MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

GENERAL RATE APPLICATION FOR

2017-2018 INSURANCE YEAR

HEARING

Before Board Panel:

Robert Gabor, Q.C. - Board Chairperson

Karen Botting - Board Member

Anita Neville - Board Member

Alan Morin - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 14, 2016

Pages 271 to 511

1 APPEARANCES

2 Candace Grammond)Board Counsel

3 Kathleen McCandless

4

5 Matt Ghikas)Manitoba Public

6 Michael Triggs)Insurance

7

8 Byron Williams)CAC (Manitoba)

9 Jared Wheeler (student-at-law))

10

11 Raymond Oakes)CMMG

12

13 Erika Miller)CAA

14

15 Christian Monnin (np))Bike Winnipeg

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LIST OF EXHIBITS

LIST OF UNDERTAKINGS

1 --- Upon commencing at 9:05 a.m.

2

3 THE CHAIRPERSON: Good morning,

4 everyone. I believe we'll start this morning. Ms.

5 Grammond, are you --

6 MS. CANDACE GRAMMOND: I'm ready to go

7 with cross-examination --

8 THE CHAIRPERSON: Thank you.

9 MS. CANDACE GRAMMOND: -- Mr.

10 Chairman. But I think Mr. Ghikas has a couple of

11 preliminary --

12 THE CHAIRPERSON: Okay.

13 MS. CANDACE GRAMMOND: -- matters that

14 he --

15 THE CHAIRPERSON: Sure.

16 MS. CANDACE GRAMMOND: -- wanted to

17 speak to.

18 THE CHAIRPERSON: Okay.

19 MR. MATT GHIKAS: Yes, thank you, Ms.

20 Grammond.

21 Good morning, Mr. Chairman --

22 THE CHAIRPERSON: Good morning.

23 MR. MATT GHIKAS: -- members. All I

24 have to do this morning is simply just acknowledge the

25 -- the fact that MPI has filed three (3) responses --

1 well, filed responses to two (2) Pre-Asks and also the
2 second quarter quarterly financial report as referred
3 to yesterday.
4 So the quarterly financial report,
5 second quarter, will be MPI Exhibit 24. And I believe
6 everybody has copies of these circulated.
7
8 --- EXHIBIT NO. MPI-24: Second Quarter Financial
9 Report
10
11 MR. MATT GHIKAS: MPI Exhibit number
12 25 is the response to CMMG Pre-Ask number 3 relating
13 to the Bank of Canada overnight rate.
14
15 --- EXHIBIT NO. MPI-25: Response to CMMG Pre-Ask 3
16 relating to the Bank of
17 Canada overnight rate
18
19 MR. MATT GHIKAS: And MPI Exhibit
20 number 26 is the response to CMMG Pre-Ask 4 relating
21 to the provisions for adverse deviations that MPI
22 uses.
23
24 --- EXHIBIT NO. MPI-26: Response to CMMG Pre-Ask 4
25 relating to the provisions

1 for adverse deviations
2 that MPI uses
3
4 MR. MATT GHIKAS: And with that, I am
5 complete. Thank you.
6 THE CHAIRPERSON: Thank you.
7 Ms. Grammond...?
8 MS. CANDACE GRAMMOND: Thank you, Mr.
9 Chairman. Before I begin the cross-examination, just
10 one (1) matter of housekeeping. The Board had posed a
11 pre-ask question to MPI on October the 12th, Pre-Ask
12 number 1. And we've had some discussions -- that is,
13 the Board advisors and MPI have had some discussions -
14 - about that pre-ask.
15 We've agreed to withdraw that question
16 as served and written, but MPI has agreed instead to
17 file an updated set of pro formas 1, 2, and 3 based
18 upon the September interest rates which Ms. Reichert
19 had referenced yesterday in her evidence and had
20 indicated that the September rates would give rise to
21 an overall 4.4 rate -- percent rate increase, which
22 was close to the four point three (4.3) that's before
23 the Board.
24 So maybe, Ms. Reichert, if you could
25 just confirm that that's correct.

1 MPI PANEL 1, RESUMED:

2 DAN GUIMOND, Previously Sworn

3 HEATHER REICHERT, Previously Sworn

4 LUKE JOHNSTON, Previously Sworn

5

6 MS. HEATHER REICHERT: Correct. And

7 we also agreed to give a schedule of the interest rate

8 forecast behind that particular set of pro formas.

9 MS. CANDACE GRAMMOND: Thank you. So

10 we'll look for that in -- in due course.

11 THE CHAIRPERSON: Thank you.

12

13 CROSS-EXAMINATION BY MS. CANDACE GRAMMOND:

14 MS. CANDACE GRAMMOND: Okay.

15 Commencing then with cross-examination on behalf of

16 the Board, I would ask that the Corporation confirm

17 for the record that it bears the onus of proof in this

18 proceeding to substantiate the GRA.

19 MR. MATT GHIKAS: I can confirm that

20 we do. Thank you.

21 MS. CANDACE GRAMMOND: Thank you. And

22 in particular, the Corporation bears the onus of

23 establishing that the proposed rates and fees are just

24 and reasonable. And I believe that was already

25 mentioned yesterday in the Corporation's direct

1 evidence.

2 MR. MATT GHIKAS: I can also confirm

3 that. Thank you.

4 MS. CANDACE GRAMMOND: And another way

5 of stating that test is that the rates are to be

6 actuarially sound and statistically driven, correct?

7 MS. HEATHER REICHERT: Correct.

8 MS. CANDACE GRAMMOND: Now, originally

9 in this proceeding, the Corporation had requested a 2

10 percent overall rate increase plus an interest rate

11 forecasting risk factor, or IRFRF, in an undetermined

12 amount, correct?

13 MS. HEATHER REICHERT: Correct.

14 MS. CANDACE GRAMMOND: And the

15 Corporation is now seeking an IRFRF of 2.3 percent for

16 a total 4.3 percent rate increase?

17 MS. HEATHER REICHERT: Yeah, that's

18 correct.

19 MS. CANDACE GRAMMOND: Now, to be

20 clear the Corporation is seeking an overall 4.3

21 percent rate increase and not two (2) distinct

22 components, as in a 2 percent rate increase and a 2.3

23 percent IRFRF. Is that correct?

24

25 (BRIEF PAUSE)

1 MS. HEATHER REICHERT: That -- that is
2 what we were suggesting yesterday, that the two (2) be
3 combined and put forward as a combined rate increase
4 of 4.3 percent.
5 MS. CANDACE GRAMMOND: And I just
6 wanted to clarify that because in the past there have
7 been times where the Corporation has asked for an RSR
8 rebuilding fee which wouldn't be part of the rate
9 increase and would be treated a little bit
10 differently, so I wanted to confirm that that's not
11 what's before the Board at the moment.
12 MS. HEATHER REICHERT: That's correct.
13 We're putting forward to treat it as a combined rate
14 increase of 4.3 percent.
15 MS. CANDACE GRAMMOND: And that 4.3
16 percent, Ms. Reichert, I believe you said yesterday is
17 based upon August interest rates.
18 MS. HEATHER REICHERT: That's correct.
19 That's based on a 50/50 interest rate forecast
20 scenario using the Standard Interest Rate forecast and
21 the Naive interest rate forecast. The Naive being
22 what the current interest rates were at August.
23 MS. CANDACE GRAMMOND: Thank you. And
24 we'll have more questions about that in due course.
25 And as I understand it, the Corporation confirmed its

1 request for the four point three (4.3) overall -- or
2 4.3 percent overall rate increase on October the 7th
3 in the filings that were put in?
4 MS. HEATHER REICHERT: Yeah, those
5 filings -- October the 7 -- I thought it was later
6 than that but, yes, when -- whenever we did the
7 filings for the Second Round IRs we put forward the
8 suggestion that the 50/50 interest rate forecast was a
9 best estimate for interest rates, and -- and that was
10 in response to PUB-IR-2-25.
11 MS. CANDACE GRAMMOND: Yes, and we're
12 familiar with that language. Diana, maybe -- could
13 you put PUB/MPI-2-25 up on the screen for us?
14
15 (BRIEF PAUSE)
16
17 MS. CANDACE GRAMMOND: Just 2-25, if
18 you could.
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: Thank you. So
23 this was the IR response, Ms. Reichert, that you
24 referred to. This is where the -- the Corporation put
25 forward the -- the 50/50 interest rate forecast, if we

1 can call it that. And at the end of the narrative
2 part of the IR which, Diana, is on page 10, the
3 Corporation indicated in the last paragraph that it
4 would provide the Board with an updated rate
5 indication and RSR targets once the most recent data
6 was available to update the interest rate forecast.
7 MS. HEATHER REICHERT: That's correct,
8 and that's what we provided in the -- excuse me,
9 that's what we provided in the PowerPoint presentation
10 that I gave yesterday indicating that if we had used
11 September interest rate forecast at the 50/50 it would
12 indicate a 4.4 percent overall rate increase instead
13 of the four point three (4.3).
14 MS. CANDACE GRAMMOND: Right. So as
15 it turned out, the interest rate update didn't give
16 rise to much of a change but you wouldn't have known
17 that on September 14th when this IR was submitted.
18 MS. HEATHER REICHERT: Correct.
19 MS. CANDACE GRAMMOND: I'm going to
20 ask you now, Diana, just to scroll up a bit back to
21 page 9 of this IR response. Yes, thank you. It's at
22 that -- that table there, Table 2, that I wanted to
23 look at.
24 So normally we would go through, or --
25 or in the past we've gone through the effect on each

1 major class of the proposed rate increase, and this
2 year it's a little bit different because of the -- the
3 two-tiered approach, if I can call it that, the
4 initial 2 percent filing that's now been updated to
5 the 4.3 percent.
6 So if we ignore the final column for
7 the moment, the one that has the motorcycle adjustment
8 which I'll -- I'll come to later, we see here for each
9 of the six (6) major classes the differences between
10 what was originally applied for with the unquantified
11 IRFRF and the current Application before the Board.
12 That's right?
13 MS. HEATHER REICHERT: Correct.
14 MS. CANDACE GRAMMOND: Now, I've also
15 distributed a book of documents. And at tabs 2 and 3
16 of that book we see excerpts from the rate making
17 section of the filing. So tab 2 is RM6 from the
18 original filing in June. And tab 3 is an updated RM6,
19 part of Exhibit 18 that the Corporation filed on
20 October 7th.
21 So we see in these tables the same
22 information that we were just looking at on the screen
23 with respect to the rate increase for each major class
24 both under the 2.0 percent request and the 4.3. But
25 on these charts we see -- and -- and this -- the one

1 that's on the screen right now is tab 2 of the book of
2 documents, the June document, which is fine.
3 But this reflects an extra layer of
4 information, which is the difference between the
5 indicated rate change and the experience rate change.
6 Do you see that, Ms. Reichert?
7 MR. HEATHER REICHERT: Yes, I do.
8 MS. CANDACE GRAMMOND: And so, as I
9 understand it, the column that reflect experience rate
10 change is the one that is after the capping?
11 MR. HEATHER REICHERT: That's right.
12 After applying the -- the rules, yes, right.
13 MS. CANDACE GRAMMOND: Right. And
14 these are a series of capping rules that have been in
15 place dating back some period of time that are
16 intended to minimize wild swings in rate changes in --
17 within each class?
18 MR. HEATHER REICHERT: That's correct.
19 MS. CANDACE GRAMMOND: And so the --
20 it's the experience rate change in this table that's
21 up on the screen, which is at tab 2 of the book of
22 documents, and the same column at tab 3 of the book
23 documents. That's really what the Corporation is
24 applying for after application of the capping?
25 MR. HEATHER REICHERT: That's correct.

1 MS. CANDACE GRAMMOND: And on the
2 basis of this information, or the way in which this
3 information is presented by major class, it's
4 understood that within each class any particular
5 ratepayer may experience an increase or a decrease.
6 These numbers are just averages for
7 each major class?
8 MR. HEATHER REICHERT: Yes, that is
9 correct.
10 MS. CANDACE GRAMMOND: And we see at
11 the very bottom row on the screen that the overall
12 number of vehicle -- vehicles or units within the
13 fleet is at 1.1 million and change. That's right?
14 MR. HEATHER REICHERT: Correct.
15 MS. CANDACE GRAMMOND: And the -- the
16 size of the fleet has historically increased year over
17 year at a slow but steady pace.
18 Would that be a fair comment?
19 MR. HEATHER REICHERT: That's a fair
20 comment, yes.
21 MS. CANDACE GRAMMOND: And about 90
22 percent of the revenue to the Corporation is in that
23 private passenger class, the -- the biggest class
24 that's at the top of the table?
25 MR. HEATHER REICHERT: That is

correct.

MS. CANDACE GRAMMOND: And so if we can go back, Diana, to PUB MPI-2-25. We see for private passenger, which is about 90 percent of the revenue, a change from 1.7 percent increase to a 3.9 percent increase with what's on the table?

MR. HEATHER REICHERT: That's correct.

(BRIEF PAUSE)

MS. CANDACE GRAMMOND: I won't go through each of the -- each of the classes as it's... Thank you. I won't go through each of the classes with you, but I -- I did want to cover off the -- the first one.

And I've just been passed a note by the very efficient Mr. Christle that my book of documents, or the Board's book of documents, will be entered as PUB Exhibit 13. So we'll have that added to that exhibit list. And thank you for that.

--- EXHIBIT NO. PUB-13: Board's book of documents

MS. CANDACE GRAMMOND: Now, if we go to tab 3 of the book of documents. This is the

1 updated RM6. So again it's still the same topic of
2 how the 4.3 rate increase would manifest itself if
3 approved. And if you can just scroll a little bit
4 farther down, Diana. We see some narrative in the --
5 in the paragraph under the table that talks about how
6 this rate increase would affect people in terms of
7 percentages.
8 So what -- with what the Corporation's
9 applying for we would have -- oh, I'm sorry. Oh, no.
10 Okay, this is the right one. Sorry, I thought we were
11 on the wrong document for a minute.
12 7.8 percent of vehicles would have a
13 rate decrease. 10.2 percent would have no change.
14 And 82 percent would have a rate increase if this is
15 approved. Is that right?
16 MR. HEATHER REICHERT: Correct.
17 MS. CANDACE GRAMMOND: And if we
18 scroll to the next page we see a numerical breakdown
19 of what the implications would be if this rate
20 increase is approved as applied for, which is that if
21 we look at the increase side of the table between the
22 one dollar ($1) to nineteen dollars ($19), the twenty
23 dollars ($20) to forty-nine (49), and the fifty (50)
24 to ninety-nine (99), we see the vast majority of the
25 fleet about 70 percent getting increases within that

range?

I'm -- I'm adding just in a -- in an approximate way the 19 percent, the 32, and the 27 percent.

MS. HEATHER REICHERT: That's correct. And this is the same information that was displayed graphically yesterday during the PowerPoint presentation.

MS. CANDACE GRAMMOND: Now, at the very bottom row before the total line, we see that increases of three hundred dollars ($300) or more are almost all taxis. Six hundred and eighty-nine (689) vehicles are listed and then the -- the asterisk reflect that they're all taxis except for two (2).

Can you indicate why that is that taxis are the hardest hit under this proposal?

MS. HEATHER REICHERT: They were hardest hit as well under the previous suggested rate increase. So that is because that particular class of vehicles is -- got the most risk of -- of collision and damage, and therefore, bears -- bears a higher percentage of the overall pool of insurance costs.

MS. CANDACE GRAMMOND: And I -- I wasn't meaning to suggest that it was different under the four point three (4.3) than the 2 percent. And in

1 fact, this is almost always the case --
2 MS. HEATHER REICHERT: Absolutely.
3 MS. CANDACE GRAMMOND: -- with -- with
4 the Corporation's rate applications. This isn't new
5 that -- that taxis are -- that take -- take a greater
6 increase than most other vehicles?
7 MS. HEATHER REICHERT: No, it is not
8 new.
9 MS. CANDACE GRAMMOND: Okay. So we
10 touched on the aspect of the rate proposal regarding--
11 MS. HEATHER REICHERT: Just a second.
12 Mr. Johnston wants to correct, or improve me response
13 --
14 MS. CANDACE GRAMMOND: Sure.
15 MS. HEATHER REICHERT: -- to that last
16 one.
17 MS. CANDACE GRAMMOND: Well, I would
18 never say no to that.
19 MR. LUKE JOHNSTON: No, taxis in
20 Winnipeg have rates in the eight (8) to nine thousand
21 dollar ($9,000) range, so even a small increase can
22 easily -- or sorry, a smaller percentage increase
23 could easily be three hundred dollars ($300). And
24 their -- their continuancy (sic) rate increases, so.
25 You're correct, they're usually -- if

1 they're getting any rate increase at all they're
2 usually at the bottom of this table.
3 MS. CANDACE GRAMMOND: Right, but your
4 point is just that at thr - at a three hundred dollar
5 ($300) threshold you still have to look at it in the
6 context of how much their premium is?
7 MR. LUKE JOHNSTON: That's correct,
8 yeah.
9 MS. CANDACE GRAMMOND: Okay. So I'd
10 like to turn then to the aspect of the Corporation's
11 application that was touched on earlier relating to
12 the motorcycles. And maybe what I'll ask you to do,
13 Diana, is pull 2-25 back onto the screen, because
14 there is some commentary in this on page 9, I believe,
15 or page 8.
16 Yeah, so right in that narrative
17 paragraph that's on the screen there's some commentary
18 about this issue, so we'll -- we'll just leave that
19 there for the moment. And this was touched on
20 yesterday in the direct evidence.
21 So as -- as we understand it, under
22 normal circumstances for motorcycle accident benefits,
23 which is -- includes other and income replacement
24 indemnity, MPI uses the ten (10) most recent years of
25 loss data instead of five (5) -- five (5) years, which

1 is done for the other classes.
2 Is that correct?
3 MR. LUKE JOHNSTON: That's true for
4 non-serious losses. For serious losses all classes
5 use a ten (10) year average. But for motorcycles
6 serious and non-serious use ten (10) years.
7 MS. CANDACE GRAMMOND: Okay. And the
8 reason for using as many as ten (10) years of data is
9 to smooth out the experience that shows larger
10 volatility.
11 Is that correct?
12 MR. LUKE JOHNSTON: That's correct.
13 Motorcycles are very sensitive to swings in -- in
14 injury claims. I believe about -- the last time I
15 checked about 55 percent of their claims were serious
16 loss related. So when we looked at this a few years
17 ago our view was that we could improve rate stability
18 by averaging just all their -- their PIPP losses over
19 ten (10) years.
20 MS. CANDACE GRAMMOND: Now, this year
21 MPI has proposed the use of only the most nine (9)
22 recent years of data and dropping 2006, which had
23 significantly poor experience?
24 MR. LUKE JOHNSTON: That's correct.
25 MS. CANDACE GRAMMOND: And is the idea

1 that this change, that is, to go to nine (9) years
2 from ten (10), is that intended as permanent or just
3 for this year's GRA?
4 MR. LUKE JOHNSTON: No. It's -- the
5 intent is that it would be a one (1) time adjustment
6 in light of the -- what was a 10 percent swing in
7 their rates between what we originally filed in June
8 and the updated filing.
9 We're definitely very resistant to
10 change the rate-making methodology, or propose a
11 change to the methodology, because we -- we support
12 this approach. However, when you're talking about
13 such a big swing in rates in a short period of time,
14 we did think it was necessary to look and say, Okay,
15 is this appropriate in our judgment? Is there
16 anything we can do to reasonably offset this impact?
17 And in this particular case, you have
18 experience from ten (10) years ago that is quite
19 different than their -- their overall average, their
20 worst year of all time. So it is true that if they
21 have one (1) more decent year this year, that'll fall
22 off and they would not get this rate increase if the
23 timing was different.
24 So we looked at the current year
25 experience just to confirm that it was tracking near

1 budget. And based on that information, we thought it
2 was appropriate to propose this change in methodology
3 for -- for one (1) year only.
4 MS. CANDACE GRAMMOND: So the fact
5 that 2006 would drop out of the experience next year
6 was a factor for this request?
7 MR. LUKE JOHNSTON: Yes, and -- so the
8 fact that it was about to drop out of the experience,
9 and we have -- we have had discussions, as you know,
10 with Mr. Oakes about Is motorcycle experience
11 improving? Should this year even be in the averages?
12 Is it an outlier?
13 And it's hard to say with such a small
14 class and very volatile experience. But essentially
15 that's what we're doing here. We're saying, You know
16 what, let's drop that year out of the history.
17 It is true that motorcycles have had
18 improving experience in recent years, the current year
19 being also the case. So the -- the -- we didn't see
20 any reason to give them an 8 percent rate increase
21 and, well, we'll likely be just reversing that the --
22 the following year.
23 MS. CANDACE GRAMMOND: Now, the
24 Corporation does use ten (10) years of data in other
25 situations, I believe, and specifically with respect

1 to serious losses for accident benefits, other indexed
2 as well as income replacement indemnity for all major
3 classes, bodily injury and property damage losses for
4 off-road vehicles.
5 Is that correct?
6 MR. LUKE JOHNSTON: That's true. For
7 serious losses, ten (10) year averaging is -- is the
8 norm.
9 MS. CANDACE GRAMMOND: And does the
10 Corporation use nine (9) year averaging in any other
11 context?
12 MR. LUKE JOHNSTON: No. This is a
13 specific exception to a particular issue where we
14 think that a short-term change in the methodology is -
15 - is reasonable.
16 MS. CANDACE GRAMMOND: And I listed a
17 few contexts in which the Corporation uses ten (10)
18 year averaging: serious losses for accident benefits,
19 other, IRI for all major classes, et cetera.
20 Are there any other situations wherein
21 ten (10) year averaging is used that I didn't mention?
22 MR. LUKE JOHNSTON: Really, the rate
23 application includes hundreds of forecasts, and each
24 situation will give rise to different judgments from
25 myself and anyone involved.

1 And what I mean by that is, for
2 something like hail claims, we wouldn't use a three
3 (3) year average. There's too much volatility. That
4 would create rate instability if we kept on updating
5 the three (3) year average all the time.
6 Another example might be volume growth
7 in the fleet, population growth. We might have a
8 couple of years where it goes up, and are you going to
9 just assume recent averages are going to continue
10 forever? Probably not.
11 At the same time, there may be new
12 trends in the data that you have to recognize. So
13 collision severity would be an example. I know we're
14 seeing increases in -- in that area. So my point
15 being really it depends on the circumstances, but in
16 general, high volatility data with a low -- a low
17 number of claims or a -- or a small sample would -- we
18 would want to use a longer-term average for rate
19 stability reasons.
20
21 (BRIEF PAUSE)
22
23 MR. DAN GUIMOND: Maybe for Mr. Gabor,
24 like it's very consistent to stay consistent in the
25 way you -- you price and -- and the assumptions that

1 the actuary use, but I -- I think it's important for
2 you to know that in Manitoba as we know motorcycle is
3 -- is a seasonal rating, right. So you -- we -- and
4 the seasonal rating is defined between March 1 and
5 September. That's what the riding season is.
6 So we price accordingly. We charge a
7 premium accordingly. So when we were looking at this,
8 it's not as much as looking at it from nine (9) years
9 or ten (10) years as that because the -- when we made
10 that decision it was after the season -- the riding
11 season is over you have the numbers, and so it didn't
12 make sense for us to charge that rate increase knowing
13 with the results that you have already -- like even
14 though you're going to apply into the future you know
15 you'll be giving a discount -- rebating motorcyclists.
16 From a business perspective that did
17 not make sense to us when you know the answer but
18 because of timing, you know, if -- if you stick to the
19 ten (10) year, right, when you know the answer after
20 the riding season then you say to yourself, well,
21 what's the purpose of doing that because you know next
22 year when we're going to be here in June, or you're
23 going to be giving a huge -- you're probably going to
24 be disc -- giving a rate decrease.
25 So it's important for you, sir, to know

1 that we have the answer. It's just timing now. So
2 what makes sense here? I think that's -- that's the
3 way you got to think about it from a business
4 perspective, because the riding season is over.
5 MS. CANDACE GRAMMOND: And, Mr.
6 Guimond, that was going to be one of the questions I
7 was going to ask following on Mr. Johnston's evidence
8 yesterday, that the class is under budget and so
9 forth.
10 Is the riding season really over?
11 There's not snow on the ground, and I -- I'm pretty
12 sure when I was working in my office last night I
13 heard motorcycles going up and down the road, and --
14 so -- so how do we know with certainty that -- that
15 the riding season is over?
16 MR. DAN GUIMOND: That's -- that's the
17 next logical sort of thought process. Like where do
18 you really say that -- that the risk that you've
19 assumed is over. And -- and if I -- it -- it's just
20 like -- like based on our statistics, right. Like in
21 -- in a way because of seasonal rating in -- in theory
22 everybody could take their bikes, put it in a u-haul,
23 and bring it down to Florida and drive it the whole
24 winter, right, in terms of -- but we know that doesn't
25 happen.

1 So you have to look at it and you say,
2 Would the answer that we have, and based on history,
3 then what -- what makes sense here. And so it's not
4 like -- it's not like you're deviating from -- from
5 what you want to do.
6 You have the answer, just you're stuck
7 with timing now. That's -- that's the important thing
8 to -- to understand here because we didn't feel
9 because we knew the answer that it was right to charge
10 the 8 percent and then just discount it the next year.
11 MS. CANDACE GRAMMOND: And I -- I
12 under --
13 MR. DAN GUIMOND: But that's the
14 dilemma.
15 MS. CANDACE GRAMMOND: Okay. I -- I
16 understand the -- the concept that you're describing
17 but I wanted to clarify that there are still bikes out
18 on the road, even as of today, October 14th, and there
19 could still be claims coming in the next number of
20 weeks.
21 MR. DAN GUIMOND: Theoretically there
22 will be -- in -- in theory -- if you want to talk in
23 theory you can have bikes on the road until February
24 28th because they'd be -- be riding in California, or
25 -- or Florida for all we know. That's -- that's the

1 business decision that you have to make, and based on
2 historical data and the risk that we assume, since the
3 riding season was over, we -- we made that call.
4 It's not that we want to change how we
5 -- how we price for the -- or how Luke assumes the
6 risk for bikes.
7 MS. CANDACE GRAMMOND: Now, if the
8 Board accepts the proposal and -- and changes for this
9 year to the nine (9) year average rather than ten
10 (10), is it the Corporation's view that there's any
11 significant impact on the other major classes?
12 MR. LUKE JOHNSTON: I would
13 characterize it -- that as, no, but if you go back to
14 the -- the table, I can't remember the reference but
15 there was a table with the --
16 MS. CANDACE GRAMMOND: Right, it's
17 slide 26 and we'll come there --
18 MR. LUKE JOHNSTON: Okay.
19 MS. CANDACE GRAMMOND: -- shortly but
20 we -- Diana, if you wanted to pull that up now that
21 would be fine. That's MPI Exhibit 23, slide 26.
22 MR. LUKE JOHNSTON: Thank you. So the
23 -- regardless of how we rate -- we rate motorcycles in
24 this case, we need to balance to the overall revenue
25 requirement of 4.3. So the difference between the

1 second column 4.3 rate increase and the last column
2 4.3 combined with motorcycle adjustment, any of the
3 other classes that have a different percentage, that
4 is the net effect of the motorcycle change.
5 We could quantify that in dollars if --
6 if necessary. But it appears that .1 percent, which
7 might just be rounding, is the largest impact.
8 MS. CANDACE GRAMMOND: Right. So
9 there -- so pass -- private passenger goes up by .1.
10 Commercial goes up by .1. Public goes up by .1.
11 That's basically what we're talking about?
12 MR. LUKE JOHNSTON: On a rounded
13 basis, yeah.
14 MS. CANDACE GRAMMOND: Sure.
15 MR. LUKE JOHNSTON: Yeah.
16 MS. CANDACE GRAMMOND: So if I read
17 this correctly, if the Board accepts the proposal, the
18 other -- those three (3) major classes are in effect
19 taking on the difference or the -- the -- that part of
20 the rate increase that would not be going to the
21 motorcycle class?
22 MR. LUKE JOHNSTON: That's true.
23 However, we believe it's the -- the right thing to do
24 under the circumstances. And, again, this -- if the
25 current year budget holds for motorcycles this would

1 be the affect of removing the 2006 year.

2 MS. CANDACE GRAMMOND: And so we talk

3 about in -- in this context. And -- and you and Mr.

4 Pelly, as actuaries, talk about the concept of

5 fairness and rating. How -- can you tell us how you

6 defend this proposal and changing the averaging just

7 for the one (1) year, as the Corporation's requesting,

8 in the context of the fairness and rating objective?

9 MR. LUKE JOHNSTON: Well, I think what

10 we're doing is trying to create fairness in rating,

11 particularly for the motorcycles, in this -- in this

12 case.

13 So if your goal is rate predictability

14 and stability, which is why the -- the ten (10) year

15 average is really used for serious losses; in this

16 particular case, in the judgment of myself, the

17 actuary, and the -- and our management, this wasn't

18 seen as a fair rate swing of 10 percent for

19 motorcycles for an issue that really is no longer

20 going to exist next year.

21 And again, as Mr. Guimond noted, we do

22 have additional information supporting that that is

23 the -- the right or fair thing to do for this class.

24 MS. CANDACE GRAMMOND: And the fact

25 that the impact to the motorcycle class is much more

1 significant in terms of a percentage as it is on the
2 other three (3) major classes is just due to class
3 size. Is that correct?
4 MR. LUKE JOHNSTON: Maybe I'll
5 rephrase the question. Do you mean why did the rate
6 change swing from ni -- negative 2 percent to plus 8.8
7 percent or --
8 MS. CANDACE GRAMMOND: Right. Like,
9 the swing for the motorcycle class is -- is very
10 significant, right? If -- if this change is
11 implemented by the Board, the rate increase becomes
12 2.4 percent instead of 8.8. So that's, just in rough
13 numbers, a 6 percent difference as opposed to the .1
14 that we talked about for each of the other classes.
15 And -- and so I'm -- what I'm saying
16 is, the reason why it's 6 percent in motorcycles and
17 .1 in the other classes is just class size, the number
18 of vehicles?
19 MR. LUKE JOHNSTON: That's correct.
20 Just off the top of my head, close to a billion
21 dollars in premium overall, in motorcycles would be 10
22 to $15 million of the premium. So adjustment to
23 premium in that class will be much smaller to the --
24 to the other ones.
25 MS. CANDACE GRAMMOND: And I -- I

1 appreciate the reasons that you've articulated for the
2 proposal. But the Corporation would agree that what
3 it's proposing in this piece is a form of cross-
4 subsidization, would it not?
5 MR. LUKE JOHNSTON: Not if you accept
6 our rationale for making that change, if you think --
7 which we believe is sound. We would never propose a
8 change to our longstanding rate methodology unless we
9 thought it was very necessary to, as you said, create
10 a fair result for -- for motorcycles in this case.
11 MS. CANDACE GRAMMOND: And I wasn't
12 intending to ask whether it was fair or unfair but
13 simply that what the Corporation is proposing is that
14 rates that would otherwise be paid by the motorcycle
15 class are now being picked up by other classes.
16 And would that not be a basic
17 definition of cross-subsidization?
18 MR. LUKE JOHNSTON: Cross-
19 subsidization to me would mean that a different class
20 should be paying a certain amount based on their loss
21 experience, and if they're not paying that amount
22 because we've intentionally asked other classes to pay
23 that -- that amount.
24 In this case, we're saying we don't
25 believe motorcyclists should be paying and having an

1 8.8 percent rate increase because of the reasons we've
2 mentioned. So I wouldn't characterize that as cross-
3 subsidization.
4 MS. CANDACE GRAMMOND: Okay. So
5 you're tying the concept of cross-subsidization in
6 with the validity of the subsid -- subsidization.
7 You're saying if it's valid and fair,
8 then it can't be cross-subsidization?
9 MR. LUKE JOHNSTON: I'm saying that we
10 have -- we obviously have our methodology that's been
11 in place for a long time. So absolutely we could just
12 hold the -- or stay the course and apply that
13 methodology exactly as developed and say that is the -
14 - eight point eight (8.8) is the indicated rate for
15 motorcycles.
16 However, we believe in this very unique
17 case a deviation from our historical methodology is
18 warranted and justified to produce the fair rate for
19 motorcycles. So for that -- for those reasons, I
20 don't consider it cross-subsidization.
21 MS. CANDACE GRAMMOND: Okay. So you
22 tie the concept of cross-subsidization in with the
23 validity of the -- the spread of the revenue?
24
25 (BRIEF PAUSE)

1 MR. DAN GUIMOND: Cross-subsidization
2 is when somebody else is paying for losses that you've
3 incurred. And because of the data that we have
4 available to us, we know that the losses will not be
5 incurred by those motorcyclists because the riding
6 season is over. And so we made that decision.
7 We could have easily -- easily in our
8 rate application just stuck with the eight point eight
9 (8.8), make you available -- the Board available of
10 the data that the riding season is over, we're not
11 going to be incurring these losses, and just flip it
12 around and let the Board make the decision to say, No,
13 you're not going to charge 8.8 percent, you know.
14 So at the end of the day, that's what
15 it's about. It's not about cross-subsidization, it's
16 not about changing how we want our rate. It's just
17 about having data at a point in time and was
18 difficult. We could have easily just turned around
19 and let the Board make the call.
20 We made the call. It's a point in time
21 with data that you have, and you make a decision. And
22 that's all that happened here. And going down the
23 road of trying to say it's cross-subsidization or
24 anything like that, I -- I don't agree with it.
25 So they're not going to incur those

1 losses, and we're just going to be giving next year a
2 huge discount on rates. So what's the point?
3 MS. CANDACE GRAMMOND: Mr. Guimond,
4 you've said several times today that the riding season
5 is over, leaving aside individuals that may take their
6 motorcycle down to warmer climates.
7 You acknowledge, though, that
8 motorcyclists are still riding their bikes on the
9 streets of Winnipeg as of today?
10 MR. DAN GUIMOND: What I'm
11 acknowledging right now is -- is that, based on the
12 information we had, we made a decision.
13 And if -- if we're going to be
14 continuing that line of discussion, I guess at the end
15 of the day we should have just flipped it around and
16 let the Board make the decision and just make them
17 aware of the information we had and let them make the
18 decision, just like we've made decisions in the past
19 about -- when you have data at a point in time, what
20 do you do? What's the right thing to do?
21 That's what this is about. It's got
22 nothing to do with principles or reading. And based
23 on the data you have, you make a decision.
24 The riding season is over. If -- if
25 you really believe deep inside of you that if you take

1 that money from the motorcycles, that you know they're
2 not going to incur the losses, and then the next year
3 just give it back to them, like what's the point?
4 So I think at the end of the day that's
5 what this is about.
6 MS. CANDACE GRAMMOND: We -- we have
7 your evidence on that. And don't take my questions to
8 indicate anything in one (1) direction or the other.
9 The panel's going to listen to everything. We're
10 going to hear from Mr. Oakes, we're going to hear more
11 from the panel.
12 So don't take my questions as any kind
13 of indication that even I think this isn't a good
14 proposal because what I think doesn't really matter.
15 It's going to be up to the panel.
16 So I'm not trying to discourage MPI
17 from making these kinds of proposals, but my job is to
18 try to get to the bottom of the situation, make sure
19 that all the facts and evidence are on the record, so
20 that the panel has it available and -- and can decide
21 what it wants to do at the end of the day.
22 So when I bring up the idea of cross-
23 subsidization, I'm not trying to treat it as a -- a
24 dirty word, or say that the Corporation's doing
25 something wrong with this proposal. I'm simply trying

1 to get it on to the record that if this proposal is
2 accepted, the other classes are making up that
3 difference that's not being charged to the motorcycle
4 class.
5 I -- I think we're agreed on that, are
6 we not, whether we want to call it cross-subsidization
7 or not?
8 MR. DAN GUIMOND: Well, I think your
9 point's been made, yes. Yes.
10 MS. CANDACE GRAMMOND: Okay. So
11 you're in agreement?
12 MR. DAN GUIMOND: Because I think
13 we're at the point where people understand what's
14 happened here and -- and the Board can make up its --
15 its mind, yes.
16 MS. CANDACE GRAMMOND: Okay.
17 MR. DAN GUIMOND: I agree with that.
18 MS. CANDACE GRAMMOND: Okay. Now, the
19 Corporation has indicated in its application that it's
20 not seeking any changes to service and transaction
21 fees, permit and certificate fees, et cetera, correct?
22 MR. LUKE JOHNSTON: Correct.
23 MS. CANDACE GRAMMOND: In last year's
24 proceeding, and this is referenced in last year's
25 Board order, the Corporation had advised that the

1 majority of these service fees and -- and permit fees,
2 and et cetera had not been reviewed since the fees
3 were established at some point many years ago.
4 And the Corporation had advised the
5 Board that a phased review of this service fee
6 structure would be undertaken.
7 Can you provide us with an update on
8 that? Is there a review ongoing at -- at the moment?
9
10 (BRIEF PAUSE)
11
12 MS. HEATHER REICHERT: Right at the --
13 this very moment, unfortunately no there is not a
14 review that is taking place of the service fees. It
15 was something that unfortunately we ran out of time
16 and did not conduct the study of the service fees.
17 To that point, however, a lot of the
18 service fees are not significant individual fees such
19 -- such that -- for instance, there might be a twenty-
20 five dollar ($25) NSF charge; that might be an
21 example. It is, my view anyways, that to look at that
22 and to say, Well, you know, maybe we should be
23 charging thirty (30) or thirty-five (35).
24 Twenty-five (25) is already, in our
25 view, a significant fee to be charging for a

1 particular service fee. And to try and do really,
2 really detailed analysis on what does it actually cost
3 us to deal with a NSF cheque, for the small amount of
4 overall revenue that would be increased by pot -- or
5 in -- potentially increased or decreased by looking at
6 that, it just -- it was not the top priority of the
7 Corporation in the last year.
8 So we looked at -- when I looked at it
9 I looked at what was driving the majority of the
10 service fee costs. And the particular item was the
11 financing plans were -- were the significant amount of
12 that overall. And the financing plans, in fact, do
13 change. They change -- they're based at a prime plus
14 2 percent cost.
15 And so that does change. That changes
16 with the market. So the vast majority of the service
17 fees that we charge are in fact updated on the market
18 basis every year. So I was comfortable with that and
19 -- and letting another year pass without doing any
20 significant work on the other parts of the fees.
21 MS. CANDACE GRAMMOND: So do you
22 anticipate doing a review within the upcoming year, or
23 are you content to leave the fees as they are?
24 MS. HEATHER REICHERT: I -- I'm not
25 going to guarantee that we're going to look at all the

1 -- the service fees. I may take another significant,
2 you know, revenue items within the service fees and
3 look at that one (1), as an example.
4 Again, it's -- the -- from my
5 perspective, the cost benefit is what I'm most
6 concerned with and the amount of effort to look at
7 what is potentially going to be a very small benefit.
8 So I -- I'm not going to promise that we're -- we're
9 going to look at it.
10 I am comfortable that the majority of
11 the service fee is market-based in the -- in the
12 financing plans that we -- that we have.
13 MS. CANDACE GRAMMOND: Thank you. I'm
14 going to turn then to a review of the recent financial
15 results. And I appreciate that some of this was
16 touched on yesterday.
17 If we go to tab 5 of the book of
18 documents, PF.1, as filed in June and -- and I
19 appreciate that there are other versions of PF.1 on
20 the record as well but -- but for now what we see in
21 this document is a snapshot of a six (6) year period
22 starting with the last completed fiscal year, which as
23 shown here is 2016.A (phonetic).
24 MS. HEATHER REICHERT: Correct.
25 Correct.

1 MS. CANDACE GRAMMOND: And then we see
2 the forecast for the ensuing year, so the current year
3 being 2016/'17, is -- is referenced here as 27(b)?
4 MS. HEATHER REICHERT: That's correct.
5 That is actually the budget for the 2016/'17 year.
6 MS. CANDACE GRAMMOND: Okay.
7 MS. HEATHER REICHERT: It's -- it's
8 not a forecast.
9 MS. CANDACE GRAMMOND: Okay. So 'B'
10 stands for budget and then the reaming four (4) years
11 which have 'F' stands for forecast?
12 MS. HEATHER REICHERT: Correct.
13 MS. CANDACE GRAMMOND: Okay. And just
14 as an aside, previously these documents were filed on
15 a bit of a different basis. It -- it used to be that
16 there was a forecast and then there were a series of
17 projections as opposed -- and -- and can -- maybe as a
18 starting point you can tell me:
19 Does the Corporation distinguish
20 between a forecast and a projection?
21 MS. HEATHER REICHERT: No. I -- I
22 don't. I don't -- I don't distinguish -- forecast or
23 projection from my perspective, relates to years
24 beyond the current year that we are in.
25 MS. CANDACE GRAMMOND: Okay. So for

1 you there's no particular meaning in the label.
2 MS. HEATHER REICHERT: No, I -- I
3 would -- I -- I am guessing that in the past we would
4 treat the rating years as forecast because they were
5 more recent. And so the implication is a forecast
6 might be more accurate, and a projection is further
7 out and therefore less accurate. So my guess is that
8 we used to treat the rating years, so the two (2)
9 years after the year that we're in, as forecast and
10 then the subsequent two years as projections.
11 But for all intents and purposes, we
12 have a financial model that we put in assumptions that
13 -- that do a forecast/projection for the next four (4)
14 years past the current year that we're in.
15 MS. CANDACE GRAMMOND: Okay. I think
16 we're certainly agreed that the farther out the
17 projection or forecast goes, the less accurate it's
18 going to be.
19 MS. HEATHER REICHERT: Correct.
20 MS. CANDACE GRAMMOND: Okay. Now, the
21 two (2) years that we see that are shaded, and we see
22 that shading in a number of different documents, those
23 are the two (2) years over which the Corporation is
24 looking to break even.
25 MS. HEATHER REICHERT: That is

1 correct. Those are the rating -- what we call the
2 rating years.
3 MS. CANDACE GRAMMOND: Right, although
4 the Application that's before the Board is for the
5 rates in the first of those two (2) years.
6 MS. HEATHER REICHERT: That is
7 correct.
8 MS. CANDACE GRAMMOND: In this case,
9 what -- what we're looking at on the screen, the 2018
10 year which is the 2017/'18 fiscal year.
11 MS. HEATHER REICHERT: That -- that is
12 correct.
13 MS. CANDACE GRAMMOND: Now, can you
14 explain the reasons for the Corporation seeking to
15 break even over a two (2) year period as opposed to
16 within the -- the one rating year that's before the
17 Board?
18 MS. HEATHER REICHERT: Yes, I can. So
19 the policy years for individuals' insurance policies
20 actually are -- are staggered. Renewal dates are
21 staggered.
22 So the policy year straddles the two
23 (2) fiscal years that we use as the rating years. So
24 someone might have a renewal in January of 2018, and
25 that's their renewal for the -- the period from

1 January 2018 to December 2019. That renewal falls
2 within the 2017/'18 fiscal year which ends on February
3 of 2018.
4 So throughout 2017/'18 fiscal year we
5 are renewing policies that will be covering time
6 frames from within the 2017/'18 fiscal year into the
7 2018/'19 fiscal year. Hence that's why we take the
8 average of those two (2) years to -- to be -- to be
9 covered by the -- the rates that we are indicating for
10 beginning March of 2017.
11 MS. CANDACE GRAMMOND: So basically
12 the -- the cash that you're collecting, or the -- the
13 revenue that the Corporation is collecting, for the
14 2017/'18 fiscal year is going to be coming in almost
15 for a full year after the end of that particular
16 fiscal year?
17 MR. HEATHER REICHERT: That is
18 correct. And if -- if you wanted, just -- just
19 because it's sometimes easier to see this pictorially,
20 it is explained and there is a pictorial in the rate
21 setting framework section of volume 1 of the rate
22 application, page 19.
23 MS. CANDACE GRAMMOND: Okay. And
24 we'll certainly take a look at that. We're -- we're
25 agreed though that the second year of that two (2)

1 year period will be influenced by the GA process -- or
2 GRA process next year?
3 MR. HEATHER REICHERT: Yes, that's
4 correct.
5 MS. CANDACE GRAMMOND: Now, PF.1,
6 which is at tab 5 of the book of documents, so this is
7 the version of PF.1 that came in June with the GRA
8 filing, these numbers reflect the original 2 percent
9 rate increase that was requested in June.
10 And there's an update of this document
11 at 2 dash -- PUB MPI 2-25 which reflects the 4.3
12 that's now before the Board?
13 MR. HEATHER REICHERT: That's correct.
14 MS. CANDACE GRAMMOND: So, Diana, you
15 can leave this one up on the screen because I just
16 want to go through some of the 2015/'16 actual
17 results, which will be the same in -- in both
18 versions.
19 We know, based on what we -- if you can
20 just scroll up a little bit, Diana, just so we can the
21 see the very bottom. And this was talked about
22 yesterday.
23 The Corporation -- or the Basic
24 division of the Corporation had last year a $56
25 million loss the conclusion of the fiscal year?

1 MR. HEATHER REICHERT: Correct.
2 MS. CANDACE GRAMMOND: And we have at
3 tab 8 of the book of documents, PF.4, so pro forma 4,
4 which was filed in June. And that sets out the
5 difference between the actual results of that fiscal
6 year and what the Corporation thought the results
7 would be at this time last year or at last year's GRA.
8 That's right?
9 MR. HEATHER REICHERT: That's correct.
10 MS. CANDACE GRAMMOND: And you had a
11 similar slide to this at slide 58 of your PowerPoint
12 yesterday. And I'm, Diana, not asking you to go
13 there, but that's just for people's reference and for
14 the record.
15 So we see here -- and if, Diana, you
16 could just scroll a little bit.
17
18 (BRIEF PAUSE)
19
20 MS. CANDACE GRAMMOND: There was an
21 underwriting loss of 52 million. So that's roughly in
22 the middle of the screen. Thank you.
23 That's correct, Ms. Reichert?
24 MR. HEATHER REICHERT: Sorry, yes,
25 that's correct.

1 MS. CANDACE GRAMMOND: And you had
2 testified yesterday about some of the factors that
3 gave rise to that, and one (1) of them was a $33.3
4 million higher-than-budgeted amount of physical damage
5 claims due to hail. You recall that?
6 MR. HEATHER REICHERT: Yes, I do.
7 MS. CANDACE GRAMMOND: Can you tell us
8 a little bit about what the Corporation's experience
9 has been with hail over the last number of years?
10 Just, in general terms, have there been
11 swings in frequency or severity that are of note?
12 MR. LUKE JOHNSTON: Okay, I touched on
13 this briefly yesterday. But what we're struggling
14 with on hail right now is our old -- in our old
15 forecast of hail we used to very much have a big storm
16 or almost nothing. I remember a time when we used to
17 budget 5, $6 million of net hail experience, so after
18 -- net being after reinsurers pay -- pay us any -- any
19 money.
20 And that continued for ma -- our whole
21 history, essentially, until the last five (5) to six
22 (6) years where the frequency of hail has increased,
23 and so a lot more small hail storms, which is
24 obviously not -- we're not collecting anything from
25 reinsurers for these small storms.

1 So when that first started happening it
2 was difficult for us to decide if this was an outlier
3 or if this would continue, but it basically has
4 continued to persist. And our hail forecast has
5 followed along, increasing from under 10 million to --
6 into the 20 millions today.
7 MS. CANDACE GRAMMOND: Now, in the
8 information provided yesterday, and -- and we don't
9 see the specific number on what's on the screen right
10 now, but it was in one (1) of the slides that last
11 year there was 17.8 million in better than expected
12 collision experience, Ms. Reichert. That was one of
13 the offsets that you had that -- that ultimately gave
14 rise to the underwriting loss. But it was a positive
15 component.
16 Was that a frequency or a severity
17 improvement, or a combination of the two (2)?
18 MR. LUKE JOHNSTON: The last couple of
19 years of collision frequency have been exceptionally
20 good, not -- typically, when you have a good year on
21 collision frequency, that means you had a good winter.
22 And we had two (2) pretty good winters in terms of how
23 icy and how much snow and how cold it was.
24 But we've also seen frequency declining
25 in the summer months as well which is what we

1 typically use to track any kind of behavioural changes
2 because those are consistent. So frequency has been
3 tracking lower.
4 It's -- severity has actually been
5 tracking higher. So that -- that impact is completely
6 due to frequency. It would actually be bigger -- a
7 bigger decrease if we didn't have higher severity than
8 we thought. So -- so it's -- it's frequency. The
9 frequency impact's even greater than that number.
10 MS. CANDACE GRAMMOND: Thank you. And
11 just going back to the hail piece for a moment, we
12 know that the Corporation has reinsurance, and you
13 touched on this yesterday.
14 Can you just explain in -- in a little
15 bit of detail the relationship between the increased
16 hail experience and where that leaves the Corporation
17 with its reinsurance?
18 MR. LUKE JOHNSTON: Well, so for
19 catastrophe reinsurance we call it, which for us is
20 hail, but it could apply to floor or -- or storm as
21 well, we have coverage for any incident, single hail
22 incident, over $15 million.
23 So if -- say a single storm was 100
24 million, the Corporation would pay the first 15
25 million and the reinsurer would pay the remaining

1 eighty-five (85).

2 We have coverage all the way up to $300

3 million for a single storm. When you get into the --

4 what we call layers, the $200 to $300 million storm,

5 we start sharing the cost, and -- and we take one-

6 third of that cost. But for all intents and purposes,

7 we're protected from a $300 million storm.

8 And those are -- that's an example of a

9 type of risk mitigation that you wouldn't see. Like

10 why is a hail storm not in the DCAT report? Well,

11 because we have $300 million of reinsurance.

12 One (1) of the items we're looking into

13 now is the idea of this aggregate coverage. So

14 instead of a single storm, should we be buying some

15 kind of coverage that says, If all hail in total is

16 greater than 50 million or whatever the number is,

17 then reinsurance will kick in?

18 Historically, that coverage has been

19 very expensive or providers haven't wanted to even

20 offer it to us. But we are testing that market again

21 to see if such a coverage is available at a -- at a

22 reasonable price.

23 MS. CANDACE GRAMMOND: Thank you.

24 Now, just a couple more questions on last year and

25 then we'll move to current year. So the $52 million

1 under -- underwriting loss, although it was a
2 significant change from what had originally been
3 anticipated, as we see on the screen, really an
4 underwriting loss for the Corporation isn't uncommon
5 at all.
6 MS. HEATHER REICHERT: Not -- not
7 uncommon to see some form of underwriting loss because
8 it's then offset by investment income that is earned
9 by the Corporation.
10 MS. CANDACE GRAMMOND: Right. That
11 was going to be my next question, that usually MPI
12 looks to its investment income to offset an
13 underwriting loss. But in 2015/'16, that didn't
14 happen, and the underwriting loss was somewhat
15 exacerbated by the investment income loss.
16 And that contributed to the $56 million
17 loss on the -- the year for Basic?
18 MS. HEATHER REICHERT: That's correct.
19 MS. CANDACE GRAMMOND: And that --
20 we'll -- we'll have more questions on investments.
21 But that $4 million investment loss was on the
22 portfolio of over 2 billion.
23 That's right?
24 MS. HEATHER REICHERT: Yes, over 2
25 billion, so almost 2.6 billion.

1 MS. CANDACE GRAMMOND: Okay. As I
2 say, I'll -- I'll have more questions on that a little
3 bit later on in the process.
4 MS. HEATHER REICHERT: Sorry, 2
5 billion probably as it relates to the Basic line of
6 business. Two point six (2.6) is the corporate --
7 MS. CANDACE GRAMMOND: Fair.
8 MS. HEATHER REICHERT: -- investment
9 portfolio.
10 MS. CANDACE GRAMMOND: Fair. So if we
11 turn then to the current year, we have at tab 9 of the
12 book of documents PF.5. So PF.5 is like PF.4 in the
13 sense that it's a comparison between last year's
14 forecast for the current year and then an updated
15 budget now that we -- we're halfway, roughly, through
16 that fiscal year.
17 That's right?
18 MS. HEATHER REICHERT: Yes, keeping in
19 mind that this is the budget, so it is not the
20 forecast for the current fiscal year. It would have
21 been what we had budgeted for the -- the current
22 fiscal year and it's not updated. At the time that we
23 file this in the middle of June, there's only been
24 three (3) months of actual experience and so we would
25 not have updated the budget.

1 The budget is what was established as
2 the budget for the entire '16/'17 fiscal year.
3 MS. CANDACE GRAMMOND: Okay. So it's
4 a snapshot of what was provided to the Board last year
5 and what was currently known at the time that this was
6 filed in June?
7 MS. HEATHER REICHERT: What was the
8 approved budget by the Board of Directors in January
9 of the year of our filing.
10 MS. CANDACE GRAMMOND: Yes. Okay. So
11 what we see here is that what was provided to the
12 Board at last year's hearing was an anticipated net
13 loss from rate-setting of eleven point four (11.4),
14 which has worsened, or that loss has increased to
15 eighteen point one (18.1) in the current budget for
16 the year?
17 MS. HEATHER REICHERT: That's correct.
18 MS. CANDACE GRAMMOND: And just
19 looking at the document, it would appear that the --
20 the two (2) main factors -- I appreciate there are a
21 lot of line -- line items here, but the two (2) main
22 factors are the increase in claims incurred of four
23 point six (4.6), which is just at -- where there's a
24 note two (2) there, yeah, thank you, Diana.
25 And then underneath an increase in

1 claims of three point five (3.5)?

2 MS. HEATHER REICHERT: That's correct.

3 That's correct.

4 MS. CANDACE GRAMMOND: Now, the

5 Corporation has filed its second quarter report this

6 morning, which I haven't had a chance to -- to look at

7 yet, and I'm sure we'll have some questions on that

8 report specifically later in the process, but one (1)

9 of the slides that you had presented yesterday, Ms.

10 Reichert, dealt with the second quarter.

11 So I'll ask you, Diana, to go to MPI

12 Exhibit 23, slide 62.

13

14 (BRIEF PAUSE)

15

16 MS. CANDACE GRAMMOND: So, Ms.

17 Reichert, I appreciate you testified about this slide

18 yesterday, but we have some followup questions.

19 Firstly, the -- the second column from the right, the

20 one that's entitled "budget", which budget is that?

21 Is that the -- the newest budget, or

22 the June budget, or what? We weren't sure.

23 MS. HEATHER REICHERT: That -- that

24 would be the six (6) month budget that's represented

25 by the full year budget within your PF.5 that we were

1 just looking at. So -- so that would be the -- the
2 first six (6) months budget for the '16/'17 fiscal
3 year.
4 The -- and then the latter part of the
5 year would be budgeting for a loss to get to the
6 overall budgeted loss of 18.2 million that we saw on
7 PF.5.
8 MS. CANDACE GRAMMOND: Okay. So if I
9 understand you correctly, this budget column is the
10 same budget from PF.5, just cut in half to represent
11 six (6) months instead of a full year?
12 MS. HEATHER REICHERT: Right. And
13 it's not proportionately cut in half, obviously.
14 MS. CANDACE GRAMMOND: Fair, but --
15 MS. HEATHER REICHERT: So -- so we do
16 try to recognize within the budget the cycle of when
17 typically claims do -- do occur.
18 So we often are budgeting in the first
19 six (6) -- well, the first six (6) months to have a
20 net income and then in the latter six (6) months that
21 have more of the winter results, or more of the winter
22 claims, typically then there's a -- a budgeted loss,
23 both of them to hopefully net out to a -- to a break-
24 even situation.
25 MS. CANDACE GRAMMOND: Right. So the

1 -- the point is it's not unusual for the Corporation
2 to have a less favourable collision experience in the
3 second half of its fiscal year, because that
4 encompasses September to the end of February?
5 MS. HEATHER REICHERT: That's correct.
6 MS. CANDACE GRAMMOND: Okay. Can you
7 tell us, again, looking at slide 23, what was the
8 actual interest rate movement in the first half of the
9 year, the first two (2) quarters?
10 MS. HEATHER REICHERT: Okay. We're
11 going to have to -- to look that up. I'm sure in the
12 multitude of interest rate forecast information that
13 we have we do have that somewhere, but we'll have to -
14 - we'll have to look that up.
15 MS. CANDACE GRAMMOND: If you could do
16 that, and take that as an undertaking?
17 MS. HEATHER REICHERT: Hopefully we
18 can report back to you within the next little while.
19 I'm sure it's just in the documents. We just have to
20 --
21 MS. CANDACE GRAMMOND: Okay, that --
22 MS. HEATHER REICHERT: -- look for it.
23 MS. CANDACE GRAMMOND: -- that will be
24 fine. My next question was going to be with -- again
25 with regard to this budget that's up on the screen,

1 what is the assumed interest rate movement for the
2 second six (6) months of the year, so you may want to
3 take that together with --
4 MS. HEATHER REICHERT: Sure.
5 MS. CANDACE GRAMMOND: -- the first
6 question.
7 MS. HEATHER REICHERT: Sure.
8
9 (BRIEF PAUSE)
10
11 MS. CANDACE GRAMMOND: If -- if you
12 think it's only going to take a couple of minutes to -
13 - to get that, I'll maybe ask -- Mr. Chairman, it's a
14 little early for the morning break but if we can get
15 that information then I can just continue with
16 questions about the interest rate impact that's
17 reflected here, or I can skip over those and keep
18 going, and then return to this area later.
19 THE CHAIRPERSON: Are you suggesting a
20 break, or just con -- okay. Well --
21 MS. CANDACE GRAMMOND: I -- I think
22 so. If -- if it's only going to take --
23 THE CHAIRPERSON: Ms. Reichert -- Ms.
24 Reichert, can you get the information in --
25 MS. HEATHER REICHERT: If -- if we

1 were to take the break now, if it's not within these
2 documents we could absolutely be able to get it, I
3 would say, from -- from our staff back in the office.
4 THE CHAIRPERSON: Okay. Well, we'll
5 take ten (10) minutes right now then.
6 MS. CANDACE GRAMMOND: Thank you.
7 MS. HEATHER REICHERT: Okay.
8
9 --- Upon recessing at 10:09 a.m.
10 --- Upon resuming at 10:31 a.m.
11
12 THE CHAIRPERSON: Okay, Ms.
13 Grammond...?
14
15 CONTINUED BY MS. CANDACE GRAMMOND:
16 MS. CANDACE GRAMMOND: Yes, thank you.
17 So, Diana, if we can just pull up slide 62 again of
18 Exhibit 23. We had had a discussion before the break
19 about the interest rate used for the first quarter --
20 sorry, just slide 62, if you could, thank you -- and
21 the interest rate assumptions for the second half of
22 the year, the second two (2) quarters.
23 And, Ms. Reichert, you're going to take
24 that as an undertaking to provide?
25 MS. HEATHER REICHERT: Yes, I will.

1 --- UNDERTAKING NO. 1: MPI to provide the
2 interest rate used for the
3 first quarter, and the
4 interest rate assumptions
5 for the second two (2)
6 quarters.
7
8 CONTINUED BY MS. CANDACE GRAMMOND:
9 MS. CANDACE GRAMMOND: So what I'll do
10 then is I'll -- I'll wait until we have that and then
11 I'll ask the questions that I was going to ask about
12 the interest rate spread. We'll move then to slide
13 63, please, Diana, the next slide.
14 We see here unfavourable physical
15 damage experience of 22.1 impacting the first half of
16 the current fiscal year. The same question, Mr.
17 Johnston, that I had asked about the collision
18 experience last year: Is that frequency, severity, or
19 both?
20
21 (BRIEF PAUSE)
22
23 MR. LUKE JOHNSTON: Okay. The
24 majority of the physical damage unfavourable is
25 related to comprehensive with most of it again being

1 hail.

2 MS. CANDACE GRAMMOND: Thank you. One

3 (1) more question about the current fiscal year, and

4 then we'll -- we'll carry on. Diana, if you could

5 bring up 2-25 -- PUB/MPI-2-25, we'll see -- sorry,

6 PF.1 of -- of this, if you just scroll down past this

7 narrative you'll get to PF.1 which is the first

8 attachment.

9

10 (BRIEF PAUSE)

11

12 MS. CANDACE GRAMMOND: Yes. So this

13 version of PF.1, unlike the one that we looked at

14 earlier, reflects the Application that's now on the

15 table, the 4.3 percent rate increase?

16 MS. HEATHER REICHERT: That's correct.

17 MS. CANDACE GRAMMOND: And for the

18 current year, so that's the second year reflected in

19 the -- the column of years, the Corporation is now

20 budgeting -- if we can just scroll a little farther,

21 Diana -- for a net loss of 34.6 million?

22

23 (BRIEF PAUSE)

24

25 MS. HEATHER REICHERT: Okay, so -- so,

1 yes, the second column, this should have been re-
2 titled 'not to reflect budget' because if it was
3 reflecting the budget it should have been the same as
4 the one that we were looking at before for PF -- PF.1
5 that was in the filing.
6 MS. CANDACE GRAMMOND: The -- the June
7 version of PF.1?
8 MS. HEATHER REICHERT: The June --
9 MS. CANDACE GRAMMOND: Okay.
10 MS. HEATHER REICHERT: -- version. So
11 this particular second column for '16/'17, and I had
12 spoken about this yesterday when we were comparing, I
13 said we had updated the '16/'17 forecast to the end of
14 the year using the actual interest rates that had
15 occurred for the first six (6) months and reflecting a
16 50/50 forecast to the remaining of the year --
17 remainder of the year.
18 I think I was talking about this
19 particular -- that forecast compared to the previous
20 years filing. And I can't remember what slide it was.
21 But that's why this is showing a net loss of thirty-
22 four point four (34.4) instead of the loss that we
23 were just looking at, which was the eight -- eighteen
24 point one (18.1).
25 MS. CANDACE GRAMMOND: Right. Right.

1 And I -- I think the slide that you're referring to
2 from yesterday is slide 65, just for reference. But
3 is this -- the version of PF.1 that's now up on the
4 screen, which is attachment 'A' of PUB MPI-2-25, if
5 the Board gives MPI what it's asking for, this is the
6 financial picture that we will be dealing with?
7 MR. HEATHER REICHERT: Specifically,
8 yes, as it relates again to the rating years. So
9 these rating years reflect an assumed or a suggested
10 4.3 percent premium rate increase. So --
11 MS. CANDACE GRAMMOND: And it's
12 imbedded in all the subsequent years?
13 MR. HEATHER REICHERT: And it's
14 imbedded in all the subsequent years.
15 MS. CANDACE GRAMMOND: Okay.
16 MR. HEATHER REICHERT: The only
17 difference from what we would typically do on this is,
18 because of the timing of preparing this particular pro
19 forma, we actually, for the column that represents the
20 year that we're in, we updated the forecast for the
21 year that we were in with the same interest rate
22 assumptions that we are using for the subsequent
23 years.
24 MS. CANDACE GRAMMOND: Right. So --
25 so to sum it up, PF.1, as it appears on the screen,

1 reflects what the Corporation is asking for, the
2 financial consequences of what the Corporation is
3 asking the Board to order?
4 MR. HEATHER REICHERT: That's correct.
5 MS. CANDACE GRAMMOND: Okay. That's
6 what I thought, so that's good. One (1) other
7 question just before we move to the year of the
8 application. We spoke about the request that the
9 Corporation's making regarding the motorcycle and the
10 -- the nine (9) rather than ten (10) years. You've
11 made reference to the year-to-date experience.
12 Can you provide an undertaking that
13 reflects the, I guess, frequency and severity of the
14 year-to-date motorcycle class experience?
15 MR. LUKE JOHNSTON: Yes, we can.
16 MS. CANDACE GRAMMOND: Thank you.
17
18 --- UNDERTAKING NO. 2: MPI to provide the
19 frequency and severity of
20 the year-to-date
21 motorcycle class
22 experience
23
24 CONTINUED BY MS. CANDACE GRAMMOND:
25 MS. CANDACE GRAMMOND: Okay, so we'll

1 go then to the year of the application, 2017/'18.
2 PF.6 is at tab 10 of the Board's book of documents.
3 What we see in PF.6 is a comparison of what the Board
4 saw last year in terms of expectations for the
5 2017/'18 year together with an update -- an updated
6 forecast. Is that correct?
7
8 (BRIEF PAUSE)
9
10 MR. HEATHER REICHERT: I'm sorry, Ms.
11 Grammond, can you just again indicate the source of
12 this particular page? Is it coming from the
13 application?
14 MS. CANDACE GRAMMOND: Yes. So -- so
15 this is PF.6 as filed in June. I don't think we have
16 an updated one of these.
17 But the -- the purpose of this document
18 as filed in June was to illustrate the difference
19 between what the Corporation told the Board last year
20 about 2017/'18 or what it was expecting for that year
21 a year ago compared and contrasted with an updated
22 version of the Corporation's projections for the same
23 year?
24 MR. HEATHER REICHERT: That's correct.
25 So embedded within this particular schedule is the

1 assumed 2 percent --

2 MS. CANDACE GRAMMOND: Right. But --

3 MR. HEATHER REICHERT: -- suggested

4 rate.

5 MS. CANDACE GRAMMOND: But not the

6 4.3?

7 MR. HEATHER REICHERT: That's correct.

8 MS. CANDACE GRAMMOND: Correct. So

9 with a 2 percent increase what we see here at the row

10 that's within the -- the rectangle, a $21 million

11 swing from what the Corporation was forecasting for

12 2017/'18 last year compared with what it was

13 forecasting in June of 2016?

14 MR. HEATHER REICHERT: That's correct.

15 And again, just to be really clear, so this is

16 reflecting a suggested at that time 2 percent premium

17 rate increase and continued to use the Standard

18 Interest Rate forecast.

19 So this is before any adjustments to a

20 best estimate interest rate forecast using the 50/50

21 scenario that we've talked about, which was reflected

22 in the one that we were just looking at, where we had

23 the 4.3 percent as part of that particular pro forma.

24 MS. CANDACE GRAMMOND: Sure.

25 MS. HEATHER REICHERT: So two (2)

1 things are different. The premium rate increase
2 assumed in this schedule, as well as the interest rate
3 forecast assumed in this schedule is different than
4 the one that we were just looking at.
5 MS. CANDACE GRAMMOND: Right. And so
6 -- so this document with the qualifications that
7 you've indicated, reflects a $21 million difference
8 between what the Corporation predicted last year and
9 what it predicted in June of 2016 for the 2017/'18
10 fiscal year?
11 MS. HEATHER REICHERT: That's correct.
12 MS. CANDACE GRAMMOND: Okay. Now,
13 Diana, if we can go back to 2-25, attachment A, which
14 is PF.1, we see with the changes here for the 2017/'18
15 year, if you can just scroll down a bit, we see
16 another change in what the Corp -- the -- the net
17 result for the year that the Corporation is projecting
18 with the changes now of the 4.3 percent proposed rate
19 increase as well at the 50/50 interest rate
20 forecasting method, correct?
21 MS. HEATHER REICHERT: Yes, that's
22 correct.
23 MS. CANDACE GRAMMOND: And in
24 particular, the net result for 2017/'18 has now moved,
25 again, in a negative direction up to a $25.2 million

1 loss. And I'm reading from the shaded area. Yeah,
2 right where Diana's put the cursor. Thank you.
3 MS. HEATHER REICHERT: Yes, that's
4 correct. So that is the impact of -- of changing that
5 interest rate forecast from being a standard interest
6 rate forecast that assumed interest rates were going
7 to increase significantly over this time frame,
8 comparing that to the 50/50 best estimate, which is
9 assuming that interest rates will increase, but not as
10 significantly.
11 So as a result, there's a net negative
12 impact to the '17/'18 year that we're focussing on.
13 MS. CANDACE GRAMMOND: And what we
14 see...
15
16 (BRIEF PAUSE)
17
18 MS. CANDACE GRAMMOND: What we see
19 here for the two (2) shaded years reflect the approach
20 that we spoke about earlier, which is that revenue for
21 the year of the application, the 2017/'18 year will be
22 collected within a full year subsequent to that
23 particular fiscal year?
24 MS. HEATHER REICHERT: That -- that's
25 correct. So this reflects essentially that you

1 collect half of the increased premium revenue in
2 '17/'18 and the other half is collected in the
3 subsequent year, '18/'19. So that's what's reflected
4 in here.
5 MS. CANDACE GRAMMOND: And we see
6 changes in this version of PF.1 for 2017/'18 relative
7 to claims incurred as well. We see here, again,
8 looking at the third column of numbers for the
9 2017/'18 year, total claims incurred projected at 757
10 million, which is an increase from what the
11 Corporation had filed in June and -- and we can go
12 back to that for reference if you wish.
13 But I wanted to ask about the -- the
14 driver behind that projected change?
15 MS. HEATHER REICHERT: So if we had --
16 actually -- and if -- if folks could look at your tab
17 10 --
18 MS. CANDACE GRAMMOND: Yeah.
19 MS. HEATHER REICHERT: -- at the same
20 time that we have this one on the screen. So if you
21 look at tab 10, which is as filed in June, and you
22 look at net claims incurred, excuse me, oh sorry, did
23 you just switch it, Diana? Yeah, if you can -- oh,
24 you're -- gee, technology, way to go.
25 MS. CANDACE GRAMMOND: I think it's

1 the person using the technology. She -- she deserves
2 our praise.
3 MS. HEATHER REICHERT: Yes. You know
4 what, I'm -- oh, okay. Yeah. Okay.
5 MS. CANDACE GRAMMOND: That's perfect.
6 MS. HEATHER REICHERT: Okay. So if
7 you -- oh, this is -- this is great. Okay. So if you
8 look at the -- on the left-hand side of the screen,
9 the 2017 GRA reflecting the 2018 F.
10 MS. CANDACE GRAMMOND: Yes.
11 MS. HEATHER REICHERT: So you look at
12 -- down at net claims incurred, so you'll see there
13 794.7 million. And then the interest rate impact of
14 eighty-four point six (84.6) giving a net of seven
15 hundred and ten (710).
16 If you go to the -- I'm getting
17 confused now which one -- which one is which --
18 MS. CANDACE GRAMMOND: It would be the
19 first shaded year.
20 MS. HEATHER REICHERT: The first --
21 MS. CANDACE GRAMMOND: Yeah.
22 MS. HEATHER REICHERT: -- shaded year,
23 which is the -- the 4.3 percent rate increase embedded
24 in that with the 50/50 interest rate forecast. So
25 you'll see that there's very small change in net

1 claims incurred, the -- the top number, the seven
2 ninety point seven (790.7), that compares to the seven
3 ninety-four point seven (794.7), so a very -- very
4 slight change.
5 Where the change occurs is that the
6 impact -- the interest rate impact, the negative --
7 or, pardon me, the -- the positive impact of -- of
8 interest rates increasing, that 33.6 million reduction
9 is a lot lower than when we assumed interest rates
10 were going to increase as significantly as the
11 Standard Interest Rate Forecast shows.
12 So that difference, Standard Interest
13 Rate Forecast, would show us having a reduction in
14 claims by 84.6 million. When you move to a 50/50
15 interest rate scenario on the right-hand side, the
16 first shaded, it reduces -- so the decrease reduces to
17 thirty-three point six (33.6).
18 And that's, essentially, the reason why
19 that total of seven hundred and ten (710) on the left-
20 hand side is so much lower than the seven hundred and
21 fifty-seven (757) on the right-hand shaded column.
22 So it's because of the impact of the
23 changing interest rate assumption. You -- you're
24 probably going to get to this but again those changes
25 are offset by the same similar type changes on the

1 investment income. So I'll -- I'll let you --
2 MS. CANDACE GRAMMOND: And -- and
3 that's fine, thank you. And we -- we will come to
4 investment income --
5 MR. BYRON WILLIAMS: Mr. Chair, if --
6 if I might, and I apologize, Ms. Grammond, for
7 interrupting.
8 MS. CANDACE GRAMMOND: Go ahead.
9 MR. BYRON WILLIAMS: We really
10 appreciate this excellent cross and Diana's excellent
11 work, if Ms. Grammond -- just because we're going to
12 have to reconstruct this off the transcript, if you
13 can just remind us which two (2) pages they are? So
14 that when we go a week from now to re-read this we can
15 just remember which pages they are from your book of
16 documents, if you wouldn't mind.
17 MS. CANDACE GRAMMOND: Sure, that
18 would be fine.
19 MR. BYRON WILLIAMS: And I apologize,
20 Mr. Chairperson, for interrupting.
21 MS. CANDACE GRAMMOND: No, it -- you
22 make a valid point, Mr. Williams. So on the left-hand
23 side of our screen is PF.6 which was part of the June
24 filing which is at tab 10 of the Board's book of
25 documents. On the right-hand side of our screen is

1 page 1 of Attachment A of PUB/MPI-II-25.

2 MR. BYRON WILLIAMS: Thank you.

3

4

5 CONTINUED BY MS. CANDACE GRAMMOND:

6 MS. CANDACE GRAMMOND: Thank you. So,

7 Ms. Reichert, we've talked about the changes in claims

8 incurred on these two (2) documents, and -- and the

9 interest rate impact. Claims expenses however I just

10 want to -- to take you to a couple of examples of

11 things that don't change with the interest rates.

12 We see on the left-hand side just where

13 Diana has got the arrow 128.3 million which goes down

14 to a hundred and twenty-five point one (125.1) in

15 PUB/MPI-II-25. So there's a slight change but -- but

16 not significant. Would you agree?

17 MS. HEATHER REICHERT: I -- I --

18 MS. CANDACE GRAMMOND: Oh, I'm sorry,

19 you're right.

20 MS. HEATHER REICHERT: -- it's -- it's

21 -- on the right-hand side it would be the shaded

22 column a hundred and twenty-eight point seven (128.7)

23 --

24 MS. CANDACE GRAMMOND: Yes.

25 MS. HEATHER REICHERT: -- so --

1 MS. CANDACE GRAMMOND: Okay.
2 MS. HEATHER REICHERT: -- negligible.
3 MS. CANDACE GRAMMOND: Thank you --
4 thank you for clarifying that, you're right, but the -
5 - the point is that that's a good example of something
6 that doesn't change and isn't impacted by interest
7 rates.
8 MS. HEATHER REICHERT: That's correct.
9 MS. CANDACE GRAMMOND: And the -- the
10 same would be the case for the road safety expenses.
11 They're almost identical in both scenarios.
12 MS. HEATHER REICHERT: That's correct.
13 MS. CANDACE GRAMMOND: Now, let's just
14 touch on the investment income piece, just while we
15 have these two (2) documents up on the screen. So on
16 the left-hand side the investment income is at
17 seventy-nine point seven (79.7) before interest rate
18 impact.
19 After impers -- interest rate impact
20 it's nine (9) -- a $9.8 million income, and we see
21 that change on the right-hand side to a net investment
22 income of 36 million, so a substantia increase in
23 investment income.
24 MS. HEATHER REICHERT: Right. The
25 majority of that increase again has to do with

1 changing what that interest rate impact is to
2 investment income. As well you do have -- because now
3 we are forecasting overall a lower interest rate in
4 the right-hand scenario, you see that the investment
5 income total before interest rate impacts is also
6 slightly lower or somewhat lower than the 79.8 million
7 that's shown on the left-hand side of the screen.
8 And that's -- so that's -- both of
9 those numbers are impacted when you are changing the
10 interest rate assumption on -- on the bonds that you
11 are -- are purchasing. And so this reflects what I
12 was talking about, the aspect of the impact on the
13 asset-liability matching.
14 Like the changes in the interest rate
15 is what is impacting the -- the 69.9 million number
16 becoming 31.6. And the top 79.8 million number going
17 down to 67.9 is reflecting the absolute value of -- of
18 the interest rates and the impacts of that on
19 investment income.
20 MS. CANDACE GRAMMOND: Thank you.
21 Diana, I'm going to ask you to swap out one (1) of the
22 documents. The one on the left, let's replace that
23 with Tab 5 of the book of documents, which is PF.1 as
24 filed in June. And we'll keep the right-hand side as
25 it is.

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: And I'll just
4 ask you to scroll on the left-hand side over to the
5 right so we can see the later years. Yeah. So just a
6 little bit farther if you could. Thank you.
7 So -- so what we see here -- sorry,
8 Diana. Can you actually just go all the way to the
9 right so we can see all the years there? Thank you.
10 So -- so again, the document on the
11 left is PF.1 as filed by the Corporation in June,
12 which is -- has the six (6) year snapshot including
13 all the way through to the 2020/'21 fiscal year,
14 correct?
15 MS. HEATHER REICHERT: That's correct.
16 MS. CANDACE GRAMMOND: And -- so on
17 the -- the document on the left, we have the 2 percent
18 rate increase applied for embedded, and we have the
19 Standard Interest Rate Forecast having been including,
20 as you had mentioned before.
21 MS. HEATHER REICHERT: That's correct.
22 MS. CANDACE GRAMMOND: And usually we
23 see net premiums written increase over the period of
24 years in this document either due to a rate increase
25 if one's being applied for and/or due to volume factor

1 and upgrade factor, which we'll talk about a little
2 bit later.
3 Would you agree that that's generally
4 the case?
5 MS. HEATHER REICHERT: That is -- that
6 is generally the case, correct.
7 MS. CANDACE GRAMMOND: Now, if we go
8 to the right-hand side -- and, Diana, I'll ask you to
9 do the same thing, scroll to the right so we can see
10 the later years.
11 So it's the same six (6) year period,
12 but we know the document on the right has not only the
13 change in interest rate forecast, but as well the 4.3
14 percent rate increase embedded rather than the 2
15 percent.
16 MS. HEATHER REICHERT: That's correct.
17 MS. CANDACE GRAMMOND: Okay. And if
18 we look at the investment income in particular and the
19 -- the comparison -- and I know we've talked about the
20 -- the change in interest rate with respect to the
21 year of the application.
22 But we see -- we just go at -- at the
23 total investment income line on the left-hand side for
24 let's say the last -- well, let's use the 2019/'20 and
25 the 2020 year investment income of 5 million on the

1 document on the left, the June document, for 2019, and
2 then almost 89 million in investment income for 2020.
3 You're with me?
4 MS. HEATHER REICHERT: Yes, I am.
5 MS. CANDACE GRAMMOND: So for those
6 two (2) years, if we go across to the right, we see
7 investment income for 2019 has increased to 25.6.
8 Investment income for 2020 has decreased to 42.6.
9 MS. HEATHER REICHERT: Decreased
10 relative to the one on the left, correct, yes.
11 MS. CANDACE GRAMMOND: Yeah, yeah,
12 relative to what was filed in June to what was filed
13 more recently.
14 MS. HEATHER REICHERT: Correct.
15 MS. CANDACE GRAMMOND: And -- and that
16 would be due to again the changing -- the changes in
17 the interest rate forecast. And if I could ask you to
18 recall yesterday when we were showing Standard
19 Interest Rate Forecast versus Naive versus 50/50.
20 If you recall, the first part of those
21 graphs showed the interest rates increasing, and then
22 showed them flattening.
23 MS. HEATHER REICHERT: M-hm.
24 MS. CANDACE GRAMMOND: And so when
25 interest rates flatten, then you don't get the

1 significant impact on -- on the interest rate -- or,
2 pardon me, on the investment income as you do when
3 they are in fact increasing.
4 So when interest rates are increasing,
5 the bond interest rates are increasing, that decreases
6 the value of your bonds and decreases your investment
7 income. If it stays flat, you don't have that
8 negative impact happening, so you -- you would expect
9 investment income -- as the interest rates start to
10 flatten under either scenario you would expect the
11 investment income is not going to have a significant
12 negative impact as it does when interest rates are
13 increasing.
14 MS. CANDACE GRAMMOND: Right. And so,
15 I mean, we're agreed that the impact upon investment
16 income as shown between these two (2) documents, given
17 the -- the differences in interest rate forecasting
18 that was included, are very wide?
19 MR. HEATHER REICHERT: Yes, in those
20 out years when the interest rate forecast starts to
21 flatten, yes.
22 MS. CANDACE GRAMMOND: Okay. Now, we
23 put in the book of documents -- sorry, one (1) moment,
24 Mr. Chairman.
25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Sorry, I'll --
4 I'll ask a different question. We talked about
5 earlier, Ms. Reichert, that the farther out that one
6 goes in the forecast, the less reliable it is. Do you
7 recall that from earlier today?
8 MR. HEATHER REICHERT: Yeah, the --
9 the less accuracy you're -- or the less likely it's
10 going to come to fruition in the -- those specific
11 years, yes.
12 MS. CANDACE GRAMMOND: And that's just
13 inherent in forecasting?
14 MR. HEATHER REICHERT: Correct.
15 MS. CANDACE GRAMMOND: Looking at even
16 the screen on the right, or the right-hand side of the
17 screen which reflects the revised interest rate
18 forecast and -- and focussing on the -- the later
19 years, the 2018/'19 fiscal year and -- and subsequent;
20 how much weight can the Board really put on these --
21 these forecasts given how far out they go and the
22 impact upon investment income and other parts of the
23 projections from interest rate changes?
24 MR. HEATHER REICHERT: We don't expect
25 that the -- that the Board would put or even look at

1 those outward forecasts that much because those are
2 not the ones that are impacting and indicating what
3 the -- the rate increase is that we are looking for.
4 The focus for us and -- and I believe
5 for the Board should be the '17/'18 and the '18/'19
6 years. Those are the years that are directly
7 impacting the -- the rates that we are -- that we are
8 looking for.
9 MS. CANDACE GRAMMOND: And with
10 respect to the 2018/'19 fiscal year, as we discussed
11 earlier, the Corporation will be coming back next year
12 for rates for that year.
13 All the forecasts will be updated and
14 it'll be a new picture again for that particular year?
15 MR. HEATHER REICHERT: Yes, it -- yes,
16 it will. Well, it will be depending again on what
17 happens with -- with the forecasts and interest rates
18 and all -- all of the underlying factors. Yes, it
19 will.
20 MS. CANDACE GRAMMOND: Okay. I'm
21 going to move then to some questions on the interest
22 rate forecasting risk factor, or IRFRF. So when --
23 and -- and just before we -- we get into what the
24 Corporation has proposed and -- and the reasons behind
25 it we want to go back a little bit and understand as

1 best as we can where the Corporation was coming from
2 and -- and its thought process with respect to this.
3 So when the Corporation was preparing
4 this GRA in the earlier part of 2016 did it feel in
5 any way constrained by last year's Order 128/15
6 regarding the approach that it could use for
7 forecasting interest rates within the GRA construct?
8 MR. HEATHER REICHERT: I'm not sure if
9 the -- if constrained is the right word. But we
10 absolutely wanted to respect the order that had been
11 made by the Public Utility Board that ordered us to
12 continue to use the standard interest rate forecast in
13 determining the -- the premium rate increase.
14 We absolutely were concerned that if
15 that were the interest rate forecast that was agreed
16 to, it was not a best estimate. We -- we felt that we
17 had enough evidence that indicated the standard
18 interest rate forecast was directionally always much
19 higher than what was actually occurring and that it
20 was not a best estimate.
21 We felt very strongly that we always
22 need to provide to the Public Utility (sic) Board what
23 a best estimate is. All of the forecasts that we do,
24 we always try to ensure that they're a best estimate
25 with the information that we have at hand at the time.

1 And so in order to respect the Ord --
2 the Order from the Board, but also to express our --
3 our deep concern about not using a best estimate for
4 the interest rate forecast, that's why we submitted
5 the application in the way that we did. And wanted to
6 work collaboratively and -- and asked for the
7 technical conference in order to be able to discuss
8 all of the issues around how best to determine a best
9 estimate.
10 How best to determine the best estimate
11 for -- for interest rates. And so that's -- that's
12 why we -- we wanted to work collaboratively and gain
13 some consensus with -- with the Public Utility Board
14 and the Intervenors before making any assumption on
15 what we should be suggesting as the best estimate.
16 So that was the approach that we took.
17 And -- and that's -- that's how we arrived today at
18 the 2 percent plus the 2.3 percent on the basis of the
19 -- what we thought was good discussions at the
20 technical conference and -- and listening to -- to the
21 information and collaboration that occurred at that --
22 at that conference.
23 MS. CANDACE GRAMMOND: So you would
24 agree that in general it's the Corporation's
25 responsibility to put forward a GRA that's based on

1 best estimate of forecasts?

2 MS. HEATHER REICHERT: Yes, we -- we

3 feel that it is our responsibility to put forward

4 forecasts that are our best estimates and this year

5 was -- was problematic in that -- that we didn't want

6 to essentially disobey the order of the Public Utility

7 Board, so -- so we -- we put forward what we did and

8 then indicated that we didn't feel that that was the

9 best estimate and that we wanted to work

10 collaboratively to make sure everybody was comfortable

11 with -- with the approach that we ultimately took.

12 MS. CANDACE GRAMMOND: Right, and --

13 and I understand that -- that part of it. I asked you

14 if the Corporation felt constrained by last year's

15 order and you said that certainly the Corporation

16 wanted to respect the Order and -- and that's as it

17 should be.

18 But let me ask you this, in the absence

19 of that provision in last year's Order, would the

20 Corporation have proposed something else aside from

21 the standard interest rate forecast this year?

22 MS. HEATHER REICHERT: Yes, I -- I

23 believe that -- that we would have put forward what we

24 felt was the best estimate interest rate forecast.

25 And then we would have, instead of having the

technical conference, have had the debate at this hearing about what is a best estimate interest rate forecast.

So -- so the -- the approach that we took was really building on the collaborative approach that we've taken in other matters in front of the Public Utility Board, whether it be with respect to the DCAT or other such matters. So, yeah.

MS. CANDACE GRAMMOND: Yeah. Okay. And so the -- the alternative that the Corporation has put forward with respect to interest rate forecasting is what we've been calling the 50/50 proposal, but it's an average of the Standard Interest Rate Forecast, and the Naive or No Change Interest Rate Forecast.

That's right?

MS. HEATHER REICHERT: Correct.

MS. CANDACE GRAMMOND: And for the purposes of the record, if we just call it the 50/50 approach, that's -- everyone knows what we're talking about?

MS. HEATHER REICHERT: That's fine.

MS. CANDACE GRAMMOND: Okay. Now, the Corporation has specified that it's proposing the 2.3 percent, which as we understand it is the incremental

1 rate level increase that -- that the Corporation
2 believes is necessary from what was originally filed
3 to the rate level indication that is now proposed.
4 That's right?
5 MS. HEATHER REICHERT: That's correct.
6 And maybe actually to clarify, because what we
7 originally filed was for a 2 percent plus an interest
8 rate forecasting risk factor.
9 MS. CANDACE GRAMMOND: Right, an
10 unquantified.
11 MS. HEATHER REICHERT: That was un --
12 that was undetermined, so.
13 MS. CANDACE GRAMMOND: Right.
14 MS. HEATHER REICHERT: So the
15 determination, based on the technical conference, came
16 out to the 2.3 percent that we are now putting forward
17 with the 2 percent to arrive at the combined 4.3
18 percent.
19 MS. CANDACE GRAMMOND: Now, what does
20 -- I -- I want to get at what the 2.3 quantified IRFRF
21 represents in dollars. So if I understand it
22 correctly, 1 percent is roughly 9 million.
23 Is that a fair approximation?
24 MS. HEATHER REICHERT: And -- and we
25 could actually look at those -- those two (2) -- the

1 two (2) schedules that you had side by side and see
2 the difference in the premium revenue.
3 MS. CANDACE GRAMMOND: Sure.
4 MS. HEATHER REICHERT: And that would
5 tell you quite exactly in this scenario what that 2.3
6 percent difference --
7 MS. CANDACE GRAMMOND: So --
8 MS. HEATHER REICHERT: -- equates to.
9 MS. CANDACE GRAMMOND: -- so for the
10 year of the Application, it's the difference between
11 the 995.363 and the one (1) million -- or, sorry,
12 1,017,289,000?
13 MS. HEATHER REICHERT: Yes, that's...
14
15 (BRIEF PAUSE)
16
17 MS. HEATHER REICHERT: Oh, my chief
18 actuary is saying it's better to look at the 2018/'19
19 fiscal year because at that point that is fully
20 earned. You only -- we only earn half of it in the --
21 in the '17/'18 year. So the full impact of the 2.3
22 percent is shown in the difference between the billion
23 forty (40), compared to the billion sixty-three (63).
24 MS. CANDACE GRAMMOND: Okay. So 23
25 million, roughly.

1 MS. HEATHER REICHERT: Twenty-three
2 (23) million.
3 MS. CANDACE GRAMMOND: Okay. And --
4 MS. HEATHER REICHERT: Yeah, which is
5 --
6 MS. CANDACE GRAMMOND: Okay.
7 MS. HEATHER REICHERT: -- about right.
8 MS. CANDACE GRAMMOND: Right, because
9 if it's nine (9) -- if 9 million is 1 percent then 2.3
10 would be roughly --
11 MS. HEATHER REICHERT: Yeah, and as --
12 as obviously the premium reve -- revenue grows 1
13 percent is -- is now like closer to 10 million.
14 MS. CANDACE GRAMMOND: Sure. Sure.
15 Years ago I think it was seven (7) when we --
16 MS. HEATHER REICHERT: Seven and a
17 half (7 1/2) --
18 MS. CANDACE GRAMMOND: -- when we did
19 those --
20 MS. HEATHER REICHERT: -- yeah.
21 MS. CANDACE GRAMMOND: -- little back
22 of the envelope calculations in this room.
23
24 (BRIEF PAUSE)
25

1 MS. CANDACE GRAMMOND: Now, we were
2 wondering, is there any value to MPI separately
3 tracking this incremental extra revenue arising from
4 the IRFRF and, for example, to observe the extent to
5 which this revenue succeeds in offsetting the non-ALM
6 -- ALM impact of the Standard Interest Rate Forecast
7 failing to materialize?
8 MS. HEATHER REICHERT: I personally
9 wouldn't track it from the revenue perspective. I
10 mean, we always do and we always come forward, and
11 will next -- again next year, showing what has
12 actually occurred. It'll be again the -- you know,
13 the six (6) month forecast if you will -- or six (6)
14 month actual results next year, and how that compares
15 to what we were expecting to have occur based on a 4.3
16 percent, if that's what's ordered, in the -- the 50/50
17 interest rate scenario.
18 So absolutely we'll be able to isolate,
19 if you will, what has happened with interest income,
20 what has happened with our asset/liability matching,
21 and be able to, just as we did yesterday, explain what
22 differences there were and why those differences
23 occurred.
24 MS. CANDACE GRAMMOND: Now, if the
25 Board accepts the 50/50 interest rate forecasting

1 approach that -- that we've been discussing, has the
2 Corporation turned its mind to what it might do next
3 year?
4 Would that same approach be included
5 and embedded within the GRA filing from the beginning?
6 Would that obviate the need for an IRFRF next year?
7 Can you comment on that?
8 MS. HEATHER REICHERT: Yes. So
9 obviously the hope is that the Public Utility Board
10 agrees that 50/50 is a best estimate, and based on
11 what -- what Dr. Cleary will be presenting it is our
12 view that 50/50 will continue to be the best estimate
13 next year, and likely even the year after. That it is
14 an estimate -- or a forecast that we will look at, and
15 we will continue to put forward the best estimate.
16 But at this juncture we believe that
17 next year when we file our General Rate Application we
18 will be using the 50/50 interest rate forecast as a
19 best estimate, and that will be embedded within all of
20 our -- our forecasts and will be underlying whatever
21 rate indication we have next year.
22 MS. CANDACE GRAMMOND: Thank you.
23 Now, we've been -- we talked a lot in the last day and
24 a half about the impact of interest rates and changes,
25 or the lack of changes in interest rates upon various

1 aspects of the Corporation's finances.
2 In past years, we've talked in these
3 hearings about other reasons for very significant
4 unexpected variances from forecast like, for example,
5 significant runoff from the claims liabilities.
6 So are -- we're wondering in -- in what
7 way is the interest rate forecasting risk different
8 from those other potential risks such that it merits
9 this special treatment, for lack of a better phrase?
10 MS. HEATHER REICHERT: I think what is
11 underlying the -- the interest rate forecast and
12 making it different is that the Standard Interest Rate
13 Forecast that had been used, and that had been ordered
14 to be used is not a best estimate.
15 So with respect to claims runoffs or
16 any other forecast that we put forward to the Public
17 Utility (sic) Board, we absolutely believe that we are
18 using the information that we have and we are putting
19 forward a best estimate. That's the difference.
20 With respect to interest rates, we do
21 not believe that the Standard Interest Rate Forecast
22 is a best estimate. And that's why it -- it -- it's -
23 - it's not from our perspective appropriate to
24 knowingly put forward or have rates based on something
25 that we strongly believe is not a best estimate. And

1 hence that's why the different attention to this
2 particular item.
3 All of our other forecasts underlying
4 the -- the rate application we do believe are best
5 estimates.
6 MS. CANDACE GRAMMOND: How long has
7 the Corporation held the view that the Standard
8 Interest Rate Forecast is not a best estimate,
9 roughly?
10 MS. HEATHER REICHERT: So -- so in our
11 application for the 2014 rates, we actually -- that
12 was the -- the first year that we had a very good
13 financial model. And we were forecasting interest
14 rates quite predominantly.
15 And in that particular General Rate
16 Application, we put forward actual rates that were
17 based on a low-growth scenario, which is very, very
18 close to what this 50/50 scenario is. We took a low
19 growth. We took -- at -- in that year, what we put
20 forward in our rate application was the standard
21 interest rate forecast always assumes a certain amount
22 of growth over a five (5) year period.
23 We said we did not believe that that
24 was a best estimate. We may not have used that exact
25 language, but we said we didn't believe that that was

1 going to occur in a five (5) year period. And we
2 lowered the growth over a ten (10) year period, which
3 was essentially or effectively cutting almost in half
4 the Standard Interest Rate Forecast.
5 So we put that forward in the 2014 GRA,
6 and the -- the Public Utility (sic) Board did not
7 accept that low-growth method as a -- as a best
8 estimate and altered our rate indication at -- at that
9 time -- or in that hearing.
10 MS. CANDACE GRAMMOND: So that was
11 three (3) years ago, right, because this is the 2017
12 GRA?
13 MS. HEATHER REICHERT: That's correct.
14 MS. CANDACE GRAMMOND: Can you tell us
15 about what evidence the Corporation relied upon or --
16 or had reference to in reaching the conclusion that
17 the Standard Interest Rate Forecast is not a best
18 estimate. And -- and feel free to -- to harken back
19 to 2014 if that's helpful.
20 MS. HEATHER REICHERT: So the -- the
21 evidence or the information that we believe supports
22 the 50/50 being a best estimate, we are relying on and
23 looking at what has happened historically.
24 We've tracked -- as -- as this Board is
25 aware, we have tracked and have shown each year the

1 difference between the Standard Interest Rate Forecast
2 and what has actually occurred. So we have more --
3 more years of past history that indicate that the
4 Standard Interest Rate Forecast is not a best
5 estimate.
6 We also contracted with Dr. Cleary and
7 had him review the Standard Interest Rate Forecast as
8 well to have his expert opinion on whether it was,
9 from his expert perspective, a best estimate, and then
10 basically, putting all of those factors together, came
11 to the conclusion that the 50/50 was a best estimate.
12 Now, there are some that would
13 challenge and say, Why do we not choose a best
14 estimate that was like the Naive Forecast?
15 And we don't believe that going with
16 the Naive Forecast, which assumes that the current
17 interest rate is going to continue for the next three
18 (3) years or so -- we did not view that that is a best
19 estimate in that we absolutely do believe that there
20 is a better chance of interest rates going up than
21 there is of them staying at the current rate.
22 So again, it's -- it's a combination of
23 all of that to say the 50/50 was a better or a best
24 estimate from our perspective and one that we were
25 willing to -- to put forward in the forecast.

1 MS. CANDACE GRAMMOND: Thank you. You
2 -- you've told us about, in that answer, why the
3 Corporation favours the 50/50 approach. And we'll
4 have some -- some more specific questions on that.
5 And you did say -- because my -- my question was: On
6 what basis did the Corporation basically reject the
7 Standard Interest Rate forecast approach?
8 And you said, I think, if I heard you
9 correctly, really two (2) things. One (1) is history,
10 that's it's been wrong. And the second thing is Dr.
11 Cleary. Is -- is that fair?
12
13 (BRIEF PAUSE)
14
15 MR. HEATHER REICHERT: Well, the other
16 element that I forgot to mention is that, if you look
17 at the -- the futures market and what -- what the
18 market is currently trading as it relates to the
19 future bond rates, they also are not trading at
20 anywhere close to where the Standard Interest Rate
21 forecast would -- would imply.
22 So that was -- I -- I'm sorry, that was
23 another factor that we did look at to say the Standard
24 Interest Rate forecast was -- was not a best estimate
25 in our estimation.

1 MS. CANDACE GRAMMOND: And was Dr.
2 Cleary the first expert that the Corporation consulted
3 on this issue?
4 MR. HEATHER REICHERT: Yeah. I'm --
5 I'm trying to recall if there was another one that we
6 engaged. But, no, he would be the -- the first expert
7 that we engaged formally on this particular topic,
8 yes.
9
10 (BRIEF PAUSE)
11
12 MR. HEATHER REICHERT: Just for -- if
13 the PUB panel would like to -- to look at it, in our
14 rebuttal evidence to Mr. Viola we did show what the
15 futures market was -- was forecasting and trading.
16 Page 16 of our rebuttal evidence, in
17 case you want to... Yeah, so that graph there, the
18 red -- the red line shows the forward market --
19 forward rate September the 6th, which is, you know,
20 slightly lower than the -- the 50/50 but at least
21 trending much differently than the Standard Interest
22 Rate forecast.
23 MS. CANDACE GRAMMOND: And this is a
24 graph that MPI prepared? It wasn't prepared by an
25 external third party?

1 MR. HEATHER REICHERT: No, we -- we
2 prepared this, but we prepared it based on the
3 external information that's indicated there.
4 MS. CANDACE GRAMMOND: So let's talk
5 for a minute then about the Standard Interest Rate
6 forecast itself. As we know, that's prepared using
7 information from the five (5) major banks and global
8 insight.
9 Does the Corporation have any view or
10 it can it offer any commentary on why the major banks
11 and global insight continually are preparing these
12 interest rate forecasts that are not best estimates?
13 MR. HEATHER REICHERT: It would not be
14 appropriate for me to -- to try and guess at -- at why
15 they're forecasting in the manner that they're
16 forecasting.
17 MS. CANDACE GRAMMOND: I'm going to
18 turn then to the DCAT report just briefly, and still
19 on this issue of the IRFRF. So, Diana, that's MPI
20 Exhibit 17 filed last Friday. If you could go to that
21 document, and page 24. Yeah, perfect. Just the top
22 of the page would be great. Thank you.
23 So in this DCAT report the Corporation
24 is quoting from the Canadian Actuarial Standards of
25 Practice. And looking at the beginning of the

1 italicized paragraph I'll just read in the -- the
2 salient part for the question.
3 "The base scenario would be a
4 realistic set of assumptions used to
5 forecast the insurer's financial
6 position over the forecast period.
7 Normally, the base scenario would be
8 consistent with the insurer's
9 business plan."
10 Mr. Johnston, do you believe this to be
11 the case with respect to this DCAT as amended?
12 MR. LUKE JOHNSTON: Yeah, this is a
13 difficult phrasing, I guess, for the actuary, and
14 being me, in this case. So we had an original
15 business plan. And interest rates are based on the
16 bank's forecast, and -- and then -- and that's the
17 company's business plan.
18 You can see, from the actuary's
19 perspective, it would be difficult to flat out reject
20 that plan as being unreasonable. At the same time,
21 the revised position put forward for our business
22 plan, being the 50/50, would also, as we've just
23 discussed, be considered appropriate for those
24 interest rates.
25 So this is difficult one for me, so in

1 terms of the original DCAT report, I didn't feel like
2 I had the grounds to flat out reject the Corporation's
3 forecast as being unreasonable, but at the same time
4 we obviously made the case to move away from that
5 interest rate forecast that was being used.
6
7 (BRIEF PAUSE)
8
9 MS. CANDACE GRAMMOND: So -- and, Mr.
10 Johnston, we're cert -- certainly sensitive to the --
11 the struggle that you had with this, but the -- the
12 June DCAT contained the same language that we see up
13 on the screen, right, with respect to a realistic set
14 of assumptions.
15 And so if the standard interest rate
16 forecast had already been rejected in June, then help
17 us understand how we can reconcile what was reflected
18 in the DCAT at that time?
19 MR. LUKE JOHNSTON: Okay. So the --
20 the base scenario is the -- the Company's business
21 plan. And if that business plan went forward to the
22 regulator and the rates were approved, those -- that
23 would be the revenue base that were -- the business
24 plan is based on.
25 In the scenarios for interest rate

1 movements we are mod -- essentially modelling
2 variations from the current rate, the current interest
3 rate, pardon me, in both versions of the report. So
4 what -- what I mean by that is that the risk put
5 forward by the original forecast for the -- for that
6 standard interest rate forecast is picked up by the
7 DCAT, which is why the revised DCAT dropped.
8 Basically saying, Okay, you -- your
9 revised business case is not taking a -- as large of a
10 bet, in a sense, on this rising interest rate
11 forecast. And for that reason the scenarios that we
12 ran said that the risk was -- was lower. I don't know
13 if that answers your specific question, but.
14 In terms -- so what I mean there, is in
15 terms of the scenarios, in terms of calculating
16 interest rate risk, there is no change in how -- the
17 methodology for doing that. But it was relative to a
18 different base forecast.
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: So -- thank
23 you, Mr. Johnston. And just maybe to try to focus in
24 a little more.
25 So as we understand it, the base

1 scenario back in June utilized the Standard Interest
2 Rate Forecast, which the Corporation already believed
3 at -- at that point in time was not a best estimate.
4 So how do we reconcile the use of the
5 Standard Interest Rate Forecast within the base
6 scenario in the DCAT in June with the assertion in the
7 language of the report that a realis -- a realistic
8 set of assumptions were being used to forecast?
9 MR. LUKE JOHNSTON: It...
10
11 (BRIEF PAUSE)
12
13 MR. DAN GUIMOND: I'd like to be able
14 to maybe go back a little bit to last year's
15 discussion, right. I think I believe even the first
16 year I was here when I said the Company was
17 financially vulnerable and we needed to start working
18 together to make sure that -- that we would not be --
19 continue to be financially vulnerable.
20 So when it comes to the DCAT, right,
21 and when you look at the actual practices, I remember
22 putting in the record, and maybe for the Board, you'll
23 -- you'll see that in the transcript, that I said when
24 it comes to the DCAT, that MPI did not want to
25 continue to have this confrontation in the regulatory

1 process when it came to calculating the DCAT; that
2 what was important for the Corporation was to have a
3 DCAT that, as long as the Board's actuary was willing
4 to sign off. And then as long -- once your Board
5 actuary was willing to put his credentials on the
6 line, you know, how you talk about it, and then our
7 actuary was able to sign it and our external actuary
8 would be able to sign it, that the Company -- the word
9 is good financial standing -- good financial condition
10 -- that we would accept the finding of the -- the
11 DCAT.
12 And at the end of the day, if actuaries
13 are told that -- if the Board, the way -- the way it
14 made its ruling regarding the Standard Interest Rate
15 factor, sometimes it's hard for -- for actuaries.
16 And I -- and -- and you'll have to
17 discuss this amongst yourself with your advisor, but
18 if you're willing to accept -- the Board says, That's
19 the interest rate to use, and it's -- it's very hard
20 to argue to -- if you're told to use these interest
21 rate, you know, then you use them, and you do the DCAT
22 and there's an outcome.
23 So as of June, the actuaries had to use
24 this interest rate assumptions based on the order of
25 the PUB. That doesn't mean that the Corporation

1 cannot say that we -- we really -- we really don't --
2 we really don't agree with this assumption. We really
3 don't agree that this is the best interest rate
4 forecast to use. And then once we agree on that, then
5 it allows the actuary to do another DCAT based on
6 those assumptions.
7 So I think it's very important here to
8 disassociate, you know, regulatory rulings and told to
9 be used -- to use certain things to then the actuaries
10 being asked to perform their duties based on these
11 rulings and -- and what could -- can they -- what can
12 they sign pushed to the limit?
13 And even the DCAT that we used, you can
14 see some of the scenarios and the economic
15 assumptions, you know, in -- in terms of economics if
16 -- if you look at some of the things, how these
17 scenarios have been changed or what -- what was agreed
18 to.
19 So technically, it's still possible to
20 sign them. That doesn't mean it's the right thing to
21 do from a business perspective. I'm assuming that Mr.
22 Pelly is willing to put his name on -- on this DCAT
23 because that was -- I put in the record.
24 And on a go-forward basis, we're
25 saying, Well, now the evidence is starting to show

1 that this interest rate is not right. So we've got to
2 do something about it. And then after that the
3 actuaries can do their work based on -- on what we --
4 on what we agree.
5 So I think we have to really take these
6 things and separate them in their compartments and --
7 and do things in their right order and incrementally,
8 and -- and allow the -- your actuary and our actuary
9 to -- to really do their work based on the direction
10 that we provide them.
11
12 (BRIEF PAUSE)
13
14 MS. CANDACE GRAMMOND: Mr. Johnston,
15 would it be fair to say that, when you signed off on
16 the DCAT in June as written and as presented to the
17 Board, you felt constrained professionally by the last
18 Order of the Board and the provision in that Order
19 that was referred to earlier regarding the Standard
20 Interest Rate Forecast?
21 MR. LUKE JOHNSTON: Well, as Mr.
22 Guimond mentioned, we have a order from our -- our
23 Board on -- on which interest rate forecast to use.
24 The forecast comes from the banks.
25 I'd be hard pressed to sign an

1 actuarial opinion dismissing the -- both those items
2 as being completely un -- unreasonable. So, right, I
3 have those conditions, and when those conditions
4 changed, we immediately redid the DCAT report to
5 reflect the -- the updated view in the base forecast.
6 And -- and again the other -- the point
7 I mentioned earlier about the scenarios not changing,
8 although the business plan changed the methodology for
9 calculating interest rate risk in the DCAT remained
10 the same.
11 So the -- regardless of how the base
12 scenario looked and whether -- what range of
13 reasonableness is appropriate for that base scenario,
14 the DCAT's view on the risk to that forecast didn't
15 change, which -- again which is why it decreased when
16 we amended it.
17 MS. CANDACE GRAMMOND: So it's fair to
18 say then at -- at the moment the Corporation considers
19 the 50/50 proposal to represent a best estimate.
20 MR. LUKE JOHNSTON: Agreed.
21 MS. CANDACE GRAMMOND: And I want to
22 be clear on the Corporation's perspective on that, and
23 the evidentiary basis on which it relies to -- to come
24 to that conclusion. Can you help us with that?
25

1 (BRIEF PAUSE)

2

3 MR. DAN GUIMOND: Is it -- is it

4 possible to repeat the question, please?

5 MS. CANDACE GRAMMOND: Sure. So the

6 Corporation has come to the conclusion that the 50/50

7 approach is a best estimate. We've got that on the

8 record loud and clear.

9 Ms. Reichert, you spoke earlier about

10 some of the reasons for that, and -- and the

11 Corporation's thought process, but I -- what I want to

12 clarify is what are the -- the pieces of evidence that

13 the Corporation is relying on in drawing that

14 conclusion.

15 Is it -- is it Dr. Cleary? Is it

16 internal? Is there anything else or future rates?

17 MS. HEATHER REICHERT: Okay. It is

18 the -- mainly those three (3) things that I indicated

19 before, so what's happened historically, Dr. Cleary's

20 expert evidence -- or expert opinion, and that

21 combined with what was happening in the futures

22 market.

23 So those -- those three (3) things

24 combined led us to believe that the 50/50 was a best

25 est -- the 50/50 interest rate forecast was a best

1 estimate.

2

3 (BRIEF PAUSE)

4

5 MS. CANDACE GRAMMOND: So is it the

6 Corporation's view that Dr. Cleary actually states in

7 his report that the 50/50 proposal is a best estimate?

8 MS. HEATHER REICHERT: I -- I don't

9 believe that in his actual report that he states that

10 in a sentence or -- or what -- what have you, but

11 absolutely the discussions that we've had with Dr.

12 Cleary, and then the discussions that occurred at the

13 technical conference with all of the -- the respective

14 representatives and Intervenors, the discussion of

15 50/50 being a best estimate was absolutely part of the

16 discussion.

17 MS. CANDACE GRAMMOND: Now, Dr. Cleary

18 states in his reports -- in his report that "yields

19 will eventually start to increase gradually," and I

20 have the reference if -- if you want that but I -- I

21 assume you're familiar with it.

22 Is it the Corporation's view that that

23 statement is a suggestion that there will be a

24 diminishing value to the Naive forecast as time goes

25 on?

1 MS. HEATHER REICHERT: Technically,
2 yes. If you -- if you believe that the interest rates
3 are going to increase gradually then by definition
4 there would be a diminishing value, if you will, in
5 the Naive forecast that assumes interest rates will
6 stay at a steady state and not increase.
7 MS. CANDACE GRAMMOND: And at one --
8 at what length of forecast would the Corporation say
9 that this would become a concern?
10 MS. HEATHER REICHERT: Sorry, what
11 would become a concern, the --
12 MS. CANDACE GRAMMOND: The validity of
13 the Naive forecast as rates increase as time goes on.
14
15 (BRIEF PAUSE)
16
17 MR. DAN GUIMOND: The -- the best
18 outcome for us as -- as a Corporation would be for the
19 Board to allow MPI -- because -- because we know --
20 you saw the -- the forecast on the futures, and so on,
21 and -- and you're quite right that as time goes by
22 this is something that needs to be looked at on an
23 ongoing basis.
24 The best outcome for the Corporation is
25 that you would allow the Corporation to always put

1 forward its best estimate and defend it versus putting
2 in the order use this interest rate forecast or use
3 this. If -- if you could remove the shackles from us
4 and allow us to really put forward what we think is --
5 is the right -- over time because it will change over
6 time, then we can then have the discussion and -- and
7 support it.
8 You -- you can see the -- the forecast
9 is even lower than the -- on the futures market even
10 lower than the 50/50. So, I mean, there's -- there's
11 still a lot of risk there in the 50/50. So the best
12 outcome for us is please allow us to -- to do the best
13 -- the best estimate. That's -- that would be our
14 desired approach on a go-forward basis.
15
16 (BRIEF PAUSE)
17
18 MS. CANDACE GRAMMOND: Okay. So I --
19 I'm going to circle back on that point in a moment. I
20 just want to ask one (1) question first. So the --
21 the Corporation has come forward with this 50/50
22 approach. Can you talk to us about why it's 50/50
23 that's a best estimate as opposed to 60/40 in favour
24 of the Naive or 60/40 in fav -- in favour of the --
25 the Standard?

1 MR. LUKE JOHNSTON: There's no correct
2 answer to that question. Like, it's a -- it's a
3 selection that we have to make. Obviously, there's a
4 full range of possibilities between Naive and Standard
5 forecast. 50/50 is seen as a reasonable compromise
6 approach between the two (2), but clearly we have no
7 statistical way to prove that a 60/40 or a 70/30 or
8 any other combination would be -- would be better or -
9 - this is a selection that -- that we make that we
10 believe's the best estimate between the two (2).
11 MS. CANDACE GRAMMOND: So is the 50/50
12 arbitrary or is it based on anything that you can
13 point to?
14
15 (BRIEF PAUSE)
16
17 MR. LUKE JOHNSTON: Really the basis
18 is we're giving equal weight to a Standard Interest
19 Rate forecast and a -- and a Flat Interest Rate
20 forecast. Another way to possibly look at this issue,
21 where we sit with interest rates right now, the banks'
22 models are clearly assuming a mean reversion of sorts
23 towards historical norms. And the pace of that
24 recovery, so to speak, I think is the biggest issue
25 for MPI.

1 So we -- we might be talking about two
2 hundred (200), two hundred and fifty (250) basis point
3 increase in interest over a three (3) year period.
4 What the Corporation was trying to do
5 in 2014 was to slow that assumption, with a low growth
6 approach, because we didn't think it was realistic.
7 And we still don't think it's realistic.
8 In theory, what the -- this combination
9 of Naive and Standard forecast, if you use a 50/50
10 weighting, if we do ever get back to long-term normal
11 interest rates, I would assume that this big increase
12 shown in the Standard Interest Rate forecast would no
13 longer exist.
14 So if we assume a long-run rate of 4 to
15 5 percent, I would hope that the Naive and the
16 Standard Interest Rate forecast would converge to
17 about the same number.
18 So the only reason there's such a
19 different right now is because there's such extreme
20 optimism assumed in the Standard Interest Rate
21 forecast which provides this big gap. If that gap was
22 to close, I believe the gap between the Naive and the
23 Standard forecast would close considerably, as well.
24 MS. CANDACE GRAMMOND: And on an
25 interim basis, so before that convergence were to

occur that you've described, if it does occur, and -- and if the Board implements the approach that's being proposed, would -- would or could consideration be given, for example, next year to changing the weighting if -- if the -- the two (2) forecasts were different a year from now than they are now.

Would that be something that the Corporation would look at as saying, Well, now it should be 60/40 or some other weighting in favour of one (1) or the other?

(BRIEF PAUSE)

MS. HEATHER REICHERT: No, I -- I think I had commented before that the intent is that we will continue to use the 50/50 going forward in -- in our rate applications based on Dr. Cleary, his expert opinion, plus the other information that we had to arrive at 50/50 this year.

So unless there's something that would change that, our view is that 50/50 would be the best estimate going forward. And we wouldn't be playing with, you know, what does and 60/40 look like, or a 70/30, or a 20/80. We would be consistently applying what we believe is the best estimate at the 50/50

1 equal weighting to the two (2) independent forecasts.
2 MS. CANDACE GRAMMOND: During the
3 technical conference that we had in August, it was
4 demonstrated by MPI that approximately one half of the
5 impact on Basic net income from interest rate change
6 was due to non-ALM impacts, and MPI was proposing the
7 IRFRF to respond to those non-ALM impacts.
8 Do I have that correct?
9 MS. HEATHER REICHERT: Yes, that was
10 some of the discussion when we were comparing the
11 Standard Interest Rate Forecast to a Naive forecast,
12 correct.
13 MS. CANDACE GRAMMOND: And is that
14 still the case now?
15 MS. HEATHER REICHERT: So now what we
16 have done by -- by using a 50/50 interest rate
17 scenario, we still have, and I -- I think I
18 demonstrated that yesterday, we still have the -- the
19 risk of interest rates not even increasing to the
20 50/50 scenario, which essentially equates to about the
21 same as what we were talking about non-ALM versus ALM
22 impacts.
23
24 (BRIEF PAUSE)
25

1 MS. CANDACE GRAMMOND: Can you comment
2 on whether to the Corporation's knowledge any other
3 organizations use an interest rate forecast that's the
4 same as or similar to the 50/50 proposal?
5 MS. HEATHER REICHERT: To our
6 knowledge, no. There's isn't any other jurisdiction
7 that -- that has the same -- same situation that --
8 that we are facing here in Manitoba. So we are not
9 aware of anyone that has an interest rate forecasting
10 risk factor or has proposed it as -- as we have.
11 We believe these are unique -- unique
12 circumstances facing -- facing Manitoba Public
13 Insurance.
14 MS. CANDACE GRAMMOND: We've had
15 evidence in past years about the role that the
16 Department of Finance plays in the Corporation's
17 investment portfolio.
18 Has the Corporation discussed
19 forecasting of interesting rates with the Department
20 of Finance at all?
21 MS. HEATHER REICHERT: Through our
22 investment committee working group, of which the
23 Department of Finance is a member, we've had
24 discussions about interest rate forecasting and -- and
25 the -- the impacts of the ALM, and the impacts on our

1 rates, et cetera.

2 MS. CANDACE GRAMMOND: And is the

3 Corporation aware of how the Department of Finance

4 forecasts interest rates?

5 MS. HEATHER REICHERT: Not in any

6 great detail. They -- no.

7 MS. CANDACE GRAMMOND: What about

8 Manitoba Hydro? Has the Corporation looked into that?

9 MS. HEATHER REICHERT: We did, after,

10 I believe it was either a pre-hearing conference or --

11 or some other conference, we did look at how Hydro

12 forecast their interest rates. Keeping in mind though

13 that they're forecasting their interest -- their

14 interest rates for a totally different purpose.

15 And we did look at it and I don't

16 believe that we felt that it was an appropriate method

17 for us to look at in -- in forecasting interest rates

18 for -- for investment income purposes.

19 MS. CANDACE GRAMMOND: Now, as we

20 discussed, at the time of the filing of the GRA, the

21 Corporation proposed the IRFRF and a collaborative

22 process with the Board and Intervenors to discuss the

23 size and -- and so forth.

24 We also know that the Corporation had

25 proposed a technical conference in the mid to later

1 part of September, and at the direction of the Board,
2 that was moved to mid-August, August 16th.
3 Would the Corporation say that the
4 timing of the release of the material for that
5 technical conference on August 16th had any adverse
6 impact on the process?
7 Like the -- the material that was
8 provided, you know, wasn't distributed until very
9 shortly before. And so what's the Corporation's view
10 of the impact that that may have had?
11 MS. HEATHER REICHERT: So you're
12 exactly right that initially we were anticipating a
13 technical conference in September.
14 And from the -- the PUB's -- sorry, the
15 Public Utility (sic) Board's suggestion, we did move
16 it up I think almost more than -- than a month which
17 did cause us difficulty in getting all of the material
18 out on a -- on a timely basis. We weren't able to
19 file it with all of the Intervenors and the PUB
20 advisors until the evening before.
21 However, having said that, we did go
22 through and present the information at the technical
23 conference. And I would say that, based on the
24 discussion, the nature of the questions, and the
25 overall robust coverage of the -- of the issues

1 talking about the form and the magnitude, I felt that
2 there was a good appreciation of what was being
3 discussed.
4 And so while I do appreciate it may
5 have been difficult for some Intervenors to be able to
6 absorb and -- and to -- to be able to fully grasp all
7 of the -- the complex issues at hand, I do feel that
8 the conversation at the technical conference
9 demonstrated that people had a fairly good grasp of
10 what the issue was that was facing us and -- and that
11 the Standard Interest Rate Forecast was, in fact, not
12 a best estimate.
13 MS. CANDACE GRAMMOND: So would it be
14 fair to say that the Corporation was fully satisfied
15 with the collaborative process and how it unfolded?
16 MS. HEATHER REICHERT: I -- I think
17 that it was -- I think it was a good collaborative
18 process, yes.
19 MS. CANDACE GRAMMOND: Now, in PUB-
20 MPI-2-7, which is attached to the book of documents at
21 Tab 14, we asked the Corporation to construct another
22 alternative interest rate forecast using only bank
23 forecasts both long -- longer and short term, and
24 including additional banks compared to the Standard
25 Interest Rate Forecast.

1 Does the Corporation consider this
2 inappro -- this approach or an approach like it to
3 represent an improvement over the Standard Interest
4 Rate Forecast? So even if it may not be a best
5 estimate in the Corporation's view, is it a better
6 estimate than the standard?
7 MS. HEATHER REICHERT: In my opinion,
8 no. These are -- many of the scenarios were take the
9 highest, take off the lowest, take off the highest and
10 the lowest.
11 I -- my view is that -- and -- and I
12 think that this was actually one (1) of the comments
13 that was made by Dr. Cleary even during the technical
14 conference: that isn't fundamentally improving the
15 underlying basis of the Standard Interest Rate
16 Forecast.
17 And so my view is that -- that what is
18 important is to be consistent in the interest rate
19 sources of forecasts that -- that -- that we use and
20 to be consistent in -- in looking at, you know, the --
21 the 50/50 scenario.
22 Otherwise, it -- it can lend itself too
23 much to being playing with choosing interest rate
24 forecasters that you like better than an interest rate
25 forecaster that you might not like.

1 So my view is consistency is important,
2 and all of these different -- different scenarios I
3 don't think added that much value with respect to
4 where -- where we are at.
5
6 (BRIEF PAUSE)
7
8 MS. CANDACE GRAMMOND: Ms. Reichert,
9 you would agree, though, that to the extent that the
10 50/50 approach still relies, in part, on the Standard
11 Interest Rate Forecast, there's still merit in trying
12 to improve the Standard Interest Rate Forecast.
13 MS. HEATHER REICHERT: I'm -- I -- I
14 am not sure that there is anything that can be done by
15 being selective on who you include and who you don't
16 include on the Standard Interest Rate Forecast that is
17 going to significantly improve the Standard Interest
18 Rate Forecast, and I think that that was a point that
19 was -- was made, I thought fairly clearly, by Dr.
20 Cleary during the technical conference.
21
22 (BRIEF PAUSE)
23
24 MS. CANDACE GRAMMOND: Ms. Reichert,
25 what about adding additional long-term forecast to the

1 Standard Interest Rate Forecast? As it's been done up
2 to this point, the only long-term inclusion is global,
3 so it's -- there's no opportunity for input from
4 various sources.
5 Would -- would not including or
6 considering including other long-term forecasts be one
7 way to improve upon that Standard Interest Rate
8 Forecast?
9 MS. HEATHER REICHERT: Again possibly
10 but I think minimally improve. We don't -- as -- as I
11 mentioned before the focus and what is important for
12 the Public Utility (sic) Board to understand, in
13 establishing our rates we are looking at the next two
14 (2) years from the year that we are currently in.
15 Years three (3) and four (4) from the year that we are
16 currently in, which is where the long-term forecast
17 will tend to provide different or more information
18 than what the bank forecasts do, do not factor into
19 the interest -- or, pardon me, the premium rate
20 indication that we are asking for at -- at this
21 hearing.
22 So while I appreciate that the bank
23 forecasts cover -- in this situation they cover the
24 '16/'17 and '17/'18 year, and part of '18/'19, Global
25 Insight is -- is mostly relied on for '18/'19, but

1 again we -- we actually -- I think we even did
2 different scenarios where we tried to use different
3 long-term forecasters that actually had timely
4 information that could be used in conjunction with the
5 information that we had, and the impact again was not
6 of -- of significance to make it worthwhile for us to
7 change our Standard Interest Rate Forecasting method.
8
9 (BRIEF PAUSE)
10
11 MS. CANDACE GRAMMOND: So just so that
12 we're clear and that this will be my second last
13 question on this topic, even though the Standard
14 Interest Rate Forecast is a component of the 50/50
15 approach, there is no point in the Corporation's view
16 of trying to improve it; that is, "it" being the
17 Standard Interest Rate Forecast.
18
19 (BRIEF PAUSE)
20
21 MS. CANDACE GRAMMOND: Like you -- you
22 understand where we're coming from, right? It's a sum
23 of the parts --
24 MS. HEATHER REICHERT: I -- I --
25 MS. CANDACE GRAMMOND: -- question.

1 MS. HEATHER REICHERT: -- absolutely -
2 - I absolutely understand where you're coming from,
3 and when Dr. Cleary was here at the technical
4 conference and he was looking at much broader
5 consensus forecasts that again included as a sub-set
6 those institutions that we used in the Standard
7 Interest Rate Forecast, the -- their ability to better
8 predict interest rates was -- it was no better than
9 the five (5) banks that we are using and -- and Global
10 Insight.
11 So on that basis again my preference is
12 to stay and consistently use the same -- the same
13 information. And now with using 50/50 as a best
14 estimate, the impact of those Standard Interest Rate
15 Forecasts is, in fact, reduced by 50 percent.
16 So to try and be more exact on
17 something that you know is not going to be exact
18 anyways, and -- and now is being weighted by 50
19 percent, I -- I remain comfortable that the Standard
20 Interest Rate Forecast that we are using is consistent
21 -- is -- is sufficient for being able to come up with
22 the 50/50 interest rate scenario.
23 MS. CANDACE GRAMMOND: Coming back to
24 PUB/MPI-II-7, which is tab 14 of the book of
25 documents.

1 What I'm hearing is the Corporation
2 sees no merit in adopting or considering to adopt that
3 approach or something like to replace the Standard
4 Interest Rate forecast going forward?
5 MR. HEATHER REICHERT: Correct.
6 MS. CANDACE GRAMMOND: Okay. Those
7 are our questions on the IRFRF for the time being. I
8 have a few questions arising from Mr. Guimond's
9 presentation yesterday. I don't think they'll take
10 very long, Mr. Chairman. So with -- with the Board's
11 permission, I'll just go into that area now.
12 THE CHAIRPERSON: Yeah, that's fine.
13
14 CONTINUED BY MS. CANDACE GRAMMOND:
15 MS. CANDACE GRAMMOND: Diana, if you
16 could pull up, I believe it's MPI Exhibit 14, the --
17 yes, that's the one. Thank you. Slide 9.
18 So, Mr. Guimond, this was the slide
19 that you had presented yesterday regarding changes in
20 the industry. And we've had evidence from you in
21 previous years about these issues. I'm wondering
22 about the -- the last two (2) items on the time line,
23 the 2022 reference, two (2) vehicles with urban
24 autopilot, and the 2025 reference to fully autonomous
25 vehicles.

1 Can you give us an update on whether,
2 to your knowledge, those vehicles are being tested in
3 our climate? We recall that there have been issues
4 with our cold winters and so forth with some of that
5 technology. Is there anything new that you can tell
6 us?
7 MR. DAN GUIMOND: There's been no
8 testing in -- in terms of the -- maybe the extreme
9 climate we see in -- in Winnipeg -- or Manitoba, I
10 should say, and especially northern Manitoba, but
11 there is a pilot ongoing that was announced by the
12 Province of Ontario where they are having cars there
13 being piloted and testing, and so they do have winters
14 and so on, so we're keeping a close eye on that.
15 MS. CANDACE GRAMMOND: Okay. And when
16 the -- the slide here says, again with respect to
17 those two (2) items, that these vehicles could be on
18 the road, do you have any sense of whether that would
19 be in an experimental state or whether by those time
20 frames those vehicles could be a significant part of
21 the vehicle population here?
22 MR. DAN GUIMOND: Well, we're starting
23 to see evidence that it might actually go a little bit
24 faster. We're seeing, like, Tesla, for example,
25 they're already on -- on the highways, that you can

1 have some form of autopilot. I mean, you still have
2 to pay very careful attention, but there is a form of
3 autopilot.
4 In Sweden, the Volvo does have an
5 autonomous case that, based on certain areas of the
6 highway, you can actually -- it will actually drive
7 itself. And so it -- and -- and GM has also announced
8 that they will have an autonomous care by 2020.
9 So there's no indication right now that
10 these projections would seem like Star Trek like or
11 unrealistic. I mean, the evidence is there. We're
12 seeing videos. The Volvo video on -- on their
13 website, you can see the autonomous car in Sweden
14 already starting to manifest itself in certain areas.
15 It's still very -- very early in the game.
16 But there's nothing to -- to tell us
17 that these projections are unrealistic at this point
18 in time.
19 MS. CANDACE GRAMMOND: And is it too
20 early for the Corporation to -- to look at what the
21 impact upon its own business might be? Are -- are we
22 too early for that or is that something that the
23 Corporation started to do?
24 MR. DAN GUIMOND: We're starting to
25 look at it, especially from a registration

1 perspective. We're just trying to conceptualize what
2 are the changes. We -- we know registration in terms
3 of how -- how do you register these vehicles.
4 We're trying -- we're also going to be
5 looking at insurance, what are the implications from
6 an insurance perspective on these vehicles, in
7 particular, liability, and, in particular, what will
8 be the trend of liability, will manufacturers
9 automatically assume liability, how will the industry
10 change.
11 So, yes, we're starting to look at it.
12 And we're starting to create terms of reference for
13 our Board of Directors to consider and approve and --
14 and maybe start doing some really detailed research on
15 that and come up with some policies, and potentially
16 even legislative changes under the Driver Vehicle Act.
17 MS. CANDACE GRAMMOND: All right.
18 Okay. Now, there was reference yesterday -- I don't
19 think it's on this slide, but there was reference to
20 vehicles with collision avoidance technology. And I
21 think we're all aware that those are being used and
22 probably becoming more and more popular.
23 Has the Corporation noted any impact on
24 claims or frequency that can be attributed to those
25 types of safety features in vehicles that are on our

1 roads now?

2

3 (BRIEF PAUSE)

4

5 MR. LUKE JOHNSTON: The -- the

6 approach we're using to -- to try to track that is to

7 forecast vehicle behaviour by model year. So -- so

8 what I mean by that is look at brand new vehicles

9 today, look at their collision rates, their injury

10 frequencies, the severity of inj -- like -- things

11 like verus a brand new vehicle on the road ten (10)

12 years ago.

13 That's obviously important to compare

14 vehicles at the same age, because people drive their

15 brand new vehicles a lot more than their twenty-five

16 (25) year old Dodge Caravan, maybe. So it often looks

17 like new cars have higher frequency just because

18 people are driving them around all the time.

19 But that's our approach to look at

20 changes by vehicle age. There's a little bit of

21 evidence that frequency might be decreasing a bit on

22 the newer vehicles, but it is hard to peel out with

23 some of the factors we have, like a lack of a major

24 winter, driver safety rating and such.

25 So I would say there's nothing

1 substantive that we would lean on right now, but it's
2 definitely something we're going to keep looking at.
3 And if it becomes credible that this -- these changes
4 are happening, we'll absolutely be looking to put them
5 into our collision frequency forecast, for example.
6 MS. CANDACE GRAMMOND: Thank you.
7 Diana, if you could go to slide 17, please, in the
8 same exhibit. This was a slide that was spoken to
9 yesterday with respect to rates across the country.
10 And certainly we notice where the Corporation is not
11 the lowest, and we appreciate that it is the lowest in
12 many of the -- the jurisdictions.
13 I'll ask first about Saskatchewan. If
14 we look at the Saskatchewan figures, we see -- I guess
15 it's Regina specifically, but those premiums being
16 lower than both Brandon and Winnipeg that are
17 reflected here.
18 Can -- can the Corporation comment upon
19 to what it attributes the fact that, at least in this
20 slide, the Saskatchewan rates are consistently lower?
21
22 (BRIEF PAUSE)
23
24 MR. LUKE JOHNSTON: I won't say I have
25 the -- any definitive answers, but I do have regular

1 contact with my actuary counterpart at SGI. I do know
2 that they have lower collision frequency than MPI, for
3 example. So if you look at Saskatchewan being perhaps
4 more rural, less urban than the -- Manitoba, that
5 would be one (1) -- one (1) reason.
6 So clearly if we're comparing a
7 jurisdiction that has, say a 10 percent lower
8 collision frequency than -- than our jurisdiction, it
9 would be hard to beat that company on rates if you're
10 both setting on break-even basis.
11 In regards to other items, my
12 understanding was that there weren't large significant
13 differences in overall expense levels. We are
14 starting to look -- work with them on other items,
15 like how we rese -- how we reserve and invest money,
16 and such. But I have nothing to report on that today.
17 MS. CANDACE GRAMMOND: What about if
18 we look at the Maritimes we see -- with respect to the
19 green category, the thirty-five (35) year old couple
20 both claims and conviction free. We see that in four
21 (4) instances, so I'm looking at the -- the nine
22 hundred and forty-four dollars ($944) in green.
23 I -- I can't tell if that's Montreal or
24 not, but it's above Montreal and then to the right of
25 that we see for St. John, Halifax, and Charlottetown,

1 that green premium is considerably less. Well, in
2 come cases considerably less than -- than ours.
3 Would you have any commentary or be
4 able to lend any potential reasons for that to be the
5 case?
6 MR. LUKE JOHNSTON: I -- I can't
7 comment on that, unfortunately. I'm not aware for the
8 reasons there.
9 MS. CANDACE GRAMMOND: Is -- is it
10 something that the Corporation can look at and perhaps
11 answer by way of undertaking?
12 MR. LUKE JOHNSTON: It -- so there's a
13 -- I guess a survey or a collection of the rates,
14 which is one thing, but obviously the advantage I have
15 with SGI is I can just call up SGI and say, How do you
16 set your rates? In other jurisdictions that might not
17 be the case, especially if it's a private company.
18 So I don't know what we would give you
19 there for an undertaking, other than to just show you
20 the rates that we collected. Provide -- in terms of
21 providing insight I don't know what I could give you.
22 MS. CANDACE GRAMMOND: You could do
23 that, and perhaps on reflection the Corporation can
24 opine on why they're lower. And if you chose to do
25 that or not, we'll -- you know, we'll -- the Board

1 will -- will take the evidence that it receives. But
2 if you're willing to -- to make the effort then that
3 would be appreciate just because in that green
4 category, I mean, we're really in the middle, right.
5 We're not -- we're not near to the
6 lowest. We've got five (5) that are -- including
7 Saskatchewan, that are lower than -- than our rates,
8 so.
9 MR. MATT GHIKAS: Ms. Grammond, would
10 it be possible if over the break may -- maybe Mr.
11 Johnston and his colleagues can figure out exactly
12 what is involved in dealing that, and then maybe
13 provide you an answer after the break as to whether --
14 you know, the extent to which they can provide
15 information on that, and how much time and --
16 MS. CANDACE GRAMMOND: Yeah.
17 MR. MATT GHIKAS: -- work it'll take,
18 if that's all right with you?
19 MS. CANDACE GRAMMOND: That'll be
20 fine.
21 MR. MATT GHIKAS: Thank you.
22 MS. CANDACE GRAMMOND: That'll be
23 fine. Okay. Mr. Chairman, I'm prepared to -- to move
24 to another area so I'm happy to ask for the lunch
25 break, if that would please the Board?

1 THE CHAIRPERSON: Okay. We'll --
2 we'll break for an hour, and return at 1:10. Okay.
3
4 (DAN GUIMOND RETIRES)
5
6 --- Upon recessing at 12:06 p.m.
7 --- Upon resuming at 1:15 p.m.
8
9 THE CHAIRPERSON: Okay. I guess we'll
10 resume for this afternoon.
11 MS. CANDACE GRAMMOND: Thank you, Mr.
12 Chairman.
13 MR. MATT GHIKAS: And, Mr. Chairman, I
14 just wanted to acknowledge and again extend my
15 appreciation on behalf of MPI for excusing Mr. Guimond
16 for the afternoon, and do appreciate Ms. Grammond's
17 cooperation as well.
18 THE CHAIRPERSON: Thank you.
19 MR. MATT GHIKAS: Thank you.
20
21 CONTINUED BY MS. CANDACE GRAMMOND:
22 MS. CANDACE GRAMMOND: I'm going to go
23 to PF-3 in the August filing I guess this one was. It
24 was a revision. So, Diana, this is at Tab 7 of the
25 Board's book of documents. This is the statement of

1 changes in equity for Basic.

2 So while we're getting that brought up

3 -- perfect, thank you. So this, as I indicated, was

4 filed in August. The date on the document's August

5 the 5th, but this is reflective of the original 2

6 percent rate increase that was requested.

7 And we see here under the column

8 entitled '2016A' the year-end equity position for

9 Basic at the end of the 2015/'16 fiscal year.

10 Do I have that right, Ms. Reichert?

11 MS. HEATHER REICHERT: Correct, 231

12 million.

13 MS. CANDACE GRAMMOND: Yes. So that's

14 the overall total equity position. And that's after

15 the transfer in of the 72.7 million from the

16 competitive lines?

17 MS. HEATHER REICHERT: That's correct.

18 MS. CANDACE GRAMMOND: And that

19 transfer was done at that amount to put Basic's total

20 equity at the $231 million target which was in place

21 pursuant to last year's DCAT?

22 MS. HEATHER REICHERT: That's correct.

23 MS. CANDACE GRAMMOND: Now, in this

24 version of this schedule for the year of the

25 Application, the 2017/'18 year, the retained earnings

1 for Basic are forecasted to be 180.2 million. That's
2 that bolded number in the first shaded column. And
3 then with total equity, Basic was forecasting a total
4 equity position for that -- for the year end of that
5 particular year of two hundred and 220.4.
6 MS. HEATHER REICHERT: Correct.
7 MS. CANDACE GRAMMOND: And that would
8 be above what was the total equity target for Basic
9 that's reflected here of 181 million.
10 MS. HEATHER REICHERT: That's correct.
11 MS. CANDACE GRAMMOND: And we'll have
12 questions about the target later. I'm not proposing
13 to go there now. What I'd ask you to do, Diana, if
14 you could is pull up PUB/MPI-2-25, and if we can split
15 the screen the way that you did earlier, that would be
16 ideal so we can compare the two (2).
17
18 (BRIEF PAUSE)
19
20 MS. CANDACE GRAMMOND: And if you go
21 in 2-25 to PF.3, which should just a couple of pages
22 down from where you are. Yeah, perfect.
23
24 (BRIEF PAUSE)
25

1 MS. CANDACE GRAMMOND: So we see on
2 the right-hand side of the screen the version of PF.3
3 that was filed with PUB/MPI-2-25. A change in the
4 forecast equity position for Basic as at the year end,
5 and it's dropped to 194.1 million from the 220.4 that
6 -- that was forecast in June. That's correct?
7 MS. HEATHER REICHERT: That's correct.
8 MS. CANDACE GRAMMOND: And that's, of
9 course, because of the underlying interest rate
10 forecast for the revised version of PF.3, which is the
11 50/50 approach.
12 MS. HEATHER REICHERT: That's correct.
13 MS. CANDACE GRAMMOND: Now, I
14 appreciate that on the right-hand side of the screen,
15 the revised PF.3, we see the asterisk at the DCAT
16 target of a hundred and eighty-one (181) noting that
17 that will be updated when the updated DCAT is filed.
18 That's now been done, and that new target is revised
19 to 159 million. That's right?
20 MS. HEATHER REICHERT: That's correct.
21 MS. CANDACE GRAMMOND: So just for
22 clarity then, if the forecast in the revised PF.3 were
23 to unfold, the Corporation's equity position would be
24 194.1 million on a target of -- a minimum target of a
25 hundred and fifty-nine (159). So it would be well

1 within -- or well above the minimum target.
2 MS. HEATHER REICHERT: Yes, it would
3 be.
4 MS. CANDACE GRAMMOND: Thank you. I'm
5 going to go then to a few questions about the upper
6 Basic total equity target that's before the Board.
7
8 (BRIEF PAUSE)
9
10 MS. CANDACE GRAMMOND: And we can pull
11 up for reference, although it's -- I won't spec -- be
12 specifically referring to it, PUB/MPI-1-24.
13
14 (BRIEF PAUSE)
15
16 MS. CANDACE GRAMMOND: So the context
17 of this IR and -- and the question is -- is this. The
18 -- the Corporation has indicated that the proposed
19 upper Basic total equity target of 404 million, which
20 is based on the 100 percent MCT ratio, would not be
21 exhausted under any of the five thousand (5,000)
22 trials of the combined scenario after routine
23 management and regulatory action. That's right?
24 MR. LUKE JOHNSTON: That's correct.
25 MS. CANDACE GRAMMOND: Does the

1 Corporation have a reasonable level of confidence in
2 its modelling of Basic's exposure to the more extreme
3 adverse circumstances in the tail of the distribution
4 of possible outcomes?
5 MR. LUKE JOHNSTON: Can you repeat
6 that question, just so I hear the wording again?
7 MS. CANDACE GRAMMOND: Sure. So -- so
8 in the context of the proposed target and the fact
9 that that upper target is not exhausted under any of
10 the trials that have been done, does the Corporation
11 have a reasonable level of confidence in its modelling
12 of Basic's exposure to these extreme adverse
13 circumstances, and particularly in the tail of the
14 distribution of possible outcomes?
15 MR. LUKE JOHNSTON: Confidence in the
16 modelling of extreme events might be -- might be a
17 little bit more than I can say about that. We do
18 model. So let me explain that better. The -- our
19 equity -- our model for equity returns is based on his
20 -- historical results of -- of the equity markets.
21 Through the collaborative process we
22 agreed to exclude a few periods of time, like, The
23 Great Depression and such that tempered those results
24 a little bit, so reduced the likelihood of an extreme
25 event.

1 So given how I've described how we do
2 that modelling, those are the constraints,
3 essentially, within the -- that you're going to see in
4 the output. Is there -- am I a hundred percent
5 confident that there won't be a more extreme event
6 than the one I've described in that modelling? No,
7 but I don't think we have anything better to go on or
8 anything that I can support here at the hearings,
9 like, that's better than the historical data that
10 we're using for modelling.
11 And the same would be true for claims.
12 Well, we might model hail. Would I be -- or would any
13 of us be completely shocked if a big hailstorm hit the
14 -- hit Winnipeg at some point and created a really
15 large scenario that maybe we couldn't completely
16 imagine baseline historical results? Like, sure, but
17 I'm comfortable with how we've collaborated to model
18 those scenarios and with -- with the limitations that
19 I just noted.
20
21 (BRIEF PAUSE)
22
23 MS. CANDACE GRAMMOND: Thank you, Mr.
24 Johnston. So from the simulation work that's been
25 done, is it reasonable to conclude that the upper

1 target of 404 million based on a hundred percent MCT
2 ratio provides protection against insolvency at least
3 up to a one (1) in five thousand (5,000) year outcome
4 level?
5 MR. LUKE JOHNSTON: I talked about
6 this a little bit in our presentation. So again
7 noting the limitations of the DCAT, we specifically
8 said these are the risks that we have and decided on a
9 way to model them. I mentioned that an organization
10 like OSFI would have a lot more information than the
11 Corporation has, experts that are tasked with
12 quantifying those different risks on the company's
13 balance sheet.
14 We are proposing the upper target
15 essentially for that reason. That is, in my opinion,
16 the best practice; everyone else uses it. It's
17 consistent. It gives us kind of an ex -- external
18 indicator of our capital adequacy. I would not
19 characterize our DCAT as proving that such an event
20 would occur at less than one (1) in five thousand
21 (5,000) tolerance.
22 There's other risks that we may not be
23 able to model with a lot of certainty that the MCT
24 would pick up for us.
25

1 (BRIEF PAUSE)

2

3 MS. CANDACE GRAMMOND: Okay, so, Mr.
4 Johnston, we -- we've heard your evidence that you're
5 comfortable with your modelling. We appreciate that
6 not every scenario that's conceivable can be -- can be
7 modelled.
8 Can you -- can you talk to us about
9 whether the level of protection that the Corporation's
10 proposing, the 404 million, is appropriate and fair
11 for ratepayers? And -- and here's what I mean by
12 that.
13 Presumably, ratepayers want to pay
14 rates that are fair and reasonable, that are
15 reasonable and prudent, all of the -- the things that
16 we talk about here. So what do you say to a
17 suggestion that the level of protection that's being
18 proposed is -- is more than needed, too much and how -
19 - how does that play into appropriateness and fairness
20 in rating?
21 MR. LUKE JOHNSTON: Okay. No, that's
22 a -- a very important question. So to start off, the
23 -- the MCT target that we're proposing as the maximum
24 is literally everyone else's minimum if not below
25 their minimum for every other P&C insur -- insurer in

1 Canada. Some because of -- a federal regulator says
2 so, and others, like SGI and ICBC because they have
3 arrived at that conclusion that their minimum should
4 be -- or -- or target should be 100 percent MCT.
5 When we did the DCAT with -- through
6 the collaborative process, my understanding of that
7 process and the reasoning for it were to determine
8 this minimum level of capital that we'd need to have,
9 to a specific point, to not take out more monies from
10 the ratepayers or from the economy than -- than
11 necessary.
12 So the DCAT is, again, some of the
13 scenarios are kind of watered down a little bit, to
14 use that word. There's in all these management action
15 assumed. It's as low as I would sign off on as an
16 actuary. I can't imagine signing off on a lower
17 number.
18 That is the minimum amount we need to
19 have in there. And from that perspective, we're
20 taking as -- as little as possible from the ratepayers
21 to -- to stay above that minimum. If we, through
22 luck, because we're -- I say through luck, because
23 we're targeting to break-even every year, if through
24 luck we are able to build additional monies beyond the
25 159 million, we are just asking that we not rebate

1 those funds unless we reach the upper 100 percent MCT
2 target, which will allow us to manage variability and
3 rate stability in a band between that absolute minimum
4 and the MCT target.
5 So for that reason I don't see the --
6 the 100 percent MCT as taking more than -- than we
7 need to, I guess, be financially responsible and --
8 and maintain rate stability for the RSR purpose.
9 MS. HEATHER REICHERT: And if I may
10 just add to that, so if you look at the range from the
11 minimum based on the DCAT of a hundred and fifty-nine
12 (159) to the maximum based on the minim -- or based on
13 the 100 percent MCT, the -- the range in there is
14 about 250 million.
15 So to what Mr. Johnston said, that two
16 hundred and fifty (250) bandwidth, if you will, would
17 allow for having net losses. So if you look at the
18 last two (2) years we had net losses in Basic of
19 almost 150 million. And depending on how this year
20 comes to a conclusion, depending on what the winter is
21 like this year, we could experience another $75
22 million loss in Basic.
23 So in three (3) years that's a $225
24 million loss. By having a bandwidth, if you -- if we
25 were close to the -- the maximum RSR range, having

1 that two hundred and fifty (250) bandwidth would mean
2 that we are still within our range and not having to
3 look to have an RSR rebuilding fee.
4 So to -- to just accentuate the point
5 that Mr. Johnston made, that minimum to that maximum
6 we believe gives an appropriate bandwidth to allow us
7 to manage and not have volatility in the rates or
8 having to -- to ask for RSR rebuilding fees.
9 MS. CANDACE GRAMMOND: Mr. Johnston, I
10 just want to go back to a comment that you made a
11 minute ago when I was asking the question about
12 fairness to ratepayers and so forth. You -- you said
13 that the 100 percent MCT is everyone else's minimum.
14 And we appreciate that -- that that's
15 the minimum mandated by OSFI which applies to private
16 insurance companies, and -- and you referenced that.
17 And you also said, or for others, so non-private
18 insurers, it's what they have arrived at.
19 Okay. Do you recall giving that
20 evidence?
21 MR. LUKE JOHNSTON: My understanding
22 is that, in British Columbia, that the minimum is
23 legislated at 100 percent MCT. And then I believe
24 there's a target of 145 percent MCT --
25 MS. CANDACE GRAMMOND: And --

1 MR. LUKE JOHNSTON: -- subject to
2 check.
3 MS. CANDACE GRAMMOND: I'm just going
4 to stop you there for one (1) second. We'll talk
5 about BC, and then I'm -- I'm sure you're -- you were
6 next going to speak about Saskatchewan.
7 So do you know how the 100 percent MCT
8 was arrived at in British Columbia?
9 MR. LUKE JOHNSTON: The specifics, no.
10 I've heard of MCT targets being derived through DCAT
11 exercises, if that's what you're referring to. But I
12 don't know that. I haven't seen the report on that or
13 anything.
14 MS. CANDACE GRAMMOND: Sure. And what
15 about in the case of Saskatchewan?
16 MR. LUKE JOHNSTON: Same -- same
17 response.
18 MS. CANDACE GRAMMOND: Now, would you
19 agree that, if an MCT ratio of something less than 100
20 percent was defendable, that would be preferred by
21 ratepayers as the upper end of the range?
22 MR. LUKE JOHNSTON: Can you repeat
23 that? Sorry.
24 MS. CANDACE GRAMMOND: If -- if a
25 ratio other than 100 percent was defendable, a lesser

1 ratio would be preferred by ratepayers because it
2 would mean a lower upper limit?
3
4 (BRIEF PAUSE)
5
6 MR. LUKE JOHNSTON: It's a difficult
7 question to answer in terms of ratepayers'
8 preferences. If ratepayers are seeking rate
9 stability, then a lower target might not be in their
10 interests.
11 If they want to keep as much money as
12 possible in their hands and maximize the amount of
13 rebates that they receive, then that might be
14 something that they want.
15 MS. CANDACE GRAMMOND: Okay. Thank
16 you. That's -- that's fair.
17 Diana, could you pull up PUB-MPI-2-10
18 for me, please?
19
20 (BRIEF PAUSE)
21
22 MS. CANDACE GRAMMOND: Yeah, just a
23 little farther down, Diana, if you could scroll.
24 Okay.
25 So the last paragraph there on the

1 screen -- and this is part of the Corporation's
2 response -- reflects:
3 "With management action, each of the
4 MCT ratios of 70 percent, 80
5 percent, and 90 percent would
6 require a scenario more adverse than
7 the four (4) year one (1) in two
8 hundred (200) scenario."
9 Now, can you tell us -- and I'm going
10 to ask you for each of these MCT ratios, so the
11 seventy (70), the eighty (80), and the ninety (90).
12 Can you tell us at what percentile level the
13 corresponding level of total equity was exhausted from
14 the simulations or whether none exhausted?
15
16 (BRIEF PAUSE)
17
18 MR. LUKE JOHNSTON: I'm not sure I
19 understand the question.
20 MS. CANDACE GRAMMOND: Okay. And --
21 and you -- you may --
22 MR. LUKE JOHNSTON: Are you -- are you
23 referencing the three (3) --
24 MS. CANDACE GRAMMOND: -- want to
25 answer by undertaking, but --

1 MR. LUKE JOHNSTON: So there's the
2 three (3) sentences, I guess, at the top saying what
3 scenarios without management action would -- would be
4 equivalent to those ratios.
5 MS. CANDACE GRAMMOND: Yeah.
6 MR. LUKE JOHNSTON: So --
7 MS. CANDACE GRAMMOND: And I'm only
8 asking -- I'm not asking about those three (3). I'm
9 only asking about the last one. And so if -- if this
10 isn't something that you can answer off the top,
11 that's fine. You can give us an undertaking and --
12 and provide the response.
13 But what we're trying to get at -- so -
14 - so with regard to that last sentence, "with
15 management action," for each of the seventy (70), the
16 eighty (80), and the ninety (90), what -- at what
17 percentile level was Basic total equity exhausted in
18 the simulations? Or, if it wasn't exhausted, then
19 tell us. But if it was, we want to know the level for
20 each of those ratios.
21 MR. LUKE JOHNSTON: Okay. We can --
22 we can do that. The caution again here is, to go back
23 to -- though, to why MPI is asking for the MCT at 100
24 percent, we specifically noted that the MCT has
25 informational advantages that may not be contained or

1 we may not be able to measure in the DCAT process that
2 -- that we have that on an aggregate basis from the --
3 the federal regulator's test could give us a better
4 measure of those risks then we're able to do to
5 through our -- the scenarios we've developed in this
6 DCAT report.
7 So we've intentionally tried to use the
8 MCT as an independent test that isn't related to -- at
9 least not directly, to the DCAT work that we do. So I
10 can undertake to put percentile levels to this but
11 whether it says 1:250 or 1:1000, it's not going to
12 change our rationale for wanting the MCT.
13 MS. CANDACE GRAMMOND: We're not
14 asking about changing the rationale, just to be clear.
15 We -- we understand very clearly what it is that MPI
16 is asking for, but this information would be of
17 assistance to the Board.
18 So do we have the undertaking?
19 MR. LUKE JOHNSTON: That's fine, yeah.
20
21 --- UNDERTAKING NO. 3: MPI to advise at what
22 percentile level was Basic
23 total equity exhausted in
24 the simulations
25

1 CONTINUED BY MS. CANDACE GRAMMOND:

2 MS. CANDACE GRAMMOND: Okay. I'm

3 going to switch gears then a little bit and ask some

4 questions about volume factor and upgrade factor,

5 moving -- moving forward.

6 So I don't have a specific reference,

7 Diana, for you yet but we'll see as -- as we go if we

8 need to refer to something specific.

9 So in -- in a -- just to -- to set some

10 context around this, so in a year where no rate change

11 was being proposed by the Corporation, we would see in

12 the pro formas an increase in gro -- anticipated gross

13 revenue through the projections which would be driven

14 by the volume factor and the -- and the upgrade

15 factor.

16 That's right?

17 MR. LUKE JOHNSTON: That's right. So

18 volume being the size of the fleet which mirrors

19 population growth quite well. So the size of the, at

20 least private passenger vehicles, typically 1 1/2 to 2

21 percent growth historically; that was what we call

22 volume.

23 Upgrade is when we receive increases in

24 the average premium without a rate change. And what I

25 mean by that is a customer sells an old vehicle. Buys

1 a new one. Their rate goes up. MPI didn't change any
2 rates. The customer moves from rural to the city, the
3 rate goes up because they're now operating in a more
4 risky territory. MPI didn't change any rates.
5 So there's a history of how our average
6 rate goes up by this thing we call upgrade, and it
7 doesn't necessarily have to be an increase.
8 Motorcycles and some other classes have actually seen
9 negative values for that. But historically our
10 upgrade factor, at least recently, ran a little bit
11 above inflation, 2 1/2 to 2.6 percent.
12 So in a typical year going with -- from
13 a forecasting perspective with no rate increase you'd
14 expect 4 -- 4 1/2 percent increase in premium revenue
15 before you -- before you do anything.
16 MS. CANDACE GRAMMOND: So thank you
17 for that overview. I will have a few specific
18 questions. Diana, I'll ask you to pull up the revenue
19 section from Volume II, page 6, of the commentary and
20 revenue, please.
21
22 (BRIEF PAUSE)
23
24 MS. CANDACE GRAMMOND: And, Mr.
25 Johnston, you had said with respect to the volume

1 factor that it typically runs between 1 1/2 and 2
2 percent, and what we see here is exactly between those
3 two (2) numbers.
4 The Corporation is operating on the
5 basis of a 1.75 percent volume factor for current
6 year, and -- and through the five (5) year span that
7 we see here.
8 MR. LUKE JOHNSTON: That's correct.
9 MS. CANDACE GRAMMOND: And there's
10 reference in this section of the filing to -- to what
11 I'm about to refer to. For forecasting purposes, MPI
12 utilizes only HTA unit growth data as opposed to non-
13 HTA units.
14 Can you just explain that a little bit,
15 please, for the panel?
16 MR. LUKE JOHNSTON: Yeah. In -- in
17 real simple terms HTA would be vehicles essentially on
18 the road highway -- under the Highway Traffic Act.
19 ORVs and trailers would be the non-HTA vehicles.
20 The -- the reason we only use -- the
21 reason we exclude trailers and ORVs from our volume
22 growth calculation is they -- they have a large number
23 of units but a very small premium. I believe it's
24 under 2 precent, subject to check, but a very small
25 amount.

1 MS. CANDACE GRAMMOND: And when the
2 Corporation prepares the forecast, so the -- the one
3 that we're looking at on the screen now, it does so
4 with regard to longer term averages as well as the
5 consideration of recent years experience?
6 MR. LUKE JOHNSTON: That -- that's
7 true of this and -- and pretty much all the
8 forecasting.
9 MS. CANDACE GRAMMOND: Diana, can you
10 scroll up to page 8, please, so just two (2) pages in?
11
12 (BRIEF PAUSE)
13
14 MS. CANDACE GRAMMOND: Sorry, can --
15 can -- I just want to see the page number on the paper
16 version. I'm not sure. It's not -- oh, that is page
17 8, okay. Can you go back up then?
18
19 (BRIEF PAUSE)
20
21 MS. CANDACE GRAMMOND: One (1) piece
22 of helpful information here is that last year, so in
23 2015/'16, which we see in the chart, the actual volume
24 factor was one point five four (1.54). And in the two
25 (2) years before that, it ranged from between one

1 point four (1.4) to one point five four (1.54).
2 That's correct?
3 MR. LUKE JOHNSTON: Yes. And there's
4 -- page 7 has that history if you're looking for it,
5 yeah.
6 MS. CANDACE GRAMMOND: Okay. So maybe
7 we just need to scroll a little -- a little farther
8 back. Yeah, there it is --
9 MR. LUKE JOHNSTON: Yeah. That's
10 correct.
11 MS. CANDACE GRAMMOND: -- the third
12 column. Right. So there's the one point four one
13 (1.41) in two (2) consecutive years, and then the one
14 point five four (1.54).
15 So can you -- can you tell us about
16 whether we're -- we're barking up the -- the right or
17 wrong tree with a 1.75 percent forecast and how the
18 Corporation feels about the -- the strength of that
19 forecast?
20 MR. LUKE JOHNSTON: Yeah, there's no
21 question that we're basically running at 1.5 percent
22 in the last three (3) years. Looking at this -- this
23 forecast is very correlated with population growth.
24 So while I -- I acknowledge that the last three (3)
25 years are basically a one point (1.) -- almost one

1 point five (1.5) average, the five (5) and ten (10)
2 year are still running at one point seven five (1.75).
3 Something like population an vehicle
4 fleet growth we tend to look at longer term averages,
5 which is why we selected this. But we'll definitely
6 keep our eye on this one to see how it goes forward.
7 MS. CANDACE GRAMMOND: And is there a
8 sense of where the current year stands now that we're
9 halfway in, or is that not something that you would
10 typically look at during a fiscal year?
11 MR. LUKE JOHNSTON: I haven't
12 specifically looked into it, but it is some -- it is
13 something I could tell you if -- if you want me to get
14 that.
15 MS. CANDACE GRAMMOND: No, I -- I'm
16 not going to ask you for an undertaking. But I will
17 ask you this. We're talking about the difference
18 between a quarter of a percent, which doesn't sound
19 like a lot. But we -- we did ask the Corporation, as
20 we always do, to provide so -- a rerun of -- of the
21 financials with that adjustment in -- in the volume
22 factor.
23 And this year, that quarter percent for
24 the year of the application gave rise to about a $3.2
25 million difference. Is that consistent with your

1 recollection or do you want the reference?

2

3 (BRIEF PAUSE)

4

5 MR. LUKE JOHNSTON: I accept the --

6 the figures you -- you gave, subject to check. The --

7 the part I was wondering about is if when we provide

8 you those pro formas, if we just change the premium

9 projections or if we actually went into the claims and

10 changed the claims projections, as well.

11 And I'm thinking it's just a premium,

12 but I'm going to look into that. But for a large

13 chunk of our claims forecast the -- the forecast is

14 made on a per unit basis. So if you assume there's

15 more cars, there'll also be more collisions, so they

16 will move somewhat.

17 I can't confirm right now if that was

18 done in that response. But if -- if it was not, tha -

19 - that re -- result will only get smaller of a --

20 MS. CANDACE GRAMMOND: Right.

21 MR. LUKE JOHNSTON: -- deviation --

22 MS. CANDACE GRAMMOND: Right.

23 MR. LUKE JOHNSTON: -- but I'll --

24 I'll check into that. I don't know if it needs to be

25 an undertaking or -- but I can report back to you.

1 MS. CANDACE GRAMMOND: It doesn't need
2 to be a formal undertaking. But, yeah, if you're --
3 if you're willing to do that, that would be
4 appreciated.
5 MR. LUKE JOHNSTON: Okay.
6 MS. CANDACE GRAMMOND: Okay. So
7 leaving -- oh, sorry.
8
9 (BRIEF PAUSE)
10
11 MR. LUKE JOHNSTON: Do you have a IR
12 reference for the 3 million?
13 MS. CANDACE GRAMMOND: PUB/MPI 1-5.
14 So the difference there was the net loss for rate
15 setting for the year of the application improved by
16 3.2 million when we increased the volume factor by a
17 quarter percent. So that's where I --
18 MR. LUKE JOHNSTON: Okay. Thank you.
19 And I'll look into -- if we change claims in the
20 forecast. Thank you.
21 MS. CANDACE GRAMMOND: Okay. Okay.
22 So moving to upgrade factor then and leaving volume
23 factor, you talked about the upgrade factor
24 representing vehicles -- like a turnover of vehicles
25 basically, right? Older vehicles being replaced with

1 newer, enhanced premiums increasing accordingly.
2 There is also though a component in the
3 upgrade factor that deals with movement of drivers on
4 the DSR scale.
5 Do I have that right?
6 MR. LUKE JOHNSTON: Yes, I apologize.
7 I didn't explain that one. So similar to how I
8 explained the vehicle upgrade factor, the DSR upgrade
9 factor would be the impact of how people are moving on
10 our merit/demerit scale.
11 So if there's a low collision year and
12 less people get demerits from at-fault claims, you
13 would expect more drivers to move up the scale, get a
14 bigger discount, which could impact your average rate,
15 actually decreasing, and vice versa if we have a bad
16 year or a lot of convictions, or -- or something like
17 that.
18 MS. CANDACE GRAMMOND: Diana, if you
19 can just scroll up here. We're still in the revenue
20 section of the filing and we'll go to page 8, which
21 was the page that we looked at earlier. So just -- if
22 we scroll we get to the -- the bottom section.
23 So we see here in the -- in the table
24 the upgrade factor. So this is a combination of
25 vehicle upgrade and the driver movement that you've

1 described projected over the next five (5) years?
2 MR. LUKE JOHNSTON: That's right. And
3 the -- the reason it's not -- the reason it's changing
4 constantly is because of driver's safety rating. That
5 -- that forecast is -- really does follow the drivers,
6 how we think they're going to move over the next five
7 (5) years.
8 MS. CANDACE GRAMMOND: Right. And the
9 -- the numbers, if -- if I read the application
10 correctly, the vehicle upgrade component of the factor
11 is the 2.68 percent and -- or sorry, 2.6. And the
12 difference, what we see here, the difference between
13 2.6 and what's on the table is the driver piece.
14 That's right?
15 MR. LUKE JOHNSTON: That's correct.
16 MS. CANDACE GRAMMOND: So in other
17 words, MPI expects the -- at least the vehicle
18 component to remain static for the next number of
19 years and that future changes will be minimal or
20 gradual.
21 Can you explain why MPI holds that
22 view; is it just past experience, or is there any
23 other factor?
24 MR. LUKE JOHNSTON: So just to make
25 sure I understand there was the question, why MPI

1 believes they -- both upgrade factors are going to be
2 forecasted the way they are? Is that --
3 MS. CANDACE GRAMMOND: Well, the --
4 the Corporation made a specific comment in -- in the
5 filing about the upgrade factor, that it's expected to
6 be stable, future changes will be minimal or gradual.
7 So I was just -- is that just past experience that
8 gives rise to that suggestion?
9 MR. LUKE JOHNSTON: Yes. No, thanks.
10 The reason we think the upgrade is going to remain
11 stable has a lot to do with our rating structure. So
12 I talked about how someone sells an old vehicle and
13 buys a new vehicle. We have something called a rate
14 line, which is just the risk for different rate
15 groups.
16 Through the course of this rate setting
17 process those predi -- projections have become
18 increasingly stable and very consistent. So the
19 impact of people as they move to newer vehicles has
20 also been consistent. So my expectation is that will
21 remain similar, at least in the short-term.
22 MS. CANDACE GRAMMOND: Now, for the
23 purposes of the DSR component of the upgrade factor,
24 the Corporation made the comment that it believes the
25 data is now stable enough to be used for forecasting,

1 because in previous years the Corporation had assumed
2 that the DSR upgrade would be zero.
3 So I just -- with that context, a
4 couple of questions about -- about the DSR. Firstly,
5 can you confirm for the record of this proceeding in
6 what year the DSR system was put into place?
7 MR. LUKE JOHNSTON: 2010.
8 MS. CANDACE GRAMMOND: And is the
9 Corporation accumulating claims experience under the
10 DSR system?
11 MR. LUKE JOHNSTON: How many years
12 we've accumulated claims experience? Is that --
13 MS. CANDACE GRAMMOND: Are -- is the
14 Corporation doing it?
15 MR. LUKE JOHNSTON: Oh, yeah. Yes.
16 Like we can pull any experience of the customer based
17 on their DSR rating.
18 MS. CANDACE GRAMMOND: And how many
19 years of DSR experience do you think will be needed
20 before the Corporation would expect to be able to
21 include in the GRA a meaningful analysis testing the
22 DSR schedule of discounts and surcharges?
23
24 (BRIEF PAUSE)
25

1 MR. LUKE JOHNSTON: We've talked about
2 this issue obviously in the last couple of years. Our
3 position's been that we'd like to have close to ten
4 (10) years of data before we start changing any rates
5 on this issue. That's -- that's our position right
6 now.
7 MS. CANDACE GRAMMOND: And so at
8 present, it would be more like six (6) years of data
9 that the Corporation actually has?
10 MR. LUKE JOHNSTON: That's correct.
11 MS. CANDACE GRAMMOND: And so in your
12 view, at this stage, what -- sorry. Scratch that. For
13 one moment...
14
15 (BRIEF PAUSE)
16
17 MS. CANDACE GRAMMOND: Okay. Thank
18 you. I don't have further questions about that
19 specific issue, but let's return to the upgrade
20 factor. So we talked about the DSR component as it's
21 tied in with the upgrade factor.
22 In terms of the sensitivity piece,
23 again that IR that I had referenced in the context of
24 volume factor, PUB-MPI-1-5 shows the sensitivity in
25 terms of what the upgrade factor percentage translates

1 to in dollars. And so what we see there is that the -
2 - the dollar change is -- is just over 4 million on a
3 quarter percent.
4 And do you want to do the same check
5 here that you did in the context of volume factor,
6 whether the claims were also impacted?
7 MR. LUKE JOHNSTON: In this case, no.
8 So two (2) -- two (2) reasons -- maybe one (1) reason,
9 I guess. For -- for volume, it's easy to say more
10 cars, more -- more collisions. For upgrade, it's a
11 bit more difficult.
12 So the -- for example, if a lot of --
13 for whatever reason, if a lot of people went out and
14 got new cars next year and we got extra premium from
15 that, or a lot of people from rural moved into the
16 city and we got extra upgrade, so we'll get higher
17 premium.
18 But in theory, if those people get
19 those more expensive vehicles and move to a riskier
20 territory, we in theory would get more claims as well.
21 It should track, but how to put that in your forecast
22 is not obvious.
23 So I would say the -- the -- I know for
24 sure that that one is not done in -- in this. So I
25 believe you reference 4 million or so.

1 MS. CANDACE GRAMMOND: Yes.
2 MR. LUKE JOHNSTON: If we were able to
3 incorporate this into the forecast, we would reduce
4 that number significantly would be my expectation.
5 MS. CANDACE GRAMMOND: Okay. Thank
6 you. Those are the questions on upgrade factor.
7 I just have a few questions about
8 driver premiums. We talked about the DSR a little
9 bit, but not driver premiums specifically.
10 So if we go to the revenue section,
11 Diana, Revenue.2, so -- so Section 2, page 19. Yes.
12 This is where we have the Corporation's filing with
13 respect to driver premiums.
14 So we see, if we look at the earned
15 line of the table that's up on the screen, the
16 Corporation is forecasting less revenue in -- sorry,
17 one (1) moment.
18 MR. LUKE JOHNSTON: You might be
19 thinking of the -- the table at the end of this --
20 MS. CANDACE GRAMMOND: I think I --
21 MR. LUKE JOHNSTON: -- year versus
22 last year forecast.
23 MS. CANDACE GRAMMOND: I think so.
24 Yes, thank you, Mr. Johnson. Diana, can you just
25 scroll a little further?

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: Page 24, is my

4 guess.

5 MS. CANDACE GRAMMOND: I must have had

6 the wrong page number in my notes, so I apologize for

7 that. The -- the point is -- yeah, here we are.

8 Thank you, Mr. Johnston.

9 The point is that the Corporation is

10 actually forecasting less revenue in driver premium

11 from current year through the outlook period of about

12 1.1 million less per year. That's correct?

13 MR. LUKE JOHNSTON: Correct.

14 MS. CANDACE GRAMMOND: And the

15 Corporation has identified the reasons for that as the

16 driver count being less than expected and, as well,

17 there being a slight improvement of drivers positions

18 on the DSR scale.

19 MR. LUKE JOHNSTON: That's right.

20 MS. CANDACE GRAMMOND: And is -- is

21 overall driver count decreasing something that is

22 unusual from the Corporation's perspective?

23 MR. LUKE JOHNSTON: The -- the driver

24 -- well, sorry, the -- the driver count is still

25 increasing just not at the rate we anticipated.

1 MS. CANDACE GRAMMOND: Yes.
2 MR. LUKE JOHNSTON: So as I mentioned
3 earlier, the lower volume growth you saw would -- if
4 you know the volume growth is lower you probably know
5 that driver growth is going to be lower as well, and
6 vice-versa, yeah.
7 MS. CANDACE GRAMMOND: And is the --
8 the less than anticipated driver count something that
9 the Corporation has been experiencing for the last
10 three (3) years, as was the case for the volume
11 factor?
12 MR. LUKE JOHNSTON: If you can just
13 give me one (1) moment. I can't recall.
14
15 (BRIEF PAUSE)
16
17 MR. LUKE JOHNSTON: If you go to page
18 20, those are the driver units, driver units just
19 being one (1) unit is one (1) licence for a full year.
20 The trend is similar, so the last three (3) years
21 being closer to the one and a half (1 1/2) and then if
22 you go to '11/'12 and '12/'13, in '11/'12 you can see
23 that the volume increase was very likely driven by
24 just more people in the Province, yeah. Three (3)
25 percent that year, yeah.

1 MS. CANDACE GRAMMOND: Thank you. I'm
2 going to shift then to questions with respect to the
3 Corporation's investments, the portfolio investment
4 income, et cetera.
5 So we heard, Ms. Reichert, some
6 evidence from you yesterday with respect to
7 investments generally. And in the entail PowerPoint
8 presentation that was made, MPI Exhibit 14, slide 27,
9 there was reference to the invested assets of the
10 Corporation, at the top left corner, being 3.2
11 billion. And you had indicated orally that 2.6
12 billion of that was in the investment portfolio, and
13 I'll have some questions about that.
14 Just for the purposes of the record,
15 can you indicate where the difference is? Where's the
16 other 600 million?
17 MS. HEATHER REICHERT: That's in all
18 other assets of the Corporation. So it might be
19 accounts receivable, or I guess unearned premiums --
20 no, not DCAT. So it would be cash and -- and accounts
21 receivable --
22 MS. CANDACE GRAMMOND: Okay.
23 MS. HEATHER REICHERT: -- other items
24 on the balance sheet that are not investments
25 specifically.

1 MS. CANDACE GRAMMOND: So would it be
2 fair to say that the Corporation has 3.2 billion in
3 assets --
4 MS. HEATHER REICHERT: Yeah.
5 MS. CANDACE GRAMMOND: -- and -- okay.
6 It was the word 'invested assets' that --
7 MS. HEATHER REICHERT: Yeah, that was
8 a broad view. So there would be the notion that the -
9 - the building that we occupy is -- is something that
10 the -- the Corporation has an investment in as opposed
11 to an investment -- an invested asset.
12 MS. CANDACE GRAMMOND: Right, okay.
13 That -- that's fair, thank you. We'll go then, Diana,
14 to Tab 10 of the book of documents -- oh, I'm sorry,
15 Tab 11 of the book of documents. This is an excerpt
16 from the June filing. It's a two (2) page summary of
17 investment income set out in a couple of different
18 ways.
19 So we'll -- we'll spend a little bit of
20 time with this document. Maybe first we'll go down to
21 the next page, Diana, if you could, page 5.
22 MR. LUKE JOHNSTON: Is this Tab 11? I
23 -- I think I heard ten (10) but --
24 MS. CANDACE GRAMMOND: I -- I did say
25 ten (10) and then I corrected myself --

1 MR. LUKE JOHNSTON: And did -- okay.
2 MS. CANDACE GRAMMOND: -- and said
3 eleven (11) so, yes, it is eleven (11). If I didn't
4 say that loudly then I apologize.
5 MR. LUKE JOHNSTON: Thank you.
6 MS. CANDACE GRAMMOND: So we see at
7 the line item called, "total assets," about halfway
8 down the table. In essence, the balance, this is in
9 the billions of the Corporation's investment
10 portfolio. Is that correct?
11 MR. HEATHER REICHERT: That's correct.
12 MS. CANDACE GRAMMOND: So as at the
13 close of the last fiscal year, 2015/'16, the portfolio
14 was at 2.535 billion?
15
16 (BRIEF PAUSE)
17
18 MR. HEATHER REICHERT: Sorry, yes,
19 '15/'16 2.535.
20 MS. CANDACE GRAMMOND: Right. And if
21 we look across to the right, the portfolio size is
22 expected to grow minimally, if we can use that word
23 when we're talking about billions, for the next couple
24 of years, and then up to 2.9 billion in 2020/'21?
25 MR. HEATHER REICHERT: That's correct.

1 MS. CANDACE GRAMMOND: And the
2 Corporation's funds that are available for investment
3 are primarily unearned premiums and unpaid claims.
4 Is that correct?
5 MR. HEATHER REICHERT: Yes, tha --
6 that's fair enough.
7 MS. CANDACE GRAMMOND: And if we go
8 back to the previous page of this document we see a
9 breakdown of the content of the portfolio. So in --
10 we look at the 2015/'16 year. We see the cash and
11 bonds indicated in the top section with a closing
12 balance of 67.7 million. Is that right?
13 MR. HEATHER REICHERT: Correct.
14 MS. CANDACE GRAMMOND: And of the --
15 the two (2) types of bonds that are indicated, there's
16 the marketable bonds which are interest rate sensitive
17 and the MUSH bonds which are not interest rate
18 sensitive. Is that right?
19 MR. HEATHER REICHERT: That's correct.
20 MUSH bonds are -- are accounted for on their -- on
21 their co -- on a cost basis on their book value.
22 MS. CANDACE GRAMMOND: And the MUSH
23 bonds are classified as held to maturity?
24 MR. HEATHER REICHERT: That's correct.
25 MS. CANDACE GRAMMOND: And, as I

1 understand, they're shown at amortized book value in
2 the financial statements and are not adjusted for in
3 terms of change in value?
4 MR. HEATHER REICHERT: That's correct.
5 They're essentially liquid and -- and their value does
6 not -- does not change.
7 MS. CANDACE GRAMMOND: Now, I also
8 understand that, to the extent that the MUSH bonds are
9 a part of the Corporation's investment portfolio that
10 supports Basic's claims liabilities which are interest
11 rate sensitive, there is a type of mismatch between
12 those liabilities and the supporting MUSH bonds.
13 Is that fair?
14 MR. HEATHER REICHERT: Go ahead.
15 MR. LUKE JOHNSTON: The -- so you're
16 correct that the MUSH bonds aren't interest rate
17 sensitive. However, we use the MUSH bond book yield
18 in our liability discount rate calculation. So that
19 is our way of recognizing the different treatment of
20 those bonds in the -- in the discount rate
21 calculation.
22 So if you think -- if you -- just in
23 simplistic terms, if you assume one third of the bonds
24 are nonmarketable, when market values change on the
25 marketable bonds two thirds of the bond's interest

1 rate will change and the MUSH might -- the yield might
2 stay exactly the same. And again, in theory, that
3 should create the same impact on both claims and
4 marketable bonds.
5 I can -- I can expand further if you
6 have more questions on that, but...
7 MS. CANDACE GRAMMOND: No, that's
8 fine, but thank you for the offer. I want to talk a
9 little bit about the current asset mix within the
10 portfolio.
11 So, Diana, I'm going to come back to
12 this document that we're on. But I will ask you to
13 pull up the investment policy statement, which is
14 attachment A to the investment section of the filing,
15 and page 20.
16 So we see here the current asset
17 allocation mix reflected in the investment policy
18 statement of the Corporation.
19 As I understand it, this was changed
20 from last year after recommendations from Aon?
21 MR. HEATHER REICHERT: That's correct.
22 MS. CANDACE GRAMMOND: And the new mix
23 has been fully implemented?
24 MS. HEATHER REICHERT: That's --
25 that's correct.

1 MS. CANDACE GRAMMOND: So maybe,
2 Diana, if we can do the split screen again and bring
3 up the last document that we had together with this
4 one. And we'll go actually to the second page of --
5 yeah, so page 5 --
6 MS. HEATHER REICHERT: And as -- as
7 we're going there, when they say fully implemented is
8 we moved to the main part of the change, which was 70
9 percent bonds, fixed income, to match with the -- with
10 the claims liabilities. So it's -- we're not exactly
11 at 70 percent, because we were matching both the
12 dollar amount of liabilities with the duration of the
13 liabilities through the -- the fixed income portfolio.
14 So we moved towards that during last
15 year so that we are as closely matched as -- as we
16 could be.
17 MS. CANDACE GRAMMOND: Yeah, and I --
18 I wanted to ask you some questions about that because
19 if we cross-reference what the Corporation was
20 actually in as at the end of the last fiscal year and
21 tie it back to the range, I mean, you certainly seem
22 to be within the range, but in many of the instances
23 you're not as close to the -- what's categorized as
24 normal on the left-hand has one might thing.
25 So for example, if we look at Canadian

1 fixed income, which on the right-hand side, and I
2 appreciate that the font's a little small, but that's
3 okay. We're at, as at the last year end, forty-one
4 point five (41.5), but the range for those bonds is --
5 is actually supposed to be at -- around fifty (50).
6 So -- and -- and as we look at the
7 projections on the right-hand side of the screen, it -
8 - the allocation is increasing, but it's fairly slow
9 and steady, but I wanted to learn -- well, and then it
10 goes down again.
11 And so can -- can you comment on that?
12 MS. HEATHER REICHERT: Yeah, and while
13 I -- while -- I appreciate there are targets for
14 marketable bonds and non-marketable bonds, generally
15 speaking the total is the 70 percent to try to match
16 that with the claims liabilities.
17 So in the instance where we have the
18 non-marketable bonds, slightly higher than the 20
19 percent, then that's offset by having a lower
20 percentage in the marketable bond category, so that
21 combined our fixed income portfolio is in and around
22 the 70 percent, but regardless is -- is at the amount
23 that it needs to be to dollar match and duration match
24 the claims liabilities.
25 So these are ranges, and they are

1 targets, and they are -- are what we would work
2 within, but we'll never ever be exactly at, you know,
3 the -- the normal target, per se, because they -- we
4 have to match on a dollar perspective as well as
5 duration. And this is just giving us bands within to
6 manage that.
7 MS. CANDACE GRAMMOND: Right, and I --
8 I certainly wouldn't suggest that you needed to be
9 right on the -- the normal characterization, but just
10 looking at what -- if we look across the -- to the
11 right, what's being projected, I mean, it really is --
12 and for the bonds particularly, it -- it is much
13 closer to the 60 percent than the 70.
14 So I guess the -- the question is, is
15 there any particular explanation that the Corporation
16 would have for tending towards the lower end of that
17 range?
18
19 (BRIEF PAUSE)
20
21 MS. HEATHER REICHERT: Yeah. No,
22 again, I'll just go back to those percentages that are
23 shown being forecasted, the model will forecast the
24 fixed income amount to match dollar wise and duration
25 wise with the claims liabilities.

1 So again, as the claims liabilities --
2 as a proportion of the total liabilities that all of
3 these things are matching to changes, then that --
4 that is going to change the amount of your fixed
5 income portfolio as a percentage of your total
6 investment portfolio.
7 MS. CANDACE GRAMMOND: So you're
8 saying that percentages are driven by the matching?
9 MS. HEATHER REICHERT: That's correct.
10 That's correct.
11 MS. CANDACE GRAMMOND: Okay. One (1)
12 other question on asset mix. In -- as part of the
13 filing there's the Aon document, which is Attachment J
14 in the investment section, and there was a
15 recommendation there that the Corporation get into
16 corporate bonds.
17 We had asked a question about that, and
18 -- and, Diana, I'll ask you to pull it up, it's
19 PUB/MPI-1-17, if you could.
20
21 (BRIEF PAUSE)
22
23 MS. CANDACE GRAMMOND: So in the
24 preamble there's reference to this recommendation. We
25 ask that the Corporation's comments be provided and

1 the Corporation says that it accepts the
2 recommendation, and I'll -- I'll paraphrase, in
3 essence We'll be working towards putting in corporate
4 bonds next year.
5 So is there anything further that --
6 that you can advise by way of update on this issue
7 from the time that this IR was answered?
8 MS. HEATHER REICHERT: No, we haven't
9 at -- at this juncture increased any -- any of our
10 investments in corporate bonds. One of the -- one of
11 the reasons why we weren't more into corporate bonds
12 in the past is that they are seen as a higher risk
13 fixed income investment.
14 And so we really -- in order to take on
15 more risk in our investment portfolio we need to have
16 the comfort of a -- of a certain amount of agreed upon
17 capital reserve within the Corporation because
18 obviously the more risk that you take on in your
19 investments the more potential you can lose. You can
20 gain more, but you can also lose a lot more.
21 And we need to have the comfort of that
22 range within the RSR to allow for the fact that by
23 investing in -- in higher risk instruments that --
24 that we've got savings in the bank, if you will, that
25 -- that capital reserve, in order to offset should --

1 should corporate bonds decrease in value more
2 significantly than -- than say the MUSH bonds.
3 So we had viewed that we had MUSH bonds
4 that gave us a higher return somewhat similar to what
5 a corporate bond would give us as a higher return,
6 only their -- of course their value doesn't change
7 whereas the corporate bond value can -- can fluctuate,
8 and that causes a risk of -- of loss.
9 MS. CANDACE GRAMMOND: So can we
10 expect to see corporate bonds in the portfolio next
11 year?
12 MS. HEATHER REICHERT: Part of that --
13 part of that depends on having the -- the appropriate
14 RSR range that we feel that we need to -- in order to
15 mitigate the risk of our investment portfolio. So
16 assuming that that occurs then, yes, I -- I, yeah,
17 think you -- you will see some more corporate bonds in
18 the fixed income portfolio.
19 MS. CANDACE GRAMMOND: Thank you.
20 Diana, I'll ask you to go back to Tab 11 of the book
21 of documents, the two (2) page investment income
22 summary.
23
24 (BRIEF PAUSE)
25

1 MS. CANDACE GRAMMOND: Thank you. So
2 if we go to the first page of that document, right at
3 the bottom row we see the allocation to Basic, right.
4 So the -- the dollar numbers that we
5 see in this table are all for the Corporation as a
6 whole?
7 MS. HEATHER REICHERT: Yes, that's --
8 that's correct.
9 MS. CANDACE GRAMMOND: And then at the
10 very bottom row of the table we see the allocation to
11 Basic. So if we look across the page from left to
12 right, we see a lot of numbers in and around 85
13 percent. Certainly for the last fiscal year, the
14 2015/'16 year, it was 85.35.
15 Last year it was down to 83.3 but --
16 but back up again. Are you -- are you with me so far?
17 MS. HEATHER REICHERT: Yes, I am.
18 MS. CANDACE GRAMMOND: And the
19 allocation to Basic is based on its net equity
20 position relative to the other lines of business of
21 the Corporation. Is that correct?
22 MS. HEATHER REICHERT: Simply stated,
23 yes.
24 MS. CANDACE GRAMMOND: And that's the
25 same basis that the allocation has been done in the

1 past, as well?

2 MS. HEATHER REICHERT: Yes, that's

3 correct.

4 MS. CANDACE GRAMMOND: And can you

5 comment upon the -- the dip that we see, the 83.3 in

6 2014/'15, and why that has rebounded back up to the 85

7 percent level?

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE GRAMMOND: I have a

12 feeling it might be due to the transfer of retained

13 earnings, but...

14 MS. HEATHER REICHERT: Yes. You're

15 exactly right. Given the transfer that was made in

16 '14/'15 from -- from Extension to Basic.

17 MS. CANDACE GRAMMOND: And as we -- we

18 look across the page to the right into the future time

19 period, we see eighty-five (85), eight-four (84),

20 eight-three (83), and -- and a decline from there.

21 Can you comment upon why there's a

22 decrease that's being forecast?

23 MS. HEATHER REICHERT: Again this

24 would be because of the claims liabilities being

25 forecasted to decrease over that same period of time.

1 MS. CANDACE GRAMMOND: Now, with
2 respect to the Corporation's investment income -- and
3 again, this is corporate, not Basic, on the third last
4 row of this table we see the -- the heading 'Total
5 Investment Income.'
6 And then looking across from left to
7 right, we see a high of -- well, we -- 118 million
8 eighty-three one seventy-two (83,172), the high being
9 the 226 million from the 2014 fis -- '15 fiscal year,
10 and then, of course, the low being the $4.7 million
11 loss from last fiscal year.
12 MS. HEATHER REICHERT: M-hm. Yeah.
13 Yes, that's right.
14 MS. CANDACE GRAMMOND: And -- and you
15 commented yesterday about why this loss was suffered
16 last year, the four point seven (4.7), and you -- you
17 mentioned specifically lower than expected equity
18 income and then an equity write-down?
19 MS. HEATHER REICHERT: That's right.
20 And when we were talking about it tomorrow -- or
21 tomorrow, my goodness. When we were talking about it
22 yesterday, I had I believe isolated the investment
23 income exclusive of the impact of the -- the changes
24 in the marketable bond valuations.
25 So -- so if you look at this particular

1 page and you look at that line that is right
2 underneath gains during the period, profit and loss.
3 So marketable bonds, unrealized gains, losses,
4 marketable bonds, realized gains, losses, if you look
5 at those lines, and if you look at those lines and
6 removed it from the total, you would see a relatively
7 more stable investment income because what fluctuates
8 the investment income the most are the changes in the
9 interest rates as it relates to the fixed-income
10 portfolio.
11 Having said that, what I was explaining
12 yesterday, that, irrespective of that particular
13 impact which you can see in '15/'16 was a minus 76.7
14 million and then a plus fifteen (15), so a net of
15 minus 61 million, irrespective of that, in addition,
16 we had a hit and a loss, a write-down of our
17 investments in equities which is near the bottom of
18 that column of 33.3 million.
19 So those two (2) combined created the -
20 - the total investment loss of four point seven (4.7).
21 And of course, there were other things that we
22 actually did earn income on, but the net ended up
23 being a negative.
24 MS. CANDACE GRAMMOND: Right. So --
25 so your point is if we -- we look at the 2015/'16

1 column from top to bottom, the very first section is
2 the cash and bonds, including MUSH, there was in fact
3 almost 68 million in income.
4 MS. HEATHER REICHERT: Interest
5 income, that's correct.
6 MS. CANDACE GRAMMOND: And then in the
7 next section relating to equities, there was an
8 infrastructure real estate. There was 20 million in
9 income, but it's these two (2) significant negatives
10 that made the bottom line what it was?
11 MS. HEATHER REICHERT: That's correct.
12 MS. CANDACE GRAMMOND: Now, in terms
13 of the projections that we see in this document for
14 the current year, year of the application, and -- and
15 so forth, this version of the document is one that was
16 filed in June as part of the GRA filing.
17 Is -- is this something that the
18 Corporation intends to update with respect to the new
19 interest rate forecasting approach that's been put
20 forward?
21 MS. HEATHER REICHERT: Yeah. We
22 absolutely can. We haven't done that at this
23 juncture, but it is a schedule underlying our -- our
24 financial forecasts, so we could provide that.
25 MS. CANDACE GRAMMOND: If you would

1 take that undertaking, I'd appreciate it.

2

3 --- UNDERTAKING NO. 4: MPI to provide updates to

4 projections with respect

5 to new interest rate

6 forecasting approach

7

8 MS. CANDACE GRAMMOND: Now, once that

9 undertaking is answered, we'll have this level of

10 details with respect to -- to the portfolio. We do

11 have some information about the Corporation's new

12 projections for investment income from the pro formas

13 that are attached to 2-25. So let's maybe look at

14 those.

15 And, Diana, if you could pull up 2-25,

16 pro forma 1, we just -- and just -- yeah, perfect.

17 We see under what the Corporation is

18 proposing: Investment income of 36 million. And we -

19 - we talked about that earlier, that that's changed

20 from what was in -- originally projected in June.

21 You had mentioned yesterday, Ms.

22 Reichert, in your direct evidence that the

23 anticipation was whatever the Corporation lost in

24 investment income would be gained on the claims

25 liability side. Is that correct?

1 MR. HEATHER REICHERT: A portion of?
2 Yes, that's true.
3 MS. CANDACE GRAMMOND: But not all?
4 MR. HEATHER REICHERT: Not all. There
5 is not a perfect match or a perfect offset between the
6 claims liabilities and the fixed income portfolio.
7 It's not -- on a -- on the Basic line of business it's
8 not a perfect match.
9 MS. CANDACE GRAMMOND: Diana, I'm
10 going to ask you to split the screen again with this
11 document that's here and the document that's at tab 13
12 of the book of documents. This is a pro forma from
13 two (2) years ago, at the 2015 GRA.
14 And we -- we put this document in, Mr.
15 Reichert, just to illustrate that the -- while, of
16 course, projections are difficult, there has been a
17 very broad range of investment forecasts put forward.
18 If we look at the -- the 2000 and --
19 oh, sorry. Diana, we need the one at tab 13 of the
20 book of documents. If you could put that one up on
21 the left and leave the one on that right that's there,
22 that would be great. Yes, perfect. Thank you.
23 Sorry, I didn't notice that right away.
24 So this is what the Corporation filed
25 two (2) years ago in June of 2014 in support of its

1 rate application. That was the year that there was
2 originally the two point four (2.4) increase requested
3 together with the 1 percent RSR rebuilding fee.
4 You -- you recall that?
5 MR. HEATHER REICHERT: Yes, I do.
6 MS. CANDACE GRAMMOND: And so, in that
7 year, if we look at what is now the year of the
8 application, so the -- the 2018 year on the left-hand,
9 we see there was, at that time, investment income of
10 77.3 million for what is now the year of the
11 application, and then 128 million for 2018/'19.
12 And we contrast that with what's now on
13 the right-hand side, the 36 and 25 for the -- those
14 two (2) same years, we -- we see quite a difference.
15 And so I gather that these changes,
16 obviously, are due to the passage of time but really
17 the forecasting of interest rates and the impact of
18 interest rates on the bond portfolio?
19 MR. HEATHER REICHERT: Correct. And
20 what I was trying to explain before is -- is the
21 longer term forecast of what you're looking at in the
22 2015 general rate application, the '17/'18 and -- and
23 '18/'19 are -- are forecasts out four (4) and five (5)
24 years, which are obviously, we said, less -- less
25 accurate or -- or less robust than they are when

1 you're into only having to forecast the second and
2 third year out.
3 So significant things have happened.
4 You'll recall with the interest rate forecast -- even
5 what actually occurred in the interest forecast for
6 the graphs that we've shown. So that's what makes
7 these really hard to co -- compare.
8 Plus, in 2015, we didn't break out for
9 investment income and show you what -- what the
10 component of investment income was being impacted by
11 the change in the interest rates on the -- on the
12 marketable bonds which we're now doing in order to --
13 to try and at least isolate something that we know has
14 got more volatility in the forecast.
15
16 (BRIEF PAUSE)
17
18 MR. HEATHER REICHERT: Sorry, we -- we
19 were just looking at the -- at the summary page, you
20 know, the -- within the investment income section. We
21 were just comparing the 2015 General Rate Application
22 to this year's rate application, where you can
23 actually see what the impact on the marketable bonds
24 were. And the differences are -- are showing up in
25 the different numbers that -- that we're looking up --

1 looking at here.

2 MS. CANDACE GRAMMOND: I will have

3 some more questions on those two (2) pages, that

4 summary that we've been looking at, but I think I'll

5 wait until I get the updated one, and then that will

6 make it a little bit more pointed.

7 But before we leave investment income I

8 do have a few more things I wanted to ask about.

9 Diana, I'm going to ask you to pull up Tab 12 of the

10 book of documents. This is the actual versus

11 benchmark return schedule, which again refers to last

12 years investment results but from a different

13 perspective.

14 So we're looking at the first set of

15 numbers on the left-hand side of the page which refers

16 to the last fiscal year. Obviously there's a history

17 here going back an additional five (5) years of

18 comparison of benchmark to actual, but if we look at

19 last year we see there the -- the actual return to the

20 Corporation was a negative .4 percent on an expected

21 benchmark of a negative 1.2 percent. That's right?

22 MS. HEATHER REICHERT: That's correct.

23 MS. CANDACE GRAMMOND: So a better

24 result than was benchmarked?

25 MS. HEATHER REICHERT: Correct, yes.

1 MS. CANDACE GRAMMOND: But can you
2 just enlighten us as to why the benchmark return would
3 be a negative number?
4 MS. HEATHER REICHERT: The -- the
5 total fund -- it would be -- it would likely be driven
6 by what was happening in the equity benchmark. So the
7 benchmark for equities which was following the --
8 whatever the -- the standard group of equities that
9 are followed, those equities declined in the last year
10 and had a negative return.
11 MS. CANDACE GRAMMOND: Okay. Now, we
12 see there were actually the -- the equities, and --
13 and it's the -- both the Canadian Large Cap and then
14 the US to a lesser extent that actually performed
15 under benchmark.
16 So the -- with respect to the Canadian
17 equities large capitalization, benchmark was a
18 negative 11.4 and the actual was a negative 14.9, so
19 actually worse than -- than benchmarked. And the same
20 is true, but as I said only very slightly --
21 MS. HEATHER REICHERT: Very slight.
22 We --
23 MS. CANDACE GRAMMOND: -- for US Large
24 Cap.
25 MS. HEATHER REICHERT: -- we would

1 never expect that much of a -- of a variation between
2 the benchmark for US equities and our actual return on
3 US equities because we are passively invested in the
4 US market whereas in the Canadian large capitalization
5 it -- we -- we have equity managers that are more
6 actively managing the -- the equity portfolio.
7 So again it will -- depending on what
8 their selection of equities are relative to the
9 benchmark selection of -- of equities. So if we were
10 a little bit higher weighed, and we were probably
11 higher weighted in financial institutions that may not
12 have done as well. And within the benchmark there
13 might have been more manufacturing equities that may
14 have done better, and we had fewer of those so
15 therefore our overall result compared to the
16 benchmark, you know, was worse.
17 So that's something that we are
18 monitoring and reporting to our investment committee
19 on a regular basis on why we would be better or worse
20 than the -- the benchmark. So, for instance, we were
21 considerably better than the benchmark as it related
22 to the small cap under the Canadian equities,
23 considerably so.
24 And again that was a choice of -- of
25 equities in that specific portfolio compared to what

1 the benchmark was ostensibly investing in.

2 MS. CANDACE GRAMMOND: And I -- just

3 before we leave this topic I just want to talk with

4 you a little bit about the equity forecast return for

5 -- that's now being used.

6 So, Diana, if we could go to the

7 investment section of the filing, page 41.

8

9 (BRIEF PAUSE)

10

11 MS. CANDACE GRAMMOND: We're going to

12 see here the Canadian equity forecast return that's

13 now being used, which is the 7.3 percent that we see

14 in the bottom row of that table. That's right?

15 MS. HEATHER REICHERT: That's correct.

16 MS. CANDACE GRAMMOND: And that's

17 utilizing the -- as indicated at the -- the title to

18 that column, the 5th percentile twenty (20) year

19 annualized return of S&P TSX index since 1956?

20 MS. HEATHER REICHERT: That's correct.

21 That was an agreed upon basis for the forecast with

22 the Public Utility Board, I believe. About five (5)

23 years ago, I think, was the first year that I -- I was

24 at these hearings, that was the agreed upon method of

25 forecasting the equity returns.

1 MS. CANDACE GRAMMOND: And that's when
2 we took out the 1.5 percent equity risk premium that
3 was in there before?
4 MS. HEATHER REICHERT: Yeah, we had a
5 -- we had a different type of method of getting to the
6 forecast and -- and this was the agreed upon one (1),
7 but --
8 MS. CANDACE GRAMMOND: Right. And so
9 this table reflects the old method compared with the
10 current method?
11 MS. HEATHER REICHERT: Yes, that's
12 correct.
13 MS. CANDACE GRAMMOND: So the 7.3
14 percent that is being used currently is just slightly
15 down from the 7.4 percent from last year. And as I
16 understand it, the 7.3 contains two (2) components,
17 one (1) is the dividend yield and the other is the
18 capital return?
19 MS. HEATHER REICHERT: That's correct.
20 MS. CANDACE GRAMMOND: And the 7.3
21 percent will be used for the US equities also, even
22 though they're passively managed?
23 MS. HEATHER REICHERT: Yes.
24 MS. CANDACE GRAMMOND: Mr. Chairman, I
25 have a few more questions about investments. I can

1 probably complete them in five (5) to ten (10) minutes
2 and then we can take the afternoon break if that
3 works?
4 THE CHAIRPERSON: Sure, let's do that.
5 Thank you.
6
7 CONTINUED BY MS. CANDACE GRAMMOND:
8 MS. CANDACE GRAMMOND: Diana, I'm
9 going to ask you to stay within the investment section
10 of the filing, but to go to page 7 and just scroll
11 down a little bit. Right. So at the bottom of page 7
12 there we see the heading, 'Comparison of Other Funds'
13 -- or 'Comparison to Other Funds.'
14 So in last year's order the Board had
15 asked MPI to study the composition and performance of
16 some other investment portfolios. Those were
17 specifically the Workers' Compensation Board, the
18 Teachers' Retirement Allowance Fund, or TRAF, and the
19 Civil Service Superannuation Board, or CSSB.
20 That's correct?
21 MS. HEATHER REICHERT: Yes. That's
22 correct.
23 MS. CANDACE GRAMMOND: And if we
24 continue to scroll, Diana, we see here the
25 Corporation's response to that part of the order. And

1 on -- actually, I'll just ask you to go to page 8.
2 Yeah, there we go, page 8, line 13.
3 So we see the Corporation has
4 indicated. And I'm -- I'm just cutting to the chase
5 here, the summary, but over the last ten (10) years,
6 MPI's portfolio has under-performed CSSB by .4
7 percent, WCB by 1.2 percent, and TRAF by 1.7 percent.
8 You're with me?
9 MS. HEATHER REICHERT: Yes, I am.
10 MS. CANDACE GRAMMOND: And the
11 Corporation has indicated a couple of reasons for its
12 position as to why that's the case.
13 The Corporation has said that TRAF and
14 CSSB are pension plans that have a longer investment
15 time horizon and can take more risk?
16 MS. HEATHER REICHERT: That's correct.
17 MS. CANDACE GRAMMOND: They also say -
18 - the Corporation also says that All three (3) of the
19 plans referenced have a higher allocation and equities
20 and much less in fixed income?
21 MS. HEATHER REICHERT: That's correct.
22 MS. CANDACE GRAMMOND: I think --
23 well, if we scroll a little bit farther we'll see
24 those references. So that -- that's the explanation
25 that -- that the Corporation has provided. But the

1 Corporation has also said that this accounts for about
2 half of the under performance.
3 And I -- what I'm curious about, and
4 that's just at line 11, which is at the top of the
5 screen right now, what's the other half of the under
6 performance?
7 MS. HEATHER REICHERT: So I mean it
8 would be abso -- absolute specific individual
9 investments that the Corporation was in through the --
10 through the investment managers that are hired by the
11 Department of Finance of -- of government. So we
12 obviously did not have information to be able to do an
13 -- an equity by equity comparison, as an example.
14 So we were comparing percentages, but
15 then after you compare percentages it would be
16 individual returns of individual investments. So
17 again, for instance, there -- you had referenced that
18 these particular funds may have had a lower investment
19 in bonds.
20 But the investment that they had within
21 bonds may have included more corporate bonds then what
22 we've included in our portfolio. And we included less
23 corporate bonds, as I indicated, because of our risk
24 tolerance given what our RSR range has been.
25 So that would be the reason for the

1 other part of the difference. They may have more
2 equity investments than we do, and within their equity
3 investments they have more international equities than
4 what we do. International equities can return a much
5 greater return, but also have a higher risk of -- of
6 not getting that -- that return.
7 So we don't have any significant, if
8 any, investments in International equities, as an
9 example.
10 MS. CANDACE GRAMMOND: Thank you.
11 Just one (1) moment.
12
13 (BRIEF PAUSE)
14
15 MS. CANDACE GRAMMOND: Ms. Reichert,
16 when you say that MPI has less in corporate bonds, as
17 we discussed a few moments ago, it's actually -- at --
18 at the moment, MPI has nothing in corporate bonds.
19 MS. HEATHER REICHERT: Actually, I
20 think we have a couple, like 1 percent or something.
21 There's a very small amount of corporate bonds that --
22 that we do have, but it's not to any great extent.
23 MS. CANDACE GRAMMOND: Okay. So the
24 recommendation from Aon that we spoke about earlier
25 and the Corporation looking at corporate bonds is to

1 increase what it has. But -- but there is a small
2 amount.
3 MS. HEATHER REICHERT: Yeah. We have
4 a negligible amount, but we do have some corporate
5 bonds.
6 MS. CANDACE GRAMMOND: Okay. Thank
7 you.
8 Next I want to ask what knowledge the
9 Corporation has about the investment income being
10 earned by the Saskatchewan Auto Fund component of SGI.
11 MS. HEATHER REICHERT: I will let Mr.
12 Johnston speak -- speak in more detail maybe to that.
13 MR. LUKE JOHNSTON: No in-depth
14 knowledge, but I have, again, talked to the actuary
15 there and I've looked at their annual report. My
16 understanding is they have a lower allocation to fixed
17 income than MPI. I believe it's in the 50 percent
18 range with the remainder being in equities and
19 alternative investments.
20 They also have a higher corporate bond
21 allocation within their fixed-income portfolio, and
22 that's again sub -- subject to checking any of that.
23 But that information would be available in their
24 annual report.
25 MS. CANDACE GRAMMOND: So that's the -

1 - some comments on the composition of their portfolio.
2 What about their investment income. Do you have that
3 knowledge?
4 MR. LUKE JOHNSTON: Sorry, no, I
5 don't. I don't know their recent performance or their
6 forecast, but, based on their allocation, one could
7 approximate it. But I -- I don't know anything in
8 detail.
9 MS. CANDACE GRAMMOND: It's our
10 understanding that the Saskatchewan Auto Fund net
11 investment earnings in 2016 was 111 million.
12 You have no knowledge of that at all?
13 MR. LUKE JOHNSTON: No, I don't.
14 MS. CANDACE GRAMMOND: Do you have
15 knowledge of the historical investment income in the
16 Saskatchewan Auto Fund through your discussions with
17 the actuary or otherwise?
18
19 (BRIEF PAUSE)
20
21 MR. LUKE JOHNSTON: I'm aware of a
22 comparison we did with SGI that -- I believe it's
23 dated at least five (5) years ago or so. My
24 understanding of my discussions with SGI is that,
25 within the last five (5) years or so, they have taken

1 a more aggressive approach on their investments. But
2 outside of that, I -- I don't have any further
3 knowledge.
4 MS. CANDACE GRAMMOND: When you say,
5 "taken a more aggressive approach," is that with
6 regard to the composition of the portfolio that you
7 were speaking of earlier?
8 MR. LUKE JOHNSTON: With regard to the
9 composition. But again, I say that with a bit of
10 hesitation because that's just my understanding
11 through casual conversations.
12 MS. CANDACE GRAMMOND: And is MPI
13 aware that the Saskatchewan Auto Fund investments are
14 held as fair value through profit and loss and flow-
15 through net income?
16 MS. HEATHER REICHERT: Not aware. Are
17 you referring to other than their fixed-income
18 portfolio?
19 MS. CANDACE GRAMMOND: Yes.
20 MS. HEATHER REICHERT: Not aware, but
21 do know that elections -- when -- when MPI implemented
22 the International Financial Reporting Standards,
23 elections were made. And we elected to have our
24 equity investments as available for sale where the
25 revaluation of those -- of those equities occurs

1 through the accumulated other comprehensive income.
2 And we did that intentionally at that
3 time to mitigate the potential volatility to our net
4 income by having changes in the market value of
5 equities impact net income each and every year because
6 net income is what we base our rate -- our rate
7 indications on. And to have a volatile net income
8 would have meant volatile premium rates. And that was
9 not the objective that we wanted to pursue.
10 MS. CANDACE GRAMMOND: Mr. Chairman,
11 for the moment, those are my questions on investments.
12 I may have more next week after I get answers to
13 undertakings and review the transcript and such. But
14 we'd be prepared to move to a new area.
15 So if it would please the Board, we
16 could take the afternoon break at this time.
17 THE CHAIRPERSON: Yeah, we'll take a
18 break for fifteen (15) minutes.
19
20 --- Upon recessing at 2:42 p.m.
21 --- Upon resuming at 3:04 p.m.
22
23 THE CHAIRPERSON: Ms. McCandless,
24 you're on.
25

1 CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:
2 MS. KATHLEEN MCCANDLESS: Yes. Good
3 afternoon, Mr. Chair. I'm going to be moving into the
4 area of operating expenses, so I'll have some
5 questions for the panel to the close of the day.
6 First, Diana, could you please pull up
7 expenses, appendix 6, page 17, from the filing? Yeah,
8 I'd like to review this schedule. And this forms part
9 of the original filing.
10 Is there anything that has materially
11 changed with respect to the figures and the schedule
12 since the filing?
13 MR. HEATHER REICHERT: No, I don't
14 believe there's anything that would have materially
15 changed.
16 MS. KATHLEEN MCCANDLESS: Thank you.
17 And I understand that this schedule represents a
18 comparison of the rating year 2016/2017 expenses in
19 last year's GRA to this year's GRA?
20 MR. HEATHER REICHERT: Yes, that's
21 correct.
22 MS. KATHLEEN MCCANDLESS: And if we
23 look at the top third of the table, it's broken out
24 into three (3) areas. So the top third represents
25 total corporate expenditures, yes?

1 MR. HEATHER REICHERT: That's correct.
2 MS. KATHLEEN MCCANDLESS: And then,
3 Diana, if you could scroll to the bottom two-thirds,
4 maybe just a tiny bit up there. Thank you.
5 So then the bottom two-thirds reflect
6 those expenditures that were allocated to Basic
7 through the cost allocation program?
8 MR. HEATHER REICHERT: That's correct.
9 MS. KATHLEEN MCCANDLESS: And the --
10 the middle panel is on a numerical basis and the
11 bottom pan -- panel is with respect to a Basic
12 percentage allocation of total corporate expenses,
13 yes?
14 MR. HEATHER REICHERT: Correct.
15 MS. KATHLEEN MCCANDLESS: And I'll
16 have more questions about the methodology that the
17 Corporation employs later on cost allocation.
18 But generally what this table
19 represents is the corporate costs -- or pardon me,
20 expenses overall, and then broken out into the Basic,
21 which is allocated from corporate?
22 MR. HEATHER REICHERT: That's correct.
23 MS. KATHLEEN MCCANDLESS: And we heard
24 yesterday in your presentation that the Corporation
25 differentiates total corporate expenses into three (3)

1 categories, and we can see them here on the table. On
2 the left-hand side we have, "normal operating?"
3 MR. HEATHER REICHERT: Oh, sorry, yes,
4 that's correct.
5 MS. KATHLEEN MCCANDLESS: Then one (1)
6 to the right is, "initiatives implementation?"
7 MR. HEATHER REICHERT: Correct.
8 MS. KATHLEEN MCCANDLESS: And then,
9 "initiatives ongoing?"
10 MR. HEATHER REICHERT: Correct.
11 MS. KATHLEEN MCCANDLESS: Would it be
12 accurate to describe initiatives implementation
13 expenditures as onetime costs?
14 MR. HEATHER REICHERT: Yes, that --
15 yes, they would be onetime expenses related to a
16 specific initiative or project being undertaken.
17 MS. KATHLEEN MCCANDLESS: And so they
18 don't form part of the future expense trend?
19 MR. HEATHER REICHERT: No, they do not
20 -- they are not part of the future expense trend.
21 MS. KATHLEEN MCCANDLESS: And then, by
22 comparison, would it be accurate to describe the
23 initiatives ongoing expenditures as expenses that will
24 form part of the future trend in spending?
25 MR. HEATHER REICHERT: Eventually,

1 that's correct.

2 MS. KATHLEEN MCCANDLESS: Can you

3 explain why the Corporation segregates its

4 expenditures in such a fashion?

5 MR. HEATHER REICHERT: We segregate it

6 in this way so that we can articulate and demonstrate

7 clearly those expenses that we know to be onetime in

8 nature so that it is not part of general operating --

9 or it doesn't look to be part of general operating

10 and, therefore, imply fluctuations in those operating

11 expenses that really are the result of -- of specific

12 onetime projects.

13 And then, as it relates to the

14 improvement initiatives ongoing, it's to demonstrate

15 and show the ongoing impact of a project once it's

16 completed what that will have on -- on the forecast

17 going forward.

18 So it's basically to be able to match,

19 if you will, the ongoing impact of -- of future

20 initiatives on our operations. That's why we

21 segregate it in the way that we do.

22 So what that means is that, when a

23 project does complete, the ongoing expenses are no

24 longer in the ongoing improvement initiatives

25 category. They move out of that and they move into

1 the normal operations budget and -- and into that
2 section.
3 So you will see when you look at these
4 -- these tables, especially when it relates to
5 something like the '16/'17 year which is the current
6 year that we're in.
7 Last GRA it was just being forecasted.
8 Those projects would -- would not have completed, and
9 so we would be showing ongoing expenses -- improvement
10 initiative ongoing expenditures relating to projects
11 that were still in process, and if they had completed
12 during the '15/'16 year then those are now being moved
13 into normal operations.
14 So you'll see these ins and outs, if
15 you will, explaining variations between the two (2)
16 years, between last year's GRA and this year's GRA,
17 solely because a project completed in the interim.
18 MS. KATHLEEN MCCANDLESS: Thank you.
19 Diana, if you could just move to the top of the page,
20 please?
21
22 (BRIEF PAUSE)
23
24 MS. KATHLEEN MCCANDLESS: Thank you.
25 So I -- I'm just going to refer you to the far right

1 column on the top third of the schedule. So that
2 would be the total corporate expenses, and the
3 comparison between last year's GRA and -- and this
4 year's GRA.
5 Under the column for the 2017 GRA, if
6 we go to the very bottom under 'total expenses' it
7 shows that the corporate -- Corporation was forecasted
8 to -- or is forecasting to spend 293.5 million in 2016
9 in this year's Application?
10 MS. HEATHER REICHERT: Again on a
11 corporate basis, so that wouldn't be the --
12 MS. KATHLEEN MCCANDLESS: Right.
13 MS. HEATHER REICHERT: -- the Basic
14 allocation, correct.
15 MS. KATHLEEN MCCANDLESS: And again on
16 a corporate basis, if we look to the top under 'sub-
17 total compensation' for this year's GRA the
18 Corporation is forecasting to spend 169.7 million in
19 salaries and benefits?
20 MS. HEATHER REICHERT: Correct.
21 MS. KATHLEEN MCCANDLESS: Then under
22 the -- the row 'sub-total other operating expenses',
23 again this year's GRA, the Corporation is forecasting
24 103.4 million in external expenditures.
25 So that would be on other operating

1 expenses for goods and services?

2 MS. HEATHER REICHERT: I'm sorry, just

3 repeat the little line again.

4 MS. KATHLEEN MCCANDLESS: Okay. The

5 hundred and three point four (103.4) --

6 MS. HEATHER REICHERT: Oh, yes, sorry

7 --

8 MS. KATHLEEN MCCANDLESS: -- million --

9 MS. HEATHER REICHERT: -- yes, I -- I

10 see the line. Yes. And just -- it's a small point

11 but this is '16/'17. So '16/'17 is the year that

12 we're currently in, so those numbers that are

13 reflected under 'total 2017 GRA' are the budget for

14 '16/'17.

15 They have -- they are not updated to

16 forecast where we think we're going to end up at the

17 end of this year based on six (6) months of actuals.

18 These are the budget that was approved at the

19 beginning of the year by our board of directors.

20 MS. KATHLEEN MCCANDLESS: Thank you.

21 And then, lastly, with respect to the -- just under

22 'other operating expenses' there are two (2) lines:

23 depreciation of capital investments and amortization

24 of deferred development.

25 Under the 2017 GRA budget then we've

1 got an approximate total of $20.3 million on those two
2 (2) items --
3 MS. HEATHER REICHERT: That's --
4 MS. KATHLEEN MCCANDLESS: -- at the
5 corporate level?
6 MS. HEATHER REICHERT: That's correct.
7 MS. KATHLEEN MCCANDLESS: So in
8 looking at this schedule then the majority of the
9 operating expense is related to payroll.
10 MS. HEATHER REICHERT: Yes, that's
11 correct.
12
13 (BRIEF PAUSE)
14
15 MS. KATHLEEN MCCANDLESS: Just going
16 back to the sub-total for 'other operating expenses'
17 of 103.4 million. You had mentioned that that was
18 budget -- or is budget.
19 Can you comment onto where the
20 Corporation is tracking with respect to that number?
21 MS. HEATHER REICHERT: Well, that
22 would have been what I presented as it relates to --
23 for the first six (6) months. So yesterday when we
24 were presenting the first six (6) month results
25 compared to the first six (6) month budget, operating

1 expenses are combined -- I mean, we -- we split them a
2 little bit differently. You -- you saw them by claims
3 expense and operating expense, road safety expense.
4 But if I recall correctly, they were
5 all -- actuals were all under budget for the first six
6 (6) months of this fiscal year.
7 MS. KATHLEEN MCCANDLESS: Thank you.
8 So now going back to payroll, would you agree that in
9 controlling operating costs that payroll would be the
10 area where the Corporation has the greatest level of
11 control?
12 MS. HEATHER REICHERT: Subject to
13 union contracts and agreed upon or -- or negotiated
14 contractual increases, I -- I would say we -- we have
15 more control over those items that are not
16 specifically staff related, to be honest.
17 MS. KATHLEEN MCCANDLESS: And those --
18 sorry, if you could just expand on --
19 MS. HEATHER REICHERT: What I mean is
20 -- so our most significant expense, yes, it is staff
21 expenses. And so to the extent that we don't add
22 staff we have control over that expenditure. It's not
23 as easy, necessarily, to decrease staff unless you,
24 again, change something significantly within a
25 process.

1 And then based on union contracts, you
2 -- you can't -- you can't easily reduce staff if
3 people are existing in unionized positions I guess is
4 what I'm trying to -- to explain.
5 MS. KATHLEEN MCCANDLESS: Thank you.
6 Now, focussing on the leftmost column here under
7 'normal operating expenses' for normal operations, if
8 we look to the bottom of the total expenses on a
9 corporate basis we see that the Corporation is
10 forecasting -- or pardon me, budgeting for a 2017 GRA
11 to spend twenty (20) -- 280.7 million in the current
12 year?
13 MS. HEATHER REICHERT: Correct.
14 MS. KATHLEEN MCCANDLESS: And then,
15 Diana, if we could scroll down to show the allocation
16 to Basic, please. We see that of that 280.7 million
17 there's an allocation of 212.6 million to Basic?
18 MS. HEATHER REICHERT: That's correct.
19 MS. KATHLEEN MCCANDLESS: And that's
20 through the integrated cost allocation methodology
21 that the Corporation has adopted, yes?
22 MS. HEATHER REICHERT: That's correct.
23 MS. KATHLEEN MCCANDLESS: And that
24 proportion then is, if we scroll to the bottom of this
25 table, is just over 75 percent of total corporate

1 expenses then?

2 MS. HEATHER REICHERT: That's correct,

3 75.7, yeah.

4

5 (BRIEF PAUSE)

6

7 MS. KATHLEEN MCCANDLESS: Sorry,

8 you'll just have to bear with me for one (1) second.

9

10 (BRIEF PAUSE)

11

12 MS. KATHLEEN MCCANDLESS: Thank you.

13 If we could -- pardon me, scroll to -- up a little bit

14 and under the 2016 GRA. The bottom of the Basic

15 allocation for that year's GRA was 199.5 allocated to

16 Basic?

17 MS. HEATHER REICHERT: Yeah, normal

18 operations, correct.

19 MS. KATHLEEN MCCANDLESS: And so when

20 we look at the update, if we scroll up a little bit

21 again, Diana, you'll see the variation or the change

22 in normal operations between 2016 and 2017 is a $16.4

23 million variance.

24 Do you see that?

25 MS. HEATHER REICHERT: Yes, I do. And

1 this would be a good opportunity for me to show what I
2 was referring to before. So for things that moved
3 from being a -- in a project, like forecasted as
4 ongoing expense for a project not yet completed, but
5 completed between the two (2) GRAs.
6 So if you look to initiatives ongoing
7 in the corporate section and you look to the -- to the
8 bottom where it says, total expenses, and you see the
9 change of a negative 10.375. So that amount moved,
10 those are -- are -- the bulk of which was amortization
11 of deferred development, moved from an ongoing expense
12 category into, and formed the -- the largest part of
13 the reason for the increase in the amortization of
14 deferred development under normal operations.
15 Okay. So it was a project that
16 completed during the fiscal '15/'16 year. We come to
17 do the budget in '16/'17. We had forecasted
18 amortization to start for that project in '16/'17
19 because we knew it would complete in '15/'16. So now
20 that it's completed and we're budgeting for '16/'17,
21 it is no longer in the improvement initiative section.
22 It moves into normal operations.
23 So you can see the -- the negative
24 numbers that are -- reductions in improvement
25 initiative ongoing are corresponding, plus or minus,

1 to increases that occurred in the normal operations
2 section.
3 MS. KATHLEEN MCCANDLESS: Thank you.
4 If we could look then just back over to the leftmost
5 column under 'Normal Operating Expenses.' And there's
6 a variance in the subtotal for compensation between
7 last year's GRA and this year's GRA, the variance of
8 3.7 million.
9 You see that there?
10 MS. HEATHER REICHERT: Yes, I do.
11 MS. KATHLEEN MCCANDLESS: And then
12 under the subtotal of other operating expenses, there
13 is a $7 million increase in -- in those as well; yes?
14 MS. HEATHER REICHERT: Yes, that's
15 correct.
16 MS. KATHLEEN MCCANDLESS: And that
17 includes major increases in data processing costs if
18 you look to that -- that row, the variation about 1.56
19 million?
20 MS. HEATHER REICHERT: Right, the
21 majority of which -- the -- all of it was transfers
22 from ongoing improvement initiatives. So you see that
23 2.7 million negative in the change column of
24 initiatives ongoing. So that was transferred into
25 data processing.

1 And we actually were able to, through
2 our cost containment initiatives, reduce data
3 processing costs by looking at all of the contracts
4 and rationalizing all of our -- our budgets for data
5 processing.
6 So if everything else equal, we should
7 have seen a data processing increase for normal
8 operations of $2.7 million. It was only 1.5 million
9 or almost 1.6 million because we actually physically
10 were able to do things to reduce the budget in '16/'17
11 by 1.2 million.
12 MS. KATHLEEN MCCANDLESS: Thank you.
13 Of the other significant increases, I would note road
14 safety and loss prevention program, there's a dif -- a
15 change of 2.49 million there?
16 MS. HEATHER REICHERT: That's correct.
17 Now, in -- in -- these are -- this is twofold. One,
18 there was an initiative -- an implementation
19 initiative that you see there of nine hundred dollars
20 ($900). That was an operational initiative. It was a
21 pilot that related to the road safety program.
22 It moved from being a pilot, from being
23 a project, if you will, to being in normal operations.
24 So nine hundred (900) of that $2.5 million increase in
25 road safety is relating to that transfer.

1 The other increase in road safety was
2 in acknowledgement of the road safety and loss
3 prevention framework that we had developed and putting
4 more emphasis and increasing the -- the amount of
5 expenditure in that particular area to be able to do
6 more -- more initiatives from a loss prevention/road
7 safety perspective.
8 MS. KATHLEEN MCCANDLESS: Thank you.
9 The other variance that I would ask about is with
10 respect to merchant fees. There's a variance of 2.26
11 million there.
12 MS. HEATHER REICHERT: That's correct.
13 With respect to merchant fees, we had in the last I
14 think two (2) years made it possible for our customers
15 to pay for their insurance online using their credit
16 card. So that has increased the use of credit card
17 payments for policies. And that in turn has increased
18 the -- the amount of merchant fees that we're having
19 to pay.
20 So again, that was twofold. We had
21 determined that the budget that we had established
22 previously for merchant fees wasn't sufficient. So we
23 needed to right-size that particular budget and then
24 acknowledge that there was -- there was also growth in
25 the use of credit cards for -- for policy payments.

1 MS. KATHLEEN MCCANDLESS: Thank you.
2 I'll have some more questions about that later, but
3 just a few more questions about this schedule.
4 So if we then look to the rightmost
5 column on the top third, the total corporate expenses
6 and the variance between last year's GRA and this
7 year's GRA is 7.9 million higher than -- than last
8 year's GRA; yes?
9 MS. HEATHER REICHERT: Yes, that's
10 correct.
11 MS. KATHLEEN MCCANDLESS: And it
12 appears the majority of the increase is with respect
13 to salaries and benefits?
14 MS. HEATHER REICHERT: Yes, that's
15 right.
16 MS. KATHLEEN MCCANDLESS: But if we
17 scroll down to look at the allocation to Basic.
18 The Basic allocation, the variance
19 between last year's GRA and this year's GRA is only
20 1.4 million; yes?
21 MR. HEATHER REICHERT: Correct.
22 MS. KATHLEEN MCCANDLESS: And so from
23 that, we can conclude that the overall unfavourable
24 variance's primarily related to non-Basic activities?
25 MR. HEATHER REICHERT: That's correct,

1 the overall increase from last year's General Rate
2 Application is with respect to non-Basic activities.
3 MS. KATHLEEN MCCANDLESS: Okay.
4 Diana, if we could just scroll to the next page of
5 this document. There are a number of explanations.
6 And we can just start there. So just to paraphrase,
7 these are the explanations for the variances in
8 certain areas.
9 And so $3.9 million of the variance
10 with respect to salaries is related to finance re-
11 engineering, which is not related to Basic, correct?
12 MR. HEATHER REICHERT: Finance re-
13 engineering is -- is a corporate initiative. So a
14 portion of that project would -- would be allocated to
15 the Basic line of business.
16 MS. KATHLEEN MCCANDLESS: Okay. Then
17 there is information su -- strategy and roadmap?
18
19 (BRIEF PAUSE)
20
21 MR. HEATHER REICHERT: No, that's the
22 -- sorry, I -- it was just being raised, that second
23 line. So finance re-engineering is four hundred and
24 thirty thousand (430,000). There's another initiative
25 that was not related to Basic that accounted for eight

1 hundred thousand (800,000) of the $3.9 million
2 increase.
3 Because it's not related to Ba --
4 Basic, we're not disclosing the nature of that
5 particular initiative. So that's -- that's what that
6 comment is --
7 MS. KATHLEEN MCCANDLESS: Okay.
8 MR. HEATHER REICHERT: -- in reference
9 to.
10 MS. KATHLEEN MCCANDLESS: Thank you.
11 MR. HEATHER REICHERT: It's not the
12 financial re-engineering project.
13 MS. KATHLEEN MCCANDLESS: Okay. Then
14 there's the information security, strategy and roadmap
15 of four hundred thousand (400,000) and human resource
16 management system Phase 3 and 4 for approximately nine
17 hundred thousand (900,000); yes?
18 MR. HEATHER REICHERT: Correct.
19 MS. KATHLEEN MCCANDLESS: And then
20 with respect to normal operations increase, it's
21 stated that approximately 1.7 million is primarily
22 attributable to an increase in internal IT staff, yes?
23 MR. HEATHER REICHERT: Replacing the
24 external consultant. So we have made a conscious
25 effort to, again, reduce the number of external

1 consultants eventually by re -- by replacing them with
2 permanent IT staff.
3 MS. KATHLEEN MCCANDLESS: Thank you.
4 If we scroll down to 'B', there's a $2 million
5 increase related to benefits.
6 And that was due to the higher
7 forecasted employer contribution rate related to the
8 pension?
9 MR. HEATHER REICHERT: That's --
10 that's correct.
11 MS. KATHLEEN MCCANDLESS: And is that
12 what we heard about yesterday in your presentation?
13 MR. HEATHER REICHERT: Yes. I'm
14 pretty sure I would have referenced that. The -- this
15 would be our contribution towards the employer
16 contribution to support the defined benefit plan.
17 MS. KATHLEEN MCCANDLESS: Thank you.
18 Then if we scroll down there are increases to data
19 processing of 2 point (sic) million related to
20 implementation expenses related to projects that are
21 not related to Basic?
22 MR. HEATHER REICHERT: M-hm. Correct,
23 sorry.
24 MS. KATHLEEN MCCANDLESS: And then
25 continuing on down the page, please, Diana. We have

1 special services, a $2.4 million decrease.
2 And that's due to future projects
3 provision and subsequent recategorization of external
4 labour expenses; yes?
5 MR. HEATHER REICHERT: Yes, that's
6 correct.
7 MS. KATHLEEN MCCANDLESS: And lower
8 than forecasted external labour expenses related to
9 PDR --
10 MR. HEATHER REICHERT: That's correct.
11 MS. KATHLEEN MCCANDLESS: --
12 approximately 2 million? And with respect to road
13 safety and loss prevention, the increase is
14 attributable to the emphasis on the -- the programs
15 that are going to be impaired driving, auto theft, and
16 Road Watch.
17 That's where the increases are going?
18 MR. HEATHER REICHERT: To -- yeah, to
19 -- to those that I highlighted yesterday, as well as
20 the other -- the other projects within loss -- loss
21 prevention, right.
22 MS. KATHLEEN MCCANDLESS: And then we
23 can just -- we heard about the merchant fees. And
24 then if you scroll down, Diana, there's -- or back up
25 a little bit to the very bottom of the page, the

1 explanations.

2 There are other five hundred and

3 ninety-one thousand (591,000) decrease to a reduction

4 in corporate and community relations expense, a

5 depreciation of capital investments; yes?

6 MR. HEATHER REICHERT: Yes, correct.

7 MS. KATHLEEN MCCANDLESS: And

8 amortization of deferred development?

9 MR. HEATHER REICHERT: That's correct.

10 MS. KATHLEEN MCCANDLESS: Okay, if we

11 could now move on to page 20 of appendix 6, so that's

12 on to the current rating year.

13 And this is a table similar to the one

14 that we just reviewed but it's with respect to the

15 year for which the Corporation is seeking Board

16 approval for the Application; yes?

17 MS. HEATHER REICHERT: That's --

18 that's correct, it's one of. So '17/'18 is the first

19 of the two (2) rating years.

20 MS. KATHLEEN MCCANDLESS: And again,

21 has there been any material change in the information

22 provided in the schedule since the filing?

23 MS. HEATHER REICHERT: No, there would

24 not be.

25 MS. KATHLEEN MCCANDLESS: Now, looking

1 again to the left most column at the top of the
2 schedule on an overall basis, if we look at the bottom
3 of total expenses the Corporation is forecasting to
4 incur 285.7 million in normal operating costs?
5 MS. HEATHER REICHERT: That's correct.
6 MS. KATHLEEN MCCANDLESS: And that's
7 under the 2017 GRA heading.
8 And if we scroll down to the Basic
9 allocation for the 2017 GAR, 214.5 million of that 285
10 million has been allocated to Basic; yes?
11 MS. HEATHER REICHERT: That's correct.
12
13 (BRIEF PAUSE)
14
15 MS. KATHLEEN MCCANDLESS: And then if
16 we could look -- sorry, scroll up all the way, and
17 then look to the right most column for the total under
18 the 2017 GRA.
19 On an overall basis, the Corporation is
20 forecasting to spend $308.8 million in total; that
21 includes obviously normal initiatives --
22 implementation and initiatives ongoing?
23 MS. HEATHER REICHERT: Correct.
24 MS. KATHLEEN MCCANDLESS: And then
25 scrolling down to the allocation to Basic, please,

1 Diana? Thank you.

2 We see that of that 308.8 million, 223

3 million is allocated to Basic?

4 MS. HEATHER REICHERT: That's correct.

5 MS. KATHLEEN MCCANDLESS: And that's -

6 - you don't need to go to the bottom, Diana, but it's

7 about 72 percent allocation.

8 MS. HEATHER REICHERT: Subject to

9 check, yes.

10 MS. KATHLEEN MCCANDLESS: Thank you.

11 So if we go back up again, Diana, I -- thank you for

12 all your scrolling with this schedule.

13 And we look to initiative

14 implementation expenditures for corporate, the

15 Corporation is forecasting to spend in the -- under

16 the row of 'total expenses,' 18.2 million in

17 initiative implementation expenses; yes?

18 MS. HEATHER REICHERT: Correct.

19 MS. KATHLEEN MCCANDLESS: And then

20 down again, Diana, please, to the allocation to Basic,

21 which is about four (4) -- $5 million; yes?

22 MS. HEATHER REICHERT: That's correct.

23

24 (BRIEF PAUSE)

25

1 MS. KATHLEEN MCCANDLESS: If we look
2 at the line items on a corporate basis, so in the top
3 part of this we see that with respect to data
4 processing costs for initiatives that the Corporation
5 is forecasting to spend $12 million on that
6 initiative; yes, for data processing?
7 MS. HEATHER REICHERT: On a corporate
8 basis for initiatives implementation, yes.
9 MS. KATHLEEN MCCANDLESS: Okay. And
10 that's that -- that's a negative variance of 10.7
11 million, which perhaps you could just explain -- or
12 sorry, the -- the change there from last year's GRA to
13 this year's GRA. You see the ten point seven (10.7)?
14 MS. HEATHER REICHERT: I'm guessing
15 there is probably some explanation if -- if we went to
16 the subsequent pages --
17 MS. KATHLEEN MCCANDLESS: Sure.
18 MS. HEATHER REICHERT: -- but my
19 recollection would be it was with respect to a non-
20 Basic -- mainly with respect to a non-Basic initiative
21 that was forecasted to occur, or start, in '17/'18.
22 MS. KATHLEEN MCCANDLESS: Diana, if
23 you -- I want to scroll down through this document
24 that may -- right there, under 'C'.
25

1 (BRIEF PAUSE)

2

3 MS. HEATHER REICHERT: Yea, due to

4 project not related to Basic which increased 8.6

5 million, so the majority.

6 MS. KATHLEEN MCCANDLESS: Thank you --

7 pardon me, thank you. If we could go back to the

8 schedule, please?

9

10 (BRIEF PAUSE)

11

12 MS. KATHLEEN MCCANDLESS: If we look

13 to the -- the row for furniture and equipment under

14 corporate initiatives implementation for the 2017 GRA,

15 it looks as though the Corporation has one point nine

16 (1.9) approximately million to spend on furniture and

17 equipment?

18 MS. HEATHER REICHERT: Yes.

19 MS. KATHLEEN MCCANDLESS: Okay. And

20 then if we scroll to see the allocation to Basic on

21 that line item, there is no allocation to Basic.

22 So can you advise as to what that

23 relates to?

24 MS. HEATHER REICHERT: Again, my -- it

25 -- it may say 'further,' but, that would be furniture

1 and equipment that was likely relating to that project
2 that was not a Basic project.
3 With respect to improvement initiative
4 projects, those are allocated specifically on a
5 project-by-project basis, depending on if it's related
6 to the Basic line of business, related to another line
7 of business, or something that will benefit all three
8 (3) or four (4) lines of business.
9 So, based on how this has been
10 allocated, it tells me that the furniture and
11 equipment was -- was specifically related to projects
12 that were not to the benefit of the basic line of
13 business.
14 MS. KATHLEEN MCCANDLESS: And perhaps
15 just for your assistance, we could have Diana scroll
16 to page 22, because I believe it provides the
17 explanation that you have, but just --
18 MS. HEATHER REICHERT: Hopefully it's
19 the same as what I just said.
20 MS. KATHLEEN MCCANDLESS: Under item G
21 there.
22 MS. HEATHER REICHERT: Yes, Basic,
23 yes.
24 MS. KATHLEEN MCCANDLESS: Okay. I'm -
25 - I'm going back to the schedule, please, Diana.

1 If we look to the top third in the
2 rightmost column under the subtotal for compensation
3 we see a variance of $5.8 million for salaries and
4 benefits as between last year's GRA and this year's
5 GRA?
6 MS. HEATHER REICHERT: Yes, that's
7 correct.
8
9 (BRIEF PAUSE)
10
11 MS. KATHLEEN MCCANDLESS: And of that,
12 if we look to the subtotal for compensation under the
13 allocation to Basic, it looks as though about $3
14 million of that variance is attrib -- is allocated to
15 Basic; yes?
16 MS. HEATHER REICHERT: Correct.
17 MS. KATHLEEN MCCANDLESS: Okay.
18 Diana, could we please scroll to the next page.
19 And so there's the explanation for the
20 variance in the compensation, correct?
21 MS. HEATHER REICHERT: Yes. Yeah.
22 MS. KATHLEEN MCCANDLESS: Okay. So it
23 relates to increase in salaries for initiatives incl -
24 - including finance re-engineering, the project not
25 related to Basic that we heard about before, PDR, and

1 the normal operations increase primarily attributable
2 to the internal IT staff again; yes?
3 MS. HEATHER REICHERT: Yes.
4
5 (BRIEF PAUSE)
6
7 MS. KATHLEEN MCCANDLESS: We'll have
8 more questions about the IT staffing issue later. If
9 we could go back to the schedule again, please, Diana.
10 And the top third of that document on the rightmost
11 column.
12 If one looks on an overall basis under
13 'total expenses' there is a variance -- an
14 unfavourable variance of 14.7 million between last
15 year's GRA and this year's GRA?
16 MS. HEATHER REICHERT: Yes, on the
17 corporate basis.
18 MS. KATHLEEN MCCANDLESS: Right. On a
19 corporate basis, yes. And then if we scroll to look
20 to the allocation to basis -- Basic, pardon me, it's -
21 - the variance is only six hundred and sixty-two
22 thousand dollars ($662,000); yes?
23 MS. HEATHER REICHERT: Correct. And
24 again, that would be those improvement initiative
25 implementation expenses that were not related to Basic

1 being quite significant.

2 MS. KATHLEEN MCCANDLESS: Thank you.

3 Diana, could we please pull up MPI Exhibit Number 23

4 and slide 68 of that exhibit?

5

6 (BRIEF PAUSE)

7

8 MS. KATHLEEN MCCANDLESS: And so we

9 heard from you, Ms. Reichert, yesterday about these

10 expenses and the -- what this is is the total average

11 expenses for the 27 -- 2017 rating period compared

12 with the outlook period from last year's GRA?

13 MS. HEATHER REICHERT: That's correct.

14 But it -- so it's the average of the two (2) of the

15 rating years. So we're looking just at '17/'18. This

16 is the average of '17/'18 and '18/'19 compared to that

17 same period in last year's GRA.

18 MS. KATHLEEN MCCANDLESS: And could

19 you explain the reason why you have provided this

20 comparison?

21 MS. HEATHER REICHERT: Why we compared

22 the -- because the -- because in the General Rate

23 Application we always focus on the average of the

24 rating years, which is '17/'18 and '18/'19. So we

25 combined them as -- and provided the comparison on the

1 average basis.

2 MS. KATHLEEN MCCANDLESS: And is it

3 reliable to use numbers that are that far out in the

4 2018/'19 period?

5 MR. HEATHER REICHERT: Well, yes, in -

6 - in this instance because they are the -- the break-

7 even net income of -- on average of those two (2)

8 years is what forms the rate indication for our -- our

9 premium rates.

10 MS. KATHLEEN MCCANDLESS: Diana, could

11 you please scroll to slide 70? I just have a question

12 with respect to the -- the very bottom and rightmost

13 line item there, which is the 4.1 percent increase.

14 I believe yesterday when you gave your

15 presentation you mentioned that that relates to a

16 desktop computer refresh?

17 MR. HEATHER REICHERT: Yes, that's my

18 understanding. That one (1) of the significant things

19 that are higher in that year than in the previous was

20 because of a computer refresh that happens every three

21 (3) to four (4) years. So it's a -- an infrequent

22 occurrence.

23 MS. KATHLEEN MCCANDLESS: And can you

24 explain why the Corporation is not capitalizing it and

25 amortizing it over three (3) to five (5) years?

1 MR. HEATHER REICHERT: Because
2 individually the desktops are imat -- like, not a
3 significant capital item. So that's been the -- the
4 policy, the practice, to expense them when -- when we
5 do that refresh.
6 MS. KATHLEEN MCCANDLESS: Thank you.
7 I -- we did mention briefly at the beginning of my
8 questioning regarding the cost allocation methodology.
9 I'm just going to ask you some questions about that.
10 So that was a methodology that was
11 developed by Deloitte and was approved by the Board
12 two (2) applications ago?
13 MR. HEATHER REICHERT: It may have
14 been a little bit more than two (2) applications ago.
15 I think it was in the 2013 application, my first with
16 MPI.
17 MS. KATHLEEN MCCANDLESS: Okay. Thank
18 you. Diana, could you please pull up the expenses,
19 page 43 in the filing?
20
21 (BRIEF PAUSE)
22
23 MS. KATHLEEN MCCANDLESS: So this is
24 an explanation of the cost allocation methodology, the
25 manner in which the Corporation calculates expenses at

1 the corporal lettle -- level, and then allocates them
2 to Basic; yes?
3 MR. HEATHER REICHERT: Yes, it is.
4 MS. KATHLEEN MCCANDLESS: And, Diana,
5 could you scroll to show this chart? And perhaps you
6 could just provide an explanation as to what -- what's
7 occurring in the chart?
8 MR. HEATHER REICHERT: Okay. At
9 twenty (20) to 4:00 on a Friday afternoon I will do my
10 best to make this as painless as possible. So this is
11 the allocation of normal operating expenses. So,
12 recall I said that project initiatives are done on an
13 individual project basis.
14 So on the basis of what the total
15 normal costs are -- and, of course, we have -- all of
16 these costs are within our general ledger on very
17 specific account basis. So those accounts that are
18 assignable to a line of business specific to Basic or
19 Extension or Special Risk Extension or Driver Vehicle
20 Licensing.
21 So of the 280 in this example, 36
22 million we could specifically, directly assign to a
23 line of business. So that's the 36. Of the remaining
24 244 we look at those -- the nature of those expenses
25 and assign them to a category of business, whether

1 that is insurance or non-insurance.

2 So, in this case, of the 244 million,

3 88.5 was assignable to the insurance category. At

4 this juncture, like, it's insurance. So that could be

5 either Basic, Extension, or SRE. And then assignable

6 to non-insurance is assignable directly to the Driver

7 Vehicle Licensing, and, in this particular case, there

8 is none.

9 So once tha -- that that can be

10 assigned to insurance is determined, the balance is

11 subject to an allocation. So that that is subject to

12 an allocation is -- actually, maybe I'll continue on

13 with the insurance line.

14 So we have the -- the amount that's

15 assignable to category business insurance. So that

16 goes down to the next box. That 88,000 is combined

17 with an allocation of the 156 million. And that's

18 allocated to the insurance or non-insurance line of

19 business on the basis of...

20

21 (BRIEF PAUSE)

22

23 MS. HEATHER REICHERT: Okay. So

24 that's allocated between insurance and non-insurance

25 on the basis of the weighted call centre contact

1 ratio. And I'm missing a 'C', no?

2

3 (BRIEF PAUSE)

4

5 MS. HEATHER REICHERT: Weighted

6 customer call centre contact ratio. So what that

7 means is when -- when individuals call into MPI and

8 they have a question, if they have a question that is

9 relating to insurance, it is -- there -- there's keys

10 or whatever on the -- on the telephone, and they

11 indicate that it's insurance related. If it's

12 specifically driver licence related, it's another key

13 that's pressed.

14 And so on the basis of that particular

15 ratio, it's allocated either to the insurance business

16 or the non-insurance business. So that 156 million is

17 allocated between those two (2) lines at this level.

18 That that's allocated to insurance is added with the

19 88 million that I referenced before.

20 So now we have 136 million that is to

21 be allocated to the -- one (1) of the three (3)

22 insurance lines of business. And then at that level,

23 we would allocate those costs. Again, depending on

24 the nature of the expense, many are allocated on the

25 basis of the number of claims dealt with by each line

1 of business.

2 Others are allocated on the basis of

3 the amount of staff that are allocated to each of --

4 each of those lines of business. So there are various

5 allocation methodologies that take the 137 almost

6 million and allocate it to either Basic, Extension, or

7 SRE.

8 And then once that 136 million is -- is

9 allocated, what was specifically and directly

10 allocated to an insurance line of business is added to

11 those to arrive at the -- the 212 million that's

12 allocated to Basic that you see there and the 20

13 million to Extension and the 14 million.

14 MS. KATHLEEN MCCANDLESS: Thank you.

15 And so I'd just like you to confirm that there are no

16 material changes in the allocators from last year's

17 GRA to this year's GRA.

18 MS. HEATHER REICHERT: No, I don't

19 believe there was anything that -- there might have

20 been moving around some of the individual cost centre

21 accounts, but nothing that I believe was substantial.

22 MS. KATHLEEN MCCANDLESS: Thank you.

23 And the allocation of all the funds is subject to

24 internal audit?

25 MS. HEATHER REICHERT: Well, internal

1 audit, external audit, actually, because we have an
2 external audit done of our Basic line of business.
3 When they were doing that audit, they also look at the
4 allocation and how we're applying it.
5 MS. KATHLEEN MCCANDLESS: Thank you.
6 Diana, could you pull up PUB-MPI-2-23,
7 please?
8
9 (BRIEF PAUSE)
10
11 MS. KATHLEEN MCCANDLESS: If you could
12 scroll to the second page, I believe, a little further
13 down, continuing down. Okay. I may have to check my
14 reference here. There. That -- that's the document
15 I'm looking for. Thank you.
16 So this is a graph showing the Basic
17 direct and allocated expenses in last year's GRA as
18 compared to this year's GRA?
19 MS. HEATHER REICHERT: Correct.
20 MS. KATHLEEN MCCANDLESS: And can you
21 explain what the trend is in changes from the 2017
22 application as compared to the 2016 application
23 related to the Basic -- the level of Basic direct and
24 allocated expenses in this graph?
25 MS. HEATHER REICHERT: Okay. So this

is -- I believe this is total Basic. So I -- I think this is including allocated improvement initiative projects. I -- I could be wrong. I -- I would need to...

(BRIEF PAUSE)

MS. HEATHER REICHERT: Yeah, I'm -- I'm pretty sure, subject to check, that this is total Basic expenses. So that's normal operating, the improvement initiatives, and the ongoing improvement initiatives.

So that's -- that's why those -- those numbers would -- would look to -- to change, and -- and substantially change as it relates to '19/'20 and '20/'21 when we get more -- better information on the allocation of projects as it relates to Basic.

MS. KATHLEEN MCCANDLESS: Thank you. Diana, could you, please, pull up PUB/MPI-2-22?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: The question I'd -- I'd like to review, or the answer I'd like to review with you, Ms. Reichert, is -- the question that

1 was posed on behalf of the Board was to, please,
2 explain the change in the relative percentages between
3 insurance and non-insurance for the allocation of
4 vehicle registration in the 2017 GRA as -- as compared
5 to last year's GRA.
6 MS. HEATHER REICHERT: M-hm.
7 MS. KATHLEEN MCCANDLESS: So if we
8 scroll to the second page and review the response to
9 question 'C' the response was that:
10 "The relative percentages between
11 insurance and non-insurance for
12 allocation of vehicle registration
13 in the expenses appendices of last
14 year's Application did not get
15 updated."
16 Do you see that there?
17 MS. HEATHER REICHERT: Yes, I do.
18 MS. KATHLEEN MCCANDLESS: Okay. So,
19 essentially, there was an error in the GRA -- last
20 year's GRA filing with respect to the allocation of
21 driver licensing costs?
22 MS. HEATHER REICHERT: Yes, that's
23 what I would take that to mean.
24 MS. KATHLEEN MCCANDLESS: And was the
25 error corrected in last year's Application?

1 MS. HEATHER REICHERT: And had -- in
2 what way do you mean? We didn't re-file, if that's
3 what you mean.
4
5 (BRIEF PAUSE)
6
7 MS. KATHLEEN MCCANDLESS: So when was
8 the -- was that error caught, or noted?
9
10 (BRIEF PAUSE)
11
12 MS. HEATHER REICHERT: Okay. So my
13 understanding was the error was not in how we
14 allocated. We allocated appropriately last year but
15 when we were referencing the amount of the allocation,
16 like the percentage allocations between -- between the
17 two (2), we inadvertently wrote down the wrong
18 percentages.
19 We used the correct percentages in the
20 Application. And we noticed we had written them down
21 incorrectly, and that's what this is referring to.
22 MS. KATHLEEN MCCANDLESS: Thank you.
23 So essentially a clerical error.
24 MS. HEATHER REICHERT: Exactly.
25 MS. KATHLEEN MCCANDLESS: Thank you.

1 Mr. Chair, that concludes my
2 questioning on this particular area, and I'm noting
3 the time. So perhaps it might be -- I'm at your
4 disposal, however, I -- I note that it is almost four
5 o'clock, so.
6 MR. MATT GHIKAS: And, Mr. Chairman,
7 if I might? Before you do that there is one very
8 minor housekeeping matter.
9 Just responding to an undertaking, if
10 you don't mind?
11 THE CHAIRPERSON: Okay, sure.
12 MR. MATT GHIKAS: Yeah, thank you.
13 Earlier today My Friend, Ms. Grammond,
14 asked an undertaking that we have -- we obviously
15 don't have transcript references for, and did our best
16 to summarize but it was with respect to the Government
17 of Canada ten (10) year bond yield movement in the
18 first six (6) months, and the interest rate movement
19 forecast for the second six (6) months.
20 And we have that information now. So I
21 believe the next exhibit number is Exhibit 27, MPI-27
22 and we'll circulate that -- that now.
23
24 --- EXHIBIT NO. MPI-27: MPI document re Government
25 of Canada ten (10) year

bond yield movement in the first six (6) months, and the interest rate movement forecast for the second six (6) months.

THE CHAIRPERSON: Thank you.

MR. MATT GHIKAS: And with that I'm finished.

THE CHAIRPERSON: Thank you.

MR. MATT GHIKAS: Thank you.

THE CHAIRPERSON: Okay. So we will adjourn until 9:00 a.m. on Tuesday. Have a good weekend.

MS. KATHLEEN MCCANDLESS: Thank you.

(PANEL RETIRES)

--- Upon adjourning at 3:54 p.m.

Certified Correct

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Sean Coleman, Mr.