute recess to
5 show my friend opposite what I wanted to refer to and
6 read it onto the record because, Mr. Chair, I
7 understand it's permitted to have extracts quoted in
8 the public under the arrangement we have, but I can't
9 sit here and read you the entirety of the report. But
10 I did want to ask Ms. Stephen about certain sentences
11 in the reports, and I wanted to ask those on the
12 public record, much as Manitoba Hydro has disclosed on
13 the public record certain select quotes from the
14 report.

15 THE CHAIRPERSON: Well, I think we
16 need to have counsel get together and determine what
17 can go on the public record. I'm concerned that we're
18 going to have CSI going onto the public record
19 inadvertently. And I guess, Mr. Peters, I just don't
20 know if we should be going into a -- to a separate
21 session to -- to discuss this.

22

23 (BRIEF PAUSE)

24

25

1 THE CHAIRPERSON: Why don't we break
2 for ten (10) minutes?

3 MR. ANTOINE HACAULT: Mr. --

4 THE CHAIRPERSON: Yes?

5 MR. ANTOINE HACAULT: Mr. Chair, we
6 will have some submissions. And it's starting get
7 really relevant as to what I said initially, my
8 initial objection. This was never part of Manitoba
9 Hydro's case. For some reason we're getting some
10 extracts that can be shared with everybody, but the
11 full report is not being shared with everybody when it
12 was never part of their case until they filed their
13 rebuttal, and in -- until they filed these slides.

14 So I'm -- I'm starting to have a real
15 problem with where this evidence is going.

16 DR. BYRON WILLIAMS: Mr. Chair, Byron
17 Williams, just on behalf of the Consumers Coalition.
18 Our client might take issue with, as well, with the
19 suggestion that this is commercially sensitive, as
20 compared to copyright information. This information
21 was certainly available during the last hearing when
22 it could be tested by experts in -- in risk analysis
23 and people with expertise in the CALPA market.

24 So, just from our clients' perspective,
25 we're not clear what came in when, apart from

1 something that was filed with the rebuttal, and so
2 there are some challenges from our clients'
3 perspective as well.

4 THE CHAIRPERSON: Thank you. We're
5 going to break for -- we'll break for fifteen (15)
6 minutes. Thank you.

7

8 --- Upon recessing at 4:30 p.m.

9 --- Upon resuming at 4:46 p.m

10

11 THE CHAIRPERSON: Mr. Peters...?

12 MR. BOB PETERS: Mr. Chair, and
13 counsel, ladies and gentlemen, we've used the break to
14 speak about the Moody's Investors Services Credit
15 Opinion Report and there are two (2) of them that
16 we've asked be filed with the Board. One (1) was
17 filed by Manitoba Hydro, together with their rebuttal
18 evidence last week and another one was as a request of
19 my office on the weekend for Manitoba Hydro to also
20 file a second report and that's now been received by -
21 - by the Board.

22 There are limitations as to what
23 information in those reports can be placed in the
24 public record and, as a result of our discussions, I
25 believe -- I believe I can respect that requirement

1 that only limited extracts be put on the public
2 record, and that's what I intend to do in the fifteen
3 (15) minutes or so that I would have left to talk
4 about this.

5 DR. BYRON WILLIAMS: Mr. Chair, if I
6 might just for a second. Byron Williams, for the
7 Consumers Coalition.

8 I'll just indicate certainly given the
9 Board's decision last year in its findings in terms of
10 these types of reports, we're aware that the Board
11 will give them the weight that they did deserve.

12 We do have a bit of a problem process
13 wise in terms of whether there was a motion to
14 disclose information in confidence; whether that
15 motion was shared with all parties; whether the Board
16 has made a determination on that motion.

17 So our client has no doubt that the
18 questions of our Learned Friend will be helpful and
19 also that the Board will give this type of information
20 the weight it deserves. But we will certainly reserve
21 our rights to make comments upon the motion and how
22 this material should be treated.

23 THE CHAIRPERSON: That's fine, Mr. --
24 thank you. Mr. Hacault?

25 MR. ANTOINE HACAULT: I also like to

1 reserve those rights, Mr. Chair, and -- and members of
2 the panel. I think the rules provide that if matters
3 are filed in confidence there's supposed to be a
4 motion and normally we would be told about.

5 We knew for the first time in the
6 rebuttal evidence that this was going to be an issue
7 and that something was going to be filed in
8 confidence, and the witnesses have spoken very freely
9 without reservation about conversations they
10 apparently had with some of these rating agencies.

11 So it -- it puts us as Intervenors in a
12 very, very difficult position where somebody speaks
13 freely about something but we don't even have the
14 opportunity to sign a confidentiality agreement, as is
15 the case -- confidentiality agreement as the case in
16 other proceedings to see the document, to test it and
17 it's something that's totally new. So I share the
18 comments of my colleague Mr. Williams and just wanted
19 to put those additional comments on the record without
20 necessarily them being exhaustive.

21 THE CHAIRPERSON: Your points are
22 noted, thank you. Mr. Peters --

23 MS. ODETTE FERNANDES: Sorry, Mr.
24 Chairman, just in response, just so it's clear,
25 Manitoba Hydro is under contractual obligations in

1 terms of these credit rating reports, so, even a
2 confidentiality agreement wouldn't have been helpful
3 in this case.

4 I do note that those reports are
5 available for purchase which -- which happened at the
6 last General Rate Application. So while Manitoba
7 Hydro is not in a position to publicly release those
8 reports, they are available for purchase.

9 THE CHAIRPERSON: Thank you. Mr.
10 Peters?

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: Thank you. Manitoba
14 Hydro had a November 26th, 2018 credit opinion from
15 Moody's Investors Services in its possession prior to
16 filing a November 30th GRA?

17 MS. SUSAN STEPHEN: We had in our
18 possession a report on the Province of Manitoba by
19 Moody's.

20 MR. BOB PETERS: Dated November 26th,
21 2018?

22 MS. SUSAN STEPHEN: Correct.

23 MR. BOB PETERS: And Manitoba Hydro
24 had in its possession a report from Moody's Investors
25 Services dated December 24th, 2018 on Manitoba Hydro

1 prior to filing the update on February 14th, correct?

2 MS. SUSAN STEPHEN: Correct.

3 MR. BOB PETERS: Can you explain then
4 to the Board why Manitoba Hydro hasn't included this
5 material in either its General Rate Application filing
6 or its supplemental updated filing?

7 MS. LIZ CARRIERE: So in terms of --
8 it wasn't until we received evidence from the
9 Intervenors when we understood that -- that Mr. Bowman
10 suggested that it was okay to have negative income for
11 '19/'20 and that's what, in particular, raised the
12 concern.

13 These -- the report and -- and the
14 preceding reports formed part of the decision to put
15 forward the 3 1/2 percent rate increase. So, they
16 were al -- they're always a consideration in terms of
17 what -- which -- what level of rate increase we're
18 asking for, and it wasn't until the -- we received the
19 evidence that it became apparent that we needed to
20 file this.

21 MR. BOB PETERS: All right, thank you.
22 Ms. Stephen, you have the December 24th credit opinion
23 close by?

24 MS. SUSAN STEPHEN: Yes, I do.

25 MR. BOB PETERS: Is it correct -- and

1 that is the credit opinion for which you have prepared
2 slide 22 of Manitoba Hydro Exhibit 25?

3 MS. SUSAN STEPHEN: Correct.

4 MR. BOB PETERS: And that credit
5 opinion is specific to Manitoba Hydro Electric Board,
6 correct?

7 MS. SUSAN STEPHEN: That's correct.
8 Moody's rates are commercial paper program.

9 MR. BOB PETERS: All right, and that's
10 what I wanted to ask you about. Your commercial paper
11 program has an approximate half a billion dollar limit
12 on it I thought you told us at the last hearing?

13 MS. SUSAN STEPHEN: That's correct.

14 MR. BOB PETERS: And so this is
15 Moody's on December 24th issuing a credit opinion
16 relative to Manitoba Hydro's \$500 million commercial
17 paper program?

18 MS. SUSAN STEPHEN: That's correct.

19 MR. BOB PETERS: And is it correct
20 that one (1) of the credit strengths that Moody has
21 long identified of Manitoba Hydro is the explicit
22 guarantee that is provided by the Province of Manitoba
23 on Manitoba Hydro's debt?

24 MS. SUSAN STEPHEN: Yes, that's
25 correct.

1 MR. BOB PETERS: Does that apply to
2 this \$500 million commercial paper program as well?

3 MS. SUSAN STEPHEN: Yes, the province
4 of Manitoba guarantees all of our debt, both long-term
5 and short-term debt.

6 MR. BOB PETERS: And do you pay a
7 provincial debt guarantee fee on that \$500 million
8 commercial paper as well?

9 MS. SUSAN STEPHEN: We do pay the 1
10 percent guarantee fee if we have commercial paper
11 outstanding at March 31st.

12 MR. BOB PETERS: Now in terms of the
13 rating outlook for Moody, I'm going to read a quote of
14 a sentence:

15 "Manitoba Hydro's stable outlook
16 reflects the province's
17 unconditional guarantee of Manitoba
18 Hydro's commercial paper program."

19 You can confirm I read that correctly?

20 MS. SUSAN STEPHEN: Yes.

21 MR. BOB PETERS: And that's factual
22 from Manitoba Hydro's perspective?

23 MS. SUSAN STEPHEN: Yes.

24 MR. BOB PETERS: And what rating is it
25 publically -- that you can tell us what rating Moody's

1 has given Manitoba Hydro's commercial paper program?

2 MS. SUSAN STEPHEN: Prime 1 rating.

3 MR. BOB PETERS: Is there any higher
4 rating than prime 1?

5 MS. SUSAN STEPHEN: No.

6 MR. BOB PETERS: And so for Manitoba
7 Hydro's rating, it's already at the highest it can for
8 this commercial paper program?

9 MS. SUSAN STEPHEN: That's correct.

10 And just to note, the value that we actually get from
11 these Moody's reports on the Manitoba Hydro Electric
12 Board applies less to our commercial paper program,
13 which is really used by Manitoba Hydro as an insurance
14 policy should we have issues of accessing long-term
15 debt in the financial markets.

16 The value that we get from these
17 reports is the commentary on Manitoba Hydro and our
18 financial performance.

19 MR. BOB PETERS: You're saying the
20 rating is secondary? The rating score is secon --

21 MS. SUSAN STEPHEN: The rating is
22 important as well, of course, but it's -- given that
23 our commercial paper program is so small and pretty
24 much under-utilized or not utilized doesn't really
25 factor in to our cost of borrowing. I guess that's

1 why I'm saying.

2 MR. BOB PETERS: And continuing -- I
3 want to quote from, Ms. Stephen, this -- bottom of the
4 second page, talking:

5 "Manitoba Hydro operates in a stable
6 regulatory framework with steady
7 yearly rate increases."

8 Have I read that correctly?

9 MS. SUSAN STEPHEN: You did.

10 MR. BOB PETERS: And does Manitoba
11 Hydro agree that's factual?

12 MS. SUSAN STEPHEN: Yes, for the most
13 part.

14 MR. BOB PETERS: And it goes on to say
15 that on May the 1st, 2018 the MPUB approved a rate
16 increase of 3.6 percent effective from June 1, less
17 than the 7.9 percent rate increase requested by
18 Manitoba Hydro, correct?

19 MS. SUSAN STEPHEN: Correct.

20 MR. BOB PETERS: And is that
21 information that Manitoba Hydro would've shared with
22 Moody's or is that something that they would've
23 followed on -- on the Board's website or otherwise?

24 MS. SUSAN STEPHEN: Moody's has access
25 to all public information. They would have accessed

1 that information themselves.

2 MR. BOB PETERS: And in this same
3 document you can confirm, can you, Ms. Stephen, that
4 going on:

5 "The MPUB independently oversees the
6 rate setting process. The MPUB
7 tries to balance the interests of
8 both ratepayers and the financial
9 health of Manitoba Hydro."

10 MS. SUSAN STEPHEN: Yes, that's
11 correct.

12 MR. BOB PETERS: I read it correctly
13 and you agree that that's something that this Board
14 has said before as well publicly?

15 MS. SUSAN STEPHEN: Yes.

16 MR. BOB PETERS: Thank you. I want to
17 go down to talk about financial targets to be
18 challenged by high cap X, Ms. Stephen, and I want to
19 read another -- another sentence.

20 "As part of its debt management
21 strategy, Manitoba Hydro targets
22 certain financial metrics such as an
23 interest coverage ratio greater than
24 1.8 X and an equity to
25 capitalization greater than 25

1 percent."

2 Continuing:

3 "However, both targets are not
4 expected to be met for an extended
5 period of time due to its capital
6 program and limited rate increases."

7 I read that correctly?

8 MS. SUSAN STEPHEN: You did.

9 MR. BOB PETERS: And that's something
10 that Manitoba Hydro would've told Moody's or Moody's
11 would've sourced it from the public record themselves?

12 MS. SUSAN STEPHEN: Yes, probably a
13 combination of both and -- and just ascertaining that
14 we are so far from our targets that it's going to be a
15 while before we get back to target.

16 MR. BOB PETERS: So you told them
17 that? Manitoba Hydro told them that?

18 MS. SUSAN STEPHEN: Well, we share
19 with them a 10 year plan in terms of our projections.
20 So whatever they read into our plans. We don't
21 necessarily say that we're going -- we're -- we're
22 going to take twenty (20) years to get back to target
23 or ten (10) years. You don't necessarily say that to
24 them.

25 MR. BOB PETERS: But your plan for ten

1 (10) years didn't get you back to 25 percent equity
2 under the 3.5 to 4 percent rate trajectory?

3 MS. SUSAN STEPHEN: Yeah, that's
4 correct.

5 MR. BOB PETERS: Correct?

6 MS. SUSAN STEPHEN: Correct.

7 MR. BOB PETERS: And that would have
8 be shared with Moody's?

9 MS. SUSAN STEPHEN: We are actually
10 meeting with Moody's on Tuesday.

11 MR. BOB PETERS: So it will be shared
12 with Moody's.

13

14 (BRIEF PAUSE)

15

16 MR. BOB PETERS: There's a sentence at
17 the bottom of the third page, Ms. Stephen, I'd ask you
18 to explain to the Board. It starts off:

19 "However, we believe that the
20 probability that the AA2 rated
21 province would be unable to obtain
22 funding on a timely basis either
23 form [that's how it says] form the
24 capital markets of -- from its
25 bankers is highly remote."

1 Now, I read that as it was written. I
2 think we can understand that there may have been some
3 typos in there, Ms. Stephen?

4 MS. SUSAN STEPHEN: I believe there's
5 types, yes.

6 MR. BOB PETERS: So what does that
7 last sentence -- and I'll read it once more. And I'll
8 try to read it as I would've wanted it to be recorded.

9 "However, we believe that the
10 probability that the AA2 rated
11 province would be unable to obtain
12 funding on a timely basis, either
13 from the capital markets or from its
14 bankers is highly remote."

15 MS. SUSAN STEPHEN: What that
16 paragraph is saying is that our commercial paper
17 program is actually an uncommitted facility. Should
18 there be an issue, the Province of Manitoba does
19 guarantee our -- our commercial paper program and that
20 they would be able to access funds on our behalf.
21 That's what that's saying.

22 MR. BOB PETERS: All right. Ms.
23 Stephen, I just have narrowed my -- my focus on the
24 next credit opinion dated November 26th, 2018. This
25 is one (1) that is Moody's Investor Services of that

1 November 26th, 2018 rating the province of Manitoba,
2 Canada, and it's an update to a credit analysis and
3 you have a copy of it?

4 MS. SUSAN STEPHEN: I do.

5 MR. BOB PETERS: There was nothing
6 quoted in Manitoba Hydro's rebuttal or its direct
7 presentation from this November 26th, 2018 report, is
8 there?

9 MS. SUSAN STEPHEN: No, no, we did not
10 quote from this -- that this particular report. In
11 fact, we did not file it until this afternoon with the
12 Board.

13 MR. BOB PETERS: Turning to page 4 and
14 there's a paragraph. I'd like to take it in three (3)
15 -- three (3) sentences here, if -- if that's still
16 permitted.

17 "We expect that Manitoba Hydro's
18 debt will continue its upward
19 trajectory, increasing by around 20
20 percent over the next two (2) years
21 from current levels in order to
22 complete its utility projects, some
23 of which have been hampered by
24 significant timing delays and cost
25 overruns."

1 I read that correctly, Ms. Stephen?

2 MS. SUSAN STEPHEN: You did.

3 MR. BOB PETERS: And is it Manitoba
4 Hydro's interpretation that the cost overruns and the
5 timing delays are historic and are not currently
6 applicable to Bipole III or to Keeyask?

7 MS. SUSAN STEPHEN: Yes, that's our
8 understanding.

9 MR. BOB PETERS: Is that information
10 that Manitoba Hydro provided to the rating agency or
11 do you know?

12 MS. SUSAN STEPHEN: I would imagine
13 that would be information they sourced on their own,
14 although we've been meeting with the rating agencies
15 for years so they would've compiled that information
16 over time as well.

17 MR. BOB PETERS: All right. So then
18 there's a sentence, Ms. Stephen:

19 "While Manitoba's Utilities
20 Commission approved only
21 approximately half of the rate
22 increase requested by Manitoba Hydro
23 for 2018/'19 (3.6 percent approved
24 versus 7.9 percent requested),
25 Manitoba Hydro's revenue stream

1 generates sufficient cash flow to
2 support operations, including
3 interest payments."

4 Have I read that correctly?

5 MS. SUSAN STEPHEN: You did.

6 MR. BOB PETERS: And that's factually
7 correct?

8 MS. SUSAN STEPHEN: I just like to
9 note at this point that the analyst who prepared the
10 province of Manitoba report are the sub-sovereign
11 analysts who are very different from the utility
12 analyst who prepare the report for the Manitoba Hydro
13 Electric Board.

14 That there are -- you will note on this
15 report that there are no financial metrics for
16 Manitoba Hydro. The utility -- utility analyst in
17 preparing Manitoba Hydro Electric Board report, they
18 do a very in-depth analysis of the Utility. This
19 report by the province of Manitoba was released prior
20 to the Manitoba Hydro Electric Board report.

21 MR. BOB PETERS: By approximately a
22 month?

23 MS. SUSAN STEPHEN: Yes.

24 MR. BOB PETERS: And so the person
25 rating Manitoba Hydro would've had a copy of it, you

1 would expect?

2 MS. SUSAN STEPHEN: The utility
3 analyst would have been aware of this report, yes.

4 MR. BOB PETERS: I want to read
5 another sentence, Ms. Stephen.

6 "As a result, we have not altered
7 our view that Manitoba Hydro remains
8 a self-supporting entity and,
9 therefore, we exclude its debt from
10 calculating the province's net
11 debt."

12 Have I read that correctly?

13 MS. SUSAN STEPHEN: Yes.

14 MR. BOB PETERS: And that's factually
15 correct today?

16 MS. SUSAN STEPHEN: They are currently
17 looking to reassess our self-supporting status. So I
18 think I will know more next week.

19 MR. BOB PETERS: But currently,
20 Manitoba Hydro's debt is not -- is excluded from the
21 debt in calculating the province's net debt?

22 MS. SUSAN STEPHEN: As of today. I
23 just like to note one (1) more sentence with respect
24 to -- in that particular paragraph. The last sentence
25 in that paragraph reads:

1 "The weakening debt ratios raise the
2 risk that Manitoba Hydro could
3 require a capital injection or other
4 support from the province, which may
5 lead us to revise our current view
6 that the Utility is self-
7 supporting."

8 MR. BOB PETERS: And that's the same
9 risk that's been -- that was highlighted at the last
10 General Rate Application, Ms. Stephen?

11 MS. SUSAN STEPHEN: This is new
12 language for Moody's.

13 MR. BOB PETERS: But the risk -- or
14 seeking of capital injection from the province or an
15 equity injection from the province was a matter
16 discussed at the last hearing?

17 MS. SUSAN STEPHEN: Yes.

18 MR. BOB PETERS: All right. I wanted
19 to provide those on the record as much as we could,
20 Mr. Chair, and panel members. Appreciating the Board
21 has a copy of them.

22 Ms. Stephen, have you a presentation to
23 Moody's that you're prepared to file with the PUB as
24 part of this hearing?

25 MS. SUSAN STEPHEN: Well, actually, I

1 have been quite busy preparing for this -- for this
2 hearing, so, the presentation's not quite ready to go
3 yet, Mr. Peters.

4 MR. BOB PETERS: And when that plan is
5 available, Ms. Stephen, is that something that you're
6 prepared to undertake to file with the Board?

7 MS. ODETTE FERNANDES: Mr. Peters,
8 maybe we'll take that under advisement and get back to
9 you.

10 MR. BOB PETERS: All right, thank you.

11

12 --- UNDERTAKING NO. 2: Manitoba Hydro to provide
13 presentation to Moody's
14 (TAKEN UNDER ADVISEMENT)

15

16 MR. BOB PETERS: Mr. Chair, in light
17 of the hour, I think this is an appropriate time to
18 adjourn for the day.

19 I'll speak to My Friends opposite.
20 They have some significant issues and I can discuss
21 whether there's any -- and I'll look at my notes
22 tonight to see if there's anything further that I want
23 to come back on and if there is, I'll speak to My
24 friends and we'll -- we'll make a request to the
25 Board, but at this point I believe the Consumers

1 Coalition will be on the microphone tomorrow morning.

2 THE CHAIRPERSON: Thank you very much.

3 Thank you all, we'll adjourn until nine o'clock

4 tomorrow morning.

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6 (PANEL RETIRES)

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8 --- Upon adjourning at 5:07 p.m.

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10 Certified Correct,

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14 _____

15 Michael McKenzie

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