MANITOBA PUBLIC UTILITIES BOARD

re:

MANITOBA HYDRO

2023/24 and 2024/25

GENERAL RATE APPLICATION

Hearing

Before Board Panel:

Robert Gabor, KC	-	Board Chairperson
Marilyn Kapitany	-	Board Vice Chair
Carol Bellringer	-	Board Member
Hamath Sy	-	Board Member
George Bass, KC	-	Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

May 29th, 2023

Pages 1948 to 2208

APPEARANCES

Bob Peters	)Board Counsel
Sven Hombach	)
Brent Czarnecki	)Manitoba Hydro
Odette Fernandes (np)	)
Deanna Hiebert (np)	)
Gwen Muirhead	)
Matthew Ghikas	)
Byron Williams	)Consumers Coalition
Chris Klassen	)
Hannah Taylor	
Antoine Hacault	)MIPUG
Melissa Beaumont	)
Carly Fox (np)	)Assembly of
Emily Guglielmin	)Manitoba Chiefs
Markus Buchart	) MKO
Thomas Reimer (np)	) GSS and GSM
Robert Walichnowski	) customer classes

APPEARANCES

William Haight (np)	) Daymark Energy
Bradley McClelland (np)	) Advisors

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--- Upon commencing at 9:03 a.m.

THE CHAIRPERSON: Good morning, everyone. I hope everyone had a lovely weekend.

Before we start today with the revenue panel, I'd just like to make a brief comment. The Application for Manitoba Hydro is for rates for '23/'24 and '24/'25, but I just want to, you know, remind everyone that we are still dealing with the Interim Rate Application that an interim rate was granted in an expeditious manner, and the Order indicated that we would be reviewing the information.

And I know Manitoba Hydro knows that, but I just -- I just wanted to put it on the record so we're all at the same starting point.

Mr. Hombach...?

MR. SVEN HOMBACH: Yes. Thank you, Mr. Chair. Good morning to the Panel with a capital 'P' and to the panel with the Capital Expenditure Fund.

We've got the next three (3) days set aside for the examination of Manitoba Hydro's Revenue Requirement Panel, starting with a direct presentation by the panel itself.

While Mr. Tess and Mr. Fogg should be

familiar faces to the Board by now, there are three (3) new witnesses that haven't been sworn in yet. So what I would suggest is that we take a few minutes to allow the witnesses to introduce themselves, following which we take a brief pause for Ms. McMillin to swear the witnesses in, and from there we can move on to Manitoba Hydro's presentation.

(BRIEF PAUSE)

MR. BRENT CZARNECKI: Good morning, Mr. Chairman and Panel members and ladies and gentlemen. Mr. Hombach, as always, has a very good plan. We agree with it. We'd just add that the CVs of Ms. Amorim Dew and Ms. Stephen and Mr. Epp were filed yesterday, and they have been -- we'd like to have them marked as Exhibit 41.

--- EXHIBIT NO. MH-41: CVs of Sandra Amorim Dew, Susan Stephen, and Gregory Epp

MR. BRENT CZARNECKI: and the direct presentation that you'll see this morning, please have it marked as Exhibit -- Manitoba Hydro Exhibit 42.

--- EXHIBIT NO. MH-42: Manitoba Hydro Presentation

MR. BRENT CZARNECKI: And with that, I will turn to the mic over to Ms. Amorim Dew to introduce herself.

MS. SANDRA AMORIM DEW: Thank you, Mr. Czarnecki. Good morning, Mr. Chairman, Ms. Vice Chair, Board Panel members, and everyone present for today's proceedings.

My name is Sandra Amorim Dew, and I'm the manager of the Financial Advisory Services Department in Manitoba Hydro. I'm a Chartered Professional Accountant, and I hold a bachelor of commerce degree and a bachelor of arts degree from the University of Manitoba.

I started my career at Manitoba Hydro twenty-two (22) years ago, essentially in the same department I am leading today. A few years into my career, I wanted to broaden my understanding of the electric utility business beyond the traditional accounting role, and so I intentionally set out to work in various business units across the Corporation.

The roles I've held have provided me with a thorough understanding of our business through direct experience in transmission, distribution, generation, wholesale power, and at the corporate level. Just under two (2) years ago I returned to the finance group and into the role I am in today.

My role on this panel will be in relation to the operating and admin expenses and Capital Expenditure Plan. Thank you for the opportunity to present today.

(BRIEF PAUSE)

MS. SUSAN STEPHEN: Good morning, Mr. Board Chair, Ms. Vice Chair, and Board Panel members, and everyone present today for today's proceedings. Can you hear me okay?

THE CHAIRPERSON: I hear you just fine.

MS. SUSAN STEPHEN: Okay. Thank you. My name is Susan Stephen, and I'm the treasurer at Manitoba Hydro. I have been with Manitoba Hydro for 30 years and held various roles within the Corporation.

I started my career at Manitoba Hydro as a commerce career development trainee, and spent some time in corporate accounting, including plant accounting -- or now asset accounting, I guess; it was plant accounting back then -- and also on the financial reporting side.

I also had a stint in economic analysis and regional services, and then also on the business and energy services side, which was more geared toward the -- doing the financial evaluations and budgeting for our demand-side management programs.

Following that, I moved to treasury twenty-six (26) years ago, and -- and I stayed. I loved it. I moved through various roles within treasury, eventually managing the Cash Management Department and then the Financial Markets Department before becoming treasurer in 2017.

I hold a CPA designation. As well, I've completed a level 1 of the Chartered Financial Analyst Program as well and a bachelor of commerce honours. Thank you.

MR. GREGORY EPP: Good morning, Panel members, everyone present. My name is Greg Epp. I'm the Manager of Financial Planning at Manitoba Hydro. I'm a chartered professional accountant. I've been with Manitoba Hydro for just over twenty-four (24) years; most of it has been spent in the Financial Planning Department. I've held pretty much every role in the area. I'm now leading the team.

I'm hear to speak to the financial forecast, financial metrics, sensitivities, and -- and any question you may have about the forecast. Thank you very much.

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

REVENUE REQUIREMENT PANEL:

SANDRA AMORIM DEW, Sworn

GREGORY EPP, Sworn

SUSAN STEPHEN, Sworn

AUREL TESS, Resumed

ALASTAIR FOGG, Resumed

EXAMINATION-IN-CHIEF BY MR. BRENT CZARNECKI:

MR. BRENT CZARNECKI: Thank you, Mr. Chairman. And before I turn the microphone over to Mr. Tess to lead us off, just the back row introductions quickly.

Beside Ms. Hiebert, to her right is Jesse Langrill, and she's a financial coordinator at Manitoba Hydro. Next is -- sorry -- is Michelle Hooper, and she is a senior analyst and depreciation expert at Manitoba Hydro.

And next to Ms. Hooper is Jodie Juric, who is a financial analyst. Next to Jodie is Claude St. Hilaire, who's a senior financial officer. And last is Philip Swart, who is a financial officer at Manitoba Hydro. Thank you, Ms. Chairman.

THE CHAIRPERSON: Thank you. Mr. Tess...?

CONTINUED BY MR. BRENT CZARNECKI:

MR. AUREL TESS: Thank you. Good morning everyone, Mr. Chairman Gabor, Vice chair Kapitany, Mr. Sy, Ms. Bellringer, Mr. Bass, Interveners and advisors.

Before we get going, I'd like to start how we start our ELT sessions, as Mr. Turner had mentioned in his Panel. Though we recognize people at -- before we even start the meeting, I do want to acknowledge Ms. Stephen here who just reached the thirty (30) milestone at Manitoba Hydro. So, we're very pleased to have her on our panel with all the expertise she brings.

I would also like to recognize Rachel McMillin, who I worked with in the Department of Finance and I know has -- works with very little staffing capacity but has lots of energy. Bring a bit of an electrical twist to it there.

So, I'm pleased to be back before you with our -- our very talented team for my first full General Rate Application.

Firstly, I would like to thank the many individuals that contributed to completing this application. We are very proud of the quality of work that has been presented to you which required a great deal of perseverance and dedication on the part of the entire Hydro team.

I would also like to thank our Manitoba Hydro Electric Board for their guidance and support in the preparation of our application.

I would also like to recognize the great work of the Public Utilities Board, staff, the Interveners throughout this process that was carried out in, I believe, a very professional and collegial manner.

I look forward to working with all of you going forward to continue to build on the progress we have made.

So, we are here today to present to you the revenue requirement for our Manitoba Hydro application; that includes confirmation of the 3.6 percent awarded in January 2022 related to the drought.

In addition, we are requesting an overall increase of 2 percent effective September 1st, 2023, an additional 2 percent effective April 1st, 2024. There are other requests that impact revenue requirement that will be dealt with further in the presentation.

The rate increases in the test year are amongst the lowest average increases projected by Manitoba Hydro in decades and provide our customers with rate stability and predictability during a time when the cost of other goods and services are rapidly increasing.

Also, the projected rate path of 2 percent for nineteen (19) years represents a significant decrease from rates previously presented to the PUB in 2017 that average 3.57 percent.

Even with the proposed rate increases requested, if approved, Manitoba Hydro rates will still be amongst the lowest rates in Canada.

Now, as you know, there are many inputs and assumptions that form the long-term forecast. One (1) of our goals here today is to help you see how all the evidence you have heard thus far from Manitoba Hydro Panel fits into the overall revenue requirement.

One (1) of the major inputs is our Capital Plan. As a result of the capital intensive nature of Manitoba Hydro's business, a significant portion of its overall revenue requirement is made up of carrying costs, finance expense, depreciation, and capital tax and the operating and maintenance costs on the assets that are utilized to provide service to customers.

Now, while these assets are under construction, capital expenditures and associate financing costs are held in construction work in progress on the balance sheet. Once these assets are placed into service, the associated carrying costs form part of the Corporation's overall revenue requirement.

On March 9th, 2022, the final unit of the Keeyask Generating Station was placed in service. This marked substantial completion -- sorry, I had a blank page here -- efforts on the major capital projects undertaken by Manitoba Hydro for the last several years.

So today, Manitoba Hydro customers have invested 13.5 billion in major capital projects, including Keeyask, Bipole III, the Manitoba Minnesota Transmission Line, the Birtle Transmission Project, and the Great Northern Transmission Line.

This increased the value of Manitoba Hydro's assets to over $31 billion.

During this unprecedented major investment period, Manitoba Hydro accepted that its financial ratios would need to drop below targets in the near to medium term as the rate increases required to maintain these ratios would have been financially challenging for our customers.

While rate increases approved during construction of these projects have helped to reduce the impact to customers, now that the costs are fully included in Manitoba Hydro's revenue requirement, steady predictable rate increases are required to cover these costs and move Manitoba Hydro's financial metrics back towards target levels over time.

The increased carrying costs associated with these projects have a significant impact on Manitoba Hydro's expenses and have contributed for 2022/23 being approximately 710 million higher than in 2014/15.

These major projects were mainly financed by debt. The net debt for the electric segment was 23.2 billion at the end of fiscal '22, the highest in our history. The size of the debt, coupled with rising interest rates, has presented additional risks for our customers.

As you will see in our debt management strategy, it has been crafted to ensure that we mitigate these risks. However, the higher interest rates that we will realize on maturing debt will place upward pressure on our revenue requirement over the test years and the remaining planning horizon.

You will also note that one of our key strategic initiatives in our enterprise plan is to pursue and maximize third-party grants that offset capital and/or operating revenue requirements.

In that regard, we have, to date, secured or applied for approximately 200 million in grant funding to help offset those requirements.

With the latest programs announced in the federal budget, such as the investment tax credit that we lobbied hard for, it will apply to non-tax paying Crowns. We are aiming to continue to obtain new sources of funding to reduce future revenue plans.

The reduction of payments to government -- as you know, the revenue requirement for this Application was significantly impacted by this reduction. It results in a reduction of 50 percent of water rental fees and the provincial guarantee fee.

Our revenue requirement reflects this reduction and has a positive benefit for our customers, including 4 billion of a reduced revenue requirement over the forecast period and a further 2 billion in benefits resulting from debt avoidance due to lower finance expense.

It also has the benefit for the financial health of Manitoba Hydro. This reduction is also in alignment with what the Public Utilities Board has recommended to government in the past.

Reducing finance expense and debt levels allows Manitoba Hydro to use more revenues to fund operations that provide better value for money to our customers.

As a result of the reduced provincial guarantee fee and water rental, Manitoba Hydro now spends thirty (30) cents of every dollar of revenue on interest payments. Prior to this reduction, it was forty (40) cents.

Our Application also speaks to another kind of debt. With the Company, we have accumulated, what we're calling, technology debt. We are currently in phase zero, evaluating our readiness, people, process, technology, and data, and developing a business case for the replacement of our enterprise system software, SAP, with a cloud-based application.

We're also investigating replacing our banner customer information system with SAP to enable an integrated front office with back office, using SAP for customer data, is a best practice.

As mentioned, the current state includes this large technology debt. By way of example, our D&T or Digital and Technology Business Unit, has identified over one thousand (1,000) individual applications with many applications sharing duplicate of capabilities with SAP; that is not efficient or effective.

Given that we are performing a best practice Phase Zero (0) to better understand all the costs and benefits, the overall cost impact of a hundred and fifty-six million (156,000,000) is to be taken as a placeholder, not an estimate based on a fulsome study.

There is also a change in accounting treatment, resulting from the move to cloud computing, which has a significant impact on our operating and admin.

To smooth this impact on revenue, we are seeking regulatory deferral with these costs.

Manitoba Hydro is committed to

effectively managing our costs. We have just added continuous evaluation and improvement to our cost containment efforts.

We strongly believe that our staff are in the best position to assess improvements and -- and implement them. And we are empowering them to do so.

The operating admin and business operations capital expenditures are trending up, but these new resources are needed to allow us to fulfil our core mandate, in addition to addressing the supply chain and inflationary pressures that are facing all Manitobans.

Now, our Application also outlines the importance of cash flow and generating sufficient levels of net income to meet targets and reduce debt levels over a very reasonable period of time.

In order to accomplish this, Manitoba Hydro's net income and cash flow should be commensurate with the size of the balance sheet and the risks, including the rising interest rates associated with significant levels of debt.

Historically, extra provincial revenues or export revenues have made a significant contribution to overall revenues and have contributed to lower rates in Manitoba.

Significant value has been generated from dependable export sales contracts that Manitoba Hydro has negotiated with counter parties. However, as you've heard, Manitoba Hydro is forecasting its system capacity will be required to support domestic and load growth -- domestic load growth, over the next twenty (20) years.

And, as a result, there will be reduced generation supply available to either renew expired dependable contracts or enter into new contracts.

As these contracts expire over the forecast period, starting in '25/'26, opportunity sales volumes are projected to make up a larger portion of the total annual export sales initially.

Why is this important? Because opportunity sales are subject to more price risks, compared to dependable contracts, which results in less certainty in export revenues.

In summary, confirmation of the 3.6 percent increase and a 2 percent rate increases, provides a reasonable balanced plan to sustain and enhance our aging assets, improve customer service and approve our financial health. Thank you very much.

THE CHAIRPERSON: Thank you.

MR. ALASTAIR FOGG: If we could move

to the next slide please.

So, today, just as a brief outline, we'd like to cover the requested rates and other items that our part of our Application. A summary of the impacts of the reduced payments to government. The 2 percent rate path. The importance of confirming the 3.6 percent interim rate. Reasons for rates in the test years. Background on our O&A and capital expenditures and the link between the two. Our debt management approach and strategy. Regulatory deferrals and -- and SAP S/4 and then conclusions and summary.

And I know Mr. Tess touched on some of this already, but what we are requesting was outlined in tab 1 of our application. The request to be reviewed as part of the revenue requirement panel are the following:

Final approval of Orders 137/21 and 140/21, which approves, on an interim basis a 3.6 percent rate increase effective January 1, 2022. That's Add 1, Item 1.

Approval of the rate schedules incorporating an overall increase in general consumer revenue of 2 percent effective September 1, 2023; and approval of a further overall increase in general consumer revenue of 2 percent effective April 1, 2024.

Finally, we are seeking endorsement of several changes related to existing deferral accounts and the establishment and amortization of new regulatory deferral accounts, as discussed in Tab 4, Appendix 4. -- and Appendix 4.3 of this Application.

I would like to start by talking about the reduced payments to government and the impact that that's had on Manitoba Hydro and our rate application.

On November 23rd, the Province of Manitoba reduced by 50 percent the provincial guaranty and water rental fees that Manitoba Hydro pays to it. The reduction of these payments to government had a material impact on Manitoba Hydro's finances and the proposed rate path.

The result was a change from a 3.5 percent rate path to a 2 percent rate path that results in $3.8 billion less in revenue to be collected from customers, with Manitoba Hydro still meeting the rate cap and debt ratio target provisions, as outlined in the Manitoba Hydro Act.

This is what you see on the top graph on this slide, here. That is the reduction in the -- the overall rate request and the impact from a revenue collection perspective -- revenue collection from customers. It's important -- oh. Sorry.

It's also important to note that these reduced payments also result in debt avoidance.

Now, if we were to keep the rate path constant at 2 percent, the result of these reduced payments means that Manitoba Hydro will avoid approximately $2 billion in finance expense over the forecast and that's what you see in yellow in the graph, on the bottom.

To put it another way, were we to keep a 2 percent rate path constant, net debt will be $5.7 billion lower by 2041/'42, as a result of the reduced payments to government versus what they would have been under a scenario with 2 percent rate increases, without those payment reductions.

This -- this provides you another view of the impacts associated with the reduced payments to government. The combined reduction in net finance expense and water rental fees from the reduced payments to government are matched by the reduction in rate revenue as a result of the change to the 2 percent rate path from the previous 3.5 percent rate path.

And that's what these graphics show you, the $3.7 billion is the combination of those two payment reductions over the forecast period, which is matched by the 20-year cumulative domestic revenue reduction.

Now, moving to the 2 percent rate path, as we've outlined in our Application, the 2 percent rate path has been guided by several key priorities. These four (4) priorities were the following.

One was legislative compliance and that's compliance with the legislated rate, setting regulatory framework, that sets the maximum general rate increase at the level of inflation or 5 percent, whichever is lower, and to which the debt-to-equity targets of 80 percent, by 2035, and 70 percent or 70/30, by 2040.

Priority Number 2 was stable and predictable rates and that was to maintain stable and predictable rates for our customers, together with keeping rates low, compared to other jurisdictions.

Third, was to gradually improve Manitoba Hydro's financial health over time and we'll discuss that further through the presentation and -- and through the hearings over the next several days.

Finally, we were also focussed on balancing the need to ensure system reliability and modernization of the grid, through system investments, funded from cash from operations, where possible.

So, in our view, the 2 percent rate path is a smooth rate path that achieves that 70 percent debt ratio target and maintains the rate cap. It's based on the balancing of these identified priorities and considers multiple financial metrics and has been developed based on average conditions. It's not simply a mechanistic goal seek or overly focussed on one of these priorities for setting the rate path.

I'd like to hand it over to Mr. Epp to discuss this further.

MR. GREGORY EPP: Thank you, Mr. Fogg. I will now go into a little more depth on each of the four (4) key priorities that guided the 2 percent proposed rate path included in Manitoba Hydro's application.

Although the rate cap and the debt ratio targets do not strictly apply to this application, Manitoba Hydro considered the implications of both for determining the proposed rate path.

Commencing April 1st, 2025, the rate cap stipulates that the maximum general rate increase allowed for a fiscal year shall not exceed 5 percent or the Manitoba rate of inflation, whichever is less.

The Act also stipulates that rates charged by Manitoba Hydro are to provide sufficient revenue to enable the Corporation to achieve the debt-to-capitalization ratios of 80 percent by March 31st, 2035, and 70 percent by March 31st, 2040, otherwise referred to as the debt ratio targets."

The graph on the left on the slide is a revised version of figure 3.2 from tab 3 of the Application. It compares Manitoba Hydro's proposed 2 percent rate path denoted in the blue bars with the Utility's consensus forecast of Manitoba CPI donated -- denoted by the green line.

The addition to the graph is the yellow marker, which denotes actual Manitoba CPI for fiscal year '22/'23 of 7.8 percent as reported by Statistics Canada.

Manitoba Hydro is not seeking a General Rate Increase in '22/'23, and the 2 percent rate path these are at or below the projected Manitoba Hydro -- Manitoba CPI throughout the forecast, which complies with the Act.

The graph on the right of the slide show the forecast of debt ratio in the amended financial forecast scenario. The yellow bars denote when the debt ratio targets stipulated in the Act are achieved.

The 80 percent target is projected to be met on March 31st, 2029, and the 70 percent target is March 31, 2040, which is roughly 17 years from today.

Manitoba Hydro interprets the 80 percent debt ratio target to be the maximum level of dept in the capital structure on a go-forward basis. Once achieved, the Corporation will take steps to avoid the debt ratio from exceeding 80 percent.

Manitoba Hydro also interprets the 2034/'35 target date as the latest date for the achievement of the 80 percent target.

Manitoba Hydro interprets the 70 percent debt ratio target as its new long-term financial target, replacing the long-standing 70 -- 75 percent target, and the 2039/'40 target date is the latest date for the achievement of this target.

The target achievement dates are just as important as the targets, and were key factors in the development of the rate path. Next slide, please.

The following table compares Manitoba Hydro's latest forecast of Manitoba CPI, and it can be found on the far-right column with the forecast underpinning this Application.

As noted on the previous slide, actual CPI for '22/'23 has been reported by Statistics Canada at 7.8 percent. Manitoba Hydro's consensus forecast of key economic indicators is typically done annually, each spring.

The consensus view is made up of eleven (11) independent sources, consisting of Canada's primary financial institutions and several well known and respected independent sources.

When the rate cap takes effect, April 1, 2025, the latest forecast continues to project CPI at or around 2 percent over the planning horizon. Next slide, please.

Manitoba Hydro's 2 percent rate path was also guided by rate stability and rate predictability. As a result of the announcement by the Province of Manitoba that it was reducing the debt guarantee and water rental fees by 50 percent, Manitoba Hydro was able amend its rate request, reducing the rate from 3 1/2 percent to 2 percent in both test years.

Manitobans are projected to benefit from both stable and predictable rates and will also continue to benefit from the lowest or among the lowest electricity rates in Canada.

The green bars in the graph show the range of rates as of April 1, 2022, across Canada by customer class, and the blue line represents what Manitobans would pay if the 3.6 percent interim rate increase is confirmed and the proposed 2 percent rate increases in this Application are granted. This is truly a good news story. Next slide, please.

The 2 percent rate path provides gradual and steady progress towards the debt ratio targets and target dates outlined in the Act. As noted on the previous slide, Manitoba Hydro has roughly seventeen (17) years to move the debt ratio 15 percent from where it is today at 85 percent, to 70 percent.

What does that mean? Two (2) things will need to happen to hit the debt ratio targets on or before the target dates. Manitoba Hydro's equity or retained earnings will need to steadily increase from the level it is today. And the absolute level of net debt will need to decrease.

Manitoba Hydro has demonstrated in several IRs that it cannot achieve a 70 percent debt ratio target by allowing the net debt to continue to grow over the next seventeen (17) years.

To achieve the legislative targets, net income will need to increase to generate sufficient cashflow to avoid cash deficiencies that would otherwise result in additional borrowings and lead to growth in the net debt balance.

Looking at the graph, Manitoba Hydro is projecting near-term net debt reductions of almost $1 billion as a result of the reduction in government payments, surplus water flows, and strong energy prices for opportunity sales in the export market.

From '24/'25 through to the end of the decade -- the blue section in the graph -- the 2 percent rate path helps minimize further debt growth. During this time, projected net income is not quite sufficient to avoid additional borrowings as cast -- cash deficiencies total approximately $170 million over that time frame.

By 2031/'32, the compounding effect of the stable 2 percent rate path begins to generate surplus cashflow that starts to replenish sinking fund reserves that will be used to pay down all or a portion of the debt as it matures. Next slide, please.

This graph shows the annual increase denoted by the red bars and decreases denoted by the green bars to Manitoba Hydro's net debt dating back to 1991/'92 fiscal year. The cluster of red bars from roughly 2008/'09 to '21/'22 demonstrates Manitoba Hydro's reliance on debt to finance its major capital projects: Wuskwatim, Bipole III, Keeyask, and the MMTP GNTL 500 kV interconnection transmission line.

At March 31st, 2008, Manitoba Hydro's net debt was roughly $6.5 billion. At March 31st, 2022, after the culmination of all of that cluster of red bars, net debt was just over 23 billion. Over this period, net debt increased by roughly 17 billion, or three point five (3.5) times what it was heading into the capital build-out.

If we now look at the forecast period, 2022/'23 and on, we see the first three (3) years of the forecast where there are healthy decreases to the net debt. Those three (3) years sum to approximately 1 billion, and they were highlighted on the previous slide.

If we look at the next eight (8) year period contained in the black box, there is minimal change to the net debt balance despite the 2 percent rate increases in each and every year. During this period, the 2 percent rate path essentially holds the line and minimizes further debt growth.

It isn't until midway through the second decade is Manitoba Hydro projected to make noticeable reductions to the net debt balance. The sum of the green bars from 2031 to -- 2031/'32 to 2041/'42, ten (10) years worth of net debt decreases, total 1.5 billion. That is the equivalent to what net debt increased in 2014/'15 and 2015/'16 alone. Next slide, please.

The last two (2) slides focussed on net debt: the absolute levels and the annual changes. Now, what has to be true to enable to those reductions to the net debt balance? It all comes down to whether the Utility's projecting an annual cash surplus or a cash deficit.

After all outflows -- cash outflows are totalled, including in capital expenditures and all investing activities, do the cash inflows in the form of domestic and export revenues exceed all outflows, or do they fall short?

Manitoba Hydro monitors this with two (2) measures: the cashflow surplus deficit metric and the self-financing ratio.

For the cashflow surplus deficit metric, cash from investing activities is subtracted from cash from operations. Both are easily identified on the cashflow statement. If the value is positive, there is a surplus and the net debt decreases. If the value is negative, there is a cash deficit. Additional borrowings are required, and the net debt increases.

This is depicted in the graph on the bottom left. The blue bars indicate a cash surplus while the yellow bars indicate a cash deficit and additional borrowings are required.

The self-financing ratio is simply the ratio of cash from operations over cash from investing activities. This metric signals if a cash surplus or deficit is present.

A ratio of less than 100 percent indicates a deficit and net debt is growing while a ratio of 100 percent or higher indicates net debt is either unchanged or decreasing. Any change to the net debt balance is highly dependent on whether there is a cashflow surplus or deficit.

If we look to the graph on the right, we have the same green and red bars that represent the change in the net debt from the previous slide. When the bars are green, the self-financing ratio denoted by the black line is greater than 100 percent. The opposite is true when the bars are red.

If we compare the two (2) graphs, when the bars are blue on the graph on the left, the bars are green on the graph on the right and the self-financing ratio is greater than 100 percent. Next slide, please.

A lot of time has passed and a lot has changed since 2017 when Manitoba Hydro Exhibit number 93 was prepared. As time passes, it becomes increasingly cumbersome to explain all the changes from a 2017 forecast scenario.

A comprehensive analysis was presented in the response to Coalition/Manitoba Hydro Round I 27AB, which compared the amended financial forecast to Manitoba Hydro Exhibit number 93, and we've highlighted a few observations from that analysis on this slide.

Manitoba Hydro Exhibit number 93 covered the twenty (20) year forecast period from 2016/'17 through to 2035/'36. Since 2035/'36 was the last year of the forecast in that Exhibit 93, the comparison ends in that fiscal year.

Manitoba Hydro Exhibit 93 was a scenario requested by MIPUG during the oral hearing of the '17/'18 and '18/'19 GRA. MIPUG had requested that a number of planning assumptions be varied from

Manitoba Hydro's Application and for the Utility to goal seek an even annual rate path to achieve a 75 percent debt ratio by the twentieth (20th) year of the forecast.

The mechanistic goal seek resulted in a rate path of 3.57 percent. This scenario was directionally consistent with many of the PUB's decision in Order 59/'18.

Slide on the bottom left compares the projected net income between the amended financial forecast scenario and Exhibit 93. Net income in the amended financial forecast averages roughly 170 million between '25/'26 and '35/'36, while MH 93 was forecasting losses through the '27/'28 followed by a steep trajectory ending with net income of over 880 million in the last year of the forecast.

Average net income for the last five (5) years in Exhibit 93 were approximately 645 million compared to an average net income of approximately 440 million in the last five (5) years of the amended financial forecast scenario.

While there are many, the biggest difference between these two (2) forecasts is the reduction in the fees paid to government that is included in the amended financial forecast. The fee reduction enables a rate path to be reduced from 3 1/2 to 2 percent.

As noted earlier in the presentation, decreasing the rate path is projected to collect 3.8 billion less additional rate revenue from customers over the twenty (20) year forecast period. Compared to MH Exhibit 93 with a 3.57 percent rate path, cumulative rates are projected to be 43 percent lower in the amended financial forecast scenario by 2035/'36, as shown on the graph in the middle.

The third graph on the bottom right compares the forecasted debt ratio under both scenarios. The amended financial forecast has gradual and steady improvements in its capital structure, while the improvements under Manitoba -- or under Exhibit 93 occur primarily in the last five (5) years, reducing the debt ratio by 10 percent from 85 percent in '31/'32 to 75 percent in '35/'36.

This is the result of the average net income of 645 million over the last five (5) years which had retained earnings increasing by 2.8 billion and net debt decreasing by 2.7 billion. Both scenarios reached seven (70) -- the 75 percent debt ratio by '35/'36, but take two (2) different paths to arrive there.

I'll now pass it back over to Mr. Fogg.

MR. ALASTAIR FOGG: Thank you, Mr. Epp. We'd like to briefly speak to the importance of confirming the 3.6 percent interim rate increase next.

As part of this Application, Manitoba Hydro is seeking confirmation of the 3.6 percent rate increase approved by the PUB on an interim basis.

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

To demonstrate this, Manitoba Hydro ran a sensitivity to assess the impact if the 3.6 percent interim rate increase were rolled back to 0 percent on September 1, 2023, and no rate increase was granted in the '23/'24 fiscal year, but the 2 percent proposed increase was awarded in 2024/'25. The results of that scenario are the graphs you see on the screen.

The sensitivity was structured in this fashion as it was assumed that the proposed 2 percent rate increase effective September 1, 2023, would not be granted the same day that the 3.6 percent interim rate increase would be rolled back.

The results of this scenario showed the

following: Finance expense reaches over $1 billion and remains at elevated levels by the end of the forecast period as a result of the rollback of the 3.6 percent interim rate increase.

Manitoba Hydro would be unable to achieve the legislated debt ratio target of 80 percent in 2035 or 70 percent in 2040. And Manitoba Hydro would be projecting losses in five (5) years of the twenty (20) year forecast scenario between 2027/'28 to 2031/'32.

We proceed to talk about the reasons for the rate increases in the test years. There are a number of reasons and driving factors related to those test year increases. One (1) of those key reasons which you've touched on briefly in other days of the Hearing thus far is that rate increases in the test years are needed as a result of the forecasted decrease in net export revenue over the forecast.

Manitoba Hydro's forecasting that system capacity will be required to support domestic load growth over the next twenty (20) years and, as a result, there will be reduced generation supply available to either renew expiring dependable export contracts or to enter into new dependable export contracts.

The first significant drop in net export revenue that you see on the screen is in relation to the Northern states' power sale that ends in 2025/'26. After that time, net export revenue remains relatively flat at roughly 495 million for the next ten (10) years.

Subsequently, net export revenue drops further as a result of forecasted wind power purchase agreements which will increase fuel and power purchase expenses, causing a further reduction in net export revenue to the end of the forecast period in 2041/'42.

Recognizing the forecasted decrease in net export revenue, coupled with other factors, both net income and the debt ratio would be impacted without the 2 percent rate increases in 2023/'24 and 2024/'25.

Manitoba Hydro would be forecasting near breakeven net income and, in some cases, losses between the 2025/'26 to 2030/'31 time period without the 2 percent rate increases.

The net income in '25/'26 and '26/'27, just to note, is supported by the assumption of the amortization of the major capital project deferral in those years, which adds about $50 million in each of those years to net income, but that is a non-cash item that is simply a recognition of that previous deferral.

Also, the 70 percent debt ratio target in 2039/'40 would not be achieved under a scenario where there's 0 percent rate increases in the test years versus the 2 percent.

Finally -- oh, sorry -- the graph on your right compares finance expenses with the 2 percent rate creases versus 0 percent rate increases in the test years. Without the rate increase finance, expense remains at elevated levels throughout the forecast, resulting in accumulative additional $800 million in finance expense.

Reducing finance expense, as Mr. Tess has noted, allows Manitoba Hydro to use more of the rate revenue received from customers to fund items that add value to them, like improving service levels and maintaining system reliability versus paying interest costs.

I'd like -- now like to hand things over to Ms. Amorim Dew.

MS. SANDRA AMORIM DEW: Thank you, Mr. Fogg. So, I'm going to take you through the operating and administrative expenses and Capital Expenditures Plan.

On the first day of this Hearing Ms. Grewal presented to you Manitoba Hydro's three (3) year aspiration, which is the view to take us to 2026. We have referred to Strategy 2040 extensively through all of the written materials provided through this Application.

While Strategy 2040 looks into the future, it also reflects the work that we do day in and day out. Part of Strategy 2040 is Manitoba Hydro's commitment to continuing to provide safe, clean, reliable energy operating as efficiently and effectively as possible.

This three (3) year aspiration specifically identifies the strategic pillars from Strategy 2040 which will be prioritized in the near term as we look to optimize and improve the efficiency of the current business and set the organizational foundations and capabilities to accelerate Manitoba Hydro's transformation and journey to realize Strategy 2040, and these will be incorporated into our future processes.

The prioritized strategic pillars are as follows: 1) to provide safe, reliable energy that responsibly meets the evolving needs of Manitobans.

Pillar 5, which is to keep energy

prices as low as possible while providing the level of service Manitobans expect;

And Pillar 2, which is to serve customers efficiently, responsively, and digitally.

The operating and admin budget and Capital Expenditure Plan are aligned to these strategic pillars as the focus is on rebuilding trades and professional trade need programs to address attrition.

We have seen a significant decrease in FTEs, which are full-time equivalents. I'll -- I'll refer to them as FTE through this Hearing -- over the last few years.

The O&A budgets have an increase in FTEs to ensure that we continue to provide safe and reliable energy and meet customer level expectations.

There is also a shift at cloud computing, as Mr. Tess mentioned in his opening remarks, which enables our technology debt to be addressed and is aligned with industry best practice to leverage new technologies, improve cyber security, and facilitate continuous improvement.

This will allow us to serve customers efficiently, responsively, and digitally in line with customers changing expectations. The improvements in cyber security also aligns with increased reliability.

On the capital side, our business operations capital is focussed on capital investments which optimize life cycle costs and improve liability. You heard from the Asset Management Panel last week on this topic, and I'll touch on it a little later in my presentation.

And, as Mr. Tess also mentioned, we've been focussed on acquiring third-party funding to help keep energy prices as low as possible. The Capital Expenditure Plan includes federal funding for three (3) capital projects, reducing capital expenditures by almost 200 million.

The O&A costs are increasing, and this is necessary to ensure Manitoba Hydro continues to provide safe, reliable energy which we will do while operating as efficiently and effectively as possible.

On this slide, I highlight the main categories driving the O&A increases. The waterfall chart on the right shows the percent increase and dollar increase in the two (2) fiscal years of '23/'24 and '24/'25. Those were total O&A budget, and for the main categories contributing to the increases.

So, starting with the left, the first increase that we're seeing is related to FTEs and salary increases. The operating and admin budgets include both an increase in FTE, as well as an allowance for salary increases.

Salary increases include merit and progression which employees are entitled to based on performance, as well as general wage increases. Approximately 80 percent of our workforce is unionized. General wage increases have either been negotiated or, in recent years, mandated by the Manitoba Labour Board or an arbitrator.

Manitoba Hydro's currently in negotiations with its largest union, IBEW, which represents approximately 45 percent of our workforce. Conservative assumptions have been made for general wage increases for that bargaining unit for the '23/'24 and '24/'25 years.

These two (2) test years also include an increase in FTE which I'll go into further in the next few slides. While there is an increase in FTE, I do want to highlight the total FTE budgeted will still maintain the 15 percent workforce reduction Manitoba Hydro committed to through the Voluntary Departure Program announced in 2017.

A second driver that is resulting in increased O&A is cloud computing, and this is a recent impact that we have on O&A and is the largest impact we see here, especially in '23/'24. Approximately a third of the O&A increase in that year is related to cloud computing.

Historically, most of our information technology expenditures were capitalized as they were on premise and eligible for capitalization. With the shift to cloud-based services which was accelerated with remote work requirements during the pandemic, there was an acknowledgement that the accounting treatment for these costs had to be review.

The International Financial Reporting Standards, or IFRS, does not contain clear guidance on how to account for cloud computing arrangements. And so, we engaged a third party to assist us in developing a guidance document, which we have shared as Appendix 6.1 of this Application.

Cloud computing arrangements started to impact O&A in the 2021/22 fiscal year.

Manitoba Hydro is not alone in making the transition to cloud computing. While utilities have generally lagged broader industry in adopting cloud-based services, the shift is now well underway.

There are three (3) main reasons that Manitoba Hydro and other utilities are moving to the cloud. One is cyber security risk mitigation; second reason is the cloud enables evaluation and process improvement; and three is cost avoidance.

With the global shift of technology services moving to the cloud, vendors are also changing the products they provide and traditional on-premise based technology products or services may not -- no longer be options available to Manitoba Hydro or industry as a whole.

Many traditional information technology products that Manitoba Hydro is using or has used will no longer be supported by the vendors.

A significant example of this includes costs related to replacing Manitoba Hydro's Enterprise Resource Planning System, which is SAP, which Mr. Tess also mentioned earlier.

Manitoba Hydro uses the SAP software to enable and manage its core functions, including HR, finance, supply chain, safety, and environmental health.

The SAP system is extensively integrated as it shares data with Manitoba Hydro IT systems to maximize value and efficiency.

Manitoba Hydro's current version of SAP ECC will not be supported beyond 2027 and needs to be replaced.

Manitoba Hydro has forecasted O&A expenditures for SAP S/4 Core (phonetic), which is the new product that we are looking at -- the replacement of SAP ECC -- of 156 million for the electric portion only, for a period of seven (7) years from 2023/24 to 2029/30, as there is a probability that the majority of the software technology will use a cloud-based solution.

Manitoba Hydro is in the early stages of determining the approach to the newer version of SAP and these cost projections may change.

This also does not include costs related to our billing system banner or other related systems that may need to be upgraded.

The next category contributing to O&A increases is related to motor vehicle expenditures.

Through the pandemic, Manitoba Hydro was impacted in a few ways in this cost category. First, we are running some of our fleet longer than their intended life. We have a large fleet, which is -- I'd have to check actually -- but about four thousand (4,000) units. And we're running them longer due to the unavailability of replacement units that we had planned to acquire but were unable to due to global supply change challenges seen through the pandemic.

We were already lagging behind on the replacement of many units due to years of costs reductions. And as must -- and as most of us have also been impacted, increasing fuel costs are also impacting Manitoba Hydro.

When the budgets were being developed for the test years before you, fuel prices were hovering around two dollars ($2) a litre. They're slightly lower now. And this is an area that Manitoba Hydro can try to estimate, but it is truly out of our control.

And the last one is inflationary increases. As Mr. Epp has shown in his evidence, Manitoba Hydro -- or Manitobans haven't seen increases since -- as we have today, in decades.

With 2022/23 Manitoba CPI at 7.8 percent, inflationary increases impact most of our costs. I already mentioned the impacts on fuel and motor vehicles expenses, in addition to other travel related expenditures, materials, and contracted services from maintenance work are being impacted by this.

Now, it's been suggested through

Intervener evidence that O&A should only be increased by 2 percent from 2022/23.

If we look at our -- that -- that equates to -- 2 percent would equate to about $12 million. And if we look at the waterfall on the right, I just want to take you through that to see what that could get us, which isn't much.

If you look at the -- I guess, the second green bar -- or third green bar, sorry -- on the right, you see the 2 percent is related to merit and general wage increases. As I've stated 80 percent of our work force is unionized and there is little control over this increase.

If that is the only increase we are allowed from 2022/23, then no other increases are possible, including cloud computing, increasing our FTE, costs related to motor vehicles and travel, other costs associated with our staffing, such as benefits, overtime, training and safety, or any maintenance services which the increases included in '23/'24 are related to increasing vegetation management, which we are lagging behind industry standards. Whereas industry standards is a six (6) year cycle time, we are running at around a seventeen (17) year cycle time on vegetation management.

And construction and maintenance services also includes the mussel (sic) mitigation, which we are required to do.

Manitoba Hydro is increasing FTE levels to ensure we can continue to provide safe and reliable service and respond to customers' needs and future expectations.

So as a reminder and to ensure we're all aligned, FTE is a calculation based on hours paid. It is not a headcount that is presented as FTE.

So Manitoba Hydro has experienced almost a 25 percent reduction in FTE from 2016/17 through 2021/22, which is due to the 15 percent reduction through the voluntary departure program. We also had a hiring freeze in 2020/21, which was put in place to support government cost savings measures.

I also want to point out that as part of the government cost savings measures most employees took three (3) unpaid days leave. And recognizing that FTEs are based on salaries paid, this equated to approximately an eight-five (85) FTE impact.

And so, when we see an increase in '21/'22 or '22/'23, a lot of that is related to paying the employees we had employed and not necessarily an increase in staffing levels.

What we've seen through these reductions is that reliability in our customer levels have been impacted. We are falling behind on the maintenance of our aging assets, which impacts reliability.

We are only completing 75 percent of planned maintenance on our assets with the resourcing we have. We are also significantly behind lagging standards on our vegetation management program, as I've mentioned.

This contributes to increased outages, which will result in increased costs.

Our ability to make customer in service dates for commercial and industrial customers has also deteriorated. And Ms. Brako was on last week's panel discussing that.

We've heard consistently from repeat customers, like developers and home builders, that our time lines have increased in duration over the last five (5) to six (6) years and are negatively impacting their businesses.

Service connections are taking over 20 percent longer to complete than in 2019. From an average of twelve (12) months in that year to over fifteen (15) months in 2022.

The FTE increase included in our budgets will bring us back to the FTE levels in place prior to the pandemic. The focus is on building the trades and technical training programs and professional training levels.

And I do want to highlight again that the preliminary budget for '24/'25 maintains that 15 percent VDP reduction. So while we're increasing FTEs, we are not going into that 15 percent reduction.

So as I mentioned, the focus is rebuilding the core work force. Mr. Patterson was here last week as well, and speaking from the operations perspective, and he also highlighted Manitoba Hydro as a training utility.

We provide specialized learning and on-the-job training for most trades employees.   And that can take between two (2) to four (4) years before trainees are deemed fully qualified.

And the list of trades trainees include: power line technician, power electrician, mechanical technician, telecontrol technician, and gas service person.

Recruitment into trades and technical and professional trainee programs slow down and/or was halted following the VDP and due to years of cost reductions. And that's reflected in the chart on the left of this screen.

FTE increase in test years is required to rebound to sustainable levels to fill the gap that was created from previous years, which was worsened with attrition and this increase is necessary to ensure reliability, improve customer response times and catch up on maintenance of Manitoba Hydro's assets.

And worth noting, and to highlight the value of the trainee programs, we have in Manitoba Hydro, of the seventeen (17) Manitoba Hydro panel members, we have, at this hearing, more than half of them, actually, started their career in Manitoba Hydro in one of our trainee programs, which is actually reflected on our panel here today.

In the three (3) years, including '22/'23, '23/'24 and '2024/'25, FTE are growing primarily in the operations business unit as you can see in the chart on the left.

Additionally, in the chart on the right, you will see how FTE's are allocated between operations and maintenance, capital construction, and governance and support service.

What you see is that we are bringing

the operations and maintenance FTE levels back up to where they were during the VDP, but we are reducing capital construction FTE's due to our reduced capital investments and the governance and support services functions do see a decrease and this all equals that 15 percent overall reduction.

It's important to note that the comparison between operations and maintenance, capital construction and governance and support services should be done at the enterprise level and not at the business unit level, as some have done.

The Voluntary Departure Program was not a targeted reduction of specific positions that were no longer required at Manitoba Hydro. Rather, it was a program that provided a financial incentive to those employees, that voluntarily chose to leave the Company in an effort to reduce Manitoba Hydro's work force to strengthen our financial performance.

And I just want to also highlight, there were some questions earlier in this hearing directed at Ms. Grewal regarding the increase in the President and CEO Business Unit, which includes the new Enterprise Excellence Division focused on continuous evaluation, continuous improvement, change management, among other things at the enterprise level.

While the percent increase may have looked large, when looking at that business unit on its own, the increase to this area, on a corporate level, is relatively small.

And, as Ms. Grewal mentioned, these increases are not necessarily new to Manitoba Hydro as a whole, which is one of the challenges in looking at individual business units and making comparisons to how they were historically structured; especially after a significant business model review and realignment as Manitoba Hydro has undertaken.

So, this slide shows that the -- shows the O&A breakdown for the '23/'24 year, as an example, although this is consistently the same break down on an annual basis.

What you see is that over 70 percent of O&A expenses are staff related; that includes wages and salaries, employee benefits and overtime.

And, if we add in other expenditures related to staffing, which would include staffing equipment and training, travel, many of them which are part of collective agreements, such as meals or per diems and motor vehicle expenses, which are directly tied to staffing, over 80 percent of O&A expenses are operational employee-related expenditures.

On the next slide, I want to discuss a cost category that has seen some larger increases in O&A, which is consulting and professional fees. And there are many factors that are impacting this.

Consulting is used when expertise or knowledge is not available within Manitoba Hydro or when there is a short term need for very specific expertise for third-party assistance.

In some cases it may also be required due to the unavailability of internal resources. Historically, as you can see on this chart, spend on this category has been fairly stable.

In '22/'23 fiscal year, Manitoba Hydro saw an increase of 63 percent in this category, which was related to several items.

The first one was related to Keeyask Environmental Monitoring and partnership agreements or requirements, pardon me, as we had indicated would be required, but when looking at it over the actuals, you see a significant increase.

We have other environmental monitoring requirements with the development of our first integrated resource plan, consulting expertise was required to assist us through that development.

Also, with the business model review and re-alignment and the integration of generation transmission and distribution into the asset management and project management groups, consulting services were required to assist in the development of centers of expertise.

Included in that, is also other items, such as the Asset Management Maturity Assessment Model, which we -- we know has been requested and is an essential piece of work that is required.

Also included in this, is staff augmentation. There have been labor challenges as has affected many industries and across Manitoba and the country and in order to allow for labor challenges, there has been some increased staff augmentation costs for the use of consultants. And sometimes, there's just a short term need for expertise that we do not have internally and rather than hiring an FTE to -- to provide that expertise, the use of consultants are used.

I just wanted to touch on the budgeting processes for both O&A and capital.

Manitoba Hydro leverage is top down and bottom up budgeting, for both O&A and capital to validate the plans are in place to meet the needs of the business, while keeping the financial health and impact on customers in focus at an enterprise level.

Historically when determining O&A budgets, we would look at previous years, determine whether changes are required and add an escalator to arrive at the O&A targets set at the top. Detailed budgets would then be completed to balance to the top-down target.

For the budgets included in the test years, included in this application, we followed a top-down and bottom-up approach as well, but we approached this differently.

Business units were still re-aligning, based on the business model review and inflationary pressures had to be considered. While we knew that the large decrease in FTE's we've experienced was impacting operations, we also recognized that we had to take a paced approach to building up the additional FTE's and cost increases that we need.

With employer-related costs making up over 80 percent of the O&A budget, a strong focus was placed on the pacing of FTE's for the budgets included in this Application. Understanding all of the impacts from the business model review that had taken place and were still ongoing.

The forecast examined -- forecasts were examined thoroughly from a bottom-up exercise to understand those required changes. In particular, for significant budget increases arising through the detailed budgeting process. Example of their examination of operating costs, include consulting, which I just took you through.

Several meetings were held at different levels in each business unit to understand the needs that were driving the cost increases we see and to determine what could be paced and what could not.

In 2020/'21, we were essentially at the lowest point in spending that we could get in the O&A budget for certain cost categories.

In our efforts to assist government with cost savings measures in that year, we conducted a thorough review at the time at -- of all of our costs to determine what could be deemed non-essential or discretionary.

It was challenging to find too many costs that could be deemed non-essential or discretionary without impacting safety, reliability or essential operations.

It should also be noted that in 2020/'21, we had less spending in certain categories due to all of the restrictions put in place through the pandemic, although those restrictions were limited to that point in time and would not be cost reductions that we could or would continue.

I am referring to non-essential services we provide that had to be suspended due to physical distancing requirements, which includes services where employees were required to enter an occupied residence such as meter exchanges, electrical inspections, meter readings and disconnections.

Those were activities that we could not perform through the pandemic and reduced our costs, but our services were required for our customers.

While we had some cost reductions as a result of the pandemic, we also saw increases in costs overall. For the most part, with the rising inflation rates and supply chain impacts and reflected in the budgets for the test years.

Following all of the reviews, senior management conducted a final review and approval of bottom-up detailed budgets.

Now, on the capital side, there was also a top-down, bottom-up and what -- we discussed last week with the Asset Management Panel, capital planning targets are recommended by asset management, based on the already committed spend that -- that is in the projects in progress, and the known asset risks from the corporate value framework evaluation of the potential investments.

Investments related to generation, transmission and distribution make up over 85 percent of business operations capital.

The decisions on required investments is not done by individual units for the -- these asset classes. It is being done by the Asset Management Group that was here last week to speak with you.

The remaining 15 percent of business operations capital is related to fleet, corporate facilities, information technology and tools and equipment and those targets are recommended by the areas responsible for these investments.

Each of these groups have specific tools that identify needs, based on condition or asset life which is used to determine the targets being requested.

Once this initial phase is done, the recommended capital targets are evaluated along with Manitoba Hydro's long term financial forecast, keeping the financial health and impact on customers in focus at an enterprise level.

In the Capital Expenditure Plan, after all reviews were done, it is then put together following the detailed project budgets being developed or revised as necessary. The detailed project plans are balanced to top-down targets, using -- through the use of portfolio adjustments. Next slide, please.

So, I'm not going to spend much time on this slide. Mr. Fogg was on the Asset Pan -- Asset Management Panel last week and he went through the Capital Expenditure Plan but, at a high level, Manitoba Hydro's assets are aging and need investment, and sustainment of our existing assets is the primary focus of Manitoba Hydro's Capital Expenditure Plan.

Increased investment is required to maintain required levels of performance and mitigate risk related to safety and reliability, compliance, and the environment, and while we see some future resource requirements in the future, those are based on need, as previously identified, and was -- we have already mentioned the Capital Expenditure Plan, as rigorously planned, reviewed, and tested.

There have been suggestion -- suggestions made by some Interveners that O&A and business operations capital should be reduced. I would like to highlight that O&A and capital expenditures are directly linked.

O&A increase, as I already discussed, is necessary to ensure reliability, improve customer response times, and catch up on maintenance of Manitoba Hydro's assets.

The capital plan is focussed on investments, which optimize lifecycle costs and improve reliability. Reducing capital expenditures arbitrarily will increase O&A, as reliability needs to be maintained, and running assets to failure is not cost-effective. O&A costs will increase, with the age of an asset, resulting in higher overall total costs.

During the asset management direct evidence last week, Ms. Halayko presented the chart that you see on the bottom right, that shows the whole lifecycle cost of an asset class and shows that asset failure results in higher total costs.

The total costs, as we look at, when making decisions for timing of asset interventions. As time goes on, and you're past the optimum intervention time, the risks and operations and maintenance costs go up considerably, so you have past the optimum time to replace the asset.

Now, I will pass it over to Ms. Stephen, who will take you through debt management.

MS. SUSAN STEPHEN: Thank you, Ms. Amorim Dew. This graph, taken from our debt management strategy.

THE CHAIRPERSON: Can you just ho -- sorry -- can you hold on for a second?

(BRIEF PAUSE)

THE CHAIRPERSON: Okay. Thanks. Sorry. Go ahead.

CONTINUED BY MR. BRENT CZARNECKI:

MS. SUSAN STEPHEN: Okay. Thank you. This graph, taken from our debt manage -- management strategy, depicts Manitoba Hydro's debt maturity schedule in the blue bars, on September 30th, 19 -- 2022. Sorry. I can't get the right century. Over the last decade, consolidated growth debt grew at -- to 25 billion, at the peak.

In order to reduce refinancing risk, we favoured longer dated debt maturities that enhanced debt stability, by extending the debt portfolio's weighted average term to maturity to the current 19.1 years.

We also took advantage of the low

interest rate environment to decrease the debt portfolio's weighted average interest rate to the historically low 3.4 percent.

During this time, the interest rate risk was reduced by decreasing the percentage of floating rate debt within the debt portfolio.

With nearly 1.5 billion of debt maturing in fiscal 2024, Hydro has approximately 6 percent of the debt portfolio maturing in the next 12 months.

With the current 1 percent floating rate debt, the total interest rate risk profile, potentially, subject to interest rate risk at March 31st, 2023, is 7 percent.

The green arrows on this graph reflect the inc -- the expected terming of the anticipated refinancings in the next decade, into the debt maturity schedule.

The cash, potentially available for debt retirement under the amended financial forecast scenario, which is shown here in the pink line, exceeds the cash available under the financial forecast scenario, which is shown here in the orange line in the first decade, allowing for accelerated repayment of debt and earlier achievement of financial targets.

Access to the Province of Manitoba's high credit quality has allowed Hydro to achieve its debt management objective to provide stable, low cost funding to meet the financial obligations and liquidity needs of the Corporation, while maintaining risks at prudent levels and reserving sufficient flexibility to adapt to changing circumstances. Next slide, please.

We're at an exciting time for Manitoba Hydro. We've just completed a huge capital expansion and our new assets are now generating revenue and this is a really good thing because we have a lot of debt. Hydro's total debt more than tripled, from 2005 to 2022, to fund the construction of new major capital.

Our financial metrics have been weakening, as our debt has grown at a much faster pace than our revenues. They have deteriorated to the point that we have the weakest metrics of all of our peers. While this weakening is to be expected during a period of investment, there is an expectation that, with the new assets now generating revenue, the Utility should be able to improve its financial metrics.

The energy sector has seen

unprecedented changes in recent years. The trends of decarbonization, digitalization, and decentralization will continue to shape and disrupt Hydro's business environment in the coming years. The pace and breadth of these changes are unpredictable but the 10 billion of long-term debt, which Manitoba Hydro has maturing this decade is not. We know when it's maturing.

With no external borrowing for new major capital on the horizon this decade, now is the time for recovery of Manitoba Hydro's financial health and financial metrics to proactively position ourselves as financially resilient to respond to the emerging needs and expectations of our customers. Next slide, please.

During the past decade, there was significant exposure to interest rate risk on new borrowings to fund the capital investments.

Though new borrowings have abated, Hydro has, on average, 1.1 billion in debt maturities, potentially, requiring refinancing every year, over the next decade. These debt maturities place upward pressure on finance expenses. Maturing debt is currently projected to be refinanced at higher interest rates. Higher interest rates and the uncertain interest rate environment keep interest rate risk elevated for Manitoba Hydro.

Currently, Hydro has high-risk exposure, as a result of both the level of debt, which needs to be serviced, and the limited cashflow with which to service the debt, as evidenced by a very weak cashflow-to-debt ratio. Hydro will have limited ability to request higher rate increases, as a result of the new legislative framework coming into effective on April 1, 2025. Limited rate increases reduce Hydro's capacity to absorb interest rate risk volatility.

With limited financial flexibility and a cashflow-to-debt ratio not expected to exceed 5 percent in the first decade of the amended financial forecast scenario, Hydro will choose debt management strategies which limit the financial risks with respect to the debt portfolio.

Manitoba Hydro will maintain an interest rate risk profile, which is the percentage of debt -- short-term debt, floating rate long-term debt, and debt maturing within the next 12 months to below 10 percent of the debt portfolio to mitigate interest rate expo -- interest rate exposure and limit the volatility to finance expense.

The Utility will also select debt

maturities that minimize the addition to the refinancing schedule in the next decade and target to maintain a longer weighted average term to maturity of the debt portfolio.

Hydro will manage the refinancing risk within the existing debt portfolio, by continuing to smooth the debt maturity schedule. Next slide, please.

Hydro must be financially resilient to withstand disruptive events that impact revenues or expenses to continue to deliver on our mission.

For Hydro, financial resilience is directly related to a stronger balance sheet and is achieved by having sufficient liquidity, a prudent amount of leverage, and enough access to debt capacity to be able to plan for future investments with certainty and at low cost.

Some of the challenges we face are listed here. A liquidity risk is the risk of not having sufficient cash to meet our -- our financial obligations as they come due. To ensure that we do have sufficient cash, we have the following targets for cash on hand and for the Sinking Fund Reserve.

I will elaborate on the use of the sinking fund further, shortly.

The elevated debt level is a challenge, as it incenses the level of interest expense, which must be recovered through rates.

Historically, prior to the reduction and payments to government, 40 percent of Manitoba Hydro's revenue was used to pay interest costs. Now, this has been reduced to 30 percent of revenues.

Paying down debt now will help reduce interest cost for our customers in the near term, and also over the longer term. The debt level also impacts Hydro's financial flexibility and is the high contingent liability to the Province. I will speak more about this, as well, in the coming slides.

To mitigate these impacts, Manitoba Hydro was targeting to improve its debt in the capital structure from the current 85 percent to meet the newly legislative targets.

The interest rate environment have seen unprecedented volatility in 2022, with the Bank of Canada's target overnight rate rising from .25 percent in March of '22, to 4.5 percent in January of 2023. As discussed on the previous slide, Hydro will continue to maintain an interest rate risk profile below 10 percent of the debt portfolio.

Borrowing authority limits impact

Hydro's access to low cost debt financing. Recent legislative changes have resulted in Hydro having no new long-term borrowing authority in '23/'24. As well, Manitoba Hi -- the Manitoba Hydro Act was recently amended, removing reference to an increased limit of 1.5 billion for the Short-Term Borrowing Program.

The limit currently remains at 500 million, which is the lowest limit for short-term borrowing of any of our peers. Hydro's borrowing authority for '23/'24 does include refunding authority provided to refinance maturing long-term debts. Negotiations remain ongoing with the Province to extend further access to borrowing.

Credit rating agencies provide an independent assessment of financial health. The rating reports provide information to provide investors, which aid them in their investment decisions and inform the interest rate levels at which investors will purchase Province of Manitoba bonds.

Hydro's target is to maintain the Utility's self-supporting status, which I will describe more in detail on another slide. Next slide, please.

The Manitoba Hydro Act requires the

Corporation to make a minimum annual contribution to the Sinking Fund Reserve equal to 1 percent of the debt outstanding at March 31st, plus 4 percent of the sinking fund balance at March 31st.

The legislated contribution formula allows the Utility to set aside internally generated funds to retire debt borrowed over a period of approximately 42 (forty-two) years.

Hydro has maintained Sinking Fund Reserves throughout history. However, due to the capital expansion of the last decade, Hydro was reinvesting all of its earnings and assets to explain its core business, as well as borrowing unprecedented volumes of debt.

In order to minimize the accumulation of gross debt, Hydro began reducing the accumulated Thinking Fund balances with more frequent withdrawals, depleting the reserve entirely by 2016.

Hydro's cash flow projections at the time indicated that our investing activities will exceed our cash from operations until at least 2022. And, we would be sourcing the cash for our Sinking Fund contributions from the issuance of debt, further incurring additional costs.

At the time, in order to optimize

liquidity practices, minimize gross debt balances, and to reduce finance expense, we sought to minimize the Sinking Fund balances where feasible.

With the new capital assets now in service, Hydro targets to replenish the Sinking Fund Reserve with cash from operations where possible to fund yearly debt retirement.

As Hydro -- as Hydro has debt maturing every year in this decade, in order to manage gross debt levels, we intend to draw down the Sinking Fund Reserve each year to repay maturing debt.

Hydro requires cash from operations to exceed cash used for investing activities in order to contribute earnings of the Corporation, not borrowed funds to the Sinking Fund Reserve.

On average, prior to the depletion of the Sinking Fund, Hydro held investments equal to approximately 700 million in the reserve. Next slide, please.

Manitoba Hydro's peers all maintain Sinking Fund Reserves, averaging between 200 million and 800 million over the las -- last five (5) fiscal year ends. The Sinking Fund Reserve protects Hydro against both liquidity risk and interest rate risk, as it provides the Utility with cash to repay debt maturity obligations each year.

The ability to fund contributions to the reserve from internally generated funds conveys to the financial markets and to credit rating agencies that the Utility is reasonably servicing its debts and setting aside funds for the debt to eventually be paid.

This is important to investors. With weak financial metrics and debt levels as elevated as those, as Hydro's, the reserve will mitigate the risk that a portion of the Utilities debt been deemed to be not self-supported.

Hydro's pure utilities have an average cashflow-to-debt ratio of over 9 percent over the period 2016 to 2022, as indicated on the graph on the right.

And you can see the average peer line is in green here. The ratios used to assess the amount of cash the Utility has available to make interest and principal payments on debt.

The higher the ratio is, the better the position the Company is in to meet its financial obligations. A declining or a very low ratio means the business may not have enough available cash to make its principal and interest payments on debt.

As noted earlier, Hydro's total debt has more than tripled from 2005 until 2022 to fund new major capital.

During this time, Hydro's cashflow-to-debt ratio decreased from approximately 9 percent between 2005 and 2009. Similar to peers now to approximately 2 percent between 2018 and 2022, as rates collected from customers did not keep up with the debt growth.

Now, the Utility has less financial flexibility as compared to most peers to respond to risk such as an increase and interest expense volatility. Next slide, please.

Financial resilience. What does it mean to be self-supporting? Assuming that we're not taking on any new major projects, it means that we can pay for our ongoing operations and maintain our current assets with our revenues.

DBRS, a credit reporting agency which rates the Province of Manitoba and Manitoba Hydro has published its criteria for a self-supporting crown, and I've listed the attributes here, which pertain to cashflow.

These are: The Crown has been generally profitable and does not rely on material subsidies or supports from the Provincial Government;

The Crown is generally able to meet his ongoing costs and maintenance capital expenditures through internally generated cash.

Debt servicing costs will -- will be met through the regular course of business, or through a well-defined recovery mechanism, EG rates. And it's important to note that the debt servicing costs, which they speak of, are the interest and principal payments on debt over a particular period of time.

In Hydro's case, our Manitoba Hydro Act implies that that time frame is forty-two (42) years. The cashflow coverage graph has been colour-coated to show the expectation for what costs should be funded through internally generated funds.

In order for the Corporation to remain self-supporting, Hydro's cash from operations, the green line, should generally fund business operations capital shown in blue, other investing activities shown in purple and the legislated Sinking Fund contribution shown here in pink.

New major capital is shown here in yellow and may be funded with external debt financing. The cash from operations in the amended financial forecast scenario is sufficient to fund thee requirements in the years '23 through '25.

However, cash from operations drops dramatically in 2026 with a reduction in forecast export revenues before starting to increase with a cumulative impact of 2 percent rate increases.

Beginning in 2026, Hydro will need to borrow to fund all or part of the Sinking Fund contribution for the remainder of the decade. In the second decade, Hydro is able to begin replenishing the Sinking Fund with earnings from the Corporation.

As a Crown, Hydro's credit ratings are a flow through of the Province's credit ratings. Hydro's financial health is an important factor for credit risk assessment of the province.

Credit analysts will look at the trends of financial metrics, as well as the business risks of Hydro in order to assess the status of our debt. As long as Hydro's debt is self-supporting, we should not impact the Province's credit risk.

When we talk about contingent liability, we talk about the risk of being deemed not self-supporting. If we're not self-supporting, we do impact their credit risk.

Investors will decide how much compensation they need to buy and hold province of

Manitoba Hydro bonds based on the credit risks. So, this is how credit risk impacts the cost of borrowing.

Maintaining the Province's high credit quality is important to Hydro and our customers as it allows us to secure attractive financing opportunities. While the 2 percent rate path may not provide 100 percent coverage of costs in the first decade, the trend shows that these costs will be met over the longer term forecast horizon.

We believe the 2 percent rate path can smooth rates to promote rate stability and predictability for customers and balance the financial integrity of Hydro, but the rate impacts on customers over the longer term will ensure in-system reliability. Thank you.

And with that, I'll pass it over to Mr. Fogg.

MR. ALASTAIR FOGG: Thank you, Ms. Stephen. I'd just like to briefly touch on the regulatory deferral aspects of -- of our request, then with specific note of SAP S/4.

There's a number of requests in front of the Public Utility Board related to regulatory deferral accounts. The first is the endorsement of the Keeyask in-service deferral account and approval of an amortization period of one hundred and six (106) years to align the treatment of Keeyask with how we've dealt with the in-service costs related to other generating facilities that preceded before it.

The second request is the PUB approval for the establishment of a regulatory deferral account to record the annual O&A expenses related to the potential implementation of the SAP S/4 cloud computing based implementation and to amortize the deferred balance for rate-setting purposes over a period of ten (10) years subsequent to the actual in-service date of SAP S/4.

There's a number of matters related to the depreciation methodology. And I -- I think, at this point, we'll leave it that that's certainly an area of significant discussion as part of the Depreciation Panel which will -- will be about a week from now.

There is a request related to the major capital projects deferral account, and that's the determination of an amortization period for that existing deferral.

Manitoba Hydro has proposed amortization on a straight line basis over a period of two (2) years starting on April 1, 2025.

And finally, there's a request related to DSM deferrals. And that's for the writeoff of the DSM deferral debit and credit accounts. This would be consistent with PUB Order 161/'19 Directive 7 for Centra Gas.

These deferrals deal with differences in plan versus actual DSM spending for the years of 2013 to 2017. This practice was stopped in 2018. There's offsetting amounts in the debit and credit accounts for these deferrals, and the balances could be written off without any impact to net income.

Now, I think what I'd just like to highlight with this slide, and I think it's important, we can use SAP S/4 as an example, is just the effect of a regulatory deferral and how it will appear within the financial statements and how it would appear within some of the IRs and other documents we may discuss in the -- in the next few days.

So, using the SAP S/4 as an example, what you see first is that those costs for SAP S/4 are initially included in the operating and admin expenditure line item on the income statement.

When we talk about O&A expenses increasing, we talk about areas of increase. The SAP S/4 cost would be included within the costs you see as an O&A expense.

Subsequently, were a deferral to be established, those costs are, in essence, removed, if you will, via the net movement and regulatory deferral line on the income statement which you can see highlighted in grey on the screen.

If we were to expand what's happening further, you can see in the -- the graph -- or sorry, the table on the right the initial operating and admin costs that are recorded, and then several examples of adjustments, including the SAP S/4 deferral, removing those costs so that once we are talking about net income and the rate impact that may result, those costs are deferred and would be amortized at a later period of time.

But again, just -- just to stress, if we're talking about the operating and admin expenses on their own in -- in isolation, those costs would be included within that discussion.

(BRIEF PAUSE)

MR. ALASTAIR FOGG: Regarding SAP S/4 and the regulatory deferral, Manitoba Hydro's current SAP system was implemented in 1997, making it over twenty-five (25) years old. As has already been noted, SAP has -- has indicated that it will no longer be supporting this version after the next few years.

The business case for SAP S/4 is still in development and, as such, a decision to fully proceed with its implementation has not been made at this time. However, based on the age of the current SAP system and there being no support going forward, the cost associated with anticipated implementation of SAP S/4 were included in the long-term forecast to ensure an accurate representation of potential future costs.

Since the new SAP is also anticipated to be cloud based, it has been captured as an operating and administrative expenses instead of capital like the existing version of SAP would have been recorded.

Establishment of a regulatory deferral for SAP S/4 would ensure the costs are still treated as if it were a capital project. The image you see at the bottom of the screen shows how that regulatory deferral would defer the amortization or recognition of those SAP S/4 costs until after the full implementation of S/4.

So, the amortization would start in the

2030/'31 fiscal year, whereas the costs would be incurred -- showing as being incurred starting in 2023/'24.

MR. ALASTAIR FOGG: I'd like to hand it back to Mr. Tess for conclusions.

MR. AUREL TESS: Okay. Thank you, Mr. Fogg. So, we've touched on these areas a great deal.

I just want to wrap it up by saying that the smooth rate path, confirmation of the 3.6 increase and the 2 percent increases in '23/'24 and '24/'25 play a very critical role, as you've heard from -- from the Panel members.

Debt and interest payments, first of all. Minimizing increasing to finance expense and debt allows retirement that provides the use of revenues for operations. That provides better value for money for our customers.

We're facing this risk with export revenues that we talked about. We anticipate these prices -- our revenue rather to decrease as we see opportunity areas replacing dependable contracts as these expire in '25 and '26, and they're not immediately replaced with domestic revenue.

On the capital side, the rates will provide sufficient cash from operations to fund the needed capital investments to better serve our customers and minimize new borrowing and help mitigate the impact of imposed risks.

We could have easily included another chevron on this graphic related to O&A. I just wanted to add a few points to Ms. Amorim Dew's slide on budget 31, the budgeting process rather, she talks about the -- the very extensive process that we go through.

In addition to that process, there's oversight from our Audit and Finance Committee of which we have a member of the Office of the Auditor General that attends those meetings regularly.

We also have Board oversight, of course. And we also have the Treasure Board Secretariat that does an extensive review of -- of our budget and planning documents.

I think that concludes our -- our direct evidence presentation. And we'd be happy to take any questions you may have.

THE CHAIRPERSON: Thank you very much. We're going to take the morning break. And we'll reconvene at eleven o'clock. Thank you.

--- Upon recessing at 10:43 a.m.

--- Upon resuming at 11:04 a.m.

THE CHAIRPERSON: Thank you. We'll start with Mr. Hombach.

CROSS-EXAMINATION BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Thank you, Mr. Chair. We all have our cross to bear, and according to the schedule, you'll have to also bear mine for the next three (3) hours. I'll try not to abuse the privilege and -- and be brief.

Good morning again, everyone. Before we start, I just wanted to run through a discussion we had with the last two (2) panels, and that's -- I might be directing some questions to individual members, but I recognize that it's the evidence of Manitoba Hydro, not the individuals. If somebody else thinks they should respond or they have anything to add, I welcome them to do so.

The second preliminary comment is I'm not trying to solicit any confidential information on the record. If Manitoba Hydro thinks that confidential information would have to be disclosed to fully respond to a question, we can deal with that off the record by way of a confidential undertaking or another CSI session. That's agreed?

So -- so thank you. This morning we heard a lot about Manitoba Hydro's plans going forward, but before we look back to the plan, I wanted to have a brief look in the past, specifically the history of rate increases. And I'd ask Ms. Schubert to pull up Board Counsels' book of documents volume 4, page 8.

(BRIEF PAUSE)

MR. SVEN HOMBACH: That page shows a history of the rate increases dating back to 1999/2000. I can't believe that's twenty-three (23) years ago already.

Just to confirm, if we look at that schedule, it's my understanding that that 1.92 percent decrease in 2001/2002, that was when the provincial government adopted uniform rate legislation, correct?

MR. ALASTAIR FOGG: Correct. That's my understanding.

MR. SVEN HOMBACH: And the small decrease in 2003/2004, that was an adjustment to the General Service Medium and General Service Small rates?

MR. ALASTAIR FOGG: Yes.

MR. SVEN HOMBACH: And we see that, since then, there's been a steady trajectory of rate increases culminating in 2021/'22, and that was the 3.6 percent interim rate that we're looking to finalize in this proceeding?

MR. ALASTAIR FOGG: Yes, correct.

MR. SVEN HOMBACH: So I'd like to focus folks on the columns that juxtapose the cumulative percentage rate increase and the cumulative CPI.

So we see on this chart that, over the past twenty-three (23) years, cumulative CPI increase has been about 75.6 percent, correct?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: And cumulative -- sorry. Those were cumulative rate increases.

MR. ALASTAIR FOGG: Rate increases, yes.

MR. SVEN HOMBACH: The cumulative CSI has been 68.51 percent, correct?

MR. ALASTAIR FOGG: So just to clarify, that cumulative percent CPI would be based on the previous spring's outlook for Manitoba CPI which you had noted for '22/'23 indicated 3.3 percent.

As we presented this morning, that actual CPI has come in at 7.8 percent versus the 3.3 percent. '23/'24 also has an updated forecast of 3.5 percent versus the 2.3 percent that you see there.

So the results, as updated for our current forecast, would be different and larger than what we see for the cumulative Manitoba CPI, and -- and we could certainly undertake to provide an update of that -- those amounts.

MR. SVEN HOMBACH: Thank you, Mr. Fogg. I would accept that undertaking.

--- UNDERTAKING NO. 22: Manitoba Hydro to provide updated CPI amounts.

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: So we'll turn back to CPI in a moment, and I appreciate Manitoba Hydro having put the updated forecast on the record this morning.

Could we turn to Board Counsels' book of documents, page 9, please, and let's scroll down.

So am I understanding it correctly that if we simply look back the last -- over the last decade as opposed to a full twenty (20) or twenty-three (23) years, the numbers look a bit different where the cumulative CPI increase has been 24.63 percent, but the rate increase was almost twice as high?

MR. ALASTAIR FOGG: That's -- what was outlined in this response, this would have a similar situation, as I noted on the previous, where we would need to update for the actual CPI, that amount. And again, this could be updated, but preliminarily, for CPI, it would be closer to 42.11 percent versus the 24.63 percent noted there.

MR. SVEN HOMBACH: I -- I don't think we need an undertaking for that, Mr. Fogg, but is this what Manitoba Hydro referred to --

MR. ALASTAIR FOGG: And -- and, sorry, just -- I just apologize. That -- that was going to '24/'25, so I apologize. I mis -- misspoke on the 24 percent, just to correct myself. Sorry.

MR. SVEN HOMBACH: So -- so that period, is that what Manitoba Hydro used to refer to as its decade of investment?

(BRIEF PAUSE)

MR. SVEN HOMBACH: That was not a

trick question, Mr. Fogg. It's my understanding that --

MR. ALASTAIR FOGG: That would be my general understanding, you know. I agree with that.

MR. SVEN HOMBACH: So then this is the Revenue Requirement Panel, so let's actually have a look at Manitoba Hydro's revenue requirement. And I'd ask Ms. Schubert to pull up page 15 of the book of documents.

(BRIEF PAUSE)

MR. SVEN HOMBACH: So -- so just to confirm that we're all on the same page, Mr. Fogg, the Utility is looking to finalize the 3.6 percent increase and seeks two (2) additional increases of 2 percent, correct?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: And we won't be dealing with the LED rates or the Surplus Energy Program or Curtainable Rate Program here, that's going to be dealt with in writing, but let's go to the next page, please.

In terms of the deferral accounts, there's agreement that the depreciation account is going to be dealt with on June 5th?

MR. ALASTAIR FOGG: Agreed.

MR. SVEN HOMBACH: Let's go to page 19, please.

(BRIEF PAUSE)

MR. SVEN HOMBACH: This is Manitoba Hydro's financial forecast, and you're projecting to earn about 1.87 billion from domestic rates in '23/'24, correct?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: Mr. Fogg, the '22/'23 numbers, have those been finalized yet? Does Manitoba Hydro have the actuals?

MR. ALASTAIR FOGG: No, those numbers have not been finalized yet. We're still in our year-end processes to finalize those amounts.

MR. SVEN HOMBACH: Could you give the Board an indication as to when you expect those to be finalized?

MR. GREGORY EPP: We have our year-end board meeting coming up on -- I believe it's June 27th, and that's when we expect them to be approved.

MR. SVEN HOMBACH: There's been

discussion previously about the projected net income of 751 million being a -- a new record for Manitoba Hydro. Are we in the ballpark for that amount?

MR. GREGORY EPP: Yeah, that's -- we're in the ballpark. We -- we issued a Q3 report that indicated a range between 6- and 700 million.

MR. SVEN HOMBACH: Thank you. So on the revenue side, domestic revenue, that is the one from the rates that this Board approves, correct?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: Extra-provincial, that's a fancy way of saying that's the export revenue that Manitoba Hydro makes?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: We won't be dealing with the other, but let's turn to the expenses.

Am I correct that, collectively, the line items under 'Expenses', those are the ones that make up Manitoba Hydro's revenue requirement?

(BRIEF PAUSE)

MR. ALASTAIR FOGG: Well, I think, Just to clarify, we would -- net income becomes a factor in revenue requirement but those are the expenses that would be factored into that overall calculation.

MR. SVEN HOMBACH: So at this point in time and for the immediate foreseeable future, finance expense is Manitoba Hydro's biggest expense category, correct?

MR. ALASTAIR FOGG: Yes, that's correct.

MR. SVEN HOMBACH: And do you expect depreciation to overtake this in 2037 as shown on page 23?

(BRIEF PAUSE)

MR. GREGORY EPP: Mr. Hombach, there is -- we haven't highlighted the net movement in regulatory deferral line item, so there's a component that impacts depreciation expense and that line item that could affect that cross-over point, but that's probably very close to when it will.

MR. SVEN HOMBACH: Thank you, Mr. Epp. Now, on that note, could you please confirm that, of the deferral account treatments that Manitoba Hydro seeks in this Application, all of those are currently embedded in the net movement line?

MR. GREGORY EPP: Yeah. Our Application and our recommendations for handling those are factored into this forecast.

MR. SVEN HOMBACH: Is it fair to state that finance expense is primarily driven by the quantity of debt that Manitoba Hydro holds and the interest rate payable on that debt?

MR. GREGORY EPP: Yes.

MR. SVEN HOMBACH: Okay. So -- so, I do plan to get into Manitoba Hydro's Debt Management Plan and financing risk in a bit, but for now, let's turn to operation administrative expense.

Did I hear it correct this morning that about 70 percent of that is labour costs?

MR. ALASTAIR FOGG: Yeah, 70 percent is -- is wages and salary costs and associated cost for people.

MR. SVEN HOMBACH: And the second most significant issue in this GRA would be the cloud computing issue?

MR. ALASTAIR FOGG: I think we would agree that that's a significant issue related to operating and admin expenditures, yes.

MR. SVEN HOMBACH: And we'll defer the depreciation issue to D-Day on June 5th, but is it fair to state that the biggest impact on depreciation would be the choice of methodology?

(BRIEF PAUSE)

MR. ALASTAIR FOGG: Mr. Hombach, that's probably the -- one of the most significant factors. Treatment of gains and losses may have an impact, as well. And different amortization periods related to the existing balance may have an impact.

But I think it's fair to say probably the most significant area of discussion is the methodology.

MR. SVEN HOMBACH: If we look at the line item for capital and other taxes, that would include the water rental fees paid to the province of Manitoba, as well as the debt guarantee fee, correct?

MR. GREGORY EPP: No, that's not correct. The debt guarantee fee is found in net finance expense. The water rental fee is found in water rentals and assessments. The capital and other taxes is made up primarily of the Corporation capital tax, which is a half a percent on our paid-up capital.

MR. SVEN HOMBACH: I stand corrected. Thank you. And fuel and power purchase, that would include imports from MISO, correct?

MR. GREGORY EPP: That's correct.

MR. SVEN HOMBACH: It would include the domestic wind power purchase agreements?

MR. GREGORY EPP: That's correct.

MR. SVEN HOMBACH: And would that also include your hedging contracts or the cost of your hedging contracts?

MR. GREGORY EPP: Yeah. If we were fixing prices for imports, that would be factored into that line item, yes.

MR. SVEN HOMBACH: And would this also include gas required to run the Brandon turbines?

MR. GREGORY EPP: That's correct, and, also, diesel fuel costs for diesel gensets.

MR. SVEN HOMBACH: Do you consider it to be a fairly fundamental shift that for the first time in a long time there's no significant new major new generation or transmission projects addition?

MR. GREGORY EPP: Well, Mr. Hombach, we just finished investing in quite an extensive capital investment.

MR. SVEN HOMBACH: Yeah.

MR. GREGORY EPP: We're not -- probably not quite ready to jump into another one until we get our financial situation in order.

MR. SVEN HOMBACH: I -- I take your point, Mr. Epp. And I -- I wanted to use that as a lead-in to discuss some of the uncertainties because what you're presenting in the financial forecast is just that; it is the forecast.

And you'd agree with me that forecasts are subject to risk?

MR. GREGORY EPP: I would agree with that.

MR. SVEN HOMBACH: So -- so, let's deal with some of the uncertainties that might underlie this -- this forecast. And I'd ask Ms. Schubert to turn to page 47 of the book of documents.

This is an excerpt from appendix 4.4, which is Manitoba Hydro's sensitivity analysis.

Mr. Epp, would it be fair for me to assume that the risks that we see in the sensitivity analysis, that those are the ones that Manitoba Hydro would consider its major risks?

MR. GREGORY EPP: Yes. They have very high financial implications.

MR. SVEN HOMBACH: And -- and these can be additive, correct? So, that could be more than one (1) risk that is triggered at the same time?

MR. GREGORY EPP: That's correct.

MR. SVEN HOMBACH: So -- so, to help walk me through this, you could have a situation where a drought and high interest risks combine to create a double whammy?

MR. GREGORY EPP: That's correct. When your cashflows are depressed because we're in low water and -- we could incur higher borrowing costs. And those higher borrowings could be higher interest rates.

MR. SVEN HOMBACH: Could the reverse also be true, where one (1) -- a change in one (1) risk is offset -- is offsetting another? And I'll give you an example.

If you were spending less on business operations capital, could there be more money available to pay down debt?

MR. GREGORY EPP: Yeah, that's a tradeoff that you could make.

MR. SVEN HOMBACH: To give you another example, if there was a drought, low export prices during a drought wouldn't hurt you, right, they could help you?

MR. GREGORY EPP: They wouldn't hurt you as much. When -- when we're in a drought, we are forced to import energy and -- and pay that price, and -- and we experience that in '21/'22.

And, I mean, the -- the Panel spoke about the activities that they took, but there were imports and there's costs. And that fuel and power purchase line item that -- that you took us through climbs substantially --

MR. SVEN HOMBACH: Right.

MR. GREGORY EPP: -- if we're in a drought.

MR. SVEN HOMBACH: So, there has been extensive evidence on the -- on the Export Panel on Manitoba Hydro's export projections.

But would it be fair to say that if prices within the MISO market were to decrease, that might actually be advantageous for Manitoba Hydro during the next drought because it would make imports cheaper?

MR. GREGORY EPP: Yes, if -- if our drought situation didn't influence the market and -- and didn't influence the price signal.

MR. SVEN HOMBACH: So -- so, before we move on from this, I just wanted to discuss some of the numbers that we're actually dealing with. Page 47 of the book of documents that deals with the impact on retained earnings.

And I -- I regret to admit I'm not an accountant, but retained earnings is basically the same as cumulative net income, correct?

MR. GREGORY EPP: That's correct.

MR. SVEN HOMBACH: Glad I got that right.

MR. GREGORY EPP: You're right there.

MR. SVEN HOMBACH: So -- so --

THE CHAIRPERSON: Sorry, can I interrupt for a sec? Mr. Epp, can you either move the mic closer to you or speak louder because you just -- you're sort of at that level.

MR. GREGORY EPP: Okay. Is this better?

THE CHAIRPERSON: Yeah, that's much better.

MR. GREGORY EPP: Okay.

THE CHAIRPERSON: Thank you.

MR. GREGORY EPP: Sorry about that.

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: So -- so, Manitoba Hydro currently estimates the risk of a five (5) year drought to amount to about 2.8 billion, correct, 2.9

if we're rounding up?

MR. GREGORY EPP: Where do you see that?

MR. SVEN HOMBACH: It's the 2042, the --

MR. GREGORY EPP: Oh.

MR. SVEN HOMBACH: -- very top right of the page.

MR. GREGORY EPP: Yeah. So, when we run these drought sensitivities, so the first one is a five (5) year drought, so we experience the historic -- or recurrence of the historic five (5) year drought for five (5) years. And then after the fifth year, beginning in the sixth year, it reverts back to average water flow conditions.

So, this is -- that's the fully carry effect of the compound in effect of losing $1.7 billion. The same hold true for the seven (7) year drought, so.

MR. SVEN HOMBACH: And you've actually preempted my next question, which is as follows.

Over the five (5) year time frame, a five (5) year drought would only amount to an effect of about 1.7 billion --

MR. GREGORY EPP: Only?

MR. SVEN HOMBACH: -- projection?

MR. GREGORY EPP: Only? I'm kidding. Sorry.

MR. SVEN HOMBACH: Usually, Mr. Epp, to say -- I will rephrase that without the word 'only'. You expect it to amount to about 1.7 million?

MR. GREGORY EPP: Yeah, that's the loss of net export revenue and any financing costs related to that, the additional borrowings.

MR. SVEN HOMBACH: So -- so, could you please confirm for me that this assumes that, if there were a drought, there would be no additional rate relief to make up for it?

MR. GREGORY EPP: Under this sensitivity, the rate path was held constant at 2 percent. So, like, absent higher inflation there, based on the -- on the Act, you would -- you would have little room to raise rates higher.

MR. SVEN HOMBACH: You've again preempted one (1) of my questions. I'll get there in a minute. But I wanted to discuss business operations, as well.

Mr. Epp, you're aware that there's been some Intervener evidence that just talked about business operations expenditures perhaps being higher than they should be, recognizing that there's a difference in perspective.

So if they were to be decreased by 10 percent, you would expect that to result in increased retained earnings of about 1.2 million?

MR. GREGORY EPP: Yeah. By the end of the twenty (20) year forecast. But if you look to the end of the five (5) year drought in 2030, reducing business operations capital or decreasing it by 10 percent, your retained earnings is only $107 million higher than the -- than the base case, right.

MR. ALISTAIR FOGG: Mr. Hombach, if I can just add to what Mr. Epp is saying.

I think it's just important to note that -- that on the business operations capital scenario, for example, it -- it does keep the rate path constant under that scenario. So were you to talk about improvements in your retained earnings as a result of that reduction, that -- that's assuming still a 2 percent rate is awarded in that case. If that rate changes, you may not see those same increases in retained earnings.

MR. GREGORY EPP: Any sensitivities -- like, it's just the sensitivity is changed. All other assumptions, all other planning assumptions that are inherent in the amended financial forecast remain unchanged. So the rate path remains unchanged in all the sensitivities.

As a -- with the exception of the bottom three (3), where we indicate that there is a change in -- in the rate increases.

MR. SVEN HOMBACH: Now, Mr. Epp, there's been some discussion in this Hearing about there being no uncertainty analysis.

And am I phrasing it correctly that, in its rebuttal, Manitoba Hydro said its engaging in a prudent pause on that issue?

MR. GREGORY EPP: That's correct.

MR. SVEN HOMBACH: So was Manitoba Hydro surprised that currently it doesn't have a provincial energy policy that provides some guidance for the utility?

MR. AUREL TESS: Mr. Tess here. I think it's fair to say that we -- we continue to -- to work with the Province on energy policy, provide advice, and -- and input.

I'm not sure 'surprised' is the right word to use. I think they've -- they've indicated that, from a policy perspective, they're working on it and we expect something shortly.

MR. SVEN HOMBACH: Do you expect a provincial energy policy to be released before the conclusion of this GRA?

MR. AUREL TESS: Sorry, the button is very sticky. It's Mr. Tess again.

I can't say that for sure, Mr. Hombach. I -- I believe Ms. Grewal spoke to this as well in terms of our discussions with them.

And it's been something that the government has announced, but we have no control over it, so. Yeah.

MR. SVEN HOMBACH: I believe Ms. Grewal also indicated that the Utility is planning to have its IRP ready this summer, correct?

MR. AUREL TESS: Yeah, that's correct.

MR. SVEN HOMBACH: Is it the Utility's intention to start a full uncertainty analysis again once an energy policy has been released?

MR. GREGORY EPP: I think the energy policy is just one of, like, a key document that would impact the way we look at uncertainty and risk going forward.

You know, billing out our Enterprise Risk Management Program, how the uncertainty analysis will fit in with that, and looking at risks across the entire enterprise, and the findings that are coming out of the IRP, right? There's's -- there's a number of things that the group that is working hard on the IRP is investigating things that will change as the energy landscape changes.

These are things that -- that, you know, we're just tyring to put our thumb on and our pulse on. And we have to do some more understanding and -- and research on how that should be modelled and how that should be folded into any financial forecast.

At the same time, there's -- there's things that are changing in -- in some of the risks that we currently know today. I'll say, like, our export price forecast.

How is the changing energy landscape and some of the things that -- that Daymark brought forward -- how those resources are changing the -- the resource mix in that area are going to impact the price and the signals that we get for our surplus energy here.

So even -- even if the energy policy should drop on said date or even if the IRP drops this summer, there's still a lot of work to be done to comb through all that information, to understand it, to model it, to test it, and make sure that -- that we have a fairly strong understanding for these things before we release it. Not only review it internally, but bring it into a forum like this.

MR. SVEN HOMBACH: Thank you, Mr. Epp.

At -- at this point, is Manitoba Hydro's intention to have an uncertainty analysis before the next GRA, which is going to be the first one under the Bill 36 regime?

MR. GREGORY EPP: I can't say for sure. I wouldn't want to be put on the spot. But, you know, I think, you know, our intention would be to do something. What that might look like -- will it be the same thing we presented at the last full GRA, I can't say for certain it'll look the same way.

MR. SVEN HOMBACH: So Mr. Epp, the reason I asked is that there seems to be some agreement that this is the last GRA that's not under the Bill 36 regime. Is that generally Manitoba Hydro's position? Mr. Tess, I see you nodding?

MR. AUREL TESS: Yes, I believe so. Yeah.

MR. SVEN HOMBACH: So let's go to page 56 of Board counsel book of documents. And let's scroll down a bit.

This was an Information Request the --

the Board advisors had asked to flesh out the -- the impact on rate increases of some of these events happening.

And I don't want to misstate anything, but this shows that a -- the impact of a five (5) year drought could be made up by a 0.41 percent rate increase over the rest of the twenty (20) year forecast, correct?

MR. GREGORY EPP: Yeah. I would just caution, you know, taking these numbers as they are. It's -- it's very much you know with perfect foresight that you would be in a five (5) or seven (7) year drought and you are acting in advance of them happening.

So, you know, those -- those are the numbers. Those -- that's the exercise that was undertaken. But a lot of times, you're -- you're not exactly clear whether you are in a drought situation or whether you're going to move out of that position.

But -- so mechanically, yes, those are the impacts. On an actual basis, would -- would they roll out like that? I -- I would say probably not.

MR. SVEN HOMBACH: So I appreciate that precision, Mr. Epp.

Could we agree that what this suggests

is that a drought means you need about half of a percent in cushioning?

MR. GREGORY EPP: That's a half of a percent for nineteen (19) years.

MR. AUREL TESS: Can I just add something too. It's Mr. Tess here.

Something you said earlier, Mr. Hombach, about looking at each of these items in isolation too is -- is something we should consider in this analysis.

Because the flip side of risk being opportunity, we could have potentially higher water levels in a year combined with, you know, a year where you have high interest rates, as an example. So it's something that you have to consider in -- in looking at the half a percent roughly.

You -- you likely will have other factors affecting the forecast in any given year.

MR. SVEN HOMBACH: Thank you, Mr. Tess. Is it fair to say that, under the CPI projections that Manitoba Hydro included in the presentation this morning, that is not a rate path that could be accommodated?

So -- so you wouldn't be able to come in for 2.5 percent rate increases going forward?

MR. ALISTAIR FOGG: Mr. Hombach, it's Mr. Fogg.

Based -- based on the current forecast of CPI, you wouldn't -- we would not be able to seek the additional or increment 0.5 percent for 2.5 percent rate increase.

MR. SVEN HOMBACH: So given that issue, I'd like to turn back to the retained earnings impact.

And Mr. Fogg, if memory serves me right, the sensitivity analysis showed that a five (5) year drought would have an impact of about 3 billion; a seven (7) year drought would have an impact of about 4 billion. Correct?

MR. ALISTAIR FOGG: I'll agree, subject to check.

MR. SVEN HOMBACH: And I'll note for the benefit of Mr. Epp I did not use the word 'only' this time.

So let's go back to page 19 of the book of documents which shows Manitoba Hydro's financial forecast.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Sorry, page 20. If we look at the highlighted portion in the 2023/'24 column, Manitoba Hydro's retained earnings right now stands at about $4 billion, correct?

MR. ALASTAIR FOGG: Sorry, Mr. Hombach, did you say stands at that right now?

MR. SVEN HOMBACH: Sorry. It will be at the end of this fiscal year.

MR. ALASTAIR FOGG: Correct, the -- the current fiscal year.

MR. SVEN HOMBACH: So, it's currently about 3.5 billion, assuming we're in the ballpark for --

MR. ALASTAIR FOGG: Optimally, yeah.

MR. SVEN HOMBACH: Thank you. So, if you -- if you absolutely needed to, at this point in time, or at the end of this fiscal year, your retained earnings would be sufficient to absorb a seven (7) year drought.

MR. ALASTAIR FOGG: Sorry, Mr. Hombach, can you just give me one (1) minute?

MR. SVEN HOMBACH: Yes.

(BRIEF PAUSE)

MR. ALASTAIR FOGG: Mr. Hombach and just so we're clear, I think, we're talking about the current fiscal year we're in, so at the March 31st of next year, at the end of '23/'24, the forecasts are retained earnings of 4 billion, just -- just to ensure I'm -- we're talking about the same timing.

Assuming that's correct, we would -- what we would -- to your -- to answer your question, we would have that amount would be significantly eroded. The retained earnings would be eroded by the -- the drought were it to occur.

MR. SVEN HOMBACH: So, Mr. Fogg then, let's discuss the impact of that on the actual targets and I'd ask Ms. Schubert to turn back to page 46 of the Book of Documents.

The -- the second column in the bottom table and the sensitivity analysis shows the impact of that on the targets. And, am I reading this correctly that absent higher rate increases, you'd be unable to meet the 80 percent debt-to-equity target in 2040?

MR. GREG EPP: Yes, that's what the table says. This is Mr. Epp.

MR. SVEN HOMBACH: So -- so you'd be about 1 percent short at this rate.

MR. ALASTAIR FOGG: Sorry. Just --

it's Mr. Fogg, just to clarify. The 80 percent target, Mr. Hombach, is by 2035 and then it was --

MR. SVEN HOMBACH: I'm sorry.

MR. ALASTAIR FOGG: --- 70 percent. Thank you.

MR. SVEN HOMBACH: So -- so, you'd be about 10 percent short?

MR. GREG EPP: That's correct. Eight-one (81) versus seventy (70).

MR. SVEN HOMBACH: So, we've established that you wouldn't be able to come in for a 2.5 percent rate increase in the current CPI projections? We're still in agreement on that?

MR. GREG EPP: Yeah, if -- if the CPI projection would hold true when we were applying for those rates, that's correct.

MR. SVEN HOMBACH: So, so let's turn then to this idea of a 2 percent rate path going forward.

Now, is it fair to state that both Manitoba Hydro's initial November 15 application and the subsequent December 9 application met the legislated debt-to-equity targets?

MR. GREG EPP: That's correct. Both financial forecasts, the November 15th and the

December 9th, met the debt-to-cap targets on or before the achievement dates.

The difference with the November 15th, is it did not comply with the rate cap as the 3 1/2 percent rate increase in 2025/'26 and beyond was greater than our forecasted Manitoba CPI.

MR. SVEN HOMBACH: So, so let's spend a moment on those targets. I'd ask to look at page 69 of the Book of Documents.

This sets out the targets, and just to confirm, the legislated targets are 80 percent by 2035 and 70 percent by 2040. Correct?

MR. GREG EPP: Yeah. Those are the targets that Manitoba Hydro deems those dates as the latest date to achieve those targets.

MR. SVEN HOMBACH: So, let's turn to page 70 of the document, and Mr. Czarnecki might want to put his finger on the button and -- before the next question.

Is it Manitoba Hydro's understanding that the legislated rate cap trumps the target, the debt-to-equity target?

MR. ALASTAIR FOGG: It's Mr. Fogg. Mr. Hombach, I believe we've answered that in IRs as well. Our -- our interpretation would be that that would, I suppose if you want to say it trump, or that would overrule the other provisions around the debt ratio target.

MR. SVEN HOMBACH: We could go back to your presentation this morning and flip to page 12 please.

Now, I assume most of us here have actually looked at how the -- the formula works and just to confirm, Mr. Fogg, the -- this -- the formula for the rate cap looks back six (6) months in the enumerator, before actually establishing what the cap is. Correct?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: So, for the purpose of the Board subsequently establishing April 1, 2025 rates, you would need to know what the September 24 CPI data is?

MR. ALASTAIR FOGG: I -- I would suggest it will be -- will have -- there'll be forecasting involved in -- in setting the -- those rates potentially, depending on timing. But, if actuals are available, those can be factored in.

MR. SVEN HOMBACH: Right. But -- but the cap would be determined based on needing the September 24 CPI rate in the formula?

MR. GREG EPP: It's Mr. Epp here. Yes, that's the way the legislation is -- is drafted. You would need to know -- you need to go to Statistics Canada to get those values and Statistics Canada will be -- they will be known or actuals.

So, that -- that may become an issue or a challenge for all of us, the Board included, granting prospective rate increases under this legislation when these values are not yet known, when we are sitting in the room.

MR. SVEN HOMBACH: So, based on slide 12 from your presentation this morning and now assuming CPI to be a little bit higher than 2 percent for '23/'24, correct, at 3.5 percent?

MR. GREG EPP: That's correct.

MR. SVEN HOMBACH: Could I use a -- a legal and accounting term and say, if that were to be true, that would give you some wiggle room?

MR. GREG EPP: That's correct.

MR. SVEN HOMBACH: Mr. Epp, do you know what the date of the spring '23 forecast is on the slide?

(BRIEF PAUSE)

MR. GREG EPP: So we -- we get forecasts from the primary financial institutions in our three (3) independent sources. And our -- they come in at different times, but the cutoff was March of this year.

MR. SVEN HOMBACH: Thank you. Let's go to page 59 in Board Counsel Book of Documents and let's scroll to the bottom. Sorry, let's scroll back up to the -- it's figure 5 we need.

So, when Manitoba Hydro came in with its revised application on December 9, that assumed a decrease of about 1.25 billion in -- in water rentals, is that fair to say?

MR. GREG EPP: If you could scroll down a little bit. 1.2 --

MR. SVEN HOMBACH: It might be on the next page, it might be on page 60.

MR. GREG EPP: 1.23, I believe, on row 10.

MR. SVEN HOMBACH: So, collectively, there is a reduction of about 3.75 billion in fees, correct?

MR. GREGORY EPP: Yeah. There -- there was a reduction to the debt guarantee fee and there was a reduction to the water rental fee that sum totalled to roughly 3.8 billion, rounded.

MR. SVEN HOMBACH: So, one of the things this Board will have to wrestle with is -- is what to make of the -- the provincial intention to -- to reduce the accumulated debt and let's take a moment to have a look at page 63 of the Book of Documents.

This is -- Mr. Epp, this is an excerpt from -- from Hansard on November 23 of last year, which indicated that, collectively, the reduction would save Manitoba Hydro and ratepayers about 4 billion in accumulated debt. Let's scroll down a bit more.

You see that, on the bottom, left of the page?

MR. GREGORY EPP: Yes, I do.

MR. SVEN HOMBACH: So -- so, I want us -- I want us to keep that 4 billion number in -- in mind for the next line of questioning, but let's go back to page 60 of the Book of Documents and let's scroll down to the bottom of that page.

We established already, Mr. Epp, that the total reduction in fees was about 3.75 billion. Correct?

MR. GREGORY EPP: That's correct.

MR. SVEN HOMBACH: And Figure 9 on

this page shows that the reduction in revenue is about 3.8 billion?

MR. GREGORY EPP: That's correct.

MR. SVEN HOMBACH: So -- so, should that indicate to me that the reduction is, basically, being refunded or credited to ratepayers?

MR. GREGORY EPP: Yeah. They're essentially equal and off-setting. So, again this -- this is an excerpt from Appendix 4.1.1 that's comparing our November 15th forecast and the amended forecast that was filed on November 9th, both of which achieve the debt ratio targets under the Act. Okay?

Again, the November 15th did not comply with the rate cap. So, the reduction in the fees is allowing, on a -- on a projected basis, for the -- for the Utility to comply with both key elements of the Act and, by doing so, it allowed us to reduce the rate path from 3 1/2 down to 2.

So, from a -- from a financial perspective, you achieved the same target a little bit earlier, on the -- on the 80 percent, but 70 percent by the same time.

So, even though your expenses and your revenues are changing, they're equal and off-setting. So, from a financial picture, you end up in the same spot. Okay?

So, when you -- when you compare the line items for the, you know -- but, at the end of the day, you know, we go to -- in -- in other areas of this appendix, how it's just really a cashflow timing difference.

And those savings are -- are being passed on to the customer in the terms of lower rate path, and you may be going there, Mr. Hombach, on -- on that Hansard, about how the intent was to apply those savings directly to debt, and -- and what's happening is is some of that is debt avoidance, you know, throughout -- throughout the time period. Again, getting to the same place, the target in -- in -- in the Act.

MR. SVEN HOMBACH: So -- so, Mr. Epp. Thank you. That -- that is actually exactly where I'm getting.

At least one of the Intervener witnesses, Mr. Colaiacovo, had -- had made this argument that, perhaps, the proper comparison would be two 2 percent rate paths, rather than a 3.5 rate path and a 2 percent rate path.

So -- so, let's explore that issue and go to page -- let's go to page 219 of the Book of

Documents. This was an IR that the Consumers' Coalition had asked you and it asked Manitoba Hydro to -- to explain what the debt avoidance would be under a 2.2 -- two different 2 percent rate paths. And perhaps we'll scroll to the top of page 220 of the Book of Documents.

Is it Manitoba Hydro's position then that if you compare a 2 percent rate path and a 2 percent rate path, the total avoidance is about 6 billion?

MR. GREGORY EPP: I -- I think if -- if we, like not zoom in as much, and take a look at the tables that follow. I can probably try to explain. If you can -- if you can have -- if you can show both tables at once, I think it's probably the best way to show it.

Okay. So -- so, in table 1, we -- we have the change in the rate path, right. So, if we're going from a 3.5 percent rate path to a 2 percent rate path, you're full-going roughly, these are rounded numbers, $4 billion of revenue.

That on its own generates, you know, $2 billion of additional finance expense. That's where you get the -- the impact of six.

The same is holding true in table --

figure 2 when you reduce the debt guarantee fee and the water rental fee. That three (3) and that 1 billion equate to two (2), roughly over the same period of time you get the same financing impact, so there's your -- there's your 6 billion, which way you look at it.

So, if you want to use your algebra, you just cross out the 4, and the 3, and the 1. And they both wipe each other out, okay, and that's where those financing savings disappear, because they're equal and offsetting.

And it comes back to the fact that the two (2) forecasts achieved the same financial picture by 2040, right? So, that's what this was -- was -- is -- is trying to convey.

MR. SVEN HOMBACH: So, would it be Manitoba Hydro's suggestion that this is what the Board focus on for purposes of the comparison? That it should compare 2 percent and 2 percent?

MR. GREGORY EPP: What I think the -- what I think -- the Panel should focus on is these -- these fee reductions that the Province has put forward is really good news. This is -- this is helping the Utility achieve the financial targets that -- that were set out in that legislation.

And in doing so, it's reducing that rate path from 3 and a half and taking that burden off customers then -- then lowering it to 2 percent. And that is, I think, you know, we don't need to get lost in -- in all of these charts. That's -- that's the bottom line.

MR. AUREL TESS: Maybe I'll suggest -- it's Mr. Tess, here, that we bring up slide 7 from Ms. Schubert from our direct evidence this morning. And perhaps if you look at the two (2) graphics it might be easier to follow, but Mr. Epp mentioned, there's the 3.8 billion which is a reduction in additional revenue.

And on the bottom you have the savings due to reduced payments, so. The excerpt from Hansard referred to the 4 billion savings, and this is really what was being referenced there.

And then there's the 2 billion that contributes to additional savings because you're -- your debt -- through debt avoidance, essentially. So, there's two (2) components to -- to the 6 billion.

MR. SVEN HOMBACH: Thank you, Mr. Tess. I -- I'd like to stay on this slide for a moment.

There's been a lot of references to the

rate path in -- in this proceeding. And if we look at the chart at the top-right corner of page 7 of the presentation from this morning.

There -- there's been talk about 3.5 percent as opposed to 2, but is my understanding correct that the initial filing had 3.5 percent for the first decade, followed by 0.5 percent for the second decade?

MR. GREGORY EPP: That's correct.

MR. SVEN HOMBACH: So -- so, is it fair to state that at the end of the twenty (20) year forecast, what we see is the cumulative rate increases are really quite similar under both of those proposals?

MR. GREGORY EPP: Subject to check, but they're probably right around the same -- in the same ballpark as the financial picture is very much the same by the end.

MR. SVEN HOMBACH: It's -- thank you. I believe it's 47 percent under the initial finding, 45 under the second, and you can take that subject to check.

MR. GREGORY EPP: Sure, I'll --

MR. SVEN HOMBACH: So, is this a policy decision to move from front loaded rate increases to an even twenty (20) year rate path?

MR. GREGORY EPP: There's a couple -- couple of policy decisions in there, but they're driven by the priorities that we outlined in our Application that look at rate stability, predictability, and so on, but also compliance with the legislation, so looking at -- and taking those two (2) into account when we came up with the rate path.

MR. SVEN HOMBACH: Did Manitoba Hydro consider front loading some of their rate increases to before the Bill 36 targets come into effect?

MR. GREGORY EPP: That wasn't something I recall we looked at, no.

MR. SVEN HOMBACH: I'd like to spend a few minutes exploring that. And, Mr. Chair, after that might be an opportune time for a lunch break.

Let's go to page 87 of the Book of Documents, and scroll to the bottom of the page, please.

One (1) of the questions the -- the Board advisors had asked Manitoba Hydro in Information Request is: What would happen if the rates for '23/'24 and '24/'25 were still at 3.5 percent as under the initial Application?

And, Mr. Fogg, I -- I take it you're

familiar with this response?

MR. ALASTAIR FOGG: Yes, I'm familiar with the response.

MR. SVEN HOMBACH: So -- so if that were the case, Manitoba Hydro assumes that it would only need 1.55 percent going forward?

MR. ALASTAIR FOGG: The resulting effect is then 1.55 percent annual rate increases thereafter to meet the 70 percent debt-ratio target.

MR. SVEN HOMBACH: So from the Utility's perspective, under a scenario like that, would that give you additional breathing room to deal with things like a seven (7) year drought that has a half percent rate impact?

MR. ALASTAIR FOGG: Such a scenario would -- would provide some of that additional -- I guess, to -- to use your term -- breathing room or -- or rate increase opportunity.

And, you know, this scenario is viable from the perspective of meeting the provisions of the Act, and we had to balance that consideration against what -- what our view was from a stable and predictable rate path perspective when we sought the -- the 2 percent rate path.

MR. SVEN HOMBACH: Mr. Chair, I'll be

exploring the issue from the exact opposite side soon, but I would suggest we break for lunch at this point and I'll continue after.

THE CHAIRPERSON: Thank you, Mr. Hombach. We'll break for lunch until one o'clock.

--- Upon recessing at 11:57 a.m.
--- Upon resuming at 1:01 p.m.

THE CHAIRPERSON: Good afternoon. Mr. Hombach...?

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Thank you, Mr. Chair. Before the lunchbreak, I had examined the Panel and -- and asked whether perhaps Manitoba Hydro would need more money during the test years. I promised I'd ask the opposite next, so -- so let's explore it from that perspective if we may.

And I'd like to turn to page 101 of Board counsel book of documents, Volume 4.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Mr. Fogg, I'll

direct the question to you, but perhaps it would be better for Mr. Tess.

Can we keep the three (3) highlighted numbers in mind for a moment. When Manitoba Hydro filed its Application on November 15th, it was projecting 568 million in the first year, 298 million in the second year, and 162 in the third, first being, the '22/'23 year?

MR. ALASTAIR FOGG: Yes, I see those numbers.

MR. SVEN HOMBACH: Yeah, okay. So -- so, let's go to page 100, just before. This is from the revised application.

And all of the sudden, the numbers have increased to 751 million for the '22/'23 year, 469 for the '23/'24 year, and 295 for the '24/'25 year?

MR. ALASTAIR FOGG: Yes.

MR. SVEN HOMBACH: So, is my math correct that that's more than an extra hundred million dollars per test year?

(BRIEF PAUSE)

MR. ALASTAIR FOGG: I believe your math's correct, yes.

MR. SVEN HOMBACH: So, is it also fair to say that Manitoba Hydro did not think it would need that extra money when it filed on November 15th?

(BRIEF PAUSE)

MR. ALASTAIR FOGG: If you would just give me one (1) moment.

(BRIEF PAUSE)

THE CHAIRPERSON: Sorry, Mr. Hombach, what page is that in your -- in the book of documents?

MR. SVEN HOMBACH: It's page 100 in Board counsel book of document, Volume 4.

THE CHAIRPERSON: Thank you.

(BRIEF PAUSE)

MR. ALASTAIR FOGG: Thanks for the opportunity, Mr. Hombach, to caucus.

I guess maybe how I would respond is that there is -- there is certainly a difference in -- in the net income amounts, and that's as a result of the retroactive application, particularly for '22/'23, of the reduced payments to government that are captured in that year. And then the subsequent years, there's also a benefit as a result of those reduced payments.

The offsetting effect is that, if you look at net income across the forecast, you'll see in -- in MFR 20 before it was amended, that net income becomes higher over the later periods of the forecast, whereas it's lower in the amended forecast, ultimately, both resulting in that 70 percent debt ratio target being achieved in the 2040 year.

MR. SVEN HOMBACH: So, are you really seeking the extra income as part of a smooth twenty (20) year rate path?

MR. ALASTAIR FOGG: I guess I would suggest it really amounts to a difference in when that income is obtained. Some of that income is coming earlier in the -- in this amended forecast but comes later in the -- our previous, or November 15th filing, because that ultimately both lead to the same debt ratio target at -- at the end.

MR. SVEN HOMBACH: Mr. Fogg, you're aware that some of the Interveners, at least, have argued that in this Hearing, the Board shouldn't be guided by the rate path before that path is actually in effect?

MR. ALASTAIR FOGG: Yes, I'm certainly aware of that. And I think while Manitoba Hydro has acknowledged that that -- it's not operative yet, those aspects of Bill 30 -- what were Bill 36 are not a part of the Act are not operative.

We've had to be mindful of the path we have to take once it becomes operative and putting -- being in a position to meet those requirements that are in legislation, so there's a balancing of that consideration.

MR. SVEN HOMBACH: So -- so, thank you, Mr. Fogg. That actually provides a good segue to get into the interim rate. And I have a few follow-up questions from my colleague, Mr. Peter's, examination of the Export Drought and Hydrology Panel when Ms. Fernandes had suggested those would be better directed to this Panel.

If -- if I could ask Ms. Schubert to pull up Board counsel book of document, Volume 2.

(BRIEF PAUSE)

MR. SVEN HOMBACH: I'd like to spend a bit of time to delve into the -- the history leading up to that rate. Ms. Schubert, if we could go to page 13 of the document, please. And scroll down to the bottom of the page.

So, Mr. Tess, on -- on June 9 of 2021, Manitoba Hydro had sent a letter to the Board indicating that it expected a net income of about $177 million for the '21/'22 test year.

You're aware of that?

MR. AUREL TESS: Yes, I am.

MR. SVEN HOMBACH: So, if we move forward a little bit -- let's go to page 29 of the same book of documents, please. That shows by the time of Manitoba Hydro's Q1 report the 177 had basically been eroded and Manitoba Hydro was projecting breakeven revenue.

Do you recall that, as well?

MR. AUREL TESS: Yes, I do.

MR. SVEN HOMBACH: Now, when -- when Mr. Gawne was here testifying for the Export Drought and Hydrology Panel, he indicated that his office prepared monthly hydrological reports.

Do those make it over across your desk or across the desk of your team?

MR. AUREL TESS: Yeah. They're a major input into our financial forecasts.

MR. SVEN HOMBACH: So -- so, what I'd like to know from you is how those reports actually flow into the decisions that your finance team makes.

Are you approving them?

MR. AUREL TESS: Sure.

MR. SVEN HOMBACH: Or what is the approval process and how does the finance team determine when to come in for a rate increase?

MR. AUREL TESS: Well, let me -- let me start with kind of the supporting hydrology that was behind the number of the June 9th letter. I believe that was a water report that we received in May, subject to check.

And so, the timing of that was quite a bit earlier than the -- the shift in -- in the net income that we saw in this report that you're looking at.

So, there would have been a different hydrology report that supported this number from the time that that expired between the June 9th letter and when this report was done.

MR. SVEN HOMBACH: So -- so, do those hydrological reports make it to your team on a contemporaneous basis?

MR. AUREL TESS: Sorry, can you repeat

the last word?

MR. SVEN HOMBACH: Do those reports make it across your desk on a contemporaneous basis?

MR. AUREL TESS: Like I said, they're -- they're a regular part of our inputs and -- and they're reviewed as part of the financial forecasts.

MR. SVEN HOMBACH: So, Mr. Turner previously testified that the quarterly report was publically released on September 1 of 2021.

You agree with that day?

MR. AUREL TESS: That sounds right, yeah.

MR. SVEN HOMBACH: So, we know that in '21 there was $177 million erosion between the June 9th letter and that report being issued.

At what point did you or did your team realize that had happened?

MR. AUREL TESS: Well, let me back up a little bit, as well, because -- let me outline the process for the quarterlies. So, the quarterly contains actuals which, you know, there is a period of time we need to -- to finalize those actuals.

The forecasted number that we use in the forecast is the best estimate that we have at the time. And so, as you may be aware, we -- we go to our

Audit and Finance Committee and Board usually in August for those reports.

So, they will -- I guess what I'm trying to get as is the -- the numbers could be quite a bit dated by the time they're approved and released in public. And there's another step that's taken where, as per the legislation, they have to be approved by the minister, so there's another lag period there.

I don't know if I answered your question though. When did I become aware of...

MR. SVEN HOMBACH: It does -- it does in part, Mr. Tess, but I -- I do have some follow-up.

So, I -- I understand that they have to be approved by the executive, but that means there are draft reports, a preapproval, that you're aware of?

MR. AUREL TESS: Well, there's a draft financial forecast. Yeah, that's accurate.

MR. SVEN HOMBACH: And before that's approved, is there a process in place where you or your team can advise the -- the CEO that there's a drought or that there's a serious issue brewing?

MR. AUREL TESS: Well, at the time, we had a -- we had a team that was working on drought. I think you heard a little bit about that in the Daymark evidence. And so, this is something that we are on top of on a -- on a regular basis.

So, we have a team of executives along with, you know, experts from hydrology and -- and -- as well, that were also looking at this on a regular basis.

MR. SVEN HOMBACH: Now, you mentioned the legislated requirement.

Now, is my understanding correct that under the Crown Corporations Governance and Accountability Act Manitoba Hydro has a maximum of forty-five (45) days to prepare the interim quarterly reports?

MR. AUREL TESS: That's right, yeah.

MR. SVEN HOMBACH: So -- so, your office would have had a completed version of this report by mid-August, at least?

MR. AUREL TESS: No. I think there's -- there's a time period where we have to get it approved by our Board. I mentioned that. So, I -- I believe that occurred in early August. I'd have to check my records, but I believe early August.

MR. SVEN HOMBACH: So, can you advise the Board why it took four (4) months for that report to be publically released?

MR. AUREL TESS: Well, we had sent it. My recollection is it went to the government as -- as per the Act. We -- we fulfilled our requirement. And they have the discretion within the Act to release it when they want to release it.

So, I think, you know, from my experience, they -- they've typically sometimes released these reports with their public accounts that are due at the end of September. And then they -- they practice the same with other Crowns and other summary entities in government, so it's -- it's kind of one (1) cohesive release from all of the government entities.

MR. SVEN HOMBACH: And -- and, Mr. Tess, I'm -- I'm not asking you to divulge any cabinet confidences, but during day 1, my colleague asked Manitoba Hydro's CEO if the Utility had expected there to be a legislated increase in 2021, and -- and she indicated that -- yes.

I take it that was your expectation, as well?

MR. AUREL TESS: That was exactly my expectation. And we -- I can't recall exactly how many days notice we received before the directive came out, but it was a very, very short turnaround.

MR. SVEN HOMBACH: So -- so, does 'short turnaround' mean that you would not have been told that there would be no legislated increase until sometime in September?

MR. AUREL TESS: That's correct.

(BRIEF PAUSE)

MR. SVEN HOMBACH: During the drought as -- as this issue was percolating were there any emergency meetings of the Manitoba Hydro Electric Board to deal with the potential for an interim rate increase?

MR. AUREL TESS: Mr. Hombach, I'd have to check the actual Board records on that. I do recall it was a topic of every Board meeting and every audit and finance meeting that we had during that period.

We actually had a -- I believe it was a special audit and finance meeting or an allocated time that was set aside in the June meeting even that we had with regard to drought. And we did a drought presentation to the Board to, first of all, kind of educate them on what we were doing, but also to -- to go over some of the risks that we were facing: Energy security risks and the price risk that you heard about from Daymark.

MR. SVEN HOMBACH: Now, Mr. Tess, the directive for Manitoba Hydro to file an interim application, that was issued on September 21st, right? Or 22nd?

MR. AUREL TESS: That sounds right. Subject to check, yeah.

MR. SVEN HOMBACH: It took Manitoba Hydro two (2) months to actually file the Interim Application. Was that because the Utility was caught off guard? Or why the two (2) months delay?

MR. AUREL TESS: Well, I think it's a combination of factors. Like, as I mentioned, we -- you could say that we were a bit caught off guard. Because we had been told rates were going to be set by -- by government through whatever mechanism selected by government at the time.

And with very short notice, we were told that we're going to be directed to come in. So to be fair, we hadn't done any preparatory work on a submission at that time.

I would say that I'm also very proud of the way the team got together and submitted the Application and I think in what is record time. I don't believe we've ever submitted an Interim Application in the amount of time that -- that we took to do it.

So, given the circumstances, it seems like it takes a long time, but there is a lot that goes even into the Interim Application.

MR. SVEN HOMBACH: So recognizing the likely superhuman strength of your regulatory team in that time frame, can you -- can you tell the Board, was the bottleneck the -- the time it took to prepare the Application? Or was the bottleneck that there wasn't a Board meeting before November to approve it?

MR. AUREL TESS: I don't recall the -- the Board being a bottleneck at all. I think it was really the amount of effort and time that had to go into undertaking this in a very short period of time.

MR. SVEN HOMBACH: So the interim rate then was approved for January 1, 2022, I guess we can all agree to that date, correct?

THE CHAIRPERSON: Sorry, Mr. Hombach, can I interrupt for just a second. Ms. Bellringer had a question related to the previous questions.

BOARD MEMBER BELLRINGER: Yeah. Sorry, it was closer to the -- where you made the -- where you were having the conversation about the release of the quarterly report.

I have a different -- okay. So I'm practicing law without a licence on this one. I have a different interpretation of the Crown Corporation Accountability Act.

Just -- I -- I do -- my reading of it is that forty-five (45) day requirement -- and then it says:

"And are given to the responsible Minister."

So appreciating there's a -- a process there. But it says:

"And made available to the public in a reasonable manner."

So I don't think that's a sequential thing. I think it's concurrent.

Do I need a question at the end? I feel like I'm on Jeopardy.

MR. SVEN HOMBACH: Ms. Bellringer, if it helps -- would it help if--

BOARD MEMBER BELLRINGER: Do you agree?

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Mr. Tess, can you

advise when Manitoba Hydro provided its statement to the Minister?

MR. AUREL TESS: That normally occurs -- I'd have to check our records again, but normally our process is as soon as our Board has approved it and our Audit and Finance Committee has approved it, then it goes right to the Government at that time.

MR. SVEN HOMBACH: Would Manitoba Hydro be prepared to give an undertaking to confirm the date?

MR. AUREL TESS: Absolutely.

MR. SVEN HOMBACH: Thank you.

--- UNDERTAKING NO. 23: Confirm date Manitoba Hydro provided its statement to the Minister

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: If I could ask Ms. Schubert to open Board Order 9 of '22. And go to page 48 of that document.

(BRIEF PAUSE)

MR. SVEN HOMBACH: I'm -- I'm not sure

to whom I -- on the panel I should be asking that question.

But the Board had concluded in this order, which was released in January of '22, that Manitoba Hydro was projecting a return to positive income with average water flows in '22/'23.

I take it that was Manitoba Hydro's position at the time?

MR. AUREL TESS: Yeah, I believe -- it's Mr. Tess. I believe that that is what our financial reports reflected at the time as well.

MR. SVEN HOMBACH: So in fairness, I take it, from Manitoba Hydro's perspective, you couldn't predict whether the drought would last another year or whether there would be a return to the normal?

MR. AUREL TESS: Yeah. We -- we returned to our normal forecasting of average water levels that we've heard Mr. Gawne comment on quite extensively. I think he did the water bottle exercise with you as well, so.

But essentially, our -- our default is returning back to -- to that normal average water flow.

MR. SVEN HOMBACH: And the Board

concluded, at the very top of page 48, that there's no reasonable opportunity through regulatory action to avoid the reduction in retained earnings for '21/'22.

Mr. Tess, that's because the Order only came into effect at the beginning of Q4 for that year, correct?

MR. AUREL TESS: Let me caucus for a second on that.

(BRIEF PAUSE)

MR. AUREL TESS: Yeah. Thank you for allowing us to caucus on that.

So our recollection on that is essentially, you know, we -- we never want retained earnings to -- to return -- to be depleted. And so that was something that we took into account in that year.

MR. SVEN HOMBACH: So I will ask the next question to Mr. Fogg.

At the time this Order was issued, there was no integrated financial forecast in place, correct?

(BRIEF PAUSE)

MR. ALISTAIR FOGG: I would -- I don't believe at that point there was a long term financial forecast scenario prepared.

MR. SVEN HOMBACH: So Mr. Fogg, would you agree with me that that means that at the time Manitoba Hydro sought an interim rate increase, it wasn't seeking that increase as part of a twenty (20) year rate path? It was worried about the year at hand?

MR. ALISTAIR FOGG: I think that's accurate, yes, Mr. Hombach.

MR. SVEN HOMBACH: So let's turn to page 68 of the same Order, please.

There's a paragraph about three-quarters down the bottom of the page that indicated that the Board didn't find sufficient evidence to allow it to divide the awarded increase into separate categories of drought rate increase and base operations rate increase, but that it would consider that issue at the next GRA.

MR. ALISTAIR FOGG: Yes, I see that.

MR. SVEN HOMBACH: And -- and here we are. So I wanted to explore that issue a bit further. And Mr. Fogg, perhaps we can short circuit this line of questioning.

In retrospect, given the -- the year we've just had, does Manitoba Hydro think it would have needed an interim rate increase at all?

(BRIEF PAUSE)

MR. AUREL TESS: So I think if you look back at our Interim Rate Application, there were a number of cost drivers. Many of which we've talked about in this Application.

So the -- the bringing on of the -- of the large capital projects, adding -- you know, in this Application, we've noted 700 million of additional costs. So -- so there were a number of costs that were coming to fruition.

We were directed to -- to come for a rate increase and to work with the PUB on a multi-year rate application, which I -- I feel we -- we've done our best to do that.

And -- but I guess the main point is that there was a number of drivers apart from the drought. So, that went into the calculation of the 5 percent that was requested at the time.

MR. SVEN HOMBACH: So thank you, Mr. Tess. Perhaps let's explore this a little bit further and then ask Ms. Schubert to open tab 4 of Manitoba Hydro's Application. And go to page 7 of that document. If you could zoom in a bit?

Now, Mr. Tess, the -- the forecast for 2022/23 was that the interim rate would give Manitoba Hydro an extra 65 million, correct?

MR. AUREL TESS: Yeah, that's correct.

MR. SVEN HOMBACH: So in the end, just coming off the record year, if we're in the ballpark for 751 million of net income, if you were to subtract that out, that would still leave you with about 685 million for that year.

MR. AUREL TESS: Correct.

MR. GREG EPP: Mr. Hombach, if I can add to that. Like a -- a very high water year and very advantageous export prices is great and it's really good news, but it -- it's not enduring like a rate increase would be.

So, despite the windfall of water, having the volume and -- and sole -- not only have the volume, but having high prices is great but we already see that there's a softening in the export price market, whereas a -- a 3.6 percent rate increase is part of the long game and it's enduring and it -- and it adds to the revenues every year.

So, they are somewhat different in terms of their impact to the bottom and -- line and how they stabilize a financial situation.

MR. SVEN HOMBACH: So, so thank you Mr. Epp. I -- I appreciate Manitoba Hydro's position that this is part of the -- the rate path, but I'd like to break your comment down into two (2) -- two (2) sub-components, in light of Board Order 9 of '22. So, so -- let's deal with the drought issue first.

To the extent that it was an interim rate increase because of the drought, if we were to subtract the 65 million, you'd still be left with record net income for the year.

MR. GREG EPP: In that one year, yes, and -- and you can see how that sixty-five (65) becomes -- continues on. Sixty-four (64) -- sixty-four (64) and it keeps going. That's the enduring benefit of that -- of that rate increase.

MR. SVEN HOMBACH: So, but for the purposes of the drought, per se, does this mean that in retrospect it wasn't needed for drought purposes?

MR. GREG EPP: No, I don't necessarily believe so. Right. We -- we planned to average water, right? When we get out of our forecast year where we have a little more granularity a little more certainty on our water flows, like Mr. Tess eluded to, we -- we revert back to the average. Right? So, in the near term we -- we look at the most recent forty (40) flows and in the longer term we look at the full record.

And that -- that variability or that -- that 'S' curve that -- that is on the record is fairly wide. And you know you're going to get fluctuations. You're not going to hit the average every year. It's going to be somewhere within that range and, because of that, you're not going to hit that average number every year. You need a steady path, knowing that there's going to be fluctuations throughout time.

And this, you know, '21/ -- '21/'22 is one of those low periods and -- and now we're in a high period.

MR. SVEN HOMBACH: So, I'd like to pick up on your -- your comment about average water flows and -- and planning to that.

If we look at the compliance filing numbers on the screen in front of us, the $916 (sic) of projected extra provincial revenue.

Is that based on average water flows?

MR. GREG EPP: That's based on where we've -- where we believe or where we were forecasting the reservoir levels would be at the beginning of the year and then average precipitation or average water flows for the entire year. That's correct.

MR. SVEN HOMBACH: So -- so, I -- I'm going to do something very dangerous for a lawyer. I'll try to do basic algebra.

If -- if we subtract those average water flows from what you were actually forecasting, so you take 1.283 billion, subtract 916 million, that leaves you with about three hundred and sixty-seven (367) extra, right?

MR. GREG EPP: Yeah. I -- I don't think you can do that.

MR. SVEN HOMBACH: Explain to me why.

MR. GREG EPP: There's a -- there's a lot of different components that are baked into those -- those -- the modeling to -- to generate that -- that average, and that export revenue and it's -- it's -- there are -- they're definitely some differences between the '22/'23 compliance in that forecast year as those things were updated.

MR. SVEN HOMBACH: So I -- I won't go into that and I -- and -- in a lot of detail, but aside from the water flows, what are the other inputs that would have significantly changed between the compliance filing and the most recent forecast?

MR. GREG EPP: Water flows are one thing, the other thing is the expectation for export prices.

MR. SVEN HOMBACH: You -- you revised -- or you changed the expectation for export prices between the compliance filing and the forecast?

MR. GREG EPP: That's correct. When we -- when we update any forecast, we will -- we will start with whatever our cutoff point is, whatever actuals we have, where our water is and then forecast future water and take, what we call our strip price, our expectation of what current prices are from that point going forward.

MR. SVEN HOMBACH: Would Manitoba Hydro be in a position to give an undertaking to just break that difference down in water flows and export prices and show the impact of each?

MR. AUREL TESS: Mr. Hombach, just a -- I don't want to cause confusion, but take you back to some of the deliberations we had prior to the interim filing when -- when we went in and trying to determine a rate, so rate request.

It was not an easy exercise because we were looking to -- to recover from the drought. And, as mentioned earlier, we had a lot of costs that were coming into play from the major capital projects and other situations that were included in the forecast, other variables, rather.

So -- so looking at the difference between a 3 and a 1/2 percent and the 5 percent that we submitted, we -- we felt the, you know, the difference of the 1.5 percent was something that we could -- we could justify in terms of recovering it from our customers without providing too much in the way of rate shock to customers.

And, if I think back to the numbers we submitted, I believe we were forecasting a deficit of 190 million. We came in somewhere around 248 million, subject to check.

And then we had a cash to flow deficiency of 353 million. The majority of that was being driven by the drop in net export revenues that we experienced.

So, if you want to look at the variance between, you know, a typical forecast with average water, it would -- really was contained within what we call the net export revenue. Does that help?

MR. SVEN HOMBACH: I -- it -- it does, Mr. Tess, to the extent that Manitoba Hydro can fulfill an undertaking like that. I -- I see Mr. Epp, thinking after having caucus, it -- it would still be helpful to the Board.

MR. GREG EPP: Okay, just so I'm -- I'm clear what you're looking for. There -- we did file figure 4.3 in tab 4 and it -- and it talks about the $370 million that you're eluding to. The difference.

There's a waterfall graph that -- that goes from the one twenty-six (126) to the seven fifty-one (751), higher net export revenues are there at 370 million.

MR. SVEN HOMBACH: Oh, so, Mr. -- Mr. Epp I -- I do appreciate, but thank you for taking me to this chart.

This still just deals with the higher next export revenue. It doesn't break down what portion of that is attributable to higher water flows and what portion of that is attributable to changes in export pricing. That kind -- that break down is what I'm looking for.

MR. GREG EPP: Okay. If you scroll a little bit further down, it does elude to the fact that prices were 65 percent higher. You'll have to go a little bit further. So, did you go too far there.

Scroll down to the next page, sorry.

Yeah. So, on line 12, so it doesn't give you the exact breakdown, but export prices were 65 percent higher than those assumed in the budget.

So, there is a significant increase in our expectation or our strip price for prices in -- in our forecast than there was in the compliance and there's a lot of information here in that same paragraph, but what's driving that, as well as in appendix 43 and -- and -- and I believe tab 5 on -- on what took place in the export market driving that.

Do you still require an undertaking with all that -- on the record?

MR. SVEN HOMBACH: Let's -- let -- let's leave it there for the time being, Mr. Epp, but that might be sufficient --

MR. GREG EPP: Okay.

MR. SVEN HOMBACH: -- if not, I'll advise. We -- we can agree that in retrospect during '22/'23, Manitoba Hydro had a record level of net income that was unprecedented?

MR. GREG EPP: Well it -- it hasn't been finalized yet, but it -- it -- it likely will come in higher than the previous record I would imagine.

MR. SVEN HOMBACH: So, Mr. Epp, one of the points that Manitoba Hydro made in its Application is that the Utility was not seeking a rate increase for '22/'23 and that the Board should look at the average income over those years.

I'd like to spend a moment to explore that. Ms. Schubert, could you please pull up Appendix 3.3, from the Amended Filing? Sorry, that one is not in the Book of Documents. And let's go to page 4.

So, for 2021/'22, we've got the actuals, right Mr. Epp? It's a $249 million loss?

MR. GREGORY EPP: That's correct.

MR. SVEN HOMBACH: And for '22/'23, give or take, we'll be at about plus $750 million?

MR. GREGORY EPP: Based on the forecast, yes.

MR. SVEN HOMBACH: So on average, that would leave you with about plus 246 million per year?

MR. GREGORY EPP: Sorry, I don't follow your math.

MR. SVEN HOMBACH: If you -- if you subtract the $249 million loss from the $751 million gain, that leaves you with about half a million. You average that over two (2) years, that's about a quarter million per -- sorry, a quarter billion per year.

MR. GREGORY EPP: And why would you do that?

MR. SVEN HOMBACH: Manitoba Hydro had made the point in its Application that the Board should look at the average income over two (2) years.

And, Mr. Epp, I'm -- I'm really not trying to belabour this point, but -- but could we agree that, on average over those two (2) years, Manitoba Hydro's income would have been about plus 246 million?

MR. GREGORY EPP: Yeah, I'll accept that.

MR. SVEN HOMBACH: Thank you. So let's go back to Board Counsel book of document, volume 4, and turn to page 106.

(BRIEF PAUSE)

MR. SVEN HOMBACH: I hope I did not cause Ms. Schubert's computer to crash, but let's try to go to page 106 again. While this is loading, that was a chart that shows Manitoba Hydro's historical financial ratios including net income.

And, Mr. Epp, I just wanted you to

confirm that, to find income in the $246 million range, you'd have to go back to 2009.

MR. GREGORY EPP: Yes, and just so we're all aware of this, MFR is consolidated, not just -- not just electrical, just so we're aware.

MR. SVEN HOMBACH: But either which way, you'd agree with me that 246 million per year would still be significantly above average?

MR. GREGORY EPP: Two hundred and forty-six (246) would be -- pardon me?

MR. SVEN HOMBACH: Significantly above average.

MR. GREGORY EPP: Well, I mean -- I mean, 246 million when our net debt was -- sorry, my eyes are killing me here -- about $8 billion, right? Is -- the question is: Is 246 million commensurate with $24 billion of debt? So, I mean, it's -- it's an observation.

MR. SVEN HOMBACH: Let's go to page 110 of the book of documents.

This -- this may be a question for Ms. Stephen or for Ms. Amorim Dew, but Manitoba Hydro had indicated that, without the 3.6 percent increase, it wouldn't have enough cash from operations to fund business operations capital and other investing post

'24/'25.

So I -- I wanted to explore that in -- in light of the chart. If we could go to the top of the page first on page 110, is that not the case even if the 3.6 percent interim increase is confirmed?

MS. SUSAN STEPHEN: I'm sorry. Can you repeat your question?

MR. SVEN HOMBACH: So -- so even if the 3.6 percent interim rate increase is confirmed, does Manitoba Hydro have enough cash from operations to fund business operations capital and investment post '24/'25?

MS. SUSAN STEPHEN: Post '24/'25?

MR. SVEN HOMBACH: Yeah.

MS. SUSAN STEPHEN: Well, the line in black here is the cash from operations from the financial forecast scenario. We don't have -- I believe there was a scenario that was run that includes removal of the -- of the interim rate increase, and -- and it -- it did not cover all of business operations capital.

Was that your question?

MR. SVEN HOMBACH: So -- so let's break this down a little bit further.

What we see in blue on the chart, Ms.

Stephen, that is sustaining capital, right? So that is not all business operations capital?

MS. SUSAN STEPHEN: That's actually all business operations capital.

MR. SVEN HOMBACH: It's not just sustain -- okay. So -- so the -- the black one, that was the original November 15 filing, correct?

MS. SUSAN STEPHEN: Correct.

MR. SVEN HOMBACH: The green line, that's the amended filing?

MS. SUSAN STEPHEN: Correct.

MR. SVEN HOMBACH: So as long as the green line is above the blue, you've got enough money to fund business operations capital?

MS. SUSAN STEPHEN: That's correct.

MR. SVEN HOMBACH: Okay. So --

MS. SUSAN STEPHEN: The green line -- the green line includes the 3.6 percent interim.

MR. SVEN HOMBACH: So -- so the -- the pink, that is Manitoba Hydro's expected sinking fund contribution?

MS. SUSAN STEPHEN: That's correct.

MR. SVEN HOMBACH: Okay. I'll -- I'll jump ahead a little bit. Ms. Stephens (sic), are we -- are we in agreement that section 40 of the Manitoba

Hydro Act has been repealed and there no longer is a sinking fund?

MS. SUSAN STEPHEN: No, we're not in agreement.

MR. SVEN HOMBACH: Okay. So let -- let's break that issue down.

The -- the sinking fund, that existed under section 40 of the Manitoba Hydro Act, did it not?

MS. SUSAN STEPHEN: Yes, that's correct.

MR. SVEN HOMBACH: Okay. And -- and section 40 has been repealed as part of Bill 36.

So could you explain to me what Manitoba Hydro's intentions are with respect to the sinking fund?

MS. SUSAN STEPHEN: Section 40 has been repealed as part of Bill 36?

MR. SVEN HOMBACH: Yes.

MS. SUSAN STEPHEN: The entire section is -- is --

MR. SVEN HOMBACH: Is gone. It doesn't exist any more, and -- and I'm not trying to put you on the spot, Ms. -- Ms. Stephens, but --

MS. SUSAN STEPHEN: Well, yes. Well,

I am on the spot because I was not aware of that. We are -- I am aware that we are discussing the review of the sinking fund at the moment with the Province, but was not aware that it was repealed.

MR. BOB PETERS: So -- so let -- let's take a moment, and -- and I promise I won't belabour that point, Ms. Stephens.

For the past few years, it's basically been treated as a flow-through entity, right? Maybe we can go to page 39 of the presentation from this morning.

(BRIEF PAUSE)

MR. SVEN HOMBACH: So, Ms. Stephens, since 2016, the sinking fund has basically been used as a flow-through entity, right? Manitoba Hydro's made contributions but then taken those out to invest?

MS. SUSAN STEPHEN: That's correct, and I explained that this morning in my direct evidence presentation, that that move was a result of our capital expansion, and our -- our goal was to minimize our gross debt and keep finance expenses low as we could for our customers.

MR. SVEN HOMBACH: And -- and could

you confirm that I have it correct that, under Manitoba Hydro's Application, you're still planning to treat the sinking fund as a flow-through entity?

MS. SUSAN STEPHEN: At this point in time. We have over a billion on average of debt maturing each year for the next decade. Our plan is to make the sinking fund contribution with internally-generated funds, where possible, on a yearly basis, but also retire the equivalent amount of debt in the same year.

MR. SVEN HOMBACH: So -- so may the Board take it from that then that it won't affect the Application itself because it would be a flow-through entity and that money was to be part of your debt repayment plan?

MS. SUSAN STEPHEN: It will not impact, no, at this point in time. I should mentioned that we are considering changing the use of the sinking fund which was part of the reason why I included the pure data in this -- in this direct presentation as well.

MR. SVEN HOMBACH: But -- but that wasn't part of the Application you have, right?

MS. SUSAN STEPHEN: No.

MR. SVEN HOMBACH: Okay. Thank you.

So let's go back to Board Counsel book of document, page 110, and let's go to the bottom of the page.

At the bottom of that page, the black scenario, that would be the scenario if the 3.6 percent rate increase was rolled back entirely.

Correct?

MS. SUSAN STEPHEN: Correct.

MR. SVEN HOMBACH: Okay, and that would leave you with an adequate of money to pay for business operations capital until about 2026?

MS. SUSAN STEPHEN: Correct.

MR. SVEN HOMBACH: So, one thing I'd like to explore with you, if I may, is the idea of a partial rollback, where it's not either 3.6 or nothing, and I'd like to take you to page 46 of the Book of Documents, which is the sensitivity analysis. Sorry, Ms. Schubert, page 48, actually.

Ms. Stephens (sic) one of the scenarios that was included in the sensitivity analysis was a 0 percent rate increase in '23/'24. Do you see that? That's the third scenario from the bottom.

MS. SUSAN STEPHEN: Yes, I do.

MS. SVEN HOMBACH: Could the Board take that scenario as a proxy for rolling the interim rate back down to 1.6 percent, but awarding a 2.0

percent increase on September 2023?

(BRIEF PAUSE)

MR. GREG EPP: Yeah. It could be a proxy for that.

MS. SVEN HOMBACH: So, if we look at the net income line, in the bottom, that would still leave you with a positive net income in every year of the forecast, would it not?

MR. GREGORY EPP: Mr. Hombach, I'm going to use the word "only" again, only 49, 41, 55, and 46 million. When you look at the impact in a year for some of those risks above that pales in comparison to what they are.

So, let's take 49 million of net income in 2028 and let's -- let's pick a below-average water flow year, not the drought, in the same year. Okay? That's minus -- almost minus a hundred -- a hundred million.

And that runs -- that runs things very fine. Okay? You're running a very fine line with net income, under average conditions and average weather, to be running things at $50 million, when you look at the size of those risks that we're facing.

The 3.6 and the 2 percents are providing a little bit of protection for these risks, should they -- should one happen or should partially happen or some off-set the other.

So, when we see net income, that is, $40 million a year, it doesn't put us in a very warm and fuzzy position.

MR. SVEN HOMBACH: Let me take that one step further and ask, if that is below your pain threshold, where is the pain threshold where Manitoba Hydro would be comfortable?

And, perhaps, 'pain threshold' is a bad word? Basically, does Manitoba Hydro have a position as to a minimum annual net income it should achieve?

MR. GREGORY EPP: Will you give us a moment?

(BRIEF PAUSE)

MR. AUREL TESS: Thanks for the time, Mr. Hombach. It's Aurel speaking. So, I think, when you consider, there really isn't a minimum number, and I think Mr. Epp talked about the -- the inputs into the forecast that -- really, for -- for Manitoba Hydro we face a lot risks with water, price risk in the export market, interest rates, and so on.

And so, those numbers that -- that are reflected there in terms of net income with the zero percent increases don't -- don't provide enough funding to -- to start paying back the debt either, and when you will incur significant -- sign -- as -- as laid out in our plan anyways.

Not the same volume of debt repayment, so we'll end up incurring more interest costs and I think that's the other challenge you run into. But to -- to really firmly answer your question, we feel the rates that are presented in -- in the proposal, in the Applications are reflective of all the priorities and -- excuse me, that are there and that's how we determine them.

It wasn't something that we considered in terms of a minimum number, so.

MR. SVEN HOMBACH: Mr. Tess, let me take that one (1) step further and then I'm going to switch topics entirely. If we could go to page 27 of the Book of Documents.

That is the projected ratio and under Manitoba Hydro's current plan, it assumes that it achieves a 70 percent debt-to-capitalization ratio by 2040, correct?

MR. AUREL TESS: That's correct.

MR. SVEN HOMBACH: So, if I hear your testimony here today correctly, Manitoba Hydro is saying we came in with a plan that achieves the legislative target on time, with even rate increases?

MR. AUREL TESS: Yes, stable predictable rates. I think that -- that is outlined very clearly in our Application, that's correct. That achieves the legislative targets.

MR. SVEN HOMBACH: So -- so, with -- from your perspective, with a 2 percent rate path, is there any room to reduce the 3.6 percent interim rate increase why -- while still meeting 70/30 by 2040?

MR. AUREL TESS: I think any reduction in the early years of the forecast, that would be detrimental, I think, to the Debt Repayment Plan that we presented.

Is there's any room? There's always tradeoffs and the tradeoffs would be not having sufficient cash to -- to meet our targets potentially, higher interest costs, and potentially reduction in service levels.

So, we -- that -- that's something -- again, we took all of this into account in the proposed rate path, so -- especially early -- early rate increases have that compounding effect in the early years.

And so, any adjustment in the early years has a dramatic impact in the later years.

MR. SVEN HOMBACH: So -- so, let me take that point and turn your attention to page 123 of the Book of Documents. You're no doubt aware that some of the Intervener witnesses have made a suggestion that the Board shouldn't be bound by the 70/30 target in this GRA.

And, one (1) of the MFRs that we asked of Manitoba Hydro is: What would rate increases be for the time being to meet a 75/25 target by the end of the forecast?

And Manitoba Hydro indicated that it would take 1.59 percent in each of the test years. Mr. Tess...?

MR. AUREL TESS: I believe that's correct, yeah.

MR. SVEN HOMBACH: So -- so, taking into account your comment that it would be an impact later in, can Manitoba Hydro advise what rates would have to be for the rest of the twenty (20) year period to meet seventy 70/30?

And if not, could we get an undertaking

to get that provided, please.

MR. AUREL TESS: Mr. Hombach, can you -- again, this -- this MFR was to -- to take an even annual rate path beginning in the first test year, right through '41/'42 to hit 75 percent in that year.

Obviously, this -- this 75 is the old long-standing, long-term target, not the targets outlined in the Act. So -- I mean, we -- we have -- we have the targets in front of us. It's just a matter of -- April 1, 2025 coming to pass.

But what did -- what exactly are we adjusting? Are you suggesting one (1), five (5), nine (9), in the two (2) test years and -- and even annual rates to his 70 in '42/'42?

MR. SVEN HOMBACH: So -- so, yes, in light of Mr. Tess's comment, I'm asking if the Board were to award a rate increase based on the previously commented on 75/25 target in the test years, but then bound by the legislative targets post April 1, what would the rate increases have to be beyond the test years to get to 70:30?

MR. AUREL TESS: And what if they're greater than the forecasted rate of inflation?

MR. SVEN HOMBACH: If -- all I'm -- all I'm simply seeking is an undertaking to -- to indicate what that is. And --

MR. AUREL TESS: We can -- we can --

MR. SVEN HOMBACH: (INDISCERNIBLE).

MR. AUREL TESS: We can do that for you for sure.

--- UNDERTAKING NO. 24: Manitoba Hydro to provide, if the Board were to award a rate increase based on the previously commented on 75/25 target in the test years, but then bound by the legislated targets post-April 1, what the rate increases would have to be beyond the test years to get to 70/30

MR. SVEN HOMBACH: Thank you, sir. I'll move on to finance expense. Mr. Chair, I don't know when the Panel would like to take the afternoon break. I would suggest I'll deal with finance expense and perhaps we can break then.

THE CHAIRPERSON: Okay.

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Let's turn back to page 19 of the book of documents.

So, Mr. Fogg, just to ensure that I've got the right numbers, Manitoba Hydro is projecting about 909 million this year, 900 million the next year, and then 886 million in the last test year?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: Okay. And finance expense means interest only, right? Paying down the principal isn't part of finance expense?

MS. SUSAN STEPHEN: I believe I'll answer that question. It's Susan Stephen. That's correct.

MR. SVEN HOMBACH: So paying down the principal, that's really dealt with through depreciation, and then channelling that revenue into debt repayment?

MS. SUSAN STEPHEN: Yes.

MR. SVEN HOMBACH: Is Manitoba Hydro's debt -- is...

(BRIEF PAUSE)

MS. SUSAN STEPHEN: Apologies.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Is Manitoba Hydro's Debt Repayment Plan primarily driven by the legislated targets?

MS. SUSAN STEPHEN: Manitoba Hydro's Debt Repayment Plan at this point in time is very -- it's too early to say whether we actually have a plan. We've just come off a period of intense capital investment.

We have very little cash. And apparently, we no longer have a sinking fund section, which is news to me. We have very little cash to put aside for debt retirement.

We are very fortunate in -- in this year that we have had good water conditions and the benefit of reduction payments to government to have surplus cash to put aside. But as you can see, after 2026, we -- we do not have enough built into rates to actually contribute towards any sort of debt retirement.

So, to say that we have a debt retirement plan at this point is preliminary.

MR. AUREL TESS: I just want to add a bit to that because we do have -- in our -- in our application you'll see our cashflow and reduction of net debt. Cashflow is essentially a proxy for the reduction of net debt.

So, I'll have to get someone to tell me what exhibit it is but, essentially, there is that exhibit that we could bring up that explains it a little better.

MR. SVEN HOMBACH: I -- I don't think we need to go there right now. But I would like to turn back to page 206 of Board counsel book of documents, Volume 4.

Ms. Stephens (sic), appreciating that it's preliminary, under your Debt Retirement Plan you're basically planning to pay down about a billion dollars throughout the test years, then nothing for the remaining seven (7) years of decade 1, and then an additional 1 1/2 billion in decade 2, correct?

MS. SUSAN STEPHEN: Correct.

MR. SVEN HOMBACH: So, with Keeyask having been completed and the other major capital projects having been completed, is it fair to say that you're transitioning from financing risk to refinancing risk?

MS. SUSAN STEPHEN: That's correct.

MR. SVEN HOMBACH: So, let's go to

page 209 of the book of documents.

Your total debt right now is approximately 24 1/2 billion, right?

MS. SUSAN STEPHEN: Correct.

MR. SVEN HOMBACH: And you previously took us to the debt management strategy. Let's go page 182 that illustrates this nicely.

Could you confirm that the blue charts, the blue bars in the bar graph, that is the amount that you're planning to refinance in each of the years?

MS. SUSAN STEPHEN: The blue bars represent the debt maturities in each of those given years. The amount that we will refinance will be dependent upon the cash that we have potentially available for debt retirement.

So, any cash that -- cash from operations that exceeds our cash for investing may potentially be used for debt retirement. And if that is the case, when we will not have to refinance all of this debt.

MR. SVEN HOMBACH: But as a general estimate, may the Board assume that you're planning to refine about -- refinance about a billion dollars in each of the test years?

MS. SUSAN STEPHEN: Generally, yes.

MR. SVEN HOMBACH: So, let's turn to page 175 of the Board counsel book of documents and scroll down. This is a chart that shows your current weighted average interest rate and the forecast.

Again, on an estimate basis, Manitoba Hydro is suggesting that it might cost you about an extra hundred basis points to refinance?

MS. SUSAN STEPHEN: Correct.

MR. SVEN HOMBACH: Now, Ms. Stephen, it's my understanding that this chart wasn't updated as part of the amended application.

Is it still accurate?

MS. SUSAN STEPHEN: This chart uses the, I believe, summer '22 forecast for the refinancing interest rate.

MR. SVEN HOMBACH: Summer '22?

MS. SUSAN STEPHEN: Yes.

MR. SVEN HOMBACH: Okay. So, let's go to page 179 of the book of documents. I just wanted to explore this timing issue a bit further. This is the chart of interest rate projections that was included in your application.

And -- and could you confirm for me that the blue line is the estimated future cost of long-term debt and the red line is the estimated future cost of short-term debt?

MS. SUSAN STEPHEN: The blue line is the estimated cost of the fixed rate, ten (10) plus rate.

MR. SVEN HOMBACH: Yeah.

MS. SUSAN STEPHEN: And the red line is the -- the T-Bill rate, three (3) month of T-Bill rate.

MR. SVEN HOMBACH: So -- so, as part of the application, or as part of the IR process, we received an updated version of the chart, which is at page 211 of the book of documents. And -- and if we can scroll down.

Now, Ms. Stephens, this is the winter '22 version of the same chart we just looked at, is it not?

MS. SUSAN STEPHEN: Yes.

MR. SVEN HOMBACH: So -- so, we see that over a few short months the projection increased from 3.95 percent for long-term debt to 4.25 percent?

MS. SUSAN STEPHEN: Correct.

MR. SVEN HOMBACH: How much time is between these two (2) forecasts?

MS. SUSAN STEPHEN: Six (6) months.

MR. SVEN HOMBACH: Okay, six (6) months. Does it cause Manitoba Hydro any grief that it go -- went up by .3 percent in six (6) months?

MS. SUSAN STEPHEN: Any time I see interest rates going up it causes me grief. It's something to be expected. We've seen -- we've seen a year, an unprecedented year with interest rates. And in '22, as I mentioned, on the short-term side, the Bank of Canada overnight rate went from .25 percent in March of '22 to 4 1/2 percent by January '23.

We haven't seen change like that. It's unprecedented how -- how quickly that change happened. The long-term -- the long end of the curve has not moved as dramatically, but there -- there's a lot of uncertainty.

We've seen inversion in the yield curve, which means that your -- your longer dated debt maturities, your Government of Canada's, are -- actually have a lower yield than -- than the shorter term.

So, there's been a lot of -- a lot of uncertainty, a lot of not typical movements in the -- in the interest rate environment, so -- so seeing this is not surprising. But as I mentioned, any time we're dealing with higher interest rates it's -- in terms of our finance expense, it's always a concern.

MR. SVEN HOMBACH: So, Ms. Stephens, if -- if we -- if we look at these charts, right now, virtually all of Manitoba Hydro's debt is long-term debt, is it not?

MS. SUSAN STEPHEN: That's correct. We currently have 50 million outstanding in short-term commercial paper.

MR. SVEN HOMBACH: As opposed to about 24 1/2 billion in long-term?

MS. SUSAN STEPHEN: In long-term, correct.

MR. SVEN HOMBACH: So -- so, let's go back to the sensitivity analysis in -- in light of you commenting on the Utility being sensitive to this. It's page 47 of the book of documents, Ms. Schubert.

So Manitoba Hydro ran a high interest rate sensitivity analysis, you see that?

MS. SUSAN STEPHEN: Yes.

MR. SVEN HOMBACH: So could you confirm to me, please, that high interest rate, in this case, means an assumption that long-term rates increase 1 percent and short-term rates increase 2 percent?

MS. SUSAN STEPHEN: Yes, that's true.

MR. SVEN HOMBACH: So it basically -- we're currently about one-third of the way to that scenario, are we not?

MS. SUSAN STEPHEN: I'm sorry?

MR. SVEN HOMBACH: We're currently about one-third of the way to that scenario, between six (6) months, between the time --

MS. SUSAN STEPHEN: Yes.

MR. SVEN HOMBACH: -- the application was filed?

MS. SUSAN STEPHEN: Yes.

MR. SVEN HOMBACH: Okay. So let's look at the -- the impact on retained earnings of the -- the high interest rate scenario.

By the end of the forecast that would have an affect of about 1.2 billion?

(BRIEF PAUSE)

MR. SVEN HOMBACH: It's in the far right column, the top of the table, the fifth line from the bottom.

MS. SUSAN STEPHEN: Yes. Two-zero-one-four.

MR. SVEN HOMBACH: Yes. Sorry, I was

looking at the business operations capital, 2-0-1-4.

Ms. Stephens (sic), if we're currently one-third of the way to that scenario, does that change Manitoba Hydro's view on paying down debt early, before the legislated rate caps apply?

Now we're back to the question of whether Manitoba Hydro could potentially benefit from front loading before the legislated caps.

MS. SUSAN STEPHEN: Well, given our -- our -- we do have a large portion of our debt that's fixed. However, with the refinancings, we have -- as was discussed -- over a billion maturing each year for the next decade, which will be subject to interest rate risk.

Obviously, the sooner that we can pay down those debt maturities, the sooner we can get finance expense savings for our customers. And that debt will not be subject to the interest rate risks -- or the interest rates that we're seeing -- these high interest rates that we're seeing.

So from a financial perspective, it's definitely beneficial to front load it, but it's a matter of finding that balance with what our customers -- the impacts on our customers.

MR. SVEN HOMBACH: And -- and Ms.

Stephens, I'll ask you a potentially unfair question.

The -- the extra revenue that Manitoba Hydro could realize from two (2) 3.5 percent rate increases, as opposed to the 2 percent one, would that be material in light of the 24 1/2 billion of total debt?

MS. SUSAN STEPHEN: It would be material. The compounding impact of that over the -- over the forecast would be significant in terms of reducing the debt and providing finance expense savings to customers, now and in the long term.

MR. ALISTAIR FOGG: Mr. Hombach, it's Mr. Fogg. I think you can see that when we talked about the scenario earlier with the -- the two (2) 3.5 percents. And the resulting decrease in the -- the rate increases thereafter in that scenario, where they're at about 1.5 percent.

But as Ms. Stephen mentioned, we -- we're trying to balance that purely financial view of -- of -- and the impact of that higher rate versus -- versus our customers and the impact to -- to them as well.

MR. SVEN HOMBACH: Thank you, Mr. Fogg.

And Ms. Stephens, you commented on the

fact that currently most of Manitoba Hydro's debt is locked in and is at fixed rates?

MS. SUSAN STEPHEN: Correct.

MR. SVEN HOMBACH: I'm tempted to ask whether, with the large capital projects, you were smart, lucky, or both, but I won't be asking you that.

So -- so I'd like to turn back to page 196 of the book of documents.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Lawyers like to read footnotes. It's -- it's a -- it's an occupational hazard.

And there's a footnote here that says that the rates are a blended rate of 85 percent fixed rate and 15 percent floating to match the model assumptions.

That's not reflective of your current debt mix, what's basically all locked in, is it?

MS. SUSAN STEPHEN: That's correct. To note, though, we do use this assumption in our modelling of new debt. So all of our -- our new forecasted issuances are modelled assuming that we will have 85 percent fixed rate debt and 15 percent floating rate debt.

MR. SVEN HOMBACH: So I -- I don't recall whether it was you that spoke to slide 37 in the presentation this morning. Ms. Schubert, if you could pull up that, please.

MS. SUSAN STEPHEN: Yes, it was me.

MR. SVEN HOMBACH: This first bullet that discusses the interest rate risk profile -- again, I'm not an accountant.

Ten percent, does that mean that Manitoba Hydro says, We're planning to have less than 10 percent floating rate debt?

MS. SUSAN STEPHEN: That's correct. Not only that, what that interest rate risk profile is, as I explained this morning, is the combination of our short-term debt, our floating rate long-term debt, and any fixed rate debt that's maturing within the next twelve (12) months. So essentially, our current portion of long-term debt.

We want to limit the sum of those to less than 10 percent of the debt portfolio. We face interest rate risk exposure on all of those. And given -- given our financial position at the time and our -- the lack of financial flexibility, we do not have the tolerance to accept greater risk to interest rate risk exposure.

MR. SVEN HOMBACH: Do I remember it correctly that you said the current rates -- rise in interest rates, that it's unprecedented as far as you were concerned? I don't -- I don't mean to misquote you. So --

MS. SUSAN STEPHEN: The pace of it, yes.

MR. SVEN HOMBACH: The pace of it. So if Manitoba Hydro is planning to currently refinance about a billion dollars a year in the test years, why would the Utility not try to move more of it into variable debt early on?

Like, are you planning to refinance at eighty-five-fifteen (85/15) or are you planning to primarily refinance at variable rates?

MS. SUSAN STEPHEN: The -- the planning assumptions that we have in place are just that, planning assumptions. Our actual debt issuances will vary according to -- according to our plans at the time.

As I indicate in the Debt Management Strategy, given the amount of debt maturities that we have coming up in the next decade, our plan is to select debt maturities that will not compete with this amount of refinancing since debt maturity is over ten (10) years.

So we do have a portion of our debt maturity schedule between eleven (11) and fourteen (14) years, where there are -- it's little to no debt maturities. We're looking at gradually, over the next few years, filling that gap with provincial ten (10) year benchmarks.

And also looking to extend and issue some thirty (30) year provincial benchmarks into a period of the debt maturity schedule where there's very little debt maturing.

So in -- in doing so, we'll -- we'll be able to smooth that debt maturity schedule and reduce refinancing risk in any given year.

MR. SVEN HOMBACH: So -- so that decision whether to refinance at fixed rates or whether to refinance at variable or -- variable rates under a short-term net facility, how does Manitoba Hydro make that decision in real time?

MS. SUSAN STEPHEN: With respect -- with respect to our -- our variable rate debt, as I mentioned, we look at -- we currently have an interest rate risk profile of 7 percent, which is below our target of 10 percent at this time.

We -- we have a model, which is not a perfect model, called the National Bank model, which we -- which we received as part of a study which was done back in 2009 at the request of the PUB Utilities Board to look at what is our optimal fixed and floating range.

At the time, our debt -- our debt balance was much lower than it is right now and it produced an optimal range of 14 to 27 percent. We have been maintaining that model over the last few years and more so lately as the borrowings for new borrowings have abated.

And what we're seeing is that as the debt balance has grown, the model indicates that we should maintain a lower relative percentage of floating rate debt.

Our update at the end of fiscal '22 indicated that we should be -- based on average water flows -- around 8 percent to 15 percent at the max.

So we have been targeting to be in and around that 8 percent range. So hence, the -- the recommendation to be less than 10 percent for an interest rate risk profile.

MR. SVEN HOMBACH: I -- I take it your -- you've read Mr. Rainkie's report where he suggested the Manitoba Hydro might consider moving towards more variable debt and might be overstating interest rate expense in the test years?

MS. SUSAN STEPHEN: I have read Mr. Rainkie's evidence. And I also produced rebuttal evidence with respect to that.

MR. SVEN HOMBACH: So has Manitoba Hydro considered moving towards refinancing an increased percentage of debt at variable rates during the test years?

MS. SUSAN STEPHAN: No. We -- we likely will not. And as I explained in my rebuttal and -- and in several IRs, there is no difference in yield between long term floating rate debt and fixed rate long-term debt up to the same term, at the time of issuance.

They maintain -- they have the same exact yield. So, any savings that Mr. Rainkie calculated by virtue of differences in the forecast rates are not -- are not there. They're -- they're incorrect savings.

With respect to the short-term savings that he calculated on the use of the 1.5 billion commercial paper program, which is not there either, those savings are not available to us at this time.

At -- currently our -- our short-term rates are higher than the yields that we're paying for long term debt. If we were to increase our short-term debt at this time, we would be increasing finance expense at this time.

MR. SVEN HOMBACH: Thank you, Ms. Stephen. Mr. Chair, we could take the break now. I'm just switching topics or I could continue until about 2:30.

THE CHAIRPERSON: If you think you'll be done at 2:30, let's continue to 2:30. If you're not sure, we'll take the break now.

MR. SVEN HOMBACH: I'll accept the challenge. It might be 2:31. I'll -- I'll ask for a 5 percent margin --

THE CHAIRPERSON: You won't -- you won't be penalized much.

MR. SVEN HOMBACH: -- of safety. Thank you.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Mr. Fogg, it's -- it's back over to you and this is some clean-up from questions to the -- the capital panel last week.

Ms. Schubert, could you please put up Board Counsel Book of Documents, Volume 3? And let's go to page 5.

So, Mr. Fogg, this is a chart that Manitoba Hydro provided that shows its projected business operations capital spending, correct?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: And it breaks it down into sustainment spending, capacity and growth spending and business operations support?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: And, just so we're on the same page, 'sustainment spending' means the maintenance or replacement of existing assets?

MR. ALASTAIR FOGG: Yes, sustainment replacement maintains those same existing assets. That's correct.

MR. SVEN HOMBACH: So, Mr. Fogg, over the twenty (20) year financial forecast, the Utility is planning to spend about sixteen (16) billion in total on business operations capital. Is it not?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: So, this is a forecast that they're included, but may I take it that not all of those dollar amounts so far are -- are confirmed as to be spent?

MR. ALASTAIR FOGG: I think I would say that the -- those dollar amounts are not identified in relation to specific projects across the twenty (20) year forecasts.

When we go into the later years of the forecast, those would be based on anticipated levels of spending for capital on -- based on asset health and other requirements, but not identified to a specific project or specific projects.

MR. SVEN HOMBACH: So, at this point in time, going out more than a few years those expenditures have not been approved yet?

MR. ALASTAIR FOGG: That's correct. They're -- they're approved from the standpoint that they're included in the -- the long-term forecast that's been approved, but we don't have specific approval of -- of a capital expenditures project by project.

MR. SVEN HOMBACH: Now, is it correct that the Utility has a -- a list -- a lengthy list of business operations capital project that exceeds the actual annual budget available for such projects?

MR. ALASTAIR FOGG: There is a lengthy list of -- of projects. In certain years, the projects that the asset management group may -- may seek to pursue may -- may exceed what we set from a -- an overall budget perspective in a particular like -- year.

MR. SVEN HOMBACH: So, you have to do some triasing or make some decisions on what to prioritize?

MR. ALASTAIR FOGG: That's correct. I mean, there's a prioritization exercise that the asset management group does when it goes through their Corporate Value Framework. And we also need to prioritize then from a -- from a financial -- financial perspective and they look at which projects they will execute to stay within that spending envelope.

MR. SVEN HOMBACH: And, Mr. Fogg, you heard me examine Ms. Stephens earlier and she -- she confirmed that Manitoba Hydro is seeking to -- to finance business operations capital spending from operations?

MR. ALASTAIR FOGG: Yes, I heard that.

MR. SVEN HOMBACH: Which, again, not an accountant, it means you don't go into debt to finance business operations capital?

MR. ALASTAIR FOGG: We would be

seeking to use internally generated funds, not debt, for that business operations capital. Correct.

MR. SVEN HOMBACH: So, so Mr. Fogg and Mr. Tess too, to the extent that you'd like to weigh in, is it correct that depreciation expense is a major way for Manitoba Hydro to generate that cash flow to invest in business operations capital?

MR. AUREL TESS: I'll start out and maybe Mr. Fogg can jump in.

So, we look at depreciation as -- as the way of -- the cost, essentially, of depreciating the useful life of an asset over a period of time. Whatever that useful life is. And we've done a number of studies to -- to confirm that over the years.

I think I -- when I was listening on -- on the panel you're speaking about, it was a discussion about matching depreciation and investments and that's not something we've done at Manitoba Hydro.

You know, the -- the consideration with depreciation is to ensure that we're recovering enough costs over the use of the life of the asset and it's included in revenue requirement.

So, the -- you know, perhaps the 300 million that's sitting in deferred regulatory balance right now that has not been recovered and has not been included in -- in revenue requirement, is a -- is a concern, because it's -- it's on the balance sheet. There's no -- we have a proposal to recover it, but right now it's -- it's not being recovered.

MR. SVEN HOMBACH: So, it's -- did I hear it correct, Mr. Tess, the -- the Utility is not looking to correlate depreciation expense with business operations capital?

MR. AUREL TESS: No, that was something that we -- we haven't done, as to my knowledge, no.

MR. SVEN HOMBACH: Let me ask you, the -- the -- the inverse, is there any policy that the cash generated from depreciation is to be reinvested back into capital assets of the Utility? Or is that also coincidental?

MR. AUREL TESS: I believe that would be coincidental as well, yeah.

MR. SVEN HOMBACH: So, then -- still on the subject of business operations capital, I'd ask Ms. Schubert to pull up Midgard's Report.

And, Mr. Tess, I believe you were -- it may have been quoting you on that -- it's -- if we go to page 42 of the document. At the bottom of the page there is a -- a quote, it's highlighted in yellow on the approvals process for business operations capital and it states that:

"The recommended capital targets are evaluated along with Manitoba Hydro's long-term financial situation. Senior management reviews and approves the targets and the capital expenditure plan proceeds through Manitoba Hydro's governance model, which includes approval by the Manitoba Hydro Electric Board."

Do you see that?

MR. AUREL TESS: Yes.

MR. SVEN HOMBACH: So, Mr. -- Mr. Fogg, is Midgard correct that Manitoba Hydro's asset management group develops the list of business operations capital projects and the estimated costs as an initial step in this approval process?

MR. ALASTAIR FOGG: So, the first step and I believe Ms. Amorim Dew was describing that this morning, is a bottom-up approach with the asset management group through their -- their models and the Corporate Value Framework produces the identified list of the capital projects that they believe should proceed, based on asset health information and other asset-related information.

MR. SVEN HOMBACH: So, Ms. Amorim Dew, perhaps I'll direct the next questions to you.

Once that is costed, is it Mr. Tess' team that has to then provide the final approval to set an overall capital budget that the asset management group can work with?

MS. SANDRA AMORIM DEW: So, as I went through in my direct evidence slides, the asset management group is responsible for recommending approximately 85 percent of the business operations capital and the rest is through the supply chain group for the fleet and the corporate facilities and also information technology if it's still capital.

So, those are submitted to Mr. Tess' group and there are reviews and discussions and ultimately, as -- I think it's mentioned, just slightly above here, it's -- it's considered along with the long-term financial forecasting considers the impasse on customers.

MR. AUREL TESS: Can I just add a bit to that. I'm just looking at this statement from Midgard that really indicates that the Manitoba government weighs in on our capital spending targets and, to my knowledge, since I've been here, that's not been the case, so -- that's -- that's incorrect.

MR. SVEN HOMBACH: That -- that government has actually weighed in?

MR. AUREL TESS: Well, they -- they've reviewed and provided an analysis of our Capital Plan, but they've never set targets for us, to my knowledge.

MR. SVEN HOMBACH: So -- so thank you, Mr. Tess. If we could go to Board Counsel book of documents, volume 3, page 5 again.

When the overall Capital Plan is set, does your office tell the asset management team on how much they can spend on sustainment, capacity, and growth and business operations, or is it just an overall capital budget that gets set?

MR. AUREL TESS: Maybe if we can just caucus on that for a sec.

(BRIEF PAUSE)

MR. AUREL TESS: So I think as -- as Ms. Amorim Dew is -- was stating, so there is a lot of collaboration that happens, we call it from the bottom up, where the asset planning and delivery looks at using -- using the Corporate Value Framework, using that framework to determine what the priorities are for asset planning.

But those amounts have to be taken into consideration with the entire financial forecast; that is, you know, reviewed by the executive, the audit and finance committee. So all of those inputs are taken into account and -- and looked at the need -- you know, the need that is there if it's coming from the bottom up.

MR. SVEN HOMBACH: So -- so the need to self-finance, that's just one (1) of the input factors then into the overall budgetary --

MR. AUREL TESS: Well, that -- that's our target is to self-finance for sure. It's just one (1) consideration, though, and we do look at all the priorities.

As a matter of fact, I can just add to this something that we've done in a budgeting process as an enhancement is now we're just calling it the prioritization exercise where we rank and -- and look at all of the inputs into the budget.

And that's something that's just brand new to us in terms of the overall budget, the O&A budget as well, but it's something that I think is a big improvement that we're going to implement going forward. But we're in the middle of it right now, so it's not something that I can -- I can share with you.

MR. SVEN HOMBACH: And -- and thank you, Mr. Tess. And when you currently take the budget numbers to Treasury Board, does -- does Treasury Board go through it in the level of detail of sustainment, capacity, and growth of business operations, or is it just a global number that you take to government?

MR. AUREL TESS: No, it's a very detailed number, and I'll let other staff weigh in, but, you know, it's -- it's actually gotten more detailed over the year. So we're -- we're providing line items. We're providing summaries of projects that might be over or under budget, for example. And they also look at timing of these expenditures. So it's a very detailed report that they get and review and provide feedback to us.

MR. SVEN HOMBACH: So that when you take it to Treasury Board, they might say yes to certain projects and no to others?

MR. AUREL TESS: No, they don't get down to that level. It's not something that we've experienced, but I would say it's more from a policy perspective. They're looking to -- to see where the funding is going -- for example, what -- what types of assets are being replaced and, you know, where is the money going?

I -- I would say that's the perspective they want to look at, whether they're getting value for money, and -- but it's a very high level review, but there aren't any direct -- there isn't -- hasn't been any direction to -- to change the recommended path.

MS. SANDRA AMORIM DEW: If I could just add to that -- this is Ms. Sandra Amorim Dew -- consistent with what we provided in Appendix 7.7, the level of detail by projects for the entire business operations capital and including any remaining major capital, we provide that to Treasury Board as well, but more on a five (5) year horizon than the twenty (20) year forecast that's provided here.

So it's a -- it's a significant level of detail, and as Mr. Tess had said, there's a request to look at it, comparing to the approved budget and also the schedule. So we report on it at a higher level --

MR. SVEN HOMBACH: Has the --

MS. SANDRA AMORIM DEW: -- or detailed level, sorry.

MR. SVEN HOMBACH: -- has the '23/'24

budget been finalized and approved at this point?

MR. GREGORY EPP: Yes, it has been.

MR. SVEN HOMBACH: Mr. Chairman, I came in just in time. This might be an opportune time to break.

THE CHAIRPERSON: I'm impressed, Mr. Hombach. We'll take fifteen (15) minutes. Thank you.

--- Upon recessing at 2:30 p.m.

--- Upon resuming at 2:48 p.m.

THE CHAIRPERSON: Mr. Hombach, I understand there's a slight change in the schedule?

MR. SVEN HOMBACH: Yes, Mr. Chair. I've had some discussions with Intervener counsel in the afternoon and we've agreed that it would make sense for me to take the afternoon. I will do my very best to have people out before 4:30 and have Ms. Guglielmin start her examination in the morning.

I understand that several Interveners might be less than their initial time estimate. So, that might break it up a bit better.

THE CHAIRPERSON: Thank you.

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Before we continue, Ms. Stephen, I have a -- a comment and a question for you. The -- the comment is I think the transcript will show that about nine (9) out of ten (10) times, I called you Ms. Stephens, with an "s" at the end. I do apologize. It's now just going to be eight (8) out of ten (10), 'cause I'm correcting it --

MS. SUSAN STEPHEN: Thank you.

MR. SVEN HOMBACH: -- at this point. My question is: You did testify earlier that there are negotiations with the Province to increase Manitoba Hydro's borrowing authority.

Do I remember that right?

MS. SUSAN STEPHEN: That's correct.

MR. SVEN HOMBACH: How much is Manitoba Hydro seeking, by way of borrowing authority? Can you disclose that?

MS. SUSAN STEPHEN: It will be somewhat less than what we had originally proposed, with the 1.5. We don't know the exact amount at this point.

MR. SVEN HOMBACH: And -- and do you have any idea as to when that issue is going to be resolved?

(BRIEF PAUSE)

MS. SUSAN STEPHEN: Unfortunately, it is Cabinet confidence at the moment.

MR. SVEN HOMBACH: Okay. That -- that -- that's fine. And, Ms. Stephen, just -- just dealing back with the sinking fund issue before, I -- I recognize that, under the Financial Administration Act, there can be Ministerial Directives to GR -- to government reporting entities to have a sinking fund.

Could you please just confirm that there's currently no such Directive in place for the Utility I should be aware of?

MS. SUSAN STEPHEN: We reviewed at the break and, yeah, apparently, yeah, as you indicated, Sections 40 and 41 have been repealed.

MR. SVEN HOMBACH: Okay, and there's currently nothing under the FRA -- the fin -- under the FAA, the Financial Administration Act?

MS. SUSAN STEPHEN: Not that I'm aware of.

MR. SVEN HOMBACH: Thank you.

MS. SUSAN STEPHEN: Just to note, we did contact our par -- our counterparts at Treasury Division at the Province, and they were also unaware of this -- this change. So, we were just in the midst of reconciling our minimum sinking fund contribution, which we're going to be forwarding to them on June 2nd. So, it was news to everyone.

MR. SVEN HOMBACH: So, thank you, Ms. Stephen. I'm getting it correct now.

Let's move on to the subject of Operation and Administrative expense, and I'd like to turn back to Board Counsel Book of Documents, page 19.

So, before we delve into the -- page 19. Before we delve into the details, the '22/'23 number in the financial forecast for O&A expenditures is 589 million. Correct?

MS. SUSAN STEPHEN: That's correct.

MR. SVEN HOMBACH: And, Ms. Amorim Dew, I appreciate the financial statements haven't been finalized yet, but we're in the ballpark?

MS. SANDRA AMORIM DEW: We're near the ballpark.

MR. SVEN HOMBACH: Is there a material variance?

MS. SANDRA AMORIM DEW: We're still finalizing, but it looks like there will be a variance but not material.

MR. SVEN HOMBACH: Now, Manitoba

Hydro's currently still projecting to increase that to 657 million for '23/'24?

MS. SANDRA AMORIM DEW: That is correct.

MR. SVEN HOMBACH: And that's an increase -- a year-over-year increase of about 11 1/2 percent?

MS. SANDRA AMORIM DEW: It is.

MR. SVEN HOMBACH: And, for '24/'25, you're planning to increase it to 687 million?

MS. SANDRA AMORIM DEW: We are.

MR. SVEN HOMBACH: That's an additional year-over-year growth of 4.4 percent?

MS. SANDRA AMORIM DEW: Subject to check, it is.

MR. SVEN HOMBACH: Now, earlier on in the hearing, my -- my co-counsel offered his rule of thumb, that a 1 percent rate increase equates to about 18 million.

You'd agree with that, as a rough estimate?

MS. SANDRA AMORIM DEW: That's in line with what I've heard. Yes.

MR. SVEN HOMBACH: So, this year-over-year increase for the first of the two (2) test years, that's really the equivalent of a 3.5 percent rate increase, in and of itself?

MS. SANDRA AMORIM DEW: Subject to check, I think that makes sense.

MR. SVEN HOMBACH: Now, let's go to page 224 of the Book of Documents. That visualizes the -- the change in O&A expense since the 2014/'15 test year.

And, Ms. Amorim Dew, your CEO previously made a point that with respect to FTEs, the Board should use 2018 as a baseline, which was the end of the Voluntary Departure Program.

Do you recall it? Were you aware of that?

MS. SANDRA AMORIM DEW: Sorry, can you repeat that first part?

MR. SVEN HOMBACH: So -- so, with respect to FTEs, with respect to staff, your CEO made the point that the Board should look at 2018 as a base year, which was the conclusion of the Voluntary Departure Program?

MS. SANDRA AMORIM DEW: I don't recall that. We've -- historically, when we're looking at the 15 percent reduction and tracking our FTEs, we go back to the 2016/'17 year to track that we're still maintaining the 15 percent and to see the increases. You're on an annual increase.

We are going back to the pre-pandemic year, which would be closer to 2019/'20.

MR. SVEN HOMBACH: Now, you made -- I -- I believe it was you, you made this point earlier on page 25 of Manitoba Hydro's presentation.

MS. SANDRA AMORIM DEW: Correct

MR. SVEN HOMBACH: That there is a...

(BRIEF PAUSE)

MS. SANDRA AMORIM DEW: Sorry, can I correct something on my previous statement?

It's kind of a hard measure, but the 15 percent kind of goes in between the 2018/'19 fiscal year, and the 8 -- and the '19/'20 fiscal year. So, that's kind of where you see that -- that line that we put on slide 26 of the direct evidence, which is what we're working back to.

MR. SVEN HOMBACH: Thank you. Now, let's go back to page 25 from this morning. I -- I believe it was you. Somebody made the point that 2.1 percent of the increase, of the O&A increase, that's for '23/'24 are attributable to just merit and salary increases. Is that right?

MS. SANDRA AMORIM DEW: I think I said, 2 percent, which is what we have on slide 25 -- or 23. Sorry, are you asking about 22 --

MR. SVEN HOMBACH: We asked about the next year, but -- but let's start with the first of the test years. So, it's -- it's 2 percent in the first year?

MS. SANDRA AMORIM DEW: It is.

MR. SVEN HOMBACH: Okay. And it's 2.1 percent on the second year?

MS. SANDRA AMORIM DEW: It is.

MR. SVEN HOMBACH: And could you remind the Board what GWI stands for?

MS. SANDRA AMORIM DEW: Yeah. GWI is General Wage Increase and that is an inflationary type of salary increase that is provided to staff.

MR. SVEN HOMBACH: Now, I believe you commented earlier that 80 percent of Manitoba Hydro's workforce is unionized?

MS. SANDRA AMORIM DEW: Approximately, yes.

MR. SVEN HOMBACH: So, your CEO, earlier on, made the comment that in the last two (2) years about 50 to 60 percent of your workforce was on strike. Do you agree with those numbers?

MS. SANDRA AMORIM DEW: That is an approximate percentage, yes.

MR. SVEN HOMBACH: And in those instances, the salary increases were determined by the Labour Board or by an arbitrator?

MS. SANDRA AMORIM DEW: Correct.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Does Manitoba Hydro have any control over those salary -- any meaningful control over those salary increases in light of 80 percent of the workforce being unionized?

MS. SANDRA AMORIM DEW: So, Manitoba Hydro goes through extensive negotiations with each of its bargaining units when the time comes. And so to the extent that it can provide certain increases, it has that control.

MR. SVEN HOMBACH: Let's move on to page 229 of the Book of Documents.

Ms. Amorim Dew, it's about 70 percent of Manitoba Hydro's O&A that's -- that's labour expenses, right?

MS. SANDRA AMORIM DEW: Oh, in the

direct-evidence I did say that 70 percent was related to wages, salaries, overtime and benefits. But if you consider the fact that we also have to provide training and safety equipment and their per diem requirements that are acquired for many of our staff. The number is closer to eighty (80), or slightly over, 80 percent.

MR. SVEN HOMBACH: If -- if we look at the chart on page 229 of the Book of Documents, that shows the percentage of your labour costs that are being capitalized, correct?

MS. SANDRA AMORIM DEW: It's our employer-related expenditures. So, that includes many of the categories I just discussed, so it's wages and salaries, benefits, over time, safety, training, office expenses, travel expenses, motor vehicles. Those are the costs that are included in an employer-related expenditures.

And this bigger 6.23 shows how the amount is being capitalized.

MR. SVEN HOMBACH: So -- so, first of all, am I interpreting this correctly that the capitalization rate is decreasing quite a bit now that the large capital projects are done?

MS. SANDRA AMORIM DEW: That is

correct.

MR. SVEN HOMBACH: And that means that a bigger proportion of your employee costs are going to be hitting the operating statement every year?

MS. SANDRA AMORIM DEW: Correct. So, total costs are not going up or -- but the amounts hitting the income statement are.

MR. SVEN HOMBACH: And just to confirm, when people work on major new generation and transmission projects, that work all gets capitalized?

MS. SANDRA AMORIM DEW: It does, and in addition to any work being done on business operations capital.

MR. SVEN HOMBACH: Pre-empted my next question. Thank you. So, let's turn to page 232 of the book of documents.

That is a figure that shows the FTE count for business operations capital and for major generation and transmission. You see that?

MS. SANDRA AMORIM DEW: I do.

MR. SVEN HOMBACH: And you're currently projecting that in '23/'24, you only have about twenty-one (21) staff left to work on major generation and transmission?

MS. SANDRA AMORIM DEW: That is

correct.

MR. SVEN HOMBACH: And that goes down to nine (9)?

MS. SANDRA AMORIM DEW: It does. It's with the wind-down of the Keeyask project.

MR. SVEN HOMBACH: And we can currently see an increase in the number of people that are working on business operations capital.

You see that?

MS. SANDRA AMORIM DEW: I do.

MR. SVEN HOMBACH: Now, is this basically just a matter of staff being reassigned from major new generation and transmission to business operations or are these new hires?

(BRIEF PAUSE)

MS. SANDRA AMORIM DEW: Just give me a moment, please.

(BRIEF PAUSE)

MS. SANDRA AMORIM DEW: Yes. Can you repeat that question, please, again, Mr. Hombach.

MR. SVEN HOMBACH: Have the people

from major new generation and transmission been reassigned to business operations capital or -- or is the increase in FTEs for business operations capital due to new hires?

MS. SANDRA AMORIM DEW: So, I don't know if I'd use the word 'reassign', but they are not working on business operation capital instead of major, and that would include groups like our, you know, construction projects and engineering groups and those such groups.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Ms. Amorim Dew, when -- Keeyask is now complete, correct? There's nobody left working on Keeyask?

MS. SANDRA AMORIM DEW: There are still some trailing costs as we showed in our Capital Expenditure Plan. And the FTEs that are associated with major generation and transmission are the FTEs that are still working on the trailing -- or the trailing work for the Keeyask project.

MR. SVEN HOMBACH: Of the -- of the people that were working on Keeyask as a major new generation and transmission project, how many were

laid off when the project was completed and how many
were just reassigned to business operations capital?

(BRIEF PAUSE)

MS. SANDRA AMORIM DEW: So, if I could turn your attention to Coalition 1-78(d). We showed in there that -- how many employees were still with Manitoba Hydro from the Keeyask project and how many were no longer with Manitoba Hydro.

I just want to clarify that a lot of our employees on the Keeyask project were on a term position, and their terms ended or they were successful in fitting into positions internal to Manitoba Hydro which could have been capital or operating.

And I'm not sure if --

MR. SVEN HOMBACH: Thank you.

MS. SANDRA AMORIM DEW: -- there's anything else on that.

MR. SVEN HOMBACH: That -- that's quite helpful. Thank you. Let's turn to page 236 of the book of documents.

(BRIEF PAUSE)

MR. SVEN HOMBACH: That shows -- that's again an IR response, and it shows the reductions in -- in staff as a result of the Volunteer Departure Plan, or VDP, but it also shows the Committed Position Reduction Plan. You see that?

Could you explain to the Board what the Committed Position Reduction Plan is, please?

MS. SANDRA AMORIM DEW: The Committed Position Reduction Plan was looking at budgeted positions or positions on the Manitoba Hydro org chart that were vacant that were longer required. And there were intentional decisions made to not fill those positions.

Just if I could add in, as well. Mr. Fogg reminded me of a very good point. We do this continually. We are always looking at positions that have been vacant and determining the need. And if they are not required, we do dealament (sic) positions, especially in light of our business model changes that we've been undergoing.

We've been doing a lot of reviews of positions to ensure that we have the positions required based on our business model alignment and restructure.

MR. SVEN HOMBACH: Okay. Thank you.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Ms. -- Ms. Amorim Dew, is -- is the Committed Position Reduction Plan an ongoing initiative?

MS. SANDRA AMORIM DEW: Well, as I just stated, we are continually always looking at positions. I do want to just emphasize that we did go through a significant business model review that started in late 2019, early 2020, and it's still ongoing. We started at the higher levels, and we've been working through the different levels.

And we're working on still some -- through some of our business units. We're still implementing business model changes, and so we're always looking at the positions that are required and doing proper reviews.

MR. SVEN HOMBACH: So, let's break this issue down a little bit more and go to page 248 of the Board counsel book of documents.

You indicated earlier that -- I don't want to misquote you -- that -- that most of the hires are for operations, most of the new hires?

MS. SANDRA AMORIM DEW: Yeah, they're primarily in the operations group if you're looking at the three (3) years of '22/'23, '23/'24, and '24/'25.

MR. SVEN HOMBACH: And there's also a doubling of -- of staff in the office of the president and CEO. Could you explain why, please?

MS. SANDRA AMORIM DEW: So, our CEO, on the first day of the Hearing, did touch on this. And so, that is with the creation of the Enterprise Excellence Division, which is reporting directly to our CEO due to the heightened importance that's placed on that work. And that's looking at change management, continuous improvement, continuance evaluation across the Corporation.

And I do want to add, as Ms. Grewal said on the first day of the Hearing, that those aren't necessarily new positions or new bodies. They have -- we've had a lot of movement through the Company, and some of those FTEs have come from other groups.

MR. SVEN HOMBACH: I was going to ask you what portion of those people are new hires as opposed to just people being reassigned internally.

(BRIEF PAUSE)

MS. SANDRA AMORIM DEW: So, there have

been a lot of significant changes and movement of positions, and so I don't have that information available. I can undertake to look at that.

MR. SVEN HOMBACH: Yes, please.

--- UNDERTAKING NO. 25: Manitoba Hydro to provide what portion of people are new hires as opposed to just people being reassigned internally in the Enterprise Excellence Division

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Let's turn to book of documents, page 252.

(BRIEF PAUSE)

MR. SVEN HOMBACH: So, this is a -- it's an excerpt from FMR-59 where Manitoba Hydro talks about the first enterprise planning process and the various strategic initiatives related to 2040.

Do you agree with me?

MS. SANDRA AMORIM DEW: Yeah. This --

this highlights that we had our first enterprise planning process in '22/'23.

MR. SVEN HOMBACH: When Manitoba Hydro initiated this -- this process, did it expect for the Provincial Energy Policy to be in place by now?

MR. AUREL TESS: Yeah, it's Mr. Tess. Mr. Hombach, I don't believe we had a date that we had been given at that time. But as you know, it recently was announced that -- that something would be coming shortly.

MR. SVEN HOMBACH: So thank you, Mr. Tess.

How did Manitoba Hydro arrive at a conclusion on how much staff it would need for strategic operations? Did you just go to each business unit to ask them for a proposal?

MR. AUREL TESS: Well, I think -- I think Ms. Amorim Dew described our budgeting process in -- in quite, you know, great length. I won't repeat it.

But essentially, what was added here was looking out to the future and what the needs might be. And also asking business units to identify resources in alignment with Strategy 2040. So that was something that was fairly new to the organization, looking out that far with strategic initiatives and aligning resources with those initiatives.

MR. SVEN HOMBACH: So -- so let's turn from the number of staff back to the issue of wage growth. And I'll refer you to page 253 of the book of documents.

Ms. Amorim Dew, back to you. You indicated Manitoba Hydro is 80 percent unionized. You gave the percentages of how much needs to be budgeted just for wage increases for the two (2) test years.

Is the chart that Manitoba Hydro provided that shows the settlements with the various unions currently still accurate? Or have there been any updates since the time?

(BRIEF PAUSE)

MS. SANDRA AMORIM DEW: Sorry, Mr. Hombach. Can you repeat your question just so I can make sure that I understood it correctly?

MR. SVEN HOMBACH: Is the status of the contracted wage settlement on this chart still accurate, or have there been any new agreements reached?

MS. SANDRA AMORIM DEW: This is from

an IR, which I believe we provided the updated information. And I am basing that on the fact that the Unifor decision from the arbitrator in January is listed in there.

MR. SVEN HOMBACH: So it's currently only the IBEW that doesn't have an updated contract for the current test year?

MS. SANDRA AMORIM DEW: For which year?

MR. SVEN HOMBACH: For the -- for the current fiscal year, the '23/'24 year.

MS. SANDRA AMORIM DEW: That is correct for the most part.

The only other thing that I'll mention is that when you see the TBDs starting in January 1st, 2024, if there are any decisions for general wage increases as of that date, that will impact the '23/'24 budget.

MR. SVEN HOMBACH: To the extent that you can comment on this in a public setting, is there a risk that with the seven-point-something percent CPI increase that we've had in the past year, there will be a significant retroactive pay increase for the IBEW?

MR. BRENT CZARNECKI: I'm just going

to jump in, Mr. Hombach. It's certainly a risk, but beyond that, they're -- they're bargaining right now. So I don't want to impair on that in any way.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Let's move on to consulting expenses for the Utility. And we'll start by going to page 30 of the presentation from this morning.

Does this chart include capitalized consulting fees? Or is this only current year expenditures that it -- the operating statement?

MS. SANDRA AMORIM DEW: Sorry, can you repeat your question?

MR. SVEN HOMBACH: Does the chart on page 30 of the presentation from this morning include capitalized consulting fees?

MS. SANDRA AMORIM DEW: No, this is only operating -- it only impacts the operating and admin. There's consulting and professional fees under operating and admin.

MR. SVEN HOMBACH: So you've indicated that in the elliptical chart those are fees that deal with Keeyask and that deal with IRP?

MS. SANDRA AMORIM DEW: Those are two (2) of the several items I identified, yes.

MR. SVEN HOMBACH: Who is Manitoba Hydro's IRP consultant?

(BRIEF PAUSE)

MR. BRENT CZARNECKI: Can we just get back to you on that? I just want to make sure we're in a position to publically comment on what may or may not be permitted per the contract.

MR. SVEN HOMBACH: Certainly, Mr. Czarnecki. I would suggest you take it under advisement and you can confirm.

MR. BRENT CZARNECKI: Will do.

--- UNDERTAKING NO. 26: Manitoba Hydro to confirm who Manitoba Hydro's IRP consultant is. (TAKEN UNDER ADVISEMENT)

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: So Ms. Amorim Dew, the -- the rectangular green box indicates that the significant uptick post '23 -- post '22/'23 is primarily cloud related, including SAP S/4HANA. Not an easy name to -- to remember.

What are the other major projects that are included in -- in those fees?

MS. SANDRA AMORIM DEW: So there are several items that fall below that square. The 'Keeyask environmental monitoring and partnership requirements and other' continue on.

There are also other consulting contracts that are -- continue on through the test period.

But the increase is primarily related to cloud, which includes small software and SAP S/4.

MR. SVEN HOMBACH: Thank you. Let's turn to Board counsel book of documents, page 3 of 5.

So I'd like to turn your attention to the SAP projects. This isolates the specific SAP costs, does it not?

MS. SANDRA AMORIM DEW: It does.

MR. SVEN HOMBACH: So SAP would be about 11 million this year, 20 million next year, and 21 in year 3?

MS. SANDRA AMORIM DEW: Those are the integration expenses that have been estimated as we work on the business case that we've identified as phase zero.

And I would also like to add that this is the electrical component, recognizing that our O&A is for our gas and electric expenses. We allocate a portion to gas and this is the electric component only.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Ms. Amorim Dew, would it be possible to get an undertaking to show the total for all the consolidated entity attributable to SAP?

(BRIEF PAUSE)

MS. SANDRA AMORIM DEW: I could -- I could garner a guess at what it is, but I'll take an undertaking and get you the correct number.

--- UNDERTAKING NO. 27: Manitoba Hydro to provide total for all the consolidated entity attributable to SAP

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: Now, let's turn back to page 30 of your presentation from this morning.

We've -- we've heard Manitoba Hydro's evidence about the FTE count still being below the -- the post-VDP baseline, if you will.

Of the consulting expenses here, how much of this is being done by people that used to be on the Manitoba Hydro employee payroll?

MS. SANDRA AMORIM DEW: I do not have an idea on how much that would be.

MR. SVEN HOMBACH: Can we get an undertaking to confirm that, please?

(BRIEF PAUSE)

MS. SANDRA AMORIM DEW: So I have a suspicion that this is going to be a challenging request to try to fulfil. We could try to look at it and see.

My -- my concern is, if there are directors of a company that we aren't aware of that may have been a previous employee and we may inadvertently provide an incorrect response, but we can look to see if that's possible.

MR. SVEN HOMBACH: Perhaps you can take it under advisement and again have an off-the-record discussion with Mr. Czarnecki later.

MR. BRENT CZARNECKI: That would be appreciated, Mr. Hombach.

--- UNDERTAKING NO. 28: Manitoba Hydro to advise of the consulting expenses here, how much of this is being done by people that used to be on the Manitoba Hydro employee payroll.
(TAKEN UNDER ADVISEMENT)

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: So then let's turn back to the issue of SAP. And, Mr. Fogg, I appreciate that I asked you some questions in the confidential session already. I apologize to the extent that I have to tread the same ground on the public record again. I'll try to be brief.

But I believe Manitoba Hydro's evidence is that the existing SAP software is not going to be supported by SAP post-2027, correct?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: So -- so Manitoba Hydro is currently at phase zero of -- of the business case, trying to determine what to do post-2027?

MR. ALASTAIR FOGG: That's correct. We're currently in the business case stage around SAP S/4 to determine whether it proceeds.

MR. SVEN HOMBACH: And is it correct, sir, that there is a possibility that Manitoba Hydro might find it feasible to just hire a third-party company that can provide support for the existing software post-2027?

MR. ALASTAIR FOGG: I would certainly agree that that is one (1) of the alternatives that could result. Well, that would part of our -- one (1) of our considerations in the business case, along with what are the other opportunities and benefits that may be associated with the implementation of SAP S/4.

And maybe if I could just add, you know, when we're talking about SAP S/4, there is -- and we see it on the screen here -- that is captured as a consulting and professional fee as part of the recommendation around the regulatory deferral.

That would come out through net movements, so you would not see that immediate impact from a net income perspective. That -- that may be a different treatment if we chose to pursue a consultant to support the existing SAP system over the long -- longer term.

MR. SVEN HOMBACH: I -- I appreciate that clarification. Thank you, Mr. Fogg.

So four stage zero at this point in time, you -- you've hired Ernst & Young to do the stage zero analysis, correct?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: And I believe your evidence was that that followed an RFP process?

MR. ALASTAIR FOGG: It did.

MR. SVEN HOMBACH: And -- and we won't discuss the -- the fees 'cause those were treated confidentially, but -- but could you confirm when you expect Ernst & Young's deliverable on this project?

(BRIEF PAUSE)

MR. ALASTAIR FOGG: I -- I believe it was initially targeted to be in the summer, but it looks like it will be closer to the fall that that business case is completed now.

MR. SVEN HOMBACH: So your best case

scenario is that you will make an actual decision sometime in the next calendar year?

MR. ALASTAIR FOGG: I would anticipate within the fall time we were making that -- we'd be in a position to make that decision.

MR. SVEN HOMBACH: Okay. Will -- will Manitoba Hydro also have to update or replace its billing system? I believe it's called Banner (phonetic), or is that system still good to go?

MR. ALASTAIR FOGG: Banner is still being operated. It can still be used. It is a consideration of the timing of when that would need to be replaced with that component of SAP. That's part of what's being analysed as -- in the overall business case for SAP S/4.

It would essentially be -- I may not get the proper IT term for it -- but a component or an aspect of the -- the whole SAP S/4 suite that could be implemented but may not have to be implemented immediately.

MR. SVEN HOMBACH: Let -- let's go back to page 305 of the book of documents for a moment.

In the test years, you're -- you're basically planning to spend about 50 million on the

SAP project. How, if that's currently still at phase zero and the decision hasn't been made yet?

(BRIEF PAUSE)

MR. ALASTAIR FOGG: So, Mr. Hombach, the -- the next phase following the business case, should SAP S/4 proceed, would be I believe what they've called a blueprinting or design phase before actual implementation of the software.

It would be a design of the -- the system and business processes that have to be included should -- so if that decision to proceed is made in the -- the fall of this fiscal year, you would see initial costs associated with that blueprinting work in this fiscal year. And then subsequently you would move into the actual implementation of the software after that.

MR. SVEN HOMBACH: And to confirm, Manitoba Hydro is seeking to add the SAP costs into a deferral account, and you showed us earlier that that's currently reflected in a net movement on the financial statement?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: So -- so let's use

this as a segue to deal with Manitoba Hydro's ask on the deferral accounts. And, Ms. Schubert, if I could ask you to pull up page 16 of the book of documents, please.

So, Mr. Fogg, you -- you're seeking an endorsement of the established Keeyask in-service deferral account?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: And -- and just to confirm, that was the account that Manitoba Hydro set up so that not all of Keeyask would hit the books once the first pen stock (phonetic) was in operation?

MR. ALASTAIR FOGG: It was an account to match our previous accounting treatment where the -- the costs of the project are -- are recognized on a per-unit basis as they come into service versus on a -- on a different treatment, kind of a substantial completion treatment.

MR. SVEN HOMBACH: The -- the second of the accounts, that's the SAP S/4Hana account that we've already discussed?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: Now, the third one, depreciation, we will leave for June 5th.

MR. ALASTAIR FOGG: Agreed.

MR. SVEN HOMBACH: The second last is the amortization period for the major capital project's deferral account?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: That's not a -- that's not an expense account. That's a revenue account that would be hitting the books?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: Okay. And then lastly, the write-off of the DSM deferral account?

MR. ALASTAIR FOGG: Yes, correct.

MR. SVEN HOMBACH: So could you confirm that accounts 'B' and 'C' have not been approved by this Board yet? Is that your understanding?

MR. ALASTAIR FOGG: Item 'B' is a new regulatory deferral that would require approval by this Board. There's a number of aspects related to item 'C' that would require a determination by the Board as well.

MR. SVEN HOMBACH: So one (1) thing I'd like you to take me through is:

How does Manitoba Hydro decide when it has the jurisdiction -- or the ability, for lack of a better word -- to set up a deferral account when there hasn't been Board approval yet?

How does that determination get made?

MR. ALASTAIR FOGG: Sorry. Just give me one (1) minute, please.

(BRIEF PAUSE)

MR. ALASTAIR FOGG: Mr. Hombach, maybe -- maybe as -- as examples, I'll speak to first item 'A', which is the -- the Keeyask in-service deferral, and then we can use SAP S/4 as the other example.

So, in the case of the Keeyask in-service deferral, there was past -- past precedents and past decisions in relation to the creation of that deferral account for the treatment of the other -- of costs on our other projects and that -- that past precedents in the decision under IFRS allowed us to create that account, but we do need to seek approval, in this case, for the amortization period of it.

The SAP S/4 regulatory early deferral is new. It -- we've included it in the forecast, on the basis that it's approved, but it -- it requires the Board's approval for that to remain in the forecast.

MR. SVEN HOMBACH: Let's go to page 329 for a moment, just to illustrate this.

So -- so, Mr. Fogg, this is Note 20 from -- your financial statements that provides a breakdown of the deferral accounts and can you just confirm my understanding that it -- there is a star in the right column, those are accounts that the Board has not yet approved?

MR. ALASTAIR FOGG: So, if there's a star in the right-hand column, there is not an amortization period approved for those deferrals.

MR. SVEN HOMBACH: Okay. So -- so let's break this down a little bit further.

The -- the change in depreciation method account, the Board has not approved the account itself yet?

MR. ALASTAIR FOGG: So, if you were to speak to that one in particular, that -- that deferral was created in response to the direction to maintain our CGAP-ASL (phonetic) depreciation methodology, which, in order to do that, would require this regulatory deferral.

MR. SVEN HOMBACH: Okay. And -- and, Mr. Fogg, while we're on the -- the subject of Note 20, it -- it's the same thing with the loss on retirement at a disposal of asset account, doesn't --

MR. ALASTAIR FOGG: That falls under the same description I just provided.

MR. SVEN HOMBACH: Yeah. Thank you. So, let's deal -- let's deal with an easy one first and we'll turn to the -- the Keeyask In-Service account. I'll ask Ms. Schubert to pull up Appendix 4.3 of the Application and go to page 10.

So, Manitoba Hydro is seeking approval to have this account drawn down over a hundred and six (106) years?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: Okay, and -- and the impact of that would be about a million dollars per year starting and this year?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: And I believe you said the hundred and six (106) years that was to -- to match it to the expected life span of Keeyask?

MR. ALASTAIR FOGG: Matching, yes, life span -- yes.

MR. SVEN HOMBACH: I will -- I'll try to use an accounting term for this, but in -- in -- in light of the million dollar impact, is it over-kill to draw down over a hundred and six (106) years as opposed to a faster period?

MR. ALASTAIR FOGG: I'm not sure I would use the term 'measure of over-kill' as an accounting term, necessarily.

I -- I -- I think when we seek to outline amortization periods, we generally are looking at -- at what the underlying item or asset it relates to and in this case, because Keeyask is that long lived asset, we -- we've tried to match the timing to -- to Keeyask itself, so that there's a relationship or -- or logic that follows from that.

MR. SVEN HOMBACH: So, then, let's switch to the SAP S4HANA deferral account. And, still in the same document, Ms. Schubert, I'd ask you to flip to page 12.

Mr. Fogg, this -- this illustrates what -- what the Utility is proposing, so, correct me if I'm wrong, but you're seeking to defer 13 million in '23/'24 and 23 million in '24/'25?

MR. ALASTAIR FOGG: You're correct.

MR. SVEN HOMBACH: So, if the Board were to defer a decision on whether or not to approve these accounts, would Manitoba Hydro be able to set them up, for lack of a better word, on a spec, like it has done with the depreciation accounts?

(BRIEF PAUSE)

MR. ALASTAIR FOGG: Mr. Hombach, I think our -- our assessment of that, at this point in time, is with something like SAP S/4 as it's -- as it's new and requires the Board's approval, our -- our initial analysis would be that -- that we wouldn't be able to create this with -- without that -- that direction at this time.

If it was indicated that it -- they were -- the Board were deferring that decision to a later date, but not outright rejecting it, I suppose that would put us in a bit of a grey area of trying to consider how to -- how to treat that in that interim time period if we were still incurring those costs.

MR. SVEN HOMBACH: So, let's break this down in to two (2) issues then.

First of all, the timing. You indicated that the decision might be made in the fall of this year, correct?

MR. ALASTAIR FOGG: That's when we anticipate the business case to be complete. That's correct.

MR. SVEN HOMBACH: So -- so, basically, after the GRA is finalized.

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: And until then you won't actually know whether or not the SAP project is proceeding in the form in which you currently anticipate it will proceed?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: So -- so, if Manitoba Hydro were to make the determination that it can't set up a deferral on account on spec, what would be the impact? Would the 13 million hit the operating statement this year?

MR. ALASTAIR FOGG: Yes, it would.

MR. SVEN HOMBACH: And the same thing with the 23 million, the subsequent year?

MR. ALASTAIR FOGG: Assuming that the spending is aligned with that forecast, yes, it would be the same.

MR. SVEN HOMBACH: So, I've indicated we won't discuss the depreciation accounts today, but I would like to touch on major capital deferral.

And, Ms. Schubert, if we could go to page 33 in the Book of Documents please. Sorry, page 33, in Appendix 4.3.

So, Mr. Fogg, just to confirm, Manitoba Hydro is proposing to draw down the major capital deferral account over two (2) years?

MR. ALASTAIR FOGG: Correct.

MR. SVEN HOMBACH: And, it will -- that will only happen after the current test years, right? So, there's no impact in the current GRA?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: To some extent, you may have already answered this, but could you explain why Manitoba Hydro is seeking to draw this account down over two (2) years, while trying to match the -- the Keeyask In-Service account to the life span and draw it down over a hundred and six (106).

MR. ALASTAIR FOGG: Yeah, in this particular case, I believe as we noted in Appendix 4.3, it was -- this was collected over a two (2) year time frame, and so we're looking to -- to recognize it over the equivalent time frame of a two (2) year period.

MR. SVEN HOMBACH: Thank you. And, Mr. Fogg, I don't have any questions for you on the DSM Deferral Account.

Mr. Chair, this concludes my questions to this panel. I thank you for your time and I recognize that the panel itself might have some questions too.

THE CHAIRPERSON: Well, I'll -- I guess I'll ask the panel if they have questions now or do you want to wait until later? No? Okay. Sorry, yes?

BOARD MEMBER SY: I have a question.

THE CHAIRPERSON: Oh, go ahead.

BOARD MEMBER SY: Yeah, thank you. Thank you very much. Could we go back to the Manitoba Hydro Revenue Requirement deck -- the last page -- seven -- page 47.

On the export revenues, it says:

"The anticipated reduction in export revenue as dependable export quanto (phonetic) starting 2025, 2026.

My question is this: Has Manitoba Hydro explored the possibility of having opportunity sales revenues higher than dependable sales?

MR. AUREL TESS: I can answer that, Mr. Sy. It's Aurel Tess speaking.

So, what this chevron relates to really is what we see in the future for export revenues. It does include a mix of dependable and opportunity sales and we'll always try to maximize our export revenue.

But we have a reality in front of us where our dependable contracts are expiring and, in particular, that starting date of '25/'26, we have a -- a really large one that is expiring at that time.

So, we'll see a -- a significant drop in dependable and we'll -- it -- we'll have opportunity sales during this -- this period of time going forward but, you know, it's -- opportunity sales are more volatile. They're generally not as lucrative as -- as dependable sales, as well.

BOARD MEMBER SY: Okay. Is it -- that statement, is it based on history? Like, what you said, that is opportunity sales are generally not lucrative as dependable sales, is it based on history? Is it --

MR. AUREL TESS: Yes. That's been our experience. Prices have been lower than dependable and, also, more volatile. Like, you can see a period where we had the supply shortages of -- of gas, for example.

We saw opportunity sales prices go up, but that was due to, you know, this intervention in the marketplace with the war in the Ukraine, for example, and weather events in the southern United States, so -- so that can have an impact. And sometimes you can see some -- some high trends in -- in opportunity pricing.

But more generally, I would say the price of opportunity sales is lower than dependable. Mr. Fogg wants to add to that.

MR. ALASTAIR FOGG: Board Member Sy, just in particular to that -- that contract that expires in 2025/'26, that was entered into at a time where we were able to obtain quite favourable pricing that -- compared to current pricing right now. It was quite significantly higher.

So, just -- just the impact of that pricing that we locked in at that time expiring and that shifting to opportunity. We -- we just see a price difference that results in that reduced revenue.

BOARD MEMBER SY: So, are we talking about -- do we take into consideration inflation when you talk about prices being higher than opportunity sales? Because that is the difference, how far back you guys have those long-term contracts.

Yes, long-term contract give you stability. But if you take into consideration inflation, are we talking about the same thing, or are the contract -- do they have inflation-adjusted price or not?

MR. ALASTAIR FOGG: Inflation is a factor. In this particular case, the pricing difference is more related to how the market at the time valued our dependable energy and capacity that was considered at that time to have a higher value and what we were able to lock in from a fixed price perspective.

As we discussed in the -- the Export Panel, I believe with the changing in the MISO market, that -- that same dependable contract does -- isn't valued the same in the marketplace anymore, even despite the -- the inflation aspects to it.

BOARD MEMBER SY: Okay. So, is it fair to say then in those export -- in those dependable sales, there is no price inflation adjustment added to it or not?

MS. SANDRA AMORIM DEW: Yes. They're --

BOARD MEMBER SY: Clarify it. Just --

MS. SANDRA AMORIM DEW: There is. They are adjusted for either US GDP deflator or CPI

BOARD MEMBER SY: Okay. Thanks. Last question, sorry. On the capital expenditure, the general assumption is that increased investment in technology will increase productivity.

Is that -- is that a fair statement? Is it a fair assumption for Manitoba Hydro?

MR. AUREL TESS: Yeah, I'll take that one. It's Mr. Tess. I -- I believe that is the case because we were looking at -- we talked about our technology debt and nonintegrated, you know, siloed applications.

Even in our -- our finance area we have the software that -- that has created the forecast that you're looking at. The modelling software I believe is 1980 vintage and it's not integrated with SAP.

Another example is the use of spreadsheets to do consolidation work at Manitoba Hydro. And there's lots of examples that are similar to that across the Company.

So, we believe there are -- strongly believe there's efficiencies to be had with -- with technology, but it also includes process changes that have to be made, you know, that we talked about, people process technology. That formula is pretty -- pretty reliable in terms of making those changes, so you have to change all of them.

MS. SANDRA AMORIM DEW: And if I may add, Mr. -- or Board Member Sy. This is Sandra Amorim Dew.

As I also highlighted when I was going

through the O&A increases in the direct evidence and touched on cloud computing, one (1) of the main reasons that we're moving to cloud is due to the fact that cloud enables continuous evaluation and process improvement, so -- whereas information technology processes do, and tools, with the ability to have cloud, that increases it that much more.

MR. AUREL TESS: I can add to that, too, in -- in terms of the cloud movement, that in terms of efficiencies, to your question, you know, we would benefit from research that's ongoing with SAP, for example, that occurs with cloud computing applications.

Be really difficult for Manitoba Hydro to duplicate that kind of investment, whereas in a cloud computing type of investment, everyone who subscribes will get the benefit from that instead of us doing it on our own.

So, you'll see those benefits, we believe, through increased cyber security, for example. That's an area where we know the cloud computing companies are zeroing in on that. And we think that will bring down the costs of doing it on our own.

BOARD MEMBER SY: So, last question

then. Could we make -- like, is there a way to identify the impact of increased investment in technology and IT on the FTEs?

MR. AUREL TESS: I think the business case that we're developing for SAP will be very helpful in that regard. It -- it should -- it should provide that information to us, but we're not in a position to provide that right now.

BOARD MEMBER SY: Okay. Thank you.

MR. AUREL TESS: Yeah.

THE CHAIRPERSON: And -- sorry, Mr. Hombach...?

MR. SVEN HOMBACH: I -- I was wondering if I could have the -- the Panel's indulgence. I have about two (2) minutes that I was going to save for the Depreciation Panel, but it might actually be easier to deal with it while Mr. Tess is still on the stand.

Would it be possible to just --

THE CHAIRPERSON: Yeah. Go ahead. Sure.

MR. SVEN HOMBACH: If that's okay.

THE CHAIRPERSON: Yeah.

CONTINUED BY MR. SVEN HOMBACH:

MR. SVEN HOMBACH: And I do apologize for that. Ms. Schubert, if we could go back to page 329 of the Board counsel book of documents, please.

Mr. Fogg, I -- I had asked you before about accounts that have been approved and that haven't been approved.

So, if we look at note 20 from your financial statement, the Conawapa account previously has been approved by this Board, has it not?

MR. ALASTAIR FOGG: That's correct.

MR. SVEN HOMBACH: That was in Order 19/'18?

MR. ALASTAIR FOGG: Subject to check, yes.

MR. SVEN HOMBACH: Conversely, the loss on retirement account has not yet been approved?

MR. ALASTAIR FOGG: I believe I described similar to the change in depreciation method. It was -- it was established based on our interpretation of the direction related to CGAP-ASL procedure maintaining that.

MR. SVEN HOMBACH: So -- so, one (1) of the things the Board dealt with in one (1) of the procedural Orders is this proposal by MIPUG's expert to -- to writeoff some of the costs, specifically, to writeoff the Conawapa account and the loss on retirement accounts. And we have Manitoba Hydro's position on that issue.

And I'd like to ask Ms. Schubert to turn to page 368.

(BRIEF PAUSE)

MR. SVEN HOMBACH: Now, there is a -- there's a statement in the second bullet that indicates that, of the loss on disposal account, 43 million relates to discontinued operations and 24 million relates to continuing operations.

Do you see that?

MR. ALASTAIR FOGG: Yes, I do.

MR. SVEN HOMBACH: Now, is -- is discontinued operations a way of saying terminal losses?

MR. ALASTAIR FOGG: An example would be, like, the Selkirk generating station, for example.

MR. SVEN HOMBACH: So -- so -- and the rest would be interim losses?

(BRIEF PAUSE)

MR. ALASTAIR FOGG: So, for the 24 million, as it notes there, approximately 1 million is for -- for losses on continuing accounts, and the remaining 23 million is the cost of removal on continuing accounts.

MR. SVEN HOMBACH: Mr. Fogg, the -- the 43 million that relates to discontinued operations, that -- that basically means Selkirk, right?

MR. ALASTAIR FOGG: Not a hundred percent, but mostly is related to Selkirk, yes.

MR. SVEN HOMBACH: But -- but most of it. Now, under the old CGAP way of doing things, would Manitoba Hydro have had to expense that amount?

(BRIEF PAUSE)

MR. ALASTAIR FOGG: In the absence of direction from the Board to do otherwise, yes, we would have.

MR. SVEN HOMBACH: In -- in Manitoba Hydro's view, is there a benefit to ratepayers from a discontinued operation like Selkirk, for future ratepayers?

(BRIEF PAUSE)

MR. ALISTAIR FOGG: So no, there wouldn't be an enduring benefit to ratepayers. But I guess we're balancing that aspect against the -- the impact to current ratepayers should that appear on the -- immediately on the income statement from a loss perspective.

MR. SVEN HOMBACH: From Manitoba Hydro's perspective -- and perhaps you may want to canvass this with your counsel -- would it be a feasible option to writeoff the 43 million that relates to discontinued operations but not the rest?

(BRIEF PAUSE)

MR. ALISTAIR FOGG: Mr. Hombach, I'll try and respond. I mean, there could be -- if direction was -- was provided to -- to write that off, that -- that could be done.

But the matter of what year that writeoff were to occur in would be something we'd have to -- we'd require further consideration of whether it could actually be recorded in '22/'23 or in '23/'24 for example.

MR. SVEN HOMBACH: Thank you, Mr. Fogg. That concludes my questions.

THE CHAIRPERSON: Okay. I have a number of questions. I guess, Kristen, could you go to page 10 of the presentation, the Hydro presentation.

Okay. Two percent rate path. The first issue is legislative compliance and I will throw this out and whoever wants to answer it can answer it.

Bill 36, if Part 2 is proclaimed, says -- it has the targets, but it also says the rate can be no higher than 5 percent or inflation, whichever is lower via the 2 percent rate path.

What happens if inflation is less than 2 percent?

Mr. -- I can see everybody is anxious to answer. Mr. Tess...?

We had -- we had a period of inflation being lower than 2 percent for quite a while. What happens to your numbers?

MR. AUREL TESS: Well, I think that's a fair -- Mr. Chair, I think that's a fair risk that -- that we would have to identify -- or deal with, rather, should that situation arise.

I think we've stated in our application

that, you know, we -- we could start discussions with the Province, for example, on what possibilities are -- what options might be available, rather, if that should arise.

THE CHAIRPERSON: But your -- sort of, the -- the certainty of the path forward changes depending on where the rate of inflation is, correct?

MR. AUREL TESS: Yes, that's true.

THE CHAIRPERSON: Okay. And you filed an application originally for 3.5 percent. It was lowered to 2 percent because the government cut the fees for the debt guarantee fee and for water rental.

Any commitment that that is going to be in place until 2040?

MR. AUREL TESS: We don't have a commitment on that except what you -- you've likely already seen, which is the announcement by the Province and we have a letter from the Minister of Finance that supports that as well.

THE CHAIRPERSON: Of the current government?

MR. AUREL TESS: Exactly.

THE CHAIRPERSON: Okay.

MR. AUREL TESS: Yeah.

THE CHAIRPERSON: But again, you have

this much certainly as the situation remains the same on that point?

MR. AUREL TESS: Yeah. That's a really good point, but I -- I think if you look at how the change occurred, the other driver was, of course, we were not competitive on -- on the amount of money that was being transferred to the government, right?

So we were quite high -- quite a bit higher compared to other jurisdictions. As a matter of fact, I believe we're still higher than some jurisdictions on the guarantee fee.

But it's -- it's something that also is driven by, I'll call it, those -- those competitive forces that are out there, with other jurisdictions.

THE CHAIRPERSON: Yeah. I still believe you're number 2.

MR. AUREL TESS: Still number 2.

THE CHAIRPERSON: (INDISCERNIBLE) and you're still number 2, so you're like Avis.

MR. AUREL TESS: I'll take that subject to check, Mr. Chair.

THE CHAIRPERSON: Yeah. Page 15. Thanks. You know, we see -- we've seen this before on the issue and the focus on net debt.

There's nothing in your presentation --

the net debt relates to building a capital project. Capital project increases your assets.

There's nothing in your presentation that indicates how your assets size has changed. Or your retained earnings have changed.

And what I would ask is an undertaking to provide a diagram, similar to 15, that has an overlay of not only net debt, but also has assets and retained earnings.

Now, you -- you've got -- you've got the table that sets this out. But I'd like to be able to compare this. So if I could have that -- that as well.

MR. AUREL TESS: We can do that.

--- UNDERTAKING NO. 29: Manitoba Hydro to provide a diagram that has an overlay of net debt, assets, and retained earnings

THE CHAIRPERSON: Thank you. There was discussion earlier about -- about segregating costs for domestic use and exports.

And I think Midgard raised it. It was

-- it was a similar idea that came out of their Wall report, which is, you know, in terms of Manitoba Hydro operating to provide electricity to domestic customers is one thing. Ratepayers should pay for that.

If you're -- if you're building or operating for export sales, that's something the government should be providing funds for and taxpayer money.

Now, I guess, government may say, We just did by cutting the fees. But is there a way to even do that sort of allocation within Manitoba Hydro to identify what costs relate to domestic service and what costs relate to export?

MR. AUREL TESS: Well, my initial response, Mr. Chair, would be for us to also take that away and -- and see what the possibilities are there.

I think there's a lot of -- a lot of costing information we have. I'm not sure how granular it is. And we can get into that level of detail, but we can certainly take it away.

THE CHAIRPERSON: Well, if you'd -- I'd appreciate it, Mr. Tess, if you could do that as an undertaking, just to see how it's done.

Sorry, I don't -- did you -- okay.

--- UNDERTAKING NO. 30: Manitoba Hydro to identify
what costs relate to
domestic service and what
costs relate to export

THE CHAIRPERSON: Finally, Pointe du Bois. Pointe du Bois is a major project. There is a request for major funds from the federal government.

I guess the question is: If you weren't -- or you don't receive the money from the federal government, what happens to that project?

Does it not proceed? Does it proceed in a different sort of form? Does it fall down the priority scale?

I'm sort of interested in terms of how important the project is in relation to -- we can get other -- other monies to pay for it, so we don't have to pay for it out of -- out of our operating funds.

MR. AUREL TESS: Well, there is a significant need, as I understand it, in the Portage area or the -- sorry.

THE CHAIRPERSON: Yeah, Pointe du Bois.

MR. AUREL TESS: Sorry. Sorry about that, Mr. Chair.

I think there's -- regarding Pointe du Bois, the -- the business case is kind of tied to the extra generation that we would be getting from -- you know, from the refurbishment of the -- of the runners in that project.

So I believe that, of course, the federal funding does help to -- to build a business case, but we could take -- take a look at that without the funding and see if there's anything we can come back to you on information --

THE CHAIRPERSON: If you could, I would appreciate that. Any questions?

--- UNDERTAKING NO. 31: Manitoba Hydro to advise if they don't receive the money from the federal government, what happens to the Pointe du Bois project.

THE CHAIRPERSON: I'd like to thank the panel today. And we will adjourn and reconvene at 9:00 tomorrow morning. Thank you.

--- Upon adjourning at 3:59 p.m.

Certified Correct,

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Wendy Woodworth, Ms.