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MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA HYDRO'S APPLICATION
FOR APPROVAL OF NEW ELECTRICITY RATES
FOR 2010/11 AND 2011/12

Before Board Panel:

- Graham Lane - Board Chairman
- Robert Mayer, Q.C. - Board Member
- Len Evans - Board Member

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
January 18, 2011
Pages 1327 to 1521

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1 --- Upon commencing at 9:37 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. A bright, crisp morning. Probably good to be
5 inside.

6 Mr. Peters...?

7 MR. BOB PETERS: Thank you, Mr. Chairman.

8

9 MANITOBA HYDRO PANEL RESUMED:

10 VINCE WARDEN, Resumed

11 DARREN RAINKIE, Resumed

12

13 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

14 MR. BOB PETERS: I want to start this
15 morning on the topic of depreciation and amortization,
16 and the Board members will know from Tab 4 of the book of
17 documents on the -- on the IFF copy that's there that
18 depreciation and amortization is shown under the expense
19 items.

20 Mr. Rainkie, Mr. Warden, good morning.
21 Would it be correct to say that the depreciation and
22 amortization expenses are a function of the capital
23 expenses of the Corporation?

24 MR. DARREN RAINKIE: Depreciation, yeah,
25 as directly related to capital. Amor -- amortization is

1 more related to deferred type assets but I think your --
2 your general statement is correct, Mr. Peters.

3 MR. BOB PETERS: And so certainly with
4 respect to depreciation it will grow as your capital --
5 as Manitoba Hydro's capital grows?

6 MR. DARREN RAINKIE: I think that's the
7 trend that we would expect, Mr. Peters, yes.

8 MR. BOB PETERS: And it's the trend that
9 the Board will see when it looks at Manitoba Hydro's
10 gross plant, Mr. Rainkie, about \$7.8 billion in 2010 and
11 forecast to increase to \$22 billion in 2029?

12 MR. DARREN RAINKIE: Did you say \$7
13 billion as your first number, Mr. Peters? I -- it's --

14 MR. BOB PETERS: Seven point eight (7.8)
15 is what I said, Mr. Rainkie, and I -- I'll have to maybe
16 check that but...

17

18 (BRIEF PAUSE)

19

20 MR. VINCE WARDEN: That's net of
21 depreciation, accumulated depreciation, Mr. Peters, and
22 you're correct, it's 7.8 billion.

23 MR. BOB PETERS: And it's forecast to --
24 to grow then up to \$22.2 billion by 2029, Mr. Warden and
25 Mr. Rainkie?

1 MR. DARREN RAINKIE: That sounds correct,
2 Mr. Peters.

3 MR. BOB PETERS: And at Tab 23 of the
4 book of documents the Board will have response to PUB
5 Manitoba Hydro First Round 37A with the attachment and on
6 page 156 of the book of documents, which is that
7 document, the Board will see that Manito -- Manitoba
8 Hydro's depreciation and amortization in 2003/'04 started
9 off as \$274 million, is that correct?

10 MR. DARREN RAINKIE: That's correct, Mr.
11 Peters.

12 MR. BOB PETERS: And if the Board checks
13 back to Tab 4, they'll see that the -- that expense will
14 increase to \$777 million a year starting in 2029?

15

16 (BRIEF PAUSE)

17

18 MR. VINCE WARDEN: We'll accept that, Mr.
19 Peters, we don't have it in this tab, but that sounds
20 right.

21 MR. BOB PETERS: Right, you'd have to go
22 back to Tab 4, I think, for that. But that -- that \$777
23 million, Mr. Warden, that's approximately the same amount
24 of the Corporation's O&M expenses today, isn't that
25 correct?

1 MR. VINCE WARDEN: O&M expenses or -- or
2 --

3 MR. BOB PETERS: Before capitalization.

4 MR. VINCE WARDEN: Oh, before
5 capitalization. Yes. Yeah.

6 MR. BOB PETERS: And just by the dollar
7 amount, this appears on the IFF as one (1) of the top
8 three (3) expenses incurred by Manitoba Hydro, that is,
9 depreciation and amortization? Would you agree?

10 MR. VINCE WARDEN: Correct.

11 MR. BOB PETERS: Would it be correct to
12 say that depreciation and amortization are considered
13 non-cash expenses with perhaps a couple of exceptions?

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: And as a non-cash
16 expense, it means there's no outlay with respect to that,
17 no outlay by the Corporation at the time it takes that
18 expense into its income statement?

19 MR. VINCE WARDEN: That's correct.

20 MR. BOB PETERS: Now, I said there might
21 be a couple of ex -- exceptions and as I look on this
22 sheet that is found at book of documents Tab 23, on page
23 156, one (1) of the exceptions to depreciation and
24 amortization being a non-cash expense might be that
25 affordable energy fund that's shown three (3) lines from

1 the bottom, Mr. Warden?

2 MR. VINCE WARDEN: Yes, I would agree
3 with that.

4 MR. BOB PETERS: Is there any other item
5 on there that should be considered an exception to the
6 non-cash expense?

7

8 (BRIEF PAUSE)

9

10 MR. DARREN RAINKIE: Mr. Peters, no I
11 don't think there are any others of that -- that kind
12 there.

13 MR. BOB PETERS: Thank you, Mr. Rainkie.
14 On the issue of depreciation, the
15 Corporation usually has prepared a depreciation study
16 every so often, would that be correct?

17 MR. DARREN RAINKIE: Yeah, our frequency
18 has been every five (5) years, Mr. Peters.

19 MR. BOB PETERS: Has it been exactly
20 every five (5) years? Pretty close?

21 MR. DARREN RAINKIE: I think -- I think
22 it's been pretty close, Mr. Peters.

23 MR. BOB PETERS: And that depreciation
24 study is prepared by an external consultant?

25 MR. DARREN RAINKIE: That's correct, with

1 a significant input by Manitoba Hydro staff.

2 MR. BOB PETERS: Why does Manitoba Hydro
3 go external for that study?

4 MR. DARREN RAINKIE: Well, it's --
5 there's lots of people that specialize in that so we
6 don't have staff internally that specialize that. It's
7 fairly statistically driven study, so we tend to
8 outsource that and it's only done periodically. And
9 usually -- usually you use consultants when you don't
10 need somebody to do it every year.

11 MR. BOB PETERS: And there currently is a
12 consultant tasked with coming up with a new depreciation
13 study for the Corporation?

14 MR. DARREN RAINKIE: That's right. It's
15 the same firm that we used the last time, Gannett
16 Fleming.

17 MR. BOB PETERS: Okay. This new
18 depreciation study, Mr. Rainkie, is it going to be
19 compliant with IFRS or will it be prepared under the old
20 methodology, if I can use that term?

21 MR. DARREN RAINKIE: It will be IFRS
22 compliant, Mr. Peters.

23 MR. BOB PETERS: And when you say "IFRS
24 compliant," Mr. Rainkie, I understand one (1) of the
25 major changes in the depreciation study will be a change

1 in the asset groupings?

2 MR. DARREN RAINKIE: That's correct. We
3 refer to that as component -- components of the plan,
4 asset groupings/components, same thing.

5 MR. BOB PETERS: This componentization
6 has, Mr. Rainkie, the intention of putting like
7 components in the same depreciation basket for the same
8 depreciation rate to apply?

9 MR. DARREN RAINKIE: Yes, it -- it would
10 put homogeneous asset in a -- in a particular component
11 that have a similar average service life.

12 MR. BOB PETERS: How is that different
13 than what's done presently?

14 MR. DARREN RAINKIE: I think it's just a
15 matter of more rigour, Mr. Peters. It's -- in general
16 IFRS applies more rigour to those types of issues. So,
17 for instance, with the groupings that we're looking at
18 now, I think we're moving from about sixty (60) sub-
19 components to about a hundred sub-components of our plan,
20 just as a frame of reference for the Board.

21

22 (BRIEF PAUSE)

23

24 MR. BOB PETERS: Mr. Rainkie, this is
25 going to be a fairly unscientific question, but it sounds

1 like the depreciation study is just reshuffling the deck
2 in terms of how it organizes the assets of Manitoba
3 Hydro. It's just putting them into different groupings
4 than -- than have previously been in place, and in fact
5 it's breaking them down into forty (40) more groupings it
6 sounds like.

7 MR. DARREN RAINKIE: I think that's a
8 good crude description of what's happening, I mean
9 there's a lot of data involved in it, so I would want to
10 make sure that we understand it's a lot of work. It's
11 not just a -- a quick reshuffling when you're dealing
12 with \$13 billion of plant.

13 MR. BOB PETERS: Even if you break down
14 the plant that Manitoba Hydro has into a hundred (100)
15 sub-groupings wouldn't it intuitively be expected that
16 the overall depreciation expense is going to come out
17 approximately the same as it currently is?

18 MR. DARREN RAINKIE: That depends on the
19 service lives of the various components, Mr. Peters.
20 What tends to happen I think when you move to IFRS is you
21 start breaking out some of the assets that have shorter
22 service lives into -- into subgroups, and that could put
23 some upward pressure on depreciation rates or
24 depreciation in general.

25 Of course, we also will look at some of

1 the other assets, particularly generating stations, and
2 reassess the -- the service life of those generating
3 stations, and if -- if the service life of those go -- go
4 up from the last study there may be some offsets to that.

5 MR. BOB PETERS: Well, that's what I was
6 getting at, Mr. Rainkie. If the depreciation study is
7 currently accurate it would take into account the items
8 that have longer service lives and those that have
9 shorter service lives and it would come up with a blended
10 -- a blended depreciation period and, consequently, a
11 different -- depreciation rate, wouldn't it?

12 MR. DARREN RAINKIE: It -- it would, but
13 keep in mind every half of dec -- decade, every five
14 years, we're looking at our past records and adjusting,
15 you know, service lives and retirements as such, so it's
16 not just a -- a mathematical exercise of straight
17 reshuffling. We're reassessing service lives and -- and
18 costs and such -- such that there that can be -- there
19 can be shifts between the depreciation studies.

20 MR. BOB PETERS: Are you able to give the
21 Board any examples of the shift in amortization or
22 depreciation lifespan of -- of asset groupings?

23 MR. DARREN RAINKIE: Mr. Peters, the --
24 the study is still underway and I think -- I don't think
25 we'll get the first real cut of the study back from the

1 depreciation consultant for another month or so, so I --
2 I don't have anything to offer right now in terms of
3 specifics, Mr. Peters.

4 MR. BOB PETERS: The application that's
5 before the Board today is filed on the basis of your --
6 I'll call it your existing or your old depreciation
7 study, Mr. Rainkie?

8 MR. DARREN RAINKIE: That's right. In --
9 in general the test years are done under Canadian general
10 accepted accounting principles and that -- we'll report
11 under those for the two (2) test years, Mr. Peters.

12 MR. BOB PETERS: The affordable energy
13 fund shown on the depreciation schedule found at page 156
14 of the book of documents, would it be -- the Board's
15 interpretation would be correct if it assumes that Hydro
16 is planning on spending \$10 million in 2010 on the
17 Affordable Energy Fund program -- programs?

18 MR. VINCE WARDEN: Yes.

19 MR. BOB PETERS: And while that was a
20 forecast, Mr. Warden, was the \$10.1 million spent in
21 2010?

22 MR. VINCE WARDEN: I don't believe so,
23 no. I think it's more like 7 million. We can get that
24 exact number for you if --

25 MR. BOB PETERS: And in...

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Mr. Rainkie just
4 pointed out to me that we have a schedule here that shows
5 the actual expenditures were -- were 3 million, so the --
6 the 7 million I was recalling was the difference between
7 the ten (10) and the -- and the three (3) that was
8 actually spent.

9 MR. BOB PETERS: Okay. Is that schedule
10 on the record or one that's not yet on the record at this
11 proceeding?

12 MR. DARREN RAINKIE: This one is not yet
13 on the record, Mr. Peters.

14 MR. BOB PETERS: It's one that could be
15 made available by way of undertaking, Mr. Rainkie, or
16 does it contain proprietary information?

17 MR. VINCE WARDEN: We could undertake to
18 file a list of the expenditures that -- in the -- from
19 the Affordable Energy Fund during the past year, as well
20 as the outstanding balance in that fund if that's
21 helpful.

22 MR. BOB PETERS: All right.

23

24 --- UNDERTAKING NO. 14: Manitoba Hydro to file a list
25 of expenditures and

1 outstanding balance from the
2 Affordable Energy Fund
3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: That would be helpful, I
6 believe, to the Board.

7 Can you indicate, Mr. Warden, why the --
8 the expenditures out of the Affordable Energy Fund were 7
9 million under forecast?

10 MR. VINCE WARDEN: I think -- and this is
11 something that Mr. Kuczek would probably be able to speak
12 to a lot -- in fact, he will be able to speak to a lot
13 better, but it's simply the -- the fact that a lot of the
14 programs that are underway are -- are not fully developed
15 yet and therefore the expenditures aren't occurring as
16 early as anticipated.

17 THE CHAIRPERSON: Mr. Warden, if I
18 recall properly, when the announcement came out for the
19 Affordable Energy Fund it was broken down into
20 components; wasn't it, so much for this, so much for
21 that, et cetera, et cetera?

22 MR. VINCE WARDEN: Yes, that's -- that's
23 right.

24 THE CHAIRPERSON: Has there been any
25 change in the intended distribution of that original 35

1 million plus interest?

2 MR. VINCE WARDEN: I don't believe so.
3 There could have been some additional funds directed more
4 towards low income. And as you know we're now applying
5 interest to the -- to the balance in that fund so it
6 continues to grow and -- and that -- that growth I -- I'm
7 not aware has been allocated, but again, we can provide
8 that as part of the undertaking if that's helpful.

9 THE CHAIRPERSON: Thank you.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: And just to be clear
13 then, Mr. Warden, if that undertaking can set out the
14 initial breakdown of the \$35 million, together with where
15 each of those allocations is presently at a balance.

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: That -- that would be
18 helpful. Thank you, sir.

19 MR. VINCE WARDEN: Yes, we'll do that.

20 MR. BOB PETERS: And this maybe is a
21 question again that Mr. Kuczek should address, but for
22 the current test year and the next test year the
23 spendings are shown as \$12 million and then \$3.6 million.
24 Do you know if there's any change to those forecasts?

25 MR. VINCE WARDEN: If there are any

1 changes we'll include that as part of the undertaking.

2 MR. BOB PETERS: All right. Thank you.
3 On looking at this depreciation/amortization expense
4 chart Schedule 4.7.0, where -- under which item, Mr.
5 Rainkie, would the Board find Manitoba Hydro's new head
6 office building?

7 MR. DARREN RAINKIE: Mr. Peters, that
8 would be in the structures and improvements line.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: Is the depreciation or
13 amortization expense taken against the head office, is
14 that approximately \$4 million a year?

15 MR. DARREN RAINKIE: Did you get that
16 figure from the new head office report, Mr. Peters, that
17 we filed in Tab 13 of the original filing?

18 MR. BOB PETERS: I -- I'll check on that,
19 Mr. Rainkie, because I -- that -- that was -- I didn't
20 make a marginal note on it, and I apologize, but I did
21 source it, I believe there.

22 MR. DARREN RAINKIE: Mr. Peters, I'm
23 informed that there -- there's an -- an Information
24 Request that indicated \$3.1 million.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Warden, perhaps to
4 assist you and counsel with your undertaking, you might
5 want to just check PUB Manitoba Hydro First Round
6 Question 21A where an update on the affordable energy
7 fund is provided with the projected use of the funds by
8 program with a description, and that may assist the
9 Corporation in providing an update.

10 MR. VINCE WARDEN: Thank you.

11 MR. BOB PETERS: Mr. Warden, can you help
12 the Board understand why DSM is included in this
13 depreciation schedule when it appears that the treatment
14 of demand side management expenses is, I guess at best,
15 in a state of flux and possibly being one that IFRS will
16 address?

17 MR. VINCE WARDEN: I wouldn't describe it
18 in a state of flux, Mr. Peters. Demand side management
19 is regarded as -- as a energy source, a generation source
20 similar to any other source of generation and is
21 amortized accordingly over the expected life of that --
22 of that expenditure.

23 So treated no -- no differently than any
24 other generation source in that regard. The state of
25 flux comment pertains to whether or not reg -- regulated

1 assets are going to be allowed to be continued to be
2 amortized over -- over the future, depending on -- on
3 whether rate regulated accounting is adopted or not.

4 So that -- there's some -- some
5 uncertainty around that at this time, and we probably
6 won't know for another -- well, we probably won't for --
7 certainly during the course of these proceedings whether
8 or not rate regulated accounting will survive.

9 Nevertheless, I think our -- Manitoba
10 Hydro's handling of this under GAAP has certainly been
11 accepted by our -- our auditors, and we're hopeful it
12 will be going forward, as well.

13 MR. BOB PETERS: The amortization of the
14 \$25 million in the first test year, and the \$28 million
15 in the -- in the second test year, that's based on a ten
16 (10) year amortization period, Mr. Warden, for both of
17 those expenses?

18 MR. VINCE WARDEN: Yes.

19 THE CHAIRPERSON: Mr. Warden, with
20 respect to rate regulated assets in IFRS, just a point of
21 clarification, do you accept the view that, whether or
22 not it's permitted under IFRS, it doesn't necessarily
23 have to affect rate setting?

24 MR. VINCE WARDEN: Absolutely. Yes.

25 THE CHAIRPERSON: Thank you.

1 (BRIEF PAUSE)

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Mr. Warden, in the
5 amortization of the demand side management expenses, what
6 is shown on Schedule 4.70 at page 156 under Tab 23 of the
7 book of documents, that just represents in essence, I
8 suppose, one-tenth (1/10) of the -- of the balance?

9 MR. VINCE WARDEN: That's correct.

10 MR. BOB PETERS: And if rate regulated
11 accounting is not permitted -- just let's -- lets assume
12 that was the case today, just for my question, that
13 entire balance may have to be written off against
14 retained earnings, that's one (1) possibility.

15 MR. VINCE WARDEN: That's one (1)
16 possibility, yeah.

17 MR. BOB PETERS: In addition to that
18 balance being written off against retained earnings the
19 Board would also have to look to see what the Corporation
20 is expending in the two (2) test years on demand side
21 management because those expenditures would then have to
22 be treated as current expenses, would that also be
23 correct?

24 MR. VINCE WARDEN: Under a scenario where
25 reg -- regulated accounting is not accepted under IFRS,

1 yes.

2 MR. BOB PETERS: So it appears from the
3 Corporation's new Power Smart plan that the total DSM
4 budget for the first test year is about \$39 million for
5 the electric side of the business, you'd accept that?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And it's an -- it's
8 approximately \$40 million on the second test year on the
9 electric side of the business?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: So those expenditures
12 together with the unamortized balance in the DSM fund
13 would have to be dealt with in the immediate term if rate
14 regulated accounting doesn't survive?

15 MR. VINCE WARDEN: Yes, but as the
16 Chairman pointed out they -- they needn't be incorporated
17 into rates in the test years that were under review.

18 MR. BOB PETERS: What you're meaning by
19 that is the recovery of the expenditures can be done over
20 a -- a different time frame than when the Corporation is
21 required for financial accounting to -- to write them
22 off?

23 MR. VINCE WARDEN: That's right.

24 MR. BOB PETERS: Mr. Rainkie, the IFF-10
25 that the Corporation has filed as Appendix 76 appears to

1 forecast lower depreciation by about \$12 million for the
2 two (2) test years. Do you accept that subject to check?

3 MR. DARREN RAINKIE: I think it's lower
4 by \$12 million for the first test year and by about \$2
5 million for the second test year, Mr. Peters.

6 MR. BOB PETERS: Can you explain to the
7 Board why -- why the depreciation is coming in lower in
8 the new IFF?

9 MR. DARREN RAINKIE: The -- from the
10 information that I have the -- most of the decrease in
11 the first test year is related to the Affordable Energy
12 Fund, and, as I said, the second test year is pretty
13 flat. It's about \$1.6 million lower, which given the
14 size of our plant, there's numerous factors why it's up
15 and down. There's not one (1) that I think I could
16 attribute it to.

17 MR. BOB PETERS: But 7 million of the 12
18 million for the first test year is attributed to the
19 Affordable Energy Fund?

20 MR. DARREN RAINKIE: Seven and a half
21 million by the figures that I have, and we'll clarify
22 that in the undertaking that we took a few minutes ago,
23 Mr. Peters.

24 MR. BOB PETERS: So, Mr. Rainkie, there's
25 a \$14 million, I'll call it, reduced expense in the two

1 (2) test years that are before the Board presently?

2 MR. DARREN RAINKIE: Yes, in accordance
3 with the IFF-10.

4

5 (BRIEF PAUSE)

6

7 MR. BOB PETERS: Mr. Warden, on the
8 question of depreciation the Pointe du Bois generating
9 station raises some issues. That was a plant that was
10 included in the assets that Manitoba Hydro purchases from
11 the City of Winnipeg?

12 MR. VINCE WARDEN: That's right.

13 MR. BOB PETERS: At the time Manitoba
14 Hydro purchased it, Manitoba Hydro believed Pointe du
15 Bois could be upgraded with --

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: -- and that upgrade
18 would be to enhance the hydraulic capacity?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And it now appears that
21 Manitoba Hydro has determined that there is no ability to
22 economically increase hydraulic capability. Would you
23 agree with that?

24 MR. VINCE WARDEN: Not at the -- I would
25 agree with that at this time, that's right.

1 MR. BOB PETERS: At this time, Manitoba
2 Hydro is not going to expend hundreds of millions of
3 dollars trying to upgrade the hydraulic capacity of
4 Pointe du Bois?

5 MR. VINCE WARDEN: Correct.

6 MR. BOB PETERS: But Manitoba Hydro will
7 be refurbishing the spillway and the physical structure.

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: And those expenditures
10 on the spillway and the physical structure are designed
11 to increase the lifespan of that asset?

12 MR. VINCE WARDEN: There's lifespan
13 reliability safety issues associated with the plant that
14 are being addressed.

15 MR. BOB PETERS: Wouldn't it follow, Mr.
16 Warden, that if Manitoba Hydro cannot upgrade the old
17 power plants to enhance the capacity, Manitoba Hydro may
18 have to consider mothballing this generating station?

19 MR. VINCE WARDEN: At some point, but
20 that -- this -- that isn't the current plan.

21 MR. BOB PETERS: Is it not -- its useful
22 life cannot be extended, is what you're telling the
23 Board.

24 Would that also be correct?

25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Mr. Peters, sorry,
4 would you mind repeating your question?

5 MR. BOB PETERS: From the material filed,
6 including the capital expenditure plans, you've
7 acknowledged that Manitoba Hydro's plans with respect to
8 Pointe du Bois have changed, correct?

9 MR. VINCE WARDEN: They have changed from
10 what we had included in IFF-09, yes.

11 MR. BOB PETERS: And Manitoba Hydro was
12 intending to extend the service life of this generating
13 station by upgrading the hydraulic capability of it.

14 MR. VINCE WARDEN: Yes, and as we went
15 over, that has -- that has changed now, and what I am
16 just trying to confirm is -- is what the terminal date is
17 for the facility but I don't have that readily available.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: Would the Board conclude
22 that because Manitoba Hydro cannot upgrade the Pointe du
23 Bois plant, that it's terminal date will not be extended?

24 MR. VINCE WARDEN: Well, Mr. Peters, I --
25 I -- I'm not certain of the terminal date, and we can

1 certainly -- we can get that information.

2 Whether that terminal date will be
3 extended or not or whether the refurbishment that's
4 underway now will allow that extension, I'm not 100
5 percent sure of that, but I can confirm that if that's
6 important to the Board.

7 MR. BOB PETERS: If you could undertake
8 to provide that, Mr. Warden, in terms of advising the
9 Board of the existing terminal date and whether Manitoba
10 Hydro expects that terminal date for Pointe du Bois will
11 change, that would be helpful.

12 MR. VINCE WARDEN: We will do that.

13

14 --- UNDERTAKING NO. 15: Manitoba Hydro to indicate
15 the existing terminal date
16 for Point du Bois, and
17 whether Manitoba Hydro
18 expects that terminal date to
19 change

20

21 MR. ROBERT MAYER: Okay, got it now.
22 Could you maybe refresh my memory. What is the change
23 that's being made? I understand at one (1) point you
24 were going to substitute turbines and upgrade the -- the
25 dam facility itself.

1 MR. VINCE WARDEN: Yes, we were looking
2 at a total rebuild at one (1) point, but the -- the cost
3 of doing so was prohibitive, and we are now just
4 upgrading the -- the spillway, and as I mentioned,
5 improving the safety components of the -- of the
6 structure itself.

7 MR. ROBERT MAYER: But the turbines which
8 are presently there can continue to produce electricity
9 at the rate that they've been producing it over what I
10 understand may be a hundred years.

11 MR. VINCE WARDEN: That -- that's right.
12 And they will continue for some time into the future and
13 I'm just not sure what that future date might be that
14 they will be taken out of service.

15 MR. ROBERT MAYER: I'm assuming that this
16 isn't a question I should be asking you, but -- and I'm
17 not sure who I should be asking, so maybe you can tell me
18 after I ask it.

19 We get two hundred (200) megawatts of
20 power out of -- or plan to, out of Wuskwatim on the
21 Burntwood River. The Burntwood Rivers flow through
22 Thompson, it's about thirty-five thousand (35,000) CFS
23 which is, I believe, significantly lower than the flow on
24 the Winnipeg River.

25 The Winnipeg River you have -- you have

1 four (4) bays behind almost every one of your generating
2 facilities there, you have significant head, you have
3 significantly more water flow, yet you've got more power
4 potential showing on the Burntwood River than you do on
5 the Winn -- than you do have actual power on the Winnipeg
6 River.

7 Why is it that we can't, or can we,
8 produce more power out of the Winnipeg River? It -- is
9 it an issue of the -- the turbines? Because I don't
10 understand it. There's just got to be -- there's got to
11 be a lot more water under normal years flowing down the
12 Winnipeg River than there is down the Burntwood.

13 MR. VINCE WARDEN: Well, you're
14 absolutely right, I'm not the right one to ask that
15 question. But it's a good question, and we -- we'll get
16 an answer for you.

17 I -- I do think that, you know, if we
18 invested in the modern turbines that we're putting in at
19 Wuskwatim we probably could get more out of the plants on
20 the Winnipeg River; whether that investment would be
21 justified or not -- probably not or we'd be doing it.
22 But I will try and get a more precise or scientific
23 answer to your -- your question.

24 MR. ROBERT MAYER: I appreciate that.
25 Thank you.

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: So for the record, Mr.
3 Warden, you've undertaken to provide a response to the
4 Vice Chair as to some of the issues as to the comparison
5 between generating capabilities on the Winnipeg River
6 relative to the Burntwood River.

7 MR. VINCE WARDEN: Yes.

8

9 --- UNDERTAKING NO. 16: Manitoba Hydro to give
10 comparison of generating
11 capabilities between
12 Burntwood River and Winnipeg
13 River

14

15 MR. BOB PETERS: Thank you.

16

17 CONTINUED BY MR. BOB PETERS:

18 MR. BOB PETERS: Mr. Warden, the Pointe
19 du Bois generating station, would it not be a logical
20 conclusion that the asset that you purchased from the
21 City of Winnipeg is perhaps not worth as much as Manitoba
22 Hydro thought it was worth when you initially purchased
23 it?

24

25 MR. VINCE WARDEN: Well, I'd have to go
back to the assignment of value that we did attribute at

1 that time. The -- the majority though of -- of the value
2 that was assigned to the Winnipeg Hydro purchase was a
3 distribution -- dis -- distribution system of the City of
4 Winnipeg, so there was very little value assigned to --
5 to the -- to the Winnipeg River plants.

6 MR. BOB PETERS: Now that you've had some
7 hands on the asset, Mr. Warden, and you've told the Board
8 that the distribution assets are -- I'm not sure if you
9 said in disrepair, but in need of repair and upgrading.
10 Were they worth as much as what the Corporation expected
11 at the time of the acquisition?

12 MR. VINCE WARDEN: Yes, I think we still
13 got good value for the -- for the monies that we spent on
14 Winnipeg Hydro. And -- and more importantly, the
15 customers of Manitoba Hydro/Winnipeg Hydro combined are
16 better served.

17 MR. BOB PETERS: Mr. Warden, perhaps in
18 thinking about the questions you had with the Vice Chair,
19 should Pointe du Bois be depreciated further than it
20 presently is in the depreciation study?

21 MR. VINCE WARDEN: Well, every
22 depreciation study it's typical to look at -- as we
23 discussed earlier, the depreciation study is typically
24 done every five (5) years and at that juncture we look at
25 the remaining -- estimated remaining service length of

1 all the assets and adjust the depreciation rates
2 accordingly, so that would have been done at the last
3 deprec -- depreciation study and will be done again this
4 -- this time around.

5 MR. BOB PETERS: So it may be that your
6 consultant will ascribe a -- a different terminal year
7 for this generating station than the current plan -- the
8 current depreciation study --

9 MR. VINCE WARDEN: Well, the consultant
10 typically doesn't do that. We -- we would provide the
11 consultant with that -- that information. The -- the
12 consultant doesn't really go and do a field check of the
13 value of the assets. So we -- we do that ourselves and
14 provide that information to the -- to the consultants.

15 One of the -- one of the value -- the
16 value we get out of hiring consultants as well is that
17 the consultant maintains the -- the model for us and --
18 and it's a matter of just inputting data into that model.
19 But as far as a field inspection, the consultant doesn't
20 get involved in that.

21 MR. BOB PETERS: All right. Fair enough.
22 When the new depreciation study is prepared, is that
23 something that the Corporation intends to file with this
24 Board?

25

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Mr. Peters, we
4 certainly have no objection. I was just -- I'm -- was
5 uncertain whether we had filed depreciation studies in
6 the past. We -- we -- there's no doubt we -- we filed
7 the summary results of those depreciation studies but the
8 depreciation study itself is quite voluminous and
9 technical. I'm not sure the Board would really be
10 interested in that level of detail. But the results of
11 that study, absolutely, yes.

12 MR. BOB PETERS: All right. And the
13 results of the study would show the Board what the
14 existing depreciation expense is and what the new
15 depreciation expense would be as a result of the new
16 study?

17 MR. VINCE WARDEN: Yes.

18 MR. BOB PETERS: All right. And when the
19 -- when the report is filed with the Corporation, how
20 long does it take the Corporation to -- to do the
21 calculations on the depreciation expense differences from
22 existing to the new -- the new study?

23 MR. VINCE WARDEN: Well, that would be
24 part of the report, would come up with new depreciation
25 rates and new projections of -- of depreciation. And

1 that's then is -- is filed with or at least approved by
2 the -- the Board of Manitoba Hydro. Any change in
3 depreciation rates appro -- are approved by the Board of
4 Manitoba Hydro.

5 MR. ROBERT MAYER: Mr. -- Mr. Warden, off
6 the top of your head, what is -- what -- what lifetime
7 usefulness do you ex -- do you attribute to a hydro-
8 generating station? Take Wuskwatim, it's brand new.

9 MR. VINCE WARDEN: Well, various
10 components of the generating station, but the civil
11 structure itself is a hundred years, we use a hundred
12 years for the civil structure.

13 MR. ROBERT MAYER: And -- and I take it
14 then, when you say the other items, the -- the turbines
15 and the internal mechanisms, or do you also include the -
16 - the -- the -- the gates and whatever permits the water
17 to flow when you got to -- when you got to dump it, is
18 that part of the civil structure or is that got a
19 separate depreciation period?

20 MR. VINCE WARDEN: Under the -- as Mr.
21 Rainkie indicated earlier, under IFRS there will be more
22 componentization than there was under generally accepted
23 Canadian GAAP. So, yes, there -- there will be ver --
24 more components that will be depreciated over lives that
25 may be longer or shorter than the civil structure -- the

1 civil -- not longer, but the civil structure would be the
2 longest. But their other components may be shorter.

3 MR. ROBERT MAYER: Based on your
4 amortization period, then, we should have written off
5 Pointe du Bois some years ago, I think. How old's --
6 when was Pointe du Bois built?

7 MR. VINCE WARDEN: Well, I think -- I'm
8 just trying to think. I think it was '20 -- 1927,
9 thereabouts, I believe, so --

10 MR. ROBERT MAYER: We're still running.
11 I thought --

12 MR. VINCE WARDEN: It's --

13 MR. ROBERT MAYER: -- we al -- I thought
14 we had hit almost the hundred years?

15 MR. VINCE WARDEN: Well, I'm actual --
16 I'm informed it's 1918 for Pointe du Bois.

17 MR. ROBERT MAYER: I was close.

18

19 CONTINUED BY MR. BOB PETERS:

20 MR. BOB PETERS: All right, thank you.
21 I'd like to turn, Mr. Chairman and Board members and
22 witnesses, to the next Tab 24 in the book of documents
23 and deal with payments by Manitoba Hydro to various
24 governments. Mr. Warden, would I be correct in
25 concluding that the province of Manitoba does not have

1 any direct investment in Manitoba Hydro?

2 MR. VINCE WARDEN: That's correct.

3 MR. BOB PETERS: And what you're saying
4 by that is that all assets and liabilities are -- are
5 those of Manitoba Hydro corporately?

6 MR. VINCE WARDEN: With -- generally,
7 yes. The minor exception with respect to some
8 liabilities the provi -- or Manitoba Hydro assumed of the
9 province with respect to the Water Power Rate
10 Stabilization Act, but -- but for the most part, yes.

11 MR. BOB PETERS: Well, let's just
12 quantify that for the Board. If we turn to page 160 at
13 Tab 24 of the book of documents the provincial mitigation
14 or settlement obligations are shown in a column on the
15 chart, and do I take your answer to be that Manitoba
16 Hydro has accepted responsibility for certain liabilities
17 that accrued to the province and they're listed in that
18 column under provincial mitigation or settlement
19 obligations?

20

21 (BRIEF PAUSE)

22

23 MR. VINCE WARDEN: Yes, that's it.

24 MR. BOB PETERS: Can you explain to the
25 Board why Manitoba Hydro would be accepting of those

1 liabilities that fall to the province?

2 MR. VINCE WARDEN: Well, we -- we did so
3 in exchange for value received for the water rent --
4 power rental rate being frozen at a level that was
5 established back in 1989.

6 MR. BOB PETERS: And while, with the
7 exception of those liabilities, the assets and
8 liabilities are those of Manitoba Hydro, you're showing
9 on the first page under Tab 24 of the book of documents
10 that on an annual basis Manitoba Hydro pays to the
11 province somewhere between 13 and 50 percent of its gross
12 revenues?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: On a comparison of the
15 amounts paid to the province of Manitoba versus the net
16 income of Manitoba Hydro, would you agree with me, Mr.
17 Warden, that the province is realizing a return greater
18 than the annual net income to Manitoba Hydro in most
19 years?

20 MR. VINCE WARDEN: I -- I wouldn't
21 characterize it as a return, necessarily. There are
22 payments to the province for which Manitoba Hydro is
23 receiving value.

24 MR. BOB PETERS: My question wasn't meant
25 to imply value is not received, Mr. Warden, but on a

1 comparison of the amounts paid to the province versus the
2 Corporation's net income, the province is being paid an
3 amount greater than the annual net income to Manitoba
4 Hydro?

5 MR. VINCE WARDEN: Yes, that's correct.

6 MR. BOB PETERS: And so if you -- if you
7 consider the payments to the province, you call them a
8 payment for the value received or if you called them a
9 dividend, whatever it is, the province would be receiving
10 approximately 47 percent of a -- of a dividend or a
11 return?

12 MR. VINCE WARDEN: Well, it's definitely
13 not a dividend. It's not a -- as we discussed earlier,
14 the province has no direct investment in -- in Manitoba
15 Hydro, so therefore there's no dividend or return on any
16 kind of investment. Having said that, the -- the
17 province does receive substantial payments annually from
18 Manitoba Hydro.

19 MR. BOB PETERS: And I guess what I was
20 saying is for the '09 fiscal year, if you take the
21 payments to the province and you add them to the net
22 income of Manitoba Hydro and you calculated as a
23 percentage, 47 percent was paid to the province with 53
24 percent staying as net income to Manitoba Hydro?

25 MR. VINCE WARDEN: I haven't done that

1 calculation, Mr. Peters, but that -- that sound -- that
2 sounds right, yes.

3 MR. BOB PETERS: Mr. Warden, in 2010
4 there was a forecast payment to the province of Manitoba
5 of approximately \$240 million. You'll accept that?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: Is there an actual
8 amount now known as to what the actual payment was to the
9 province in 2010?

10 Is that readily available?

11 MR. VINCE WARDEN: It's readily
12 available. It should be very close to that number. We
13 can tabulate that for you, if you like, Mr. Peters.

14 MR. BOB PETERS: Just an actual basis, if
15 you'd undertake to provide the actual payment to the
16 provincial government --

17 MR. VINCE WARDEN: Yes, we'll --

18 MR. BOB PETERS: -- in fiscal year 2010.

19 MR. VINCE WARDEN: Yes, we'll do that.

20 MR. BOB PETERS: Yeah, thank you.

21

22 --- UNDERTAKING NO. 17: Manitoba Hydro to provide the
23 actual payment to the
24 provincial government in
25 fiscal year 2010

1 THE CHAIRPERSON: Mr. Warden, just for
2 background understanding, when -- when we're looking at
3 PUB/MH-11, or to 11-14, these payments from Manitoba
4 Hydro obviously don't -- don't include payroll taxes,
5 employees' income taxes, and things of that order, do
6 they?

7 MR. VINCE WARDEN: Yes, as indicated on
8 one (1) -- page 160 of the book of documents, Mr.
9 Chairman, the payroll taxes are -- are included in that
10 total.

11 THE CHAIRPERSON: Yes, I see that now.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: Mr. Warden, to the
15 Chairman's point, the -- the source deductions from the
16 employees' paycheques aren't shown on -- on page 160.
17 Source deductions to the provincial government or even
18 the Federal government.

19 MR. VINCE WARDEN: No, that's correct.

20 THE CHAIRPERSON: Would it be fair to say
21 also, Mr. Warden, would it not, that contractors and
22 suppliers to Manitoba Hydro, as a result of their
23 association with Manitoba Hydro, are also paying direct
24 and indirect taxes to the province as well?

25 MR. VINCE WARDEN: Yes.

1 (BRIEF PAUSE)

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Mr. Warden, app --
5 appreciating the distinct -- the distinction you've made
6 in that they're -- they're not being a dividend, in other
7 jurisdictions dividends are paid from Crown Corporations,
8 including their electric utilities, through to the
9 province, isn't that correct?

10 MR. VINCE WARDEN: Yes, that is correct.

11 MR. BOB PETERS: And was there not
12 discussion in Manitoba that at a certain strength of a
13 balance sheet that perhaps it would be in order to
14 consider whether there should be an express dividend to
15 the province of Manitoba?

16 MR. VINCE WARDEN: Not -- not in recent
17 times, Mr. Peters, that I'm -- that I'm aware of.

18 MR. BOB PETERS: And so presently you're
19 telling the Board there's -- Manitoba Hydro has no
20 intention to pursue or recommend a dividend policy with
21 the province of Manitoba based on the financial strength
22 of the Corporation?

23 MR. VINCE WARDEN: That's right.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: In the filing of
2 materials, you've shown the Board what has been
3 determined, or you've called it, I think, the decade of
4 returns, I'm not sure what Mr. Williams called it, but
5 the --

6 MR. VINCE WARDEN: Well, I think I
7 clarified that for him.

8 MR. BOB PETERS: Well, we'll have to see
9 if he learned, but Mr. Warden -- Mr. Warden, in -- in the
10 -- in the decade of returns, as it's been described in
11 the filing, is there any intention of there being an
12 expressed dividend for the province of Manitoba in those
13 years where the debt-equity ratio comes down
14 dramatically, and hovers around 50/50, if I recall some
15 of the numbers?

16 MR. VINCE WARDEN: Yeah. No, there's
17 nothing contemplated, Mr. Peters.

18 MR. BOB PETERS: And for such -- this
19 might be a legal question, so Ms. Ramage might be at your
20 beck and call on this, but -- but would that require a
21 change in the legislation for dividends to be paid out?
22 Does the Corporation have a view on that?

23 MR. VINCE WARDEN: My understanding would
24 -- it -- is that it would require a change in the
25 legislation.

1 I should just point out too, the -- the
2 decade of returns, the -- getting to the 50/50 debt-
3 equity ratio was for illustrative purposes only. We --
4 we just wanted to show that the -- that was the base case
5 to which alternatives were being compared. We don't ever
6 expect as a crown corporation we would ever be sitting at
7 a 50/50 debt-equity ratio.

8 MR. BOB PETERS: And the reason for that
9 is it would take significant rate increases to get there
10 and to stay there and those are rate increases that you--

11 MR. VINCE WARDEN: Well --

12 MR. BOB PETERS: -- don't feel you'd need
13 to make?

14 MR. VINCE WARDEN: -- not -- not really.
15 The rate increases that we did show in the -- in the
16 decade of returns, the second ten (10) years of -- of the
17 twenty (20) year outlook, has only 2 percent rate
18 increases which is the projected rate of inflation, so
19 the real rate would -- would stay the same throughout
20 that whole decade.

21 MR. BOB PETERS: With that last answer,
22 Mr. Warden, that suggests that if Manitoba Hydro was to
23 force a debt-equity ratio in the later years of 75:25 it
24 may mean that the rate increases in the earlier years
25 wouldn't be needed; isn't that correct?

1 MR. VINCE WARDEN: Well, the rate
2 increases in the earlier years are to maintain a ratio
3 that's reasonable throughout the decade of -- of
4 investment. So the rate increases that we do have in our
5 -- our financial forecast we do in fact need.

6 MR. BOB PETERS: No, my point was, if you
7 weren't going to get down to a lower debt equity in the -
8 - in the decade of returns you could ameliorate the rate
9 increases and the impacts in the decade of investment so
10 as not to have rate increases as high as what might
11 otherwise be the case.

12 MR. VINCE WARDEN: Well, I think, as I
13 mentioned earlier, there is some concern about us getting
14 to a debt back -- back up to a debt-equity ratio in the
15 80:20 range. So it would not be advisable for us to have
16 lower rate increases in the decade of investment.

17 The preferred alternative would be to have
18 a rate freeze, or so that the rate payers can realize the
19 benefits of the investment as they did after the
20 investment Limestone, the ratepayers realized the
21 benefits of that investment with a rate freeze following
22 the in-service date of Limestone.

23 MR. BOB PETERS: I take your answer to be
24 that the Corporation's preference is, rather than rate
25 reductions, the Corporation would rather have rate

1 freezes going forward?

2 MR. VINCE WARDEN: Yes. Well, rate
3 reductions are certainly a possibility if, you know, the
4 world evolves differently than what we forecast at this
5 time, but a rate -- a rate freeze would probably be
6 preferable.

7 MR. BOB PETERS: In looking at the
8 schedule that you drew the Chairman's attention to, that
9 being on page 160 found under Tab 24 of the Book of
10 Documents, this is in response to PUB Manitoba Hydro
11 First Round 24A and the schedule that's attached to it.

12 The municipal gifts in lieu of taxes and
13 business taxes, are those the taxes paid to
14 municipalities? That's all under the same column, sir?

15

16 (BRIEF PAUSE)

17

18 MR. VINCE WARDEN: Oh, yes, Mr. Peters.
19 Actually the heading does say, "Payments to the Province
20 and Mun -- Municipalities," so this does include
21 municipalities in this schedule.

22 MR. BOB PETERS: Right. And the only
23 column where there's any payments to municipalities would
24 be the one that's labelled, "Municipal GILT and Business
25 Taxes"?

1 MR. VINCE WARDEN: That's grants in lieu
2 of taxes, yes.

3 MR. BOB PETERS: Yes. And those -- and
4 those business taxes are paid to municipalities?

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: That's the government
7 that you're speaking of in that instance?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: And those municipal
10 payments are based on the value of the assets in those
11 municipalities?

12 MR. VINCE WARDEN: Not based on the value
13 of the assets but based on the value of the -- the prop -
14 - the property that though -- where those assets are
15 located.

16 MR. BOB PETERS: The new Manitoba Hydro
17 headquarters, is that the reason for the increase from 11
18 million to 15 million in the column item of "Municipal
19 Gifts in Lieu of Taxes"?

20 MR. VINCE WARDEN: That looks like the
21 amount of the taxes for the new head office. So -- so
22 I'd say yes.

23 MR. BOB PETERS: And the -- the -- the
24 amount paid for that, Mr. Warden, is approximately \$3.8
25 million per year on the new office tower?

1 MR. VINCE WARDEN: Yes.

2 MR. BOB PETERS: When we go back and look
3 at the water rental fees on this schedule, when Wuskwatim
4 comes on line, is that the reason for the \$2 million
5 increase in 2012 of water-rental fees to the province?

6 MR. VINCE WARDEN: Yes, it's based on
7 total generation, so that would be reasonable that the
8 increase would be related to Wuskwatim.

9 MR. BOB PETERS: And in terms of Keeyask
10 and Conawapa, they're not shown on this schedule because
11 they're further out than 2020?

12 MR. VINCE WARDEN: Yes, that's right. I
13 believe, actually, Keeyask would come in in the last
14 year.

15 MR. BOB PETERS: All right, I have your
16 point. There is an increase shown on the water rentals
17 and you -- you equate that to Keeyask?

18 MR. VINCE WARDEN: Yes.

19 THE CHAIRPERSON: Does that reflect the
20 one (1) year pause?

21 MR. VINCE WARDEN: Yes, it does. This
22 would be based on IFF-10, so it would show the most
23 recent in-service date for -- projected in-service date
24 for Keeyask.

25 THE CHAIRPERSON: Thank you.

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Actually, now that I
4 look at this, Mr. Chairman, they -- this would have been
5 based on IFF-09, which had Keeyask coming in a year
6 earlier. With the delay, this probably would be deferred
7 one -- one (1) year.

8

9 (BRIEF PAUSE)

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: Mr. Warden, Mr. Rainkie,
13 the provincial guarantee fee relates to the province's
14 guaranteeing Manitoba Hydro's long-term and short-term
15 debt?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: And it's simply a
18 function of the year-end balance on the debt?

19 MR. VINCE WARDEN: It is.

20 MR. BOB PETERS: Can you indicate to the
21 Board why there are sinking fund administration fees in
22 some years but not others as forecast here?

23 MR. VINCE WARDEN: I think it's just a --
24 a rounding anomaly in the forecasting model. The -- the
25 administration fee -- the guarantee fee applies to the

1 sinking fund, as well.

2 MR. BOB PETERS: What you're telling the
3 Board is that there's still an administration fee in the
4 years where there's a zero balance but it rounds down to
5 zero?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: All right. In terms of
8 capital taxes, the capital taxes are calculated at about
9 1/2 a percent of the taxable capital of the Corporation?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: And are capital taxes
12 being phased out in Manitoba, Mr. Warden?

13 MR. VINCE WARDEN: Not for -- not for
14 crown corporations for sure.

15 MR. BOB PETERS: But they are being
16 phased out for privately-owned corporations?

17 MR. VINCE WARDEN: Yes, that's my
18 understanding.

19 MR. DARREN RAINKIE: Mr. Peters, I think
20 they still apply to banks and trust companies, but I
21 think those are the only two (2) groups that still pay
22 capital tax after January 1st, 2011.

23

24 (BRIEF PAUSE)

25

1 MR. BOB PETERS: On a point of
2 clarification, Mr. Rainkie, it appears that in IFF-10
3 there's \$4 billion of capital added in IFF-10 that was
4 not in IFF-09, would that be correct?

5 MR. DARREN RAINKIE: Just -- could you
6 repeat that? Did you say 4 billion over -- over what
7 time frame?

8 MR. BOB PETERS: I believe it was out to
9 2029. I was just trying to check that, Mr. Rainkie.

10 MR. DARREN RAINKIE: Give me one (1)
11 second, Mr. Peters.

12 MR. BOB PETERS: It would be as far as
13 out as 2020, I believe, Mr. Rainkie, because I think the
14 IFF-10 is only a ten (10) year IFF.

15

16 (BRIEF PAUSE)

17

18 MR. DARREN RAINKIE: Mr. Peters, over
19 that ten (10) year period our capital expenditure
20 forecast over those two (2) respective IFFs went up 1.6
21 billion, so I'm having trouble reconciling to your
22 number. You must be looking at something different.

23 MR. BOB PETERS: Let me just check into
24 that further, Mr. Rainkie. I've got your numbers and
25 I'll -- I'll just cross-check them against mine. I just

1 want to finish up on this schedule in the water rental
2 payments, and as you indicate I think in the -- in one
3 (1) of the notes to one (1) of the schedules that's
4 attached under Tab 24 of the book of documents, the water
5 rental fees are based on the horsepower generated or --
6 or on installed capacity?

7 MR. VINCE WARDEN: Yes.

8 MR. BOB PETERS: And it's whichever is
9 the greater, as I understand it?

10

11 (BRIEF PAUSE)

12

13 MR. VINCE WARDEN: Yes, Mr. Peters, as
14 indicated on page 163 of the book of documents, the
15 statement is made:

16 "Generally, the calculation is based on
17 the actual output, which re -- which is
18 the greatest amount for each generation
19 site."

20 MR. BOB PETERS: The overall amount will
21 increase as new generating stations are brought online?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: And I think you've shown
24 that Wuskwatim is approximately \$3 million extra a year,
25 2 to \$3 million a year.

1 Would that be right?

2

3 (BRIEF PAUSE)

4

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: Can the Board conclude
7 from the calculations shown on page 160 of the documents
8 under Tab 24, Mr. Warden, that when Keeyask comes on the
9 -- the water rental fees would bump up by about 9 or \$10
10 million?

11 MR. VINCE WARDEN: Yes, that would be the
12 order of magnitude, yes.

13 MR. BOB PETERS: And Conawapa, I suppose,
14 it'll be a -- a bit more than that, probably more like 12
15 to 14 million.

16 MR. VINCE WARDEN: It will be, yes,
17 proportional to the output of -- of con -- of Conawapa
18 versus Keeyask, yes.

19 MR. ROBERT MAYER: Then if you're
20 correct, the amount will be three (3) to -- three (3) to
21 three and a half (3 1/2) times as much.

22 MR. VINCE WARDEN: Well, the capacity of
23 Conawapa, fourteen eighty-five (1,485); Keeyask, six
24 ninety-five (695), but we'd have to look at the -- that -
25 - the -- the energy gen -- generated from each plant,

1 which I don't have at my fingertips, but it's
2 proportional to the energy generated.

3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: Mr. Warden, the Water
6 Power Act defines a horsepower year perhaps in terms only
7 an engineer can appreciate, but when we try to break that
8 down to dollars and cents, does that work out to about
9 one-third (1/3) of a cent per kilowatt hour?

10

11 (BRIEF PAUSE)

12

13 MR. VINCE WARDEN: Could I check that,
14 Mr. Peters? I'd like to check that number before I agree
15 with it.

16 MR. BOB PETERS: Yes, sir.

17 THE CHAIRPERSON: I think we'll take a
18 short break now, Mr. Peters.

19 MR. BOB PETERS: Yes, thank you.

20

21 --- Upon recessing at 10:46 a.m.

22 --- Upon resuming at 11:14 a.m.

23

24 THE CHAIRPERSON: Okay, welcome back.

25 I see, Ms. Ramage, were you going to say

1 something or, no. Okay, Mr. Peters.

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Well, maybe, Mr.
5 Chairman, we can ask Mr. Warden if he had occasion to
6 consult with engineers over the break on a calculation
7 that would otherwise be challenging for many of us. But
8 in terms of -- in terms, Mr. Warden, of calculating the
9 water rental fee on a per kilowatt hour basis, are you
10 able to provide the Board with an estimation of that
11 amount?

12 MR. VINCE WARDEN: Yes, Mr. Peters. You
13 -- you were absolutely correct. It is approximately one-
14 third (1/3) of a cent, point three four (.34) of a cent,
15 to be exact.

16 MR. BOB PETERS: You were here yesterday
17 when Mr. Cormie talked about comparing different costs
18 and -- and prices of export sales and imports, Mr.
19 Warden?

20 MR. VINCE WARDEN: Yes.

21 MR. BOB PETERS: And maybe just help the
22 Board understand, when Mr. Cormie says that Manitoba
23 Hydro can sell a kilowatt hour of energy and the only
24 cost it has to cover is that of the water rental payment?

25 MR. VINCE WARDEN: Yes, well, Mr. Cormie

1 was talking about the incremental costs of generating a
2 kilowatt hour not the embedded costs. So the only
3 incremental cost that we incur would be for -- for water
4 rentals.

5 MR. BOB PETERS: And that incremental
6 cost, just so I can understand it and hopefully the Board
7 will probably be ahead of me on this, but when you incur
8 an incremental cost, you're only covering the out-of-
9 pocket costs that Manitoba Hydro would have to spend for
10 that incremental kilowatt hour that it generates?

11 MR. VINCE WARDEN: Yes. In effect the
12 other costs are -- are fixed.

13 MR. BOB PETERS: And -- and if the other
14 costs of generating are fixed, that doesn't mean they're
15 not incurred, it's just that in the short term you don't
16 have to recover them from that additional kilowatt hour
17 of energy because they may have been recovered in other
18 kilowatts of energy, so.

19 MR. VINCE WARDEN: Yeah, well, I think
20 what Mr. Cormie was saying, he has the choice of either
21 selling that kilowatt hour on the export market or
22 spilling the water. And given those two (2)
23 alternatives, then he would incur the incremental cost of
24 water rentals rather than spill water.

25 MR. BOB PETERS: In essence, he's telling

1 the Board, and it -- and it may -- and it's not maybe
2 wise to speak for him, but you'll correct me if I'm
3 wrong, that as long as he can in the short term cover
4 that point three four (.34) of a penny per kilowatt hour,
5 then he can -- he sees he can sell the energy in the
6 short term?

7 MR. VINCE WARDEN: Yes, anything he
8 recovers over and above the point three four (.34) would
9 be a contribution towards the remaining fixed costs.

10 MR. BOB PETERS: And would you agree, Mr.
11 Warden, that while Mr. Cormie can do that on a short-term
12 basis, certainly that's not sustainable on long-term
13 basis?

14 MR. VINCE WARDEN: No, absolutely not.
15 And that's why there -- as Mr. Cormie indicated in his
16 testimony, it's important to have a balance between fixed
17 dependable contracts and -- and variable.

18 MR. BOB PETERS: And I'm not sure the
19 transcript is clear on that, Mr. Warden. You're agreeing
20 with me that over the long-term you can't sustain selling
21 energy at decimal three four (.34) of a cent or -- or
22 just slightly above that to cover the incremental costs?

23 MR. VINCE WARDEN: No, that -- you're --
24 you're absolutely right. We -- we have to recover our
25 fixed costs over the long-term.

1 MR. BOB PETERS: All right. We'll talk
2 more about that this afternoon.

3 Mr. Warden, I'm not sure how to gently
4 broach this next subject, but the Board notes, from
5 looking at the materials that Hydro has filed, that the
6 water rental fee more than doubled on April the 1st of
7 2001 compared to what it was prior to that, correct?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: And would it not be fair
10 to say that the provincial government has the prerogative
11 and the liberty to determine what wat -- water rental fee
12 it will charge for those who use the provincial water for
13 -- for generating electricity?

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: And therefore would it
16 also be fair to say that there remains a risk that the
17 Province of Manitoba may change the water rental fee
18 virtually at any time?

19 MR. VINCE WARDEN: Absent some other
20 agreement as we had during the '90's, yes.

21 MR. BOB PETERS: I'm sorry, I -- I didn't
22 understand your last comment. Absent an agreement --

23 MR. VINCE WARDEN: Well, we had a water -
24 - admin -- administrative agreement to freeze water power
25 rental rates over -- well, since 1989 right up until

1 2001.

2 MR. BOB PETERS: And then in 2001 the
3 rates were changed?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: And they haven't been
6 changed since 2001?

7 MR. VINCE WARDEN: No.

8 MR. BOB PETERS: And there's no
9 requirement for there to be a change in legislation to
10 effect a change in the water rental fee, is there, to
11 your understanding?

12 MR. VINCE WARDEN: That's correct.

13 MR. BOB PETERS: Okay.

14

15 (BRIEF PAUSE)

16

17 MR. BOB PETERS: Likewise, when we turned
18 to the provincial debt guarantee fee, that amount has
19 changed over the years, but it has been -- remained at
20 about 1 percent on the long-term and short-term debt for
21 a period of time now.

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: And that's subject to
24 change, again, relatively without notice?

25 MR. VINCE WARDEN: That's right.

1 MR. BOB PETERS: When Manitoba Hydro
2 forecasts spending \$15 billion on major new capital
3 projects between 2010 and 2025, Mr. Warden, and if
4 Manitoba Hydro assumes that at least 14 billion would be
5 financed by debt, that would translate to an extra \$140
6 million of additional debt guarantee fees by the
7 province?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: Has there been any
10 indication to Manitoba Hydro as to whether the province
11 is considering changing the provincial debt guarantee
12 fee?

13 MR. VINCE WARDEN: Not that I'm aware of,
14 no.

15 MR. BOB PETERS: And if anybody at
16 Manitoba Hydro would be aware of it, it would be you, Mr.
17 Warden?

18 MR. VINCE WARDEN: I probably wouldn't be
19 the first to know.

20 MR. BOB PETERS: I guess what I was
21 politely trying to ask is that, not just to your personal
22 knowledge, but to the corporate knowledge there's no --
23 there's no impending change on the -- on the water rental
24 fee or the provincial debt guarantee fees?

25 MR. VINCE WARDEN: Again, Mr. Peters, not

1 to my knowledge, no.

2 MR. BOB PETERS: Mr. Warden, does
3 Manitoba Hydro see its ratepayers as being the same
4 entities as the provincial tax payers?

5 MR. VINCE WARDEN: Essentially we do,
6 certainly with respect to residential customers. It may
7 not be quite as clear with respect to our larger
8 industrial customers, but essentially for all residential
9 customers they are the same as tax payers of the
10 province.

11 MR. BOB PETERS: Does Manitoba Hydro see
12 its interests aligned the same as those interests of the
13 Province of Manitoba?

14 MR. VINCE WARDEN: I think they are
15 aligned. We are, after all, a crown agency and we have a
16 minister we report to and so there is that assurance of
17 alignment.

18 MR. BOB PETERS: Does that suggest that
19 there's never a disagreement as between the Corporation
20 and the Provincial Government over matters related to
21 Manitoba Hydro?

22 MR. VINCE WARDEN: I wouldn't go that
23 far, but certainly, again, Manitoba Hydro is an agency of
24 the government.

25 MR. BOB PETERS: In addition to the

1 payments that we've seen on -- under tab 24 of the book
2 of documents on page 160, the province can also pass
3 legislation to make Manitoba Hydro pay a special payment
4 to the province, correct, Mr. Warden?

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: And that was what was
7 done in 2002 when there was a special payment of
8 approximately \$204 million --

9 MR. VINCE WARDEN: Yes.

10 MR. BOB PETERS: -- paid by Manitoba
11 Hydro to the province?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: Would it be fair to say
14 that when the province faces financial pressures and
15 challenges that that is a risk to Manitoba Hydro that
16 there will be another special payment sought from the
17 utility?

18 MR. VINCE WARDEN: We -- I -- I think the
19 province has the best interests of Manitoba Hydro in mind
20 when it looks at our -- our balance sheet and recognizes
21 the financial circumstances of Manitoba Hydro and the
22 risk we face going forward. So is that a risk? Yes,
23 it's not one that we would recognize as a high risk
24 though.

25 THE CHAIRPERSON: Mr. Warden, is the

1 situation changed somewhat with the inclusion within the
2 crown's overall books of the net returns of all
3 government enterprises?

4 MR. VINCE WARDEN: Yes, Mr. Chairman, I -
5 - I do agree with that. I think -- the province has less
6 incentive now to declare some kind of a special dividend
7 as they did in 2002.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: That last exchange, Mr.
11 Warden, was relating to the summary accounting that takes
12 place at the provincial level?

13 MR. VINCE WARDEN: That's correct, yes.

14 MR. BOB PETERS: And when you say it --
15 it -- how does it put less pressure on the Provincial
16 Government, sir?

17 MR. VINCE WARDEN: Well, in -- in the
18 summary balance sheet or statement of income of -- of the
19 province, Manitoba Hydro's net income is recognized as
20 well in -- in reporting the income of the province.

21 THE CHAIRPERSON: Is there any special
22 distinction between the inclusion in the summary accounts
23 of the -- the various crown enterprises which extend even
24 into the universities within the government summary
25 accounts and core government operations within the

1 balanced budget legislation? Is there any distinction?

2 MR. VINCE WARDEN: I don't believe so,
3 no.

4 THE CHAIRPERSON: Thank you.

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: Mr. Warden, before
8 leaving Manitoba Hydro's relationship with governments,
9 including municipal governments, at Tab 25 of the book of
10 documents there's information provided in the PUB
11 Manitoba Hydro Second Round 28A dealing with the
12 utilities relationship with the City of Winnipeg.

13 And would it be correct for the Board to
14 understand this that the City of Winnipeg is saying that
15 Manitoba Hydro should have been collecting taxes for the
16 City on certain energy bills?

17 MR VINCE WARDEN: Yes.

18 MR. BOB PETERS: And as a result of this
19 position there's litigation as between the City and
20 Manitoba Hydro.

21 MR. VINCE WARDEN: Yes.

22 MR. BOB PETERS: And the amount being
23 sought by the City of Winnipeg from the provin -- sorry,
24 from Manitoba Hydro is \$6.2 million?

25 MR. VINCE WARDEN: No, actually the City

1 has filed an amended statement of claim, and that
2 number's higher.

3 MR. BOB PETERS: I was going to keep
4 Manitoba Hydro's electric portion separate from the gas
5 portion, but collectively it's about \$8.7 million,
6 according to this information. Is -- are you indicating
7 there's a higher number?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: If the amended statement
10 of claim is a public document can you tell the Board what
11 the higher numbers are?

12 MR. VINCE WARDEN: Well, actually the
13 amended statement of claim expands the -- the time frame
14 under which the City is attempting to collect those
15 monies from Manitoba Hydro. The -- the amended statement
16 of claim doesn't specify a specific amount, but because
17 of the expanded time frame it will be substantially more
18 than what is indicated here.

19 THE CHAIRPERSON: Mr. Warden, the
20 expanded time frame goes back to a time in which the City
21 of Winnipeg operated Winnipeg Hydro, is that not the
22 case?

23 MR. VINCE WARDEN: Yes.

24 MR. ROBERT MAYER: We can't talk about
25 this 'cause it's before the courts, right?

1 MS. PATTI RAMAGE: That would be correct.

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Mr. Warden, does
5 Manitoba Hydro show this litigation as a contingent
6 liability in the financial statements?

7 MR. VINCE WARDEN: No.

8 MR. BOB PETERS: Why is that?

9 MR. VINCE WARDEN: Well, we don't
10 consider -- again, it's before the courts, but we
11 discussed it with our auditors at year-end and we -- our
12 preference was not to show it as a liability and our
13 auditors agreed with that.

14 THE CHAIRPERSON: Mr. Warden, in the
15 hypothetical situation that the City was successful, the
16 end result would be that customers paid more, is that not
17 the case?

18 MR. VINCE WARDEN: Customers would pay
19 more going forward if the City was successful; the
20 retroactive piece, though, it would be impractical for us
21 to try --attempt to collect that from customers.

22 THE CHAIRPERSON: It would affect your
23 debt-equity ratio, wouldn't it, minute as it may be?

24 MR. VINCE WARDEN: Yes, it would to a
25 certain extent, but not enough -- probably not enough to

1 move it -- well, it wouldn't be enough to move the debt-
2 equity ratio a point.

3 MR. ROBERT MAYER: We still haven't got
4 any money left. Hydro doesn't have any money left that
5 they still have to pay to the City, do they, for the
6 incredible cost of acquiring the assets that -- that we -
7 - you now own?

8 MR. VINCE WARDEN: Well, we have a
9 perpetual loan, or -- or debt -- payment to the City as a
10 result of the agreement -- Purchase Agreement.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: Keeping some distance
14 from that matter, Mr. Warden, can you just apprise the
15 Board of the status of the litigation? Has the
16 Corporation filed its response to the statement of claim?
17 Its...

18 MR. VINCE WARDEN: I'm not sure how much
19 I can divulge. We -- we were -- we haven't -- I believe
20 we have -- the statement of defence is yet to be filed,
21 but we are -- we had requested more time of the City, and
22 -- or the court, and that was granted.

23 There are some discussions going on with
24 the City offline as well.

25 MR. BOB PETERS: I'll change topics, Mr.

1 Rainkie, to other income. It's an item that you actually
2 raised, I think, yesterday in one (1) of your answers to
3 a question I posed.

4 And when the Board looks at other revenue
5 in the IFF at -- back at Tab 4 of the book of documents,
6 it appears as a relatively small item, and I don't know
7 that you need to -- to go far for it, Mr. Rainkie, but
8 showing up as 7 million and 8 million respectively in the
9 two (2) test years, would I be correct in saying that
10 this other income is -- the majority of it is com -- is
11 made up of joint use fees that Manitoba Hydro charges to
12 other utilities for using Manitoba Hydro infrastructure?

13 MR. DARREN RAINKIE: It's a large chunk
14 of it, Mr. Peters, yeah.

15 MR. BOB PETERS: And those joint use
16 fees, I think I've noted here, Schedule 4.4.0, so that
17 might be the reference where I initially saw it, but it's
18 about \$5 million a year of revenue to Manitoba Hydro for
19 other utilities to affix their wires to Manitoba Hydro's
20 poles?

21 MR. DARREN RAINKIE: That's my memory of
22 the amount, Mr. Peters, yes.

23 MR. BOB PETERS: All right. In addition,
24 there's an it -- there's an item that's called, "Island
25 Falls Energy Transfer;" are you familiar with that, sir?

1 (BRIEF PAUSE)

2

3 MR. VINCE WARDEN: Yes, Mr. Peters. Did
4 you have a question with respect to that agreement?

5 MR. BOB PETERS: Island Falls is a
6 utility in a neighbouring province?

7 MR. VINCE WARDEN: In Saskatchewan, yes.

8 MR. BOB PETERS: And can you explain to
9 the Board why Manitoba Hydro would receive revenue on
10 account of an Island Falls energy transfer?

11 MR. VINCE WARDEN: Well, in effect,
12 Island Falls is connected to customers that are only
13 accessed by wheeling through Manitoba Hydro's
14 transmission system, so we receive a payment for that.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: As I understand your
19 answer, Mr. Warden, that Manitoba Hydro provides the
20 transmission to SaskEnergy to get power to SaskEnergy
21 customers.

22 MR. VINCE WARDEN: SaskPower?

23 MR. BOB PETERS: SaskPower, I should say,
24 yes.

25 MR. VINCE WARDEN: That's right.

1 MR. BOB PETERS: Those customers are in
2 Saskatchewan?

3 MR. VINCE WARDEN: Yes, they are.

4 MR. BOB PETERS: And Manitoba Hydro's
5 transmission facilities are located only in Manitoba?

6 MR. VINCE WARDEN: Yes, they are.

7 MR. BOB PETERS: So SaskPower has to
8 bring its energy through -- into Manitoba, and then back
9 into Saskatchewan to serve these customers?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: Also included in under -
12 - in other revenue was a half a million dollars
13 approximately for hot water tanks. Is that -- is that a
14 rental fee? Is that a residual item for rental of hot
15 water tanks?

16

17 (BRIEF PAUSE)

18

19 MR. VINCE WARDEN: That's what it appears
20 to be, Mr. Peters. I'm not totally sure why we're
21 running that through other income, though, I haven't
22 looked at that for a while. It -- it is, according to
23 our backup information, it is -- is hot water tank rental
24 fees. But I'm not totally sure why that's separate, why
25 it's not part of our -- our general consumer revenue. I

1 could maybe get a better answer for you if you like.

2 MR. BOB PETERS: I know it's a relatively
3 modest amount, Mr. Warden, but if you could undertake to
4 provide the Board with an explanation as to why hot water
5 rental fees show up under other income rather than
6 general consumers revenue, that would be appreciated.

7 MR. BOB PETERS: We'll do that.

8 MR. BOB PETERS: Thank you.

9

10 --- UNDERTAKING NO. 18: Manitoba Hydro to provide the
11 Board with explanation of why
12 hot water fees show up under
13 other income rather than
14 general consumers revenue

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: I'd like to change gears
18 this morning, Mr. Chairman, and turn with Mr. Rainkie to
19 some accounting issues, including IFRS, and what I'd like
20 to do, Mr. Rainkie, is consider three (3) accounting
21 aspects that I believe are impacting the utility as a
22 result of IFRS's coming. The first is we'll look at what
23 Hydro has already done since 2008; secondly, we'll see
24 what Manitoba Hydro plans to do in the test years; and
25 then, thirdly, we'll explain to the Board what is yet to

1 be decided under IFRS and some of the accounting changes.
2 Does that sound reasonable?

3 MR. DARREN RAINKIE: It sounds like a
4 good plan, Mr. Peters.

5 MR. BOB PETERS: All right. Please turn
6 to Tab 14 of book of documents and you'll see on page 71
7 a response to PUB Manitoba Hydro Second Round Question
8 150C. At the last GRA, Mr. Rainkie, as well as the
9 process that this Board instituted to consider a
10 conditional rate increase, would it be correct to suggest
11 that Manitoba Hydro had told the Board that it was going
12 to write off \$50 million --

13 MR. DARREN RAINKIE: Pardon --

14 MR. BOB PETERS: -- in the fiscal '10
15 year?

16 MR. DARREN RAINKIE: That was -- I'm not
17 sure the word "told" is totally correct, that was a -- an
18 estimate at the time, Mr. Peters, based on a rather
19 rudimentary understanding of IFRS, I might add, at that
20 point in time.

21 MR. BOB PETERS: Well, Mr. Rainkie, it
22 was -- it was explained to the Board that the Corporation
23 intended to have a \$50 million write-down for ineligible
24 research and promotion charges.

25 MR. DARREN RAINKIE: Well, Mr. Peters,

1 that was a fairly crude estimate at the -- at that point
2 in time. I mean, we -- we looked at some of the
3 intangible assets and just estimated a percentage write-
4 off so -- and that was fairly early on in our IR -- IFRS
5 conversion project. So I don't -- the use of the word
6 "told," I -- I -- it -- that's a very definite term that
7 we were going to do it. That was an -- certainly a -- a
8 high-level estimate at that point.

9 MR. BOB PETERS: Well, back in the day,
10 Mr. Rainkie, the Corporation's best forecast to the Board
11 was that it would need to write off \$50 million for
12 fiscal '10.

13 MR. DARREN RAINKIE: That's a -- that's a
14 good statement. I agree with that.

15 MR. BOB PETERS: You're happy with those
16 words? Mr. Rainkie, as it turned out, the Corporation
17 was -- didn't have a very good forecast because it only
18 addressed \$26 million of inte -- ineligible research and
19 promotion charges. Would that be correct?

20 MR. DARREN RAINKIE: The -- Mr. Peters,
21 the \$26 million was our estimate in IFF-09 as -- if you
22 move over one column in the document you're referring to.
23 What we actually wrote off as reflected in IFF-10, was
24 about \$37 million.

25 MR. BOB PETERS: I thought it was only 7

1 million more, 33 million, Mr. Rainkie.

2 MR. DARREN RAINKIE: No, it was thirty-
3 seven (37) if you look in our audited financial
4 statements, Mr. Peters --

5 MR. BOB PETERS: All right.

6 MR. DARREN RAINKIE: -- the actual
7 amount.

8 MR. BOB PETERS: And so the net income in
9 -- in fiscal '09 was -- was \$26 million lower on account
10 of the write-off of intangible -- ineligible research and
11 promotion charges?

12 MR. DARREN RAINKIE: Not the net income,
13 Mr. Peters, that was an adjustment to our balance sheet
14 for a write-off of retained earnings.

15 MR. BOB PETERS: Okay.

16 MR. DARREN RAINKIE: That was -- that was
17 the forecast in IFF-09, just to be clear.

18 MR. BOB PETERS: And that number was a
19 total of 37 million in IFF-10, Mr. Rainkie, or was it \$11
20 million additional?

21 MR. DARREN RAINKIE: For that particular
22 component, what we referred to as the intangibles, it was
23 \$37 million, that's both the actual amount for 2009/'10,
24 as well as -- well, sorry, I should be clearer. What you
25 do is you write off -- in 2009/'10 we presented two (2) -

1 - the 2009/'10 financial statements as well as comparable
2 information for 2008/'09, so the write-off is at the
3 start of the 2008/'09 fiscal year, Mr. Peters.

4 So, April 1st, 2008, we wrote off \$37
5 million, if I've got my years correct. And then what you
6 do is you present the new accounting treatment for both
7 2008/'09 and 2009/'10. Hopefully I haven't overly
8 confused the matter, but.

9 MR. BOB PETERS: Well, what you're
10 telling the Board is you retroactively present the
11 previous year as to what it would look like had the same
12 rules been in effect that year.

13 MR. DARREN RAINKIE: That's right. Now
14 we're talking accounting lingo.

15 MR. BOB PETERS: Mr. Rainkie, let's --
16 let's turn to the next item, where in IFF-08 there was a
17 forecast of a write-down to retained earnings of \$59
18 million in fiscal year 2012 for rate regulated assets,
19 assuming IFRS would not have a standard for rate
20 regulated accounting, correct?

21 MR. DARREN RAINKIE: Yes, that's -- that
22 was the project -- projection at that time, Mr. Peters.

23 MR. BOB PETERS: And in the next IFF --
24 well, there was -- there was no write-down in IFF-09 as
25 the Corporation assumed there would be a standard for

1 rate regulated accounting, would that be true?

2 MR. DARREN RAINKIE: That's true.

3 MR. BOB PETERS: And now do we see a
4 write-off of \$38 million, Mr. Rainkie, for the second
5 test year?

6 MR. DARREN RAINKIE: Okay, Mr. Peters,
7 we're departing company here. I'm not sure where the \$38
8 million is in --

9 MR. BOB PETERS: Let me -- let me
10 rephrase the question. For the second test year, that
11 2012 fiscal year, the net income is \$38 million lower in
12 IFF-09 due to the accounting changes?

13

14 (BRIEF PAUSE)

15

16 MR. DARREN RAINKIE: Sorry, Mr. Peters, I
17 think we have to -- when we look at these columns we have
18 to distinguish between what is written off to retained
19 earnings and what goes to our income statement.

20 And if you move down, I think we assumed
21 that 11 million, from an income statement point of view,
22 would be expensed for intangible items and then we had a
23 \$15 million general provision, so I thought that the --
24 the impact to the income statement is \$26 million in that
25 year.

1 MR. BOB PETERS: All right. Thanks for
2 the clarification, Mr. Rainkie. When we --

3 MR. DARREN RAINKIE: Mr. Peters, just to
4 be clear, that -- that -- the 26 million is what we
5 assume we would write off. Of course, there would be
6 some -- as you noted, when you go down that column there
7 would be some -- because you've written off some money in
8 the year previous there would be some offset in terms of
9 depreciation and amortization. Unfortunately, we didn't
10 put the quantum on this -- on this schedule, but there
11 would be some offset in your net income, so it would be
12 11 million plus 15 million minus some offset amount.

13 MR. BOB PETERS: Mr. Rainkie, in IFF-10
14 is it now that Manitoba Hydro raises the sceptre of \$226
15 million of rate regulated electric assets needing to be
16 dealt with?

17 MR. DARREN RAINKIE: Mr. Peters, yeah,
18 that -- that figure, 226 million, is the electric rate
19 regulated assets as at March 31st, 2010.

20 MR. BOB PETERS: And this is the -- in
21 terms of comparable dollars, this \$226 million that's now
22 raised is comparable to the \$59 million that was raised
23 under IFF-08?

24 MR. DARREN RAINKIE: In IFF-08 at that
25 point we had not classified electric DSM as a rate

1 regulated asset, so that's why that number is
2 significantly different or lower I guess than -- than the
3 two twenty-six (226) that you refer to. But -- so
4 they're for the same purpose, but not exactly the same
5 line items, if you get my gist.

6 MR. BOB PETERS: Well, what you're saying
7 to the Board that in addition to what you had as a
8 proposed write-down or forecast write-down there's now
9 \$168 million of electric Power Smart costs that also have
10 to be addressed?

11 MR. DARREN RAINKIE: Yes, they have to be
12 addressed in some way. We're not 100 percent sure as Mr.
13 Warden alluded to earlier if they will have to be written
14 off, but -- but there's an issue there.

15 MR. BOB PETERS: Can you help the Board
16 understand how this issue arose when it was one that was
17 discussed previously and it seemed to be a -- in my
18 words, in hand, at the previous GRA. There was no
19 expectation that the DSM on the electric side was going
20 to be an item that IFRS was going to treat differently
21 than it presently was?

22 MR. DARREN RAINKIE: Well, Mr. Peters, as
23 -- as you may have read in the material, Section 3064 of
24 the CICA handbook was implemented in 2009/'10, and as we
25 went through that process with our auditors we felt

1 originally that there was a good case because electric
2 DSM expenditures generate cashflow in the future, you
3 know, in terms of increased export sales that we could
4 make a good case that that would be an asset not a rate
5 regulated asset.

6 As we went through the fine points of --
7 of that intangible standard with our auditor they
8 disagreed with that treatment and said that they thought
9 it was more appropriate that, you know, that it be
10 classified as a rate regulated asset, so that's where we
11 ended up.

12 MR. BOB PETERS: Is the reason for the
13 disagreement is because your external auditors don't
14 believe you can sell the energy saved under DSM on the
15 export market?

16 MR. DARREN RAINKIE: No, it's not for
17 that reason. It's -- it's that they don't see a strong
18 enough connection, I think, between the expenditures;
19 these are mainly incentives and promotions and the actual
20 revenue itself.

21 They see the revenue itself as being a
22 matter of how much energy we've generated and the price,
23 so for them there wasn't a strong enough connection to
24 meet the definition of an intangible asset, which is a
25 very hard criteria to meet, Mr. Peters. There's very few

1 -- very few things that meet that accounting definition
2 these days.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: Mr. Rainkie --

7 THE CHAIRPERSON: Yet, Mr. Rainkie, in
8 your IFF-10 going out to 2023/2024, absent additional
9 DSM, presumably be requiring more megawatts built into
10 your plans or is not only the construction and
11 enhancement of an extra 3,806 megawatts, but also 275
12 megawatts of contribution from new DSM. Presumably
13 there's a value to that.

14 MR. DARREN RAINKIE: We believe there's a
15 value -- value to that, Mr. -- Mr. Chairman, but --

16 THE CHAIRPERSON: But if you assume
17 Wuskwatim cost 1.6 billion, including the transmission,
18 et cetera, and your DSM reportedly is expected to produce
19 275 megawatts, that's 40 percent more than Wuskwatim.

20 MR. DARREN RAINKIE: That's why we made
21 that original argument, Mr. Chairman. We thought that
22 this -- that -- that there is a benefit to that
23 additional power that's saved and sold, but as I said,
24 the -- the accounting standards are very strict these
25 days in terms of what you can recognize as -- as an

1 intangible asset. It has to essentially be a contractual
2 right, and they didn't see a close enough connection
3 between the DSM program and the revenues to allow us to
4 recognize -- continue to recognize that as an intangible
5 asset versus a rate regulated asset.

6 THE CHAIRPERSON: Thank you, Mr. Rainkie.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Mr. Rainkie, does
10 Manitoba Hydro have to show the DSM expenditures as an
11 intangible asset as being something that they have the
12 ability to sell to a third party?

13 MR. DARREN RAINKIE: Mr. Peters, we're --
14 we're showing electric DSM, as gas DSM, as a rate
15 regulated asset. That's our current classification right
16 now.

17

18 (BRIEF PAUSE)

19

20 MR. DARREN RAINKIE: I think Mr. Warden
21 understood the question better than I did, and -- and the
22 answer is, Yes.

23 MR. BOB PETERS: What I was trying to get
24 at was that in -- in your discussion with the Chairman,
25 if the DSM expenditures are to be treated as an

1 intangible asset you've told the Board there's a strict
2 definition that has to be met, correct?

3 MR. DARREN RAINKIE: That's correct.

4 MR. BOB PETERS: And one (1) of the
5 examples you gave was a contractual right, but that was
6 only an example, would that be fair?

7 MR. DARREN RAINKIE: That's right. I
8 think we outline in your book of documents, Tab 15, page
9 84, towards the bottom, we outline the criteria for an
10 intangible asset in Section 4.2.2, so:

11 "It must be something that's separable
12 and arises from contractual or other
13 legal rights."

14 MR. BOB PETERS: And Mr. Rainkie, you --
15 you said your auditors take a different view than does
16 Manitoba Hydro, correct?

17 MR. DARREN RAINKIE: That's correct.

18 MR. BOB PETERS: Is it public who your
19 auditors are, sir?

20 MR. DARREN RAINKIE: The financial
21 statements have their name on it, Mr. Peters. That's
22 Ernst & Young.

23 MR. BOB PETERS: And in addition to Ernst
24 & Young being your auditors, you also have an independent
25 IFRS consultant?

1 MR. DARREN RAINKIE: Yes, we've engaged
2 KPMG in an advisory role.

3 MR. BOB PETERS: Can you indicate to the
4 Board whether KPMG takes a different view than Ernst &
5 Young on this issue?

6 MR. DARREN RAINKIE: My memory is that --
7 that they don't. They have fairly similar -- similar
8 views on the matter.

9 We -- we've for a long time considered
10 electric DSM to be akin to generation, so we had a -- had
11 a different view on the matter, Mr. Peters, as I
12 indicated earlier.

13 MR. BOB PETERS: And that's why when I
14 started these questions that the Corporation had forecast
15 certain write-downs on account of rate regulated assets,
16 which did not include, as you've told the Board, the DSM
17 expenditures on the electric side, and it's only now that
18 it's coming to light, correct?

19 MR. DARREN RAINKIE: Well, with the
20 implementation of section 3064, the CICA handbook in
21 2009/'10, was the discussion that we had, and that was
22 the ultimate resolution of the issue, Mr. Peters.

23 MR. BOB PETERS: Mr. Warden, when the
24 Board sees this additional \$168 million of Power Smart
25 costs, perhaps no longer qualifying as rate regulated

1 electric assets, you said that there would be a number of
2 possibilities in terms of how to deal with that under
3 IFRS, if I understood your evidence, is that correct?

4 MR. VINCE WARDEN: Yes, I -- I did make
5 that comment. I was -- I think I was agreeing with the
6 Chairman that for rate setting purposes these assets --
7 demand side management assets could be handled
8 separately.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: Mr. Rainkie, what is
13 your auditor's current view of the treatment of rate-
14 regulated assets?

15 MR. DARREN RAINKIE: Mr. Peters, we have
16 not got a final view from our auditors yet. But through
17 some of the consultations that have happened between the
18 Canadian Electrical Association on an industry basis and
19 the big four firms, as we call them, the -- the largest
20 four (4) accounting firms in the world, they pretty much
21 have the same position that they did two (2) years ago.
22 They are sceptical that there will be many of these types
23 of assets that will continue to be recognized for
24 financial reporting purposes.

25 Now, I think that was disappointing to get

1 that feedback and we're still thinking through that as an
2 industry 'cause we just got that right before Christmas.
3 And I think each -- each individual company now has to go
4 back to their auditors and make their case for their
5 particular assets.

6 We were hoping to get some type of
7 resolution at an industry level that would help us out.
8 So far we haven't, and we'll have to go back individually
9 and argue with our -- with our auditors on this. But the
10 outlook is not great at this point from what I, you know,
11 from what I currently have.

12 THE CHAIRPERSON: Mr. Rainkie, if -- in
13 the hypothetical situation in which your -- your books
14 were different than the approach taken in rate setting,
15 do you think there would be any negative implications
16 from the rating agency -- rating agencies?

17 MR. VINCE WARDEN: I don't think -- Mr.
18 Chairman, maybe I'll answer that question. I don't think
19 the order of magnitude is such that the rating agencies
20 would be all that concerned. The rating agencies are --
21 are interested in -- in Manitoba Hydro getting regular
22 rate increases towards achieving our financial targets
23 and so as long as we were able to demonstrate that we
24 were able to do that, I -- I'm -- I don't think there
25 would be any concern expressed by the rating agencies.

1 THE CHAIRPERSON: Thank you.

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Can you tell the
5 Chairman, Mr. Warden, if -- if that very concern has been
6 socialized with the rating agencies prior to this year?

7 MR. VINCE WARDEN: We do -- we do talk to
8 the rating agencies about IFRS. Of course they -- they
9 all have a -- very much of an interest in that topic, and
10 they're aware of our -- our -- of our issue with respect
11 to rate regulated assets and liabilities. And we're just
12 keeping them apprised. But they haven't expressed any --
13 any special concern.

14 MR. BOB PETERS: Mr. Rainkie, you told us
15 your auditors had not yet reached a definitive position
16 on rate regulated accounting. Do the consultants that
17 you hired, relative to IFRS, have they taken a definitive
18 position?

19 MR. DARREN RAINKIE: Well, I think all
20 the -- the big four firms have pretty much got a -- a
21 similar view on the matter, Mr. Peters. What I was
22 indicating, though, is that, you know, you -- even if
23 there was an indus -- industry consensus that we got out
24 of that process that we -- I just talked about, you still
25 have to go back to your individual auditor and -- and --

1 and plead your case and describe the types of regula --
2 rate regulated assets you have.

3 So -- so what I was saying is that we have
4 -- we were waiting to see what the -- the fallout of the
5 information that came out of this consultation, and based
6 on that, then we were going to go to our auditors and
7 talk about our own particular circumstance. We have not
8 done that yet, and we're still, I guess, wading through
9 the feedback that we have received thus far to see where
10 our next step is.

11 MR. BOB PETERS: That position paper that
12 you referred to, Mr. Rainkie, that was prepared
13 collectively by the -- the four large international
14 accounting firms?

15

16 (BRIEF PAUSE)

17

18 MR. DARREN RAINKIE: Mr. -- Mr. Peters,
19 my understanding is the feedback was from all four of the
20 firms at once. I don't know if they had individual
21 papers associated with it. But I think they were -- had
22 a fairly common view on what the feedback was.

23 MR. BOB PETERS: And there was a position
24 paper that was provided on behalf of the Canadian
25 Electrical Association to all of its members?

1 MR. DARREN RAINKIE: Of the big four or
2 of the CEEA?

3 MR. BOB PETERS: No, I meant of the big
4 four (4).

5 MR. DARREN RAINKIE: There was a
6 presentation hand-out that we received. I'm not sure we
7 have the final -- the final paper on that, Mr. -- Mr.
8 Peters.

9 MR. BOB PETERS: Is there a report coming
10 from the -- the big four (4) accounting firms on this
11 issue?

12

13 (BRIEF PAUSE)

14

15 MR. DARREN RAINKIE: Sorry, Mr Peters,
16 these things are defaulting every day, so I just wanted
17 to make sure I have the most current information at hand.

18 We have not received a full paper yet from
19 the big four (4). We received a summary -- they -- that
20 the representatives of -- of the CEEA received a summary
21 presentation from the big four (4), Mr. Peters, and then
22 we had a conference call right before Christmas to -- to
23 talk about it.

24 MR. BOB PETERS: You're expecting a more
25 detailed report from the four (4) accounting firms?

1 MR. DARREN RAINKIE: You know, we have to
2 -- we -- I'm not sure, Mr. Peters, if we're ever going to
3 get a final paper from them or -- or not, or if the
4 presentation was how they planned on delivering their --
5 their message to us, but we could -- we could check into
6 that in -- more definitively.

7 MR. BOB PETERS: Well, if you could
8 undertake two (2) things then, Mr. Rainkie: 1) is to file
9 the -- the summary paper, that you've called it, that you
10 received to date; and secondly, to look into whether or not
11 there will be a -- a final paper coming from the big four
12 (4) accounting firms, either directly or through the
13 Canadian Electrical Association on -- on this issue.

14 MR. DARREN RAINKIE: I'll check into both of
15 those, Mr. Peters. What I'm not sure about at this point
16 was the terms of engagement between the CEEA and the big
17 four (4) accounting firms, if they, you know, had
18 anticipated that that feedback would become public. As I
19 said, you know, what you -- we would take that feedback and
20 then each individual utility would work with its auditor.

21 So, you know, I -- I'd have to check about
22 what the -- you know, the agreement was between the parties,
23 Mr. Peters, so I'm not breaching anything that might have
24 been a confidentiality issue.

25 MR. BOB PETERS: Well, I certainly want you

1 to make sure you weren't stepping out of bounds on that, Mr.
2 Rainkie. If you could check that as part of your
3 undertaking.

4 And while you're at it, maybe also check if
5 you're able to see whether that paper has already been filed
6 with other regulators in other jurisdictions.

7 MR. DARREN RAINKIE: We'll do that, Mr.
8 Peters.

9 MR. BOB PETERS: Thank you.

10

11 --- UNDERTAKING NO. 19: Manitoba Hydro to file the
12 summary position of the four (4)
13 large accounting firms on rate
14 regulated accounting, advise if
15 there is going to be a final
16 version of that report, and
17 advise as to whether the summary
18 paper has been filed in other
19 jurisdictions

20

21 MR. BOB PETERS: Mr. Chairman, this might be
22 an appropriate time for the lunch break.

23 THE CHAIRPERSON: Very good, Mr. Peters.

24 See you all back at 1:15.

25

1 --- Upon recessing at 12:01 p.m.

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

3

4 THE CHAIRPERSON: Welcome back. I'm sure
5 all of you were enjoying walking outside in a nice crisp day
6 and probably trying to avoid coming back in this musty old
7 place.

8 Mr. Peters...?

9

10 MANITOBA HYDRO PANEL RESUMED:

11 VINCE WARDEN, Resumed

12 DARREN RAINKIE, Resumed

13 DAVID CORMIE, Resumed

14 HAROLD SURMINSKI, Resumed

15

16 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

17 MR. BOB PETERS: Thank you. Mr. Rainkie, I
18 don't expect the lunch hour was long enough for you to make
19 any progress meaningfully on that undertaking you gave just
20 before the -- the break?

21 MR. DARREN RAINKIE: No, Mr. Peters, but
22 you'd like I could explain in general what the feedback is,
23 just in case we can't provide the actual documents, if it's
24 helpful to the Board.

25 MR. BOB PETERS: Well, certainly. I think

1 that would be helpful.

2 MR. DARREN RAINKIE: I -- I'd start by
3 saying that there's a no camp and a yes camp as it relates
4 to rate regulated assets, so -- and for some reason it's --
5 this is a big issue with a lot of people, and sometimes I
6 don't understand why it's such a big issue, but being in the
7 yes camp maybe it's hard to understand the no camp.

8 But the basic arguments go -- go back to the
9 basic definition of an asset under the IFRS framework, being
10 a resource controlled by an entity as a result of past
11 events which you get -- you expect to get the future
12 benefits of.

13 So those that say that rate regulated assets
14 don't meet this test say that you have to provide future
15 service in order to recover those deferred amounts, and as a
16 result, it doesn't meet that part of the test. It's not as
17 a result of a past event.

18 They also say that the Utility does not
19 control the customer; customers can come and go off the
20 system, and therefore they say that basically rate regulated
21 assets and liabilities, so on this case assets fail two (2)
22 fundamental parts of the definition of an asset.

23 That's the no -- the no camp, Mr. Peters. If
24 we move over to the people that believe these things do meet
25 the accounting standards, which tends to be most people that

1 are involved this industry by the way, we say, Well, it's
2 not really as a result of a -- of -- it's not -- it's not
3 the provision of future service.

4 The cost that we have to recover is as a
5 result of a past event in that it's the provision of
6 service, the incurrence of the cost. So we think we have
7 met that -- that criteria.

8 And in terms of controlling the -- the
9 resource, well, the argument there, I think, is that the
10 regulator controls the aggregate customer base. So if a few
11 customers move off the system, or move onto the system,
12 usually the Utility still gets to recover that amount
13 through the resulting, you know, customer base.

14 So -- so those in the industry see this as
15 being a fairly easy to -- to meet that definition of a -- of
16 an asset, but those that are on the no side of this equation
17 see it much differently. Hopefully that's helpful.

18 THE CHAIRPERSON: Does that ren -- rendition
19 of the -- the pro side, so to speak, miss the -- or -- or
20 maybe I'm mistaken, but does it miss the argument that
21 through the expenditure otherwise certain costs are avoided,
22 while the revenue will still come in?

23 MR. DARREN RAINKIE: Well, that's how we see
24 meeting the, you know, an expected future benefit part of
25 the definition is -- is that we see there being, you know, a

1 fair degree of certainty in the -- in the revenue part.

2 Of course, Boards do from time to time
3 disallow costs, but that's -- we see that as being a
4 measurement issue, not a recognition issue. You still have
5 an asset there, but if you have a history of disallowances
6 you could measure -- you could -- you could factor that into
7 the calculation of your asset.

8 So -- so I think we -- we do see it as -- in
9 the industry as being a future resource and meeting that
10 part of the definition as well.

11 THE CHAIRPERSON: Thank you.

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: And Mr. Rainkie, while --
15 while that undertaking is still being worked on from your
16 end, I gathered from your evidence before lunch that the
17 real test will be whether or not Ernst & Young, as your
18 external auditors, will accept the positions being advanced
19 by Manitoba Hydro as to why rate regulated accounting should
20 -- should be recognized.

21 MR. DARREN RAINKIE: Yes, Mr. Peters,
22 ultimately it's Ernst & Young who signs off on our financial
23 statements, so, yes.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: Mr. Rainkie, there was
2 discussion with The Chair before lunch about, in essence,
3 two (2) separate financial reports, do you recall that
4 discussion?

5 MR. VINCE WARDEN: Maybe I'll respond to
6 that. Mr. Peters, I don't think I was -- we were talking
7 about two (2) different financial reports. We were talking
8 about whether or not in the -- in the event that rate
9 regulated accounting is not accepted by the international
10 body whether or not they're -- the regulator -- the Public
11 Utilities Board could still take into account the fact that
12 there's a good case in Manitoba Hydro's case for -- for
13 deferring and amortizing those costs.

14 So we could theoretically produce a separate
15 schedule that would support our financial statements which
16 the regulator could take into account. I -- I want to be
17 careful though that we're not talking two (2) sets of books.
18 I -- I really don't want to go -- go down that road.

19 MR. BOB PETERS: That was perhaps an easy
20 distinction for me to make, but you've -- you've caught the
21 point, Mr Warden. I thank you for the clarification. In
22 essence, your financial reports to this Board would contain
23 a schedule or an amendment to what would be your external
24 financial report?

25 MR. VINCE WARDEN: Yes, it would be a

1 relatively simple schedule that we could file with this --
2 this Board.

3 MR. BOB PETERS: Well, then just follow that
4 through, you know, Mr. Rainkie's telling the Board that your
5 external auditors have to, in essence, sign off on the
6 financial statements at some point, correct?

7 MR. VINCE WARDEN: Yes, absolutely.

8 MR. BOB PETERS: And if they didn't agree
9 with Manitoba Hydro's presentation of rate regulated
10 accounting they probably would include an opinion or they'd
11 qualify their opinion in some fashion that would make the
12 reader aware of there being a -- a difference between what -
13 - what the auditor thinks should be done and what the
14 Corporation thinks should be done?

15 MR. VINCE WARDEN: Well, now I think we're
16 talking about a different alternative though. I think we
17 were talking about -- earlier we were taking about in the
18 event that rate regulated accounting is not accepted, then
19 Manitoba Hydro would -- one (1) of -- one (1) of the options
20 or the most likely option would be for -- for Manitoba Hydro
21 to comply with IFRS and not recognize rate regulated
22 accounting.

23 We would support though our IFRS compliant
24 statements with a separate schedule showing the impact of
25 demand side management or -- or other deferred costs. I

1 think what the other alternative you were just raising was,
2 well, we could still prepare our financial statements with
3 rate regul -- rate regulated accounting but the auditor
4 would qualify the statements.

5 And that wouldn't be the end of the world
6 really. We've talked about doing that. We -- we've had
7 that before, we did -- going back in history, we've had --
8 we weren't totally compliant with our pension accounting and
9 we had a line in the auditor's report that the statements
10 were approved except for pension accounting. So could
11 happen, probably not something we would recommend but it's -
12 - it's an option that could be considered.

13 MR. BOB PETERS: I see it as perhaps six (6)
14 of one, a half dozen of another in that the end result is
15 the reader of the statements would be aware of what Hydro
16 has done and why and what position is being taken by the
17 external auditor and why.

18 MR. VINCE WARDEN: No, I don't think so. I
19 -- in -- in the first instance where our statements are IFRS
20 compliant the reader of the statements would -- would not
21 necessarily be aware that we're filing a separate statement
22 with the regulator.

23 MR. BOB PETERS: All right. That's -- I
24 understand your point.

25 THE CHAIRPERSON: Mr. Warden, you could

1 presumably, in that hypothetical situation, have a clean
2 audit opinion, the -- the books kept on an IFRS basis and a
3 note indicating that the rate-setting process involves the
4 acceptance of some certain rate regulated?

5 MR. VINCE WARDEN: Yes, yes, I agree.

6 THE CHAIRPERSON: That way you wouldn't be
7 offside with the rating agencies or the auditors or anyone?

8 MR. VINCE WARDEN: Yes, whichever direction
9 we -- we took we would definitely fully disclose.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: If Manitoba Hydro, and I'll
13 -- I'll call it attached a schedule to IFRS compliant
14 financial statements and they did that for rate setting
15 purposes, I would then expect that your applications to this
16 Board and the IFF that would support your application would
17 be based on your different view of rate regulated
18 accounting?

19 MR. VINCE WARDEN: Yes, but as do all of our
20 applications to this Board, they take into account not only
21 the reported or projected net income but also other
22 considerations, and this would just be one of those other
23 considerations.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: In the event that rate
2 regulated accounting is not accepted and even if Manitoba
3 Hydro adopts the attaching a schedule to its rate
4 applications related to how it sees these rate regulated
5 assets being treated, I had understand your previous
6 evidence to this Board to -- to be that Manitoba Hydro will
7 not change the way it -- it conducts its business, just
8 because of the accounting treatment of -- of the dollars and
9 cents?

10 MR. VINCE WARDEN: Yes, absolutely, that's -
11 - that's correct.

12 MR. BOB PETERS: What that could translate
13 into, Mr. Warden, is that depending on what is requested and
14 -- and the Board's view of the rate regulated accounting,
15 Manitoba Hydro may have to seek rate increases rather than
16 manage, say, DSM differently than it currently has?

17 MR. VINCE WARDEN: Yes, I wouldn't
18 anticipate that DSM would be managed any differently under
19 IFRS than it is today.

20 MR. BOB PETERS: But it could be that rate -
21 - rate -- rate increases are required as a result of the
22 accounting change?

23 MR. VINCE WARDEN: Well, as I mentioned,
24 there's a lot of considerations that are taken into account
25 in a rate increase request and -- and this could just be one

1 of those considerations, Mr. Peters.

2 MR. BOB PETERS: Mr. Rainkie, would the
3 Board interpret your previous evidence to suggest that Hydro
4 has, I guess, early adopted IFRS in the test years?

5 MR. DARREN RAINKIE: I think we're going
6 back to the discussion we had two (2) previous Fridays ago,
7 if I got the date right, and we did make some changes, as we
8 discussed, to our overhead capitalization policies, starting
9 in the 2010/'11 fiscal year, yes.

10 MR. BOB PETERS: And --

11 MR. DARREN RAINKIE: I mean, whether that's
12 an early adoption of IFRS or just looking at changing
13 industry standards, I think we talked about though -- those
14 two (2) factors as well as, you know, a recommendation, I
15 think it was, from the Board in the recommendation section
16 of the last order to look at early adoption of some of these
17 new accounting policies.

18 So I think there was three -- there was --
19 those were the three (3) reasons we -- we listed why we --
20 we made that change.

21 MR. BOB PETERS: And Manitoba Hydro has
22 opted to take advantage of the one (1) year deferral in the
23 mandatory implementation of IFRS?

24 MR. DARREN RAINKIE: That's correct, Mr.
25 Peters.

1 MR. BOB PETERS: So that if -- if it ever
2 came down to there being a need for a writeoff, so to speak,
3 of the \$226 million of rate regulated assets, that wouldn't
4 be seen until 2013?

5 MR. DARREN RAINKIE: How it would work, Mr.
6 Peters, is that when we prepare our 2012/'13 financial
7 statements, if there are any writeoffs under IFRS they will
8 happen as at April 1st, 2011, the -- the start of the
9 comparable year. And then you would do the comparable year
10 and 2012/'13 on a consistent basis. It's the retrospect of
11 application that we -- we've talked about earlier, before
12 lunch.

13 MR. BOB PETERS: You would only display
14 that, Mr. Rainkie, for comparative purposes, to the -- to
15 the year in which you have to be IFRS compliant?

16 MR. DARREN RAINKIE: That's right, Mr.
17 Peters. We're -- we're first going to do 2011/'12 financial
18 statements under Canadian GAAP, and then we'll apply IFRS in
19 two twelve -- 2012/'13 and restate 2011/'12, if I've got the
20 fiscal years correct.

21 MR. BOB PETERS: Mr. Rainkie, it might be
22 helpful just to run the Board through -- in Tab 10 of the
23 book of documents on page 57, which happens to be page 3 of
24 3 of PUB Manitoba Hydro Pre-Ask 14.

25 There, Manitoba Hydro has tried to show in

1 chart form the impact of IFRS on the -- on the test years as
2 well as showing the different IFF forecasts, correct?

3 MR. DARREN RAINKIE: That's correct.

4 MR. BOB PETERS: And under IFF-09 the
5 adjustments identified in IFF-09 is the -- is the bottom
6 portion of the page and IFF-10 is the top portion of the
7 page, correct?

8 MR. DARREN RAINKIE: Correct.

9 MR. BOB PETERS: And IFF-09 shows
10 adjustments as they've identified them of approximately \$11
11 million of accounting changes.

12 MR. DARREN RAINKIE: In 2010 and 2011, yes,
13 that number increases to \$26 million for 2012, Mr. Peters.

14 MR. BOB PETERS: All right. So in the first
15 test year it's 11 million and the second test year is 26
16 million?

17 MR. DARREN RAINKIE: Correct.

18 MR. BOB PETERS: And under the IFF-10,
19 Manitoba Hydro now shows \$31 million of accounting changes,
20 correct?

21 MR. DARREN RAINKIE: Yes, for 2011, yes.

22 MR. BOB PETERS: And \$18 million -- the
23 major change is that \$18 million figure, correct?

24 MR. DARREN RAINKIE: Correct.

25 MR. BOB PETERS: Was that simply the changes

1 in the overhead rates or were there other accounting policy
2 changes embedded in that line item?

3 MR. DARREN RAINKIE: That 18 million is the
4 overhead rate change, Mr. Peters.

5 MR. BOB PETERS: All right. Thank you. By
6 making these changes now, Mr. Rainkie, that is, now being in
7 2011 in the test year, when you're not mandatorily required
8 to be compliant, does Hydro see that as a -- easing the
9 impact on the ratepayer, is that why it's being done?

10 MR. DARREN RAINKIE: Well, as I -- as I said
11 two (2) Fridays ago, Mr. Peters, I think we were trying to
12 gradually move towards IFRS as the Board recommended, so --
13 and keep in mind, when we -- when we made that change, the
14 decision to make that change, we thought that 2010/'11 was
15 the comparable year, that changed in September of 2010.

16 So also in the back of our minds we're trying
17 to eliminate differences between IFRS and Canadian GAAP
18 where we could so that we didn't have to restate the
19 comparable year, so that was part of our -- our thinking as
20 well. And, of course, then with the one (1) year deferral
21 that all got moved off one (1) -- one (1) year later, right?
22 But, at the time we made that overhead decision we thought
23 that 2010/'11 was the comparable year.

24

25

(BRIEF PAUSE)

1 MR. BOB PETERS: Mr. Rainkie, while -- while
2 you've done that, you -- you're not asking this Board to
3 change their view of the rate application before it based on
4 the filing that its made under IFF-09?

5 MR. DARREN RAINKIE: No, Mr. Peters, the
6 rate application stands as it was originally filed.

7 MR. BOB PETERS: And under the second test
8 year, Mr. Rainkie, on page 57 in Tab 10 of the book of
9 documents, there's a \$14 million provision in the second
10 test year shown under IFF-10.

11 Can you just explain again what -- what's
12 intended by that provision.

13 MR. DARREN RAINKIE: If you recall, Mr.
14 Peters, we've had the \$15 million provision in our IFF's
15 going back to IFF-08. And when we redid IFF-10 we
16 essentially took -- took \$14 million of that and put it to
17 the electric side of the operations and 1 million to the gas
18 side of the operations.

19 What we also assumed in that -- and this is
20 confusing but bear with me for a secon -- second, is -- is
21 that -- is that -- that in 2011 we said that the -- the --
22 the total impact of the overhead change was 20 million and
23 we allocated 2 million of that to gas, so 18 million went to
24 the electric side of the business, but because of concerns
25 over costs we said that we were not going to increase the

1 \$15 million provision up to the \$20 million provision.

2 We said that we would find that in our
3 operations, so we've thrown some cost containment into that
4 number. So just -- so Mr. -- Mr. Peters, for the -- for
5 2011, \$20 million, and eighteen (18) of that goes to
6 electric, two (2) of it goes to gas.

7 We had -- already had a \$15 million provision
8 in the second test year. We said we're not going to up that
9 to 5 million. We're going to find that additional 5 million
10 in operations through cost savings, and we took 15 million
11 of -- of it, 1 million went to gas, 14 million went to
12 electricity.

13 Hopefully that's reasonably clear.

14 MR. BOB PETERS: It sounds like the
15 Corporation has made operational changes directly
16 attributable to IFRS, Mr. Rainkie.

17 MR. DARREN RAINKIE: Well, what we did was
18 we held the line on the -- on the -- on the target, Mr. --
19 Mr. Peters. We did not want to adjust our operating cost
20 target any further.

21 So we should just make it clear that -- that
22 whether costs are expensed or capitalized says nosin --
23 nothing about the prudence of the costs. Let's just make
24 sure we understand that. It's simply accounting treatment.

25 You know, I think that's what you were

1 talking with Mr. Warden about a few minutes ago.

2

3

(BRIEF PAUSE)

4

5 MR. BOB PETERS: Mr. Rainkie, in terms of
6 being more specific about the \$14 million, have your
7 external condul -- consultants provided you with some
8 specific items that will comprise that \$14 million?

9 MR. DARREN RAINKIE: No, Mr. Peters. If --
10 if you look in your book of documents, Tab 15, page -- page
11 28 -- sorry, it's page 28 of the report but page 90 of the
12 book of documents, those -- those were the changes that we
13 made to our overhead rates.

14 You can see the -- the table that says:

15 "Planned reduction to cost capitalized in
16 fiscal 2010/'11."

17 The -- those are the details of -- of the
18 changes we've made to the overhead rates, so we've taken
19 interest on common assets, interest on motor vehicles, and
20 some more cost related to general administrative departments
21 out of the overhead rate, and -- and that's -- that's what
22 precipitated the -- the change, and that is what's now
23 embedded in the IFF for all of the years on a go-forward
24 basis.

25 So it was our decision, Mr. Peters. We

1 looked at our overhead capitalization policies, as we do
2 from time to time, and decided to remove those items from
3 the rate and that's what those changes are attributable to.

4

5

(BRIEF PAUSE)

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7

MR. BOB PETERS: Mr. Rainkie, in terms of
8 the planned reductions, those planned reductions were --
9 were and are being implemented?

10

MR. DARREN RAINKIE: Yes. They commenced
11 April 1st, 2010, Mr. Peters.

12

MR. BOB PETERS: And -- and they'll come in
13 at 20 or \$21 million?

14

MR. DARREN RAINKIE: That's my
15 understanding, yes, Mr. Peters.

16

MR. BOB PETERS: All right. And while you
17 have this general provision then for the second test year
18 that's before this Board, you don't have the specificity for
19 that component or -- or do you?

20

MR. DARREN RAINKIE: What I was trying to
21 indicate earlier is that the -- now this is with respect to
22 electric operators. I'm sorry there's so many different
23 numbers because some -- some part of it's going to electric
24 and gas, but really the \$14 million in the second test year
25 and on is exactly for the same reason as the \$18 million in

1 the first test year.

2 We just decided that we were not going to
3 increase our operating cost targets any more for that
4 differential and we'll find it in our op -- in our operation
5 through efficiencies.

6 So it's one (1) and the same. There's no
7 other provision in our IFF right now for additional overhead
8 changes. Hopefully that's clear, Mr. Peters.

9 MR. BOB PETERS: Has your external IFRS
10 consultant confirmed the dollar amount of that provision
11 taken?

12 MR. DARREN RAINKIE: I don't think they've
13 confirmed the dollar amount, Mr. Peters, because we can
14 calculate the dollar amount from taking those particular
15 costs out of overhead rate. But of course in -- in coming
16 to all of our conclusions on IFRS we've consulted with them
17 and -- and went through various line items of our costs and
18 they gave us their thoughts on what would be IFRS compliant
19 and what wouldn't.

20 So they've had input into it, but this is, as
21 I said ear -- you know, two (2) Fridays ago, the accounting
22 policies are the responsibility of management not of the
23 auditor or the advisor, and this is our decision in the end
24 taking counsel from our advisors as part of the process.

25 MR. BOB PETERS: Mr. Rainkie, let's move

1 ahead to the third issue, those accounting changes, that
2 when I started asking you questions, and let's just make
3 sure the Board is clear and the materials before the Board
4 are clear in terms of the IFRS adjustments that are still to
5 come.

6 And you've indicated that specifically these
7 are going to relate to the concept of the rate regulated
8 assets and liabilities, correct?

9 MR. DARREN RAINKIE: Yes, that's one (1)
10 that we've talked about, Mr. Peters.

11 MR. BOB PETERS: And on page -- excuse me,
12 at Tab 15 of the book of documents, top right-hand corner,
13 page 82, we find Table 4.1 at the bottom of what is also
14 marked as page 16 of 46 of Manitoba Hydro's IFRS update
15 report, correct?

16 MR. DARREN RAINKIE: Yes, that's correct.

17 MR. BOB PETERS: And here you have provided
18 the Board with an indication that, I suppose, the potential
19 risk is the \$296 million dollars corporate-wide as -- as
20 being at risk and not being accepted as rate regulated
21 assets?

22 MR. DARREN RAINKIE: That's the consolidated
23 figure, yes, Mr. Peters.

24 MR. BOB PETERS: All right. And as you
25 point out, the 226 million we've talked about is -- is

1 simply the electric side?

2 MR. DARREN RAINKIE: That's right.

3 MR. BOB PETERS: We -- we talked earlier
4 that your DSM expenditures continue to be amortized, Mr.
5 Rainkie, correct?

6 MR. DARREN RAINKIE: That's correct.

7 MR. BOB PETERS: So the balance that's in --
8 shown on page 82 here at Tab 15 of the book of documents,
9 that \$226 million item is likely to grow?

10 MR. DARREN RAINKIE: To the extent that
11 expenditures in the forward-looking years are higher than
12 the amortization, then, yes, I think those -- those would
13 grow.

14 MR. BOB PETERS: And that certainly is the
15 case for the DSM expenditures?

16 MR. DARREN RAINKIE: Yes, Mr. Peters.

17 MR. BOB PETERS: And is that the same for
18 right -- site restoration costs or are those being held
19 constant?

20 MR. DARREN RAINKIE: I'm sure there's a lot
21 of money that's flowing through those accounts. I don't
22 think they'll change that much, Mr. Peters, over time.

23 MR. BOB PETERS: So the major change will be
24 the Power Smart programs?

25 MR. DARREN RAINKIE: That's correct.

1 MR. BOB PETERS: And what would be the order
2 of magnitude of two (2) additional years added to that
3 chart, Mr. Rainkie?

4

5 (BRIEF PAUSE)

6

7 MR. DARREN RAINKIE: Mr. Peters, to
8 calculate that we would take the spending which I -- I think
9 was around \$40 million we established this morning, and then
10 back off the amortization that was present in -- in your --
11 I think it was like Tab 23 of your book of documents, which
12 I think was in the order of \$25 million or so.

13 MR. BOB PETERS: So these numbers would grow
14 by 15 million a year for two (2) years, that makes it \$30
15 million?

16 MR. DARREN RAINKIE: Yes.

17 MR. BOB PETERS: Okay. Thank you.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: That puts the potential,
22 I'll call it, the writeoff, Mr. Rainkie, at about \$256
23 million?

24 MR. DARREN RAINKIE: Yeah, Mr. Peters.
25 Yeah, I'll agree with that. I've just -- I explained, I

1 guess, the technical way that the writeoff works that it
2 would be whatever the balance was at March 31st, 2011. But
3 of course when you apply that new treatment to the 2011/'12
4 year that's going to be expense, as well, so cumulatively
5 I'll agree with your number, Mr. Peters.

6

7 (BRIEF PAUSE)

8

9 MR. ROBERT MAYER: That number could solve
10 our diesel transmission problem.

11 MR. VINCE WARDEN: It's going the wrong way.

12

13 (BRIEF PAUSE)

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Mr. Warden, Mr. Rainkie,
17 does -- does it come down from the discussion that you've
18 had before lunch and with the Chairman, specifically, that
19 other jurisdictions have also tackled this problem, correct?

20 MR. DARREN RAINKIE: Other regulatory
21 jurisdictions or other parts of the world, Mr. Peters?

22 MR. BOB PETERS: Other regulatory
23 jurisdictions in Canada, Mr. Rainkie.

24 MR. DARREN RAINKIE: We're all dealing with
25 the same issue, yes, Mr. Peters.

1 MR. BOB PETERS: And is it that the
2 regulator can ultimately determine what qualifies as a rate
3 regulated asset and how to recover those costs?

4 MR. DARREN RAINKIE: No, Mr. Peters. The --
5 it's -- the interpretation of the accounting standards for
6 financial reporting purposes that determines if those are
7 included or not. As Mr. Warden indicated earlier, though,
8 the regulator can decide, you know, which costs are included
9 in rates.

10 MR. BOB PETERS: That remains an open
11 question before this Board, Mr. Rainkie?

12 MR. DARREN RAINKIE: Yes, the treatment of
13 those accounts for regulatory purposes is an open question.
14 I would agree with that.

15 MR. BOB PETERS: So this Board can prescribe
16 the exact accounting protocols to be used for rate setting
17 purposes of Manitoba Hydro?

18 MR. DARREN RAINKIE: Mr. Peters, I think the
19 Board can specify the factors that it takes and the cost
20 that it takes into consideration in terms of setting rates.
21 But you used the word "accounting" in there which I would
22 equate with financial reporting and I don't think the Board
23 specifies our financial accounting policies.

24 MR. BOB PETERS: All right. You might have
25 read more into the question than I intended, Mr. Rainkie.

1 But for rate setting purposes this Board can decide whether
2 or not to accept the schedule that Mr. Warden and the Chair
3 talked about earlier in terms of setting out the Corp --
4 Corporation's position on rate regulated assets and how they
5 could be treated.

6 MR. DARREN RAINKIE: That -- that was the
7 gist of the discussion that you had with Mr. Warden, Mr.
8 Peters, yeah.

9
10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: Mr. Rainkie, I'm trying to
14 choose my words carefully, is it then accepted by Manitoba
15 Hydro that the -- this Board could require Manitoba Hydro to
16 file what I'll call "special reporting" of its financial
17 position?

18 MR. VINCE WARDEN: Mr. Peters, I think this
19 Board can request what it -- whichever reports it deems
20 necessary in order to support a rate application. But
21 that's no different from what -- what exists today.

22 MR. BOB PETERS: In the -- in the materials
23 at Tab 16, is -- are -- are excerpts of rules and orders
24 from both the Alberta Utilities Commission and the Ontario
25 Energy Board? You're familiar with those, Mr. Rainkie?

1 MR. DARREN RAINKIE: Yes, Mr. Peters.

2 MR. BOB PETERS: And it's at Tab 16 of the
3 book of documents, I believe page 96, for those who are
4 using the computer. Does Manitoba Hydro agree with the
5 guiding principles that are set out in both documents, Mr.
6 Rainkie?

7 MR. DARREN RAINKIE: You know, that's a -- a
8 pretty open-ended question, Mr. Peters. I mean, I don't --
9 I don't take exception to the guiding principles, but, you
10 know, and as we've talked about, the Board can use whichever
11 costs they want in terms of setting rates.

12 But if you read the guiding principles as
13 saying that there has to be a difference between financial
14 accounting and regulatory accounting, I have a hard time
15 personally accepting that position. There might be selected
16 accounts, like the rate regulated accounts, where we want to
17 have a diver -- where there might be diversions if the Board
18 so chooses, but -- but I don't think it's desirable to have
19 a lot of differences between regulatory accounting and book
20 accounting, I see no purpose for it.

21 Most of the current regulatory practices that
22 are in place are just -- have been selected by looking at
23 the range of possible financial accounting options and
24 saying, Well, which one makes the most sense for the
25 business and for customers? And I see no difference in

1 terms of that -- using that approach for IFRS as well.

2 IFRS and the accounting choices that are
3 available there can -- could provide an excellent framework
4 for rate setting. It's about looking at the options that
5 are available under IFRS and asking yourself which of those
6 options makes most sense from a utility business, from bill
7 -- business that, you know, invests in assets for eighty
8 (80) to a hundred years. And so we can intelligently go
9 through IFRS choices and come up with, if you like, general
10 purpose accounting principles that also work for regulatory
11 purposes.

12 So what you'll notice in these reports from
13 the AUC and OEB is that they're a lot -- they've specified a
14 lot of differences and I don't think you have to approach it
15 that way. So, you know, in asking me that general question,
16 I just wanted to make clear my own, you know, personal view
17 on it is that you don't have to go down that route of saying
18 we need to throw up twenty (20) differences. And -- because
19 our -- we can select accounting policies under IFRS that
20 make sense for rate setting practices as well -- or,
21 purposes as well.

22 MR. VINCE WARDEN: Mr. Peters, if -- if I
23 could I'd like to also comment on, you were referring to
24 page 97, which is the Alberta Utilities Commission guiding
25 principle. If you just refer to the third bullet, it says:

1 "The Commission will, in considering IFS --
2 IFRS requirements, balance the effects on
3 customer rates and shareholders return."

4 So the Alberta Utilities Commission is
5 dealing with shareholders, that's a really important
6 distinction in looking at the Manitoba environment because
7 the PUB, the Public Utilities Board, doesn't have to worry
8 about that balance. Here in -- in Manitoba the utilities
9 concern -- concerns and the customer's concerns are one and
10 the same, we don't have shareholders to consider.

11 MR. BOB PETERS: But maybe that answer, Mr.
12 Warden, just goes to provide an example to Mr. Rainkie's
13 concern about not having to spell out all the differences at
14 the front end and wait -- wait until you see what the filing
15 is and what IFRS impacts need be considered by the
16 regulator.

17 MR. VINCE WARDEN: Oh, absolutely. And I
18 wasn't disagreeing in any way with what Mr. Rainkie said.
19 It's just that I think there -- there has been filings in
20 this proceeding that seem to draw a distinction between
21 Manitoba Hydro and the customer, the ratepayer. And I'm
22 saying that distinction is -- is not -- it does not exist in
23 the Manitoba environment as it does in other jurisdictions.

24 MR. BOB PETERS: And the -- and the
25 distinction you're making is -- is a crown corporation

1 versus a privately held utility?

2 MR. VINCE WARDEN: Yes.

3 MR. BOB PETERS: Yeah.

4 MR. VINCE WARDEN: We don't have
5 shareholders. We don't have shareholders that are worried
6 about returns.

7 MR. BOB PETERS: As Mr. Rainkie, I don't
8 think you disagreed with any of the guiding principles, and
9 Mr. Warden has certainly qualified the third one from the
10 Alberta rule.

11 But generally the methodology used by the
12 regulator, as they say in their first guiding principle, is
13 to establish just and reasonable rates, doesn't always have
14 to be exactly the same as the external financial reporting.

15 MR. VINCE WARDEN: Yes, and I think we
16 agreed on that earlier with the attachment of separate of --
17 separate filing for the Public Utilities Board.

18 MR. BOB PETERS: Do you know if that's the
19 approach that was taken in Alberta or Ontario, Mr. Warden?
20 Was there a separate schedule filed?

21 MR. VINCE WARDEN: Well, I think they're
22 still addressing that issue.

23 MR. BOB PETERS: Would they not have done
24 some rate cases since the implementation of the rules and
25 the Board's decisions?

1 MR. VINCE WARDEN: Our -- our understanding
2 is they're still working their way through this, Mr. Peters.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: In a pre-ask question to
7 Manitoba Hydro, it was Pre-Ask number 17, it's also found at
8 Tab 17 of the book of documents, Manitoba Hydro was asked to
9 provide its views as to what was transpiring in Alberta and
10 Ontario on certain aspects and -- and then give Manitoba
11 Hydro's position on them.

12 In the response, you'll find the discussion
13 on rate regulated assets starts at page 103 of Tab 17 of the
14 book of documents. This, as I said, is in response to PUB
15 Manitoba Hydro Pre-Ask 17.

16 And when the Board reads that, Mr. Rainkie,
17 it sounds definitive as to what Manitoba Hydro intends to
18 do, but your evidence today seems to suggest that you're
19 maybe not quite as entrenched as what -- as what's suggested
20 in this response to the Information Request.

21 MR. DARREN RAINKIE: Well, what this
22 response says to me, Mr. Peters, is that we -- we believe
23 the rate regulated accounting is appropriate and we should
24 continue it.

25 But it's not our -- our decision, and we --

1 we certainly can propose it but it's the interpretation of
2 the accounting standards in the end that will determine
3 whether or not that option is open to us.

4 So I wouldn't read any more than that into
5 it, Mr. Peters, and what we were -- I was sharing with you
6 this morning is the blow-by-blow, day-by-day, feedback that
7 we're getting on this topic as it evolves as we're speaking.

8 MR. BOB PETERS: But it suggests that in the
9 event that the rate regulated accounting is not determined
10 as Manitoba Hydro would suggest it should be, then Manitoba
11 Hydro has already made the decision to essentially write off
12 against retained earnings the rate regulated balances.

13 MR. DARREN RAINKIE: Well, I -- I don't --
14 with all respect, I don't think it says that. I think that
15 that -- it says that's the -- probably the most likely thing
16 that will happen.

17 I mean, we -- we will go back through those
18 accounts that we reviewed, and see if there are any other
19 arguments to support them, but you know, the -- to me it
20 looks like, reading the -- the tea leaves, that rate
21 regulated accounting is on life support, and you know, but
22 we will do our due diligence and go through those acc --
23 those accounts and see if there's any other angle that we
24 could take that would make sense, vis-a-vis the IFRS
25 standards.

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(BRIEF PAUSE)

MR. BOB PETERS: Mr. Rainkie, on that same page the Ontario Energy Board position on this appears to be that the OEB, and I'll read this:

"Will continue to use deferral and variance accounts for rate making in appropriate circumstances whether or not these accounts are recognized under IFRS."

That's your understanding?

MR. DARREN RAINKIE: Yes, that, I think, is verbatim from their report or rule. I think their -- the OEB was a report maybe not a rule.

MR. BOB PETERS: That's my understanding as well, Mr. Rainkie, and if this Board went the same route as the OEB, how, if at all, would that impact on Manitoba Hydro?

MR. DARREN RAINKIE: Well, it's as -- as the discussion you had with Mr. Warden. For financial reporting purposes, we would not recognize those items as assets; we would expense them.

But if the Board wanted to consider them as deferred and amortized, they would build that into the rate setting process, is how that would work, Mr. Peters.

MR. BOB PETERS: Isn't that --

1 MR. DARREN RAINKIE: I -- I should note that
2 this is, just before we get too much farther, before I
3 forget, that these reports and rules that came out were done
4 in early to mid 2009 without the benefit of the further
5 discussion on the ISB, and -- and the big four (4) firms
6 with respect to rate regulated accounting.

7 So whether these rules will be here ten (10)
8 years from now, I don't know, Mr. Peters. I mean, if you --
9 if you -- if you look past just the guiding principles page
10 that's reproduced in your book of documents and you go into
11 the -- to the actual reports, they say that individual
12 utilities can file applications that may vary the generic
13 rule, if you like, or procedure.

14 So you know where we get five (5) or ten (10)
15 years from now, I'm not -- I'm not sure. I would -- I would
16 expect that we would converge -- that -- that -- in these
17 reports there seems to be a lot of divergence between IFRS
18 and -- and -- and regulatory reporting or accounting.

19 But keep in mind that these regulators
20 regulate, you know, dozens of -- of companies, so I think
21 they needed to get out very early on this and set some
22 rules, but certainly there's -- if you read the underlying
23 reports, there's a -- there's an inference there that these
24 things will, you know, evolve over time and that if
25 individual utilities see things differently they can file

1 applications and ask for a different treatment. So it isn't
2 by any means a static one (1) time only thing.

3 MR. BOB PETERS: And those decisions, Mr.
4 Rainkie, that you've referenced that's the Alberta Rule on
5 the OEB decision if there is a request made like you've
6 referenced and there's an impact on consumers, the utility
7 has to bring those rate impact before the regulator so the
8 regulator can ultimately make the decision?

9 MR. DARREN RAINKIE: Yes, they would propose
10 a different treatment in their application, I assume.

11 MR. BOB PETERS: And that could be the same
12 situation in Manitoba should the Board decide to go that
13 route?

14 MR. DARREN RAINKIE: That's right. I mean,
15 regulatory -- accounting policies and principles and
16 regulatory accounting principles and policies aren't static.
17 They -- they move with the times and I would encourage the
18 Board to, you know, embrace IFRS and not fight it.

19 I mean, it's here, it's not going anywhere.
20 And -- and to have as few differences as we can between
21 regulatory reporting and financial reporting I think would
22 be the most sensible thing to do.

23 MR. BOB PETERS: On property plant and
24 equipment there's a reclassification from property plant and
25 equipment to intangible assets. I'm on page 6, Mr. Rainkie,

1 of 15, which would be page 106 of the book of documents.

2 MR. DARREN RAINKIE: I see that, Mr. Peters,
3 yes.

4 MR. BOB PETERS: Did Manitoba Hydro write
5 off intangible assets?

6 MR. DARREN RAINKIE: We wrote off the \$37
7 million that we talked about earlier, but I think what this
8 is getting at is that if you're doing a rate base rate of
9 return calculation that just because the IFRS requires that
10 you caption those assets as intangibles that you would still
11 include them in your rate base calculation.

12 I think that that's what this means. That's
13 at least how I interpreted it. So it's not about writing
14 off assets, it's about how you treat them for rate making
15 purposes.

16 MR. BOB PETERS: You keep them on the
17 balance sheet and then you decide whether or not it's a cost
18 of service or rate base treatment on them?

19 MR. DARREN RAINKIE: That's right. 'Cause
20 trad -- traditionally only items that are included in plant
21 make it into rate base, and this is just saying, you know,
22 regardless of what IFRS require -- requires in terms of the
23 classification you can continue to include those amounts in
24 your rate base.

25 MR. BOB PETERS: When the Board looks at the

1 OEB in the Alberta treatment of these property plant and
2 equipment changes and translates them to Manitoba Hydro's
3 position, would it not be correct, Mr. Rainkie, that Hydro
4 would not be permitted to have written off the \$37 million
5 as it did without this Board's approval?

6 MR. DARREN RAINKIE: I don't read that into
7 it, Mr. Peters. I -- I think that, once again, for
8 financial reporting purposes if a write-off is required you
9 have to make it. If the particular public utilities
10 commission says follow a different treatment for regulatory
11 purposes in your filing, then the utilities will do that,
12 but I don't think that you have to ask for approval to write
13 those amounts off for accounting purposes.

14 I mean, we might be straying into legal --
15 legal areas here where the -- where the -- the Board has
16 jurisdiction, but I -- I don't take it to be the -- the same
17 thing. I mean, I think what we're trying to do in these
18 charts was make a distinction between financial reporting at
19 the top of the chart between IFRS Manitoba Hydro current and
20 Manitoba Hydro proposed, and then the bottom two (2)
21 quadrants, OEB and AUC talk about, as we understand it, rate
22 setting requirements.

23 MR. BOB PETERS: I think the last one (1)
24 I'd like to specifically discuss with you, Mr. Rainkie, is
25 found -- I think it's in Tab 15 of the book of documents.

1 Yes, if -- if -- just before I forget, Mr. Rainkie, Tab 15
2 of the book of documents has the October 31, 2010 status
3 update report on IFRS for Manitoba Hydro, correct?

4 MR. DARREN RAINKIE: That's correct.

5 MR. BOB PETERS: Were you aware, sir, that
6 earlier this week Manitoba Hydro filed a revised Appendix 32
7 for Volume XVI, which was an IFRS report from earlier in the
8 year?

9 MR. DARREN RAINKIE: Was that the revision
10 because we neglected to include the -- the letters with
11 respect to rate regulated accounting, the exposure draft? I
12 think -- I don't think that was a revision to the actual
13 report, but I think there were three (3) attachments that
14 weren't included somehow in the material.

15 MR. BOB PETERS: All right. And that -- and
16 that's what I really wanted to have the Board aware of is
17 that the -- the information provided from the previous
18 update report that was just enhanced by way of the most
19 recent filing?

20 MR. DARREN RAINKIE: Yes, the report wasn't
21 changed, the attachments were included this time.

22 MR. BOB PETERS: And in dealing with
23 pensions, I believe on page 30 of 46 of the document itself,
24 but in terms of the book of document it would be on page 92,
25 I understand that there might be two (2) issues related to

1 pensions, and one (1) is how to account for the pensions and
2 the second would be how to transition to IFRS. Would you
3 agree with that, Mr. Rainkie?

4 MR. DARREN RAINKIE: We'll make an
5 accountant out of you yet, Mr. Peters.

6 MR. BOB PETERS: No comment.

7 But in terms of how to account for pensions,
8 Manitoba Hydro is using this plus or minus 10 percent
9 corridor methodology, correct?

10 MR. DARREN RAINKIE: That's correct.

11 MR. BOB PETERS: And you have a couple of
12 options in terms of accounting for it. You can -- well,
13 first of all maybe just explain briefly what that corridor
14 method of accounting does.

15 MR. DARREN RAINKIE: When you have
16 experience gains and losses what you do is you measure the
17 quantum of those experience gains and losses against 10
18 percent of the greater of your plant -- your -- of your
19 plant assets or plant obligation. And if the quantum of
20 that experience gain or loss is outside of that calculation,
21 then you begin to amortize that into your -- your income,
22 Mr. Peters.

23 So it -- it's really a -- a means of
24 smoothing experience gains and losses. It -- it real --
25 realizes -- it recognizes that, you know, you're holding

1 these assets over a very long period of time for obligations
2 over a long period of time and you don't want your financial
3 position to overreact, if you like, to short-term changes in
4 the marketplace.

5 So I -- it -- it's -- it's a -- an accounting
6 Mr. Cathcart would call it smoothing -- a smoothing
7 mechanism, I think.

8 MR. BOB PETERS: All right. And in ad --

9 MR. DARREN RAINKIE: An accepted one.

10 MR. BOB PETERS: Well, as this corridor
11 accounting can be accepted, it would essentially take
12 Manitoba Hydro's \$200 million loss over a number of years to
13 -- to amortize it in terms of the impact?

14 MR. DARREN RAINKIE: That's right, Mr.
15 Peters, yeah.

16 MR. BOB PETERS: And the -- and the number
17 of years, Mr. Rainkie, would be related to the expected --
18 I'll call it service life of the employee group to which it
19 relates?

20 MR. DARREN RAINKIE: That's correct.

21 MR. BOB PETERS: And the second option in
22 terms of accounting for the pension issue is Manitoba Hydro
23 could take an actuarial gain or loss into the other
24 comprehensive income without changing the net income itself?

25 MR. DARREN RAINKIE: I think we're mixing up

1 a few things, Mr. Peters. Let's just -- let's just refrain
2 a second and talk about what options are open to us on
3 transition.

4 Under the new exposure draft that was
5 released in 2010, the options that we have narrow down to
6 one (1), and that is taking experience gains and losses into
7 other comprehensive income. Now, current IFRS has two (2)
8 options; let's see if I can get this straight, because next
9 to financial instruments, pension accounting is about the
10 most complex topic you can get.

11 So right now, under current IFRS, there are
12 two options: One, you can take that -- the accumulative
13 gain or loss to retain earnings and start over if you like,
14 or you can go back and apply an acceptable option under IFRS
15 and restate everything as at your transition date.

16 So, right now we've been monitoring the
17 comings and goings of these exposure drafts. We -- we think
18 that -- we have no reason to believe that -- that the option
19 of moving those -- their -- their loss position right now
20 into OCI will not be approved. The intelligence we have is
21 that that -- that standard will come through sometime in
22 2011, hopefully, and that's the option we're looking at
23 right now, just to -- to be clear where we kind of stand at
24 this moment.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: That implies --

4 MR. DARREN RAINKIE: Mr. Peters, sorry, did
5 I answer your original question? I -- I was just trying to
6 make -- I was just trying to make the options clear because
7 this is a fairly complex topic and then we can -- once we
8 understand what's available to us then we could, you know,
9 talk a little bit more about each option, if you like.

10 MR. BOB PETERS: Well, let's go back. You
11 talked about the transition and the -- the choices that can
12 be made. But in terms of the -- how to account for -- for
13 the pension impacts under IFRS, Mr. Rainkie, what options
14 does the Corporation have in that respect?

15 MR. DARREN RAINKIE: Well, there are a few
16 different parts to this, what we just talked about is the
17 treatment -- the treatment of experience, gains, and losses.
18 You know, one (1) of the other parts of this is -- we talk
19 about in the report is how you measure the expected return
20 from plant assets.

21 And definitely a change under IFRS is that
22 you no longer will be able to apply what's referred to as
23 the market-related value, you'll have to use the fair value
24 of those assets to calculate the re -- expected return on
25 those assets, Mr. Peters. So that's another part of this

1 complex equation to go through.

2 MR. BOB PETERS: Mr. Rainkie, is that report
3 from Ellement and Ellement still forthcoming?

4 MR. DARREN RAINKIE: Are you talking about
5 the -- the -- with respect to the benefits, Mr. Peters?

6 MR. BOB PETERS: Yes.

7 MR. DARREN RAINKIE: Yes, now that we've
8 moved out one (1) more year in terms of transition we have
9 to get those calculations done as at March 31st, 2011. So
10 we need to update those evaluations for that, Mr. Peters, so
11 within the next few months we should hopefully get those
12 evaluations complete and know the final amount.

13 I should say on that, I don't have a figure
14 for you, but I think that they are fairly immaterial
15 amounts. I think they'd be -- those adjustments would
16 probably be less than \$15 million -- 10 to \$15 million, but
17 we should wait until the evaluations are in before we get --

18 MR. BOB PETERS: All right.

19 MR. DARREN RAINKIE: -- too attached to that
20 number.

21 MR. BOB PETERS: All right. I appreciate
22 it. And thank you, Mr. Rainkie.

23

24

(BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Rainkie, are you able
2 to indicate if that \$15 million is a charge to retained
3 earnings or will that be in the operating expenses?

4 MR. DARREN RAINKIE: That would be a
5 retained earnings adjustment, Mr. Peters.

6 MR. BOB PETERS: All right. Thank you. Mr.
7 Chairman, I'd like to thank Mr. Rainkie for his assistance
8 on this matter, and also Mr. Martin, who has assisted him
9 ably from the back.

10 I'm going to turn to another area and maybe
11 could use a five (5) minute recess just to re-organize my
12 notes.

13 THE CHAIRPERSON: Sounds good.

14 MR. BOB PETERS: Thank you.

15

16 --- Upon recessing at 2:23 p.m.

17 --- Upon resuming at 2:43 p.m.

18

19 THE CHAIRPERSON: Okay. Welcome back,
20 everyone. Mr. Peters...?

21 MR. BOB PETERS: Yes. Thank you, Mr.
22 Chairman.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: I'd like to turn -- I'll

1 probably have most of my discussions with Mr. Warden for the
2 time being and he'll certainly avail himself of the
3 expertise of his panel-mates.

4 But, Mr. Warden, we had previously talked
5 about Manitoba Hydro capitalizing all their expenses related
6 to future capital projects such as Keeyask, Conawapa, and
7 Bipole 3, do you recall that?

8 MR. VINCE WARDEN: I do.

9 MR. BOB PETERS: And at Tab 13 of our first
10 book of documents we had some numbers that the Corporation
11 put forward. And in one (1) of the undertaking responses
12 Manitoba Hydro provided its treatment of various expenses
13 related to Conawapa, Conawapa version 1, as it was in my
14 mind back in the early '90's, correct?

15 MR. VINCE WARDEN: Yes.

16 MR. BOB PETERS: And while not broken out in
17 the materials, Manitoba Hydro had -- had done a number of
18 environmental assessments, and planning and routing studies,
19 relative to the transmission line Bipole 3 down the -- on
20 the east side of the province, correct?

21 MR. VINCE WARDEN: Limited studies, but yes,
22 there were some studies done.

23 MR. BOB PETERS: And those studies included
24 the environmental assessment studies as well as planning and
25 routing studies?

1 MR. VINCE WARDEN: We're -- we're talking
2 about Conawapa 1, now are we?

3 MR. BOB PETERS: No, I'm sorry, I was trying
4 to segue into Bipole 3, but --

5 MR. VINCE WARDEN: Well -- but --

6 MR. BOB PETERS: -- obviously I failed.

7 MR. VINCE WARDEN: -- sorry, but Conawapa 1
8 would have required a Bipole 3, and I -- I assumed you were
9 talking about Bipole 3, but are you talking about the
10 earlier construction of bi -- of Conawapa?

11 MR. BOB PETERS: No. I'm -- I'm -- I just
12 want to focus -- you've -- you've dealt with Conawapa, I
13 think, in the undertaking, and I'll -- I'll move from there
14 at this point in time, Mr. Warden.

15 And in terms of Bipole 3, whether it was back
16 when Conawapa was being first thought of, or more recently,
17 Manitoba Hydro was assessing east side routing.

18 MR. VINCE WARDEN: Yes, in a -- in a very
19 preliminary way.

20 MR. BOB PETERS: When you say, "in a
21 preliminary way," do you -- do -- how do you -- can you
22 quantify that?

23 MR. VINCE WARDEN: Quantify?

24 MR. BOB PETERS: Yeah.

25 MR. VINCE WARDEN: In terms of dollars

1 spent, I don't have that number immediately available. I
2 could -- I could determine that, but there wasn't -- the
3 studies weren't advanced to the point where there was a
4 specific road -- route chosen or the environmental impact
5 assessment was not -- was not conducted.

6 MR. BOB PETERS: Was there not an
7 environmental assessment or review on the east side
8 basically from the -- from the border all the way over to
9 Lake Winnipeg?

10

11 (BRIEF PAUSE)

12

13 MR. VINCE WARDEN: Not that I'm aware of,
14 Mr. Peters, actually.

15 MR. BOB PETERS: All right. Can you
16 undertake to provide the approximate costs of the east side
17 studies related to Bipole 3?

18 MR. VINCE WARDEN: Yes. Yes, I can do that.

19

20 --- UNDERTAKING NO. 20: Manitoba Hydro to provide
21 approximate costs of the east
22 side studies related to Bipole 3

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: And I -- I mean, where the

1 questions are going, Mr. Warden, is you've indicated what
2 you did with the Conawapa costs when it became clear that
3 Conawapa wasn't going to proceed in the early 1990s.

4 Wouldn't the same argument apply to the east
5 side Bipole costs once -- now that the Corporation knows
6 that --

7 MR. VINCE WARDEN: No --

8 MR. BOB PETERS: -- you won't be going down
9 the east side?

10 MR. VINCE WARDEN: No, I don't think so. I
11 think they're entirely different situations. In the studies
12 to do with the routing -- routing of a transmission line,
13 alternatives are considered, so this was all part of that
14 process of considering alternatives.

15 MR. BOB PETERS: Does that answer suggest
16 that whatever costs were incurred, and you'll provide us
17 with that information, but those costs were just added to
18 the total project costs that we would have seen in Tab 13 of
19 the first book of documents?

20 MR. VINCE WARDEN: Yes.

21 MR. BOB PETERS: And so the intention is to
22 keep them capitalized until Bipole 3 comes online?

23 MR. VINCE WARDEN: Correct.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: Now, Mr. Warden, is it
2 correct that Manitoba Hydro has maintained that prior rate
3 increases, prior to this Application, have not been sought
4 to prefund or precollect for future expenses?

5 MR. VINCE WARDEN: Well, I think any time we
6 have a rate increase that isn't required for -- strictly for
7 current operations and that there is a -- an addition to
8 retained earnings, that could be considered a form of
9 prefunding.

10 MR. BOB PETERS: So would you acknowledge
11 that in the test years presently before this Board,
12 certainly a portion then of the rate increases would be to
13 prefund future plans?

14 MR. VINCE WARDEN: Well, it -- it's more so
15 to maintain the financial ratios, the financial targets that
16 are so important to Manitoba Hydro -- Manitoba Hydro's
17 financial structure.

18 Any -- any time we generate cash internally
19 then we are funding projects, capital projects, for which
20 debt will not be required, which is a good thing.

21 MR. BOB PETERS: Well, and that's -- that's
22 in essence what can be taken to be happening here where
23 there is some -- some cash being generated internally that
24 will be used to pay the capital costs that are being
25 incurred of -- of capital expenses?

1 MR. VINCE WARDEN: Yeah, so we have a
2 capital target, a capital funding target, of one point two
3 zero (1.20) which means that we fund 120 percent of our
4 capital requirements from internally generated funds. So
5 any time we do that then we are, in effect, pre-funding or
6 providing the cash for those capital expenditures from
7 internal sources.

8 MR. BOB PETERS: Does the logic flow that if
9 -- if you weren't building on some of these capital projects
10 there would be no need for new debt?

11 MR. VINCE WARDEN: That logic would flow,
12 yes.

13 MR. BOB PETERS: And then it would flow that
14 there would be no need for rate increases to keep the debt
15 equity ratio in balance?

16 MR. VINCE WARDEN: Well, as long as our
17 forecast showed progress towards achieving or -- or
18 maintaining financial targets, then I would agree with that
19 statement. We -- we talked earlier about not having rate
20 increases in the early 1990s for that very reason because we
21 were making progress towards our financial targets,
22 limestone has just come into service and ratepayers were
23 receiving the benefits.

24 So that's how we provide benefits to
25 ratepayers is through low rates or zero rate increases as we

1 did at that time.

2 MR. BOB PETERS: You actually mentioned that
3 before and I didn't go back and check your prior annual
4 reports, Mr. Warden, but what kind of progress was being
5 made on the debt equity ratio back in the early '90s that
6 you referenced?

7 MR. VINCE WARDEN: We were making -- at that
8 time we were making record -- record profits for Manitoba
9 Hydro, net income was in the range of a hundred million
10 dollars per year and there was no reason -- there was no
11 plans to expand the generation system at that time so there
12 was no reason to impose rate increases on -- on consumers at
13 that time.

14 MR. BOB PETERS: Wuskwatim is planned in
15 service in 2012, is that still correct?

16 MR. VINCE WARDEN: Yes, first unit will come
17 -- should come into service approximately November/December
18 2011.

19 MR. BOB PETERS: And that's -- that's in the
20 second -- sorry, that's in the third quarter then of your
21 fiscal 2012 year?

22 MR. VINCE WARDEN: Yes.

23 MR. BOB PETERS: And when you say "the first
24 unit" what's the staging plans for the remaining units?

25

1 (BRIEF PAUSE)

2

3 MR. HAROLD SURMINSKI: The units are on --
4 are planned to be two (2) or three (3) months apart. Three-
5 unit planned.

6 MR. BOB PETERS: There's a total of three
7 (3) units and they're each coming in about two (2) or three
8 (3) months apart, is that the evidence?

9 MR. HAROLD SURMINSKI: That's right.

10 MR. BOB PETERS: Okay. Thank you. Mr.
11 Surminski, can we agree that the output from Wuskwatim is
12 not needed for Manitoba domestic load in the initial years,
13 in any event?

14 MR. HAROLD SURMINSKI: Yes, with the current
15 load forecast.

16 MR. BOB PETERS: Well, with the current load
17 forecast, as we've talked about -- I'm not sure if it was
18 this week or last time, Mr. Surminski, but initially
19 Wuskwatim wasn't needed until about 2022 for Manitoba
20 domestic consumption, would that be correct?

21 MR. HAROLD SURMINSKI: I recall when we
22 started the CEC process it was 2020.

23 MR. BOB PETERS: And since then it's -- it's
24 been -- it's fallen back in light of the -- the load
25 forecast and requirement, sir?

1 MR. HAROLD SURMINSKI: Meaning that first
2 generation is required after 2020?

3 MR. BOB PETERS: Yes, it would be after
4 2022, it could even be several years after that.

5 MR. HAROLD SURMINSKI: No, it's in the area
6 of 2021/'22.

7 MR. BOB PETERS: Does that take into account
8 the 1100 gigawatt hours that were shed from the load between
9 IFF-08 and 09, Mr. Surminski?

10 MR. HAROLD SURMINSKI: Yes, that was 2009
11 load forecast.

12 MR. BOB PETERS: And since then, since the
13 2009 load forecast, I think your evidence has been that the
14 Corporation is also now aware that additional industrial
15 load has dropped off and I'm, by memory, thinking about 600
16 gigawatt hours a year?

17 MR. HAROLD SURMINSKI: Yes. There was a
18 further reduction in the 2010 load forecast.

19 MR. BOB PETERS: And that -- that further
20 reduction, what it notionally will do, in any event, is push
21 out the date by which Wuskwatim generation is required for
22 Manitoba domestic load?

23 MR. HAROLD SURMINSKI: It would push out the
24 date of new generation, whether it's Wuskwatim or whatever.

25 MR. BOB PETERS: What is whatever?

1 Wuskwatim's the -- the next generation coming on line,
2 correct?

3 MR. HAROLD SURMINSKI: Yes, but it's
4 theoretically -- the in-service date with no new generation.

5 MR. BOB PETERS: All right. You were
6 answering more from a -- from a hypothetical perspective
7 relative to what is actually being constructed at this time?

8 MR. HAROLD SURMINSKI: Yes.

9 MR. BOB PETERS: Okay. Thank you.

10 MR. ROBERT MAYER: Before we leave that
11 point, it seems to me it wasn't all that long ago that you
12 told us that Wuskwatim was now required for -- for domestic
13 use and therefore the undertakings given to the -- or the
14 recommendations made by and given to the Clean Environment
15 Commission were no longer relevant.

16 This sounds like a significant change from
17 what we talked about last time we had this discussion. What
18 happened?

19

20 (BRIEF PAUSE)

21

22 THE CHAIRPERSON: Mr. Warden, we're prepared
23 to hear the response later if you want more time to reflect
24 on it. I'm just thinking of the --

25 MR. VINCE WARDEN: Sorry -- sorry about the

1 delay. We were talking about how dependable Brandon would
2 be in -- in the overall sequence if we were -- weren't to
3 build Wuskwatim, then Brandon would be required, and I --
4 it's -- as it is now, it's only for emergency purposes.

5 So that sort of complicated the answer for --
6 a little bit but perhaps Mr. Surminski could respond more
7 definitively to that.

8 MR. HAROLD SURMINSKI: Mr. Peters, I --
9 perhaps a correction. When I was referring to dates of next
10 generation, that was including Wuskwatim in the system, so
11 after Wuskwatim the dates are 2021/'22, that's including
12 Wuskwatim already in the system.

13 MR. BOB PETERS: Mr. Warden, from a -- help
14 me with the finances here in the IFFs that the Board has
15 seen and will see.

16 I took from your previous answers that
17 Wuskwatim will be recorded as an asset in service in fiscal
18 2012.

19 MR. VINCE WARDEN: Yes, in 2011/'12 fiscal
20 year, correct.

21 MR. BOB PETERS: And that will be an asset
22 coming in service even if it's only one (1) out of the three
23 (3) generators or units that comes on service?

24 MR. VINCE WARDEN: Yes, it's placed into
25 service progressively.

1 MR. BOB PETERS: And when an asset like
2 Wuskwatim comes in service do you bring in the costs all in
3 one lump sum, or do you only bring on one-third of the costs
4 as each of the three (3) units comes online?

5 MR. VINCE WARDEN: It would be one-third --
6 one-third of the costs as each unit comes on -- online.

7 MR. BOB PETERS: And in the IFF what year
8 does the debt related to Wuskwatim show up in the -- in the
9 IFF?

10 MR. VINCE WARDEN: Well, as any component of
11 a plant is placed in service, the interest that was formally
12 capitalizes -- that was capitalized ceases and that interest
13 gets charged to operations, so it's proportional to the
14 plant -- the timelines of the plant coming into service that
15 the interest -- associated interest would be charged to
16 income.

17 MR. BOB PETERS: So I -- the Board can take
18 from your answer, Mr. Warden, that at least one-third of the
19 capitalized expenses will come into income in the 2011/'12
20 fiscal year of the Corporation?

21 MR. VINCE WARDEN: Yes, one-third of the
22 expenses that were previously a work in progress will be
23 chan -- transferred to -- to fixed assets and the related
24 financing costs would also be borne by the income statement
25 of that year.

1 MR. BOB PETERS: And if perchance there's
2 two (2) generators that are brought in service in Manitoba
3 Hydro's fiscal 2011/'12 year then two-thirds (2/3) of the --
4 of the interest costs will be brought into the income
5 statement?

6 MR. VINCE WARDEN: Well, only -- not for the
7 entire year, it would only be proportional for the number of
8 -- of months that it would be in service.

9 MR. BOB PETERS: It would be pro-rated?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: But, it starts to come on
12 as soon as the unit goes live online, I guess, is the way
13 you'd say it?

14 MR. VINCE WARDEN: Correct.

15 MR. BOB PETERS: And the staging that Mr.
16 Surminski told us about of every two (2) to three (3) months
17 makes it look like there could be as many as two (2) units
18 in service in Manitoba Hydro's fiscal 2012?

19 MR. HAROLD SURMINSKI: Mr. Peters, I found
20 the in-service dates: October for -- 11th, for the first, if
21 everything goes according to schedule, December 2011 for
22 unit 2, and February of 2012. So all three (3) units could
23 be on in a fiscal year.

24 MR. BOB PETERS: So the -- so what's going
25 to happen is -- from what I understand then, is a hundred

1 percent of the costs attributable to what has been
2 capitalized will -- will come to the income statement in the
3 fiscal 2012 year, just to the extent that it's pro-rated
4 over the calendar months.

5 MR. VINCE WARDEN: Yes, assuming that we
6 meet the schedule as just indicated by Mr. Surminski, that's
7 correct.

8 MR. BOB PETERS: And is that schedule
9 proceeding as planned?

10 MR. VINCE WARDEN: Well, no, I -- I believe
11 we are running somewhat late, so the first unit is not
12 likely to go into service in October.

13 MR. BOB PETERS: And what's the reason for
14 running late on that, are you aware?

15 MR. VINCE WARDEN: Yes, there were some
16 technical issues with the -- well, I better not try to des -
17 - describe the technical issues, but there were some
18 technical issues that -- that delayed the -- will probably
19 delay the in-service date by --

20 MR. ROBERT MAYER: Is the word you were
21 looking for, concrete, Mr. Warden?

22 MR. VINCE WARDEN: No, no, not related to
23 concrete.

24

25

(BRIEF PAUSE)

1

2 CONTINUED BY MR. BOB PETERS:

3 MR. BOB PETERS: Technical issues implies
4 it's something that wasn't preplanned, Mr. Warden?

5 MR. VINCE WARDEN: Yeah, with any project of
6 that size, there are sometimes issues that arise, so it --
7 it doesn't go perfectly according to plan, but as far as
8 projects goes this one (1) has pretty much been 100 percent
9 on plan, but this is a fairly minor issue that will -- or
10 could -- could delay the project by one (1) or more months.

11 MR. BOB PETERS: Is there a cost implication
12 of this technical issue?

13 MR. VINCE WARDEN: Well, the cost will
14 likely be the increased interest that will be capitalized on
15 the project for whatever that delay period is.

16 MR. DAVID CORMIE: Mr. -- Mr. Peters, the
17 discharge ring, that's the embedded steel that surrounds the
18 turbine that rotates, was -- didn't pass the -- meet the
19 tolerance specifications, and some concrete had to be
20 removed and the discharge ring had to be repositioned, and
21 that resulted in the delay.

22 MR. BOB PETERS: I think we liked it when it
23 was a technical issue, Mr. Cormie, but thank you for that.

24 I -- I'm equating that to a cylinder in a car
25 as you're saying that, but you're telling me the ring is

1 mounted in the cylinder wall, so to speak, and there wasn't
2 enough clearance for the -- for the turbine to spin around
3 it -- spin --

4 MR. DAVID CORMIE: Yeah --

5 MR. BOB PETERS: -- in it.

6 MR. DAVID CORMIE: -- the tolerances for the
7 embedded steel components are -- are measured in
8 millimetres, and -- and they were -- they were installed
9 slightly off tolerance, and -- and the turbine man --
10 turbine installer wouldn't accept the -- the work. It --
11 you know, you couldn't proceed unless the embedded parts
12 were -- were put in as -- as designed, otherwise his -- his
13 work couldn't be successful.

14 MR. BOB PETERS: Is that the fault of one
15 (1) of the providers, the contractors, Mr. Cormie, or is --

16 MR. DAVID CORMIE: I don't -- I don't know
17 who -- who's at fault there, Mr. Peters.

18 MR. BOB PETERS: Mr. Warden, have you sicced
19 your team of lawyers on whoever Manitoba Hydro thinks is
20 responsible for what's going to amount to the increased
21 interest during the delay?

22 MR. VINCE WARDEN: They're all over it. No.
23 No, it's -- as Mr. Cormie said, there -- there's acceptance
24 that has to take place at various stages, and I don't think
25 at this point anybody assigning blame necessarily, so.

1 If there is -- if there is a claim to be made
2 though, that's -- that's part of the process.

3 MR. BOB PETERS: Mr. Warden, when Manitoba
4 Hydro was last before the Board talking of Wuskwatim and
5 it's capital costs, the number that resonates with me was an
6 estimate of 1.7 billion. Does that sound right. That was a
7 2007 cost update.

8

9 (BRIEF PAUSE)

10

11 MR. VINCE WARDEN: Yes, 1.6/1.7 billion, I
12 think -- I believe that is the number that we had -- we
13 discussed the last time we were before them.

14 MR. BOB PETERS: And that includes
15 transmission?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: Yeah. In the last three
18 (3) years, has there been a cost estimate update on that
19 \$1.7 billion number?

20 MR. VINCE WARDEN: I don't believe that
21 number has changed in the last three (3) years.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: Has the Manitoba Hydro

1 Electric Board asked for an update on that cost in the last
2 three (3) years?

3 MR. VINCE WARDEN: Well, typically capital
4 costs projections remain unchanged unless there's a reason
5 to change, so the Manitoba Hydro Board would have no reason
6 to ask for -- for an update.

7 MR. BOB PETERS: A number of your other
8 capital expenditures have been updated though, have they
9 not, Mr. Warden?

10 MR. VINCE WARDEN: Yes, and that's part of -
11 - again, part of the process, but not at -- as a request of
12 the -- of the Board. It's -- it's recogn -- was recognized
13 that cost estimates for Keeyask/Conawapa were -- were too
14 low and so they -- they've been revised upwards.

15 MR. BOB PETERS: Can you explain why in
16 three (3) years the cost of Wuskwatim doesn't increase from
17 the 1.7 billion, yet costs for Keeyask and Conawapa have
18 increased on a virtual annual basis?

19 MR. VINCE WARDEN: Well, basically because
20 Wuskwatim was that much further along in the process,
21 Wuskwatim was under construction, a lot of the contracts
22 were already let and fixed. That isn't the case with
23 Keeyask or Conawapa, they're still subject to -- to
24 tendering and -- and awarding and cost changes that may
25 occur in the interim.

1 MR. ROBERT MAYER: And, Mr. Warden, the --
2 the 1.6 billion is significantly higher than the number that
3 the Clean Environment Commission saw way back in the day
4 when we were doing those hearings.

5 MR. VINCE WARDEN: Yes, and at the time
6 those hearings were conducted -- or subsequent to the time
7 those hearings were conducted there was huge increases in
8 materials and costs.

9

10 CONTINUED BY MR. BOB PETERS:

11 MR. BOB PETERS: Can the Board take from
12 your answer, Mr. Warden, that Hydro has done a budget to
13 actual comparison on the Wuskwatim project?

14 MR. VINCE WARDEN: Well, yes, we review the
15 costs of Wuskwatim. Every month we look at the actual costs
16 incurred, looked at -- look at the estimated cost to
17 completion and so tho -- that -- those costs are monitored
18 on an ongoing basis.

19 MR. BOB PETERS: And it's -- it's your
20 evidence to this Board that it is still on budget and it
21 will be delivered at \$1.7 billion?

22 MR. VINCE WARDEN: Subject to the -- the
23 delay that -- that -- yes, the technical issue delay that we
24 talked about.

25

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Can you provide an order of
4 magnitude on a monthly basis of what the capitalized
5 interest is on the Wuskwatim project?

6

7 (BRIEF PAUSE)

8

9 MR. VINCE WARDEN: Mr. Peters, are you
10 looking for a buildup in that amount or just what the
11 annualized capitalized interest would be?

12 MR. BOB PETERS: I was actually just looking
13 for on a monthly basis what the capitalized interest would
14 be not -- not accumulated.

15 MR. VINCE WARDEN: Okay.

16

17 (BRIEF PAUSE)

18

19 MR. VINCE WARDEN: Mr. Peters, it looks like
20 it would be in the range of 8 to \$9 million per month.

21 MR. BOB PETERS: The \$1.7 billion, that's
22 now in featured capitalized costs, for the most part, Mr.
23 Warden?

24 MR. VINCE WARDEN: It's in work in progress.

25 MR. BOB PETERS: And that's included in

1 Manitoba Hydro's long-term debt in 2012?

2 MR. VINCE WARDEN: Well, the -- any funding
3 that we would have related to Wuskwatim would be for the
4 most part included in the long-term debt. Again, getting
5 back to our capital coverage, some of our major generation
6 transmission is covered just by virtue of the fact that
7 we're generating more internal cash than is needed for our
8 base capital.

9 MR. BOB PETERS: In the long-term debt of
10 Manitoba Hydro in 2010, are there are any Wuskwatim costs
11 included in that, Mr. Warden?

12 MR. VINCE WARDEN: So, Mr. Peters, as I
13 understand your -- your question to be on the balance sheet
14 of Manitoba Hydro for 2010, are there any Wuskwatim related
15 long-term debt costs?

16 MR. BOB PETERS: Yes, sir.

17 MR. VINCE WARDEN: The answer is yes.

18 MR. BOB PETERS: And they will all be on the
19 balance sheet by the time the project comes in service,
20 correct?

21 MR. VINCE WARDEN: Correct.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: Mr. Warden, are you able to

1 provide a schedule of the long-term debt on Wuskwatim that -
2 - that -- that appears on the balance sheet, the -- Tab 4 of
3 the book of documents, I guess, page 4 of 7 or page 16 on
4 the -- on the top right-hand corner of the first volume?

5

6 (BRIEF PAUSE)

7

8 MR. VINCE WARDEN: So when we go to the
9 market for a long-term debt we don't specifically borrow for
10 Wuskwatim or any other project. Whenever borrowings are
11 required in accordance with our cash forecast we go to the
12 market and -- and borrow to -- to fund our -- all of our
13 programs.

14 So of the amount that's included in the 7.8
15 billion of long-term debt in '09/'10, it would not be
16 possible to specifically isolate Wuskwatim. We could make
17 some broad assumptions by just looking at how much we funded
18 internally during the construction of Wuskwatim and
19 approximate the number that was necessary to borrow through
20 long-term debt, but -- but as far as specifically going out
21 to the market and say we're borrowing for Wuskwatim, we just
22 don't do that.

23 MR. BOB PETERS: Okay. To -- to make those
24 assumptions would you just take your capital expenditure
25 forecast for Wuskwatim in particular over the years and

1 relate that as the long-term debt borrowings to support the
2 Wuskwatim project?

3 MR. VINCE WARDEN: Yes. We haven't done
4 this -- gone through this exercise before but if we were to
5 do that we would look at expenditures on Wuskwatim, as you
6 said, over the last number of years, and look at how much
7 internally-generated funds we were able to generate over
8 those years over and above our base capital requirements,
9 make some assumption about how much went to Wuskwatim versus
10 the other capital requirements we had, such as the Manitoba
11 Hydro new head office and other projects that were under
12 construction at the time, pro-rate that somehow or another
13 and come up with some kind of an approximate number. But as
14 I say, it would be very, very approximate.

15 MR. BOB PETERS: I think if you would
16 provide that undertaking to -- to -- to provide a schedule
17 of the long-term debt that Manitoba Hydro assumes was
18 related to the Wuskwatim project, together with listing of
19 any other assumptions, Mr. Warden, that would be helpful to
20 the Board.

21 MR. VINCE WARDEN: Okay. We'll undertake to
22 do that. I'll look at the transcript and see how we said
23 we'd do it.

24

25 --- UNDERTAKING NO. 21: Manitoba Hydro to provide a

1 schedule of the long-term debt
2 that Manitoba Hydro assumes was
3 related to the Wuskwatim project,
4 together with listing of any
5 other assumptions
6

7 MR. ROBERT MAYER: Mr. Warden, I'm still
8 unclear -- and I know that the Chair said we could get a --
9 an answer later -- I'm still unclear as to where the --
10 whether we are now saying, as we did at the last hearing,
11 that Wuskwatim power is now needed for local -- or for
12 Manitoba generation, or for Manitoba reliability. Where are
13 we at?

14 MR. VINCE WARDEN: I believe Mr. Surminski
15 was going to put that on the record. Are you able to -- it
16 -- it -- it really depends on our -- our forecast of -- of -
17 - of load, domestic load versus our -- our supply of
18 generation and just comparing that, and I believe it's --
19 it's filed.

20 So if Mr. Surminski isn't ready to do that
21 immediately, we can undertake to do that.

22 MR. ROBERT MAYER: Thank you very much. It
23 was quite an issue last time, I know, and when we were --
24 because I was particularly concerned about the relationship
25 with some of the figures that were given to the Clean

1 Environment Commission, and I recall Mr. Surminski stating
2 at the time of the last hearing, and I can't remember
3 exactly which of the last hearings it was, that you are now
4 required that for Manitoba's domestic use.

5 MR. VINCE WARDEN: We'll confirm that, Mr.
6 Mayer.

7 MS. HAROLD SURMINSKI: Yes, and somewhat --
8 the load forecast has dropped off, so it -- you know, it --
9 it could change over the years. You know, one (1) year we
10 say it is, and then two (2) years later, as the load
11 forecast changes, it's not.

12 And to me that's a -- it's somewhat of an
13 academic exercise of saying whether it is or not; we -- we
14 have to pay for the project, and does it really matter
15 whether it's classified as being for domestic or -- or
16 export?

17 MR. ROBERT MAYER: I -- I don't generally
18 answer questions, Mr. Surminski, but yes, to me it does
19 because Hydro puts some significant credibility on certain
20 returns, or at least the Clean Environment Commission puts
21 certain credibility on returns that Hydro had projected, and
22 I know that I was particularly concerned when we got the
23 answer last time that we don't have to deal with that any
24 more because it's now a -- required for domestic uses.

25 I -- I see Mr. Williams has a recollection of

1 that conversation as well, and also the recollection of what
2 was said at the clean environment commission hearings
3 because he was hearing, but that's why I have some concerns.

4 MS. HAROLD SURMINSKI: Yes, and I recall the
5 -- the discussion at the time, and in fact we did come back
6 with a -- at least a calculation -- theoretical calculation
7 of, I think it was, the internal rate of return of -- of the
8 plant because you wanted to compare it to the time of the
9 clean environment commission.

10 So even though we said it was required for
11 domestic, we did a calculation very similar to what we had
12 done for the CEC using exactly the same methodology and came
13 back with a -- with an estimated internal rate of return.
14 So it was an academic exercise, really.

15 MR. VINCE WARDEN: Well, Mr. Mayer, there's
16 no reason why we can't look at the current load forecast,
17 make some adjustments for what we know has transpired in the
18 interim, and give you our best estimate when Wuskwatim will
19 be required to serve the Manitoba load.

20 MR. ROBERT MAYER: Thank you very much.

21 MR. VINCE WARDEN: I think there's one (1)
22 undertaking there.

23

24 --- UNDERTAKING NO. 22: Manitoba Hydro to look at the
25 current load forecast, make some

1 adjustments for what they know
2 has transpired in the interim,
3 and give their best estimate when
4 Wuskwatim will be required to
5 serve the Manitoba load
6

7 CONTINUED BY MR. BOB PETERS:

8 MR. BOB PETERS: Mr. Warden, back to the
9 undertaking that I was extracting from you, where you
10 indicated that you'd have to make some assumptions in terms
11 of the long term debt that was assigned or ascribed to
12 Wuskwatim.

13 You made it sound like the Corporation was
14 not putting the entire \$1.7 billion into construction work
15 in progress. Is that, in fact, what happened?

16 MR. VINCE WARDEN: Oh, no, not at all. No,
17 the entire expenditure goes into work in progress. Now,
18 you're -- you were asking how that expenditure was funded.

19 Is it funded by long-term debt, or is part of
20 it funded from internally-generated funds, and it's both.
21 So it's both long-term debt and internally-generated funds,
22 and in order to answer your question as to how much by long-
23 term debt, we'd have to make some assumptions about the
24 borrowings that transpired over that period of time.

25 MR. BOB PETERS: Then what you're telling

1 the Board is that some of the capital costs for Wuskwatim
2 have been already paid for before today.

3 MR. VINCE WARDEN: Not paid for. It doesn't
4 get into rate base until such time as -- as we put the plant
5 in service. We're talking about cash versus -- versus
6 expense.

7 MR. ROBERT MAYER: I was going to say,
8 nobody is suggesting that all those workers who have been
9 working there for several years, they're still waiting to
10 get paid. We -- we know that cash has certainly gone in
11 there.

12 MR. VINCE WARDEN: Right, and some of that
13 cash was provided from long-term borrowings, and some was
14 provided through our normal operations, and I think what Mr.
15 Peters is asking is what's the split, and we'll -- we'll
16 develop something in that front.

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: Mr. Warden, you -- your
20 answer to me was that the entire expenditure related to
21 Wuskwatim will -- goes into construction work in progress,
22 correct?

23 MR. VINCE WARDEN: Correct.

24 MR. BOB PETERS: And that would be \$1.7
25 billion?

1 MR. VINCE WARDEN: Yes.

2 MR. BOB PETERS: And when we -- the Board
3 looks at Tab 13 of the first volume of Board counsel book of
4 documents on page 67, and it looks to the Wuskwatim
5 expenditures, it's not going to find the \$1.7 billion, is
6 it?

7 MR. VINCE WARDEN: Sorry, would you just --

8 MR. BOB PETERS: Sure. If you go -- if you
9 go to Tab 13 of the book of documents, and it's a response
10 to PUB Manitoba Hydro First Round 19. It's on page 67 of
11 the entire booklet in the top right-hand corner.

12 If the Board goes down and adds up the
13 Wuskwatim capitalized costs, it's -- it's going to come up
14 with, and I think we had some adjustments because of the --
15 the transmission related to Wuskwatim, there was a credit
16 given, but it's probably more in the neighbourhood of \$350
17 million shown there. Would that be correct?

18 MR. VINCE WARDEN: Yes, that was at March
19 31st, 2009, but if we were to prepare a similar table as at
20 this date, it -- it would definitely include all the costs
21 associated with Wuskwatim.

22 MR. BOB PETERS: And I'm not asking you to
23 do that, Mr. Warden, but your -- your -- are you telling the
24 Board that if you spent \$400 million up until March 31 of
25 '09, the Corporation would have been -- would have spent

1 about 1.3 billion in the last -- in the year following that?

2 MR. VINCE WARDEN: It would have spent -- if
3 that's -- if this does represent, I think -- as you pointed
4 out, there was some adjustments to this table, but if this
5 does represent the amount that was spent as at March 2009,
6 then by the time the plant goes into service in late 2011,
7 early 2012, yes, it will be that entire amount.

8 MR. BOB PETERS: Okay. And then just to
9 keep my -- my mind clear between the cash and the expense
10 side of the -- the equation, the fact that the 1.7 billion
11 goes into construction work in progress it then becomes a
12 question of how it's paid for, correct?

13 MR. VINCE WARDEN: Well, the -- the cash has
14 been paid -- as Mr. Mayer indicated, cash has been -- been
15 paid to employees, to workers, to contractors, to suppliers
16 of material as the plant was being constructed.

17 So all that cash has been paid, and how it's
18 recovered from ratepayers is -- is another -- another
19 matter. That's when it goes into our -- into our fixed
20 assets, and we start depreciating it and recovering the
21 costs in that manner.

22 MR. BOB PETERS: And some of the cash that's
23 been paid to date for the things like the labour expenses,
24 that came out of internally-generated funds.

25 MR. VINCE WARDEN: Correct.

1 MR. BOB PETERS: All right. And I'll await
2 the answer to the undertaking to see if there's anything
3 further that the Board requires on that.

4

5 (BRIEF PAUSE)

6

7 MR. BOB PETERS: Mr. Warden, when we get to
8 2013, and Wuskwatim is now putting out kilowatt hours of
9 energy, the IFF depicts that Manitoba Hydro is forecasting
10 an even larger rate increase will be needed once Wuskwatim
11 comes online, correct?

12 MR. VINCE WARDEN: Yes, we are forecasting
13 rate increases higher in the -- in the remaining years of
14 the ten (10) year financial forecast.

15 MR. BOB PETERS: And the current requests
16 are for 2.9 percent a year, and the IFF has used 3.5 percent
17 a year as a rate increase, correct?

18 MR. VINCE WARDEN: Well, that's what's
19 indicative in the IFF, but of course that doesn't represent
20 an Application, and a lot of considerations will be made
21 before a rate application is -- is submitted for -- to this
22 Board for approval.

23 MR. BOB PETERS: Yes, and -- and I
24 appreciate you've told the Board that already, but the 3.5
25 percent is used as one (1) of the assumptions going forward

1 in the IFF to generate additional revenues against the costs
2 that are going to be incurred.

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: Would it be fair to say
5 that all or part of that additional rate increase would go
6 to pay the Wuskwatim costs as they come down to the income
7 statement in 2013?

8 MR. VINCE WARDEN: No. No, it wouldn't be
9 fair to say that. There are a number of different cost
10 increases that are being incurred that result in -- in a 3.5
11 percent rate increase being projected for many variables in
12 the forecast, as we've been talking about over the preceding
13 days of this Hearing. So, no, to attribute that to
14 Wuskwatim would not be a -- a good assumption.

15 MR. BOB PETERS: It would be a good
16 assumption to ascribe part of those potential future rate
17 increases to Wuskwatim costs, though, wouldn't it?

18 MR. VINCE WARDEN: Wuskwatim -- and this
19 will be part of the undertaking or perhaps will be part of
20 the undertaking that will be filed, Wuskwatim was originally
21 being planned as a -- as a merchant plant, so it was
22 profitable to bring Wuskwatim in -- into service, and so as
23 a stand-alone venture it would not have had a impact on --
24 on rates. In fact if anything it would have a positive
25 impact.

1 MR. BOB PETERS: I'm not sure I -- I
2 understand that answer relative to the question, Mr. Warden.
3 Wouldn't some of the ongoing rate increases be required to
4 pay what will become additional costs attributable to
5 Wuskwatim?

6 MR. VINCE WARDEN: Well, as I mentioned
7 originally, Wuskwatim was being put forward as a merchant
8 plant and -- and all of the costs that would be incurred to
9 finance and operate Wuskwatim would be derived from the
10 export market and on a -- and on the basis of profit.

11 MR. BOB PETERS: And while that may have
12 been the original plan that plan has changed, correct?

13 MR. VINCE WARDEN: Well, it has because of
14 the load forecasts within Manitoba which have been changing
15 again, and with some of the recent drop-off in -- in load
16 and what may be occurring over the next few years in
17 Thompson and elsewhere that ultimate date when Wuskwatim
18 will -- will be required to serve the Manitoba load will be
19 part of the undertaking that we're going to be providing.

20 If we had continued to, though, have
21 Wuskwatim solely for the purpose of the export loa -- export
22 -- to serve export customers, then I assume that given that
23 the estimate for Wuskwatim has not changed dramatically it
24 would still be a profitable venture on -- as a -- on a
25 stand-alone basis.

1 MR. ROBERT MAYER: I'm assuming that that
2 assumes at least some upward movement in export pricing?

3 MR. VINCE WARDEN: Yes.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: And there's no long-term
7 contract for the output of -- of Wuskwatim?

8 MR. DAVID CORMIE: Mr. Peters, I think it
9 would be safe to assume that the NSP sale extension would
10 not have been possible after 2015 without the additional
11 resources that Wuskwatim is bringing into service.

12 MR. BOB PETERS: We'll come back to that, I
13 think, Mr. Cormie, when we look at some of the power
14 resource plans and we can revisit that issue. Mr. Warden,
15 the IFF that's before the Board, that's IFF-09 again in Tab
16 4 of the first book of documents of Board counsel, it shows
17 a 3.5 percent rate increase going forward from 2013 up
18 until, I suppose, 2020 when it is assumed that Keeyask was
19 assumed to come online in 2020 at that time, correct?

20 MR. VINCE WARDEN: That's right.

21 MR. BOB PETERS: And after Keeyask was
22 assumed to come online the rate increase drops down to 2
23 percent in the IFF, correct?

24 MR. VINCE WARDEN: Yes.

25 MR. BOB PETERS: And there's no debt

1 increases shown after 2020 in the IFF, is that also correct?

2

3

(BRIEF PAUSE)

4

5

MR. VINCE WARDEN: Mr. Peters, I'm not sure
6 what your reference is for no debt increases beyond 2020,
7 but yes, there -- there -- there would be, there would be
8 long-term debt increases beyond that date.

9

10

(BRIEF PAUSE)

11

12

MR. BOB PETERS: I -- I was just looking at
13 the balance sheet, Mr. Warden, on page 17 under Tab 4 of
14 Board Counsel's first book of documents, PUB Exhibit 15.
15 The -- the long-term debt virtually plateaus at or about --
16 about that time; it's not increasing at the rate it was
17 previously?

18

MR. VINCE WARDEN: Well, tha -- that's
19 right, because by that time we have this -- based on IFF-09,
20 we would have spent the majority of funds on -- on Keeyask,
21 certainly, and also Conawapa coming into service, and I
22 believe in IFF-09 it was in 2022.

23

So a lot of the expenditures, a lot of the
24 borrowing would have taken place in that first decade and it
25 would plateau, as you say, but it still rises somewhat.

1 MR. BOB PETERS: For a few years it does, I
2 -- I grant you that, right?

3 MR. VINCE WARDEN: Yes, yes.

4 MR. BOB PETERS: But would it -- would it be
5 a logical conclusion, then, that -- that by -- by 2020 or
6 there-and-about Keeyask would be essentially paid for, such
7 that additional rate increases wouldn't be required?

8 MR. VINCE WARDEN: Well, again, when you say
9 "paid for," it's -- the cash would have been paid to build
10 the plant. It's not paid for in terms of recovering the
11 costs.

12 MR. BOB PETERS: The rate recovery has yet
13 to occur until it -- after it comes in service?

14 MR. VINCE WARDEN: Yes.

15 MR. BOB PETERS: But the cash outlays to
16 physically construct the infrastructure will have already
17 been paid out of internally-generated funds as well as, I
18 suppose, any borrowed debt?

19 MR. VINCE WARDEN: Yes.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: I'm going to try to get
24 this question in before Ms. Ramage jumps to the microphone.
25 But has Manitoba Hydro made public the cost on an energy

1 basis of what Wuskwatim output will be on a -- as a stand-
2 alone plant?

3

4 (BRIEF PAUSE)

5

6 MR. VINCE WARDEN: I don't really know the
7 answer to that, Mr. Peters. I am trying to think of what
8 forum that might have come out of. Mr. Brennan might have
9 made that public at the committee of the legislature; not --
10 not certain.

11 MR. BOB PETERS: All right, then. Instead
12 of using Manitoba Hydro's figures let's -- let's see if --
13 see if you'll use my figures and you can provide whatever
14 commentary you want with respect to them, but if I take the
15 \$1.7 billion capital cost of Wuskwatim and associated
16 transmission, I assume the Corporation is going to want to
17 have interest charges against that? That would be a
18 reasonable expectation in -- in terms of what the
19 Corporation will incur?

20 MR. VINCE WARDEN: The costs that we will
21 recover from someone be it -- be that domestic rate payers
22 or export customers, yes.

23 MR. BOB PETERS: Yeah, it'll include
24 interest, it'll include depreciation?

25 MR. VINCE WARDEN: Yes.

1 MR. BOB PETERS: And there'll be an
2 operating and maintenance component and maybe even a -- a
3 tax component or a payment to the province component.

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: So when I do my numbers --
6 and -- and let's just use these as my numbers, Mr. Warden,
7 and see if you'll -- if you'll agree. I'm going to assume 6
8 percent interest, I'm going to assume 2 percent depreciation
9 for a total of 8 percent. And if I do the math, 8 percent
10 of 1.6 billion is about \$136 million a year.

11 You'll accept that, subject to --

12 MR. VINCE WARDEN: With you --

13 MR. BOB PETERS: -- check?

14 MR. VINCE WARDEN: -- with you so far, yeah.

15 MR. BOB PETERS: All right. I actually left
16 my calculator elsewhere. And on top of that \$136 million
17 there's going to be some O&M expenses and I -- I just put on
18 an extra 1 percent O&M expenses so I'm now at \$150 million a
19 year for the cost of the Wuskwatim plant.

20 Can you work with my number, Mr. Warden?

21 MR. VINCE WARDEN: Okay.

22 MR. BOB PETERS: You can tell me at any time
23 if you and your colleagues disagree with the number and why
24 and that's all fair. But I'm going to ask you to -- to
25 assume then that it's \$150 million a year of costs that have

1 to be paid through somebody's rates to pay Manitoba Hydro
2 for this plant.

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: And then if I want to
5 convert that on an energy basis, I want to look to see what
6 the output of this plant is -- and I'm not sure you and the
7 Vice Chair have settled your differences on that yet, but I
8 -- I picked up 1,500 gigawatt hours per year of energy
9 output.

10 MR. VINCE WARDEN: That sounds right.

11 MR. BOB PETERS: And -- and coincidentally
12 it's a nice round number because when you use \$150 million a
13 year and you have an output of 1,500 gigawatt hours per year
14 it translates into ten (10) cents a kilowatt hour.

15 Are you with me on how I got there?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: Now, when I take that ten
18 (10) cents a kilowatt hour we know that's more than what
19 Manitoba Hydro currently charges in its domestic rates,
20 correct?

21 MR. VINCE WARDEN: Yes.

22 MR. BOB PETERS: And we know that -- we
23 might not know this in terms of whether the export prices
24 are going to command at least ten (10) cents a kilowatt
25 hour, so that's perhaps an unknown that we have at this

1 point in time. But we do know from Tab 6 of the book of
2 documents that the assumed export prices that Manitoba Hydro
3 is going to recover on average are going to be less than ten
4 (10) cents a kilowatt hour, at least out to 2017 and '18.

5 You'll accept that, Mr. Warden?

6 MR. VINCE WARDEN: I'll accept that for the
7 time being, yes.

8 MR. BOB PETERS: Yeah. And that's Manitoba
9 Hydro's -- I appreciate it's the IFF-09 forecast and it may
10 have changed somewhat, but the average export prices aren't
11 expected to climb up to that range for some period of time.

12

13 (BRIEF PAUSE)

14

15 MR. VINCE WARDEN: Mr. Peters, I think your
16 last question was with respect to prices on the export
17 market and that's maybe -- I'll let Mr. Cormie respond to
18 that question.

19 MR. DAVID CORMIE: Could you re-ask the
20 question, Mr. Peters?

21 MR. BOB PETERS: I was looking, Mr. Cormie,
22 at Tab 6 of the book of documents, page 25, in the top
23 right-hand corner, and I was looking at Manitoba Hydro's
24 total export sales and the average export price that
25 Manitoba Hydro was forecasting was less than ten (10) cents

1 a kilowatt hour at least out till 2017 and '18.

2 MR. DAVID CORMIE: Yes, I see those prices.

3 MR. BOB PETERS: I'm not trying to repeat a
4 request from the Vice Chair, but I understand that -- Mr.
5 Surminski, Manitoba Hydro ran a hypothetical internal rate
6 of return related to Wuskwatim based on what was known back
7 in the days you were before the Clean Environment
8 Commission.

9 MR. HAROLD SURMINSKI: Yes, in this forum we
10 were asked to do a calculation based on the same assumptions
11 that we had at the Clean Environment Commission, yes.

12 MR. BOB PETERS: And -- and that was done at
13 the last GRA?

14 MR. HAROLD SURMINSKI: I believe that's
15 right, yes.

16 MR. BOB PETERS: And can you tell the Board,
17 given the changes in the US export markets, how would that
18 analysis be impacted today?

19 MR. HAROLD SURMINSKI: I would see, yes, the
20 internal rate of return, I would see it being lower than it
21 was at that time.

22 MR. BOB PETERS: It would be lower than it
23 was in 2008 when you were before the Board, this Board?

24 MR. HAROLD SURMINSKI: Yes.

25 MR. BOB PETERS: And in 2008, it would have

1 been lower than what it would have been when you were before
2 the Clean Environment Commission in approximately 2005?

3 MR. HAROLD SURMINSKI: 2004, yes. It -- it
4 was -- the numbers I recall -- well, I wouldn't say exactly,
5 but it was from ten (10) down to around the 7 percent area.

6 MR. BOB PETERS: Has Manitoba Hydro done a
7 revised net present value analysis for this plant now that
8 it's virtually complete?

9

10 (BRIEF PAUSE)

11

12 MR. VINCE WARDEN: Mr. Peters, maybe while
13 Mr. Surminski's getting that response -- excuse me. Just
14 going through your -- your high level calculations of -- of
15 a cost of ten (10) cents per kilowatt hour, which certainly,
16 based on the cost of -- of Wuskwatim and the interest
17 depreciation related cost does not sound unreasonable.

18 However, when you -- when you consider -- and
19 you just reviewed the price -- the export prices with Mr.
20 Cormie and -- and we're looking at ten (10) cents starting
21 to occur in -- in 2019 -- 2018/'19 or earlier. So to build
22 a plant that costs ten (10) cents per kilowatt hour that's
23 going to last for a hundred years and to get the return on
24 that investment starting six (6) or seven (7) years hence,
25 sounds like a really good investment; does it not?

1 MR. BOB PETERS: You're predicating that
2 response, Mr. Warden, on the export prices rising to where
3 the Corporation has them in their forecast, correct?

4 MR. VINCE WARDEN: Well, I was just going
5 through the -- the table you -- you pointed out in your book
6 of documents, Mr. Peters, and that's -- that is the forecast
7 of export prices.

8 MR. BOB PETERS: That was the IFF-09
9 forecast?

10 MR. VINCE WARDEN: It is.

11 MR. BOB PETERS: Yeah.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: I'm not sure if I was
16 waiting for an answer from the end of the table or not
17 there.

18 MR. HAROLD SURMINSKI: I was trying to
19 recall also what your question was. I believe it was the
20 net present value of the Wuskwatim plant. I -- I think.

21 How -- we have difficulty in formulating the
22 problem around that. What is the -- the cost and what is
23 the benefit that we are trying to determine in order to --
24 to get the net present value here.

25 MR. BOB PETERS: Would you be able to, Mr.

1 Surminski, provide the Board with, let's do three (3)
2 documents: 1) is the internal rate of return calculation
3 you did before the Clean Environment Commission; the second
4 would be to provide the PUB response you gave last time you
5 were before the Board on a GRA and re-ran your calculation;
6 and the third would be for you to rerun that calculation
7 again using the -- the now known or now revised forecasts of
8 export prices.

9 Would that be possible, sir?

10 MS. HAROLD SURMINSKI: Mr. -- Mr. Peters,
11 could you clarify the first two (2)?

12 MR. BOB PETERS: Yeah, the -- the first two
13 (2) you've already done. What I --

14 MS. HAROLD SURMINSKI: That's what I
15 thought.

16 MR. BOB PETERS: -- what -- one (1) is what
17 you filed with the Clean Environment Commission and the
18 second is what you filed with this Board at the last GRA and
19 the third one (1) will require you to rerun your
20 calculations based on current information, and I guess the
21 most current information we have here is IFF-10.

22 MS. HAROLD SURMINSKI: Yes, we'll have to
23 investigate that, but it sounds like it's a -- it's a
24 possible exercise. But I'll get back to you if -- if there
25 is difficulty with that.

1 --- UNDERTAKING NO. 23: Manitoba Hydro to provide the
2 Board with: 1) the internal rate
3 of return calculation done before
4 the Clean Environment Commission;
5 2) the PUB response given last
6 time they were before the Board
7 on a GRA, and re-ran their
8 calculation; 3) to rerun that
9 calculation again using the now
10 known or now revised forecasts of
11 export prices
12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: Yeah. And -- and Mr.
15 Warden, let's -- let's join issue on the last answer you
16 gave me about, you know, Wuskwatim is a good investment if
17 it's going to have a positive return within, you know, four
18 (4), five (5), six (6) years, or whatever it's going to be.

19 You've acknowledged that that's predicated on
20 the assumptions coming to fruition?

21 MR. VINCE WARDEN: Do you mean the -- the
22 assumptions of export prices?

23 MR. BOB PETERS: Yes, sir.

24 MR. VINCE WARDEN: It is, but having said
25 that, Wuskwatim -- we can't lose sight of the fact that

1 Wuskwatim is -- is still required to serve the Manitoba
2 load, so, absent Wuskwatim, there would have to be some
3 other source of generation there.

4 So I'm not sure whether we're try -- trying
5 to rejustify Wuskwatim or not through this exercise, but I
6 think the only point I was making going through your
7 scenario, your numbers, Mr. Peters, is that as an
8 investment, if you're looking at it strictly as an
9 investment, it looks pretty good.

10 MR. BOB PETERS: It also raises some issues,
11 does it not, Mr. Warden, like intergenerational equity
12 issues?

13 MR. VINCE WARDEN: No, I don't think so. I
14 mean, if we were charging exorbitant rate increases to fund
15 Wuskwatim for a future generation, that would be different,
16 but we aren't.

17 I mean, our -- our rate increases are very
18 moderate. In fact, they're lower than almost any other
19 utility in Canada during the period that we were building
20 Wuskwatim.

21 MR. BOB PETERS: You're -- I'm sorry.

22 MR. VINCE WARDEN: So -- so I don't think we
23 have an intergenerational equity issue here at all.

24 MR. BOB PETERS: You're referring to the 3
25 1/2 percent rate increases that are forecast in the IFF

1 going forward?

2 MR. VINCE WARDEN: No, I was referring to,
3 if you go back to Exhibit 12 and compare our rate increases
4 while Wuskwatim was under construction, compared to other --
5 other utilities who have -- who have had rate increases
6 during that period of time, Manitoba Hydro's rate increases
7 were virtually the lowest in -- in the country, with one (1)
8 -- one (1) exception.

9 So you were talking about it being a possible
10 intergenerational inequity to build Wuskwatim and charge
11 ratepayers for that. That hasn't happened.

12 MR. BOB PETERS: Well, the costs of
13 Wuskwatim under Manitoba Hydro's financial model have not
14 yet come to roost on the ratepayers of Manitoba Hydro.

15 MR. VINCE WARDEN: No, but as I mentioned,
16 we do need to look at new generations to provide -- provide
17 for the Manitoba load growth at some point and we'll --
18 through the undertaking that we're putting forward, we'll
19 determine exactly what that point is.

20 The in -- we -- we can't expect incremental
21 generation to be the same as embedded cost of generation, so
22 there's going to be some higher costs incurred.

23 MR. BOB PETERS: Well, and -- and I don't
24 know that anybody's arguing against that position, Mr.
25 Warden. I think what people are trying to explore is -- is

1 how much higher are those costs, and how are those costs
2 going to be recovered, and what are the risks involved in
3 recovering those costs.

4 MR. VINCE WARDEN: Okay. And we have no
5 difficulty -- no difficulty with providing that information.
6 I -- I was just trying to respond to your suggestion that
7 there was inequities -- intergenerational inequities.

8 MR. BOB PETERS: Well, then let me continue
9 on that. You're asking the ratepayers of today to pay rate
10 increases to help fund the construction of Wuskwatim when
11 that energy isn't needed by Manitobans today?

12 MR. VINCE WARDEN: But I think that's the
13 point. It is needed. It's -- the new supply is needed
14 imminently. And now is it this year, next year? We'll
15 determine that through the undertaking.

16 There has been some changes in load growth
17 since we committed to Wuskwatim, but, you know, some of
18 those things are beyond our control. But there's no doubt
19 that new generation is -- is required for the Manitoba load.

20 MR. BOB PETERS: And if -- if new generation
21 is required for the Manitoba load, Mr. Warden, the price
22 expected on average that Manitoba Hydro will extract for
23 that Manitoba load will be probably closer to the four (4)
24 to five (5) cent per kilowatt hour range.

25 MR. VINCE WARDEN: Well, it -- it depends

1 what class of customer we're talking really. If we're
2 talking the residential customer it's going to be in the --
3 between six (6) and seven (7) cents per kilowatt hour, the
4 industrial customer is in the three (3) to four (4) cent
5 range.

6 MR. BOB PETERS: So you're agreeing with my
7 average of four (4) to five (5) cents or -- you don't stream
8 the electricity from this plant to one (1) customer class or
9 the other?

10 MR. VINCE WARDEN: No, but -- but I just
11 want to point out that some -- that the -- the difference
12 between the ten (10) cents that you calculated and what
13 customers are paying today -- the vast majority of customers
14 are paying today in terms of numbers is quite small.

15 MR. BOB PETERS: Well, for -- let's pick
16 your residential customer, Mr. Warden, paying six (6) cents
17 and if the price under my math is closer to ten (10) cents
18 out of Wuskwatim, then the residential customer would have
19 to have a rate increase in excess of 50 percent.

20 MR. VINCE WARDEN: But we're not asking --
21 we're not asking for a rate increase in that order of
22 magnitude in our -- we've got -- we're before this Board
23 asking for a very reasonable 2.9 percent rate increase.

24 MR. BOB PETERS: Mr. Warden, I'll -- I'll
25 leave that last comment for My Friends opposite to -- to

1 consider. Do we understand that the market for Wuskwatim
2 power if not needed for Manitoba residents would be on the
3 opportunity sales in the export market?

4 MR. VINCE WARDEN: No, I think Mr. Cormie
5 responded to that earlier that Wuskwatim is -- is needed to
6 -- for the NSP extension.

7 MR. BOB PETERS: Starting in 2015? In which
8 year is it needed, Mr. Cormie, for -- for the NSP?

9 MR. DAVID CORMIE: Well, the -- the new sale
10 starts in 2015, yes.

11 MR. BOB PETERS: But in what year would
12 Wuskwatim additional generation be required to serve that
13 export commitment?

14 MR. DAVID CORMIE: It will be required to --
15 I think we have to look at that, Mr. Peters, and -- before I
16 answer. That'll be part of our -- our review.

17 MR. BOB PETERS: And part of the undertaking
18 response that you provide?

19 MR. DAVID CORMIE: Yes.

20 MR. BOB PETERS: All right.

21 MR. DAVID CORMIE: You know, the whole issue
22 is we -- we initially advanced it for merchant
23 opportunities. The load grow -- grew to the point where it
24 was needed to serve Manitoba load, the load has declined now
25 and it's surplus.

1 And in -- in the meantime we've entered into
2 some long-term transactions. So this is a very complicated
3 thing that needs to be un -- unwound and looked at it from
4 the proper perspective. And I -- and I think we need some
5 time to put forward the appropriate response.

6 MR. BOB PETERS: All right. Thank you for
7 that, Mr. Cormie.

8 Just for the transcript, I was referring to
9 an undertaking that Mr. Warden has previously provided and
10 Mr. Cormie was simply adding to the same undertaking. So,
11 thank you.

12

13 (BRIEF PAUSE)

14

15 MR. BOB PETERS: Mr. Warden, I think we were
16 in agreement, although maybe not to the quantity, that
17 domestic customers will have to pay for at least a portion
18 of Wuskwatim's costs even before those consumers will
19 actually need the energy from that plant?

20 MR. VINCE WARDEN: Yeah, you're right. We
21 weren't in agreement. Mr. Peters, it's -- when looking at a
22 ra -- as I mentioned earlier, when looking at the quantum of
23 a rate change, there are a number of factors taken into
24 consideration. But I can tell you when we developed the 2.9
25 percent rate increase application for the Public Utilities

1 Board, we didn't say okay, 'X' of that two point nine (2.9)
2 is going to be for Wuskwatim.

3 Ratepayers are already heavily subsidized by
4 -- by export so that's why we build the plant the way we --
5 we have in the past is -- is to provide large quantities of
6 new generation that can serve the export market and
7 subsidize the domestic market. And we'll continue to do
8 that with -- with -- with plant going forward.

9 So to say that ratepayers are going to have
10 to pay part of Wuskwatim before they need it is -- is -- is
11 very, very misleading and doesn't recognize the structure
12 that we have in Manitoba here because of those investments
13 that were made in the past.

14 MR. BOB PETERS: To the extent that the
15 costs for Wuskwatim power are not covered by the export
16 customer, who is going to pick those up, Mr. Warden?

17 MR. VINCE WARDEN: Well, they -- they --
18 they form part of the cost structure of Manitoba Hydro, so
19 the net income of Manitoba Hydro, given the rate increases
20 that we have requested, the net income would be lower than
21 it would otherwise be for those intervening years. So you
22 could say that it's going to reduce retained earnings over
23 that period of time.

24 As a matter of fact, that's part of the
25 reason why retained earnings see a decrease -- or well, not

1 a decrease in real terms, but the debt-equity ratio is
2 declining during this decade of investment.

3 MR. BOB PETERS: And that's why Manitoba
4 Hydro is asking for continuous rate increases is to try to
5 prop up that debt-equity ratio?

6 MR. VINCE WARDEN: Well, to keep the debt-
7 equity ratio at a reasonable level, yes, we're asking for
8 the -- the rate increase that's before the Board and a deter
9 -- determination will be made as to what that rate increase
10 will be going forward.

11 MR. BOB PETERS: And those rate increases
12 are sought from Manitoba Hydro's domestic customers?

13 MR. VINCE WARDEN: They are, because the
14 domestic customers are the shareholders of -- of Manitoba
15 Hydro and they're sharing in those benefits.

16 MR. BOB PETERS: And so to share in those
17 benefits, Manitoba Hydro's ratepayers are going to be
18 expected to pay additional rate increases?

19 MR. VINCE WARDEN: To keep the -- the -- the
20 benefits being provided to current and -- and future
21 ratepayers, that's -- that's correct. There's -- there is
22 an investment; there is a return.

23 They're realizing -- ratepayers today are
24 realizing the -- the returns of -- of previous investments,
25 and will continue to do so in the future.

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Warden --

4 MR. VINCE WARDEN: I guess I might -- I
5 might just -- we talked about six (6) cents. I just wanted
6 to be clear that for residential rates it's actually -- if
7 you look at the -- at the energy charge, it -- it's -- with
8 the proposed rate increase it's closer to seven (7) cents
9 and then factoring in the basic charge.

10 So the differential really isn't between six
11 (6) and ten (10) cents, it's more like seven (7) to ten (10)
12 cents. Small point, but to keep the record clear.

13 MR. BOB PETERS: Let's agree it's a small
14 point. Mr. Warden, can you tell the Board what price is
15 embedded in Manitoba Hydro's arrangement with the Wuskwatim
16 Power Limited Partnership, if I've said that right?

17 MR. VINCE WARDEN: Mr. Peters, I don't
18 believe I can do that. I believe there are confidentiality
19 provisions within that agreement that would prevent --
20 prevent me from doing that.

21 MR. BOB PETERS: Doesn't your IFF make an
22 assumption as to what the WPLP is to receive in terms of
23 export revenues and how that would translate into a pay
24 rate?

25 MR. VINCE WARDEN: There are some

1 assumptions made in there, yes, based on some -- again some
2 assumptions of equity participation by the First Nation
3 partner which isn't -- won't be confirmed until Wuskwatim
4 does go into service.

5 MR. BOB PETERS: Mr. Warden, in terms of the
6 latest IFF, I'm going to ask for an undertaking from
7 Manitoba Hydro to provide the Board with the rate that is
8 embedded in the assumptions in the IFF that's going to be
9 paid by Manitoba Hydro to the WPLP, and I recognize that
10 your second to last answer to me may qualify that in that
11 there may have been some confidentiality aspects, but I'd
12 like you to investigate that as an undertaking, and your
13 undertaking can indicate --

14 MR. VINCE WARDEN: Well, to be clear, Mr.
15 Peters, in the undertaking there -- there is no rate vested
16 that is to be paid to the First Nation partner.

17 It's -- as a -- as a partner, as a -- with an
18 equity interest it really depends on the -- on the revenue
19 that's generated from that -- from that plant, so --

20 MR. BOB PETERS: I understand what you're
21 saying, Mr. Warden, but you also -- in your IFF you embed an
22 assumption, do you not, on what WPLP is to receive in terms
23 of revenues?

24 MR. VINCE WARDEN: Yes, based on an
25 assumption of -- of revenues that are -- that are derived

1 from that plant, from Wuskwatim, but there's not a rate
2 payment -- a specified rate payment that's made to the First
3 Nation.

4 MR. BOB PETERS: But the rate can be back
5 calculated, can it not, from what is the assumed payment
6 based on the output of the plant?

7 MR. VINCE WARDEN: It could be, yes. I'm
8 just trying to think about how meaningful that will be, but
9 we could -- we could look at that, yes.

10 MR. BOB PETERS: All right. If you could
11 make that the undertaking, I think the Board would
12 appreciate seeing your -- your response on that.

13 MR. VINCE WARDEN: We'll do that.

14 MR. BOB PETERS: Yes, Mr. Warden, for the
15 record we've been asked to just clarify the undertaking, and
16 that is that Manitoba Hydro will attempt to clarify what the
17 IFF assumption was in respect of the WPLP export revenues
18 and see if that can be calculated on a -- on an energy
19 basis?

20 MR. VINCE WARDEN: Subject to any
21 confidentiality agreements that may be in place, yes.

22 MR. BOB PETERS: Yes, correct. Thank you,
23 Mr. Warden.

24

25 --- UNDERTAKING NO. 24: Manitoba Hydro to clarify what

1 the IFF assumption was in respect
2 of the WPLP export revenues, and
3 see if that can be calculated on
4 an energy basis

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: Mr. Warden, I'm not sure
8 the extent to which this has already been covered, but the
9 IFF-09 that's before the Board assumes that by 2024,
10 Manitoba Hydro is back to a 75/25 capital structure,
11 correct?

12 MR. VINCE WARDEN: That sounds correct, yes.

13 MR. BOB PETERS: And can you indicate why
14 Manitoba Hydro continues to forecast rate increases post-
15 2024?

16 MR. VINCE WARDEN: Yes, I -- I think I did
17 indicate previously that it was for illustrative purposes
18 only.

19 MR. BOB PETERS: So the debt equity in those
20 years, being for illustrative purposes only, Manitoba Hydro
21 has no expectation that it will -- it will get there. And I
22 think your explanation was that as a Crown Corporation you
23 wouldn't see that as part of Manitoba Hydro's mandate?

24 MR. VINCE WARDEN: Yes. We really were just
25 trying to create a base case to which other scenarios could

1 be compared, and we could have just as easily put in zeros
2 in that -- zero rate increases in that time frame.

3

4

(BRIEF PAUSE)

5

6

7 MR. BOB PETERS: Mr. Warden, one (1) more
8 topic maybe for today, if we look at the cash flow statement
9 at pages 6 and 7 of the IFF, found at Tab 4 of the book of
10 documents, we can see the proceeds from -- from long-term
11 debt that the Corporation is -- is relying on, sir?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And from 2011 until 2013,
14 it appears on a net basis, Manitoba Hydro is planning on
15 taking \$1.5 billion from long-term debt into cash flow.
16 Would I understand that correctly?

17 MR. VINCE WARDEN: Mr. Peters, I don't see
18 your one point five (1.5) reference. Would you just repeat
19 that, please?

20 MR. BOB PETERS: Yes. And let me -- I took
21 the proceeds from long-term debt, found on page 18 at Tab 4
22 of the book of documents and then I -- I actually deducted
23 the retirement of long-term debt. I netted that off against
24 the -- the long-term debt, Mr. Warden, and although not with
25 the precision that an accountant would be proud, I came up

1 with approximately \$1.5 billion coming out of long-term debt
2 in those three (3) years.

3 MR. VINCE WARDEN: Okay.

4 MR. BOB PETERS: And in those same three (3)
5 years, Mr. Warden, it appears that Manitoba Hydro plans to
6 take \$350 million from the -- from the sinking fund. Would
7 that be a fair conclusion?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: And so the 1.5 billion and
10 the 350 million come up to about 1.85 billion? You'd accept
11 those numbers, subject to check?

12 MR. VINCE WARDEN: Yes.

13 MR. BOB PETERS: And that being in excess of
14 the cost of Wuskwatim, correct?

15 MR. VINCE WARDEN: It is.

16 MR. BOB PETERS: Wouldn't those numbers
17 suggest that the 3.5 percent rate increase that you've got
18 starting in 2013 would not be required?

19 MR. VINCE WARDEN: Well, Mr. Peters, we're -
20 - we're talking cash versus recovery of costs again, and
21 they're -- they're really two (2) different issues. So
22 during the time periods you referenced, we're also looking
23 at funding -- commencing funding on -- on other projects
24 including -- there -- there would be some funding for
25 Keeyask and other -- and other major capital projects in

1 that period of time, as well, so.

2 MR. BOB PETERS: So -- and -- and I'll have
3 to take some counsel on those points tonight, Mr. Warden.
4 But what you're saying is that on Manitoba Hydro has
5 essentially taken 1.85 billion to -- to pay the costs of
6 Wuskwatim, for example, but it now has to consider how it's
7 going to recover them from consumer's rates, and that gives
8 rise to the rate increases that are -- that are being
9 sought?

10 MR. VINCE WARDEN: Well, again, I wasn't
11 attributing the rate increases specifically to Wuskwatim.

12 MR. BOB PETERS: No, that's fair. You
13 weren't. And you've said before that the Corporation
14 doesn't earmark its long-term debt by capital project, if I
15 understood your evidence.

16 MR. VINCE WARDEN: Nor do we earmark rate
17 increases for specific projects.

18 MR. BOB PETERS: All right. So the rate
19 increases would be proceeding forward and the revenue from
20 those rate increases would be helping the Corporation
21 prepare for the -- for Keeyask and Bipole costs that would
22 be coming?

23 MR. VINCE WARDEN: Well, it would be
24 preparing for the funding of costs to be incurred by
25 Manitoba Hydro, both operating and cop -- and capital, so

1 the total of the basket of costs that -- that are necessary
2 to run the Utility.

3 MR. BOB PETERS: And if the Board adds up to
4 twenty (20) to -- 2013 out to 2018 the -- the net additional
5 long-term debt, subject to check, Mr. Warden, would be in
6 the range of \$6.5 billion in those years?

7 MR. VINCE WARDEN: Yes, that looks about
8 right.

9 MR. BOB PETERS: And there'd also be about a
10 half a billion dollars of sinking fund withdrawal in those
11 years?

12 MR. VINCE WARDEN: Yes, recognizing that
13 some of that long-term debt is used for funding the sinking
14 fund, so there's a -- it -- it's not totally -- the sinking
15 fund isn't a total source of funds in -- in the scenario
16 you're describing, because it's also being -- the -- part of
17 the -- our sinking contributions are required each and every
18 year, which would be part of the long-term debt requirement.

19 MR. BOB PETERS: And while not earmarked by
20 special major capital project, those \$7 billion would be
21 used for the payment of costs, to some degree, related to
22 the Keeyask and Bipole projects as presently planned?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: All right. Mr. Chairman,
25 I'm about to embark on the exciting new area of power

1 resource plans, and I wondered if that might be a matter for
2 the morning rather than the afternoon?

3 THE CHAIRPERSON: You've had an active day,
4 Mr. Peters, and I'm sure the panel has too, so I don't think
5 either you or the panel will mind if we close for the day
6 now. So we'll see you all tomorrow at 9:30. Thank you.

7 MR. BOB PETERS: Thank you.

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9 (PANEL RETIRES)

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11 ---- Upon adjourning at 4:18 p.m.

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15 Certified Correct,

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Cheryl Lavigne, Ms.

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