MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

GENERAL RATE APPLICATION

2016/17 INSURANCE YEAR

Before Board Panel:

Karen Botting - Board Chairperson

Regis Gosselin - Board Member

Anita Neville - Board Member

Susan Proven - Board Member

Allan Morin - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 7, 2015

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1 APPEARANCES

2

3 Candace Grammond)Board Counsel

4 Kathleen McCandless)

5

6 Kathy Kalinowsky)MPI

7

8 Byron Williams)CAC (Manitoba)

9

10 Raymond Oakes)CMMG

11

12 Liz Kulyk (np))CAA Manitoba

13

14 Christian Monnin)Bike Winnipeg

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9 LUKE JOHNSTON, Previously Affirmed

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1 --- Upon commencing at 9:02 a.m.

2

3 THE CHAIRPERSON: Good morning, and

4 welcome to day 3 of the MPI GRA hearings for 2016/'17.

5 I'd like to call upon Ms. Kalinowsky to enter some

6 exhibits. Thank you.

7 MS. KATHY KALINOWSKY: Good morning.

8 It's lovely to be able to hear ourselves think this

9 morning, and we'll see if that carries on for the rest

10 of the day.

11 We have two (2) CAC Pre-Ask responses,

12 and I believe that they should be marked CAC/Pre-Ask

13 number 1 should be marked CAC Exhibit number 6-1.

14

15 --- EXHIBIT NO. CAC-6-1: Response to CAC Pre-Ask 1

16

17 MS. KATHY KALINOWSKY: And CAC/Pre-Ask

18 2 should be marked as CAC Exhibit 6-2. Thank you.

19

20 --- EXHIBIT NO. CAC-6-2: Response to CAC Pre-Ask 2

21

22 THE CHAIRPERSON: Thank you, Ms.

23 Kalinowsky. Ms. Grammond is going to continue with

24 her cross-examination now.

25

1 MPI PANEL 1 CONTINUED:
2 DAN GUIMOND, Previously Sworn
3 HEATHER REICHERT, Previously Affirmed
4 LUKE JOHNSTON, Previously Affirmed
5
6 CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:
7 MS. CANDACE GRAMMOND: Thank you,
8 Madam Chair. Ms. Reichert, I'm going to have some
9 questions about the second quarter report, so I'd ask
10 you to turn there. And Diana will bring that up on
11 the screen, I'm sure. We're going to start at page 6
12 of the second quarter report. This is MPI Exhibit 7.
13
14 (BRIEF PAUSE)
15
16 MS. CANDACE GRAMMOND: So on page 6 in
17 the first paragraph it's reflected that in -- as of
18 the end of the second quarter of this year the
19 Corporation as a whole had a net income of 16.5
20 million. Is that right, Ms. Reichert?
21 MS. HEATHER REICHERT: That's correct.
22 MS. CANDACE GRAMMOND: And that's
23 compared to 37.6 million in income for the same period
24 last year?
25 MS. HEATHER REICHERT: Correct.

1 MS. CANDACE GRAMMOND: Now, Basic had
2 a net income of 5 million as at the end of the second
3 quarter of this year. That's right?
4 MS. HEATHER REICHERT: Correct.
5 MS. CANDACE GRAMMOND: And that's
6 compared with a net income of 8.6 million last year
7 for the same time frame?
8 MS. HEATHER REICHERT: Correct.
9 MS. CANDACE GRAMMOND: The
10 Corporation's provided a list of four (4) items of
11 drivers of the decrease in overall corporate net
12 income which are listed there. And before we talk
13 about the first one (1) I just want to provide some
14 context with respect to interest rates.
15 The Corporation provided an exhibit
16 yesterday which could be brought up but not
17 necessarily -- doesn't need to be brought up on the
18 screen, but that's MPI Exhibit 9. That's the most
19 current interest rate chart that we have.
20 So again, for context, it's my
21 understanding that as of the beginning of the current
22 fiscal year the interest rate was 1.3 percent, yes?
23 MS. HEATHER REICHERT: Yes, I believe
24 that's -- yes, that's correct.
25 MS. CANDACE GRAMMOND: So that's the

1 end of last fiscal year, beginning of this current
2 fiscal year. And that interest rate increased over
3 the course of the first two (2) quarters up to 1.49
4 percent as reflected on the right-hand side of the
5 screen?
6 MS. HEATHER REICHERT: Correct.
7 MS. CANDACE GRAMMOND: So a nineteen
8 (19) basis point increase in interest rates over the
9 first half of this year?
10 MS. HEATHER REICHERT: Correct.
11 MS. CANDACE GRAMMOND: Okay, so going
12 back then to page 6 for a moment. And then we're
13 going to go to -- to a different page in a moment.
14 But the very first item on the list of drivers of the
15 change references a decline in investment income of
16 99.4 million, and then within that a $96 million
17 decrease of unrealized gains or losses on the FVTPL
18 bonds.
19 Do you see that, Ms. Reichert?
20 MS. HEATHER REICHERT: Yes, I do.
21 MS. CANDACE GRAMMOND: And there were
22 other offsets, obviously, as well that are referenced
23 in that paragraph. And again, that decrease of 96
24 million is compared to the first half of the last
25 fiscal year. That's right?

1 MS. HEATHER REICHERT: That's right.
2 It's compared to the first six (6) months of the 2014
3 fiscal year, compared the first six (6) months of the
4 2015/'16 year.
5 MS. CANDACE GRAMMOND: Right. So if
6 we go then to page 18 of the annual -- or sorry, this
7 second quarter report. And just scroll down a little
8 bit, Diana, to Section 6 which deals with investment
9 income. We see here again a comparison of current
10 year first half to last fiscal year first half,
11 correct?
12 MS. HEATHER REICHERT: That's correct.
13 MS. CANDACE GRAMMOND: And we see that
14 on the third line item of the chart again we've got
15 those unrealized gains or losses on the FVTPL bonds.
16 We see that in the current year there was a $74.3
17 million loss whereas the year before there was a $21.7
18 million gain?
19 MS. HEATHER REICHERT: Correct. So
20 the difference between those two (2) is the $96
21 million that's referenced in the -- the paragraph we
22 were just looking at.
23 MS. CANDACE GRAMMOND: Right, on page
24 6. Thank you. And if we look down at the bottom of
25 the chart that's on the screen we see how those

1 unrealized gains or losses figure into the actual net
2 income or loss on investment income, as the case may
3 be. And that's at the bottom of that chart?
4 MS. HEATHER REICHERT: Correct. So
5 the difference between the eighty-three (83) positive
6 and the fifteen (15) negative is the 99 million. And
7 it's also referenced in that paragraph we were just
8 looking at.
9 MS. CANDACE GRAMMOND: Now, last year
10 for the same two (2) month period, the first two (2)
11 quarters -- or sorry, the first two (2) quarter
12 period, the first half of the fiscal year, I think you
13 said yesterday that, while it's not shown on Exhibit
14 9, the interest rate that preceded last year's fiscal
15 year, so the interest rate that was in effect as of
16 the close of the 2013/'14 fiscal year was 2.43
17 percent?
18 MS. HEATHER REICHERT: Yes, I did.
19 MS. CANDACE GRAMMOND: And by the end
20 of last year's second quarter the rate was 2 percent,
21 I believe. And that's on Exhibit 9?
22 MS. HEATHER REICHERT: Correct.
23 MS. CANDACE GRAMMOND: So that was a
24 forty-three (43) basis point decrease last year from
25 the year beginning to end of second quarter?

1 MS. HEATHER REICHERT: Yes.
2 MS. CANDACE GRAMMOND: And it was
3 during that time frame that the Corporation had a
4 $21.7 million gain on the FVTPL bonds as shown on the
5 screen?
6 MS. HEATHER REICHERT: Yes, that's
7 correct.
8 MS. CANDACE GRAMMOND: So -- and as
9 we've talked about this year, for the -- the first two
10 quarters there was a nineteen (19) basis point change
11 which gave rise to a $74.3 million loss.
12 Can you tell us whether those -- that
13 comparison of the swing in the first two (2) quarters
14 of last year versus the swing in the first two (2)
15 quarters of this year reflect a higher sensitivity to
16 interest rates during the first two (2) quarters of
17 this year?
18 MS. HEATHER REICHERT: Give me one (1)
19 sec.
20
21 (BRIEF PAUSE)
22
23 MS. HEATHER REICHERT: So besides the
24 change in the interest rates that you were referencing
25 from the end of 2014 to the six (6) months into that

1 '14/'15 year, and then the change of interest rates
2 from the twenty (20) -- February 2015 to August 2015,
3 besides the changes in the interest rates there were
4 also changes in the duration gap between -- of -- the
5 duration of the assets that we were holding.
6 So if the Board recalls, last year when
7 we were here we had -- were in the process of changing
8 the duration of the fixed assets from minus two (2) of
9 our bonds to minus one (1) of our bonds. We were
10 shrinking that gap to try and mitigate the risk, while
11 we were in the process of doing the asset liability
12 man -- management study.
13 So during the first six (6) months of
14 last year the duration of the fixed income bonds would
15 have been lower than what they are for these first six
16 (6) months. So there's a higher sensitivity when you
17 have the higher duration bonds to the fluctuations
18 that occur in -- in the -- in the interest rates. So
19 that's what you're seeing. It's a combination of
20 factors. It's not just the change in interest rates
21 themselves.
22
23 (BRIEF PAUSE)
24
25 MS. CANDACE GRAMMOND: So would it be

1 fair to say that from last year first half to this
2 year first half, there was a different mix of yields
3 because of the change in the term of the bonds held?
4
5 (BRIEF PAUSE)
6
7 MS. HEATHER REICHERT: Yes.
8 MS. CANDACE GRAMMOND: Okay. Thank
9 you. Now, Ms. Reichert, when you testified on the
10 first day of the hearing you spoke on direct, or in
11 your presentation with the PowerPoint, about the
12 second quarter results. And you gave some evidence
13 about the adjustment to the interest rate margin and
14 the impact of that.
15 So I -- I want to ask a couple of more
16 questions about that. And just so that we're clear,
17 when you -- when -- what you referred to on Monday as
18 the 'interest rate margin' would also be known as the
19 investment return rate on margin for adverse
20 deviation.
21 Is that the case?
22 MS. HEATHER REICHERT: I'm looking at
23 Luke and -- or Mr. Johnston and, yes, that would be
24 another way of saying that. I was trying to be more
25 layman-like.

1 MS. CANDACE GRAMMOND: Fair, but then
2 Mr. Pelly got involved. So we just wanted -- we
3 wanted to clarify that. Okay. So I -- I believe your
4 evidence was that this adjustment was down from a
5 hundred basis points to seventy-five (75). And then
6 that there was going to be another adjustment from
7 seventy-five (75) down to fifty (50) basis points.
8 That's right?
9 MS. HEATHER REICHERT: The adjustment
10 from a hundred to seventy-five (75) occurred in the
11 2014/'15 year. And the further adjustment from
12 seventy-five (75) to fifty (50) is what we are
13 anticipating doing in this fiscal year, subject to our
14 external actuary agreeing with -- with that assessment
15 by the chief actuary. We believe that, that will
16 occur. We don't anticipate any difficulty in that,
17 but it still has to be formally approved and factored
18 into our calculations.
19 MS. CANDACE GRAMMOND: And thank you
20 for clarifying the timing, because I wanted to
21 understand that that the -- the first deduction from
22 one hundred (100) to seventy-five (75) was last year
23 and then the seventy-five (75) to fifty (50) is this
24 year.
25 So when you -- when you spoke about a

1 $36 million positive adjustment, does that 36 million
2 encompass both decreases, one (1) last year and one
3 (1) this year, or is the -- the current year
4 adjustment from seventy-five (75) to fifty (50) basis
5 points going to have a total positive impact of 36
6 million?
7 MS. HEATHER REICHERT: The adjustment
8 from seventy-five (75) basis points to fifty (50)
9 basis points will have a positive adjustment of 36
10 million when it is approved and reflected in the
11 calculations.
12 MS. CANDACE GRAMMOND: Now, I -- and I
13 recall your evidence on that point from Monday that
14 assuming that the external actuary does what -- what
15 we think he will that there will be, I thought you
16 said an $18 million adjustment at that time.
17 Did I hear you correctly?
18 MS. HEATHER REICHERT: You -- you
19 heard me correctly. Just to clarify, so we were
20 looking at six (6) month results when I was talking
21 about -- within those six (6) month results we had
22 budgeted to achieve that $18 million favourable
23 adjustment. But because of the timing and because we
24 haven't yet filed our -- our liability review as at
25 the end of October, we aren't to labe -- we aren't

1 able to reflect that.
2 So for the first half of the year right
3 now we're showing an unfavourable variance of 18
4 million. At the end of the year we will be able to in
5 total reflect a 36 million positive pickup, if you
6 will, or a positive adjustment to our financial
7 results upon the approval of the external actuary.
8 So right now when you're comparing what
9 we budgeted for the first six (6) months and what
10 actually occurred for the six (6) months, 18 million
11 is a negative variance with respect to this one (1)
12 particular item.
13 MS. CANDACE GRAMMOND: Okay. So as of
14 the end of second quarter it's an $18 million
15 adjustment, but by year end you're saying it's
16 anticipated that there will be a full $36 million
17 positive adjustment?
18 MS. HEATHER REICHERT: Correct.
19 MS. CANDACE GRAMMOND: Got it.
20 MR. LUKE JOHNSTON: Just -- just -- so
21 our -- our claims are done on an annual basis. So
22 there's a -- we're expecting a $36 million decrease.
23 The budget has it uniformly applied, so halfway
24 through we were expecting an 18 million -- you know,
25 half of it. And since nothing has happened yet it's

1 just saying that we haven't recorded it, that's all.
2 MS. CANDACE GRAMMOND: Okay. Thank
3 you. So let me ask you this, in the context of the
4 last fiscal year when the shift from one hundred (100)
5 basis points to seventy-five (75) basis points was
6 done, do you recall what the financial implication of
7 that was?
8 MR. LUKE JOHNSTON: Yeah, last year's
9 change was a lower number. I believe, 26 -- 26/27
10 million. And the reason for that, that the amount
11 isn't the same is because you'll recall one (1) of the
12 reasons we dropped that margin was because interest
13 rates were so low. So when we're dis -- when we're
14 discounting our claim liabilities we start with the
15 interest rate on the bond portfolio. Let's say it's 3
16 ½ percent.
17 For the index benefits we calculate the
18 -- the real returns, so we take the inflation
19 assumption off of there. So -- so let's say it's two
20 (2) percent and -- and the three and a half (3 ½)
21 drops to say one and a half (1 1/2) percent. Then we
22 apply the interest rate provision which lowers that
23 number further. So let's say it's one hundred (100)
24 basis points. That would drop the discount rate to
25 zero point-five (0.5) percent.

When we did the review last year we actually had a -- when we applied that procedure we had a negative discount rate and we didn't think that was appropriate and that was a pretty clear signal that our interest rate provision was larger than needed. So we were already tapping the provision at zero.

So effectively, there wasn't really one hundred (100) basis point margin anymore because we were chopping it off at zero. So the effect of removing it wasn't exactly twenty-five (25) basis points, it was slight -- slightly smaller, but that's the reason. Other -- otherwise, the -- the impact would have been about the same, about 36 million.

Hopefully that makes sense. A little bit complicated, but, yeah.

MS. HEATHER REICHERT: And if I can, on slide 9 of my presentation from -- from Monday, we actually referenced the 26.8 million favourable variance as a result of what Mr. Johnston just explained. So it was twenty-six point eight (26.8).

MS. CANDACE GRAMMOND: And do you recall, when we were in these hearings last year, had that 26.8 million been quantified and recorded?

MR. LUKE JOHNSTON: I can't recall

1 exactly -- I know we discussed that our intention was
2 very much to look at the margin, but I don't believe
3 we quantified it in the changes made in the February
4 report.
5 MS. CANDACE GRAMMOND: I -- I don't
6 recall it either, which -- but that doesn't
7 necessarily mean that we didn't talk about it. So,
8 okay, your evidence is that it wasn't talked about at
9 last year's hearing?
10 MR. LUKE JOHNSTON: We can look at
11 some of the transcripts, but in regards to the ALM
12 study and the level of interest rates, I know we
13 definitely talked about -- we -- we're going to have
14 to review the margin and some of the implications of
15 doing that. But I don't believe we quantified
16 specifically what was said, you know, we plan on
17 cutting it by this amount, but we can check the
18 transcripts.
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: One (1)
23 additional question with respect to the $36 million
24 amount for the current year:
25 Can you confirm that that amount is at

1 this point still an estimate, and that the final
2 amount will depend on the fiscal year-end valuation?
3 MR. LUKE JOHNSTON: Yes, that's right.
4 Everything -- that number is estimated through the
5 financial model, just the impact of -- of change in
6 the discount rate by twenty-five (25) basis points.
7 So of course, there'll be revised estimates at that
8 time, and order of magnitude, it should hover around
9 that 36 million.
10 MS. CANDACE GRAMMOND: Thank you. I
11 do have a few more questions on the second quarter
12 report, but while we're talking about this margin for
13 adverse deviation, I'm going to just ask a few
14 questions about that specifically.
15 Diana, if you could go to PUB/MPI-1-2?
16
17 (BRIEF PAUSE)
18
19 MS. CANDACE GRAMMOND: Thank you, and
20 just scroll down a little bit to the answer to number
21 'A' -- or (a). A little bit more. Sorry, Diana, I
22 want to get to the last paragraph of the answer at
23 (a).
24 Okay. Thank you. So the Corporation
25 has stated in the last sentence there of that full

1 paragraph on the screen:

2 "The forecasted investment margin of

3 .5 percent reflects the minimum risk

4 margin of twenty (20) -- or .25

5 percent along with an assumed load

6 for mismatched risk, timing risk,

7 and credit risk, all of which are

8 considered to be minor risks. The

9 risk margin continues to be set

10 based on judgment."

11 That's correct?

12 MR. LUKE JOHNSTON: That's correct.

13 MS. CANDACE GRAMMOND: Can you tell us

14 whether there's anything in the guidance available

15 from the Canadian Institute of Actuaries that would

16 suggest that the estimation of the investment return

17 rate margin for adverse deviations be based on

18 applying a load to the so-called minimum risk margin?

19 MR. LUKE JOHNSTON: No. And there --

20 there was -- there was a follow-up to this question

21 where we -- we provided some clarification. And what

22 was -- what we meant by this is that actuarial

23 standards require, except in exceptional cases, a

24 minimum risk margin of 0.25 percent.

25 And what we're -- what we said in our

1 reference, and we -- we've referenced it here, MPI is
2 not a typical P&C insurer. If we were just selling
3 collision coverage, and money was in and out the door
4 quickly, there wouldn't be a lot of investment return
5 risk.
6 At the same time though, if you look at
7 the educational note on the investment margin, there's
8 a list of items that need to be considered, one (1)
9 being the -- the length -- length of time that your --
10 your claims are paid out, the amount of the asset
11 liability mismatch, the type of assets you're invested
12 in, et cetera.
13 So we recognize that we're mostly
14 invested in government bonds. So if this was half
15 invested in equities or something, we'd want a higher
16 margin, but we're not invested in -- we're not matched
17 -- liabilities aren't matched to those type of assets.
18 We have improved our ALM program, so
19 the asset liability mismatch has been reduced. So
20 there -- there's other -- other items, as well, but
21 the key item, again, remains our settlement pattern.
22 So all we're saying here is that, if the lowest
23 possible risk insurer, P&C insurer, has to have 0.25
24 percent, how can MPI with a ten (10), eleven (11) year
25 duration be 0.25 percent, right?

1 We -- we need some type of load for the
2 -- the long duration of our liabilities, and we think
3 this is about as low as you would put it for -- for a
4 -- a insurer like us.
5 MS. CANDACE GRAMMOND: So it would be
6 fair to say that the approach that's being taken is
7 one (1) that MPI came up with?
8 MR. LUKE JOHNSTON: I don't want to
9 speak for our external actuary, because I have -- I
10 have no doubt that Joe Cheng has his own methods for
11 verifying that the assumptions we're proposing are
12 reasonable, so. But this method is -- yes, it's MPI's
13 method of going through the educational note and
14 essentially judgmentally ranking the risk areas and
15 making a selection.
16 MS. CANDACE GRAMMOND: And has
17 consideration been given to making the -- that process
18 perhaps less judgmental and more robust in terms of
19 process or estimating?
20 MR. LUKE JOHNSTON: Some
21 consideration. There was -- I believe one (1) of the
22 questions related to this is about using a method
23 related to the MCT. One (1) concern we have,
24 obviously, with the -- with the method that we're
25 using new data all the time is that this margin would

1 start to become variable, or it could.
2 That might be desirable. Like -- like,
3 if -- if interest rates were at 5 or 6 percent, I
4 would assume we'd have a higher margin, the risk of a
5 -- a decline is -- is greater. But -- so I can't
6 remember exactly what we said in here, but we can look
7 into this MCT method proposed. At the time we were
8 answering these questions, we said we hadn't, and --
9 and that's -- we hadn't, so we can look at that.
10 But we do like this idea of a
11 judgmental selection in terms of the stability that it
12 provides. And given that a -- a ten (10) basis point
13 change is worth 15, $16 million to claims, if this
14 number was fluctuating often, that would create more
15 instability in our results, so we're a little bit
16 resistant to that.
17
18 (BRIEF PAUSE)
19
20 MS. CANDACE GRAMMOND: Thank you. So
21 we've talked about the adjustment that the
22 Corporation's made from a hundred basis points to
23 seventy-five (75) and now down to fifty (50). Are
24 there any plans to continue that decrease or does the
25 Corporation anticipate staying at fifty (50) basis

1 points for some time?

2 MR. LUKE JOHNSTON: Yeah, per -- per

3 my earlier comments, I -- I don't see -- given the

4 long-term nature of our liabilities and -- and assets,

5 it would be hard for me to imagine the margin getting

6 any lower than fifty (50) basis points and -- and how

7 I would consider that reasonable.

8 I do think if -- as I said, if interest

9 rates were to rise substantially, we'd likely have to

10 revisit if it's enough as opposed to if it's too low,

11 yeah.

12 MS. CANDACE GRAMMOND: Thank you.

13 Just a few more questions, then, on the second quarter

14 report before I go to another area.

15 Ms. Reichert, I know you've said that

16 the duration matching that's been implemented was

17 fully effective as of the end of August, so the second

18 quarter results wouldn't include the full impact of

19 that change?

20 MS. HEATHER REICHERT: That's correct.

21 MS. CANDACE GRAMMOND: I also

22 understand that the Corporation's not proposing any

23 amendments to the forecasts that have been provided on

24 the basis of the second quarter results?

25 MS. HEATHER REICHERT: That's correct.

1 MS. CANDACE GRAMMOND: And does the
2 Corporation continue to believe that -- that its
3 forecasts for the current year are achievable?
4 MS. HEATHER REICHERT: There are
5 obviously many unknowns from when you forecast with
6 the best information that you have. What actually
7 happens can be, as we've seen, depending on the winter
8 that we have. It can have an extreme impact. So at
9 this point in time we're comfortable with the
10 forecast, and we will see what happens with the winter
11 season and the -- the claim experience during that
12 time.
13 MS. CANDACE GRAMMOND: And the
14 Corporation is not proposing any amendments to the
15 rate application on the basis of the second quarter
16 results?
17 MS. HEATHER REICHERT: No, we are not.
18 MS. CANDACE GRAMMOND: Now, it appears
19 from our review of the second quarter report that the
20 Corporation tracks its progress to annual forecast on
21 a quarterly basis.
22 Is that right?
23 MS. HEATHER REICHERT: Sorry, can you
24 repeat the question?
25 MS. CANDACE GRAMMOND: Sure. From our

1 review of the second quarter report it appears that
2 the Corporation tracks quarterly its progress against
3 the annual forecast in a given year?
4 MS. HEATHER REICHERT: So you're
5 talking about doing a comparison to -- to the budget
6 for that particular year. And --
7 MS. CANDACE GRAMMOND: Yes.
8 MS. HEATHER REICHERT: -- and, yes, we
9 do. That is not -- that is not what is contained in
10 the second quarter report, but internally we do
11 compare to budget, which is what I presented to the
12 panel on Monday.
13 MS. CANDACE GRAMMOND: And is that
14 something that you're able to file in terms of year to
15 date for the current fiscal year?
16 MS. HEATHER REICHERT: That would be
17 contained in the slides that were presented on -- on
18 Monday. I can't remember the exact slides, but slide
19 15 I believe it was.
20
21 (BRIEF PAUSE)
22
23 MS. CANDACE GRAMMOND: Does the
24 Corporation have another document or that information
25 in a different form that it utilizes to track by

1 quarter over the course of the year that it could
2 provide?
3 MS. HEATHER REICHERT: Yes, we have
4 other internal documents. I guess I would need to
5 know a little bit more about what level of detail or
6 what precisely is being asked of us.
7 MS. CANDACE GRAMMOND: An income
8 statement.
9 MS. HEATHER REICHERT: That's fine.
10 On a -- on a Basic basis or on the corporate basis?
11 MS. CANDACE GRAMMOND: Basic.
12 MS. HEATHER REICHERT: That's fine.
13 We can provide a income statement on the -- on the
14 Basic basis that, you know, will be similar to this.
15 MS. CANDACE GRAMMOND: Okay.
16 MS. HEATHER REICHERT: I'm assuming
17 you're asking for a little bit more break down than
18 what is -- it'll be in the same form as the -- as the
19 income statement that you would see in the quarterly
20 financial report.
21 MS. CANDACE GRAMMOND: Okay. And this
22 can be provided for each quarter? And I -- I mean, I
23 appreciate that we're now in the third quarter, so
24 there are two (2) quarters that have already been
25 completed.

1 But if I understand it correctly the
2 Corporation is -- does this tracking for each quarter
3 of the fiscal year?
4 MS. HEATHER REICHERT: Yes. No, that
5 -- that's correct. So we can provide it for -- for
6 both quarters. I'm -- I'm just a little bit curious
7 on how -- how that's going to help in the
8 determination of rates for 2016, but we'll provide the
9 information.
10 MS. CANDACE GRAMMOND: Can you provide
11 it for last fiscal year as well?
12 MS. HEATHER REICHERT: We have
13 provided the information for last fiscal year, audited
14 financial statements in excruciating detail. I'm not
15 sure -- yes, we can provide it. I'm just not sure
16 what benefit that would be to provide it broken down
17 by -- by quarter, but...
18 MS. CANDACE GRAMMOND: We can -- we
19 can have a -- a further discussion and we'll -- we
20 appreciate what you've agreed to provide to this
21 point. One (1) other question about the second
22 quarter report. There's a reference on page 6 if,
23 Diana, we can go back to page 6 of the second quarter
24 report, referenced to the hail claims that the
25 Corporation experienced.

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: Sorry.

4 MS. CANDACE GRAMMOND: There's

5 reference -- just if you could scroll a -- a bit

6 further, Diana. There's reference to the hail claims

7 there in that paragraph in the middle of the screen

8 that the Corporation had an increase of 17.3 million

9 in hail claims over last year.

10 That's right?

11 MS. HEATHER REICHERT: That's correct.

12 MS. CANDACE GRAMMOND: And I believe

13 you commented in your direct evidence, Ms. Reichert,

14 that the -- you -- you referred to the hail issue and

15 referenced that the reinsurance level had not been

16 reached.

17 That's right?

18 MS. HEATHER REICHERT: That's correct.

19 MS. CANDACE GRAMMOND: And what is

20 that? What is the reinsurance level?

21 MS. HEATHER REICHERT: Fifteen million

22 (15,000,000). So we would have to have a hail event

23 in excess -- a single hail event in excess of 15

24 million for our reinsurance to -- to kick in.

25 MS. CANDACE GRAMMOND: So this 17.3

1 million was a -- that's the total of a series of hail
2 instances?
3 MS. HEATHER REICHERT: That's -- the
4 17.3 million is a total of -- of several smaller hail
5 events that didn't come close to the 15 million
6 reinsurance level.
7 MR. LUKE JOHNSTON: The -- the actual
8 hail reported is 37 million. This is the --
9 MS. CANDACE GRAMMOND: This is the
10 difference over --
11 MR. LUKE JOHNSTON: -- over --
12 MS. CANDACE GRAMMOND: -- last year.
13 MR. LUKE JOHNSTON: -- the last year
14 and -- yeah.
15 MS. CANDACE GRAMMOND: Okay. So -- so
16 in the first half of the current year, the
17 Corporation's incurred 37 million in hail-related
18 expenses and in no instance has the -- the Corporation
19 been able to access its reinsurance?
20 MS. HEATHER REICHERT: That's correct.
21
22 (BRIEF PAUSE)
23
24 MS. CANDACE GRAMMOND: Is the
25 Corporation giving consideration to exploring changing

its reinsurance levels as a result of this hail experience?

MS. HEATHER REICHERT: We -- we revisit our reinsurance levels each year when we renew. At this time, we -- we are comfortable. It's a -- it's a balance between increasing our reinsurance costs versus -- versus keeping them at the current level. So at this point in time, we're -- we're comfortable with the cost/benefit analysis, if you will, of the 15 million level.

MS. CANDACE GRAMMOND: Thank you. I'm going to move, then, to some questions with respect to operating expenses and we'll start with staffing levels. Diana, if you could go to 1-24 posed by the Board in the First Round?

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Thank you. That's perfect. So the Corporation has advised in the GRA filing that it's looking to reduce staffing levels by about thirty (30) FTEs in the current year?

MS. HEATHER REICHERT: That's correct.

MS. CANDACE GRAMMOND: And the Corporation has advised that the approximate savings

1 associated with that reduction of thirty (30) FTEs
2 would be about 1.8 million, but the Corporation is
3 budgeting a -- a savings of around 1.5 million?
4 MS. HEATHER REICHERT: That's correct.
5 MS. CANDACE GRAMMOND: And I -- I
6 realize for the purposes of the record, we should
7 probably clarify, FTE stands for full-time equivalent?
8 MS. HEATHER REICHERT: That's correct.
9 MS. CANDACE GRAMMOND: Diana, I'm just
10 going to ask you to scroll down a little bit within
11 this IR and get to the answer at (b). So this is
12 where we see, Ms. Reichert, the -- a breakdown of the
13 thirty (30) positions. If we look at the corporate
14 total line on the table, all of those numbers would
15 add up to thirty (30).
16 That's right?
17 MS. HEATHER REICHERT: That's correct.
18 MS. CANDACE GRAMMOND: And is it the
19 Corporation's anticipation that these -- this
20 reduction of thirty (30) FTEs will be permanent, or at
21 least for the foreseeable future, permanent?
22 MS. HEATHER REICHERT: These specific
23 FTE reductions we would consider to be permanent, yes.
24 There may be other increases of positions in other
25 classifications, other areas, but these thirty (30)

are -- are reductions in -- of this nature in those -- those areas.

MS. CANDACE GRAMMOND: And did the Corporation incur any costs associated with these reduction, like termination costs, or is this more a matter of not filling positions once they're vacated?

MS. HEATHER REICHERT: There will be a combination of -- of that within the thirty (30), but any termination costs would have been very minimal. Mostly it is vacated positions that are reviewed and not filled, or already vacant positions that we are not going to fill.

So it's a combination of all of those things.

MS. CANDACE GRAMMOND: And has the Corporation given consideration to what its plans will be for the next fiscal year? Is this something that the Corporation wants to look at continuing to do?

MS. HEATHER REICHERT: We are continually reviewing our staffing levels. We are in our budgeting process right now for the '16/'17 year, and as part of that we do -- do workforce planning, and each area does look specifically at their staffing requirements and whether or not they -- there are other positions that they can eliminate, or if there

are positions that they -- that they require based on what the operational requirements are going to be or the -- for the next year.

So it's something that we continually do. Every vacancy that does occur, whether it was anticipated or not, is reviewed at the time that it becomes vacant to decide whether or not that's a position that needs to be filled, or whether or not it can be kept vacant and then eventually eliminated if -- if that's the -- the operational indication.

MS. CANDACE GRAMMOND: Diana, I'm going to ask you to go to the expense section in Volume II, page 17?

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: Perfect, thank you. So this is table -- a table that the Corporation provided as part of the filing, and this sets out normal operation staffing over a period of years?

MS. HEATHER REICHERT: That's correct.

MS. CANDACE GRAMMOND: So we see under the actual column the number of actual FTEs that the Corporation has had as at year end in those particular years?

1 MS. HEATHER REICHERT: That's correct.
2 MS. CANDACE GRAMMOND: And then in the
3 column entitled 'Budget' we see what the Corporation
4 was budgeting for, and then in the last column a
5 comparison of actual to budget. Is that right?
6 MS. HEATHER REICHERT: That's correct.
7 MS. CANDACE GRAMMOND: So if we look
8 at that far right column, we see that the Corporation
9 has consistently budgeted for more FTEs then it's
10 actually had, at least for the five (5) years that are
11 shown here.
12 MS. HEATHER REICHERT: Yes and no. So
13 we budget for those positions within each of the
14 areas, and then we also budget for a vacancy
15 allowance, which is a negative amount that reduces our
16 overall salary budget. So we anticipate and actually
17 budget a reduction for positions that will become
18 vacant during the year, may take four (4) or five (5),
19 six (6) months to be able to be filled.
20 So we anticipate that those reduction -
21 - or, sorry, that those vacancies will occur. And
22 right now the amount that we are budgeting for vacancy
23 allowance is approximately $6 million. I may have
24 that just slightly off. So that's -- that's a
25 significant amount that -- that -- if you look at our

1 average salary of seventy-five (75) -- seventy-five
2 thousand (75,000), that would represent about sixty-
3 five (65), seventy (70) positions.
4 So we are very much -- I actually am
5 personally concerned that we have reduced -- actually
6 physically reduced the permanent establishment, as you
7 can see here, to eighteen ninety-eight point nine
8 (1,898.9). We still are maintaining the vacancy
9 allowance at 6 million. So we are in a very -- we --
10 we have very tightly budgeted our salaries.
11 So it -- it does take constant
12 monitoring and management of our -- of our staffing
13 establishment to -- to ensure that we are going to
14 achieve the -- the net budgeted salaries.
15 MS. CANDACE GRAMMOND: Ms. Reichert, I
16 want to be clear that -- that I understand this.
17 When you refer to a vacancy allowance, is that what
18 we're looking at in the variance column of the table,
19 or is it a component of it? Or is the vacancy
20 allowance a different animal?
21 MS. HEATHER REICHERT: Let me try --
22 let me try it this way. So the budget that you see
23 there, which is representing FTEs, there are
24 individual budgets for every position that the
25 organization has.

1 So we have a budget for -- and I'll
2 just round. We have a budget for nineteen hundred
3 (1,900) full time equivalent positions, and that
4 budget -- hang on just one second. So that budget for
5 -- and actually maybe, Diana, can you go to page 18 of
6 this -- of this section?
7 So if you look there across the top to
8 2016/'17, so 2016/'17 the gross salaries we are
9 budgeting for approximately nineteen hundred (1,900)
10 FTEs in that. The vacancy allowance is the assumption
11 that not all nineteen hundred (1,900) will be filled
12 every single day throughout the year such that we're
13 anticipating or budgeting to spend on net salaries the
14 128.5 million.
15 So that vacancy allowance of 6.2
16 million needs to be achieved through keeping vacancies
17 open longer and ul -- ultimately maybe not filling
18 some throughout the year. So that 6.2 million, last
19 year the actual that we achieved was 5.9 million being
20 the difference between the salaries that we had
21 budgeted of a 129.8 for '15/'16 -- or currently. I'm
22 sorry, we're in '15/'16. I keep forgetting that we're
23 multiple years here.
24 So I should actually -- actual for
25 2014/'15, that was an actual year. So our salaries

1 that were budgeted for every position was 128.8. We
2 actually spent 122.5. So we achieved a vacancy
3 allowance of 6.2.
4 MS. CANDACE GRAMMOND: So, Ms.
5 Reichert, what's shown here is expressed in dollar
6 amounts --
7 MS. HEATHER REICHERT: Correct.
8 MS. CANDACE GRAMMOND: -- okay,
9 whereas the chart that I took you to expresses the
10 vacancy allowance in terms of number of FTEs, but it's
11 the same --
12 MS. HEATHER REICHERT: And --
13 MS. CANDACE GRAMMOND: -- the same
14 vacancy allowance?
15 MS. HEATHER REICHERT: It is. Except
16 the -- the schedule we were just looking at that was
17 FTEs is at a point in time. So the vacancies will go
18 up, down throughout the year to achieve the 6.2 that
19 you see on this particular schedule.
20 MS. CANDACE GRAMMOND: Diana, if we
21 can go back to the earlier schedule on page 17. So if
22 we look at last year, the Corporation ended the last
23 fiscal year in February of 2015 with eighteen hundred
24 and seventy-four point eight (1,874.8) FTEs?
25 MS. HEATHER REICHERT: Correct.

1 MS. CANDACE GRAMMOND: And that was
2 reduced from eighteen hundred and ninety (1,890) FTEs
3 in the previous year?
4 MS. HEATHER REICHERT: Correct.
5 MS. CANDACE GRAMMOND: And we talked,
6 I believe, at the hearing last year about the
7 Corporation's intention of reducing staffing levels by
8 thirty (30) FTEs. It's the same number that we're
9 talking about this year?
10 MS. HEATHER REICHERT: That's correct.
11
12 (BRIEF PAUSE)
13
14 MS. HEATHER REICHERT: So -- so maybe
15 if I can. So if this -- if what we actually have is
16 filled positions at the end of '15/'16, if that stays
17 at this eighteen seventy-four point eight (1,874.8)
18 that we are showing here, and it's unlikely, too,
19 because there's always fluctuations, but if the actual
20 were eighteen seventy-four point eight (1,874.8) at
21 the end of '15/'16, then compared to budget we would -
22 - if you carried that through to the variance, we
23 would have a under variance or a under filled of
24 twenty (20) -- twenty-four point one (24.1) positions.
25 And that twenty-four point one (24.1)

1 positions, which would be at that point in time, at
2 the end of the year, throughout the year would have to
3 be able to achieve the six point two (6.2) -- or
4 pardon me, the -- the five point nine (5.9), almost 6
5 million, that we are budgeting for a vacancy allowance
6 for '15/'16.
7 So you can see why I'm saying we are
8 very tight right now. We're very conservative on our
9 salary budget. We've not only lowered the number of
10 FTEs that we are budgeting for, but we have also
11 increased -- well, from a budget perspective, we're --
12 we're increasing the vacancy allowance that we have to
13 achieve with a smaller number of FTEs being budgeted,
14 so it's a very, very tight salary budget that -- that
15 we are putting forward.
16 MS. CANDACE GRAMMOND: To say it
17 simply though, if MPI's telling the Board that it's
18 looking to reduce its number of FTEs by thirty (30),
19 then one would expect next year when we look at an
20 update to this table the actual number for current
21 fiscal year would be about eighteen hundred and forty-
22 four (1,844), right, not eighteen hundred and seventy-
23 four (1,874) as shown if -- if the goal is achieved?
24 MS. HEATHER REICHERT: Not necessarily
25 because -- because of the very -- like, during the

1 year you have vacancies occurring throughout different
2 periods of the year. So, yes, we've reduced the
3 complement and what we're budgeting for eighteen
4 ninety (1,890) -- to -- down to eighteen ninety-eight
5 point nine (1,898.9). So those positions are -- are
6 not filled.
7 But there may be -- and that eighteen
8 seventy-four point eight (1,874.8), if you just assume
9 that that's going to be eighteen forty-four point
10 eight (1,844.8). There will be other positions. It
11 might be lower than that. And it might be slightly
12 higher than that, depending on how the vacancies occur
13 -- the actual vacancies occur during the year.
14 So it's -- it's yet to be determined,
15 but it still -- the -- the point I -- I want to make
16 sure that is -- is clear to everyone that it is a very
17 tight salary budget, because we've reduced the overall
18 budget, the gross budget. And then we've also
19 increased the vacancy allowance, which further reduces
20 the amount of money we have for -- for positions
21 actually filled during the year.
22 MS. CANDACE GRAMMOND: I -- I
23 appreciate your evidence about the number of positions
24 fluctuating on a given day, and that this number --
25 this actual number is at year-end, which is one (1)

1 specific day. And maybe, for whatever reason, it went
2 up that day by a little bit, or down, or -- or
3 whatever. I -- I understand what you're saying. But
4 what I want to be clear about is that when we look at
5 these numbers, it's apparent that every year, the
6 Corporation's budgeting for more bodies than it
7 actually has, right? Those are shown there, and
8 you've explained the vacancy allowance and -- and so
9 forth.
10 But when the -- when the Corporation
11 comes to the Board and says, We want to reduce by
12 thirty (30) FTEs, you're not just referring to another
13 under variance next year in the -- in the same range
14 as what we've got. You're actually talking about
15 reducing bodies?
16
17 (BRIEF PAUSE)
18
19 MS. HEATHER REICHERT: Yes, we are --
20 we have physically reduced the staff establishment
21 head count by thirty (30). And we have -- so we have
22 budgeted for a net of eighteen ninety-eight point nine
23 (1,898.9). That's the -- reflecting -- that's about
24 $130 million worth of budgeted salary. But we have
25 actually budgeted for net salaries of 124 million.

1 So 124 million will not pay for
2 nineteen hundred (1,900) FTEs. We have to -- in
3 addition to having reduced the count by thirty (30),
4 we have to have additional vacancies throughout the
5 year. So it's thirty (30) plus additional vacancies
6 throughout the year to only spend 123.9 million on
7 salaries next year -- or this current fiscal year.
8 MS. CANDACE GRAMMOND: Thank you.
9 Now, last year, we talked about the fact that the
10 Corporation had implemented a hiring freeze. And I
11 know that this year -- I believe Mr. Guimond's
12 evidence was that the hiring freeze was removed, but
13 still, the Corporation's operating within the realm
14 that you've just described?
15 MS. HEATHER REICHERT: That's correct.
16 MS. CANDACE GRAMMOND: So should the -
17 - the Board take anything specific away from the fact
18 that the hiring freeze was lifted? Or is that just a
19 -- a procedural piece that the Corporation decided to
20 change?
21 MS. HEATHER REICHERT: It really is
22 procedural. Because as I've just explained, we have
23 significantly reduced our overall salary budget. It
24 needs to be managed in order to achieve that. We're
25 continuing, as I said, to review every vacant position

1 on whether or not it needs to get filled, other
2 positions that can be potentially eliminated to ensure
3 that we -- we achieve the budget. So it really is
4 procedural. It is to allow people that have a -- a
5 specific budget that they are responsible and
6 accountable to meet managed to that -- to that budget.
7 And so it is really just procedural.
8 MS. CANDACE GRAMMOND: Diana, I'm just
9 going to ask you to go a little bit further down in
10 the expense section to page 21, table 3.2.1. That's
11 perfect.
12 So this chart, as I understand it, or
13 this table, Ms. Reichert, reflects the variance over a
14 period of last year through the outlook period and
15 what the Corporation is anticipating in terms of
16 forecast, and that's compared with what it was
17 forecasting last year for salaries?
18 MS. HEATHER REICHERT: That's correct.
19 MS. CANDACE GRAMMOND: So we see there
20 the -- the 123 million that you spoke about for the
21 current year. And we see that compared with what the
22 Corporation provided to the Board last year, it is now
23 forecasting for salaries in lesser amounts for year of
24 application and the next couple of years in the dollar
25 amounts indicated and the percentages at the right-

1 hand side of the table?
2 MS. HEATHER REICHERT: That -- that is
3 correct.
4 MS. CANDACE GRAMMOND: And, Diana, if
5 you can just scroll a little bit more, we see the
6 Corporation's provided an explanation with respect to
7 the -- why we see the variances. And there's
8 reference firstly to retirement allowances, et cetera.
9 And the second bullet, a reference to
10 the thirty (30) FTE reduction that we just spoke
11 about. And then in the third bullet, there's
12 reference to adjustments to the steps and scale
13 increase and analysis of expected staff turnover
14 resulting in an estimated $2.4 million reduction?
15 MS. HEATHER REICHERT: That's correct.
16 MS. CANDACE GRAMMOND: Can you explain
17 roughly how much of that two (2) hun -- or 2.4 million
18 is attributable to the steps and scale piece and how
19 much is attributable to the turnover piece?
20
21 (BRIEF PAUSE)
22
23 MS. HEATHER REICHERT: We don't have
24 that precise breakdown. This was a budget on a -- on
25 a general overall basis. So you may recall when I

1 presented on Monday, I talked about the fact that we
2 budget for steps on scale at 1.75 percent for the year
3 on the assumption of 50 percent being eligible for
4 that.
5 What this particular reduction is doing
6 is reducing some of that 1.75 percent increase by
7 looking really -- again, very carefully on -- on, is
8 the 50 percent accurate, adjusting that for actually
9 who is at the top of scale and who isn't. And -- so
10 again, it's -- it's -- so the -- the reductions that
11 you see from the 2015 GRA of approximately 4 million -
12 - four point four (4.4) and on in the forecast is the
13 combination of thirty (30) permanent reductions,
14 increasing the vacancy allowance that I mentioned
15 from, you know, the 6 million up to six point two
16 (6.2) in -- in '16/'17 and then six point (6.), I
17 think, four (4) -- six point four (6.4) in '17/'18.
18 It's a combination of the thirty (30)
19 FTE reduction, increase in vacancy allowance, and
20 tightening up on the -- the steps on scale budget. So
21 it's all of those things combined, and then, of course
22 a couple of -- of smaller items being sick leave
23 provision and -- and the banked vacation.
24 MS. CANDACE GRAMMOND: Thank you. Ms.
25 Reichert, in your direct evidence on Monday, you

1 provided as part of your PowerPoint a slide dealing
2 with improvement initiative -- initiative expenses,
3 and in particular, that was slide 40. Diana, take
4 your time to -- to pull that up. I don't think it was
5 on the list that I gave you, so I apologize.
6 But first, Ms. Reichert, I'll ask you -
7 - oh, okay, great. Can you just explain what are
8 implementation expenses, which is the first line item
9 on this particular chart?
10 MS. HEATHER REICHERT: Imple --
11 implementation expenses are a combination of different
12 things. I think I explained on Monday, part of what
13 is in implementation expenses is when we use internal
14 staff on an improvement initiative project. Their
15 salary continues to be expensed as it would if they
16 were continuing to work in whatever their -- their
17 home division might be, so that's part of it.
18 Other implementation expenses may be as
19 it relates to an implementation initiative that, by
20 its nature, is not one that can be capitalized. So in
21 that respect, there may be some consulting expenses
22 for the development of particular improvement
23 initiative that doesn't meet the criteria to be
24 capitalized, so it is expensed.
25 Just one (1) second.

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: I'm -- I'm

4 pretty sure somewhere in -- in our application, we lay

5 out all the specifics. I just don't have it handy

6 right now. But -- but that gives you a sense of a

7 couple of the types of things that would be in

8 implementation expenses.

9 MS. CANDACE GRAMMOND: Thank you. For

10 the amount projected for the year of the application

11 is -- which here is shown as 9.2 million, can you give

12 us a sense of how much of that 9.2 million would be on

13 the internal staff expenses versus how much would be

14 on items that can't be capitalized?

15 MS. HEATHER REICHERT: Just give me

16 one (1) moment, and I --

17 MS. CANDACE GRAMMOND: Sure.

18 MS. HEATHER REICHERT: -- will find

19 that.

20

21 (BRIEF PAUSE)

22

23 MS. HEATHER REICHERT: Maybe we can

24 come back to that, because I do know that there is a

25 schedule in -- in the expenses section that breaks

1 down that, or was it in an IR? So if we can come back
2 to that?
3 MS. CANDACE GRAMMOND: That would be
4 fine. I'll wait until I get that information, and
5 then I'll have a few more questions about it.
6
7 (BRIEF PAUSE)
8
9 MR. REGIS GOSSELIN: I -- I have a
10 follow-up. I just want to clar -- clarify something
11 with you, Ms. Reichert, and it's to do with the
12 decision that you outlined earlier this week about
13 expensing those implementation expenses as opposed to
14 capitalizing them as part of the project.
15 Could you go over that again, please,
16 just...
17 MS. HEATHER REICHERT: So it is the --
18 the policy of MPI that if we use internal staff on a
19 capital initiative -- on an improvement initiative,
20 accounting rules would allow us to capitalize those
21 salaries. If we capitalize those salaries and that
22 project finishes in a year, then you need to find the
23 budget for that position when they go back to their --
24 their home division.
25 So in order to smooth and keep

1 consistent our budgets for salaries as much as
2 possible, we expense their salaries so that it's
3 continually in the budget and continually reflected as
4 an expense of the Corporation, acknowledging that
5 there could be significant internal staff one (1) year
6 being used on capital projects, not so much the next,
7 up again the third year.
8 So in order just to -- to keep it -- it
9 more clean and consistent, we expense internal
10 salaries. The internal salaries, and -- and we'll get
11 the -- the breakdown, they're -- they're not like 5
12 million a year of -- they won't be 5 million of that
13 9.2 million. It will be something much smaller than
14 that, but it is just -- again, to keep it consistent,
15 and so that the people that we use on projects always
16 have a -- a budgeted position that they are being
17 expensed against.
18 MR. REGIS GOSSELIN: Could you give me
19 a sense of the duration of these assignments?
20 MS. HEATHER REICHERT: Something like
21 a physical damage re-engineering project, which is a
22 very large and complex project, staff could be on that
23 particular project for two (2) years, three (3) years.
24 Other projects, it might be part of a year, a year and
25 a half. It -- it does vary. It depends on the -- the

1 nature of the specific project that they are working
2 on.
3 And then sometimes it's -- certain
4 staff will be on for the first half of a project, and
5 then other skill sets are required for the last half
6 of the project. And so then there are switches like
7 that.
8
9 CONTINUED BY MS. CANDACE GRAMMOND:
10 MS. CANDACE GRAMMOND: Thank you. I'm
11 going to go to a slightly different area dealing with
12 capital expenses. Diana, can you pull up the expense
13 section of the application, Appendix 14, that deals
14 with IT costs? Perfect.
15 So the -- the table that we see, Ms.
16 Reichert, sets out some historical information as well
17 as some projections with respect to total IT
18 expenditures there at the first line item?
19 MS. HEATHER REICHERT: Yes.
20 MS. CANDACE GRAMMOND: And we see for
21 that particular line item at the far right of the
22 table a compounded annual -- or a compound annual
23 growth rate for two (2) different time periods, the
24 first one (1) being from 2011/'12 to 2014/'15?
25 MS. HEATHER REICHERT: That's correct.

1 MS. CANDACE GRAMMOND: And that's a
2 compound annual growth rate of 12.3 percent for that
3 four (4) year period?
4 MS. HEATHER REICHERT: Correct.
5 MS. CANDACE GRAMMOND: The forecast in
6 growth for -- from the current year to 2019/'20 for a
7 five (5) year period is forecasted to be considerably
8 less, at 2.5 percent?
9 MS. HEATHER REICHERT: Correct.
10 MS. CANDACE GRAMMOND: Now, the next
11 section of this table includes deferred developed
12 costs and data processing equipment, and then those
13 two (2) items added together across the bottom of the
14 table. So that the -- the Board has a sense of where
15 the IT-related spending is -- is at, would it be fair,
16 taking the year of the application as an example, to
17 get a sense of -- of what IT-related expenses actually
18 are, to add together the 60.6 million for 2016/'17 and
19 the 26 million that appears underneath it?
20 Would that be -- be fair just in -- in
21 a general way to say that the Corporation's projecting
22 86 million and change in IT costs for the year of the
23 application?
24 MS. HEATHER REICHERT: Okay, so this
25 is where the accountant in me is going to -- is going

1 to come out. So from a cash outlay perspective you
2 could add those two (2) numbers and say the
3 Corporation is expecting to spend 60 million in IT
4 expenses, which are salaries and licensing and -- and
5 lots of different things. And they are also expecting
6 to spend from a cash perspective money to support
7 improvement initiatives of 26 million.
8 Those amounts -- that 26 million in
9 this case is capitalized, so it's not going to be a
10 direct reduction of our net income for the year. It
11 will be capitalized as an asset. And then it will be
12 amortized and depreciated once the project is complete
13 over a three (3) or five (5) year period, depending on
14 the nature of the particular item that we have
15 expended.
16 So the impact from a rate setting
17 perspective is different between those two (2)
18 amounts.
19 MS. CANDACE GRAMMOND: And your
20 comments are -- are noted and -- and understood. But
21 if we leave aside for a moment the accountant in you,
22 which may be difficult for you to do, and -- and just
23 from a layman's perspective or a practical
24 perspective, if the -- if the Board is considering the
25 range of overall spending regardless of timing and --

1 and the depreciation and amortization, et cetera, the
2 Board could consider in any given year adding those
3 two (2) numbers together for a big picture number?
4 MS. HEATHER REICHERT: Adding those
5 two (2) numbers together for a representation of cash
6 spent in a particular year.
7 MS. CANDACE GRAMMOND: And can you
8 tell us with respect to -- to what we see here, and I
9 appreciate this is a very broad table that -- that is
10 not detailed in terms of expenses, are there any
11 internal staff expenses in these IT spe -- costs that
12 are shown or IT expenses that are in this particular
13 table?
14 MS. HEATHER REICHERT: The to -- the -
15 - the top line? Absolutely. That -- that is where
16 the IT department, the individuals that actually
17 maintain and support our existing in -- in flight, if
18 you will, or in operation systems. There's a -- yes,
19 there's definitely salary expenses in -- in the to --
20 IT expenses, as there is depreciation and
21 amortization. I actually should have clarified that.
22 The total IT expenses are the
23 departmental expenses for the IT area. So that is
24 also where the depreciation for those items that have
25 been capitalized is being reflected. So I actually

1 should correct myself when I said that this is all
2 cash out the door in any given year. We are actually
3 combining items that are the depreciation and
4 amortization of past expenditures with current capital
5 expenditures. Which is, again, why I'm reluctant to
6 add them up. But -- but it's close I guess.
7 MS. CANDACE GRAMMOND: Thank you. I
8 have a couple of questions on the physical damage re-
9 engineering project. Diana, I'll ask you to pull up
10 PUB/MPI-1-28. And while you're doing that, we've --
11 we've heard that the completion of that project is now
12 anticipated to be 2019, as opposed to 2017, which I
13 think we discussed last year.
14 MS. HEATHER REICHERT: Correct.
15 MS. CANDACE GRAMMOND: And in this
16 particular IR we -- we asked some questions about this
17 project. And in (a) we asked about the delay. Diana,
18 if you could just scroll so we could see the answer to
19 (a). Perfect.
20 And -- and, Mr. Guimond, I appreciate
21 that you spoke about these issues in your -- in your
22 evidence earlier. Can you comment upon why the delay,
23 either you Mr. Guimond, or -- or you, Ms. Reichert,
24 whoever -- whoever wants to.
25 But why is the delay two (2) years as

1 opposed to some other time frame?

2

3 (BRIEF PAUSE)

4

5 MR. DAN GUIMOND: When we started the

6 initiative it -- it turned out it was actually even

7 bigger than what we thought. And -- and we decided

8 that doing pilots would be very, very important to

9 understand exactly the consequences of all the changes

10 that we would make to the repair industry, and also

11 how we would service our customers.

12 I said that it's not possible any more

13 for vehicle owners to have their cars sent to a

14 service centre to be able to have the first estimate

15 done. That is a -- a profound change when you think

16 about potential in leakage, potential in -- in not

17 having the work done properly, and so on. So -- so

18 what we've done with the repair industry, we took a

19 step back and we decided to do pilots.

20 So now -- and the program's been broken

21 into three (3) phases. We have the first phase, which

22 was collaborative estimating, which is now done. We

23 had to put the Estimatics software into all of the

24 repair shops throughout the province. And the

25 training and people getting used to it because of --

1 of putting technology into these shops, it took a
2 little bit longer than we had anticipated. The
3 learning curve was quite significant. So we -- we
4 took our time and we decided that it would be better
5 to push the schedule and do it right. So the
6 collaborative estimating phase 1 is now done.
7 This summer, in -- in July/August time
8 frame, we started the distributed estimating phase 2,
9 where it is customers now that actually go to repair
10 shops directly if their vehicle is drivable. It's
11 going to take a year of data accumulation of the pilot
12 to be able to negotiate this contract that I talked to
13 you during my presentation that's due by June 1, 2017.
14 That's a -- that's over a billion dollar contract that
15 we're going to negotiate. It's a four (4) year deal
16 on how -- you know, for the repair of the automobiles.
17 It's very, very important that the
18 pilot, in -- in terms of our negotiations with the
19 industry, that we have solid, solid data to be able to
20 make very important decisions on -- on quality
21 control, quality assurance, parts to be used, the
22 supply chain, the loss of use, the discretion, key
23 performance indicators, the accreditation process, the
24 training, the certification program, the qualified
25 programs, and also our relationships with OEM to make

1 sure that -- that we have the knowledge from them that
2 we need to make sure cars are -- are properly
3 repaired.
4 So to sum it all up, we -- we decided
5 to take more time in the pilots to make sure that we
6 have good data and that the -- the decision that we
7 made. We also realized that we would need to
8 renegotiate our agreement with the MGEU for our staff,
9 which we now accelerated.
10 We just signed the memorandum of
11 understanding with the MGEU, the -- the union that
12 represents our staff, and we hope to have an agreement
13 ratified by March 2016 that then positions us with the
14 ability to finalize the negotiation next fall to -- to
15 how things are going to change, where people are going
16 to work, for example, hours of work, responsibilities,
17 and all of those details need to be done.
18 From a cash perspective, the initiative
19 has not changed in terms of the budget, the $65
20 million. It's just cashflow and timing now in terms
21 of how you -- how you negotiate and how you accumulate
22 the information.
23 MS. CANDACE GRAMMOND: Mr. Guimond,
24 can you tell us what the third phase is? You
25 mentioned the first one, collaborative estimating, the

1 second one, distributed estimating.

2 What's the third?

3 MR. DAN GUIMOND: So by -- by February

4 2017, PDR, in essence, from a technology, agreements,

5 contacts, supply chain, all that stuff will all be

6 done. The Phase 3, the last year from -- from March

7 2017 to February 2018 is what we call the -- the dials

8 or the adjustment in terms of -- of how fast do we go

9 to make people go from the service centres to the

10 repair shops, and also the -- the capacity of the

11 repair industry to handle all these customers going to

12 them directly versus going through our service

13 centres, and what does that do to our -- our

14 infrastructure in terms of service centres and so on.

15 So the last step is just to -- to

16 finalize how fast we go with people going to the -- to

17 the repair shops and how fast do we have to collapse

18 maybe some of our service centres in Winnipeg, for

19 example. So that's the whole distribution and

20 adjustment of -- of how people are -- or where people

21 are going and how fast we're going to go.

22 So Phase 3 is just the equilibrium, so

23 to speak, in -- in the marketplace.

24 MS. CANDACE GRAMMOND: Thank you.

25 Diana, I'm just going to ask you to scroll down a

1 little bit further to the answer to (b). This is
2 where we have the savings, the -- the cost and the
3 savings -- or actually, sorry, just the savings. We
4 don't have the cost here. And -- and, Mr. Guimond, as
5 you advised earlier, the savings are the same as they
6 were anticipated to be last year. Sorry, I know
7 you're nodding your head, but somebody needs to say,
8 Yes, into the mic.
9 MR. DAN GUIMOND: I'm sorry, yes.
10 MS. CANDACE GRAMMOND: Okay. Thanks.
11 And so the number -- or the amount of anticipated
12 savings has remained the same, but because the full
13 implementation of the project is delayed, the timing
14 of the savings is delayed accordingly, right?
15 So it's now anticipated full savings by
16 2021/'22?
17 MR. DAN GUIMOND: Well, it -- the last
18 year -- if I said March 1, 20 -- 2018 to February 20 -
19 - 2019 is where we do all the adjustments. And then
20 the full savings would come in in -- in that fiscal
21 year, which starts March 1, 2019, yeah.
22 MS. CANDACE GRAMMOND: March 1, so --
23 so the savings would start March 1, 2019?
24 MR. DAN GUIMOND: The full $13 million
25 would -- would be realized in that fiscal year for the

first time.

MS. CANDACE GRAMMOND: In -- okay, in 2019/'20 fiscal year?

MR. DAN GUIMOND: That's right.

MS. CANDACE GRAMMOND: Got it. Okay. Thank you.

MR. DAN GUIMOND: Yeah. Yeah.

MS. CANDACE GRAMMOND: I do have one (1) question about the change in the savings that we see. It looks loss of use has increased significantly. Last year it was anticipated about one point three (1.3), and now it's anticipated about 3 million.

Can you just explain what's changed in the last year that has enabled that component of the savings to change that way?

MR. DAN GUIMOND: It -- it has to do with the more we are able to optimize the repair duration process, the less time it takes to fix a car, then the less amount of time you're paying for a rental.

Now, when we negotiate this deal, this $1 billion deal, you can imagine with -- if you look at parts, if you look at labour, if you look at the -- the training, all the -- the levels, if you wish, that

are going to be negotiated that -- that these numbers may very well change around a little bit in terms -- but we know for sure for sure the thirteen point three (13.3) at the bottom line that -- that we feel very, very confident with.

MS. CANDACE GRAMMOND: Thank you. I'm going to move then into a bit of a different area, still within capital expenses. Diana, I'll ask you to go to Appendix 13 of the expense section of the filing?

MS. HEATHER REICHERT: Ms. Grammond...?

MS. CANDACE GRAMMOND: Oh, yes?

MS. HEATHER REICHERT: Ms. Grammond...?

MS. CANDACE GRAMMOND: Oh, you, sorry.

MS. HEATHER REICHERT: Hi. I do have some ans --

MS. CANDACE GRAMMOND: I was talking.

MS. HEATHER REICHERT: -- I have some answers to --

THE CHAIRPERSON: Excuse me, just -- just a moment. I think Mr. Gosselin had a follow-up on that before we go to the next.

MR. REGIS GOSSELIN: I just had some

1 follow -- some follow-up questions regarding the --
2 the project that you're involved with, and the rollout
3 of that.
4 So just to understand, are you planning
5 to roll all -- roll this new program out all at the
6 same time, or do I -- do I as a body shop owner have
7 to qualify to be able to do the estimation directly
8 with the client?
9 MR. DAN GUIMOND: Yeah. So -- so the
10 -- the customers will be impacted quite a bit because
11 we have to implement a consumer protection or
12 awareness issue. And -- and by next year consumers
13 will have access to a website, or through -- we're
14 also going to be rolling out a mobile application.
15 But what's happening is that in the
16 repair industry for -- as long as we existed the --
17 the program was heterogenous in the sense that as a
18 customer you could pick one (1) of the two hundred and
19 ninety-seven (297) accredited shops and go wherever
20 you want. That's not true anymore.
21 What's going to happen is that we're
22 creating a database that says for your vehicle that's
23 registered under your name, those are the shops that
24 can repair your car. So, for example, if you have a
25 2015 BMW there's only two (2) shops that are certified

1 by the manufacturers to repair your car. So out of
2 two ninety-seven (297) you're down to two (2) if you
3 have a BMW. If you have a Porsche, there's only one
4 (1) shop that's certified for it right now, to my
5 knowledge. If you have a Ford 150 there's only eight
6 (8) shops you can go to to have your vehicle repaired.
7 So it's changing quite a -- quite a bit
8 in -- in terms of -- so the heterogenous model is
9 broken, and the -- you can see how the investments
10 that people have to make and decide, you know, how
11 this is going to shake out will have a profound effect
12 on the repair industry in -- in Manitoba. So from a
13 consumer perspective, you're going to have to go to
14 the website and you're going to have to -- you -- you
15 have to -- you're going to have to pick one of those
16 shops to have your vehicle repaired.
17 And with the technology that we're
18 putting in, it will not be possible for the shop or
19 for the customer to be able to go to a shop that can't
20 fix your car because through the technology we'll lock
21 it up. You won't be able to do the estimate, and you
22 won't be able to download an estimate. So that way
23 the consumer is protected to make sure that whatever
24 shop they go, it's going to make sure that they're
25 certified or qualified to repair your car.

1 So that's -- that's going to be like a
2 big -- big change in terms of how it's going to show.
3 MR. REGIS GOSSELIN: But for those of
4 us who don't have Porsches, like me --
5 MR. DAN GUIMOND: Yeah.
6 MR. REGIS GOSSELIN: -- and --
7 MR. DAN GUIMOND: Yeah.
8 MR. REGIS GOSSELIN: -- you know,
9 drive -- drive a Camry or a -- or a Civic, I mean, I
10 would be advised, Starting this date you're going to
11 go directly to the -- to a shop, most of which will be
12 able to provide service to -- to me for my -- my --
13 MR. DAN GUIMOND: Yeah.
14 MR. REGIS GOSSELIN: -- car. So -- so
15 all of them would be rolled out at the same time? In
16 other words, everybody would -- all the shops would --
17 would -- you know, the drop-down date, would have to
18 be ready for -- to receive the client and do the
19 estimation in -- in their shop --
20 MR. DAN GUIMOND: Yeah.
21 MR. REGIS GOSSELIN: -- as of a
22 certain date.
23 MR. DAN GUIMOND: For the ones that we
24 will qualify as a distributed estimating shop, yes.
25 Not every shop will be a distributed estimating shop

1 because the -- the -- not all shops have even the
2 capacity to do that. And the -- the -- what's -- what
3 I find very interesting, or what's happening is that,
4 you know, the Mercedes and the Porsches, and so on,
5 but now we're seeing, like, Volkswagen starting out
6 with a certified repair shop. Toyota is coming one
7 out. We can see with the Ford 150 they didn't have a
8 certified shop, but they -- they have a procedure that
9 you have to -- to follow to be able to -- to do the
10 Ford 150.
11 And our people, we actually inspect the
12 shop before we allow our customers to go there. And
13 we -- that's why we use the word 'qualify' versus
14 'certified' because for -- for the accreditation per -
15 - perspective, we actually send our people, do an
16 inspection and -- and make sure that they are
17 compliant to what Ford said your shop needed to have
18 both in terms of skill sets, tools and facilities.
19 MS. SUSAN PROVEN: Gue -- I guess I
20 have some concerns. I mean, I don't have the BMW
21 either, but the other problem in the rural areas is
22 that, you know, you'd have to get your car to one (1)
23 of these designated shops which might not be your
24 closest shop.
25 But I do want to share a little

1 experience I had with my closest shop. I just needed
2 a mirror, you know, passenger side mirror. And I went
3 into my shop. And, of course, I didn't go through MPI
4 because this is a minor repair. But the fellow in the
5 shop, the owner, found the mirror in the databank that
6 you have faster than the MPI person could find it
7 because he phoned MPI to, you know, see where the --
8 the part could be found, and the fellow was having
9 quite a struggle.
10 But I gather that you've provided that
11 databank to these body shops. And so the body shop
12 owner was able to direct the person on the phone,
13 whoever that was, in MPI to the exact part that he
14 needed. But I think that's been in existence for a
15 while, hasn't it, the ability of these shop owners to
16 find the materials and find the cost for the
17 materials?
18 Is -- is that true? Because it
19 appeared to be what I was witnessing as I stood there
20 waiting to find out how much my repair would cost and
21 how soon that mirror would be delivered to the shop so
22 that I could bring my vehicle back and have it fixed.
23 MR. DAN GUIMOND: There -- there's
24 actually two (2) things going on there. One (1) is
25 the software you use for the instamatics.

1 MS. SUSAN PROVEN: Right.
2 MR. DAN GUIMOND: And the price are in
3 -- in that. So -- so when you put the -- the part
4 number you'll see the mirror, and you'll see the price
5 and so on that we would be willing to pay for.
6 Now, then, when you go to your shop,
7 the -- the person who actually -- if you go to a
8 dealer, for example, they use other software with
9 their supply chain for that part number, okay, do you
10 have it in your depot, do I have it in -- do I have it
11 in my shop already, how fast can I get it.
12 And also, there's -- and from a
13 negotiation perspective, there's a whole agreement
14 between OEMs and the dealers about what is it going to
15 cost actually for the part, okay. There's -- there's
16 a lot of stuff going on there behind the scenes. So
17 it's two (2) -- two (2) things happening at the same
18 time.
19 We're always going to find it on our
20 software, but to find it -- where is it in Canada or
21 how fast is it going to get to my shop, what am I
22 really going to pay for that part because of the deals
23 I have behind the scenes with the suppliers and so on,
24 that's -- that's between the dealer and the -- and the
25 repair shop.

1 So -- so that's why sometimes you'll --
2 you'll see somebody struggling, because depending, you
3 know, what's happening on the supply side of things,
4 it -- it might be hard, right, and especially if you
5 throw in the recycle side of it.
6 THE CHAIRPERSON: Okay, thank you very
7 much. I think before we continue with the cross-
8 examination, that we'll take a break now for fifteen
9 (15) minutes. Thank you.
10
11 --- Upon recessing at 10:26 a.m.
12 --- Upon resuming at 10:48 a.m.
13
14 THE CHAIRPERSON: Before we begin with
15 the cross-examination, I believe, Ms. Neville, you
16 have a question?
17 MS. ANITA NEVILLE: I do -- I have a
18 couple of questions.
19 MS. CANDACE GRAMMOND: You have to
20 turn your mic on.
21 MS. ANITA NEVILLE: Sorry. Is it on
22 now? Yeah. I have a que -- a couple of questions.
23 The first one is going back to the repairs and the
24 body shops.
25 What's the impact going to be on non-

1 certified body shops? Have you talked about that?
2 Have you looked at that?
3 MR. DAN GUIMOND: I don't recall
4 talking about it at the hearings. Last year I started
5 to talk about that at a annual general meeting of the
6 Auto Trade Association. And actually, I'm going there
7 tonight to do another presentation on the implications
8 of what's happening with the certified shop, the
9 qualified shops, and what we can do maybe to work
10 together on the people that will probably not have
11 enough money to be able to keep up with the
12 investments that you need to make to survive in -- in
13 the new world. And so tonight, we're starting -- I'm
14 putting more information on the record at the annual
15 general meeting of the Automotive Trade Association.
16 But I -- I believe to your point, we
17 have a huge issue in rural Manitoba in terms of what
18 we're going to do to serve our customers there.
19 Because it -- it may very well be an issue in terms of
20 being maybe two (2) or three (3) hours away from --
21 from a shop. And so what do we do? So to give you an
22 example of things we're talking about, and this is --
23 I'm not saying this is what's going to happen, because
24 that's all part of the negotiations next year.
25 But to give you an example, we know

1 that all of our customers are not further away than a
2 service centre by one (1) hour. So it's very possible
3 that they may drive their car there and we'll just
4 give them a rental. And then we'll take it from
5 there. Non-drivables are even a bigger issue.
6 MS. ANITA NEVILLE: What does that
7 mean, "take it from there"? Take it to a certified --
8 MR. DAN GUIMOND: Yes.
9 MS. ANITA NEVILLE: -- shop?
10 MR. DAN GUIMOND: Yeah, we would -- we
11 -- we're probably going to get -- have to maybe tow
12 some vehicles around to be able to -- to have the
13 customer service levels that we need in terms of
14 meeting expectations of our customers and minimizing
15 the inconvenience of -- of the fact that if they
16 decide -- like, for example, BMWs. The only two (2)
17 certified repair shops in Winnipeg. What do you do
18 with that? There's some BMWs in Brandon. There's
19 some all over the place. So -- so what do you do with
20 that? So we're --
21 MS. ANITA NEVILLE: I --
22 MR. DAN GUIMOND: -- we're working at
23 that. Can I just --
24 MS. ANITA NEVILLE: -- can we get a
25 copy of your presentation this evening? Is it written

1 out, or...?

2 MR. DAN GUIMOND: You know, I would

3 respectfully ask -- yes, it is, and I do have it. I

4 don't -- I don't have an issue of -- of doing that,

5 but I would respectfully ask if -- if you're okay if I

6 -- if I ask the -- the working committee if they have

7 any issues in --

8 MS. ANITA NEVILLE: Fine.

9 MR. DAN GUIMOND: -- me releasing that

10 information.

11 MS. ANITA NEVILLE: No problem.

12 MR. DAN GUIMOND: I -- I don't think

13 there will be an issue, but I'd be more than -- well,

14 I'll just ask. I'm meeting them tonight, so I might

15 be able -- we might be able to give it to you

16 tomorrow. Yeah.

17 MS. ANITA NEVILLE: I have an --

18 another question in the other area of staffing. And I

19 listened carefully to your report on staffing and the

20 challenges of balancing vacancies, which is, I know,

21 significant. What you didn't touch on, though, is the

22 staffing that comes into play with contracting staff

23 for IT.

24 And I'm wondering if there are --

25 whether you have made projections, both in terms of

1 the use of internal staff and contracting staff for
2 IT? The IR that you've given us has gone just up to
3 2014/'15 year in terms of the use.
4 MS. HEATHER REICHERT: So most of the
5 contract IT staff -- most of the -- of that staff is
6 used in -- in completing the improvement initiatives.
7 So they're used on those -- those improvement
8 initiative projects. We are continuing to try to have
9 less resi -- reliance on contract staff, but typically
10 as it relates to improvement initiatives, there are
11 special skill sets that are continually needing to be
12 upgraded that the consultants have that we don't as
13 readily have within our staff resources.
14 So it is also a difficulty, given
15 salary levels, to be able to compete with an HP, for
16 instance, or an IBM. The salary levels that they pay
17 for the skill sets that we require for improvement
18 initiatives are often well beyond our salary scales
19 for IT staff. So that does pose a difficulty for us.
20 We're continuing to look to see how we can change the
21 mix of internal IT staff versus the use of consulting
22 IT staff. And I'm -- is there...
23
24 (BRIEF PAUSE)
25

1 MS. HEATHER REICHERT: So -- so as I
2 said, it's something that we are continuing to look
3 at. There are huge challenges, as I've just
4 explained. It is something, I mentioned before, about
5 the workforce planning that we undertake every year
6 when we're doing our budgets. This is one (1) of the
7 areas that is, as I said, continually being looked at
8 to see how we can change that -- that proportion of
9 consultants versus internal staff.
10 It's a -- it is a -- a long-term
11 endeavour.
12 MS. ANITA NEVILLE: Have you -- have
13 you made projections in terms of the use of outside
14 consultants?
15 MS. HEATHER REICHERT: To the extent
16 that we have estimates and projections, as Mr. Guimond
17 was explaining yesterday with our improvement
18 initiatives. So improvement initiatives, they -- they
19 budget and -- and project the use of consultants or
20 internal staff. So the consulting expenditures are --
21 are either capitalized depending on the nature of the
22 particular area.
23 And so we do project what we require
24 for consulting staff or consulting consultants in
25 those improvement initiatives. That's part and parcel

of the capital budget that we, I think, are -- have been talking about and -- and are continuing to talk about.

So I can't tell you off the top of my the -- the actual number, but it is very much dependent on the number and type of improvement initiatives that we are doing in any one (1) year and it will go up and down as Mr. Guimond was explaining yesterday, depending on the tasks that we require to be done by consultants as compared to our internal staff.

MS. ANITA NEVILLE: Are you -- you know, when you talk about the challenges, are you investing substantially in training and upgrading of existing staff, MPI staff, in this area?

MS. HEATHER REICHERT: Do you want to talk to that?

MR. DAN GUIMOND: Yeah.

MS. HEATHER REICHERT: Okay. Go ahead.

MR. DAN GUIMOND: We are -- we are investing every year a lot of money in keeping people up to date on -- on the applications that we have, like the software that we use. And so we invest every year quite a bit of money in our staff.

1 The -- the challenges between internal
2 and external all has to do with money. For example,
3 in Winnipeg community the IT -- Winnipeg community
4 when we negotiate the annual increases with our --
5 with our vendors the benchmark for annual increases
6 for the last two (2) years in -- in the community is
7 3.3 percent.
8 They also get bonuses. There's all
9 kinds of stuff that the private sector does. We don't
10 pay bonuses, but the private sector -- like HP, the
11 people that they have they have to give them like --
12 it's 3.3 percent a year, that's the going rate in
13 Winnipeg based on those benchmarks. People get
14 bonuses.
15 The -- the money that the IT community
16 makes, like if -- it's -- it's very, very problematic
17 with the current pay scales that we have. It's just -
18 - it's just a huge issue for us right now that we're
19 actually in the process of starting a dialogue with
20 our board, because people -- right now for whatever
21 reason, when it comes to public sector or -- or Crown
22 corporations, when you see certain salaries people are
23 just not willing to accept that.
24 So -- so, for example, negotiating like
25 a 3.3 percent rate increase for all of our employees

1 for -- for the next four (4) years, just -- just is a
2 huge issue for us in terms of what the public is
3 willing to accept and the market rates for certain
4 things. There's a huge disconnect there. And -- and
5 so it's a huge challenge for the Corporation, because
6 if -- it's kind of ironic to say that, but maybe it
7 needs to be said, that we would be further ahead if we
8 could do more internal, if the public was willing to
9 pay what it -- what it would cost on our pay scale.
10 You know, the -- the public is not willing to accept
11 that an architect, for example, could make up to two
12 hundred thousand dollars ($200,000) a year. IT
13 architect, right.
14 Our chief technical officer, I -- I
15 can't even put him on our payroll. Probably make more
16 than I do. It -- it -- there's a huge disconnect
17 there, and I'm not too sure where it's going to go on
18 the long term. But I -- we acknowledge that -- that
19 we -- we would prefer to have more people internally
20 even, as -- from a philosophical standpoint. Like in
21 terms of running our business.
22 But it -- it just -- it -- there's
23 stuff right now that precludes us from -- from being
24 able to do that.
25 MS. ANITA NEVILLE: So you're saying

1 that your chief technical architect has -- is not on
2 staff? Is an outside contractor?
3 MR. DAN GUIMOND: That's correct. We
4 currently have positions on our staff establishment
5 that -- that we hire consultants because we cannot
6 afford, based on the compression of our pay scales and
7 so on, to -- to pay them what it would be because --
8 because people would just not -- they're just not able
9 to conceptually accept what the cost is.
10 MS. ANITA NEVILLE: So what I'm
11 hearing, and I'm a little simple-minded so bear with
12 me, is that it's not worth the investment in internal
13 staff to get them to the level of a chief architect
14 because you'll lose them.
15 Is that a fair comment?
16 MR. DAN GUIMOND: Right now we would
17 lose them, yes. And also the fact that the public in
18 general is not willing to accept -- to see people who
19 work in the public sector of a Crown Corporation to
20 make that kind of money. It's just -- it's just not.
21 It's -- it's like -- take for example -
22 - I'm -- I'm just -- the -- just to give an example of
23 -- of what I mean, if you look at what's happening in
24 Ontario where their privatizing part of Hydro, and
25 you've got an IPO for -- for part of this Hydro, and

1 the CEO now is going to make $4 million a year.
2 The public is -- the public is not
3 willing to pay -- if you're a Crown Corporation and
4 you work in the public sector, they just won't do it.
5 If it's in the private sector, having a bonus --
6 sending your family to Hawaii, or having a bonus of --
7 of half of your pay cheque, making two (2) -- three
8 hundred thousand dollars ($300,000) for -- for people
9 that are in those kinds of positions, hey, not a
10 problem.
11 MS. ANITA NEVILLE: And this is
12 particular to the IT sector as it impacts on you?
13 MR. DAN GUIMOND: Well, it -- it's
14 starting to affect other areas of our Corporation.
15 Take, for example -- I mean, we were just talking
16 about the controllers, for example. If you look at
17 what's happening in our community, people who are
18 controllers, everybody gets a bonus in the private
19 sector, and they actually probably make more money,
20 right.
21 So -- so there's -- it's a huge issue
22 when you're in the private sector, or you're a Crown
23 corporation, of what the pubic is willing to accept
24 compare what the -- the market value is, right. It's
25 like if I came here next year and I said, you know

1 what, all my IT guys are going to make 3 or 4 percent
2 more a year, and I'm giving them bonuses. It's --
3 it's just no go. Not going to happen.
4 MS. ANITA NEVILLE: Yeah. Thank you.
5 MR. REGIS GOSSELIN: Just -- just a
6 couple of observations on that very issue. I think --
7 you know, speaking as a regulator, I think the
8 regulator is interested in probably two (2) things; in
9 making sure that the relativities between the -- the
10 service provider and the rest of the industry are --
11 are aligned. You know, in other words, you're not
12 over compensating or under compensating.
13 I mean, the under compensating, I -- I
14 hear your argument. It's pretty clear to me that
15 under compensating has some costs to it. So clearly
16 from a regulatory standpoint, the decision about what
17 to pay you or pay Ms. Reichert, and so on, that's the
18 board -- board of directors of MPI that should be
19 making that decision. Our interest is making sure
20 that -- that the relativities within MPI relative to
21 the outside world are --are okay.
22 And I guess the other point I want to
23 make is that we'd be looking at the sum of the
24 contracting costs and the salary costs, and making
25 sure that is kept under -- is kept at a -- at a pace

1 that reflects the general rise in cost in -- in
2 Manitoba. I mean, so -- so from the standpoint of the
3 regulator -- yeah, the regulator is looking at the
4 mass -- the salary mass and the contracting mass as a
5 whole and looking to -- I think making sure that the
6 salary relativities are correct.
7 Now, if -- if it costs more money to
8 hire a controller, that should be reflected in a
9 compensation analysis that you would be doing with --
10 with similar -- similar positions across the city in
11 Manitoba and so on.
12 So I think it -- I do -- it's an
13 important point because I think the -- the expectation
14 that we would say you, Mr. Guimond, should not be
15 making more than 'X'. And in reality, I think that's
16 not the role -- a very good role of the regulators,
17 making sure that your salary relative to other similar
18 positions are comparable.
19 MR. DAN GUIMOND: Understood. And --
20 and I understand the point. The -- but you -- I -- I
21 believe that, over time, the way the system is working
22 right now, you may even see an increase in contractors
23 if we can't put them on our payroll because we can't
24 retain them. And you're going to see also a bigger
25 difference between what we pay to consultant to our

1 people because every year the -- the people who we
2 work with, they insist on having escalation clause in
3 the contracts that are benchmarked to the local
4 market.
5 So if you look at IT, for example, the
6 last three (3) years was 3.3 percent. And -- and so
7 you will see a bigger -- you might see more
8 consultants if we can't keep affording people or
9 retaining people because we don't have any choice.
10 And you might see also a bigger -- more money, like,
11 in terms of what you pay for an apple here compared to
12 an apple here in -- in MPI compared in the market --
13 in private sector.
14 It -- it -- and I think it's very
15 important that we put that on the record.
16 THE CHAIRPERSON: Ms. Grammond, would
17 you like to continue with your cross-examination?
18 Thank you.
19 MS. CANDACE GRAMMOND: Thank you,
20 Madam Chair.
21
22 CONTINUED BY MS. CANDACE GRAMMOND:
23 MS. CANDACE GRAMMOND: Just before I
24 get into the next line of questions I just want to
25 clarify for the record a discussion that Ms. Reichert

1 and I had earlier today. I had asked for certainly
2 quarterly report information to be filed. And we --
3 we went back and forth a little bit, and then agreed
4 that there would be further discussion.
5 That's now taken place, so we will
6 withdraw our request for information from last year.
7 And Ms. Reichert has agreed to file on behalf of the
8 Corporation the internal quarterly updated forecast, I
9 think that's the right characterization, for the third
10 and fourth quarter of the current year.
11 MS. HEATHER REICHERT: It's the budget
12 -- the budget broken down for the third and fourth
13 quarter together with the actual for the first and
14 second quarter.
15 MS. CANDACE GRAMMOND: Thank you. So
16 that's the undertaking that has been given. Thank
17 you.
18
19 --- UNDERTAKING NO. 9: MPI to provide internal
20 updated quarterly
21 forecasts for third and
22 forth quarter of the
23 current year
24
25 CONTINUED BY MS. CANDACE GRAMMOND:

1 MS. CANDACE GRAMMOND: Okay, then,
2 Diana, if we can go to the expense section of the
3 filing.
4 MS. HEATHER REICHERT: Ms.
5 Grammond...?
6 MS. CANDACE GRAMMOND: Yes?
7 MS. HEATHER REICHERT: Did you want me
8 to go back to those areas that -- that I said I would
9 look up for you --
10 MS. CANDACE GRAMMOND: Sure.
11 MS. HEATHER REICHERT: -- and just
12 clear those off?
13 MS. CANDACE GRAMMOND: Sure.
14 MS. HEATHER REICHERT: Okay. So,
15 Diana, if I could get you to go to the expenses
16 section of the GRA, page 9. One (1) of the things I
17 had indicated was I knew that there was a definition
18 of the -- sorry, yeah, pa -- no, sorry, just up a
19 little bit. There we go, right there. The definition
20 for improvement initiatives is here, and this is just
21 partial. It's giving some examples.
22 So there are one (1) time expenses
23 related to a project that don't continue when that
24 project is completed. So internal labour I had
25 discussed. And then it includes software, hardware if

1 it is of a small nature so that it's not large enough
2 to be capitalized, as well as I had mentioned
3 consultant -- or contract fees, again, if the project
4 was small and in -- in its totality was not a
5 capitalizable initiative. So that's the -- the
6 definition for improvement initiatives. I just wanted
7 that to be more complete.
8 And then the other area that we had
9 been -- that you had asked about, Ms. Grammond, was --
10 if I can get you to go to page 18. It's Appendix 6,
11 page -- sorry, page 20, Appendix 6, page 20. Ms.
12 Grammond had asked on -- of the nine point two (9.2)
13 that was -- so this is 2016/'17, of the nine point two
14 (9.2) that we had budgeted for implementation
15 expenses, what was the component of internal salaries.
16 So if I can get you just to go to about
17 the middle of that page where it's got the Basic. So
18 this is -- you can see the columns, "Basic normal
19 operations," and then the next grouping is "Basic
20 initiatives." So if you look at the first line of
21 that -- and this is a comparison from last GRA to the
22 current GRA, for '16/'17.
23 So compensation salaries for the 2016
24 GRA are six hundred (600) and eight thousand dollars
25 ($8,000) of -- if you look at the -- don't move the

1 thing, but just the bottom of that particular box at
2 the very bottom, the 9.2 million there -- nine million
3 one seventy-four (9,174,000). So of the nine million
4 one seventy-four (9,174,000), six hundred and eight
5 (608) of that is with respect to the budget for
6 internal salaries.
7 Then you see, "Data processing." So
8 that will be software purchases or licensing costs
9 associated with a project that won't continue when
10 that project is complete. And then "Special services"
11 would be, as I was mentioning before, if there was
12 contract costs relating to a specific initiative that
13 are being expensed. So that's the three point seven
14 (3.7), and that's the -- the bulk of that 9.2 million
15 that is being budgeted for implementation expenses for
16 '16/'17, okay?
17 And then -- sorry, but I did -- if you
18 could just go to Appendix 14 please, page 39. I -- I
19 just wanted -- so we had been -- actually if you can
20 just stop here for -- oops, sorry. Go back for just
21 one (1) second. So we have been talking about this
22 particular table on this page. And I just wanted to,
23 again, mo -- be more precise, because I had indicated
24 that if you added the two (2) numbers, the -- again
25 focussing on '16/'17 -- if you added the 60 million

1 with the 26 million that that represented cash out the
2 door, so to speak.
3 If you can go to the next page. I just
4 wanted to -- to correct that. So again, if we look at
5 the '16/'17 column there, and you'll see at the very
6 bottom of that column that's the 60.6 million that
7 represented the first number on the other -- or the
8 first line on the other table. Going down that
9 '16/'17 projected column, the very first bolded number
10 of thirty-six three fifty (36,350), that represents
11 amounts that are paid for compensation, for licences,
12 for maintenance, et cetera. All of the -- the
13 operating costs of the IT department.
14 Right below the thirty-six (36) you see
15 eight hundred and twenty-five (825), eight (8) mill --
16 twenty-five thousand (25,000), sorry. Then eight
17 million two hundred and ninety-nine (8,299,000).
18 Those two (2) amounts, if you look over it, that's
19 depreciation and amortization. So that's depreciating
20 and amortizing things that had been spent previously,
21 so that's not a cash outlay.
22 And then if you just look further down
23 to the next bolded item, those other -- other costs
24 that are there. Those as well are cash outlays. So
25 that's 7 million additional cash outlays. And then

1 right below that you'll see there's other depreciation
2 and amortization. Again not a cash outlay. So if you
3 look at the 60.6 million at the bottom, forty-three
4 point two (43.2) of that sixty point six (60.6)
5 actually represents cash outlays.
6 So I just wanted to clarify that forty-
7 three (43) of the sixty (60) -- and it's similar in
8 the next year. The next year it's forty-eight (48) of
9 the sixty-six point six (66.6). So just to give a
10 sense that it's -- that's not all IT cash outlays in
11 any given year. I just wanted to clarify it because I
12 had indicated that that was the case. Thank you.
13 MS. CANDACE GRAMMOND: That's helpful.
14 Thank you, Ms. Reichert. So, Diana, if we can go back
15 to Appendix 13 of the expense section. Perfect. So
16 this is the corporate deferred development costs over
17 a period of ten (10) years.
18 I'm going to ask, Ms. Reichert, that we
19 focus on the line that's entitled, "Technology
20 modernization." It's the fifth line from the bottom.
21 That is a line item that reflects forecasted spending,
22 so nothing to date that we can see. But there is 8.3
23 million and change forecasted from the year of the
24 application through the outlook period.
25 That's right?

1 MS. HEATHER REICHERT: Correct.
2 MS. CANDACE GRAMMOND: And that
3 forecast combined, or those four (4) years combined is
4 about 33.3 million?
5 MS. HEATHER REICHERT: That's correct.
6 MS. CANDACE GRAMMOND: We had asked
7 the Corporation about this particular initiative and,
8 Diana, I'll ask you to go to PUB/MPI-2-20.
9
10 (BRIEF PAUSE)
11
12 MS. CANDACE GRAMMOND: In particular,
13 what we had asked the Corporation was to provide a --
14 a business charter with respect to the technology
15 modernization initiative. And the response that the
16 Corporation provided, which we'll see in a moment, was
17 that there is no business charter at this point in
18 time?
19 MS. HEATHER REICHERT: That -- that's
20 correct.
21 MS. CANDACE GRAMMOND: Can the Board
22 expect that the business charter for that initiative
23 will be provided next year as the spending is to kick
24 in in the year of the application?
25 MS. HEATHER REICHERT: So as -- I -- I

1 believe Mr. Guimond was speaking specifically, I think
2 there may have been a question of him about the
3 technology modernization, and he was explaining that
4 the nature of the expenditures within that category,
5 it is somewhat of a -- of a placeholder from the
6 perspective of in order to avoid what occurred many
7 years ago when there wasn't an appropriate amount of
8 money spent in maintaining our IT systems, which
9 resulted in the IT optimization significant project
10 that had to be undertaken to ensure that the IT
11 systems were -- were properly secured, properly
12 maintained.
13 This amount is an estimate of what is
14 going to be required beginning the next fiscal year to
15 do just what I had described, making sure that the
16 systems are properly maintained, that they remain
17 current as it relates to security aspects, et cetera.
18 So it is not a project like the improvement initiative
19 PDR, which is a set project that will have a start and
20 a finish.
21 This will -- this will be something
22 that is going to likely be ongoing, not necessarily at
23 this level, but is going to be undertaken to ensure
24 that there's the -- the proper attention put for our
25 existing systems, which have grown considerably since

1 the IT optimization project and the business process
2 re-engineering project and all of those were -- were
3 implemented.
4 So -- so that's what those costs relate
5 to. It's not a project like a PDR project, so
6 therefore it is not going to have a charter like a PDR
7 project. There will be more specifics breaking down
8 what that money is going to be spent on, but it won't
9 be a charter.
10 So, yes, we will provide, as -- as is -
11 - as -- as our estimating and forecasting becomes more
12 clear, the nature of specific expenditures and what we
13 anticipate those to be.
14 MS. CANDACE GRAMMOND: Thank you.
15 Diana, can you scroll a bit farther down so that we
16 can see the answer to (c)? That's where the reference
17 was. So I -- I thought that the -- the answer was
18 worded as we see here. It does say that the business
19 charter is currently under development, which is a
20 little bit different than what you just said.
21 MS. HEATHER REICHERT: Yeah.
22 MS. CANDACE GRAMMOND: Can you just
23 reconcile those two (2)?
24 MS. HEATHER REICHERT: That's really -
25 - I can't other than to say that that's not an

1 accurate reflection of how we intend on using those
2 funds, so. Unfortunately, the staff that responded to
3 this, I -- I believe were under a -- a misconception
4 that it was a project.
5
6 (BRIEF PAUSE)
7
8 MS. CANDACE GRAMMOND: Can you tell us
9 how the amount that's forecasted was arrived at, the
10 eight point three-two-five (8.325)?
11 MS. HEATHER REICHERT: It was an
12 estimate from the CIO based on what he felt based on
13 our total IT -- IT application situation, what would
14 be a -- a reasonable amount to expect that you were
15 going to need to maintain that. It was a very rough
16 estimate at the -- at the time that -- that we put it
17 in, and it will be refined, as all of our estimates
18 are each year that -- that we go through this process.
19 MS. CANDACE GRAMMOND: And obviously,
20 every component of the application is important, but
21 with respect to this particular one, the panel needs
22 to be clear, because 8.3 million in the year of the
23 application, that's really the equivalent of a
24 percent, right, or close to a percent?
25 MS. HEATHER REICHERT: No, it's not in

1 this case, because this is a capital item, and so it
2 will not directly impact net income in the years that
3 we expend that money. So when those items are
4 capitalized, then they will start to be amortized and
5 depreciated.
6 These will likely be deferred
7 development costs of some -- some nature, so they will
8 start to be deferred when we -- or start to be
9 amortized when -- when a -- a component of this is --
10 is considered complete, and it will be expensed over
11 five (5) years.
12 So the -- the maximum impact that this
13 -- these particular expenditures would have in any
14 given year is -- is likely one point (1.) whatever --
15 one point six (1.6), one point five (1.5), something
16 like that, in -- in any given year. It's not $8.3
17 million impact to the bottom line, and to the rates.
18 MS. CANDACE GRAMMOND: When you say
19 one point five (1.5) or one point six (1.6), you're
20 talking million dollars, right?
21 MS. HEATHER REICHERT: Yes, I'm
22 talking about the amortization of the 8.3 million over
23 a five (5) year period, so whatever that math works
24 out to. I'm not doing today.
25 MS. CANDACE GRAMMOND: Based on the --

1 the evidence that -- that you provided with respect to
2 this being a -- a situation where the Corporation is
3 trying to avoid its past experience, and -- and keep -
4 - I think Mr. Guimond had commented a couple of days
5 ago, keep the software in the application supported,
6 and not running on obsolete technology and so forth,
7 do we know whether the eight point three (8.3), or any
8 amount, is actually going to need to be expended in
9 the year of the application?
10 Or is it possible that things will be
11 sufficient at that point that we don't need to go down
12 that expense that year?
13 MS. HEATHER REICHERT: Okay. Maybe to
14 -- to rephrase, or -- or I'll -- I'll answer, and then
15 you can -- you can help me if I -- if I've
16 misinterpreted it.
17 We know that we are going to need to
18 expend amounts to ensure that our applications
19 continue to be safe, current. The amount will be
20 refined as we do more planning and get into more
21 specifics, but there will be an amount that's
22 required. So it will be refined as -- as we get more
23 information. Right now, this is a reasonable estimate
24 based on our understanding of the situation.
25 MS. CANDACE GRAMMOND: Was this -- I

1 appreciate it's not a project, so maybe we don't want
2 to refer to it as an initiative, but was this
3 placeholder over a period of years something that
4 Gartner recommended, or was this something that the
5 Corporation decided to do on its own?
6
7 (BRIEF PAUSE)
8
9 MR. DAN GUIMOND: So we have about a
10 hundred and thirty-three (133) applications at MPI to
11 do business on a day-to-day basis. So Gartner, what
12 they do is they -- they create like a dashboard, you
13 know, a green, yellow, red. And so what we experience
14 with the ITO, we have now a protocol in place where
15 all of our applications need to be run on supported
16 software, and we're not to allow the applications to
17 become vulnerable, that they may not work, and so on,
18 like -- like the situation we were in back then.
19 So what Gartner does is, at the
20 portfolio level, they -- they assess the status, and
21 then they report once a year to the Board in terms of
22 what -- where we're at with our applications, because
23 now what we did after ITO, we -- so the role of
24 Gartner is -- is to report once a year to the Board on
25 the status of all of our Applications, and make sure

1 that what happened never gets repeated again.
2 So our chief technical officer with the
3 CIO has reviewed all of these applications. They know
4 when the software needs to be upgraded. They know
5 when -- when there's even some software we use --
6 maybe the company is going to go under or they don't
7 use it anymore, it has to be something else. So
8 that's all planned. And now we keep our applications
9 going.
10 And that$8 million, how they -- how
11 they got to that preliminary estimate by doing that
12 exercise.
13 So to answer your question, Gartner
14 does -- keeps track of it, reports to the Board. And
15 that $8 million estimate is the chief technical
16 officer and the CIO working together to say, Okay,
17 what's happening here with all of our applications,
18 and what do we need to do to make sure they -- they
19 stay in the green zone? We will allow yellow zone,
20 but no red zone.
21 MS. CANDACE GRAMMOND: Thank you.
22 Diana, I'm going to ask you to go to
23 the expense section, Appendix 13, page 36. Thank you.
24 This is the same table that we looked
25 at a moment ago. I'm now going to ask about the last

1 entry on the table prior to the total, which is
2 provision for projects. We've got 2.8 million for the
3 year of the application, and them some higher amounts
4 for subsequent years. We asked the Corporation in an
5 IR about an indication of what some of these projects
6 might be. And the Corporation referred to some
7 evidence from last year and projects that had not yet
8 been formalized.
9 Can you tell us about how the
10 Corporation is up -- is able to come up with four (4)
11 fairly specific dollar amounts, those don't look like
12 round numbers, but yet not be able to tell us what
13 they're thinking about in terms of those -- the
14 content or the substance of those future projects?
15 MS. HEATHER REICHERT: Okay, so this
16 provision for future projects we budget at a corporate
17 level, and it is based in -- in the '16/'17 and -- and
18 future years. We don't know every single project that
19 is going to be undertaken when we are doing the
20 forecast of the capital expenditures.
21 So this is a provision for the things
22 that we don't know precisely what is going to -- what
23 projects are going to be -- are going to be done. So
24 we do that at the corporate level. This is the
25 allocation to the Basic program, and it's based on

1 percentages, so that's why you're getting these very
2 precise numbers. It -- it's just an allocation. It's
3 a -- a formula-driven allocation from the corporate
4 budget down to -- to the Basic level.
5 What will happen, and you won't -- as
6 you don't see in '15/'16, the year that we're actually
7 in, you don't see that provision because we know the
8 projects that we are doing in '15/'16. They're all in
9 flight or planning to be completed in the '15/'16
10 year.
11 For '16/'17, which is only, like, a
12 year away, we're more certain about the projects that
13 are going to be undertaken within '16/'17, hence, that
14 provision is not as great. When you get further out,
15 projects are completing that are currently in flight,
16 and it's not precisely known what projects are going
17 to begin or be undertaken in '17/'18 and '18/'19 and -
18 - and on -- and on, so, hence, there's a -- a higher
19 provision for those years.
20 So unlike the modernization line, which
21 was for keeping the current applications up to date,
22 if you will, these are representing things that would
23 be new initiatives, that -- that we may be doing some
24 investigation now but not have a specific charter yet,
25 not know precise estimates of them at this point, so

1 it's, as it says, a provision.
2 And again, those that are in '17/'18,
3 '18 -- none of these will have -- well, act --
4 actually, if you just wanted to flip down to the -- to
5 the next page, Diana? The impact -- the -- if you
6 look at the very last line before the total on this
7 page, this is what we are forecasting or estimating to
8 be the amortization of those amounts impacting on
9 those particular years. So we make assumptions on how
10 much of that will be spent on a completed project, and
11 -- and how the amortization of that will start.
12 So you can see there is no forecasted
13 amount for '16/'17, so no impact on our bottom line.
14 Five hundred and seventy thousand (570,000) in -- in
15 '17/'18. So from a rate perspective, the impact is
16 the average of five hundred and seventy (570) over the
17 two (2) rating years. So two (2) -- two hundred and
18 eighty-five thousand (285,000) as it relates to those,
19 so.
20 MS. CANDACE GRAMMOND: Thank you.
21 That's helpful.
22
23 (BRIEF PAUSE)
24
25 MS. CANDACE GRAMMOND: One (1) more

1 question, Ms. Reichert, while we have this up on the
2 screen. There doesn't appear to be a line item for
3 the IT modernization piece that we spoke about a
4 moment ago.
5 Can you comment on why that is?
6 MS. HEATHER REICHERT: Again, just
7 because it -- we're unclear at this time how much of
8 that amount will, in fact, be capitalized, and when
9 the amortization of that would start. So the --
10 these, again, just budgeting assumptions or
11 forecasting assumptions that we've made.
12
13 (BRIEF PAUSE)
14
15 MS. CANDACE GRAMMOND: So is it fair
16 to say that you don't know now how much of the IT
17 modernization expenses might be capitalized?
18 MS. HEATHER REICHERT: I expect that
19 they will be capitalized. It just depends on the
20 nature of the projects and how those unfold. So
21 unless a -- it's completed within the year, we don't
22 start to amortize it the following year.
23 So it's just at this point, the
24 composition of all of the exact activities that will
25 be undertaken to spend that modernization money, and

1 when actual specific things will be completed in order
2 to start the amortization. We decided we weren't
3 going to try to -- to guesstimate that at -- in this
4 particular -- it would start -- it had this -- would -
5 - would have to start no earlier than '17/'18 to have
6 any impact. And we thought that we would be very
7 conservative in -- in our forecast for that.
8 MS. CANDACE GRAMMOND: Thank you. I'm
9 going to move, then, to some questions with respect to
10 actuarial matters. So, Diana, I would ask that you
11 pull up AI.9.3 of the filing.
12 MR. REGIS GOSSELIN: Ms. Grammond,
13 could I just -- while the -- Diana is finding that
14 material, I just have a couple -- a couple of follow-
15 up questions dealing with technology. I guess the
16 first issue that I want to talk about is cyber-
17 security. It's an obvious concern with respect to
18 Manitoba Hydro, for example, a big issue in the -- in
19 the oil -- in the electricity sector. And I noticed
20 there's no -- no references here to cyber-security
21 expenditures or anything like that.
22 So I guess the question I have in -- in
23 general terms is: How much of an issue is this for
24 MPI? And to what extent has this become a focus for
25 expenditures?

1 (BRIEF PAUSE)

2

3 MR. DAN GUIMOND: Well, first I'd like
4 to say cyber-security is a -- is a big concern of MPI.
5 It's -- it's very, very -- something we take dear to
6 heart. We don't talk a lot about it, but we are doing
7 a lot of things to protect ourselves. We did a lot of
8 it through ITO, so the ITO line of business.
9 And -- and, you know, we didn't talk
10 about it in details in terms of all the things we did
11 through there to help us with cyber-security. And we
12 also have -- and there's another one that we're doing
13 right now, but it's under the expense category that
14 we're working on -- on IT security as well. So very
15 high priority. We're -- we're very concerned about
16 it, and we're doing a lot about it, but we don't talk
17 about it a lot.
18 MR. REGIS GOSSELIN: And I -- and I
19 appreciate why you're not -- you're not talking about
20 it. But I guess in terms of outside eyes looking at
21 what you're doing, and -- and determining whether or
22 not what you're doing is appropriate or inadequate and
23 so on, is Gartner covering that off as well?
24 MR. DAN GUIMOND: Yeah, and that's
25 exactly it. We've -- we've put in a agreement in

1 place with Gartner and it reports directly to our --
2 our board of directors and we work with them, because
3 security, in a way, it's all about risk tolerance when
4 you really think about it.
5 Like, we're not -- because you have to
6 say, Did I do -- based on the industry that I am, the
7 amount of money that I invested in security, is it
8 reasonable, and does it make sense for the threat that
9 you're facing, because it's unlimited. I mean, so,
10 for example, we're not going to spend money -- you
11 know, let's say people who work for the CIA, I mean,
12 if they wanted to find a way in, they'll find a way
13 in. I mean, the -- you know, you're not going to
14 spend money to defend yourself against, but -- but you
15 have to have a robust security -- cyber-security
16 protocol to -- to deal with the kind of business you
17 are.
18 So I can tell you that the board has
19 approved a risk tolerance, that we've identified the
20 material level of the security model that we need for
21 the business that we're in and that all of the
22 protocols and everything required to achieve that risk
23 tol -- risk tolerance has been approved by our board
24 of directors and the maturity model that -- that we're
25 in -- in sync with that and -- and that it's being

1 monitored and audited not only by our internal audit
2 department, but also by Gartner.
3 MR. REGIS GOSSELIN: Now -- now
4 yesterday you spoke briefly about one (1) of the
5 issues you're coping with, it was the issue of legacy
6 systems. And you indicated that's a big -- a big
7 headache for you in terms of deciding what to do about
8 those legacy -- legacy systems.
9 So can you tell us roughly how much of
10 -- of your software initiatives relate to legacy
11 systems? Is that number coming down? You know -- you
12 know, are you gradually getting -- addressing these
13 legacy systems that -- that you have at MPI?
14 MR. DAN GUIMOND: Yeah. Out -- out of
15 all the applications we have, like, the hundred and
16 thirty-three (133), the -- the two (2) legacy systems
17 that are going to be problematic in the near future
18 are our distribution system, Autopac online, which was
19 launched in -- in 1995.
20 And we also have the -- the CARS
21 system, which is the system that processes all of our
22 -- of our physical damage claims and is also now
23 linked to the bodily injury FINEOS system. That's --
24 that was done in 2010, that particular system.
25 And we know that approximately between

1 2018 to 2024, we have to start really addressing those
2 two (2) legacy systems to -- to deal with that and
3 that's -- that's going to be quite the challenge.
4 It'll be quite a significant effort. What we're doing
5 right now to -- to minimize the impact on -- on those
6 legacy systems when we do things, for example, if you
7 go to the website right now, you can pay your policy
8 by credit card through our website, so we did invest
9 in Autopac online to do that. We're starting to
10 invest in the right technology as we provide new
11 services.
12 The bodily injury side, when we -- in
13 2010, we -- we phased out all the bodily injury out of
14 CARS and we put it into FINEOS, so we're already
15 starting to do a lot of things to minimize the -- the
16 job that we're going to have to do between 2018 to
17 2024, but those are the two (2) ones we need to
18 address.
19 MR. REGIS GOSSELIN: So those two (2)
20 projects would be encompassed within -- is -- is that
21 the kind of thing you would -- you would include in
22 provision for projects? Is that where it would go?
23 Okay.
24 Now, I -- there's another question I
25 wanted to ask, and I should -- probably should have

1 asked you earlier when we were talking about the PDR,
2 and this has to do with the -- the group that's not in
3 the room, which was here last year, which is ARM.
4 And I guess, you know, could you update
5 us about what's happening with the automobile
6 recyclers and -- and why is it that they are not in
7 the room this year when they were here last year?
8 MR. DAN GUIMOND: We've had quite a
9 few discussion with the recyclers. They've -- they've
10 changed representation and their leaderships since --
11 since everything that's transpired. You -- you might
12 have seen some articles too in the papers with the
13 Winnipeg Free Press. There was one (1) from the
14 recyclers, and there was one (1) that was the view of
15 the body shops.
16 So what's happened, which I think is
17 very positive, is, like I told them in 2010/'11,
18 you're going to have to change the way you do business
19 if you want to survive with the way the auto industry
20 is going. So we talked to the Automotive Trade
21 Association and the person that -- that represents
22 them met with the recyclers, and now they're working
23 together. They've offered them, the -- the repairers
24 and the dealers, they've offered them to say, Listen,
25 if you want to up your game and not go under we're

1 going to work with you.
2 And my understanding now is that the
3 next step is that there be a delegation of the -- of
4 the recycler business that are going to start working
5 with -- with the repairers and -- and the dealers, and
6 they're going to go and visit how a car gets repaired,
7 and really understand how they have to change the
8 technology that they use, and how they have to make
9 these parts available. And also how -- how they have
10 to change their thought process about the quality of
11 the parts that they send to the shops. And so -- so
12 that process is happening.
13 If they refuse to change their ways,
14 it's going to be big problems for them. Huge. I -- I
15 don't see them surviving if they don't accept to
16 change their ways. But the repair industry and the
17 auto industry, and MPI, is -- is willing to work with
18 them if they -- if they chose to -- to up their game.
19 MR. REGIS GOSSELIN: Now, this
20 question is a bit in left field but it has to do with
21 the taxi industry. And I guess, you know, they're
22 going to be hit with another increase again this year.
23 Have you -- do you enter discussions
24 with the taxi industry to speak about the issues that
25 are causing rates to increase as they have been for a

1 number of years?

2 MR. DAN GUIMOND: We have had

3 preliminary meetings with them. We're also waiting

4 the pilot that ICBC did on -- on collision avoidance

5 because they had a pilot with the taxi cabs in BC

6 where they -- they've introduced technology avoidance

7 in -- into the cars. And we're -- we're waiting to

8 see what the results of the -- of the pilots are.

9 And so they understand that they're

10 getting a lot of claims, and they understand that

11 their rates are - -are just huge. And -- and they're

12 starting to understand, you know, what's going on from

13 a -- in terms of how they select drivers, or who

14 drives their cars, and so on. So -- so the dialogue

15 has started, and we're starting to exchange

16 information.

17 Whether they -- they want to actually

18 do something about it, that's -- that's going to be

19 interesting to -- to see, if they want to do

20 something. But MPI is more than willing to -- to do

21 pilots with them, and is more than willing to -- to do

22 things to -- to minimize the -- the level of accidents

23 to -- to -- in order to reduce the premiums.

24 But then again, as I said last year, I

25 remember in the '90s where the owners intentionally by

1 design opted out of the fleet rebate program, right,
2 the Basic fleet rebate program. And a lot of them,
3 they put the onus all on the operator model, right, so
4 we'll see what happens. We'll see what happens.
5 We'll see if they want to spend the money and -- and
6 invest in loss prevention, or not.
7 THE CHAIRPERSON: Ms. Grammond...?
8 MS. CANDACE GRAMMOND: Thank you.
9
10 CONTINUED BY MS. CANDACE GRAMMOND:
11 MS. CANDACE GRAMMOND: So on to some
12 actuarial matters. Mr. Johnston, we've got AI.9.3 up
13 sort of as a general reference for the moment. My
14 first question is this: There's -- there's discussion
15 within this document, and I think it's just near the
16 bottom of what's at the screen -- or what's on the
17 screen at the moment, with respect to matching.
18 Can you comment upon the following:
19 What is the matching principal inherent to the
20 conventional manner in which Basic rates have been
21 regulated?
22 MR. LUKE JOHNSTON: So the -- I take
23 that to mean the current rating methodology that's
24 been in place for at least like, twenty (20) years?
25 MS. CANDACE GRAMMOND: Yes.

1 MR. LUKE JOHNSTON: What we do is --
2 our mandate is to -- to break even, and the way that's
3 been -- we've interpreted that is that -- as -- as
4 we've discussed here, to break even over that rating
5 period over the average of two (2) years.
6 So I can't remember the year but in the
7 I believe early '90s, with that objective in mind the
8 focus was on, How do you set rates to achieve that
9 fiscal year break-even net income? So what we do is
10 for ll the vehicles we do, what most actuaries would
11 do, is we -- we sort the losses by the vehicle groups,
12 determine, you know, who should pay what on a relative
13 basis, and we have a total expected cost for the
14 policies or vehicles in that year. But the last step
15 of that is to offset that to match whatever claims are
16 in that fiscal year because we know we have to break
17 even to -- to zero.
18 Then similarly, we -- we literally just
19 go through every line item in the -- in the statement
20 of operations and say, okay, well, operating expenses
21 in the rating period are this number, assign that per
22 unit to every vehicle in those -- in the rating year.
23 And we go down, and by definition by going through
24 every item and tallying it off we get to zero at the
25 bottom, and -- and those are the rates that -- that we

1 come forward with.

2 MS. CANDACE GRAMMOND: Okay. Thank

3 you. Can you comment upon the matching principle

4 inherent to the development of rate indications in

5 accordance with accepted actuarial practice in Canada?

6 MR. LUKE JOHNSTON: Maybe the easiest

7 way is just to imagine that we -- we just started MPI

8 right now and we're in our first policy year. We

9 would say what do we expect the claims to be over the

10 lifetime of these claimants, let's -- an expenses,

11 claims and expenses, what do we expect our investment

12 return to be on the money we collect, discount all our

13 future cashflows to the current day or roughly the

14 current day. We'd obviously determine if we want to

15 make profit. Or let's just assume that we're not

16 making any profit.

17 So take the present day cost of all

18 claims and -- and associated costs associated with the

19 policy, charge that amount today to, in theory,

20 perfectly cover the -- the future cost of all claims

21 and expenses associated with those policies.

22 So what makes it different than the one

23 (1) we're using now, which maybe is your next

24 question, is that clearly there are things flowing

25 into our fiscal year financial statements that have

1 nothing to do with the current policies being issued,
2 right. So there's retained earnings, earning
3 investment income. There's ups and downs that happen
4 with claims. There's interest rate impacts. There's
5 all these types of things that are not tied direct to
6 those policies.
7 But in terms of the current rate making
8 methodology, you -- you can probably understand why it
9 was originally created that way, because you -- you
10 needed to get to that balanced net income, that was
11 your mandate. So that -- that was the rationale
12 behind the -- the current methodology.
13
14 (BRIEF PAUSE)
15
16 MS. CANDACE GRAMMOND: When you say
17 your mandate, do you mean the Corporation's mandate or
18 someone else's?
19 MR. LUKE JOHNSTON: Sorry, I don't
20 mean my actuarial mandate or anything. I mean the
21 other mandate or the breakeven mandate of MPI Basic.
22 And if we're -- if we're talking about actuarial
23 requirements, what we -- we've done here, and even
24 with the DCAT or -- or liabilities, is to report what
25 the accepted actuarial practice would look like, given

1 an opinion on it. If the regulator or management
2 chooses a different path, at least the regulator and
3 management are aware that they've chosen a different
4 path and they -- it's clear to everybody what the
5 actuarial standard rate-setting or the liability
6 reviews or DCATs would -- would look like.
7 MS. CANDACE GRAMMOND: Now, Mr.
8 Johnston, with respect to the GRA that's been filed,
9 can you confirm that the initial estimate of the
10 overall required change in average rate level
11 estimated in accordance with accepted actuarial
12 practice in Canada was plus 4.4 percent? And that's
13 in AI.9.1, if you want to refer to that.
14
15 (BRIEF PAUSE)
16
17 MR. LUKE JOHNSTON: Sorry, that is
18 page 1 of --
19 MS. CANDACE GRAMMOND: So it should be
20 just in that table that we can see at the bottom of
21 the screen. Yeah, there we go.
22 MR. LUKE JOHNSTON: So there --
23 there's some -- there's obviously underlying
24 assumptions in there, but this assumes a zero percent
25 profit provision, just to be clear on that. So based

1 on that example I gave, if you just took the
2 associated cost -- costs with these policies, and
3 determine what premium you'd need at a zero percent
4 profit, the indication was an overall 4.4 percent.
5 MS. CANDACE GRAMMOND: And that was an
6 increase?
7 MR. LUKE JOHNSTON: Yes, an increase.
8 MS. CANDACE GRAMMOND: Now, my next
9 question is whether you can confirm that the estimated
10 rate indication, derived in accordance with accepted
11 actuarial practice in Canada, has been refined to 3
12 percent as opposed to four point four (4.4)? And I
13 have the -- the reference if you would like it.
14 MR. LUKE JOHNSTON: I believe the
15 reference is in -- in regards to the investment income
16 you would earn off retained earnings.
17 Is that the reference you're referring
18 to?
19 MS. CANDACE GRAMMOND: I just meant
20 one (1) of the IRs --
21 MR. LUKE JOHNSTON: Okay.
22 MS. CANDACE GRAMMOND: -- wherein that
23 3 percent is set out.
24 MR. LUKE JOHNSTON: Sub -- subject to
25 check --

1 MS. CANDACE GRAMMOND: But, yes,
2 you're right.
3 MR. LUKE JOHNSTON: -- but I -- I
4 believe that's the number. If the attempt was to
5 account for that you had retained earnings beyond just
6 the discounted value of the -- you earned other
7 investment income. And that -- that would be an
8 offset to the rate. And the estimate of that was to
9 bring the rate change down to 3 percent, subject to
10 check. Yeah.
11 MS. CANDACE GRAMMOND: Perfect. And
12 can you confirm that that result can be compared to
13 the .4 percent indication on which the GRA is based,
14 which was, of course, rounded to zero percent no
15 change?
16 MR. LUKE JOHNSTON: Compared -- they
17 are different. Again there's -- there's no question.
18 Like, an absolute comparison of every impact would be
19 difficult. There are other items that impact the
20 fiscal year results oth -- other than just re --
21 investment income on excess retained earnings.
22 So just to give you an example. Our --
23 with our rates being sensitive to fiscal year results,
24 we talked about interest rates. And if interest rates
25 were to rise significantly we'd get a net benefit in

1 the fiscal year.

2 The existing rate-making structure

3 would say, You can lower rates because of that. The

4 responsiveness of the other -- the -- the other -- the

5 actuarially sound rating structure might not be as

6 obvious in this particular scenario. So the existing

7 rating structure is saying, Here's our forecast and

8 we're going to expect to make these favourable

9 adjustments to past liabilities, and et cetera. And

10 it's saying, Go ahead and bring rates down because of

11 that. So that -- the -- the act -- an actuarially

12 accepted practice rate-making methodology isn't going

13 to care about the adjustments to previous years'

14 liabilities.

15 MS. CANDACE GRAMMOND: So accepting

16 that the matching principles with respect to each of

17 those calculations is a bit different, they are two

18 (2) estimates of the same thing in essence?

19 MR. LUKE JOHNSTON: That's true, yes.

20 MS. CANDACE GRAMMOND: And considering

21 that the -- the outcome of the two (2) estimates are

22 different, would you agree in principle that the

23 conventionally estimated rate indication must be

24 charging either more or less to the cohort of policies

25 issued in a year than is actually required to cover

1 the costs expected to arise from those policies?
2 MR. LUKE JOHNSTON: The -- the fact
3 that the two (2) don't match would indicate, yes, that
4 there's a difference either way. And again, this is
5 going on the assumption that -- of the zero percent
6 profit provision. And maybe we'll get into this, but
7 we talked about another way to do it would be to set
8 actuarial rates per accepted actuarial practice, and
9 then just take -- tweak the profit provisions such
10 that you break even.
11 Then there's a -- I'm not going to
12 suggest that the current methodology is the only
13 possible way that you could achieve fiscal year net
14 income. But, yes, to your question. By definition,
15 if there's differences, there -- between accepted
16 actuarial practice and what we're doing, then there
17 could be pluses or minuses.
18 MS. CANDACE GRAMMOND: And would you
19 say that the difference between the act -- accepted
20 actuarial practice and what MPI does represents a form
21 of intergenerational inequity?
22
23 (BRIEF PAUSE)
24
25 MR. LUKE JOHNSTON: I'm trying to

1 understand why it -- that would be -- be the case.
2
3 (BRIEF PAUSE)
4
5 MR. DAN GUIMOND: I -- there's a
6 couple of things I -- I realize I'm still new at -- at
7 these hearings, but this intergenerational inequity is
8 something that I struggled in -- in understanding or -
9 - or figuring out how this -- why this is applying to
10 -- to us in terms of -- of our rating perspective,
11 because the thing that I'm struggling with is that the
12 public auto insurance exists for Manitobans from the
13 day they're born to the day they die.
14 And so when you're born you're an MPI
15 customer through the personal insurance protection
16 plan. And you're not going to start paying until
17 you're maybe fifteen and half (15 ½) the earliest,
18 maybe, on the driver licence. And the driver licence
19 is there just to make sure that you never find
20 yourself uninsured.
21 You know, the way the -- the public
22 auto insurance program was put together. And then I
23 may not have a car, I may have a car, and then I'm not
24 -- I'm going to stop driving when I can't drive
25 anymore, but for sure I won't be paying in the plan

1 for maybe twenty (20) to thirty (30) years, but I'm
2 still a customer.
3 So I'm trying to understand if public
4 auto insurance, and we understand the sensitivity of
5 rates that are predictable and stable, I'd -- I'd be
6 curious to understand the view of -- of when somebody
7 is -- and -- and some people won't even have a driver
8 licence or -- or own a car. All her life, my mom's a
9 good example of that, but she's a customer of MPI all
10 her life because it's the Basic program that funds the
11 personal insurance protection plan.
12 So I'm trying to understand, if I'm not
13 going to be a contributor for thirty (30) years out of
14 my life and everybod -- that's a generation, thirty
15 (30) years, by definition, and so how does that fit
16 into -- into this thought process that exists here,
17 and I realize, I'm sorry, I'm new, but I'm struggling
18 with it, because I -- I don't feel that this plan --
19 that -- that this intergenerational, the way I think I
20 understand it or how it's been proposed here, that it
21 applies.
22 Because our customers will never
23 contribute some of them. They'll never have a driver
24 licence, they'll never have a car. And every
25 Manitoban from the day they're born to the day they

1 die they probably won't contribute twenty (20) to
2 thirty (30) years in the plan.
3 So are we -- you know, like if I was to
4 talk on the life insurance side versus the P&C side,
5 if -- if you want public aut -- auto insurance to
6 succeed on the long-term you almost have to think
7 about it term-life versus whole-life, right. Like --
8 like you don't want to pay term-life. You need to pay
9 whole-life, it's going to be affordable.
10 So how does that fit in, because I keep
11 hearing that term all the time and -- and frankly I --
12 I struggle. And I'd be interested to hear the views
13 of the panel members is this -- you really bought into
14 this intergenerational thing considering that a
15 Manitoban will not pay into the plan for at least
16 thirty (30) years during their lifetime. Some of them
17 will never pay.
18 And so -- so I'm struggling with that
19 and -- and I think that has a -- it seems to have an
20 impact on -- on the rating application and -- and how
21 people think about rate stability and predictability.
22 So I -- I don't really share the view of that
23 intergenerational thing that -- that policy holders
24 have to -- to pay. I mean, for whatever -- no, you
25 have to -- this is a long-term game. Always have four

1 (4) or five (5) generations in the plan at any given
2 time. Some of them won't pay. Some of them will pay.
3 Some will pay more than others. I'm trying to
4 understand that, I'm sorry.
5 MS. CANDACE GRAMMOND: Thank you, Mr.
6 Guimond. I'm just going to jump in and sort of
7 respond to that a little bit. When we use the term,
8 and -- and 'we' being the Board advisors, use the term
9 'intergenerational inequity' we're referring to the
10 concept of today's customer, or ratepayer, paying for
11 something that's ultimately going to benefit a future
12 ratepayer.
13 So one (1) context in which this
14 concept has come up is RSR rebates, right? Motorists
15 pay into the RSR, and then at some further time,
16 there's a rebate, but the rebate may not be going to
17 the same people that paid it in. So that -- that's --
18 I'm not asking you to respond to that. That's just a
19 -- a comment of one (1) context in which that concept
20 has arisen in this forum over the years.
21 Another way to state it would be
22 amounts paid by past ratepayers to benefit people
23 today. So coming back to my question to Mr. Johnston
24 and the actuarial context, we were talking about the -
25 - the differences between the two (2) estimates, the

one that's done by MPI, the one that's done strictly in accordance with accepted actuarial principals.

And we talked about the fact that the conventionally estimated rate indication might be charging more or less than it -- than it actually required in a given year, which means if more is being charged, there may be policyholders within that complement that are paying that then move out of Manitoba, or stop insuring a vehicle, and while they still may be a customer of MPI in the sense that you use it, they're not actually paying a vehicle premium anymore.

So that's -- not that I'm here to answer questions necessarily, but for the -- for the -- the benefit of the group discussion, that's the -- the context that we have. So certainly, while the population of drivers in Manitoba is not perfectly stable, right, it's changing all the time, who's in, who's out, who's driving, who's not, but it is a -- a monopoly plan. And -- and we recognize that it's more stable in this context than it would be in a -- in a private sector situation.

So my question to Mr. Johnston relates specifically to the actuarial context and those two (2) rate indications, and -- and what are the

1 Corporation's views with respect to that? And if --
2 if the answer on behalf of the Corporation is the one
3 that you gave, we've got it. And if -- if there's
4 anything else to add with respect to that concept in
5 the context in which the question was asked, then
6 we're happy to hear it.
7 MR. DAN GUIMOND: I -- I think that
8 it's important for me to -- to leave that thought for
9 the -- for the members of -- of the panel because by
10 design -- by design, you have intergenerational -- it
11 -- it's -- by design you're -- you're always cross-
12 subsidizing because -- because everybody is our
13 customer. All Manitobans are our customer. It
14 doesn't matter if -- if you're going to ever own a
15 car, or have a driver's licence. You're a customer.
16 And so I want to leave that thought,
17 and really think about it, because I think this --
18 this particular thought process needs to be challenged
19 a bit. It really does. And if we want public auto
20 insurance to be successful, you have to smooth it out,
21 because I got -- I got at least four (4) or five (5)
22 generations -- if -- if -- thirty (30) years of
23 generation. I've got four (4) or five (5) of them on
24 the go at any given time. And -- and I got at least
25 two (2) or three (3) of them that are not -- not

1 contributing.

2 So I -- I -- that's important to -- to

3 start challenging that -- that thought process.

4 MS. CANDACE GRAMMOND: Madam Chair,

5 I'm noting the time. I just have a couple more

6 questions for Mr. Johnston with respect to the rate

7 indication -- oh, sorry.

8 MR. LUKE JOHNSTON: That's okay.

9 MS. CANDACE GRAMMOND: I didn't mean

10 to cut you off.

11 MR. LUKE JOHNSTON: Yeah. No, if we -

12 - from a -- a pure -- purely actuarial perspective, if

13 we decide that our mandate is to break even in the

14 fiscal year period, which is what we've done always,

15 is the -- well, at least for a couple decades, then by

16 definition, from an actuarial perspective there will

17 be some inequities between amount paid, you know, by

18 people right now and -- and on an actuarial basis.

19 Like, that's by definition.

20 But in terms of the consistency, like,

21 when I talk to family and friends about how we set

22 rates, I just -- I say, Well, you can know that in the

23 rating period, we're breaking even. We're -- we're

24 making our best estimate forecast and we're predicting

25 to make no money, like -- like, putting rebates and --

1 and surcharges aside.

2 And that seems pretty equitable in

3 terms of right now, you know, every -- we're always

4 going to set your rates to -- to break even. So

5 anyways, that -- that's how I -- that's how I describe

6 it. But with that mandate, we can never be fully

7 matched to an actuarial basis, I don't believe.

8 MS. CANDACE GRAMMOND: And I take it

9 that that's not an issue that is of concern to you, as

10 the chief actuary for the Corporation?

11 MR. LUKE JOHNSTON: It's -- it's not,

12 because we do -- our -- our methods are actuarially

13 based, but we have -- unless it changes, we have a

14 regulatory or a -- or a corporate mandate to achieve a

15 certain objective, and we have to get there in some

16 way. You know, we could discuss maybe the way we get

17 there could be a little different or the rate-making

18 methodology could change a little bit if we think we

19 could improve the equity -- or the equitable treatment

20 of -- of different classifications, but I still think

21 we have to get to that break-even mandate somehow.

22 MS. CANDACE GRAMMOND: Thank you. As

23 I indicated, Madam Chair, I just have a couple more

24 questions on this, and then we can take our

25 lunchbreak, if that's okay.

1 So, Mr. Johnston, we've been talking
2 about the two (2) manners in which the estimate are
3 prepared -- or is prepared.
4 And can you tell us why the estimate
5 that's first provided in AI-9 is not prepared in a
6 manner that recognizes the expected investment income
7 on retained earnings as an offset to premiums?
8 MR. LUKE JOHNSTON: It really was done
9 with the focus on the particular costs associated with
10 that policy -- with those policies. I don't disagree
11 with the idea of -- you know, of including investment
12 income on other assets, so I accept the change that we
13 made in the IR. And if that's something that we want
14 to include in this going forward, I might have some
15 discussions with Mr. Pelly and others about how to
16 appropriately do that, but it -- that can be done.
17 MS. CANDACE GRAMMOND: Can you comment
18 upon the challenges that you face related to interest
19 rate forecasting in each of the approaches that are
20 taken, the -- that is the conventional GRA approach
21 and the actuarially accepted practice approach?
22 MR. LUKE JOHNSTON: There's -- there's
23 definitely challenges in both. So if you're -- when
24 we're doing our -- our current methodology, which is
25 looking at the fiscal year, the Board already knows

1 how sensitive that forecast is to the results. So if
2 you have a -- a very significant interest rate
3 increase, you might generate positive results and --
4 and give a bigger rate decrease or no increase. And
5 then they don't materialize, and all of a sudden,
6 you're short money, all right? So we're in that
7 situation right now. And we're -- we use the ALM to
8 try to reduce that -- that problem.
9 On the pure actuarial -- accepted
10 actuarial practice side, at least my interpretation of
11 it is that we're looking for more of a long-run
12 discount rate appropriate for the duration of the
13 cashflows and such. And that too will change over
14 time. You'll set rates on some sort of basis right
15 now, and it could be dramatically different than what
16 you expected.
17 So we're in a very interesting interest
18 rate environment, so both methods, I think, have --
19 have issues with how -- how that plays out. And
20 again, if -- if the results are completely different,
21 we might be saying, oh, well, we overcharged or
22 undercharged customers on both methods. But you can
23 only set rates based on what you -- the best
24 information you have right now.
25 MS. CANDACE GRAMMOND: Thank you.

1 Madam Chair, it might be an appropriate time to take
2 lunch. And I apologize for going over by a few
3 minutes.
4 THE CHAIRPERSON: Okay, thank you. I
5 think we could take an hour today. And we'll be back
6 by, I guess, about ten (10) after 12:00. Thank you.
7 I mean ten (10) after 1:00, sorry.
8
9 --- Upon recessing at 12:08 p.m.
10 --- Upon resuming at 1:12 p.m.
11
12 THE CHAIRPERSON: I hope you enjoyed
13 your lunch. We're ready to start the proceedings
14 again. And I believe -- Ms. Kalinowsky, did you pass
15 some information out?
16 MS. KATHY KALINOWSKY: Yes. Good
17 afternoon. I passed out responses to some of the pre-
18 asks. CAC Pre-Ask number 3 was circulated, and it
19 should be marked as CAC Exhibit number 6-3.
20
21 --- EXHIBIT NO. CAC-6-3: Response to CAC Pre-Ask 3
22
23 MS. KATHY KALINOWSKY: PUB Pre-Ask
24 number 1 was responded to, and that should be marked
25 as PUB Exhibit number 15.

1 --- EXHIBIT NO. PUB-15: Response to PUB Pre-Ask 1
2
3 MS. KATHY KALINOWSKY: And PUB Pre-Ask
4 number 2 should be marked as PUB Exhibit number 16.
5
6 --- EXHIBIT NO. PUB-16: Response to PUB Pre-Ask 2
7
8 THE CHAIRPERSON: Okay, thank you very
9 much. I believe now that...
10
11 (BRIEF PAUSE)
12
13 THE CHAIRPERSON: Now I'll call upon
14 Ms. McCandless to give the cross-examination. Thank
15 you.
16 MS. KATHLEEN MCCANDLESS: Thank you,
17 Madam Chair.
18
19 CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:
20 MS. KATHLEEN MCCANDLESS: I will be
21 addressing my questions to the issue of road safety.
22 And good afternoon. And, Diana, if I could get you to
23 pull up Mr. Guimond's PowerPoint?
24
25 (BRIEF PAUSE)

1 MS. KATHLEEN MCCANDLESS: Thank you.
2 And if you could please go to slide 7? Mr. Guimond, I
3 just have a question with respect to the last bullet
4 on this slide, which is in respect of success factors
5 for PUB and MPI delivery to Basic ratepayers. At the
6 bottom of the slide, it's written:
7 "To develop a common approach to
8 loss prevention and road safety that
9 fits with our collective mandates."
10 I would just ask you to please
11 elaborate on -- on what is meant by this 'common
12 approach'?
13 MR. DAN GUIMOND: Last year the -- the
14 regular -- regulator, when we talked about --
15 mentioned how the Intervenors came here and -- and
16 talked a lot about some stuff that maybe could be done
17 outside of the regulatory process, and people would
18 have a chance to go and -- and work collaboratively on
19 -- on the issues maybe that are important to them, and
20 to be able to -- to collaborate, and then the
21 regulator could just be kept informed.
22 So you can see with our rate
23 application this year, it's in two (2) different
24 volumes. I know there's one (1) in Volume I, and then
25 there's -- there's the other volume, which I think is

1 Volume III in the Appendices, where we -- we've put
2 the loss prevention framework. We've created the
3 various committees. We've invited various people,
4 some of them Intervenors, to participate at the table
5 and then develop the different programs or strategies
6 that -- that everybody sort of feels is -- is
7 important to them to -- in terms of loss prevention or
8 road safety.
9 MS. KATHLEEN MCCANDLESS: Thank you.
10 And when you refer to committees, one (1) of those
11 committees would be the external stakeholder
12 committee?
13 MR. DAN GUIMOND: That's correct.
14 MS. KATHLEEN MCCANDLESS: And is that
15 also a reference to the new provincial committee?
16 MR. DAN GUIMOND: I think that's the
17 other one. I think there's two (2) of them, yeah.
18 MS. KATHLEEN MCCANDLESS: Provincial
19 road safety committee?
20 MR. DAN GUIMOND: Yeah, there's one
21 (1) where we're working with the government of
22 Manitoba, and there's one (1) that we created, yeah.
23 MS. KATHLEEN MCCANDLESS: Yes. Thank
24 you. And I'll have a -- a few more questions about
25 those in a moment. Diana, if I could ask you to

please go to slide 20?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And here, the loss prevention accomplishments are outlined. With respect to the first bullet, there's a reference to work having commenced to execute a comprehensive loss prevention strategy in consultation with IBM. I understand that in addition to that strategy, IBM has also been involved in conducting an analysis of the High School Driver Education Program?

MR. DAN GUIMOND: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Now, with respect to the -- the loss prevention strategy, I understand that the Corporation recommended all the -- or accepted all the recommendations that were made by IBM. Is that correct?

MR. DAN GUIMOND: Yes.

MS. KATHLEEN MCCANDLESS: Now, Diana, if I could ask you to please go to PUB/MPI-1-35?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And I'd ask

1 you to scroll to the second page of this IR, and this
2 was an IR with respect to the -- the progress and --
3 and the recommendations of the IBM report. At (b),
4 it's written that:
5 "The implementation of the loss
6 prevention strategy is underway."
7 What work has been done on it to date?
8 MR. DAN GUIMOND: I think we need to
9 go back to the accomplishment slide, and -- that I put
10 into my -- slide 20, I think, is in --
11 MS. KATHLEEN MCCANDLESS: Okay, so --
12 MR. DAN GUIMOND: -- yeah, so that's--
13 MS. KATHLEEN MCCANDLESS: -- whatever
14 is in --
15 MR. DAN GUIMOND: Yeah.
16 MS. KATHLEEN MCCANDLESS: -- slide 20
17 would be what's been done to date?
18 MR. DAN GUIMOND: Yeah, just --
19 MS. KATHLEEN MCCANDLESS: Okay.
20 MR. DAN GUIMOND: -- just -- yeah.
21 And then the -- the things that I mentioned yesterday,
22 or the day before, where on the road safety, we're
23 going to be proceeding with telematic -- pilots on
24 telematics and dash cams for -- for the driver ed
25 program.

1 MS. KATHLEEN MCCANDLESS: Have any of
2 the programs or initiatives been costed to date?
3 MR. DAN GUIMOND: We have the -- the
4 budget, and I -- the number escapes me right now, but
5 I -- I know it will fit within that funding envelope
6 that -- that we had in the budget.
7 MS. KATHLEEN MCCANDLESS: Also on
8 slide 20 there is reference in the fourth bullet to
9 the -- the external stakeholder committee on loss
10 prevention. I understand that according to its terms
11 of reference it's required to meet at least quarterly.
12 Is that right?
13 MR. DAN GUIMOND: I'd have to check,
14 but I'll -- I'll take your word for it.
15 MS. KATHLEEN MCCANDLESS: And I
16 understand that if -- Diana, if you could refer to PUB
17 -- PUB/MPI-1-36.
18
19 (BRIEF PAUSE)
20
21 MS. KATHLEEN MCCANDLESS: And this was
22 an IR with respect to the progress of the committee to
23 date. I would just ask, Diana, that you please scroll
24 down to the response. There was a meeting of the
25 committee scheduled for September 2015.

1 Is there any update to the outcome of
2 that meeting?
3 MR. DAN GUIMOND: I haven't been
4 briefed on it, so I -- I would -- I'd -- I'd have to
5 take that as an undertaking if you want more
6 information. But I'd -- I'd have to go double check
7 with the person who is running the program.
8 MS. KATHLEEN MCCANDLESS: If we could
9 have that as an undertaking that would be appreciated.
10 Thank you.
11
12 --- UNDERTAKING NO. 10: MPI to provide update on
13 outcome of External
14 Stakeholder Committee for
15 Loss Prevention meeting
16 scheduled for September,
17 2015
18
19 CONTINUED BY MS. KATHLEEN MCCANDLESS:
20 MS. KATHLEEN MCCANDLESS: Now, with
21 respect to the provincial road safety committee, in
22 the filing at LP -- and, Diana, I don't think there's
23 a need to -- to go there. Just -- the ref -- for your
24 reference it's page 31 at the bottom of the page.
25 There is a reference to a meeting to be taking place

with the provincial road safety committee in June of 2015.

Is there any update from that meeting?

MR. DAN GUIMOND: No, I -- I have -- I haven't been briefed on -- on what happened at those meetings. So I'd have to double check, or get an update.

MS. KATHLEEN MCCANDLESS: Okay. If we could have that by way of undertaking as well that would be appreciated.

(BRIEF PAUSE)

MR. DAN GUIMOND: Sorry, yes.

--- UNDERTAKING NO. 11: MPI to provide update on outcome of Provincial Road Safety Committee meeting in June, 2015

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Perhaps generally then, Mr. Guimond, could you advise as to what the goals and -- and objectives of the provincial road safety committee are?

1 (BRIEF PAUSE)

2

3 MR. DAN GUIMOND: I just want to be

4 consistent with what we put in our rate app, so you

5 would have to go to Volume I, road safety section page

6 7 and 8.

7 MS. KATHLEEN MCCANDLESS: That's LP

8 page 7 and 8, yes.

9 MR. DAN GUIMOND: And -- and 9, yes.

10

11 (BRIEF PAUSE)

12

13 MR. DAN GUIMOND: In particular, LP-

14 2.1.

15

16 (BRIEF PAUSE)

17

18 MR. DAN GUIMOND: So all of our

19 efforts and what the committees would do would fall

20 within that framework. And depending what people

21 decide to do, then that's going to be compliant to

22 that framework in achieving what's put in there.

23 MS. KATHLEEN MCCANDLESS: Okay. And

24 this is with respect to the provincial road safety

25 committee?

1 MR. DAN GUIMOND: This is at the
2 corporate level.
3 MS. KATHLEEN MCCANDLESS: Okay. Yeah,
4 my -- sorry, to clarify, the -- the question was with
5 respect to the provincial road safety committee, and
6 if the Corporation has any information as to what the
7 objectives of -- of that committee are.
8 MR. DAN GUIMOND: That would be in the
9 terms of reference of the committees.
10 MS. KATHLEEN MCCANDLESS: Yes, which I
11 understand have been developed?
12
13 (BRIEF PAUSE)
14
15 MS. KATHLEEN MCCANDLESS: To assist
16 you, Mr. Guimond, I would refer to LP page 31.
17
18 (BRIEF PAUSE)
19
20 MR. DAN GUIMOND: I guess you're
21 referring to LP 5-4?
22 MS. KATHLEEN MCCANDLESS: Yes.
23 MR. DAN GUIMOND: Okay. And I also
24 note the terms of references there's -- there's
25 actually a -- a document that's been approved now by

1 the committee also.

2 MS. KATHLEEN MCCANDLESS: Is that

3 something that could be provided --

4 MR. DAN GUIMOND: Absolutely.

5 MS. KATHLEEN MCCANDLESS: -- to the

6 Board?

7 MR. DAN GUIMOND: Yeah, absolutely.

8 Yeah.

9 MS. KATHLEEN MCCANDLESS: Thank you.

10 So we'll have an undertaking to that effect?

11 MR. DAN GUIMOND: Yes.

12 MS. KATHLEEN MCCANDLESS: Thank you.

13

14 --- UNDERTAKING NO. 12: MPI to provide Terms of

15 Reference of Provincial

16 Road Safety Committee

17

18 CONTINUED BY MS. KATHLEEN MCCANDLESS:

19 MS. KATHLEEN MCCANDLESS: Diana, if --

20 I'd ask you to please go to slide 22 of Mr. Guimond's

21 presentation.

22

23 (BRIEF PAUSE)

24

25 MS. KATHLEEN MCCANDLESS: Perhaps we

1 could get started while this boots up. It's -- it's
2 with respect to the -- the high collision intersection
3 signage that we heard you speak about a couple of days
4 ago. And so -- oh, there it is.
5 So my questions are: How long is the
6 pilot in -- expected to run?
7 MR. DAN GUIMOND: Once we have the
8 approval assuming we pay to put the signage on we want
9 it to run for a year.
10 MS. KATHLEEN MCCANDLESS: And has the
11 cost of the program been determined at this time?
12 MR. DAN GUIMOND: Yes, but the number
13 escapes me, but there is a number that's been
14 established for that effort, yes.
15 MS. KATHLEEN MCCANDLESS: Is it
16 possible to find that number out and provide it --
17 MR. DAN GUIMOND: Yes.
18 MS. KATHLEEN MCCANDLESS: -- by way of
19 undertaking?
20 MR. DAN GUIMOND: Yes.
21 MS. KATHLEEN MCCANDLESS: Thank you.
22
23 --- UNDERTAKING NO. 13: MPI to provide cost of
24 High Collision
25 Intersection Signage pilot

1 CONTINUED BY MS. KATHLEEN MCCANDLESS:
2 MS. KATHLEEN MCCANDLESS: How will...
3
4 (BRIEF PAUSE)
5
6 MS. KATHLEEN MCCANDLESS: How will
7 outcomes be tracked for this pilot?
8 MR. DAN GUIMOND: We have the
9 statistics for each intersections in terms of
10 frequency and severity of their losses from a
11 historical perspective and then we're going to
12 accumulate the data during the pilot, the one (1) year
13 pilot, and then we're going to compare the effects and
14 -- and be able to compare the effects not only for
15 each intersection compared to history, but also if
16 there's actually a correlation between the signage and
17 enforcement within the pilots.
18 So -- so it's a two (2) dimensional
19 analysis.
20 MS. KATHLEEN MCCANDLESS: Thank you.
21 Part of the pilot includes visible police enforcement.
22 So my question is:
23 Has the Corporation had any discussion
24 with law enforcement about the sustainability of a
25 measure that would involve police presence at an

1 intersection?

2 MR. DAN GUIMOND: Yes, I've actually

3 met with the chief of police of the City of Winnipeg.

4 MS. KATHLEEN MCCANDLESS: And what was

5 the outcome of that discussion?

6 MR. DAN GUIMOND: Yes, we will have --

7 now, whether it's police officers or cadets -- I

8 believe cadets can issue tickets. They were looking

9 into that to minimize the -- the costs, because it's

10 more traffic enforcement. So I don't know the answer

11 if it'll be a cadet or a police officer, but there'll

12 be a presence there, yes.

13 MS. KATHLEEN MCCANDLESS: And if the

14 pilot proves successful, does the Corporation have any

15 information as to whether there would be an ongoing

16 commitment from law enforcement?

17 MR. DAN GUIMOND: No, we haven't asked

18 that. In fact, if there is one then we're going to

19 have to think about how do we do that, because it

20 doesn't make sense to have police officers at every

21 intersection. We -- we picked the four (4) -- the

22 four (4) highest intersections that were problematic

23 for us. So on a go-forward basis, if -- if

24 enforcement is an issue, like, how -- how do we -- how

25 do we deal with that? And we're going to have to

1 think about the implications of that and how we move
2 on a go-forward basis.
3 But right now, we just want to
4 understand if the physical presence of a police
5 officer makes a difference or not.
6 MS. KATHLEEN MCCANDLESS: Thank you.
7 I'm now going to ask you some questions about the DSR.
8 We did hear Ms. Reichert say, I believe it was a
9 couple days ago, that the Corporation is seeing a
10 positive impact as a result of the DSR process?
11 MR. DAN GUIMOND: I'm going to let
12 Luke answer that -- Mr. Johnston, sorry.
13 MS. KATHLEEN MCCANDLESS: So the
14 Corporation, yes, has -- now has five (5) years of DSR
15 experience. Is that right?
16 MR. LUKE JOHNSTON: Just counting
17 fingers. That sounds right, yeah. It's -- I -- I
18 don't use my fingers for all the -- all the work that
19 I do, but...
20 MS. KATHLEEN MCCANDLESS: What can the
21 Corporation file in next year's GRA regarding an
22 analysis of the DSR experience to date?
23
24 (BRIEF PAUSE)
25

1 MR. LUKE JOHNSTON: Thanks. So I
2 don't know if -- not everyone here will remember the
3 driver safety rating application. But in that
4 application we basically provided our research, showed
5 what we would expect to happen under DSR. At the
6 time, we had no idea if -- if driver behaviour would
7 improve or -- or not.
8 So obviously, we have the data, so we
9 can update that data. We can say, you know, this is
10 how the drivers are doing, compare that to our initial
11 expectations and show how it's developed through time.
12 We -- we also obviously know the claims experience, et
13 cetera. The issue, of course, is going to be around
14 the -- the policy side about what to do with those
15 results, how and if rating will change because of DSR.
16 So I'm going to -- I'm going to defer
17 to Mr. Guimond to talk a little bit about that.
18 MR. DAN GUIMOND: I think it's on.
19 Right, okay. So the way the Corporation was
20 structured, the reason that there was insurance on the
21 driver licence was to make sure that somebody who
22 drives unknowingly to them a vehicle that wasn't
23 insured, that they would have coverage.
24 The way the program was designed is you
25 never find yourself without insurance. And that's

1 also one (1) of the reasons why there's no named
2 individual on the policy. You never, never as a
3 Manitoban have to worry about insurance. That's why
4 we can lend our cars to anybody. Anytime you drive a
5 car, you don't have to worry about it. If -- if
6 grandpa comes from Kenora to visit and they just
7 bought a new car and they forgot to buy insurance and
8 you get into an accident with it, you don't have to
9 worry about.
10 There's a lot of things that was done
11 to make sure that from a policy perspective, that
12 Manitobans never find themselves uninsured. And as
13 soon as you're legally able to drive, you're -- you're
14 -- affordability plays a big role also on -- on the
15 driver licence.
16 So the first step that we're going to
17 have to do with the evolution of the DSR is really to
18 go back to the founding principles of how the company
19 was structured and have strong dialogues with the
20 board of directors and the government to say what
21 makes sense here, and what's fair, and what's
22 reasonable, and what does the public want.
23 We're going to have to go back to our
24 customers and do some research and surveys, and find
25 out what people want, and what they're willing to

1 accept because if we start to transfer hundreds of
2 millions of dollars on the driver licence, for
3 example, what does that mean to a fifteen and a half
4 (15 ½) year-old? What does it mean to how this whole
5 plan was set up to -- to do?
6 And also we know that -- that families
7 -- like how many of us as parents, we buy an extra car
8 and let the -- the kids drive it, or -- or whatever,
9 but there's also care and control on that side of
10 things. So there's a lot of policy implications, and
11 as we get closer to having the data that gives you
12 information from a rating perspective, we have to deal
13 with the policy side first.
14 And I think we're going to have to have
15 some internal discussion amongst us as to when is the
16 time to start to have this serious dialogues in terms
17 of policy. And right now, as -- as you know, there's
18 an election coming in Manitoba next year, so -- so I
19 would say that the logical step would be maybe to
20 start those dialogues, if there's a change in
21 government it would be like in twenty (20) -- sorry,
22 we're 2016 -- 2017 would be a good year to -- to have
23 those policy discussions at the highest level to say
24 what makes sense, and start to do the -- the
25 discussion on -- on that.

1 MS. KATHLEEN MCCANDLESS: Thank you.
2 So going back more specifically to the issue of data,
3 I just want to clarify what the Corporation could file
4 at next years GRA with respect to the -- any -- any
5 analysis conducted?
6 MR. LUKE JOHNSTON: Well, there's --
7 there's obviously a lot of information we could
8 provide that the original...
9
10 (BRIEF PAUSE)
11
12 MR. DAN GUIMOND: Regarding your
13 question, the Corporation didn't really plan on
14 starting to spend money on analysis until we deal with
15 the policy decision because we didn't -- we don't feel
16 -- I don't feel that spending money on doing a lot of
17 analysis until you have the policy that -- that it's -
18 - it -- from a sequence perspective it -- it doesn't
19 resonate with me.
20 Can we do analysis with the data?
21 Well, yeah, we can do a lot of analysis. But -- but
22 until we have the policy decision, we -- we weren't
23 thinking of spending any -- any time on that.
24 MS. KATHLEEN MCCANDLESS: Okay. Does
25 the Corporation have any sense if there will be a

1 point at which it's going to be looking to the Board
2 to change any of the -- the rates?
3 MR. DAN GUIMOND: So from a -- like
4 DSR now is -- I think it was put in -- in 2010 or
5 something like that, so we have the data. I think
6 there's enough data to start doing some analysis, but
7 next year depending on -- on what happens
8 provincially, next year is when we -- by the fall of
9 next year is when we would start to work on the policy
10 side.
11 And then I would see by 2017 to have
12 the policy, which probably could be shared in our Rate
13 App in -- in 2017. And then as we provide the policy,
14 we could also share the data in the 2017 Rate App, and
15 then -- and then start the dialogue.
16
17 (BRIEF PAUSE)
18
19 MR. DAN GUIMOND: Yeah. Yeah. My
20 apologies, 2018 rate app.
21 MS. KATHLEEN MCCANDLESS: Given that
22 the DSR affects what people pay for insurance, to
23 promote fairness in rating it would be appropriate to
24 know to what extent the current DSR is aligned with
25 the actual experience.

1 MR. LUKE JOHNSTON: Now, that -- oh,
2 sorry. Yeah, and agreed that's fair. And -- and that
3 was also true when -- when we implemented DSR as well.
4 Our research showed that, sure, like the -- you know,
5 like, a forty-five dollar ($45) licence for a new
6 driver wasn't going to match their -- their claim
7 costs.
8 But again, it was -- as you know, when
9 we implemented DSR we were very concerned about the
10 customer impacts and the policy around it. So I
11 imagine it would be much the same. Mr. Guimond might
12 have more to say on that.
13 MR. DAN GUIMOND: What's fair? That -
14 - that will need to be a key policy decision based on
15 customer research, and -- and how the board of
16 directors and the Government of Manitoba will want to
17 proceed.
18 MS. KATHLEEN MCCANDLESS: Thank you.
19 MR. REGIS GOSSELIN: I guess -- I
20 guess, you know, we're kind of talking at two (2)
21 levels here. Because I think one (1) of them is the -
22 - sort of the, you know, the broader construct around
23 driver licensing and DSR and so on.
24 But at a more technical level, the DSR
25 that we have now, you know, with the gradations and so

1 on, is it working? And, you know, can you do -- are -
2 - are there tweaks that you're considering that don't
3 involve this sort of broader construct around the DSR?
4 MR. LUKE JOHNSTON: The -- the program
5 is -- is doing much better than we ever anticipated.
6 Ev -- as I -- and I talked a little bit about this
7 when we were looking at drivers -- driver premiums.
8 Every year we redo this forecast, and we keep having
9 improved experience, particularly on the demerit side.
10 And there's also a chart -- I don't think we need to
11 reference it, but if -- there's a chart in our claims
12 incurred section that says, Since DSR came in let's
13 look at the monthly collision rates, particularly in
14 the summer. And they've been declining consistently
15 since the program came in.
16 And we checked some things to make sure
17 that, you know, that would be consistent that DSR had
18 that impact. One (1) of them was who is -- who is
19 having the accidents or not having the accidents. And
20 again, a lot of the mediocre to higher risk drivers
21 were the ones coming down. And we also -- I'm trying
22 to think -- we also looked across different vehicle
23 segments to make sure it wasn't, like, a technology
24 related improvement or something. But -- so it
25 definitely looks like it's having a -- a very positive

1 effect on the -- on the -- again the mediocre to
2 higher risk drivers. I won't suggest it's optimal,
3 but it appears to be working well.
4 At the -- in terms of the tweaking
5 part, at the moment, no. But we -- we will keep an
6 eye on particularly the movements. We will have to,
7 over time, make sure that they continue to be fair if
8 -- if the drivers are doing better at certain stages.
9 We've added some other demerit pieces, like distracted
10 driving where we'll have to make sure the scale,
11 again, continues to be fair. But, yeah, those will be
12 analyzed at some point.
13 MR. REGIS GOSSELIN: A table we saw
14 yesterday which showed the increase in number -- car
15 numbers, and vehicle numbers, and also the -- the sort
16 of movement on the scale, the DSR scale. Remember
17 that two point seven five (2.75) plus the point one
18 one (.11)? That point one one (.11) indicates that
19 people are paying more because of demerits, right? I
20 mean, they're -- they're sliding down -- collectively
21 sliding down that demerit scale.
22 Are they? Is that -- is that why
23 you're getting a -- a positive number there?
24 MR. LUKE JOHNSTON: I'm trying to
25 think what slide is -- is being referenced.

1 MR. REGIS GOSSELIN: Yeah, it was --
2 it was where we were looking at the -- the change in
3 car numbers, or the vehicle numbers. You -- you were
4 getting a value of two point seven five (2.75) or
5 something like that.
6
7 (BRIEF PAUSE)
8
9 MR. LUKE JOHNSTON: So if you -- if --
10 if you can go to the revenue section, Volume II, page
11 8. That might be -- I'm -- I'm guessing that's what
12 you're looking at.
13
14 (BRIEF PAUSE)
15
16 MR. LUKE JOHNSTON: So when we looked
17 -- let's see here, we can actually go right to page 11
18 actually. And -- yeah, the bottom of page 11. So
19 this is the DSR upgrade factor -- or our projected DSR
20 upgrade factor. So you're right, if the number -- if
21 the percentage is positive that means we're getting
22 additional funds from DSR movement. If it's negative
23 it's the opposite.
24 So a couple things are happening. When
25 we placed everybody on the DSR scale initially it was

1 done in a very kind of favourable easy transition way.
2 Like there was -- like I think only about 2 percent of
3 drivers in demerits. In our original DSR application
4 we expected that to increase kind of to the 6 to 10
5 percent range. Like there'd be more people, you know,
6 in the kind of mediocre ranges.
7 So as we've had more people transition
8 into some of those we have got some additional
9 revenue. What's happening in our forecast here, in
10 '15/'16 where it says negative point two zero (.20),
11 that is actually -- in -- in -- when we implemented in
12 2010 we had a really large group of drivers put at DSR
13 10 and they've been moving along the scale up to the
14 top. And this big cohor -- cohort goes from a 30
15 percent discount to a 33 percent discount in the
16 '15/'16 year.
17 So we have a whole bunch of drivers
18 that are suddenly getting an extra 3 or 4 percent
19 reduction of their premiums, so that's why that's
20 negative. However, after that time they're capped.
21 That big group hits fifteen (15) and they can't get
22 anymore discounts. So the net result ends up being
23 that we actually get -- get more revenue, yeah.
24 MR. REGIS GOSSELIN: But it does
25 suggest that the balance of the cohort is going down

1 that scale, right? I mean, as they move down the
2 scale you're getting a higher revenue?
3 MR. LUKE JOHNSTON: Yeah, and after
4 that point, you're right, it -- it does -- since so
5 many drivers are now at the top it -- they can't get
6 anymore discounts, right, so the net effect to the
7 bottom, you're right, is an increase, yeah.
8 MR. REGIS GOSSELIN: But that's not
9 entirely an unexpected result. I mean, that's -- I
10 guess what I'm saying, does that -- does that point to
11 a -- a flaw in the -- in the program, or is it -- in
12 terms of the contract or is it --
13 MR. LUKE JOHNSTON: I don't -- I don't
14 believe so. There -- we -- we knew we were going to
15 have more demerit drivers and we're -- we're going to
16 have to reach some kind of stabilization point. And
17 every year that goes by it becomes more and more
18 stable in terms of the distribution on the scale.
19 What we weren't expecting was this
20 pretty drastic improvement from drivers on the -- on
21 the negative side, so we still have more people there,
22 but not as many as we thought. I can't recall, but
23 our initial estimate of driver revenue was much --
24 much higher than it is today.
25 It's -- like I said, it's been falling

1 every year we update, so that -- that is a good thing,
2 yeah.
3
4 CONTINUED BY MS. KATHLEEN MCCANDLESS:
5 MS. KATHLEEN MCCANDLESS: Thank you.
6 Now, assuming at some point an analysis is done of the
7 DSR, will the Corporation be looking to test those
8 results with the driver or vehicle premiums?
9 MR. LUKE JOHNSTON: Can I ask what --
10 what is meant by 'tests'?
11 MS. KATHLEEN MCCANDLESS: So by
12 comparing those with -- comparing the results with --
13 pardon me. Let me just rephrase it.
14 Would it be interested in testing the
15 driver premiums and vehicle premium discounts by
16 comparing them with experience-driven indicated
17 values?
18 MR. LUKE JOHNSTON: Again, the -- the
19 data is there, but this will be, again, a policy-
20 related issue. And the data was also there. And we
21 created a DSR initially, too. We had, you know, each
22 step on the scale and saying, you know, Here's what
23 this driver costs. And we actually went right down to
24 minus twenty (20). And we said, We think that the
25 minus twenty (20) driver costs us about three thousand

1 dollars ($3,000) a year.
2 And -- and we said, you know, Twenty-
3 five hundred (2,500) is a reasonable max at that time.
4 But again, all this will have to be -- is all policy-
5 based discussions.
6 MS. KATHLEEN MCCANDLESS: Thank you.
7 Mr. Guimond, we heard your evidence about the
8 operational plan which is found at Appendix -- it's
9 the appendix filing AI-13. Appendix 6, that's the --
10 it was created as a result of the work that was done
11 by Meyers Norris Penny. And I believe that's
12 referenced in your PowerPoint presentation at slide
13 21. Diana, perhaps we could bring that up?
14
15 (BRIEF PAUSE)
16
17 MS. KATHLEEN MCCANDLESS: I believe
18 that's what is referred to at the first bullet of this
19 slide. Is that right?
20
21 (BRIEF PAUSE)
22
23 MR. DAN GUIMOND: Yes.
24 MS. KATHLEEN MCCANDLESS: Thank you.
25 My -- my question was simply -- there's mention in

here of -- of the plan being underway. And I was just wanting to know to what extent it's underway at this time.

(BRIEF PAUSE)

MR. DAN GUIMOND: In terms of underway from last year, we can see that we had the Meyers Norris Penny done. We have the committee set up. We have the terms of reference for the committee. We have the people identified. We have the frameworks. And so now, in terms of where we're at in the process, is that the train has left the station, and now we're starting to execute the way we described it in -- in the two (2) sections of our rate applications.

And now that the committees are starting to meet, we can see how from those committees we will create, like, priority lists and so on to -- to move forward.

MS. KATHLEEN MCCANDLESS: At this point, are -- are road safety priorities being set on an annual basis?

MR. DAN GUIMOND: Yes.

(BRIEF PAUSE)

1 MR. DAN GUIMOND: I'm sorry --
2 MS. KATHLEEN MCCANDLESS: Pardon me.
3 I -- I'm sorry. I believe --
4 MR. DAN GUIMOND: -- are -- are you --
5 are you waiting for me or am I waiting --
6 MS. KATHLEEN MCCANDLESS: I thought I
7 was waiting for someone there.
8 MR. DAN GUIMOND: Okay.
9 MS. KATHLEEN MCCANDLESS: All right.
10 Then moving on, if -- Diana, if you could refer to the
11 filing at Volume I LP page 40?
12
13 (BRIEF PAUSE)
14
15 MS. KATHLEEN MCCANDLESS: At the top
16 of the page there, this is in respect of last year's
17 order, and there were two (2) things that were -- that
18 the Corporation was asked to do. At 11.19 was:
19 "To provide an independent review of
20 the optimal size of the road safety
21 budget portfolio."
22 And at 11.20:
23 "...an independent review of the
24 current road safety portfolio with a
25 view to optimizing it."

1 I -- I understand that -- if you scroll
2 down to page 41 of this section, it was Ms. Jennifer
3 Kroeker-Hall who was commissioned to write a report
4 examining these issues. Is that right?
5 MR. DAN GUIMOND: That's correct.
6 MS. KATHLEEN MCCANDLESS: And I won't
7 take you specifically to the report. It is mentioned
8 in this section that her conclusion was it was not
9 feasible to provide a definitive response to the
10 answer about the optimal size of the road safety
11 budget.
12 So my question, then, is: How -- what
13 strategy does the Corporation employ in order to
14 determine what its road safety budget is?
15 MR. DAN GUIMOND: If I recall, the --
16 the report said that -- that what -- in terms of
17 value, we -- we were getting good money for -- for
18 what we were -- good results for what we were
19 spending. I -- I still say like I said last year,
20 that it's very, very hard to know the return on
21 investment on road safety for specific things because
22 there's so many intangibles.
23 I mean, sometimes people tell me, Dan,
24 why do you spend 'X' dollars on Halloween night,
25 buying reflective gear and all that stuff for the

1 kids? Like, why are you doing that? I just know
2 intuitively that if I have a hundred and fifty
3 thousand (150,000) kids with reflecting and all that
4 stuff, because they're going to drive -- they're going
5 to run between cars, they're going to come out from
6 everywhere, that -- like, I don't know how many kids
7 didn't get run over, but I'm going to do it anyway.
8 So the report, I -- I wanted to -- the
9 Corporation wanted to put this report on -- on file to
10 -- to show that at least we tried to answer the
11 question that was so important to the regulator. And
12 I think it -- it does answer the question that was
13 important to the regulator.
14 The other thing is whatever we're
15 doing, I've been with the Corporation for twenty-five
16 (25) years, and MPI does not take credit for this in
17 terms of by their own accomplishing this because we
18 work with the justice department. We work with --
19 with the Manitoba infrastructure and transportation.
20 We work with the police. We work with a gazillion
21 folks out there.
22 I take great pride that -- that I know
23 that whatever we're doing is working because, like I
24 said yesterday, is that there was a hundred and twenty
25 (120), a hundred and thirty (130) Manitobans dying a

1 year in -- in 1990s -- late '90s, and now we were down
2 to sixty-eight (68) in our last fiscal year.
3 So there's fifty (50) Manitobans that
4 are living today that are on the right side of the
5 grass. So it's working. If you -- if you want me to
6 say that this thing is what saved that life, I -- I --
7 it's not -- it's not going to happen. But I do know
8 that the efforts that's happening in Manitoba by all
9 the parties involved is working in that -- that we're
10 going in the right direction.
11 MS. KATHLEEN MCCANDLESS: Now, I
12 appreciate that in its filing, the Corporation has
13 said that it's currently studying the findings in Ms.
14 Kroeker-Hall's report. I just wanted to ask about a
15 couple of areas in her report.
16 So, Diana, if you could go to Volume
17 III of the filing, Appendix 10, page 40, please?
18
19 (BRIEF PAUSE)
20
21 MS. KATHLEEN MCCANDLESS: Just scroll
22 up a -- a tiny bit. Thank you. So one (1) of her
23 recommendations at the second bullet there is to
24 consider clarifying reference to focussing resources.
25 It's -- she -- in her view, what's suggested is that

1 funding for road safety is first allocated, and then
2 priority decisions, from what I gather, are -- are
3 decided within the context of the budget rather than
4 setting the budget according to the priorities.
5 I'm just wondering if the Corporation -
6 - what the Corporation intends to do with that
7 recommendation, if anything?
8 MR. DAN GUIMOND: Well, we're -- we're
9 going to take it into consideration, and then we'll
10 see if -- if we need to change certain things. So
11 we're going to look at it.
12 MS. KATHLEEN MCCANDLESS: So it's
13 being looked at at this time?
14 MR. DAN GUIMOND: That's correct.
15 MS. KATHLEEN MCCANDLESS: Thank you.
16 Diana, if you could please go to page 46. Thank you.
17 At the very top of the page she makes the
18 recommendation at the Corporation consider including
19 behavioural change in the intended outcomes for road
20 safety education.
21 Is this something the Corporation
22 intends to look at?
23 MR. DAN GUIMOND: Yes.
24 MS. KATHLEEN MCCANDLESS: And at -- at
25 this stage is it just a consideration or is anything

1 being implemented in that regard?
2 MR. DAN GUIMOND: We -- we just -- we
3 work really hard to be able to put all of that
4 information on the record. And now we're putting the
5 teams together and so on. So this is really a -- a --
6 it's in infancy right now, but we're moving forward.
7 MS. KATHLEEN MCCANDLESS: Thank you.
8 So I take it that would be where things are at,
9 generally, with respect to her report at this time?
10 MR. DAN GUIMOND: Yes.
11 MS. KATHLEEN MCCANDLESS: Thank you.
12 Now, Diana, if you could please go to Volume I of the
13 filing, the LP section, page 18. And at the very top
14 of this page there's a reference to last year's order
15 and what the Board had asked that the Corporation do
16 in respect of the high school Driver Education
17 program. If you scroll down to page 19 please, Diana.
18 And what's been done is -- is an evaluation of the
19 high school Driver Education Program.
20 And continuing through this part of the
21 filing, my review of it is that generally the results
22 have been positive. It appears that the high school
23 Driver Education Program and the Graduated Driver
24 Licensing Program have had positive effects as far as
25 the -- the Corporation's internal review of those

1 programs.
2 Is that right?
3 MR. DAN GUIMOND: Yes.
4 MS. KATHLEEN MCCANDLESS: I did note,
5 and I don't think there's a need to go to this
6 reference, but at Volume III of the filing, with
7 respect to the -- the analysis of the high -- high
8 school Driver Education Program specifically there was
9 no -- no opportunity as yet to examine the findings as
10 it relates to class 5F drivers, that's full licensed
11 drivers?
12 MR. DAN GUIMOND: The Driver Ed --
13 Education Program and the Graduated Driver Licence
14 Program are -- are two (2) different things. So I
15 just want to make sure that you're not talking about
16 the Graduated Driver Licence, but the Driver
17 Education? Yeah.
18 MS. KATHLEEN MCCANDLESS: That's
19 right.
20 MR. DAN GUIMOND: Yeah. So, yeah,
21 that doesn't apply to the 5F.
22 MS. KATHLEEN MCCANDLESS: There --
23 there's no data yet for the --
24 MR. DAN GUIMOND: No.
25 MS. KATHLEEN MCCANDLESS: -- for the

1 high school Driver Education Program.
2 So my question was just: when does the
3 Corporation expect that it'll have a -- a large enough
4 population size to be able to study the success of the
5 high school Driver Education Program on the class 5
6 licence holders?
7 MR. DAN GUIMOND: I'd -- I'd have to
8 go double check on that one (1).
9 MS. KATHLEEN MCCANDLESS: Okay.
10 Perhaps --
11 MR. DAN GUIMOND: So I'll take that as
12 an undertaking. Yeah.
13 MS. KATHLEEN MCCANDLESS: Thank you.
14
15 --- UNDERTAKING NO. 14: MPI to provide number of
16 Manitobans being served by
17 Adult driver training
18 pilot program
19
20 CONTINUED BY MS. KATHLEEN MCCANDLESS:
21 MS. KATHLEEN MCCANDLESS: Yes, that
22 was an undertaking. Diana, could you please scroll up
23 to page 16 of the filing? And just down a -- a little
24 bit. That's good. At the very last paragraph of that
25 page there's a reference to adult driver tra --

1 training programs in pa -- in Winnipeg and northern
2 Manitoba communities. I ju -- I was just going to
3 have a couple of questions about that.
4 Does the Corporation have any sense of
5 the number of Manitobans that are being served by this
6 program at this time?
7
8 (BRIEF PAUSE)
9
10 MR. DAN GUIMOND: I don't have that
11 number, but I know it's -- it's in the hundreds. But
12 I don't know the exact number.
13 MS. KATHLEEN MCCANDLESS: If it would
14 be possible to be more specific, could we have an
15 undertaking to provide that information?
16 MR. DAN GUIMOND: Okay. Yes.
17 MS. KATHLEEN MCCANDLESS: Thank you.
18
19 --- UNDERTAKING NO. 15: MPI to provide cost of
20 Adult driver training
21 pilot program
22
23 CONTINUED BY MS. KATHLEEN MCCANDLESS:
24 MS. KATHLEEN MCCANDLESS: And does the
25 Corporation have information as to the cost of this

1 pilot?

2

3 (BRIEF PAUSE)

4

5 MR. DAN GUIMOND: Okay. So it's --

6 it's not a distinct line on our cost breakdown, so

7 I'll -- I'll take that as an undertaking.

8 MS. KATHLEEN MCCANDLESS: Thank you.

9

10 --- UNDERTAKING NO. 16: MPI to provide duration of

11 Adult driver training

12 pilot program

13

14 CONTINUED BY MS. KATHLEEN MCCANDLESS:

15 MS. KATHLEEN MCCANDLESS: How long is

16 the pilot intended to run?

17 MR. DAN GUIMOND: It's something we're

18 looking into right now, because we're finding that

19 there's a lot of people coming into Manitoba as adult

20 and they have a driver licence that's not reciprocal

21 for -- for Manitoba, so we issue them what -- what's

22 called 5A driver licence and then they have ninety

23 (90) days to be able to -- to get their Manitoba

24 driver licence and they go for a road test. There's a

25 certain amount of time there.

1 So that's a -- that's a big problem,
2 because a lot of these folks they don't -- they don't
3 necessarily have access to the funds or money to be
4 able to go get class -- like to be able to get
5 professional driving licence school or to get help.
6 They need the card. They're driving with their 5A
7 driver licence to go to work, so we're studying that
8 right now.
9 And that's why we did the pilot and we
10 need to find a way to deal with this issue in terms of
11 how we help these people to be able to get the
12 training, because right now sometimes they wait until
13 the last minute to come in for their driver licence
14 and they fail and that's a huge issue for them from an
15 income perspective.
16 So we really have to -- to look at this
17 very closely. So -- so we're going to con -- so this
18 pilot has already shown that there's -- address --
19 been able to identif -- been able to identify the
20 issues and now we -- we need to come with something
21 that's more fixing the problem. We need to fix this
22 and so we're looking at it.
23 MS. KATHLEEN MCCANDLESS: Thank you.
24 Diana, could you please scroll to page 22 of the
25 filing at LP, Volume I. Thank you. This has to do

1 with the -- the engagement of IBM with respect to
2 looking at the high school driver education
3 redevelopment. And if we scroll through -- I see
4 there are a number of different areas or initiatives
5 that are going to take place.
6 At page 25, please, Diana, and scroll
7 to the bottom of that page, please. Simply with
8 respect to that last paragraph there there's a
9 description of the next steps for this IBM program.
10 My question is simply: Are there --
11 have any further steps been taken at this point?
12 MR. DAN GUIMOND: We've agreed that we
13 need to be able to do the pilots regarding the
14 telematics and the dashboard. And then depending on
15 the results of the pilots then we would -- it would be
16 like an evolving strategy that goes forward depending
17 on the findings.
18 MS. KATHLEEN MCCANDLESS: So does the
19 Corporation have any sense as to when the
20 implementation roadmap will be complete?
21 MR. DAN GUIMOND: In terms of the
22 pilot what we want to do for the next fiscal year,
23 we'll be going to our board of directors in
24 January/February of 2016 to have the -- the pilot
25 approve and they'll have its roadmap and -- and

1 objectives and so on. So we'll have all that
2 information by the end of our fiscal year, February
3 2016.
4 MS. KATHLEEN MCCANDLESS: And would
5 that also include information with respect to costing?
6 MR. DAN GUIMOND: Absol -- yeah,
7 absolutely.
8 MS. KATHLEEN MCCANDLESS: Thank you.
9 Now I'm going to jump to -- it's an answer to an IR
10 that was posed by CAC. Diana, could you please pull
11 up CAC/MPI-1-56B.
12
13 (BRIEF PAUSE)
14
15 MS. KATHLEEN MCCANDLESS: And this was
16 a question that was posed by CAC as to
17 interjurisdiction comparison for casualty rate --
18 casualty rates and injury rates. Diana, please scroll
19 to the attachment. And I -- the table shows fatality
20 and injury statistics by year from 2001 through to
21 2013, broken down by jurisdiction.
22 My question is with respect to the
23 statistics for injuries per billion motor vehicle
24 kilometres in Manitoba. I see the number for 2013 is
25 eight hundred and forty (840). As compared with the

1 rest of the jurisdictions in Canada, this seems quite
2 high.
3 Does the Corporation have any
4 information as to why that's the case?
5
6 (BRIEF PAUSE)
7
8 MR. DAN GUIMOND: Yes. What happened
9 a few years ago at MPI, the -- all the traffic losses
10 -- the -- the traffic accident reports are all
11 reported through our call centre. We're the only
12 jurisdiction in -- in Canada, to my knowledge, where
13 the insurer is able to collect all the traffic
14 accident reports.
15 And so you'll see once we start to
16 collect all these traffic accident reports, and people
17 don't have to go the police, but it's embedded on our
18 first notice of loss. Then our statistics, because we
19 have all of them, you can't really escape reporting or
20 not reporting them and so on, so you'll see
21 statistically a -- a jump in -- in the numbers, so --
22 comparatively speaking.
23 So that's one (1) of the reasons why we
24 show a little bit higher numbers.
25 MS. KATHLEEN MCCANDLESS: And was this

1 always the case in Manitoba specifically?
2 MR. DAN GUIMOND: No.
3 MS. KATHLEEN MCCANDLESS: When -- when
4 did that become instituted?
5 MR. DAN GUIMOND: It's approximately
6 three (3) or four (4) years ago. I -- I don't know.
7
8 (BRIEF PAUSE)
9
10 MR. DAN GUIMOND: I -- I'd have to
11 double check. It might be two (2) or three (3) years
12 ago. I -- I don't know.
13 MS. KATHLEEN MCCANDLESS: Okay, okay.
14 Perhaps if we could -- if you could double check and
15 answer that by way of undertaking?
16 MR. DAN GUIMOND: Yeah. Yes.
17 MS. KATHLEEN MCCANDLESS: And perhaps
18 then clarify, because my reading of this chart is that
19 that statistic is also quite high in the years prior
20 to the institution of that -- that policy if -- if one
21 looks to 2002, 2004, for example.
22 MS. HEATHER REICHERT: Just because
23 I'm a -- a numbers person, if you look at 2002 and --
24 and those prior years, and then continue on towards
25 2011, you'll see actually the numbers are -- are

1 decreasing, so the numbers are going down, which I
2 think is indicative that things were happening to
3 improve the results.
4 And then in and around 2011 to 2012,
5 which is about the four (4) years ago that -- that Mr.
6 Guimond was referencing, that appears to be when the
7 traffic accident reports were starting to be received
8 by the call centre staff, and the number goes up.
9 So the -- the hope would be that
10 starting from 2012, and we only have one (1) year of
11 experience since then, that we'll start to see a trend
12 going down again with those numbers.
13 MS. KATHLEEN MCCANDLESS: Thank you.
14 MR. BYRON WILLIAMS: Madam Chair, it's
15 Mr. Williams way at the back, here. Just -- it may
16 save MPI an undertaking. I think there is some
17 information in the Second Round Information Response,
18 CAC/MPI2-18, in terms of the timing, if that -- if
19 that is of assistance to the MPI witnesses or -- or
20 not.
21 MS. KATHLEEN MCCANDLESS: Thank you.
22 Moving on to the issue of budget for road safety. Oh.
23
24 (BRIEF PAUSE)
25

1 THE CHAIRPERSON: I believe Diana --
2 Diana has it on --
3 MR. DAN GUIMOND: It's pointed on --
4 on your screen there --
5 THE CHAIRPERSON: Yeah.
6 MR. DAN GUIMOND: -- so that's -- I
7 think that's -- take care of that undertaking.
8
9 CONTINUED BY MS. KATHLEEN MCCANDLESS:
10 MS. KATHLEEN MCCANDLESS: Thank you.
11 MR. DAN GUIMOND: Yeah.
12 MS. KATHLEEN MCCANDLESS: Okay. With
13 respect to a question of budget, can the Corporation
14 confirm that successful road sta -- safety programs
15 and loss prevention initiatives can reduce claims
16 costs?
17 MR. DAN GUIMOND: Yes.
18 MS. KATHLEEN MCCANDLESS: Now, if I
19 could ask, Diana, to please refer to the filing at LP?
20 That's Volume I, Attachment A. That's the very last
21 page.
22
23 (BRIEF PAUSE)
24
25 MS. KATHLEEN MCCANDLESS: Thank you.

So this is the road safety financial breakdown by program area -- oh.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Diana, could you please go to the first page? Thank you. And so we see under program category that there is a -- a budget amount allocated depending on what area of road safety. And then it's also broken down by -- by year.

Now, Diana, if you could please move to the second page of that attachment?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Comparing year -- from year to year, 2014/'15 and moving on, it appears that total funding for road safety is relatively flat.

And then in 2017/'18 it reduces, and I understand that's as a result of a reduction in the amount that's being allocated to auto theft?

MS. HEATHER REICHERT: That's correct.

MS. KATHLEEN MCCANDLESS: My question is with respect to the relatively even or flat level

of funding: Why is that the case? Why does the budget remain the same from -- relatively from year to year?

MS. HEATHER REICHERT: When you actually remove that auto crime program, which is the auto theft, the immobili -- immobilizer program which, of course, is -- you know, is naturally declining, the comment bolded at the end there, the -- the budget actually does increase from 8.5 million in '14/'15, which was the actual spend, and increases to nine point (9.) -- point two (.2) in '17/'18.

So it -- it increases possibly gradually, but it still increases over that four (4) year period by seven hundred thousand (700,000).

MS. KATHLEEN MCCANDLESS: And in the Corporation's view, that would be a significant increase to the budget over those -- those years?

MS. HEATHER REICHERT: In a time of cost containment, yes.

MS. KATHLEEN MCCANDLESS: Now, if I could ask you to refer -- refer to PUB/MPI-1-39 --

MR. REGIS GOSSELIN: Are you still -- Ms. McCandless, are you still on the -- looking at the budgets?

MS. KATHLEEN MCCANDLESS: Yes.

1 MR. REGIS GOSSELIN: You are? Okay.
2
3 (BRIEF PAUSE)
4
5 CONTINUED BY MS. KATHLEEN MCCANDLESS:
6 MS. KATHLEEN MCCANDLESS: Sorry, that
7 was 1-39, please, Diana. Sorry.
8
9 (BRIEF PAUSE)
10
11 MS. KATHLEEN MCCANDLESS: Thank you.
12 And so this was an IR that was requested with respect
13 to the -- the dollar level allocated to loss
14 prevention and road safety budget.
15 Diana, could you please scroll to the
16 second page?
17
18 (BRIEF PAUSE)
19
20 MS. KATHLEEN MCCANDLESS: And this was
21 the response provided on behalf of the Corporation.
22 And now, with respect to the last sentence there:
23 "Now that frameworks have been
24 implemented, they'll be used to
25 determine the need for program

1 modifications..."
2 Et cetera. Is there any sense as to
3 when any of those modifications might be considered?
4 MR. DAN GUIMOND: Depending on -- on
5 the committees and the ideas that are provided or
6 recommendations done, if -- if there's some -- some
7 suggestion that -- that we should move forward on,
8 then -- then that's when we would take them into
9 consideration, and maybe even consider changing our
10 budgets and moving forward on -- on other -- on -- on
11 initiatives or other projects, and so on.
12 MS. KATHLEEN MCCANDLESS: Okay. And
13 Mr. Guimond, when you say 'changing your budget', do
14 you mean changing your priorities within the existing
15 budget, or increasing the total budget amount?
16 MR. DAN GUIMOND: I think it would be
17 both.
18
19 (BRIEF PAUSE)
20
21 MS. KATHLEEN MCCANDLESS: Those are
22 all my questions for the Corporation.
23 MR. REGIS GOSSELIN: I -- I guess I
24 have a question in relation to what we've just been
25 discussing. And I -- I too was a little bit alarmed

1 by the drop in safety expenditure -- road safety
2 expenditures. You know, if you look at the -- the
3 previous Board orders on the -- that address this
4 issue, you -- we talked about road safety being a
5 priority of the Organization. And -- and I think
6 you've -- you've demonstrated the willingness to take
7 on the leadership role and so on, and in keeping with
8 that priority.
9 We talked about the optimization of the
10 budget, which is about making sure we spend the
11 dollars at the right place. And I think you're -- you
12 know, you've reduced the budget for -- for auto crime.
13 And -- and I guess I was expecting there would be a
14 plug amou -- you know, there would be some amount
15 allocated for investing or innovating in this area.
16 So, you know, we're -- you -- you have indicated to
17 this panel that you're willing to put a plug number
18 into your IT budget going forward to address the
19 unknowns.
20 And I guess from our perspective,
21 looking at this budget, you're sort of saying, Well,
22 okay, why can't we do the same thing in the road
23 safety area, plug a number in there? We -- we know
24 it's -- road safety is a priority, organizational
25 priority. Something comes up, the money's there to

1 invest in that particular initiative.
2 And so I guess the question that -- why
3 not put a -- a plug number in here as well?
4 MR. DAN GUIMOND: Yeah, there's -- Ms.
5 Reichert says she won't let me. No, I mean, I guess
6 from a -- a -- in terms of our rate application and --
7 and determining the rates and so on, you -- you can
8 see from a -- a road safety -- what I -- what we
9 talked about last year that we kind of created the
10 frameworks. And we're creating -- and now we're
11 starting the -- the -- to get the information and
12 ideas from people.
13 I think that if that plug number for
14 the initiatives that we have, like, that $8 million of
15 unknown and so on, I think the onus is on us in terms
16 of my commitment to continue with the cost-cutting
17 efforts, continue to improve productivity efficiency,
18 continue to work with our business partners that I --
19 I've come to the conclusion that if something shows
20 up, that we should go forward that that's -- that
21 we'll be able to come up with the money without having
22 to asking for -- for more money. So that's the reason
23 why I don't have a plug number.
24 MR. REGIS GOSSELIN: I've lost -- I've
25 lost you.

1 MR. DAN GUIMOND: Okay. So --
2 MR. REGIS GOSSELIN: It would seem
3 you're arguing to have a plug number by saying that,
4 don't you?
5 MR. DAN GUIMOND: I'm sorry?
6 MR. REGIS GOSSELIN: I'm sorry. You
7 would be argu -- it seems to me that that argu --
8 argument would -- would support the notion of a plug
9 value for road safety.
10 MR. DAN GUIMOND: Yeah. Yes. It --
11 it would, but do you want to...
12 MS. HEATHER REICHERT: If -- if I can
13 help, I don't consider it a plug number. If you
14 looked at our improvement initiatives, there was a
15 high school driver education, which is relating to
16 loss prevention and road safety. There is 2 million
17 in '16/'17, and 2 million in '17/'18 under our
18 improvement initiatives.
19 And what Mr. Guimond just was referring
20 to, he -- he referred to the 8 million that we were
21 talking about this morning. That's -- that's with
22 respect to technology modernization. What he meant to
23 refer to was the provision for future projects. In
24 there, if there is specific investments to be made as
25 it relates to road safety or loss prevention, that

1 provision for future projects is an area where we
2 could look to -- to expend money from.
3 So it's not in this departmental budget
4 per se, but there are other areas where we can
5 increase the spending on road safety, again, based on
6 the frameworks that have been established, the
7 committee, the ideas that they come up with, and in
8 addition looking at what we are currently doing in
9 some of these departmental expenditures to see if they
10 continue to be relevant, and if some of that money
11 needs to be shifted into other priorities. So both
12 things can happen. And we do have the ability in the
13 overall budget for the Corporation to be looking at
14 those things.
15 MS. ANITA NEVILLE: In looking at your
16 road safety initiatives I -- I -- there's an area that
17 I do not see addressed there and we're all aware of
18 Statistic Canada's announcement last week of the
19 increased number of seniors in Canada now out
20 numbering the number of -- of young people.
21 And I'm aware of the program that
22 you're offering at Ste. Anne's in terms -- terms --
23 the Ste. Anne Service Centre in terms of skill
24 development, but I'm not aware of much -- or I'm
25 asking you, I guess: Is there much being done in

1 terms of road safety of older drivers and older
2 pedestrians?
3 And I think anecdotally most of us
4 could have stories of older drivers who have run into
5 difficulties, or older pedestrians, or cyclists who
6 have run into difficulties. And I don't see this in
7 any way as a priority of the Corporation at the
8 moment. And I'm just wondering if you can comment?
9 MR. DAN GUIMOND: It is a priority for
10 the Corporation. The first thing that we identified
11 was the ability for children and doctors when they --
12 they think their parents maybe are at the state that
13 they shouldn't be driving, for example, so we rolled
14 out the DAMP Program. This is what allows doctors and
15 so on -- now they -- with the technology that we
16 rolled out and -- and the training and working with
17 them that they can do a cognitive assessment as to
18 whether you -- you can drive or not.
19 And then there's also some people that
20 will want to drive regardless of anything and now we
21 have a process where they -- they have to go get
22 tested and then they get help and -- and so on, or --
23 or their driver licence. So first priority is making
24 sure that there was a way to deal with people that
25 maybe shouldn't be driving and -- and we rolled that

1 out, I think it was about a year or two (2) ago.
2 The second priority is with the driver
3 ed program we're also going to be getting some
4 simulators for people to -- to be able to test their
5 driving ability, because we want them to be able to --
6 before they -- they pay money to -- to go on the road
7 test to be able to use the simulator to be able to see
8 -- see what they're capable of doing or -- or not
9 doing.
10 But we think that there's opportunity
11 there from a synergy perspective to also allow seniors
12 to use those -- those simulators to be able to -- just
13 on their own be able maybe to schedule an appointment
14 and so on, so. And then an awareness campaign too, to
15 -- to make these things available and people to -- to
16 want to do that.
17 And then I think eventually as society
18 gets -- gets psychologically ready to accept that
19 maybe we should be testing seniors, I think that'll
20 probably be the -- the next big step that the
21 Corporation, subject to -- to government approval and
22 Board approval of course, but I -- I think that would
23 be the next logical step as more and more of us are
24 getting old that people are willing to accept being
25 tested.

1 MS. ANITA NEVILLE: It's tough. Do
2 you actually have a plan to deal with this? And I --
3 I'm aware of what you're indicating -- or what you're
4 speaking to, but I was struck some weeks ago, just the
5 radio was on announcing the program that was going on
6 that day at the service centre in Ste. Anne's. I had
7 no awareness of it prior to that day.
8 What kind of publicity is being done?
9 How often is it available? It -- it just strikes me
10 that there's a need for a fairly aggressive program to
11 raise the awareness and to address the issues in a --
12 in a more forceful way.
13 MR. DAN GUIMOND: Agreed. I agree
14 that we -- we need to do more on that in terms of
15 awareness and -- we -- we do have a plan and we do
16 need to be a little bit more aggressive as the
17 population is more and more willing to accept, because
18 they're also voters. There's a lot of them. So we
19 have to be very -- it's a fine line and I think we're
20 managing that fine line, but I agree with you, that we
21 -- we need to do a little bit more there.
22 MS. ANITA NEVILLE: They may be
23 voters, but sometimes they're dangerous drivers?
24 MR. DAN GUIMOND: Yes. And -- and so
25 the -- as I mentioned the DAMP program, the -- the

1 simulators that were going to be coming out, more
2 awareness, as you're mentioning. And then the next
3 step will be at a point in time to -- to really start
4 the -- the testing.
5 MS. ANITA NEVILLE: Thank you.
6 MR. DAN GUIMOND: Yep.
7 MS. KATHLEEN MCCANDLESS: Madam Chair,
8 I see it's now 2:30. Perhaps this would be a time for
9 the afternoon break.
10 THE CHAIRPERSON: I would agree with
11 that. And we'll take a fifteen (15) minute break.
12 Thank you.
13 MS. KATHLEEN MCCANDLESS: Thank you.
14
15 --- Upon recessing at 2:29 p.m.
16 --- Upon resuming at 2:47 p.m.
17
18 THE CHAIRPERSON: Okay, we're ready to
19 start now after the break. And we'll start with Ms.
20 Grammond.
21
22 CONTINUED CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:
23 MS. CANDACE GRAMMOND: Thank you,
24 Madam Chair. So, Mr. Johnston, back to you on some
25 actuarial-related questions. The first ones will

1 relate to the concept or the idea of breakeven rates.
2 So I would ask you to confirm that in
3 the GRA as filed the Corporation has taken the average
4 net income of 2016/'17 and 2017/'18 fiscal years to
5 estimate the average 2016/'17 policy year net income.
6 Is that correct?
7 MR. LUKE JOHNSTON: That's correct.
8 MS. CANDACE GRAMMOND: And can you
9 tell us what is a policy year or otherwise known as an
10 underwriting year?
11 MR. LUKE JOHNSTON: Well, the policy
12 year is -- so right now, we're at the GRA for the
13 2016/'17 policy year rates. So these rates will be in
14 effect for a group of policies with renewals in --
15 staggered throughout 2016, so from March 1 date all
16 the way to Feb. 28 of the -- of 2017.
17 So we're following, essen -- like, that
18 group of policies, essentially, for this rate setting
19 exercise. The reason that we use the two (2) year
20 average is because the policies earn roughly equally
21 between the two (2) fiscal periods. And by 'earning',
22 again, I mean the effective -- the policies that are
23 effective, about half in 2016/'17 and about half in
24 2017/'18.
25 MS. CANDACE GRAMMOND: So you would

1 agree that the 2016/'17 fiscal year is actually
2 affected by both the 2015/'16 policy year and the
3 2016/'17 policy year?
4 MR. LUKE JOHNSTON: That's right. The
5 -- the '16/'17 fiscal year has the last half of the
6 '15/'16 policy year. That is the rates have already
7 been decided, so it's locked in, so to speak. And
8 then the other half is the '16/'17 year.
9 Since we added this graph this year for
10 -- for this exact reason, maybe we can go to Volume I
11 rate setting page 18. And that will -- will give a
12 graphical representation of what I'm trying to explain
13 here.
14
15 (BRIEF PAUSE)
16
17 MR. LUKE JOHNSTON: Thank you. So
18 much easier to talk about this with the graphic.
19 MS. CANDACE GRAMMOND: Agreed.
20 MR. LUKE JOHNSTON: So -- and no one
21 is objecting. So if you look at -- so '15/'16, the --
22 that square represents the fiscal year, and then
23 there's the net income four (4) -- or the expected net
24 income, fourteen nine sixty-five (14,965). As soon as
25 you cross into fiscal '16/'17 that first group of

1 people on March 1st will renew under the new '16/'17
2 rates, and if you follow that line -- the -- the one
3 side of the parallel line there up to the '17/'18
4 year, that would obviously be the effective period for
5 someone that renews on March 1st.
6 Everything in between is everybody
7 else's renewal dates, right up until the very last day
8 of -- of fiscal '16/'17, and you can see that that
9 policy actually goes into effect almost entirely in
10 the -- in the '17/'18 year. So that area is what
11 we're trying to approximate, and we do that by taking
12 the average of the two (2) years, and dividing by two
13 (2).
14 MS. CANDACE GRAMMOND: So as we see
15 here, the '16/'17 fiscal year is affected by both the
16 '16 -- or the '15/'16 and '16/'17 policy year, but
17 also the 2017/'18 fiscal year is affected by both the
18 '16/'17 and '17/'18 policy year. The same idea, just
19 advanced forward by one (1) year.
20 MR. LUKE JOHNSTON: That's right.
21 Yeah. And -- and as you know, we're always -- for
22 anything that's happened in the past we're always kind
23 of rolling forward with this breakeven idea. So
24 obviously the expectation is that the '15/'16 policy
25 year would be set breakeven but if it's not, of

1 course, it will flow in and we'll keep resetting that
2 -- that target.
3 MS. CANDACE GRAMMOND: Diana, I'm
4 going to ask you to go to PUB/MPI-1-3, and while
5 that's being pulled up, Mr. Johnston, in that IR which
6 you may recall we sought to explore the reasonableness
7 of the Corporation's approach in averaging the net
8 income of two (2) successive fiscal years to estimate
9 policy year net income.
10 And in the response to (a)...
11
12 (BRIEF PAUSE)
13
14 MS. CANDACE GRAMMOND: In the second
15 paragraph at the last sentence the Corporation --
16 sorry, just one moment.
17
18 (BRIEF PAUSE)
19
20 MS. CANDACE GRAMMOND: So at -- sorry,
21 at the beginning of the full paragraph that we see on
22 the screen the Corporation in essence says:
23 "The rate level adequacy of policy
24 years 2015 and 2017 -- sorry -- of
25 2015/'16 and 2017/'18 is irrelevant

1 since it does not relate to the
2 expected costs associated with
3 policy year '16/'17."
4 That's in essence the Corporation's
5 position as reflected there?
6 MR. LUKE JOHNSTON: I believe we -- we
7 had -- there's a follow-up question to this, too,
8 where we might have revised the wording a little bit
9 but the -- with the '15/'16 rates already being set
10 we're not -- I can't influence those anymore. '17/'18
11 yet to be determined, those also can't be revised.
12 So from that perspective those two (2)
13 -- the rate level adequacy of those two (2) years
14 don't have an impact on what we're requesting for
15 '16/'17 right now.
16 MS. CANDACE GRAMMOND: So to recap,
17 the 2016/'17 policy year net income is estimated as
18 the average of the 2016/'17 and 2017/'18 fiscal year
19 net incomes?
20 MR. LUKE JOHNSTON: Yes, and the --
21 again, the main reason for doing that is because that
22 is our interpretation of our break-even mandate that -
23 - that the fiscal year net income over the rating
24 period should be zero. That is -- that's the main
25 reason that we do that calculation.

1 MS. CANDACE GRAMMOND: But you would
2 agree that the fiscal year net income for 2016/'17,
3 which is the first of the two (2) fiscal years that's
4 being averaged, is affected by the 2015/'16 policy
5 year?
6 MR. LUKE JOHNSTON: Well, aff --
7 affected to the extent that -- that those rates have
8 already been set, or -- like, it -- we can't change
9 the rates in that year any more. It is what it is.
10 It's -- it's locked in. So given that, we have to
11 look at the financial position from a break-even
12 perspective now.
13 So in this case, it -- it appears the -
14 - what's left of '15/'16 going into '16/'17 has a
15 slight deficiency, which is then the following year is
16 expected to improve. So we're saying in terms of this
17 next policy year period, we appear to have sufficient
18 rates. We don't need to have a rate increase because
19 the -- there's this negative eleven (11) in here, when
20 we're expecting a recovery in the following half of
21 the -- of the period to offset that.
22 MS. CANDACE GRAMMOND: Okay. Diana,
23 I'm going to ask you to go back to the section of the
24 filing that Mr. Johnston referred to with that graphic
25 showing the impacts over two (2) years --

1 MR. REGIS GOSSELIN: Before you go to
2 that, could I just ask one (1) follow-up question?
3 MS. CANDACE GRAMMOND: Sure.
4 MR. REGIS GOSSELIN: It has to do with
5 the actuarial evaluations, because the timing of that
6 is also different. So if you were -- were to
7 overlayer the -- the value you get for actual
8 valuations, you get a -- probably a straight line up.
9 But it wouldn't -- it wouldn't line up actually with
10 the fiscal year, right? I mean, you are -- you are
11 valuating as of -- of the end of October. And so --
12 MR. LUKE JOHNSTON: Well, as -- when -
13 - like, when -- at what point in time we're doing this
14 estimate? Is that -- is that what you mean?
15 MR. REGIS GOSSELIN: Yeah. Yeah.
16 MR. LUKE JOHNSTON: Yeah. Like, I
17 might not totally understand what -- what you're
18 asking, but from this -- in this graphic, the -- the
19 first line there in front of '15/'16 is our as of --
20 as of date when we're doing that valuation, if that's
21 what you're referring to.
22 MR. REGIS GOSSELIN: I -- I guess what
23 I'm asking is that, you know, you -- you're getting a
24 -- a fair picture of fiscal year versus policy year.
25 MR. LUKE JOHNSTON: M-hm.

1 MR. REGIS GOSSELIN: But if you --
2 you're doing a -- your -- your actuarial val --
3 valuation as of the end of October, so you've got a
4 blend of -- you've got a blend of results for '16/'17
5 and '17/'18, and you're doing an eval -- an actual
6 evaluation of both the -- the old policies and the new
7 policies, right? Is that...
8 MR. LUKE JOHNSTON: Yeah, it -- it
9 really -- we're really constantly reassessing our rate
10 adequacy at all times, really. Like -- like, every
11 time we do a -- you're right. Every time we do an
12 actuarial evaluation on the premium liability side,
13 we're assessing the -- you know, if we have a premium
14 deficiency or not. And so it really is ongoing.
15 And -- and if you just look at our
16 interest rate forecasts or things like that, we're
17 always reassessing, which is one (1) thing that I
18 really like about our existing process, is we always
19 do that reassessment of the net income, right? Okay.
20 You know, this didn't materialize. Plus or minus to
21 the RSR. Okay. Boom. We're going to do it again.
22 Zer -- zero -- you know, zero net income. Let's, you
23 know, keep staying on that process year after year. I
24 think it -- it ensures that you readjust all the time.
25

1 CONTINUED BY MS. CANDACE GRAMMOND:
2 MS. CANDACE GRAMMOND: Mr. Johnston, I
3 want to be clear about your evidence and the
4 Corporation's position on this issue. We talked about
5 this graphic, and -- and it is a -- a good visual and
6 helpful. And we agreed that the fiscal year of
7 '16/'17 was affected by both the 2015/'16 policy year
8 and the 2016/'17 policy year. And then we've talked
9 about the Corporation's responses in terms of
10 irrelevancy upon the expected cost associated with
11 that policy year of '16/'17.
12 I think we're having a little bit of
13 trouble reconciling those answers, but -- but let me
14 ask you this: You've been at these hearings for a
15 number of years. I've been at these hearings for a
16 number of years. My recollection is that the idea of
17 breaking even over a two (2) year fiscal period is
18 something that's come up and been utilized in the last
19 number of years, but it doesn't date back to this
20 forum, ten (10) years, for example.
21 Do you -- do you agree with that?
22 MR. LUKE JOHNSTON: I -- I've been at
23 MPI for thirteen (13) years, and I was here as a
24 student prior to that. I don't ever recall it not
25 being this way, but of course, I have all of the rate

1 apps since whenever -- whenever the first one was, but
2 I -- I believe the year was 1992 where -- and -- and
3 subject to checking that, but with this whole issue
4 with actuarial accepted practice rate setting versus
5 this rate-setting method, I believe we had -- went --
6 went all the way back to the 1992 rate app to find out
7 when this process started being used, and it was
8 particularly in regards to this break-even net income
9 idea and how do we set rates to meet that objective?
10 And I -- I can't -- we can have
11 somebody check, but I thought we actually provided the
12 -- the out -- the expert from that rate application
13 saying this was kind of the beginning of when the --
14 when this process started.
15 MS. CANDACE GRAMMOND: The -- that's
16 something that any of us can check on -- on the
17 historical record, and I'm -- I'm not going to argue
18 with you about it, but what I can tell you is that at
19 our side of the table, the two (2) year piece is
20 something that maybe MPI used internally, but in terms
21 of being used at this forum, it's come up in the last
22 few years. And I -- without looking it up, I'm not
23 going to say specifically how many years, but it's
24 certainly come into it after my time.
25 So I'll -- I'll leave that unl --

1 unless you have a further response?
2 MR. LUKE JOHNSTON: All I can say is
3 that's not my interpretation, but I've been wrong many
4 times, so I -- I can go back and -- I -- I can go back
5 and maybe look a decade back and say, Hey, how did we
6 come up with the indication that, you know, ten (10)
7 years ago and just renew my understanding of that, but
8 this is always how I -- how I thought it was done.
9 Whether it was communicated effectively to the Board
10 or not, maybe that's an issue, but I'll have a look.
11
12 --- UNDERTAKING NO. 17: MPI to check what the
13 historical record reflects
14 in terms of the two year
15 fiscal periods
16
17 CONTINUED BY MS. CANDACE GRAMMOND:
18 MS. CANDACE GRAMMOND: Fair enough.
19 So subject to that undertaking to check when -- what -
20 - what the histo -- historical record reflects in
21 terms of the two (2) years, and I'm -- I'm saying that
22 for the court reporter's benefit, can you comment on
23 why in the view of the Corporation it's appropriate to
24 estimate the 2016/'17 policy year net income using
25 fiscal years that are actually affected by other

1 irrelevant policy years in the view of the
2 Corporation?
3 MR. LUKE JOHNSTON: Well, if you look
4 at the -- the blue-shaded area, our -- our view is the
5 best way to estimate the -- the cost in that
6 particular policy year. We know that the two (2) --
7 if everything was completely accurate in our
8 forecasting, the two (2) fiscal years should be minus
9 eleven (11) and -- and -- 11 million and plus 12
10 million profit.
11 So our method of estimating that blue
12 area is to say, Well, half of it's in the eleven (11)
13 -- minus eleven (11) year, and half of it's in the
14 plus twelve (12) profit year. Take the average of
15 those two (2) and we think that's pretty -- pretty
16 close to zero. It's not -- it's probably not perfect,
17 but we -- if we don't have -- you know, we don't have
18 a policy year-based forecasting model, so that's how
19 we estimate it.
20
21 (BRIEF PAUSE)
22
23 MS. SUSAN PROVEN: Yeah, Candace,
24 while we're -- maybe you're talking, but I'm just
25 thinking maybe this happened back when they changed

1 the -- from renewing in the month that you were born
2 to a staggered re -- or to a staggered renewal. I
3 think that's when it happened because now, of course,
4 you've got the same number of renewals every month of
5 the year. And that means that people like me are
6 renewing five (5) months into the future.
7 So I'm in -- a September birthday. I
8 have to wait until January of the next year to renew.
9 And I think that's why we went into this two (2) year
10 thing. That's my take on it. Because it does mean
11 that we can't look at a calender year anymore, which
12 we always did before. And now we have to look at this
13 sort of situation of two (2) years. That's what I
14 think.
15 MR. LUKE JOHNSTON: Excellent point.
16 If -- if everybody renewed on March 1st, that blue
17 square would just slide into -- into the fiscal year
18 '16/'17, yeah. I -- I can't recall if that was
19 '95/'96, but I'm hearing that that -- that was in fact
20 the case, yeah. I was in high school.
21
22 (BRIEF PAUSE)
23
24 CONTINUED BY MS. CANDACE GRAMMOND:
25 MS. CANDACE GRAMMOND: Just one (1)

1 more question on this, Mr. Johnston, for the moment.
2 Looking at the graphic on the screen and, in
3 particular, paying attention to the 2017/'18 year,
4 there's a portion of what appears underneath that year
5 that's in blue that pertains to the 2016/'17 policy
6 year.
7 But the bottom right side of the box
8 under 2017/'18 which is white is left that way because
9 that is going to be 2017 policy year. And that's
10 going to be dealt with a year from now in these
11 proceedings, right?
12 MR. LUKE JOHNSTON: That's right. And
13 I think -- I could be wrong, but I think what you're -
14 - you're focussing on is the use of the word of
15 'irrelevant' in our IR response. And -- and clearly
16 they're --
17 MS. CANDACE GRAMMOND: Yes.
18 MR. LUKE JOHNSTON: -- not irrelevant,
19 but they are relevant in terms of what we can -- how
20 we can influence the rates in those years today. The
21 '15/'16 rates are done. The 3.4 percent, there's
22 nothing else I can do anymore to that. '17/'18 is yet
23 to be determined, so that parallelogram or whatever
24 you want to call it there is what we're -- what's
25 relevant today and it's the only thing that we can

1 influence at this hearing.

2 MS. CANDACE GRAMMOND: Thank you.

3 Diana, I'm going to ask you to go to PUB/MPI-1-12.

4 I'm going to have a series of questions for you, Mr.

5 Johnston, that relate to certain technical

6 improvements that have been discussed and are

7 anticipated as cons -- items being considered at the

8 moment and will be dealt with next year.

9 If we can just scroll up a little bit.

10 This IR relates to the forecasting of written premium.

11 What I would ask that you comment upon is a brief

12 description of what the issue is that's referenced in

13 this IR, and then explain what process the Corporation

14 intends to follow to ensure that this issue is

15 reviewed for the next GRA?

16

17 (BRIEF PAUSE)

18

19 MR. LUKE JOHNSTON: I'm just trying to

20 remember the exact issue here. But the way the -- I

21 thought that the premium was actually applied in the

22 model. And the way the formula describes how the

23 application of volume upgrade, rate change, et cetera,

24 is not actually how it was being done in our financial

25 model.

1 So if you can scroll down. Okay.

2

3 (BRIEF PAUSE)

4

5 MR. LUKE JOHNSTON: One (1) second,

6 please.

7 MS. CANDACE GRAMMOND: And I'm just

8 asking for a description at a high level.

9 MR. LUKE JOHNSTON: Yeah, the way the

10 -- the volume -- an upgrade in rate change, I believe

11 it was being repli -- applied before fleet rebates. I

12 just want to make sure I got my terminology right.

13 Essentially it -- there is a minor error in the -- in

14 how this was applied, and if you scroll farther down

15 into the -- into the response it shows that -- that

16 the actual number we were using was slightly different

17 than what was in the forecast.

18 If -- can you keep going a little bit?

19 There you go. Okay. So for whatever reason, and I

20 don't know why this would be done in our financial

21 model, the volume impact was calculated excluding --

22 sorry, what do we -- the rate change, pardon me, the

23 rate change was calculated excluding the volume

24 increase. I have no idea why we would do that -- the

25 formula was set up that way.

1 Once we saw the question and noticed
2 that the formula wasn't correct, we -- we said
3 absolutely. We've got to fix that. So we'll be
4 fixing that, and -- and the -- there's the four
5 hundred and eighty-four thousand dollar ($484,000)
6 impact, which isn't going to affect our proposal, but
7 nonetheless it should be corrected.
8 MS. CANDACE GRAMMOND: Okay. So the
9 Board can expect to see that next year?
10 MR. LUKE JOHNSTON: Absolutely.
11 MS. CANDACE GRAMMOND: Diana, if you
12 could now go to PUB/MPI-2-8, please? This is going to
13 be a similar kind of issue. I'm just going to ask
14 you, Mr. Johnston, for a brief description and confirm
15 that we're going to expect to see a change next year.
16 This relates to relative ranking rules,
17 I believe. If we can just, yeah, scroll a little bit.
18 So -- a little bit more, please, Diana.
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: Yeah. In (b)
23 the Corporation has indicated that it's going to
24 review its procedure in the next GRA but, Mr.
25 Johnston, if you can just explain in -- at a high

level what this issue relates to?

MR. LUKE JOHNSTON: Relative ranking rules in general refer to if -- you wouldn't want a more generous rating category for -- like so you wouldn't want all-purpose to be cheaper than pleasure. Like all-purpose includes pleasure, and more -- yeah, sorry, from a coverage perspective.

But when you start dealing with rating categories that have a small number of vehicles within them, you start getting variability just from random chance. These types of things won't happen very often for private passenger vehicles where there's hundreds of thousands of vehicles, and you have very credible rates. When you get to the smaller categories you can have these reversals occur, and you want to try to keep them consistent. So we might look at a similar rating category, and make sure that their rates are either the same, or -- or no -- don't exceed.

I -- I believe all we're saying here in this question is that we're going to look at the two (2) categories together, and consider whether they should be blended in -- in some sort of way rather than just moving them up to the rate of the other category.

MS. CANDACE GRAMMOND: Thank you. You

1 would agree that the -- the issue with this IR is
2 fairness in rating in terms of the categories and how
3 they relate to one another?
4 MR. LUKE JOHNSTON: Yes.
5 MS. CANDACE GRAMMOND: Diana, if you
6 could go to PUB/MPI-2-9, just the very next IR?
7
8 (BRIEF PAUSE)
9
10 MS. CANDACE GRAMMOND: This is an IR,
11 Mr. Johnston, that dealt with the treatment of
12 exceptions to motorcycle experience adjustments. And
13 again we see reference to fairness in rating. The
14 Corporation has said in the answer to (a) that it will
15 review its methodology for determining the experience
16 adjustments in the next GRA. Will look into
17 determining a combined experience adjustment by
18 respective territory.
19 MR. LUKE JOHNSTON: Yes. Yeah. And
20 again this is a recommendation that we thought made
21 sense, so we'll -- we'll look into that, yeah.
22 MS. CANDACE GRAMMOND: Thank you.
23 Diana, I'm now going to ask you to go to PUB/MPI-2-30,
24 which is at tab 15 of the book of documents. At (a)
25 the Corporation was asked whether it had any concerns

1 and to discuss those concerns regarding the
2 discontinuity in the first quarter of 2017 within this
3 graph. And this was a graph that the Corporation had
4 originally prepared, and we copied into our IR. It
5 relates to interest rate forecasting.
6 So either Mr. Johnston or Ms. Reichert,
7 as appropriate, can you describe the chart and note
8 the 2017 Q1 discontinuity, including what -- the
9 causes of that discontinuity?
10
11 (BRIEF PAUSE)
12
13 MS. HEATHER REICHERT: So if my
14 recollection is -- holds true, so the graph is
15 graphing in individually the bank forecasts that we
16 used in establishing the ov -- overall interest rate
17 forecasts that we used in our -- our modelling. As
18 well, I believe -- no. It's -- it's all of the -- the
19 five (5) major banks and Global -- Global Insight that
20 we use in establishing our overall rate -- interest
21 rate forecast.
22 So your specific question is: are we
23 concerned about the discontinuity between 2016 seven
24 (7) -- 2016 quarter 4 and 2017 quarter 1?
25 MS. CANDACE GRAMMOND: That's what we

1 asked in the IR. For the moment, and I -- I do want
2 to talk about that as well.
3 But can you just describe the
4 discontinuity that we're referring to and what caused
5 it in the graph that the Corporation provided?
6 MS. HEATHER REICHERT: So on -- on
7 page 3 of this same -- same IR, this shows the -- the
8 individual interest rates. And so you will see that
9 when we are preparing the -- the '16/'17 -- or, pardon
10 me, the 2016 rate app, the one (1) that we just filed.
11 When we're preparing that we get the -- the bank
12 forecasts. They are a two (2) year forecast, so they
13 cover 2015/'16 and 2016/'17. And the -- the only
14 long-term forecast that we receive is from Global
15 Insight.
16 So the -- the 2017/'18 year uses the
17 Global Insights and Global Insights only. So when you
18 look at the average, either the March column or the
19 August column, when you look at the averages and you
20 come to the -- the end of the two (2) year period, the
21 -- the average is the -- whatever the Global Insight
22 forecast was for that particular year.
23 Is -- is that -- so -- so it's going
24 from an average of six (6) to an average of one (1),
25 if you will, that -- that I guess causes what you're

1 terming as a -- as a --

2 MS. CANDACE GRAMMOND: Discontinuity.

3 MS. HEATHER REICHERT: -- discontin --

4 discontinuity.

5 MS. CANDACE GRAMMOND: Okay. So with

6 that, thank you.

7 Does the Corporation have any concerns

8 with respect to that jump or discontinuity?

9 MS. HEATHER REICHERT: Not

10 particularly. There's a -- there is a bit of a --

11 there is a bit of a jump. However, again, because we

12 are more precisely matching our assets with our

13 liabilities, and anything that actually happens in the

14 interest rate area will be offset by a similar either

15 increase or decrease in our claims liability. The

16 impact to our overall forecast and the impact to our

17 overall results, because we've now taken the steps to

18 mitigate our forecasting risk on interest rates, will

19 be -- will be minimized.

20 So this was a bigger concern before,

21 when we didn't more perfectly match. But we have

22 taken the steps to mitigate any risk that -- that this

23 kind of a -- of a discontinuity, if you will, would

24 represent in our overall forecast for -- for rate

25 setting purposes?

1 MS. CANDACE GRAMMOND: Diana, if you
2 could go to PUB/MPI-1-43. What we're going to find
3 there is a question where the Board asked the
4 Corporation to prepare an alternate forecast to the
5 one (1) we just looked at, but that included basically
6 a smoothing and that removed that discontinuity. And
7 in the response at B, so if we could just scroll a
8 little bit farther.
9 The Corporation said if the interest
10 rate forecast were changed as per Part A, so we're
11 moving that discontinuity, the estimated rate increase
12 required would be approximately 1 percent.
13 I've got that right?
14 MS. HEATHER REICHERT: Yes, you do.
15 And again, at the time that we file we are putting
16 forward out best estimate with all the information
17 that we have to avail ourselves with at that time. So
18 now, subsequently if you make other judgments or other
19 estimates, yes, there can be variations. We could
20 adjust it or there may even be an IR where we're asked
21 to adjust something else that may indicate a minus 1
22 percent rate increase was indicated.
23 So we're doing a best estimate. The
24 fact that if that was smooth would have been a 1
25 percent rate increase is not overly concerning to me,

1 because there -- we know there is going to be
2 variation. If that had turned out to be a 5 percent
3 rate variance, then that would be a different
4 situation entirely, but it's not. It is a 1 percent.
5 And again, it's that because we have the matching on a
6 -- a more precise basis. So we've mitigated to a
7 great extent the interest -- interest rate forecasting
8 risk.
9 MS. CANDACE GRAMMOND: So, Ms.
10 Reichert, I hear your evidence that the 1 percent --
11 the -- let me rephrase that, the interest rate change
12 that would have given rise to a 1 percent rate
13 increase was not of concern, but you said if it was 5
14 percent, for example, it would be of concern.
15 Where -- where would we draw that line
16 in between 1 percent and 5 percent in terms of --
17 where do -- where does the concern arise?
18 MS. HEATHER REICHERT: It depends on
19 the situation. It depends on what the factor was that
20 if it had been known at the filing would have changed
21 the forecast. So it is very much from my perspective
22 situational. As I said in my presentation on Monday,
23 if we had filed our application based on the -- the
24 interest rates being forecasted at September 30th,
25 2015, instead of March 1st, 2015 -- sorry, did I say

1 2013, 2015, that rate indication for that change only
2 would have been a 1.6 percent increase. But because
3 we know interest rates are volatile and they are going
4 to change, they may continue to rise, maybe not at the
5 pace that we expected. They may decrease.
6 Because it is so volatile, I am not
7 going to react to a 1 percent or a 1.6 percent
8 variation. If it was very, very dramatic in interest
9 rate changes such that our duration matching and our
10 dollar matching didn't protect us and somehow a 5
11 percent rate indication came out of the information,
12 then that is, I think, significant. Five (5) percent
13 to the organization is $40 million plus and that is
14 extremely significant to be able to hope that you're
15 going to recover that praying for a -- a winter where
16 the claims are so low that we have 40 million of -- of
17 less -- less claims presented to us.
18 So it's -- from my perspective it's
19 situational. I used 5 percent as an example. In some
20 situations maybe 3 percent would be a cause for
21 concern based on what the nature of the particular
22 item was that gave rise to that change in estimate.
23 So that's -- that's the best I can do in trying to --
24 to establish some materiality, if you will.
25 The only thing we know for certain is

1 that our forecast is not going to be 100 percent
2 accurate. That's the only thing I can tell you with
3 great certainty. How it's going to be different, I --
4 I cannot tell you at this point.
5 MR. LUKE JOHNSTON: Can you -- can you
6 put up the attachment to -- that supports this IR, the
7 -- the first -- first page of that. So if you scroll
8 down in that attachment to the bottom. So we've had a
9 thirty-seven (37) point swing in interest rates. The
10 average of the -- the rating period is about 5 -- 5.8
11 million negative.
12 So for a pretty substantial change in
13 our interest forecast we're still hovering very close
14 to the breakeven proposal that we have. I admit it's
15 -- it's now a bit more negative, closer to maybe point
16 seven-five (.75) percent or so. But we've got to
17 remember that, although the ALM is -- we've talked
18 about how not being -- it's not perfectly matched on
19 Basic, but you're talking about impacts to billions of
20 dollars and having say, like, a $5 million swing on
21 the results, that's going to happen, like, all the
22 time. Like, that -- that could just -- they're just
23 noise when the result is going to have 5 million
24 impacts on $2 billion.
25 So a sense -- they change the numbers

1 but not -- not by anything si -- significantly
2 material.
3 MS. CANDACE GRAMMOND: Thank you.
4 Diana, I'm going to ask you to go to PUB/MPI-2-40.
5
6 (BRIEF PAUSE)
7
8 MS. CANDACE GRAMMOND: Yes. Thank
9 you. And in particular, let's go to the answer at
10 (d).
11
12 (BRIEF PAUSE)
13
14 MS. CANDACE GRAMMOND: Perfect. So
15 this was a question that was posed that in -- involved
16 back testing of the 2014/'15 financial model using the
17 actual results for the same fiscal year. And what the
18 Corporation provided her was a table reflecting the
19 outcome of that comparison.
20 Can you discuss or comment upon the
21 back testing of the modelling of interest rate changes
22 that was undertaken and what those conclusions
23 reflect?
24 MR. LUKE JOHNSTON: Yeah, I just want
25 to just quickly look at what we said here.

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: So just looking at
4 our answer here. So the ba -- the first part of the
5 answer on this is on page 6. Indicates the back --
6 back testing showed an investment income variance of
7 3.4 million. Again, recognizing the size of the
8 investment portfolio and that we do forecast on a
9 quarterly basis and things happen in -- in those time
10 periods, that's a very good result in terms of a back
11 testing analysis.
12 If we scroll down here to the last
13 paragraph, it says the net claims incurred from a back
14 testing basis were a 0.7 million difference when we
15 back tested compared to actual. Again, that's, like,
16 nothing. That's nothing in terms of the hundreds of
17 millions of dollars of -- of claims that we have.
18 So the -- like, the point is that we
19 were satisfied -- very satisfied with this result.
20 MS. CANDACE GRAMMOND: And is this
21 type of back testing something that the Corporation
22 has undertaken in prior years or was this a first go?
23 MR. LUKE JOHNSTON: The -- the model's
24 new, as you know. So when we first started
25 forecasting interest rates, a lot of times, we'd put

1 in scenarios, and we -- we'd be surprised by the --
2 like, is the model working. Like, you know, we've
3 only had this for a few years. So as we do more and
4 more of these scenarios we -- we now have a lot of
5 confidence in the model, like, for example, this type
6 of back testing exercise.
7 So, sure, I -- I agree that in the
8 future it would be worthwhile again to say, you know,
9 these are the interest rates we forecasted, here's
10 what we actually had. If we put that in -- in reverse
11 and checked the output, that would be a good way to do
12 model validation, so.
13
14 (BRIEF PAUSE)
15
16 MR. LUKE JOHNSTON: Hope -- hopefully
17 I answered your question but I -- I agree. Back --
18 back testing is a good way to validate that the mall
19 is working.
20 MS. CANDACE GRAMMOND: Thank you. I'm
21 going to move then into a different area, and that's
22 the Aon asset liability management study. There are
23 going to be several document references. I think the
24 first one I'm going to go to, although not immediately
25 but just, Diana, so you can pull it up, it's going to

1 be investment income, Attachment B.
2 So while that's being done, we can get
3 through some of these questions. It's my
4 understanding that the Corporation adopted market
5 value accounting in 2007.
6 Does that sound about right?
7 MS. HEATHER REICHERT: That sounds
8 about right. I think that's when the accounting
9 standard came into -- into force.
10 MS. CANDACE GRAMMOND: And prior to
11 the adoption of that market value accounting, the
12 Corporation's bonds were held at amortized book value.
13 Is that right?
14 MS. HEATHER REICHERT: Yes, I believe
15 that's -- that's true.
16 MS. CANDACE GRAMMOND: And as well,
17 the Corporation's claims liabilities were discounted
18 based on a book yield to maturity basis?
19
20 (BRIEF PAUSE)
21
22 MR. LUKE JOHNSTON: Can you repeat
23 that question? Sorry.
24 MS. CANDACE GRAMMOND: Sure. Prior to
25 2007 when market value accounting was adopted, the

1 Corporation's claims liabilities were discounted based
2 on a book yield to maturity basis?
3 MR. LUKE JOHNSTON: Yes, that's my
4 understanding. Yeah.
5 MS. CANDACE GRAMMOND: Okay. And
6 because of those two (2) things, that is the manner in
7 which the bonds were held and the manner in which the
8 claims liabilities were discounted, interest rate risk
9 was not a big issue for Basic.
10 Would that be fair to say?
11 MR. LUKE JOHNSTON: There was much
12 more stability in the results. It wasn't requiring
13 constant modification to the discount rate, and -- and
14 such from market swings.
15 MS. CANDACE GRAMMOND: So with the
16 adoption of market value accounting, the bonds were
17 now held at market value. That's right?
18 MS. HEATHER REICHERT: Yes.
19 MS. CANDACE GRAMMOND: Claims
20 liabilities were discounted based on a market yield to
21 maturity basis, again after this -- the accounting
22 change?
23 MR. LUKE JOHNSTON: The only exception
24 is the MUSH bonds --
25 MS. CANDACE GRAMMOND: Yes.

1 MR. LUKE JOHNSTON: -- the -- the non-
2 marketable bonds by -- by definition -- by -- by name
3 but otherwise, yes. The -- the claims use a
4 combination of the -- the MUSH yield and the market
5 bond -- marketable bond yield.
6 MS. CANDACE GRAMMOND: And so as a
7 result of the manner in which the bonds were held
8 after 2007, and the manner in which that -- that is
9 the marketable bonds, and the manner in which the
10 claims liabilities were discounted, interest rate risk
11 became a more significant issue.
12 MS. HEATHER REICHERT: That's correct.
13 MS. CANDACE GRAMMOND: Now, you would
14 agree that interest rate risk can be evident in the
15 volatility of net income and/or retained earnings as
16 prevailing market interest rates change.
17 MS. HEATHER REICHERT: Correct.
18 MS. CANDACE GRAMMOND: Until recently,
19 MPI was managing its interest rate risk by duration
20 matching within a plus or minus two (2) year range,
21 and that's for both the investment portfolio and the
22 claims liabilities, correct?
23 MS. HEATHER REICHERT: Prior to last
24 year. Last year we moved to plus or minus one (1)
25 duration bandwidth.

1 MS. CANDACE GRAMMOND: Thank you. And
2 I -- I should have specified that more so than I did.
3 Recently, and -- and last year as you say, Ms.
4 Reichert, MPI in effect tightened the duration
5 matching to plus or minus one (1) year to further
6 reduce its exposure to interest rate risk.
7 MS. HEATHER REICHERT: Correct.
8 MS. CANDACE GRAMMOND: Now, I would
9 also ask you to confirm that the Corporation's
10 investment portfolio is -- is corporate wide? It
11 encompasses Basic as well as the competitive lines of
12 business, as well as the assets supporting the
13 Corporation's pension obligations.
14 MS. HEATHER REICHERT: Correct, as
15 well as our DVA program, the Driver Vehicle Act
16 program.
17 MS. CANDACE GRAMMOND: And as Mr.
18 Johnston pointed out a moment ago, the investment
19 portfolio includes a meaningful percentage of MUSH
20 bonds which are not interest rate sensitive because
21 they are not marketable, and are held at amortized
22 book value.
23 MS. HEATHER REICHERT: That's correct.
24 MS. CANDACE GRAMMOND: Now, in 2014,
25 as I understand it, the Corporation engaged Aon Hewitt

1 to undertake a two (2) phased study. The first phase
2 of that study was entitled "The analysis of the
3 interest rate risk hedging strategy," and the second
4 phase was entitled "The Optimization of the Investment
5 Portfolio."
6 Is that correct?
7 MS. HEATHER REICHERT: Yes, it is.
8 MS. CANDACE GRAMMOND: So if we go to
9 the document up on the screen, attachment B and page 3
10 in particular, we'll find -- and this relates to Phase
11 1, as I understand it -- that the mandate as indicated
12 in the first section was to study the existing
13 duration-matching program and recommend an appropriate
14 interest rate risk mitigation strategy, correct?
15 MS. HEATHER REICHERT: Yes, that was
16 the overall objective of the entire study. When they
17 did Phase 1 of the particular study, they looked
18 solely at the interest rate -- our interest rate
19 strategy in absence of looking at how it was matched
20 or not matched with our liabilities. So Phase 1 was a
21 very preliminary basis. And it wasn't until Phase 2
22 that the combination of what was the optimal interest
23 rate strategy vis-a-vis our claims liabilities. So
24 that occurred in phase 2.
25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Ms. Reichert, I
4 just want to clarify. It's -- it's our understanding
5 that the screen that we're looking at and the mandate
6 that's at the top of that screen relate specifically
7 to Phase 1, that it does not encompass both phases,
8 and -- and that the -- the corresponding document for
9 Phase 2 lists a different mandate.
10 MS. HEATHER REICHERT: That -- that's
11 fine. If you look at the conclusions from Phase 1, if
12 you want to scroll down to page 20 of this document,
13 they are not recommending, in the conclusions and next
14 steps, specific claims bond optimal matching strategy
15 in -- in this phase.
16 So they -- they recommend amending the
17 NFAAT. They recommended calculating the portfolio
18 yield, and working with the manager to assess and
19 align capabilities to implement a -- a tighter hedging
20 strategy. It wasn't until Phase 2 where the entire
21 portfolio of claims was looked at in relation to the
22 portfolio of bonds, and the optimal risk/reward
23 strategy was -- was determined.
24 MS. CANDACE GRAMMOND: Okay. Diana,
25 I'm going to ask you to scroll back up to page 8 of

1 this document. What we're going to find on pages 8
2 through 13, and we'll -- we'll stay at page 8 for the
3 moment, is in Aon's report with respect to these three
4 (3) strategies that are listed at the top of the
5 screen. And what I'm going to ask you to do -- I
6 assume it's you, Ms. Reichert -- is to -- with respect
7 to each of those three (3) strategies, describe and
8 contrast the substance of these three (3) strategies
9 commonly used by institutional investors for
10 addressing interest rate risk, as Aon says, at the
11 preamble.
12 And -- and in particular, can you give
13 us some pros and cons for each?
14 MS. HEATHER REICHERT: Can I read it
15 right off of the report? Contained within the report,
16 the Aon Hewitt consultants go through each of the --
17 the three (3) strategies, and they indicate pros and
18 cons of each of those strategies. But in my
19 simplistic layman term -- terms, my -- my
20 understanding is this: Cash flow matching strategy
21 would have you match every single liability with a
22 specific bond of the same exact amount and duration as
23 -- as the liability that it's matching with. So very
24 much, from the -- like, the cash flow required to pay
25 off that claim is being matched precisely with a bond

1 that comes due exactly when you need that money to pay
2 off that claim. That's -- that's my sim -- simple way
3 of -- of explaining it.
4 The -- what they call -- or sorry, the
5 duration matching, on the other hand, takes the pool
6 of assets that you have and matches the pool --
7 duration of the pool with the duration of the pool of
8 liabilities. So it's a less -- much less specific
9 matching of individual claim liabilities to individual
10 bonds or -- or cash flows.
11 And the hybrid method that is talked
12 about in here is just that. It's a hybrid between a
13 very -- more specific cash flow and the more pooled
14 method of duration matching where you have buckets.
15 So you have buckets of claims that may be due in two
16 (2) to five (5) years, and you have a bucket of bonds
17 that are maturing in that same duration of two (2) to
18 five (5) years matched, you know, hopefully fairly
19 similarly from a dollar perspective.
20 And the more buckets of -- of claims
21 liabilities that you have with buckets of bonds that
22 you have, the more that you do that, the closer you
23 become to a cashflow matching perspective. So
24 duration matching would be one (1) bucket, cashflow
25 matching would be a thousand (1,000) buckets, and they

1 -- the hybrid is, pick a number, five (5), ten (10),
2 twenty (20) buckets of individual matching components.
3 Generally speaking, the more precise
4 that you match, the more difficult it is to
5 administer. It would require more constant changes in
6 the -- the portfolio, potentially, as new claims come
7 on. That's very simplistic. There -- the -- and from
8 a duration-matching perspective, that's -- from an
9 administrative perspective, the -- the easiest one to
10 administer, because you're looking at it as one (1)
11 pool.
12 From the -- generally speaking, from
13 the yield that you would -- the tracking error that
14 they talk about, there will be a higher tracking error
15 between the bond duration-matching perspective versus
16 the cashflow matching. So cashflow matching because
17 you're matching more specifically, tracking error or
18 how far off you're going to be from the exact claim
19 that you're trying to match obviously is going to be a
20 lot less than when you're matching a pool to a pool.
21 And then of course, the tracking error is about
22 halfway in between when you're using a -- a hybrid
23 kind of an approach. So that simplistically -- let me
24 just look to see what else was -- was discussed.
25

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: I think

4 generally, that kind of speaks to the high level pros

5 and cons of each of those -- those three (3) methods.

6

7 (BRIEF PAUSE)

8

9 MS. CANDACE GRAMMOND: Now, I -- I

10 referred -- although we haven't looked at all -- all

11 five (5) slides to slides 18 -- or pardon me, 8

12 through 13, can you tell us whether the asset

13 liability matching that's discussed on those slides by

14 Aon addresses only claims liabilities or whether it

15 also includes premium liabilities?

16

17 (BRIEF PAUSE)

18

19 MS. HEATHER REICHERT: No, we were

20 only looking at claims liabilities from the matching

21 perspective.

22 MS. CANDACE GRAMMOND: And so if

23 you're saying that premium liabilities were not

24 included, can you explain why they were not included?

25 MS. HEATHER REICHERT: Personally,

1 right at this moment, no, I can't. If it's important,
2 we could take that, I guess, as an undertaking, but
3 the -- the scope -- we laid out the scope of the study
4 and our concern was matching the bonds to the
5 liabilities in as efficient and as productable way as
6 possible. That was -- that was the -- the intent of
7 the study that we were doing.
8 MS. CANDACE GRAMMOND: Does the
9 Corporation agree that the premium liabilities are
10 also interest rate sensitive?
11
12 (BRIEF PAUSE)
13
14 MR. LUKE JOHNSTON: Yes, prem --
15 premium liabilities are interest rate sensitive, but
16 to a much lesser extent than our claim liabilities --
17 existing claim liabilities. So the claim liabilities
18 we have on the books are mostly lifetime PIPP claims.
19 And that's the majority of the 1.7 or $8 billion,
20 depending on when you're looking at it.
21 Premium liabilities include all
22 liabilities associated with the unearned premiums,
23 most of which is physical damage and lower duration,
24 less interest rate sensitive coverages.
25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Does the
4 Corporation agree that changes in premium liabilities
5 over time periods affect the rate requirement that the
6 -- of the Corporation?
7 MS. HEATHER REICHERT: Okay, so the
8 way I think about unearned premiums, unearned premiums
9 are -- because that graph that we were just talking
10 about, when you have a staggered renewal, and so
11 you're renewing halfway through 2015/'16, we only
12 earned half of that premium in the first year, and
13 then we earned the other half in the next year.
14 So from my perspective, unearned
15 premiums in any given year are only outstanding for at
16 maximum a year, and then they're replaced by the next
17 year's unearned premiums. So to the extent that --
18 the unearned premium is only going to grow to the
19 extent that the premium itself has gone up in value.
20 So it's always, we've earned the old unearned premium
21 and it's replaced by the new unearned premium that
22 will be earned within the next six (6) months to -- to
23 a year.
24 So I can't remember your question right
25 now, but I think I was getting there in my -- my head.

1 So if you could repeat your question?
2 MS. CANDACE GRAMMOND: Sure. The
3 question was whether the Corporation accepts that
4 changes in premium liabilities over a given time
5 period affect the rate requirement.
6 MS. HEATHER REICHERT: Again, just
7 what I said. So to the extent that there's been a
8 change in the premium, so your unearned premium goes
9 from a million dollars to a 1 million two (2), then
10 there -- there is -- ultimately, an impact when it's
11 earned to your -- your net income. But I don't
12 believe that that's in any way really significant to
13 have a significant impact on the -- the rate
14 indication.
15 And I'm going to turn to the chief
16 actuary in case he has a different view of that. But
17 just from a -- from a logical perspective, I don't see
18 that that's going to have a -- a major impact on the
19 rate indication.
20 MR. LUKE JOHNSTON: No, I don't expect
21 a major impact. But, of course, if there are changes
22 in those estimates, and they -- if they flow through,
23 of course -- of course, they will impact the -- like
24 any forecast, the -- a -- a change will impact the --
25 the rate indication if it affects net income.

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Mr. Johnston,
4 would you agree that changes in premium liabilities
5 over, again, a given time period, do impact, firstly,
6 premium deficiencies, and secondly the right down of
7 the DPAC, or deferred policy acquisition costs?
8 MR. LUKE JOHNSTON: Yes. So the --
9 definitely the interest rate itself matters in the
10 calculation if you have a premium deficiency. So we
11 talk --we talked a little bit about that, I believe,
12 yesterday. If you set rates on the assumption that
13 you're going to earn a certain return and it doesn't
14 materialize, you probably didn't charge the right rate
15 up front.
16 So that is true. Right now just in
17 perspective we match our -- our unearned premiums to
18 premium receivable that we have. So the financing
19 interest that we receive from customers when they pay
20 for their premiums, and this is shown in the actuarial
21 report, but that's what we match it to.
22 We match it to our -- at the time the -
23 - we were expecting a 5 percent yield prime -- prime
24 plus three (3) we matched those unearned premiums to
25 the -- the financing interest that we received for

1 those.

2

3 (BRIEF PAUSE)

4

5 MS. CANDACE GRAMMOND: Mr. Johnston,
6 would you agree that the Corporation's success with
7 immunization would improve if premium liabilities were
8 added to the strategy as claims liabilities were?
9 MR. LUKE JOHNSTON: It's a tough --
10 tough term, 'improve.' So if we look at premium
11 receivable, or unearned premiums and being three and a
12 half (3 ½) -- or three hundred and fifty (350), $400
13 million, what -- however we match it -- like are we
14 going to get even more fixed income assets and
15 increase the fixed income asset portfolio even more to
16 -- to now be almost the entire Basic portfolio, and
17 sacrifice return on that side of things? You know,
18 what is -- what is it meant by improve, right.
19 So we focused on the claims as being
20 the long duration, highly interest rate sensitive,
21 significant risk portion of our forecast, and that's -
22 - that's why -- that's why we're matching to those.
23 The premium liabilities are seen as having much lower
24 duration and less interest rate since sensitivity. So
25 that wasn't our -- our focus.

1 I absolutely agree that -- we talked
2 about -- we're going to try to put the premium
3 liability, premium deficiency calculation into the
4 financial model next year, so when we look at the --
5 the DCAT and you see that revised forecast, and I say
6 it's material, that's -- that's absolutely true, and
7 it's sensitive to interest rates.
8 So if we -- if we get that piece in the
9 finical model and the interest rate can feed into that
10 calculation, then that will be in -- that'll be at
11 least part of the forecast going forward. But for
12 this particular strategy, again our -- our focus was
13 on these long-term interest rate sensitive claim
14 liabilities.
15
16 (BRIEF PAUSE)
17
18 MS. CANDACE GRAMMOND: Mr. Johnston,
19 you would agree that there are components of the
20 premium liabilities obligations that do have a -- what
21 I would call a long tail, or are long-term, as is the
22 case with certain of the claims liabilities.
23 MR. LUKE JOHNSTON: If you consider
24 the premium liabilities more reflecting, like, the
25 overall coverage on a policy, like, to include

1 collision comp, PIPP, all of those items. Of course,
2 some portion of that PIPP coverage represents the
3 longer term liability. And when we do the premium
4 liability calculation, of course, we're reflecting
5 that expectation.
6 But the -- the net -- the total claims
7 liabilities attributed to unearned premiums are much
8 shorter term duration, and -- and again, heavily
9 weighted to physical damage. Likely 75 percent of the
10 -- the claim is related to roughly that amount. And
11 then a large portion of PIPP is related to short-term
12 injuries. And then some portion of -- of the PIPP
13 costs. So we might be talking, again, really loose.
14 Ten (10) percent, maybe, of the claim is related to
15 maybe a long -- longer term PIPP coverage.
16 MS. CANDACE GRAMMOND: But it's that
17 component that makes the premium liabilities interest
18 rate sensitive in the main?
19 MR. LUKE JOHNSTON: Yeah, all -- all
20 the coverages would be discounted, but that one (1)
21 would be the most interest rate sensitive. That --
22 that's fair.
23 MS. CANDACE GRAMMOND: Okay. Just a
24 few more questions with respect to this attachment.
25 Diana, if you could go to page 14 please. We're going

1 to find a reference on page 14 to a tracking error.
2 That's found at the third bullet referenced to the
3 estimated annual tracking error.
4 Can you advise the Board what that
5 tracking error is?
6
7 (BRIEF PAUSE)
8
9 MS. HEATHER REICHERT: I don't have my
10 back row here today, so rather than fumble through
11 trying to describe that in an accurate manner for the
12 -- for the panel, I'll take that as an undertaking.
13 MS. CANDACE GRAMMOND: So the
14 undertaking is to advise of what is meant by a
15 tracking error on page 14 of attachment B, investment
16 income.
17 MS. HEATHER REICHERT: Yes.
18 MS. CANDACE GRAMMOND: Okay.
19
20 --- UNDERTAKING NO. 18: MPI to advise what is
21 meant by a tracking error
22 on page 14 on Attachment
23 B, Investment Income
24
25 CONTINUED BY MS. CANDACE GRAMMOND:

1 MS. CANDACE GRAMMOND: Madam Chair,
2 I'm noting the time, and I know that it's not an
3 option to stay late. I do have a fair amount more
4 with respect to the ALM study. So my suggestion would
5 be that we adjourn for today and reconvene tomorrow
6 morning at 9:00.
7 THE CHAIRPERSON: Thank -- thank you
8 very much. We will meet tomorrow at 9:00 a.m., and
9 this will adjourn our day's hearings.
10 MS. KATHY KALINOWSKY: Excuse me.
11 Excuse me. Sorry, it's me, Kathy Kalinowsky.
12 THE CHAIRPERSON: I'm sorry, Ms.
13 Kalinowsky.
14 MS. KATHY KALINOWSKY: I'm sorry,
15 we're just trying to figure out tomorrow, so that
16 we'll be prepared then. What areas does Ms. Grammond
17 still have, and -- for her cross-examination, so we
18 have the correct people in the back row should we need
19 them? And also for the Intervenors, will they be
20 going tomorrow then? And what areas, perhaps, so
21 again we could have the back row prepared?
22 MS. CANDACE GRAMMOND: Sure. I can
23 indicate that my intention for tomorrow is to continue
24 on with the ALM study and related documents. I will
25 also probably have some cross-examination on Pre-Ask 2

1 that was provided today, and potentially some other of
2 the more recent exhibits. So that's my plan.
3 I don't believe that we're going to
4 have cross-examination from the Intervenors tomorrow.
5 There have been some discussions that I've had with
6 Intervenor counsel, with the panel, and with MPI. I
7 know MPI's preference would be that the Intervenor
8 cross start tomorrow, but due to circumstances I -- I
9 think that that's not likely to occur and that they
10 are going to start on our next hearing date, which is
11 Tuesday the 13th, I believe, but it's the Tuesday
12 after Thanksgiving.
13 THE CHAIRPERSON: Do you believe your
14 cross-exam will be going all day tomorrow then or --
15 MS. CANDACE GRAMMOND: I don't think
16 it's going to be all day. I would suggest, based on
17 the pace that we've been going at it, it might be up
18 to a half day, but I don't see it being a full day.
19 THE CHAIRPERSON: Okay. Thank you.
20
21 (PANEL RETIRES)
22
23 --- Upon adjourning at 4:01 p.m.
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3 Certified Correct
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6 _____
7 Mr. Bob Keelaghan
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