

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

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

HELD AT:

Public Utilities Board
400, 330 Portage Avenue
Winnipeg, Manitoba
March 21, 2011
Pages 4325 to 4542

1 APPEARANCES

2 Bob Peters) Board Counsel

3 Anita Southall (np))

4

5 Patti Ramage) Manitoba Hydro

6 Marla Boyd)

7

8 Byron Williams) CAC/MSOS

9 Myfanwy Bowman (np))

10

11 Antoine Hacault) MIPUB

12

13 Michael Anderson (np)) MKO

14

15 William Gange) RCM/TREE

16

17 Delanie Coad (np)) SCO

18

19 Denise Pambrun) City of Winnipeg

20

21 Gavin Wood) Independent Experts

22

23

24

25

1	TABLE OF CONTENTS	
2		Page No.
3	Exhibits	4328
4	List of Undertakings	4329
5		
6	MANITOBA HYDRO PANEL:	
7	VINCE WARDEN, Resumed	
8	DAVID CORMIE, Resumed	
9	HAROLD SURMINSKI, Resumed	
10	LLOYD KUCZEK, Resumed	
11	ROBIN WIENS, Resumed	
12	Continued Cross-examination by Mr. Bob Peters	4338
13		
14	Certificate of Transcript	4542
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

	EXHIBITS		
	No.	Description	Page No.
1			
2			
3	MH-68	Response to Undertaking 69	4331
4	MH-69	Moody's Report	4332
5	MH-70	Response to CAC/MSOS Pre-ask 1	4333
6	MH-71	Response to CAC/MSOS Pre-ask 2	4333
7	MH-72	Manitoba Hydro's twenty (20) year	
8		financial outlook	4333
9	MH-73	Responses to series of PUB Pre-asks;	
10		items 'A' through 'H' that were submitted	
11		by Mr. Peters with respect to the twenty	
12		(20) year financial outlook when it	
13		came out	4334
14	MH-74	Response to Undertaking 47	4334
15	MH-75	Response to Undertaking 65	4334
16	MH-76	Response to Undertaking 75	4335
17	MH-77	Response to Undertaking 79	4335
18	MH-78	Response to Undertaking 81	4335
19	MH-79	Response to Undertaking 85	4335
20	MH-80	Response to Undertaking 70	4336
21	PUB-19	Capital Project Justification	
22		Addendum for Bipole 3 Western	
23		Route, Addendum 6	4348
24			
25			

	UNDERTAKINGS		
	No.	Description	Page No.
1			
2			
3	86	Manitoba Hydro to indicate when and if	
4		the vice-president of transmission saw	
5		the following documents: PUB Exhibit 19,	
6		dated August 18, 2009; document at Tab 70	
7		of Board counsel's book of documents,	
8		dated October 5, 2010. Also, to indicate	
9		what the reason for the document not	
10		going further, in terms of the executive	
11		committee, is	4353
12	87	Manitoba Hydro to provide (1) page	
13		cover recommendation missing from	
14		Exhibit MH-72	4371
15	88	Manitoba Hydro to indicate the in-service	
16		date on Bipole 3	4378
17	89	Manitoba Hydro to provide the official	
18		name of the consulting firm engaged	4388
19	90	Manitoba Hydro to provide the expected	
20		cost of the external engineer's report	
21		related to the costs of Bipole 3	4399
22	91	Manitoba Hydro to provide the December,	
23		2010 valuation	4461
24			
25			

UNDERTAKINGS (Con't)			
No.	Description	Page No.	
1			
2			
3	92	Manitoba Hydro to indicate what the	
4		description of prime-1 is, and what's	
5		on either side of it	4463
6	93	Manitoba Hydro to provide an explanation	
7		as to how the \$4 million number in 2012	
8		was calculated. Also, to provide updated	
9		income statement for IFF-10, updated	
10		balance sheet and updated cashflow	
11		statement	4487
12	94	Manitoba Hydro to indicate if the	
13		participant cost for the water and energy	
14		saver program and the low income energy	
15		efficiency program should be revised	4507
16	95	Manitoba Hydro to confirm that it is	
17		currently 3.8 million in rates; that	
18		there is no sunset date provided in a	
19		Board order; and if there is no sunset	
20		date, confirm if it's accurately depicted	
21		on the schedule on page 138 of the third	
22		volume of Board counsel's book of	
23		documents	4518
24			
25			

1 --- Upon commencing at 8:36 a.m.

2

3 THE CHAIRPERSON: Okay. Good morning,
4 everyone. Ms. Ramage, you have some exhibits?

5 MS. PATTI RAMAGE: Yes, we have a number
6 of housekeeping matters to begin the day. The first one
7 (1), and all parties won't have this in front of them, is
8 we have filed with the Board a hard copy of -- of
9 Undertaking number 69, which was a -- which is a draft
10 risk report of -- or a draft of the KPMG report.

11 And we have filed that with the Board in a
12 hard copy, and we suggest it be assigned Exhibit Manitoba
13 Hydro 68.

14

15 --- EXHIBIT NO. MH-68: Response to Undertaking 69

16

17 MS. PATTI RAMAGE: To avoid having to
18 reproduce the entire report, what we are suggesting is
19 that Manitoba Hydro will provide an electronic copy to
20 all parties, and that can be posted by the Board with --
21 in terms of its exhibit section to avoid the need to
22 reproduce the whole report because the, as parties will
23 see when they get it, the -- the vast majority of changes
24 are to the -- the executive summary section. And -- and
25 if they wanted to print off the changes they would

1 really, for the most part, need that section.

2 We -- I -- I also wanted to bring the
3 Board's attention, while I'm dealing with this because it
4 -- it deals with a later undertaking, that the copy
5 filed, while not specifically requested, it's the track
6 changes copy because there was also a question wanting to
7 understand the changes.

8 And so to try to deal with that, in part,
9 we -- we managed to dig up a track-changed copy so that
10 the -- because it -- it's not easy. I tried doing it
11 myself at one (1) point, going line by line, to see where
12 the changes were. So anyways, that's Manitoba Hydro
13 Exhibit 68.

14 The next one (1), which also requires a
15 bit of explanation, parties were provided by Ms.
16 Fernandes by email a copy of the Moody's report that was
17 referred to by Mr. Warden during his presentation during
18 our last hearing day, which was Wednesday, our last
19 Wednesday.

20 And Ms. Fernandes, in her email, indicated
21 that the Moody's report would be given Exhibit 68. In
22 fact, it will be Exhibit 69.

23

24 --- EXHIBIT NO. MH-69: Moody's Report

25

1 MS. PATTI RAMAGE: The next in the
2 package, which we've assigned Manitoba Hydro Exhibit 70,
3 is a pre-ask that was submitted by CAC, and that's
4 identified as pre-ask number 1.

5

6 --- EXHIBIT NO. MH-70: Response to CAC/MSOS Pre-ask
7 1

8

9 MS. PATTI RAMAGE: We've assigned Exhibit
10 Manitoba Hydro 71 to CAC's pre-ask number 2.

11

12 --- EXHIBIT NO. MH-71: Response to CAC/MSOS Pre-ask
13 2

14

15 MS. PATTI RAMAGE: The next in your
16 package is Manitoba Hydro's twenty (20) year financial
17 outlook, and that's been assigned Manitoba Hydro Exhibit
18 72.

19

20 --- EXHIBIT NO. MH-72: Manitoba Hydro's twenty (20)
21 year financial outlook

22

23 MS. PATTI RAMAGE: Followed by a series
24 of PUB pre-asks, and here you'll see items 'A' through
25 'H' that were submitted by Mr. Peters with respect to the

1 twenty (20) year financial outlook when it came out.

2 We've assigned that Exhibit Manitoba Hydro 73.

3

4 --- EXHIBIT NO. MH-73: Responses to series of PUB
5 Pre-asks; items 'A' through
6 'H' that were submitted by
7 Mr. Peters with respect to
8 the twenty (20) year
9 financial outlook when it
10 came out

11

12 MS. PATTI RAMAGE: Next, is Manitoba
13 Hydro Undertaking 47, and that was -- dealt with the
14 capital costs incurred by Manitoba Hydro with respect to
15 obtaining energy from the wind farms, and that we've
16 assigned Manitoba Hydro Exhibit 74.

17

18 --- EXHIBIT NO. MH-74: Response to Undertaking 47

19

20 MS. PATTI RAMAGE: The next is
21 Undertaking 65 and that is -- deals with the discount
22 rate used to calculate the net present value in footnote
23 2 on page 4 of the ICF Report, and that is Exhibit 75.

24

25 --- EXHIBIT NO. MH-75: Response to Undertaking 65

1 MS. PATTI RAMAGE: Then exhibit -- or
2 Undertaking 75 is the cost associated with KPMG's
3 appearance, and that's 70 -- that's Exhibit 76.

4

5 --- EXHIBIT NO. MH-76: Response to Undertaking 75

6

7 MS. PATTI RAMAGE: Undertaking 79 deals
8 with the payments to government following the in-service
9 of Keeyask and Conawapa and that we've assigned Exhibit
10 77.

11

12 --- EXHIBIT NO. MH-77: Response to Undertaking 79

13

14 MS. PATTI RAMAGE: Exhibit -- or
15 Undertaking 81 is the media budget for the Bipole 3
16 transmission line media campaign and that's Exhibit
17 Manitoba Hydro 78.

18

19 --- EXHIBIT NO. MH-78: Response to Undertaking 81

20

21 MS. PATTI RAMAGE: Manitoba Hydro
22 Undertaking 85 deals with whether there's an adverse
23 water clause in the current NSP Agreement.

24

25 --- EXHIBIT NO. MH-79: Response to Undertaking 85

1 MS. PATTI RAMAGE: And then last Manitoba
2 Hydro Exhibit 80 is Undertaking 70 and that's dealing
3 with the KPMG Report. And it was the request for
4 minutes. And as I've indicated, we've provided the track
5 changes in an attempt to satisfy that.

6

7 --- EXHIBIT NO. MH-80: Response to Undertaking 70

8

9 THE CHAIRPERSON: Thank you, Ms. Ramage.
10 Mr. Peters...?

11 MR. BOB PETERS: Thank you.

12 MS. PATTI RAMAGE: And, sorry, Mr.
13 Chairman, there was a -- in the last week while we had a
14 little down time, there was also an opportunity to review
15 some of the transcripts and there was a couple of
16 corrections to the transcript we wanted to make. And
17 with your permission I was just going to turn the mic
18 over to Mr. Warden so he could -- it'll just take a
19 moment, but if he could get the record straight.

20 THE CHAIRPERSON: Morning.

21

22 MANITOBA HYDRO PANEL:

23 VINCE WARDEN, Resumed

24 DAVID CORMIE, Resumed

25 HAROLD SURMINSKI, Resumed

1 MR. VINCE WARDEN: Thank you. Good
2 morning. Yes, the first reference is to transcript 3880,
3 3,800. I said at that point that Bipole 3 is required
4 for reliability purposes. In the transcript it reads
5 "isn't", which I just wanted to make sure that was clear,
6 that...

7 The second issue was at transcript page
8 3,839 and this is where the discussion was with respect
9 to changes that were made to the instructions to KPMG
10 with respect to the assignment they were undertaking. I
11 had stated at -- at that page of the transcript that I
12 was president -- present at all audit committee meetings
13 where that issue was discussed and wa -- and it was never
14 raised.

15 The issue that we were referring to at
16 that point was whether or not the PUB should or should
17 not be consulted in the process of their review. And I
18 was informed later -- it was brought to my intent --
19 attention that I wasn't at this specific audit committee
20 meeting held on December the 15th, 2009. And this was a
21 meeting between KPMG and the audit committee of the board
22 with legal counsel present.

23 And it was -- at that meeting there was a
24 discussion with respect of the cease and desist letter
25 that was received from the New York consultant.

1 Nevertheless, the -- I've -- I've been assured and I've
2 confirmed with KPMG subsequent, that at no time was there
3 ever any discussion that KPMG should not consult with the
4 PUB in the -- in the course of their review. Thank you.

5 THE CHAIRPERSON: Mr. Peters...?

6

7 CONTINUED CROSS-EXAMINATION BY MR. BOB PETERS:

8 MR. BOB PETERS: Good morning, Mr.
9 Chairman, Mr. Vice-Chair, ladies and gentlemen. Mr.
10 Warden, is Bipole 3 the third-largest capital project
11 ever in the history of Manitoba Hydro?

12

13 (BRIEF PAUSE)

14

15 MR. VINCE WARDEN: Yes, Mr. Peters, I'd
16 say that is correct.

17 MR. BOB PETERS: The only two (2) that
18 are larger would be the construction of the Keeyask
19 generating station and the construction of Conawapa
20 generating station?

21

22 (BRIEF PAUSE)

23

24 MR. VINCE WARDEN: Yes, of course those
25 are -- are planned, not -- not committed at this point in

1 time.

2 MR. BOB PETERS: And likewise, Bipole 3
3 is planned but not committed?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: And before the Board
6 today, as has been the case since --

7 MR. ROBERT MAYER: Be -- before we --
8 before we go there, how would Limestone compare to Bipole
9 3 if we adjusted them to the same dollars?

10 MR. VINCE WARDEN: Oh, well, Limestone
11 would be considerably higher.

12 MR. ROBERT MAYER: So when you answered
13 Mr. Peters' question in the -- in the affirmative there
14 was no consideration of the fact that Limestone was a
15 long time ago and what we're doing now is now?

16 MR. VINCE WARDEN: No, Mr. Mayer, that --
17 that did cross my mind as I was thinking about the
18 response to Mr. Peters' question, but in terms of the
19 absolute dollars incurred and to be incurred I think is -
20 - or my response to his question was -- was correct.

21

22 CONTINUED BY MR. BOB PETERS:

23 MR. BOB PETERS: And maybe remind the
24 Board, Mr. Warden, as to what was the in-service cost of
25 Limestone in 1992 dollars, I guess.

1 MR. VINCE WARDEN: Yes, that -- that cost
2 of Limestone is \$1.4 billion.

3 MR. BOB PETERS: The cost of Bipole 3 in
4 capital expenditure forecast 2007 revised upwards the
5 cost for Bipole 3 to \$2.2 billion, correct?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: And since the capital
8 expenditure forecast in '07, Manitoba Hydro has done
9 another capital expenditure forecast in '08, did another
10 one in '09, and did one in 2010, correct?

11 MR. VINCE WARDEN: Correct.

12 MR. BOB PETERS: And at no time in those
13 three (3) or four (4) years did Manitoba Hydro revise
14 upwards or downwards the capital expenditure forecast for
15 Bipole 3?

16 MR. VINCE WARDEN: That's correct.

17 MR. BOB PETERS: And at any time in those
18 years, Mr. Warden, did Manitoba Hydro recalculate the
19 capital costs of Bipole 3 to confirm that they were \$2.2
20 billion?

21 MR. VINCE WARDEN: No, but we don't
22 typically do that at -- unless there's a reason to change
23 an estimate. The estimate is projected to be the in-
24 service cost of that facility. And, therefore, there's
25 no reason to change that unless there's a -- there --

1 there is some kind of underlying change in the -- in the
2 estimate.

3 MR. BOB PETERS: How do you know if
4 there's an underlying change in the estimate?

5 MR. VINCE WARDEN: Well, we have a
6 process at Manitoba Hydro whereby changes are introduced
7 for approval of the executive committee through what we
8 call a capital project justification process. And should
9 the division -- line divisions determine that a change in
10 the capital project estimate is required, a revision or
11 an addendum will be brought forward to the previously
12 approved item.

13 MR. BOB PETERS: Are you telling the
14 Board that since 2007 the line divisions in Manitoba
15 Hydro have concluded that there are no changes to the
16 capital costs of Bipole 3?

17 MR. VINCE WARDEN: What I am saying, Mr.
18 Peters, no changes have been approved. So there's a
19 process that the line divisions go through and bring
20 forward proposals for approval of executive committee
21 which, if approved, gets incorporated in the integrated
22 financial forecast. In the case of Bipole 3, there was
23 no revision approved.

24 MR. BOB PETERS: Can you explain to the
25 Board who approves the revisions to the capital

1 expenditure forecast?

2 MR. VINCE WARDEN: Yes, it goes through
3 the respective line divisions, would typically be
4 approved by the responsible vice-president. That vice-
5 president would sponsor that item at executive committee,
6 and executive committee may or may not approve the item.

7 MR. BOB PETERS: Sorry, your last words
8 were the executive committee may or may not approve the
9 changes?

10 MR. VINCE WARDEN: That's right.

11 MR. BOB PETERS: All right. And can you
12 tell the Board that with respect to Bipole 3, did the
13 line divisions bring up changes in the capital forecast
14 costs for Bipole 3 through the internal channels up to
15 its vice-president?

16 MR. VINCE WARDEN: I don't know whether
17 it made its way to the vice-president or not. It never
18 made its way to executive committee though.

19 MR. BOB PETERS: And the only way to get
20 to executive committee is through the vice-president?

21 MR. VINCE WARDEN: Yes.

22

23 (BRIEF PAUSE)

24

25 MR. BOB PETERS: And on March the 7th

1 when I believe you and I last discussed this never-ending
2 topic, Hydro's evidence was to the effect that the
3 executive committee had never seen the \$4.1 billion
4 August 5, 2010, Bipole 3 estimate prepared by the
5 transmission business unit, which, Mr. Warden and Mr.
6 Chairman and Vice-Chair, is the last document in Tab 70,
7 70, in Board counsel's third book of documents which has
8 been marked as PUB Exhibit 18 on the Board's website for
9 those who don't have it in front of them.

10 MR. VINCE WARDEN: Sorry, your question,
11 Mr. Peters, was?

12 MR. BOB PETERS: Yes, thank you, Mr.
13 Warden. My question was: Does the Board understand your
14 previous evidence to be that the document that I've
15 identified at Tab 70 of Board counsel's book of document
16 was a document that never made its way to Manitoba
17 Hydro's executive committee?

18 MR. VINCE WARDEN: Yes, that's right.

19 MR. BOB PETERS: And that's the document
20 that contained the \$4.1 billion estimate as of August 5,
21 2010 for Bipole 3?

22 MR. VINCE WARDEN: That's right.

23 MR. BOB PETERS: Do you know if that
24 estimate made its way to the vice-president of the
25 transmission area?

1 MR. VINCE WARDEN: I would assume so, Mr.
2 Peters, but I -- I don't know that for certain.

3 MR. BOB PETERS: But you're prepared to
4 testify and assume that the vice-president saw that
5 number, but the vice-president never saw fit to bring it
6 forward to executive committee?

7 MR. VINCE WARDEN: Mr. Peters, I'd rather
8 not speculate on -- on what the vice-president of
9 transmission may or may not have seen.

10 MR. BOB PETERS: Okay, that's fair, but
11 let's come back to -- if you can -- well, I'll come back
12 to that question because I think I'd like you to
13 undertake to -- to check with the vice-president and find
14 out. But --

15 THE CHAIRPERSON: Maybe we need to hear
16 from the vice-president, Mr. Peters.

17 MR. BOB PETERS: All right. Perhaps
18 that's a matter that we can -- we can discuss with
19 counsel.

20 MR. VINCE WARDEN: Mr. Peters, perhaps I
21 can assist, though. I -- I think we've -- and it's --
22 it's no secret this -- this number has been in the media
23 and that Manitoba Hydro did indicate, I believe Mr.
24 Brennan indicated, that a review was underway to
25 determine the validity of -- of not only this number but

1 the current estimate to determine whether the currently
2 approved \$2.2 billion number needed revision. So that
3 review is underway.

4 I see little value in conferring with the
5 vice-president of transmission, that's irrelevant really.
6 It never made its way to executive committee. It never -
7 - it is not an approved estimate of Manitoba Hydro.
8 Until such time as -- as it is an approved estimate of
9 Manitoba Hydro, whether or not the tran -- the vice-
10 president of transmission reviewed this document, saw
11 this document is totally irr -- irrelevant. He chose not
12 to bring it forward and -- and it's not -- not an
13 officially approved document.

14

15 CONTINUED BY MR. BOB PETERS:

16 MR. BOB PETERS: Mr. Warden, help the
17 Board understand the process where efforts are made to
18 provide revised capital cost information inside Manitoba
19 Hydro, and we can take that the document at Tab 70 in the
20 book of documents which has a new Bipole 3 cost of 4.1
21 billion, was an attempt to update some numbers; correct?

22 MR. VINCE WARDEN: Well, Mr. Peters, in
23 answer to your question as to the process, there are
24 many, many iterations of a capital estimate. They go
25 through a lot of review and scrutiny to make sure that we

1 have the best possible estimate going forward. This is -
2 - this is one -- it -- it was reviewed at a divisional
3 level. Obviously it has -- the format is similar to what
4 we would use at Manitoba Hydro, so I -- I have no doubt
5 that it's a man -- Manitoba Hydro document, and that
6 estimates were prepared that totalled 4.1 billion.

7 But there's a process to go through at
8 Manitoba Hydro before it's adopted as -- as an approved
9 estimate of the Corporation. This is not approved. It's
10 as simple as that. I don't know why we're belabouring
11 this, quite frankly.

12 MR. BOB PETERS: Well, did Manitoba
13 Hydro, after we adjourned last week, go back and research
14 this document that's at Tab 70 of Board counsel's book of
15 documents with the \$4.1 billion revised capital estimate
16 for Bipole 3?

17 MR. VINCE WARDEN: Mr. Peters, given the
18 process that's underway to have a completely independent
19 review of all the costs of Bipole 3 presented to Manitoba
20 Hydro for consideration and -- and ultimate approval, the
21 -- looking at -- at the -- the source of -- of a document
22 would serve no purpose, so, no. No, I didn't undertake,
23 and I do not undertake, to review the -- this document
24 further.

25 MR. BOB PETERS: To be clear, I don't

1 believe I -- there was a request for you to undertake to
2 do that, Mr. Warden, but I just asked whether you did.

3 MR. VINCE WARDEN: No. No, I -- I'm
4 sorry I used the word undertake when I perhaps shouldn't
5 have, but - but I mean, the point being that I -- I did
6 not -- did not review this document further then after
7 our discussion at the previous proceeding.

8 MR. BOB PETERS: Well, Mr. Warden,
9 Manitoba Hydro was also aware on August the 18th of 2009
10 that its transmission planning and design division
11 recommended the budget for Bipole 3 be increased by \$1.7
12 billion to a total capital amount of \$3.954 billion,
13 correct?

14 MR. VINCE WARDEN: No, not correct.

15 MR. BOB PETERS: All right. I provided
16 to your counsel a copy of a document this morning. It's
17 entitled, Capital Project Justification Addendum for
18 Bipole 3 Western Route, Addendum number 06.

19 Have you got that document, sir?

20 MR. VINCE WARDEN: Yes, I do.

21 MR. BOB PETERS: You're not disputing
22 that it's a Manitoba Hydro document?

23 MR. VINCE WARDEN: No, not at all.

24 MR. BOB PETERS: All right. Mr.
25 Chairman, maybe we can mark that as PUB Exhibit 19 for

1 purposes of my discussion with Mr. Warden.

2 THE CHAIRPERSON: Very good, sir.

3

4 --- EXHIBIT NO. PUB-19: Capital Project Justification
5 Addendum for Bipole 3 Western
6 Route, Addendum 6

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Mr. Warden, you're
10 suggesting that Hydro was not aware that on August the
11 18th that the, I called it Hydro's transmission planning
12 and design division, was recommending a revision to the
13 capital expenditure budget for Bipole 3?

14 MR. VINCE WARDEN: Mr. Peters, you'll
15 note that this document that you've circulated, and by
16 the way, it's the first time I've seen this document,
17 it's never been presented to the executive committee,
18 you'll note though that it has no signatures. It's not
19 signed by the division manager. It's not signed by the
20 vice-president, the -- the provision on the form for the
21 vice-president of transmission and power supply to sign
22 it.

23 So until those signature -- signatures are
24 affixed, this document is just a preliminary estimate
25 which is subject to changes.

1 MR. BOB PETERS: All right. I think
2 you're helping the Board understand some of the process,
3 Mr. Warden, but let's -- let's get back -- and I may have
4 misstated the date, but the date of this document appears
5 to me to be August the 18th of 2009. Does that appear to
6 be the date to you, Mr. Warden?

7 MR. VINCE WARDEN: That's the date
8 prepared that's referenced on this document, yes.

9 MR. BOB PETERS: And you're saying that
10 until I showed it to you this morning, you've never seen
11 the document before?

12 MR. VINCE WARDEN: That's right.

13 MR. BOB PETERS: And when you say that,
14 it is -- you would have expected to see this document in
15 your capacity as a member of the executive committee if
16 it had come up through the line divisions through the
17 vice-president.

18 MR. VINCE WARDEN: That's right.

19 MR. BOB PETERS: And so what you're
20 telling the Board is the vice-president -- there's a
21 vice-president in charge of transmission planning? In
22 charge of transmission?

23 MR. VINCE WARDEN: Yes, there is.

24 MR. BOB PETERS: Rather than my go to the
25 Corporate org chart, can you remind the Board who that

1 is?

2 MR. VINCE WARDEN: Yes, that's -- his
3 name is Ed Tymofichuk.

4 MR. BOB PETERS: And Mr. Tymofichuk, he's
5 a member of the executive committee as well?

6 MR. VINCE WARDEN: He is.

7 MR. BOB PETERS: All the vice-presidents
8 are?

9 MR. VINCE WARDEN: Yes, they are.

10 MR. BOB PETERS: And so a vice-president
11 is charged with the responsibility internally at Manitoba
12 Hydro to bring forward documents that relate to the
13 business of Manitoba Hydro in a material way?

14 MR. VINCE WARDEN: Yes.

15

16 (BRIEF PAUSE)

17

18 MR. BOB PETERS: Have you any knowledge,
19 Mr. Warden, as to whether the vice -- vice-president in
20 charge of transmission has seen the document that's now
21 marked as PUB Exhibit 19?

22 MR. VINCE WARDEN: Well, as we discussed
23 earlier, Mr. Peters, with respect to the item that's
24 found at Tab 70 of the book of documents, I assume so,
25 but I have no direct knowledge of that. The process

1 would be for him to review once the division has signed
2 off. Although I note that the division has not signed
3 off on this document. The process would be for the
4 division to forward it to the respective vice-president
5 to allow him the opportunity to challenge the document
6 and -- and when he's satisfied -- he or she, in this case
7 he, but when he's satisfied with the document then it's -
8 - it's brought forward for a review by the executive
9 committee. That hasn't happened.

10 MR. BOB PETERS: I'm going to ask
11 Manitoba Hydro to undertake to check with the vice-
12 president of transmission to determine whether -- whether
13 and when the vice-president saw the document that is
14 marked now as PUB Exhibit 19, and also the document that
15 is dated August the 5th, 2010, found at Tab 70 of Board
16 council's book of documents.

17 MR. ANTOINE HACAULT: Sorry, the -- the
18 date on the document shows, this is Antoine interjecting,
19 2010.10.05. I don't know how that becomes August.

20 MR. BOB PETERS: Sorry, I -- thank you
21 Mr. Hacault.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Mr. Warden, last day you
25 and I met and I -- I -- I believe I've just misspoken

1 this morning, but under Manitoba Hydro's date stamp
2 methodology that would be October 5th, 2010 that the
3 document found at Tab 70 of the book of documents is
4 dated?

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

7 MR. BOB PETERS: And I -- and I -- Mr.
8 Hacaault was correct, I think he -- I think the transcript
9 reflected last day that we agreed that it was August --
10 I'm sorry, that it was October the 5th, 2010, Mr. Warden?

11

12 (BRIEF PAUSE)

13

14 MR. VINCE WARDEN: Sorry, just to be
15 clear on that, the document that's found at Tab 70 is
16 dated October 5th of 2010, which I think you've just
17 confirmed. Is that right?

18 MR. BOB PETERS: Yes, and thank you. My
19 -- my request for the undertaking, Mr. Warden, through
20 your counsel, is to determine whether and when the vice-
21 president of transmission saw both documents that we've
22 now referred to this morning, one (1) being PUB Exhibit
23 19, which is dated August the 18th of 2009, the other
24 being the document at Tab 70 of Board counsel's book of
25 documents, dated October 5, 2010.

1 MR. VINCE WARDEN: Mr. Peters, I can
2 certainly undertake to do that. But maybe to hasten
3 things along, let's -- let's assume for purposes of your
4 questioning that he -- he has seen these documents, whi -
5 - which I think is highly likely, and I will confirm
6 that. But I -- I want to make the point that nothing at
7 all turns on this and -- and perhaps it would assist the
8 Board if you continued your line of questioning on the
9 assumption that he has seen these documents.

10

11 --- UNDERTAKING NO. 86: Manitoba Hydro to indicate
12 when and if the vice-
13 president of transmission saw
14 the following documents: PUB
15 Exhibit 19, dated August 18,
16 2009; document at Tab 70 of
17 Board counsel's book of
18 documents, dated October 5,
19 2010. Also, to indicate what
20 the reason for the document
21 not going further, in terms
22 of the executive committee,
23 is

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: All right. And that's
2 where I was going to go next, Mr. Warden, and I -- I
3 appreciate the -- the being prompted here. You're
4 telling the Board when looking at PUB Exhibit 19 that PUB
5 Exhibit 19, assuming as we are, that the vice-president
6 of transmission saw them, it never went past his office?

7 MR. VINCE WARDEN: Well, I -- I didn't
8 say that. I said it never made its way to executive
9 committee. Whether it went past his office or not, I --
10 I don't -- I don't know. You can see there's a -- a
11 provision on this form also for a signature of the vice-
12 president of the power supply, so again, we're assuming
13 things, but he may very well have conferred with the
14 vice-president of the power supply.

15 MR. BOB PETERS: And remind me without
16 the org chart in front of me who that is?

17 MR. VINCE WARDEN: That's Ken Adams.

18 MR. BOB PETERS: You -- you corrected me,
19 Mr. Warden when I said -- you -- you took -- you took
20 exception or you -- you clarified that you didn't want to
21 say it didn't go past the vice-president of
22 transmission's office. Help the Board understand, the
23 process that you told them earlier today was the line
24 divisions would work up the documents and they would sent
25 them up to their vice-president.

1 Is that the first step that would happen?

2 MR. VINCE WARDEN: Yes, the -- the --
3 line would work up the documents, and that occurs for any
4 capital project that's under review. The line would work
5 up the documents and forward to the responsible division
6 manager, first of all. From the divi -- division
7 manager, it would go to the responsible vice-president.
8 And the division man -- the owning division manager
9 that's referenced here would also consult with other
10 division managers as appropriate before it goes to the --
11 to the vice-president for -- for sign-off.

12 MR. BOB PETERS: Who has the right of
13 veto over this document that's marked as PUB Exhibit 19,
14 Mr. Warden?

15 MR. VINCE WARDEN: Well, there's various
16 rights of veto. The -- the division manager could veto
17 it before it gets to the -- to the vice-president. The
18 vice-president could veto it at that level. And
19 certainly it could be vetoed at the -- at the executive
20 committee level.

21 MR. BOB PETERS: All right. Can you
22 explain to the Board why a document would be terminated
23 in its tracks, so to speak, at the owning division level?

24 MR. VINCE WARDEN: Well, there could be
25 all kinds of reasons. The -- a capital estimate is a

1 complex document that's made up of many parts. So the
2 division manager -- that's the -- the job of the division
3 manager is to challenge each of those parts, so that
4 could -- could very well happen.

5 MR. BOB PETERS: You don't know if that
6 did happen in this case?

7 MR. VINCE WARDEN: I don't.

8 MR. BOB PETERS: And you don't know where
9 in the chain of command PUB Exhibit 19 was determined
10 such that it wouldn't go forward?

11 MR. VINCE WARDEN: Not specifically, no.

12 MR. BOB PETERS: But if we operate on the
13 assumption that it made its way to the vice-president of
14 transmission, it would have then been the vice-president
15 of transmission who would have decided this matter
16 wouldn't come forward to executive committee?

17 MR. VINCE WARDEN: Well, as I mentioned
18 earlier, he -- the vice-president of transmission could
19 have consulted with the vice-president of power supply as
20 well. So I can't say specifically where the -- at -- at
21 what point it was determined not to bring it forward to
22 executive committee.

23 MR. BOB PETERS: Can you explain what the
24 vice-president of power supply would know about
25 transmission costs in a general sense?

1 MR. VINCE WARDEN: Well, the transmission
2 line is the responsibility of -- of transmission, but the
3 converter stations would be the responsibility of power
4 supply, so the vice-president of power supply would have
5 a very large interest in this -- in this project.

6 MR. BOB PETERS: Both the vice-president
7 of transmission and vice-president of power supply are on
8 the executive committee?

9 MR. VINCE WARDEN: Yes.

10 MR. BOB PETERS: Does the actions taken
11 by not bringing PUB Exhibit 19 or the document found at
12 Tab 70 of Board counsel's book of documents to the
13 executive committee mean that somebody doesn't believe
14 the costs are accurate?

15 MR. VINCE WARDEN: Well, again, Mr.
16 Peters, I -- I would be speculating on that. Obviously,
17 an estimate going from 2.2 billion to 4.1 or 3.9 is -- is
18 a very significant increase, something that all vice-
19 presidents would take very seriously before it's brought
20 forward. So there would -- they would want some
21 certainty around the number before it was brought forward
22 for -- for approval. That comfort level obviously wasn't
23 there.

24 MR. BOB PETERS: And that comfort level
25 hasn't been there since 2007?

1 MR. VINCE WARDEN: No. No. No, we're --
2 we're looking at this document that was prepared in
3 August of 2009, so that's -- the first estimate in 2007
4 there's no -- would -- would have been no reason to amend
5 that unless there is an ame -- amending document such as
6 the one we're looking at in -- in Exhibit 19.

7 MR. BOB PETERS: What you're telling the
8 Board, Mr. Warden, is that in 2007 and 2008 Manitoba
9 Hydro saw no need to check to see whether the cost of
10 Bipole 3 was escalating even though the costs for
11 Conawapa and Keeyask were?

12 MR. VINCE WARDEN: Well, as I mentioned,
13 Mr. Peters, the process is to come up with a in-service
14 cost for all projects and, unless there's a reason to
15 revise that estimate, there's no addendum brought
16 forward. So it's not unusual to have a project that is
17 estimated and unchanged.

18 MR. BOB PETERS: What was the reason for
19 the three (3) gentlemen listed on PUB Exhibit 19 to take
20 the time, expend the effort, gather the information, and
21 provide a capital project justification addendum for
22 Bipole 3 dated August 18th, 2009?

23 MR. VINCE WARDEN: That's -- again, I
24 have no knowledge of that. I -- there's a process that I
25 just described, it's not surprising to me that they're --

1 at that divisional departmental level they're constantly
2 reviewing estimates and bringing forward changes as
3 required. This one didn't make its way through the
4 process, but not to say that they shouldn't be reviewing
5 estimates as they do.

6 MR. ROBERT MAYER: Mr. Warden, some of us
7 up here are having a little trouble with your answers,
8 quite frankly. We're looking at a document that says in
9 -- it looks like May 15th, 2007, revised western route
10 placeholder increased costs due to construction and
11 material cost increases. Manitoba Hydro board of dir --
12 approved by Manitoba Hydro board of directors, minute
13 number 786-07-05. So somebody was obviously talking
14 about increasing costs.

15 Mr. Warden, this has been sitting around
16 in the public for quite -- apparently for some time and
17 the Winnipeg Free Press is sitting on it and we're no --
18 we're none the wiser sitting here today after you've been
19 asked the questions of how this document doesn't mean
20 anything, was never approved, whatever. But it seems
21 that this discussion was taking place and it was in -- we
22 got the board minutes are here, the executive committee,
23 the Hydro board. Mr. Warden, you have me totally
24 confused and I don't understand what you're telling us.

25 MR. VINCE WARDEN: Well, Mr. Mayer, I'm

1 sorry you're not getting the answers you're looking for.
2 I'm here telling you exactly what the process is at
3 Manitoba Hydro. I'm telling you that we have an approved
4 estimate of 2.2 billion for Bipole 3, and until it's
5 officially revised that is the approved estimate. There
6 is a process underway where -- in which external
7 consultants are reviewing the \$2.2 billion estimate to
8 come up with something that we can revise.

9 It's pretty obvious that a revision of
10 some order of magnitude is required. We don't know what
11 that number is until we have a number that we are --
12 we're satisfied with. And this is no different from any
13 other capital estimate at Manitoba Hydro in that respect.
14 Until we have a number that we can have confidence in we
15 don't revise that number. That's -- I'm sorry that
16 you're confused but that's the process that's followed at
17 Manitoba Hydro and those are the facts.

18 THE CHAIRPERSON: Mr. Warden, does that
19 mean that the -- we also received today the twenty (20)
20 year financial outlook, which presumably is the one that
21 the audit committee dealt with. I think you said was
22 going to happen on March 14th.

23 So they would put their stamp on this
24 without being aware of somewhere else in the organization
25 someone was talking about this major capital project

1 doubling in cost?

2 MR. VINCE WARDEN: No, the -- the role of
3 the audit committee is to recommend the -- the document
4 to the board of Manitoba Hydro for approval. And the --
5 the recommendation that was presented to the audit
6 committee is that -- that it be approved, subject to the
7 revisions to Bi -- review that's underway with Bipole 3.

8 So that was an explicit qualification that
9 was put on -- on the twenty (20) year outlook. Because
10 obviously that number is going to -- as I men --
11 mentioned to Mr. Mayer, that number is going to change.
12 We don't know what that number is yet. It would be
13 irresponsible on our part to plug in a number that we
14 don't have confidence in. We need to have confidence in
15 that number, it's a significant number, and at this point
16 we just don't have that.

17 THE CHAIRPERSON: Thank you. Mr.
18 Peters...?

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: You're not aware, Mr.
22 Warden, as to who requested this document, PUB 19, or
23 why?

24 MR. VINCE WARDEN: Mr. Peters, the
25 process is for a document such as this to be prepared by

1 the line, and advance it through the respective signing
2 authorities, the vice-presidents, in this case, up to
3 executive committee, so I'm not surprised that such a
4 document exists. My point is that it is not approved at
5 this point in time, and may never be approved in this
6 form by the executive committee.

7 MR. BOB PETERS: Okay. I -- I've got
8 that answer, Mr. Warden. My -- my question was a bit
9 more specific in terms of why the document was prepared
10 in the first place, not that -- you -- you've said you're
11 not surprised that it has been, but I'm wanting to know
12 why it would have been prepared in the first place.

13 MR. VINCE WARDEN: Well, for that very
14 reason. The -- the people that prepared it believed
15 there was a reason to revise the estimate. There could
16 be -- it wouldn't surprise me if there's several
17 iterations of this one (1).

18 This one (1) is 3.953 billion. There
19 could be others out there with different numbers on it,
20 as on different days the estimate may be refined for what
21 reason or -- one (1) reason or another. The fact that
22 this -- this hasn't been signed off, it -- it doesn't
23 have any finality to it.

24 MR. BOB PETERS: I'd like to add to that
25 last undertaking that I asked you for, Mr. Warden, in

1 terms of discussing with the vice-presidents as to
2 whether and when they saw the two (2) documents that are
3 the subject of my undertaking; to also find out what the
4 reason for the document not going further, in terms of to
5 the executive committee, is.

6 You were speculating as to what it might
7 be, but I think the Board would benefit from knowing for
8 certain why the document didn't come forward to the
9 executive committee.

10 MR. VINCE WARDEN: I -- I see no problem
11 in doing that at all, Mr. Peters. I can -- I can provide
12 that information to you.

13 MR. BOB PETERS: PUB Exhibit 19 is called
14 Addendum number 06. Do you see that in -- in the title,
15 Mr. Warden?

16 MR. VINCE WARDEN: I do.

17 MR. BOB PETERS: Is there an addendum
18 number 07, or 08, or 09?

19 MR. VINCE WARDEN: I don't know that, Mr.
20 Peters. Until such time -- in fact, I -- I shouldn't say
21 I don't know that. I -- I do know that. The addendum
22 number would be -- would be retained until such time as
23 it is finally approved by -- by executive committee.

24 Having said that, I -- I don't really know
25 what numbering sequence they use within their respective

1 divisions, so I -- again, that's a bit -- a bit of
2 speculation on my part. I do know that every addendum
3 that -- that makes it way to executive committee has its
4 own unique number.

5 MR. ROBERT MAYER: Mr. Peters, I'm
6 looking at the same document everybody else is, and I'm
7 seeing addendum number 01, 02, 03, 04, and 05.

8 MR. BOB PETERS: Mr. Vice-Chair, I -- I'm
9 sorry, I want to draw your attention, as I did Mr.
10 Warden's, to I think five lines from the very top of the
11 page under the title of, Bipole 3 Western Route
12 Transmission Line and Converters, Addendum number 06.

13

14 CONTINUED BY MR. BOB PETERS:

15 MR. BOB PETERS: And, Mr. Warden, you were
16 looking at the bottom of the page where the Vice-Chair
17 was just looking, to answer my last question to you, and
18 that is, Until an addendum is approved it will always be
19 addendum number 06 is -- is your understanding.

20 MR. VINCE WARDEN: Yes.

21 MR. BOB PETERS: So you don't know how
22 many different iterations, if any, of addendum number 06
23 are in Manitoba Hydro.

24 MR. VINCE WARDEN: I don't.

25 MR. BOB PETERS: What you do know is that

1 there was no updated number on the capital costs of
2 Bipole 3 used in CEF-09, or CEF-10, and it stuck with the
3 \$2.2 billion number that arose in 2007.

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: And the twenty (20) year
6 forecast that you mentioned to the Chairman, or the
7 Chairman mentioned to you, that was prepared using the
8 2007 capital expenditure forecast for -- of \$2.2 billion
9 for Bipole 3.

10 MR. VINCE WARDEN: Yes, but I -- I do
11 want to again emphasize, Mr. Peters, there -- there's
12 nothing unusual about that. That's intended to be an in-
13 service cost number, so it's not like we're using
14 outdated estimates at Manitoba Hydro.

15 With -- having said that, with the
16 qualification that we -- we do recognize now that there
17 is going to be a change forthcoming for Bipole 3.

18 MR. BOB PETERS: Well, how can you say
19 that, Mr. Warden, that there's going to be a change
20 coming for Bipole 3 when we've had this discussion and
21 you're not prepared to move off the \$2.2 billion number?

22 MR. VINCE WARDEN: Well, for the very
23 reason that this external review is underway and that we
24 have quite two (2) extremes in -- in estimates with --
25 between the two point two (2.2) that is currently

1 approved and the 4.1 billion that's referenced at Tab 70.
2 The independent review, I -- I expect will account for
3 the number that's different than the two point two (2.2).
4 I don't know that for sure, but I think it's a -- it's a
5 fair assumption.

6 MR. BOB PETERS: What's not an assumption
7 is that Bipole 3 at \$2.2 billion is going to have an
8 annual in-service cost of approximately \$217 million a
9 year, correct?

10 MR. VINCE WARDEN: Well, I think we --
11 you're referring to a -- an under -- either an
12 undertaking or an IR for that number, Mr. Peters.

13 MR. BOB PETERS: Yeah, sorry, Mr. Warden,
14 I was -- there's two (2) information requests that I'll
15 bring your attention to, and the Board's. One (1) of
16 them is found in Tab 70 of Board counsel's book of
17 documents. It's on page 181, which is in the top right-
18 hand corner of the page.

19 And a further information request is found
20 at Tab 71, 71, of Board counsel's book of documents,
21 marked as PUB Exhibit 18. And the -- the second document
22 that I've referred to is found at page 184 in the top
23 right-hand corner in response to PUB Manitoba Hydro First
24 Round 197.

25 In each of those documents there's an

1 indication that the first year in-service costs for
2 Bipole will be at least \$217 million, correct?

3 MR. VINCE WARDEN: Yes, and I think you -
4 - you've made an important addition to your -- your
5 earlier statement that that is the first year in-service
6 costs, and not the annual in-service costs.

7 MR. BOB PETERS: All right. Let's go to
8 2029 found on page 181 of Board counsel's book of
9 documents. This is -- this is going to be Bipole's in-
10 service costs as found in PUB Manitoba Hydro Second Round
11 Question 90B.

12 If we go out to 2029 the an -- the annual
13 in-service costs for Bipole 3 in 2029 will be
14 approximately \$180 million, correct?

15 MR. VINCE WARDEN: Yes, which is a fairly
16 significant decrease from the first year in-service costs
17 considering that this -- the Bipole has a -- a life that
18 will -- I believe is sixty (60) years.

19 MR. BOB PETERS: In any event, Mr.
20 Warden, whether it's 217 million or \$180 million, that
21 represents an approximate 18 or 20 percent rate increase
22 if wa -- if Manitoba Hydro was inclined to try to recover
23 all of those in-service costs through one (1) rate
24 increase?

25 MR. VINCE WARDEN: Wh -- which, of

1 course, we would not do, and that's just not how we put
2 forward rate increases so I -- I -- I don't think it's
3 appropriate to express it in those terms.

4 MR. BOB PETERS: While you don't agree
5 with the premise, you don't disagree with the math?

6 MR. VINCE WARDEN: Again, I -- I don't
7 agree with the premise. The math might work out to that,
8 but I -- but it's a -- a false premise.

9 MR. BOB PETERS: All right. And the
10 math, if the costs of Bipole double, then the annual in-
11 service costs also mathematically double, correct?

12 MR. VINCE WARDEN: Again, I -- I -- I'm
13 not agreeing in any way that the costs may double, but
14 the logic of your last statement does follow. I -- I do
15 want to emphasize though that Bipole 3 is required for
16 reliability. This is not something that we have the
17 luxury of -- of not building because of -- of costs.

18 The costs -- we want to make sure the
19 costs are as low as possible and that the estimate is
20 derived in a responsible way, but Bipole 3 must be built.

21 MR. ROBERT MAYER: Mr. Warden, following
22 on that and the discussion that Mr. Cormie and I had last
23 time, I note with interest that by addendum number
24 apparently on the documents, number 2 and 3 are talking
25 about deferral of Bipole 3 from whenever it was supposed

1 to happen to two (2) -- well, from 2012, it looks to me,
2 to 2017.

3 In light of the evidence that's already on
4 the -- on the record regarding the requirement for Bipole
5 3 and from what you just said now, on how there's -- it's
6 important, there's no way it can't be done, why would
7 have -- it have been deferred that long?

8 MR. VINCE WARDEN: Mr. Mayer, I think of
9 all the questions that have been raised this morning,
10 that's probably the most pertinent one, the most relevant
11 one. Every day that that transmission facility is
12 delayed increases the risk to the Manitoba Hydro system,
13 and I -- I believe that it's now become urgent that it be
14 built.

15 Why it was deferred? I don't specifically
16 know why it was deferred. I would have to -- if you
17 like, I could get more information around that. I think
18 that is probably a good question.

19 MR. ROBERT MAYER: I'm not sure that --
20 no matter what the answer is, the fact is is that we're
21 not talking about speeding it up at this point in time,
22 are we? We're talking about a 2017 in-service date?

23 MR. VINCE WARDEN: Yes, but it's my
24 understanding that is the earliest possible.

25 MR. ROBERT MAYER: Really not much use

1 about why it was done, but it is curious.

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Mr. Warden, the capital
5 cost of Bipole 3 was discussed at Manitoba Hydro's March
6 14th, 2011 meeting of the audit committee, was it not?

7 MR. VINCE WARDEN: It was discussed to
8 the extent that all members of the audit committee are
9 well aware that this review is underway and that the
10 twenty (20) year financial outlook was being recommended
11 for approval, subject to a change to the estimate for
12 Bipole 3.

13 MR. BOB PETERS: When the Board looks at
14 the twenty (20) year update that you provided them this
15 morning by way of Exhibit number 72, is there any caveat
16 in that document to suggest that the twenty (20) year
17 report is subject to a Bipole 3 revised capital cost
18 figure?

19 MR. VINCE WARDEN: No. What is actually
20 missing from -- from the document that was submitted is
21 the -- the recommendation that typically accompanies any
22 item that goes forward to the audit committee or the --
23 or the board, and it's simply a one (1) page cover
24 recommendation. And that reference to Bipole 3
25 qualification that I just mentioned is in that cover --

1 cover page.

2 MR. BOB PETERS: Is that a page that's
3 available for this Board?

4 MR. VINCE WARDEN: Yes, that -- that -- I
5 so -- see no reason why that couldn't be filed, it's
6 fairly -- yes, I will do that.

7 MR. BOB PETERS: All right, I'll ask for
8 that then as an undertaking. And if there's any issues,
9 your counsel can let the Board know.

10 MS. PATTI RAMAGE: Mr. Peters, I'm ju --
11 if we could take that subject to advisement, simply
12 because I think it warrants a more thorough internal
13 discussion just because recommendations to board or audit
14 committee are not filed, and -- and the -- there's --
15 there's reasons for that. And I think we -- we'd want to
16 canvass setting that kind of a precedent of filing those
17 -- those type of documents. But -- so I -- I would just
18 like an opportunity to -- to think about that before we
19 commit to an undertaking.

20 MR. BOB PETERS: Well, I -- I think
21 you've committed to the undertaking, subject to taking it
22 under advisement. If that's fair?

23 MS. PATTI RAMAGE: That's fair.

24

25 --- UNDERTAKING NO. 87: Manitoba Hydro to provide (1)

1 page cover recommendation
2 missing from Exhibit MH-72
3

4 MR. BOB PETERS: All right. I think
5 we're on the same page. And we'll -- we'll expect to
6 hear back from Manitoba Hydro on that, Mr. Chairman and
7 Vice-Chair.

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: Mr. Warden, can you tell
11 the Board whether the audit committee was provided a copy
12 of the October 5, 2010, or the August 18th, 2009, revised
13 Bipole calculations?

14 MR. VINCE WARDEN: No, they were not.

15 MR. BOB PETERS: So they've seen nothing
16 since the 2007 costs of Bipole 3 at the audit committee
17 level?

18 MR. VINCE WARDEN: That's correct, Mr.
19 Peters, but the audit committee would not typically
20 receive these documents. So they receive a very
21 consolidated summary of all capital expenditure forecasts
22 for the -- for the Corporation as is contained in the
23 twenty (20) year financial document. So the fact that
24 this wasn't presented to audit committee is not unusual
25 in any way.

1 MR. BOB PETERS: Is there an expected
2 IFF-10-2 going to be forthcoming in terms of when the
3 Bipole 3 cost is approved at the Board level?

4 MR. VINCE WARDEN: Yes, we do expect that
5 we will resubmit either the IFF-10, which is a ten (10)
6 year document or the twenty (20) year financial ou --
7 outlook or -- or both.

8 MR. BOB PETERS: Mr. Cormie, I hate to
9 put you on the spot but looking at PUB Exhibit 19, and I
10 -- again, I don't have the corporate organizational chart
11 in front of me and I also don't have your business card
12 in front of me, sir. Are you the division manager/power
13 supply?

14 MR. DAVID CORMIE: Mr. Peters, there are
15 seven (7) division managers, I'm one (1) of the seven
16 (7).

17 MR. BOB PETERS: I'm looking on PUB-19,
18 Mr. Cormie, and I see down the left-hand margin about in
19 the middle of the page, "Owning Division Manager Power
20 Supply," and I'm given to understand from Mr. Warden's
21 previous testimony that somebody would sign there if this
22 document had met their approval.

23 MR. DAVID CORMIE: Yes, the division
24 manager of the HVDC division would -- would sign there.

25 MR. BOB PETERS: And that's not you?

1 MR. DAVID CORMIE: That's not me, not
2 yet.

3 MR. BOB PETERS: Well, it's good to have
4 aspirations. So I take it, Mr. Cormie and Mr. Surminski,
5 PUB Exhibit 19 is also a document you haven't seen since
6 it was brought forward this morning?

7 MR. DAVID CORMIE: That's correct, Mr.
8 Peters.

9 MR. HAROLD SURMINSKI: Yes, similar for
10 me, I have never seen it.

11 MR. BOB PETERS: All right. Mr. Warden,
12 that -- that brings us to the questions -- question about
13 risk and risk issues. We've seen, and you can correct me
14 if I'm wrong, the capital costs of -- well, Keeyask and
15 Conawapa, they've increased materially?

16 MR. VINCE WARDEN: Yes. Yes, they have
17 in -- increased quite significantly, yes.

18 MR. BOB PETERS: And somebody in the
19 Corporation felt that there was a need to keep the
20 executive and executive committee and the board of
21 Manitoba Hydro current with increasing costs of those
22 major projects?

23 MR. VINCE WARDEN: As they do for any
24 other project, yes.

25 MR. BOB PETERS: Well, as they do for any

1 other project except Bipole 3, Mr. Warden?

2 MR. VINCE WARDEN: No, no, no, Mr.
3 Peters, that -- that is not the case. Certainly, once it
4 goes through the appropriate approvals, Bipole 3 would
5 have been put forward to executive committee in the same
6 manner as did Keeyask and Conawapa or any other -- any
7 other project.

8 MR. BOB PETERS: Well, Bipole 3 has been
9 put forward to various channels, it's just never made its
10 way through them to the executive committee. Isn't that
11 what we're understanding?

12 MR. VINCE WARDEN: Yes, but again,
13 nothing unusual about that, Mr. Peters. Various
14 iterations of estimates are prepared by the line
15 divisions' departments. Some make their way through,
16 others don't, depending on the veto, as you described it
17 earlier, that might occur at different levels.

18 MR. BOB PETERS: Using my math, Mr.
19 Warden, a four (4) year delay in updating the costs of
20 Bipole 3 means the difference between a 20 percent rate
21 increase and a 40 percent rate increase to consumers.

22 MR. VINCE WARDEN: I -- I'm not sure what
23 you mean by a four (4) year delay, Mr. Peters.

24 MR. BOB PETERS: A four (4) year delay in
25 updating the costs of -- of Bipole 3 from 2007 capital

1 expenditure forecast which is before the Board.

2 MR. VINCE WARDEN: Mr. Peters, no, no.
3 The -- the -- there's no reason to change a capital
4 expenditure forecast as long as the in-service date
5 remains the same. The only reason that a capital
6 expenditure forecast would be changed is -- is if there
7 was changes to one (1) of those components that we had
8 talked about earlier.

9 So if -- if there were no changes to any
10 of those component cost -- cost estimates, there'd be no
11 reason to change the estimate.

12 So there was no -- there was no delay in
13 updating the estimate. It was simply an estimate that
14 was approved, and would remain approved until -- until
15 changed.

16 If -- you know, if -- if the estimate had
17 -- had evolved or -- or at least the process had evolved
18 the way it was envisioned when the -- the \$2.2 billion
19 estimate was put forward, the line would have been
20 constructed, the converter stations would have been
21 constructed, the cost would have been 2.2 billion in
22 2017. So it's not unusual for a capital estimate not to
23 change.

24 MR. BOB PETERS: The in-service date now
25 is at least pushed back one (1) year, isn't it, Mr.

1 Warden?

2

3

(BRIEF PAUSE)

4

5 MR. VINCE WARDEN: No, Mr. Peters, I
6 think if you look at PUB Exhibit 19 the -- it refers to
7 the previously approved -- in -- in the -- in the box in
8 -- in -- close to the top of the form, it -- it refers to
9 the previously approved in-service date as being 2017-10.
10 The revised in-service date is 2017-10. So -- so no
11 change to the in-service date.

12

13

(BRIEF PAUSE)

14

15 MR. BOB PETERS: So, Mr. Warden, if a
16 capital project is -- doesn't change the in ser --
17 doesn't have an in-service date that is changed, then in
18 Manitoba Hydro's mind there's no need to examine the
19 capital costs to see if they have changed.

20

21 MR. VINCE WARDEN: No. No, no, that's
22 not what I said. The -- the capital costs are being
23 examined constantly by the originating departments and
24 divisions, so -- but unless there's a reason to change
25 those costs, then -- then they remain unchanged. Again
it's not -- not unusual for a capital cost to remain

1 unchanged from the original estimate.

2 MR. BOB PETERS: Mr. Warden, can you
3 verify, and double-check the in-service date on Bipole 3
4 for me, because my understanding in the capital
5 expenditure forecast provided by Manitoba Hydro doesn't
6 line up with your second-last answer to me of an in-
7 service date in 2017.

8 MR. VINCE WARDEN: Yes, I'll do that.

9 MR. BOB PETERS: Thank you. By way of an
10 undertaking, sir?

11 MR. VINCE WARDEN: Yes.

12 MR. BOB PETERS: Thank you.

13

14 --- UNDERTAKING NO. 88: Manitoba Hydro to indicate
15 the in-service date on Bipole
16 3

17

18 CONTINUED BY MR. BOB PETERS:

19 MR. BOB PETERS: And in that undertaking,
20 if you can indicate to the Board if there was a change in
21 the in-service date from what's noted back in 2005
22 minutes of the executive committee, then explain to the
23 Board when that change in in-service date took place?

24 MR. VINCE WARDEN: Mr. -- Mr. Peters, you
25 might just refer to, again, Exhibit 19, Addendum number

1 4. There was an in-service date change then, as Mr.
2 Mayer referred to earlier, from 2012 to 2017, and -- and
3 that's -- that's the current in-service date.

4 Look -- if we just refer to the twenty
5 (20) year financial outlook, we should have the in-
6 service dates listed there, so just to -- if you refer to
7 page 3 of the twenty (20) year financial outlook, you can
8 see that Bipole 3 is -- is -- remains at 2017.

9 So I think I've just answered your last
10 undertaking, Mr. Peters.

11 THE CHAIRPERSON: I think we'll take our
12 break now, Mr. Peters.

13 MR. BOB PETERS: Thank you, Sir.

14

15 --- Upon recessing at 10:39 a.m.

16 --- Upon resuming at 11:06 a.m.

17

18 THE CHAIRPERSON: Mr. Peters...?

19

20 CONTINUED BY MR. BOB PETERS:

21 MR. BOB PETERS: Thank you, Mr. Chairman.
22 Mr. Warden, I think before the morning recess you'd
23 indicated that the audit committee at which you attended
24 on March 14th of 2011, discussed the capital costs of
25 Bipole 3, but they did not see the document that's found

1 at Tab 70 of Board counsel's book of document or PUB
2 Exhibit 19. Is that correct?

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

4 MR. BOB PETERS: In earlier answers, that
5 doesn't suggest the audit committee is not aware that
6 there appears to be a considerable discrepancy between
7 what is included in Manitoba Hydro's capital plans for
8 Bipole 3 and what some people in Manitoba Hydro are
9 saying are the new revised capital costs of Bipole 3?

10 MR. VINCE WARDEN: Yes, Mr. Peters, the
11 audit committee is aware of -- of that difference.

12 MR. BOB PETERS: And did the audit
13 committee, as a result of being aware of that difference,
14 direct management to do anything at this time?

15 MR. VINCE WARDEN: Mr. Peters, I -- I
16 should maybe just correct my last answer or -- or make
17 sure my last answer is clear. When I say they're aware
18 of that difference, they're not aware of a -- a specific
19 difference, so they -- it -- they may be aware of the
20 \$4.1 billion floating around in the media and elsewhere,
21 but that -- they're -- they're certainly aware that the
22 approved estimate for Bipole 3 is 2.2 billion and that a
23 review is currently underway to come up with the -- the
24 most appropriate number at this time.

25 MR. BOB PETERS: Manitoba Hydro has

1 committed \$2.2 billion for Bipole 3 and has embedded that
2 in their IFF in their twenty (20) year forecast?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: And that assumes a
5 calendar year 2017, or a fiscal year 2018, in-service?

6 MR. VINCE WARDEN: Yes, it -- it assumes
7 an in-service date of -- I believe it's October of 2017,
8 which is in the 2017 fiscal year -- 2017/'18 fiscal year.

9

10 (BRIEF PAUSE)

11

12 MR. BOB PETERS: And unless someone came
13 up with a reason to investigate the capital costs of
14 Bipole 3 further, Hydro would commence its construction,
15 assuming it was worth and going to cost \$2.2 billion for
16 Bipole 3?

17 MR. VINCE WARDEN: Yes, in normal course
18 that's what would happen.

19 MR. BOB PETERS: And if for any reason
20 the capital cost of 2.2 billion was only enough for 50
21 percent of the line, there would be -- there would be a
22 problem once the line was being constructed, when there
23 wasn't enough capital allocated for it?

24 MR. VINCE WARDEN: No, no, I wouldn't
25 call it a problem. Estimates do get changed during the

1 course of construction. Conditions might be met. The
2 estimate for any capital project assumes certain cond --
3 conditions during construction, different conditions than
4 -- than what may have been assumed could be encountered,
5 and therefore, a budget revision is required. So it's
6 not unusual for a budget revision to be required post
7 construction start date.

8 MR. BOB PETERS: It's pretty unusual to
9 have a budget be wrong in the magnitude of 100 percent
10 though, isn't it?

11 MR. VINCE WARDEN: Yes, it is. While I
12 wouldn't call it wrong, that was the estimate that was
13 prepared, and it -- for it to double is -- is very
14 unusual, yes.

15 MR. BOB PETERS: When you say that was
16 the estimate prepared, can you tell the Board whether the
17 estimate prepared was based on Manitoba Hydro's costing
18 of Bipole 3, or was it an external source's costing of
19 Bipole 3?

20 MR. VINCE WARDEN: Well, for any capital
21 project external assistance is often obtained. And I
22 expect that that was the case with -- with the estimate
23 for Bipole 3 as well.

24 MR. BOB PETERS: And, Mr. Warden, at page
25 1 of 7 of PUB Exhibit 19, it happens to be the second

1 page, there's some background information provided. Have
2 you had a chance to read that at all?

3 MR. VINCE WARDEN: I've skimmed through
4 it, Mr. Peters. But as I mentioned, I hadn't seen this
5 document before, but I have looked through it very
6 briefly.

7 MR. BOB PETERS: And now that it's in
8 your hands, Mr. Warden, as a member of the executive
9 committee, what, if any, obligation do you have to your
10 colleagues on the executive committee about bringing this
11 information forward?

12 MR. VINCE WARDEN: Oh, this -- again,
13 there's been so much in the media about this. This is
14 certainly no surprise to anybody that there -- there's a
15 higher estimate for -- for Bipole 3, so, at this point,
16 no obligation whatsoever. All of the executive committee
17 is under -- is fully aware that this estimate is under
18 review.

19 MR. BOB PETERS: I'm not sure I'll agree
20 with your suggestion that no one is surprised that the --
21 that higher costs are likely, Mr. Warden, because that's
22 certainly not the message Manitoba Hydro is sending out,
23 is it, that Bipole 3 will cost more than 2.2 billion, we
24 just don't know how much more?

25 MR. VINCE WARDEN: Mr. Peters, I don't

1 think I said that higher costs are likely. I said -- I
2 think I intended to say that higher estimates are out
3 there, so that's not a surprise to anybody. Whether the
4 estimate will be higher than 2.2 billion, we'll await the
5 results of that review. I think the likelihood is very
6 high that the estimate will be greater than 2.2 billion.

7 MR. BOB PETERS: Is Manitoba Hydro aware
8 of any estimates that are less than 2.2 billion for
9 Bipole 3 with an in-service date of 2017?

10 MR. VINCE WARDEN: No.

11 MR. BOB PETERS: And when I look at PUB
12 19 on page -- what's -- the bottom right-hand corner
13 marked page 1 of 7, it appears that in 2001 there was an
14 estimate by a firm called Teshmont Consultants.

15 Are you aware of that?

16 MR. VINCE WARDEN: Yes, we do a fair bit
17 of work with Teshmont, yes.

18 MR. BOB PETERS: Teshmont is a -- is a
19 firm that Manitoba Hydro has an equity interest in, isn't
20 it?

21 MR. VINCE WARDEN: Yes.

22 MR. BOB PETERS: And when it talks about
23 the Addendum number 4, which would be on the front page
24 of PUB Exhibit 19, the -- the brief summary that you and
25 the Vice-Chair have talked about, the placeholder number

1 that was put in was put in because the routing had
2 changed from the west -- from the east side to the west
3 side of the province. Would that also be correct?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: You indicated earlier,
6 Mr. Warden, and you -- you draw -- you drew to the
7 Board's attention that PUB Exhibit 19 contains no
8 signatures of any division manager or vice-president,
9 correct?

10 MR. VINCE WARDEN: Correct.

11 MR. BOB PETERS: Do you know whether
12 there is or is not an Addendum number 6 that has
13 signatures of either division managers or vice-
14 presidents?

15 MR. VINCE WARDEN: No. No, I'm not
16 aware.

17 MR. BOB PETERS: So if there was one that
18 had the signatures of the division managers, what, if
19 anything, would that mean to Manitoba Hydro?

20 MR. VINCE WARDEN: Well, again describing
21 the process, it would -- wouldn't change anything that
22 we've been discussing this morning, Mr. Peters. It would
23 -- after the division managers have signed off it goes to
24 the vice-president. And again, I would not become aware
25 of it personally as a member of the executive committee

1 until it was brought forward by the vice-president of
2 transmission and the vice-president of power supply.

3 MR. BOB PETERS: And it would take their
4 signatures on this document for that to come forward to
5 executive committee?

6 MR. VINCE WARDEN: Yes.

7 MR. BOB PETERS: You'd indicated to the
8 Board that Manitoba Hydro was getting an independent
9 report on the current costs of Bipole 3. Is that
10 correct?

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

12 MR. BOB PETERS: And when you say,
13 "independent report," it's from an outside agency, not
14 Manitoba Hydro?

15 MR. VINCE WARDEN: It's an outside
16 agency, yes.

17 MR. BOB PETERS: Is it the same agency
18 that provided the placeholder number back in Addendum
19 number 4?

20 MR. VINCE WARDEN: No, it is not.

21 MR. BOB PETERS: Is it a firm in which
22 Manitoba Hydro has any equity interest?

23 MR. VINCE WARDEN: No, it is not.

24 MR. BOB PETERS: Is it a firm that has
25 provided any costing for Bipole 3 previous to today?

1 take it?

2 MR. VINCE WARDEN: No.

3

4 CONTINUED BY MR. BOB PETERS:

5 MR. BOB PETERS: Then it will certainly
6 strike you at the most inopportune time today, but would
7 you undertake to -- to maybe let the Board know the
8 official name of the consulting firm that -- that's been
9 engaged?

10 MR. VINCE WARDEN: Yes, I will do that.

11

12 --- UNDERTAKING NO. 89: Manitoba Hydro to provide the
13 official name of the
14 consulting firm engaged

15

16 CONTINUED BY MR. BOB PETERS:

17 MR. BOB PETERS: When I said "consulting
18 firm," it's -- is it actually an engineering firm to your
19 knowledge or is it a consulting firm?

20 MR. VINCE WARDEN: Well, I think they
21 would use those terms interchangeably, probably more so
22 an engineering firm, though. And I -- and I guess I -- I
23 can't imagine that they would have any objection to their
24 name being on the record, but I should clarify that first
25 to make sure.

1 MR. BOB PETERS: Mr. Warden, I had
2 understood from the last time we talked on March the 7th
3 that this report from this, unnamed presently,
4 engineering firm was to be completed in March -- by March
5 of this year and taken to the March 14th audit committee
6 meeting for review?

7 MR. VINCE WARDEN: Yes.

8 MR. BOB PETERS: Did that happen?

9 MR. VINCE WARDEN: Yes, it did.

10 MR. BOB PETERS: And so, Mr. Warden, back
11 on page, transcript 3870, 3870, you had indicated that
12 you were aware that this Board had an interest in the
13 costs of Bipole 3 and you were hoping that you could take
14 the -- I'll call it the independent engineering report to
15 the audit committee on the 14th of March, 2011, and then
16 bring the results back to this Board.

17 Do you recall words to that effect?

18 MR. VINCE WARDEN: Yes, I -- I don't
19 believe I committed to a time frame for bringing the
20 results back to this Board. The estimate that was
21 presented -- and there was a presentation to the audit
22 committee by the engineering firm. So the estimate is
23 under consideration by the audit committee at this time.
24 But there -- there's nothing that -- that -- to my
25 knowledge, that they've signed off on yet.

1 MR. BOB PETERS: My question, Mr. Warden,
2 I hope didn't convey the view that you had committed to
3 provide this Board with a copy of the independent
4 engineering's report on Bipole 3 following the March 14th
5 audit committee meeting. Although, you did indicate on
6 the record at page 3870 that there were some discussions
7 as to whether or not that independent engineering report
8 could be released to the Public Utilities Board following
9 the audit committee meeting on the 14th of March.

10 MR. VINCE WARDEN: Okay, Mr. Peters, and
11 now that I -- that meeting has taken place I -- I can
12 confirm that a presentation was made and there are still
13 some unanswered follow-up questions that are yet under
14 consideration by the audit committee before it's prepared
15 to come up with a -- or at least endorse a new number for
16 the -- for the Bipole.

17 MR. BOB PETERS: I take it, Mr. Warden,
18 that one (1) of the difficulties you have today is that
19 you were present at an audit committee meeting where a
20 revised capital cost figure for Bipole 3 would have been
21 presented on March 14th of 2011, but you don't feel you
22 can release that number today.

23 MR. VINCE WARDEN: And, Mr. Peters, I --
24 I was present, absolutely. I don't have a num -- a
25 number. I don't have a number that I can point to and

1 say, this is it, this is the one we're going with.

2 There are still some -- some issues to be
3 researched, some questions to be answered, before we can
4 come up with a number that we can put forward as a
5 revised CPJ, and get signoff by -- by the executive
6 committee. So it's -- the process is moving along. We
7 are making progress, but we're not there yet.

8 MR. BOB PETERS: Did the estimate from
9 the independent engineering firm on March the 14th of
10 2011 support the estimates in the capital project
11 justification marked as PUB Exhibit 19?

12 MR. VINCE WARDEN: No. There -- and
13 there's certain aspects of the -- and they -- realize
14 they went over the detailed estimate, very extensive
15 background documentation, and there was some as --
16 aspects of that estimate that they did agree with, but
17 others that they didn't.

18 MR. BOB PETERS: I'm sorry, who -- who
19 didn't disagree with -- who disagreed with some of the
20 aspects of the --

21 MR. VINCE WARDEN: Well, we were talking
22 about the engineering firm. You asked me whether or not
23 they agreed with the -- the number that's at -- presented
24 at -- on Exhibit 19, and my answer was there were some
25 components of that they would have agreed with and others

1 they didn't.

2 MR. BOB PETERS: Would that engineering
3 firm that has been retained by Manitoba Hydro have seen a
4 copy of PUB Exhibit 19?

5 MR. VINCE WARDEN: Well -- well, they --
6 they obtained all the background information they needed
7 to conduct their review, so whether this exact document
8 was in their possession I really don't know. They would
9 have drilled a lot deeper than this, though.

10 MR. BOB PETERS: So you're telling this
11 Board that a report has been completed by this
12 independent engineering firm, but the audit committee has
13 additional questions that they want answered before a
14 final report will be accepted.

15 MR. VINCE WARDEN: Yes, and I -- I didn't
16 say -- I don't think I said a report had been completed.
17 A report has been presented to the audit committee.
18 There are some questions that have yet to be resolved.

19 MR. BOB PETERS: And how much time has
20 the audit committee given to the -- to the independent
21 engineering firm to resolve those questions?

22 MR. VINCE WARDEN: I don't know that
23 specifically. I don't know that there was a time frame
24 placed around that. I believe, though, that we do have a
25 commitment to have this matter resolved midsummer, and I

1 don't think we've been any more specific than that.

2 MR. BOB PETERS: Mr. Warden, I would like
3 Manitoba Hydro to undertake to file with this Board the
4 presentation that was made to the audit committee on
5 March 14th of 2011 by the independent engineering firm
6 related to Bipole 3.

7 MR. VINCE WARDEN: Mr. Peters, I -- I
8 cannot do that. I can't undertake to do that, and please
9 believe me, we're not trying to be evasive here in any
10 way, but it would ser -- serve no useful purpose. It is
11 preliminary. There are unanswered questions. In due
12 course that estimate will be finalized and -- and
13 incorporated in an updated financial forecast, so, no, I
14 won't accept that undertaking.

15 MR. BOB PETERS: Why would it not serve a
16 useful purpose if it brings some clarity to identifying
17 where the capital cost of Bipole 3 that is to be
18 recovered from Manitoba ratepayers is going to end up?

19 MR. VINCE WARDEN: Because it won't do
20 that, Mr. Peters. There is just no point to have -- us
21 having another -- yet another estimate that hasn't been
22 formally approved by Manitoba Hydro.

23 There is a process underway for that
24 approval to take place, and it's certainly not going to
25 be reflected in the rates during the test years, there's

1 no question about that, so there'll be ample -- ample
2 opportunity to review that estimate -- updated estimate
3 at the appropriate time.

4 MR. BOB PETERS: When you say there's a
5 process to -- to review the preliminary estimate from the
6 independent engineering firm retained by Manitoba Hydro,
7 what is that process in terms of the steps to be taken
8 and the end date of that process?

9 MR. VINCE WARDEN: Well, as I mentioned,
10 Mr. Peters, there is -- we're certainly aware that there
11 is an interest in the updated estimate being concluded.
12 There are -- were a number of questions that emanated
13 from the presentation from the -- to the audit committee.
14 The consulting engineering firm is dealing with people at
15 Manitoba Hydro to firm up the estimate.

16 And when that is concluded it will be
17 incorporated in a capital project justification for
18 presentation to executive committee and ultimately in --
19 incorporated in a revised updated forecast that will be
20 taken to the audit committee and board, so that's the
21 present -- or that -- or that is the process that will be
22 followed.

23 MR. BOB PETERS: All right. So when last
24 time we talked you had hoped to have that completed by
25 the 14th of March, and now you're not giving any end date

1 for that to happen?

2 MR. VINCE WARDEN: No, I don't think I --
3 I said the process will be comp -- completed by the 14th
4 of March. I did indicate there was -- there was a
5 presentation to the audit committee on the 14th of March,
6 and -- and that presentation did take place.

7 MR. BOB PETERS: Well, not to put too
8 fine a point on it, Mr. Warden, but I'll read the middle
9 paragraph on page -- transcript 3870, Mr. Vince Warden:
10 "Yes, although I think we certainly
11 appreciate the Board's interest in this
12 matter, I think there is some
13 discussion as -- as to whether or not
14 it could be released to this Board
15 following the audit committee meeting
16 on March the 14th."

17 Did I read that correctly, sir?

18

19 (BRIEF PAUSE)

20

21 MR. VINCE WARDEN: Yes, Mr. Peters, I
22 think you read it correctly. I would like to just review
23 the preamble to make sure we put that in context. But
24 the fact is it was presented to the March 14th audit
25 committee. It's not ready to be finalized -- or it's not

1 in final form at this -- as we speak.

2 MS. PATTI RAMAGE: And if I could just
3 interject and maybe provide some context. If you also
4 look at transcript page 2465, Mr. Peters asked Mr.
5 Warden:

6 "And that review is expected to be
7 completed in a couple of months if I
8 understood your previous evidence."

9 And Mr. Warden answered:

10 "Well, it'll be completed no later than
11 June."

12 And again, Mr. Peters asked:

13 "Will Manitoba Hydro provide a copy of
14 this to the Board, recognizing this
15 Board may still be engaged at or about
16 that time, while the results of the
17 review, I expect will be public?"

18 "Yes", was Mr. Warden's response. So I
19 think it's fairly consistent.

20

21 CONTINUED BY MR. BOB PETERS:

22 MR. BOB PETERS: My -- my point --

23 MR. VINCE WARDEN: I think, Mr. Peters,
24 if I can just add to that, and I don't want to -- it to
25 appear that we're giving different answers all the time,

1 but this is a very dynamic process and it is evolving as
2 we -- we speak. I -- I can only tell you that the
3 presentation was made as scheduled to the March 14th
4 audit committee.

5 There are still some unanswered questions.
6 There is a process underway to get those questions
7 answered, and for a revised estimate to be prepared.
8 That's where we're at today.

9 MR. BOB PETERS: As a result of your
10 being privy to that information, Mr. Warden, you've
11 indicated this morning for the first time that it is --
12 it's not unlikely that the costs for Bipole 3 will be
13 greater than \$2.2 billion. Would that be true?

14 MR. VINCE WARDEN: Yes. Yes, I -- I
15 think we can say with some confidence the cost will be
16 greater than two point two (2.2), but not as high as
17 four point one (4.1).

18 MR. BOB PETERS: Well, we're starting to
19 get somewhere now.

20 MR. ROBERT MAYER: I know where ordinary
21 cross-examination would go from here.

22

23 CONTINUED BY MR. BOB PETERS:

24 MR. BOB PETERS: Where -- is it now
25 closer to 4 billion than -- than \$2 billion?

1 MR. VINCE WARDEN: Mr. Peters, there's --
2 I think we have the two (2) extremes. There's, as I
3 mentioned earlier, a number of unanswered questions that
4 could have an influence on that number, but greater than
5 two point two (2.2) less than four point one (4.1).
6 That's probably as best as I can do at the moment.

7 MR. BOB PETERS: And the cost of this
8 external report, is that something that Manitoba Hydro
9 has a better handle on, Mr. Warden?

10 MR. VINCE WARDEN: I'm sorry, Mr. Peters,
11 what --

12 MR. BOB PETERS: Well, you've engaged
13 some independent external engineering firm to provide a
14 review and report. And what is going to be the cost of
15 that exercise?

16 MR. VINCE WARDEN: I don't know the
17 answer to that.

18 MR. BOB PETERS: There's no fixed price?
19 It's simply --

20 MR. VINCE WARDEN: It's just that I don't
21 have it immediately available. I could -- I could
22 certainly find that out.

23 MR. BOB PETERS: I think that would help.
24 If you could undertaken then to put the cost of the --
25 the expected cost of the external engineer's report

1 related to the costs of Bipole 3 on the record.

2 MR. VINCE WARDEN: Yes, I could do that.

3

4 --- UNDERTAKING NO. 90: Manitoba Hydro to provide the
5 expected cost of the external
6 engineer's report related to
7 the costs of Bipole 3

8

9 CONTINUED BY MR. BOB PETERS:

10 MR. BOB PETERS: And following up on Ms.
11 Ramage's comments, you're now telling this Board that the
12 summer of 2011 is the earliest that Manitoba Hydro
13 expects the report to be finalized?

14 MR. VINCE WARDEN: Well -- well, Mr.
15 Peters, I -- I'm just hesitant to make commitments that I
16 can't keep, so I -- I'm -- I want to make sure that if --
17 if we err, it's on the -- on the side of -- of giving
18 ourselves enough time to make sure we do the thorough
19 review that is required. So I'm not -- I'm not
20 referencing a specific date at this point in time.

21 MR. BOB PETERS: You're not retrenching
22 on your commitment to provide a copy to this Board when
23 it is finalized, sir?

24 MR. VINCE WARDEN: No.

25 MR. BOB PETERS: So this Board will

1 receive it, just not sure when?

2 MR. VINCE WARDEN: Well, that sounds a
3 little bit too loose. I think I did say midsummer. And
4 I think elsewhere I might have referred to the June ti --
5 time frame. I would think by -- by that time frame, by
6 June we should have something we can release to the
7 Board.

8 MR. BOB PETERS: Mr. Warden, let's use
9 the time remaining this morning to talk about some of the
10 issues that you raised when you provided Manitoba Hydro's
11 submission to this Board I believe on March the -- March
12 the 9th relative to the interim rate increase.

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: Just so this Board is
15 clear, for the test year we're presently in, Manitoba
16 Hydro expects to be at least \$60 million ahead of its
17 forecast?

18 MR. VINCE WARDEN: Mr. Peters, I think
19 our quarterly report referred to -- that is the quarterly
20 report for the nine (9) months, end of December 31st,
21 2010, did refer to an estimate of that time of
22 approximately \$140 million of net income for the fiscal
23 year. We're -- we're tracking, at this point, lower than
24 that, so that isn't likely to be achieved. It should be
25 close, but -- but it certainly won't -- as certain as we

1 can be with respect to our export markets and everything
2 else under consideration, we will not -- not likely
3 achieve the 140 million number.

4 MR. BOB PETERS: Wasn't that \$140 million
5 number a consolidated figure, Mr. Warden. Do you recall?

6 MR. VINCE WARDEN: Yes, it was.

7 MR. BOB PETERS: All right. So if we
8 back out something on the gas side I'd use for my simple
9 math \$138 million on the electric side compared to the 78
10 million that was forecast in IFF-09 and came up with my
11 \$60 million ahead. So you're telling the Board that'll
12 be close but maybe not exact?

13 MR. VINCE WARDEN: It'll be close, yes.

14 MR. BOB PETERS: And the reason it won't
15 be greater than that is because the export market is not
16 returning the prices that Manitoba Hydro had hoped?

17 MR. VINCE WARDEN: That's the major
18 reason, yes.

19 MR. BOB PETERS: And the major reason for
20 that is that Manitoba Hydro has not correctly updated its
21 export price forecast using the most current information
22 related to what the market is -- is yielding?

23 MR. VINCE WARDEN: No, I wouldn't say
24 that's the -- it's not -- it's not related to the update
25 in the forecast, it's certain assumptions that are made

1 with respect to opportunity sales that may or may not
2 materialize and we do the best we can with the
3 information we have available at any point in time. But
4 no, nothing turns on the -- on the long-range forecast
5 that we are -- that we undertake to put together every
6 year.

7 MR. BOB PETERS: The return on the
8 opportunity sales is lower than what was expected?

9 MR. VINCE WARDEN: Yes.

10 MR. BOB PETERS: And is it lower than the
11 2.3 cents on average that you indicated was realized for
12 opportunity sales in fiscal 2010?

13 MR. VINCE WARDEN: It's very close to
14 that, around two point three (2.3), number.

15 MR. BOB PETERS: So any suggestion in
16 your comments to the Board on March the 9th relative to
17 not meeting your budget was not meeting your Q3 budget
18 that replaced IFF-09 in your mind?

19 MR. VINCE WARDEN: Well, at the end of Q3
20 we look forward, as we always do, to the remaining months
21 of the fiscal year and we're slightly more optimistic
22 about the turnaround or -- or not the turnaround
23 necessarily but prices being higher than they turned out
24 to be. It doesn't take a big difference to have a
25 significant impact on the bottom line.

1 MR. BOB PETERS: And again, it's the
2 opportunity sales that aren't yielding what Manitoba
3 Hydro had forecast they would yield?

4 MR. VINCE WARDEN: That's right.

5 MR. DAVID CORMIE: Mr. Peters, two (2)
6 other factors, the cost of the DC problems that we talked
7 about previously, that -- that affected our export
8 revenues. And to the extent that the Manitoba load is
9 above the forecast, that takes away from the opportunity
10 exports. And we -- the water rentals for the year will
11 be very close to what we forecast, which indicates
12 hydraulic generation is -- is pretty well on target, it's
13 just that its revenues going to domestic -- or the energy
14 is going to domestic rather than the export and -- but
15 Mr. Warden was correct that the off-peak market prices
16 are lower than we had anticipated.

17 MR. BOB PETERS: What domestic rates do
18 you have, Mr. Cormie, Mr. Warden, that are lower than 2.3
19 cents a kilowatt hour?

20 MR. VINCE WARDEN: Well, we -- we don't
21 have any domestic rates that are -- that are lower than,
22 on average, 2.3 cents per kilowatt hour.

23 MR. BOB PETERS: So, Mr. Cormie, help me
24 out. By -- by having higher domestic load than forecast
25 means -- isn't that a good thing for Manitoba Hydro

1 because you're getting more money from the Manitoba
2 consumers than you would be at 2.3 cents on the
3 opportunity export market?

4 MR. DAVID CORMIE: Well, in the on-peak,
5 we -- we'd be getting more than that in the export
6 market. In the off-peak we'll be getting -- we'll be
7 getting less. And when it's cold the loads go up in
8 Manitoba and that takes away from our export revenues
9 both on and off-peak. But generally, the off -- the --
10 the spo -- the spot market or the off-peak market has
11 been softer than we had anticipated. There's a bunch of
12 interrelated factors and -- but mainly, Mr. Warden is
13 right, the market has been softer and -- than we had
14 forecast.

15 MR. BOB PETERS: You had indicated, Mr.
16 Cormie, that there was a DC transmission problem that
17 also impacted the export revenues, correct?

18 MR. DAVID CORMIE: That's correct.

19 MR. BOB PETERS: This was the problem
20 that you spoke at some length with the Vice-Chair on when
21 we last were convened, related to, if I recall, a -- a
22 bipole tower that was -- the guy wire had snapped and the
23 tower was -- was leaning.

24 MR. DAVID CORMIE: Yes, for several days
25 we had to financially settle our export obligations and

1 we had both the generating stations at Brandon and
2 Selkirk on, running on natural gas in order to back up
3 the supply of power for Manitobans.

4 MR. BOB PETERS: As a result of that DC
5 problem, how many days were you not able to export
6 electricity to the counter -- export the electricity
7 commitments that Manitoba Hydro had?

8 MR. DAVID CORMIE: I think we were
9 curtailing exports for, I think it was, three (3) days in
10 totals.

11 MR. BOB PETERS: Were you curtailing on-
12 peak as well as off-peak deliveries, Mr. Cormie?

13 MR. DAVID CORMIE: Both.

14 MR. BOB PETERS: A hundred percent
15 curtailment?

16 MR. DAVID CORMIE: Only to the extent
17 necessary to get the HVDC system into a safe mode.

18 MR. BOB PETERS: And -- and that means
19 nothing to me. I'm sure it means something more to you,
20 and --

21 MR. DAVID CORMIE: What -- what that
22 means is that to event -- if the DC were to go down, to
23 prevent a complete blackout to the province.

24 MR. BOB PETERS: So the DC lines were
25 still transmitting energy, but not to the capacity that

1 they otherwise would but for this physical problem.

2 MR. DAVID CORMIE: Right. And water that
3 would otherwise be generated had to be spilled at the
4 generating stations.

5 MR. BOB PETERS: Has Manitoba Hydro
6 determined the cause of the water that lead to this tower
7 being encased in ice?

8 MR. DAVID CORMIE: The cause of the high
9 river flows were the exceptional high flows on the Nelson
10 River caused by the rain that fell last spring and
11 summer. As the flood works its way down the Nelson
12 River, it created very high flows and very rough ice
13 covers, caused water levels to back up at these
14 locations.

15 MR. BOB PETERS: Is it the high flows
16 that resulted in ice jams on the -- on the water system?

17 MR. DAVID CORMIE: Yes, the velocities
18 would be higher. The ice surfaces would be rougher, and
19 -- causing the -- the water levels to be higher than they
20 would in a normal water year.

21 MR. BOB PETERS: Are you able to quantify
22 for the Board, Mr. Cormie, what the economic impact of
23 the three (3) days of reduced transmission on Bipoles 1
24 and 2 were?

25 MR. DAVID CORMIE: The cost to the export

1 market activities and the additional natural gas costs
2 were \$2 million.

3 MR. BOB PETERS: That's a total?

4 MR. DAVID CORMIE: That's the -- just the
5 -- in -- in the net generation costs. There are
6 additional costs due to all the labour and the repairs at
7 the site. I don't know what those numbers are.

8 MR. BOB PETERS: Mr. Warden, have you got
9 a better handle at this point on the -- on the repair
10 work that needed to be done relative to this -- the
11 bipole towers?

12 MR. VINCE WARDEN: Yes. Well, the -- the
13 numbers I have are very preliminary, but they will be in
14 excess of 2.5 million, so.

15 MR. BOB PETERS: And can --

16 MR. VINCE WARDEN: I just want --

17 MR. BOB PETERS: I didn't mean to
18 interrupt.

19 MR. VINCE WARDEN: No, if you were
20 finishing that line of questioning, I just wanted to go
21 back to some previous discussion.

22 MR. BOB PETERS: Would -- I'll give you
23 that chance soon. The 2.5 million in terms of -- and I
24 appreciate it's a high-level cost, and we may need an ex
25 -- independent firm to verify it, Mr. Warden, and that's

1 meant as a joke, but the -- I -- well, then I apologize.

2 But the \$2.5 million, how many towers were
3 involved in that repair effort?

4 MR. DAVID CORMIE: I believe there were
5 eighteen (18) -- eighteen (18), but I'd have to check on
6 that, Mr. Peters. There was an extensive stretch of line
7 that was affected.

8 MR. BOB PETERS: And can you indicate to
9 the Board what the nature of the repair or remediation
10 work was, Mr. Warden or Mr. Cormie?

11 MR. DAVID CORMIE: The -- some of the
12 towers were encased in ice up to ten (10) feet. The --
13 new foundations had to be installed, temporary
14 installations. Guide wires were -- needed to be reset.
15 That's the nature of the repairs.

16 MR. BOB PETERS: So it -- it sounds like
17 it's labour intensive as opposed to construction material
18 intensive.

19 MR. DAVID CORMIE: Yes, I understood
20 there -- many individuals were working to effect the
21 repairs.

22 MR. BOB PETERS: You said temporary
23 foundations, if I heard your evidence two (2) questions -
24 - or two (2) answers ago, Mr. Cormie, does that suggest
25 that there will have to be additional permanent repairs

1 made?

2 MR. DAVID CORMIE: I -- I don't know that
3 answer, but I would assume that it's pretty difficult to
4 do permanent repairs with ten (10) feet of ice encasing
5 the foundation, so I would expect that more follow-up
6 work would be required.

7 MR. BOB PETERS: And Mr. Cormie, when you
8 talked about \$2 million of additional costs being --
9 meaning the costs to Manitoba Hydro for not being able to
10 export for those three (3) days the full amount that they
11 otherwise would, were there any additional revenue gains
12 as a result of Manitoba Hydro getting additional monies
13 for any of the energy from domestic customers as opposed
14 to export customers?

15 MR. DAVID CORMIE: Well, the domestic
16 customers were served without interruption and -- and
17 they consumed whatever was required, so there would be no
18 change to the domestic load. And so there would be no
19 additional gains. There'll only be -- only be losses.

20 MR. BOB PETERS: Thank you, Mr. Cormie.
21 This issue was identified, was it, mid to late January of
22 this year? Is that when it was first identified?

23 MR. DAVID CORMIE: I believe it was in
24 late January, yes.

25 MR. BOB PETERS: And no further problems

1 are now expected as a result of the repairs that have
2 been done?

3 MR. DAVID CORMIE: I believe the -- the
4 HVDC system is operating normally now.

5 MR. BOB PETERS: Mr. Warden, over to you.
6 You wanted to go back on the record relative to a -- the
7 prior issue and this will be your chance before I move
8 on.

9 MR. VINCE WARDEN: Mr. Peters, I'm -- I'm
10 just not sure that the record was totally clear on the
11 difference between the estimate that we had come up with
12 at the end of quarter 3 with respect to the reasons for
13 the difference.

14 So I -- I -- I d -- indicated that the
15 quarterly report, the published quarterly report refers
16 to a -- to a year-end projection of approximately \$140
17 million. And that was based on an assumption of
18 opportunity sales rates that hasn't -- haven't
19 materialized. The -- the -- the sales that we've been
20 making to the domestic market are -- are fully factored
21 into that estimate.

22 So the primary difference that we're
23 experiencing between the estimate of 140 that we provided
24 and where we'll ultimately end up will be to the account
25 of export sales differences. Mr. Cormie pointed out that

1 approximately \$2 million of lost revenue because of the
2 bipole issue also contributed to that -- to that
3 difference.

4 But the -- the point that I wanted to make
5 is that the residential -- or sorry, the domestic revenue
6 impacts have been -- have been factored into that
7 estimate.

8 MR. BOB PETERS: One (1) thing that
9 wasn't factored into your \$140 million for Q3 forecast of
10 fiscal 2011 profitability was that the 140 million was a
11 consolidated number, so you'd have to back out the gas
12 profits?

13 MR. VINCE WARDEN: Yes, gas profits are--

14 MR. BOB PETERS: Approximately \$3
15 million?

16 MR. VINCE WARDEN: Approximately 3
17 million. I believe -- I believe the forecast actually is
18 for \$6 million on the gas side of the business. However,
19 because of the warmer weather we experienced early in the
20 year, it -- it will be closer to \$3 million, probably
21 slightly under \$3 million.

22 MR. BOB PETERS: Mr. Cormie, there's no
23 guarantee that US transmission will be built, is there?

24 MR. DAVID CORMIE: No.

25 MR. BOB PETERS: But if the term sheets

1 mature into contracts, then it's a prerequisite that US
2 transmission must be built as part of the contractual
3 requirement?

4 MR. DAVID CORMIE: Correct.

5 MR. BOB PETERS: All right. And so would
6 it be correct for the Board to understand that Manitoba
7 Hydro has, and this isn't meant because Easter's coming,
8 but put it's eggs in the CapX basket for a multi-value
9 project related to transmission, and that's the one (1)
10 and only option being investigated currently for US
11 transmission?

12 MR. DAVID CORMIE: No, that's not
13 correct, Mr. Peters.

14 MR. BOB PETERS: I thought you had -- the
15 private purchase and build was no longer being pursued
16 because of the CapX multi-value project being pursued?

17 MR. DAVID CORMIE: No, we're going down
18 parallel paths, Mr. Peters, to -- to protect both
19 options.

20 MR. BOB PETERS: But in terms of going
21 down those paths, the efforts are now being put into the
22 multi-value project, and not much, if anything has been
23 done on the private ownership side of that possibility
24 for -- for at least a year?

25 MR. DAVID CORMIE: No, that's not

1 correct. We're proceeding down the path that will result
2 in transmission being built. The question is is who's
3 going to pay for it, not whether the -- not whether the
4 transmission will be built.

5 MR. BOB PETERS: But if parties aren't
6 prepared to pay for it, that brings into question whether
7 it will be built.

8 MR. DAVID CORMIE: Manitoba Hydro has
9 parties who are prepared to pay for it. The question is
10 is whether it's -- it's -- which parties are going to pay
11 for it, not who -- not whether it's going to get paid
12 for.

13 MR. BOB PETERS: And you won't know until
14 the summer of 2011 if MISO will accept the transmission
15 project as a CapX MVP project?

16 MR. DAVID CORMIE: We won't know until
17 the summer of 2012 the nature and the extent of -- of the
18 multi-value project option. But regardless of that, we
19 have an alternative that results in transmission line
20 being constructed.

21 MR. BOB PETERS: And the alternative is
22 the private ownership?

23 MR. DAVID CORMIE: Yes.

24

25

(BRIEF PAUSE)

1 MR. BOB PETERS: Mr. Cormie, I'm not sure
2 if I asked you this last time, but does the CapX option
3 impact the pricing under Manitoba Hydro's contracts or
4 potential contracts?

5 MR. DAVID CORMIE: No, it doesn't.

6 MR. BOB PETERS: And, therefore, does the
7 private ownership, likewise, have no affect on the
8 pricing under the term sheets?

9 MR. DAVID CORMIE: No, it doesn't.

10 MR. BOB PETERS: Mr. Warden, you
11 mentioned load reductions as one (1) of your points to
12 the Chairman and Vice-Chairman on March the 9th. And
13 you'll recall that Manitoba Hydro filed Exhibit 38, being
14 the top consumers load forecasts, and it was provided
15 over -- over a course of three (3) load forecasts? And I
16 appreciate you don't have that in front of you yet, but.

17 MR. VINCE WARDEN: Yes, Mr. Peters, I
18 have it here now.

19 MR. BOB PETERS: The top consumers that
20 are referenced on this chart -- and, Mr. Chairman, you
21 may not have a colour version at hand, but the top
22 consumers represent the twenty-six (26) largest energy
23 consumers in the province.

24 Would that be your understanding?

25 MR. VINCE WARDEN: I actually thought it

1 was twenty-five (25), but it could be twenty-six (26).

2 MR. BOB PETERS: We might both be right.
3 If you look at page 2 of 2 of that exhibit, and in some
4 years there's twenty-five (25) top consumers, and then,
5 as you go out further, that it increases to twenty-six
6 (26)?

7 MR. VINCE WARDEN: Yes, I see that, Mr.
8 Peters.

9 MR. BOB PETERS: Is -- is the 26th -- is
10 the 26th top consumer -- is that a speculative top
11 consumer that's expected, or is it one that's been
12 identified? Do you know?

13 MR. VINCE WARDEN: It might be best to
14 pose that question to the next panel, Mr. Peters. I --
15 I'm not sure. I don't think it's speculative, but I -- I
16 never heard it expressed in that -- that term, so, no, I
17 think this represents actual -- actual customers.

18 MR. BOB PETERS: All right. What -- what
19 the Board has been told is it's fourteen (14) of the
20 customers with greater than 100 kV, eight (8) customers
21 between thirty (30) and a hundred, three (3) less than 30
22 kV. Subject to check, you'd accept that as --

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: -- being accurate?

25 MR. VINCE WARDEN: Yes.

1 MR. BOB PETERS: And what the -- what has
2 happened is that the load forecast for the top consumers
3 in Manitoba dropped from a roughly 6,000 gigawatt hours
4 down to maybe 5,500 gigawatt hours in 2010, correct?

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: And that was largely
7 attributed to a customer that has discontinued business
8 in Manitoba?

9 MR. VINCE WARDEN: Largely, yes.

10 MR. BOB PETERS: Now, when we look --
11 when the Board looks at Exhibit 38, the -- the graph
12 diverges at a point, and there's three (3) offshoots to
13 it, and I suppose in black and white, the bottom line,
14 which is blue for those of us who have colour, that
15 represents the 2010 forecast, correct?

16 MR. VINCE WARDEN: Yes.

17 MR. BOB PETERS: And the '08 forecast is
18 at the top of those three (3) forecasts?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And that leaves '09 for
21 the middle, correct?

22 MR. VINCE WARDEN: Correct.

23 MR. BOB PETERS: And when you -- when
24 Manitoba Hydro filed their application to this Board, for
25 the top consumers to get to 8,000 gigawatt hours a year,

1 it was initially projected that in 2000 -- by the 2008
2 load forecast that 8,000 gigawatt hours would be consumed
3 by this group in 2015, correct?

4

5 (BRIEF PAUSE)

6

7 MR. VINCE WARDEN: Mr. Peters, are you
8 referring to the '0 -- okay, you're referring to the '08
9 forecast which would -- would have been incorporated in
10 the '09 integrated financial forecast which was the
11 filing made before this Board. So yes, I'll agree with
12 that. Yes.

13 MR. BOB PETERS: Yeah, and you can see
14 that by just following that top line of the three (3) and
15 seeing where it intersects the 8,000 gigawatt hours
16 and...

17 MR. VINCE WARDEN: Yes, I see that.

18 MR. BOB PETERS: And -- all right. Then
19 Manitoba Hydro revised its filing based on some economic
20 downturn conditions, and that gave rise to the '09 load
21 forecast, correct?

22 MR. VINCE WARDEN: Correct.

23 MR. BOB PETERS: And if we still use the
24 8,000 gigawatt hours as a reference point, the top
25 consumers in Manitoba now will -- will not consume 8,000

1 gigawatt hours until approximately 2025?

2 MR. VINCE WARDEN: Yes.

3 MR. BOB PETERS: And more recently, a
4 further downgrade has been done to the load forecast for
5 the top consumers and we see that to get to 8,000
6 gigawatt hours by the top twenty-five (25) or twenty-six
7 (26) consumers of electricity in Manitoba, it's now not
8 forecast to happen until approximately 2030?

9 MR. VINCE WARDEN: Yes.

10 MR. BOB PETERS: So that's a fifteen (15)
11 year setback in reaching the 2008 load forecast for the
12 top consumers?

13 MR. VINCE WARDEN: It is.

14 MR. BOB PETERS: Mr. Warden, on the --
15 turning to the energy intensive industrial rate issue, I
16 believe your testimony included that Manitoba Hydro would
17 consult with additional stakeholders other than, in my
18 words, the MIPUG group of individuals who have previously
19 been consulted, related to this rate matter?

20 MR. VINCE WARDEN: Yes.

21 MR. BOB PETERS: And while Mr. Gange was
22 exploring solar energy, those working for the Green
23 Action Committee and the Time to Respect Earth's
24 Ecosystems at least got Manitoba Hydro to agree to
25 consult with -- with -- with that Intervenor?

1 MR. VINCE WARDEN: Yes, that's right.

2 MR. BOB PETERS: Was that meant to
3 exclude Mr. Williams or other Intervenors in this process
4 or has that already taken place?

5 MR. VINCE WARDEN: I believe we do
6 consult with the consumers group on a regular basis,
7 although I'm -- I don't have exact knowledge of -- of
8 those meetings, but I -- I'm informed that they do meet
9 on a -- on a regular basis to correspond on issues of
10 interest.

11 So if the group represented by Mr.
12 Williams was interested on meeting on this subject I'm
13 sure we would -- would be more than willing to do so.

14 MR. BOB PETERS: And the Board had
15 ordered in -- in its previous Board Order that Manitoba
16 Hydro was to consult with the stakeholders on this issue,
17 including -- I don't think the Board was definitive in
18 terms of who the stakeholders were, but the Board also
19 included government in that -- in that terminology.

20 Do you recall that?

21 MR. VINCE WARDEN: Yes, I do recall
22 reference to government.

23 MR. BOB PETERS: Have they been included
24 in the consultation process?

25 MR. VINCE WARDEN: Might be best to ask

1 that question of Mr. Kuczek when he re -- is before the -
2 - before the Board. He's been more directly involved in
3 the consultation process than have I.

4 MR. BOB PETERS: Thank you.

5 MR. VINCE WARDEN: As has Mr. Wiens, by
6 the way.

7 MR. ROBERT MAYER: Before we get around
8 to adjourning, as I think we will fairly shortly, on a
9 happy note I was interested to read this morning that one
10 (1) of Manitoba Hydro's crews, and the report they made,
11 has lead to the discovery of cartographer David
12 Thompson's first fort built on Sipiwesk Lake in the 1700s
13 when he was twenty-two (22) years of age.

14 MR. VINCE WARDEN: Yes, Mr. Mayer, I -- I
15 saw that article in the -- in the paper this morning, and
16 that is a happy event.

17 MR. BOB PETERS: In light of the Vice-
18 Chair's reminder, this might be an appropriate time for -
19 - for the lunch recess.

20 THE CHAIRPERSON: Very good. See you
21 back at 1:15.

22

23 --- Upon recessing at 12:02 p.m.

24 --- Upon resuming at 1:19 p.m.

25

1 THE CHAIRPERSON: Okay. Welcome back,
2 everyone. Mr. Peters...?

3 MR. BOB PETERS: Thank you, Mr. Chairman
4 and Mr. Vice-Chair.

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: I'd like to start this
8 afternoon with Mr. Cormie, just touching on a matter that
9 we spoke of before the lunch recess, sir, and that had to
10 do with the transmission related to the term sheets with
11 Minnesota Power and Wisconsin Public Service.

12 Is it correct to understand that the CapX
13 project, as we've called it, or the multi-value project,
14 is in an effort to get other utilities and transmission
15 holders in the MISO market committed to the transmission
16 that Manitoba Hydro needs to consummate the sale with
17 Minnesota Power and Wisconsin Public Service?

18 MR. DAVID CORMIE: Our efforts with CapX
19 utility have several objectives. One is, and probably
20 the most important, to ensure that the transmission
21 buildup in Minnesota is the optimum plan for Minnesota.
22 Entering into a private transmission line doesn't
23 necessarily optimize all the -- the development of
24 transmission in Minnesota.

25 Secondly, the -- having all the

1 transmissing -- transmission owners in the CapX involved
2 in the project ensures that we're meeting every -- every
3 transmission owner's needs, and -- and that oppor --
4 creates opportunities for investment. And we would find
5 it very difficult to -- more difficult to build a private
6 line than building a line that is -- has been optimized
7 around not only the electrical needs, but the investment
8 needs of all the utilities.

9 MR. BOB PETERS: And at the end of the
10 day, if you're successful with the CapX program and the
11 multi-value project, the tariff to transmit electricity
12 through to Minnesota Power and Wisconsin Public Service
13 would presumably be less than it would be if it was done
14 differently?

15 MR. DAVID CORMIE: Presumably, the -- the
16 cost of building the line is independent upon --
17 independent of -- of -- of who's involved in its
18 construction and paying for it. The -- the multi-value
19 project ends up allocating the same costs to more
20 transmission-owning utilities than if it was allocated to
21 a small subset of those, so it -- the cost just gets
22 spread out, but the cost would essentially -- for the
23 same project would be the same.

24 MR. BOB PETERS: All right, maybe my
25 question wasn't clear as it should have been, Mr. Cormie.

1 The cost to Minnesota Power and Wisconsin Public Service
2 will be less for transmission if this is a multi-value
3 project under the CapX scenario?

4 MR. DAVID CORMIE: Yes.

5 MR. BOB PETERS: The cost to the
6 counterparties will be less in two (2) respects, sir,
7 with respect to the capital amount, and also with respect
8 to the ongoing tariff amount. Would that be true?

9 MR. DAVID CORMIE: The -- the capital
10 amount is -- is determined more by who invests in the
11 line. And it -- it may be possible under a -- a private
12 project that you have to involve the same investors than
13 you do with a -- with the multi-value project line.

14 It's just the question is, Who do you
15 recover the cost of the investments from? What
16 ratepayers pay. It's not likely that either Minnesota
17 Power or Wisconsin Public Service would be able to build
18 a transmission line through a third party's territories
19 without involving them as an investor.

20 And also the private line may be of a
21 different scale than -- than a public line. The public
22 line is intended to meet the regional transmission line
23 needs of Minnesota and the region. And so the scale of
24 the investment may be bigger, and you may -- we end up --
25 we -- we may end up with more transfer capability, but at

1 a minimum we will -- we will get the transfer capability
2 necessary to deliver the power that's required under the
3 contracts.

4 For example, if both the sale agreements,
5 let's say they involve 750 megawatts of firm transfer
6 capability, and if the line was built only for that size
7 there would be no transfer capability for the market.
8 Whereas if the line was built to be larger than that,
9 then the market would -- would be getting some benefits,
10 and it would be reasonable then for the market to share
11 in those benefits.

12 So there's an optimization process that
13 will take place either as a CapX project, and that
14 optimization project pro -- that optimization may result
15 in a -- a line of a different transfer capability.

16 In both cases, though, the -- the line
17 will have the necessary transfer capability as a minimum
18 to meet the sale requirements. The -- we wouldn't invest
19 in a project that didn't meet that.

20 MR. BOB PETERS: Would it be the
21 expectation of Manitoba Hydro that the capital costs and
22 the operating costs of the transmission line would be
23 built into a tariff?

24

25 (BRIEF PAUSE)

1 MR. DAVID CORMIE: In the US, all those
2 costs get paid through -- paid for through a tariff, yes.

3 MR. BOB PETERS: Would the tariff be
4 lower for Minnesota Power and Wisconsin Public Service if
5 it is a CapX project as opposed to a private build?

6 MR. DAVID CORMIE: Well, I -- I -- all
7 things being equal, given that it's the choice between
8 building a private line and a multi-value project line of
9 identical size, the -- the effect on any particular
10 customer will be -- if -- if more of Min -- Minnesota
11 Power's customers and Wisconsin -- paid for it, then
12 there'll -- there'll be a bigger effect on their -- their
13 local rates.

14 If the transmission line of exactly the
15 same size is paid for by all load in the MISO footprint,
16 then that'll be -- that -- that cost will be spread
17 amongst many, many more customers.

18 However, in the -- in a world of multi-
19 value projects, there are many projects that get pancaked
20 on top of each other, so the question is, Does -- what's
21 the effect on the ratepayer at the end of the day after
22 the -- you -- well, through the two (2) models. I would
23 think initially the private line would cost the private -
24 - the private utilities more in rates than -- than the
25 public line would because it will take many years for the

1 multi-value projects to build up to have the same effect.

2 But in the long run, transmission service
3 will only be built to the extent that there's load that
4 needs to be served, and building transmission lines
5 doesn't -- does -- you don't build transmission for which
6 there is no load.

7 So if Wisconsin and Minnesota chose not to
8 buy from Manitoba Hydro, they're going to have to buy
9 from somebody else, and they're going to have to build
10 transmission to serve that. So those cost -- so
11 eventually those costs are going to be incurred, whether
12 they're incurred on our project, or they're incurred on
13 someone else's project.

14 MR. BOB PETERS: So initially you would
15 expect the cost to Wisconsin Public Service and Minnesota
16 Power to be less as a multi-value project, but if there
17 are a multitude of these multi-value projects, it may end
18 up down the road costing relatively the same.

19 MR. DAVID CORMIE: Yes, because
20 ultimately the same amount of transmission needs to be
21 built, and -- and it's just that every -- every ratepayer
22 in MISO will in effect pay for -- pay a share of all the
23 transmission costs under an MVP model, or they'll pay
24 their own transmission costs under a private in -- you
25 know, in a localized model. But ultimately we think that

1 there will be little effect ultimately on the rates that
2 customers -- cu -- customers pay in the long run.

3 MR. BOB PETERS: Under the -- the private
4 model that you mentioned, it sounded as if a -- a
5 transmission line could be stopped in the service
6 territory of a -- of another transmission carrier in the
7 states if they didn't want your line to -- if they didn't
8 want this particular line to go through their territory.

9 MR. DAVID CORMIE: That's -- that's how
10 transmission has -- has been in -- has been developed in
11 the past, that it required the permission of the local
12 transmission utility. If you're going through their
13 service where they -- they need to be involved.

14 FERC has issued a notice of proposed order
15 making that would give other ut -- third-party utilities
16 the right, but I think that will probably end up in the -
17 - in the courts and it will be contested. We don't want
18 to go down that path, we want to have all parties who are
19 affected by the line to -- to be a part and -- part of
20 the project. And so they see it as a beneficial activity
21 for their -- their customers and -- and their investors
22 and not -- not trying to bypass anybody.

23 MR. BOB PETERS: How many individual
24 transmission companies' permissions would you need to --
25 to proceed?

1 MR. DAVID CORMIE: That's hard to say,
2 Mr. Peters, because what's involved here is there --
3 there are several sections of very identifiable
4 transmission associated with our project, but then
5 there's also an upgrade to the Minnesota network as a
6 whole. And there -- there may be -- it may -- it may
7 affect all transmission-owning utilities in Minnesota.

8 You -- you may have to upgrade some
9 breakers at a certain substation, some transformers at
10 other locations, and through the facility studies that
11 have been done we've identified the facilities, but
12 they're -- they're spread across the entire State of
13 Minnesota. But it -- it could be many -- it could be
14 many utilities.

15 MR. BOB PETERS: You're not prepared to
16 provide a -- a number?

17 MR. DAVID CORMIE: I don't have the
18 answer. And it -- we -- we won't really know until we
19 actually have the final design, but the CapX utilities I
20 think is a -- a group of about eleven (11), or ten (10)
21 or eleven (11) utilities, and they -- they studied as a
22 whole and then -- and then depending on who -- whose
23 service territory is affected that may result in which
24 companies are going to be brought in as participants in
25 the project.

1 MR. BOB PETERS: And just to help the
2 Board understand then these term sheets. You're telling
3 the Board that even if it's a private-build transmission
4 line which has higher costs initially, the counterparties
5 are prepared to proceed on that basis?

6 MR. DAVID CORMIE: Well, where a
7 transmission line can be built directly between Manitoba
8 Hydro and its customer and doesn't involve another -- a
9 third-party transmission company, then a private line is
10 -- is -- is very feasible. And if it involves one (1) or
11 two (2) customers, as has been in the -- has occurred in
12 the past, construction and ownership arrangements are
13 made in the US.

14 We're -- we're -- we're exploring the --
15 the possibility of -- of that as a backstop. And our
16 preferred course is to involve a regional upgrade to the
17 transmission network. We believe that that will provide
18 the best overall transmission solution in Minnesota, but
19 we have a commitment from our customers to build
20 transmission to -- as a -- as a private line if
21 necessary.

22 MR. BOB PETERS: Without putting specific
23 numbers forward, Mr. Cormie, does the -- does the private
24 line option essentially double the transmission costs for
25 -- for the counterparties?

1 MR. DAVID CORMIE: The -- the initial
2 estimates that we've received from the facility studies
3 indicated that \$1.46 billion, that -- that would be the -
4 - the most expensive option. A -- a multi-value project
5 line of exactly the same transfer capability logically
6 should have less costs involved because it now involves
7 an optimization of the transmission grid in Minnesota,
8 and where -- where other facilities can be -- there can
9 be pig -- piggybacking taking place on -- in the region.

10 And -- and so I -- I don't think that you
11 can think that the 1.46 billion would be doubled. I
12 think that's probably the -- that's probably the upper
13 limit given all the other caveats that went with that
14 number.

15 MR. BOB PETERS: But the transmission
16 tariff, whatever that number ends up being, would be --
17 would be less under the mu -- multi-value project for the
18 Minnesota Power and Wisconsin Public Service customers?

19 MR. DAVID CORMIE: That -- assuming that
20 project was -- the same facilities were built as were
21 studied in the facility study, and those were -- those
22 were shared amongst all the transmission owners and
23 through load through a multi-value project, the rate
24 impacts will be less than they would be, but I -- but the
25 costs would identical.

1 MR. BOB PETERS: All right. Thank you
2 for that clarification. And even if the rates, the
3 transmission tariff rates are -- are less under the
4 multi-value project, you're telling this Board that your
5 counterparties are prepared to pay the higher
6 transmission tariffs if a multi-value project doesn't
7 proceed?

8 MR. DAVID CORMIE: Our customers are
9 prepared to make a transmission investment in this line -
10 - in -- in this project. And the -- the risks of -- of
11 that -- of that project are greater because they are
12 risking more investment money than they would be if it
13 was shared amongst others. So there's -- there are --
14 there are restrictions on how much they are willing to
15 invest, but they are prepared to invest in a -- in a
16 private line.

17 I think they -- at the end of the day
18 though they -- if they have to bear too many of the
19 direct costs of the line it will effect their competitive
20 position in the states of Minnesota and Wisconsin, and it
21 will no longer become an economic project. So there are
22 some caveats to that investment.

23 MR. BOB PETERS: But can't the Board take
24 from your previous evidence, Mr. Cormie, that your
25 counterparties are prepared to invest \$1.46 billion in

1 the transmission project?

2 MR. DAVID CORMIE: No, I don't think you
3 can take that. And I -- I wish I could tell you more,
4 but I -- all I'm prepared to say is that our
5 counterparties are willing to invest in -- in
6 transmission. The -- the choice of facilities that get
7 built if it involved 1.46 billion is probably on the rich
8 side if they had to invest in it themselves.

9 But -- but to the extent that there are
10 other alternatives, they will -- they will avail
11 themselves to those rather than investing in a -- in a --
12 in the most expen -- in that -- in that option.

13 MR. BOB PETERS: What I take from that
14 answer, Mr. Cormie, and -- and tell me if this is
15 correct, that if 1.46 billion is the cost, then the
16 counterparties may find that too rich for their blood,
17 and the only way they'd proceed with Manitoba Hydro is if
18 Manitoba Hydro sweetened the deal and altered the price
19 under the term sheets. Would that be a fair conclusion?

20 MR. DAVID CORMIE: No, I don't think that
21 is a fair conclusion. There's been no discussion of
22 Manitoba Hydro reducing the price. There are other
23 options that -- that we have worked out with our
24 counterparties that we are exploring, and I'm sorry, I
25 can't share those with you.

1 500 kV interconnection to -- to Minnesota involving the
2 CapX utilities is that it meets all our customers' needs,
3 and it satisfies some of the needs of the CapX utilities
4 in a way that the transmission system in Minnesota is
5 optimized.

6 And so there are other options that --
7 that for a -- for a smaller scale investment that -- that
8 can be pursued. And that doesn't necessarily mean
9 walking away from the WPS and the Minnesota Power sale
10 agreements.

11 MR. BOB PETERS: From that answer, one
12 (1) of the other options is scale down the \$1.46 billion
13 please-everybody price down to focus more on the
14 counterparties and those counterparties that are
15 absolutely necessary to go through their territories.

16 MR. DAVID CORMIE: Yes, or -- or share
17 those -- that 1.46 billion amongst other companies whose
18 transmission needs might be met -- or who -- whose
19 transmission costs might be reduced by the construction
20 of -- of this as -- as an option. So --

21 MR. BOB PETERS: Just to interrupt on
22 that one (1) though, Mr. Cormie, isn't that the premise
23 of the CapX program, is to meet the needs of all of --
24 all of the approximate ten (10) other transmission
25 holders, and that's -- that's where the \$1.46 billion

1 number came from?

2 MR. DAVID CORMIE: No, the -- the CapX
3 utilities are already involved in a very large scale
4 transmission program in Minnesota.

5 They would modify their transmission
6 expansion plan, given that there was -- would now be a
7 major new interconnection coming from Canada proceeding
8 through Fargo up into South Dakota. That would have
9 significant implications on -- on what they need to do,
10 so to the extent that -- that that line would be built,
11 that means that they could reduce their capital spending
12 on other facilities.

13 And on an overall cost basis, less
14 transmission is -- is being built, or there would be less
15 of an overbuild. There'll be an optimization taking
16 place.

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: The Board can take from
21 your evidence this afternoon, Mr. Cormie, that there's no
22 certainty transmission will be built, and the only
23 certainty is that if transmission is not built, there
24 will be no deal with the term-sheeted counterparties.

25 MR. DAVID CORMIE: Transmission will only

1 not be built if we don't get regulatory approval, if we
2 don't get it through the permitting process in Minnesota,
3 not because we haven't got an arrangement with our
4 customers. And that's -- that's no different than the
5 risks that Manitoba Hydro face in developing its own
6 resources in Manitoba.

7 We still have to go through the regulatory
8 and permitting process. It's not because we can't find a
9 business case -- or a business relationship with
10 Minnesota Power and -- and Wisconsin Public Service.
11 That's not the issue here.

12 MR. BOB PETERS: But, Mr. Cormie, in
13 addition to getting no regulatory approval or no
14 permitting approval for the -- for the contracts, the
15 actual construction of the transmission may not proceed
16 if the costs cannot be properly allocated to a level that
17 the counterparties are comfortable with.

18 MR. DAVID CORMIE: We have a solution to
19 that, Mr. Peters. I keep telling you that the business
20 arrangements between the companies have already
21 accommodated that and I can't go into the details of
22 that, I'm sorry.

23

24

(BRIEF PAUSE)

25

1 MR. BOB PETERS: Mr. Cormie, under any of
2 these options that you've indicated about the US
3 transmission, are there any cost consequences that will
4 come to rest on Manitoba Hydro in any of those options?

5 MR. DAVID CORMIE: No, because Manitoba
6 Hydro's not responsible for the costs of any transmission
7 facilities, their operation or their construction, or
8 their permitting. Those costs are all borne by the US
9 customers.

10

11 (BRIEF PAUSE)

12

13 MR. BOB PETERS: And was I correct
14 earlier that it'll be the summer of 2011 before Hydro is
15 clear on whether or not the planning process with respect
16 to the CapX utilities will be approved?

17 MR. DAVID CORMIE: No, the -- I'm not
18 sure if I've testified to this already, Mr. Peters, but
19 in cas -- excuse me if I'm being repetitive, but the plan
20 is that the -- what we call the W6 option, the -- the 500
21 kV interconnection that goes from Winnipeg to South
22 Dakota will form part of the proposed projects in the
23 MISO expansion plan that MISO approves in the summer of
24 2011.

25 Having got it into the proposed list, that

1 will be studied for a further year, and we would expect
2 that the -- the project will move from being a proposed
3 project to an approved project in the summer of 2012. So
4 in the summer of 2012 we will know whether the W6 option,
5 which involves the 500 kV interconnection through Fargo
6 and south of there is the -- is the transmission option.

7 But there are other options besides that.
8 If that -- and that -- and that's the one (1) that
9 involves the regional optimization of transmission. If
10 we don't go that -- go that way, we have alternatives.

11 MR. BOB PETERS: I'm not sure if you
12 misspoke, or I'm not understanding, Mr. Cormie, but
13 doesn't that -- don't you have confirmation of that in
14 the summer of 2011 whether this now W6 project is a go or
15 no-go?

16 MR. DAVID CORMIE: No, we don't need W6
17 to be approved until 2012. The -- the other options
18 don't need a decision date until later than that. That's
19 why we will know early on, in time for us to -- still in
20 time for us to meet the in-service dates of the contracts
21 with a -- with a -- with an MVP project by 2012.

22 If that doesn't work out the -- the -- the
23 -- the private lines can be built at a -- at a later
24 date. They are not on the critical path.

25 MR. BOB PETERS: And what's the term --

1 what's the time horizon for the -- for the construction
2 of this line?

3 MR. DAVID CORMIE: I don't have that
4 information. By -- all I know is that if the -- if we
5 don't get the W6 option approved by 2012 there's
6 sufficient time to build the other line because it
7 doesn't involve a regional optimization. This is a --
8 this is more of a direct build.

9 MR. BOB PETERS: All right, Mr. Warden, I
10 want to turn to you with the capitalization practices and
11 one (1) of the things that you had mentioned in your
12 comments on March the 9th about intergenerational
13 inequities.

14 Would it be correct for the Board to
15 understand that Manitoba Hydro capitalizes its expenses
16 incurred for future projects such as Keeyask and
17 Conawapa?

18 MR. VINCE WARDEN: Yes, we do.

19 MR. BOB PETERS: And that includes
20 capital as well as OM&A costs that are capitalized?

21 MR. VINCE WARDEN: Well, we don't
22 capitalize OM&A expenditures, Mr. Peters.

23 MR. BOB PETERS: In terms of the
24 overheads related to OM&A or operating costs, I guess.

25 MR. VINCE WARDEN: So certain costs are

1 incurred with respect to a capital project before it's
2 placed into service, including all the engineering
3 design, construction, administrative costs that may be
4 directly associated with that project, and that may be
5 what you're referring to is the administrative costs are
6 associated with that capital project during its
7 construction period.

8 Once a project is put into service,
9 though, all the OM&A costs are charged to operations.

10 MR. BOB PETERS: And when the projects
11 are put into service, those are the generations that
12 Manitoba Hydro will seek to recover those -- those costs
13 from through rate increases or rate adjustments?

14 MR. VINCE WARDEN: Well, it's at that
15 point at which the operating costs hit the income
16 statement and rates are set accordingly. They -- they --
17 a station such as Wuskwatim or -- or Keeyask form part of
18 the pool of fixed assets. They're used to serve Manitoba
19 Hydro's load and -- and that pool of costs is used to
20 determine what the rates need to be going forward.

21 MR. BOB PETERS: And if a project doesn't
22 proceed then whatever is charged to that project in the
23 construction work-in-progress account is to be written
24 off against the Corporation's retained earnings?

25 MR. VINCE WARDEN: Yeah, it's a very rare

1 occasion when a project doesn't proceed, but
2 theoretically yes, that would be one (1) of the -- one
3 (1) of the options would be to -- to write those costs
4 off against retained earnings.

5 MR. BOB PETERS: You say one (1) of the
6 options, is there a better option?

7 MR. VINCE WARDEN: Well, not necessarily
8 better, it would depend on the circumstances. They could
9 -- the costs could be written off against retained
10 earnings, there could be some kind of amortization
11 against future periods, there -- there could be a holding
12 of those costs in suspension for a period of time if it
13 was thought that the project would proceed within a -- a
14 relatively short time frame. So there are options and it
15 would depend on the circumstances of the day.

16 MR. BOB PETERS: But generally accepted
17 accounting principles together with IFRS would speak to a
18 -- an immediate writeoff would they not?

19 MR. VINCE WARDEN: No, not necessarily.
20 There's -- there's options to consider and again it would
21 depend on the circumstances. We -- we've al -- always
22 followed generally accepted accounting principles no
23 matter what and -- but -- but, you know, accounting rules
24 aren't prescriptive, there are -- there is some
25 flexibility that can be -- some judgment that can be

1 applied.

2 MR. BOB PETERS: The expectation of
3 Manitoba Hydro, though, would be to recover those costs
4 that it has to write off, should there be such costs, as
5 quickly as reasonably possible?

6 MR. VINCE WARDEN: No, no, I didn't -- I
7 don't think I said that. We would look at recovering
8 those costs. Every dollar we spend has to be recovered
9 from ratepayers, it's just a question of when that would
10 be. So it could -- if it was a charge against retained
11 earnings it would depend on the level of retained
12 earnings at the time and how quickly it was necessary to
13 replenish those retained earnings. It could -- that
14 could take place over a very extended period of time
15 depending on the -- again, depending on the circumstances
16 at the time.

17 MR. BOB PETERS: The ratepayers of today
18 would be exposed to the risk of writeoffs in the event
19 that some of those capital projects didn't proceed?

20 MR. VINCE WARDEN: Well, the ratepayers
21 of today and tomorrow are -- are exposed to all the risks
22 the Corporation faces, and that would just -- that's just
23 one (1) of them.

24 MR. BOB PETERS: In terms of IFRS,
25 speaking of other risks, we understand, I think from Mr.

1 Rainkie's evidence, that it's required presently for IFRS
2 compliant financial statements to be prepared for the
3 fiscal year 2013?

4 MR. VINCE WARDEN: Commencing April the
5 1st, 2012, so -- so, yes, tve -- fiscal year '12/'13,
6 right.

7 MR. BOB PETERS: And for comparative
8 purposes, there's apparently some accounting convention
9 where you would restate the 2012 fiscal year financial
10 statements to provide a comparator to the fiscal 2013
11 statements?

12 MR. VINCE WARDEN: yes.

13 MR. BOB PETERS: And presently, rate-
14 regulated assets are to be written off as against
15 retained earnings, that's the present understanding?

16 MR. VINCE WARDEN: No. No. No
17 conclusion has been come to yet with respect to rate-
18 regulated assets. The -- the direction that the
19 standards board is going -- the International Standards
20 Board is -- is going certainly points to that, although
21 there has been nothing -- no conclusive decision made
22 yet. It -- it appears that rate-regulated assets will
23 not be approved by the international board, but, again,
24 we don't have a firm determination of that yet.

25 MR. BOB PETERS: And your auditors have

1 given you no guidance on that?

2 MR. VINCE WARDEN: Oh, we have lots of
3 discussion with our auditors. There -- I think the
4 auditors' and our consulting experts' view is similar to
5 the one I've just expressed, and that is it's unlikely
6 that rate-regulated accounting will be approved, but,
7 again, this hasn't been determined finally yet.

8 MR. BOB PETERS: And so the final
9 determination that you're awaiting is from the
10 International Standards Board?

11 MR. VINCE WARDEN: Yes, and it's not
12 totally clear when that determination will be made.

13 MR. BOB PETERS: Has Manitoba Hydro or
14 their auditors or their external consultants on the po --
15 on IFRS run an IFF-09 with the financial ratios included
16 that -- that will show what would happen with respect to
17 the writing off of rate-regulated assets?

18 MR. VINCE WARDEN: No, we haven't
19 specifically run that scenario, but, I mean, it's not a
20 complicated one, I mean, the -- the writeoff. We know
21 what the rate-regulated assets are, they're approximately
22 290 million, 296 million I think the number is at the end
23 of March 2010.

24 So, you know, a charge against retained
25 earnings of \$296 million versus 2.2 billion at the end of

1 March 2010 would be the -- the impact then. The scenario
2 that would be run from there would be, Okay, well, at
3 what point do we want to have that -- that \$2.2 million
4 replenished.

5 That's only one (1) part of the equation
6 though. The -- the vast majority of our rate-regulated
7 assets are the Power Smart programs or demand-side
8 management. We -- the -- probably even the bigger issue
9 is -- is the annual incurrence of those Power Smart
10 costs, which are about \$50 million per year. And in the
11 absence of rate-regulated accounting, that would go right
12 to the bottom line.

13 MR. BOB PETERS: Mr. Kuczek has slipped
14 back in the room, so we better not deal with that until
15 he gets on the panel so he can hear it as well directly,
16 Mr. Warden. But my -- my point is, of that \$296 million,
17 226 related to the electric side of the business. Would
18 that also be correct? And 70 million to the gas side?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And so talking only of
21 the electric side, what you're telling the Board is, if
22 they wanted to see an IFF you'd simply take IFF-09 and go
23 out to fiscal year 2013 and reduce the retained earnings
24 by the amount of rate-regulated assets, and that's what -
25 - that's what the bottom line hit would look like?

1 MR. VINCE WARDEN: Well, that would be
2 the opening bottom line, but then we'd have to charge
3 operations with the -- with the annual costs of -- of the
4 Power Smart programs.

5 MR. BOB PETERS: Well, we'll come with --
6 hopefully soon with Mr. Kuczek and the Power Smart
7 programs, but are you indicating that then a decision has
8 to be made then as to whether to keep spending at the
9 rate of 40 to \$50 million a year on demand-side
10 management matters?

11 MR. VINCE WARDEN: No. No, not at all.
12 Power Smart programs are justified. Where we charge them
13 in the books is really -- should have no bearing
14 whatsoever on the amount of the program.

15 MR. BOB PETERS: What you're saying is if
16 you have to record them financially in the current year
17 that they're in -- that the money's expended, that will
18 put upward pressure on rate increases.

19 MR. VINCE WARDEN: Not necessarily. I
20 think in part of the filings we had previously, we -- we
21 indicated that, in the absence of rate-regulated
22 accounting, there would have to be a methodology to
23 smooth the impacts on rates over time, but there's really
24 no reason why the -- the rates going forward couldn't be
25 identical to what they are today.

1 It's only a matter of timing as to when
2 they -- they hit the operating statement, today it comes
3 in through amortization of those costs, if they're to
4 come in directly on an annual basis. In the long run it
5 makes no difference whatsoever.

6 MR. BOB PETERS: But if you're required
7 under IFRS to treat those as period costs, and incur --
8 and write them -- and bring them into the income
9 statement in the year in which they're incurred, Mr.
10 Warden, how do you -- how can you then amortize them out
11 further?

12 MR. VINCE WARDEN: Well -- well, we would
13 simply have a -- a supplementary schedule that we would
14 pre -- present to the Public Utilities Board, and say,
15 Here's our projected net income. Now, we'll make some
16 allowance for what would otherwise have been rate-
17 regulated accounting, here's the impact, here's the
18 amount of the rate increase we're requesting, considering
19 the -- the impact of -- of that -- of that adjustment.

20 MR. BOB PETERS: So essentially off the
21 balance sheet or off the income statement adjustment.

22 MR. VINCE WARDEN: It could be. That --
23 what I just described was off the income statement, off
24 the balance sheet adjustments, but you know, one (1) of
25 the things we talked about with our auditors is having

1 somewhere, do -- do you know the amount currently in
2 rates on account of DSM compared to that \$50 million a
3 year number that you mentioned, or do I need Mr. Kuczek
4 for that?

5 MR. VINCE WARDEN: The amount that is
6 currently being incurred for demand-side management?

7 MR. BOB PETERS: The amount that's
8 currently amortized and included in consumers rates today
9 on account of DSM. Is it in the order of 13 to \$15
10 million?

11

12 (BRIEF PAUSE)

13

14 MR. VINCE WARDEN: No, it would be higher
15 than that, Mr. Peters, I believe. I -- I think we have
16 an under -- or information --

17 MR. BOB PETERS: I'm sure we'll --

18 MR. VINCE WARDEN: -- response on that,
19 but --

20 MR. BOB PETERS: Yeah, I'm sorry to put
21 you on the spot, sir, it's just that if what you're
22 really telling the Board is if you're incurring at \$50
23 million a year, the rate impact that's presently not
24 accounted for is the difference between what's already in
25 rates and the \$50 million number.

1 MR. VINCE WARDEN: Yes, that's exactly
2 right.

3 MR. BOB PETERS: And we're just not sure
4 what's currently in rates because I just don't have that
5 information up, and we'll check that and -- and have that
6 shortly.

7 MR. VINCE WARDEN: Yes.

8

9 (BRIEF PAUSE)

10

11 MR. BOB PETERS: Mr. Warden, in your
12 comments to the Board on March the 9th, you referenced
13 the Moody's February 7th, 2011, report on the
14 creditworthiness of Manitoba Hydro.

15 MR. VINCE WARDEN: Yes, I did.

16 MR. BOB PETERS: And your counsel has
17 filed that, as I have it now, as Manitoba Hydro Exhibit
18 69?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And can you confirm for
21 the Board that there's no new treatment of Manitoba Hydro
22 in that report, is there?

23 MR. VINCE WARDEN: No. No new treatment,
24 as far as the rating is concerned.

25 MR. BOB PETERS: Moody's isn't treating

1 Manitoba Hydro as a stand alone entity, is it?

2 MR. VINCE WARDEN: Not treating it as a
3 stand alone entity, however, Moody's looks to Manitoba
4 Hydro to be self-sufficient.

5 MR. BOB PETERS: And that's the point I
6 wanted to come to, is the self-sufficiency is in terms of
7 carrying the debt, or the interest coverage ration is the
8 one (1) that was apparently most of interest to them?

9 MR. VINCE WARDEN: Well, I wouldn't say
10 most of interest, that's the one (1) they referenced in
11 their report. But, yes, they want to have assurance that
12 Manitoba Hydro will not require a subsidy from the
13 province --

14 MR. BOB PETERS: What that means is the
15 money you bring in -- the money that Manitoba Hydro
16 brings in is sufficient to pay the debt that Manitoba
17 Hydro has incurred in any particular year?

18 MR. VINCE WARDEN: The debt and -- and
19 other operating -- the costs of operations, yes.

20 MR. BOB PETERS: And the ratio that shows
21 up on the IFFs and the other financial reports is a
22 interest coverage ratio of greater than one point zero
23 (1.0) and presumably, hopefully, in the area of one point
24 two (1.2)?

25 MR. VINCE WARDEN: Well, no, actually the

1 target is -- is one point (1.) -- greater than one point
2 two (1.2).

3 MR. BOB PETERS: Does that provide a 20
4 percent cushion?

5 MR. VINCE WARDEN: Yes.

6 MR. BOB PETERS: But in terms of meeting
7 Manitoba Hydro's obligations financially, as long as the
8 ratio is above one point zero (1.0) it can, at least
9 mathematically do that?

10 MR. VINCE WARDEN: Well, of course, the -
11 - the rating agencies look for strength in those ratios,
12 and one point two (1.2) wouldn't be considered especially
13 strong. It's -- if -- if the ratio hovered around one
14 point zero (1.0) that would still be sufficient to meet
15 our obligations, but I would expect that there would be
16 some nervousness if -- if it was consistently at that
17 level.

18 MR. BOB PETERS: Has Manitoba Hydro's
19 credit rating ever been downgraded?

20 MR. VINCE WARDEN: No.

21 MR. BOB PETERS: Has it ever been --

22 MR. VINCE WARDEN: Not -- not in -- in
23 recent -- well, even in long-term history. No, it
24 hasn't.

25 MR. BOB PETERS: Not in your sixty (60)

1 years?

2 MR. VINCE WARDEN: Not in the sixty (60)
3 years of -- well, anyway.

4 MR. BOB PETERS: I -- I saw that in the
5 transcript somewhere, Mr. Warden, and I pulled it out
6 just as you said that, so I shouldn't have. But what
7 you're telling the Board is for so long as is in your
8 personal memory, and you've been at the Corporation for
9 some period of time, the Corporation's credit rating has
10 never been downgraded?

11 MR. VINCE WARDEN: That's right. I must
12 say though that in -- if we look -- if we go back twenty
13 (20) years or thereabouts, there -- there wasn't nearly
14 as much scrutiny in Manitoba Hydro as there is today by
15 the rating agencies. So to say that we never had a
16 downgrading is -- is good, but I'm not sure that that's
17 necessarily a -- going to hold for the future unless we
18 maintain a sound financial structure going forward.

19

20 (BRIEF PAUSE)

21

22 MR. BOB PETERS: The current rating --
23 and I appreciate the rating matrix may change, but the
24 current rating from Moody's is prime minus one (1).

25 Is that how the Board should read that?

1 MR. VINCE WARDEN: Yes, that's right.

2 MR. BOB PETERS: And would it also be
3 correct for the Board to, when they read this Moody's
4 report, to understand that it's the guarantee of Manitoba
5 Hydro's debt by the province that provides Moody's with
6 the comfort of giving Manitoba Hydro the prime minus one
7 (1) rating?

8 MR. VINCE WARDEN: It is.

9 MR. BOB PETERS: And when Manitoba Hydro
10 had its 2003/2004 low water year and the loss of -- and a
11 loss on operations, that didn't cause the credit rating
12 agencies to downgrade their opinion of Manitoba Hydro?

13 MR. VINCE WARDEN: No, it didn't, because
14 the credit -- credit rating agencies with whom we carry
15 on very close contact had a clear understanding of the
16 situation and knew exactly what was going on. So no, no,
17 it didn't cause them concern.

18 MR. BOB PETERS: And going back some
19 decades to when Limestone came online when the debt-
20 equity ratio of the Corporation was slim and some might
21 say weak, that is considerable debt, very little equity,
22 that didn't cause the credit agencies to downgrade
23 Manitoba Hydro's ratings?

24 MR. VINCE WARDEN: It didn't, but we --
25 we -- I do recall there were consistent comments about

1 our weak ratios and there still are. The -- the -- their
2 -- rating agencies still believe that Manitoba Hydro's
3 debt-equity ratio especially is -- is weak relative to
4 some of our counterparts in Canada.

5 MR. BOB PETERS: I'm sorry, I -- I didn't
6 read that in the Moody's report, or is it --

7 MR. VINCE WARDEN: No --

8 MR. BOB PETERS: -- is it --

9 MR. VINCE WARDEN: -- that wasn't in this
10 particular report. But there are two (2) other rating
11 agencies that comment on that on a regular basis.

12 MR. BOB PETERS: And those are Standard &
13 Poor's and Dominion Bond Rating Services?

14 MR. VINCE WARDEN: That's right, DBRS.

15 MR. BOB PETERS: And Standard & Poor's?

16 MR. VINCE WARDEN: And Standard & Poor's,
17 yes.

18 MR. BOB PETERS: And their suggestion is
19 that even with the Crown backing a 75/25 debt-equity
20 ratio is a concern?

21 MR. VINCE WARDEN: Well, they refer to it
22 -- I -- and I wouldn't go so far as to say it's a
23 concern. They -- they definitely refer to it as being
24 weak relative to other utilities and highly -- in
25 Manitoba Hydro being a highly leveraged utility.

1 is -- again, as in that CEF-10?

2 MR. VINCE WARDEN: That's correct.

3 MR. BOB PETERS: In terms of accumulated
4 other comprehensive income, if I've said that right,
5 AOCI, that's largely in recognition of changes in US
6 long-term debt?

7 MR. VINCE WARDEN: It is, yes.

8 MR. BOB PETERS: And Moody's would
9 include AOCI in the calculation of debt-equity is what
10 you told the Board?

11 MR. VINCE WARDEN: Well, Moody's pretty
12 much accepts the calculation that Manitoba Hydro
13 prepares. I believe Standard & Poor's and DBRS perform
14 their own calculations, which are slightly different than
15 Manitoba Hydro's calculation. They're within a range of
16 reasonableness, though, and so they all show the same
17 year-to-year changes or -- or trends.

18 MR. BOB PETERS: Does DBRS exclude AOCI
19 for Manitoba Hydro?

20 MR. VINCE WARDEN: No, I believe --
21 subject to check, I believe AOCI is included by all three
22 (3) agencies. They -- they treat contributions in native
23 construction somewhat differently.

24 MR. BOB PETERS: So all of them include
25 AOCI as a component of equity, to the best of your

1 knowledge?

2 MR. VINCE WARDEN: Again, Mr. Peters,
3 subject to check, I -- I believe there was an IR response
4 speaking to that. But subject to -- to check, that --
5 that -- I believe that's the case.

6 MR. BOB PETERS: Yeah. And I -- I think
7 your testimony on March the 9th was the effe -- well, I
8 noted it as Standard & Poor's and Moody's, including
9 AOCI, in the debt equity ration, but DBRS took it on a
10 case-by-case basis.

11 Do you recall words to that effect?

12 MR. VINCE WARDEN: I -- I believe that's
13 true. AOCI is relatively new, introduced in 2007, so
14 there were some different views on that initially. But I
15 believe everyone -- everyone is pretty much coming
16 together that AO -- it is appropriate to include AOCI in
17 the debt-equity calculation.

18 MR. BOB PETERS: Talking about
19 contributions in native construction, Manitoba Hydro
20 shows presently approximately 295 million of such costs
21 on its March 31st year-end statements for 2010?

22 MR. VINCE WARDEN: 295 million of such
23 credits; not -- not costs, but contributions, yes.

24 MR. BOB PETERS: Thank you for that
25 clarification. Is that cash?

1 MR. VINCE WARDEN: Yes. Yes, we receive
2 cash from -- the -- there are -- we do have -- for some
3 contributions, we do have a payment plan for -- for
4 customers if they wish to avail themselves of that, but
5 the -- the bulk of the 295 million, thereabouts, would be
6 -- would be in the form of cash.

7 MR. BOB PETERS: And Manitoba Hydro
8 amortizes that over the surface life of the related asset
9 that it's putting in?

10 MR. VINCE WARDEN: Correct.

11 MR. BOB PETERS: And is that \$295 million
12 non-refundable?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: Is any contribution in
15 native construction received by Manitoba Hydro
16 refundable?

17 MR. VINCE WARDEN: Yes, it is. The ones
18 that are refundable are classified elsewhere on the
19 balance sheet and recorded as a liability, subject to
20 refund.

21 MR. BOB PETERS: They'd be recorded as a
22 deferred liability?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: And those are refunded
25 if the criteria refunded if the criteria is not met, in

1 terms of the reason for which the contribution was made
2 in the first place?

3 MR. VINCE WARDEN: If the criteria is
4 met, yes. Yes.

5 MR. BOB PETERS: In terms of the non-
6 refundable contributions in native construction, what
7 does IFRS prescribe for that, Mr. Warden? Is that taken
8 into revenue immediately, or is it over some period of
9 time?

10 MR. VINCE WARDEN: It would be amortized
11 over a period of time. So the net impact would be pretty
12 much identical to what we're doing now.

13 MR. BOB PETERS: Not pretty much
14 identical; it would be identical. Is there any
15 variation?

16 MR. VINCE WARDEN: Yeah. No, I'm
17 actually not aware of any variation, so it should be
18 identical, yes.

19 MR. BOB PETERS: And in terms of the
20 consistency and calculation of the ration, you've
21 indicated that AOCI is a -- is new on the equity side of
22 the ledger, since 2007/2008?

23 MR. VINCE WARDEN: That's right.

24 MR. BOB PETERS: And contributions in
25 native construction, they have always been included as

1 equity components of the company?

2 MR. VINCE WARDEN: Well, going back at
3 least twenty (20) years, yes.

4 MR. BOB PETERS: In terms of Hydro's
5 pensions, Mr. Warden, when was the last actuarial
6 valuation performed?

7 MR. VINCE WARDEN: We get a actuarial
8 valu -- valuation every December.

9 MR. BOB PETERS: I'm not sure, Mr.
10 Warden, if the December, 2010 valuation has been filed
11 with the Board in these proceedings, but if it's not,
12 would you undertake to file it with the Board?

13 MR. VINCE WARDEN: Sure, we can do that.

14 MR. BOB PETERS: Thank you.

15

16 --- UNDERTAKING NO. 91: Manitoba Hydro to provide the
17 December, 2010 valuation

18

19 THE CHAIRPERSON: Mr. Peters, before you
20 -- you've left Moody's, and just a couple of things on
21 this MH-69.

22 First of all, is there a better rating
23 than prime-1?

24 MR. VINCE WARDEN: No, that's the highest
25 rating for commercial paper.

1 THE CHAIRPERSON: Does it actually mean
2 prime minus one (1), or is it just prime-1?

3 MR. VINCE WARDEN: You know, the rating
4 agencies -- it is prime minus one (1), but the rating
5 agencies have their own unique coding charact --
6 characteristics for their -- for their ratings.

7 But -- and -- but this -- this one (1),
8 prime minus one (1), is the highest for the commercial
9 paper that they -- they award.

10 THE CHAIRPERSON: So the -- the next step
11 down, so to speak, would be what? Prime?

12 MR. VINCE WARDEN: If -- if you're
13 interested in that, and -- and obviously you are, I -- we
14 -- we can find that out. I -- I've never explored that
15 personally because I was always satisfied with the rating
16 they gave us, and I didn't want to look at what might
17 happen with the downgrade.

18 So, but -- but --

19 THE CHAIRPERSON: Well, I know the --

20 MR. VINCE WARDEN: -- I can find that
21 out.

22 THE CHAIRPERSON: Yeah, I know that
23 credit agencies use different definitions of various
24 things, but just for background knowledge I'd be
25 interested to know, you know, what is the description of

1 prime-1, and what's on either side of it, if you'd like.

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

3 THE COURT: The -- the second question I
4 have -- I -- I know the reporter will be asking, if -- if
5 you could take that as an undertaking.

6 MR. VINCE WARDEN: Yes, we'll take it as
7 an undertaking.

8

9 --- UNDERTAKING NO. 92: Manitoba Hydro to indicate
10 what the description of
11 prime-1 is, and what's on
12 either side of it

13

14 THE CHAIRPERSON: Thank you. The second
15 question is -- comes out of this too, and it's something
16 I -- I must admit in first reading this I had gone right
17 by it, and perhaps there's nothing to it at all, but in
18 the rating drivers in the -- the very beginning, it says,

19 "The province owns a hundred percent of
20 Hydro's equity..."

21 It goes onto say,

22 "...and holds over 90 percent of
23 Hydro's debt."

24 And then on page 2, right at the very top,
25 it says -- it's referring to both BC Hydro and -- and

1 Manitoba Hydro, and it says, it's talking about
2 similarities between the two (2) utilities, it says:

3 "Both are a hundred percent owned by
4 their respective provincial
5 shareholder..."

6 And it says:

7 "...and the provincial shareholder owns
8 virtually all of the company's debts."

9 Does it mean as it reads? In other words,
10 does the -- is there agency of the province that has
11 basically acquired their own debt back?

12 If I could suggest there's a very small
13 float outside of Manitoba itself that basically the
14 province, in one (1) form or another, are buying the debt
15 that's issued on behalf of the province. That's the
16 strict reading of it.

17 MR. VINCE WARDEN: Yeah. I -- I think
18 the intent there, Mr. Chairman, is that relating it back
19 to -- to the -- the reference you had on page 1 under the
20 drivers, that -- the 90 percent reference. And -- and
21 that, I believe, the intent here is -- is to recognize
22 the fact that mitigation bonds that have been issued to
23 First Nations by Manitoba Hydro have been issued by the
24 utility directly, and are not guaranteed by the -- by the
25 province, so.

1 THE CHAIRPERSON: So it doesn't mean that
2 -- that basically outsiders outside of the --

3 MR. VINCE WARDEN: No. No.

4 THE CHAIRPERSON: -- government itself
5 don't own --

6 MR. VINCE WARDEN: No.

7 THE CHAIRPERSON: -- these bonds?

8 MR. VINCE WARDEN: No. No, I'm -- I'm
9 certain it doesn't mean that, no.

10 THE CHAIRPERSON: The -- the reason I
11 ask, of course, because one (1) of the comments had
12 always been made about the Japanese situation, for
13 example, was that although their debt to gross domestic
14 product is phenomenal, one (1) of the defences of it has
15 always been that their -- basically all of their debt is
16 held by the Japanese. So it's nothing like that in --

17 MR. VINCE WARDEN: No.

18 THE CHAIRPERSON: -- this case?

19 MR. VINCE WARDEN: No, it's -- it's
20 nothing like that at all, really.

21 THE CHAIRPERSON: Okay. It's just a
22 wording thing. Thank you.

23

24 CONTINUED BY MR. BOB PETERS:

25 MR. BOB PETERS: Mr. Warden, while we're

1 looking at that paragraph and I conclude on the
2 Chairman's comments, only \$76 million, or less than 1
3 percent, of Hydro's total debt is what you were referring
4 to in terms of bonds related to mitigation projects?

5 MR. VINCE WARDEN: Yes. Yeah.

6 MR. BOB PETERS: But for -- I'm sorry,
7 sir?

8 MR. VINCE WARDEN: Yes, that's correct,
9 Mr. Peters.

10 MR. BOB PETERS: But for that \$76
11 million, 100 percent of the rest of Manitoba Hydro's debt
12 is guaranteed by the province of Manitoba?

13 MR. VINCE WARDEN: Yes, it is.

14 MR. BOB PETERS: Okay. Not only does the
15 province guarantee Manitoba Hydro's debt, but Manitoba
16 Hydro guarantees St. Joseph Wind Farm debt.

17 Isn't that -- is that true?

18 MR. VINCE WARDEN: No. No, we don't
19 guarantee their debt. We -- we -- there's a loan -- a
20 direct loan to the St. Joseph Wind Farm Incorporated, but
21 it's not in the form of a debt guarantee. It's actual
22 advancing of -- of cash to be repaid through the payment
23 for -- for energy over -- over the term.

24 MR. BOB PETERS: Maybe I should put that
25 in better context, Mr. Warden. Pattern Energy is now the

1 developer of the St. Joseph's Wind Farm?

2 MR. VINCE WARDEN: That's right.

3 MR. BOB PETERS: And Riverstone Holdings,
4 if I understood the Information Request, bought the
5 portfolio of Babcock & Brown in 2009 and from that formed
6 Pattern Energy Group, which now owns the St. Joseph Wind
7 Farm?

8 MR. VINCE WARDEN: Yes.

9 MR. BOB PETERS: Can you tell the Board
10 if it's the same individuals that were involved with
11 Babcock & Brown that are now involved with Patters --
12 Pattern Energy?

13 MR. VINCE WARDEN: Mr. Peters, no, I -- I
14 don't know that for a fact. I don't have that
15 information.

16 MR. BOB PETERS: And the St. Joseph's
17 Wind Farm development was financed by -- is it a loan
18 from Manitoba Hydro?

19 MR. VINCE WARDEN: Yes.

20 MR. BOB PETERS: And that loan was \$250
21 million?

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

23 MR. BOB PETERS: And that equated to a
24 maximum of 75 percent of the project?

25 MR. VINCE WARDEN: That's -- that's

1 correct.

2 MR. BOB PETERS: And when you say 250
3 million is 75 percent of the project, is that the
4 project's costs or is that the project's value?

5 MR. VINCE WARDEN: That would be the
6 project's costs, to -- to a maximum of 75 percent.

7 MR. BOB PETERS: All right. So the total
8 project cost, if I do my math right, would be about \$333
9 million?

10 MR. VINCE WARDEN: Yes.

11 MR. BOB PETERS: And the project came in
12 on -- at \$333 million then, to the best of your
13 knowledge?

14 MR. VINCE WARDEN: I don't -- I don't
15 have the total cost, but my understanding it was very
16 close to -- to budget.

17 MR. BOB PETERS: And Pattern Energy was
18 able to fund its approximate \$95 million equity
19 contribution? Oh, I'm sorry, sir, I'll repeat the
20 question.

21 Are you aware as to whether or not Pattern
22 Energy was able to fully fund its \$95 million of equity
23 that was needed for this project to be constructed?

24 MR. VINCE WARDEN: Yes, I understand that
25 they have done that.

1 MR. BOB PETERS: That would have been a
2 prerequisite before Manitoba Hydro got out its checkbook?

3 MR. VINCE WARDEN: Exactly, yes.

4 MR. BOB PETERS: If Pattern was able to
5 fund 95 million, why is it they couldn't fund additional
6 monies?

7 Do you know?

8 MR. VINCE WARDEN: No. No, I don't.
9 They -- they -- no, that's really not a question that was
10 relevant to Manitoba Hydro. We were aware that the
11 project wouldn't go ahead without some financial input by
12 Manitoba Hydro, and this is the -- the deal that was
13 struck.

14 MR. BOB PETERS: So the parent company,
15 Riverstone Holdings LLP., wasn't prepared or able to fund
16 any portion of the \$250 million that Hydro has had to put
17 up?

18 MR. VINCE WARDEN: They -- they weren't
19 prepared. Whether they were able or not, I -- I don't
20 know.

21 MR. BOB PETERS: And so unless Manitoba
22 Hydro put up \$250 million, the St. Joseph's -- the St.
23 Joseph's Wind Farm Agreement was not going to proceed?

24 MR. VINCE WARDEN: That's right. Or
25 that's my understanding, yes.

1 MR. BOB PETERS: And why was it important
2 to Manitoba Hydro for the St. Joseph's Wind Farm to
3 proceed?

4 MR. VINCE WARDEN: Well, wind provided
5 diversity in our supply portfolio and was considered to
6 be something of value. Otherwise, we wouldn't have
7 invested in it.

8 MR. BOB PETERS: It's a more expensive
9 energy option in Manitoba?

10 MR. VINCE WARDEN: Well, the unit cost
11 was acceptable to Manitoba Hydro. Again, other -- if it
12 wasn't, we wouldn't have proceeded.

13 MR. BOB PETERS: The unit cost would be
14 greater than generating it through hydraulic means.

15 Would that be fair?

16 MR. VINCE WARDEN: Certainly through
17 imbedded generation costs, yes.

18 MR. BOB PETERS: But not necessarily
19 incremental generation costs?

20 MR. VINCE WARDEN: Not necessarily. It -
21 - you know, the -- the unit costs are quite high for new
22 -- new generation coming on stream as well.

23 MR. BOB PETERS: And the -- the unit
24 costs are confidential?

25 MR. VINCE WARDEN: Yes, the unit costs of

1 that contract with Pattern or confidential.

2 MR. BOB PETERS: Was there a federal
3 government eco-energy grant to help finance the project?

4 MR. VINCE WARDEN: Yes.

5 MR. BOB PETERS: Do you know how much
6 that was?

7

8 (BRIEF PAUSE)

9

10 MR. VINCE WARDEN: I don't recall the
11 amount of that offhand, Mr. Peters.

12 MR. BOB PETERS: Would you take, subject
13 to check, it was approximately \$40 million? I think that
14 might be in PUB Manitoba Hydro Second Round 80, but I
15 don't have that up on my screen or my paper right now.

16 MR. VINCE WARDEN: Okay. Well -- well --

17 MR. BOB PETERS: Does for -- does 40
18 million -- does that -- does that strike you as possible,
19 or am -- am I way off on that?

20 MR. VINCE WARDEN: Yes, we'll accept
21 that, Mr. Peters.

22 MR. BOB PETERS: And was that 40 million
23 part of the 95 million that was put up by Pattern Energy,
24 or was that 40 million in addition to what Pattern Energy
25 and Manitoba Hydro put up for the deal?

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

(BRIEF PAUSE)

MR. VINCE WARDEN: Yes, Mr. Peters, the -
- the information we have readily available doesn't speak
to how that 40 million -- it doesn't -- doesn't come back
to Manitoba Hydro for sure, so I'm assuming that it does
come back to Pattern Energy. But we don't have the
readily available as -- as to the form that takes or what
conditions have to be made -- met before that 40 million
flows back.

MR. BOB PETERS: Well, is the \$40 million
from the federal eco-energy funding, is that refundable,
or is that -- is that free and clear of any ability to
claw it back?

MR. VINCE WARDEN: My under -- again, my
understanding is -- is provided that certain conditions
are met by the wind developer, the \$40 million is not
refundable.

MR. BOB PETERS: Mr. Warden, I'm going to
apologise to your and your counsel. Mr. Chairman, Mr.
Vice-chair, at Tab 49 of now a vintage PUB Exhibit 16,
Volume II of Board counsel's book of documents, there are
-- there are some documents related to the wind farm.
And I should have brought those to Mr. Warden's

1 attention, and I apologise for not doing so sooner.

2

3

(BRIEF PAUSE)

4

5 MR. BOB PETERS: Mr. Warden, I don't want
6 to put you on the spot as you're skimming those
7 documents, but the -- the \$40 million had to be accessed
8 before a certain date, that being March of 2011,
9 otherwise it'd be lost, it seems, in one (1) of Hydro's
10 responses, which was PUB Manitoba Hydro Second Round 8E?

11 MR. VINCE WARDEN: Yes, and -- and that
12 was the -- one (1) of the conditions that I was referring
13 to, Mr. Peters.

14 MR. BOB PETERS: And we've now passed
15 March of -- at least March the 1st of 2011.

16 MR. DAVID CORMIE: Mr. Peters, it's March
17 31st of '11, and all the turbines have to be in
18 commercial operation by that date. I understand that
19 they are.

20 MR. BOB PETERS: What you're telling the
21 Board, Mr. Cormie, is that the prerequisites to the \$40
22 million, to your knowledge, have been fully satisfied and
23 met?

24 MR. DAVID CORMIE: Yes.

25 MR. BOB PETERS: Thank you. Mr. Warden,

1 I don't believe the interest rate on which Manitoba Hydro
2 loaned the money to Pattern Energy has been disclosed in
3 the public record. Is that correct?

4 MR. VINCE WARDEN: That's correct.

5 MR. BOB PETERS: Manitoba Hydro doesn't
6 have \$250 million in its savings account, does it, Mr.
7 Warden? It had to go out and borrow the money?

8 MR. VINCE WARDEN: Yes, that -- that's
9 right. We had to go out and borrow the money.

10 MR. BOB PETERS: And if you went out and
11 -- if Manitoba Hydro went out and borrowed the money, the
12 province would have had to guarantee the debt?

13 MR. VINCE WARDEN: Yes.

14 MR. BOB PETERS: And does the cost that
15 Manitoba Hydro has to pay on the money, plus the
16 provincial debt, get fully recovered in the interest
17 payment charged through to Pattern Energy?

18 MR. VINCE WARDEN: Yes, it does.

19 MR. BOB PETERS: Can you tell the Board
20 what is the length of term, or time, on the -- on the --
21 the loan that's been granted?

22 MR. VINCE WARDEN: Yes, it's a twenty
23 (20) year loan.

24 MR. BOB PETERS: And I note there was
25 some acceleration of some payments, but that was, I

1 guess, to get advantage of the early returns, as it were,
2 on the -- on the energy.

3 MR. VINCE WARDEN: Yes, that's right.

4 MR. BOB PETERS: Where does Manitoba
5 Hydro report this \$250 million loan in its financial
6 statements? Where -- where would the Board find that if
7 it drilled down to a certain level?

8 MR. VINCE WARDEN: It would -- well,
9 first of all the -- the -- the borrowing -- the amount we
10 borrowed would -- would just be part of our regular long-
11 term debt, so it would be embedded within the long-term
12 debt.

13 And then there's a -- an advance account
14 that would be set up with -- split between current and --
15 and long-term to recognize the current year pay -- the
16 payments to be made within the upcoming year, and that
17 advance account would be drawn down as the payments are -
18 - are made.

19 MR. BOB PETERS: And I take it the
20 account now has been drawn down fully as the plan -- as
21 the operation is up and running?

22 MR. VINCE WARDEN: No, no. No, as the
23 payments are made by Pattern, so we have in effect a
24 receivable account from Pattern that is being drawn down
25 as -- as energy is purchased by Manitoba Hydro, and the

1 offsets are applied to that account to draw it down over
2 that twenty (20) year term.

3 MR. BOB PETERS: What I think you're
4 telling the Board is, you've loaned 250 million to
5 Pattern Energy, when they produce energy and Manitoba
6 Hydro buys it, instead of cutting Pattern a cheque, you
7 end up offsetting what they owe you or setting it off
8 against what they owe you.

9 MR. VINCE WARDEN: Yep, that's how it
10 works.

11 MR. BOB PETERS: Is it 100 percent set
12 off, or do you still allow them to make some -- some
13 revenue each month or how often they invoice you?

14 MR. VINCE WARDEN: Yes. Well, there is a
15 predetermined schedule for that -- that -- the way it is
16 drawn down, so there would be a portion that would be --
17 go back to the -- to Pattern.

18 MR. BOB PETERS: And in addition to the
19 \$250 million loan, there's also a 10 million reserve
20 operating line?

21 MR. VINCE WARDEN: Yes.

22 MR. BOB PETERS: Has that been tapped
23 into by Pattern Energy?

24 MR. VINCE WARDEN: No it hasn't.

25 MR. BOB PETERS: What's the purpose of

1 that?

2 MR. VINCE WARDEN: It was -- it was
3 mainly to recover an -- or to cover off any shortfalls
4 that there might be during -- during the construction
5 period and -- and immediately thereafter.

6 It -- it is though at a substantially
7 higher rate of interest, so there is a deterrent there
8 from drawing down that \$10 million, and the way it's
9 looking now it's unlikely to be -- to be required.

10 MR. BOB PETERS: Unlikely to be required
11 because they're getting monthly revenue from Manitoba
12 Hydro.

13 MR. VINCE WARDEN: Yes. The -- the wind
14 farm was put into ser -- or being put into service pretty
15 much according to schedule, and on budget, so there
16 shouldn't be a requirement to access this, barring
17 unforeseen circumstances.

18 MR. BOB PETERS: And the operating line,
19 Manitoba Hydro didn't have to go out and borrow that
20 money?

21 MR. VINCE WARDEN: Well, we wouldn't
22 borrow that until we -- we needed it, and the chances are
23 pretty good we won't need it.

24 MR. BOB PETERS: And --

25 MR. VINCE WARDEN: But if we -- if we do,

1 the -- the interest rate is sufficient to cover off any
2 costs that we might incur and -- and then some.

3 MR. BOB PETERS: But I asked you that
4 same question for the \$250 million number and I had
5 understood you telling the Board that the cost of
6 Manitoba Hydro to borrow and have the province guarantee
7 the 250 million is also recovered fully in the
8 arrangement with Pattern Energy?

9 MR. VINCE WARDEN: Yes, it is.

10 MR. BOB PETERS: All you're saying is
11 that there's even a higher interest rate on the operating
12 reserve line?

13 MR. VINCE WARDEN: If it's used, yes.

14 MR. BOB PETERS: Mr. Warden, if for any
15 reason Pattern Energy does not generate electricity or,
16 in other words, pay back its money to Manitoba Hydro,
17 what remedies does Manitoba Hydro have?

18 MR. VINCE WARDEN: Well, the agreement is
19 such that we are fully protected. That is, we would have
20 -- in a -- in a worst-case scenario we would take
21 ownership of the -- of the farm.

22 MR. BOB PETERS: Why didn't Manitoba
23 Hydro choose to outright purchase this wind farm rather
24 than -- than finance 75 percent of it?

25 MR. VINCE WARDEN: Well, that really

1 isn't our area of expertise. There are people that are
2 better at building wind farms than we are. So that's --
3 that's what they're doing here.

4 MR. BOB PETERS: Manitoba Hydro is
5 required to purchase 100 percent of the output of the St.
6 Joseph's Wind Farm, is it not?

7 MR. VINCE WARDEN: Yes.

8 MR. BOB PETERS: And St. Joseph's Wind
9 Farm cannot sell to anybody else in the province of
10 Manitoba but Manitoba Hydro?

11

12 (BRIEF PAUSE)

13

14 MR. DAVID CORMIE: Mr. Peters, they -- as
15 any independent power producer could take service under
16 Manitoba Hydro's tariff and try and market the power
17 outside of Manitoba using Manitoba Hydro's transmission
18 facilities. So they had that -- they had that option.

19 MR. BOB PETERS: My question was a bit
20 finer, Mr. Cormie. Pattern Energy cannot market the
21 electricity and retail it inside the Province of Manitoba
22 to anybody but Manitoba Hydro?

23 MR. DAVID CORMIE: Under our agreement,
24 that's correct.

25 MR. BOB PETERS: All right. And in terms

1 of extra-provincial -- extra-provincially -- sorry, I'll
2 just stand down for a sec, I may have moved too quickly.

3

4

(BRIEF PAUSE)

5

6 MR. DAVID CORMIE: Mr. Peters, could you
7 ask your question again?

8

9 MR. BOB PETERS: Is it correct, Mr.
10 Cormie, and Mr. Warden, Ms. Ramage, that Pattern Energy
11 is prohibited from marketing the energy from the St.
12 Joseph's wind farm and retailing to any entity in
13 Manitoba other than Manitoba Hydro?

13

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

14

15 MR. BOB PETERS: Okay. I think Mr.
16 Cormie told me that before, but --

16

MS. PATTI RAMAGE: Perhaps.

17

18 MR. BOB PETERS: -- Ms. Ramage will have
19 the last word.

19

20 MS. PATTI RAMAGE: I was -- the last word
21 will be that's under the Manitoba Hydro Act. There's a
22 prohibition on any other party retailing power in the
23 Province of Manitoba. That would have nothing to do with
24 an agreement. The retail of power in Manitoba would have
25 nothing to do with an agreement between parties.

25

1 CONTINUED BY MR. BOB PETERS:

2 MR. BOB PETERS: Mr. Cormie, at the very
3 least what you've said is there is a prohibition on
4 Pattern retailing the energy to anybody else in the
5 Province of Manitoba but Manitoba Hydro. And it's either
6 in the agreement, in the legislation, or both?

7

8 (BRIEF PAUSE)

9

10 MR. DAVID CORMIE: Yes.

11 MR. ROBERT MAYER: I was wondering where
12 -- what -- we were going to get any extra power to retail
13 to anybody else if you were required to buy a hundred
14 percent of what they produced, but -- so I'm not
15 understanding this line at all.

16 MR. DAVID CORMIE: Well, the -- the
17 developer could sell it to an entity at the border and
18 Manitoba Hydro could buy it back, and, you know, there's
19 lots of financial arrangements for the power to be
20 generated in Manitoba, used in Manitoba, but it would be
21 at the wholesale level, and Manitoba Hydro would
22 ultimately be buying it on behalf of its customers.
23 There's lots of different arrangements that can be
24 arranged, but it's at the wholesale level, and -- and
25 service is available under our tariff to -- to do that.

1 We're not stopping people from developing
2 independent power projects. It's just that it's not very
3 economic.

4

5 CONTINUED BY MR. BOB PETERS:

6 MR. BOB PETERS: Does Manitoba Hydro
7 offer to finance other independent power producers to the
8 extent they did with Pattern Energy?

9 MR. DAVID CORMIE: The Pattern Energy
10 arrangement was an exception to that, Mr. Peters, because
11 we had entered into an RFP process that was interrupted
12 because of the credit crisis. And at the end of the day,
13 we felt it was in the best interest of our cu --
14 customers to enter into this financing arrangement.
15 Manitoba Hydro would be able to benefit from the low cost
16 of the development by providing some financing.

17 THE CHAIRPERSON: We're going to take the
18 afternoon break right now. But just before that -- and I
19 hope I haven't cut off Mr. Peters, maybe he was going to
20 ask. At one (1) time there was an announcement, if I
21 recall, that the goal was 1,000 megawatts of wind, and
22 this brings you up to what, two hundred and thirty-seven
23 (237) or something, and that. There's nothing more with
24 respect to wind in the CFF going forward, is there, in
25 the plan?

1 MR. DAVID CORMIE: I think in the long
2 run the province has indicated, Mr. Chairman, that they
3 would like Manitoba Hydro to develop a thousand. There
4 has been no schedule set for that. And --

5 THE CHAIRPERSON: But in the decade of
6 investment, as it's been called, there's no placemark or
7 anything else of that nature with respect to more wind?

8 MR. DAVID CORMIE: There's been no
9 additional targets set, no.

10 MR. VINCE WARDEN: Ha -- having said
11 that, there -- there is a provision to expand the wind
12 farms. And if a business case can be made to do that,
13 Manitoba Hydro would certainly consider that.

14 THE CHAIRPERSON: The St. Joseph one was
15 originally intended to be 300 megawatts, wasn't it?

16 MR. VINCE WARDEN: That's right.

17 THE CHAIRPERSON: Okay, thanks. We'll
18 take the break now.

19

20 --- Upon recessing at 2:45 p.m.

21 --- Upon resuming at 3:10 p.m.

22

23 THE CHAIRPERSON: Okay. Okay. Welcome
24 back.

25 Mr. Peters...?

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

2

3 LLOYD KUCZEK, Resumed

4 ROBIN WIENS, Resumed

5

6 CONTINUED BY MR. BOB PETERS:

7 MR. BOB PETERS: You will have seen as
8 discussions between myself and Manitoba Hydro's counsel,
9 we've asked Mr. Kuczek to return to discuss some
10 questions, provide some information to the Board. And
11 before I get there, I have two (2) undertakings that I'd
12 like to see if counsel for Manitoba Hydro and Mr. Warden
13 will agree to accept.

14 And, Mr. Warden, the first relates to the
15 twenty (20) year financial outlook that was filed this
16 morning as Manitoba Hydro Exhibit 72. In that, sir,
17 there were some consolidated financial statements. You'd
18 recall that, sir, generally?

19 MR. VINCE WARDEN: Yes, I do.

20 MR. BOB PETERS: And you'd recall that on
21 those financial statements there would be a line item for
22 non-controlling interest?

23 MR. VINCE WARDEN: Yes.

24 MR. BOB PETERS: My recollection is the
25 non-controlling interest related to the Wuskwatim Power

1 limited partnership agreement?

2 MR. VINCE WARDEN: Yes, it does.

3 MR. BOB PETERS: And when the number
4 appears in the statement, and one (1) line item under
5 2012 shows a \$4 million number, can you explain to the
6 Board what the \$4 million represents?

7 MR. VINCE WARDEN: Yes, that is the --
8 '11/'12 is the year of in-service, the first year of in-
9 service for -- for Wuskwatim. And there is a provision
10 in the agreement to make payments to the partner, to NCN,
11 in advance of the -- the partnership generating net
12 income. The -- the first years of operation, there is a
13 loss incurred just because of the high capital costs, and
14 the revenues aren't sufficient to -- to offset those high
15 capital costs in -- in the first year.

16 So this -- this would represent payments
17 in lieu of dividends for those early years, which are
18 repaid later. Now, NCN isn't obligated, of course, to
19 take those payments, but the provision is there for them
20 to do so.

21 MR. BOB PETERS: Are these payments to
22 NCN, as you've referred to them, Mr. Warden, dependent on
23 the profitability, or lack thereof, of the Wuskwatim
24 project in the initial years?

25 MR. VINCE WARDEN: Yes, it's more the

1 lack thereof.

2 MR. BOB PETERS: Yeah, you've -- you've,
3 I think, made it clear to the Board that because the
4 project is not going to be covering all of the costs,
5 there has been provision made in the agreement to provide
6 payments in lieu of dividends, and that's what these
7 represent.

8

9 (BRIEF PAUSE)

10

11 MR. VINCE WARDEN: Mr. -- Mr. Peters,
12 what I said is -- is correct in -- in as much as there
13 are -- there is provision for payments to -- to NCN in
14 those early years. However, the way this is structured
15 here on -- on the financial statements, this shows
16 because there are losses in the early years that payments
17 are actually coming from NCN to offset those losses.

18 What isn't shown here is the provision
19 that's in the agreements that I -- that I referenced
20 earlier.

21 MR. BOB PETERS: Well, I think I'm now
22 more confused, Mr. Warden, but can you -- can you either
23 undertake, or explain at this time, how that \$4 million
24 number in 2012 was calculated?

25 MR. VINCE WARDEN: Sure. We'll -- we'll

1 provide a backup calculation for that.

2 MR. BOB PETERS: All right.

3

4 --- UNDERTAKING NO. 93: Manitoba Hydro to provide an
5 explanation as to how the \$4
6 million number in 2012 was
7 calculated. Also, to provide
8 updated income statement for
9 IFF-10, updated balance sheet
10 and updated cashflow
11 statement

12

13 CONTINUED BY MR. BOB PETERS:

14 MR. BOB PETERS: And that calculation
15 then won't show the payments that you've talked about.
16 It'll be --

17 MR. VINCE WARDEN: No, that does not show
18 the payments.

19 MR. BOB PETERS: Where would we see those
20 payments?

21 MR. VINCE WARDEN: Well, you probably wo
22 -- in fact, I don't believe you would see the payments
23 here in as much as -- as no decision has been made by NCN
24 as to whether or not those payments will, in fact, be --
25 be made, or whether or not the payments will come in the

1 form of a -- a loan agreement from Manitoba Hydro.

2 But you know, it would probably be better
3 -- it is a bit of a complicated flow, so I -- I -- we
4 will provide a backup calculation for that -- those
5 payments in the early years.

6 MR. ROBERT MAYER: Mr. Warden, you're
7 make -- they're making payments, or at least on the paper
8 they're making payments.

9 I'm assuming therefore that NCN, through
10 its holding company, has acquired the thirty (30) -- 30
11 or 33 percent --

12 MR. VINCE WARDEN: Well, the --

13 MR. ROBERT MAYER: -- equity stake in the
14 -- in Wuskwatim?

15 MR. VINCE WARDEN: Yes. The assumption
16 that's made here is that they will exercise their right
17 to acquire 33 percent equity interest.

18 MR. ROBERT MAYER: So then the \$4 million
19 in the first year means you're projecting a loss of 12
20 million.

21 MR. VINCE WARDEN: Yes.

22 MR. ROBERT MAYER: From the evidence
23 we've had up to now, that strikes us as a little low.

24 THE CHAIRPERSON: We're just recalling
25 the -- the cross-examination and the answers about the

1 sort of ten (10) cent level as -- cost as opposed to the,
2 I think it was three point seven (3.7), or something,
3 mixture between opportunity and -- and firm export sales.

4 And then on 1,500 gigawatt hours
5 multiplying it all out, you get a much larger number than
6 four (4) times four (4), but all we're saying is it would
7 be helpful to know how you calculated it.

8 MR. VINCE WARDEN: Yes, we'll take that
9 as an undertaking, Mr. Chair and Mr. Vice-Chair. Yes,
10 the same -- the same undertaking, yes.

11

12 CONTINUED BY MR. BOB PETERS:

13 MR. BOB PETERS: Mr. Warden, if I could
14 piggyback on the undertaking between you and the
15 Chairman, that at PUB Manitoba Hydro First Round Question
16 42B was the income statement for the Wuskwatim Power
17 limited partnership agreement based on IFF-09, and I'm
18 wondering if you're undertaking would update that for
19 IFF-10?

20 MR. VINCE WARDEN: Yes, we can do that.

21 MR. BOB PETERS: Yeah.

22 MR. VINCE WARDEN: That -- that was IFF-
23 09, we'll update it for IFF-10.

24 MR. BOB PETERS: Yeah, this was, for Ms.
25 Boyd's benefit, PUB Manitoba Hydro First Round Question

1 42B, and there was an income statement related to the
2 Wuskwatim Power limited partnership agreement?

3 MR. VINCE WARDEN: Yes.

4 MR. BOB PETERS: Okay. Thank you.

5

6 (BRIEF PAUSE)

7

8 MR. BOB PETERS: It's all part and parcel
9 of the same one, as long as Mr. Warden and his counsel
10 keep agreeing with me.

11 MR. VINCE WARDEN: We agree.

12 MR. BOB PETERS: And -- and I'm going to
13 push my luck here, Mr. Warden, that not only the income
14 statement updated for IFF-10, but could the balance sheet
15 and the cashflow statement also be updated for that same
16 period? It was provided based on '09 in a Second Round
17 Information Request. I just don't have that handy.

18 MR. VINCE WARDEN: Yes. If it was
19 provided in '09, we'll do the same thing for --

20 MR. BOB PETERS: All right.

21 MR. VINCE WARDEN: -- '10.

22 MR. BOB PETERS: That would be
23 appreciated, sir.

24 And one (1) last new undertaking, Mr.
25 Warden, and of course this only arises after I assure

1 counsel that Mr. Cormie won't be needed this afternoon,
2 but I'm wondering if a -- an undertaking could be
3 provided to provide the Board with the latest Manitoba
4 Hydro river flow and water level forecasts for the Nelson
5 River basin and the Churchill River diversion.

6 These are computer generated sheets that I
7 understand the Corporation has. So if you could take
8 that under advisement, and unless there's any objection
9 we could -- we can discuss that.

10 MS. MARLA BOYD: I'm wondering about the
11 time period that you're requesting there.

12 MR. BOB PETERS: Just the latest ones for
13 each would be acceptable to the Board.

14 MS. MARLA BOYD: Are you just looking for
15 a current level or do you want the current forecast and
16 for what duration forward?

17

18 (BRIEF PAUSE)

19

20 MR. BOB PETERS: Mr. Chairman, I had
21 understood they were approximately twelve (12) months in
22 duration and I was just working backwards from the most
23 current one (1) -- current -- the most current month to -
24 - to back up for six (6) months.

25 MS. MARLA BOYD: Perhaps we can discuss

1 that offline. I think we're having a little trouble
2 meeting somewhere in the middle.

3 MR. BOB PETERS: All right. We'll take
4 that to be a matter discussed amongst counsel and we
5 won't -- we won't put that on the record as an
6 undertaking at this point in time.

7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: I'd like to turn, Mr.
10 Kuczek, finally, to you, sir. I'm not sure I'll be
11 talking too much to your colleague with you today, but
12 you'll recall, sir, and its perfunctory of me to advise
13 you that you still are under oath.

14 MR. LLOYD KUCZEK: Yes.

15 MR. BOB PETERS: And at Tab 62 of the
16 book of documents is a -- are extracts from the 2010
17 Power Smart Plan, which is filed in Hydro's GRA filing as
18 Appendix 86, sir, you'd recognize that?

19 MR. LLOYD KUCZEK: Yes.

20 MR. BOB PETERS: And if we turn to the
21 last page under Tab 62 of what has been marked as PUB
22 Exhibit 18, this is the book of documents, the summary on
23 the demand-side management budget shows that there's
24 going to be approximately \$414 million spent from the
25 2011 test year through to '25 fiscal year, correct?

1 MR. LLOYD KUCZEK: What was the number
2 you gave me?

3 MR. BOB PETERS: I meant to give you \$414
4 million.

5 MR. LLOYD KUCZEK: Correct.

6 MR. BOB PETERS: And I'm looking at the
7 top line in the -- in the chart.

8 MR. LLOYD KUCZEK: That's correct.

9 MR. BOB PETERS: And underneath that
10 there's also the affordable energy fund payments that are
11 being made for various projects, sir?

12 MR. LLOYD KUCZEK: Correct.

13 MR. BOB PETERS: Is it correct to
14 interpret that as that the fund will be fully depleted by
15 2017?

16 MR. LLOYD KUCZEK: Yes.

17 MR. BOB PETERS: In terms of demand-side
18 management spending, the test year amounts that is being
19 spent is approximately \$39 million for the 2011 test year
20 and \$40 million for the 2012 test year?

21 MR. LLOYD KUCZEK: Correct.

22 MR. BOB PETERS: And Mr. Warden and I
23 were dancing in the dark on -- on how much is currently
24 in rates. It's approximately \$25 million.

25 Would that be correct?

1 MR. LLOYD KUCZEK: I actually don't know.
2 The accountants do that.

3

4 (BRIEF PAUSE)

5

6 MR. VINCE WARDEN: Mr. Peters, I think we
7 do have an IR that responds to that question. We'll just
8 try and locate that.

9 MR. BOB PETERS: It's a MIPUG IR, from my
10 recollection. And I -- I don't have it at hand, so we'll
11 get confirmation of that as we are able to turn it up.

12 Mr. Kuczek, when the Board looks at the
13 chart found on the last -- the last page, Tab 62 of Board
14 counsel's book of documents, the page is numbered 138 in
15 the top right-hand corner, is it correct that the demand-
16 side management expenditures are expected to peak in
17 2013/'14 and decline through the years 2024/'25?

18 MR. LLOYD KUCZEK: That's according to
19 our 2010 plan, yes.

20 MR. BOB PETERS: Just the way you
21 answered that, Mr. Kuczek, leads me to think that's
22 probably not what's going to happen in reality. Is that
23 what you're telling us?

24 MR. LLOYD KUCZEK: Well, not li -- not
25 likely, I guess, because certainly on the lower income

1 program we're planning on extending it beyond what's in
2 the 2010 plan, and we'll have that in the 2011 plan, and
3 we're currently working on that, so I expect that. And
4 then the other area that we're always looking for is just
5 other opportunities, so we don't have any identified
6 within the plan at this point, and we're assessing it
7 year by year, so there -- there likely will be some
8 additional opportunities that we'll be pursuing at that
9 time.

10

11

(BRIEF PAUSE)

12

13

14

15

16

17

18

19

MR. BOB PETERS: Well, I think I was
correct earlier. There's also another reference to the
annual amount that the accountants can check in PUB
Manitoba Hydro First Round 97B. And subject to check,
Mr. Warden, \$24.8 million is budgeted for the first test
year and twenty-eight point seven (28.7) budgeted for the
second test year?

20

21

22

23

24

25

MR. VINCE WARDEN: Yes, that's fair.

MR. BOB PETERS: Can you take that,
subject to check?

MR. VINCE WARDEN: Yes, I will accept
that.

MR. BOB PETERS: And -- and I would check

1 that as well just to be sure that I've got it correct.

2 MR. VINCE WARDEN: It -- it does sound
3 right.

4 MR. BOB PETERS: Thank you, sir. So, Mr.
5 Kuczek, while the -- while the chart seems to show a sun
6 setting of certain programs, you're indicating to the
7 Board that it's likely that new and additional programs
8 will be developed by that time?

9 MR. LLOYD KUCZEK: It's possible, but
10 it's not -- it's not for certain, because wha -- what's
11 happening is we're basically aggressively pursuing
12 another op -- a number of opportunities. And once those
13 opportunities are pursued and captured, theoretically,
14 they're done. And if they're coded, there may not be as
15 many opportunities into the future, so -- so there is --
16 there's that concern.

17 And a number of us, actually, in the
18 industry are talking about that these days in terms of
19 what are we going to do beyond what our current plans
20 are. And some people have these targets arbitrarily set,
21 and -- but they have no idea how they're going to achieve
22 those into the distant future, so -- so there's --
23 there's a number of issues as we go forward. And so what
24 we have identified in our plan is just those
25 opportunities that we know of at this point.

1 MR. BOB PETERS: And those opportunities,
2 the Board's going to find those on the page 135 of Board
3 counsel's book of documents, PUB Exhibit 18, that's the
4 second page under Tab 62, Mr. Kuczek?

5 MR. LLOYD KUCZEK: That's correct.

6 MR. BOB PETERS: And so these -- the
7 programs that are listed in this chart, and you've broken
8 it down between residential and commercial, these are the
9 existing categories that -- of programs that Manitoba
10 Hydro currently has that may come to a conclusion once
11 the market has been, I suppose, fully -- fully met or
12 depleted with respect to the energy savings?

13 MR. LLOYD KUCZEK: Yeah. And -- and it's
14 not a matter of totally capturing all the energy savings,
15 it's -- there's the issue of whether or not you can
16 capture additional energy savings in a cost-effective
17 manner, and that becomes the big issue.

18 MR. BOB PETERS: And that's what this
19 page, Mr. Kuczek, page 135 of the book of documents, is
20 attempting to show the Board, is that Hydro uses a number
21 of tests, including the total resource cost test and the
22 rate impact measure test as well as the levellized
23 utility cost test to determine whether or not these
24 programs are -- are cost effective?

25 MR. LLOYD KUCZEK: That's correct.

1 MR. BOB PETERS: And it is generally
2 Manitoba Hydro's rule, is it not, that the Utility will -
3 - will pursue opportunities with the overall -- where the
4 overall benefit will exceed the costs with a total
5 resource cost greater than one (1)?

6 MR. LLOYD KUCZEK: That's correct.

7 MR. BOB PETERS: And when I said it's --
8 it's generally the case but not always the rule, the
9 exceptions are made when, Mr. Kuczek?

10 MR. LLOYD KUCZEK: Well, there's a couple
11 areas that I -- come to my mind. One (1) would be to
12 pursue a -- an emerging technology, possibly. And so you
13 might -- and in fact we do have a program to pursue solar
14 hot water heating, and that program currently isn't cost
15 effective.

16 So emerging technologies is one (1) area.
17 Another area might be just to have a -- an overall
18 balanced portfolio to pursue certain opportunities, such
19 as the low income program.

20 And on the commercial side, we have the
21 same problem with some of the smaller commercial
22 opportunities, or the customers that -- the economics
23 aren't always the best there, so.

24

25 (BRIEF PAUSE)

1 MR. BOB PETERS: And I thought Mr. Gange
2 was on a holiday rather than a technology development
3 excursion about solar heating of water, Mr. Kuczek.

4 These technologies that you mentioned that
5 are emerging, under existing technologies they're not
6 cost effective, is what you're telling the Board.

7 MR. LLOYD KUCZEK: Under existing
8 economics they're not cost effective, yes, or
9 technologies, but under the current environment, they are
10 not.

11 MR. BOB PETERS: But as rates -- as -- as
12 electricity rates go higher, they may become cost
13 effective, is that what you're -- your answer is to
14 suggest?

15 MR. LLOYD KUCZEK: Some can, or the
16 technologies might be advanced to the stage where the --
17 the cost of that technology could come down as well.

18 MR. BOB PETERS: When the Board reviews
19 this chart on page 135 at Tab 62 of the third book of
20 documents, a number of the programs have -- the heading
21 under, PC, is that participant cost?

22 MR. LLOYD KUCZEK: That's correct.

23 MR. BOB PETERS: And let's -- let's take
24 for example the home and energy saver pro -- or sorry,
25 the water and energy saver program, that's a relatively

1 new program of the Corporation?

2 MR. LLOYD KUCZEK: That's correct.

3 MR. BOB PETERS: Is -- is this the
4 program where Manitoba Hydro provided some new hardware
5 to homeowners as well as -- I'm thinking reduced flow
6 showerheads and maybe --

7 MR. LLOYD KUCZEK: That's correct.

8 MR. BOB PETERS: -- in -- insulating.
9 What was the cost of each of those kits, do you know?

10 MR. LLOYD KUCZEK: Approximately thirty
11 (30) bucks.

12 MR. BOB PETERS: And those were delivered
13 to the homeowner?

14 MR. LLOYD KUCZEK: We're delivering them
15 by mail to the homeowner right now, yes.

16 MR. BOB PETERS: All right. By mail, or
17 by delivery courier. Is that the same?

18 MR. LLOYD KUCZEK: Correct.

19 MR. BOB PETERS: And when we look at the -
20 - the rating on this, the essence of it is not -- not so
21 much to save water from Manitoba Hydro's point of view,
22 but from Manitoba Hydro's point of view is to save hot
23 water being used. Wouldn't that be the -- the case?

24 MR. LLOYD KUCZEK: Energy and hot water,
25 yes. And when I say energy, there's electricity to heat

1 the water, of course, sir.

2 MR. BOB PETERS: Although most of your cl
3 -- customers probably use natural gas to heat their hot
4 water.

5 MR. ROBERT MAYER: Only if you live in
6 Winnipeg.

7 MR. LLOYD KUCZEK: 55 percent of our
8 customers use electricity for heating their water --
9 residential.

10

11 CONTINUED BY MR. BOB PETERS:

12 MR. BOB PETERS: Thank you. When -- when
13 the Board looks at this particular program, the rate
14 impact measure of one point zero (1.0), isn't that to
15 suggest that it's revenue neutral to consumer rates?

16 MR. LLOYD KUCZEK: That's correct.

17 MR. BOB PETERS: So these -- these kits
18 that cost approximately thirty dollars (\$30) will return
19 approximately thirty dollars (\$30) to the Corporation.

20 Is that the intent?

21 MR. LLOYD KUCZEK: Correct.

22 MR. BOB PETERS: And that is returned to
23 the Corporation by Manitoba Hydro being able to export
24 the energy rather than have it used for heating the hot
25 water.

1 MR. LLOYD KUCZEK: Export, and the
2 avoided transmission and gen -- distribution cost, the
3 infrastructure cost. It's -- or avoided marginal costs,
4 which includes exports.

5 MR. BOB PETERS: I'm not sure you've told
6 the Board, in dollars and cents, what is the avoided
7 marginal cost? Have you put that on the record?

8 MR. LLOYD KUCZEK: Yes, we have. It was
9 in an IR, and it varies each year, but it's in the eight
10 point (8.) some cent range.

11 MR. BOB PETERS: Right. I might've even
12 -- have it in one (1) of these tabs here. I -- I recall
13 reviewing that, Mr. Kuczek. So Manitoba Hydro, for every
14 time -- for every kilowatt hour not used to heat hot
15 water, Manitoba Hydro is claiming that it's worth
16 approximately eight point, let's say, six (8.6) cents per
17 kilowatt hour to Manitoba Hydro?

18 MR. LLOYD KUCZEK: Correct.

19 MR. BOB PETERS: And when we look at the
20 levellized utility cost of one point eight (1.8), what is
21 that telling the Board relative to this program?

22 MR. LLOYD KUCZEK: Well, the levellized
23 utility cost is just what it's costing us to -- to get
24 the energy, but it doesn't take into account the lost
25 domestic revenue as well, so it's -- it's the admini --

1 levellized cost of the administrative costs and the
2 incentives levellized over the energy that's achieved.

3 MR. BOB PETERS: I think you covered a
4 couple of points that I wanted to -- to -- to be clear
5 on, Mr. Kuczek, that the one point eight (1.8) cents
6 should notionally be deducted should it not from the
7 marginal cost of eight point six (8.6) cents a kilowatt
8 hour?

9 MR. LLOYD KUCZEK: That -- that's
10 correct. And it's ju -- the definition of our levellized
11 utility cost is just what I mentioned, was our
12 administrative costs. It only includes our
13 administrative costs and the incentives. It does not
14 include lost opportunity in the export market, and it
15 does not include domestic revenue.

16 MR. BOB PETERS: And the domestic revenue
17 -- maybe put it this way, you'd make more money by
18 Manitobans using electricity to heat hot water than you
19 would by exporting it on the export market?

20 MR. LLOYD KUCZEK: Say that again.

21 MR. BOB PETERS: I'll try. Mr. Warden
22 might need to help us here, but if Mr. Warden tells the
23 Board that it can export opportunity electricity at let's
24 say two point three (2.3) cents a kilowatt hour and
25 someone in Winnipeg, or I guess anywhere in Manitoba,

1 using electricity to heat their water would be paying
2 closer to seven (7) cents a kilowatt hour, correct?

3 MR. LLOYD KUCZEK: That's correct, but
4 when we do our analysis it's over thirty (30) years, so
5 we're not just looking at the current year, we're looking
6 at thirty (30) -- thirty (30) years and we bring it back
7 forward -- or to the present-day calculation. So -- so
8 you just can't look at the current year. None -- none of
9 these calculations would make sense if that was the case.

10 MR. BOB PETERS: But included in your
11 assumptions then in doing the levelized cost is that at
12 some point in time the export opportunity cost will be
13 greater than the domestic ratepayer's costs. Would that
14 be a conclusion that's correct?

15 MR. LLOYD KUCZEK: Yeah, the export value
16 is higher than the -- the marginal -- the marginal value
17 to us is higher.

18

19 (BRIEF PAUSE)

20

21 MR. BOB PETERS: I'm not sure I
22 understand. Have you quantified marginal value on the
23 public record?

24 MR. LLOYD KUCZEK: When I say marginal
25 value, the marginal value is the export value plus the

1 avoided distribution and the infrastructure costs,
2 transmission costs.

3

4 (BRIEF PAUSE)

5

6 MR. BOB PETERS: When we look at the --
7 the participant cost at nineteen point six (19.6), is
8 that nineteen point six (19.6) -- is that re -- related
9 to the cost per kilowatt hour?

10 MR. LLOYD KUCZEK: Let me just find out
11 why it's nineteen point six (19.6).

12

13 (BRIEF PAUSE)

14

15 MR. LLOYD KUCZEK: Yeah, so we're kind of
16 arguing about -- or discussing whether it should be
17 infinite as opposed to nineteen (19) because it's a ratio
18 of benefits over costs, and I was trying to figure out
19 why they have anything in the denominator because we're
20 providing these kits for free.

21 MR. BOB PETERS: Well, that was my
22 question next, but what -- what's the answer to that?

23 MR. LLOYD KUCZEK: Well, they -- they
24 think they put some nominal value in the denominator for
25 the cost of installing these -- these units, so we -- we

1 can check into it, but it -- it's the -- you know, the --
2 PC is the benefits over the costs for the customer.
3 There shouldn't be any costs if they install the kits
4 themselves, so.

5 But if they were to hire somebody to do
6 something, installing the -- the different -- the
7 aerators, for example, there might be a nominal cost that
8 they put in there, and that's why we're getting this
9 higher number, but I think it should be infinite.

10 MR. BOB PETERS: And does that then look
11 -- looking at the customer payback years, the -- the code
12 with, you know, NA and the little -- I'm not sure what
13 that is, but an upward arrow, that suggests in the -- in
14 the key that it's a program with nil or negative net
15 customer costs?

16 MR. LLOYD KUCZEK: That's correct. And
17 they probably maybe should have put NAN for program costs
18 too -- I'm not -- participant cost because it's a ratio
19 of the benefits over the costs.

20 MR. BOB PETERS: All right, let's --
21 let's leave that one and turn to the low income energy
22 efficiency programs. That includes the affordable energy
23 budget. That is a program that does have a rate impact
24 measure, correct?

25 MR. LLOYD KUCZEK: Correct.

1 should be revised

2

3 CONTINUED BY MR. BOB PETERS:

4 MR. BOB PETERS: Mr. Kuczek, when you
5 told the Board about the marginal benefits, are there
6 non-energy benefits added into that number?

7 MR. LLOYD KUCZEK: There's energy and
8 capacity, if that's what you're referring to. Yes, it's
9 -- they're both in the benefits value.

10 MR. BOB PETERS: Are there any other
11 externalities added as non-energy benefits?

12 MR. LLOYD KUCZEK: We do add a value for
13 GHG emissions in our calculations, yes.

14 MR. BOB PETERS: What value is -- are you
15 ascribing to the GHG emissions?

16 MR. LLOYD KUCZEK: Well, let me -- let me
17 correct myself there. We do that on the gas side. On
18 the electric side they're inherent in the export values
19 already, so we don't add anything on the electric side.

20

21 (BRIEF PAUSE)

22

23 MR. BOB PETERS: Would it be correct, and
24 I think this is in Tab 63 at page 142 of the book of
25 documents, Volume III, we -- we get to a schedule for

1 determining the economic benefits of the DSM program
2 spending, that the -- Manitoba Hydro uses a proxy and
3 estimates that 75 percent of the marginal value is from
4 the export revenue and 25 percent is from the avoided
5 costs that you told us about?

6 MR. LLOYD KUCZEK: Yeah, we -- we don't
7 normally do that internally. We did that just to -- in
8 response to an IR that asked for that, and so we just
9 discussed it internally. And we said, for a ballpark
10 estimate, that's what you can use. And then we provided
11 the answer based on that.

12 MR. BOB PETERS: How did you come up with
13 the 75/25 split?

14 MR. LLOYD KUCZEK: Well, it was our
15 experts in the area that come up with the marginal costs
16 that decided that 75 percent was a reasonable proxy.

17 MR. ROBERT MAYER: That sounds an awful
18 lot like we picked it out of the air.

19 MR. LLOYD KUCZEK: It's not exactly 75
20 percent. We -- we could have chose not to answer, I
21 guess, but that -- you know, for the purposes of
22 providing an indication of the general value, that's --
23 we thought that was reasonable.

24

25 CONTINUED BY MR. BOB PETERS:

1 MR. BOB PETERS: In the materials, you've
2 also included in the marginal benefits the present value
3 of -- of non-energy or water benefits. Is that correct?

4 MR. LLOYD KUCZEK: Correct.

5 MR. BOB PETERS: Can you explain why
6 water benefits were included in the calculation, and how
7 you came to their value?

8 MR. LLOYD KUCZEK: Well, what -- what we
9 did is in -- in theory you want to look at all the
10 benefits, if you can come up with an estimate of -- for
11 what they are.

12 In -- in the case of these measures, we
13 thought the water savings was significant enough that we
14 should use a calculation, and I think -- well, I know
15 what we did. We -- the calculation that we used was
16 based on, and we context -- context it that way, was
17 based on the City of Winnipeg water rates.

18 MR. BOB PETERS: Yeah. The -- the
19 thought behind that is, who gets the benefit of that?

20 MR. LLOYD KUCZEK: The customer. The
21 participating customer.

22 MR. BOB PETERS: And whether the benefit
23 comes from a reduced payment to the City of Winnipeg, or
24 a reduced Hydro bill, you cal -- you include that in the
25 -- in the calculation?

1 MR. LLOYD KUCZEK: No -- no, what we're
2 doing, when we're using TRC is, when there's an
3 opportunity, we're wanting to assess whether or not the
4 benefits are greater than the cost, irregardless of who's
5 going to benefit and who's paying.

6 So what that does is that determines us --
7 helps -- helps determine what opportunities we should be
8 pursuing, then we use the other metrics to decide who
9 should be paying for what.

10 So then you take that into account, that
11 the customer's payback, when you're designing your
12 program, it'll help the payback for the customer so that
13 you don't have to in -- provide them with possibly as
14 much incentive, and when you're designing your program
15 your participation rates will be higher because of that
16 because the customer's going to save more.

17 It's -- there's no benefits to Manitoba
18 Hydro at all related to the -- the reduced water bills,
19 other than the customer, and hopefully greater
20 participation in our programs.

21 MR. BOB PETERS: Now, and -- and my
22 question to you that precipitated that answer, I think,
23 Mr. Kuczek, was your recognizing on a total resource cost
24 basis the savings to the consumer, whether the savings is
25 on the energy bill or on the water bill.

1 MR. LLOYD KUCZEK: Correct.

2

3 (BRIEF PAUSE)

4

5 MR. BOB PETERS: Did -- did Manitoba
6 Hydro understand that Messrs Dunsky and Chernick were
7 both recommending abandoning the use of the RIM test?

8 MR. LLOYD KUCZEK: Yes, we've had a
9 number of discussions about that.

10 MR. BOB PETERS: And is it Manitoba
11 Hydro's understanding that the position taken by Mr.
12 Dunsky is that the RIM test virtually ensures that cost-
13 effective energy saving opportunities will be missed?

14 MR. LLOYD KUCZEK: Yeah, there was --
15 there was some confusion over how we use the RIM test,
16 and so when we hired Mr. Dunsky it became evident that we
17 weren't clearly communicating how we use our tests, and
18 so we decided after that we need to be better in terms of
19 explaining to regulators, intervenors, or consultants how
20 those tests are used so that they have a better
21 understanding.

22 MR. BOB PETERS: Can you explain what the
23 misunderstanding was, at least on a high level?

24 MR. LLOYD KUCZEK: Yeah, very simply put,
25 so -- I think at one (1) time we used to say that we used

1 to use two (2) primary economic tests to determine what
2 our program's going to be, and we used to say it's the
3 TRC or the RIM.

4 And so simply put, use the TRC to figure
5 out whether the benefits are greater than the costs, and
6 then the RIM would actually limit your program designs
7 possibly, if -- if your criteria was that it couldn't be
8 less than one (1), and we don't necessarily do that. We
9 look at a number of the tests, including the payback
10 levellized utility costs, and then we design programs
11 that we think makes the most sense in terms of achieving
12 our objectives.

13 MR. BOB PETERS: Mr. Kuczek, and maybe
14 you'll need Mr. Warden's assistance on this, but if under
15 international financial reporting standards DSM
16 expenditures have to be expensed in the year in which
17 they're incurred, will that impact the rate impact
18 measure test?

19 MR. LLOYD KUCZEK: No, I don't believe
20 so.

21 MR. BOB PETERS: Well, maybe explain to
22 the Board why that's the case when you're bringing
23 additional costs into rates that the RIM test doesn't get
24 adversely affected from a program design point of view.

25 MR. LLOYD KUCZEK: The RIM -- the RIM

1 test doesn't look at when the actual rate increases would
2 take place. It just looks at what the costs are and in
3 the year that they're incurred, I guess. And we just do
4 a -- a calculation based on that. It -- it...

5

6 (BRIEF PAUSE)

7

8 MR. LLOYD KUCZEK: So if you -- if you
9 look -- if you look at the calculation, the formula for
10 the rate impact test, it's the -- it's in our Power Smart
11 Plan, by the way.

12 MR. BOB PETERS: I didn't -- I don't
13 think I included that in my materials, so you might have
14 to just explain it to the Board --

15 MR. LLOYD KUCZEK: Right, so --

16 MR. BOB PETERS: -- so we can walk
17 through it.

18 MR. LLOYD KUCZEK: Yeah, so I'll just
19 walk through it. But it's the present value of the
20 utility marginal benefits divided by the present value of
21 the revenue loss plus our utility program administrative
22 costs plus incentives.

23 So what we do is we create a spreadsheet
24 and all these costs and the -- and the -- whether the
25 benefits and the costs, they're put in the year that they

1 actually occur, and then we do a calculation bringing
2 that back to the current date. So the -- if Mr. Warden
3 so chose to expend -- expense those charges in those
4 years, it wouldn't impact this calculation because we're
5 already assuming those costs occur in those years for
6 this rate impact calculation.

7 MR. BOB PETERS: But to my mind if you're
8 bringing them back from a closer period in the horizon
9 they'll have a higher value?

10 MR. LLOYD KUCZEK: Well, our calculation
11 already has them in the year that they take place. The
12 date -- the year that they occur. So that's how we do
13 our rate impact calculation.

14 MR. BOB PETERS: So the accounting
15 presently doesn't mirror the expenditure dates?

16 MR. LLOYD KUCZEK: That's correct. What
17 we use it for is just the overall measure of what the
18 impact will be to rates overall, where we're not too
19 concerned about how Mr. Warden decides to allocate the
20 costs and which year he does. Our interest only is in
21 how -- the general magnitude and the directional impact
22 of the -- on the rates.

23 MR. BOB PETERS: Let's not just blame Mr.
24 Warden, let's blame Mr. Rainkie, because I think he told
25 the Board it's just a question of timing, that's all

1 accounting is, so we'll -- we'll -- we'll -- we'll see if
2 that hold true. Mr. Kuczek, just --

3 MR. VINCE WARDEN: Just -- Mr. Peters, it
4 might be an opportune time, I think just in this
5 discussion where -- the -- the previous discussion we had
6 with respect to IFRS and the possible requirement of
7 having to expen -- expense all DSM expenditures, after
8 looking at this a little bit closer, the future
9 expenditures and the capital expenditure forecast are
10 very close actually to the amortization, the annual
11 amortization of DSM costs.

12 So this may only be a one (1) time problem
13 in terms of what we do with accumulated balance. So the
14 accumulated balance could very well be written off to
15 retained earnings and then the annual expenditures would
16 be expensed, which would result in very little rate
17 impact differential going forward. So it may not be as -
18 - as big a problem as we may have intimated earlier.

19 MR. BOB PETERS: Well, and that's when I
20 started with Mr. Kuczek, if the -- the current rates are
21 at approximately \$25 million of DSM costs and the capital
22 forecast is -- is 40 million, then you're -- you've got a
23 \$15 million problem.

24 MR. VINCE WARDEN: Yeah, and I think, you
25 know, I -- I tend to look at DSM expenditures on a

1 consolidated basis, and -- and really for the purpose of
2 our discussion, that's not appropriate. If -- we should
3 be leaving the gas DSM out of this discussion. And if
4 you do that it's very close to an offset.

5 MR. BOB PETERS: I'm not sure I'll leave
6 the gas discussion out, Mr. Warden. If you turn to page
7 138 of Tab 62, we see the chart again and we look down to
8 the furnace replacement program. Is there not an amount
9 currently embedded in the gas rates of the Company for
10 the furnace replacement program?

11 MR. VINCE WARDEN: Yes, yes, there is.

12 MR. BOB PETERS: That's \$3.8 million a
13 year?

14 MR. VINCE WARDEN: That's right.

15 MR. BOB PETERS: And why doesn't that
16 translate to what's shown on the line item for furnace
17 replacement budget?

18

19 (BRIEF PAUSE)

20

21 MR. VINCE WARDEN: Well, Mr Peters, I
22 think the -- the simple answer is that the 3.8 million
23 that you referenced doesn't carry on in perpetuity. So -
24 - and that's -- you know, when we get to the gas
25 proceeding we'll have to look at that closer, but I -- I

1 don't believe the provision in rates extends beyond the
2 test years that we were -- we were considering. Subject
3 to check.

4 We -- we would have to look at that again.
5 But I -- I -- at least I have in my mind that at some
6 point the \$3.8 million simply flows into rates.

7 MR. BOB PETERS: Well, could you check
8 that, Mr. Warden, by way of an undertaking, as to, first
9 of all, confirm that it's 3.8 million currently in rates,
10 number 2, that there is no sunset date provided in a
11 Board order. And if I am correct on point number 2, then
12 question number 3 would be whether it's accurately
13 depicted on the schedule on page 138 of the third volume
14 of Board counsel's book of documents.

15 MR. VINCE WARDEN: Yeah, I'm pretty sure
16 that there's no sunset date referenced in the Board
17 order. There may -- might have been an assumption on our
18 part, but, yes, we'll -- we'll bring that together in the
19 form of an undertaking and bring it back to the gas
20 hearing.

21

22 --- UNDERTAKING NO. 95: Manitoba Hydro to confirm
23 that it is currently 3.8
24 million in rates; that there
25 is no sunset date provided in

1 a Board order; and if there
2 is no sunset date, confirm if
3 it's accurately depicted on
4 the schedule on page 138 of
5 the third volume of Board
6 counsel's book of documents
7

8 CONTINUED BY MR. BOB PETERS:

9 MR. BOB PETERS: Just --

10 MR. LLOYD KUCZEK: Well, ju -- just to
11 add a little information, I guess, to that, what we put
12 in the Power Smart plan was I guess the dollars that were
13 associated with the approved furnace replacement program
14 internally, so that's what we had in there. We're
15 currently revising those numbers to project what we think
16 we're going to spend on the furnace replacement program
17 going out, and that'll be in the '11 plan. And the --
18 yeah, so.

19 MR. BOB PETERS: What -- what you're
20 telling the Board, Mr. Kuczek, is that while the Board
21 may have embedded \$3.8 million in rates on an annual
22 basis, the Corporation's plans are only to spend
23 approximately half of that in the -- the '12 and '13 --
24 2012 and 2013 fiscal years?

25 MR. LLOYD KUCZEK: Well, just to provide

1 a little more information so that you have a better
2 understanding, I guess, what we're trying to do is try --
3 with the whole lower income program is we're trying to
4 manage our expectations and come up with a budget for the
5 '11 plan that reflects what we think we can achieve, and
6 we won't be spending 3.8 million unless more customers
7 come to the door than what we're pro -- currently
8 projecting.

9 We're certainly getting more aggressive in
10 terms of our advertising. We're planning to spend more
11 on advertising, but whether or not we could get them to
12 the door is -- is questionable at this point.

13 MR. BOB PETERS: And -- and I know we're
14 going a long way down the gas side of the en --
15 enterprise, but in terms of the way it's depicted here,
16 Mr. Kuczek, you're suggesting to the Board that by
17 2013/'14 there'll be nobody coming to the door for a
18 furnace replacement?

19 MR. LLOYD KUCZEK: No. When we prepared
20 the 2010 plan we included the numbers for the lower
21 income program only going out to the period of time that
22 it was improved internally. For the 2011 plan, we're
23 extending that beyond that and putting some placeholders
24 in for dollars. We probably should have done that in the
25 2010 plan as well, but we didn't, but we will be in the

1 '11 plan. It'll go beyond just a couple years.

2 MR. BOB PETERS: And if \$3.8 million is
3 the correct amount that's in rates, Mr. Kuczek, what's
4 happening to the -- to the unspent portion of that on an
5 annual basis?

6 MR. VINCE WARDEN: Mr. Peters, we are
7 accumulating that in a in -- interest-bearing account, so
8 it is being segregated.

9 MR. BOB PETERS: I think I'll await the
10 undertaking. And Mr. Warden, I'm not sure it was your
11 intention, but I was hoping you would provide the answer
12 during the currency of these proceedings and not gas
13 proceedings, although there's one of each going on now?

14 MR. VINCE WARDEN: That was a little
15 joke, Mr. Peters.

16 MR. BOB PETERS: Okay. I missed it, and
17 I apologize. I think the word is touche. I'm not sure
18 how to spell that.

19 Mr. Kuczek, let's get back to some matters
20 related to DSM. Is it Manitoba Hydro's understanding
21 that Mr. Dunsky also recommends that the societal-cost
22 test be utilized as well as a program administrator cost
23 test.

24 MR. LLOYD KUCZEK: Yes, I believe we
25 discussed that with Mr. Dunsky, and what -- what some

1 organizations do is they -- they include an adder for
2 this -- onto the TRC to account for some additional
3 benefits that are related to generally greenhouse gas
4 emissions.

5 And -- and so in our case we have those
6 already inherently im -- imbedded in our export prices,
7 so we do do that within our TRC, so we go beyond what
8 some people traditionally use as TRC to begin with.

9 And -- and we've had some discussions
10 about whether or not we should use a societal test, as
11 well, and we're considering that right now.

12 MR. BOB PETERS: Well, let's take them
13 one (1) at a time, and let's start with then the societal
14 cost test, but do you understand Mr. Dunsky's
15 recommendation goes beyond just greenhouse gas emissions?

16 MR. LLOYD KUCZEK: Well, and I could
17 accept that.

18 MR. BOB PETERS: And Manitoba Hydro
19 doesn't though, doesn't accept that in terms of being a
20 legitimate test in looking at how to gauge demand side
21 management projects?

22 MR. LLOYD KUCZEK: No, I wouldn't say
23 that. We -- we would pursue opportunities even if it was
24 -- the TRC was close to potentially one (1) if we thought
25 there was a good opportunity to pursue there.

1 What -- what you're doing with TRC, and we
2 did it with the water, is if you could quantify what the
3 benefits are it might be worth pursuing those -- that
4 opportunity because the benefits are greater than the
5 costs, and that's all-encompassing benefits, of course.

6 When you're designing your program, of
7 course, you -- you need to consider what the ratepayers
8 are going to be contributing to that program, and what
9 makes sense from that prospective, and that's where you
10 use the metrics like the levellized utility costs, and
11 the rate impact measure, as well as the customer payback,
12 and other metrics, as well.

13 MR. BOB PETERS: In terms of the program
14 administrator cost test, that's not used by Manitoba
15 Hydro, is it?

16 MR. LLOYD KUCZEK: It -- it's not -- it's
17 not -- no, it's -- it's not one (1) of our primary tests.
18 I --we've been calculating it, but it's not a metric that
19 really drives our decisions too much.

20 MR. BOB PETERS: It appears as you told
21 the Board earlier that you prefer to use a levellized
22 utility cost test.

23 MR. LLOYD KUCZEK: Well, actually I --
24 the two (2) that I use the most are the levellized
25 utility costs along with the RIM test, in combination.

1 MR. BOB PETERS: When you say in
2 combination, do they each have to provide positive
3 results for the program to go forward?

4 MR. LLOYD KUCZEK: No, what I do with --
5 the levellized utility costs tells me what it's costing
6 me on the per unit energy basis, and one has to be
7 careful with that because if -- the -- the marginal value
8 is different throughout the year, so in the winter it's
9 worth more to us than in the summertime.

10 And if I just look at the levellized
11 utility costs I know just ballpark that I need to be
12 greater than -- less than one point seven (1.7) for it to
13 make sense on average for residential customers, four
14 point six (4.6), I believe it is, for commercial, and
15 maybe four point nine (4.9) for industrial customers. So
16 that's my basic metric for the customer to be
17 economically better off, or for the utility to be better
18 off.

19 And I don't know how it necessarily
20 impacts, or -- or where the value -- what the value is in
21 the winter versus summer, so I just look at the rate
22 impact test and that gives me a -- just a general sense
23 of whether there's a positive or negative, and what the
24 magnitude is based on how far it is away from one (1),
25 and whether it's greater than one (1) or zero.

1 MR. BOB PETERS: Maybe let's turn with
2 the Board to Tab 63 of the book of documents to page 140,
3 Mr. Kuczek, and just follow up that last answer of yours.

4 The -- let's -- I guess we'll pick on the
5 water and energy saver program because we talked about it
6 earlier. On a 2009 basis, the levelled utility cost is
7 one point three three (1.33) cents per kilowatt hour?

8 MR. LLOYD KUCZEK: Correct.

9 MR. BOB PETERS: I thought from a
10 residential perspective you were looking for one point
11 seven (1.7) as the threshold?

12

13 (BRIEF PAUSE)

14

15 MR. LLOYD KUCZEK: One point seven (1.7)
16 is correct. If it's less than one point seven (1.7),
17 then the utility is better off.

18 MR. BOB PETERS: And in this case, the
19 revenue gained from the utility is -- is shown to be a
20 slight or marginal loss of...

21 MR. LLOYD KUCZEK: That's correct, and
22 one's got to be careful with that metric because that's
23 the -- the crude number that we provided using 75 percent
24 of the marginal value to do that calculation.

25 So I would go to the rate impact test to

1 act -- as opposed to that revenue crude calculation for
2 the gain to tell me whether or not the impacts are
3 positive or negative to the company from just a pure
4 economic perspective.

5 MR. BOB PETERS: Let's take that same
6 answer, Mr. Kuczek, and go to the home insulation
7 program, which has the levellized utility cost of two
8 point two two (2.22) cents per kilowatt hour.

9 MR. LLOYD KUCZEK: Correct.

10 MR. BOB PETERS: Which, again if we go
11 back to the threshold of one point seven (1.7) cents,
12 means that this isn't such a good deal for the Utility?

13 MR. LLOYD KUCZEK: That's only if you
14 look at it from the levellized utility costs and -- and
15 that's where one has to be careful. If you look to the
16 RIM test, I'm pretty sure the RIM will be greater than
17 one (1) on this one (1), because the -- the savings are
18 all coming during the wintertime and the marginal value
19 is substantially higher in the winter for us than the
20 summer.

21 MR. BOB PETERS: And you say the revenue
22 gain, that's the revenue gain to Manitoba Hydro that
23 you're showing in the second column?

24 MR. LLOYD KUCZEK: Again, that is our
25 crude calculation to just provide you with what the value

1 is, but it -- you got to be careful with that number.

2 MR. BOB PETERS: Well, the number doesn't
3 seem to hold up to suggest that you make more money
4 exporting it than you do by having a homeowner pay seven
5 (7) cents a kilowatt hour.

6 MR. LLOYD KUCZEK: Well, see, in the
7 wintertime we have the avoided cost value. The component
8 might be greater than 25 percent that's related to
9 avoided infrastructure costs than it is in the
10 summertime. So that's -- that's where you have to be
11 really careful.

12

13 (BRIEF PAUSE)

14

15 MR. LLOYD KUCZEK: I -- I wouldn't use
16 this number in designing the program.

17 MR. BOB PETERS: Well, you would have
18 looked at this number when the program was designed
19 though, would you not?

20 MR. LLOYD KUCZEK: Not the revenue gain,
21 no. We only produced these numbers for responding to the
22 IR. If I were to look at the numbers I would look at the
23 rate impact measure, and that's why it's so important for
24 us to continue to use the rate impact measure, because
25 that tells us what the impact will be on rates. So

1 purely speaking, that is what the economic impact is to
2 the company, but it's just a -- it's an indicator, it's
3 not an absolute value, because the rate impact measure is
4 a ratio of benefits over costs.

5 MR. BOB PETERS: Mr. Kuczek, I want to
6 just touch briefly on the City of Winnipeg demand side
7 management agreement. There was some discussion of this
8 earlier in these proceedings, Mr. Kuczek. There was to
9 be a minimum energy reduction of about eight hundred
10 thousand dollars (\$800,000) annually to the City of
11 Winnipeg in concert with the purchase agreement of
12 Winnipeg Hydro?

13 MR. LLOYD KUCZEK: That was the target.

14 MR. BOB PETERS: And if the target wasn't
15 met, Manitoba Hydro would have to cut a cheque?

16 MR. LLOYD KUCZEK: Correct.

17 MR. BOB PETERS: Cut a cheque for the
18 difference between what target was met and the eight
19 hundred thousand dollars (\$800,000)?

20 MR. LLOYD KUCZEK: Correct.

21 MR. BOB PETERS: Anything over and above
22 eight hundred thousand dollars (\$800,000) Manitoba Hydro
23 gets to -- to keep, so to speak?

24 MR. LLOYD KUCZEK: Correct.

25 MR. BOB PETERS: And this was a ten (10)

1 year arrangement on the demand side management?

2 MR. LLOYD KUCZEK: Correct.

3 MR. BOB PETERS: Does that suggest that
4 your maximum exposure would have been, on the do nothing
5 scenario, would have been \$8 million?

6 MR. LLOYD KUCZEK: Actually, eight point
7 eight (8.8). There was an upfront. The fir -- we had to
8 pay eight hundred (800) on day one (1), and then eight
9 hundred (800) on the end of the contract, so there was
10 eleven (11) payments eventually that we were exposed to.

11 MR. BOB PETERS: All right. If you did
12 nothing for the City of Winnipeg, you would have owed
13 them \$8.8 million?

14 MR. LLOYD KUCZEK: Correct.

15 MR. BOB PETERS: And you've now spent
16 \$10.6 million, correct?

17 MR. LLOYD KUCZEK: Correct.

18 MR. BOB PETERS: So Manitoba Hydro has
19 spent more than it would have been worth to do nothing?

20 MR. LLOYD KUCZEK: That -- that would be
21 ignoring all the value associated with those savings that
22 we realized through those measures that flow into the
23 company through the increased export rate -- in increased
24 export sales that we made on the electric side.

25 MR. BOB PETERS: But again, you'd be

1 better off having the City of Winnipeg dig into its deep
2 pockets and pay you the higher rate than -- than the two
3 point three (2.3) cents that your colleagues can get on
4 the opportunity export market, wouldn't you?

5 MR. LLOYD KUCZEK: Again, we assess this
6 from the long-term perspective. So when we put a measure
7 in place it's not just for the 2010/'11 bad year, it's
8 for the next thirty (30) years or whatever the measure --
9 the life of measure is.

10 MR. BOB PETERS: And again, your
11 assumption then is at some point the opportunity export
12 prices will be greater than what the rate will be charged
13 to the City of Winnipeg?

14 MR. LLOYD KUCZEK: We -- we use the --
15 the marginal value to us. So it's -- it's that in
16 conjunction with the -- the avoided infrastructure costs,
17 as well.

18 MR. BOB PETERS: Why do you pick thirty
19 (30) years for the -- for the net present value
20 calculation?

21 MR. LLOYD KUCZEK: That's what we use for
22 our Power Smart planning analysis time period.

23 MR. BOB PETERS: Does that suggest that
24 the DSM programs are going to be profitable out thirty
25 (30) years?

1 MR. LLOYD KUCZEK: Now, what we do is --
2 well, we -- we look at a thirty (30) year time frame, but
3 depends on the measure. We -- we don't always assume
4 that the energy savings is going to last the entire ten
5 (10) -- or thirty (30) years. If we are assuming that
6 the -- there's going to be codes, for example, coming
7 into play, we will only assume that the energy savings
8 are associated with that time period, up to the codes, or
9 if the measures were put in place prior to, so a certain
10 period beyond that. So we don't always assume the energy
11 savings is over the thirty (30) year period.

12 MR. BOB PETERS: Manitoba Hydro spending
13 more than it would have been obliged to had it done
14 nothing, Mr. Kuczek, also assumes that the City isn't
15 interested, able or willing to invoke DSM measures on its
16 own to save money on its own behalf?

17 MR. LLOYD KUCZEK: No, we -- we actually
18 realise that they can do that. So what -- what we did on
19 each opportunity that came along, as we looked at it from
20 a pure economic perspective to us, and we realised that
21 the city of Winnipeg could have actually -- they were
22 entitled to the incentives if we turned them down on the
23 opportunity, so they still could get that money through
24 the incentives.

25 So it was a pure economic decision on each

1 opportunity going forward whether or not we would be
2 better off, and we pursued all those opportunities where
3 we were better off.

4 MR. BOB PETERS: Does that answer suggest
5 that even if the City undertook on their own initiative a
6 DSM project, Manitoba Hydro ended up paying them for it?

7 MR. LLOYD KUCZEK: No, they -- they would
8 -- the way the contract was written is they -- they had
9 the right to participate in that Power Smart Program
10 should we not have worked out an agreement on moving the
11 project -- specific project forward, so...

12 MR. BOB PETERS: So to date, Manitoba
13 Hydro has made commitment payments of \$3.2 million? I
14 get that from page 145 at PUB Manitoba Hydro First Round
15 121A found at Tab 64 of Exhibit 18.

16 MR. LLOYD KUCZEK: Yeah, and I -- I guess
17 the -- the only reason I was questioning that was I think
18 we were past the next year, where they actually wrote us
19 a cheque for a hundred and fourteen thousand (114,000),
20 so the -- the net is whatever. I -- I believe the three
21 point two (3.2) you're referring to was prior to that
22 cheque, so...

23 MR. BOB PETERS: I'm sorry, the City gave
24 Manitoba Hydro a cheque?

25 MR. LLOYD KUCZEK: Yes. Well, in theory,

1 how this was supposed to work if things had worked
2 according to plan, is we would achieve the energy savings
3 early in the game, and anything over eight hundred
4 thousand (800,000) they would have actually cut us a
5 cheque for that. So in the last two (2) years they're
6 actually writing us a cheque as opposed to us writing
7 them a cheque.

8 The problem with the program was with the
9 way the contract was designed. And the way things worked
10 out, it took us a long time to actually get things
11 implemented, as you can see. The plan was to be very
12 aggressive and implement these measures quickly, and they
13 would be cutting us a cheque, and so we would get a
14 return earn -- on our investment earlier.

15 MR. BOB PETERS: What was the reason for
16 not getting that return earlier?

17 MR. LLOYD KUCZEK: It was a very
18 difficult thing to negotiate with another organization.
19 There was all sorts of things that were involved. So to
20 give you an example, traffic lights, we thought we could
21 get the traffic lights converted to LED lights, and we'd
22 be able to do that. The economics were there, and we'd
23 be able to convince the City that this makes sense. But
24 to date, only 50 percent of the LEDs have actually been
25 converted.

1 And the problem -- there -- there's all --
2 there's a few different problems. One (1) is is the --
3 the group that we were dealing with in the City that was
4 in charge of the Power Smart agreement, they had to go to
5 the other department that had the budget for the
6 operating costs and convince them that this was going to
7 make sense, and they would have to cut their budget, so
8 you'd have to get all these different departments working
9 with you and agreeing to it and agreeing to the energy
10 savings, agreeing to the labour reductions.

11 The labour reductions caused another
12 problem for us because the City, with their union
13 contracts, couldn't necessary -- necessarily just lay
14 people off tomorrow and -- so things didn't quite work
15 out as we would have liked it; there was a number of
16 problems. But after going through about the first two
17 (2) or three (3) years, the City worked very well with us
18 to try to achieve as much as they could, and we were very
19 happy about that. They were very cooperative.

20 MR. BOB PETERS: You're happy you haven't
21 yet been sued on that.

22 MR. LLOYD KUCZEK: Don't know what you
23 mean.

24 MR. BOB PETERS: No. What I -- whe --
25 when we turn to page 146 of the third book of documents

1 at Tab 64, there's a schedule of annual savings, and I
2 think what I understand your last answer, subject to my
3 attempt at humour, was once you hit eight hundred
4 thousand dollars (\$800,000), you expect a cheque to come
5 from the City back to Manitoba Hydro.

6 MR. LLOYD KUCZEK: That's correct, and
7 the amount is the difference between whatever they're
8 saving minus eight hundred thousand (800,000), so.

9 MR. BOB PETERS: And so you've said a
10 hundred and seventy-four thousand dollars (\$174,000),
11 which represents over two (2) years the seventy-four
12 thousand dollars (\$74,000) from 2008/'09, and a hundred
13 thousand (100,000) from '09/'10.

14 MR. LLOYD KUCZEK: Yes, a hundred and
15 fourteen (114) for '09/'10.

16 MR. BOB PETERS: All right. So you --
17 you had nine hundred and fourteen thousand dollars
18 (\$914,000) worth of savings?

19 MR. LLOYD KUCZEK: Yes. That was just an
20 estimate, and I -- the -- it's actual now, and it's nine
21 fourteen (914) something.

22 MR. BOB PETERS: And I take it the City
23 had to verify, or at least be satisfied, that the annual
24 savings were real?

25 MR. LLOYD KUCZEK: Correct.

1 MR. BOB PETERS: And is there an
2 obligation on the City to keep up those DSM measures in
3 perpetuity to ensure that those -- there's no slippage
4 back to less efficient energy use?

5 MR. LLOYD KUCZEK: I -- I don't recall if
6 there's a contractual obligation, but there certainly is
7 incentives for the City to, once they're implemented, to
8 leave them implemented.

9 I don't see them changing out the lights,
10 the traffic lights, for example, once they're changed
11 out. It just makes sense for the City to continue to
12 replace them with the LED lights as opposed to putting
13 back the -- the old fashioned lights that use more
14 energy.

15 MR. BOB PETERS: So Manitoba Hydro
16 expects to have these energy savings for its own use and
17 export in perpetuity, although you'll never be sure of
18 that?

19 MR. LLOYD KUCZEK: That's correct.
20 There's always issues of whether or not there's -- the
21 energy savings is persistent out into the future, and we
22 usually look at that, as well, and we'll derate the
23 savings into the future, if we think that there is a risk
24 that -- a reasonable risk that the savings won't be
25 there, energy savings.

1 (BRIEF PAUSE)

2

3 MR. BOB PETERS: Mr. Kuczek, Mr. Warden,
4 this agreement appears to have a -- an end date in fiscal
5 2012 for Manitoba Hydro.

6 MR. LLOYD KUCZEK: That's correct.

7 MR. BOB PETERS: Is there any desire or
8 plan to renegotiate or extend the agreement?

9 MR. LLOYD KUCZEK: No, we've captured
10 most of the energy savings that we think we can capture
11 at this point, and so we don't see continue -- well, we
12 certainly wouldn't continue this agreement in this form
13 anyways with any party. We would design it different in
14 the future.

15 MR. BOB PETERS: Not in the -- not in a
16 pejorative sense at all, Mr. Kuczek, but -- but when
17 Manitoba Hydro went into this they looked to capture what
18 -- what I think you have even called the low hanging
19 fruit off the start.

20 MR. LLOYD KUCZEK: Yeah, the estimate was
21 that we would capture eight hundred thousand (800,000)
22 easily, and we did capture over that, and I don't know
23 what the estimate was, but it was -- it was substantially
24 more than that.

25 I don't know if it was double, but when I

1 say substantially more, it's in that range.

2 MR. BOB PETERS: But you still have
3 another year to try to capture that additional savings?

4 MR. LLOYD KUCZEK: Yeah, but at this
5 point, we've cap -- we've pursued -- we actually hired a
6 company to help us with this. It was an energy service
7 company, and they went through all the buildings, they
8 did all the work, and so they looked at all the
9 opportunities that we should be pursuing back to whenever
10 we hired them, and I can't remember the exact year, but
11 you can see based on the savings when they were
12 implemented.

13 So they were hired, obviously, the year
14 before that, at least, and so they've gone through all
15 their buildings, and proposed initiatives that made
16 economic sense, and at this point, as you get towards the
17 end of the contract, it's -- it doesn't make a lot of
18 sense for Manitoba Hydro to pursue many opportunities
19 now, because we only capture the savings for a couple
20 years, or whatever is remaining on that, plus the -- the
21 export values, so -- or the -- what it would cost them in
22 value.

23 But at that point, they could just
24 participate in our Power Smart programs.

25 MR. BOB PETERS: And if there's no

1 program for it, Man -- the City of Winnipeg can at least
2 undertake those DSM measures on their own without the
3 incentives, if there's an -- an economic reason to do so?

4 MR. LLOYD KUCZEK: Correct.

5 MR. BOB PETERS: Mr. Kuczek, let's turn
6 to the -- the lower income energy efficiency program.
7 That's a program that Manitoba Hydro has a number of
8 different -- a number of different programs under that
9 umbrella. Would that be fair?

10 MR. LLOYD KUCZEK: Correct.

11 MR. BOB PETERS: Do you want to briefly
12 describe those for the Board?

13 MR. LLOYD KUCZEK: Well, the -- if you're
14 talking about the pure lower income program, there's --
15 there's primarily two (2) components to it. One (1) is
16 the -- well, three (3) components, I guess: The low cost
17 stuff that we implement when we go into a customer's
18 home, residence; then we have the insulation measures;
19 and then the furnace replacement opportunities.

20 And if you're referring to what we call
21 the Affordable Energy Program, we were talking about
22 initiatives related to billing and the crisis management
23 component, which is being administered through the
24 Neighbours Helping Neighbours -- or the Salvation Army,
25 but we refer to it as the Neighbours Helping Neighbours

1 Program.

2 MR. BOB PETERS: When Manitoba Hydro
3 looks at the Low Income Energy Efficiency Program it has
4 thought about and considered whether there should be a
5 specific rate for low income customers.

6 Is that correct?

7 MR. LLOYD KUCZEK: When the -- when -- we
8 did a review a -- a few years back, and I believe that at
9 a high level it was looked at, but very high level.

10

11 (BRIEF PAUSE)

12

13 MR. LLOYD KUCZEK: I can just add to
14 that, there was -- there was nothing taking to the
15 executive on that. There was just -- what -- what we did
16 is our staff that were responsible for the lower income
17 program looked at all the potential opportunities. And
18 as I recall reading the report on it, that was identified
19 as one (1) potential mechanism and that it wasn't
20 pursued.

21 MR. BOB PETERS: I guess there's a few
22 things that haven't been taken to executive. I think
23 I'll use the word "touche" here, Mr. Warden.

24 But, Mr. Kuczek, I didn't mean to leave
25 you out of that inside humour, but the -- the --

1 MR. LLOYD KUCZEK: I was listening in the
2 background there, so.

3 MR. BOB PETERS: But, Mr. Kuczek, what
4 you're telling the Board is, at a management level
5 Manitoba Hydro looked to whether a low income rate would
6 be advisable.

7 Would that be fair?

8

9 (BRIEF PAUSE)

10

11 MR. LLOYD KUCZEK: It was discussed with
12 the vice-president responsible for that area at that
13 time, but a very high-level discussion.

14 MR. BOB PETERS: High-level, meaning not
15 a lot of detail to the plan, or it wasn't designed in
16 depth yet? Or what was the -- what do you mean by "high-
17 level"?

18 MR. LLOYD KUCZEK: Well, I can't speak
19 for the discussion because I wasn't there. But all I
20 know is it was in the report. It was discussed in terms
21 of what makes sense for Manitoba Hydro, and it was
22 decided that the -- the three (3) other areas that we're
23 currently pursuing are the opportunities that we should
24 be pursuing.

25 MR. BOB PETERS: When did Manitoba Hydro

1 last look at whether or not a low income rate would be
2 advisable?

3

4 (BRIEF PAUSE)

5

6 THE CHAIRPERSON: I think we're going to
7 call it a day and we can leave Mr. Kuczek reflecting
8 overnight on that one.

9 And we'll start up again tomorrow morning
10 at 9:30. Thank you.

11

12 (PANEL RETIRES)

13

14 --- Upon adjourning at 4:21 p.m.

15

16 Certified Correct

17

18

19

20

21 _____
Cheryl Lavigne, Ms.

22

23

24

25